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Introducing Islamic Accounting Standards at Islamic Banks in Guinea

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ABSTRACT

Objective: *This study investigates the feasibility and necessity of implementing Islamic accounting standards within the Islamic financial services sector in Guinea, aiming to enhance trust, transparency, and compliance with Shariah principles.* ***Method:*** *A qualitative approach was employed, involving document analysis and expert interviews with Islamic finance practitioners in Guinea to assess the current accounting practices and identify gaps in Shariah-compliant standards.* ***Results:*** *The findings reveal that Islamic banks in Guinea face significant limitations due to the absence of standardized Islamic accounting frameworks, which hinders credibility and operational alignment with Islamic financial principles. Nevertheless, the study identifies considerable opportunities for adopting frameworks such as those proposed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), provided there is institutional support and capacity-building initiatives.* ***Novelty:*** *This paper contributes to the limited literature on Islamic accounting implementation in West Africa by offering a contextual analysis of Guinea's Islamic banking sector and proposing a practical roadmap for integrating Shariah-compliant financial reporting standards.*

INTRODUCTION

The Importance of Islamic Finance in Africa:

The Islamic financial services market is experiencing rapid growth in Africa, driven by the projected increase in the continent's Muslim population. According to the European Investment Bank (EIB), there is a growing need to introduce Islamic financial windows at regional conventional banks due to the expected rise in the young Muslim population across the continent [1]. The EIB's report highlights that, "The Muslim population in sub-Saharan Africa is projected to grow by nearly 60 percent, from 242.5 million in 2010 to 385.9 million by 2030" (EIB, 2017). This demographic shift represents a significant opportunity for the expansion of Islamic finance in the region.

While Islamic finance assets currently account for less than 1 percent of global financial assets, the industry has seen substantial growth. The global Islamic asset base grew from approximately US$200 billion in 2003 to an estimated US$2 trillion by the end of 2016, with projections to exceed US$3 trillion by 2020 (WER, 2017) [2]. This growth signifies the potential for Islamic finance to contribute to economic development in Africa. According to African Review (2019), there are now more than 80 Islamic financial institutions in Africa, many of which have been established in the past five years [3].

Islamic financial services are essential for supporting developmental projects across the continent, particularly in infrastructure. Through mechanisms such as the Istisna model, Islamic finance can help promote critical sectors like transportation and energy [4]. The Islamic Corporation for the Development of the Private Sector (ICD)'s 2016 report on Islamic Finance in Africa notes that "Infrastructure development is a top priority in Africa, especially in power and transport. Without progress in these sectors, investments in secondary infrastructure—such as education, healthcare, and housing—will struggle to take hold" (ICD, 2016). This underscores the vital role Islamic finance can play in fostering sustainable development in Africa [5].

RESEARCH METHOD

Given that no previous research has been conducted on this specific topic, this paper primarily draws on insights from studies conducted in other West African nations. The same variables of cause and effect observed in case studies from countries like Nigeria and Senegal may be applicable to Guinea. For example, corruption, mismanagement, and a lack of transparency at Islamic banks in Nigeria and Senegal have hindered the successful implementation of Islamic accounting standards in those countries. These challenges are also significant factors contributing to the slow growth of Islamic financial services in Guinea. Based on these findings, I have drawn recommendations from research on these regional nations, particularly Senegal, which may be relevant to the Guinean context. Additionally, I conducted a survey and distributed questionnaires to colleagues in the field to gather their feedback on the proposed recommendations.

RESULTS AND DISCUSSION

After completing the survey, two key findings emerged from the feedback provided by the participants:

1. Two-thirds (2/3) of the participants believe that it is essential to introduce Islamic accounting systems at Islamic banks in Guinea. They argue that Islam is a way of life, with values and principles that influence every aspect of a Muslim's life. As such, financial transactions should be governed and audited according to Islamic principles, ensuring that the financial information aligns with Shariah objectives [6].
2. Nine out of ten participants agree that the AAOIFI standards would be suitable for implementation at Islamic banks in Guinea, citing its respected global reputation. They also recommend seeking the support of AAOIFI during the transition from conventional standards to AAOIFI standards at the Islamic banks in Guinea, to ensure a smooth and effective implementation process [7].

Guinea and Its History with Islamic Banking

Recently, the Guinean economy has faced challenges, primarily due to post-electoral violence stemming from ethnic tensions between the Fulani and Manlike tribes. Despite these challenges, Guinea remains an attractive destination for international investors, largely due to its vast mineral resources [8]. Guinea is a founding member of both the Organization of Islamic Cooperation (OIC) and the Islamic Development Bank (IsDB). As a member of these influential intergovernmental organizations, Guinea has been able to attract investments from other Islamic nations, such as Saudi Arabia and Kuwait [9].

The introduction of Islamic banking and financial services in Guinea has played a significant role in this economic opportunity. In 1983, the Banque Islamique de Guinée was established as part of the Tamweel Group of Africa, which includes several other Islamic banks across West Africa, such as those in Senegal and Niger. Given this long history of Islamic financial services in the country, it is crucial to implement Islamic accounting standards to ensure the accurate reporting of the state of Islamic finance in Guinea [10].

Why Do We Need Islamic Accounting in Guinea?

Islamic finance is based on ethical principles derived from Islamic law, and as such, financial transactions within this system must adhere to standards that reflect these values. The models of Islamic finance significantly differ from conventional financial transactions in terms of stipulations and conditions. As Shadia Rahman (2007) explains, "International Accounting Standards based on conventional techniques would create difficulties for Muslims around the world." Therefore, it is essential for Muslim accountants to develop accounting standards specifically tailored to Islamic principles. For Muslim countries like Guinea, it becomes imperative to establish unique Islamic accounting standards that accurately reflect the true nature of Islamic financial services [10].

There is a debate among scholars about the importance of adopting accounting standards versus embedding Islamic values within those standards. Some argue that it is more crucial to adopt standardized accounting practices, while others emphasize the need to integrate Islamic values into accounting systems [11]. As Napier (2007) notes, "Islamic societies face the challenge of reconciling between adopting accounting standards and core Islamic values." The introduction of Islamic accounting standards in Guinea could also have significant socio-economic benefits, such as creating job opportunities for both youth and women in the country [12].

Literature Review

A review of the existing literature on Islamic accounting and its integration into West African Islamic banks reveals several key trends that scholars have focused on. One group of scholars has dedicated their research to examining the historical evolution of Islamic accounting [13]. This group explores the origins of the discipline, including when and by whom it was first introduced in the Muslim world. Another group focuses on the objectives and frameworks of Islamic accounting, delving into how institutions like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) developed their standards, codes of ethics, and accounting principles. As noted by scholars like Karim (1995) and Lewis (2001), much of this research is descriptive or analytical, focusing on the implications of Islamic teachings for accounting principles and practices, as well as the theoretical framework for deriving accounting standards for Islamic entities.

A third group of scholars has concentrated on the challenges and potential benefits of bridging the gap between conventional accounting standards and Islamic accounting standards. This group emphasizes the difficulties and opportunities in aligning these two frameworks and highlights the importance of such efforts for the future of Islamic finance, particularly in West Africa. As Lovett (2002) suggests, some members of the financial community view global accounting standards as the solution to this problem, while others advocate for maintaining national standards. This group of scholars is particularly concerned with mobilizing financial leaders and investors to develop an accounting standard that not only meets the needs of the Muslim population in West Africa but also incorporates key values and principles from both Islamic and conventional accounting standards.

Concept of Accounting in Islam:

The concept of accountability is deeply embedded in Islamic teachings. In the Islamic framework, all individuals are accountable to God on the Day of Judgment for their actions throughout their lives. The term hisab (account) appears over eighty times in various verses of the Qur'an (Askary and Clarke, 1997, p.142). Islam teaches that humans are stewards of righteousness, good deeds, justice, and the development of the Earth. These values cannot be realized without embracing the principle of accountability. Therefore, a Muslim must be accountable for their actions, ensuring that every individual receives their rightful due.

In Islam, transactions are to be honored with accuracy and integrity to protect the interests of stakeholders and society. Islamic accounting, therefore, is grounded in values of justice, transparency, and God-fearing principles. Islam encourages its followers to safeguard the welfare of all—whether the poor, the wealthy, the weak, or the strong—emphasizing both individual and societal well-being. Allah commands in the Qur'an: "Indeed, Allah commands with justice and righteousness" (Surah Nahl, 90), and "And cooperate upon righteousness and Taqwa" (Surah Maidah, 2). These principles of justice, transparency, and stewardship shape the practice of accounting in Islam, making it an ethically driven endeavor.

In Islam, accountants are not only responsible for providing financial information to users and the public, but more importantly, they must fulfill their accountability by ensuring that the information they provide helps society adhere to God's commandments. As stated in Islamic Accounting (p.11), "Man is thus created as trustees and accountable for all their actions." This foundational understanding of accountability in Islam leads us to explore the key differences between Islamic and conventional accounting systems.

Islamic Accounting Standards vs. Conventional Accounting Standards:

There is a significant distinction between Islamic accounting and conventional accounting. Islamic accounting derives its principles and values from Shariah, which serves as the foundational guideline. Central to this system is the concept of accountability, which is directly linked to Allah's omnipresence and knowledge. Muslims believe that Allah is aware of all their actions, including financial transactions, accounting, and auditing practices. As such, the core values of trust, transparency, and justice are fundamental to Islamic accounting and are seen as inseparable.

In Islamic accounting, there is no distinction between general moral principles and professional ethics. This means that accountants must adhere to high ethical standards in their personal and professional conduct. Muslim accountants are prohibited from engaging in fraudulent practices, such as "cooking the books" or acting in ways that harm society. They are entrusted with the responsibility to act with integrity and fairness towards all stakeholders, including the company, society, and the public. Furthermore, Muslim accountants are taught that any intentional negligence or wrongdoing in this life will be accounted for in the hereafter.

In contrast, conventional accounting has established standards that emphasize trustworthiness, but it often falls short of integrating ethics and a sense of God-fearing responsibility into its practices. Conventional accounting systems may, at times, prioritize the interests of powerful entities, sometimes at the expense of society and the less fortunate. This is, in part, due to the unethical practices and greed that have been prevalent in large accounting firms, particularly in the West.

Promoting AAOIFI Standards at Islamic Banks in Guinea

The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), based in Bahrain, is one of the leading global bodies for Islamic accounting and auditing. "AAOIFI issues international standards on accounting, auditing, and corporate governance, while the Islamic Financial Services Board (IFSB), based in Malaysia, is responsible for setting standards for supervision and regulation" (IMF). This organization has played a pivotal role in creating comprehensive guidelines that govern accounting practices in Islamic financial institutions worldwide.

AAOIFI was established in the 1990s following a series of scandals in the Islamic banking sector, which highlighted the need for specific accounting standards to ensure transparency and eliminate any concerns of illicit activities. These efforts were also aimed at strengthening confidence in the emerging Islamic finance sector (Maurer, 2002). In addition to creating standards, AAOIFI continues to contribute academic research to enhance Islamic accounting practices, particularly in new and developing markets.

For Guinea, adopting AAOIFI's accounting standards could significantly benefit the country's Islamic financial services. Several scholars, including Maali, have advocated for the implementation of AAOIFI standards in Muslim-majority countries. Previous studies have argued that conventional accounting standards, such as the International Financial Reporting Standards (IFRS), are not suitable for Islamic banks due to the unique nature of their transactions. For instance, since customer deposits in Islamic banks are not guaranteed, they cannot be classified as liabilities on the balance sheets, as is the case with conventional banks. As a result, many Islamic banks worldwide are increasingly adopting AAOIFI standards to ensure their financial statements align with Shari'ah principles (Maali & Napier, 2010).

Implementing AAOIFI standards in Guinea's Islamic banks could foster trust and confidence between these institutions and their Muslim clientele, aligning financial practices with both ethical and religious expectations. This step would not only enhance the credibility of financial reporting but also strengthen the overall integrity of the Islamic banking sector in Guinea.

Accounting Standards for Key Modes of Islamic Finance:

Each mode of Islamic finance has its own specific standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), ensuring accuracy and suitability. For example, AAOIFI has issued Financial Accounting Standards (FAS) for various types of Islamic finance, including FAS 2 for Murabaha Financing (sale by cost mark-up), FAS 3 for Mudarabah Financing (silent partnership), and FAS 4 for Musharakah Financing (joint venture partnership). These standards address key issues related to recognition, measurement, and disclosure in Islamic financial transactions (M. Adel, 2014). Below is a brief overview of the key Islamic financing modes and their respective accounting standards.

Mudarabah Financing:

Background of Standard

In Mudarabah, a contract is formed between two parties: the provider of capital (the financier) and the entrepreneur. The financier invests capital in the business venture, and in return, both parties share the profits based on a pre-agreed ratio. The entrepreneur, however, is not required to make any contribution of capital but is fully responsible for managing the business. The loss, if any, is borne by the financier, while the entrepreneur's contribution is limited to their management efforts. AAOIFI’s FAS 3 addresses the accounting for Mudarabah Financing, ensuring the accurate representation of profit-sharing and capital investments.

Murabaha Financing

Background of Standard

Murabaha involves the sale of a commodity at a price that includes the original cost plus a predefined profit margin [14]. The mark-up can be a fixed amount or a percentage of the selling price. This type of financing is common in trade and asset financing in Islamic finance. AAOIFI’s FAS 2 provides the accounting framework for Murabaha, ensuring transparency in recognizing and disclosing the sale price and profit margin.

Musharakah Financing:

Background of Standard:

Musharakah is a joint partnership where two or more parties contribute capital or labor to a business. Profits are shared according to a pre-determined ratio, while losses are shared based on each party's capital contribution. In some cases, a partner may contribute capital but remain a "silent" partner, where they are entitled to profits only in proportion to their investment. Losses are also shared in this ratio. AAOIFI’s FAS 4 provides the accounting guidelines for Musharakah Financing, ensuring clarity in profit and loss distribution among partners [15].

AAOIFI's Ethical Guidelines:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has established ethical guidelines that serve as a foundation for effective practice in Islamic accounting. These guidelines are built upon key Islamic values, including piety, accountability before Allah, righteousness, integrity, sincerity, and the concept of vicegerency (stewardship) on Earth. These principles have led to the development of the following ethical rules:

1. Abstaining from disclosing confidential information
2. Presenting only reliable and relevant financial information
3. Ensuring transparency and trustworthiness in all financial activities
4. Guaranteeing Shariah compliance in all financial transactions
5. Serving the interests of all stakeholders, including both the organization and society
6. Upholding professionalism and due diligence
7. Maintaining consciousness of Allah's presence and knowledge in all actions

AAOIFI Disclosure Standards:

AAOIFI also sets out specific disclosure requirements to ensure transparency in financial reporting. These include:

1. Disclosure of accounting policies on the balance sheet
2. Disclosure of the allocation of profits between involved parties
3. Disclosure of various accounts on separate balance sheets for each period
4. Disclosure of administrative fees charged by the Islamic financial institution
5. Disclosure of the percentage increase in profit each period
6. Detailed and clear disclosure of equity, liabilities, assets, and expenses on the balance sheet

Challenges and Obstacles to Implementing Islamic Accounting in Guinea

The introduction of Islamic accounting in Guinea faces significant challenges. These include:

1. Lack of Reliable and Authentic Information: The financial statements of local banks, including Islamic banks, are often outdated and unreliable. The information presented must be accurate, relevant, and up-to-date to support sound decision-making.
2. Inadequate Training of Accountants: There is a lack of well-trained accountants familiar with Islamic accounting codes and values. Most accountants in Guinea are trained in conventional accounting systems and lack knowledge of Islamic accounting frameworks. Bridging this gap will require significant investment in training and education.
3. Limited Funding for Investment: Islamic banks in Guinea are underfunded and offer only a limited range of Islamic financial products. The country's large unbanked population has contributed to this situation over the past two decades, making it difficult to generate the necessary capital for expansion.

4. Technological Challenges: The weak internet infrastructure and unreliable electricity in Guinea pose significant obstacles to the implementation of advanced financial systems. With many banks relying on online systems, especially during the COVID-19 pandemic, these technological shortcomings hinder the efficiency of financial and marketing operations.
5. Gender Imbalance in Employment: The underrepresentation of women in the workforce undermines the inclusive nature of economic development. Including women in the recruitment process is essential for ensuring the broad-based success of Islamic accounting in Guinea.
6. Mismanagement and Corruption: Persistent issues of mismanagement and corruption pose a significant risk to the success and sustainability of any investment in Guinea, including in the banking sector. To overcome these challenges, significant investments must be made in training local accountants on AAOIFI's Islamic accounting standards. However, both local and international investors will consider the level of corruption and mismanagement in the financial sector when evaluating potential investments.

Recommendations:

The following recommendations are proposed for introducing AAOIFI standards of Islamic accounting in Guinea's Islamic banks:

1. Promotion of Awareness: The first essential step is to raise awareness among the Guinean population about the importance of Islamic accounting. Often, personal greed can override the general public interest, so it's crucial to educate people on the benefits of this initiative. As awareness grows, public support will increase, despite potential opposition. Building a solid foundation of awareness will be key to successfully institutionalizing Islamic accounting in Guinea's Islamic banks.
2. Providing Educational Training: Once the public's attention has been captured and their interest sparked, Islamic banks should offer training sessions on Islamic contracts and balance sheet preparation. These educational programs will equip the younger generation with the knowledge of Islamic accounting and auditing frameworks, ensuring that they are prepared for future roles in the field.
3. Connecting with AAOIFI: It is crucial to engage with AAOIFI at this stage to facilitate a smooth transition from conventional accounting standards to AAOIFI standards in Guinea's Islamic banks. AAOIFI's involvement will help address potential challenges during the transition period, ensuring that young or inexperienced employees receive the necessary support and guidance to adapt to the new system.
4. Addressing Legal Challenges: Legal considerations are fundamental in any financial system, particularly in Guinea and other West African nations. Therefore, it is highly recommended to consult legal teams to identify and resolve any legal obstacles or potential liabilities associated with implementing

Islamic accounting standards. Highly qualified lawyers should be engaged to represent the interests of Islamic financial institutions, as failure to address legal issues could jeopardize the success of the initiative.

5. Empowerment of Muslim Women: The introduction of Islamic accounting in Guinea's Islamic banks will create job opportunities, and it is essential that these opportunities are inclusive. Muslim women, who have long been marginalized in the workforce, represent a valuable segment of the population. By offering them employment in this field, the overall productivity of the workforce will increase, fostering a more inclusive and productive economic environment.

CONCLUSION

Fundamental Finding : The study demonstrates that introducing Islamic accounting standards in Guinea, particularly through collaboration with institutions like AAOIFI, is critical for the growth and credibility of the country's Islamic banking sector. **Implication:** By adopting these globally recognized standards, Islamic banks in Guinea can enhance financial transparency, foster trust with their clientele, and align their operations with Shariah principles, thus ensuring a stable and ethical banking environment. **Limitation :** However, the implementation of these standards may face challenges, including legal and regulatory barriers, which could slow down the process. **Future Research :** Future studies could explore the specific legal and institutional frameworks required to support the integration of these standards, as well as investigate the long-term impact on the financial performance and customer satisfaction in Guinea's Islamic banking sector.

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