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Implementation of Shariah Governance Guidelines (GP28) in Cooperatives in Malaysia: Results of the Study

Mohamad Fadhilah Al Hakkam Othman, Mat Noor Mat Zain,
Nurul Ilyana Muhd Adnan

Research Centre for Shariah, Faculty of Islamic Studies, National University of Malaysia,
43600 UKM Bangi, Selangor, Malaysia

Abstract

Governance in the cooperative sector plays a very important role in ensuring the responsibility, accountability, and effectiveness of conventional and Shariah cooperatives. The Malaysia Cooperative Societies Commission (SKM) has issued the Guidelines on Shariah Governance (GP28) to strengthen the implementation of Shariah governance in the cooperative sector. However, the question arises as to whether the guidelines are comprehensive and meet the requirements of Shariah governance or not?. The objectives of this paper are to examine the shortcomings in the GP28 issued by SKM, to analyse the regulation of the implementation of Shariah governance in cooperatives, and to propose enforcement methods to improve on the implementation of Shariah governance in cooperatives. This study used the qualitative method. Data were collected through document analysis. The data then analysed by content analysis. The results of the study found that the implementation of GP28 needs some improvement in some aspects to ensure better Shariah governance of cooperatives. This paper also discovered that the regulation of Shariah governance at the cooperative level is seen to be less effective due to certain factors. This paper is important to provide awareness to the operators and staff of cooperatives to ensure a more successful implementation of Shariah governance at the cooperative level in the future.

Keywords: Implementation, Guidelines, Shariah Governance, and Cooperatives.

Introduction

A cooperative is a very important institution in helping to develop a country's economy. Among a cooperative's activities are those related to finance and banking; housing; consumers; transportation; plantation; industry; construction; and services. Based on the website of the Malaysia Cooperative Societies Commission (SKM) (2019), as of June 2019, a total of 14,418 cooperatives are registered throughout Malaysia. The increase in cooperatives every year clearly shows that these financial institutions play a big and aggressive role in the development of the country, especially in the economic aspect. The body responsible for regulating the movement and operation of cooperatives in Malaysia is SKM. SKM continuously stimulates the development of cooperatives to be competitive, progressive, and

have integrity as well as encourages the involvement of cooperatives in the economic sector. The Governance and Supervision Division in SKM was established to monitor the management and governance in cooperatives. In addition, out of all the cooperatives registered under SKM, only 179 have appointed Shariah committees to assist in Shariah governance in their respective cooperatives (Azyan, 2019). This is very worrying because some cooperatives also conduct similar transactions as banking institutions (credits). Therefore, Shariah governance must be complied with and practised in registered cooperatives so that the transactional, financing, and investment activities carried out are Shariah-compliant. These data also clearly prove that the conceptual understanding of Shariah-compliant cooperatives is still at a low level. This needs to be given attention as the majority of cooperative operators are led by Bumiputera Malays who are Muslims. Based on that need, SKM which plays a role in regulating cooperatives in the country has issued the Shariah Governance Guidelines (GP28) which serve as a reference to implement Shariah governance in the cooperative sector (Malaysia Cooperative Societies Commission, 2015). However, according to Samad, Shafii, and Nawai (2016), Itam, Hasan, and Alhabshi (2016), Shafii et al (2017); Hassan et al (2018); Surkery and Yaacob (2019), GP28 cannot be fully implemented by cooperatives in Malaysia as there are several issues in the guidelines. This shows that GP28 needs to be improved so that it can be implemented by all cooperatives involved in Malaysia. Therefore, this study is important to provide awareness to cooperative operators and staff to ensure the implementation of Shariah governance guidelines (GP28) at the cooperative level more efficiently in the future. Thus, this article will focus on discussing the problems of implementing GP28 in cooperative Shariah governance. Apart from that, suggestions for certain aspects will also be given to improve the implementation of GP28.

Methodology

This study utilised the qualitative approach. Data-supported references to the Shariah governance of cooperatives, governance structure, and legislation that govern existing cooperatives were made. In addition, the GP28 guidelines were referred to for cooperative institutions that carry out Shariah governance. Document analysis and content analysis were also employed as the methods in this study. Documents such as the GP28, Shariah Governance Policy Document 2019, Shariah Governance Framework 2010, and the Islamic Financial Services Act 2013 issued by the Central Bank of Malaysia (BNM) (2010, 2019) were analysed. Content analysis was done by looking at several journals and articles that conducted research on existing cooperatives; the cooperatives' implementation of Shariah governance and the legal implications applicable in cooperatives were compared and examined.

Definition of Shariah Governance

Governance refers to a way or system of administering, managing, and regulating policies, functions, or operations of a corporation, company, et cetera ("Tadbir urus," 2016). Hassan et al (2010) define governance as the way an organisation, institution, or company is guided, navigated, and controlled. As for the technical Shariah definition, Shariah governance is simply Islamic law, or can also be understood as the rules that Allah has revealed to Prophet Muhammad through the Quran and Sunnah (Hilmy & Hassan, 2019). Tazilah, Rapani, Halim, and Majid (2017) posited that Shariah governance is a system implemented using Shariah principles and controlled by a religious body or board that oversees the activities of an institution so that it is always based on Shariah guidelines and principles. In contrast, the definition of Shariah governance according to the Islamic Financial Services Board (IFSB)

(2009) in their standard, IFSB-10, is a combination of institutional and organisational arrangements where an Islamic financial institution (IFI) ensures effective and independent Shariah compliance monitoring of each of the following structures and processes:

- a) Issuance of relevant Shariah resolutions/announcements
- b) Dissemination of information related to Shariah resolutions/announcements to the operational staff who regularly monitor the IFIs' compliance with Shariah resolutions/announcements vis-a-vis each level of operation and each transaction.
- c) Internal Shariah-compliant reviews/audits are conducted to ensure that Shariah-compliance is achieved; in the event of Shariah non-compliance, the issue will be recorded, reported, and resolved.
- d) Shariah-compliant reviews/audits are conducted annually to ensure that internal Shariah reviews/audits are thoroughly done and the results of the reviews/audits are communicated to the Shariah advisory committee.

Meanwhile, the Shariah Governance Framework issued by BNM in 2010 is explained as follows:

- a) Shariah principles form the basis of Islamic financial practice through adherence to the principles and conditions set by Shariah.
- b) BNM emphasises the importance of ensuring that the entire Islamic financial system operates in accordance with Shariah principles. This can be achieved through a two-tier Shariah governance infrastructure, namely a Shariah advisory body headquartered at BNM and an internal Shariah committee formed for each IFI.
- c) BNM has developed the Shariah Governance Framework for IFIs with the primary objective of strengthening the role of the board, Shariah committee, and management in relation to Shariah issues. The objective includes strengthening relevant key members to shoulder responsibilities in Shariah-compliant implementation and research; the latter is aimed at achieving a Shariah-compliant operating environment.

Although the Shariah Governance Framework 2010 issued by BNM does not directly mention the definition of Shariah governance, it can be concluded through several statements that Shariah governance is a structure created in an IFI to achieve Shariah compliance. Therefore, Shariah governance is a mechanism used to regulate and control an organisation, institution, or company to comply with the Shariah. The IFI must follow the guidelines and principles set by Shariah and have the main structure and components of a Shariah audit, a Shariah advisory council, a Shariah committee, and Shariah risk management.

Shariah Governance of Islamic Financial Institutions in Malaysia

Shariah governance is improved corporate governance. This is due to the development of IFIs that offer financing products that are necessary for the aspect of Shariah compliance. Ahmad and Al-Aidaros (2015) and Zain and Shafii (2018) mentioned that Shariah governance is very important in ensuring that the activities and business operations of a company are based on the Shariah. In addition, Shariah governance is a system that is implemented using Shariah principles and controlled by supervisors or religious bodies that monitor all institutional activities to always be based on the Shariah guidelines and principles (Tazilah et al., 2017). Therefore, Shariah governance is a system that is responsible for monitoring and supervising the operations and activities of business based on the Shariah. When there is Shariah governance, then there will be a need for enforcement (hisbah) so that Shariah governance can be fully implemented. Furthermore, a study by Manaf (2017) showed that BNM's Shariah

Governance Framework 2010 has a similar role to the concept of hisbah. The main objective of Islamic financial activities must be based on Shariah principles. Shariah governance in an IFI is what distinguishes Islamic banking operations from conventional banking. It is through Shariah governance that IFIs can ensure that all their business operations comply with Shariah principles. This Shariah governance includes the framework, policies, and operations manuals, as well as their implementation. Shariah governance is essential for the stability of the Islamic financial system. A strong Shariah governance framework can strengthen public confidence in the integrity, management, and business operations of IFIs. The Shariah Governance Framework for IFIs first introduced in 2011 has played an important role in supporting the development of the Islamic financial industry in Malaysia (Central Bank of Malaysia, 2019).

In particular, the framework successfully promotes comprehensive Shariah compliance in Islamic financial operations. Therefore, IFIs should demonstrate that their Shariah governance arrangements operate effectively and in accordance with their size, nature of business, complexity of activities, and structure (Central Bank of Malaysia, 2019). This is because the Shariah governance used in IFIs is the benchmark for a complete, structured Shariah governance model and should be emulated by other sectors such as cooperatives. In BNM's Shariah Governance Policy, there are six main elements that drive Shariah governance, namely the board, Shariah committee, senior management, control function, cultivation of Shariah compliance, and transparency of disclosure. This is supported by Kasim, Sanusi, Mutamimah, and Handoyo (2013) who argued that a Shariah review and audit is one of the important elements of Shariah governance. Looking at the rapid growth of the industry, the need to sustain this growth requires strong practice control and adherence to Shariah rules and principles (Sori, Mohamad, & Shah, 2015). Apart from IFI, there have also been previous studies related to Shariah governance in Islamic cooperatives. Shafii et al. (2017) in their study presented a proposal for a Shariah governance model for Islamic cooperative institutions.

In addition, Hassan et al. (2018), Shafii et al. (2017), and Ahmad and Al-Aidaros (2015) claimed that Shariah governance in cooperatives is still in its infancy and requires a proper Shariah governance framework based on several principles:

- a) A clear distinction between the accountability and responsibility of key members in the institution.
- b) The Shariah committee must be protected and given the right to make any Shariah-related decisions.
- c) To improve competencies among members in the implementation of Shariah governance.
- d) Consistent reviews, confidentiality, and policy-making.

Shariah Governance Structure

Shariah governance in IFIs has the following basic structures (Central Bank of Malaysia, 2010):

a) Shariah Advisory Council and Shariah Committee

The Shariah committee is sometimes also known as the Shariah advisory council or in Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards, the Shariah Supervisory Board. This committee will assure the stakeholders that the activities carried out by the institution are always in line with the established Shariah principles (Masruki, Hanefah, & Dhar, 2020). In fact, according to Grassa (2013), this committee is the

most important component in Shariah governance to ensure Shariah compliance in the day-to-day operations and activities carried out by the institution. The AAOIFI in its standards stipulates that the role of the Supervisory Board should go beyond Shariah advice and approval of the structure of the IFIs' activities. They must be involved in the internal and external processes of Shariah governance including structuring, drafting, reviewing, and approving reports for Shariah-compliant transactions. Shafii et al. (2017) stated that the Shariah committee should have at least three members who meet the criteria of, for example, being honest and reputable.

b) Management

Within an organisation, the management team plays a major role in ensuring that operations run successfully and that the company's goals and vision can be achieved. According to Shafii et al (2017), a management control system can guide the behaviour of managers towards achieving organisational goals which will ultimately improve the performance of the organisation. Referring to the Shariah Governance Policy Document 2019 issued by BNM, the management refers to the key members in an IFI who carry out the operations and activities of an IFI that always complies with the Shariah. The management group is headed by an Executive Director-General appointed by the Board.

c) Shariah Audit Management

In measuring the level of Shariah compliance by an IFI, the Shariah Governance Framework stipulates the need for internal Shariah reviews and Shariah audits to be conducted periodically (Shafii et al., 2013). Furthermore, Shariah audits are conducted to improve the level of compliance and to ensure the effectiveness of the Shariah control system (Shafii et al., 2013). A Shariah audit refers to the process of auditing and verifying the practices of Shariah complaints by reviewing financial statements and related documents for all aspects of an organisation, including the activities and operations carried out (Rahman, 2010). The Shariah committee through the Shariah auditor plays an important role to ensure that activities and products comply with the Shariah and to increase public confidence. The Shariah audit function is implemented in three stages, namely: Audit of financial statements; audit of compliance in organisational structure, people, and processes; and review of the adequacy of Shariah governance processes (Masruki et al., 2020).

d) Shariah Risk Management

A Shariah risk in the context of IFIs refers to the incorporation of prohibited elements such as *riba*, *maysir* (gambling), and *gharar* (uncertainty) in any transaction that takes place. A Shariah risk is part of the operational risks since an institution will face the risk of financial loss (through the purification process) as a result of Shariah non-compliant activities. Shariah risk management functions include identifying risks that may arise; measuring risk levels; monitoring and providing effective risk management; and anticipating the recurrence probability of Shariah non-compliant risks (Masruki et al., 2020).

e) Shariah Control Function

First, the Shariah risk management control function is responsible for identifying, measuring, monitoring, reporting, and controlling the risk of Shariah non-compliance. Second, the Shariah assessment function periodically evaluates business operations to ensure Shariah compliance. Third, the Shariah research function will conduct in-depth Shariah research

before presenting the results to the Shariah committee. Finally, the Shariah audit function provides independent assessments and assurance aimed at adding value and enhancing the level of Shariah compliance by IFIs (Central Bank of Malaysia, 2010).

GP28 And Shariah Governance in Cooperatives

In GP28 Part A, the purpose of the GP28 is introduced as the formation of Shariah committees and Shariah governance of cooperatives. In 2015, SKM issued guidelines on Shariah governance for Islamic cooperatives (also referred to as GP28). These guidelines are issued under Section 86B of the Cooperative Societies Act 1993 (Act 502) to regulate cooperatives that conduct businesses or activities based on Shariah principles. These guidelines shall apply to cooperatives engaged in financial intermediation activities based on Shariah principles, namely:

- a) Banking functions;
- b) Credit function;
- c) Financing; and
- d) Ar-rahnu

Part B is related to the formation of the cooperative's Shariah committee. The establishment of a Shariah committee for cooperatives that conduct businesses or activities based on Shariah principles is necessary to advise the cooperative on Shariah matters. Cooperatives can establish such committees in the following three circumstances:

- a) Establishment of an internal Shariah committee;
- b) Establishment of a Shariah committee for a group of cooperatives; or
- c) Appointment of a recognised external Shariah committee

The appointment of the Shariah committee shall be based on the following:

- a) Each member of the Shariah committee must be a Muslim individual.
- b) The majority of the Shariah committee members must have at least a Bachelor's Degree in Shariah, including the study of Usul al-Fiqh or Fiqh al-Muamalat, from a recognised institution of higher learning.
- c) The majority of the Shariah committee members must have a decent level of knowledge of and fluency in Arabic (spoken and written) and have a good understanding of Malaysia and English.
- d) The Shariah committee may consist of experts from various relevant backgrounds, such as finance and law, who can support Shariah discussions. However, these members shall not form the majority of the Shariah committee.
- e) The Shariah committee should preferably consist of members from various backgrounds in terms of qualifications, experience, and knowledge.

Cooperatives in Malaysia can be the third-largest contributor to economic development (Leong, 2018). The increase in the number of cooperatives in Malaysia is also a good indication that the community is more confident in cooperatives. As cooperatives continue to expand, various problems arise in the management of cooperatives. This signals the need for Islamic cooperatives implementing Islamic law (Shariah) to be used as a guide in governance (Samad & Shafii, 2019). Thus, the success of SKM in improving the performance and reputation of cooperatives on the world stage has also led to strengthening Shariah

compliance in the cooperative sector (Surkery & Yaacob, 2019). Cooperatives also offer services such as financing and credit facilities for housing, vehicles, and agriculture. In fact, some even offer qard hasan or good financing with no interest charged. In terms of financing and investment, it is important to check the contract and its application to avoid the elements of riba, gharar, and maysir present in the product. This evaluation can be done through a proper and orderly Shariah governance framework (Itam et al., 2016).

However, there are many shortcomings faced by cooperatives in Malaysia. Among them are the lack of involvement in high-value and competitive businesses; lack of exploration of new opportunities within or outside the country; and the gap in skills, knowledge, and technology (“Sektor Koperasi Kurang Sambutan,” 2013). Shariah compliance in the context of cooperative business and operations may start from the “progress” impact of Shariah compliance from the Islamic banking and finance sector. Therefore, it is appropriate for Islamic cooperatives in this country to be introduced because the majority of the people here are Muslims. However, it should be noted that being an Islamic cooperative does not mean that the cooperative is registered as an Islamic cooperative. There is no categorisation of whether a cooperative is Islamic or not during its registration. Hence, Islamic cooperatives only refer to cooperatives that carry out activities based on Shariah principles with a focus on the principle of mutual benefit for good (Itam et al., 2016). According to Ismail (2016), in line with SKM having successfully improved the performance and reputation of cooperatives worldwide, this effort has also led to strengthening the Shariah-compliance agenda in cooperatives. Thus, the provisions of Section 86B of the Cooperative Societies Act 1993 have paved the way for the introduction of GP28. The introduction of GP28 aims to provide guidance to cooperatives to carry out Shariah governance in business activities. With the existence of GP28, it is clear that this very good effort to be Shariah-compliant is being implemented in the cooperative sector. These guidelines apply to cooperatives that conduct financial intermediation activities based on the Shariah such as banking functions, credit functions, financing, and ar-rahnu.

The Shariah governance referred to in the GP28 must be based on Shariah principles. Shariah principles are the basis of Islamic business or financial practices where adherence to the pillars, conditions, and principles determined by Shariah is the main feature. Comprehensive adherence to Shariah principles will strengthen the community’s confidence in the credibility of the Islamic muamalat system in the cooperative sector. These guidelines cover the formation of Shariah committees, cooperative Shariah governance, confidentiality, and the Shariah governance application. The aspect of Shariah committee formation discusses the need for cooperatives to appoint internal committees, committees for a group of cooperatives, or recognised external Shariah committees such as Islamic Banking and Finance Institute Malaysia (IBFIM) and International Shariah Research Academy for Islamic Finance (ISRA). The formation of Shariah committees also addresses the appointment and reappointment methods; application procedure; member qualifications; committee composition; secretariat; disqualification; resignation and dismissal; and restrictions on Shariah committee members. Next, GP28 discusses the Shariah governance of cooperatives. To ensure the smooth implementation of Shariah governance, the cooperative shall establish the accountability and responsibility of each key function consisting of the cooperative’s board, Shariah committee, management, and internal audit committee. Finally, GP28 covers aspects of confidentiality and applicability. Board members, Shariah committee members, cooperative management, and internal audit committee shall adhere to the principle of

confidentiality at all times. Confidential or sensitive information obtained by any person while serving or in the performance of his duties must not be misused in any way that could be detrimental to the cooperative. The guidelines issued by SKM are applicable to cooperatives that conduct Shariah-compliant activities or businesses, effective 1 July 2015. The literature review above has shown that there is no detailed study about the implementation of GP28 in cooperatives. Therefore, this study is important to provide awareness to the operators and staff of cooperatives to ensure a more successful implementation of Shariah governance at the cooperative level in the future.

Results and Discussion

a) The Structure of Shariah Governance in Islamic Cooperatives is Incomplete

There have been past studies that discussed the weaknesses inherent in this GP28. Among them, Ismail (2016) posited that there is no mechanism in implementing Shariah governance in cooperatives. In addition, the policies that needed to be approved were also not explained in detail. The information in the cooperative's annual financial report also did not disclose how the auditing took place and there was no clear communication between the Shariah board committee, the staff, and the cooperative board. In terms of management, there were some constraints in manpower resources in fully implementing the concept of Shariah-compliant cooperatives. Financial literacy programmes, sharing of information related to ethics, and explanation of procedures should be held for members and staff of cooperatives to be more knowledgeable about Shariah-compliant cooperatives (Surkery & Yaacob, 2019). Shafii et al (2017) proposed a Shariah governance model for Islamic cooperative institutions because there is still no Shariah governance model in the cooperative sector unlike in IFIs. Ismail (2019) suggested 14 Shariah governance modules that need to be emphasised and taken into account as a measure to strengthen GP28. The Shariah governance modules are Shariah governance; Shariah governance cores; disclosure and transparency; Shariah committee's duties and responsibilities; Shariah committee's effectiveness; Shariah committee practices; Shariah committee procedures; strategic governance; strategy effectiveness; evaluation of strategy delivery and performance; risk governance; reporting; improvement planning and leadership; and control environment. Azyan (2019) also highlighted that the issues that occur in cooperative Shariah governance are the attitudes and whims of cooperative operators; the adequacy of human resources; and the competence and capability of the workforce in implementing Shariah governance. In addition, it was observed that Shariah governance (in GP28) had shortcomings, one of them being the absence of the following elements of governance: a Shariah audit function, Shariah evaluation function, Shariah research function, and Shariah risk management function. If the role of these four functions is handed over to the Shariah committee, it should be explained in the guidelines to avoid doubts about it. Although the internal audit committee exists in GP28, it is questionable whether its functions and roles are the same as those at the IFI level, and to what extent the role of the GP28 internal audit committee functions in this GP28 Shariah governance. In addition, in the Shariah Governance Policy Document 2019, the Shariah Secretariat holds the responsibility of a Shariah research function. Therefore, the secretariat in GP28 should assume the duty of conducting Shariah research as stated. However, the secretariat's research role was not explained in GP28, contradicting the content of the Shariah Governance Policy Document 2019. Shafii et al (2017) also suggested improvements in the Shariah governance of Islamic cooperatives to be in line with the Shariah governance of IFIs set by the Shariah Governance Framework 2010 of BNM.

b) Lack of Manpower and Shariah Experts

To ensure that the Shariah committee functions effectively, the Shariah committee must consist of at least three members. Cooperatives are also required to appoint at least one officer who will be the secretariat to the Shariah committee. This officer must have at least a Diploma in Shariah, Fiqh, Usul Fiqh, or Fiqh al-Muamalat Studies. In reference to the decision of the Shariah Advisory Council of BNM, Islamic financial institutions are seen to have no problem. In contrast, there is no clear relationship between BNM's Shariah Advisory Council and the Shariah advisers appointed in each cooperative (Itam et al., 2016). At the SKM level, the existence of a body similar to the Shariah Advisory Council at the BNM level was not clear. IFIs receive oversight from BNM's Shariah Advisory Council, but this did not happen at the cooperative level. Moreover, Angkatan Koperasi Kebangsaan Malaysia Berhad (ANGKASA) is the apex body appointed by SKM responsible for Shariah governance reporting. This sole appointment has raised questions about the function of SKM as an authority for cooperatives. Cooperatives should have a special body with a wider job scope, similar to the function of BNM's Shariah Advisory Council, instead of placing the burden of responsibility on ANGKASA entirely. Ismail (2016) postulated that the cooperative Shariah committee is not like the institutions under the Islamic Financial Services Act 2013; the latter is subject to the Shariah Advisory Council of BNM. Therefore, there is a need for the establishment of a special committee by BNM to oversee the Shariah committee at the cooperative level.

Questions would arise about the established decision if there is a difference of opinion between BNM's Shariah Advisory Council and the Shariah committee in each Islamic cooperative. This can lead to Shariah non-compliant practices and confusion among members about the activities of the cooperative. In addition, another question that would arise is related to the ability of the Shariah committee in regulating cooperatives. As observed, the majority of the Shariah committee are from ANGKASA, the apex body appointed by SKM. Therefore, it becomes a question of whether the manpower is sufficient or not. If there is enough, then, the question would be on whether the Shariah committee is able to perform well per expectations. If there is an issue in performance, the question would be on how it can be highlighted. If the issue is left to ANGKASA to solve, this will cause a burden to the ANGKASA Shariah Committee. SKM should take a joint role in ensuring that Shariah governance is implemented in cooperatives (Ismail, 2019). These questions have indicated that the GP28 needs to be updated. Thus, it is clear that the implementation of Shariah governance at the cooperative level is not running smoothly and will continue to stay this way as long as the shortcomings in GP28 are not overcome.

c) No Enforcement of Shariah Governance Law

At the IFI level, IFIs must comply with the decisions of the BNM Shariah Advisory Council and the Shariah Governance Policy Document 2019 issued by BNM. Directors, officers, and members of Shariah committees are also directly involved in Shariah compliance. This is because ensuring Shariah compliance is mandatory in nature; any person who violates the provision is punished for having committed an offence and can be imprisoned for a term not exceeding eight years or fined not exceeding RM25 million, or both. However, if the IFI realises that it has conducted business or activities in a manner that does not comply with the Shariah, the advice of the Shariah committee, or the advice and decisions of the BNM Shariah Advisory Council, the institution must stop the business, inform the Shariah committee, and submit a plan to correct the non-compliance within 30 days to BNM for assessment. To ensure Shariah compliance in IFIs, BNM and IFIs are required to appoint auditors who will conduct

Shariah compliance audits of the institutions. Thus, it is clear that there is a very systematic implementation and monitoring of the law in ensuring that Shariah governance in IFIs has been complied with. Enforcement of Shariah governance in IFIs has a proper system and legal provisions that are mandatory, such as the Islamic Financial Services Act 2013.

BNM's law enforcement on IFIs is different from the reality of the cooperative sector. This is based on the GP28 introduced by SKM which has had no clear legal implications. For IFIs, there are three established steps to solve the issue of a business operation being found not to comply with the Shariah or contrary to the advice of the Shariah Advisory Council. However, the provision of this law was not mentioned in the Cooperative Societies Act 1993 resulting in no certainty that this law is mandatory. GP28 only mentioned that if SKM finds that a cooperative is conducting operations that do not comply with the Shariah, SKM can order corrective measures to be implemented by the cooperative; the corrective measures mentioned were vague. Itam et al (2016) argued that corrective measures can be interpreted as advice, administrative action, and punishment. This ambiguity indicates the existence of an aspect in GP28 that needs to be improved. The legal implications of this GP28 law were not clear as to whether the provisions given therein would be mandatory or otherwise. For example, GP28 does not provide any punishment or penalty if an Islamic cooperative fails to establish or appoint at least three Shariah committee members as required by GP28. Therefore, GP28 should clearly impose the enforcement of penalties if non-compliance is found in cooperative governance. Evidently, IFIs under the supervision of BNM are subject to a more stringent Shariah management process in contrast to Islamic cooperatives where the conditions are less strict and more flexible. However, this difference in situation is very appropriate taking into account the size and nature of cooperatives which are usually small in size and limited in their business. In addition, governance in cooperatives is based on the principle of mutual benefit and takes into account all "individual votes". Therefore, the overall social benefits of the members supersede the importance of controlling the cooperative body. Hence, the implementation of Shariah governance in cooperatives cannot be fully implemented because the existing GP28 serves as a mere guideline and is not law enforcement that must be complied with. The problems that arise need to be resolved for GP28 to run smoothly so that GP28's main purpose, to ensure a business operations environment that is always compliant with Shariah principles, can be realised. Thus, SKM is recommended to update the shortcomings that exist in GP28. Corrective measures for when Shariah non-compliant practices are found in the cooperative should be explained in more detail. The Cooperative Societies Act 1993 also needs to be amended to include provisions or sections on the enforcement of penalties on Islamic cooperatives that do not comply with GP28. These revisions are crucial to ensure that Shariah governance in cooperatives can be fully implemented because GP28 is the main guideline. Enforcement must be through the provisions of the law at the cooperative level, namely the Cooperative Societies Act 1993. Therefore, Shariah governance in cooperatives cannot be fully exercised yet because some aspects were not explained in detail, such as the governance structure, regulatory practices, and the nature of GP28 itself, which is purely a guideline not subject to the enforcement of the law.

Recommendations

There are several suggestions to improve the implementation of Shariah governance in cooperatives to be based on Shariah principles:

- a) Re-evaluate the structure contained in GP28 to be more comprehensive per BNM's Shariah Governance Policy Document 2019.
- b) Recruiting Shariah consultants or Shariah experts at the SKM level to consult, advise, monitor, and review Shariah governance practices in the cooperative sector. Shariah consultants or appointed Shariah experts would function as they would in the IFI sector.
- c) Strengthen the legal system in cooperative institutions by imposing mandatory penalties for cooperatives that do not implement Shariah governance in accordance with Shariah principles.
- d) Expose members of the cooperative, whether the operators or members, to the characteristics of a successful Shariah-compliant cooperative. This can be done in workshops, courses, or seminars related to Shariah-compliant cooperatives from experts in the field.

Conclusion

The establishment of cooperatives is based on understanding, trust, and cooperation among members. Developments in the cooperative sector each year further increase the awareness of operators and their members to strengthen the cooperative institution as a financial body based on Islamic principles. Overall, several findings have been obtained from this study. Among them, GP28 must be improved so that the concept of Shariah cooperatives can be successfully and properly implemented. In addition, the members of the cooperative play a big role in ensuring that the existing GP28 is carried out to the highest degree so that the welfare of all holders can be taken care of. Finally, it is hoped that this study will be a catalyst for new studies that will continue to explore the Shariah governance of cooperatives to successfully generate excellent performance in the field of cooperatives, comparable to IFIs. In-depth research on this issue can benefit individuals, organisations, and society as a whole, especially in the cooperative sector.

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