

PARLIAMENT OF THE REPUBLIC OF UGANDA

**REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT ON THE FINANCIAL INSTITUTIONS (AMENDMENT) BILL,
2023**

OFFICE OF THE CLERK TO PARLIAMENT

JUNE, 2023

REPORT OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT ON THE FINANCIAL INSTITUTIONS (AMENDMENT) BILL, NO.2 OF 2023

1.0 Introduction

The Financial Institutions (Amendment) Bill, 2023 was presented for First Reading on 20th June, 2023 in accordance with Rule 128 of Parliament's Rules of Procedure. Subsequently, the Bill was referred to the Committee on Finance, Planning and Economic Development for examination in accordance with Rule 129.

Rt. Hon. Speaker and Colleagues, the Committee considered the Bill through consultations with different stakeholders, hence this report.

2.0 Object of the Bill

The object of this Bill is to amend the Financial Institutions Act, 2004 to repeal section 115B (2) establishing the Central Shari'ah advisory Council.

3.0 Methodology

The Committee held meetings and received memoranda from the following:-

- i) Minister of Finance, Planning and Economic Development (MFPED)
- ii) Uganda Revenue Authority (URA)
- iii) Micro-Finance Support Centre (MSC)
- iv) Bank of Uganda (BOU)
- v) Uganda Muslim Supreme Council (UMSC)
- vi) Uganda Muslim Lawyers Association (UMLA)
- vii) Uganda Law Society (ULS)
- viii) Private Sector Foundation Uganda (PSFU)

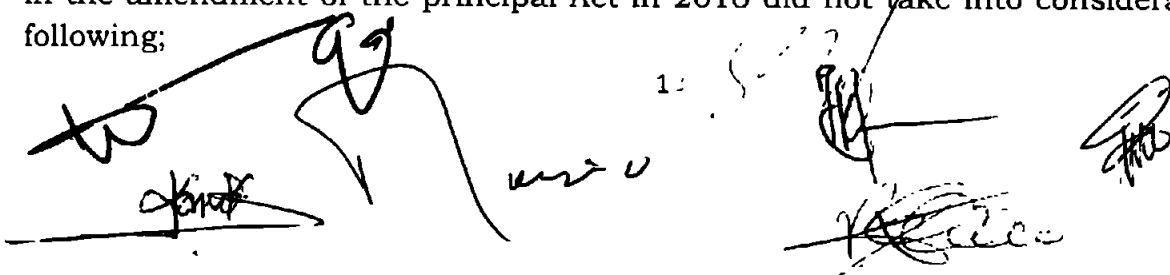
4.0 Observations and Recommendations of the Committee

Arising from the Committee's interactions with the stakeholders in 3.0, the Committee made the following observations and recommendations.

4.1 Amendment of Section 115B (2) of principal Act

The Bill seeks to repeal Section 115B (2) of the Financial Institutions Act, 2004 as amended in 2016. Section 115B establishes both institutional Shari'ah Advisory Boards with banks conducting Islamic Financial Business under 115B (1) and a Central Shari'ah Advisory Council in the Bank of Uganda under 115B (2).

The Committee observed that establishment of a Central Shari'ah Advisory Council in the amendment of the principal Act in 2016 did not take into consideration the following;



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- a) **The best global practices.** As of 2022, 13 of the 50 Islamic countries have a Central Shari'ah Advisory Council (CSAC). Even then, CSAC's have at their core mandate in those countries advising on monetary operations of the Central Bank, and not supervision of institutions undertaking Islamic Financial business. More over, the countries which undertake supervision such as Malaysia have a national strategy to promote Islamic banking, which cannot be duplicated in a secular jurisdiction like Uganda.
- b) **The best regional practices.** The Central Bank of Kenya, Bank of Tanzania and National Bank of Rwanda have all licensed and are supervising Islamic financial institutions in their jurisdictions but none has constituted a Central Shariah Advisory Council nor provided for its constitution in their legal frameworks. This leaves Uganda's CSAC an anomaly, which may create unnecessary impediments to any cooperation in the spirit of East African integration of both legislative and financial systems.

The Committee further noted that the Islamic Financial Services Board (IFSB) has provided guidance on the operation of Shari'ah Advisory Boards (SAB's) in financial institutions, which BoU can implement in its supervisory framework. The IFSB, established in November 2002 is an International standard-setting body for prudential regulation to ensure the soundness and stability of the Islamic financial services industry, covering Islamic banking, Islamic capital market and Takāful sectors. Uganda is a member of the IFSB and seeks to leverage on this expertise for guidance in regulating this nascent industry until such a time when it has built the adequate capacity to re-enact it in the law.

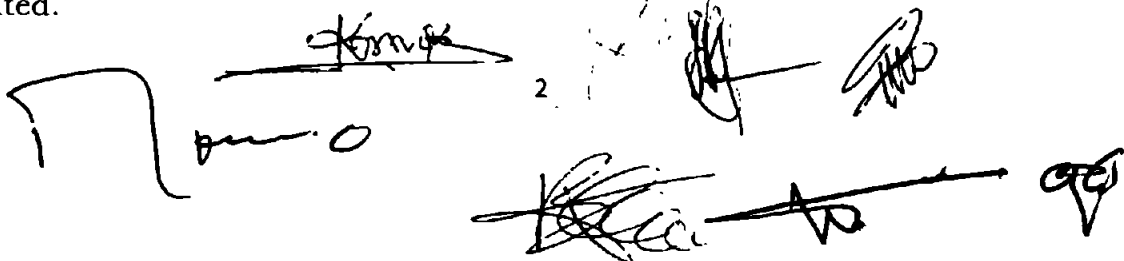
The Committee therefore noted the need to ensure adequate supervision of the institutional Shari'ah Advisory Boards by the Central Bank in order to avoid a lacuna in the supervision of compliance with Shari'ah principles. The Committee therefore proposes that the Council is maintained in the Act and an enabling provision be inserted to allow the Minister to issue a statutory instrument for the establishment of the Council whenever they deem it fit.

Recommendation

The Committee recommends that the Financial Institutions (Amendment) Bill, 2023 be passed into law with amendments.

Conclusion

Rt. Hon. Speaker and Hon. Members, the Committee prays that the income Tax (Amendment) Bill, No. 2 of 2023 be passed with necessary amendments as herein presented.

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**PROPOSED AMENDMENT THE FINANCIAL INSTITUTIONS (AMENDMENT) BILL,
2023**

AMENDMENT OF THE FINANCIAL INSTITUTIONS ACT, 2004

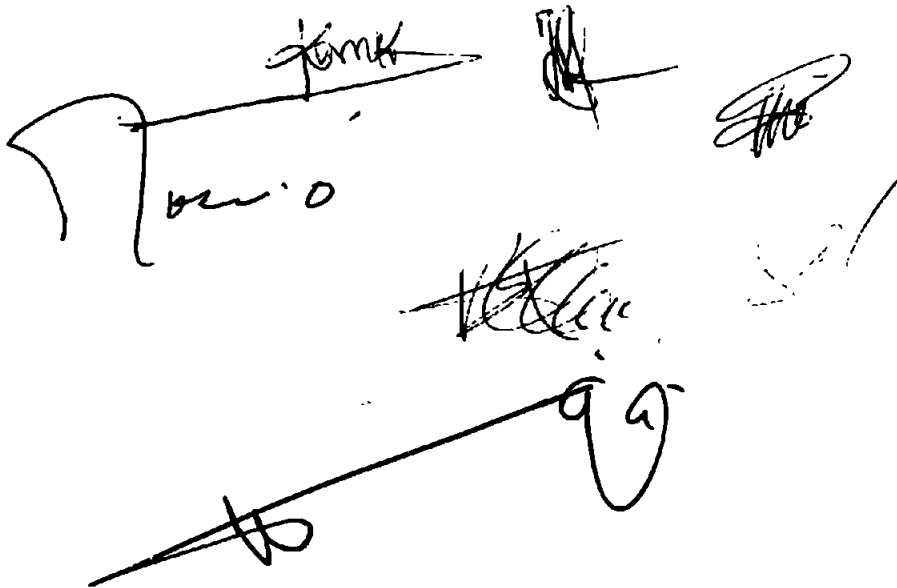
The Bill is amended by substituting for paragraph (a) and (b), the following-

“by inserting immediately after sub section (4), the following -

“(5) The Minister shall, by statutory instrument, appoint a date on which subsection (2) shall come into force.”

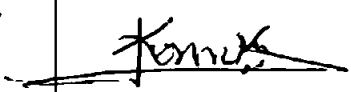
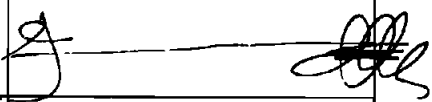

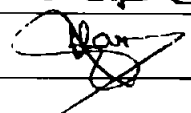

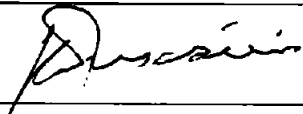
Justification

To maintain the advisory council in the Central Bank but give it a grace period to allow the industry grow and for suitably qualified persons to be identified and appointed before the provision comes into force.

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18	Hon. Wanda Richard	Bungokho Central	###
19	Hon. Mbabazi Janepher	Kagadi	
20	Hon. Nabukeera Hanifa	DWR Mukono	
21	Hon. Muwanga Kivumbi	Butambala County	to 99.
22	Hon. Ssenyonyi Joel	Nakawa West	
23	Hon. Nandala Mafabi	Budadiri West County	
24	Hon. Kateshembwa Dickson	Sheema Municipality	
25	Hon. Akol Anthony	Kilak North	
26	Hon. Luttamaguzu Semakula P.K	Nakaseke South	###
27	Hon. Ocan Patrick	Apac Municipality	
28	Hon. Omara Paul	Otuke County	
29	Hon. Dr.Kugonza Emely	Buyanja East	
30	Hon. Okot John Amos	Agago North	### w/Amos
31	Hon. Ogwaal M. Goli	Dokolo North	↑ w/0
32	Hon. Masaba Karim	Mbale, Industrial Division	
33	Hon. Patience Nkunda	Kanungu DWR	

MEMBERS OF THE COMMITTEE ON FINANCE, PLANNING AND ECONOMIC DEVELOPMENT; THE FINANCIAL INSTITUTIONS (AMENDMENT) BILL, 2023.

NO	NAME	CONSTITUENCY	SIGNATURE
1	Hon. Kankunda Amos Kibwika C/P	Rwampara County	
2	Hon. Avur Jane Pacuto D/CP	DWR Pakwach	
3	Hon. Wamakuyu Ignatious Mudimi	Elgon County	
4	Hon. Agnes Atim Apea	DWR-Amolatar County	
5	Hon. Mpindi Bumali	PWD Rep.	
6	Hon. Bataringaya Basil	Kashari North County	
7	Hon. Asimwe K Enosi	Kabula County	
8	Hon. Aleper Moses	Chekwii County	
9	Hon. Katwesigye Olivia	Buhweju Constituency	
10	Hon. Tayebwa Herbert Musasizi	Kashongi County	
11	Hon. Nabagabe Flavia	DWR Kasanda	
12	Hon. Kyooma Xavier Akampurira	Ibanda County North	
13	Hon. Nakut Faith Loru	DWR Napak	
14	Hon. Nangoli Gerald	Elgon North County	
15	Hon. Katali Loy	DWR Jinja	
16	Hon. Ochai Maximus	West Budama County North	
17	Hon. Opolot Patrick Isiagi	Kachumbala County	