

## Legal And Socio-Economic Issues of Islamic Banking System in Uganda: Learning From The Indonesian Experience

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### **Abstract:**

The development of the Islamic Banking System tends to provide an opportunity for Uganda to diversify its financial system embedded in Sharia principles. Furthermore, it suffices to state that the introduction of the Islamic banking system in Uganda is considered one of the forceful moves in attaining economic development, growth, and facilitating transactions. However, given the early stage of the Islamic banking institution in Uganda, there are legal and socio-economic issues that tend to pose challenges to the smooth operation of the Islamic Banking System. This is concerning the fact that absence of a specific regulatory framework, ambiguity or indistinctness in the current laws regulating Islamic banking, Inadequate banking infrastructure, and lack of public awareness, seem to threaten its viability, hence, the need to draw lessons from Indonesia's well-established Islamic banking system. Hence, the study examines the legal and socio-economic issues concerning the Islamic banking system in Uganda with a view of learning from the Indonesian experience. In this regard, primary and secondary sources of material such as laws and academic literature were extensively reviewed. The data obtained were analysed through a descriptive and analytical approach. The study found that in Uganda there is no specific regulatory framework for the Islamic banking system, and the current laws on Islamic banking in Uganda are ambiguous and complex. Furthermore, the study also found that a lack of awareness of the Islamic bank's method of operation and inadequate infrastructure could affect its viability. However, in Indonesia, the Islamic Banking system has made great strides given its well-organized banking system over the years. The study further concludes and recommends proactive regulatory clarity and resolution of socio-economic challenges concerning the Islamic Banking System in Uganda learning from the Indonesia experience.

## A. Introduction

Given the global acceptance of the Islamic banking system, the Uganda government in 2023 sought to also incorporate the same into its financial system. The essence of adopting an Islamic banking system is to enhance the economic development and stability of the financial sector and cater to its citizens' various needs.<sup>1</sup> However, despite the promising nature of the Islamic Banking System tend to provide in Uganda, there seem to be several challenges that mitigate its effectiveness.<sup>2</sup> These challenges include legal and socio-economic issues. This is concerning because the unique legal framework and principles of the Islamic banking system in Uganda pose a challenge to coexisting with conventional laws that regulate banking activities in general.<sup>3</sup> In this regard, the fact that there is no specific legal framework that tends to regulate Islamic banking activities could result in ambiguity and a shift from the general legal framework regulating banking business.<sup>4</sup> However, the socio-economic challenges seem to focus on the fact that is more of a divide and rule system, only a fraction of the society can utilize Islamic banking system, given the fact that it operates as a faith-based banking system.<sup>5</sup> Islamic banking principles are only known to the Muslim faithful, these may also pose challenges to the general public in executing banking activities with Islamic banks. Furthermore, concerning the fact that in Uganda, the Islamic Banking System just sprouted up in the year 2023, the challenges of expertise, technical knowledge, infrastructural facilities of Islamic banking activities, and low turnout of patronage may hinder its productivity.<sup>6</sup>

However, the Islamic Banking system over time in several countries, including Indonesia has also gained momentum and general acceptance, given the fact that it is founded

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<sup>1</sup> Allan Kayongo, Asumani Guloba, Joseph Muvawala, and Andrew Ssali, "A Framework for Strengthening and Sustaining Cooperatives for Socio-Economic Transformation in Uganda", *Applied Economics and Finance* 9, no. 2, (2022): 79-92

<sup>2</sup> Evis Garunja, Lutuuga James, Kasumba Daniel, Namata Jacqueline, and Malunda Jerry Patric. "Examining the Regulation of E-Commerce in Uganda: Opportunities and Challenges." *Kampala International University Law Journal* 7, no. 1 (2025): 201–207. <https://doi.org/10.59568/KIULJ-2025-7-1-15>

<sup>3</sup> Abdiaziz Ahmed Ibrahim, Jamal Mohamad Hussein and Dayah Abdi Kulmie, "Islamic Banking in Africa: A Booming Market With Growing Pains". *International Journal of Religion* 5, no. 9, (2024): 318-33. <https://doi.org/10.61707/3dg7rh70>.

<sup>4</sup> Olawunmi Opeyemi Obisesan, Kareyo Margaret, Nuwagaba Sheya, Binomugisha Alexanda, and Amina Wahab. "The Incorporation of Artificial Intelligence in Legal Practice in Uganda: Prospects and Socio-Economic Issues." *Kampala International University Law Journal* 6, no. 2 (2024): 163–188. <https://doi.org/10.59568/KIULJ-2024-6-2-09>

<sup>5</sup> Simon, E. Imoisi and Aidonojie Paul Atagamen, "Legal and Socio-economic Issues Concerning Black Marketer's Activities of Petroleum Products in Nigeria". *Yuridika* 38, no. 2, (2023): 61-84. <https://doi.org/10.20473/ydk.v38i2.44999>.

<sup>6</sup> Abbasi, Taimoor Hassan, Ambreen Kausar, Huma Ashiq, Hefza Inam, Humara Nasar, and Rabia Amjad. "Corporate Social Responsibility Disclosure: A Comparison Between Islamic and Conventional Financial Institutions in Bahawalpur Region." *Research Journal of Finance and Accounting* 3, no. 3, (2012): 51–62.

on a strict ethical,<sup>7</sup> equitable, and Sharia ideology and principles regulating financial practices. Indonesia stands out as one of the countries within the global terrain where the Islamic Banking System has been thriving effectively.<sup>8</sup> Hence, Islamic banking has earned a reputation as the global banking system of choice for ethical and equitable transactions, reflecting Islamic tenets while providing services like other banks.<sup>9</sup> A few countries, such as Indonesia, have realized successful integration through clearly spelling out regulations, government linkages; building public awareness, and so forth.<sup>10</sup> Indonesia's experience sets very good examples in practice towards understanding and overcoming existent difficult legal grey areas and socioeconomic barriers, particularly in emerging markets like Uganda.<sup>11</sup> It is thus imperative to take a closer observation of Indonesia, which has successfully passed through the same terrain for effective implementation of Uganda's transition.

Various works studied the growth, ruggedness, and regulatory evolution of Islamic banking as applied in various jurisdictions. For example, studies on the Indonesian Islamic banking system highlight the importance of regulatory consistency and the contribution by the government to the sustenance of growth and development. Research by Mahmoud et al.<sup>12</sup> indicates that financial inclusion will play an important role in making Islamic banking possible, with awareness and education initiatives playing an important role in its success. Hassan and Musa<sup>13</sup> indicate similarly well-structured policies and digital integration as facilitators of growth in Southeast Asia. This notwithstanding, studies on Uganda's Islamic banking framework are scanty and tend to focus on the regulatory and socio-economic

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<sup>7</sup> Antonio, Muhammad Syafii, Yulizar D Sanrego, and Muhammad Taufiq, "An Analysis of Islamic Banking Performance: Maqashid Index Implementation in Indonesia and Jordania." *Journal of Islamic Finance* 1, no. 1, (2012): 012 – 29.

<sup>8</sup> Ibid

<sup>9</sup> Alhammadi, Salah, Simon Archer, Carol Padgett, and Rifaat Ahmed Abdel Karim, "Perspective of Corporate Governance and Ethical Issues with Profit Sharing Investment Accounts in Islamic Banks." *Journal of Financial Regulation and Compliance* 26, no. 3, (2018): 406–424. <https://doi.org/10.1108/JFRC-01-2017-0014>.

<sup>10</sup> Abdullahi, S. Ibrahim, "Islamic Banking in West African Sub-Region: A Survey", *Arabian Journal of Business and Management Review* 2, no. 7, (2013): 28–46. <https://doi.org/10.12816/0002286>.

<sup>11</sup> Aidonojie Paul Atagamen, Toyin A. Majekudumi, Eregbuonye Obieshi, and Ogbemudia I.Ottah, "Legal Issues Concerning of Data Security and Privacy in Automated Income Tax Systems in Nigeria", *Hang Tuah Law Journal* 8, no. 1, (2024): 14-41, <https://doi.org/10.30649/hlj.v8i1.223>; Aidonojie Paul Atagamen, Adesoji K. Adebayo, Eregbuonye Obieshi, Antai G. Owoche Ottah I.Ottah, and Muhammad Mutawalli, "The Prospect, Legal, and Socio-economic Implication of Metaverse Operation in Nigeria" *YURISDIKSI*, 19 no. 4, (2024): 455, <https://doi.org/10.55173/yurisdiksi.v19i4.201>.

<sup>12</sup> Mahmoud Mohieldin, Zamir Iqbal, Ahmed Rostom, & Xiaochen Fu. (2012). "The Role of Islamic Finance in Enhancing Financial Inclusion in Organization of Islamic Cooperation (OIC) Countries". The World Bank, Islamic Economics and Finance Working Group, (2012): 1-59

<sup>13</sup> Nor Razinah Mohd. Zain, Rusni Hassan, & Azman Ismail. (2020). "Enhancing Islamic Banking and Finance in Southeast Asia Through the Application of Artificial Intelligence: An Exploration of Banking's Best Practices". In *Impact of Financial Technology (FinTech) on Islamic Finance and Financial Stability*. (2020): 18-36.

implications of this new adoption. Hence, this presents the need for thorough analysis regarding the Islamic banking system in Uganda, learning from the already established model of Indonesia. An array of studies also analyzes the regulatory and operational mechanisms responsible for Islamic banking success in multiple regions. For instance, Zaheer et al.,<sup>14</sup> found that Sharia-compliant financial regulations in Malaysia remain effective with the help of a central bank backing the compliance and stability of the concerned institutions. Hassan et al.<sup>15</sup> discuss digital integration and the synergies created with Islamic banking, thereby providing easy access and enhanced efficiency to Islamic financial services. Hassan and Aliyu,<sup>16</sup> put forth an analysis of the socio-economical implications of Islamic banking in Africa, highlighting both the prospects and challenges to Islamic banking growth.

Concerning the above, the studies review above illustrate that an effective regulatory environment, technical support, and public awareness drive toward Islamic banking are imperative for sustainability. With these ideas in mind, Uganda can build a much stronger and more responsive Islamic banking system. While some literature has described the general challenges faced by Islamic banking, little research has treated Uganda's legal and socio-economic barriers to Islamic banking. Most prior studies concentrated on general theoretical discourse, without any detailed case-by-case comparative analysis of successful Islamic banking models. This study fills this gap by assessing Uganda's legal and operational challenges in Islamic banking while appraising Indonesia's procedure of sidestepping similar challenges. The novelty of this study lies in its comparative perspective, which gives impetus for deriving actionable, policy-oriented recommendations for Uganda based on the Indonesian experience: by enhancing the overall discourse on Islamic banking in transition economies.<sup>17</sup> Hence, that this study tends to adopt a doctrinal method of study in examining the Islamic banking system

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<sup>14</sup> Zaheer Anwer, Shabeer Khan, Muhammad Abu Bakar, "Shari'ah-compliant central banking practices: lessons from Muslim countries' experience". *ISRA International Journal of Islamic Finance*, 12 no. 1, (2020): 7-26; Sattar Jabbar Zayer, "The Role of Jurisprudence in Activating the Rules of Justice as a Source of Civil Law," *Trunojoyo Law Review* 7, no. 2 (2025); Zurria Sakinah, Mumtaz Muzaffar, and Maudy Farras Raihan, "Indonesia's Strategic Legal and Economic Response to the US-China Trade War: Implications for Global Value Chains, Foreign Investment and MSMEs," *Trunojoyo Law Review* 7, no. 2 (2025).

<sup>15</sup> Hasan Rashi, Hassan, M. Kabir, and Aliyu, Sirajo, "Fintech and Islamic Finance: Literature Review and Research Agenda". *International Journal of Islamic Economics and Finance (IJIEF)*, 2 no. 1, (2019): 75-94.

<sup>16</sup> Hassan M. Kabir and Aliyu Sirajo, "A Contemporary Survey of Islamic Banking Literature". *Journal of Finance Stability*, 34, (2018): 12-43; Alex Iloba Uwadinma and Kimashinor Nwakalo-Imu, "Comparative Analysis of Technological Advances in Land Registration and Management across Global Jurisdictions," *Kampala International University Law Journal* 5, no. 2 (2023): 191-215. <https://doi.org/10.59568/KIULJ-2023-5-2-02>

<sup>17</sup> Temitope O. Oloko. "The Implications of Emerging Technologies on Intellectual Property Rights in Nigeria: Blockchain and Biometrics in Perspective." *Kampala International University Law Journal* 6, no. 2 (2024): 1-30. <https://doi.org/10.59568/KIULJ-2024-6-2-01>

in Uganda, and its legal and socio-economic challenges with a view of learning from the Indonesian experience. The comparative and analytical approach seeks to offer recommendations for regulatory clarity, financial inclusivity, and infrastructure development toward the growth of Islamic banking in Uganda.

## **B. Method**

Concerning the fact that the study tends to examine the legal and socio-economic issues concerning the Islamic Banking system in Uganda with a view of learning from the Indonesian experience, the study adopts a method of study involving a doctrinal method. The essence of the doctrinal method is aimed at theorizing the development and concept of the Islamic Banking System in Uganda. Furthermore, it is aimed at examining the legal framework of the Islamic Banking system in Uganda and Indonesia. In this regard, to achieve this the study places reliance on primary and secondary sources of research material such as laws, case laws, and scholarly academic literature. The results obtained were analyzed through analytical and descriptive methods.

## **C. Result**

The data indicate that Uganda's legal and regulatory framework for Islamic banking is still not well defined and inconsistent with its constitutionally recognized principles of Islamic finance. The Financial Institutions (Amendment) Act of 2016 establishes a foundation for Islamic banking, but there is either a lack of subsidiary legislation, poor Shariah governance policies and procedures, or insufficient institutional capacity to furnish effective operationalization. Furthermore, Uganda lacks a comprehensive Shariah advisory board, in stark contrast to Indonesia's National Shariah Council, which sustains a consistent Islamic compliance structure. Uganda also lacks training programs for regulators and the legal fraternity, and doesn't have public awareness campaigns; this has caused the implementation of Islamic banking services to stagnate.

In terms of socio-economic contributions, this study affirms that Islamic banking/development could contribute to enhancing financial inclusion in Uganda - particularly among Muslim communities and unbanked/residual rural communities. Nevertheless, obstacles, such as low public literacy regarding Islamic financial products, public perceptions of bias and partiality by Islamic banks, and lack of consumer trust, have hindered

uptake of Islamic banking products and services. Alternatively, Indonesia's comprehensive strategy - through legal reform, education of the public, support from state institutions, and the establishment of Islamic microfinance products has evidenced substantial socio-economic contributions. Uganda's communal learning journey from the Indonesian experience entails addressing the existing regulatory void, capacity creation, and public awareness development.

## **D. Analysis and Discussion**

### **1. Theoretical Framework Concerning Islamic Banking System: The Deontology Theory**

The deontological principles are based on ethical and moral principles that emphasize the fact that rules, regulations, principles, and moral obligations must be adhered to irrespective of the consequences that may emanate from their adherence. This theory was propounded by Immanuel Kant who stated that the consequences or outcome of every decision taken does not matter provided the lay rules and precepts were comply and adhered to by the letters<sup>18</sup>. These principles oppose the Utilitarian theory which bases its actions on the greater good of all irrespective of whether the laydown rules were acceded to or not. The theory of deontology tends to emphasize and strengthen consistency, sustainability, and social consciousness of what is right and just for society. Furthermore, it also ensures or provides a roadmap for any decision taken or made in resolving complex dilemmas in ethical issues, laws, and governance. Concerning this, it suffices to reiterate that the theory of deontology ensures that decisions taken adhere to fundamental moral duties and responsibilities, accountability, fostering trust, and respect for ethical norms and laws within society.

Concerning the deontological theory as it relates to the Islamic banking system it emphasizes the relevance of adhering strictly to Sharia principles without any compromise<sup>19</sup>. Islamic banking system prohibits the following types of business transactions *gharar* (excessive uncertainty), *riba* (interest), and *haram* (forbidden) activities while promoting fairness, equity, and social justice. However, conventional banks often utilize this practice or business

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<sup>18</sup> Ali Haruna, Honoré Tekam Oumbé, & Armand Mboutchouang Kountchou. "Child Healthcare Outcomes in Africa: Unlocking the Potentials of Islamic finance. *Journal of Islamic Finance*", 12 no. 1, (2023): 116–135. <https://doi.org/10.31436/jif.v12i1.752>; Paul Atagamen Aidonojie et al., "Legal Challenges Limiting Women's Rights to Research Scholarship: A Comparative Analysis of Nigeria, Uganda and Indonesia," *Journal of Indonesian Constitutional Law* 2, no. 3 (2025): 374–405, <https://doi.org/10.71239/jicl.v2i3.200>.

<sup>19</sup> Sennanda Musa , Ahmed Mutunzi Kitunzi , Gerald Kasigwa, and Ismail Kintu "Project Financing and Poverty Trends in the Islamic Development Bank Member Countries", *International Journal for Multidisciplinary Research*, 5, no. 2, (2023): 1-14 <https://orcid.org/0009-0005-5182-6202>

transactions to profit at the expense of exploiting the general public<sup>20</sup>. In this regard, it suffices to state that the stakeholders of the Islamic banking system not minding the outcome or consequences (such as profit-maximizing from illicit business transactions) that may occur by sticking to the rules that guide Islamic banking show adherence to the principles of deontology. Furthermore, Sharia law guiding Islamic banking activities stipulates business activities that Islamic bank must confine their banking activities and they include mudarabah (profit-sharing), ijara (leasing), allocating a portion of profits from the Islamic bank to charitable causes such as (*zakat*), and to invest in responsible projects that contribute positively to the growth, development and moral wellbeing of the society<sup>21</sup>.

Concerning the above, the Islamic banking system's deontology emphasizes the need to uphold integrity and foster trust and sincerity as contained in Sharia law. It further requires that the structural framework concerning the Islamic banking system must not be compromised irrespective of the consequences. In this regard, it is apt to state that this dynamic of the deontology theory as it concerns Islamic banking activities promotes innovation and adaptation and preserves the fundamental values of equity, fairness, justice, and responsibility in Islamic finance.

## **2. Concept, Development, and Rationale of Islamic Banking System in Uganda and Indonesia**

The socio-economic contexts of Uganda and Indonesia show both common features and big differences, which influence the growth of Islamic banking in the two countries differently. The Islamic banking system in Indonesia, which has the largest Muslim population in the world, draws its strength from a very strong social acceptance of Islam as part and parcel of day-to-day economic life. The Islamic banking products are widely used by individuals, micro, small and medium enterprises as well as large corporations, and this is made possible by higher financial literacy levels and the existing saving and investment culture. Uganda on

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<sup>20</sup> Allan Kayongo, Asumani Guloba, Joseph Muvawala, & Andrew Ssali, "A Framework for Strengthening and Sustaining Cooperatives for Socio-Economic Transformation in Uganda", *Applied Economics and Finance*, 9, no. 2, (2022): 79-92; Aidonojie Paul Atagamen, Nwazi, Joseph and Ugiomo Eruteya, "Illegality of Income Tax Evasion in Edo State: Adopting an Automated Income Tax System as a Panacea" *Jurnal Legalitas*, 16 no. 1, (2023): 56-86

<sup>21</sup> Michael Nyarko, "The United Nations Guiding Principles on Business and Human Rights and Ugandas extractive sector", *Elgar*, (2022): 57-75, <https://doi.org/10.4337/9781802207460.00013>; Abayomi Anthony Alayoku and Faith Modupe Akinola, "Technology and Legal Education in Nigeria: Marital Bliss or Blow?" *Kampala International University Law Journal* 5, no. 2 (2023): 258-280. <https://doi.org/10.59568/KIULJ-2023-5-2-12>

the other hand, has a religiously diverse population with Muslims being the minority group; thus, Islamic banking is less socially accepted. Financial and economic difficulties like low incomes, a large informal sector, and limited access to financial services have created a demand constraint; furthermore, this is even though Islamic banking has the power to bring the unbanked areas into the banking sector.

The Islamic banking system is also known and regarded as a Sharia-compliant banking system. It is a banking system that operates differently from the conventional bank, this is concerning the fact that it operates under Islamic law and principles<sup>22</sup>. However, some of these fundamental principles that guide the Islamic banking system include risk-sharing formula, joint ventures (also known as *Musyarakah*) leasing (also called *Ijarah*), Islamic bonds (*Sukuk*), prohibition of interest rate (also known as *riba*) as Islam does not permit interest on a loan, investment base on ethical and Islamic practice, and profit sharing among investors of the bank<sup>23</sup>. Furthermore, the essence of the Islamic banking system is aimed at ensuring transparency, fairness, and the promotion of equitable justice concerning financial transactions. In this regard, the involvement of unethical business of speculation (also known as *gharar*) and investing in transactions that are contrary to Islamic principles and core values is strictly prohibited.

However, the Islamic banking system in Uganda is not different from what is obtainable in most jurisdictions<sup>24</sup>. This is concerning the fact that the Islamic banking system in Uganda was established to operate with the tenets and principles of Islamic core values and principles. However, it could be argued that the groundwork for the establishment of an Islamic bank in Uganda has been ongoing for years by the Bank of Uganda. Furthermore, with signing into law of the Financial Institutions (Amendment) Act, 2016, further intensified the legal framework concerning the formation of the Islamic banking system in Uganda<sup>25</sup>.

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<sup>22</sup> Mergaliyev, Arman, Mehmet Asutay, Alija Avdukic, and Yusuf Karbhari. 2019. "Higher Ethical Objective (Maqasid al-Shari'ah) Augmented Framework for Islamic Banks: Assessing Ethical Performance and Exploring Its Determinants." *Journal of Business Ethics*, 1–38. <https://doi.org/10.1007/s10551-019-04331-4>.

<sup>23</sup> Aidonojie Paul Atagamen and Majekodunmi T Akintola, Adeyemi-Balogun O Janet, "Unethical and Uncensored Content Creation in Nigeria Entertainment Industry: Springing the Law to Action" *Jurnal Hukum Replik*, 11 no. 2, (2023): 173-202; Aidonojie Paul Atagamen, Eregbuonye Obieshi, Majekodunmi T. Akintola, Inagbor M. Ekata, "The Prospect and Legal Issues of Income Tax in the Nigerian Metaverse", *Trunojoyo Law Review (TLR)*, 6 no. 1, (2024): 17-50, <https://doi.org/10.21107/tlr.v6i1.23874>

<sup>24</sup> Chi Johnny Okongwu, Ugbo Samuel, Paul Atagamen Aidonojie, "Investigation of Companies' affairs and Ownership in Nigeria", *African Journal Of Law And Human Rights*, 6 no. 2, (2022): 44-65;

<sup>25</sup> Effendy, Bahtiar. "4. Islamic Economic Institutions in Indonesia: A Religio-Political Perspective". *Islam in Southeast Asia: Political, Social and Strategic Challenges for the 21st Century*, edited by K. S. Nathan and Mohammad Hashim Kamali, Singapore: ISEAS Publishing, 2005, pp. 64-81. <https://doi.org/10.1355/9789812306241-006>

However, it must be noted that the actual formation and establishment of an Islamic bank in Uganda took effect in September 2023 when the Bank of Uganda licensed the first Islamic Salaam Bank Uganda Limited. However, the granting of the license by the Bank of Uganda to Salaam Bank Uganda was necessitated and orchestrated with President Museveni signing into law a bill to permit and allow an Islamic Banking system in Uganda in 2023. However, it is apt to reiterate that the establishment of the Islamic banking system in Uganda is still at its nascent stage<sup>26</sup>.

However, the establishment of the Islamic banking system in Uganda is aimed at diversifying and strengthening the Ugandan financial system and satisfying the increasing desire and advocacy of the Muslim faithful for a banking and financial system that aligns with the core values and practices of Islam. In this regard, it suffices to state that the advocacy of Islamic banks by the Muslim faithful will enable them to indulge in the banking system that is Sharia-compliant and avoid banking activities that could be contrary or compromise their faith or belief<sup>27</sup>. However, it must be noted that the establishment of the Islamic banking system in Uganda is not just for religious purposes, but a strategic plan and move to intensify the Ugandan financial sector that promotes and enhances a broader perspective of financial institutions that is inclusive<sup>28</sup>. It is also apt to reiterate that the development of Islamic banks by the Ugandan government is geared towards aligning its banking or financial system to global best practices. This is concerning the fact that the Islamic banking system is globally recognized. The Islamic banking system is a major financial hub within the global financial environment that enhances the international Islamic financing network. In this regard, incorporating the Islamic banking system into Uganda's financial Institutions could aid in enhancing and facilitating international trade, Islamic cross-border banking relationships, investment, and financial networking<sup>29</sup>. Furthermore, the establishment and rationale concerning Islamic banking in Uganda are aimed at providing a banking system that could complement the conventional banking system in Uganda. In essence, establishing an Islamic banking system to complement the conventional banking system in Uganda could result in

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<sup>26</sup> Ibid

<sup>27</sup> Olusegun Femi Akeredolu, “Àmòtèkùn Corps: Constitutionality or Otherwise as a Subnational Response to Security in a Federal State,” *Journal of Indonesian Constitutional Law* 2, no. 3 (2025): 352–73, <https://doi.org/10.71239/jicl.v2i3.189>.

<sup>28</sup> Abdul Azeez Yusuf, Mukasa Charles, Musinga Samuel, Abdullahi Bello, and Lukoma Ronald. “The Development and Growth of AI in Uganda: How Is Uganda Faring from a Legal Perspective?” *Kampala International University Law Journal* 6, no. 2 (2024): 204–223. <https://doi.org/10.59568/KIULJ-2024-6-2-11>

<sup>29</sup> Alziyadat, Naser, and Habib Ahmed. 2019. “Ethical Decision-Making in Islamic Financial Institutions in Light of Maqasid Al-Sharia: A Conceptual Framework.” *Thunderbird International Business Review* 61 no. 5, (2019): 707–718. <https://doi.org/10.1002/tic.22025>.

financial stability that is sustaining. This is concerning the fact that Islamic banks have been noted to maintain stability due to their exceptional procedure of risk-sharing and having assets as a backup to mitigate financial challenges<sup>30</sup>. Furthermore, they indulge in financial principles that tend to mitigate financial risk, for example, the prohibition of excessive speculation and investing in transactions that can reduce the risk of financial bubbles and crashes.

Concerning the above, it suffices to state that the establishment of the Islamic banking system in Uganda is considered an achievement by the Ugandan government, given the fact that it tends to provide several prospects to the Ugandan financial sector. However, given the fact that the bank is still at its nascent stage, it is faced with several challenges, such as inadequate knowledge and understanding concerning the Islamic banking system among professionals and the general populace, evolving regulatory framework, and the challenges of integrating Islamic banking to compete fairly with the conventional banking system. However, to surmount these challenges, experience could be drawn from Indonesia, which has a long-time history and success in the Islamic banking system<sup>31</sup>.

Indonesia is considered and regarded as a country with the world's largest Islamic faith. However, the establishment of the Islamic banking system in Indonesia took effect in 1992 when the first Sharia bank, called Muamalat Bank of Indonesia, was established. Although there were no statutory laws regulating the bank, however, the bank is to be Sharia-compliant. In this regard, the core values and principles of Islamic law were utilized to regulate the activities of the Islamic banks in Indonesia. It was in the wake of 2008 that the Indonesian government enacted the Islamic Bank Act to legally support the initiative and growth of the Islamic banking sector<sup>32</sup>. The Islamic Bank Act of Indonesia provides a legal framework that tends to regulate the financial activities of Islamic banking. The law further established the National Sharia Board for the sole purpose of ensuring that Islamic banks are sharia compliant. This developmental trend of the Islamic banking system in Indonesia led to the expansion and setting up of several Islamic banks in Indonesia. In this regard, in Indonesia, several Islamic

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<sup>30</sup> Abbas Said Abubakar and Josiah Aduda “Islamic Banking And Investment Financing: A Case”, *International Journal Finance*, 2 no. 1, (2017): 66–87.

<sup>31</sup> Ahmed Mutunzi Kitunzi, Musa Sennanda, Gerald Kasigwa and Ismail Kintu, “Islamic Trade Financing and Poverty Mitigation: An Econometric Estimation Informing Islamic Development Bank Member Countries Considering Their Entrepreneurial Ecosystems”. *International Journal of Applied Research in Management and Economics*, 6 no. 2, (2023): 13–32. <https://doi.org/10.33422/ijarme.v6i2.1101>

<sup>32</sup> Alhammadi Salah, Khaled O. Alotaibi & Dzikri F. Hakam, “Analysing Islamic banking ethical performance from Maqāṣid al-Sharī‘ah perspective: evidence from Indonesia”. *Journal of Sustainable Finance & Investment*, 12 no. 4, (2020): 1171–1193. <https://doi.org/10.1080/20430795.2020.1848179>

banks are Sharia-compliant and offer financial services to individuals<sup>33</sup>, retail, and corporate entities.

Islamic banks operate in Indonesia and give a wide range of Sharia-compliant financial services, among them Islamic savings and checking accounts, home and car financing, investment accounts, and corporate financing. Regularly, they distribute sukuk (Islamic bonds) as one of the secured financing instruments, which generate funds for both public and private sector projects, all in accordance with Islamic financial principles.

However, the Indonesian government has also incorporated Sukuk in financing public projects. In this regard, the Indonesian government has successfully integrated Islamic finance into its national economy in the way of promoting the Islamic banking system. However, the development and establishment of the Islamic banking system in Indonesia has severely impacted and improved the Indonesian financial system.<sup>34</sup> This is concerning the fact that it stands as an alternative to the conventional banking practice in Indonesia, thereby meeting the needs of the larger population who are considered Muslim.<sup>35</sup> Furthermore, the diversity and incorporation of Islamic banks into Indonesia's banking system have aided the country over time in mitigating economic risk and financial shock. Over the years, Indonesian Islamic banks have been able to promote accountability, transparency, social stability, and financial and economic stability.<sup>36</sup> It is relevant to reiterate that given the expansion and development of Indonesia banking system over the years, they have been positioned and regarded as one of the leading and big players in the global Islamic financial institutions and market, given the fact that they have been able to attract and gain the attention of international investors, foster and encourage Islamic cross-border financial cooperation.<sup>37</sup>

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<sup>33</sup> Alqahtani, Faisal, David G. Mayes, and Kym Brown. "Reprint of Economic Turmoil and Islamic Banking: Evidence from the Gulf Cooperation Council." *Pacific-Basin Finance Journal* 42, (2017): 113–125. <https://doi.org/10.1016/j.pacfin.2016.06.013>.

<sup>34</sup> Ssemambo Hussein Kakembo, Abu Umar Faruq Ahmad and Aishath Muneeza, "Pioneering Islamic microfinance in Uganda: a sustainable poverty alleviation approach" *Economic*, 9, no 1, (2022): 249–272, <https://doi.org/10.4337/9781802209907.00026>

<sup>35</sup> Abudirbala, A. Mustapha, & Mukhtar, M. Mohammed, "Shifting from Conventional to Islamic Banking: Challenges and Barriers (a case study on Libya)". *Journal of Pure & Applied Sciences*, 18 no. 2 (2019): 45-76; Antony Antony, Excel Brayen Sandoval, and John Elvin Louis, "Legal Reform in Indonesia's Response to the Digital Manipulation Era: A Responsive Legal Theory Approach," *Trunojoyo Law Review* 8, no. 1 (2026); Ousu Mendy, "Constitutional Amendments in Indonesia: An Analytical Perspective of the Reformation Agenda," *Journal of Indonesian Constitutional Law* 2, no. 3 (2025): 406–27, <https://doi.org/10.71239/jicl.v2i3.201>.

<sup>36</sup> Paul Atagamen Aidonojie, Ikubanni O. Oluwaseye and Okoughae Nosa, "The Prospect, challenges and Legal Issues of Digital Banking in Nigeria", *Cogito Multidisciplinary Journal*, 14, no. 3, (2022): 186 – 209,

<sup>37</sup> Adekoya, A. Adeniyi, "Islamic banking and finance in developing countries: The goals, challenges and prospects. *International Journal of Economics, Commerce and Management*, 10 no. 5, (2022): 348-369; Alhammedi, Salah, "Islamic finance as a driver for enhancing economic sustainability and innovation in the

Concerning the above, it suffices to state that the Islamic banking system in Indonesia is considered promising and offers a better opportunity that most developing countries following the line of the Islamic banking system could learn and adapt to the system for effective and better actualization of the purpose of establishing the Islamic banking system.

### **3. Legal Framework Concerning Islamic Banking in Uganda**

Although the constitution of Uganda is not a primary law that regulates financial or banking activities, however, it provides a mark that could empower the Ugandan government to enact laws concerning financial institutions. For example, Article 189 of the Ugandan constitution specifically places the responsibility on the Ugandan central government to ensure regulatory oversight concerning financial institutions. Though it does not mention the Islamic banking system however, financial institutions are involved in banking activities which also include the Islamic banking system. Also, Article 40 of the Uganda constitution further stipulates that the Ugandan government is mandated to take the necessary steps, and initiate and involve its citizens in the development and formulation of strategic plans that affect them. Furthermore, Article 32 of the Uganda constitution further stipulates that the Uganda government is mandated to execute affirmative action concerning groups deemed to be marginalized to resolve the imbalances in society. It is concerning that the Uganda government had sought to establish and approve the Islamic banking system. However, it must be noted that in Uganda there is no comprehensive or primary legal framework concerning the Islamic banking system. In this regard, it is the broader legal framework concerning financial and banking institutions and regulations that regulate Islamic banking practice. In this regard, it will be relevant to examine some of these laws as follows.

The Uganda Financial Institutions Act 2004 was enacted to consolidate the control, regulation, and discipline of financial institutions. However, the law is not a primary legislation that tends to provide for and regulate the Islamic banking system in Uganda. However, there several provision that by implication of interpretation applies to the Islamic banking system. For example, the introductory part of the law specifically provides that the Act is meant to consolidate financial institutions, and regulate, discipline, and control financial institutions through the Central Bank. Furthermore, section 3 which is the interpretation section of the Act defined “banks” and “financial institutions” to include companies licenses to operate as

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GCC", Journal of Science and Technology Policy Management, Vol. ahead-of-print (2024), <https://doi.org/10.1108/JSTPM-11-2023-0206>

financial institutions as its main business. In this regard, it suffices to state that by implication the Islamic bank which is meant to operate as a financial institution is by implication regulated by the Financial Institution Act.

It must be noted that the Uganda Financial Institutions Act 2004 has been amended by the Financial Institutions (Amendment) Act, 2016. The introduction of the law specifically mentions that the amendment is aimed at providing for the Islamic banking system. Concerning this, section 1 of the Financial Institutions (Amendment) Act amended section 3 of the primary Act to include Islamic banks as part of financial institutions contemplated by the law. The amended Act further defined “Islamic bank” as a financial institution licensed to execute financial business activities in Uganda and whose business is solely Islamic or Sharia compliance. In this regard, an Islamic contract or business involves any business that is by sharia principles and tenets. Concerning this section 1 of the Financial Institutions (Amendment) Act, 2016 stipulates Islamic business activities that Islamic bank is required to adhere to as presented and represented in the diagrammatical flow below;



**Figure 2:** Diagrammatical flow of Islamic Banking Activities in Uganda as stipulated by Law

Concerning the above, it suffices to state that before the licensing of the first Islamic bank in 2023 Uganda, the Financial Institutions (Amendment) Act, 2016 laid a solid legal framework concerning Islamic banking activities. Furthermore, it also provides that before

any Islamic bank is incorporated, it must show proof that its business activities are Sharia law compliant. It must also be noted that other relevant legislation that also regulates the Uganda Islamic banking system is the Excise Duty (Amendment) Act,<sup>38</sup> which requires 15% of the fees charged on ledger, withdrawal, ATM, and other transactions, but excludes loans under Islamic banking. However, the Income Tax (Amendment) (No. 2) Act, 2023 seems to be more elaborate on taxes concerning the Islamic banking system. Section 1 of the Amendment Act amended section 2 of the principal Act by defining Islamic banking activities to mean any financial business activities that are Sharia compliance. In this regard, it further amended several provisions of the principal act to capture all Islamic financial and business activities to capture them under the tax net.

Furthermore, it suffices to state that several regulations in Uganda also provide for and regulate Islamic banking activities. One of the primary regulations is the Financial Institution (Islamic Banking) Regulation.<sup>39</sup> Section 2 stipulates the essence of the Regulation to include the regulation of Islamic banking activities, licensing of institutions to function as Islamic banks, and ensuring that the Islamic banks operate within the confine of Sharia laws. Section 3 which is the interpretation section adopts the definition of “Islamic contract”, “Islamic financial business” and “Islamic financial Institution” by the definition of Financial Institutions (Amendment) Act 2016. Section 4 of the regulation stipulates that for an institution or entity to function as an Islamic bank, such entity must obtain a license as stipulated in the Financial Institutions (Licensing) Regulation, 2005. It suffices to state this procedure of obtaining a license therefore subjects Islamic banks to regulations that regulate conventional banks which may be contrary to Sharia practice. Section 5 of the regulation further stipulates deposit Islamic bank is required to operate as represented in the diagram below.

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<sup>38</sup> Excise Duty (Amendment) (No. 2) Act, 2023

<sup>39</sup> Financial Institution (Islamic Banking) Regulation, 2018



**Figure 3:** Deposit account Islamic bank in Uganda is required to maintain

However, for effective regulation, coordination, and supervision of Islamic banks in Uganda, section 12(1) of the Regulation stipulates that all banks operating as Islamic banks must establish a Shariah Advisory Board as stipulated in the Financial Institutions (Amendment) Act 2016. The Shariah Advisory Board shall be answerable to the director of the financial institutions. By section 14 of the Regulations, the Board is responsible for reviewing, advising, and approving financial business activities of the Islamic bank that appointed the board to ensure that their banking activities align with Shariah principles. Furthermore, section 18 of the Regulation provides for the establishment of a Central Shariah Advisory Council to be responsible for advising the central bank on matters as it concerns Islamic banks' activities. However, it must be noted that other regulations also apply to Islamic banking activities, some of these regulations include the Bank of Uganda (BOU) Guidelines and Circulars, and Sharia Advisory Board Regulations.

Concerning the above, it suffices to state that there is no specific law tailored towards the regulations of Islamic banking activities in Uganda. However, it is apt to reiterate that the Financial Institutions (Amendment) Act 2016 and the various regulations have sufficiently provided for and regulated Islamic banking activities. Although given the fact that the Islamic banking system in Uganda is still at its nascent stage, it will be relevant to consider the Indonesian jurisdiction to learn how best to enhance its development, growth, and actualize the essence of its establishment.

#### **4. Legal and Socio-Economic Issues Concerning the Islamic Banking System in Uganda**

No doubt, the establishment of the Islamic banking system aided the Ugandan financial system in creating diversified financial institutions that are based on Sharia principles. Furthermore, it has also aided in ending the struggles of the Muslim faithful, requesting and demanding a financial institution that is Islamic-oriented. However, the Islamic banking

institution seems to be promising and has some prospects that could enhance economic growth and development. However, given the review of the conceptual development and the legal framework concerning the Islamic banking system in Uganda, there seem to be several identified legal and socio-economic issues that could mitigate its viability and the purpose of its establishment. Some of these legal and socio-economic issues are therefore identified and discussed as follows:

### **Absence of Specific Legislation**

A review of the legal, regulatory, and policy framework concerning the regulation of Islamic banking institutions shows that several laws specifically provide for and regulate Islamic banks in Uganda. For example, there is the Financial Institutions Act of 2004, the Financial Institutions (Amendment) Act, of 2016, the Financial Institutions (Islamic Banking) Regulations, of 2018, and several other regulations that apply to the conventional banking system. In this regard, this may result in having several legislation and regulations that result in regulatory ambiguity and mismatch. Furthermore, too many laws may result in having or introducing ideology that may be contrary to the tenets and principles that guide the practice and operation of the Islamic banking system. In this regard, there is a need for a primary legal framework that is tailored to suit the purpose of the Islamic banking system and which takes precedence over every other law and policy framework that may have a direct or indirect impact on their operation.

### **Conflicts and Overlaps of Regulatory Framework**

A review of the various laws and policies regulating the Islamic banking system reveals that a similar requirement for granting licenses to conventional banks to operate is also required from Islamic banks. Also, the conventional laws that regulate the conventional banking system are meant to be applied and regulate Islamic banks. In this regard, this may result in the introduction of foreign substances that may contradict the tenets and precepts upon which Islamic bank is established. Furthermore, it was also observed that there are several repetitions of Similar Provisions in the various legal and policy frameworks with little alteration, which could also result in conflicts of laws. In this regard, this can lead to operational challenges wherein Islamic banks may find it difficult to reconcile and operate based on the requirements of conventional banking regulations and with the tenets of Islamic finance. Such overlaps can cause compliance issues and inefficiencies and compliance issues, potentially hindering the development and growth of the Islamic banking sector.

Nevertheless, it is important to point out that some legal and socio-economic factors may eventually reduce the durability and efficiency of the Islamic banking system in Uganda. One of the main obstacles is the legal and regulatory framework's complexity, which is still not well understood by a large part of the population and even some stakeholders, thus limiting confidence and participation. Additionally, religious and cultural barriers are still there because of the confusion that equates Islamic banking with religious practice and not as an ethical financial option available to all. The system also needs to deal with infrastructural problems like a lack of technological capacity and institutional support, which are prerequisites for effective service delivery. Moreover, insufficient public enlightenment and poor understanding of Islamic banking's operational modalities are two main factors that impede its acceptance and expansion. Given the rather slow development of Uganda's Islamic banking system, the task of bringing local regulations in line with the international Islamic finance standards established may lead to the risk of regulatory stand-off and difficulties in global convergence of best practices.

Concerning the above, it suffices to state that for the effective growth, development, and viability of the Islamic banking system in Uganda, there is a need to address the above legal and socio-economic gaps.

## **5. Legal and Policy Approach Concerning the Islamic Banking System in Indonesia**

Indonesia, a country with one of the largest populations of Islamic religious groups, launched its operation of the Islamic banking system in 1992, which led to the development of Bank Muamalat of Indonesia. Since the licensing of the Islamic banking system, there have been several inflows and establishment of Islamic banks by several individuals and cooperate bodies. These banks were established to comply with the tenets, principles, values, and guidelines of Islamic laws found in the *Quran*, *hadith*, and *sunna*. Some of the key Islamic principles that regulate the Islamic banking system include the risk-sharing formula, joint ventures (also known as *Musyarakah*) leasing (also called *Ijarah*), Islamic bonds (*Sukuk*), prohibition of interest rate (also known as *riba*) as Islam does not permit interest on the loan, investment base on ethical and Islamic practice, and profit sharing among investors of the bank. Prohibition of Haram activities such as investing in gambling, alcohol, pork, and any other act that tends to promote immorality in the society. Also, *Zakat* which is also known as almsgiving in Islamic religion is allowed and incorporated into the Islamic banking system. In this regard, *zakat* funds are met to cater to social welfare and those in need in society and

reduction of poverty. Furthermore, the involvement of unethical business of speculation (also known as *gharar*) is strictly prohibited. However, to ensure banks established as Islamic financial institution comply with Islamic principles and with government initiatives to promote the Islamic banking system in Indonesia, Law No. 21 of 2008 was enacted by the Indonesian government to regulate the Islamic banking system in Indonesia.

In this regard, it suffices to examine some of the key provisions of Law No. 21 of 2008 of Indonesia<sup>40</sup> as it concerns the regulation of the Islamic banking system. Article 1 of Indonesia Law No. 21 of 2008<sup>41</sup> provides for the definition of some Islamic banks' terminology and some technical terms that may be ambiguous. It set the stage by clarifying and simplifying some technical words or phrases. Article 10,<sup>42</sup> requires that an entity or individual who intends to run or establish an Islamic bank must endeavor to obtain a license from the relevant authority authorized to issue the license.

The article highlights a number of important factors that need to be looked at by the responsible authority before issuing a green light for a firm to operate as an Islamic bank. To start with, there should be no doubt that the bank will operate according to Islamic norms, without any exceptions. For this reason, the aspiring Islamic bank's business plan has to be very detailed, open, and clear, making sure that none of the activities it proposes will be in contradiction with Islamic finance principles. Additionally, the article requires the bank to provide evidence that it has the required amount of capital or financial resources that will enable it to operate and also satisfy the regulatory requirements.

The law, besides the licensing requirements, introduces the main principles that will be the basis for the activities of the Islamic banks through its Article 2. The major one among them is the *riba* (usury) prohibition, which forbids both charging and paying interest on loans. The law further requires the use of profit-and-loss sharing schemes, which means that, rather than turning the whole investment into a risk for the lender, the risk is to be shared fairly. Additionally, Islamic banks are instructed not to breach the principle of *gharar*, which indicates that the public funds are to be directed into pure and Sharia-compliant businesses only, thus refusing to engage in practices or fields that are considered *haram* (forbidden) in Islam.

Concerning the above, it suffices to state that the essence of Article 2 of the Law<sup>43</sup>, is aim to ensure Islamic banks comply with Islamic principles and tenants. This is concerning

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<sup>40</sup> Law No. 21 of 2008 of Indonesia

<sup>41</sup> Ibid

<sup>42</sup> Ibid

<sup>43</sup> Ibid

the fact that the Islamic banking system is different from the conventional banking system. It must be noted that by Article 4 of the Law Islamic banks in Indonesia are categorised into two and they include: Islamic Commercial Banks and Islamic. While Islamic commercial banks are required to operate exclusively on Islamic or Sharia core values and principles, however, the Islamic Business Units operate as a unit in conventional banks to offer financial services that are sharia compliant. In this regard, the Indonesian government in a bid to promote the Islamic banking system allows for a hybrid banking system that involves an Islamic and conventional banking system to merge and operate as a single entity with different rules and regulations.

In Indonesia, hybrid banking is carried out through an integrated governmental structure that allows Islamic Business Units (IBUs) to work inside or next to conventional banks; however, they have to follow different Sharia-compliant rules<sup>44</sup>. In this situation, a single banking entity can market both the conventional and the Islamic financial products at the same time, but the operational, accounting and governance systems are made to be very clear-cut with Sharia law compliance in mind. The funds collected through Islamic windows are separately administered from the conventional interest-based funds, and the transactions are enabled by an internal Sharia Supervisory Board, which has the authority to stop *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation)<sup>45</sup>. The hybrid system allows banks to share not only infrastructure and technology but also risk management systems and human resources and, as a result, it reduces operational costs and makes financial services available to a larger number of people. The customers can even select between conventional and Islamic products within the same institution, be it profit-and-loss sharing contracts (*mudharabah* and *musharakah*) or asset-backed financing (*murabaha*)<sup>46</sup>. This regulatory leniency promotes a gradual transition into full-fledged Islamic banking while at the same time keeping the financial system of Indonesia, which is wider and more stable.

In this regard, it enhances the banking system in Indonesia to provide a variety of banking services to consumers. For effective regulation and monitoring of the operation and activities of Islamic banks, Article 18<sup>47</sup> stipulates that Islamic banks must establish a Sharia

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<sup>44</sup> Antonio, Muhammad Syafii, Yulizar D Sanrego, and Muhammad Taufiq, "An Analysis of Islamic Banking Performance: Maqashid Index Implementation in Indonesia and Jordania." *Journal of Islamic Finance* 1, no. 1, (2012): 012 – 29.

<sup>45</sup> Hasan Rashi, Hassan, M. Kabir, and Aliyu, Sirajo, "Fintech and Islamic Finance: Literature Review and Research Agenda". *International Journal of Islamic Economics and Finance (IJIEF)*, 2 no. 1, (2019): 75-94.

<sup>46</sup> Effendy, Bahtiar. "Islamic Economic Institutions in Indonesia: A Religio-Political Perspective". *Islam in Southeast Asia: Political, Social and Strategic Challenges for the 21st Century*, edited by K. S. Nathan and Mohammad Hashim Kamali, Singapore: ISEAS Publishing, 2005, pp. 64-81. <https://doi.org/10.1355/9789812306241-006>

<sup>47</sup> Ibid

Supervisory Board that will ensure compliance with Sharia laws, approving all financial activities that include products and services. Article 24<sup>48</sup> Further stipulates the mechanism and procedure involved in dispute resolution. The provision stipulates that before resorting to court concerning any dispute, the parties must first resort to alternative dispute resolution such as arbitration or mediation. However, where the dispute is concerning Sharia principles the matter must be resolved by the binding decision of the National Sharia Board.

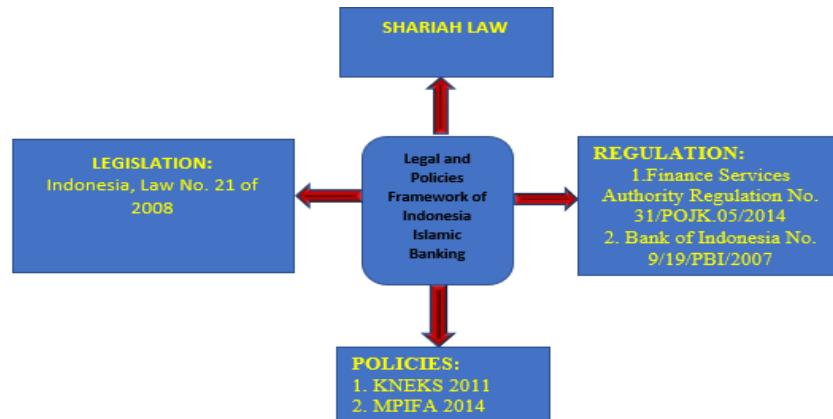
It must be noted that there are other several regulation that complements the Indonesia Law 21 of 2008 for effective regulation of the Islamic banking system. For example the Finance Services Authority Regulation No. 31/POJK.05/2014 established in 2011<sup>49</sup> it provides for the regulation of financial activities which also include Islamic banking activities. The regulation requires that the Islamic banking system in Indonesia indulge in sustainable financial practices that could reduce financial risk management and financial shock that may emanate from their financial activities. Furthermore, the Bank of Indonesia No. 9/19/PBI/2007<sup>50</sup> provides for and regulates the Islamic bank monetary policy framework. In this regard, the regulation requires Islamic banks to engage in interbank money markets and the operation of the central bank. It also ensures or supports the issuance of Bank of Indonesia Sukuk (SBIS), providing banks established to operate under Islamic principles are Sharia-compliant about financial activities and investment opportunities. Furthermore, the Indonesian government has through several policies enhanced and promoted the development of the Islamic banking system. For example, in 2016 the Indonesian government established the National Committee for Islamic Economy and Finance known by the acronym KNEKS. The essence of the KNEKS is to aim to collaborate with the government, regulatory bodies, ministries, and various stakeholders in developing the Islamic financial sector. Furthermore, another key policy initiative introduced by the Indonesian government to enhance the Islamic banking system was the Master Plan for Islamic Financial Architecture (MPIFA) in 2014. The essence of the MPIFA is aimed at designing strategies to enhance human capital and creating awareness concerning Islamic financial institutions.

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<sup>48</sup> Ibid

<sup>49</sup> Finance Services Authority Regulation No. 31/POJK.05/2014 established in 2011

<sup>50</sup> Bank of Indonesia No. 9/19/PBI/2007



**Figure 1:** Diagrammatical Flow Indonesia Islamic Legal and Policies Framework

## E. Conclusion

The study examines the legal and socio-economic issues concerning the Islamic banking system in Uganda to learn from the Indonesian experience. In this regard, the study has been able to identify the fact that the development and establishment of the Islamic banking system in Uganda is a clarion call and demand by the Muslim faithful. However, it suffices to state that it is also a strategic move to diversify and strengthen the financial institutions in Uganda. The study also reveals the fact that though the Uganda Islamic banking institution is still at its nascent stage, however, given the fact that its theoretical framework is based on deontological principles that emphasize adherence to the strict rules and principles that are considered ethical and moral standards upon which it was established seem to be promising and receive public acceptance.

The study further examines the legal, policy, and regulatory framework concerning the Islamic banking system in Uganda and Indonesia. It was observed that in Uganda and Indonesia, Islamic banks were established to comply with the tenets and principles of Islamic laws found in the Quran, hadith, and sunna. Some of the key Islamic principles that regulate the Islamic banking system include the risk-sharing formula, leasing (also called *Ijarah*), joint ventures (also known as *Musyarakah*), Islamic bonds (*Sukuk*), prohibition of interest rate (also known as *riba*) on loan. Furthermore, it also requires investment based on ethical and Islamic practices, and profit sharing among bank investors. Also, it prohibits Haram activities such as investing in gambling, alcohol, pork, and any other immorality activities. In contrast, Indonesia has over time enacted primary legislation, regulation, and government policies that incorporate these principles that tend to regulate Islamic banking activities. However, given the fact that

Uganda's Islamic banking system is still at its nascent stage is still grappling with specific legislation that incorporates the Islamic virtue that regulates Islamic banking activities.

Furthermore, they also identify several legal and socio-economic challenges that could mitigate the viability and effectiveness of the Islamic banking system in Uganda. Some of these legal and socio-economic challenges include the absence of a specific regulatory framework tailored to Islamic banking, the ambiguity and complexity of extant laws, and overlapping and conflicting laws. Additionally, limited public awareness and understanding of Islamic banking principles, alongside inadequate infrastructure, threaten the viability and effective operation of the Islamic banking model in Uganda. In this regard, learning from the Indonesian experience in enhancing the Uganda Islamic banking institutions, it is therefore recommended as follows.

In order to improve the efficient running of the Islamic banking system, a simplification of the current legal framework and the addition of clear, specific Sharia-based rules governing Islamic banking activities are necessary. Training and certification of professionals with specialised knowledge in Islamic finance should be done, along with public sensitisation and awareness campaigns that will contribute to an increase in understanding of Islamic banking operation. Furthermore, the engagement of international Islamic banks in regulatory matters would not only improve the capacity of the regulators but also help in the adoption of global best practices. The support of the government is vital, especially in the promotion and building of the required infrastructure that will support the growth and sustainability of the Islamic banking system.

## **F. Conflict of Interest**

The authors declare that there is no conflict of interest as this research is concern.

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