“Central bank impact on practicing Mudarabah financing in Islamic banks: the case of Tanzania”

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CENTRAL BANK IMPACT ON PRACTICING MUDARABAH FINANCING IN ISLAMIC BANKS: THE CASE OF TANZANIA

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Abstract

This paper investigates the challenges faced by Islamic banks in practicing Mudarabah financing under conventional regulatory regime by interviewing eleven Islamic bank managers from three selected banks. Thematic data analysis was employed to understand hindrances for Islamic banks in operating Mudarabah financing under conventional regulatory regime. Findings of the study have provided a number of major challenges that hinder Islamic banks performance in Tanzanian context. The challenges include irregularities of policies and regulations, non-supportive operational and technical structure, and missed perceptions of Mudarabah among the public. However, a new challenge of the impact of the central bank on Islamic banks was identified. It is expected that Tanzanian Islamic banking performance will be enhanced if the central bank introduces sharia regulations for Islamic banking, initiates the central sharia supervisory board, and harmonize, country regulations with financial regulations regarding Islamic perspectives.

Keywords Islamic banking, challenges, Mudarabah, Tanzania, conventional regulation

JEL Classification G20, G21, G28

INTRODUCTION

To date, the Islamic banking industry has been extensively studied. These studies have confirmed its growth and flexibility within a more demanding financial environment (Rizvi & Arshad, 2014). For example, Abdul-Rahman and Nor (2017) have asserted that growth has been measured by the developments and maturity of products, services and financial markets, along with the development of infrastructure and financial institutions. Furthermore, it has been explained that comprehensive framework of legal, regulatory and Sharia is the main essence for creating a conducive environment for the industry (Habiba, Effandi, & Abdallah, 2017). The current economic goals of broad economic prosperity with full and optimum level of economic growth and justice in the distribution of income and wealth, are all in line with the development of the Islamic banking industry (Abdul-Rahman & Nor, 2017). The Islamic banking products which do not include gharar (uncertainty), riba (usury) and maysir (gambling), have all become alternatives to conventional banking in meeting the community's ever increasing needs (Siddiqui, 2008).

Conventional regulatory frameworks have dominated the supervision of Islamic banks, with slightly modified terminologies (Khan & Shah, 2015). It has been argued that the introduction of Islamic banking and finance into conventional systems has made it difficult for supervisory authorities who are unfamiliar with the abilities of Islamic banks to cope with the supervision issues, especially in countries that operate a dual financial system (Sole, 2007). As distinct from practices, their institutional aspects and structural requirements distinguish Islamic banks from conventional ones (M. Iqbal, Ahmad, & Khan, 1998).

Many studies have been conducted regarding the challenges that Islamic banks face (Hammoud, 2017; Shah, Raza, & Khurshid, 2012; Wilson, 1999; Zainordin, Selvaraja, Man, & Hoong, 2016). However, the studies on the challenges faced by Islamic Banks, and the impacts of central banks in practicing Mudarabah financing under conventional regulatory regimes, are minimal. Therefore, the study on challenges faced by Islamic banks under the conventional regulatory regime, and the impact of central banks, are both very crucial. The present qualitative study has identified several challenges facing Tanzania Islamic banks when practicing under conventional regulations, as Tanzania's central banks are the regulators and supervisors for all country's banks. This imposes more requirements on Islamic banks, which are inconsistent with sharia.

1. THEORETICAL BASES OF THE STUDY

1.1. Islamic banking in Tanzania

The emergence of Tanzania as a frontier for Islamic finance in East African countries, has been enabled by the granting of five banks to provide Islamic banking services (BoT, 2011). The range of products offered by Islamic banks and windows in Tanzania differ according to each bank's nature. In general, they mostly provide financial products. Islamic banking and finance in Tanzania have become modes for collecting and disbursing funds, and for gratifying market needs (Beatus, Tripathi, & Kasongwa, 2013). Table 1 lists Islamic banks in Tanzania.

Table 1. Number of Islamic banks in Tanzania

Source: BoT (2011).

No.	Banks	Status	Ownership
1	Amana Bank Limited	Full fledged	Local private owned
2	PBZ Ikhlas	Islamic division	Local government owned
3	KCB SAHL Bank	Window	Foreign government owned
4	National Bank of Commerce	Window	Local government owned
5	Stanbic Bank	Window	Foreign private owned

Currently, five banks provide Islamic banking services in Tanzania, with Amana bank being fully-fledged, and the rest being windows. The Amana Bank, the National Bank of Commerce and PBZ Ikhlas are local owned banks, while the Kenya Commercial Bank and Stanbic Bank are foreign banks, based in Kenya and South Africa, respectively.

The community warmly acknowledges the driven changes, regardless of their faith, even though Islamic banking practices in Tanzania have been undermined by numerous challenges hindering their valuable performance (Oladimeji, Ab Aziz, & Khairi, 2016). In this situation, further studies regarding the national Islamic banking industry, including its strengths and challenges faced, are very relevant and much needed.

1.2. The missing link between Islamic banking and Tanzanian banking regulations

In addressing the missing link between Islamic banking and the regulatory framework which prevails in Tanzania, studies have highlighted several challenges that impact Islamic banking under the current banking regulations. The main challenge encountered by Islamic banks in the Tanzanian context, is the lack of an Islamic regulatory framework (Habiba et al., 2017; Hikmany & Oseni, 2016; Mzee, 2016). For example, Mzee (2016) has commented on Tanzania's regulations, which do not recognize the Islamic banking operations, even though they have been allowed to be practiced. This is evidenced by the constitution of United Republic of Tanzania of 1977, which provided that Tanzania is a secular state which only recognizes individual religion and worship, as distinct from managing religious bodies.

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In contrary, Hikmany and Oseni (2016) have conceptualized on the existing legal framework in Tanzania for dispute resolution within the Islamic banking industry, and explore the inefficiency of existing framework in resolving disputes. Subsequently, Sulayman (2015) suggested that a lack of a sharia regulatory framework has been claimed to cause a multiplier effect on the guidance on Islamic finance transactions, while Habiba et al. (2017) contended on the impact of regulations on the growth and development of the industry.

Moreover, literature has revealed other varied difficulties such as maintenance of liquid assets ratios, which are not emphasized in Islamic sharia, restrictions to trade by Islamic banks, and the depositing of insurance funds (Mzee, 2016). Similarly, there are incidences of double taxation in Islamic banking products, as Islamic banking has not been accommodated under Section 5 of the Stamp Duty, Cap. 189. On top of that, Sulayman (2015) suggested that people's lack of understanding of sharia knowledge and entrepreneurial skills, along with the existence of untapped investment opportunities for the purposes of sharing risks, have all impacted Islamic banking.

However, Islamic banks cannot benefit from using BoT as the lender of last resort, as the loans provided are associated with interest which is prohibited in Islamic sharia (Hanif, 2014). From this perspective, Islamic banking in Tanzania has been insulated by the regulatory challenges that hinder its prospective growth and performance. Apart from the regulatory framework, Islamic banks in Tanzania are challenged with competition laid down by bank lending rates, as provided by BoT. Conventional banks make it easier to adopt changes, by just changing their rates to cater for the increasing costs of transactions. The bank lending rate of Tanzania averaged 12.54% from 2002 to 2017, with a minimum of 3.7% in 2009, and a high of 21.42% in 2007 (Trading economics, 2017).

1.3. Mudarabah financing

Mudarabah is a term used to represent a partnership between two parties, Rab-ul-maal and Mudarib in the agreement of profit sharing (BNM, 2015). Mudarabah financing came to existence in the reality that the one with surplus capital lack business knowledge and those with the knowledge, lack capital to invest (Laldin & Furqani, 2016). Mudarabah has been accepted as a mode of financing that utilizes surplus capital in the form of exchanging capital and knowledge, and shares the profit on an agreed pre-determined ratio. The one with capital is termed as Rab-ul-maal, while that with knowledge is termed as Mudarib.

The role played by Islamic banks is to act in both parties, act as Mudarib in the tier one by taking the capital from depositors, and act as Rab-ul-maal in the second tier by using the funds from depositors and finance the selected businesses from entrepreneurs. The funds provided by depositors may/may not be restricted and directed under specified or unspecified business activities (BNM, 2015). In the case of unspecified business activity, Mudarib has the right to invest the capital provided in whatever business activity 'al-Mudarabah Al-mutlaqah' or specify the business activity for the use of funds 'al-Mudarabah al maqayyadah'. However, the profit made by Mudarib is to be shared between Mudarib and Rab-ul-maal on an agreed profit sharing ratio.

The application of Mudarabah deposits poses challenges to Islamic banks operating in a dual financial system by the increased competition with conventional banks. Unlike conventional banks where principal amount is guaranteed and returns are fixed and predetermined upfront. Contrarily, in Islamic banking, return is a function of investment performance with no guarantee of the principal amount and therefore is exposed to business risk. However, Islamic banks are exposed to displaced commercial risk, withdrawal risk and reputational risk in the event that the returns offered are not comparable to conventional banks.

1.4. The challenges facing Islamic banks

Several studies have earmarked on the challenges that face Islamic banks. It has been explained that Islamic banks and financial institutions in Malaysia are affected by low awareness of the public on Islamic banking that leads to the missed perception of Islamic products. This has been caused by less efforts of marketing the products and legal challenges (Zainordin et al., 2016). Similarly, challenges and opportunities faced by Islamic banks in Lebanon are explained to be inadequacy of legal and regulatory framework, lack of awareness and knowledge of Islamic banking and sharia compliance dilemma (Hammoud, 2017). Furthermore, lack of harmony among sharia scholars in providing fatwas mentioned to be a big controversy in Islamic finance. This is caused by different sects in Islamic religion and therefore fatwas are provided differently (Shah et al., 2012).

The potential for Islamic banking is beyond question, even though there are many challenges to overcome in order for the market to realize its potential opportunities. Human resources and regulatory frameworks have been addressed to pose the greatest obstacles to Islamic banking (Jabr, 2003; Tabash, 2017). The market faces a severe shortage of qualified staff that understand both technical Islamic banking principles and Sharia finance (Sanusi, 2011). Also, countries face a challenge in setting up clear principles for Islamic banking businesses, and in creating a regulatory regime that treats Islamic banks differently from conventional banking (Tabash, 2017).

In addition, customers' awareness and the lack of capital market instruments for liquidity also provide moderate challenges (Jabr, 2003; Tabash, 2017). Most Islamic banking customers live under the misconception that Islamic banking operations are contrary to the principles of Islam, particularly with regards to the ways Islamic banks create and distribute profit (Jabr, 2003). Moreover, there are limited capital market products that are acceptable by Islamic principles for providing liquidity conditions to Islamic banks. It is worth noting that political instability and difficulties in providing international acceptable products have been seen as the least significant challenges that face Islamic banking (Laldin, 2008; Njamike, 2010).

Generally, Islamic banking and finance are still underresearched. Most existing studies contemplated on sharia regulation, which is believed to be the most important criterion for the effective provision of Islamic banking services. Regulations for Islamic banking and finance have not yet been provided by the Tanzania central bank, while Islamic services continue to be rendered from permitted banks. This study aims to identify challenges faced by Islamic banks in practicing Mudarabah in a conventional regulatory regime of Tanzania.

2. METHODOLOGY

The qualitative case study method has been used in this study. This method involves exploring a problem through methodological traditions of inquiry, from knowledgeable persons as sources (Creswell, 2007). In the present study, multiple case studies involving the examination of challenges facing the Islamic banking industry were conducted. The study used purposive sampling to select participants. This allowed information to be obtained from the experienced practitioners, with a wide knowledge of the Islamic banking sector. The data collection has been undertaken through in-depth semistructured interviews, by interviewing eleven managers from three selected Islamic banks. According to Baker and Edwards (2012), the sample size for qualitative research can vary from one participant to a hundred or more. With this in mind, the present study sample was deemed to be suitable and justified.

The present study used a thematic analysis method to provide a structured way of understanding how to develop thematic codes and sensed themes. Thematic analysis was considered to be an appropriate analysis method for this study, which seeks to determine its conclusions by gathering interpretations (Braun & Clarke, 2013). The method provided a systematic trend of data analysis (Alhojailan, 2012). Therefore, it allowed the researcher to make an analysis of emerging themes from the gathered contents. According to Marks and Yardley (2004), this method creates understanding and diverse data collection. This study's data analysis was conducted across four stages, which included data management, coding, categorization and theme development (Clark & Creswell, 2014; Miles, Huberman, & Saldana, 2014; Saldana, 2013; Saldaña, 2015). Three broad themes that addressed the main challenges of Islamic banking in Tanzania, and the impact of the central bank in practicing Mudarabah were developed. The analysis of the findings and discussion of the themes have been presented in section 3 and 4, respectively.

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3. RESULTS

The results of this study have been categorized into three broad themes. Table 2 presents the broad themes with sub-themes.

Table 2. Thematic findings from in-depth interviews with bank managers

Themes	Sub-themes
Irregularities of policies and regulation	Lack of sharia regulations; Contradiction of BoT regulations with Islamic Sharia; Lack of harmonization between country policies and financial regulations for Islamic banking
Missed perceptions of Mudarabah among the public	Lack of awareness and knowledge of Sharia; Lack of Sharia scholars
Non-supportive operational and technical structure	Minimum investment opportunities; Competition with conventional banks

4. DISCUSSION

4.1. Irregularities of policies and regulation

The Tanzania banking industry is dominated by conventional regulations, even though Islamic banking activities are allowed by the Central Bank of Tanzania. Therefore, the performance of Islamic banks is hindered by the lack of sharia regulations that fit their unique nature (Mzee, 2016). Due to the existing deficiencies, Islamic banking seems to suffer from common challenges as narrated by literature and affirmed by conducted interviews. The identified challenges faced in Tanzania include the following (see subsections 4.1.1.–4.1.3.).

4.1.1. A lack of Sharia regulations

The lack of a sharia regulatory framework has been addressed as being the main challenge impacting Islamic banks in Tanzania. It has been mentioned by participants that this challenge is created by the lack of sharia regulations which govern Islamic banks, leading to policies and different perspectives in interpretation of sharia regarding Islamic banking. Mr. Malek clarified the current situation of Islamic banks in Tanzania, in terms of regulations, stating that:

"Currently there is no dedicated framework which governs Islamic banks in Tanzania, but it is allowed for Islamic banks to operate sharia-compliant products in Tanzania."

(Mr. Malek, bank B Manager)

Similarly, Mr. Arjun claimed on the deficiency of sharia guidelines from BoT and insisted on the BoT to recognize its responsibility as a central bank. He said that:

"It is a challenge to the Central Bank, who is the supervisor to all banks, including Islamic banks, that [there is a] lack the guidelines that will supervise Islamic banks. Central banks have the responsibility not only of looking into profit maximization but into sharia compliance as well."

(Mr. Arjun, bank A manager)

Mr. Rossly narrated the situation regarding the steps taken by Islamic banks for products approved by BoT, without looking at how products will perform. He stated that:

"Up to now, there is no official Islamic regulation in Tanzania. BoT, which is the supervisor of all banks, does not provide regulatory framework of Islamic banking. What we do, we apply for license. For example, if you want to establish Islamic finance or Islamic banking, you have to write a letter showing the products you want to provide, how they will work, and then they provide go ahead. That's all. It does not look into how you will deal with customers, discrimination, and the legality of the product."

(Mr. Rossly, bank C Manager)

The deficiency of a legal and regulatory Islamic framework creates some challenges to Islamic banks, hindering their performance. The lack of sharia regulation has been reported by several authors (including Jabr, 2003; Njamike, 2010; Sanusi, 2011; Tabash, 2017). For example, Jabr (2003) detailed the lack of sharia regulations in Palestine, where conventional regulations are used by Islamic banks. For this location, he also mentioned the lack of a relationship between the Islamic banks and the monetary authority, creating a gap in performance efficiency. At the same time, Tabash (2017) found that the regulatory environment is the most impeding factor for Islamic banks in India. Legal and regulatory frameworks have been identified as being basic requirements for the sound operating of financial institutions and markets (Ahmad & Hassan, 2007).

4.1.2. Contradiction of BoT regulations with Islamic Sharia

Some of the BoT regulations contradict Islamic banking sharia, so what is decided by Islamic banks does not follow those regulations, for the sake of sharia, or follows BoT requirements and thereby forgoes sharia. Mr. Haneef explained the steps taken by Islamic banks, in case they cannot avoid violating sharia, and stated that:

"There are some BoT regulations that are against Islamic sharia, but what is done by Islamic banks is either to decide not to follow some regulations, just for the purpose of maintaining sharia requirements. For example, BoT is a lender of last resort where other banks can borrow with interest, therefore bank B decides not to borrow from BoT, and [instead] to lend using interest in order to avoid being against sharia."

(Mr. Haneef, bank B Manager)

However, not all BoT requirements provided to Islamic banks can be sacrificed, with some of them to be mandatorily followed, even though they are against Islamic sharia. This situation is addressed by Mr. Nadir, who detailed the situation of a lack of Islamic financing products, such as takaful, while BoT instructs all banks, including Islamic banks, to insure their customers' deposits. Therefore, Islamic banks are forced to use conventional insurance in order to meet this requirement. The participant Mr. Nadir said that:

"BoT requires all loans provided by the bank to be insured … in Tanzania there is no Islamic insurance (takaful) organizations, so Islamic banks have to insure the loans using conventional insurance."

(Mr. Nadir, bank B Manager)

In the same vein, Islamic banks are required to guarantee capital and profit to customers. As the core activities of Islamic banks are profit loss sharing products, where profit and capital cannot be guaranteed, instead losses need to be shared between the bank and customers. Due to this BoT requirement, Islamic banks sacrifice sharia principles. Mr. Malek revealed that:

"The Mudarabah contract requires the sharing of profit and loss between Islamic banks and customers, and not guarantee a capital or profit, but BoT regulations require banks to guarantee amount deposited and the profit to be earned in fixed deposits."

(Mr. Malek, bank B Manager)

Furthermore, Islamic banking principles require the sharing of profit and loss when they occur during operations. However, BoT requests Islamic banks not to share losses with customers. Therefore, Islamic banks are obliged to bare the whole loss occurring during operations. This situation is explained by Mr. Murshad as follows:

"Another challenge is [that the] legal regulation of BoT is not conversant with Islamic sharia. Islamic banking law allows the sharing of profit and loss. While there is an investment where the money is allocated, it can turn into a loss as well, but BoT does not allow a customer to receive less than the amount deposited."

(Mr. Murshad, bank A Manager)

In supporting this challenge, Ms. Nabila said the requirement of not share loss with the customer is provided in BAFIA 2006, which does not serve to share risks with customers. In order to maintain the situation, Islamic banks are forced to use some mechanisms for the purpose of making sure customers are retained. She said that:

"Another issue of BoT regulation is not being allowed to share loss. So anyhow, a bank must have a profit equalization reserve, so that the profit is guaranteed and the capital will be guaranteed."

(Ms. Nabila, bank C Manager)

The contradiction between regulator and Islamic banking sharia has been supported by Majid and Ghazal (2012), who have found the contradiction of the United Kingdom regulator, which requested guaranteed capital for profit-sharing investment accounts (PSIAs), and not sharing loss with these

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account holders. In doing so, the sharia compliance issue of Islamic banks is compromised for the sake of conventional regulations.

4.1.3. Harmonization between country policies and financial regulations

The lack of harmonization between country policies and financial regulations is another challenge faced by Islamic banks in Tanzania. Islamic banking contracts are treated equally as the buying and selling of properties. This creates double taxation, due to the nature of their business. Banks mainly deal with real assets, rather than providing funds for customers to purchase the property. In this case, they pay Value Added Tax, when purchasing, and income tax, when selling the same property. Interviewees agreed that the inadequacy of the present legal and regulatory framework is a serious challenge. For instance, Islamic banks are treated as traders by the Central Bank, unlike conventional banks that are treated as financial institutions. This treatment implies double taxation, and also a lack of exemptions for Islamic banks. Mr. Rossly mentioned that:

"One among the biggest challenges that I have seen until now is on taxes, in terms of country regulations, because there is no official Islamic framework [...] the way Islamic banking is performing, it relates the banks to entering into [the] sharing of profit with business persons. As a bank you have to acquire products and sell them to the customers. Therefore, in owning and selling there are tax implications, so we find ourselves [as being] owed taxes."

(Mr. Rossly, bank C Manager)

Additionally, Islamic bank' products have failed to be exempted from tax, because of the nature of business. This is contributed to by lack of harmonization in the country's fiscal and financial policies. Mr. Nadir has stated that:

"Double taxation is one major challenge faced by Islamic banks in pursuing their activities. [There is a failure] to be exempted like other financial institutions, due to the nature of the business of Islamic banks, while no regulations support Islamic banks in Tanzania."

(Mr. Nadir, bank B Manager)

Due to this situation, Islamic banks' products have become expensive, and have failed to compete with conventional banks. The lack of harmonization between country policies and financial regulations has been reported by Ahmad and Hassan (2007), Kinyanjui (2013), Majid and Ghazal (2012), and Njamike (2010). Majid and Ghazal (2012) have explained the problem of tax restrictions, which impede Islamic banks in competing with conventional banks. It has been stated that conventional banking laws narrow the scope of Islamic banking activities within the conventional regime.

4.2. Missed perceptions of Mudarabah among the public

Missed perceptions of Mudarabah among the public in terms of lack of sharia knowledge, acceptance and awareness and insufficient number of scholars have been mentioned by participants as one among many challenges faced by Islamic banking in Tanzania. The challenge not only impacts customers, but also bank practitioners, and regulators.

4.2.1. Lack of awareness and knowledge of Sharia

The lack of awareness and understanding of Islamic banking has been mentioned as one among the many challenges that hinder the performance of Islamic banks in Tanzania. Society is not aware of the existence and potentiality of Islamic banking products. Also, people cannot differentiate between riba and the profit made by Islamic banks. They consider them to be the same things, only differing in terms of terminologies. However, some of people have religious knowledge, but they are not conversant with sharia and banking knowledge. Ms. Nabila has said that it is not only customers who lack Islamic banking knowledge, but the knowledge gap has been a problem to bankers and even regulators of the banks in Tanzania. She said:

"Also, knowledge is missing in the community. Knowledge is missing among the bankers themselves. There is resistance from within the bank, in operating as windows; sometimes you want to do marketing, but there is no budget for marketing, therefore internally we get resistance. Also, advoca-

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cy by our sheikhs is low. For example, a sheikh may stand in the mosque and say 'there is no Islamic banking, and all these are interest is just changing of words'."

(Ms. Nabila, bank C Manager)

In the same vein, Mr. Afiq highlighted people's misconceptions regarding Islamic banking operations, and they do not believe banks can operate without riba. People do not believe in the profit made by Islamic banks and have doubts about their performance. He suggested for creating more society awareness regarding Islamic banking. He further stated that:

"People are only thinking that in order for the banks to survive, there should be extra money in the form of riba. In this case, the awareness of people is not enough. Islamic banks are there, but [their] benefit is not yet realized."

(Mr. Afiq, bank A Manager)

Mr. Arjun said that people's tendency to fail to differentiate between riba and profit, is due to the lack of sharia and banking knowledge. He said that even though people have religious knowledge from the reality, whereby more than 50% of Tanzanians are Muslims, but their understanding of sharia and banking issues is minimal. He said that:

"The big challenge is customers understanding Islamic finance and banking issues. Most of them think that profit obtained from Muamalat is interest (riba). The most important challenge is awareness and lack of knowledge [of] the public concerning Islamic products."

(Mr. Arjun, bank A Manager)

Mr. Umar explained that the reason behind lack of awareness is people's failure to differentiate between Conventional and Islamic banking activities. On top of that, Mr. Murshad added that:

"Another challenge is [that] the people's awareness is too low, as [Islamic banking] is a new thing. Some people look at it with narrow eyes, so that they cannot see the difference with a conventional bank and think that a bank is just a bank. Therefore, people's understanding is low, especially in [regards to] providing loans."

(Mr. Murshad, bank A Manager)

The deficiency of sharia knowledge has been mentioned as another challenge faced by Tanzanian society, from the perspective of practitioners, customers and regulators. Mr. Rossly made a claim about the ability of BoT as a regulator and supervisor for Islamic banks, and while instead this function has been carried out by bank's sharia boards. He stated that:

"BoT cannot do that. They have no skills on doing that because they do not know [the] sharia component. But we have sharia board that make sure all Islamic products comply with sharia."

(Mr. Rossly, bank C Manager)

The lack of awareness and knowledge about sharia has been referenced by Jameel (2017), Nakagawa (2011), Njamike (2010), Sanusi (2011), and Tabash (2017). For example, Jabr (2003) mentioned a lack of customer awareness of Islamic banks in Palestine. He also mentioned the failure of customers to understand the differences between Islamic banks and conventional banks. Jameel (2017) asserted that customers lack awareness of Islamic banking operations.

4.2.2. Minimum number of Sharia scholars

The lack of sharia scholars has been given as one of the challenges impacting Islamic banking in Tanzania. Due to this shortage, some scholars participate as members of sharia boards with more than one Islamic bank. This situation is claimed to create conflict of interest among sharia board members. The scenario was explained by Mr. Rossly as follows:

"We have a deficiency of experts in Islamic finance in Tanzania. One among the strategies of developing Islamic finance is the need to have more experts to participate in sharia boards. Right now, sharia board members are shared between Islamic banks. You may find the same sharia board member in bank B, bank C, and bank D. We need to have

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many experts in Islamic banking in Tanzania, and [given] the way it grows and it seem it will continue to grow, therefore experts are important to increase [in number].”

(Mr. Rossly, bank C Manager)

The situation has been supported by Ms. Nabila who stated that:

“We have a sharia board with four members, one member who chairs at bank D, bank A and here in bank C.”

(Ms. Nabila, bank C Manager)

The scarcity of skilled people at an operational level, and of Sharia scholars with banking experience and knowledge, is another identified challenge facing Islamic banks (Nimsith, Shibly, & Irfan, 2015). Islamic banks have been dominated by people working in conventional banks, who can easily understand the operation of Islamic banks, but they fail to develop Islamic products due to a lack of knowledge of Sharia rules and regulations (Ainley, Mashayekhi, Hicks, Rahman, & Ravalia, 2007). Nimsith et al. (2015) concluded that the importance of scholars with Islamic Sharia knowledge is vital for progress in Islamic banking.

4.3. Non-supportive operational and technical structures

Non-Supportive Operational and Technical Structure are those structures that obstruct the efficient operation of Islamic banking activities. Findings from interviews addressed two operational and technical challenges faced by Tanzanian Islamic banks, which include those related to investment opportunities and competition.

4.3.1. Minimum investment opportunities

This study's findings claimed that the minimum range of Islamic products in Tanzania does not allow for the mobilization of funds. This is contributed by less investment opportunities, due to the lack of capital market instruments, such as government bonds and stocks that conform to Islamic principles. Regarding this issue, Mr. Murshad explained the following:

“There are few financial products in the Islamic perspective which are not yet scheduled in Tanzania, for example Sukuk which has a lot of Islamic bonds where Islamic banks can invest, while Islamic corporate bonds raised in the stock market have not yet been established.”

(Mr. Murshad, bank A Manager)

The problem of minimum investment products has been detailed by Z. Iqbal (2007) and Sanusi (2011). The observation made by Z. Iqbal and Mirakhor (1999) confirms the challenge that faces the Islamic financial system when developing risk-bearing instruments that are going to provide adequate liquidity and profitability by involving themselves in Islamic transactions. The innovation of Islamic services and products for effective fund mobilization becomes a severe problem for Islamic banks. This supports the study findings that Islamic banks face challenges in regards to minimum investment opportunities.

4.3.2. Competition with conventional banks

In terms of competition, the participants have responded that banks are faced with rivalries from conventional banks that have been dominating the country's banking industry. It was also revealed that competition is caused by rate of return, which is affected by the lending rate. In case of any changes to the lending rate, conventional banks find it easier to incorporate changes, as compared to Islamic banks. This is because the rate of return for Islamic banks depends on bank performance, rather than on fixed rates of return that are assigned to conventional banks. Therefore, Islamic banks have to merge the profit rate with the country bank lending rate, enabling them to be sustained in the market. Mr. Haneef has presented this issue stating that:

“The rate is made up of so many factors, including bank performance, market, operational costs, competition, and financial risks. Because we are dealing in the same market with conventional banks, […] customers, market and competition are very important aspects to be observed.”

(Mr. Haneef, Bank B Manager)

However, Mr. Samir complained about BoT's tendency to delay on making decisions regarding the submission of requests for new products developed by Islamic banks. He said that this situation has caused the takeover of customers by conventional banks. He clarified this as follows:

"The main challenge which we encounter [is] BoT's delay in making decisions on approving Islamic products, due to the absence of Islamic framework to the BoT. Due to this delay, Islamic banks fail to reach the needs of their customers, even though customers are available. This results to the takeover of customers by conventional banks, which depend on the same customers and the same market."

(Mr. Samir, bank B Manager)

An investigation made by Ariss (2010), using different proxies of competition, supports the finding from present study. He found that the Islamic banking market reveals more concentration and less competition, when compared to the conventional banking segment. Therefore, Islamic banks are stronger where competition is low, for the purpose of achieving higher rates of returns. Moreover, Mirakhor (1995) asserted that the newness of Islamic banks in financial globalization means that they fail to compete with well-established conventional banks in the short run.

MANAGERIAL IMPLICATIONS AND CONCLUSION

This study's findings have come out with the measures in different dimensions including regulators, bank practitioners and officials whose active participation is a must for the successful performance of Islamic banks in Tanzania. From the participant's perspective of challenges faced by Islamic banks in Tanzania operating under conventional regulatory regimes, the managerial implications have been provided, in order to enhance the practices and performance of Islamic banks.

The study has shown that the industry lacks a comprehensive sharia regulatory framework. The findings show the need for the framework. Managers are therefore able to play a proactive role in initiating the establishment of comprehensive sharia regulatory frameworks in Tanzania. For example, bank B has shown a willingness to engage in dialog with authorities. A more collaborated effort by banks is important for pooling the strength that is going to provide momentum for establishing such a framework. Consistently, policy harmonization is a challenge that hinders the better performance of Islamic banks. Country policies are not putting considerations to the specific nature of Islamic banks. Therefore, decision makers in Islamic banks have to initiate interventions that are going to create harmonized policies that cater to the uniqueness of Islamic banks.

This study has found inconsistencies on the fatwa provided by sharia advisory boards from different banks. The idea of harmonizing these fatwas is seen to be appropriate and justified. Therefore, in order to ensure sharia compliance, customers' confidence in the Islamic banking system and its similarities to products provided by the banks, a central sharia advisory board should be established. The board is one among many instruments that enhance the performance of Islamic banks, by centralizing the fatwa in countries such as Malaysia. Decision makers from Islamic banks should proactively come together to establish a central sharia board that will harmonize the fatwas that governs their banks. The implication here is that the existence of a central sharia board is going to allow for the same treatment of Islamic products among banks, when compared to the current situation where each bank uses different perspectives of sharia, attributed to varied places of references.

Due to the lack of knowledge regarding Islamic banking operations and sharia among customers, practitioners, and officials from central authorities, the dissemination of knowledge among society is the only solution that can be utilized to increase education regarding Islamic banking. Banks should initiate programs that aim to provide education, information and facts regarding Islamic banking operations, and the sharia that governs them. For example, a common controversy is the belief that profit in Islamic banks is the same as interest in conventional banks. This results in societal reservations in using Islamic

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banking products. Similarly, the advocacy of academicians, bankers and religious leaders is believed to be greatly helpful in distributing information about main differences between conventional and Islamic banking. This can be achieved through conventions, conferences, seminars and sermons. For example, from society's inbuilt belief towards sheikhs, it is apparently important for banks to persuade them to emphasize the differences between profit and interest.

In addition, the capital market is an important aspect to be considered when strengthening the performance of Islamic banking. Decision makers are to initiate the introduction of Islamic products in the Dar-es-Salaam Stock Exchange. The market should develop Islamic products like running finance and call loans, because almost all the banks face difficulties while targeting conventional banking customers. If such products are developed, it would change the pace of growth of Islamic banks. Islamic banks need to spend more on research in developing Islamic money markets and Islamic instruments, offering alternatives to hedging, arbitrage, swapping, forward booking, and other approaches to conventional banking.

Apart from the inherited challenges on Islamic banking, as mentioned by several authors, Tanzanian Islamic banks are more vulnerable to the requirements of the Central bank (BoT), which are against Islamic sharia. Islamic banks are forced not to share losses with customers on practicing Mudarabah, while this is a sharia requirement. In order to continue operations, Islamic banks have to bear the whole loss instead of sharing it with customers, while setting aside some reserves (profit equalization reserves) for enhancing efficient operations.

This study therefore, details the managerial implications of the banks' decision makers, that involve proactive initiatives for establishing comprehensive sharia framework, a central sharia advisory board, and initiatives in harmonizing policies that are going to relieve Islamic banks from double taxation. On top of that, managers have to create programs that are going to disseminate knowledge, via academicians, religious leaders and bankers, through mediums including conferences, seminars, conventions and sermons.

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