

CHAPTER IV : FINDINGS ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents the discussion and analysis of four case studies, focusing on the current practices of Shariah Governance in Islamic Credit Co-operatives. The discussion and analysis is based on exploration of the internal arrangement for establishing the Shariah Committee functions, and the extent of the roles and responsibilities of the main Shariah governance organs in the co-operatives. Subsequently, this chapter also includes a discussion on the external arrangement made by the regulator and Apex body in this sector pertaining to the Shariah governance framework.

4.2 Overview of the Selected Islamic Credit Co-operatives

Four selected Credit Co-Operatives providing Islamic credit facilities were chosen for this study. These four co-operatives are known as Co-op 1, Co-op 2, Co-op 3 and Co-op 4. To ensure that the findings are unbiased, these four selected Islamic Credit Co-Operatives were chosen based on similar criteria, which are:

- i. They are listed in the Index of 100 Co-operatives Best Performance by SKM
- ii. The credit co-operative offers an Islamic credit facility to their members (Co-operative with credit function)

- iii. The co-operatives have instituted a Shariah Committee function for their respective co-operative

The background and details of each co-operative for both categories are elaborated upon in the next sub-section.

4.2.1 Background of the Selected Islamic Credit Co-operatives

The co-operative movement has a long history in Malaysia, having started in 1922 under the supervision of the Malaysia Co-operative Societies Commission of Malaysia (SKM), which was incorporated as a government agency for the co-operative sector. SKM serves to form, register and develop co-operatives under the Co-operative Societies Enactment 1922 and was also assigned to guide and develop the co-operative movement.³ Therefore, the establishment of all the co-operatives in Malaysia is under SKM's supervision and monitoring. In general, the co-operatives in this sector are differentiated by their function. SKM lists nine different functions in this sector:

- i. Banking
- ii. Credit
- iii. Agriculture
- iv. Housing
- v. Industry
- vi. Consumer
- vii. Development
- viii. Transportation

³ <http://www.skm.gov.my/index.php/en/mengenai-skm/latar-belakang>; retrieved on 25 Jan 2017

ix. Services

This study chose four credit co-operatives that offer credit facilities under Shariah-based contract. The discussion on these co-operatives focuses on three main areas, namely, the history, type of product offered, and the establishment of the Board Sub-Committee.

History

In the case of Malaysia, the co-operative movement has been shaping the country for almost a century, and history records that credit co-operatives were one of the first co-operatives to be established in the country. Hence, credit co-operatives are well entrenched in the country with their long history since their establishment in 1922. The four Islamic Credit Co-operatives selected in this study also have a similar long history of establishment. Co-op 1 was established in 1980, Co-op 2 in 1975, Co-op 3 in 1952, and Co-op 4 in 1922. Accordingly, it makes these four co-operatives significant as a subject of the case study due to their sustainability as a financial intermediary for their members since their inception. In addition, in 2016, all these co-operatives were ranked in the Index 100 Co-operatives Best Performance by the Malaysia Co-operative Societies Commission.

In essence, the main objective for the establishment of a co-operative is not to be a profit-oriented entity, but rather to promote thrift, offer credit at reasonable rates, and provide other financial services to its members (Saeed & Daniel; 2014). Therefore, co-operatives have a fiduciary duty to serve their legitimate members by running the activities as stated in their own by-laws. Inevitably, since the inception of the co-operatives, they are bound by their by-laws, which differ from one to another. All the

selected Islamic Credit Co-operatives serve different specific legitimate members as stated in their by-laws. Table 4.1 provides a summary of the date of inception, specific legitimate members, and the recognition obtained for each selected Islamic Credit Co-operative:

Co-operative	Date of Inception	Legitimate Members	Rank in Index 100 Co-operatives Best Performance
Co-op 1	1980	Rural Settlers registered under Rural Settlers Authority in Malaysia nationwide	1 st
Co-op 2	1975	Employees of Postal Services in Malaysia nationwide	90 th
Co-op 3	1952	The State Government's employees, statutory body's employees, wholly owned subsidiary and which only served in the State	13 th
Co-op 4	1922	Employees of Telecommunications Services in Malaysia nationwide	37 th

Based on the above table, the nature of the respective co-operatives show that they are not really competing with each other since each has its own specific members. Hence, each co-operative is perceived to have a narrow focus to deliver the expectations of their members, i.e. to generate income and provide stable returns, instead of competing for members with the others.

Types of Product offered

In general, at the inception stage, all the selected co-operatives started their credit activity based on the conventional credit system, which provides an interest-based credit facility. At that time, unlike today, there was no alternative for this interest-based system. To fulfil their objective to offer credit at reasonable rates, and provide other financial services to their members, these co-operatives provide purposive credit

facilities with different credit features based on the different purposes to facilitate the different needs of their members. These credit facilities provide financial aid for personal needs, for purchasing vehicles and consumer goods, wedding preparations, education fees, and working capital, etc. Table 4.2 below shows the variety of credit facilities offered by each of the four selected Islamic Credit Co-operatives:

Co-operative	Type of Credit Facilities Offered
Co-op 1	Personal, Motorcycles, and Microcredit
Co-op 2	House renovation, Emergency fund, Travel, Education, and Consumer goods (furniture, electrical appliances, and Motorcycles, etc.)
Co-op 3	Education, Medical, Personal, Petrol expenses, and Consumer goods (furniture, electrical appliances, Motorcycles, tyres, computer, and smartphone, etc.)
Co-op 4	Personal, Travel, Education, Festive Celebration, Children's Schooling preparation, Housing, and Consumer goods

However, after several decades, all four Islamic Credit Co-operatives started a voluntary initiative to offer credit facilities with a Shariah contract as an underlying contract. This initiative was inspired by the development of the Islamic banking industry in Malaysia. It also resulted from when the credit co-operatives started to seek additional funds from Islamic banks. Hence, they were required to utilise these funds in accordance with Islamic principles.

Co-op 1 started to offer Islamic credit or financing facilities to its members a bit later than the other selected Islamic Credit Co-operatives. They started in 2008, while Co-op 2 started in 2002, Co-op 3 in 2000 and the earliest co-operative to take this initiative was Co-op 4, which started in 1998. In the early stage, they used identical Shariah contracts; namely, *Bay 'al-Inah*, *Qard* and *Bay' bithamin Ajil*. Then, in 2010,

all these co-operatives started to use a *Tawarruq* contract as an alternative to the controversial *Bay' al-Inah* contract. However, except for Co-op 4, they still use the *Bay' al-Inah* contract as an underlying contract. Table 4.3 shows the list of Shariah contracts used by the selected Islamic Credit Co-operatives:

Co-operative	Shariah Contract
Co-op 1	<i>Bay' al-Inah, Bay' bithamin Ajil and Tawarruq</i>
Co-op 2	<i>Bay' bithamin Ajil and Tawarruq</i>
Co-op 3	<i>Qard, Bay' al-Inah, Bay' bithamin Ajil and Tawarruq</i>
Co-op 4	<i>Bay' al-Inah</i>

Establishment of Board Sub-Committee Function

With the main purpose being to promote an effective internal control system, the co-operatives are required to establish an Internal Audit Committee. This sub-committee is required by law to oversee the financial reporting, disclosure process, and the degree of compliance with the laws and regulations. However, due to the difference in size, complexity and nature of each co-operative, each co-operative responds through a voluntary initiative to establish other sub-committees that it can justify as necessary for its activities.

In this regard, only Co-op 3 does not have an additional sub-committee, only having an Internal Audit Committee, while the other three Islamic Credit Co-operatives have at least one additional sub-committee in addition to the Internal Audit Committee (Co-op 4). Interestingly, Co-op 1 and Co-op 2 have more than five sub-committees including their own Shariah Committee. Table 4.4 provides a summary of the sub-committees of each Islamic Credit Co-operative:

Table 4.4 Summary of Sub-Committees of Each Islamic Credit Co-operative

Co-operative	Type of Sub-Committee	
	Name of Committee	Composition
Co-op 1	Internal Audit	5
	Shariah	4
	Investment	8
	Nomination and Remuneration	6
	Membership and Disciplinary	4
	<i>Ar-rahn</i> (Islamic pawn)	7
	Agriculture	7
Co-op 2	Internal Audit	5
	Shariah	4
	Executive	5
	Human Resource and Administrative	6
	Communications and Training	6
	Finance, Revenue Control and Zakat	5
Co-op 3	Internal Audit	5
Co-op 4	Internal Audit	5
	Financing, Membership and Dismissal	5

4.3 The Current Practices of Shariah Governance Among the Selected Islamic Credit Co-operatives

The first research objective explores the current practice of Shariah governance in Islamic Credit Co-operatives. The study adopts a semi-structured interview method by interviewing the key personnel in management to discuss their thoughts and insights about the current practice of Shariah governance in their co-operative based on their direct and indirect experience. The discussion is conducted to explore the internal arrangement to establish the Shariah Committee function and the roles and responsibilities of the main Shariah governance organs, namely, the Board of the Co-

operative, Shariah Committee, Management and Internal Audit Committee in their respective Islamic Credit Co-operative.

The findings from the semi-structured interviews are discussed according to the five research questions, namely; the internal arrangement to establish the Shariah Committee function, the roles and responsibilities of the Board of the Co-operative, Shariah Committee, management, and Internal Audit Committee in respect of governing the Shariah compliance. Significant themes were derived from the responses provided by each respondent. A comparison was made of the findings from the four selected Islamic Credit Co-operatives.

4.3.1 Internal Arrangement to Establish the Shariah Committee Function

During the interviews, the respondents were asked about their internal arrangement to establish the Shariah Committee function in their respective Islamic Credit Co-operative. From the responses, themes were developed to show the internal arrangement made by the Islamic Co-operative when it decided to establish the Shariah Committee function. The themes concern the type of establishment of the Shariah Committee.

This research found two types of establishment of the Shariah Committee in the Islamic Credit Co-operatives: establish the Shariah Committee internally or appoint external institutions.

The respondents (Mg1 & Mg2) from Co-op 1 and Co-op 2 mentioned that, currently, they had established their own internal Shariah Committee:

“Members are very concerned about Shariah compliance, because it will affect them in the form of return of dividends, so they will ensure that the Board of the Co-operative is responsible for that, then the board is delegated to management to establish its own Shariah Committee.” (Mg1)

“we have our own Shariah Committee. It reviews the terms and conditions of our credit and financing activities [...] and also reviews the zakat calculation.” (Mg2)

The two respondents (Mg3 & Mg3) from Co-op 3 and Co-op 4 mentioned that they had appointed an external institution, namely, ANGKASA as their Shariah Committee:

“We recognised ANGKASA as an Apex body in this co-operative sector. They appointed professional people on their Shariah Committee who are well versed and skilled. They are competent for this task, so instead of establishing internally, we appointed them as the Shariah Committee.” (Mg3)

“Since ANGKASA could provide the services, we appointed them, even though they charge fees [...] it is very suitable for our co-operative nature.” (Mg4)

From the above responses, this study affirms that, currently, the Islamic Credit Co-operatives employ two different practices to establish their Shariah Committee function – internally or appoint an external institution, such as ANGKASA. Based on these findings, a summary of the type of establishment of the Shariah committee function by these four Islamic Credit Co-operative is shown in Table 4.5:

Table 4.5: Summary of Type of Establishment of Shariah Committee Function

Co-operative	Type of Establishment
Co-op 1	Establish Internal Shariah Committee
Co-op 2	
Co-op 3	Appoint an External Shariah Committee
Co-op 4	

The establishment of a Shariah Committee is necessary as it decides and provides the views, opinions and decisions on Shariah related matters. The establishment of the committee helps the Islamic Credit Co-operatives improve the credibility of the institutions in the eyes of their stakeholders and assures them that the day-by-day operations are in accordance with the Shariah principles (Rhab, 2013). Therefore, the establishment of a Shariah Committee portrays a good image of the Islamic Credit Co-operative and its commitment to safeguard the Shariah compliance in their respective co-operatives.

In addition, all the respondents mentioned that they are aware of the requirement of GP28 – all co-operatives that are doing business or activities based on Shariah or offering Shariah-based products are required to establish a Shariah Committee.

4.3.2 The Extent of the Roles and Responsibilities of the Main Organ of Shariah Governance in Islamic Credit Co-operatives

Generally, this study found that all the respondents gave a similar response showing that they agreed and affirmed that the Board of the Co-operative is the ultimate authority and responsible body for ensuring Shariah Compliance. Two out of four of the respondents (Mg1 & Mg2) mentioned that:

“If we want to refer to the role of board members, we have to realize that the highest decision in a co-operative is the decision at the annual general meeting of the co-operatives [...], the board members have to comply with all the decisions made at the annual general meeting [...] if the members of the co-operative want all the transactions of the sales and purchases, and for all the activities to comply with Shariah principles, then the board must undertake the decisions.” (Mg1)

“The Board of the Co-operatives determine the approval of each financial transaction of the co-operatives. They follow the co-operative’s by-laws, which can only be amended with the approval of members at the co-operative’s annual meeting. So, if the by-laws state that loans must be provided in accordance with Shariah, the board must ensure that the co-operative only provides Shariah-based products.” (Mg2)

From the above responses, this study noted that the members of the co-operatives entrust the Board of the Co-operative with the responsibility to ensure that all the activities are in line with Shariah principles. Hence, if they fail to discharge this responsibility, they not only fail to ensure Shariah compliance, but also abuse their members’ interests and violate their own co-operative by-laws. Therefore, such a failure places the co-operative in jeopardy.

Advisory and Monitoring Role of the Shariah Committee

As understood from GP28, the Shariah Committee is responsible to (1) make decisions, views, opinions on the business and operations activity, and all related procedures, (2) identify and rectify any Shariah related matters, and (3) disclose sufficient information pertaining to Shariah conformity in the Co-operative’s financial

report. In order for the Shariah Committee to discharge its responsibilities, it must meet on a regular basis or at least quarterly as required by GP28.

However, from the interviews, this study found different practices in respect of holding Shariah Committee meetings. Such differences include, held upon request by management (Mg1), or once a year (Mg1). In the case of appointing ANGKASA as the Shariah Committee, meetings are only held when approval for a new product is sought, or for the application or renewal of the Shariah Compliance Certificate (Mg 3 and Mg 4). They mentioned that:

“All the terms and conditions, standards of procedures for a new product [...] The Financial Services Committee refer it to the Shariah Committee [...] Officially, through a Shariah Committee meeting to which we take all the paperwork needed to seek their advice.” (Mg1)

“We hold our own Shariah Committee meeting Once a year.” (Mg2)

“If we make an application for the Shariah compliance certificate from ANGKASA [...] this certificate is important to ensure that the proposed Shariah-based product is a Shariah Compliance product [...] we will meet and present to the Shariah Committee seeking its approval before this product is offered.” (Mg3 & Mg4)

From the above practices, this study found that, even though each Islamic Credit Co-operative has established a Shariah Committee function, currently, the state of the advisory and monitoring role of the Shariah Committee in respect of Shariah compliance is at a basic level. This is based on the frequency of the Shariah Committee meetings, which are rarely held, and, in the worst case, only once a year. Therefore, without establishing a regular schedule for Shariah Committee meetings, such as quarterly, the meetings are deemed unnecessary unless a new product requires approval

by the Shariah Committee. It should be noted that the role of the Shariah Committee is not just advisory, but includes monitoring of the implementation of their decision. This study found that, in the case of Islamic Credit Co-operatives, the discharging of the Shariah Committee's monitoring role really depends on the management. The committee only provides its views and decisions upon request and based on the presentation by the management. Therefore, if the management do not report non-compliance with Shariah, the Shariah Committee of the Islamic Credit Co-operatives deem it to be in a state of conformity.

Absence of proper Shariah internal control

The commitment of management is crucial in a Shariah governance system. They are an important body to implement and comply with all the decisions, views and opinions of the Shariah Committee. In this case, all the management responded that they acknowledged the Shariah Committee decisions, views and opinions as conclusive. One respondent (Mg1) mentioned that:

"Whatever the decision of the Shariah Committee, management will implement accordingly." (Mg1)

However, in respect of practice, this study found that while ensuring the implementation is in accordance with the requirements of the Shariah Committee the selected Islamic Credit Co-operatives had different practices. Generally, all the management acknowledged that no internal Shariah unit was established in their co-operative. This is because the nature or the capacity of the Co-operative is not as complex as that of an Islamic Bank. One respondent (Mg2) mentioned that:

“No, we are not similar to an Islamic bank that introduces a new product every few months. As a co-operative, we use the same product year after year. (Mg2)

From the above response, this study noted that without having an internal Shariah unit, currently, a Shariah review or Shariah audit is not conducted in the Islamic Credit Co-operatives. This observation was confirmed by two of the four interviewees of Management (Mg1 & Mg2). However, Management (Mg3 & Mg4) mentioned that they are different since they appoint ANGKASA as the Shariah committee. Thus, a Shariah audit is conducted by ANGKASA’s internal Shariah Unit. One respondent (Mg3) said that:

“They come to meet with our officers who are involved in the financing operation every six months. They assess through the documentation file whether or not the products offered are in line with Shariah [...] the result of the audit will determine whether or not a Shariah Compliance Certificate is granted to the co-operative.” (Mg3)

Although two respondents (Mg3 & Mg4) mentioned the advantages of having a so-called external Shariah audit assessment, this study realized that the audit scope of ANGKASA’s internal Shariah unit should be a concern. This study noted that their audit scope only concerned the product conformity, not the co-operative’s overall operations and activities. Hence, the internal Shariah control in respect of the overall activities of co-operatives Mg 3 and Mg 4 is still lacking. The management of the co-operative are responsible for promoting an environment that conforms with Shariah in its day-to-day operations and activities. The most important issue is that if there is any non-Shariah compliant event, they should inform the Shariah Committee, immediately cease any related activity, and promptly take remedial action. Therefore, having proper internal

Shariah control, for instance, having a Shariah officer to conduct the Shariah audit/review, could help the management identify and manage any non-Shariah risk. Otherwise, management will perceive that their co-operatives are in a state of Shariah conformity all the time, whereas, they may be subject to non-Shariah compliance without realizing.

Competency of Internal Audit Committee to provide an independent assessment of Shariah Compliance

GP 28 highlights the important role of the Internal Audit Committee to ensure the effectiveness of the internal control and provision of sound risk management, and to provide an independent assessment of Shariah conformity. This independent assessment is an attestation of the current state of Shariah conformity in Islamic Credit Co-operatives.

In this case, this study found that all the respondents gave similar answers, and that the Internal audit committee only discharges its common statutory audit as required by section 49(1) of the Co-operative Act 1993, which encompasses ensuring that the financial, operation and activities comply with the legal requirements but make no mention of Shariah. One respondent (Mg2) mentioned that:

“This internal audit committee only checks whether the financial management, account statement, the expenses and financial flows are managed accordingly, not in respect of Shariah [...] The committees are still incompetent in carrying out these roles in respect of Shariah.”

(Mg2)

In addition to the above responses, all the respondents also acknowledged that although their internal audit committee members, who are appointed at the Annual General Meetings, have credibility in accounting and auditing, this is lacking in respect to Shariah. Therefore, for the Internal Audit Committee to conduct an independent assessment of Shariah related matters, this study noted the need for the members of the Internal Audit Committee to be equipped with knowledge of Shariah. This will help them to understand the process involving Shariah issues. Being equipped with Shariah knowledge or having a member with a Shariah background, they will be able to perform in an effective and independent manner, and identify and recognise any non-Shariah compliance events. Hence, it can be argued that the Internal Audit Committee should be able to provide an appropriate opinion and advice to improve Shariah assurance.

Overall, among the responses given, this study found that even after the issuance of GP28, the Islamic Credit Co-operatives are still in a moderate state in terms of implementing good Shariah governance practices. Based on these findings and general observations, Table 4.6 provides a summary of the extent of the roles and responsibilities of the main organ of Shariah governance in these four Islamic Credit Co-operatives:

Table 4.6: Summary of the Extent of the Roles and Responsibilities of the Main Organ of Shariah Governance in Islamic Credit Co-operatives

	Co-op 1	Co-op 2	Co-op 3	Co-op 4

The accountability of the Boards	<ul style="list-style-type: none"> ▪ Established a Shariah Committee function internally ▪ Remunerates the Shariah Committee ▪ Established an appropriate reporting line to report Shariah related matters ▪ Not established an Internal Shariah Control System to support Shariah Committee 	<ul style="list-style-type: none"> ▪ Established a Shariah Committee function internally ▪ Remunerates the Shariah Committee ▪ Board acts as a member of Shariah Committee ▪ Not established an Internal Shariah Control System to support Shariah Committee 	<ul style="list-style-type: none"> ▪ Appointed an external Shariah Committee ▪ Pays external advisory fees ▪ Established an appropriate reporting line to report Shariah related matters ▪ Not established Internal Shariah Control System to support Shariah Committee (only depends on ANGKASA's audit exercise) 	<ul style="list-style-type: none"> ▪ Appointed an external Shariah Committee ▪ Pays external advisory fees ▪ Not established a reporting line to report Shariah related matters ▪ Not established Internal Shariah Control System to support Shariah Committee (only depends on ANGKASA's audit exercise)
Advisory and Monitoring Roles of Shariah Committee	<p>▪ <i>Advisory Roles:</i></p> <p>Advises on ex-ante product approval and other related activities, e.g. Investment</p>	<p>▪ <i>Advisory Roles:</i></p> <p>Advises on ex-ante product approval and other related activities, e.g. Investment</p>	<p>▪ <i>Advisory Roles:</i></p> <p>Advises on ex-ante product approval only</p>	<p>▪ <i>Advisory Roles:</i></p> <p>Advises on ex-ante product approval only</p>

	<ul style="list-style-type: none"> ▪ <i>Monitoring Roles:</i> Attends Shariah Committee meeting when necessary/upon request ▪ <i>Frequency of Shariah Committee Meeting:</i> Regularly upon request 	<ul style="list-style-type: none"> ▪ <i>Monitoring Roles:</i> Attends Shariah Committee meeting when necessary/upon request ▪ <i>Frequency of Shariah Committee Meeting:</i> At least once a year 	<ul style="list-style-type: none"> ▪ <i>Monitoring Roles:</i> Holds a meeting when required to approve a product ▪ <i>Frequency of Shariah Committee Meeting:</i> Upon request (for product approval only) 	<ul style="list-style-type: none"> ▪ <i>Monitoring Roles:</i> Holds a meeting when required to approve a product ▪ <i>Frequency of Shariah Committee Meeting:</i> Upon request (for product approval only)
Absence of Proper Shariah Internal Control	<ul style="list-style-type: none"> ▪ No Shariah Audit ▪ No Shariah Officer 	<ul style="list-style-type: none"> ▪ No Shariah Audit ▪ No Shariah Officer 	<ul style="list-style-type: none"> ▪ Shariah Audit conducted by ANGKASA ▪ <i>Audit Scope:</i> Only on product manual and contract 	<ul style="list-style-type: none"> ▪ Shariah Audit conducted by ANGKASA ▪ <i>Audit scope:</i> Only on product manual and contract
Competency of Internal Audit Committee to	<ul style="list-style-type: none"> ▪ None of the members have Shariah background 	<ul style="list-style-type: none"> ▪ None of the members have Shariah background 	<ul style="list-style-type: none"> ▪ None of the members have Shariah background 	<ul style="list-style-type: none"> ▪ None of the members have Shariah background

Provide an Independent Assessment on Shariah Compliance	▪ <i>Audit Scope:</i> Common statutory audit scope on accounting transactions	▪ <i>Audit Scope:</i> Common statutory audit scope on accounting transactions	▪ <i>Audit Scope:</i> common statutory audit scope on accounting transactions	▪ <i>Audit Scope:</i> common statutory audit scope on accounting transactions
The Current State of Shariah Governance System	<i>Poor Shariah Governance System</i>	<i>Poor Shariah Governance System</i>	<i>Moderate Shariah Governance System</i>	<i>Moderate Shariah Governance System</i>

This current state may be due to a lack of understanding among the Shariah governance main organs pertaining to their additional roles and responsibilities to ensure the adherence of Shariah principles in their co-operatives. This lack of understanding may be due to the inadequacy of training and exposure pertaining to Shariah governance in respect of Islamic Credit Co-operatives.

The study also noted that the Boards are heavily dependent on the Shariah Committee to help them in Shariah related matters. As a result, the functioning of the Shariah Committee is perceived as being an adequate mechanism for governing the conformity with Shariah. However, due to the minimum frequency of meetings of the Shariah Committee and the absence of an internal Shariah unit to support the Shariah Committee, a serious functional gap in the role of the monitoring by the Shariah Committee exists. Therefore, the Boards of the Co-operatives should ensure the

establishment of an adequate and effective internal Shariah control system, and not just rely on having a Shariah Committee.

Overall, Co-op 3 and Co-op 4 were found to have a moderate Shariah governance system, while Co-op 1 and Co-op 2 had a poor Shariah governance system. The reason why Co-op 3 and Co-op 4 were considered to have a moderate Shariah governance system was because they have Shariah audit functions even though the audit scope is limited to the assessment of product compliance with the standard operating procedure. Conversely, Co-op 1 and Co-op 2 do not have a Shariah Audit function. However, this function is important to assist the Shariah Committee to ensure that all Shariah decisions are implemented well. In addition, the absence of a Shariah audit will cause them to become complacent with their current state of Shariah compliance. Therefore, a good Shariah governance system should have a comprehensive Shariah audit scope, which encompasses the overall operations and activities, including the finance aspect, human resources, and information system.

4.4 Shariah Committee Attributes in Islamic Credit Co-operatives

The second research objective was to explore and examine the attributes of the Shariah Committee in terms of the degree of independence, confidentiality, competence, and consistency of judgement. The Shariah Committee plays a vital role in governing and maintaining the Shariah conformity within the institution, which includes providing views and decisions, and reviewing and supervising the activities of Islamic Credit Co-operative to ensure they are in line with the Shariah requirements.

Therefore, if this committee functions effectively it will contribute to the continuity of the Islamic credit co-operative to adhere to the Shariah principles. In

addition, the effectiveness of this committee depends on certain important attributes – independence, confidentiality, competence, and consistency of judgement (Grais & Pellegrini, 2006; Hasan, 2011, 2014; Muneeza & Hassan, 2014).

Three interviews were conducted with the three Shariah Committee members of the co-operatives, which undertook two different approaches, i.e. appointing an internal Shariah Committee and appointing an external Shariah Committee (ANGKASA). Shariah Committees SC1 and SC2 represent the internal Shariah Committee for Co-op 1 and Co-op 2. In contrast, Shariah Committee, SC3, represents an external Shariah Committee (ANGKASA) for Co-op 3 and Co-op 4. The interviews were conducted to gain their insights and thoughts related to the attributes of the Shariah Committees.

The findings from the semi-structured interviews are discussed according to the research question concerning the extent of the Shariah Committees' attributes. The significant themes, namely, independence, confidentiality, competence, and consistency of judgement were derived from the responses provided by each respondent. A comparison was made between the findings from the internal Shariah Committees and the external Shariah Committee (ANGKASA) from the four selected Islamic Credit Co-operatives.

The Independence of the Shariah Committee

First, the issue of independence is important since the Shariah Committee is required and expected to provide a fair and just opinion on Shariah related matters. For example, the Shariah committee is required to issue Shariah pronouncements, approve Shariah compliant products and advise the Boards of the Co-operatives on Shariah related matters if needed. However, the independence issue arises if the Shariah

Committee's decision is biased due to the intervention and influence of the management, which could affect their fair judgement. Thus, the Shariah Committee should be given a full mandate with clear terms of reference and sufficient power (Zulkifli, 2011) to protect the independence of the Shariah Committee in order to enhance the member's confidence, and, concurrently, the credibility of the Islamic Credit Co-operative.

Generally, based on the interviews conducted, the responses of all the Shariah Committee members (SC) confirmed that they were independent and had the ability to provide unbiased views, opinions and decision. The Shariah Committees of Co-op 1 and Co-op 2 (SC1 & SC2) highlighted that in keeping with their mandate their Shariah decision policies were guided by Shariah, not by the influence of others. The respondents (SC1 & SC2) stated that:

“Our decision is guided by Shariah. If the thing is Shariah compliant, it should be approved as Shariah compliant [...] if not, the paperwork presented to the committee needs to be amended accordingly.” (SC1)

“We have a great mandate [...], for example, in the initial stage, co-op 2 had various non-Shariah compliant funds [...] we made them understand and asked them to change, and they did as we suggested.” (SC2)

Subsequently, the interviewees were asked about whether the Board of the Co-operative or management could possibly intervene and influence the decision; one respondent (SC1) opined that:

“No, the ALK (Board of the Co-operative) and management are only allowed to be involved in matters related to the management. If they intervene or influence the Shariah-decision, then they have violated

the fiduciary duties stipulated in the guidelines [...] they are obligated to give full authority to the committee regarding issues on Shariah matters.” (SC1)

Based on the above statement, this study noted that the new guidelines (GP28) had strengthened their independence compared to previous practice. According to para 28 of GP28, the board, upon consultation with the Shariah Committee, should approve all policies relating to Shariah matters and is expected to ensure that such policies are implemented effectively. The above statement is also in line with the suggestion by Muneeza & Hassan (2014) pertaining to the need for a Shariah governance code.

Another respondent (SC3) mentioned that they are more independent because they are an external party of the institution; the interviewee stated that:

“We provide our opinions and views, we do not enforce them [...] if they want to implement them, they do so, but, if not, their product would not be certified by us [...] no negotiation, that is it, if they want a Shariah Compliance Certificate, it is compulsory to implement our views and opinion.” (SC3)

Overall, this study found that all the respondents – internal or external Shariah Committee – showed a good degree of satisfaction concerning the independence they have as a Shariah Committee. The respondents expressed that they consistently provided unbiased views, opinions and decisions related to Shariah-related matters.

However, this study noted that the external Shariah Committee seemed to be more independent compared to the internal Shariah Committees due to their interrelationship with the co-operative. The external Shariah Committee are paid as a

provider of external resources, and, thus, could be perceived as being independent of any interests favouring the co-operative.

In fact, it could be construed that the co-operative has an interest towards ANGKASA since they want to appoint ANGKASA as the Shariah Committee. Thus, the co-operative needs to implement the views and decisions of the external Shariah Committee accordingly. Otherwise, any application for a Shariah compliance certificate would not be approved. In addition, the external Shariah Committee also introduced the Shariah Compliance Certificate to bind the co-operatives to the rules and regulations stipulated by the external Shariah Committee. Thus, they are subject to the Shariah audit that will be conducted by ANGKASA's Shariah Unit to ensure that the views and decisions made by the Shariah Committee are implemented.

However, this study argues that there is ample room to further discuss this attribute by assessing the degree of independence in the practice prior to the issuance of GP28. The issue relates to the method and process of the appointment of the Shariah committee. Having a proper and transparent method and process for the appointment would enhance the confidence of stakeholders (Hasan, 2014) towards the credibility of the Shariah Committee in respect of independence.

Previously, Islamic Credit Co-operatives took their own initiative to establish a Shariah Committee before the requirement was stipulated in GP28. Hence, they followed their own justification to decide how they should establish the Shariah Committee function, and who would become a member of the Shariah Committee; there was no external party to assess the degree of independence of a person before their appointment to the Shariah Committee.

The absence of a proper method and process might lead the co-operative to appoint a person who has a direct relationship with the institution, and who is incompetent and easily influenced. For instance, the co-operative might appoint a person who is well versed in Shariah but who is not familiar with the nature of co-operatives as a financial intermediary. Thus, management could manipulate the information and take advantage to influence the Shariah Committee decisions and views.

However, the study found that the issuance of GP28 gives the right to the Board of the Co-operative to appoint the Shariah Committee. Therefore, Islamic Credit Co-operatives are required to seek the approval from SKM before formally appointing any person or party as a member of the Shariah Committee. Apart from that, Para 24 and Para 25 also place a restriction in that Shariah Committee members should not have any direct or indirect relationship or interest with the co-operative as a whole.

In summary, although the external Shariah Committee (SC3) seems to be more independent than the internal Shariah Committee (SC1 & SC2), without proper supervision and guidelines from the regulator, potentially, their independence could be abused.

The Confidentiality of the Shariah Committee

Second, the issue of confidentiality occurs, as some of the Shariah Committee members sit on numerous Shariah Committees in Islamic Credit Co-operatives. This association with multiple co-operatives could give rise to the issue of confidentiality, especially if it involves competing co-operatives. This concern arises because the management are expected to provide and ensure the accessibility of the Shariah

Committee to the information they need. Therefore, the Shariah Committee could abuse its position to trade information with other co-operatives.

Thus, one of the mechanisms to mitigate this issue is to impose a limitation on Shariah Committee members sitting on multiple Shariah boards (Hasan, 2011), as stipulated by Bank Negara Malaysia for Islamic financial institutions. However, since Islamic Credit Co-operatives are not subject to the legislation of Bank Negara Malaysia, the study found that, currently, there is no limitation on members of Shariah Committees serving multiple Islamic Credit Co-operatives.

In this regard, all the interviewees acknowledge that most of the Islamic credit co-operatives are using direct products and similar underlying contracts – *Bay al-Inah*, *Tawarruq* or *Bay Bithamin Ajil*. This is based on what one respondent (SC2) said in the following conversation:

“Co-operatives are not as complex as an Islamic bank. In this sector, we use the existing products, which are commonly practised and include direct Shariah contracts, such as Bai’ al-Inah, Tawarruq and so forth. So, we are not really facing a confidentiality issue.” (SC2)

This study noted that the nature of Islamic Credit Co-operatives is significantly different to that of Islamic banks, which is much more complex since they are competing with each other to offer innovative products. Therefore, they are structured with multiple underlying contracts and so forth. Consequently, this innovation creates a distinct feature or gives them a competitive advantage. Only in such circumstances would the issue of confidentiality arise if Shariah Committee members are serving more than one institution.

In addition, this study also noted that, generally, the Shariah Committee in both categories basically play a role of advising and approving Shariah compliant products, not in terms of the overall activities and operations. This means that the Shariah Committee will only be informed about the product features and its underlying contract, which is not really confidential information.

Respondent SC1 supported the view of respondent SC2 in taking a positive view of this issue and highlighting the advantage of having Shariah Committee members serving multiple co-operatives:

“Not a problem, indeed we could give additional ideas because we can refer to any issue that arises with discussions held in other committee rooms.” (SC1)

Hence, he believes that sitting on multiple Shariah Boards could be an advantage for co-operatives since they could provide insights into Shariah related aspects as well as provide insights and ideas concerning other aspects based on their professional exposure and experience. In addition, even though the member of ANGKASA’s Shariah Committee does not sit on multiple Shariah boards, she shared a similar opinion that there is no issue regarding confidentiality.

Based on this finding, it indicates that having the same person on the Shariah board of multiple co-operatives is a common and normal practice in this sector. Consequently, this practice will continue since there is no restriction even in GP28. The guideline only requires a Shariah Committee to observe the general requirement to maintain the confidentiality of information to prevent abuse of a co-operative and does not specify any restriction on multiple appointments.

The Competency of the Shariah Committee

Third, due to the unique roles and responsibilities of the Shariah Committee, which are to provide views and opinions on the Shariah principles and to operationalise those principles into practice, the Shariah Committee members need to be equipped with adequate knowledge and experience not only in Shariah, but also other types of knowledge, such as law and accounting.

In essence, all the Shariah Committee members agreed that the ultimate function of the Shariah Committee is to give advice, opinions and decisions concerning Shariah related matters based on their interpretation of the Shariah references and knowledge. One respondent (SC3) opined that:

“Since it is named the ‘Shariah Committee’, it is compulsory to have members with a Shariah background [...] if not, it would become a problem [...] As a Shariah Committee, we not only need to know the rules and conditions of ordinary contracts, but to understand the underlying Shariah elements in that particular contract. [...] This understanding is dependent on the level of Shariah knowledge of the Shariah Committee member and also their proficiency in Arabic.”
(SC3)

Hence, this study noted that being competent in Arabic and having a Shariah background is necessary for members of the Shariah Committee in Islamic Credit Co-operatives. Nevertheless, one respondent (Sh1) highlighted that having members from other professional backgrounds is also necessary to provide advice, opinions and decisions concerning operational issues and practices. He said:

“My appointment to this committee is as a professional person. I do not have a Shariah background. So, my involvement on this committee is to facilitate the Shariah Committee by addressing the

Shariah concerns from an operational and practical perspective.”

(Sh1)

From the above responses, this study found that having interdisciplinary members on the Shariah Committee is a common practice in this sector. However, this study is concerned about the composition of members with Shariah background and members of other backgrounds on one Shariah Committee. This concern arises based on the general observation concerning the current composition of the Shariah Committees in the selected Islamic Credit Co-operatives.

Shariah Committee	Members	Background
Co-op 1	4	Shariah: 2 Other Backgrounds: 2
Co-op 2	4	Shariah: 2 Other backgrounds: 2
ANGKASA (represent Co-op 3 & 4)	5	Shariah: 4 Other backgrounds: 1

From Table 4.7, currently, the Shariah Committee of Co-op 1 and Co-op 2 has equal composition in which 50% of the members have a Shariah background, while the remaining 50% have a different background. On the other hand, ANGKASA's Shariah Committee has only one member with a background other than Shariah, with the majority of the members having a Shariah background; this practice could be perceived as providing a better composition.

In this regard, this study argues that the practice of Co-op 1 and Co-op 2 would erode the actual function of the Shariah Committee when the majority of the decision makers for Shariah related matters do not have a Shariah background. In addition,

having a member from another background could help and facilitate the Shariah Committee to make effective decisions, but jeopardise their majority position.

The Consistency of Judgement of Shariah Committees in the Co-operative Sector

Fourth, the consistency of judgement refers to the views, opinions and decisions of Shariah Committees across the co-operative sector, which is parallel to the jurisdiction for the whole spectrum of the financial sector in this country. Even though the Islamic credit co-operatives serve as a financial intermediary, which is similar to what an Islamic bank does, these institutions are governed and supervised by different regulators. In this case, the co-operatives are governed by SKM, while the Islamic banks are governed by Bank Negara Malaysia. Even though they are governed by different jurisdictions, the issue of consistency in the Shariah Committee's judgement within these two jurisdictions could arise.

Basically, the issue of inconsistent judgement arises when no Shariah Committee exists at the central/regulator level. From the interviews, one respondent (Sh1) opined that:

“In the co-operative sector, we do not have a Shariah Committee at the central level [...]” (Sh1)

In this regard, the respondent (Sh1) also mentioned how they constructed a decision with no Shariah Committee at the central level in this sector:

“So, when we are required to give our opinion on the product compliance, we could refer and adopt the opinions of the Shariah Advisory Council of Bank Negara or the Securities Commission [...] having and reviewing multiple views, we would then decide which opinion is appropriate to the nature of co-operative” (Sh1)

From the interviews, this study found that the Shariah Committees in Islamic Credit Co-operatives are currently using an adoption approach while concluding their decisions. Basically, they refer to all the available product guidelines issued by Bank Negara Malaysia and the Securities Commission, then they adopt and harmonize it to fit the nature of the business and activity of the co-operative.

However, this study argues that this practice is similar to what is commonly known as 'Fatwa shopping' or 'Shariah advisory a la carte' (Grais & Pellegrini, 2006). This study also found that this results from the absence of a Shariah Committee at the central level to standardise the practice in this sector. For instance, the Shariah Committees in this sector are still comfortable with their current practice of offering products that use *Bay al-Inah* as the underlying contract, while, in the Islamic Banking Sector, Bank Negara Malaysia has advised that *Bay al-Inah* contracts should be replaced with Tawarruq since the former has been subject to much criticism from many Shariah scholars. Therefore, the use of the *Bay al-Inah* contract should be avoided.

Based on this finding, this study opines that the consistency of judgement in this sector is minimal and that the Shariah Committees in this sector could freely interpret, adopt, and make judgements based on 'their best interpretation', and not based on the current application within the whole financial sector. Therefore, this study strongly believes that the co-operatives could fully avoid using *Bay al-Inah* since Tawarruq is available and has been used by some co-operatives as an alternative contract. For instance, the initiative taken by ANGKASA, which is providing the Tawarruq transaction platform for co-operatives. Even though the Tawarruq application is more Shariah-friendly and more agreeable to Shariah scholars, due to the absence of a Shariah

Committee at the central level and subsequent enforcement, co-operatives resist such a change.

Based on table 4.8, this study assesses the attributes of Shariah committees in these four co-operatives. As discussed above, the co-operatives have undertaken two different approaches in establishing a Shariah Committee. Co-op 1 and Co-op 2 established an internal Shariah Committee, while Co-op 3 and Co-op 4 appointed the Shariah Committee of ANGKASA as their external Shariah Committee. The establishment of an internal Shariah Committee could be considered a good practice, since they will get a direct commitment from their own Shariah Committee. In the case of Co-op 1 and Co-op 2, they have an internal Shariah Committee, but they are currently facing the issue of independence. This is because of the existence of Board members of the Co-operative and management on the committee. This involvement will affect the independence of the Shariah Committee to make unbiased Shariah decisions. Therefore, the Shariah Committee of Co-op 1 is considered as having moderate Shariah Committee attributes while the Shariah Committee of Co-op 2 is considered as being worse because of the composition of members with a Shariah background does not form the majority and will threaten the independence of the Shariah Committee. On the other hand, the Shariah Committees of Co-op 3 and Co-op 4 are considered as having good Shariah Committee attributes because they are not exposed to independence issues compared to the other co-operatives since there is no intervention of Board members or management on the Shariah Committee. In addition, the Shariah Committee also has a good composition since four out of five of its members have a Shariah background.

Table 4.8: Summary of The Shariah Committee Attributes in Islamic Credit Co-Operatives

	Internal Shariah Committee			ANGKASA's Shariah Committee
	Co-op 1	Co-op 2	Co-op 3	
Independence	Appointed by	Board of the Co-operative	Board of the Co-operative	ANGKASA's Board Committee
	Duration of appointment	Not specified	Not specified	Not specified
	Remunerated by	Board of the Co-operative	Board of the Co-operative	ANGKASA
	Types of remuneration	Meeting allowance	Meeting allowance	Meeting allowance
	Composition	4 members	4 members	5 members
Confidentiality	Board of the Co-operative or Management sitting on SC	1 Member – Management (Chief Executive Officer)	2 Members – Boards of Co-operative (Chairman & Secretary)	None
	SC sitting on multiple Shariah boards	Yes	Yes	Yes
Competency	Information Accessibility	Based on Management report	Based on Management report	Only on product manual and document related to the Shariah contract
	Members from Shariah background	Yes, (3 out of 4)	Yes, (2 out of 4)	Yes, (4 out of 5)
Level of Shariah Committee Attributes	Members from others background	Yes, (1 out of 4)	Yes, (2 out of 4)	Yes, (1 out of 5)
		Moderate	Poor	Good

4.5 The External Arrangements on Shariah Governance in the Co-operative Sector

To answer research objective three, interviews were conducted with the Malaysia Co-operative Societies Commission (hereinafter referred to as the SKM) and also the Malaysian National Co-Operative Movement (hereinafter referred to as the ANGKASA). Gaining insights from both agencies is significantly important, since these agencies are directly involved in the Shariah governance arrangements – SKM as the regulator and ANGKASA as the only Apex body in this sector. From time to time, these agencies have played their role in promoting and facilitating the co-operatives in terms of maintaining Shariah conformity. Hence, to provide sufficient understanding of how the current external arrangements affect the Shariah governance practice in this sector, it is necessary to observe the arrangement from these selected agencies.

Therefore, to acquire the information concerning the arrangement from the SKM, an interview was conducted with the Shariah Unit, Statutory and Registration Division of SKM. In addition, an interview was conducted with the Shariah Unit, Shariah Services Division of ANGKASA to gain information about the arrangement from ANGKASA. As a result, the findings are discussed in the following subsection, and Figure 4.17 provides a summary of the arrangement for both agencies.

Initiative begins

Based on the interviews, general observations and other related references, this study found that even though SKM has already issued a guideline on Islamic financing by Co-operatives, in terms of Shariah governance ANGKASA is perceived as having taken the first initiative to guide the trend and intention of co-operatives to adhere to the

Shariah principles by providing an Islamic credit scheme. ANGKASA started the initiative in 2010, by establishing the Shariah Unit in the Shariah Services Division. Based on the following conversation with ANGKASA's Head of the Unit of Shariah, this initiative was one of the priority policies by a former ANGKASA President, Prof Datuk Dr Mohd Ali Baharum:

ANGKASA has taken this initiative because of the main policy administration of the president at that time, the late Datuk Ali Baharom. He set and decided the policies in his administration that are necessary in respect of Shariah. Then we have the Shariah division. After the division was formed, the Unit of Shariah was established. (Head of Shariah Unit, ANGKASA)

He added, that since ANGKASA has promised to champion, monitor and protect the interests and development of the co-operatives, it should play a role in helping the co-operatives in respect of Shariah governance. He highlighted that there was a time when co-operatives desperately sought guidance from Islamic Banks, simply because they wanted to adhere to the Shariah principles:

At that time, the co-operatives were really eager to free themselves from engaging in Riba transactions, that is why they sought guidance from other Islamic Banks, but the main focus of Bank Islam is not the development of co-operatives. So, the guidance given was a one-off basis, then the co-operative was still left with uncertainties about the standards and procedures for providing Shariah-based products to their members. (Head of Shariah Unit, ANGKASA)

It was found that the SKM only made a move to establish its Shariah Unit in 2012, two years after ANGKASA. This is based on the following story by an Assistant Manager of the Shariah Unit, SKM:

SKM's desire to establish the Shariah unit only started in 2012, which began by appointing the current head of the unit. This appointment was made of an existing SKM staff member with a Shariah background. (Assistant Manager, Shariah Unit, SKM)

Based on above conversation, this study noted that SKM made a move to establish a Shariah unit with only one officer. He added that this situation remained until 2014 when SKM appointed another officer (in this case, the respondent of this interview). Only then, did they start to strengthen the Shariah Unit internally. This is based on the following conversation:

In 2014, we had not made any preparation with respect to the Shariah governance of co-operatives. We just set up our own internal SOP and all the internal arrangements. And also, we proposed for the new employment of the Shariah unit team. (Assistant Manager, Shariah Unit, SKM)

In fact, ANGKASA's Shariah Unit during those years had already helped and consulted with the co-operatives, pertaining to Shariah conformity, especially concerning product conformity. In addition, ANGKASA's Shariah Unit introduced the Shariah-Compliant Certificate for co-operatives who offered Shariah-based products, and, in the following year, ANGKASA's Shariah Unit established its own Shariah Committee to provide an advisory role in terms of Shariah governance to the co-operatives. Based on this finding, a summary of the history of the initiatives taken by these agencies pertaining to Shariah governance for co-operatives is shown in Diagram 4.8:

Figure 1.1: Summary of initiatives, taken by SKM and ANGKASA pertaining the Shariah Governance

1998	2009-2011	2012-2013	2014-2015	2016
Co-operative start offering Shariah-based product	SKM: In 2009, SKM issued GP7: Guidelines on Islamic Financing by	SKM: - In 2012, Establish Shariah Unit	SKM: - Establish and strengthen internal standards and procedures (hiring	SKM: - Monitor the implementation of GP28

Based on the above diagram, two main external arrangements for Shariah governance were undertaken by SKM in this sector. First, SKM took the initiative as the regulator to issue the first guideline on Islamic financing by co-operatives in 2009. Then, they issued and launched GP28: The Shariah Governance Guidelines for co-operatives. The development of this guideline was adopted from the Shariah Governance Framework of BNM:

We actually took the model from the Shariah Governance Framework of BNM. In 2014, we set up collaboration with Bank Negara's Department of Islamic Banking and Takaful. Then we drafted a guideline, and Bank Negara gave its comments and suggestions. Finally, GP28 was issued. (Manager of Shariah Unit, SKM)

In addition, the Head of the Shariah Unit, SKM, explained that the collaboration would continue to make SKM's Shariah Unit functions as a supervisory body on Shariah Governance in the co-operative sector. In fact, he asserted in the following conversation that SKM would follow the resolutions of Bank Negara:

Whenever Bank Negara issues Shariah resolutions, we are ready to follow it. As an example, the new guideline pertaining to the Ibra' payment by Bank Negara, we also issued the same guideline through the issuance of GP28. (Assistant Manager, Shariah Unit, SKM)

With the issuance of the guidelines on Shariah governance for Co-operatives, SKM was perceived as helping to coordinate the co-operatives by practising a standard Shariah governance practice within this sector. However, this study found that all the selected Islamic Credit Co-operatives were still gradually adopting and matching their current practice with the new guidelines from SKM. Therefore, until now, SKM continues to promote and organise workshops to ensure the understanding and readiness of co-operative concerning this guideline.

ANGKASA's arrangement

Meanwhile, ANGKASA's first arrangement as an Apex body to support the development of co-operatives, including helping them ensure their activities adhered to Shariah principles, was to establish its own Shariah Committee in 2012. The following conversation with ANGKASA's Head of the Shariah Unit highlights the role and function of its Shariah Committee:

Basically, JSA (Jawatankuasa Syariah ANGKASA) reviews the product before it is offered by the co-operative. (Head of Shariah Unit, ANGKASA)

Its Shariah Committee helps co-operatives by providing a Shariah advisory service to those that want to appoint it as an external Shariah Committee. In addition, the committee is supported by ANGKASA's internal Shariah Unit. This unit helps co-

operatives to develop full standard documentation and procedures for *Bay al-Inah* or *Tawarruq* based products:

Usually, a co-operative comes with the products they want to harmonize with Shariah. That's why if they ask for Bay al-Inah or Tawarruq, we will provide and assist them from A to Z. Eventually, the co-operative would have the comfort of knowing the product conforms with Shariah. (Head of Shariah Unit, ANGKASA)

In addition, it was noted that ANGKASA's Shariah unit helps its Shariah Committee by conducting a Shariah audit twice a year. Interestingly, they introduced the Shariah Compliant Certificate, which is used as an approach to undertake the Shariah audit and to ensure that all ANGKASA's Shariah Committee's decisions and opinions are complied with.

Based on these findings, a summary of the external arrangements by SKM and ANGKASA is shown in Table 4.9.

SKM	ANGKASA
<ul style="list-style-type: none"> ▪ Issued GP7: Guidelines on Islamic Financing by Co-operatives ▪ Issued GP28: Guidelines on Shariah Governance for Co-operatives ▪ No Shariah Committee at regulatory level ▪ No regulatory Shariah audit ▪ No internal Shariah audit 	<ul style="list-style-type: none"> ▪ Established the Shariah Committee which functions as Shariah advisor for co-operatives ▪ Conducts Shariah audit on co-operatives under their advisory service ▪ Certifies co-operatives by means of a Shariah Compliance Certificate after the Shariah audit exercise ▪ Facilitates the migration of co-operatives to <i>Tawarruq</i> based products ▪ Provides co-operatives with <i>Tawarruq</i> financing system to enable co-operatives to

	undertake <i>Tawarruq</i> transactions using this trading platform
EXTERNAL ARRANGEMENT APPROACH	
SKM	ANGKASA
<i>Passive Approach</i>	<i>Active Approach</i>

Overall, in the case of the external arrangement of SKM and ANGKASA, this study opines that SKM is perceived as using a passive approach while ANGKASA seems more active in this sector in terms of governing the Shariah issue. Since this sector has a Shariah Committee at the co-operative level but not at the national level, as the regulator, SKM should put in place a comprehensive Shariah governance framework consisting of a Shariah supervisory and regulatory framework. This is crucial to promote the development of Islamic Credit Co-operatives and strengthen their credibility in the eyes of stakeholders. However, this study also noted that this passive approach by the regulator is due to the regulator's dilemma to protect the co-operative's stakeholders while not being too strict with the co-operative. This is because the nature of the co-operative sector is not highly regulated since the regulator tends to facilitate the development of co-operatives, rather than exert pressure through enforcement. Therefore, this study opines that SKM should at least take an active approach to monitor and supervise Shariah governance in this sector. This approach could be achieved if SKM recognises and appoints ANGKASA as a party that could help it, especially in respect of the Shariah supervisory system and audit. Hence, the regulator's dilemma could be resolved.

4.6 Conclusion

This chapter discussed the current practices of Shariah governance in the selected Islamic Credit Co-operatives, the Shariah Committee attributes in Islamic Credit Co-operatives, and the external arrangements for Shariah governance in the Co-operative sector. In summary, based on the findings, there are different practices of Shariah governance among these selected Islamic Credit Co-operatives. These differences cause them to have different levels of Shariah governance. Although all the Islamic Credit Co-operatives have established a Shariah Committee function as a mechanism to govern Shariah related matters, the question of independence remains an issue. Finally, this study found that the current state of different practices and independence of the Shariah Committee in these selected co-operatives is due to the current passive regulatory approach. This approach contributes to the shortcomings and gaps in the existing current practices of Shariah governance, which is exacerbated by the absence of a Shariah Committee at the regulatory level.