WHY DOES BANGLADESH REQUIRE A CENTRALIZED SHARIAH GOVERNANCE FRAMEWORK FOR ISLAMIC BANKS?

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ABSTRACT

The main objective of this article is to describe the logical reasons why a Centralized Shariah Governance Framework (CSGF) provided by the Central Bank of Bangladesh (Bangladesh Bank) is essential for the country’s Islamic banks. In doing so, it identifies the major regulatory challenges (self-developed and disparate use of Shariah Governance (SG) practices) faced by Islamic banks in Bangladesh. It considers an analytical approach to explore the significance of a CSGF for Islamic banks in Bangladesh and examines the current diversified procedures of SG practices. This article reveals that the self-developed SG practices of Islamic banks in Bangladesh have created confusion and pessimism among the practitioners, bankers and even to the general people and regulators which is negatively affecting the overall image of Islamic banks. Such incongruent governance practices have led to inconsistencies in SG structures, implementation procedures, monitoring activities. In addition, this article reveals that these deficiencies usually exist due to weak monitoring systems of the Central Bank, ineffective functioning of individual Shariah Supervisory Boards (SSB) and the absence of comprehensive SGF. The article argues that the Central Bank of Bangladesh should initiate to reform its Islamic banking industry by introducing a CSGF aimed to identify the roles, responsibilities, powers, and functions of SSB; thereby improving governance, accountability, and overall Shariah compliance quality. This article is hoped to be beneficial for the regulators and practitioners to consider revising current practices.
Keywords: Centralization, Bangladesh Bank, Islamic banks, Shariah governance framework.


1.0 INTRODUCTION

In 1983, Bangladesh was the first South Asian country to establish Islamic banking by the formation of the Islami Bank Bangladesh Limited (Noman, Pervin, Chowdhury, Hossain, & Banna, 2017; Hassan, Ullah, & Khanam, 2017). In 1974, the government of Bangladesh first considered the establishment of Islamic banks after attending the second Organization of Islamic Cooperation (OIC) summit. Consequently, in August 1974, the Finance Minister of Bangladesh opened the path for operating Islamic banking by signing the charter of the Islamic Development Bank (IDB) thus dedicating itself to acknowledge the Islamic economic system parallel to the conventional system. Due to such government initiatives and a desire from the general public, aspirations were realized in 1983 when the first private Islamic bank was instituted in cooperation with the government and the private sector. Currently, Bangladesh has 10 full-fledged Islamic banks (Bangladesh Bank Report, 2019).

Moreover, Bangladesh has witnessed rapid growth and progress of Islamic banking in its market share and growth assets since its inauguration. In the recent world financial crisis, Bangladesh proved itself as a less affected nation probably due to the expansion of its Islamic banking operations. In Bangladesh, most of the conventional banks are interested to run Islamic banking branches and windows across the country to attract and benefit from the large Muslim population (Rahman, 2014). In 2015, the central bank refused to issue new licenses to operate Islamic banking branches and windows parallel with conventional banking due to the complexity and sensitivity of Shariah-related issues (Abdullah & Rahman, 2017). More recently, however, the Central Bank of Bangladesh has started to issue new licenses for conventional banks (Alam et al., 2020a).

Shariah Governance Framework (SGF) of individual countries is distinct due to the cultural, socio-political and regulatory differences. The self-developed SGF of Islamic banks in Bangladesh can be said to be unique compared to other nations such as Malaysia, Bahrain, Indonesia, Pakistan, Saudi Arabia and Sudan. Concerning this uniqueness, Hassan et al. (2017) stated that Islamic banking and its SGF have been developed and improvised by the initiatives of the general people. Therefore, the IFIs and SGF of maximum jurisdictions have been
developed and implemented by the particular government. Thus, the Muslim density in Bangladesh and their motivation to follow Islamic principles encouraged the development of this industry. Despite a long history of experience with Islamic Banks, to date, Bangladesh does not have any SGF in place nor Islamic banking laws for monitoring the banking operations of its Islamic Banks. As a regulator of the banking industry, the central bank promulgated a guideline on the operation of Islamic banking in Bangladesh in 2009, which gained the attention of researchers and the international Islamic banking community due to the formation of the Shariah Supervisory Board (SSB) is an option for Islamic banks. Though the responsibility of SSB is to look after Shariah compliance issues of banks operations, however, they are not accountable for Shariah issues and their functions of the particular bank as per the central bank guideline. Therefore, the central bank in its guideline has described the roles and responsibilities of the Board of Directors (BOD) to ensure Shariah compliance in their overall banking functions.

Due to the absence of a separate law and SGF, Islamic banks have developed their own Shariah Governance (SG) mechanisms which are more suitable for their existing practices (Hassan et al., 2017). They also highlighted Islamic banks assumed to wish to transfer their responsibilities to the BOD due to the lapses of the central bank’s SG guideline. Moreover, the BOD uses the SSB and Shariah officers as a showcase or rubber stamp in accomplishing the banking activities and to achieve their targeted profit by the name of Islamic banking (Alam, Miah, Siddiqui, & Hossain, 2020b). Therefore, there have been several studies that have highlighted the benefits of a Centralized Shariah Governance Framework (CSGF) promulgated by the Central Bank for the Islamic banking industry in Bangladesh.

The key objective of this present study is to highlight the reasons why Islamic banks in Bangladesh require a CSGF under the management of the Central Bank to develop the existing SG system. The lack of appropriate SGF and unstructured or proper monitoring systems permit Islamic banks to formulate their SG guideline and corporate strategy. In addition, our study aims to highlight the overall scenario of the SG system of Islamic banks in Bangladesh along with analyzing the current practices illustrating the rationale of implementing a CSGF to diminish the limitations of existing practices as well as improving the confidence of stakeholders. The study provides a critical examination of the importance of a CSGF to the central bank of Bangladesh and outlines some suggestions of how such a framework can be developed. Moreover, this research highlights the current global practices and the models used in other countries so that the policy-makers and the institutional arrangements i.e., BOD, SSB,
and management of Islamic banks can benefit and reconstruct the current SG system for the improvement of Islamic banking.

The next section outlines a discussion of SGF. Section 3 describes the types of SG model and the earlier developed framework. Section 4 provides an overview of the SG structure of Bangladesh and its unique features. Section 5 illustrates the reasons why Bangladesh requisites the centralized SGF for the Islamic banks of Bangladesh. The final section offers a conclusion and highlights policy implications and directions for future research.

2.0 MODELS OF SHARIAH GOVERNANCE FRAMEWORK

The economic sector plays a vital role in the growth of a nation’s economy, whereas the government does an important role in the formation of complete SGF to monitor the overall functions of the Islamic finance industry. SGF has distinguished itself from the conventional Corporate Governance (CG) structure uniquely by applying Shariah principles to accomplish the current CG framework of Islamic banks. In this case, SSB plays a vital role in implementing Shariah rules and regulations and monitoring the Shariah issues of Islamic banks in a centralized and decentralized way. Both SSBs play their roles to achieve the highest quality of Shariah compliance in the operations of Islamic banks to ascertain the satisfaction of Allah and safeguard its institutional image. However, Alam, Islam, and Runy (2021a) illustrated SG as a process of ensuring Shariah compliance in the overall functions of Islamic banks and financial institutions. According to the Islamic Financial Services Board (IFSB) (2009), a SG system denotes “…the set of institutional and organizational arrangements through which an Islamic financial institution ensures that there is effective independent oversight of Shariah compliance over each of the following structures and processes” (p. 2). The key aim of SG is to uphold the application of all religious requirements by IFIs. The adoption of complete Shariah guidelines ensures that the activities of an IFI are managed prudently, where the Shariah compliance aspects of the business are appropriately upheld, to safeguard the benefits of shareholders, depositors, customers and all relevant stakeholders of the IFI (Alam, Rahman, Mustafa, Shah, & Hossain, 2019). Therefore, it is fundamental to have SG standards so that IFIs can follow those rules and be monitored by the central bank as well as by the SSB.

Along with several international standards-setting organizations, the AAOIFI and IFSB have promulgated standards and guidelines to assist the Islamic finance sector to remain sustainable and improve the SG standards and guidelines. Despite the endeavors of AAOIFI and IFSB, there are no commonly accepted guiding principles and standards on accounting,
auditing, reporting, governance, legal, and Shariah matters so far. Alternatively, Islamic banks have adopted the principles of OECD in forming their SG systems. With the concession of a few jurisdictions that choose to implement global SG standards, particular nations desire to implement their own rules and regulations though they inconsistently ascertain the goals of financial mixing into the international finance sector (Oseni, Ahmad, & Hassan, 2016).

2.1 Decentralized Shariah Governance Model

In decentralized practices, every Islamic bank is required to have its SSB to monitor its activities and operations. According to the AAOIFI standards, in a decentralized model, Islamic banks have to set a separate SSB to ensure and review the Shariah compliance within the institution. This SSB works independently without any pressure from the central bank. Besides, in this practice, the central bank does not have the CSSB at the national level thus Islamic banks form their own particular SSB. The decentralized practice is seen in the Gulf Cooperation Countries (GCC)/Middle-East countries and other states. Similar to GCC countries, Islamic banks in Bangladesh follow the decentralized model of SG and they have SSBs who monitor the Shariah-related issues. The acceptability of agreements and Shariah-compliant monetary products is decided and approved by the SSB of the individual bank.

Moreover, Islamic banks have to publish the Shariah compliance report provided by SSB to the shareholders concerning the activities of Islamic banks. The AAOIFI has outlined the guidelines for the individual Islamic bank and for the SSB to perform their duties and activities in compliance with Shariah. However, this model has been criticized for allowing the SSB members to hold the many Islamic banks' SSB positions at a time and possibly generating a conflict of interest. The individual position of SSB creates a lack of consistency as well as sometimes the same SSB members hold several positions of different banks which generates an absence of efficacy and consistency all over the Islamic banking sector. This model also has an absence of a proper direction of the roles and functions of SSB, BOD, and management and how to prepare the Shariah compliance review report, disclosure and reporting to the central bank and the independence of SSB. By permitting the SSB to conduct the external Shariah audit, the prejudice of the audit report would be at stake.

However, it is argued that the independent issuance of fatwas by the respective SSB may lead to ambiguity and misunderstanding between various stakeholders i.e., depositors and customers. This is due to the diversified Shariah rulings, products, services, and Shariah compliance grade amongst IFIs. Sometimes a certain product permitted by a SSB may be
rejected by another SSB. Thus, the evidence shows the lack of decentralized practices and diversification of fatwa issuance by SSB within the IFIs. Moreover, in a decentralized model, a BOD may reject or modify the fatwas or influence the decision-making process of the SSB as they appointed the SSB. Neither the standards of AAOIFI nor the guidelines IFSB’s are obligatory on IFIs, the BOD is the final policy-making body and has the right to apply or decline the decisions of their respective SSB. Consequently, the anxiety over the security of job or contract regeneration of their SSB positions may also keep a SSB member into a quiet and weak SSB (Lahsasna & Saba, 2014). Besides, the lack of CSGF and centralized fatwas may increase the Shariah compliance risk of the IFIs. The numerous positions hold by the SSB member create additional problems and stress on themselves, as the decentralized practices do not limit the boundaries of positions (Hasan & Sabirzyanov, 2015). These numerous positions may damage their SG monitoring and hamper the establishment of an efficient Shariah compliance control on the operational functions of IFI (Adams & Ferreira, 2012; Jiraporn, Davidson, Dadalt, & Ning, 2009). It is because of such reasons that Malaysia and Sudan have already placed restrictions on SSB positions.

2.2 Centralized Shariah Governance Model

From a SG perspective, different countries practice diverse models. CSGF refers to every central bank or country that has a CSSB at the central bank to monitor the institutional SSB of the Islamic banks. The centralized model can be categorized into two types such as one-tier and two-tier. In the one-tier centralized SG model, only one CSSB monitors, controls and supervises the Islamic banks in performing their activities. The one-tier CSGF is practiced in Morocco which focused on the development of fatwa at the institution level. This is very effective at the beginning of the Islamic banking journey in any jurisdiction, which helps to develop fatwas, regulations, and guidelines for the expansion of Islamic banks. This model remains unclear in many aspects of inquiries and applications from the perspective of routine work (Soualhi, 2016). Moreover, in the operation of Islamic banking functions, it has been established that an individual SSB is important to monitor the Islamic bank’s activities daily and in this case, a one-tier model may work at the inauguration but not an extension. Figure 1 shows SG standards for a centralized framework that is modified in the context of Bangladesh. The two-tier CSGF is a combination of CSSB at the apex of the central bank and an institutional SSB at the bank level where the CSSB monitors and guides the Islamic banks and the individual SSB applies the instructions of the CSSB and the central bank in their respective institutions.
The SSB at the individual level is also responsible for their works to CSSB, the central bank, BOD, stakeholders, and also the Almighty Allah. The two-tier CSGF is broadly practiced in numerous jurisdictions such as Bahrain, Malaysia, Pakistan, Indonesia, United Arab Emirates (UAE), Sudan, Brunei, and Oman. Among those, Malaysia and Sudan have comprehensive SGF and the Malaysian SGF model is differentiate itself from the Sudanese model in aspects of comprehensiveness, structures, and applications and allowed the SSB members to sit in the BOD meeting to serve and liaise between the BOD and SSB (Soualhi, 2016). Moreover, from the non-regulatory and practical perception, the SG systems of Bangladesh can be called a two-tier CSGF. Besides the SSB, a private non-corporate CSBIB is working to develop SG and also provides Shariah advisory services to its member banks. The Central Bank still does not include the CSBIB in their policy so that they do not have the legal power to provide guidelines for proper application of rules and to take actions in any Shariah discrepancy of Islamic banks (Alam et al., 2020a).

Source: Hamza (2013)

Figure 1: Shariah governance standards for centralized framework (Adapted in the context of Bangladesh).

In a two-tier centralized SG model, the CSSB is accountable for all Shariah compliance issues and also certifying the Islamic banking products to confirm the Shariah compliance following the rules of Shariah. The main objective of CSSB is to ensure the consistency and coordination
of Shariah explanations and consolidation of the regulatory framework which stimulates sound governance within the Islamic banking sector. In any Shariah conflicts among the various parties, SSB refers to the CSSB for its resolution and the CSSB works as the ultimate authority in explaining the Shariah principles of Islamic banking and their implementation in practices. The CSSB authorizes the appointment of individual SSB. The CSSB and the SSB play their roles in the development of Shariah standards and SGF for the effective procedures of Islamic banks. To check the Shariah compliance and governance, the regulatory authorities have a supervising process to shelter the interest of SGF, the shareholders, customers and the stakeholders.

Consequently, it is disputable that a CSGF delivers a common and complete guideline for the practices of organized ijtihad rather than an ‘arbitrary opinion-making’ environment outlined by a decentralized SG system. The presence of a CSSB in the apex level of the central bank will minimize the difference of understanding and the CSSB does not execute its viewpoint but form opinions through the open discussion (Chapra & Khan, 2000). Conversely, the monitoring structure within the CSGF permits the institutional SSB to develop new products, issue fatwas and ensure Shariah compliance on the operational functions (Bank Negara Malaysia, 2010). Moreover, the centralized practice reduces the Shariah-compliant cost of Islamic banks, lessen the conflicts, and conflict of interests among the Islamic banks, SSB members, regulators, BOD, customers, investors, general people and shareholders which enhances the institutional image of this industry and strengthens to develop more standardize rules and regulations as well as to improve the quality of Shariah compliance. Moreover, in a few GCC countries, the CSSB was considered needless due to their countries’ Islamic law (Razak, 2018). In contrast, this is a lengthy process of promoting a product and Islamic banks have to wait until the clarification of the central bank and CSSB. Nevertheless, it is argued that this CSGF model can provide a sound and appropriate SG standard compared to a decentralized SGF as it supports cooperating potential stockholders to the market, particularly those that are inexperienced regarding the ideas and philosophies of Islamic banking.

2.3 Earlier Models of SGF
The overall tactic of SG structure denotes that both the ex-ante and ex-post procedures are important fragments of a sound governance practice where the ex-ante procedure comprises the deliberation of Shariah resolutions and checking the Shariah compliance before announcing a product in the market towards the customers (Kasim, NuHtay, & Salman, 2013). On the other
hand, each IFI must confirm that the SSB has strong terms of position concerning its command and accountability, distinct functional procedures, and guidelines of reporting and moral understanding and knowledge with specialized ethics and manner. Moreover, Islamic banks should confirm that its SSB strictly observes the current SGF, where possible, stimulates the junction of the SG standards (Kasim et al., 2013).

However, the first SGF model was developed by the central bank of Malaysia namely Bank Negara Malaysia (BNM) in 2011 (revised in 2019) for the further development of SG of IFIs which has a response to the need for a unique governance structure for this industry. Though this model has brought attention to researchers, practitioners, and scholars, it has some limitations in its relation among various mechanisms, accountability, and responsibility. In Malaysian SGF, management is not connected with the Shariah audit function, board audit committee, and board risk management committee. Moreover, the SSB does not know regarding the Shariah risk management control function in monitoring and preparing risk reports and the report of this department is directly sent to the BOD and the board audit committee also forward their report to the BOD without notifying the SSB. The SSB only justifies the reports provided by the management based on their ideas and experiences.

Along with the limitations of SGF of the BNM model, Sori, Mohamad, and Shah (2015) have drawn attention to some critical issues in the SGF. Based on the feedback from their interviewees, the authors suggested that the structure of the SGF should be slightly rearranged in the liability exposure or job function. In liability based SGF, they uplifted the SSB position as other board committees. They also emphasized that SSB has also the same responsibility as other boards in performing their duties. According to the BNM structure, the BOD, risk management committee, SSB and audit committee are placed at the same level because they share the same risks and liabilities as spelled out in the Islamic Financial Service Act (IFSA) 2013. However, these same positions (as spelled out in the IFSA 2013) of those board committees are suggested to be rearranged according to their job function whereby the SSB is placed below the BOD but above the risk management committee and audit committee. On the other hand, they rearranged the key players’ positions according to their job function, where the SSB is placed below the BOD after recognizing the importance of the board as the leader of the institutions. SSB is located above the other two players i.e., board risk management committee and board audit committee due to their role as Shariah authority that is in line to set up the IFIs. This is to recognize the importance of roles and functions played by the SSB.
Moreover, the developed models of Sori et al. (2015) also have limitations like the BNM model. In the liability based model, though authors have upward the SSB position they do not make the relationship with the management and the Shariah audit function and as well as board audit committee and board risk management committee. Only the thing, they have changed in the reporting system of board audit committee which outlined that they forward their report to the BOD through the SSB wherein the BNM model, they send directly. In addition, in the job-based model, they positioned the SSB under the BOD and uplifted from the board risk management committee and board audit committee but they did not outline the reporting system. Moreover, it is also unclear how these committees and management will communicate with SSB, how should be the reporting system, and how the SSB will monitor the SG functions? Besides, there is no linkage with the Shariah secretariat or Shariah department for supporting the SSB. In addition, all of these models have the absence of an external Shariah audit function, though this practice is already implemented in the global SG practices.

3.0 THE SIGNIFICANCE OF CENTRALIZED SHARIAH GOVERNANCE FRAMEWORK FOR ISLAMIC BANKS IN BANGLADESH

Bangladesh Bank is the only regulatory authority for controlling and monitoring the overall banking industry thus it is also responsible for overseeing the SG systems. However, Bangladesh has the absence of a particular Islamic banking act, law, and regulatory authorities for monitoring, supervising, and guiding Islamic banks though initiatives have been taken in 2013 to revise the Banking Company Act, 1991 to mitigate the rule of the Islamic Banking Act via general banks. In addition, Bangladesh has the absence of a comprehensive SGF for monitoring Islamic banks. This is due to the intention of regulators, Islamic banks, BOD, and civil societies (Alam, Rahman, Thakur, Bashir, & Hosen, 2020c). Thus, SG of Islamic banks is developed and run by separate SSB and respective Islamic banks. In the existing Banking Act, the government has completed some modifications for the Islamic banks but Bangladesh Bank still does not form any particular division for monitoring the overall activities of Islamic banks. Islamic banks have a shortage of experts, experienced, knowledgeable, and qualified Shariah people at all levels (i.e., the central bank, Islamic banks, SSBs, and regulators) (Alam et al., 2020d). Thus, Bangladesh does not have a complete SG manual, Shariah audit system, Shariah audit firm, and Shariah index institutions.
Though the Bangladesh Bank has published a guideline in 2009, still Islamic banks have an absence of a proper CG system, complete regulatory framework, particular and organized SGF in accomplishing, supervising and monitoring their activities which obstruct the growth and regular functions of this industry (Ahmad, Rashid & Shahed, 2014; Ullah, 2014; Perves, 2015; Alam et al., 2019, 2021b). For ensuring the Shariah compliance in the overall activities of the Islamic banks, the central bank has fixed the criteria of pre-forming the bank, the organizers of the bank have to assure the expert and facilities and confirm all the business functions are in line with the Shariah principles (Bangladesh Bank, 2009). In addition, the country’s central bank does not have a specific supervising department to supervise the functions of Islamic banks that is why reviews and inspections area is done through the traditional banks’ guidelines. Therefore, the new banking rules and the absence of Shariah's suitable guidelines and principles are some of the reasons for the growth of the Islamic banking sector. Additionally, this lacking hinders the investment and profit earnings of the Islamic banks (Noman et al., 2017). Due to the traditional banking practices, the guidelines, instructions and regulations of the central bank for the Islamic banks seem inadequate (Alam et al., 2019). Existing rules and guidelines are capable to control the overall banking and reduce the possible risk, but it is not capable to preserve the institutional image, customers and people’s trust, and mitigate Shariah risk. Moreover, the lack of a complete SG structure creates regulatory gaps, confusion among the traditional bankers, customers, businessmen, governments and industrialists concerning Islamic banks’ Shariah compliance (Abdullah & Rahman, 2017; Ahmad, Rashid, & Shahed, 2014).

Every Islamic bank has developed its SG guidelines due to the absence of a comprehensive SGF. As a result, Islamic banks have diversified guidelines and SG practices. In the practices, the SSB positions are not the same and organized inappropriately (Parves, 2015; Alam et al., 2019). In addition, few Islamic banks have designed their SSB with a combination of management and generally educated people but the engagement of the management is a full violation of AAOIFI standards. The recent study of Alam et al. (2019) highlighted the working conflict and communication gap amongst the SSB, Shariah secretariat and management. Moreover, they also raised questions regarding the SSB positions and implementing procedures of SG guidelines. These are because of weak monitoring of the central bank and SSB, lack of proper SGF and self-developed SG structure and strategies by Islamic banks. Additionally, the existing guideline has a limitation concerning its comprehensiveness, accountability, responsibility, and structure of SSBs. Islamic banks do not
follow the instructions of the central bank in the formation of SSBs. As a result, there is an absence of competent and qualified SSB, which also results in the functions of Shariah departments as well as Shariah applications. As per the central bank guideline, the BOD must appoint skilled and qualified SSB members. Because of the scarcity of Shariah professionals, few scholars are holding the numerous SSB positions of the Islamic banks in Bangladesh, nevertheless few of them do not have any professional degrees concerning Shariah and Islamic finance (Hassan et al., 2017). Usually, BOD, management, executives, customers, and the public also have the conceptual gap concerning Islamic banks, the banking system and SGF parallel the regular prayers, faith, and belief. BOD and management have more or less influence in the application of SG guidelines (Alam et al., 2020b). Sometimes, they make delays intentionally in applying the decisions made by SSBs. In addition, Alam and Miah (2021) illustrated that SSB members are not independent in performing their works in the context of Bangladesh. Therefore, Bangladesh requisites a comprehensive SGF, Islamic banking act, a standard accounting system, and a robust Shariah audit system for the overall development of Islamic banks and SGF under the umbrella of the central bank (Alam et al., 2020d).

Moreover, the central bank did not promulgate any guidelines to assist the SSB though it is a significant issue for the banks to ensure Shariah compliance (Hasan, 2014). In addition, Islamic banks are not legally bound to obey the guidelines and directions issued by the ‘Central Shariah Board for Islamic Banks of Bangladesh’ (CSBIB). In this case, some claim that CSBIB fails to monitor and examine the current functions of Islamic banks because of some reasons such as its guidelines are not mandatory, the central bank does not recognize it and did not provide any order to follow the guidelines of it. That is why the CSBIB delivers advisory services and observes the functions of SSBs as a private institution. Though the Shariah instructions and guidelines demonstrated by CSBIB are not mandatory for the Islamic banks then they did not break up the instructions because of the reputational risk (Uddin, 2014). Due to this reason, if any Shariah violations occur in the accomplishments of the Islamic banks, the CSBIB are not able to take any actions against the banks and the CSBIB does not have the power to solve the disputes among the BOD, SSB and management in any Shariah related issues (Alam et al., 2020c). In the practices, Islamic banks have two functions and more or less and there is no research, Shariah compliance and review, and Shariah risk management.

However, the level of Shariah compliance quality of all Islamic banks is not similar though they are working in similar supervisory and monetary surroundings (Ullah, 2014). The
shortcomings of inaugurating Shariah compliance stimulates the reputational risk and uncertainty of Islamic banks (Rahman, 2014). In addition, Ahmed and Khatun (2013) emphasized that the minimum scoring quality of Shariah compliance may lose the customers' credibility towards the Islamic banks. The average quality of Shariah compliance stages of the complete Islamic banks is the utmost while it is average and bottom for the Islamic banking branches and widows respectively (Ahmed & Khatun, 2013). In addition, Ullah (2014) also pointed out that in assuring the compliance at all sections of Islamic banks, the existing Shariah audit system is not appropriate and there is an absence of knowledgeable Shariah auditors, full-time Muraqibs, logistics supports and misinterpretation amid the Muraqibs, and finally the limitations of the officers. Sarker (2005) hypothesized that if the Islamic banks can ensure more excellence in Shariah compliance there has more possibility of the growth of the Islamic banking business. Moreover, this function is done by the Shariah department officers though the Islamic banks have a negative tendency on conduction (Ullah, 2014). Additionally, the Shariah review and risk management functions are partially done by the Shariah inspectors due to the absence of a separate department or section (Alam et al., 2019).

The competitive market positions sometimes led Islamic banks to partially follow the Shariah principles and late execution of SSB decisions which hinder the proper system from having the desired effect (Sarker, 2005; Ahmad et al., 2014). Besides, the management of the Islamic banks is not sincere to follow and apply the Shariah principles in their operational activities (Ahmad et al., 2014). The Shariah resolutions, the operational processes, accounting principles and annual reporting are diversified due to the absence of a unique guideline and central authority. For example, the diversified Shariah report provided by the SSB sometimes creates confusion amongst the various stakeholders concerning the disclosed report (Ahmed & Khatun, 2013). Thus, the published Shariah impermissible amount and income indicate the ineffectiveness of the Islamic banks as well as some SSB reports do not calculate and figure out the Shariah non-compliance income. So, it is important to maintain a proper standard and transparency in SSB reports (Ahmed & Khatun, 2013).

Moreover, in the global SG system, the external Shariah audit is the moderator that enhances the world SG system of the Islamic banks and also implemented through the regulatory bodies and the countries to confirm more Shariah compliance and transparency. But in practice, Bangladesh did not include the external Shariah audit system in describing the SG functions, though both the AAOIFI and IFSB have explained the external Shariah audit as a mechanism of SG in their guidelines and standards. The IFSB in their guideline has outlined
the external audit as the best practices and recommended that Islamic banks may apply, in contrast, the AAOIFI has described it as an essential part of the yearly external audit of financial reports. Pursuing the AAOIFI standards, in UAE some banks and companies are implementing the external Shariah audit (Bindabel, 2017). Besides, the Central Bank of Kuwait (CBK) has published the SG guideline for its Islamic banks in 2016 where it stated the external Shariah audit as part of its comprehensive SG system by following in the ways of the central banks of Oman and Pakistan where they also incorporated an external Shariah audit as part of the SGF of Islamic banks. Additionally, Bahrain also highlighted implementing the external Shariah audit in the SG system. In this aspect, to preserve independence, the external Shariah auditors must not be executives of the Islamic banks or the members of the SSB (Ahmed, 2017). Therefore, the central bank of Pakistan has issued a guideline in 2017 by highlighting that the members of the SSB cannot be involved with any external audit firms. Thus, the three-tier structure including SSB, internal and external audit delivers extra supervision on the overall accomplishments of SSB and execution of SSB decisions by the management (Bindabel, 2017).

Therefore, most of the researchers put strength on the improvement of a CSGF to promote the Islamic banks in Bangladesh (Alam et al., 2019, 2020a, 2020b, 2020c, 2020d; Perves, 2015; Ullah, 2014; Ahmad et al., 2014; Ahmed & Khatun, 2013). The study of Alam et al. (2020c) stated the legalizations and formations of a central Shariah regulatory authority under the central bank of Bangladesh. For doing this formation, it is required to have a proper intention of regulators and government which could pave the way for the development of a CSGF. So, it is a prerequisite for the Bangladesh Bank to develop a CSGF to ensure unique structure and practices which will minimize the confusions and misconnects of diverse stakeholders towards the Islamic banks as well as enhance the public creditability and institutional image. Further, Noman et al. (2017) recommend that Bangladesh Bank should provide a more comprehensive legal and regulatory structure to increase the investment prospect and proficiency of management to invest in higher monetary projects. By applying such a CSGF, the central bank can ensure more accountability, independence, and transparency among the functions of Islamic banks, SSB, and it would be easier to control the Islamic banks.

4.0 CONCLUSION
A good SG is a prerequisite for a complete SGF as well as to apply those guidelines and principles in their regular activities. For an efficient SG, a strong SG structure is mandatory
under the control of the central bank which is currently absent in Bangladesh. In Bangladesh, due to the diverse practices and problems in the current practices, it is obvious to outline a complete CSGF to implement the homogeneous Shariah ruling, supervise the overall functions, resolve the conflicts amongst the management and other parties, to enhance the faith of general people, improve the quality of Shariah compliance, develop more Shariah products, lessen the Shariah risk and give a good customer facility. The two-tier CSGF will enhance accountability and ensure more transparency within the overall banking operations. However, Oman also gets the benefit from its recently developed CSGF (Soualhi, 2016). Moreover, the CSGF also minimizes the product cost and Shariah doubtful amount of all Islamic banks. Besides, the recent achievement of the highest five nations, Bahrain, Malaysia, Pakistan, Sudan, and Kuwait, refocuses the issue that the CSGF structure demonstrates a constant and feasible SG system (Razak, 2018). So, Bangladesh Bank should outline a homogenous instruction of SGF by highlighting the roles, functions and accountabilities of all concerned bodies and to protect the independence of the SSBs. In addition, the regulators should include comprehensive auditing and reporting system so that general people can get the required information concerning Shariah violations, non-compliance income, inspection, audit areas, meetings, disciplinary actions against Shariah violations and their zakat management.

The study has beneficial contributions towards the Islamic banks as well as the Central Bank of Bangladesh. First, the paper highlights the reasons why Islamic banks should obey the uniform rules and guidelines to minimize confusion among customers. Second, the regulators can develop and maintain an effective CSGF for its Islamic banking industry by taking into the initiatives for the development of the Islamic banks. Thirdly, the central bank can revise the current SG guideline of itself, the individual guidelines of all Islamic banks as well as the standards and guidelines of international regulators such as the AAOIFI and IFSB to develop a CSGF to enhance the homogeneous practice and quality compliance. Finally, the study provides biennial knowledge regarding the SG culture of Bangladesh and contributes to the existing global literature in this field of research.

Future researchers are recommended to develop a CSGF for Islamic banks for the development of SG practices, and the quality of Shariah compliance. The regulatory authorities of the takaful side may also consider the centralization of SGF for that industry. Moreover, the government of Bangladesh, other policy-makers and researchers can consider the culture of co-operative society institutions and micro-finance to develop a separate governance system and policies for strengthening the Islamic finance sector. In developing such a model, future
researchers can also consider the frameworks used in other Islamic jurisdictions. If the government and the concerned regulatory authorities take proper initiatives for the development of SG and Islamic banks, Bangladesh can be ideal for SG practices throughout the Muslim world.

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