

ARTICLE

THE LEGAL CHALLENGES AFFECTING THE IMPLEMENTATION OF MURABAHA FINANCING IN TANZANIA



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Abstract

Murabaha is a mode of Islamic finance founded on sale rather than on lending a financier purchases an asset and resells it to a customer at a price that discloses the profit built into it usually recovered through instalments. Because Murabaha operates through sale rather than through loan it depends on clear legal rules governing ownership, possession, documentation, taxation and disclosure. In Tanzania, Murabaha has developed within a legal system designed primarily for conventional, interest-based banking and this article examines the legal difficulties that this mismatch has produced. Drawing on a study of Murabaha financing in Tanzania and on the work of established Islamic finance scholars the article identifies seven interlocking problems the absence for most of the period studied of a dedicated Islamic banking law; the unsuitability of everyday banking vocabulary such as loan and interest for describing a sale-based structure, the risk that Murabaha's two constituent sales are taxed twice, fragmented Shariah supervision across banks, the limited readiness of courts and dispute-resolution bodies for Murabaha litigation, weak disclosure to customers and the risk that some products satisfy the form of Murabaha while functioning in substance as ordinary loans. The article argues that the central question is not whether Murabaha can exist in Tanzania but whether the law supplies clear rules on ownership, taxation, disclosure, Shariah governance and dispute resolution. It closes with a set of practical reform proposals. a dedicated Islamic finance law, fair tax treatment, stronger and more centralized Shariah governance, structured training for judges and lawyers, and standardized disclosure and contract documentation.

Keywords – Murabaha; Islamic banking; Shariah governance; Tanzania; banking regulation; taxation; consumer protection; dispute resolution; legal reform.

I. INTRODUCTION

Murabaha is among the most widely used instruments in Islamic finance. It allows a bank to enable the purchase of an asset such as a car, a machine or a house without extending an interest-bearing loan. It is often assumed that Murabaha simply relabels an ordinary loan but this assumption is mistaken. In a conventional loan the bank advances money and the borrower buy whatever it wishes the bank never owns the asset. In Murabaha, the bank must itself first purchase the specific asset and for a short interval becomes its owner. Only afterwards does the bank sell the asset to the customer at the original cost plus an agreed and disclosed profit. The defining feature of Murabaha is therefore the sale of a real asset at a price that discloses a profit margin not the lending of money at interest.

This distinction matters greatly in a jurisdiction such as Tanzania where banking law was drafted primarily with conventional lending in mind. The study underlying this article found that for

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most of the period examined Tanzania had no specific law defining Murabaha or other Islamic finance contracts. Islamic banks were consequently required to rely on general banking, contract, tax, land and commercial legislation that had never been designed for a sale-based product, filling the resulting gaps chiefly through licensing conditions and their own internal Shariah governance arrangements.¹ This is a familiar early stage in many jurisdictions: Islamic finance often enters a market before the surrounding law has caught up with it.

The central argument of this article is that the legal problems confronting Murabaha in Tanzania are not isolated issues but a connected set. A gap in banking law can create uncertainty about how a court should characterize a Murabaha contract and that uncertainty in turn shapes how disputes are argued and decided. Tax rules designed for ordinary sales can quietly inflate the cost of Murabaha. Divergent Shariah standards across banks can confuse customers and weak disclosure can make it difficult for a customer to compare products. Because these problems reinforce one another this article treats them as a single connected question how well Tanzania's legal system is designed to support a sale-based financial product rather than as a series of unrelated complaints.

The remainder of the article proceeds as follows. Part II explains in plain terms what makes Murabaha legally distinct from an ordinary loan. Part III sets out the basis of the article. Part IV identifies seven connected legal challenges facing Murabaha in Tanzania. Part V considers the broader consequences of these challenges. Part VI proposes practical reforms and Part VII concludes.

II. WHAT MAKES MURABAHA LEGALLY DIFFERENT

Murabaha is at its core a sale contract. The financier purchases a specific asset and later sells that same asset to the customer at the original price plus an agreed profit. This distinction is not merely semantic whether a product is genuinely Shariah-compliant depends on whether the steps of a real sale actually occur not on what the contract calls itself. Murabaha requires the financier genuinely to purchase the asset before reselling it and this additional step can add legal cost and paperwork by comparison with a simple loan.²

The Tanzanian study places particular emphasis on ownership and possession. In an ordinary loan the bank advances money and the customer purchase the asset directly from the seller, the bank acquires no ownership interest in that asset. In Murabaha the bank itself buys the asset first and only subsequently sells it to the customer. The law must therefore be able to answer a series of practical questions who owns the asset while it remains with the bank, who bears the risk if it is lost or damaged before resale, how the two sales should be documented and what should happen if the customer later defaults. Where the law supplies no clear answers, each bank is left to work out these questions independently producing inconsistent practices and uneven risk allocation.

This is not a problem unique to Tanzania. The Islamic finance depends on specialized contracts such as Murabaha and Ijarah and on institutions such as Shariah boards all of which must operate within modern banking and tax systems that were built chiefly for conventional finance.³ In

¹ Ramadhani Salim and others (2022) *Shariah compliance Issues in The Practices of Murabaha financing Products Offered by Banking Institutions in Tanzania*, IRJSMI Volume 4 Issue 10 ,pp 33

² Mahmoud A El-Gamal, (2006) *Islamic Finance Law, Economics and Practice*, pp 66

³ Hans Visser (2019) *Islamic Finance Principles and Practice*. pp 70–118.

other words, any jurisdiction that wishes Murabaha to succeed must think beyond Shariah rules alone, to tax law, banking supervision, contract enforcement, consumer protection and dispute resolution. The sections that follow assess how far Tanzania has done so.

It is also worth noting that Murabaha in Tanzania is commonly used for everyday purchases such as vehicles, equipment, household goods and in some cases property. Because these transactions occur frequently and at scale even small legal gaps accumulate. A minor uncertainty repeated across thousands of transactions becomes a real cost for banks a cost that is usually passed on to customers through the profit margin.

III. BASIS OF THIS ARTICLE

This article builds on a study of the legal challenges facing Murabaha financing in Tanzania. The facts, examples, statutes and decided cases used in that study form the foundation of the analysis presented here. What is new in this article is the structure each challenge is now explicitly connected to its legal meaning, its practical effect and a possible remedy whereas the original study presented its findings largely as a list. This article instead traces how the findings relate to one another.

The article also draws on established scholarship on Islamic finance principally the work of books. These sources situate the Tanzanian findings within a wider comparative context and show that some of Tanzania's difficulties notably the risk of double taxation and the gap between formal compliance and actual practice are not unique to Tanzania but recur in other jurisdictions whose laws were originally built for conventional banking.

IV. LEGAL CHALLENGES FACING MURABAHA IN TANZANIA

The study and the analysis presented here identify seven connected legal challenges, discussed in turn below.

a. Absence of a Dedicated Law for Islamic Banking

The first and most fundamental problem is that for most of the period studied Tanzania had no dedicated law defining Murabaha or establishing a complete legal framework for Islamic banking. Defines banking business chiefly as the taking of deposits and the use of that money for loans or investments.⁴ This definition fits conventional banking well but it does not clearly cover a bank's temporary ownership of a specific asset acquired for the purpose of resale at a profit.

This gap matters because Murabaha is at heart a sale rather than a loan. If for example, a bank buys a car for TZS 40,000,000 and resells it to a customer for TZS 44,000,000 payable in instalments the bank briefly acts as a seller of goods rather than a lender of money. During that interval, the bank is the legal owner of the car and bears some of the risks that ownership carries. A banking law built solely around deposits and loans does not clearly state whether or how a licensed bank may engage in this kind of buying and reselling.

Because of this gap, the study found that Islamic banks in Tanzania relied heavily on license conditions and central bank guidance rather than on a clear statute to conduct their Murabaha business. Without such a law it is harder to fix firm rules on who owns the asset while it remains with the bank who bears the risk of loss, how profit should be calculated, what security the bank may take and what follows if the customer fails to pay. A mature legal system would ordinarily set

⁴ Section 3 of the Banking and Financial Institutions Act Cap 342 RE 2023

out these rules directly, rather than leaving banks to reconstruct them through internal policy and guesswork.

The remedy is not simply to insert the word Murabaha into the existing banking statute. What is required is a proper legal framework that defines Murabaha and comparable Islamic finance contracts explains their legal features in language accessible to courts and practitioners, grants licensed banks clear authority to carry out the necessary buying and selling and explains how these contracts interact with existing contract, land, tax and consumer protection law. Absent such a framework each bank must build its own bridge between the old banking law and its new Murabaha products and different banks are likely to build that bridge differently.

b. Mismatch Between Everyday Banking Language and Murabaha

The second challenge concerns language. Tanzanian banking and contract law was built around interest-based lending and its ordinary vocabulary principal, interest, loan, overdraft does not describe Murabaha well. Murabaha instead employs concepts such as disclosed cost, profit margin, deferred price, promise to purchase, ownership and possession. The study notes that the Law of Contract Act does not name Murabaha as a distinct type of contract with its own settled rules in the way that it recognizes contracts such as guarantee or bailment.⁵ In the absence of a named contract there is no ready body of case law or textbook guidance for courts to draw on so every Murabaha dispute must largely be worked out by analogy to general contract rules.

This becomes especially practical when a customer misses payments. Rather than a rule crafted specifically for Murabaha the bank must rely on general rules governing breach of contract.⁶ This does not render Murabaha unenforceable Tanzanian courts can and do enforce a wide range of contracts. It does mean however, that careful drafting and skilled advocacy matter more because the court must translate a Shariah-based sale structure into ordinary contract language without a statutory vocabulary designed for that purpose. A poorly drafted Murabaha contract or one that uses Islamic terminology without explaining precisely what that terminology means under Tanzanian law is correspondingly more likely to be misunderstood.

There is also an important distinction between profit and interest that the law should make explicit. A Murabaha profit is fixed at the time of sale and tied to the price of a specific asset whereas interest under an ordinary loan continues to accrue over time as a charge for the use of money. The detailed rules applicable to Murabaha including how a promise to purchase should operate, how security should be handled and what should occur on default.⁷ Without such guidance, a judge or tax officer unfamiliar with Islamic finance might wrongly treat Murabaha profit as equivalent to interest or wrongly refuse to enforce a legitimate profit claim because it does not fit familiar categories.

Tanzania would benefit from clear statutory definitions of Murabaha terms for the guidance of judges, magistrates, lawyers, regulators and customers. Such definitions need not displace general contract law; they would instead sit alongside it supplying default rules for Murabaha and comparable Islamic contracts in the same way that other well-established contract types already possess their own settled rules.

c. Risk of Double Taxation from the Two Sale Structure

⁵Section 78 and 100 of the Law of Contract Act Cap 345 RE 2023

⁶Section 37 and 73 of the Law of Contract Act Cap 345 RE 2023

⁷Muhammad Taqi Usmani (2002) *An Introduction to Islamic Finance* 41–64.

Taxation is one of the clearest and most measurable problems facing Murabaha because a single Murabaha financing arrangement typically involves two sales first, the supplier sells the asset to the bank second, the bank sells the same asset to the customer. The study warns that value added tax and stamp duty may be charged on both sales if the law treats each as a separate unrelated transaction.⁸

Consider a property worth TZS 100,000,000. In an ordinary financing arrangement, the property changes hands once from seller to customer and tax is charged once. In a Murabaha arrangement the property changes hands twice first from seller to bank then from bank to customer. If both transfers are taxed in full the customer may end up paying substantially more overall even though the property is used only once and the underlying purpose acquiring property with financing assistance is identical to that of an ordinary loan.⁹

This is not a problem confined to Tanzania. Notes that the additional buying and selling steps in Murabaha can generate extra fees and taxes that a conventional loan does not attract and that many countries have used targeted tax relief to address this difficulty.¹⁰ The pattern is consistent across jurisdictions wherever tax law was drafted without Murabaha in mind its literal application tends to penalize Murabaha unfairly and countries seeking to support Islamic finance typically respond by introducing specific tax relief for these transactions.

Tax neutrality should accordingly be treated as a basic principle of Islamic finance regulation the law should not reward or punish a financing method simply because it proceeds through one sale or two linked sales rather than a straightforward loan. A workable reform would introduce a clear tax rule for genuine Islamic financing transactions, under which the first transfer from supplier to bank would not be taxed again in its own right where it exists solely to enable the second sale to the customer provided that the second sale occurs within a defined period. This relief should be carefully confined to genuine regulated financing transactions carried out by licensed institutions so that it cannot be exploited for ordinary tax avoidance.

d. Fragmented Shariah Standards Across Banks

The fourth challenge concerns Shariah governance the system used to verify that a product is genuinely Shariah-compliant. The study found that before the 2025 Non-Interest Banking Business Regulations Tanzania had no single Bank of Tanzania-approved Shariah advisory body setting national standards for Islamic banks. Instead, each bank relied on its own internal Shariah board or adviser to determine whether its Murabaha products complied.

The principal difficulty this creates is inconsistency. Two banks may offer superficially similar Murabaha products, structured differently and each may obtain approval from its own Shariah board. A customer or even a court may struggle to determine whether a given product meets a clear national standard or merely reflects one bank's internal policy. If Shariah compliance is meant to reassure customers, the absence of shared national standards can quietly undermine that reassurance.¹¹

⁸ Section 3 the Value Added Tax Act Cap 148 RE 2023 and Section 5 Stamp Duty Act Cap 189 RE 2023

⁹ Mzee m Mzee(2016) *The legislative challenges of Islamic banking in Tanzania .Vol 45 Journal of law policy and globalizations* p.133

¹⁰ Mahmoud A El-Gamal, (2006) *Islamic Finance Law, Economics and Practice*, pp 67

¹¹ Pradeep kulshretha and Maulana Ayoub(2018) *A decade of creation an alternative banking system in Tanzania. Current state of affairs of Islamic banking International journal* p.1274

The study points to Shymaa Commission Agent Co Ltd v KCB Bank Tanzania Limited and Another in which the High Court of Tanzania Land Division at Dar es Salaam considered the approval given by the bank's own Shariah board in relation to the disputed transaction.¹² The lesson is primarily institutional absent a national standard key questions of Shariah compliance can end up turning on one bank's internal governance rather than on a common standard applicable to every Islamic bank in Tanzania.

A central Shariah advisory body possessing genuine independence, technical competence and transparency would help establish minimum national standards for Murabaha documentation, ownership and possession rules, promises to purchase, late payment penalties, security and the restructuring of facilities where customers face financial difficulty. Such a body should work alongside the Bank of Tanzania, the courts and other institutions rather than displacing them. Individual bank Shariah committees would retain an important role in giving product-specific advice but would do so within shared national standards rather than in isolation.¹³

e. Limited Readiness of Courts and Dispute-Resolution Bodies

The fifth challenge concerns the readiness of courts and dispute-resolution bodies. The study found that Tanzania has no specialized Islamic banking courts, tribunals or arbitration panels and that judges, magistrates and lawyers receive little structured training in Islamic finance. This raises the risk that Murabaha disputes will be assessed using ordinary loan and sale reasoning, without adequate recognition of the distinctive structure and Shariah requirements of a genuine Murabaha transaction.

The study cites Lulua Investment Co Ltd and Another v The Peoples' Bank of Zanzibar Ltd as an example of litigation involving an Islamic banking division decided without the benefit of a full statutory framework explaining how such disputes should be pleaded proved and decided.¹⁴ It also refers again to Shymaa Commission Agent Co Ltd which illustrates how international private standards can assume importance where domestic law does not supply sufficient detail to resolve a case on its own terms.¹⁵ Together, these decisions show that Tanzanian courts already handle Murabaha-related disputes in practice, even absent a dedicated law, drawing on a combination of general contract law, bank Shariah materials and where relevant international standards.

The importance of proper dispute-resolution systems for Islamic banking noting that its distinctive contractual structures can raise evidentiary and procedural questions that ordinary loan disputes do not.¹⁶ This does not mean that every Murabaha case requires a specialized court Tanzania's ordinary courts are generally well able to apply general contract principles to novel categories of case. What is needed is a corps of judges, magistrates and lawyers who understand the distinction between a sale-based financing contract and an ordinary loan, together with procedures

¹² Shymaa Commission Agent Co Ltd v KCB Bank Tanzania Limited and Another, Land Case No 103 of 2022, High Court of Tanzania, Land Division at Dar es Salaam (unreported).

¹³ Engku Rabiah (2008) *Constraints and Opportunities in Harmonization of Civil Law and Shariah in the Islamic Financial Services Industry*, 4 MLJ, pp 39

¹⁴ Civil Case No 48 of 2019

¹⁵ Land Case No 103 of 2022

¹⁶ Umar A Oseni (2009) *Current Trends and Future Perspectives in Resolving Disputes in Islamic Banking and Finance*, pp 5

that permit expert evidence on Shariah rules to be properly considered without compromising judicial independence or requiring courts to apply Shariah law in place of Tanzanian law.

Tanzania could respond in several practical ways structured training on Islamic finance for judges, magistrates and lawyers, specialist commercial court benches or at least designated judges who develop expertise in this area over time and carefully regulated arbitration or mediation in which parties may agree to have their dispute considered with input from persons who understand both Shariah and Islamic finance. The goal throughout should be predictable well-reasoned decisions grounded in Tanzanian law that nonetheless respect the Shariah character of the underlying transaction.

f. Weak Disclosure to Customers

The sixth challenge concerns transparency towards customers. The study argues that ordinary banking disclosure in Tanzania focuses chiefly on interest rates and annual percentage rates whereas a Murabaha customer needs different information the actual cost the bank paid for the asset, the profit margin added to it the total deferred price, the instalment schedule and the consequences of missed payments.¹⁷

Without clear Murabaha-specific disclosure, customers may find it difficult to compare two Murabaha offers or to compare a Murabaha offer with an ordinary loan. This matters because, in purely monetary terms a Murabaha profit margin can end up close to the cost of an equivalent conventional loan even though the legal structure differs. Murabaha mark-ups are often set with reference to prevailing interest rates and the resulting payment plan can closely resemble an ordinary mortgage or instalment loan.¹⁸ If disclosure does not clearly itemize the price, customers may struggle to judge whether the profit margin is fair or may wrongly assume that avoiding the word interest automatically produces a lower total cost.

The appropriate response is a standard Murabaha information sheet provided to every customer before signature showing at minimum a clear description of the asset, the bank's actual cost, the profit margin and how it was calculated the total price payable by the customer, the full instalment schedule all fees and to whom they are paid any security required and step by step what happens if the customer misses a payment, including how any additional charge is calculated in a manner consistent with Shariah rules.¹⁹ Disclosure of this kind would help customers compare products fairly without altering the underlying sale-based character of Murabaha.

g. The Gap Between Formal and Substantive Compliance

The final challenge is the risk that a Murabaha product appears correct on paper and even receives formal Shariah board approval while being administered day to day much like an ordinary interest-based loan. The study raises concerns that some institutions may label a product Islamic and furnish properly drafted documents while paying too little attention in practice to whether the bank genuinely purchases the specific asset, whether that asset truly exists and is properly identified, how profit is actually calculated and how the relationship is monitored after disbursement.

¹⁷ Syed F Najeeb (2014) *Trading in Islam Shariah Regulations and Modern Uses in Islamic Financial Dealings Islamic Research Journal of Emerging*, pp 59.

¹⁸ Mansuri, M. (2006). *Islamic Law of Contract and Business Transactions*, pp 15

¹⁹ Muliad&marlinda(2025) Murabaha li al-amir bi al-syira in prospective of scholars. Volume 4 JSEAIS page 16

This challenge calls for a clear distinction between three separate questions whether a transaction is legally valid under Tanzanian law, whether it has received formal Shariah board approval and whether it is genuinely conducted as a sale in economic substance. A transaction may satisfy the first two tests enforceability in court and formal approval and still fail the third if in practice, it operates like an ordinary interest-based loan dressed in Islamic language. A genuine Murabaha transaction should never be treated as simply a conventional loan under a different label the bank's purchase of the asset, its ownership and possession however brief, the disclosure of actual cost and agreed profit and the transfer of the asset to the customer must all be real and demonstrable not merely recorded on paper.

At the same time, the law should avoid the opposite error of excessive formalism treating a transaction as invalid merely because it does not replicate every detail of a classical, historical Murabaha structure. Islamic finance should be assessed by reference to both its contractual form and its real economic substance, recognizing that modern Islamic finance must operate within contemporary commercial and regulatory conditions.²⁰ For Tanzania, this means that regulators should not rely solely on product names or Shariah certificates but should also examine actual transaction files to confirm that the bank genuinely purchased the asset that the disclosed cost and profit correspond to the real commercial arrangement and that the customer's payments are genuinely structured as a deferred sale price rather than as disguised interest on borrowed money.

V. WHY THESE CHALLENGES MATTER

The seven challenges identified above affect more than individual disputes or single transactions. First, legal uncertainty about how courts will treat Murabaha raises litigation risk, since banks and customers cannot always predict how a case will be decided. This uncertainty carries a real cost whether through more cautious lending, higher profit margins to offset legal risk or heavier documentation intended to reduce that risk. Second, double taxation arising from the two-sale structure where not properly relieved can make Murabaha more expensive than an ordinary loan for the same asset even where a customer would otherwise prefer a Shariah-compliant product. This effect is more pronounced for high-value assets such as property where stamp duty and value added tax if charged twice can form a substantial part of the total cost.

Third, fragmented Shariah governance can quietly erode public trust in Islamic finance as a whole, rather than in any single bank. Where customers cannot be confident that Islamic products from different banks meet the same standard the credibility of the entire sector may suffer even for banks that manage their own governance carefully. Fourth, weak disclosure to customers makes it harder for them to make informed choices between products working against the basic aims of consumer protection law. Fifth, this cumulative uncertainty can discourage banks from developing new Islamic finance products since any new structure whether a further variant of Murabaha or an instrument such as Ijarah or Musharakah must be built within a legal system not designed for it raising the legal and compliance cost of innovation.

Taken together these five effects impose a real system-wide constraint on how far Islamic finance can grow in Tanzania and how much trust it can command. Legal certainty is itself valuable in financial markets, investors, banks, customers and courts all need rules clear enough to allow

²⁰ Usmani, T. (2002). *An Introduction to Islamic Finance*. pp 78

them to assess their risks and rights before signing an agreement not only after a dispute reaches court. This lack of clarity does not prevent Murabaha from being offered in Tanzania as the Islamic banks and windows already operating there demonstrate, but it imposes an ongoing cost and constrains how large, predictable and trusted the sector can become without stronger legal foundations.

VI. PRACTICAL REFORMS

Because the seven challenges identified above are connected, the reforms proposed below are intended to operate together as a single plan rather than as separate isolated fixes. Each proposal addresses one or more of the problems identified and several reinforce one another.

a. Clear Islamic Finance Law

Tanzania should enact a clear law that properly recognizes Murabaha and other principal Islamic finance products. Such a law should define these contracts in plain, workable language, set out licensing and governance rules for banks that offer them and explain clearly how these contracts relate to existing contract, banking, land, tax and insolvency law so that this relationship need not be reconstructed afresh in every case.

In practice, this law need not be built from nothing. Tanzania can draw on how other jurisdictions have addressed the same problem. Malaysia for example, adopted a single comprehensive Islamic financial services statute covering banking, takaful and capital markets together whereas several other jurisdictions including a number of African markets have chosen a narrower path of amending the existing banking Act to insert a dedicated Islamic or non-interest banking chapter supported by detailed regulations. Tanzania's 2025 Non-Interest Banking Business Regulations already point in this second direction. A primary statute would give those regulations firmer legal footing removes any doubt as to whether subsidiary regulations can validly authorize a bank to buy and resell assets and reduce the risk that a regulation is challenged as exceeding what the parent Act permits.

Enacting the law is only the first step the process by which it is made also matters. The drafting process should involve the Bank of Tanzania, the Tanzania Revenue Authority, the judiciary, licensed Islamic banks and windows and consumer representatives so that the resulting text reflects how Murabaha is actually practiced rather than only how it appears in theory. A phased approach is realistic interim guidance and regulations can continue to operate while the primary law is drafted and debated provided each interim rule is designed so that it can later be absorbed into the wider statute without contradicting it.

b. Fair Tax Treatment

Tax law should be amended so that a genuine Islamic financing transaction does not carry an unfair additional tax burden simply because it requires two sales instead of one. The rules should clearly distinguish transfers made only to affect a regulated financing arrangement from ordinary resales between unrelated parties, so that relief is properly targeted and cannot readily be misused.

A workable version of this reform would give the Commissioner General of the Tanzania Revenue Authority a clear narrow test to apply relief on the first sale from supplier to bank would be available only where the bank is a licensed financial institution the asset is acquired solely to fulfil a specific identifiable Murabaha undertaking with a named customer and the second sale to

that customer is completed within a fixed period for example ninety days. Relief structured in this way targets precisely the artificial additional step created by Murabaha's two-sale form without opening a general exemption that unrelated commercial buyers and sellers could exploit to avoid value added tax or stamp duty on ordinary transactions.

This reform is best achieved through targeted amendments to the Value Added Tax Act and the Stamp Duty Act rather than through informal administrative practice or one-off rulings for individual banks. A statutory rule gives banks, customers and tax officers a common, fixed reference point, reduces the risk of inconsistent application across regional tax offices and gives the relief the durability of law rather than the uncertainty of policy that can change without notice. Clear record-keeping and reporting duties tied to the relief would allow the Tanzania Revenue Authority to audit compliance without needing to inspect every transaction in advance.

c. Stronger, Centralized Shariah Governance

A national Shariah advisory body working closely with the Bank of Tanzania should set minimum standards for Islamic banking products generally and for Murabaha in particular. Individual bank Shariah committees should retain the ability to give product-specific advice but always within these shared national standards, preserving flexibility without sacrificing consistency.

For such a body to function effectively, its independence must be built into its design rather than merely asserted. Members should be appointed for fixed terms on published qualification criteria covering both Shariah scholarship and Islamic finance practice with clear rules addressing conflicts of interest where a member also advises or has recently advised, a specific bank. Its standards once issued should bind all licensed Islamic banks and windows and should be reviewed periodically so that they can be updated as new Murabaha structures and disputes emerge rather than remaining fixed indefinitely.

The central body should also carry a monitoring function not merely a standard-setting one. This could include periodic review of individual banks' Murabaha files against the national standards a channel through which individual bank Shariah committees may refer genuinely novel questions upward for a binding national ruling and a public record of its rulings so that lawyers, judges and customers can observe over time a growing and consistent body of Shariah guidance rather than isolated bank-specific opinions.

d. Training for Judges, Lawyers and Regulators

Judges, magistrates, lawyers, regulators and tax officials should receive structured, regularly refreshed training on Islamic finance. The aim is to help them distinguish Murabaha profit from interest, and to understand how ownership, possession, agency, security and default actually operate in Murabaha and comparable contracts.

Training is most effective when targeted rather than generic. Judges and magistrates need practical case-based training built around real or realistic Murabaha disputes such as the Shymaa and Lulua Investment cases, so that they can see how the relevant legal issues actually arise in practice. Tax officials need a narrower, more technical module focused on how the two-sale structure interacts with value added tax and stamp duty linked directly to the proposed relief. Regulators and bank compliance staff need a module addressing the gap between formal and substantive compliance so that they know what to examine when reviewing transaction files rather than relying solely on product labels or Shariah certificates.

This training should not be a one-off event. Tanzania's Institute of Judicial Administration, the Law School of Tanzania, the Bank of Tanzania and the Tanzania Revenue Authority could jointly develop a standing Islamic finance curriculum, delivered as part of continuing legal education for judges and lawyers and as part of onboarding for new regulators and tax officers. Regular refreshment of this training matters because Murabaha practice and the products built around it will continue to evolve and training designed only for today's products will fall behind as the market develops.

e. Standard Customer Disclosure

The relevant regulator should require a standard Murabaha disclosure form for every customer clearly showing the acquisition cost, profit margin, total price, instalment schedule all fees, security requirements and the consequences of default. Such a requirement would improve transparency and make it easier to compare products fairly.

For this disclosure duty to carry real force it needs a regulatory newscaster rather than being left to individual banks' goodwill. The Bank of Tanzania could require, through the Non-Interest Banking Business Regulations that the standard disclosure sheet be provided to every Murabaha customer a fixed number of days before signature, rather than only at the point of signing so that customers have a genuine opportunity to compare offers rather than reviewing the figures for the first time under pressure to complete the transaction. A short, mandatory cooling-off period after signature during which a customer could withdraw without penalty, would reinforce this protection for larger transactions such as property or vehicle Murabaha.

f. Standard Murabaha Contracts

The Bank of Tanzania or another suitable authority should promote standard contract templates covering the customer's purchase order any agency arrangement for acquiring the asset, the bank's acquisition of the asset, possession and risk the terms of sale to the customer, security, the payment schedule, default, early settlement and dispute resolution. Standard templates of this kind would reduce drafting divergence and help courts develop a familiar consistent body of Murabaha contract language over time.

Standardization need not mean that every bank uses identical wording. A more realistic model is a core template containing mandatory minimum protections covering the sequencing of the purchase order, the agency step, the bank's acquisition of the asset and the resale to the customer alongside optional clauses that individual banks may adapt for particular asset classes such as vehicles, machinery or property. This approach preserves the benefits of consistency, familiar language, predictable judicial treatment and easier comparison between banks while still permitting product innovation within a common structural skeleton.

g. Better Dispute-Resolution Options

Islamic finance disputes should be capable of proceeding through efficient mediation and arbitration with procedures that allow qualified Shariah and finance experts to assist the decision-maker in understanding the transaction properly while fully respecting Tanzanian law and preserving the enforceability of the final decision under ordinary Tanzanian legal rules.

One practical option is a dedicated Islamic finance panel within an existing arbitral institution such as the Tanzania Institute of Arbitrators rather than an entirely new body. Panel members would be drawn from practitioners with genuine experience in both Tanzanian commercial law and Islamic

finance so that a dispute over for example, whether a bank genuinely took ownership and possession of an asset before resale can be assessed by someone who understands why that question matters under both Shariah and ordinary sale law. Arbitral awards would remain enforceable in the usual way under Tanzania's Arbitration Act so this route adds expertise without creating a parallel or competing legal system.²¹

Mediation deserves equal attention alongside arbitration, particularly for retail Murabaha disputes involving individual customers, where the cost and formality of arbitration or litigation can be disproportionate to the amount in dispute. A low-cost, Islamic finance-aware mediation service could resolve many disputes such as disagreements over default charges or early settlement figures before they escalate into formal proceedings while leaving the courts and arbitration available for disputes that genuinely require a binding decision.

VII. CONCLUSION

The legal problems facing Murabaha in Tanzania are principally problems of legal clarity, institutional capacity and regulatory design rather than problems of demand or commercial viability. Murabaha is not merely another name for a conventional loan it is a sale-based financing method whose validity and character depend on genuine ownership and possession by the financier, clear disclosure of cost and profit, careful sequencing of the promise to purchase and the two constituent sales and the actual transfer of the asset to the customer. Where the surrounding law was built primarily for interest-based lending, these features naturally create friction with banking regulation, contract law, tax law, consumer protection and dispute resolution.

The evidence in the underlying study developed further here shows that the historical absence of a dedicated law, the mismatch in legal language, the risk of double taxation, fragmented Shariah governance, limited court readiness and weak disclosure together reduce legal certainty and raise the cost and risk of Islamic finance in Tanzania.

A sound Tanzanian framework should pursue fairness in both directions Murabaha should not receive an unfair advantage over ordinary loans but neither should it suffer an unfair legal or tax disadvantage simply because it proceeds through one sale or two linked sales rather than a direct loan. At the same time reform must protect the features that make Murabaha genuinely different from ordinary lending so that simplifying the law does not inadvertently strip away the very characteristics that give Murabaha its distinct character.

If Tanzania puts in place a clear law recognizing Murabaha and comparable contracts, fair tax treatment, strong and centrally coordinated Shariah governance, ongoing training for judges and professionals, clear and standardized disclosure to customers and effective well-suited dispute-resolution options Murabaha financing can operate with far greater predictability for banks greater confidence for customers and greater long-term stability for the sector as a whole. The reforms proposed are not minor technical adjustments²¹ they form a single connected plan to bring Tanzania's legal system into line with the sale-based Islamic finance products that Tanzanian banks already offer and that a growing number of Tanzanian customers already use.

²¹ Syed Khalid Rashid (2004) *Alternative Dispute Resolution in the Context of Islamic Law*, Journal of International Commercial Law and Arbitration, 7 VJ pp 95.

