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CHALLENGES IN ESTABLISHING AN ISLAMIC BANKING AND FINANCE SYSTEM: EVIDENCE FROM GHANA

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ABSTRACT

After sixty-one years of independence, there is no single Islamic banking institution operating in Ghana. Given that Muslims are commanded to stay away from usury, coupled with the popularity of Islamic finance globally, it is surprising why the Islamic banking industry is yet to take root in the country. This paper seeks to determine whose responsibility it is to initiate the establishment of an Islamic banking and finance system. The genesis of Islamic banks in Egypt, Malaysia and Bangladesh were reviewed, and compared with the situation in Ghana. The analysis show that stakeholders such as devoted Muslim businessmen, governments, and well-informed Muslim groups, are well placed to initiate the establishment of Islamic banks.

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1. INTRODUCTION AND BACKGROUNG

The role of the Islamic Finance sector in economic development cannot be ignored. Apart from enhancing financial inclusion, Islamic banking and finance is thought to affect the real sector with its emphasis on trade and risk sharing, as against the interest-based mode of transactions, associated with its conventional counterpart. The call from the Quran that "Allah has permitted trade and forbidden usury" (2:275), meant that Muslims needed financing and banking models that comply with Shariah. Islamic banking and finance is expected to ensure justice, equity and fairness to all contracting parties. It must dissociate itself from usury, gambling, taking of excessive risk, and the financing of forbidden products (alcohol, pork, pornography, drugs etc).

Given that the social, economic, and financial transactions of Muslims must be based on Islamic finance's principles (Zawawi et al), and the double-digit growth rate enjoyed by the Islamic finance industry globally, one would have thought that this industry would have taken roots in Ghana long since. Unfortunately after sixty-one years of independence, the nation is yet to establish its first Islamic bank. The objective of this paper is to determine whose responsibility it is, to initiate the establishment of an Islamic banking and finance system in Ghana.

A review of the genesis of Islamic banks in Egypt, Malaysia and Bangladesh was made, and compared with an analysis of situations in Ghana. It appears that in the countries reviewed, initiatives taken by devoted and wealthy Muslim individuals, governments, and Muslim groups, were responsible in establishing Islamic banks. The results of the analysis seem to show that lack of devoted Muslim businessmen, government indifference towards Islamic finance, and inertia of Muslim groups, constitute the major part of the reasons for which Islamic banking and finance system is non-existent in Ghana.

Despite being dictated by Islamic principles, products of Islamic finance have gained wide acceptability from non-Muslims for different reasons. Firstly, it is appealing to members of other religious faith that reject usury, and uphold the principles of justice, equity and fairness in all banking dealings. Secondly Islamic finance provides a source for diversification for various investors across the globe. It is therefore not surprising that Islamic finance has experienced a double-digit growth over the past decade. In many non-Muslim majority countries, Islamic banks have been established and operated for many years. Also, Islamic financial products have been made available in almost all the recognized trading centers across the world including London, New York, Frankfurt, and Tokyo stock markets.

Among the countries where Islamic banking and finance have high presence include Bahrain, Malaysia, Egypt, Sudan, and Iran. Some of these countries have laws regulating the Islamic finance sector, and operate alongside the conventional finance sector, in a dual banking system. However, in Sudan and Iran, no conventional banks exist. Both countries therefore operate 100% Islamic banking system.

Unfortunately the establishment of Islamic banking and finance industry in Ghana has not been forthcoming. Before delving into whose responsibility it is to ensure its establishment, we must abreast ourselves with the requirements necessary for the smooth operations of this industry. These include the existence of the following;

1. Laws regulating the Islamic banking and finance industry
2. Shariah regulatory framework
3. Availability of Islamic finance professionals and Shariah scholars
4. Informed stakeholders

An act of parliament that provides regulations for controlling the activities of Islamic financial institutions (IFIs) is important in instilling discipline and providing a levelled playing field in the sector. Islamic financial services act (IFSA), 2013 in Malaysia provides regulation for operations of IFIs (Miskam and Nasrul, 2013). Such laws are of particular importance in jurisdictions that operate a dual-banking system. Responsibilities of directors and institutions would be properly spelt out in the act, and also provide an enabling environment for all Islamic banks to function.

The main principle in IFIs is that their products for attracting deposits/investments accounts, financing, providing other services, and all activities of management and staff must be shariah compliant. In order to ensure Shariah compliance of this institutions at all times (Hasan, 2007), the Shariah governance framework is established to provide guidance. In Malaysia for example, the Islamic financial services board (IFSB) requires all IFIs to have a Shariah Board as part of the framework to guard against shariah non-compliance risks. To maintain its legitimacy and public trust, IFIs must be seen as taking shariah compliance issues serious.

Depending on the country, shariah governance framework differ. In Malaysia, the Central bank (Bank Negara Malaysia) act 1958 (CBA) put in place the Shariah Advisory Council (SAC), whose resolution is final and must be respected by all. The central bank also requires that each IFI must constitute a Shariah committee operating within it. In addition all IFIs must establish four shariah units as part of the shariah governance architecture. These units are Shariah Review, Shariah Audit, Shariah Research and Shariah Risk.

Each IFI in Kuwait has its own Shariah board for self-regulation as enshrined in the Central bank of Kuwait law 32/1968. The Fatwa board of the Ministry of Awqaf and Islamic affairs becomes the final authority if disputes are referred to it. No shariah board under the Central bank exist. The situation in Bahrain is also different. While the central bank has a National Shariah Board, the board's responsibilities are limited to supervising only the products of the central bank. Each IFI is required to constitute a Shariah Supervisory Committee and then apply the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOFI) governance standards.

The men and women that would constitute key officers of IFIs are the Islamic finance professionals and Shariah expects. Many universities have shown interest in offering programs in Islamic banking and finance to keep pace with the upward growth trend in the Islamic finance industry. A typical Islamic finance professional should possess some knowledge in Finance, Economics and Shariah. Important also is the demand for Shariah experts for Islamic finance. In the opinion of some professionals, the area of knowledge required for one to deliver effectively as a Shariah expert include, Quran, Sunnah/Hadith, and Usul al-fiqh. It is generally agreed that these experts must possess some knowledge in Economics, Banking and Finance.

Together, Islamic finance professionals and Shariah experts must be responsible for formulating products and services that provide income to the IFI, and at same time ensuring shariah compliance. However, this is not to say that, these experts are the only ones that must work in IFIs. The services of other professionals such as Lawyers, Accountants, and Economists, just to mention a few, are also required.

It is important that stakeholders of Islamic banking and finance have the right information and education with regards to the principles and practices in the industry. Shareholders, management, regulators, depositors and clients must possess the right information, and understand that Islamic finance differ in many ways from its conventional counterpart, and hence must be measured in their expectations. In a situation where shareholders set high targets for management, the latter might cut corners in order to realize those target. Such actions may lead to engaging in practices that are inconsistent with Shariah principles. In countries that operate under strict regulations, the penalty for engaging in operations that are shariah non-compliant is hefty.

Most importantly, a well-informed client base is an important source of sustainability for the Islamic banking and finance industry, especially in jurisdictions of dual-banking system. Empirical studies show that Islamic banks are exposed to withdrawal and commercial displacement risks, when interest rates move upwards. However, Islamic banks' exposure to these risks will be minimized when they build a well-informed and dedicated base of account holders.

The rest of this paper is organized as follows; section 2 looks at the genesis of Islamic banking and finance in other jurisdiction, section 3 considers the situation in Ghana, and the last section is conclusion and recommendations.

2. GENESIS OF ISLAMIC BANKING AND FINANCE IN ORTHER JURISDICTIONS

For over sixty years since Ghana attained the status of an independent nation, she cannot boast of the existence of even a single Islamic bank in its jurisdiction. And this situation being possible despite the existence of a vibrant, diverse, and well-organized Muslim community. It would have been expected that with the growing trend of Islamic finance globally, someone or some institution would have taken the initiative, and undertake an experiment of the workings of Islamic banking. To clearly understand Ghana predicament as far as Islamic banking is concerned, the genesis of Islamic banking in a few selected countries are discussed below. History is only beneficial to the humankind, when used to improve their conditions.

In 1963 Ahmad El Najjar set up the Mit Ghamr Savings House to operate an interest-free banking system in Egypt (Ariff. 1988). To escape victimization from political authorities at that time, he had described it as a German banking model in order to hide its Islamic identity. Though Najjar did not refer to Mit Ghamr as an Islamic bank, many believed it was the first such bank to be established in Egypt. After the collapsed of Mit Ghamir, the government of Egypt in 1971, established the Nasser Social Bank (Henry and Wilson, 2004), to operate under Islamic banking principles.

Malaysia like Ghana, had its independence in 1957. Unlike Ghana however, it realized the potentials in Islamic finance in improving the socio-economic development of a nation, very early. Hence the government of Malaysia spearheaded the establishment of Bank Islam Malaysia Berhard in 1983 as the first Islamic bank in that country (Ahmad and Haron, 2002). It is believed, increased in Muslim population and awareness in Islamic values, eventually influenced higher demand for Islamic banking services (Samad and Hassan, 1999). If for nothing all, the government was simply providing what its people needed. On the other hand, it is generally agreed that roots of Islamic banking in Malaysia can be traced to Tabung Hajj (Mokhtar, Abdullah and Al-Habshi, 2006). Tabung Hajj was an institution established by government in 1963 responsible for taking funds from Muslims who intended to perform hajj in the future, and invested same under Islamic banking principles.

The story in Bangladesh appear different from those of Egypt and Malaysia. It is the activism of Islamic groups including the Islamic Economics Research Bureau (IERB), Bangladesh Islamic Bankers Association (BIBA), and the Muslim Businessman Society (MBS), that resulted in the establishment of Islami Bank Bangladesh Limited in 1983, as the first Islamic bank (Sarker, 1999). By creating awareness about Islamic banking, offering training for bankers and other professionals, and taking steps to attract investors into the Islamic banking sector, these groups were able to achieve their objectives.

In the 1970s when the political temperature in many Islamic countries had reduced, many Islamic banks were formed without having to hide their identities (Ariff, 1988). The Islamic Development Bank (IDB) was formed in 1974 by the Organisation of Islamic Countries (OIC). In the Western world too, some Islamic banking system sprung up. They include the Islamic banking system at Luxemburg established in 1978, Islamic Bank International of Denmark, and Islamic Investment Company, Australia.

Obviously, the above review indicates that Islamic banks have come into being in Egypt, Malaysia and Bangladesh through individual efforts of a devoted Muslim entrepreneur, government initiative, and activism put up by Muslim groups respectively.

3. THE SITUATION IN GHANA

The preceding section supports the assertion that nothing good comes easy. As a matter of fact Islamic banking services could not have surfaced in Ghana from thin air. A lot more efforts and hard work was required given that Ghana is a Muslim-minority country. There it is not surprising that after sixty-one years of independence, Ghana is without a single Islamic bank or Islamic banking window. In this section, attempts would be made at providing some reasons for this predicament.

One major reason why to date no Islamic bank exist in Ghana can be attributed to disinterest exhibited by ordinary Muslims and the Ulamah in Ghana. Although majority of Muslims are aware the existing interest-based conventional banking run contrary to Islamic values, they have not initiated any moves aimed at securing the appropriate banking system free of usury. As expected from their Imams, all Muslims have been admonished to guard themselves against engaging in activities that are classified as usury, and afterwards everyone simply gone to sleep on the matter.

When Allah commands us in the Quran; "Allah has permitted trade and forbidden usury" (2:275), we are expected to comply. Any act directed towards obeying Allah's commands, our Imams tell us, is an act of worship. As Muslim leaders, the Ulama were duty-bound to seek alternative means of accessing banking and finance services for all Muslims, and other religious groups who share similar beliefs. The Bangladesh story teaches us that through awareness creation, training and lobbying, the objective of securing an Islamic banking system could be achieved. The Quran again says "Indeed, Allah does not change the condition of a people until they change that which is in themselves" (13:11). True, Muslims in Ghana knew very well that the conventional banking system is against their beliefs, but did nothing to change their condition.

Besides the Ulamah and Imams, Muslim businessmen and entrepreneurs blessed with wealth and other financial resources, could have used their capital to invest in the Islamic banking sector. However they chose to invest in other sectors whilst patronizing the very conventional system that is interest-based, and hence helping to strengthen what Allah has forbidden. Spending ones wealth in helping to establish an Islamic banking system would have been a worthy course. Such deeds are indeed recommended by the Almighty Allah as stated in the Quran thus "And the example of those who spend their wealth seeking the pleasure of Allah, and to strengthen their own selves, is as the example of a garden on a high ground. A heavy rain falls upon it, so it brings forth its fruit twice as much. And if the heavy rain does not fall upon it, then a drizzle (is sufficient). And Allah is All Seer of what you do" (2:265).

Any industry would thrive only if there are enough trained professionals to keep it running. Unfortunately, universities in Ghana from independence have not offered any programs in Islamic banking and finance. This situation is not surprising because until recently, Islamic-based universities did not exist in the country. However this should not be an excuse for the universities that were in existence all this while. The growing trends in the Islamic Finance industries should have been an enough signal to necessitate the introduction of such programs in our Universities.

Once the manpower in the Islamic banking sector was unavailable, the demand for its practice became negligible.

If the Muslim ummah in Ghana did not push for the establishment of an Islamic banking system, how about the actions or inactions of government and policymakers. Many empirical studies have linked Islamic finance to influencing economic growth. For instance Sarker (1999), finds that the profit and loss sharing mode employed in Islamic finance, is good for economic development. Other advantages of this system include, being fairly stable during economic crisis, enhancing financial inclusion, and providing a source of diversification for investors.

One would have thought government, being interested in making access to capital easy for businesses, would take advantage of Islamic banking in order to attract the mostly unbanked Muslim population, into keeping their moneys in the bank. The establishment of an Islamic bank through the initiative of government and the central bank, would have made funds available for businesses to increase their investments and production. Hence unemployment would have reduced, whilst the economy achieved higher growth rate.

In a nutshell, the lack of an Islamic banking and finance system in Ghana since independence, could have its roots traced to the inertia of the Muslim community, educational institutions, government and policymakers.

4. CONCLUSION AND RECOMMENDATIONS

This paper looks at Islamic banking and finance system, and why it has not been established in Ghana after sixty-one years of independence. Given that Muslims are to avoid usury in all aspects of their lives, and the global recognition of Islamic finance, this paper wonders why the nation is without a single Islamic bank. This paper's objective seeks to determine under whose mandate should an Islamic banking and finance system be established in Ghana. A review of the genesis of Islamic banks in Egypt, Malaysia and Bangladesh was made, and the situation in Ghana analysed.

In order to obtain a sustainable environment for Islamic banking and finance industry in any jurisdiction, there must exist laws regulating the industry, Shariah regulatory framework, availability of trained professionals and Shariah experts, and well-informed stakeholders. But as far as the taking of initiatives to establish an Islamic banking system is concern, the review of other jurisdictions indicate that, three types of stakeholders are important.

I. A well-informed and devoted Muslim businessmen or entrepreneurs
II. Government and other policymakers and
III. Muslim groups

Analysing Ghana's situation leads to the conclusion that, all such important stakeholders mentioned above were either non-existent or, not up to the task of initiating an Islamic banking and finance system in Ghana.

If we must see the coming into existence of an Islamic banking and finance system soon in Ghana, then the following recommendation will suffice:

Muslims must put their moneys and other resources where their beliefs and values are: Muslim leaders, Muslim groups, and Islamic scholars must intensify their efforts in creating awareness among Muslims of the need to patronized only products of Shariah compliant financial institutions. They must also encourage the wealthy ones to invest their resources in setting up Islamic banks by letting them understand why such actions shall attract more reward from Allah the Al-mighty. In the current dispensation where the Ministry of Zongo and Inner-city development has been created, Muslim groups may wish to lobby the Minister in charge, to help them in the pursuant of their objectives. Ordinary Muslims on their part must take it upon themselves to demand from their bankers for Islamic banking and finance products in order to bring their needs to the doorsteps of service providers. With the adoption and execution of workable strategies, the wishes of the Muslim populace will be realized.

Universities should rollout programs in Islamic finance: Producing graduates with Islamic finance and Shariah background is needed for the creation and development of an Islamic finance industry in Ghana. These would be the experts with requisite insights into the workings of the industry, and therefore would be capable of creating awareness to sway government and policymakers into granting opportunities for establishing the industry. Fortunately, the existence of the Islamic University College, Ghana, should ease the burden of producing such expertise for the industry. They should be willing to assume a pioneering role in rolling out high quality programs that can rival the likes produced in Malaysia and elsewhere in the world.

Government must take keen interest in the Islamic finance Industry: Government must recognize the need to widen the financial inclusion net to include Muslims, who prefer to be unbanked than patronize the conventional banking system. A collaboration between Islamic finance professionals, government, the central bank, and Islamic scholars must be formed with coordination from the Ministry of Zongo and Inner-city development. Such a collaboration shall deliberate on the formation of a workable Islamic finance framework, which may pave the way for the establishment of the first Islamic bank in Ghana within the shortest possible time.

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