

ISLAMIC FINANCING IN UGANDA

-BASIC GUIDELINES-

A PRESENTATION TO THE ROTARY CLUB OF KAMPALA SOUTH

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PRESENTATION OUTLINE

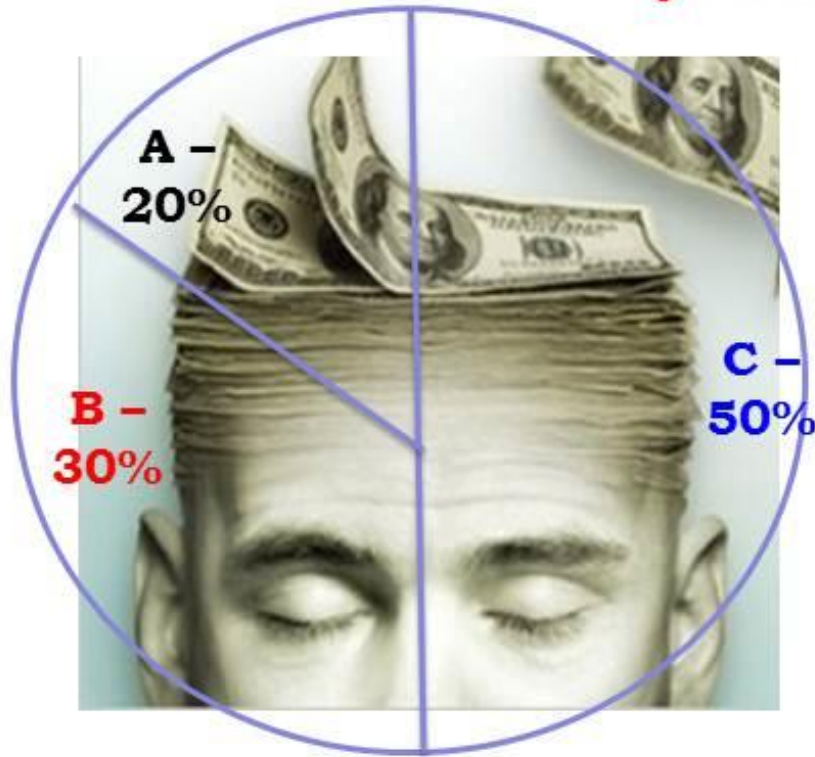
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- 1. *Introduction & Overview of Islamic finance***
- 2. *Islamic Finance in Uganda***
- 3. *Principles***
- 4. *Financing Modes***
- 5. *Q&A***

THE HUMAN BRAIN CONCEPT

A (20%) -What you know and you know that you know..

B (30%)-What you don't know and you know that you don't know..



Reflection..?

C (50%)-What you don't know and you even don't know that you don't know..



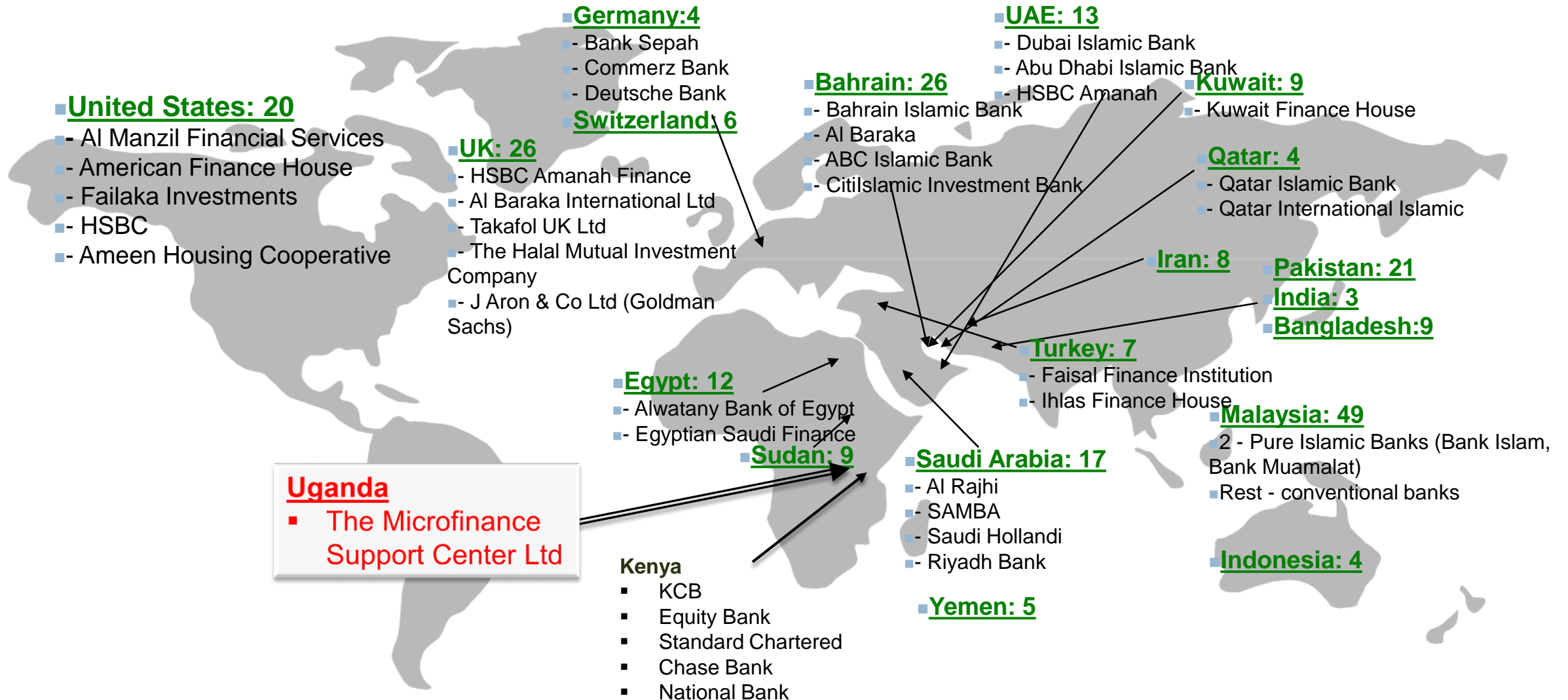
ISLAMIC FINANCING/BANKING

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- ❖ Islamic financing refers to a system of Banking or financing activity which is consistent with the principles of Shari'ah.
- ❖ An Islamic financial institution is therefore one whose statutes, rules and procedures expressly state its commitment to the principles of Shari'ah and to the banning of the receipt and payment of interest in any of its operations.



Islamic products and services offered by 300+ Financial Institutions around the world



Islamic Finance in Uganda (key highlights)

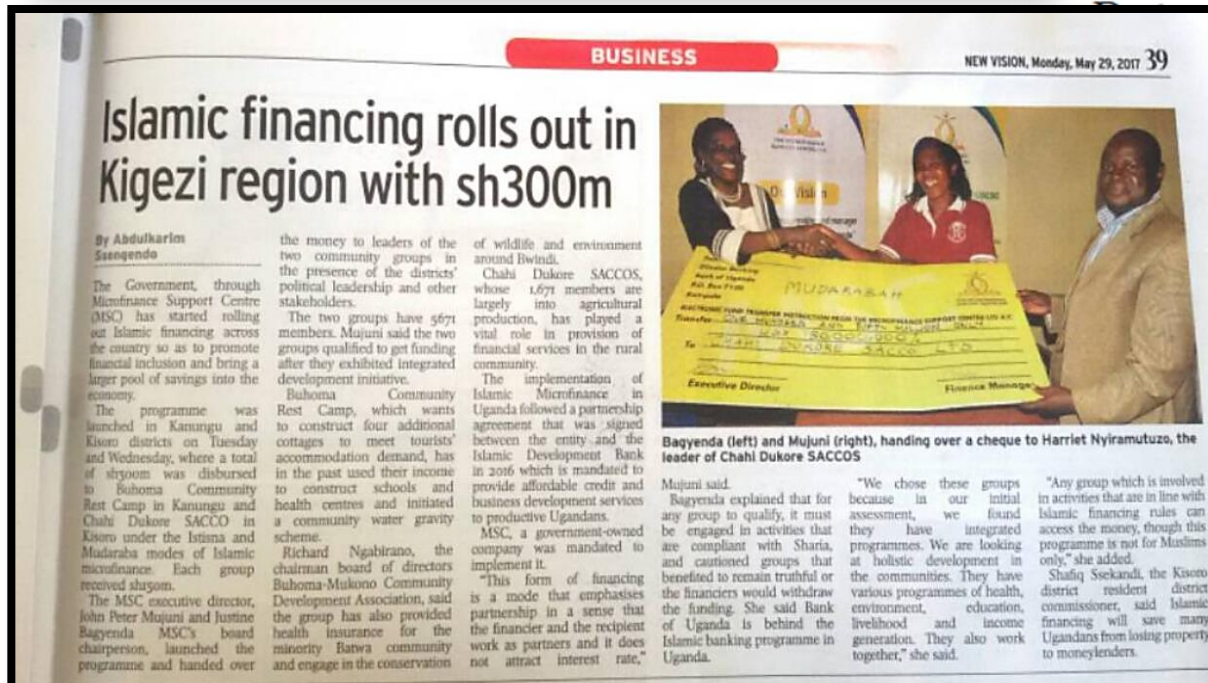
In Uganda, the Financial Institutions Act, 2004 (FIA) was amended to cater for Islamic Finance in January 2016. The amendment became effective on 4th February, 2016. Bank of Uganda as the regulating Body is mandated to promote and ensure stability in the Islamic Financing sector.

THE FINANCIAL INSTITUTIONS (AMENDMENT) ACT, 2016.

An Act to amend the Financial Institutions Act, 2004, to provide for Islamic banking; to provide for bancassurance; to provide for agent banking; to provide for special access to the Credit Reference Bureau by other accredited credit providers and service providers; to reform the Deposit Protection Fund; and for related purposes.

DATE OF ASSENT: 19th January, 2016.

Commencement: 4th February, 2016.



Similarly the Tier 4 Microfinance Institutions & Money Lenders Act was assented to by the President in July 2016 & this provides guidelines for implementing Islamic Microfinance. The Microfinance Support Centre was identified by the government of Uganda to spearhead the implementation in the microfinance sector.

The company, with support from Islamic Development Bank & Bank of Khartoum started full implementation in 2017

CORE PRINCIPLES

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Prohibition of Interest (Riba):

- ❖ This prohibits the payment and receipt of interest because it does not consider money as a commodity for exchange. Instead money is a medium of exchange and a store of value.



Mutuality of Risk Sharing:

- ❖ Partners in an Islamic Financial transaction share profits and losses in accordance with a pre-determined ratio.



Core principles of Islamic Banking –

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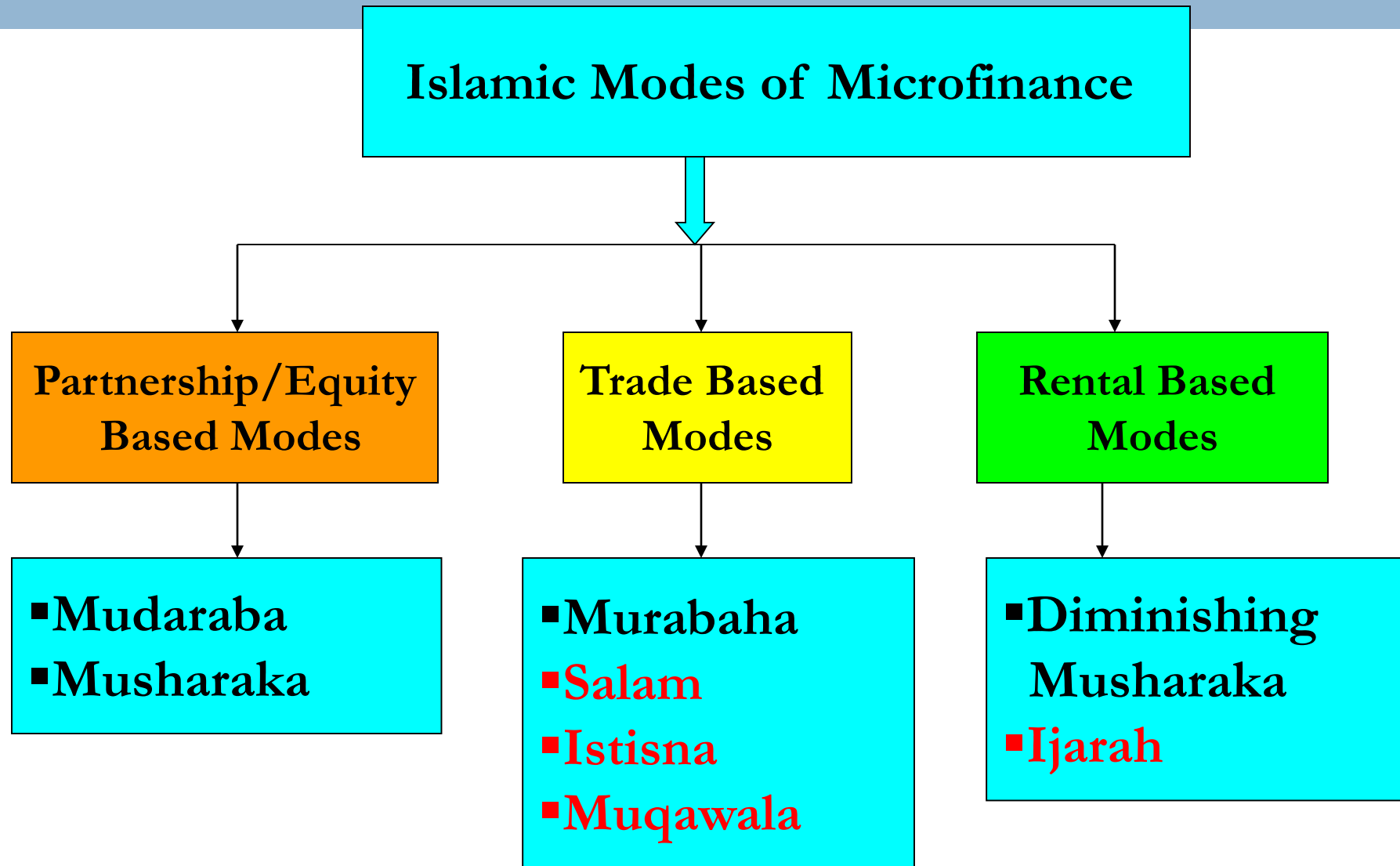
Prohibition of investment in certain businesses:

- ❖ Islamic Banks cannot finance businesses such as;

Piggery, wine factories, casinos, nightclubs or any activity which is prohibited by Islam or is known to be harmful to society.



ISLAMIC FINANCE PRODUCT TREE





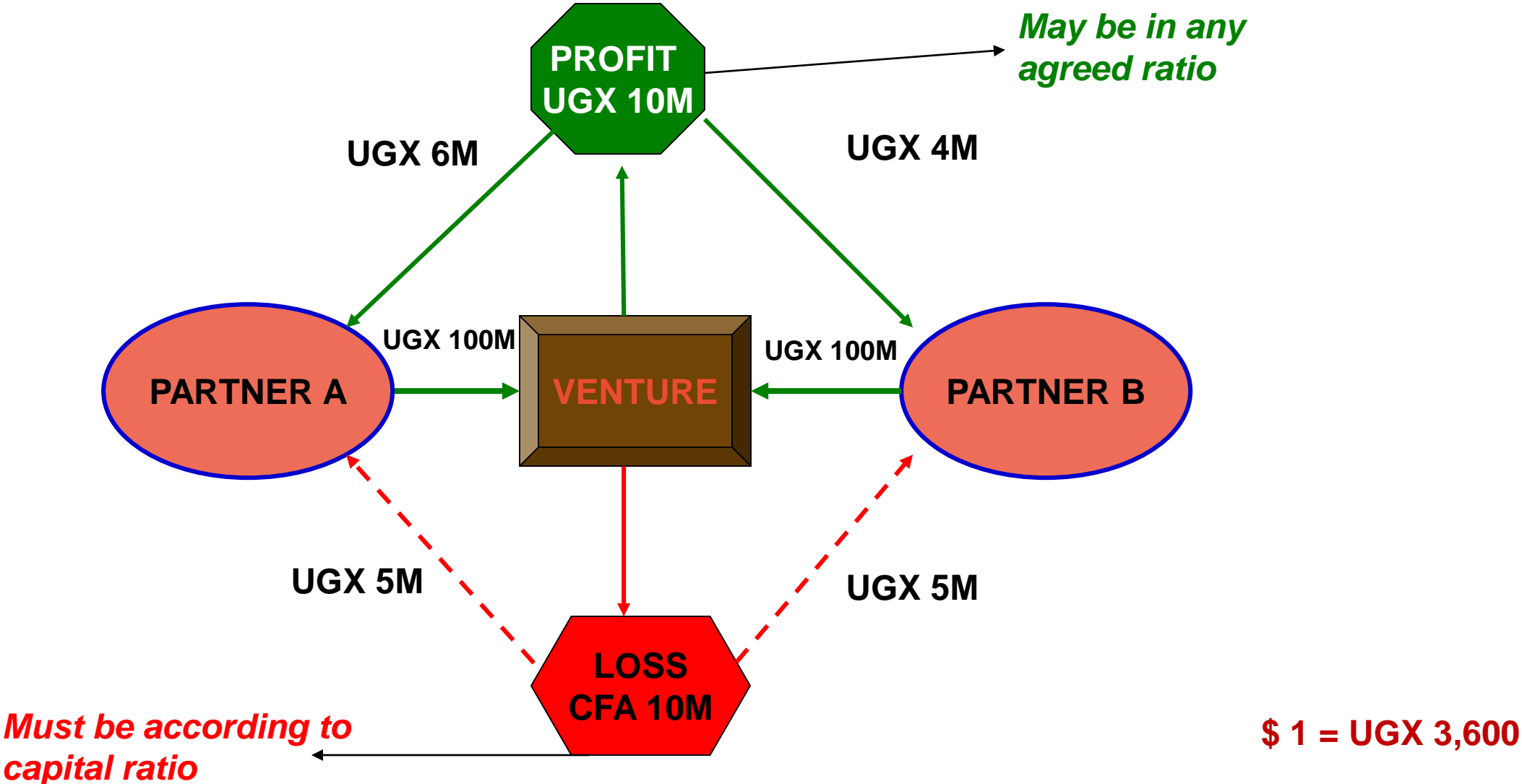
Partnership Based Modes

MUSHARAKA *(Partnership based)*

- Musharaka means a joint enterprise or venture between two or more partners in which the partners contribute capital (musharakah capital) and share the profits and losses generated by the venture in accordance with the percentage contribution to the Musharakah Contract.
- Origin of the word in Arabic is “Shirkah”, which means partnership or company.
- **Characteristics**
 - All parties share in the capital
 - All parties share profits as well as losses
 - Profits are distributed as per **agreed** ratio
 - Loss is borne by the parties as per **capital** ratio
 - Every partner is an agent of the other



MUSHARAKA MODEL



TYPES OF MUSHARAKAH

- According to Islamic jurists, market and banking practices, there are 3 types of musharakah.

1. Permanent or constant musharakah:

- Musharakah to continue without specifying a date for its termination

2. Diminishing or medium term musharakah



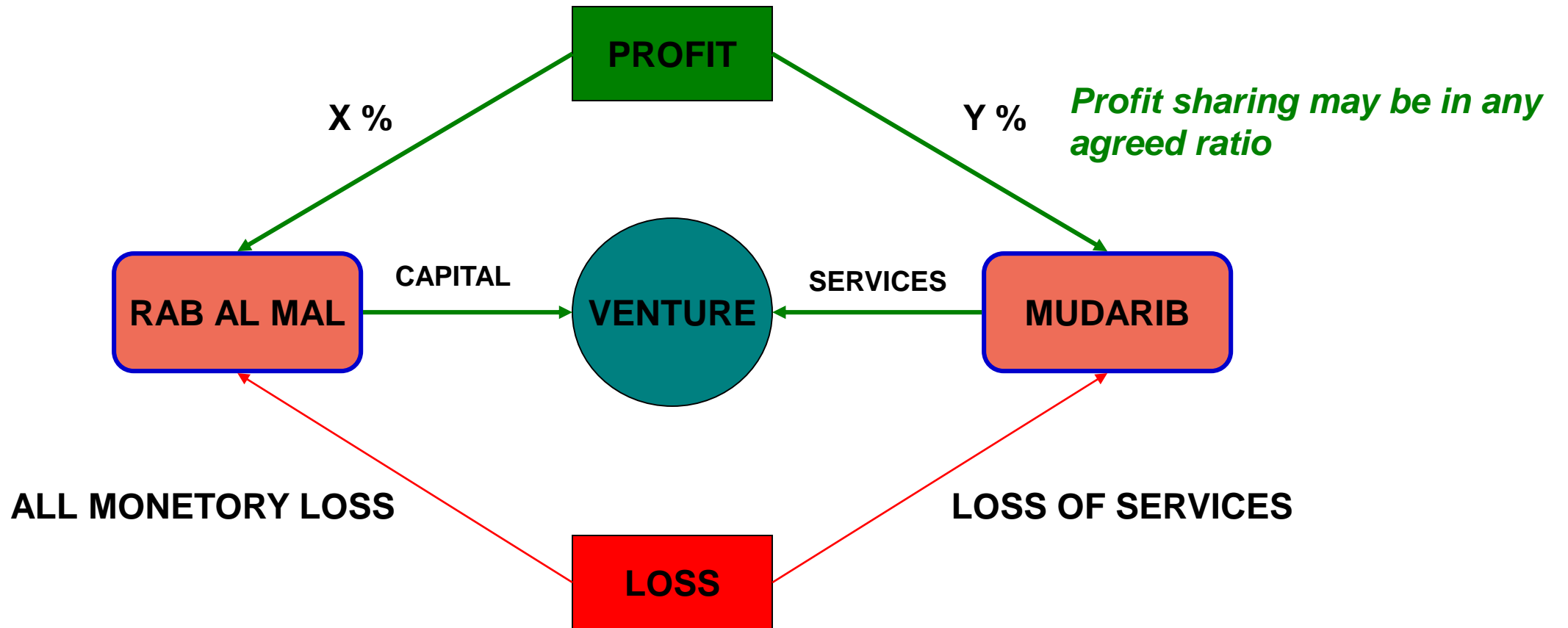
MUDARABA



- ❑ Mudarabah is a partnership in profit sharing between two parties; the first party is the financier or the investment capital owner (Rab-Almal), provides the investment capital and the other party who operates the business (Mudarib) provides entrepreneurship and effort to run the business
- ❑ One partner (Rab al Mal) contributes capital and the other (Mudarib) contributes his skills or services to the venture
- ❑ Venture may for a fixed period or purpose
- ❑ Both share profit in pre-agreed ratio
- ❑ Loss is borne by Rab al Mal (only when it is proven beyond doubt that it was not due to negligence) , Mudarib loses his services



MUDARABA







Trade Based Islamic Modes

Bai /Trade Base Modes

There are many types of trade based modes but usually the following are used in Islamic Microfinance.

- Murabahah (Cost plus)
- Salam (forward sale)
- Muqawala
- Istisna



Murabahah (Cost-plus/Asset financing)

Murabahah means a sale transaction with profit. It is a transaction of sale of goods at cost plus an agreed profit mark up.

- Murabahah is a particular kind of sale where the seller discloses the cost and profit charged thereon.
- The price in this sale can be both on spot and deferred.
- It is a contract wherein the institution, upon request by the customer, purchases a asset from the third party usually a supplier/vendor and resells the same to the customer either against immediate payment or on a deferred payment basis.

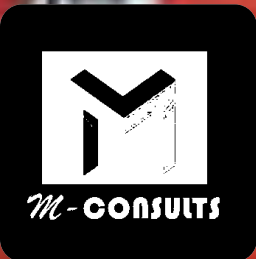
..Murabahah

- Murabahah can be used to purchase mainly Machinery. Is an equivalent Asset financing in conventional financing modes



Kasese Hospital & NUMA Feeds





SHUKRAN

