International Journal of Business and Society, Vol. 24 No. 3, 2023, 1213-1230

ISLAMIC BANKS IN AFRICA: THE RISK OF SHARIA NON-COMPLIANCE AND FINANCIAL PERFROMANCE

Aishatu Usman Muhammad ♣
Centre for Islamic Development Management Studies, Universiti Sains Malaysia, 11800 Pulau Penang, Malaysia

Murni Yusoff
Centre for Islamic Development Management Studies, Universiti Sains Malaysia, 11800 Pulau Penang, Malaysia

ABSTRACT

The establishment of Islamic banks is solely based on Sharia standards, which, if not followed, will have dire consequences of Sharia non-compliance, making IBs comparable to conventional banks. Sharia non-compliance can damage investor trust and income. Although Sharia is the primary distinction between IBs and CBs, Sharia non-compliance must be scrutinized to avoid non -compliance issues. The risk of Sharia non-compliance and the performance of Islamic banks in Africa are investigated in this research, covering the years 2015 through 2019. The research studied 27 Islamic banking institutions from 11 African countries. The Sharia non-compliance risk was evaluated using the size and competence of the Sharia committee. In addition, GDP, bank age and size were used as control variables. Data were analyzed using simple regression with EViews. The result shows that Sharia Committee Size positively correlates with African Islamic bank performance. The research also shows that the expertise of the Sharia Committee in Sharia positively affects Islamic bank performance. Banks with larger Sharia committees perform better, the studies revealed. All banks have a large number of Sharia specialists in their committees, indicating that having them is vital for establishing and smoothly running an Islamic bank.

Keywords: *Islamic Banks, Sharia Non-Compliance Risk, Financial Performance, Africa*

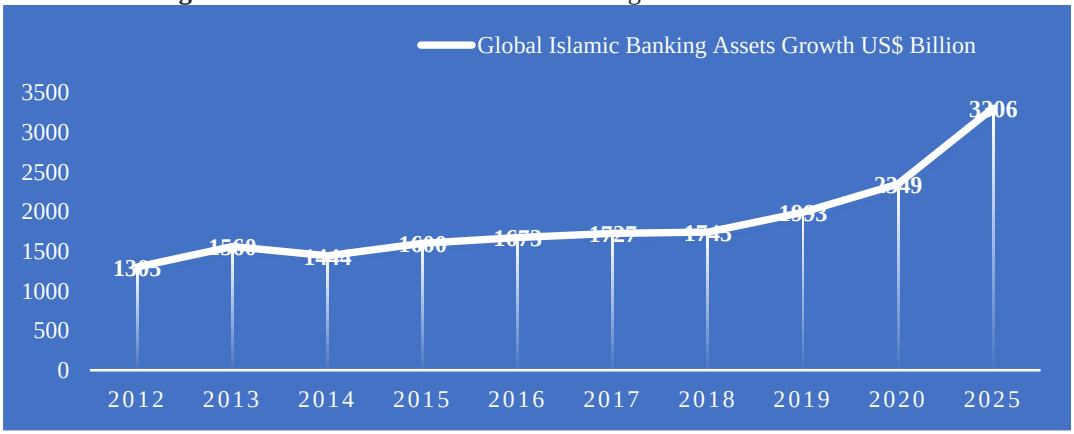
Submission: 7th January 2023
Accepted: 11th October 2023
https://doi.org/10.33736/ijbs.6419.2023

1. INTRODUCTION

Egypt was the birthplace of Islamic banking, which eventually expanded to the remainder of North Africa, to the Middle East, and eventually to other parts of the globe (Garas, 2021). Over the past two decades, the Islamic financial sector has grown significantly, with numerous sectors including banking, Sukuk, and Takaful. The industry is expected to generate USD 3.69 trillion by 2024 (Islamic Finance Development Report, 2020). According to the report, there are over 520 Islamic banks (IBs) spread across 72 countries, accounting for up to 69% of all Islamic financial transactions.

♣ Centre for Islamic Development Management Studies, Universiti Sains Malaysia, 11800 Pulau Pinang, Malaysia, +601133910957, aishatusman111@gmail.com, aishatusman@student.usm.my.

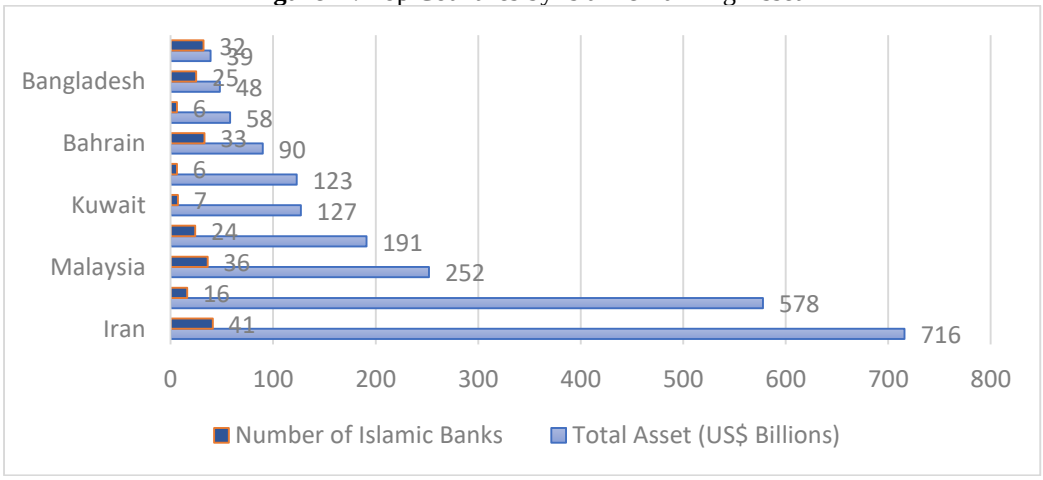
Figure I: Growth Of Global Islamic Banking Assets in USD Billions



***Source*:** Islamic Finance Development Report (2021)

According to Figure I, Islamic banking increased from USD 1305 billion in 2013 to USD 2349 billion in 2020 and is projected to be USD 3306 billion by 2025. At the beginning of 2020, the sector's growth was moderate. However, some IBs registered losses, and the pattern changed in the second quota of 2020 and the beginning of 2021. The Organization of Islamic Cooperation (OIC) governments provided large stimulus packages and liquidity injections to help deal with the economic consequences of the pandemic. This was made possible by the success of vaccination campaigns across key markets, including the GCC countries. Islamic banking activity, as a result, survived the pandemic almost unharmed, which should pave the way to Assets worth USD 3.3 trillion by 2025.

Figure II: Top Countries by Islamic Banking Asset



Source: Islamic Finance Development Report (2020)

Despite the apparent expansion and the substantial Muslim population, Africa has not advanced much in terms of Islamic banking. Only approximately 1% of the world's Islamic finance assets are located in Sub-Saharan Africa, which is home to about 18% of the world's Muslims (Parker, 2021). There is no presence of any of the 54 African countries at the top 10 countries with the largest share of the Islamic banking asset. The three countries with the highest assets are Iran, followed by Saudi Arabia, and then Malaysia, accounting for 63% of the total as shown in figure II.

The 2007–2008 financial crisis has raised interest in risk management among academics and practitioners. However, a specific issue of worry pertaining to the field of Islamic banking that can result in their acts being against the law is the risk of violating the Sharia's rules and regulations. The primary risk separating Islamic Financial Institutions from their conventional counterparts is Sharia risk (Thijs, 2010). Maintaining effective risk management has evolved into a crucial component of raising IBs' performance. Examining whether an institution is Sharia compliant is necessary given the continuing expansion of Islamic banking, which helps IBs and the Islamic Finance Industry perform better (IFI). This is especially true because of high demand for services and products that are Sharia-compliant to suit investor needs may have an impact on performance (Khediri et al., 2015). While the presence of Sharia non-compliant components will result in a decline in stakeholder confidence and trust (Khamar et al., 2017) and (Alnasser, 2012). Additionally, it may negatively impact IFIs' financial and non-financial performance (Hassan, 2016).

IBs and other IFIs are expected to carry out their business operations in accordance with the dictates of Sharia regulations (Islamic laws). Additionally, the basic goal when it comes to Islamic banking, is to uphold Sharia principles while maximizing shareholder wealth (Safieddine, 2009). The bank or institution will run the risk of non-conformity if these laws are not followed. They are therefore identical to their traditional counterparts. According to Ahmad and Chapra (2002), the goal of Sharia is justice and fairness for all parties involved, and this idea serves as the foundation for the conception of IFIs. However, the Sharia committee (SC), which is chosen among seasoned scholars, aids in ensuring the application and conformity to Sharia values in order to accomplish these goals. How well the banks conform to Sharia guidelines and principles depend on the calibre and strength of the SC members. Important to the management of IFIs are Sharia committee members which can never be ignored (Zain & Shafii, 2018). According to Ghayad (2008), the Sharia Committee's function is now a crucial factor in assessing the performance of banks. However, the, the purpose of the SC is to make sure that all of the IFIs' operations comply with Sharia law (Bahari & Baharudin, 2016).

In this study, the effectiveness of IBs in Africa is contrasted with instances of non-compliance with Sharia. With the recent expansion of the business inside the continent, Africa is anticipated to boost its Islamic banking assets. Morocco and Nigeria are developing into the Islamic banking asset markets with the fastest rate of growth (Islamic Finance Development Report, 2020).

The study adds to the body of knowledge on Islamic banking and most especially on the aspect of Sharia non-compliance. This study examined the effect of the Sharia supervision and the function of the SC on performance. In our opinion, this study is the first to investigate the performance of IBs in Africa and the risk of non-compliance with the Sharia. Similar to Mollah and Zaman (2015), their study claims that when the supervision duty was given to the Sharia

committee, the outcome of SC performance based on the accounting measure was favourable. But the focus of this research is on the Sharia knowledge and composition of the SC members. In addition, this research adds to the body of work already done by Aebi et al. (2012), Chen and Lin (2016), D'Amato and Gallo (2019), and Basiruddin and Ahmed (2020).

The relationship between Sharia non-compliance risk and IB performance is an important issue in the Islamic finance literature. However, most of the existing studies have focused on the Middle East and Southeast Asia, where Islamic banking is more developed and established. There is a lack of empirical evidence on the effect of Sharia committee (SC) composition on IB performance in Africa, where Islamic banking is still emerging and growing. Moreover, previous studies have used different measures and proxies for Sharia non-compliance risk and IB performance, which may limit the comparability and generalizability of their findings. Therefore, this study aims to fill the gap by examining the impact of SC size, and their Sharia expertise on IB performance in Africa, using a panel data analysis of 27 IBs from 11 African countries over the period 2015-2019. This study contributes to the literature by providing new insights and implications for the Islamic banking industry in Africa, as well as for the regulators, investors, customers, and society. Five other sections make up the remainder of the paper. The theoretical idea that underlies the study is covered in section two and the research technique is covered in section three. The acquired data, the analysis done, and the pertinent discourse are summarized in section four, and lastly, the conclusion in section five.

2. LITERATURE REVIEW

The ongoing economic crisis prompted people of all faiths (Muslims and non-Muslims) to consider alternatives to traditional banking services. A growing number of people are turning to Islamic banking as an alternative. As at the end of 2020, the banking assets totalling over USD 2.3 trillion, accounting for over 1.3% of the banking assets on a global scale in little over three decades of presence (Puri-Mirza, 2021). The system has been criticized by some academics for focusing on contracts based on debt rather than profit-sharing arrangements, as a direct consequence, IBs are not distinguishable from their conventional counterparts (Usmani, 2008). Consequently, when products and services of the IBs are not carefully verified by authorized Sharia specialists, the risk of Sharia non-compliance is unavoidable. This paper will go through the concept of Islamic banking performance and how it has been affected by Sharia non-compliance.

2.1. Performance of Islamic Banking in Africa

There are not many studies that have been done on Islamic banking performance in Africa. The majority of research are conducted in middle east (Saudi Arabia, UAE, etc.), south and southeast Asia (including Pakistan and Bangladesh), and (e.g., Malaysia, Indonesia). Rabaa and Younes (2016) conducted research on the relationship between IBs' financial performance and economic growth in a number of nations, including Abu Dhabi, Great Britain, Saudi Arabia, Tunisia and Bahrain. In addition, it was discovered that IBs' success has a big impact on economic expansion. Similarly, Saudi Arabia, Malaysia, Turkey, Indonesia, and Brunei were the study locations for Ledhem and Mekidiche (2020). Mollah et al. (2017), and Zouari and Taktak (2014) are two such studies with multiple countries. Researchers looked into the performance of IBs in the GCC region (Platonova et al., 2018); Al- Tamimi (2012) conducted research in the UAE, while Ahmad and

Hassan (2007) in Bangladesh. In addition, Basiruddin and Ahmed (2019) conducted their study in Malaysia and Indonesia, while Boukhatem and Moussa (2018) in the MENA region.

In different research, Rozzani and Rahman (2013) analysed the difference in performance between conventional and IBs in Malaysia and discovered that the two banking systems had comparable performance levels. Studies undertaken in Malaysia include those by Rosly, Naim and Lahsasna (2017), and Zain and Shafii (2018). Awosanya's (2022) analyzed the determinants of liquidity and credit risks in African IBs, as well as their implications for the financial performance. The research discovered that asset quality, bank size, non-performing loans, unemployment, and GDP growth are the primary factors influencing liquidity risk in IBs. The results also suggest that the primary factors influencing credit risk in IBs include IB rates, capital sufficiency, GDP growth, and unemployment. The research findings indicate that the financial performance of IBs in Africa is significantly influenced by liquidity and credit risks.

The primary objective of the research conducted by Jimoh et al. (2022) is to assess and evaluate the technical efficiency levels of IBs operating in specific low-income countries across Africa and Asia. Additionally, the study intends to discover the underlying factors contributing to inefficiencies by dissecting technical efficiency into two distinct components: pure technical efficiency and scale efficiency. The study's findings indicate that managerial challenges, such as a lack of skilled personnel and inadequate monitoring, are the primary factors contributing to the low efficiency observed in IBs in Africa. Conversely, scale-related issues, such as suboptimal size and excess capacity, are identified as the main causes of low efficiency in IBs in Asia.

Additionally, the research by Muhammad and Yusoff (2023) examines the impact of Sharia governance on the performance of fully-fledged IBs in Africa. The study posits that the presence of many Sharia scholars and auditors on the board and committee of IBs positively impacts their compliance and accountability, ultimately leading to improved profitability. Additionally, their finding asserts that a larger board size can diminish the efficiency and efficacy of decision-making processes and hinder efficient monitoring practices, ultimately leading to decreased profitability within IBs.

2.2. Sharia Non – Compliance Risk in Islamic Banks

Like their conventional counterparts, IBs are similarly exposed to risk, but they also run the risk of not adhering to Sharia. Non-compliance to Sharia principles and guidelines, makes them typical of their conventional counterparts. Consequently, making Sharia non-compliance becomes a hotly debated subject. Operational risk, as defined by the IFSB (2005), is the risk associated with implementing Sharia and failing to uphold their fiduciary duties in IBs. Additionally, Sharia non-compliance risk (SNCR) is the most prevalent operational risk that is specific to IBs. When a bank or IFI's goods and services don't contain prohibited items (such pork, alcohol, pornography, or gambling), as well as when they don't contain *riba* (interest), *gharar* (ambiguity), and *maysi*r (gambling), they are said to be Sharia compliant. Sharia non-compliance may result from various factors, such as the sale of products and services that are not authorized or the breach of SC-approved agreements (Oz et al., 2016).

SNCR causes income from these transactions to be rejected, which prevents it from being recorded as profit in the books. The immediate effects of SNCR include loss of trust and confidence from

investor and depositor (Chapra & Ahmed, 2002) as well as loss of revenue, and the risk of losing their reputation (Abdullah et al., 2011; and Basiruddin & Ahmed, 2020). A study conducted by Uyob et al. (2022) investigated the determinants of the audit report lag (ARL) in Malaysian IBs, with a specific emphasis on the significance of the SC as a crucial component of Islamic corporate governance. The study's findings indicate that the SC composition significantly affects the ARL of IBs in Malaysia. As a result, the study suggests that regulators and standard setters should improve the competence and efficacy of SC members by establishing minimum credentials and training prerequisites.

In addition, Adznan et al. (2023) examined the moderating influence of the SC on the level of intellectual capital disclosure (ICD) in different countries over seven years (2012-2018). The research findings indicate that gender diversity and the size of the senior management committee (SC) significantly influence ICD practices. Consequently, the study suggests that IBs should actively promote women's empowerment and leverage their capabilities to enhance intellectual capital production. In their study, Ramdani and Kamal (2023) conducted an analysis to examine the influence of good corporate governance (GCG) on the risk of sharia non-compliance (SNCR) among Islamic commercial banks in Indonesia. The study reveals that there is a considerable simultaneous impact of GCG factors on SNCR. However, only board size, board meeting frequency, sharia supervisory board meeting frequency, and audit committee meeting frequency have a partial significant influence on SNCR.

2.3. Agency Theory and Sharia Non-Compliance Risk

Among the most important and prevalent theories regarding corporate governance is the agency theory. This theory focuses on minimizing agency costs, which can be caused by imbalances in knowledge or conflicts of interest amongst managers and shareholders. Because managers and stockholders may have unequal access to information or different priorities, agency theory is extremely applicable to Islamic banking. The vast majority of depositors anticipate having access to goods and services that are in accordance with Sharia (Malkaw, 2013). It is possible that managers, who act as the agents of shareholders in conducting the business activities, may not have complete access to information regarding how managers allocate their resources for commercial purposes. In addition to this, when Sharia compliance oversight is lacking, it may encourage managers to make decisions that would increase short-term performance, even if those actions are not necessarily in the best interest of the shareholders (Fahlenbrach & Stulz, 2011).

The Islamic Financial Services Board (IFSB) issued rules in 2009 with the goal of minimizing Sharia non-compliance. These guidelines included the SC's responsibility to produce Sharia pronouncements. Their function is to guarantee that the Sharia pronouncements are adhered to, and its violation leads to a threat of Sharia non-compliance (Alkhamess, 2012). This will help the bank acquire the trust of their consumers. However, in order to fulfil its role as an essential element of the governance system, an independent SC must be staffed by Sharia scholars who are also familiar with commercial law. In order to guarantee compliance, knowledge and experience of SC are absolutely necessary.

According to findings from previous research on audit committees, members' financial understanding contributes to the success and efficiency of accounting decisions and regulations (Francis, 2005; and Krishnan & Visvanathan, 2008;). A Sharia Committee member who is

knowledgeable in both finance and Sharia will considerably improve efficacy and performance. However, due to the increasing rise of Islamic finance around the world, the number of scholars of Sharia having relevant competence in both finance and Sharia is inadequate (Basiruddin & Ahmed, 2020). As a result, we anticipate a clear relationship between Sharia Compliance competence and IBs success.

Nonetheless, higher committee sizes are less productive, as evidenced by prior studies that suggest that smaller committee sizes are more productive while also being less difficult to oversee and manage (Eisenberg et al., 1998; Mollah & Zaman, 2015). As a result, we anticipate a negative correlation between the size of the Sharia Committee and the performance of IBs.

3. RESEARCH METHODOLOGY

3.1. Data Type

The data used in this study is secondary data that were gathered from banks' annual reports. The annual reports of banks were used to acquire the independent and dependent variables. In contrast, the fitch connect database was used to obtain the bank age and bank size for the control variables, while the World Bank database was used to obtain the country's GDP.

3.2. Samples of Data and Period

Only African IBs with accessible annual reports were chosen to provide the study's data. The analysis eliminated banks that had missing or insufficient data for the time frame studied. Due to the nature of Islamic banking, the majority of banks were located in Sudan, and other North African nations, while just a small number were found in Kenya, Nigeria, South Africa, Senegal, Tanzania, and Niger. Only 27 of the 31 of the fully operational IBs that were listed on the Fitch Connect database have data for the Sharia Committee.

There were data accessibility issues that were present throughout the study. Data collection initially aimed to examine 40 IBs from all over Africa. The data was nonetheless trimmed down to 30 because there were not many data points available for the study period. Additionally, only 27 banks had the necessary Sharia non-compliance risk variables; as a result, the sample contained 27 banks. The study period was also shortened from 2015 to 2020 to 2015 to 2019 because less than 10 of the 27 banks had data for that 2020 as at the time of conducting this study. Table I below lists the banks that were considered for the research.

Table I: List of Banks

S/No.	Bank	Country
1	Abu Dhabi Islamic Bank - Egypt (SAE.)	Egypt
2	Al - Baraka Bank	Sudan
3	Al - Baraka Bank Egypt (SAE)	Egypt
4	Al - Baraka Bank Tunisia	Tunisia
5	Al - Muamelat As Sahiha (BMS)	Mauritania
6	Al - Salam Bank	Egypt
7	Al - Salam Bank	Sudan

8	Albaraka Bank Limited	South Africa
9	Aljazeera Sudanese Jordanian bank	Sudan
10	Alshamal Islamic Bank	Sudan
11	Amana Bank Limited	Tanzania
12	Bank of Khartoum	Sudan
13	Banque Al Baraka D'Algerie S.P.A.	Algeria
14	Banque Al Wava Mauritanienne Islamique	Mauritania
15	Banque Islamique de Mauritanie (BIM)	Mauritania
16	Capital Bank (UCB)	Sudan
17	Century Banking Corporation Ltd	Mauritania
18	Faisal Islamic Bank	Sudan
19	Faisa l Islamic Bank	Egypt
20	First Community Bank Ltd.	Kenya
21	Gulf African Bank Ltd.	Kenya
22	Jaiz Bank PLC	Nigeria
23	National Bank of Egypt	Egypt
24	Saudi Sudanese Bank	Sudan
25	Sudanese Egyptian Bank	Sudan
26	Tadamon Islamic Bank	Sudan
27	Wifak International Bank	Tunisia

To provide a more dependable and unwavering investigation, a large sample of data was selected. A longer time frame allows for the performance to be affected by changes to policies or regulations. The goal was to investigate the relationship between performance and adherence to Sharia. As a result, the trend may not always be visible when analyzing historical data over a shorter time frame. Consequently, a sample of five years, from 2015 to 2019, was chosen.
Therefore, a panel data of 27 fully fledged IBs was created for this study, which amounts to 135 number of observations as indicated below:

$$N \times T = 27 \times 5 = 135$$

Where N is the number of IBs, whereas T is the total number of years considered in this research.

3.3. Operational Variables Explained

Dependent, independent, and control variables were all used in the study. Based on literature (Tabash, 2019; Olson & Zoubi, 2017; Rabaa & Younes, 2016; and Djalilov & Piesse, 2016) which recommends that a higher return on asset and return on equity ratios indicate healthier performance. Thus, return on assets and return on equity are the dependent variables that measure the performance of IBs. In addition, the Size of the Sharia committee (SSC) and the expertise Sharia committee (ESC) are the independent factors used to determine the risk of non-compliance with Sharia. The control factors, however, have been determined to be bank size, bank age, and country gross domestic product (GDP). The table below provides an overview of the variables:

Table II: Summary of Variables

Category	**Variable**	**Symbol**	**Definition**
Dependent Variable	Return on Asset	ROA	Net Income / Total Asset
Dependent Variable	Return on Equity	ROE	Net Income/Shareholder's Equity

Independent Variable	Expertise of Sharia Committee	ESC	Members of the Sharia committee's knowledge of Sharia
Independent Variable	Size of Sharia Committee	SSC	The no. of members in the Sharia committee
Control	Bank Size	BZ	The total assets of a bank expressed as the natural logarithm.
	Bank Age	BA	Years of a bank's existence since its establishment
Control	Country's GDP	GDP	Gross domestic products of countries

3.4. Technique of Data Analysis

A Generalized Least Squares (GLS) regression is used here so that we may investigate the possible connection between SNCR and performance. If the variables have a certain degree of connection, or if the inconsistency of the observations is uneven, then it can be said that: a generalized estimating equation (GLS) is utilized in a linear regression (heteroscedasticity). Therefore, Generalized Least Squares regression is preferable than Ordinary Least Squares analysis for this data (OLS). A simple GLS that only includes one independent variable looks like this:

$$Y = \alpha + \beta\chi$$

Nevertheless, this research takes into account multiple variables that can be controlled independently; as a result, the model is extended. in order to incorporate the variables that remain in the following ways:

$$Y_i = \alpha + \beta_1 \chi + \beta_2 \chi + \beta_3 \chi + \beta_4 \chi + \beta_5 \chi + \varepsilon_i$$

Y represents the response variable (i.e., DV); while α also known as the intercept, is the value that is assigned to the explanatory variable when the value of the response variable is set to zero. While β is the n coefficient for the response variable (χ), which represents the change in Y that is related with the change in χ, while χ represent the explanatory variable. And lastly, the error term is represented by ε.

A panel data methodology will be implemented in the paper in order to better allow for the dependability of the study. A panel of data makes it possible to assess the cross-sectional units over the course of time (Baltagi, 2008). In order to account for the impact of the panel data, the following changes need to be made to the regression model:

$$Y_{it} = \alpha + \beta\chi_{it} = \mu_{it}$$

3.5. Model Specification

The following models are utilized in order to investigate the correlation between Sharia compliance risk and performance:

Performance = α + Σ β_1 Size of Sharia Committee + β_2 Expertise of Sharia Committee + β_3 Bank Size + β_4 Bank Age + β_5 GDP of Country + ε

$ROA=\alpha + \Sigma\beta_1 SSC_{it} + \beta_2 ESC_{it} + \beta_3 BS_{it} + \beta_4 BA_{it} + \beta_5 GDP_{it} + \mu_{it} + \varepsilon_{it}$

$$ROE=\alpha + \Sigma\beta_1 SSC_{it} + \beta_2 ESC_{it} + \beta_3 BS_{it} + \beta_4 BA_{it} + \beta_5 GDP_{it} + \mu_{it} + \varepsilon_{it}$$

The ROA and ROE are both response variables that measures performance, and α is the fixed variable. While β_1 - β_2 represent the coefficient of explanatory variables; $_i$ represent the number of banks; $_t$ denotes the time span covered by the investigation, which runs from 2015 to 2019. Whereas μ represent the unobservable random effect and ε the error term.

4. RESULTS AND DISCUSSIONS OF FINDINGS

4.1. Descriptive Statistics

Table III shows the link between the size of the Sharia committee (SSC) and the Sharia Committee expertise in each bank's performance level. While the descriptive statistics were produced using EViews econometric software as shown in the table IV. The measures of central tendency, such as the mean, and the measures of dispersion such as the standard deviation, minimum and maximum of both the dependent and independent variables, are included in the summary of statistics. To effectively comprehend the nature of the results, the table depicts a summary of the statistics for the respondent and explanatory variables.

Table III: Banks And Their Performance Level

Bank	ROA	ROE	SSC	ESC	BA	BS	GDP
Abu Dhabi Islamic Bank - Egypt (SAE.)	1.67	29.11	3.0	1.0	43	9.417165	4.754338
Al Baraka Bank (Sudan)	2.17	14.39	4.0	1.0	39	9.441811	0.789394
Al Baraka Bank Egypt (SAE)	1.49	28.87	5.0	1.0	45	10.68971	4.754338
Al Baraka Bank Tunisia	0.29	3.25	3.0	1.0	40	9.247096	1.595714
Al Muamelat As Sahiha (BMS) Mauritania	(1.16)	(6.29)	3.0	1.0	13	9.504098	3.636227
Al Salam Bank	6.09	48.95	4.0	1.0	46	9.951189	1.116079
Al Salam Bank Egypt	2.12	10.17	5.0	1.0	32	8.828549	4.754338
Albaraka Bank Limited South Africa	0.98	8.69	4.0	1.0	34	9.780336	1.19458
Aljazeera Sudanese Jordanian	5.27	11.81	3.0	1.0	42	9.520768	1.116079
Alshamal Islamic Bank	7.28	14.52	4.0	1.0	39	9.521223	1.116079
Amana Bank Limited Tanzania	0.30	2.79	4.0	1.0	19	11.30973	6.209953
Bank of Khartoum	2.43	22.72	5.0	1.0	18	9.413582	1.116079
Banque Al Baraka D'Algerie S.P.A. Algeria	2.04	18.61	8.0	0.9	15	9.314552	2.04

Banque Al Wava Mauritanienne Mauritania	2.47	9.04	5.0	1.0	38	9.663211	3.636227
Banque Islamique de Mauritanie (BIM) Mauritania	(5.53)	(19.16)	3.0	1.0	12	9.148987	3.636227
Capital Bank (UCB)	5.59	47.01	4.0	1.0	14	9.523051	1.116079
Century Banking Corporation Ltd Niger	(2.32)	(1.28)	6.2	1.0	14	8.726628	3.636227
Faisal Islamic Bank (Sudan)	2.91	37.27	4.2	1.0	19	10.44441	1.116079
Faisa l Islamic Bank Egypt	11.12	19.81	4.0	1.0	43	9.532991	4.754338
First Comunity Bank Ltd. Kenya	0.06	1.25	4.0	1.0	16	10.22069	5.617471
Gulf African Bank Ltd. Kenya	1.35	8.57	3.4	1.0	17	10.47818	5.617471
Jaiz Bank PLC Nigeria	1.15	7.68	5.0	0.8	12	8.500779	3.595919
National Bank of Egypt	1.27	21.74	3.0	1.0	51	12.01885	4.754338
Saudi Sudanese Bank	3.07	20.95	4.0	1.0	18	8.38685	1.116079
Sudanese Egyptian Bank	2.71	48.98	3.0	1.0	19	10.43089	1.116079
Tadamon Islamic Bank	4.44	31.46	4.0	1.0	110	9.830828	1.116079
Wifak International Bank	0.29	3.25	3.0	1.0	14	8.645324	1.595714

Source: EViews Result (2021)

As shown in table III, the five top banks with the highest ROA have average SSC of four, including Al-Shamal Islamic Bank, Faisal Islamic Bank Egypt, Capital Bank, and Al Salam Bank. While companies with the lowest return on asset have an average of three Sharia committee members, with the exception of Century Bank Corporation Niger, with an average of 6.2 of SCS but having the second lowest return on asset at -2.32. Furthermore, the banks with the strongest return on equity have average of four SC members, with the exception of the Sudanese Egypt Bank, which has the best ROE but only three Sharia committee members. In contrast, banks with the lowest ROE often have three SC members. This reveals that the size of the Sharia committee could have an impact on performance.

In terms of expertise of the Sharia committee, both of the banks with the best and lowest return on asset and return on equity revealed that Sharia expertise comprised 100% of the committee. This demonstrates that majority of the banks see Sharia specialists as essential for the establishment of an IB.

Table IV: Descriptive Statistics

	ROA	ROE	SSC	ESC	BS	BA	GDP
Mean	2.2059	16.450	4.1037	0.9874	9.6849	30.444	2.9110
Median	1.7800	10.610	4.0000	1.0000	9.5765	21.000	4.1812
Maximum	25.110	173.00	10.000	1.0000	12.208	112.00	6.8671

Minimum	-13.510	-39.490	3.0000	0.8000	8.0623	10.000	-2.5035
Std. Dev.	4.4394	22.978	1.2653	0.0430	0.8516	20.392	2.7553
Skewness	2.0584	2.5722	2.5773	-3.5002	0.7873	2.1132	-0.7275
Kurtosis	15.048	17.964	12.238	14.372	3.5803	8.9863	2.3396
Jarque-Bera	911.94	1408.4	629.56	1003.1	15.84	302.06	14.361
Probability	0.0000	0.0000	0.0000	0.0000	0.0003	0.0000	0.0007
Sum	297.800	2220.7	554.00	133.30	1307.4	4110.00	392.99
Sum Sq. Dev.	2640.932	70751.0	214.54	0.2486	97.180	55723.3	1017.3
Observations	135	135	135	135	135	135	135

Source: EViews Result (2021)

Table IV shows the mean of 2.2 for the return on asset indicating that the ROA of African IBs is about 2.2%, with a min of -13.5 and max of 25.1, respectively. Also, a mean of 16.45 for return on equity was recorded, indicating that the ROE of African IBs is about 16%, and a min of -39% and a max of 17%. The average size of the SC is 4.10, implying that the SC has 4 members on average, with a min of 3 and max of10 members. The expertise of the Sharia committee has mean of 0.98, indicating that the average expertise of the Sharia committee members of the IBs in Africa is approximately 98%, with min of 0.8 and a max of 1. More so, the bank size was calculated as the log of the total assets, with a mean of 9.68 and a min of 8.06 and a max of 12.20. The bank age was calculated as number of years since incorporation, with a mean of 30.4, with a min of 10 and a max of 112. Finally, GDP showed a mean of 2.91, with a min of -2.50 and a max of 6.86.

4.2. Correlation Matrix

Table V shows the correlation among the dependent and independent variables, as well as the relationship between all combinations of variables within the regression model. More so, the relationship between each independent variable and each of the explanatory variables, as well as the relationship between each of the explanatory variables and the variable being explained. This provides information about the strength of the pairings of independent variables.

Table V: Correlation Matrix

	ROA	ROE	SSC	ESC	BS	BA	GDP
ROA	1.000	0.360	0.038	0.040	0.039	0.290	-0.259
ROE	0.360	1.000	0.017	0.067	0.209	0.223	-0.263
SSC	0.038	0.017	1.000	-0.414	-0.198	-0.133	0.013
ESC	0.040	0.067	-0.414	1.000	0.280	0.212	-0.021
BS	0.039	0.209	-0.198	0.280	1.000	0.232	0.098
BA	0.290	0.223	-0.133	0.212	0.231	1.000	-0.139
GDP	-0.259	-0.262	0.013	-0.020	0.097	-0.139	1.000

The correlation coefficients for the dependent variables, independent variables, and the control variables are showed in table V. The correlation coefficient has values ranging from -1 to 1. Table V shows that the size of SC, expertise of SC, the bank age, and bank size all correlate positively with ROA with values of 0.038, 0.040, 0.039, 0.290 respectively, also with a positive correlation

with ROE, with values of 0.017, 0.067, 0.209, 0.223 for SSC, ESC, BS and BA respectively. GDP, on the other hand, is negatively related to the Return on Asset and Return on Equity of Africa's IB.

4.3. Regression Result

Tables VI and VII show the Generalized Least Square regression results for Return on Asset and Return on Equity for the dependent variables and also the independent variables.

Table VI: Regression Result For ROA

Independent Variables	**POLS**	**FE**	**RE**
SSB	0.2935***	0.6438	0.3955
	[0.355]	(0.525)	(0.388)
ESC	1.0831*	-13.541	2.1500
	[0.910]	(32.523)	(13.812)
BS	0.0700*	-1.7986	-0.1504
	[0.879]	(1.5988)	**(**0.659)
BA	0.0577**	0.4478	0.0640
	[0.0023	(0.2577)	**(**0.029)
GDP	-0.3614***	-0.2154	-0.2849
	[0.008]	(0.1822)	**(**0.135)
Constant	-1.4499	17.3491	-1.2043
	[0.886]	(34.520)	**(**14.388**)**
Diagnostic Test			
Observations	135	135	135
R^2	0.1392	0.5258	0.0801
Adjusted R^2	0.1059	0.3831	0.0444
Hausman	3.8431[0.5722]		
F-statistic	4.1739[0.0015]	3.6847[0.0000]	2.2453[0.0536]

Note: Significance levels at 1%, 5%, and 10% are indicated by ***, **, and *, respectively. P-Values and standard error are represented by the values in [] and (), respectively.

Table VII: Regression Result for ROE

Independent Variables	**POLS**	**FE**	**RE**
SSB	1.5502***	-0.15011	1.0948
	[0.343]	(2.715)	(1.907)
ESC	2.7945***	3.1114	0.1901
	[0.955]	(168.23)	(65.569)
BS	5.8634***	9.7699	5.0067
	[0.014]	(8.270)	(3.125)
BA	0.1647***	-1.0239	0.1772
	[0.090]	(1.333)	(0.138)
GDP	-2.207035***	-0.3031	-1.1486
	[0.002]	(0.942)	(0.684)
Constant	-48.0453	-48.572	-38.7711
	[0.358]	(178.563)	(68.4789)
Diagnostic Tests			
Observations	135	135	135
R^2	0.1496	0.5258	0.0656

Adjusted R^2	0.1166	0.3831	0.0294
Hausman	9.2665[0.0989]		
F-statistic	4.5383[0.0008]	3.6847[0.0000]	1.8123[0.1148]

Note: Significance levels at 1%, 5%, and 10% are indicated by ***, **, and *, respectively.
P-Values and standard error are represented by the values in [] and (), respectively.

Panel data regression findings using the Pooled Ordinary Least Square (POLS), Fixed-Effect (FE), and Random-Effect (RE) models are shown in Tables VI and VII. Regression models FE and RE are used to test for robustness. This was made possible by the Hausman specification test, and the results show that Random-Effect (RE) is suitable for ROA. However, Fixed-Effect (FE) is more suitable for ROE.

According to the POLS results, the size of the Sharia committee, the expertise of the Sharia board, the size of the bank, and the age of the bank account for 13.9% of the variance in ROA for IBs in Africa. The model is fit and statistically significant with an F-value of 4.17 and a P-value of 0.0015. An R2 value of 0.1496 was obtained in Table VII above, indicating that the size of the Sharia committee, the expertise of the Sharia board, the size of the bank, and the age of the bank account for 14.9% of the variance in ROE for IBs in Africa. The model is fit and statistically significant, as indicated by the result's F-value of 4.54 and P-value of 0.0008, which is also shown in the tables provided.

The size of the SC has positive coefficient of 0.0293 and P-value of 0.35, this indicates a positive influence on the ROA of IBs in Africa. A statistically significant positive coefficient of 1.550 and a probability level of 0.343 are displayed for the SSC. This suggests that the size of the SC has a favourable impact on the ROE of IBs in Africa. This result is in line with earlier predictions that the Sharia committee would have a positive impact on the performance of IBs. The findings of Isa and Nomran et al. (2017), Safiullah and Shamsuddin (2018), and Lee (2020) and are all in agreement with this finding. They discover a relationship between the effectiveness of IBs and the size of the Sharia committee. However, the results of Farag et al. (2018) contradicts this finding.

The P-value for the Sharia committee's analysis is 0.910 with a positive coefficient of 1.0831. This indicates that, although the relationship between Sharia committee expertise and return on asset (ROA) is positive, it is statistically insignificant. Additionally, a P-value of 0.955 and a positive coefficient of 2.7945 are shown for the Sharia committee's expertise. This demonstrates a positive correlation between expertise of Sharia committee and return on equity (ROE). The findings of Isa & Lee (2020) align well with this finding, which assert a favourable correlation between bank performance in Malaysia's IBs and Sharia expertise.

With a P-value of 0.879, a positive coefficient of 0.0700 for bank size, this indicates that bank size is positively and insignificantly correlated with the ROA of IBs in Africa. A P-value of 0.014 and a positive coefficient of 5.8634 are shown when return on equity is used, indicating that bank size positively and significantly impacts on the ROE of IBs in Africa. This is consistent with prior expectations because it is anticipated that larger banks will achieve economies of scale and surpass the performance of their smaller competitors. This result is consistent with Mollah & Zaman's findings (2015).

ROA has P-value of 0.003 and a positive coefficient of 0.0576 for bank age, while ROE reported a P-value of 0.091 and positive coefficient of 0.165. This suggests that the size of the bank has a significant positive impact on the return on ROE of IBs in Africa. This is in line with previous projections, as it is envisaged that older banks would attain economic stability, enabling them to outperform newly established banks.

Nevertheless, using both ROA and ROE, the performance of IBs was negatively correlated with GDP. With P-Values of 0.008 and 0.002 for return on asset and return on equity respectively, and coefficients of -0.3614 and -2.2070 for each. The outcome was consistent with Rashid and Jabeen's (2016) findings that Pakistan's GDP had a negative impact on both conventional and IBs' performance. This result conflicts with that of Hong & Razak (2015), who discovered the GDP positively and significantly affects IBs performance in Malaysia.

5. CONCLUSION

It is impossible to overstate how important Islamic banking is to the economic development of the developed as well as the developing economies. To satisfy the needs of expanding investors and product users, Sharia risk must be given special consideration. Hence, the effect of the risk of Sharia noncompliance on the operation of IBs is examined in the paper. While non-compliance with Sharia is expressed by the size and expertise of the Sharia committee, more so, ROA and ROE represent bank performance. The annual reports of 27 African IBs were used in the study. Furthermore, our findings show that the performance of IBs in Africa (both ROA and ROE) is positively correlated with the size, experience, and age of the Sharia committee as well as the age and size of the bank. While the performance of IBs in Africa is adversely impacted by GDP.

Regression and correlation are used in the study's methodology to evaluate the significance of the independent and dependent variables. The results of the study demonstrated that the effectiveness of IBs is positively influenced by the size and expertise of the Sharia committee. The findings in this study, however, negates the earlier assertions that larger committee size negatively affect performance of banks. Therefore, It demonstrated the significance of the size of Sharia committee's and their expertise in Sharia. The age and size of the bank also demonstrate a positive impact on performance. The impact is greater with larger banks compared to smaller banks, though. This is a sign that the performance of the bank is significantly impacted by the asset of the bank. Additionally, the results demonstrate that Sharia committees with more members perform better than those with fewer members. However, every bank has a large number of Sharia experts on their committees, demonstrating the importance that banks place on having Sharia experts when establishing IBs.

The study had challenges in accessing data, with initial target of 40 African IBs. Few data points were available for the study period, thus 30 were chosen. Only 27 banks had the necessary Sharia non-compliance risk characteristics, therefore they were sampled.

By analyzing the relationship between Sharia non-compliance risk and performance, this paper will close the knowledge gap. The study also acts as a manual for academics, researchers, and

decision-makers for both new entrants and already established banks. However, Sharia review and audit on the effectiveness of IBs can be the subject of further study.

REFERENCE

Abdullah, M., Shahimi, S. and Ismail, S.G. (2011). Operational Risk in Islamic Banks: Examination of Issues. *Qualitative Research in Financial Markets, Vol. 3*(2), pp 131-151.

Adznan, S., Muhamad Sori, Z. B., & Mohamad, S. (2023). Intellectual capital disclosure (ICD) in Islamic banks: does the diversity of Sharia committee matters?. *International Journal of Islamic and Middle Eastern Finance and Management, 16(6), 1269-1286*.

Aebi, V., Sabato, G. and Scmid, M. (2012). Risk Management, Corporate Governance, and Bank Performance in Financial Crisis. *Journal of Banking and Finance, Vol.32*, pp 3213-3226

Ahmed, H., and Chapra, M. (2002). Corporate Governance in Islamic Financial Institutions (Occasional Paper) (No. 93). *The Islamic Research and Teaching Institute (IRTI*) 2002.

Alkhamees, A. (2021). Islamic Banking in the Middle East and North Africa (MENA) Region. *Islamic Economic Studies, Vol. 20 (1)*, pp 1 – 4.

Awosanya, Y. A. (2022). *The impact of liquidity and credit risks on financial performance: a case study of Islamic banks in Africa* (Doctoral dissertation, University of Bolton).

Bahari, N. F., & Baharudin, N. A. (2016). Sharia Governance Framework: The Role of Sharia Review and Sharia Auditing. In Proceeding *of 3rd International Conference on Management & Muamalat (Vol.* 2016).

Baltagi, B. H. (2008). Econometric Analysis of Panel Data. *Chichester: John Wiley & Sons.*

Basiruddin, R., & Ahmed, H. (2020). Corporate Governance and Sharia non-compliance Risk in Islamic Banks: Evidence from Southeast Asia. *Corporate Governance: The International Journal of Business in Society*, Vol 2 (2), pp 240-262.

Chen, H. J., and Lin, K.T. (2016). How Do Banks Make the Trade-offs Among Risk? The Role of Corporate Governance. *Journal of Banking and Finance, Vol. 72*, pp 39-69.

D'Amato, A. and Gallo, A. (2019). Bank Institutional Setting and Risk-Taking: The Missing Role of Directors' Education and Turnover. *Corporate Governance: The International Journal of Business in Society, Vol. 1* (4), pp 285-303.

Djalilov, K. and Piesse, J. (2016), "*Determinants of bank profitability in transition countries: what matters most?*", *Research in International Business and Finance, Vol. 38*, pp. 69-82.

Eisenberg, T., Sudgren, S. and Wells, M. (1998). Larger Board Size and Decreasing Firm Value in Small Firms. *Journal of Financial Economics, Vol 48* (1), pp 35-54.

Fahlenbrach, R. and Stulz, R.M. (2011). Bank CEO Incentives and the Credit Crisis. *Journal of Financial Economics. Vol 26* (2), pp 301-325.

Farag, H., Mallin, C., and Ow-Yong, K. (2018), "Corporate governance in Islamic banks: new insights for dual board structure and agency relationships," *Journal of International Financial Markets, Institutions, and Money, Vol. 54*, pp. 59-77.

Ghayad, R. (2008). Corporate governance and the global performance of Islamic Banks. *Humanomics*, *24*(3), 207-216.

Gujarati, DN (2003). *Basic Econometrics* (4th ed.) New York McGraw Hill.

Hassan, R. (2016). Sharia Non- compliance Risk and its Effect on Islamic Financial Institutions. Al-Shajarah: *Journal of International Institute of Islamic Thought and Civilization (ISTAC)*, 21(3), 21-25.

Isa, M., & Lee, S. P. (2020). Does the Sharia committee influence risk-taking and performance of Islamic banks in Malaysia? *Journal of Islamic Accounting and Business Research, 11(9) 1739-1755*.

Islamic Finance Development Report (2020). *Islamic Corporation for the Development of Private Sector.* Retrieved from https://icd-ps.org/uploads/files/ICD-Refinitiv%20IFDI%20Report%2020201607502893_2100.pdf

Islamic Financial Services Board (2005). *Guiding Principles on Sharia Governance Systems for Institutions Offering Islamic Financial Services. Islamic Financial Services Board, Kuala Lumpur.* Retrieved from Islamic Financial Services Board (IFSB)

Islamic Financial Services Board (2009). *Guiding Principles on Sharia Governance Systems for Institutions Offering Islamic Financial Services. Islamic Financial Services Board, Kuala Lumpur.* Retrieved from Islamic Financial Services Board (IFSB)

Jimoh, A. T., Ijaiya, M. A., Attah, J. A., Abdulmumin, B. A., & Muhtar, O. F. E. (2022). Comparative Analysis of Technical Efficiency of Islamic Banks in Selected Low-Income Countries of Africa and Asia. *Journal of Business Management and Accounting*, *12*(2), 81-102.

Malkawi, B. (2013). Sharia Board in Governance Structure of Islamic Financial Institutions. *The American Journal of Comparative Law, Vol. 61* (3), pp 539-577.

Mollah, S., & Zaman, M. (2015). Sharia Supervision, Corporate Governance, and Performance: Conventional vs. Islamic Banks. *Journal of Banking & Finance*, *58*(August 2016), 418-435.

Muhammad, A. U., & Yusoff, M. (2023). Effect of Sharia Governance on Performance of Fully Fledged Islamic Banks in Africa. *KnE Social Sciences*, 754-768.

Nomran, N.M., Haron, R. and Hassan, R. (2017), "Bank performance and Sharia supervisory board attributes on Islamic banks: does bank size matter?", *Journal of Islamic Finance, Vol. 6* No. Special Issue, pp. 174-187.

Noordin, N. H., & Kassim, S. (2019). Does Sharia committee composition influence Sharia governance disclosure? Evidence from Malaysian Islamic banks. *Journal of Islamic Accounting and Business Research, 10(2), 158-184*.

Olson, D., and Zoubi, T. (2017). Convergence in bank performance for commercial and Islamic banks during and after the global financial crisis. *The Quarterly Review of Economics and Finance*, Vol. 65, pp. 71-87.

Oz, E., Ali, M.M., Khoker, Z.R. and Rosman, R. (2016). Sharia Non-Compliance Risk in the Banking Sector: Impact on Capital Adequacy Framework of Islamic Banks. *IFSB Working Paper Series*, WP-05/03/2016, Islamic Financial Services Board, Kuala Lumpur.

Parker, M. (2021). *How Can Africa Tap Its Huge Potential for Islamic Banking? African Business.* Retrieved from https://african.business/2021/05/finance-services/how-can-africa-tap-its-huge-potential-for-islamic-banking/

Puri-Mirza, A. (2021). Value of Islamic Banking Assets Worldwide. Retrieved from Worldwide: value of Islamic banking assets 2021 | Statista

Rabaa, B. and Younes, B. (2016). The impact of the Islamic banks performances on economic growth: using panel data. *International Journal of Economics and Finance Studies*, Vol. 8 No. 1, pp. 101-111.

Ramdani, O., & Kamal, M. (2023). Corporate Governance and Sharia Non-compliance Risk: The Case of Islamic Banks in Indonesia. *Jurnal Akuntansi dan Keuangan Islam*, *11*(1, April), 49-79.

Rozzani, N. and Rahman, R.A. (2013). Camels and performance evaluation of banks in Malaysia: conventional versus Islamic. *Journal of Islamic Finance and Business Research*, Vol. 2 No. 1, pp. 36-45.

Safieddine, A. (2009). Islamic Financial Institutions and Corporate Governance: New Insight for Agency Theory. *Corporate Governance: An International Review*, *Vol 17* (2), pp 142-158.

Safiullah, M. and Shamsuddin, A. (2018), "Risk in Islamic banking and corporate governance," *Pacific-Basin Finance Journal, Vol. 47*, pp. 129-149.

Tabash, M.I. (2019). Banking sector performance and economic growth: an empirical evidence of UAE Islamic banks. *Creative Business and Social Innovations for a Sustainable Future*, Springer, pp. 39-45.

Tazilah, K. M. D. A., Rapani, N. A., Halim, N. A., & Majid, M. (2017). Preliminary study on the compliance of shariah governance framework and performance of Islamic financial institutions in Malaysia. In *19th Malaysian Finance Association Annual Conference, Malaysia*.

Thijs, J. P. (2010). Risk Management in Islamic Banking. *Bank Islam Malaysia Berhad*.

Usmani, M.T. (2008). Sukuk and their Contemporary Applications. *In Translated from Original Arabic by Sheikh Yusuf Talal DeLorenzo, AAOIFI Sharia Council Meeting, Saudi Arabia*.

Uyob, S., Zin, A. S. M., Ramli, J., Othman, J., Ghani, N. A. A., & Salleh, K. (2022). The Effect of Sharia Committee Composition on Malaysian Islamic Banks' Audit Report Lag. *International Journal of Applied Economics, Finance and Accounting*, *14*(1), 67-76.

Zain, S. N. M., & Shafii, Z. (2018). The Impact of Sharia Governance to Financial and Non-financial performance in Islamic Financial Institutions (IFIs): A Literature Survey. *International Journal of Islamic Business*, *3*(2), 27-40