

## **Emmanuel Tumusiime-Mutebile: Islamic banking in emerging markets – forging Uganda’s economic progress**

Keynote speech by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Islamic Banking Conference, Kampala, 13 May 2016.

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The Honourable Minister of Finance, Planning and Economic Development,  
Delegates from the IDB Group and Bank Negara Malaysia,  
Resources Persons,  
Representatives from the Banking Sector,  
Representatives from the various Professional Bodies,  
Participants,  
Ladies and Gentlemen.

It gives me great honour and pleasure to speak at the Islamic Banking Conference in Uganda.

Let me begin by congratulating the Islamic University in Uganda for organizing this conference on Islamic Banking. I further wish to welcome the participants to this conference and urge you all to take keen interest in the topics to be discussed in order to enhance your understanding of the Islamic Banking model.

The theme of this Conference is ***“Islamic Banking in Emerging Markets: Forging Uganda’s Economic Progress”***.

The history of Islamic Banking in Uganda can be traced to 2008 when the Bank of Uganda (BoU) first received an application from an institution which was desirous of operating as an Islamic Bank. Subsequently, BoU received numerous inquiries from most of the commercial banks in Uganda seeking to offer Islamic financial products through Islamic Banking “windows”. At that time, the Central Bank of Kenya had licensed two Islamic Banks while National Bank of Rwanda had licenced an Islamic Microfinance Institution and Bank of Tanzania had commercial banks offering Islamic Financial Services through windows.

In November 2009, Bank of Uganda conducted an in-house training on Islamic Banking and Finance and the participants included regulators of the financial sector from Bank of Uganda, the then Insurance Commission, Capital Markets Authority and the Uganda Revenue Authority.

Like Conventional Banking, Islamic Banking can only thrive with the existence of an enabling Legal and Supervisory Framework. BoU accordingly undertook a study on the Islamic Banking model to explore its fit in the existing legislative framework. The study revealed that the Financial Institutions Act, 2004 (FIA 2004), contained prohibitions, which could not facilitate the operation of Islamic Banking. In recognition of this fact, therefore, Bank of Uganda proposed amendments to the FIA, 2004, which were approved by Parliament and hence the enactment of the Financial Institutions (Amendment) Act 2016, in January 2016. The amendments to the then FIA, 2004 were intended to embrace Islamic Banking and focused on the impediments highlighted as below:

First, **Section 37** of the then FIA, 2004 prohibited Financial Institutions from directly or indirectly engaging in Trade, Commerce and Industry. This restriction inevitably impeded the smooth operation of Islamic Banking given that Islamic Banking is anchored on financial institutions’ participation in these very sectors.

Second, **Section 38** of the then FIA, 2004 prohibited Financial Institutions from acquiring immovable property that was not intended for use in conducting banking business. As the available literature on Islamic Banking suggests, in some Islamic Banking contracts, a Financial Institution **must** buy and therefore own the asset before reselling it to the customer at a profit. This very critical process was rendered impossible under the then FIA, 2004.

The FIA 2004 was, therefore, amended to lift the above-mentioned restrictions for Islamic Banks and/or Conventional Banks that would want to offer Islamic Windows.

In addition to the above amendments, the Financial Institutions (Amendment) Act 2016 provides for the institution of key Governance structures such as the Shari'ah Advisory Boards, which are crucial in upholding Shari'ah compliance.

In order to operationalize the Financial Institutions (Amendment) Act 2016 regarding Islamic Banking, the Bank of Uganda is in advanced stages of instituting Regulations and a Supervisory Framework for Islamic Banking.

Furthermore, as part of BoU's Financial Literacy programs and following the enactment of the Financial Institutions (Amendment) Act 2016, Bank of Uganda has embarked on multimedia sensitization campaigns on Islamic Banking entailing Radio Talk Shows, Newspaper Inserts, Workshops, and Journals, among others. I, therefore, urge the general public to be on the lookout for these awareness activities and be ready to render your direct participation once called upon by the Bank of Uganda.

Islamic Banking has gained prominence internationally due to its exponential growth and resilience to financial crises as well as the nature of Shari'ah-Compliant finance models that focus on the principles of investment in real assets and risk-sharing. In the Islamic Banking model, each contract is backed by an underlying asset or investment activity which creates a direct link between financial markets and economic activity. The Islamic finance model has thus contributed to the spread of real-asset-based finance principles in many jurisdictions and is regarded as an ideal option for the financing of infrastructure projects. This provides a conducive environment for achieving a more integrated approach to economic growth. The success stories of Islamic Banking experienced in other jurisdictions would, without a doubt, be replicated in emerging markets like Uganda once Islamic Banking is rolled out. I am happy to note that the agenda for this conference covers the envisaged benefits of Islamic Banking, among other topics.

In conclusion, I wish therefore to emphasize that while Islamic Banking and Finance is envisaged to significantly contribute to Economic Growth and Development, it remains an emerging field in the Financial System worldwide. I, therefore, urge all stakeholders to clearly understand Islamic Banking and Finance model; appreciate its unique tenets that distinguish it from Conventional Banking and at the same time acknowledge the similarities between the two (2) models. This will significantly contribute to the effective rollout and growth of the Islamic Banking sector in Uganda.

On its part, Bank of Uganda will continue to collaborate with all stakeholders and ensure that the requisite Regulatory and Supervisory Structures for supporting the growth of Islamic Banking and Finance in this country are robust and conducive for all investors.

With those remarks, I wish you fruitful deliberations.

I thank you.