ISLAMIC FINANCING IN UGANDA -BASIC GUIDELINES-

A PRESENTATION TO THE ROTARY CLUB OF KAMPALA SOUTH

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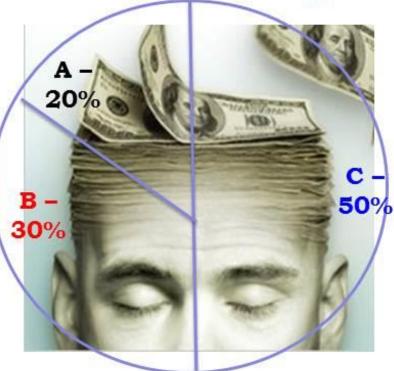
PRESENTATION OUTLINE

- 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..

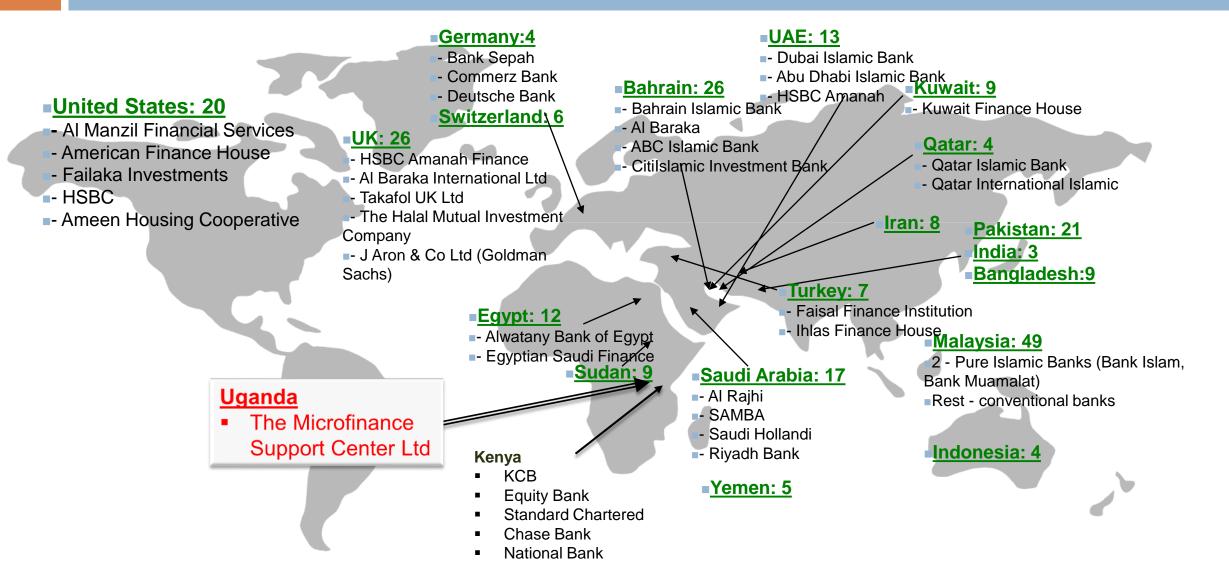
ISLAMIC FINANCING/BANKING

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.

f 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



By Abdulkario Ssengendo

The Government, through Microfinance Support Centre MSO has started rolling at Islamic financing across the cutary so as to promote imancial inclusion and bring at grap pool of savings into the eamons.

he programme was Rest Camp, which wants nebed in Kanungu and not districts on Tuesday (Wednesday, where a total sizoom was disbursed buboma Community to construct schools and to Camp in Kanungu and halth centres and initiated hi Dukore SACCO in a community water gravity scheme. Binhom of Islamic Richard Ngabirano, the

valinance Each group chairman board of directors bied shayom. Buhoma-Mukono Community be MSC executive director, B Peter Mojuni and Justine yenda MSC's baard health insurance for the minority Batwa community gramme and handed over and engage in the conservation.



BUSINESS

ey exampled integrated community ment initiative.
mat Community the Microfinance in Uganda followed a partnership astruct four additional so to meet tourists, past used their income initiated munity water gravity methods and the solution demonstruct schools and Microfinance to the solution demonstruct schools and Microfina

scheme. MSC, a government-owned Richard Ngabirano, the company was mandated to implement it. Buhoma-Mukono Community Development Association, said is a mode that emphasises partners and the recipient works as partners and it does



NEW VISION, Monday, May 29, 2017 39

Mujuni said. "We chose these groups and any group to qualify, it must are compliant with Shari and cartioned groups that are in line we found the sensement, we found the sensement, we found the sensement with Shari and cartioned groups that a holistic development in the communities. They have integrated to the financiers would withdraw the funding. She said family arises programmes to the after sensement, we location, or shafe Sensement with the sensement we have integrated to the financiers would withdraw the funding. She said family arises programmes to the after sensement, we are used to be after sensement with the sensement sensement we have a sensement sensement we have a senseme a sensement we have a sensement

CORE PRINCIPLES

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-

Prohibition of investment in certain businesses:

Islamic Banks cannot finance businesses such as;

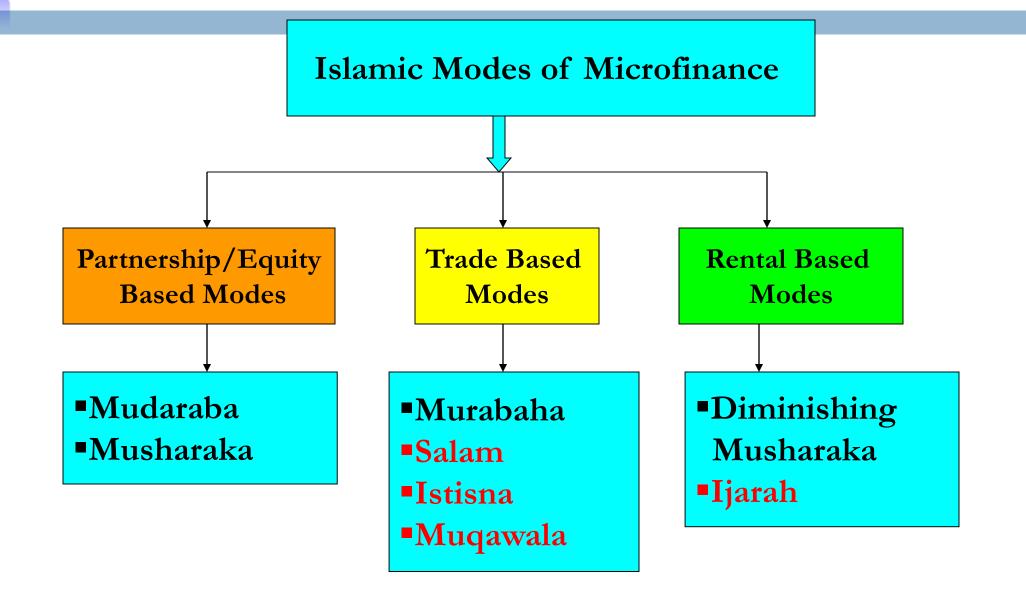
Piggery, wine factories, casinos, nightclubs or any activity which is prohibited by Islam or is known to be harmful to society.







ISLAMIC FINANCE PRODUCT TREE



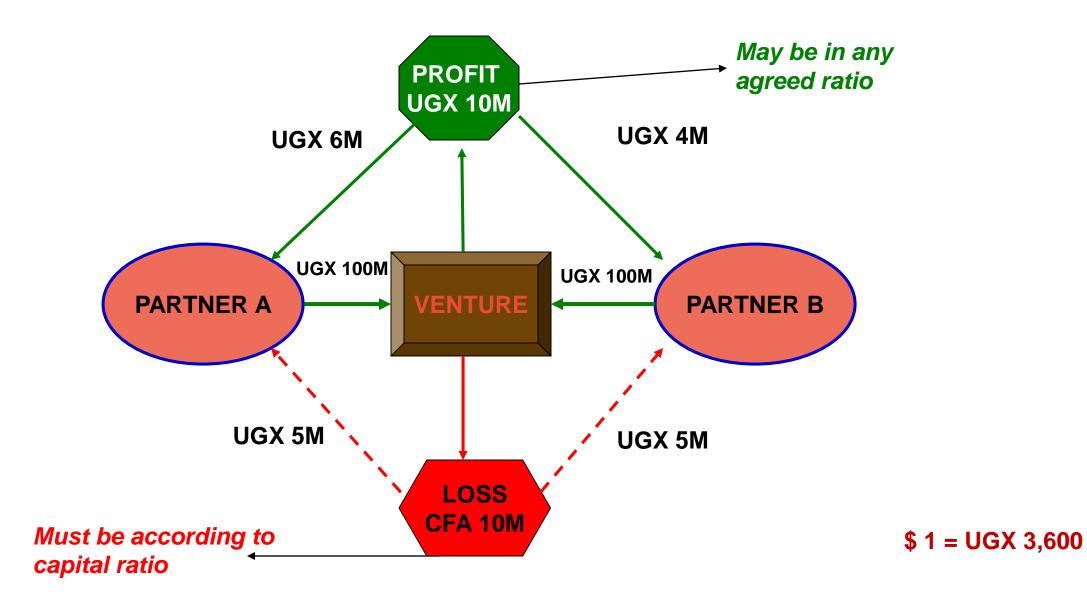
Partnership Based Modes

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 jurits, 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

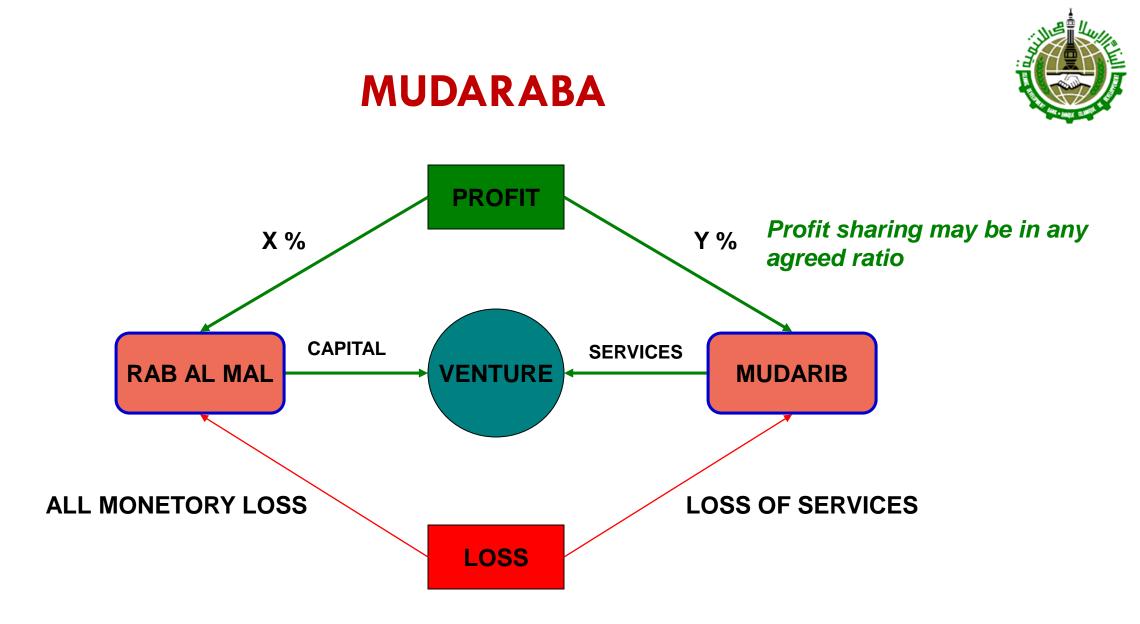
2. Diminishing or medium term musharakah







- 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



THE MICROFINANCE SUPPORT CENTRE LTD.

"IMPLEMENTING ISLAMIC FINANCING"

Dele Director Banking Bink of Ugande MUDARABAH Ko. Box 7120 Kempela RECTRONIC FUND TRANSFER INSTRUCTION FROM THE MICROFINANCE SUPPORT CENTRE UTD A/C RECTRONIC FUND TRANSFER INSTRUCTION FROM THE MICROFINANCE SUPPORT CENTRE UTD A/C RECTRONIC FUND TRANSFER INSTRUCTION FROM THE MICROFINANCE SUPPORT CENTRE UTD A/C RECTRONIC FUND TRANSFER INSTRUCTION FROM THE MICROFINANCE SUPPORT CENTRE UTD A/C RECTRONIC FUND TRANSFER INSTRUCTION FROM THE MICROFINANCE SUPPORT CENTRE UTD A/C Transfer UGA 50,000,000,000,000 TO TO TO DUKORE SACCO LTD Elegance Manager

Executive Director

CTRA LUNA

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







SHUKRAN





