



## **Making Islamic Finance work for East Africa**

The Islamic banking industry is growing rapidly as banks all over the world respond to the opportunities presented by this expanding new customer segment with a range of Shariah compliant products. There is no doubt that Islamic finance is an industry that has made tremendous progress and is taking bold steps in East Africa.

According to the Standard & Poors, the Islamic Finance industry has seen large increases in recent years, with an annual growth rate of over 20%. East Africa features a potentially strong demand for Islamic Finance services and products, presenting significant opportunities to deepen and broaden financial intermediation.

Recognizing the growing importance of Islamic banking and the growing demand for financial services that meet ethical standards, an increasing number of regional banks in East Africa have opened Islamic banking “windows” tailored to the needs of Islamic investors.

Kenya, East Africa’s largest economy ever keen to be at the forefront of regional trends in business and finance markets, seeks to promote the country’s potential as a leader in Islamic Finance but the industry is faced with numerous challenges.

## **Regulatory Framework & Human Capital Development**

Regulators in east Africa have recognized that they need to make legislative changes to allow Islamic finance to flourish as the current legal framework is not adequate in most of the EAC member states; the existing legal framework that applied to Islamic banks was based on conventional banking systems.

During the East Africa Islamic Finance Summit hosted in Nairobi last month, Kenya’s Attorney General Hon Githu Muigai mentioned that the country was reviewing the relevant laws and regulations governing its nascent Islamic finance industry to facilitate the issuance of a debut Islamic law-compliant bond known as a sukuk.

The AG’s statement was backed by Hon Henry Rotich; Cabinet Secretary for Finance who stressed the importance of regulatory framework to support Kenya’s capital raising efforts.

In neighbouring Uganda, Islamic Finance has seen some development. The nation through its Parliament in January amended the Financial Institutions Act and introduced Islamic banking a system of banking, which is consistent with Islamic Shari’ah (law) and guided by Islamic economics. The Financial Institutions (Amendment) Bill, 2015 presented to the Uganda’s Finance Committee who consulted with Bank of Uganda, the Uganda Bankers Association, Finance minister and Uganda Muslim Supreme Council, the committee in accordance with Rule 116 of the Rules of Procedure of Parliament scrutinised the Bill and presented its findings to the House with a no objection to the amendments.

The passing of the Bill means that government can now issue Shariah-compliant bonds and that a special Islamic index will be created on the Uganda Stock Exchange.

Tanzania has a couple of players in Islamic finance industry but not at the same level as Kenya. The World Bank has been offering Tanzania with consultancy services at policy level to drive the growth of the industry.

As for Rwanda, no Islamic banking activities are going on although they have sufficient amount of goodwill to introduce it. Rwanda will probably go the Ugandan way of introducing a comprehensive legislation to promote the growth of Islamic finance.

Islamic banking and finance industry is not here to replace conventional banking and finance. We must facilitate both Islamic and conventional finance in East Africa so that everyone has the ability to access financial solutions.

To make Islamic Finance work for East Africa, stakeholders must invest in human capital and talent development. This, just like the regulatory frame work, Human Capital development is undeniably an area of concern for the East Africa Islamic Finance.

Harnessing competent talent is a necessity for the industry's progress.

East Africa will need to explore opportunities to share best practice and learn from established Islamic Finance Markets in the GCC and Europe. Currently the number of Islamic Finance experts in the region is dire.

East Africa indeed offers exciting growth prospects. Growth drivers are becoming increasingly diverse with the resource-based, construction and services sectors taking the lead. Islamic finance has tremendous potential to at least partly support the funding gaps in East Africa while enhancing the financial inclusion rates in the region. Islamic Finance provides governments an alternative financing mechanism to support the country's capital expenditure needs.

The methods undertaken, united with the natural advantages offered by East Africa, are likely to lead to expansion of the Islamic finance industry in the region which will ultimately promote the region's Economic development.

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