Islamic finance awaits enabling regulations

By Edward Kayiwa

Even though Islamic Banking was enacted into law earlier this year, the product will still have to wait until supporting regulation is reviewed in order to take root, financial experts have revealed.

According to Jafar Abdulkadir, the head of Islamic Banking at KCB Group, the Taxation, Central Bank and Stamp Duty Acts need to be amended to include the Sharia financing requirements.

"These are essential enabling regulations, without which Islamic financing in Uganda may have to wait a little longer to take shape. Since our product is premised on risk sharing, it is only appropriate that the law considers Islamic principles of financing, which are a little different," he said.

Abdulkadir making a point at the conference yesterday. Photo by Julius Senymba

The Uganda taxation act currently empowers the Uganda Revenue Authority to collect tax on stamp duty and Value addition, as well as corporate and withholding taxes, which according to Jafar, do not conform to Sharia teachings.

"Taxation laws in their current form will require a high capital buffer which, in the long run, does not make sense, because Islamic banking looks at strengthening the customers' capital as we share risks," he said.

Abdulkadir was speaking on the sidelines of the Sub-Saharan Africa Islamic Finance convention at the Kampala Serena Hotel yesterday.

He said reviewing of the central bank Act will pave way for the establishment of the central bank advisory board, to identify industrial challenges and subsequently advise on appropriate regulatory responses before the product is rolled out.

Islamic finance is a financial system that operates according to Islamic law (sharia) and is, therefore, sharia-compliant. Just like the conventional financial systems, Islamic finance also features banks, capital markets, fund managers, investment firms, and insurance companies, Abdulkadir explained.

Abubaker Mayanja, a tax consultant at ABL Dumasis ltd said; "we are currently looking at the Bank of Uganda to institute the enabling regulation but also lobbying finance to re adjust the taxation law in consideration of the Sharia Law for this product to work effectively in Uganda.".

The chairperson of the private sector foundation, Gideon Badagawa, said Islamic banking will enable Uganda to attract merchant banks, which are well known for financing capital investments and risk sharing.

He said Islamic financing will also improve Uganda's savings record through the Islamic banking portfolio, in the long term, because it is interest free hence attractive to a number of people.

"Also, about 90% of the private sector is made up of the Small and Medium Enterprises, whose capital is too small with no collateral, and their saving culture is almost none existent. Such products encourage them to keep their money in the formal banking sector, there by deepening financial inclusion, as well as providing the needed capital for private sector growth," Badagawa said.

According to the World Bank's Economic Watch report released August 2014, Uganda's saving culture stands at 15% of the country's Gross Domestic Product (GDP) below Tanzania's 17.8%.

However it is better than Kenya's which stands at 11.5% and Rwanda's at 11.6%.

The director of economic affairs in the Ministry of Finance, Lawrence Kiiza, noted that there is need to establish systems and skill in Islamic banking here because the product works differently from the conventional banking system.