



ANALYSING MUAMALAT FEATURES FOR A SUSTAINABLE DEVELOPMENT OF ISLAMIC FINANCE IN UGANDA: A SYSTEMATIC LITERATURE REVIEW

YUSUF KAWEEESA* & ROMZIE ROSMAN

IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia,
Malaysia

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ABSTRACT

Islamic banking and finance have gained wide acceptance in different parts of the world with more than 76 jurisdictions already embracing the industry, with industry reaching USD3 trillion in 2022. Besides, lately, Islamic banking has been introduced in Uganda, and in 2023, the first fully-fledged bank was licensed by the Bank of Uganda. However, society needs to be exposed to the underlying principles guiding Islamic finance. This study uses a systematic literature review to analyse different *muamalat* principles that guide Islamic banking. This study identified the enhancement of financial and social inclusion in society, the collection and distribution of *zakat* and *sadaqah*, the establishment of *qard hasan*, the conservation of societal values and averting of harm, and the promotion of ethical values and exhibition of quality customer service as *Muamalat* principles that can aid in informing Ugandans about novel concepts that can clarify the operationalisation of Islamic banking.

KEYWORDS: ISLAMIC FINANCE, SOCIAL, MUAMALAT, SUSTAINABLE DEVELOPMENT, UGANDA

ABSTRAK

Perbankan dan kewangan Islam telah mendapat penerimaan meluas di bahagian yang berbeza di dunia dengan lebih daripada 76 bidang kuasa telah merangkumi industri, dengan industri mencecah USD3 trilion pada tahun 2022. Selain itu, sejak kebelakangan ini, perbankan Islam telah diperkenalkan di Uganda, dan pada tahun 2023, bank sepenuhnya pertama telah dilesenkan oleh Bank of Uganda. Walau bagaimanapun, masyarakat perlu didedahkan kepada prinsip asas yang membimbing kewangan Islam. Kajian ini menggunakan tinjauan literatur yang sistematik untuk menganalisis prinsip muamalat berbeza yang menjadi panduan perbankan Islam. Kajian ini mengenal pasti peningkatan rangkuman kewangan dan sosial dalam masyarakat, kutipan dan pengagihan zakat dan sadaqah, penubuhan *qard hasan*, pemuliharaan nilai masyarakat dan mengelakkan bahaya, dan promosi nilai etika dan pameran perkhidmatan pelanggan yang berkualiti sebagai prinsip muamalat yang boleh membantu dalam memaklumkan orang Uganda tentang konsep baru operasi perbankan Islam yang dapat menjelaskan operasi perbankan Islam.

KATA KUNCI: KEWANGAN ISLAM, SOSIAL, MUAMALAT, PEMBANGUNAN LESTARI, UGANDA

* CORRESPONDING AUTHOR: Kaweesa Yusuf, IIUM, Institute of Islamic Banking and Finance, Malaysia. E-mail: yusuf.kaweesa@gmail.com

1. INTRODUCTION

In Islamic finance, *fiqh muamalat* has been used as the regulatory source to guide and direct principles of transactions and interactions between individuals and institutions based on ethical guidelines related to *maqasid al-Shariah*. It is sometimes referred to as *fiqh muamalat maliah* – referring to Islamic rules on financial, business, and economic activities (Ishak & Asni, 2020). *Muamalat* is essentially the Islamic framework for conducting business and financial activities directing Islamic finance users towards fair, responsible, and socially conscious economic dealings. Indeed, the *fiqh muamalat* principles are the foundational pillars aimed at promoting a just and equitable financial system while adhering to the core values of Islam.

However, in Uganda, Islam as a religion was introduced in Buganda as early as 1844 during the reign of Kabaka Suuna II the then-king of Buganda introduced by the Arab traders from the Arabian Peninsula but had established permanent trade bases on the East African Coast (Kasule, 2016). It quickly influenced the people, something attributed to the receptive nature of the Buganda culture. However, the major aim of the Arab traders was to do business and not the missionary work of spreading Islam (Sengendo, 2016). Besides, the king of Buganda embraced the faith and asked his subjects to do the same, Islam remained confined in Buganda and wasn't effectively dispersed in other parts of the country (Soi, 2011).

Moreover, with the inception of Christianity later in 1877, it was easy to subdue Islam leading to Christianity gaining prominence at the expense of the former. Indeed, Muslims were defeated in the Buganda wars fought against the Christians aimed at those who captured the favours of the King of Buganda (Sengendo, 2016). This defeat analytically defined the state of Muslim status to the extent of being under the description of the minority groups in the country. There are currently approximately 3,500,000 million Muslims in Uganda, making up 16 per cent of the population. Indeed, they are mainly Sunni, but there are some Muslim followers of the Aga Khan in the Asian community, and approximately 70,000 people are members of the *Tablighi/Salaf* Sects. The trend of events has affected Muslims, especially as regards access to education rendering them to being unable to participate in political and economic fields favourably and effectively, not until the late 1990s (Musisi & Kiggundu, 2018). However, despite the given description of the Muslim community in Uganda that reflects a marginalised and disadvantaged group (Kasumba, 2015), that would depend on the one seeking to find out why and probably when – as how Imam Kasozi a prominent Muslim cleric in Uganda puts it (Baker, 2001). Indeed, the Muslims' social, political, and commercial life has a lot to reflect on from the 1840s to date.

Besides, with such an Islamic background in a secular country where Muslims are the minority, Islamic banking was legalised in 2016 after 23 years of pursuing the cause by prominent Muslims in the country (Lujja et al, 2016). However, the statutory instruments released later in 2018 had a clause that deemed the Central Bank to have a *Shariah* Advisory Council before issuing operational licenses to commercial banks. Indeed, this clause inhibited the Central Bank from issuing licenses as it could not compose such a committee due to a lack of competent *Sharia* scholars in the country qualifying the requirements. Moreover, the 2016 Financial Institutions Act was amended in 2023, repealing the clause and thus the licensing of the first-ever fully-fledged Islamic bank in 2023. Therefore, with such an early industrial status, there's a need for more literature guiding Islamic banking and finance. Indeed, the literature should reflect varied frameworks in line with the sources of *Shariah* guiding principles as a way of aiding the masses to get a user-friendly relationship with the industry. Therefore, the objective of this paper is to identify such *Shariah* features that might suit the Ugandan commercial setup.

2. AN OVERVIEW OF BANKING SYSTEM IN UGANDA

Uganda's financial system is structured of banking institutions, SACCOs, retirement benefit schemes, capital markets, and insurance. Indeed, as of June 2021, the total financial sector assets stood at UGX66.3 trillion of which banking institutions supervised by the Bank of Uganda – Commercial

banks, Micro-deposit-taking institutions (MDIs), and Credit Institutions accounted for 63%. Besides, there is financial institutions segmentation in Uganda based on the Tiered approach purposely to broaden and encourage financial inclusion for different groups of people in the financial sector (Bank of Uganda index, 2023). These Tiers in the Ugandan financial sector, describing different financial institutions can be summarised in the table below for better understating and having a clear distinction between them based on the respective financial supervisor.

TABLE 1: UGANDA'S FINANCIAL SECTOR IN TIERS

Tier	Type of Institution	Applicable Law	Regulator	Number
Tier 1	Commercial banks	Financial Institutions Act, 2004	Bank of Uganda	26
Tier 2	Credit institutions	Financial Institutions Act, 2004	Bank of Uganda	4
Tier 3	Micro-deposit-taking institutions (MDIs)	MDI Act, 2003	Bank of Uganda	5
Tier 4	Other MFIs and SACCOs	Tier 4 Microfinance Institutions and Money Lenders Act, 2016	Uganda Microfinance Regulatory Authority (UMRA)	Over 2000

Source: Table by Authors

The Ugandan banking sector, like others in dynamic economic contexts, is characterised by innovation and a multiplicity of key players, continually presenting regulatory challenges to the Bank of Uganda (BoU). According to Iwumbwe (2015), the regulatory framework has often lagged behind the pace of innovation, affecting its adaptability to new financial products and services. A clear example is the legalisation of Islamic banking in 2016, which highlighted the regulatory hurdles faced by the Central Bank. Despite the issuance of statutory instruments in 2018, the licensing of Islamic commercial banking was only formalised in 2023, illustrating the rigidity in accommodating fully-fledged Islamic banks. Additionally, the banking sector in Uganda continues to grapple with low levels of financial inclusion. For instance, 62% of the population lacks access to mainstream financial services (Eton *et al.*, 2019). Of the 12 million individuals considered bankable, only 4 million (33%) hold bank accounts, and the savings-to-GDP ratio remains modest at 16%.

Nevertheless, Uganda's financial sector benefits from an enabling legal framework that ensures the autonomy of regulatory bodies, fostering a safe and sound banking environment. Under the Bank of Uganda Act (2000), the BoU is authorised to license, regulate, and supervise Tier 1, 2, and 3 financial institutions, while the Uganda Microfinance Regulatory Authority (UMRA) oversees Tier 4 Microfinance Institutions (MFIs) and SACCOs under the Tier 4 Microfinance Institutions and Money Lenders Act (2016). Further bolstering the sector, the BoU launched a nationwide financial literacy strategy in 2013, aimed at enhancing financial literacy across various demographic groups. This initiative emphasised financial education in schools, rural outreach programs, workplace training, youth-focused interventions, and partnerships with clubs and associations, alongside leveraging media platforms (Mutebile, 2014). These efforts underscore the Central Bank's commitment to addressing financial inclusion and literacy challenges within Uganda's evolving banking landscape.

2. LITERATURE REVIEW

The Development of Islam in Uganda

Besides, Islam had reached the East African coast for a thousand years, and yet it only penetrated the interior of East Africa in the 19th century. Buganda turned out to be one of the strongest footholds of Islam in the interior. Moreover, this was achieved during the reign of Kabaka Suuna and became so grounded in the reign of Kabaka Mutesesa I who initially declared it a state religion of the Buganda

kingdom. Indeed, Islam was introduced by the Arab and Swahili traders who arrived in the Kingdom of Karagwe in the second quarter of the nineteenth century via the southern, i.e., Bagamoyo - Tabora - Karagwe - Buganda route (Vilhanova, 2004). Besides, the Arab traders as early as the 1840s, used the commercial contact with the local chiefs as an opportunity for Islamisation alongside expanding their commercial influence in the interior. So, this marked the beginning of the Muslims' involvement and systematic evolution of their culture as defined and associated with commerce and trade. Indeed, it should be also noted that Islam was spread by just mere traders as a secondary activity and not as missionaries. Therefore, this partly explains why Islam became highly challenged by the introduction of Christianity later in 1875.

Besides the spiritual and commercial recipes introduced by Islam, the religion came along with its civilisation, evidenced in a range of aspects – all of which boosted the redirection of the Muslim culture in Uganda specifically in Buganda. This ranged from grandeur to aspects like the adoption of gowns and garments replacing bark cloth, cultivation of some vegetables and fruits, introduction of square houses to the introduction of new skills and crafts, and more especially the skill of reading and writing. Moreover, that's why the concept of writing became so important with the Muslims in Uganda in business transactions and using the aspect of literacy in trying to understand and get informed about their religion. However, it's worth noting that Muslims still lagged in Uganda. This was result of the effects of issues like tribalism, colonialism and its systematic Islamic marginalisation, and the devastating effects of the 1880s political-religious wars. Moreover, these wars resulted in eventual defeat and exiling of Muslims from Buganda and scattering randomly allover Uganda (Aisha, 2020). Besides, there has been a great impact of Islam on the cultures of societies in Uganda that were introduced to Islam quite early, and this is so typical with Buganda in central Uganda, where Islam was first introduced as early as the 1840s. Indeed, Islam influenced marriage in Buganda, funeral rites, and prayers among others (Kasule, 2016). Moreover, religious beliefs are key in shaping entrepreneurial behaviours in different parts of Uganda as entrepreneurs rely on religion to define and cope with challenging contexts in their businesses (Namatovu *et al.*, 2018).

However, in several studies, religion's role in the context of influencing entrepreneurial investment decisions is highlighted among Ugandans (Namatovu *et al.*, 2018). Moreover, these are not specific to Muslim commercial culture in line with *muamalat* principles guiding Islamic banking and finance. Besides, the 2014 population census showed that Muslims are a minority (16%) compared with Christians (84%), as the rest subscribe to traditional religions. Therefore, given their population representation, its worth analysing the development and salient features of their commercial culture. As a result, identify the sustainable *muamalat* features that aid the sustainability of their commercial culture. Moreover, this would help in systematically aligning the recently introduced Islamic financing in Uganda and as well contribute to tracing the impact of the culture on the general development of the country's economy.

However, the *muamalat* sustainable principles about the Muslim commercial culture may also lead to the inculcation of established Islamic golden principles of unity, vicegerency (Surah Al-Baqarah: 30), trusteeship, rights and responsibilities, justice and equilibrium, and the value of righteousness (taqwa) in the society. Indeed, all this would reflect Islamic finance thriving in line with *Shariah* principles that uphold the honour of Man. Besides, the information available on Islamic finance in Uganda is still limited and simply related to scanty insights about the Muslim culture. Indeed, the lack of highlight on such *muamalat* guiding principles informing Islamic finance would limit the Muslims' substantive recognition of their role in the economic development by the government and thus undermine their immense contribution towards a better Uganda. Moreover, with the Islamic influence on the commercial culture within the Ugandan population, new phenomena such as *halal* and *haram*, *okusoma* (reading), *minzani* (weighing scale), and *maali* (wealth), among other aspects of life and commerce emerged.

Moreover, understanding the *halal* and *haram* concepts, it is required that Muslims follow an approach that accentuates the comprehensive nature of the Islamic law in balancing individuals'

needs with societal well-being in line with the strict *Shariah* guidelines (Al-Qaradawi, 2013). Besides, all things in principle are inherently permissible unless explicitly prohibited by *Shariah* as prohibitions are only aimed at preventing harm, promoting fairness, or ensuring justice. Indeed, the burden of proof lies in proving something is *haram* rather than *haram*.

However, the aspect of *halal* became so central to Islam and Muslims as it later came to define them as the only befitting candidates to slaughter animals and later carry on the responsibility of drivers (Wahab & Bolatito, 2023). Indeed, all this was attributed to Muslims never indulging in the haram of drinking alcohol and eating pork in the society and so they were deemed to be purer than their Christian counterparts. Most importantly, Muslims were more hygienic due to their aspect getting absolution every time, yet all this was observed without a clear-cut Islamic framework to follow but rather based on a few verses memorised from the *Quran*. Indeed, Islam portrayed a greater potential to serve as a commercial directing instrument in the country (Arima, 2018).

Moreover, through a correct understanding of the Islamic religion, there seemed to be the public promotion of human and Islamic dignity, politics centred on promoting the common good, business centred on advancing moral values, and Education centred on promoting socio-human and moral values because Islam was a complete civilisation. However, Uganda has been a member of the Organisation of Islamic Conference (OIC) since 1970, a status secured by the former Muslim president Idi Amin (Kasumba, 2015). During his reign, tens of thousands of Ugandans converted to Islam and enjoyed certain privileges such as maintaining their high offices in the military and government and benefiting from his aggressive economic policy against Asians (Lodhi, 1994). This was featured by Indians and other Asians' expulsion from the economy of Uganda, replacing them with indigenous Ugandans mainly Muslims. Moreover, this greatly led to the introduction of Muslims into formal commerce even though they were not well educated. Besides, even up to this end, the Muslim commercial culture was not based on or guided by any framework but simply based on political trends and episodes of the day.

Sustainability in the Islamic Context

The recent global catastrophes in energy crisis, recession, and adverse climate change resulted in the growth of the aspect of sustainability, starting with environmental discipline and cutting across different disciplines. Indeed, today, sustainability is so central in the commercial/business arena as reflected in the aspects of Corporate Social Responsibility among others. However, Islam had already in different *Quranic* verses cautioned man on the sustainability aspect especially as man plays the role of vicegerency on earth. Consequently, in this paper, we are evaluating *muamalat*'s sustainable features that can inform Muslim commercial culture in Uganda based on *Shariah* principles. Since it's an evolving concept, sustainability is difficult to define although in general terms it means to endure. Besides, Sustainability can be technically understood as the ability of man to sustain long-term well-being that's dependent on the maintenance of the natural environment. In the context of a sustainable commercial culture, we are to analyse sustainability through the lens of society and commerce (Bromley, 2008). Therefore a sustainable society is where its needs are satisfied without diminishing the prospects of the future generation. However, from the commercial perspective, emphasis is placed on utilising resources in a form that you leave them better than how you found them. This reflects taking not more than what you need and not harming the environment (Young & Dhanda, 2013). Sustainability especially environmental is an aspect that's given a lot of attention in Islam. This is cited in many *Quranic* verses (Q.54:29, Q.25:2, Q.87:1-3 among others) and Sunnah. Sustainability is also one of the greatest concerns of Maqasid al-Sharia. Indeed, the realistic outlook of the *Quranic* paradigm on utilising the natural environment is based on the prohibition of aggression and misuse of productive and general environmental resources (Muhamad *et al*, 2020). For example, in Q.15:19 Allah points out that He created the earth and made everything to grow therein. This implies that Man can utilise the Earth's resources for his survival and regeneration. Besides, in Q.6:95, Allah shows that He is responsible for the germination of all that's sowed on the earth. This implies that man's role is to find means to plant or to invest within the earth and the responsibility of whatever investment concerning the degree of its survival is entirely dependent on Allah. However, Allah cautions man to

observe the measure in his efforts to utilise the earth's resources. This implies sustainability while utilising resources for purposes of doing business or survival (Q.55:7-9).

Indeed, society is the basis of culture reflected in the individuals' interconnected actions which influence and shape their moral aspirations and values (Muslehuddin, 2008). However, Islam concerns itself with the morality of individuals and focuses on the individuals' belief in Allah, and thus Islamic society and culture are based upon righteousness and mutual help (Q.5.2). However, with the present conditions in society being highly influenced by modernisation, the Islamic culture reflected in political, social, and economic perspectives has faced a lot of challenges.

Moreover, such challenges have ignited responses from Muslim societies all over the globe and propelled them to react especially in the economic aspect. For example, in response to the economic structure today that's based on credit reflecting interest, Islamic banking has emerged and developed mostly to provide solutions to the aspect of Ribah (Q.2:282). Indeed, sustainable growth in different commercial sectors like insurance/Takaful of Muslims in Uganda and the country at large can be realised through undertaking a systematic Islamic reflection on *muamalat* principles that guide Islamic banking and finance (Muhammedi *et al*, 2023).

Muamalat in the Context of Islamic Finance

The concept of *muamalat* has been identified as being applied by Muslim scholars in trying to fix complex issues in Islamic finance like that of profit in trade. Profit is allowed in Islam (Q 4.29) and taking of profit is mutually agreed upon by Islamic scholars (Sulong & Asni, 2018). However, it should be done fairly and justly and to this end, *muamalat* comes in to direct on this. For example, extreme profits highly surpassing the market price are not allowed according to Imam Abu Hanifah, and thus profit-taking must be aligned with fairness and equity implying that it must be in line with the risk and profit faced by the trader reflecting the concept of *wasatiyyah* – understood as moderate and affordable. Indeed, profit in Islam is a manifestation of the productivity of capital that has been invested by an entrepreneur, or reward for his hard workmanship, or for undertaking responsibility (Ishak & Asni, 2020).

Besides, the basic principle of *muamalat* is that "the origin of *muamalat* is permitted unless there is evidence of the prohibition". Indeed, this implies that any forms of transactions and financial contracts are allowed in Islamic finance without the need for permission from any Islamic sources, as long they don't exhibit prohibited elements such as *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and non-Islamic activities (Baej & Worthington, 2014). Moreover, *fiqh muamalat* does not only deal with prohibition in Islamic finance but also has led to the development of different financial instruments that can be used to handle and execute different financial dealings reflecting the principles of Shariah. For example, there are instruments like exchange-based contracts, charity-based contracts, and security-based contracts developed under *fiqh muamalat* (Ishak & Asni, 2020). Indeed, the objective of Islamic finance is to ensure the achievement of wellbeing for all in the society and Muslim scholars have used *fiqh muamalat* to achieve this objective.

Moreover, they have undertaken to achieve this by using *maqasid al-Shariah* to bridge the practical applicability of banking with *muamalat* to foster just, ethical, social, and financial well-being for all in society (Islam *et al*, 2023). Therefore, it becomes important to identify and analyse key *muamalat* aspects that can help direct Islamic finance in Uganda where Islamic finance has just been introduced, to foster financial awareness and compliance with the principles and benefits of Islamic banking and finance.

3. METHODOLOGY

The study used a systematic literature review to identify, understand, and analyse the literature related to the objective of the study (Islam *et al.*, 2023). Besides, to be able to collate the available evidence to achieve a given objective, systematic reviews and meta-analyses are highly used. Indeed, they provide an opportunity to critically evaluate the available information to achieve high statistical

power (Shohrabi *et al.*, 2021). However, their transparency and consistency can be enhanced using the PRISMA guidelines. Moreover, this systematic literature review was executed following the PRISMA protocol to collect and analyse the items that were used (Kaweesa *et al.*, 2024a). Besides, the PRISMA method follows a checklist of items that are systematically considered by authors to ensure transparency and thus it was an appropriate method to achieve the objective of our study. This was done by first identifying publications from the Scopus database that were relevant to the study using the search protocol of "Observance of *Shariah* objectives" OR "Sustainability in Islamic banking and finance" OR "Prevention of harm in Islamic finance" OR "Benevolent loans" OR "Promotion of financial and social inclusion in Islam" OR "Islam in Uganda." Scopus database was used because it contains peer-reviewed journals that capture articles that have been exhaustively studied and empirically analysed. Thus, 17 articles were identified, and all were considered relevant for the study because their content related to the study was identified in the search fields of "Article titles", "Abstracts", and "Keywords" that were used to search for results for the search protocols. There were 13 articles and 4 book chapters all in the English language, covering the subject areas of Economics, Econometrics & Finance, Business Management & Accounting, Social sciences, Arts & Humanities, and Decision sciences. All were downloaded and examined for better extraction and understanding of the content related to the objective of the study.

4. FINDINGS AND DISCUSSION

Underlying Muamalat Sustainable Principles for Islamic Finance in Uganda

The general objective of the conventional financial system and culture is the maximisation of profits at all costs, paying minimal attention to the well-being of man and the environment (Baej & Worthington, 2014). Indeed, this has always given rise to unjust business dealings, regulations, and policies rendering society hostage to activities like fraud, scum, loss of assets, and unethical competition among others. However, the Islamic commercial culture entails much more than that, typically aiming at contributing to the fulfilment of Islam's social-economic objectives and the creation of a just society (Dusuki, 2011). Thus, this makes it a unique commercial culture that not only refrains from charging interest but also a culture where just, fair, and economic balance in society is envisioned to cater to all stakeholders in the commercial sector.

In the same way, the culture is underpinned by the principle of brotherhood and cooperation, aspects that foster equity-sharing, risk-sharing, and stake-taking. Moreover, there has been a promotion of cooperation mainly between providers and takers of funds in the Islamic commercial system (Azisah *et al.*, 2023).

Moreover, the Islamic commercial system is also underpinned by the ethical and moral values of *Shariah* featuring ethical norms and social commitments. This is mainly identified in the moral filters based on halal and haram that are key in the Islamic Economic system. Indeed, these filters direct the thinking of entrepreneurs and firms, enhance a positive social climate for investment in society, and provide a realistic legal framework. Besides, in the Islamic commercial culture, there's an emphasis on productivity and physical expansion of economic production and services. Thus, it is being community-oriented and entrepreneur-friendly.

Besides, in the Islamic commercial culture, there's also denouncing speculation which could destabilise business and become detrimental to the value of money. This is evidenced when the monetary flow through Islamic financial modes is tied directly to the flow of goods and services. Moreover, the above principles are underpinned in *Shariah*, and thus to understand the Islamic commercial or financial culture, it requires a thorough comprehension of its objectives and philosophy.

Enhancement of Financial and Social Inclusion in Society

Besides, the biggest percentage of Uganda's population is made up of the youth and it's the country with the youngest population in the whole world who are also highly unemployed (Rietveld *et al.*, 2020). Moreover, studies show that the high unemployment among the youth has remained persistent

and translated into general redundancy leading to increased crime rates within varied societies in different parts of the country (Cieslik *et al.*, 2022). Indeed, this has robbed such societies of peace and gotten a big chunk of the taxpayers' money channeled to combatting crime. However, *muamalat* directs unique features of justice, brotherhood, social equity, and equitable distribution of resources in Islamic finance, for all individuals in society. Moreover, such features can help to check on the increased unemployment levels of the youths in Uganda and foster their financial and social inclusion (Islam *et al.*, 2023). Therefore, through *muamalat* products like profit and loss sharing (PLS) mechanisms, finance institutions can mobilise rural savings and be able to extend affordable credit to even the folks in the most remote areas, getting them engaged in productive economic activities in their respective localities and social segmentations. Indeed, the PLS instruments can also be instrumental in promoting small and medium-sized enterprises (SMEs), a concept so widely spread across different parts of Uganda from conventional arrangements (Thaidi *et al.*, 2023).

Besides, the difference here is that Islamic SMEs would be Collateral-free as the financial engagement would be based on partnership. This would accommodate groups of people who cannot access collateral in the realm of getting financial assistance (Ozdemir *et al.*, 2023). Besides, viable projects in different parts of the country would be improved, specifically reaching out to those who are economically viable but without realistic collateral financial muscle.

The Concept of Collection and Distribution of Zakat and Sadaqah

Zakat giving is the fourth pillar of Islam obligatory to those who have more than the stipulated *Nisab* (bare minimum) in society, extending to those categories of individuals without or with financial difficulties as prescribed in the *Quran* (Islam *et al.*, 2023). Besides *zakat*, *muamalat* unfolds another great social financial instrument to Islamic finance called *sadaqah* – so much encouraged for all Muslims if they are to get and attain worldly and the hereafter well-being.

Indeed, the two instruments are so distinctive for poverty alleviation and inequality reduction in society-instrumental Islamic social finance tools that can yield greater social well-being if utilised (Migdad, 2019). Indeed, they can minimise hatred that can be emitted to the rich from the poor and thus can foster brotherhood, and social cohesion in society and aid mutual sustainability of societal interests (Azisah *et al.*, 2023). However, in Uganda, several *zakat* collection centres are in places with high Muslim population like Kampala with headquarters and the Kibuli mosque *zakat* collection and distribution office, among others depending on the locality of respective Muslim societies across Uganda (Hamzah, 2018). Indeed, *zakat* institutions and *halal* branding impact positively and significantly on Muslim interest in consuming *halal* products (Azisah *et al.*, 2023).

However, the more pronounced and organised of all these is the House of *Zakat* and *Waqf* Uganda an organisation dedicated to the collection and distribution of *zakat* across the challenged Muslim communities in different parts of Uganda. Indeed, it is more transparent in its operations than the rest of the *zakat* collection offices. Besides, the House of *Zakat* and *Waqf* Uganda has engaged in getting financial assistance for Muslims in the forms of helping them access Education and distribution of food and shelter relief items to the economically hard-hit Muslim communities in different parts of Uganda. However, *zakat* and *sadaqah* funds can be leveraged more as a tool to effectively alleviate poverty through undertaking the objective of turning the *asnaf* into *zakat* and *sadaqah* givers (Hamzah & Muhammed, 2021).

Establishment of Qard Hasan (Benevolent Loans)

Among the most highly rated challenges limiting financial inclusion in Uganda is the inability to access financial assistance by many Ugandans due to aspects like lack of collateral and most importantly the high interest rate on the premiums charged by different financial institutions (Onzia, 2021). Moreover, those who try to bypass the lengthy procedure to access loans from financial institutions end up trapped by loan sharks who extend predatory loans to them and eventually end up losing their valuable collateral assets. However, *muamalat* provides a unique financial feature in Islamic finance to offset such loan challenges, which can aid financial and socially sustainable well-being for all members of society. Indeed, this is realised in *qard hasan*, a financial instrument in

which the borrower is required to pay only the original amount of the loan (Baej & Worthington, 2014). Moreover, in Uganda, *qard hasan* is extended mainly on *zakat* and *waqf*-based financing arrangements mainly by the House of *Zakat* and *Waqf* Uganda organisation (HZWU). Moreover, the arrangement is mainly through extending capitalisation for small business startups mainly for financially challenged women (Kaweesa *et al.*, 2024b). Indeed, such are women who have been rendered vulnerable because of divorce or the loss of their spouses. Besides, the requirement is to have a business idea that is viably fit to operate in the respective areas of their residence – and they are expected to return the actual amount originally extended to them by the organisation. It's an instrument that can help enhance financial and social inclusion in society as it's a loan of benevolence, extended to needy people for a fixed period without requiring the payment of interest or profit (Azisah *et al.*, 2023). Besides, *zakat* and *qard hasan* were identified as possible financing methods to financially uplift poor individuals and SMEs from the adverse effects of coronavirus. The *Quran* in several verses encourages Muslims to extend *qard hasan* by assuring reward in this world and the hereafter (Q.2:245, 5:12, 57:11, 64:17, 73:20).

Besides, Islamic financial institutions in Uganda can use *qard hasan* as a form of social contribution, especially to their clients with cash-flow challenges (Al-Suwailem, 2022). Moreover, in Nigeria, Islamic social finance products such as *sadaqah*, *zakat*, and benevolent loans have been suggested to foster more financial inclusion and reduce income inequality within the society (Abdullahi *et al.*, 2021). Although some studies indicate the unpractical applicability of *qard hasan* arrangement in tailoring products like the Islamic credit card in Jordan due to the *Shariah* issue of possession, *qard hasan* can be a great financial comprehensive model to be used in providing start-up capital to socially committed business ventures (Alhusban *et al.*, 2021).

Conservation of Societal Values and Averting of Harm

Despite Ugandan Muslims coming from different cultural setups of varied tribes, they are keen on the preservation of such values and heritage as exhibited in their social norms like ceremonies, naming, and societal economic activities among others (Kasumba, 2015). For example, economic activities like agriculture, trade, and cattlekeeping are so central to many societies in Uganda and have been keenly preserved for subsequent generations. However, *Muamalat* has an ingredient embedded in Islamic finance that would not only foster the preservation of such values but also protect them from getting annihilated because of the desire for profit maximisation by Islamic financial institutions (Khan, 2013). Moreover, this is laid down in the concept of *maslahah*, an instrument so instrumental in helping to keep societal values intact and continuous. *maslahah* is key to seeking benefit and avoiding harm as directed by the lawgiver.

Promotion of Ethical Values and Exhibition of Quality Customer Service

One of the limitations of conventional finance is the lack of clearly detailed guidelines on the promotion of financial ethical values for all stakeholders in the financial system. As a result, there have been occurrences of financial catastrophes as that of 2008 linked to unethical financial issues like “false financial statement disclosures” leading to customers getting misguided in their investment decisions. However, *muamalat* aids Islamic banking and finance with clearly outlined financial ethical, and moral principles as laid down by *Shariah*, which are highly fitted for all places, times, and societies. Indeed, the most paramount of these principles is that all stakeholders engaging in business must be God-conscious in ways that whatever they are doing, they are watched by God. However, this is instilled among Islamic banking subscribers in all capacities and will reflect fairness and a just financial platform for all even for those who are less financially included (Abdullahi *et al.*, 2021). Indeed, this can further be executed when Islamic banking institutions in Uganda make efforts to provide Islamic ethical conduct about *muamalat* transactions for different stakeholders that are utilising services and consuming products of such institutions.

5. IMPLICATIONS

Indeed, it becomes vital to inform what would be the appropriate practices in a financial system like that of Uganda as a way of making such systems Islamically/ethically operational. Thus, in this

paper, we suggested what would be the best ingredients for shaping an ideal Muslim commercial culture in Uganda to be the basis of making it better and fully guided by Sharia guidelines as evidenced in the *Quran* and *Hadith*. Besides, Islamic finance in Uganda should be based on the principle of achieving ethical and social responsibility reflected in financial well-being among Ugandans (Khan, 2013).

Moreover, training of Islamic financial institutional staff in Islamic ethical values should be given priority by proprietors to exhibit and maintain high-quality service delivery to their customers to satisfy customers' needs (Khan, 2013). This is key as customers are newly experiencing Islamic banking products and services, and thus Islamic finance institution staff should engage clients as per the Islamic guidelines provided in the *muamalat* in the form of observing patience and understanding towards the clients. Besides, Islamic financial institutions in Uganda ought to engage in business regarding the protection of economic and social values in society as they seek to earn economic benefit. Moreover, social evils like corruption and misuse of societies' natural resources can be minimised.

However, the House of *Zakat* and *Waqf* Uganda (HZWU) has not yet so much engaged in the social financing of communities – an arrangement so novel that has been used to foster the financial well-being of the poor in countries like Malaysia (Siwar, 1991). Moreover, this helps them start small businesses to sustain themselves besides being dependent on periodical economic reliefs more so fostering rural development. Moreover, the *sadaqah* collection and distribution in Uganda is not yet well centralised, and it is entirely within the control of respective Imams of the different mosques across the country. Besides, Muslim societies in general haven't benefitted from such *Sadaqah* collections, save the collectors and for their gains (Hamzah & Muhammed, 2021).

In general analysis, the *muamalat* features are so unique as they foster wealth redistribution, caring, and harmony among people expressing the principle of justice and equality in society as laid down by Islamic law (Azisah *et al.*, 2023). Besides, in countries like Malaysia, Islamic financial institutions play a big role in not only giving *zakat* and *sadaqah* but also providing proper channels for their collection pending their official final distribution (Migdad, 2019). Besides, the fees charged in late payments to clients by Islamic banks as a penalty are channelled to charity to help boost the social and inclusion capacity of disadvantaged groups in society.

6. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Besides, *muamalat* guidelines make Islamic finance very comprehensive in both its objectives and philosophy. It's not only expected of individuals and institutions participating in the industry to observe technical requirements and refrain from charging interest but also to take a step further to enable observance of socio-economic aims and objectives of a just economic environment in the society. So Islamic finance is mainly hinged on *fiqh muamalat*, this study identified key exceptional features that can aid the development of Islamic banking in Uganda, much as its functions might appear the same as those executed by conventional banks. Indeed, the Islamic worldview observes that man is simply a vicegerent on earth who is supposed to refrain from all forms of economic corruption, misuse of natural resources, and catering for the conservation and continuity of life in all aspects of life.

This study required an empirical extension within the Ugandan context as we based only on the Systematic review methodology. Indeed, this would better help us understand the feasibility of *Muamalat* financial principles' applicability in the Ugandan context as the industry has a potential future in the country.

Indeed, the aspect of *maqasid al-Shariah*, which is a cornerstone in interpreting the *muamalat* principles related to Islamic finance, should always be given preference purposely to accommodate all that can enable Man to achieve well-being without distorting the ecosystem in different aspects. Therefore, future research on Islamic financing should consider engaging the relevance of *maqasid*

principles in shaping the Islamic finance industry in Uganda technically aligning with the sustainability and novel human values that are dedicated to the preservation of humanity.

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