

Adoption of Islamic banking in a non-Islamic country: evidence from Uganda

Adoption of
Islamic
banking

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Abstract

Purpose – This paper aims to examine the concept and practice of Islamic banking in the context of a non-Islamic country such as Uganda.

Design/methodology/approach – Semi-structured interviews were used to elicit the strategies banks may use to ensure that the Islamic banking system is successful and to ascertain those factors that may hinder its success. Chief executive officers of business associations, heads of committees on Islamic banking and religious leaders were interviewed.

Findings – The strategies used by financial institutions in ensuring the adoption of Islamic banking are now known such as “creating awareness of Islamic banking’s mode of operation among existing and potential clients.” The findings also show that factors such as “lack of trust among clients” may hinder the success of Islamic banking.

Research limitations/implications – The research findings are useful for informing the deliberations of regulators, the business community and financial institutions. The results are applicable only to those countries in the preparation stages of adopting Islamic banking services for the first time, but they could be generalized to any new product launch in any country.

Originality/value – This paper may help Ugandan financial institutions to design strategies that will accelerate the adoption and, ultimately, the diffusion of Islamic banking in Uganda.

Keywords Uganda, Islamic banking, Adoption, Diffusion of innovation

Paper type Research paper



1. Introduction

Global Islamic banking assets totaled US\$1.5tn by the end of 2016 (Islamic Financial Services Board, 2017). By 13 June 2017, Bank Negara Malaysia was reporting that total Islamic banking (IB) assets had reached US\$1.8tn and that IB assets were expected to surpass US\$3tn by 2020. Several jurisdictions, especially in Africa, continue to register

progress in the adoption of IB. For example, in 2017, the central bank of Morocco, Bank Al-Maghrib, issued IB licenses for the first time to five banks (World Finance, 2017). Countries such as Nigeria, Sudan, South Africa, Senegal, Kenya and Niger have put in place the necessary legal and regulatory frameworks to enable IB (Bank Negara Malaysia, 2017); and in February 2018, Uganda issued IB regulations to the financial institutions. The Islamic Financial Services Board (IFSB) stability report of 2015 indicates that Islamic banks grew at a rate of 17 per cent per annum. This adoption and spread of IB has been attributed to the desire for interest-free loans and profit-sharing schemes (Ofurum, 2008), especially among private investors and the government. The adoption of IB may be affected by the awareness level, reputation and personal perception of IB products in each community, as well as confidence in IB (Kabiru, 2014). The adoption of IB services in the USA and the UK was due to the financial crisis creating the need for more funding of private investments and government operations (Islamic Financial Services Board, 2015). In other jurisdictions, IB has been adopted mainly because of enabling laws, sensitization of the public about the products, laxity at the implementation of the profit and loss sharing (PLS) principle and interest-free loans (Mumtaz *et al.*, 2015; Sulaiman and Datin, 2013; Dusuki and Abdullah, 2007).

Regionally, IB has been adopted in Tanzania with the establishment of Amana Bank, which is a fully fledged Islamic bank and Kenya Commercial Bank, which offers IB services in Tanzania (Omar *et al.*, 2017). While IB has been adopted easily in other countries, this has not been the case in Uganda. This is evidenced by opposition among some Ugandans to the amendment of the Financial Institutions Act of 2004 in January 2016 to pave way for IB (Mwesigwa, 2016). Such difficulties in the adoption of IB in Uganda may be explained by attitudes, social influence and religious affiliations (Hanudin *et al.*, 2011). IB is viewed as an innovation in Uganda. Rogers (2003) argued that for an innovation to be adopted, there must be change agents (individuals in responsible positions capable of taking decisions to influence others). Consequently, legislators, politicians, religious leaders and other heads of institutions have a role to play in ensuring that IB is embraced in any given locality. Rogers (2003) further argued that uncertainty curtails the speed of adopting innovation, but that the adopters of a given innovation should be alerted of the benefits and dangers of such an innovation. In the context of this study, those adopting IB need to be made aware of its benefits and dangers.

There have been several studies on the adoption of IB products (Nain *et al.*, 2014; Sulaiman and Datin, 2013; Taib *et al.*, 2008; Hanudin *et al.*, 2011), although they have not focused on how existing banks can prepare themselves to ensure that IB is embraced within their jurisdictions. Furthermore, little attention has been paid to sub-Saharan Africa, which comprises developing countries with high levels of poverty, failing companies and primitive, secular societies. Some recent studies have focused on customers' intention to adopt IB (Kaawaase and Nalukwago, 2017; Lujja *et al.*, 2016), but they have not considered how banks should design strategies to ensure that IB becomes a success. There are also few qualitative survey studies on developing countries, especially in Africa, although such studies would provide an in-depth understanding of the topic. In light of this, the present study investigates the adoption of IB in Uganda by addressing the following research questions:

RQ1. How can Islamic banking be adopted in Uganda?

RQ2. What could hinder the success of Islamic banking in Uganda?

The two research questions were answered through the use of semi-structured interviews of the chief executive officers of leading business associations, heads of committees on IB and religious leaders. The findings indicate that creating awareness of IB's mode of operation,

having enabling laws, using business associations to recommend members to Islamic banks, and the provision of support services are the core strategies that can be used by financial institutions to ensure the success of IB. Furthermore, issues like insider trading, competition and segregating tendencies in the provision of IB services may hinder the success of IB in any developing secular economy.

Our study makes four important contributions. First, it contributes to the existing but scarce literature on the adoption of IB in the secular states of sub-Saharan Africa. Future researchers may benefit from such literature. Second, regulators, such as central banks, may use this research to further their mandate. Third, based on this research, the business community may make valid decisions about funding sources for their businesses. Finally, banks can use this research to further improve their operations.

The rest of the paper is organized as follows: Section 2 presents a literature review, in which the profile of Uganda and her banking system are explored, the theory underpinning the study is discussed, and existing literature is reviewed. Then follow Sections 3, 4 and 5 on methodology, findings and discussion. Section 6 presents a summary and conclusion.

2. Literature review

2.1 Uganda's profile and the banking system

Uganda is a landlocked country in East Africa, located about 800 km inland from the Indian Ocean. It lies on the equator, between 10° 29' south and 40° 12' north latitude, 290° 34' east and 350° 0' east longitude. The country is bordered by Kenya to the east, South Sudan to the north, the Democratic Republic of Congo to the west, Tanzania to the south and Rwanda to the south-west. It has a total area of 241,551 km², of which the land comprises 200,523 km², with bodies of water making up the rest. Uganda gained independence from Britain on 9 October 1962. The population of Uganda was 34.6 million in 2014 and the 2014 census indicates that Catholics are the largest religious denomination, constituting 39.3 per cent of the population, followed by Anglicans (32 per cent) and Muslims (13.7 per cent). Taken together, these denominations account for 85 per cent of the total population (Uganda Bureau of Statistics, 2016). The remaining 15 per cent comprises born-again Christians (11 per cent) and Seventh Day Adventists (1.7 per cent), with other religions and those with no religion constituting only 2.3 per cent of the total population.

Uganda's banking sector is made up of commercial banks, credit institutions, micro-deposit-taking institutions and other micro-finance institutions such as savings and credit cooperative societies (SACCOs). There are 24 licensed commercial banks, four credit institutions, five micro-deposit-taking institutions and over 2,000 SACCOs (AMFIU Directory, 2017/2018). The first bank, the National Bank of India, was established in 1906; this bank later became Grindlays Bank and then Stanbic Bank. The banking sector has evolved through bank closures, mergers and acquisitions, such as the National Bank of India's merger with Standard Bank in 1912; the Bank of Netherlands merging with Grindlays Bank, Uganda Credit and Savings Bank to become the Uganda Commercial Bank (UCB; the first local commercial bank) in 1969 which in 2001 was taken over by Stanbic Bank; the 2005 takeover by Barclays Bank of Nile Bank; the National Bank of Commerce being taken over by Crane Bank in 2015, and then, in turn, being taken over by the DFCU bank in 2017 (Beck and Hesse, 2006, 2009; Bategeka and Okumu, 2010; Lujja *et al.*, 2016). The Bank of Uganda, which is Uganda's central bank and a regulator of the banking sector, was established by the 1966 Bank of Uganda Act. Uganda's banking sector is largely private, with a few banks such as Housing Finance Bank and Post Bank Limited in which the government has a controlling interest. The Ugandan banking sector also comprises the Uganda Development Bank and the East African Development Bank, neither of which is

regulated by Bank of Uganda. According to [Lujja et al. \(2016\)](#), banks are part of the financial system that plays a major role in a country's economic development and bridge the gap between deficit and surplus spending units to ensure the economic wellbeing of the population.

2.2 Theoretical foundation

We use the diffusion of innovation (DOI) theory to explain the adoption of IB in Uganda. The DOI model was first proposed by Rogers in 1962, with the concept evolving over later editions ([Rogers, 1995, 2003](#)). The DOI theory asserts that innovation diffusion is a general process not bound by the type of innovation, by who the adopters are or by place or culture ([Rogers, 2003](#)). [Rogers \(1995, p. 5\)](#) defined diffusion as the process by which an innovation is communicated through various channels over time and among the members of a social system. DOI theory has four important elements: innovation, communication channels, time and social system. Innovation is an idea, practice or project that is perceived as new by an individual or other units of adoption ([Rogers, 2003, p. 12](#)). Innovation may have been invented a long time ago, but if individuals perceive it as new then the innovation is new ([Sahin, 2006](#)). For example, the concept of IB is new in Uganda. Communication channels are the second element of DOI. [Rogers \(2003\)](#) defined communication channels as a process in which participants create and share information with one another to reach a mutual understanding. This implies that, for the adoption of IB, there is need for a clear communication channel for religious leaders, politicians and the media, among others. The next element is time. The timing of IB is appropriate to Uganda given the high-interest rates charged by existing conventional banks, as these high rates have led to a number of business failures due to the high cost of capital. Finally, the social system is defined as a set of interrelated units engaged in joint problem-solving to accomplish a common goal ([Rogers, 2003, p. 24](#)). In this paper, we consider the social systems to include the various stakeholders interested in IB; these mostly include private investors and government.

As noted above, [Rogers \(2003\)](#) argued that change agents are needed for an innovation to be adopted, that uncertainty curtails the speed of innovation adoption, and that the adopters of innovation should be alerted to its benefits and dangers. [Rogers \(2003\)](#) further suggested that DOI theory entails certain attributes, such as relative advantage, perceived compatibility and perceived complexity, which are vital for the adoption of an innovation. For firms in Uganda to understand and share information regarding IB, seminars and conferences need to be organized by bodies, such as the Bank of Uganda, political and religious leaders and the public relations offices and marketing departments of interested banks.

2.2.1 Islamic banking concept, principles and products. Islamic banking (IB) is defined as a banking system based on the principles of Islamic law (also known as Shariah law) and guided by Islamic economics ([Yusniza and Azian, 2013](#)). According to [Sulaiman and Datin \(2013\)](#), the two basic principles behind IB are the sharing of profit and loss and the prohibition of the collection and payment of interest. Shariah forbids interest charged on loans, regardless of the amount of interest. The Holy Quran, in verses 278 and 279 of surat Al-Baqarah, states:

O ye who believe! Fear Allah and give up what remains of your demand of riba, if ye are indeed believers. If you do not, take notice of war from Allah and His Messenger but if ye turn back, ye shall have your capital sums. Deal not unjustly and you shall not be dealt with unjustly.

Businesses must also comply with Islamic principles; for example, the business should not be involved directly or indirectly in alcoholic drinks, gambling, pornography or any

activities that are considered harmful or that could cause disruption to the welfare of the society. Therefore, the conventional banking practice of expecting returns as one of their main sources of income is unsuitable from the Islamic perspective. All IB transactions are based on the concepts of honesty, justice and equity (Sudin and Wan, 2008). IB invests only in those projects that positively contribute to the community. Projects that contribute to the community negatively are considered haram. IB does not, therefore, invest in haram. Such forbidden projects include intoxicants and gambling, as the Quran states: "If they ask you about intoxicants and gambling: say, 'In them, there is a gross sin and some benefits for the people.' But their sinfulness far outweighs their benefit" (2:219). Intoxicants include forbidden foods and drinks, such as alcohol, spirits, pork, dead animals and any drink leading to intoxication and abnormal behavior.

There are four major categories of Islamic financial products:

- (1) insurance products;
- (2) capital market products;
- (3) credit products; and
- (4) deposit products (Newaz *et al.*, 2015).

Insurance products include *takaful* (Islamic insurance with joint risk-sharing). Newaz *et al.* (2015) argue that there are insurance companies established to offer Muslim individuals and businesses with insurance cover. Capital market products are designed to satisfy customers' investment needs with the expectation of earning a favorable return; according to Newaz *et al.* (2015), these products are based on the same principles as credit products. Capital market products include Islamic structured products, Islamic equity market products, Islamic stockbroking, and *sukuk*. Islamic structured investment products are customized according to the needs of the specific investor, who may be a wealthy individual or a group of investors. The Islamic equity market operates on the basis of equity participation by the investor.

2.2.2 The adoption of Islamic banking in other jurisdictions. The term "adoption" means to accept formally and put into effect (Tara *et al.*, 2014, p. 354). IB is now operational in Uganda, as it has been legally accepted and banks have been permitted to offer IB services in the country. The deputy general manager of Tropical Bank stated:

As Tropical bank, we take IB seriously and that is why we already set up a committee to spearhead this product within the bank and in Uganda. We have already trained staff (both Muslims and non-Muslims); prepared the risk policy; instituted the Shariah advisory board and designed the products and contracts (Senyonyi, 2018).

A number of studies have investigated the adoption of IB across the globe. For example, Echchabi *et al.* (2016) found that in Tunisia attitudes are significantly associated with customers' intention to adopt IB services. Further, Jamshidi *et al.* (2015) and Ali and Puaah (2017) found that perceived attributes of innovation, such as relative advantage, compatibility, complexity, trialability and observability, along with customers' desire, will influence the adoption of IB services. Islam and Rahman (2017) documented how Islamic financial services organizations could struggle to sensitize people about their operations, and that customer awareness is, therefore, critical to the adoption of IB services. Moreover, Mbawuni and Nimako (2017) have documented how consumer attitude, readiness to comply with shariah law, knowledge, perceived innovativeness and perceived benefits were critical determinants of both Muslim and non-Muslim customers' intentions to adopt IB. They further noted that the perceived religion effect was a weaker predictor of bank customers'

intention to adopt IB in Ghana, while a perceived threat of violence is a significant factor for non-Muslims, as well as being a significant negative factor in Muslims' intentions to adopt IB. Furthermore, in Ghana, perceived religion effect has a positive influence on Muslims' intention to adopt IB, but it has a negative effect on non-Muslims' adoption intentions (Mbawuni and Nimako, 2017).

According to Mumtaz *et al.* (2015), the growing need of Muslims for a Sharī'a-compliant financial system seems to drive the growth of Islamic finance, as conventional banks continue to charge high interest rates. Mahdzan *et al.* (2017) investigated the adoption of IB services in Malaysia and found that the understanding of IB concepts and perceived advantage significantly influence the adoption of IB services. Ofurum (2008) noted that IB in Nigeria has been successful because of the large Muslim population, political support and enabling laws. Further, Kaabachi and Obeid (2016) found that the reputation of Islamic banks, the relative advantage of IB, and the compatibility of IB with consumers' religious beliefs, values, lifestyle and banking habits positively influence the intention to use IB. Kaawaase and Nalukwago (2017) found a positive association between attitude, subjective norms, religiosity and intention to patronize IB among existing conventional bank customers in Uganda. In another study on Uganda, Bananuka *et al.* (2019b) found that attitude mediates the relationship between:

- (1) subjective norm and intention to adopt Islamic banking; and
- (2) religiosity and intention to adopt Islamic Banking using evidence from both account and non account holders.

In another study, Bananuka *et al.* (2019a) found that both attitude, subjective norm and religiosity are significant predictors of intention to adopt Islamic banking in Uganda but using the hierarchical regression model, results indicated that subjective norm ceases to be a significant predictor of intention to adopt Islamic banking once attitude and religiosity are introduced into the model. In some jurisdictions such as the UK, IB is not fully aligned with the standard version of Islamic finance (Akbar *et al.*, 2012). Kholvadia (2017) found that, in South Africa, the shariah requirements are included in the legal structure of contracts, but that, in economic reality, transactions sometimes replicate those of conventional banking. Instead of PLS instruments, many investments in Islamic bank accounts comprise asset portfolios, short-term financing and other debt-based contracts (Akbar *et al.*, 2012).

2.2.3 Limitations to the success of Islamic banking in other jurisdictions. Butt *et al.* (2011) conducted a qualitative and quantitative research study on the barriers to adoption of IB in Pakistan, finding that a narrow branch network, inconvenient branch locations and the perception that "Islamic banks do not completely follow Islamic principles" acted as barriers to non-users when selecting Islamic banks. Ofurum (2008) identified the challenges facing the prospects of IB in Nigeria as low levels of transparency by most business owners, the absence of proper records, and the reluctance of larger businesses to disclose their real accounts. Ofurum (2008) further found that businesses fear that, if they disclose their accounts to the bank, tax authorities will become wise to the extent of their business and profits. Another limitation is the need to educate and retrain bank staff to equip them with the new skills and knowledge to handle the IB system. A further potential limitation concerns morality: if the value system is such that the moral standards of citizens is low and there is a tendency to sacrifice public goods for personal benefits, then, unless the system is changed, the noble intention of IB could be thwarted.

Tabash (2017) studied critical challenges affecting IB growth in India using the analytical hierarchy process (AHP) and found that the regulatory environment is more important than the other identified factors of lack of Islamic finance experts and scholars,

lack of awareness of Islamic finance products, lack of standardization and lack of cooperation and coordination. This means that, for IB to succeed, an enabling regulatory environment is important. Uganda has already finalized such an environment. In addition, some banks, such as the Tropical Bank, have trained staff in Islamic finance; public awareness about the benefits and mode of operation of Islamic banks has been created; IB operations have been aligned with generally accepted international standards; and connections have been established whereby financial institutions that provide Islamic finance can share vital information necessary for the growth of Islamic banks in Uganda. It can be argued that doubts about the quality of services, price of the banking products and customer care mean that IB cannot succeed even in a Muslim-dominated market. [Dusuki and Abdullah \(2007\)](#) recognized the important role of religion in the adoption of IB but also added that financial reputation and quality of service are critical to decisions on whether to take up IB products. [Awan and Shahzad Bukhari \(2011\)](#) found that, in addition to the quality of customer service, product features are paramount. [Bello and Abubakar \(2014\)](#) noted that if Islamic banks are not properly supervised, then it is unlikely they will succeed.

3. Methodology

3.1 Research design

This research adopted a qualitative design and was based on interviews with experts in the field of banking, the emphasis was on those experts with Islamic Banking (IB) knowledge. Data collection techniques mixed between both structured and unstructured interviews (see [Appendix](#) for interview guide on Islamic banking) were used. The data (which later became information) told by these experts, was re-storied by the researcher into a narrative chronology as guided by [Creswell \(2014\)](#). That is, stories from these expert respondents regarding their perceptions of IB were recorded and transcribed by the researcher. A cross-sectional research design is a type of observational study that analyzes data collected from a population or a representative subset, at a specific point in time ([Saunders et al., 2007](#); [Sekaran, 2003](#)).

3.2 Selecting the respondents and respondent profile

The study was informed by 16 respondents who are influential in the conduct of businesses of financial institutions. These respondents were selected from businessmen, religious leaders and financial institutions in Kampala Metropolitan. Kampala Metropolitan was considered for this study, as leading business associations, religions and financial institutions have their headquarters based there ([Table I](#)).

3.3 Reliability and validity

To ensure reliability and validity, we triangulated our data. Triangulation helps to address the limitations of a given methodology by compensating its weaknesses with the strength of other methods ([Brewer and Hunter, 1989](#)). [Denzin \(1984\)](#) identified four forms of triangulation: data source triangulation (retrieving data from a number of different sources to form one body of data), investigator triangulation (using multiple observers instead of a single observer in the gathering and interpreting data), theoretical triangulation (using more than one theoretical position in interpreting data) and methodological triangulation (using more than one research method or data collection technique). This study used data source triangulation to ensure the accuracy, credibility and validity of the data. The views from 16 respondents were triangulated/validated by views from two religious-oriented financial institutions, Tropical Bank and Centenary Bank.

Table I.
Details of the respondents

Respondent category	Respondents	Purpose
Business men (03 respondents)	Chief Executive Officers of; Kampala City Traders Association (KACITA), Uganda Manufacturers Association (UMA) and Uganda Small Scale Industries Association (USSIA)	Leaders of leading business associations were selected, as they are knowledgeable in what transpires in the business community in Uganda
Religious leaders: The Catholic church (01 respondent) The Muslim fraternity (04 respondents) The Anglican Church of Uganda (04 respondents)	The chancellor Kampala Archdiocese was nominated by the top Catholic leadership in Uganda to respond to our interview guide For the Muslim community, the Deputy Mufti was interviewed and the senior clergies at the Uganda Muslim Supreme Council For the Anglican Church of Uganda, the senior clergies of the church were interviewed	The respondents were selected because of their capacity to lead and make decisions for the various religious denominations. The three religious denominations were selected for this study since they constitute 85% of Uganda’s population with Catholics constituting 39%, followed by Anglicans with 32% and Muslims with 14%. (Uganda Bureau of Statistics, 2016)
Financial Institutions: Centenary Bank (02 respondents) Tropical Bank (02 respondents)	The heads of Islamic banking spearheading committees were interviewed	The respondents selected are aware of Uganda’s business external environment. The financial Institutions selected are religious founded

3.4 Data reduction and analysis

Our data analysis was based on a methodology suggested by Miles and Huberman (1994), which involves linking the qualitative data analysis to three sub-processes: data reduction, data display, and drawing conclusions. First, the stories told during interviews were transcribed by the researchers. The post-interview analysis of the transcripts encompassed a detailed search for underlying themes in the evidence collected. Second, after the initial study of the transcripts, a comprehensive coding system was developed intuitively to facilitate the identification of issues and themes emerging from the transcript analysis (“open coding”), as outlined by Parker and Roffey (1997). Third, following Miles and Huberman (1994), matrices and templates summarizing the themes identified in each interview were developed to display the core issues that emerged from the coding process; this aided the identification of cross-case patterns in the data, with predominant ones becoming evident partially by mapping the relative incidence of different codes. Finally, detailed field notes, memos, interview summaries and post-interview analyses were studied and analyzed alongside the matrices and templates outlined above.

4. Results

4.1 Islamic banking adoption by financial institutions

The first research question was: “How can IB be adopted by financial institutions?” This research question was answered by interviewing heads (chief executive officers and heads of departments) of various staff associations, and religious leaders. From the analysis of interviews, several strategies were identified as critical to the success of IB. That is: Ensuring Public Awareness; Recommendations through Business Associations; Provision of Low-cost finances; Repackaging service offers by de-emphasis on words like “shariah”;

staff training; and, playing within Legal environment framework. These are elaborated below:

- Public awareness of the mode of operations used by firms that provide Islamic financial services needs to be created. This involves banks and the government working together so that all Ugandans are sensitized about IB services through the local media, religious leaders and business associations. Potential customers need to be aware of the benefits and principles of IB. It is also necessary to change the mindset of Ugandans, as people tend to believe that things can never be right and that the law cannot effectively operate in Uganda. One interviewee said:

[. . .] honestly, I do not have a deep understanding of IB but I have heard in the news where President Museveni was promoting it. My thinking is that IB is connected to Islam and the moment it is introduced, the country is likely to be Islamized, but if it is not the case, then IB is welcome. Honestly speaking, there is a need for increased awareness by both the government and the banks intending to offer IB services. Otherwise, as a Catholic leader, I have no problem with the IB system as long as it helps my people to grow their businesses.

- Business associations should recommend their members to the bank, as some business managers may not be able to provide accurate information. One interviewee stated: “[. . .] and at the same time, we may be used to recommend our members to banks once IB services are rolled out.”
- Low-cost finances should be provided. Interest rates are high in Uganda; for example, from February to April 2018 the central bank rate (CBR) was 9 per cent ([Bank of Uganda, 2018](#)). If CBR is 9 per cent, then commercial banks are expected to charge interest rates on their loans above CBR. The average lending rate in Uganda in June 2017 was 21.1 per cent ([Bank of Uganda, 2017](#)). Since Islamic banks are seen as an alternative cheaper source of financing, it is expected that low-cost finances will be provided to Ugandans. Interviewees argued that existing banks charge them high interest rates; thus, IB will play a role in the provision of cheaper sources of capital when compared to traditional banks. One interviewee commented:

[. . .] I wish to tell you that businesses have been complaining about high interest rates and, in that case, if a banking system can provide finances at no interest rates or minimal interest rates, such a banking system will be welcome.

- Support services, such as book-keeping services, should be provided. Results indicate that book-keeping skills are still lacking in Ugandan businesses, yet for the PLS scheme to prosper proper book-keeping is necessary. This is supported by the following comment:

[. . .] I assure you most businesses in Uganda do not maintain books of accounts and even those who maintain them, they are incomplete records. If banks can provide book-keeping skills, then this may encourage businesses to go for IB services rather than remaining with traditional banks who only want to extend their credit facilities and later take away your assets when you fail to pay.

- IB products should be repackaged. Since Uganda is not a pure Islamic neither is it dominated by the Islamic religion, there is a need to de-emphasize the usage of Islamic faith connotations. For example, customers do not need to consistently be

told about shariah law; rather, they might be told of terms and conditions that guide their operations, in a non-Islamic setting. This was emphasized by most respondents, and interestingly, by both those with Islamic faith and non-Islamic. In fact, one interviewee commented:

There is a need to repackage IB whereby the word shariah is not consistently used.

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- Trained staff in banking operations and customer care should be used. While customer care is necessary for every bank regardless of the type of bank, staff need to be specifically trained so that they can explain the operations of IB to both potential and existing clients. In fact, the majority of respondents (70 per cent), echoed:

[...] train bank staff [...] in Islamic banking inclined operations [...] [...] and in customer care since some banks already have officials who are rude to clients

- The legal environment is important. Given that the government has already amended the Financial Institutions Act of 2004 to include IB, and that in February 2018 it also issued financial institutions (IB) regulations, it is expected that banks will operate within the law. For example, Section 10 Subsection 1(b) of the financial institutions (IB) regulations requires that an Islamic financial institution keeps a record of any profits to be shared with the holders of profit-sharing investment accounts.
- Availability of Islamic banking services is also important. IB windows may be opened at all conventional bank branches across the country so that every Ugandan has easy access to Islamic financial services. One interviewee stated:

[...] What I can say is that existing banks should quickly open IB windows since the bank will improve our welfare. I think as we talk now, five banks are ready for IB, for example, Eco Bank, DFCU Bank, Barclays Bank, Centenary Bank and Tropical Bank.

The heads of IB spearheading committees in two banks believed to have religious foundations were also interviewed: Tropical Bank (Islam) and Centenary Bank (Christianity). The head of the IB committee at Tropical Bank said:

If IB is to flourish in Uganda, it needs to be detached from religion. In Malaysia and the UK, IB system customers are not necessarily Muslims. The Pope once said, there is ethics in IB systems unlike in conventional banking systems.

He further commented:

Marketing of IB products will not be based on religion except for Muslims. Even the shariah being talked about is not full shariah but rather economic shariah. We have already trained our staff in IB operations and we are looking at putting a Shariah Advisory Board in place as one of the requirements for IB. We have already set up an Islamic library and already identified IB experts abroad whom we will outsource. We are slowly sensitizing the public about IB and even Bank of Uganda has started – this is being done through organizing conferences, seminars and talk shows ([Table II](#)).

4.2 Factors which may hinder the success of Islamic banking

The second research question was: “What may hinder the success of IB in Uganda?” Several factors that may hinder the success of IB in Uganda were identified after analysis of interviews. These include:

Adoption of Islamic banking

Sample quotes from respondents	Emerging themes
<p>... I wish to tell you that businesses have been complaining about high interest rates and for this case, if a banking system can provide finances at no interest rates or minimal interest rates, such a banking system will be welcome</p>	Provision of low cost finances
<p>... Government has given in fully through putting in place enabling laws like the amendment of the Financial Institutions Act 2016 despite the resistance faced at the beginning from some religious leaders who sought Islamic banking is Islam and that when it is introduced, Uganda will have become a Muslim country but importantly, Islamic banks may then work within the premises of the law</p>	Enacting enabling laws that are fair to all
<p>... There is need to repackage Islamic banking where by the word sharia is not consistently used. ... the Profit and Loss Sharing principle can be followed and Ugandans can easily cope up with issues of legality but the banking services should not be biased towards Islam say telling clients to be converted to Islam. It is important that Islamic banking is detached from religion</p>	Repackaging Islamic banking products
<p>... Banks should also create awareness among the public through the various associations like ours [Uganda Small Scale Industries Association]</p>	Creation of awareness among the public
<p>... Small business have issues of book keeping for example most businesses only are mindful of the cash they get on a daily basis out of their sales. Others only have a list of debtors and suppliers and even not all debtors and suppliers are included. If the bank can help to provide services of preparing financial reports, then that very fine. In fact we will be grateful to such a company</p>	Provision of support services like bookkeeping services
<p>... honestly, I do not have a deep understanding of Islamic banking but I have heard in the news where the president was promoting it. My thinking is that Islamic banking is connected to Islam and the moment it is introduced, the country is likely to be Islamized but if it is not the case, then Islamic banking is welcome. Honestly speaking, there is need for increased awareness by both the government and the banks intending to offer Islamic banking services. Otherwise, as a catholic leader, I have no problem with Islamic banking system as long as it helps my people to grow their businesses. surely, there is need to change the mindset of Ugandans such that issues of "this is Uganda" can stop</p>	Creating awareness among the public
<p>... It's good that Government of Uganda has already amended the Financial Institutions Act of 2016 and that is good. This shows government's commitment to help banks provide Islamic financial services in a clear legal environment</p>	Enacting enabling laws that are fair to all
<p>... We know Islamic banking as a cheap source of finance since there are no interest loans. This is something banks should not divert away from. We know Islamic banking system can help a business to acquire huge assets for the business. This is what we want most</p>	Provision of low cost finances
<p>The concept of Profit and Loss Sharing need to be explained further and if possible amended to suit such members but majority are okay with the PLS principle. The awareness campaigns need to kick start immediately. Our members are scattered and the propagators of Islamic banking may use us to sensitize our members</p>	Create awareness among the public
<p>... and at the same time, we may be used to recommend our members to banks once Islamic banking services is rolled out</p>	Use associations to recommend members to the bank

(continued)

Table II.
Transcript analysis
of interview
responses

Sample quotes from respondents	Emerging themes
<p>... Also, UMA members are good at record keeping but because they are at lower levels of development, they still need a lot of support</p> <p>... yes, we as Uganda Manufacturers' Association are aware of Islamic banking though not sure if all our members are aware of it</p> <p>... Government has done it work already of coming up with a law that permits Islamic banking</p> <p>... There is need to sensitize their clients and other Ugandans about Islamic banking. Ugandans need to be educated on how Islamic banking differs from traditional banks</p> <p>... train their staff in banking operations and in customer care since some banks already have officials who are rude to clients</p>	<p>Provision of support services like bookkeeping services</p> <p>Create awareness among the public</p> <p>Enacting enabling laws that are fair to all</p> <p>Create awareness among the public</p> <p>Use of trained staff in Islamic financial services and customer care</p> <p>Availability of banking services</p>
<p>... Yes, Islamic banking is a system that is indicated to be Islamic. What I can say is that, existing banks should quickly open Islamic banking windows since the bank will improve our welfare. I think as we talk now, 5 banks are ready for Islamic banking for example Eco bank, DFCU bank, Barclays bank, Centenary bank and Tropical bank I am assuring you most businesses in Uganda do not maintain books of accounts and even those who maintain them, they are incomplete records. If banks can provide book keeping skills, then this may encourage businesses to go for Islamic banking services than remaining with traditional banks who only want to extend their credit facilities and later take away your assets when you fail to pay</p> <p>... Islamic banks can use associations to recommend customers especially when he or she is a member of a given association</p>	<p>Provision of support services like book keeping services</p> <p>Use associations to recommend members to the bank</p> <p>Repackaging Islamic banking products</p>
<p>... If Islamic banking is to flourish in Uganda, it needs to be detached from religion. In Malaysia and the UK, Islamic banking system customers are not necessarily Muslims. The pope once said, there is ethics in Islamic banking systems unlike in conventional banking systems</p>	

Table II.

Notes: Research Question One; How can Islamic banking be adopted in Uganda?

- Segregated provision of IB products would mean that existing banks may provide IB services to some clients but only conventional banking to others. If this happens, then it would negatively impact on the success of IB in Uganda. One interviewee stated: “We suspect that bank officials may segregate in providing banking services as they may want to promote conventional banking rather than the IB system.”
- Competition from conventional banking services may threaten IB. Conventional banks may opt to reduce charges on services so that, in the long run, they may appear to be cheaper than IB. One interviewee said:

I do not think IB will collapse; however, there is a likelihood of competition from conventional banks. Players in the industry may opt to reduce the interest rates in the traditional banks, especially when the fight for customers heats up.

- An increase in the cost of doing business would hinder IB. The financial institutions (IB) regulations of 2018 require every Islamic bank to have a shariah advisory board, yet the same bank may have an existing non-shariah board. Moreover, there

are two sets of staff: those providing conventional financial services and those offering Islamic financial services. Therefore, there is a likelihood of the high costs of administering IB services.

- Lack of trust among Ugandans may affect the success of IB. Results suggest that Ugandans are comfortable providing false information, so they may be uncomfortable if Islamic banks become strict about monitoring their businesses. One interviewee commented:

[...] and the issue of trust among Ugandans may fail these banks. Ugandans may not welcome the idea of banks getting involved in the management of their businesses because they fear banks may unearth whatever takes place in the business.

- Negative attitudes could impact IB. Public attitudes are critical. Results indicate that some Ugandans may have negative perceptions about IB, so their adoption of IB products may not be automatic.
- Social influence is an important factor. Some people may opt for IB services only if their peers, religious leaders or political leaders also opt for them. For example, if the head of the Catholic Church in Uganda orders all Catholics not to adopt IB, then a large proportion of them may follow such an order.
- Religious preference could also hinder the adoption of IB. Muslims are more likely than non-Muslims to adopt IB. One interviewee said: "Some maybe, like, IB is for only Muslims and refuse to adopt it." (Table III).

5. Discussion

5.1 *Islamic banking adoption by financial institutions*

Based on our results, the adoption of IB in Uganda is possible if Islamic banks and the government to some extent sensitize the public about the principles that govern IB. This finding is in line with DOI theory, which emphasizes that, for an innovation to be adopted, the adopters must have knowledge about it. Banks may use the local media and possibly also politicians and other opinion leaders to achieve this, since, according to DOI theory, there must be clear communication channels for any innovation to succeed. Our results further indicate that the provision of loans at no interest is an important factor in the adoption of IB in Uganda. This finding is in agreement with the DOI attribute of relative advantage. Relative advantage means that to be adopted, the innovation needs to be more beneficial than what it seeks to replace. Other findings suggest the need to repackage Islamic bank products, to provide support services like book-keeping skills, and to ensure the availability of trained staff. It was found that for IB to flourish in Uganda, it must be detached from religion. Hence, the propagators of IB should not use Islam or any religion as a campaigning tool.

The above findings align with those of [Mumtaz *et al.* \(2015\)](#), [Sulaiman and Datin \(2013\)](#) and [Dusuki and Abdullah \(2007\)](#), whose findings indicate that IB has been accepted mainly because of enabling laws, sensitization of the population about the products, laxity in the implementation of the PLS principle and interest-free loans. Furthermore, our results agree with those of [Kholvadia \(2017\)](#), who found that in South Africa the shariah requirements are included in the legal structure of contracts, but that in reality transactions sometimes replicate conventional banking transactions. Therefore, it is important that Uganda's

Sample quotes from respondents	Emerging themes
[...] okay, What can hinder other banks from prospering may as well hinder Islamic banks though what is most important is the possibly of failure by the bank to provide Islamic banking products to all	Segregated provision of Islamic banking products
[...] I do not think Islamic banking will collapse however, there is a likelihood of competition from conventional banks. Players in the industry may opt to reduce the interest rates in the traditional banks especially when the fight for customers heats up	Competition from conventional banking services
[...] high costs of administering Islamic banking services. Whereas it may not necessarily be failure to manage costs but given that one bank will operate two windows, then it is important that costs are managed properly. Otherwise, if costs are not managed, Islamic banking is bound to be like any other banking service and eventually, it may not take off	Increase in cost of doing business
[...] and the issue of trust among Ugandans may fail these banks. Ugandans may not welcome the idea of banks getting involved in the management of their businesses because they fear banks may unearth whatever takes place in the business	Lack of trust
[...] yes the issue of assumption is very important. Clients should not be taken for granted. There is need to keep following up on customers regardless of religion or business. We suspect that bank officials may segregate in providing banking services as they may want to promote conventional banking than the Islamic banking system	Segregated provision of Islamic banking services
[...] Others will go by bandwagon say social influence. If for example, my friends or people I work with go for Islamic banking, I may also follow them	Social influence
[...] Some may be like Islamic banking is for only Muslims and refuse to adopt it	Religious preference
[...] of course I will expect a few challenges in the initial days since many people may not know much about Islamic banking while others may have negative attitudes towards Islamic banking	Attitude
[...] Yes, Islamic banking is a good system but if the bank is going to enter into my businesses, then it is a different story	Lack of trust
The issue of segregating businesses may not be good for example, failing to fund a business because it deals in liquor or gambling is not good but Ugandans may adjust. The issue of financing a large business and leave out small ones will be unfairness of the highest order	Segregated provision of Islamic banking services
[...] I am aware Islamic banking thrives on trust and the reason Microfinance Institutions thrive is because of trust. There should not be any form of shifting goal posts that is to say, the banks should not change their terms of service as agreed with the customer	Lack of trust
We have a number of manufacturers in different categories but some may not want banks to peep in their businesses. Some people are used to disclosing false information especially when they want loans from banks	Lack of trust
Costs need to be well managed and monitored otherwise, Islamic banking services may end up being expensive as the conventional banking services	Mismanagement of costs

Table III.
Transcript analysis
of interview
responses

Notes: Research question: What could hinder the success of Islamic Banking in Uganda?

financial institutions are willing to adopt or even adapt IB to sensitize the public about IB and to relax the implementation of the PLS principle.

5.2 Factors that may hinder the success of Islamic banking

Segregated provision of IB products may lead to some clients being offered IB services while others are offered only conventional banking. This may negatively impact on the success of IB. It may also be difficult to provide IB services due to scarce resources and geographical locations because some existing banks do not have branches all over the country. This means that not all Ugandans may benefit from IB services. Also, customer care, which is important for the progress of any new product, may not be up to date, and this will greatly impact the success of the IB system. Customer care here means that if bank staff are not able to speak to potential customers clearly about the IB mode of operation, then it is likely that the bank may not succeed. Issues of trust among Ugandans may also hinder its adoption. It is doubted that Ugandans are transparent in their business operations. It is important to note that the above factors are specific to the success of IB, but that there are also general factors, such as competition for customers, insider trading and poor client handling, that can also impact IB adoption.

The above findings agree with those of [Ofurum \(2008\)](#), who explained that the challenges facing IB in Nigeria are low levels of transparency by most business owners, unsatisfactory records and large businesses unwilling to disclose their real earnings. As Uganda's financial institutions prepare to roll out IB products, they should be aware of those factors likely to strangle their efforts; hence, they must devise means to avoid these factors as early as possible. Above all, it is important to have well-trained staff for the bank's technical operations and customer care, to avoid insider trading and to provide the necessary services without any segregation.

6. Summary and conclusion

This study has aimed to popularize the concept and practice of IB in the context of a non-Islamic country by asking two research questions:

RQ1. How can IB be adopted by financial institutions in Uganda?

RQ2. What could hinder the success of IB in Uganda?

The two research questions were addressed by interviewing chief executive officers of leading business associations, heads of IB committees and religious leaders. Findings suggest that strategies – such as the creation of public awareness, using business associations to recommend their members to the bank, and provision of financial services regardless of the nature and type of businesses, among others – are critical. Findings further reveal that segregated provision of IB services, mismanagement of costs, lack of trust, and competition from conventional banks, among others, may hinder the success of IB.

Overall, the findings of this study have important implications for academics, policymakers and the business community. For academics and the business community, our results suggest that there are a number of strategies that banks and other businesses may use to ensure a new product is accepted. For the business community, as well as wider society, it is important that alternative sources of funds for businesses are available, and that businesses are ready to opt for a cheaper source of financing. For policymakers, it is necessary to speed up the guidelines for licensing Islamic banks and to ensure that there is an enabling environment that allows both conventional and Islamic banks to thrive so that Ugandans have a choice on which

banking window to go for. Our study results may only be applicable to those countries adopting IB for the first time. Nevertheless, our study results are useful in popularizing IB products and any other new product in any secular country. Further studies are recommended on other national settings where IB is being adopted.

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Appendix. Interview guide on Islamic banking

Research question one: how can Islamic banking be adopted in Uganda?

- (1) What do you understand by Islamic Banking – Probe whether they are aware of Islamic Banking principles?
- (2) Given our banking environment, in Uganda, how applicable is Islamic Banking principles? – Probe for the issues of sharing profit with the bank and not dealing in certain businesses
- (3) How can Non-Muslims easily fulfill the Sharia requirements for Islamic Banking? *[For Tropical Bank and Centenary Bank staff only]*
- (4) How can the demand for Islamic Banking be addressed to realize its potential in Uganda?
- (5) Is the government likely to offer the necessary support for the success of Islamic Banking? Probe what government has done in support of Islamic Banking.

Research question two: what could hinder the success of Islamic banking in Uganda?

- (1) What are the likely impingements for the success of Islamic Banking in Uganda? Probe whether there are any factors that may limit the success of Islamic Banking
- (2) Would you take up Islamic Banking?
 - Probe if yes; what factors would influence taking up the product.
 - Probe if no; what factors would influence not taking up the product
 - Probe if no; what more do you think can be done to make this product attractive?
- (3) How will sharia bonded Islamic Banking work out with the Ugandan Laws? *[For Tropical Bank and Centenary Bank staff only]*
- (4) How will the Islamic banks manage the high costs currently being faced in the banking sector? *[For Tropical Bank and Centenary Bank staff only]*

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