

Appropriateness of the Centralized Shari'ah Governance Model for Emerging Economies in East Africa

By

**Dr. Sulaiman Lujja
Head of Islamic Banking Department
TROPICAL BANK LIMITED**

PRESENTATION OUTLINE

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Introduction

- Until 2019, Islamic finance assets have grown to USD 2.733 Trillion.
- Over 76 countries, most of which are OIC members, have adopted Islamic finance.
- Since 1960s, Islamic finance industry has been growing at 15-20% annually until 2009.
- From 2009, this rate started to slowdown to a deteriorating 5.5% in 2019.

Shari'ah Authenticity Deficit

- The slowdown in Islamic finance growth is attributed majorly to Shari'ah authenticity deficit.
- All East African countries are still constrained with the choice of appropriate Shari'ah Governance model.
- In Uganda, the delay in establishing the Central Shari'ah Advisory Council at Central bank has sabotaged Islamic Banking operationalizing until today.

Need for Shari'ah Governance System

- The uniqueness of Islamic financial business necessitates an additional layer of Shari'ah Governance in Corporate Governance structures.
- The Shari'ah Governance System establishes the functions of Shari'ah review, Shari'ah audit, Shari'ah risk management, and Shari'ah research.
- Shari'ah Governance system ensures compliance of Islamic financial business from licensing to winding up.

Shari'ah Governance Approaches

- Pro-Active Approach (authorities intervene in Shari'ah Governance).
- Passive Approach (authorities have the same treatment for both conventional and Islamic financial institutions).
- Minimalist Approach (authorities have minor intervention and leave Shari'ah Governance at institutional level).
- Neutral-treatment Approach (authorities keep silent on Shari'ah Governance practices).

Shari'ah Governance Models

Globally, the involvement of regulatory authorities in Shari'ah Governance system has been proved to be the best approach.

- Centralized Shar'ah Governance model. A Central Shari'ah Advisory Council (Central SAC) is established at Central Bank for standardization of practices and to act as an Arbiter on Shari'ah matters across the industry.
- Decentralized SG model. No Central SAC at Central bank. Each financial institution appoints a Shari'ah Committee).

The Appropriate Shari'ah Governance Model

- The Centralized Shari'ah Governance model has been adopted as the popular model in OIC member countries.
- The Central SAC opinion is binding on Islamic financial institutions to ensure standardized Islamic finance practice and enhance public confidence.
- The decentralized Shari'ah Governance model would fit countries that enjoy maximum prudence in compliance with laws such as the UK and other countries in Europe.

Conclusion

- Regulators, institutions and Islamic finance promoters in emerging markets need to study their countries' specifics to choose what best suits their circumstances.
- East Africa being emerging markets that do not enjoy maximum prudence in compliance with laws, need to involve authorities in Shari'ah Governance system.
- This model ensures an end-to-end Shari'ah compliance of Islamic finance business to gain local and international acceptance.

Cont.,

- Economies in East Africa need to develop a National Islamic Finance Strategy that establishes a clear roadmap.
- To develop local Shari'ah scholars capacity, we need to;
 - i) mix local and international Shari'ah scholars on the Central SAC.
 - ii) promote Continuous Professional Development (CPD) programs.
 - iii) establish a strong Secretariat for Central SAC with the best knowledge and exposure in Islamic Finance industry.