بسم الله الرحمن الرحيم

# THE CHALLENGES HINDERING DEVELOPMENT AND GROWTH OF ISLAMIC MICROFINANCES IN EAST AFRICAN COUNTRIES

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# 1.0 Introduction



- East African and indeed African countries have a chance to be a firm ground for the Islamic Microfinance Industry

- Islamic Microfinance was born in Africa in 1963-Mit Ghamr Microfinance
- East African countries have a large population of Muslims around 50%
- There is a large portion of the population with virtually no financial inclusion-hence an opportunity

# 1.0 Introduction



- However, there are challenges facing development and growth of Islamic Microfinance Industry in East Africa;-
  - Some are of global magnitude
  - Others are local or regional-based
- As the topic suggests, I will dwell in East African countries in particular-Tanzania, Kenya, Uganda

# 2.0 Characteristics of Islamic Microfinance



Characteristics of an Islamic Microfinance are just like those of Islamic Banking

- Mainly Asset-based financing
- Shari'ah-compliant
- Aims to down-trodden

- No Riba (interest/Usury)
- Risk Sharing
- Ethically-motivated
- Islamic instruments are used (Murabaha, Mudharaba, Musharaka, Istisna, Ijara, Salam, Musaaqa etc)

# 3.0 Islamic Microfinances in East Africa



- Their nature


- In Kenya Taqwa Saccos since 1980's
- In Tz Started after establishment of Islamic Banks in 2008
- Owned by Islamic Organizations
- Mainly found in urban areas

# 4.0 The Challenges facing IMF's in East Africa



- **Knowledge Gap**
  - A large number of population doesn't know anything about Islamic Banking and Finance
  - Even majority of Muslim scholars do not have basic knowledge on Islamic Banking and Finance
- Unfortunately, even administrators and employees in Islamic Microfinances do not have proper knowledge and certifications on Islamic banking and finance
  - No AAOIFI certificates
  - No Alhuda CIBE certificate

  E.g – Accounting, Governance, Islamic law of contracts etc

# 5.0 Administrative Challenges



- Most of them are owned and run by Islamic Organizations


- Thus they inherit existing administrative problems from their mother organizations
- No clear-cut demarcations between the mother organization and Microfinance
- They are largely not business oriented but rather service oriented
- Have few products portfolios mainly Murabaha financing

# 6.0 Liquidity Challenges



- Many IMF's face Liquidity problems


- Have few products portifolios
- Low awareness in population
- No solid base as most banks prefer to start their own MF
- No Shari'ah Compliant lending instruments available to them

# 7.0 Legal & Regulatory Challenges



**Like Islamic Banks, Islamic Microfinances in East Africa operate in Dual Nature System, thus face many legal and regulatory challenges**

- Incompatibility between Islamic Microfinances practices and existing financial laws and regulations
- In Tanzania, some Shari'ah compliant products cannot function e.g Mudaraba, Takaful

# Legal & Regulatory Challenges



- **Legal and Regulatory Challenges**


- Domestic tax rules Apply
  - VAT Double-taxation in Murabaha financing
  - Withholding tax
  - Capital Gain Tax
  - Asset transfer laws etc
- Treasury instruments (gov’nt bond-interest based-No Sukuk)
- Disputes settlements-No appropriate court mechanisms to handle disputes (Kutayba Saccos dispute in Tanzania)

# 8.0 Governance Challenges



- Absence of Properly trained Shari'ah Advisors to an Islamic Microfinance (Internal Shari'ah Advisor)

- Properly trained Shari'ah Supervisory Boards (SSB) to a Islamic bank or a finance body (e.g Microfinance)

- Absence of countries central Shar'ah Supervisory Board
  - to work hand in hand with countries Central Banks
  - To Islamic Microfianances' practices, SSB and Shari'ah Advisors
  - To issue directives and rulings in the countries

# 9.0 Competitive and Innovative products



**Due to constraints they face, our IMF's are;-**

- Lagging behind in introducing competitive and innovative products
- Most of products available are a mirror of conventional products
- There is still much to be done to reach out the population especially in rural areas (E.g Akhuwat Pakistan)
- According to World Bank, 66% of adult population in SSA use mobile phones by 2018
  - Kenya 73%
  - Tanzania 56%
  - Uganda 46%

# 10.0 Financial Inclusion



- Access to banking services
- Study show that financial inclusion is market-driven
- According to World bank, over eighty (80) percent of adult population in SSA lack banking services
- Women are the most affected when it comes to financial inclusion
- Of course IMF’s being new to the market, they face even more difficulties in reaching these people

# 11.0 Negative Perceptions



- These perceptions come from both Muslims and non-Muslims populations
  - Muslims tend to view IMF's as some kind of **charity** and **Not Business venture**
- Some Christian clergy, view Islamic banking and finance in general as a move towards Islamization of the society
  - It will bring Shari'ah law

# 12.0 Conclusion and Suggestions



- **knowledge gap**
  - More mass awareness using mass media (Webinars like these)
  - More trainings for IMF's administrators and employees
- Legal and regulatory challenges
  - Push for banking and financial regulations amendments
    - Muslims members of parliaments
    - Muslim civil organizations
    - Islamic banks and financial organizations
    - Islamic media

# 12.0 Conclusion and Suggestions



- **Governance Challenges;-**
  - Centralized SSB
  - Every IMF should have a Shari'ah Advisor
  - More training to Muslim scholars to have a great pool for SSB
- Working with countries' central banks to create Islamic banking and finance divisions
- Introduce Uniform Standards (E.g AAOIFI Shari'ah and Governance Standards)

# 12.0 Conclusion and Suggestions



- **Competitiveness and Innovation**
  - IMF's to invest more in innovative products
  - Expand into Mobile Phone Technology
  - Focus on products attractive to rural populations
  - Invest in more researches
- **Access to banking**
  - Banks to enable Islamic Microfinances or
  - Create their own Microfinances divisions
  - Use a vast mobile phones market

# 12.0 Conclusion and Suggestions



- **Negative Perceptions**
  - Interaction with Christian clergy men
  - Raise awareness that IMF's are not for Muslims only
  - Educate Muslims that IMF's are not for Charity