

A Decade of Creating an Alternative Banking System in Tanzania: The Current State of Affairs of Islamic Banks

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Abstract : The concept of financial inclusion has been tabled in the whole world where practitioners, academicians, policy makers and economists are working hard to look for the best possible opportunities in order to enable the whole society to be in the banking cycle. The Islamic banking system is considered to be one of the said opportunities. Countries like the United Kingdom, United States of America, Malaysia, Saudi Arabia, the whole of the United Arab Emirates and many African countries have accommodated the aspect of Islamic banking in the conventional banking system as one of the financial inclusion strategies. This paper tries to analyse the current state of affairs of the Islamic Banking system in Tanzania in order to understand the improvement of the provision of Islamic banking products and services in the said country. The paper discusses the historical background of the banking system in Tanzania, the level of penetration of banking products and services and the coming of the Islamic banking system in the country. Furthermore, the paper discusses banking regulatory bodies, legal instruments governing banking operations as well as number of legal challenges facing Islamic banking operations in the country. Following a critical literature review, the paper discovered that there is no legal instrument which talks about the introduction and provision of Islamic banking system in Tanzania. Furthermore, the Islamic banking system was considered as a banking product which is absolutely incorrect because Islamic banking is considered to be as a banking system of its own. In addition to that, it has been discovered that lack of a proper regulatory system and legal instruments to harmonize the conventional and Islamic banking systems has resulted in the closure of one Islamic window in the country, which in the end affects the credibility of the newly introduced banking system. In its conclusive remarks, the paper suggests that Tanzania should work on all legal challenges affecting the smooth operations of the Islamic banking system. This can be in a way of adopting various Islamic banking legal models which are used in countries like Malaysia and others, or a borrowing legal harmonization process which has been adopted by the UK, Uganda, Nigeria and Kenya.

Keywords : Islamic banking, Islamic windows, regulations, banks

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