International Journal of Religion
2024
Volume: 5| Number 9 | pp. 318 – 333
ISSN: 2633-352X (Print) | ISSN: 2633-3538 (Online)
ijor.co.uk
DOI: https://doi.org/10.61707/3dg7rh70

Islamic Banking in Africa: A Booming Market with Growing Pains

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Abstract

Islamic banking, also known as ethical banking, is a banking system for those who avoid conventional banking due to religious beliefs. It drives the creation of new financial instruments that meet the needs of a wider range of customers, and it is currently accepted as an essential banking model in the global financial landscape. This paper assesses the opportunities and challenges of Islamic banking in Africa using a systematic literature review by examining 19 articles. The paper argues that Africa is the original home of modern Islamic banking practices, and it can become an essential hub for this banking model in the future. The results demonstrate that the Islamic banking market has potential for those seeking expansion and the establishment of Shari'ah banks, as well as promising avenues for the growth of Islamic banking and finance and aligning with the continent's socio-economic dynamics by providing inclusive financial solutions. The findings also demonstrate the existing opportunities, including the large Muslim population, arguing that popularity can drive Islamic banks on the continent, while limited awareness, misconceptions, and legal restrictions are the main challenges for Islamic banks in Africa, hindering public understanding of how Islamic banks work. The paper recommended that Islamic banks should conduct market research, create innovative products, and apply tailored marketing strategies. The study also suggests that governments should recognize Islamic banks as distinct financial institutions in order to better support them.

Keywords: *Islamic Bank, Islamic Financial Institution, Islamic Bank Growth, Opportunities, Challenges, Africa.*

JEL Classification: *G2, G21, G28, O1, O16, O55, Z12*

INTRODUCTION

Islamic banking has been widely accepted not only among Muslims but also in non-Muslim nations worldwide. Products and services offered by Islamic banks have become increasingly popular in countries such as the UK, Russia, the USA, Argentina, Australia, India, the Philippines, Senegal, South Africa, Switzerland, Thailand, Denmark, Germany, Guinea, Niger, and Nigeria, alongside predominantly Muslim nations. The positive reception of the Islamic banking system in these diverse countries can be attributed to various subjective factors, including awareness, reputation, the perceived advantages of finance without interest rates, and its stable nature. Countries that have embraced Islamic banking have experienced benefits such as interest-free loans, equitable sharing of losses, and economic growth (Bananuka et al., 2020; Bananuka et al., 2019). In recent years, Islamic banking has emerged as a dynamic and rapidly growing sector within Africa's financial landscape. Geographically, Islamic banking is present in most countries north of the Sahara (Henry, 2012), with strong footholds in nations like Nigeria, Senegal, Mali, and Gambia. East Africa has also seen significant growth, with Kenya being the first mover in 2005, followed by Tanzania, Uganda, Rwanda, and Burundi. Even South Africa is showing interest! Based on the principles of Sharia law, Islamic banking offers a unique alternative to conventional banking, attracting not only devout Muslims but also investors seeking ethical and inclusive financial solutions.

Africa's encounter with Islamic banking traces back several decades, but its significant expansion gained momentum in the 21st century, initially pioneered by Muslim-majority countries such as Egypt. The adoption of Islamic finance principles gradually spread across the continent. Some scholars also considered the Mit Ghamr Savings Bank in Egypt, which was established in 1963, as the first experiment in Islamic banking in the modern era (Ogunbado et al., 2017). Sudan also stands out as one of the early adopters, formally introducing Islamic banking in the late 1970s, such as Faisal Islamic Bank in Sudan (1977), with the implementation of

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Sharia law(Ogunbado et al., 2017). However, it wasn't until the 21st century that Islamic banking witnessed a notable surge across Africa. This growth was fueled by various factors, including a burgeoning Muslim population, increasing demand for Sharia-compliant financial services, and the desire to diversify financial sectors to attract investment. Countries like Nigeria, Kenya, South Africa, Morocco, Tunisia, and South Africa emerged as key players in embracing Islamic finance, reshaping their financial landscapes (Ali & Azmi, 2016).

The ascendancy of Islamic finance as an alternative option is gaining traction in Africa. With an approximate Muslim population of 495 million, the continent offers promising avenues for the growth of Islamic banking and finance. Particularly noteworthy is South Africa, a recently established democratic state, which is emerging as a significant player regionally and globally. Alongside India, Brazil, and China, South Africa is recognised as one of the swiftly advancing developing economies, with Islamic enterprises playing a pivotal role in this advancement. South Africa's robust regulatory and legislative frameworks, stringent risk management protocols, and effective governance and compliance systems position it as a potential entry point for companies seeking expansion into other regions of the continent (Farook et al., 2011)da, (VAWDA et al., 2013). A pivotal factor driving the growth of Islamic banking in Africa has been the adjustment of legal and regulatory structures. Recognising the need to accommodate Islamic finance, many African countries introduced specific laws and regulations governing its operations. This encompassed the formation of Sharia supervisory boards within financial entities and the introduction of tax incentives and regulatory measures to encourage expansion and incentives to foster growth (Hassan et al., 2022).

Furthermore, partnerships and collaborations with Islamic financial institutions and multilateral organizations have been instrumental in promoting Islamic banking in Africa. The Islamic Development Bank (IDB) and other entities have provided crucial support, including technical assistance, capacity building, and financing, to foster the development of Islamic finance on the continent (Daud & Azam, 2011). Despite its promising growth trajectory, Islamic banking in Africa faces several challenges, including limited awareness and understanding of Islamic finance principles among consumers and financial institutions. Additionally, there's a shortage of skilled professionals with expertise in Islamic finance, hindering the sector's further expansion. Moreover, regulatory frameworks need further development to support the industry's growth effectively. On the other hand, Islamic banking in Africa represents a booming market with vast potential for growth and impact. Its evolution from niche to mainstream reflects the continent's socio-economic dynamics and the increasing demand for ethical and inclusive financial solutions. However, addressing the growing pains of Islamic banking, including regulatory challenges and skill shortages, will be crucial to sustaining its momentum and maximizing its socio-economic benefits across Africa. Therefore, the overarching research problem is to comprehensively understand the potential of Islamic banks in Africa and identify the challenges hindering their establishment, growth, and development.

CONCEPTUAL AND THEORETICAL REVIEW

Islamc Banking

One definition of an Islamic bank is a bank that, by its own choice, opts to comply with two sets of laws: the law of the land (jurisdiction); and the Islamic law (Shari'ah). This is why Islamic bankers have two types of legal counsel: traditional "lawyers" and "Shari'ah Councils" (Al-Bahar, 1996). As Islamic finance is intertwined within its religion, the basis of the religion affects finance in two important ways: "Islam aims at building a socio-economic order based on justice and considers economic activity as a means to an end and not an end in itself. It enjoins Muslims to harness natural resources, which are a trust from Allah (God), for carrying out rightful activities, but abhors exploitation and man-made inequalities of income and wealth." "Islam is deeply concerned with the problem of economic development but treats this as an important part of a wider problem, that of total human development. The primary function of Islam is to guide human development along the correct lines and in the right direction. It deals with all aspects of economic development, but always within the framework of total human development and never in a form divorced from this perspective(Kadubo, 2010).

Islamic Banking: Goals and Charecteristcs

Islamic banking and finance undeniably stand as a pivotal subset within the broader framework of the Islamic economy. It emerges as a response to the perceived inadequacies or gaps within the established conventional financial institutions, offering itself as a viable alternative. Rooted in specific philosophies and principles outlined by Shari'ah, it boasts distinctive characteristics that set it apart. This emergence has globally disrupted the longstanding "monopoly status" traditionally held by conventional banking institutions, as noted by (Ogunbado et al., 2017). Islamic banking has several goals and characteristics (Kulmie et al., 2023). First, adherence to Sharia law: Islamic banking prioritizes following Islamic principles. This means avoiding practices like interest (riba), gambling (maysir), and investment in activities considered unethical (gharar). Second, ethical and socially responsible banking: Islamic banking aims to promote economic justice and social well-being, therefore, these institutions strive to distribute profits fairly and support ethical business practices. Third, profit-sharing, which implies fosters a risk-sharing partnership between the bank and the customer, in this method, i.e., profit-haring mechanisms, Islamic banks use profit-sharing instruments like Musharaka (partnership financing) and Mudarabah (investment financing). These eliminate the concept of interest rates in the banking sector. Fourth, Islamic banks use asset-based financing, which revolves around tangible assets. This could be through Ijara (leasing) or Murabahah (cost-plus financing), where the bank purchases an item and sells it to the customer on a deferred payment plan with a profit markup. In summary, Islamic banking offers a unique financial system that adheres to Islamic principles while promoting ethical and socially responsible practices.

Islamic Banking and Convential banking: Similarities and Differences

Islamic Financial Institutions (IFIs) are operating in the same society where conventional banks are operating and perform all those functions that are expected of a financial institution. IFIs are assisting the business world by providing all the services required to run the economy smoothly; however, the philosophy and operations are different. Any financial system is expected to assist in running the economy by providing the following services, grouped under two headings:First, savings mobilisation from savers to entrepreneurs and Second, provision of general utility services, including transfer of funds, facilitation in international trade, consultancy services, safekeeping of valuables, and any other service for a fee. There is no restriction on the provision of such services by IFIs, as for service is not against Sharia (Ariff & Lewis, 2014).

Islamic banking diverges from conventional banking primarily due to its adherence to a philosophy of interest-free transactions. The Quran expressly prohibits the charging or receipt of interest (Riba), irrespective of the context or intention behind the loan or investment. This prohibition is rooted in promoting social welfare while offering alternative avenues for financial dealings. Just as certain items, like wine and pork, are forbidden, Islam permits many other foods and beverages (Jam et al., 2016). In Islamic banking, profit-and-loss-sharing (PLS) transactions serve as a viable alternative to interest-based arrangements. PLS transactions underscore the role of capital in production, contrasting with the disallowed practice of earning profits solely from interest. Observes that non-PLS transactions constitute the majority, exceeding 90% of Islamic banking activities. Islamic banks employ Shariah-compliant terminology to delineate various PLS and non-PLS transactions, along with their associated terms and conditions. In contrast, conventional banks primarily derive profits from the interest rate differential between depositors and lenders, as highlighted by (Farook et al., 2011).

Islamic banking differs from conventional banking in that it operates without interest. It adheres to distinct principles and exhibits different risk profiles. Unlike conventional banks, Islamic banks are regulated by both government bodies, such as central banks, and Shariah Supervisory Boards. The latter approves Islamic banks' products and ensures adherence to Shariah principles. Central banks impose specific regulations on Islamic banks, such as higher minimum capital requirements. Additionally, Islamic banks face increased taxes and registration costs due to their asset-based nature, where they own goods they subsequently sell to clients, thereby increasing overall costs (Salman & Nawaz, 2018). Islamic banking, rooted in the prohibition of interest, or "riba" based on religious principles rather than economic doctrines, operates on the fundamental premise of interest-free lending. This model necessitates Islamic banks financingventures through profit-and-loss sharing instead of charging interest. This departure from conventional banking practices is seen as a means to address what Islamic banking proponents perceive as an injustice to borrowers, who are obligated to pay interest regardless of their business outcomes. Unlike conventional banking, which revolves around debt through interest, Islamic banking emphasizes equity creation and rental income, fostering a framework of brotherhood and collaboration. While initially targeting primarily Muslim clientele, Islamic banks have since opened their doors to non-Muslims. Despite its emphasis on interest-free transactions, Islamic banking shares similarities with conventional banking, though it expressly prohibits interest while allowing for profits generated through trading activities (Saini et al., 2011). Despite overcoming numerous obstacles and skepticism from critics, Islamic banking has managed to endure. However, it continues to confront a multitude of challenges, stemming from social, economic, cultural, and political aspects.

Islamic Banking Growth and Development: Key Drivers

Islamic banking is a subset of Islamic finance, which is a very fast-growing market. In 2019, Islamic Finance Assets were fastest growing markets in Morocco, Tajikistan,and Nigeria; particularly, Morocco was the fastest growing market in Islamic Banking Assets in 2019 (ICD-Refinitiv, 2020).Islamic finance assets reached US$1,761 billion in 2012 and US$2,875 billion in 2019, with an estimated increase to US$3,693 billion in 2024 (ICD-Refinitiv, 2020).This report also presented the Global Islamic Finance Asset Distribution 2019 which indicates that the Islamic banking sector makes up the majority of global Islamic finance assets, as illustrated in Table 1. The Islamic banking sector reached 69%, Sukuk reached 19%, while other sectors are 5% or less. This indicatesthat Islamic banking is the la leading entity in the Islamic finance industry in terms of Asstet distribution.

Table 1 illustrates Global Islamic Finance Asset Distribution 2019

#	Sector	%
1	Islamic banking	69%
2	Sukuk	19%
3	Other islamic financial institutions	5%
4	Islamic funds	5%
5	Takaful	2%

Source: ICD-Refinitiv(2020)

While Table 1 illustrates Global Islamic Finance Asset Distribution 2019 in perceptage (%), Table 2 presents Islamic Finance Assets Growth (US$ Billion) in raw amount, showing that these assets have been increasing each year snce2016 and are projected to reach USD 6,667 billion in 2027 ((LSEG & ICD, 2023). This information depicts the valuable performance and trajectory of the Islamic finance sector globally.

Table 2 illlustrates Islamic Finance Assets Growth (IFAG) (US$ Billion)

#	Year	IFAG
1	2016	2,409
2	2017	2,564
3	2018	2,668
4	2019	3,029
5	2020	3,387
6	2021	4,066
7	2022	4,508
8	2027	6,667 (projected)

Source:(LSEG & ICD, 2023)

Table 3 displays the global distribution of Islamic finance assets and their overall value in US dollars, revealing that Islamic banking consistently leads over other industries, a noteworthy observation. Islamic banking consistently holds the most significant share of total Islamic finance assets; however, it's important to note the growth of other segments like Sukuk, which could potentially shift the landscape in the future.

Table 3 presents Global Islamic Finance Asset Distribution 2023		
#	Sector	Amount
1	Islamic banking	3,244
2	Sukuk	788
3	Islamic Funds	220
4	Other islamic financial institutions	167
5	Takaful	90

Source:(LSEG & ICD, 2023)

Previous studies, such as (Kpodar et al., 2014) Imam & Kpodar (2013), indicate that several drivers have been instrumental in the global growth of Islamic banks. Imam & Kpodar (2013) sought to address the fundamental question of how islamic banks have expanded and grown, and their findings demonstrated a relationship between the rise of Islamic banking and factors such as per capita income, the proportion of Muslims in the population, and economic connectivity with Middle Eastern nations. Moreover, the development of Islamic banking, according to Imam & Kpodar (2013), can be associated with its distinct feature, including (i) prohibition of interest (riba), (ii) prohibition of maysir (games of chance) and of gharar (chance), (iii) prohibition of haram (illegal) activities, and (iv) payment of part of bank profits to benefit society (zakat). Experts like (Zahid & Basit, 2018) Zahid & Basit (2018); (Wajdi Dusuki, 2008) Wajdi Dusuki (2008); and (Kpodar et al., 2014) Imam & Kpodar (2013) assert that Islamic bankings development and growth can be linked with thegrowing Muslim population, as the global Muslim population is on the rise, creating a larger potential customer base for Islamic financial products and services. These populations demand ethical finance; thus, Islamic banking principles align with ethical principles and serve as an alternative financial system. Another essential issue is government support.

For instance, many Muslim-majority countries are actively supporting and regulating the Islamic banking sector, fostering its growth. Additionally, increased awareness and education: Educational initiatives are improving public understanding of Islamic banking and its benefits. However, Islamic banks are respected for their innovation and product development to meet the evolving needs of customers. (Zahid & Basit, 2018) Zahid & Basit (2018) indicate that the Islamic banking sector in Pakistán is significantly influenced by factors such as the Muslim population, GDP growth, money supply, and worker remittances. However, these factors are all contributing to a bright future for Islamic banking, with the industry expected to continue its strong growth trajectory in the coming years. Table 4 outlines the key factors that significantly contribute to the growth and development of Islamic banks.

Table 4 depects key drivers of islamci banking development and Growth		
Factors	Signifigance	Sources
Muslim Population Grwoth	Creates a larger potential customer base for Islamic financial products and services	Wajdi Dusuki (2008)
Government Support	Government support is crucial for Islamic banks as it provides the necessary regulatory framework, legal recognition, and market infrastructure to ensure their growth, stability, and competitiveness.	Ezeh & Nkamnebe, (2021
Distinct feature of IBs	A distinct feature of Islamic banks (IBs) is their adherence to Shariah principles, which prohibit interest (riba) and emphasize profit-sharing, risk-sharing, ethical investments, and the avoidance of speculative activities.	Imam & Kpodar (2013)
Economic connectivity with Middle Eastern nations	Economic connectivity with Middle Eastern nations is crucial for fostering trade, investment, energy cooperation, and cultural exchange, thereby enhancing economic growth, stability, and mutual prosperity between connected regions.	Imam & Kpodar (2013)
High demand for ethical finance	The high demand for ethical finance is driven by increasing consumer awareness and preference for investments that prioritize social responsibility, environmental sustainability, and ethical governance, aligning financial returns with positive societal impact.	Hailu & Yatoo (2021).
GDP growth	Islamic banks (IBs) can significantly contribute to GDP growth by promoting financial inclusion, mobilizing savings, facilitating investments in productive sectors, and supporting infrastructure	Zahid & Basit (2018)

		development, all while adhering to ethical and risk-sharing principles that enhance economic stability and sustainability.	
Prominent Corporate Social Social Responsibility		A prominent significance of Corporate Social Responsibility (CSR) in Islamic banks (IBs) is their commitment to ethical and socially responsible practices, guided by Shariah principles, which mandate the promotion of social welfare, equitable wealth distribution, and the prohibition of harmful investments, thereby fostering a positive impact on society and the environment.	Farook, et al. (2011)

Theoritical Review

Early discussions on the theory of Islamic banking were initially integrated into the broader context of the Islamic economic system. For instance, Qureshi's book, "Islam and the Theory of Interest," regarded banking as a societal service akin to public institutions like public health and education, proposing that it should be supported by the government. Qureshi argued that banks should neither pay interest to account holders nor charge interest on loans. He also proposed the potential for partnerships between Islamic banks and entrepreneurs, as suggested by Ismail (2010). As the Islamic finance sector experiences rapid expansion in recent years, grasping the foundational pillars of the Islamic finance system becomes increasingly crucial. Understanding the fundamental principles and the distinctive aspects that set apart this financial system in terms of vision, goals, values, ethics, relationships, and transactions is essential. At its core, the Islamic financial system is grounded in principles that advocate for moral and ethical conduct at the individual, business, and state levels. One guiding theory in Islamic dealings is the theory of Islamic financial contracts. From the onset, Islam underscores the importance of relationships, a concept mentioned in the Quran, as noted by Kulmie et al. (2023).

The funding options offered by Islamic banks can be categorized into two main groups. The first consists of two different investment contract kinds, known as Musharakah and Mudarabah, and is founded on the principles of equity and profit-loss sharing; and the second group mostly consists of contracts like Ijarah, Murabahah, Istisna, Salam, and is based on profit-margin participation, or cost plus basis. These arrangements are also regarded as debt-based financing. However, these contracts should comply with the Islamic principles of contract (Kulmie et al., 2023). Islamic scholars view profit-and-loss-sharing (PLS) instruments, namely mudarabah and musharakah, as fundamental components of the Islamic banking model. In mudarabah banking, the Islamic bank engages in risk-sharing arrangements by accepting funds from depositors. These funds are then either directly invested in profitable ventures or provided to entrepreneurs on a risk-sharing basis. Profits or losses generated from mudarabah ventures are shared between the Islamic bank and its depositors. In musharakah banking, the Islamic bank utilizes depositors' funds to participate in joint enterprises with clients, typically entrepreneurs. The client assumes management responsibilities for the musharakah business, and profits or losses from the venture are shared between the Islamic bank and the client, as outlined by (Abubakar, 2017).

The diffusion of innovation theory was used for this study due to its appropriateness in explaining the adoption behaviour of customers in relation to the variables under study on the adoption of Islamic banking in Africa (Yahaya et al., 2016).The diffusion of innovation theory can be applied to understand the adoption and spread of Islamic banking practices within Muslim-majority societies and beyond. This theory, proposed by Everett Rogers, suggests that innovations spread through a population in a predictable pattern, typically characterized by the adoption curve: innovators, early adopters, early majority, late majority, and laggards. When it comes to Islamic banking, which represents an innovation in the financial sector, its diffusion can be analyzed through this lens: Innovators, who are the first individuals or institutions to embrace Islamic banking practices, they are often characterized by their willingness to take risks and their openness to new ideas. Innovators in Islamic banking might include pioneering Islamic financial institutions, visionary scholars, or early adopter consumers who are attracted to the ethical principles of Islamic finance (Orr, 2003).

METHODOLOGY AND RESULTS

Research Design, Questions, sellection Critatria

The paper assesses the opportunities and challenges of Islamic banking in Africa., with the aim of finding relevant answers to the research questions. These questions are: (i) RQ1: What are the primary challenges faced by Islamic banks operating in Africa? (ii) How do these challenges impact Islmic banks in Africa? (iii) RQ3. What are the opportunities for Islamic banks in Africa? In order to find answersto theseresearchquestions, the researchers utilised a systematic literature review (SLR) methodology. This approach involves a structured, transparent, comprehensive, and unbiased search strategy to identify relevant studies (Hiebl, 2023). The SLR method is chosen for its effectiveness in collecting and analyzing pertinent research on the specified topic, aiming to offer a thorough and impartial understanding of existing knowledge. Therefore, through this methodological approach, the study aims to provide insights into the challenges and opportunities facing Islamic banking in Africa, shedding light on its growth trajectory and the obstacles encountered along the way.By systematically examining the literature, the research endeavours to contribute to a deeper understanding of the evolving landscape of Islamic finance in the African context, thus informing stakeholders, policymakers, and practitioners in the field.

Selection Criteria and Search Results

Moreover, the researchers developed selection criteria appropriate to this study. The process consists of removing allduplicate documents,ensuring document focusby screening titles andabstracts,assessing document qualityby reading the full documents, and finally applying the eligibility criteria, which contains three elements. The document must be written in english, and only be research and review articlespublished in 2017–2023.

Table 5. shows eligibility criteria

#	Item	Criteria
1	Language	English
2	Document type	Research/Review Article
3	Year published	2017-2023

As a result of search process, 359 documents were identified from the databases. Researchers evaluated these documents, and 89 documents were removed because of duplicated, yielding to 270 documents. Again, the abstract of these 270 documents were screened, rejecting of 97 of them. The remaining 173 documents were fully screened, which caused rejecting 83 documents. This process yielded 90 documents ready for eligibility criteria, which consisted of language checking (English accepted), published year (only from 2017 to 2023), and document type (only research and review articles selected). Only 19 articles were deemed relevant to the study, sourced from different journals, as shown in Appendix 1.

Table 5 presents articles per year

#	Year	N of Articles reviewed
1	2017	1 Article
2	2018	1 Article
3	2019	4 Article
4	2020	3 Article
5	2021	5 Article
6	2022	3 Article
7	2023	2 Article

The relevent studies included this this study are 19 papers, published from 2017 to 2023, as shown in Table 5. While 2021 has the highest number of reviewed papers, 2021 and 2018 have the fewest papers included in this study. Figure 1 demonstrates research flow of this review, showing the whole process from retrieving documents to finding out relevant studies that can be utilised for the purpose of this study.

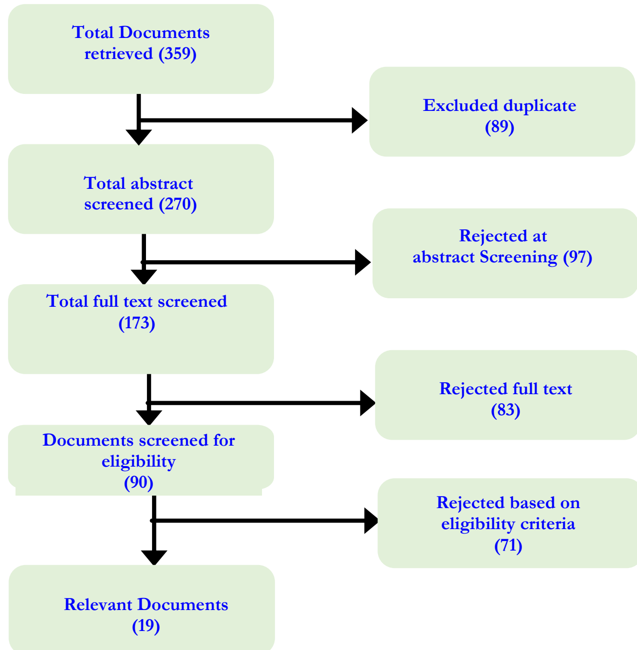

Fig. 1 illustrates Research Flow

DISCUSSION

Modern Islamic financial systems emerged in Africa in 1963 when Muslim economist Ahmad Elnaggar created a small savingsbank in Egypt, offering Islamic-compliant services. However, this attempt was unsuccessful due to political, economic, and legal reasons, as noted by previous studies likeAlonso (2015) and Wilson (1983). In just a few decades, the Islamic financial system was incredibly established, and emerged as a key component in the global financial landscape. Governments are exploring opportunities to adapt Islamic banking or coexist with conventional banks, as the banking industry significantly boosts national economies. The 2008 financial crisis presented a market opportunity for a unique type of bank (Ezeh & Nkamnebe, 2021). These attempts are being conducted in different areas worldwide and have gained popularity in Muslim, Muslim-majority, and non-Muslim countries, including the UK, Australia, USA, Philippines, India, Germany, Senegal, South Africa, Denmark, Switzerland, Thailand, Nigeria, Guinea, and Niger. However, Islamic banking is, again, an emerging phenomenon in Africa, especially in Sub-Saharan Africa, where secular states dominate most countries (Bananuka et al. 2019). This has led to a significant global growth rate of 20% in the past few decades. The growth of Islamic banking in Africa is rapidly increasing. In Nigeria, Islamic banking practices can be traced back to 1992, and the first Islamic bank was granted license in 2010 (Adekoya, 2022). This contributes to the development of islamic banking practices in Africa. This country, Nigeria, in sub-Saharan Africa, has a populationof 200 million, population in which over 50% Muslim population, has the potential to become the hub of Islamic finance in Africa, indicating its significant role in the region (Abba & Ngah, 2020; Saiti, et al. (2022)). Definitely, the Islamic banking model is currently in the initial phase of its life cycle in Nigeria, and anyhow, it is getting fairly prominence in Nigeria. Ezeh & Nkamnebe, (2021) argued that government support is essential for the success of this model of banking. In this regard, Nigeria has undergone several legal reforms to suit the Islamic banking system in the country, with the purpose of supporting the existing ones and establishing new one.

Despite Ethiopia's historical links to Islam, the country has 110 million people, of whom 50 million are Muslims, and has recently integrated Islamic finance into its traditional financial system (Hailu & Yatoo, 2021). In their findings, the authors revealed that Islamic finance in Ethiopia is represented by three financial institutions: Islamic banks, Islamic insurance, and Islamic microfinance. They also pointed out that Ethiopia presents a significant opportunity for Islamic banking and finance due to its high public demand, adequate capital, substantial customer base, easy deposit mobilization, and profitability. Certainly, the Islamic banking system is not exclusively for Muslims but is open to all people of different faiths., reaching countries likeTanzania, where 55% of the country's 49.1 million population are Muslims (Soud & Sayılır, 2017).The authors assert that Islamic banking (IB) is gaining wider attention, even from non-Muslims. In this regard, national authorities and policymakers in Africa view the Islamic banking system as essential for their economies and businesses. For instance, the Mauritian authorities have always viewed the African market as a potential source of opportunities due to its predominantly Muslim-populated population, as noted by Mooneeram-Chadee (2020), as well as Tanzania, in which the government promoted the implementation of the Islmaic banking system (Soud., & Sayılır, 2017).

One of the key issues that serves as a predictor of the possibility of product success is the perception of customers and how they perceive it. Islamic banking products and services are well-precieved in some areas of the continent, such as Gambia, where the public generally holds a positive perception towards Islamic banking and is highly aware of its existence (Conteh & Hassan, 2021). In this regard, several elements influence peoples' perceptions, including culture, age, and relegoin, and when it comes to the case of islamic banking model, religion significantly influences customers' perceptions of Islamic banking, motivating many to engage with Islamic banks (Jabaly et al. 2013). This makesIslamic banking institutions attract a large portion of Muslim communities. Bananuka et al. (2019), and Mansour (2019) added that attitude and religiosity are important determinants of the intention to adopt a shari'ah comliant banking system. The authors asserted, citing Lujja et al. (2018),that non-Muslim customers are driven by profitability, while Muslim clients are motivated by both profitability and religious reasons. This shows that Islamic banking is not only for muslim pleople but also for the whole society. Bananuka et al. (2019), Saiti et al. (2022) and Bananuka et al. (2020) emphasised this by stating this bankong fishion has been widely embraced among Muslims and also by non-Muslim countries globally.

In this regard, Moosa & Kashiramka (2022) classified the customers of Islamic banks into five classes namely: the religious group (only Muslims), the religious and economic group (only Muslims), the economic group (Muslims and non-Muslims), the ethical group (non-Muslims) and the ethical and economic group (non-Muslims). This classification can be seen as a detailed form of caegorization previously made by Amin et al. (2009), who stated that the reasons for customers engaging with an Islamic bank based on religion, service quality, and product pricing. Moosa & Kashiramka (2022) assreted that the literature indicates that service quality is a prime reason customers are satisfied with their Islamic banks, citing Iqbal et al. (2018); and Saqib et al. (2016).Other previous studies, such as Su'un (2018) also showed that Sharia compliance is a crucial factor in creating an emotional attachment, leading to increased customer loyalty. However, positive perception is a good foundation that triggers Islamic banking development. In their study, Conteh & Hassan, (2021) mentioned, citing Lateh et al. (2009) that the bank selection criteria for Muslims and non-Muslims are different. The study maintained that the highest consideration for Muslims is the prohibition of riba, while non-Muslims are much more concerned about bank brand, competent bank staff, etc. when selecting banks.

The challenges facing Islamic baking in Africa can be classified into social, cultural, legal, political, and economic issues. For instance, communities may have negative perception towards such products and services due to several factors, including beliefs, socio-economics, and awareness. In Ethiopia, there are negative perceptions from non-Muslim communities, which may hinder, in some cases, their expansion in the country (Hailu & Yatoo, 2021). This is different from the case perception of the Gambia, in which the perception of the public towards Islamic banking is generally positive and awareness about the existence of Islamic banking is high as noted by Conteh & Hassan (2021).Other challenges, includinglegal framework challenges such as restriction of investment and double taxation, and a lack of skilled human resources, are the main potential hindrances for the sector (Hailu & Yatoo, 2021). However, the nagative perception towards Islamic baking is associated with a knowledge gap among communities (Hailu & Yatoo, 2021) and negative propaganda created by other religious groups. Moreover, Kesto& Wolela (2021) found that the intention given to Islamic banking by leaders is insignificantdue totheir negative perception, knowledge gap, and fear of the unknown. This situation can be associated with poor communication by banks, as they fail to communicate to the public in a strategic way (Kesto & Wolela, 2021).

Some studies describe Islamic banks as both inclusive and exclusive (Ngaha & Moungou Mbenda, 2023), emphasising that Islamic banking is no longer considered a business entity established only to serve the Muslim community, but rather a business that essentially pursues maximizing customer value and satisfying their financial needs,as noted by Conteh, & Hassan, (2021), supporting what was previously documented by Henry and Wilson (2004).For example, in Cameroon, bank employees were asked how they perceive Islamic finance, and they emphasised that it is a banking model for all. This gives the Shari'ah banking model an opportunity to bridge the gap left by conventional banks, which caused inequalities among communities and limited access to capital and resources (Ngaha & Moungou Mbenda, 2023). The traditional banking system has failed ro provide financial services and opportunities to poor households and microenterprises, due to itsbureaucratic processes, and unending requirements, and sometimes interest-led transactions, which are prohibited according to Islamic law (Abudirbala & Mukhtar, 2019). It is an opportunity for Islamic banks to take advantage by providing interest-free banking services not only to poor people but also to entrepreneurs and business people through participatory and non-participatory Islamic financing while avoiding risk andadheringto Islamic principles. To ensure the establishment, stability and reliability of Islamic banks, there must be changes to legal frameworks and new regulations (Abudirbala & Mukhtar, 2019).According to Ngaha & Moungou Mbenda (2023),perception and acceptability of Islamic banking are influenced by the availability of Shariah-compliant goods and services, financial literacy, and knowledge of Islamic banking concepts. Their results revealed that Islamic banking has the potential for financial inclusion and economic development, emphasizing the importance of regulatory and legal frameworks.

There is no doubt that Islamic banking is gaining momentum in Africa; however, empirical studies exploring the factors influencing the intention to adopt Islamic banking in emerging economies are limited. In Uganda, attitude and religiosity significantly influence the intention to adopt Islamic banking (Bananuka et al. 2019), while in Nigeria, social influence, knowledge, and government support positively correlate with the adoption of Islamic banks. Therefore, as these elements emerge as predictors of Islamic bank adoption, there is a need for tailored marketing strategies (Ezeh & Nkamnebe 2021).This will boost Islamic banking capacity to attract customers and increase their product exposure to larger communities. More interestingly, Moroccan banking customers' choice of Islamic banking services is influenced by the compatibility of ethical and economic benefits offered by Islamic banks with their needs, as well as their perceived complexity and risk (Hafiane & Allouch, 2021). In this regard, Islamic banks are described as ethical banks as they avoiding themselves involving such harmful dealings, offer interest-free services, and use risk and profit-sharing machanisms. These issues show how Islamic banking fits and meets the expectation of these communities. In Ghana, perceived knowledge, benefit, innovativeness, religious promotion, customer attitude, and readiness to comply with Sharia are significant determinants of Islamic banking adoption across religious sub-groups. However, perceived threats of violence and religious promotion negatively affect adoption among certain sub-groups, highlighting the need for formalization and demystification of Islamic banking (Su'un, 2018). The arguments of Su'un (2018) depict that Ismic banks notonly need effective Shari'ah compliance but also need to beinnovative and proactive. Furthermore, Islamic banks should be internally motivated to be more liberal and creative and to be better understood by the monetary system regulators. Soud & Sayılır (2017) pointed out that proper mechanisms of transparency and disclosure, and familiarity with Islamic banking products are essential determinants for Muslims and non-Muslims tonot use Islamic banking in the future, respectively.

The biggest challenge facing the Islamic financial system is misconceptions and obstacles that prevent the acceptance of Islamic banking, especially among non-Muslims. To handle theseapparent hindrances, Michael & Osaretin (2023) recommended to (i) raisingawareness and understanding; (ii) addressingmisconceptions and barriers; (iii) improving product accessibility;and (v) establishing strong ties with prospective customers. Soud & Sayılır (2017) pointed out that there are substantial differences between Muslim and non-Muslim citizens in Tanzaia. This gap can be covered through education and awareness campaigns with the aim of improving the acceptance of Islamic banking (Michael & Osaretin, 2023). Numerous studies were conducted in Africa on Islamic banking (see Barre, 2024; Kulmie, 2024; Musse et al. 2019; Kulmie et al. 2023; Hailu& Yatoo, 2021), focusing on key aspects ofIslamic finance, including adoption, performance, and profitability. Findings demonstrate Islamic banks' capacity to generate profits, and some of the existing challenges, but they do not discuss how these obstacles may hinder achieving their institutional and social goals. Islamic banking institutions are facing insufficient human capital globally and in Somalia in particular, as noted by Musse et al. (2019). Surely, skilled, talented and professional employees are essential for the survival, growth, profitability, and sustainability of these institutions. Thus, Islamic banks would actively need to enhance their competitive advantages so that they could fully penetrate the market and strengthen their market share. This allows them to exist and reap opportunities in the region.

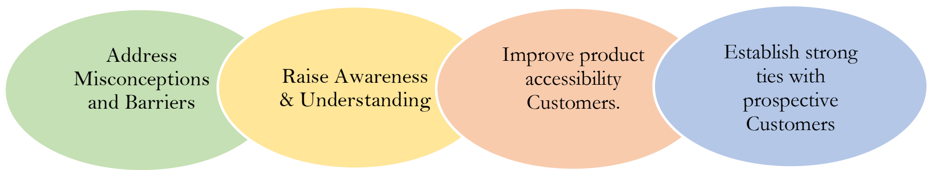

Fig.2: Strategies for Overcoming Miscoanceptions and Barriers (Michael & Osaretin, 2023)

Remarkably, some government authorities in Africa,such as Mauritian authorities,have realised the existing opportunities for implementing a Islamic banking system. Therefore, this requires government support in facilitating the adoption of Islamic banking fashion (Ezeh & Nkamnebe, 2021). Some of the prominent examples of policy support are those of Nigeria, which has made several legal reforms, and Ugand, which recently legally allowed Islamic banks to operate in the country. However, governmental and policy support will not guarantee the success of these institutions in Africa, but there may be other aspects to be considered, including understanding the customers' needs and wants (Ezeh &Nkamnebe, 2021). The biggest opportunity in Africa is that the continent is largely Muslim-populated. The one major thing that need to be underscored is that Islamic banks, like any other services, should be viewed as an evolving system, and every product goes through a process of development, adoption, and diffusion (Ezeh & Nkamnebe, 2021). Moreover, another fundamental issue is that the Islamic banksare still at the introductory stage of its life cycle in major papulated countries like Nigeria, Ethopia, and most of the south and west african countries. This reveals that the market is not penetrated much. The following table presents a brief description of the main challenges and their impacts on Islamic banking.

Main Challenges	Description	Impact	Sources
Negative Perception	Negative perception in Islamic banking refers to an unfavorable, pessimistic, or critical viewpoint towards the principles, practices, products, or services offered by Islamic banks,	It undermine trust, hinder customer engagement, and impede growth. It also influencescustomer decision-making processes	Hailu & Yatoo (2021); Kesto & Wolela (2021)
Misconception s	Misconceptions in Islamic banking pertain to erroneous or incomplete beliefs about its principles, products, or practices, potentially leading to misunderstanding, mistrust, and hindrance in customer engagement and market acceptance.	It can be harmful as they may result in incorrect beliefs, misguided decisions, and the perpetuation of false information, potentially undermining customer trust, industry growth, and financial inclusion efforts.	Michael & Osaretin 2023)
Legal framework challenges	In Islamic banking, legal framework challenges refer to obstacles or difficulties arising from existing legal systems or regulations, potentially hindering compliance with Shariah principles, operational efficiency, and regulatory compliance efforts within the industry.	This has significant and far-reaching effects, impacting IBs financial stability, market competitiveness, and adherence to Islamic principles and values.	Abudirbala & Mukhtar (2019)
Lack of skilled human resources	refers to a situation where there is an insufficient number of individuals with the necessary knowledge, expertise, qualifications, and competencies to meet the demands of a particular job market, industry, or sector.	It undermine IB's ability to effectively manage risks, serve customers, innovate, and maintain compliance with regulatory requirements	Hailu & Yatoo (2021)
Knowledge gap	refers to discrepancies or disparities in understanding the principles, concepts, practices, and operations of Islamic banking and finance among various stakeholders.	The knowledge gap in IB can lead to misconceptions, mistrust, regulatory inefficiencies, and limited market reach, hindering the industry's growth and financial inclusion efforts.	Kesto, & Wolela (2021)
Negative propaganda	refers to the dissemination of misleading or false information with the intention of	Negative propaganda against Islamic banking can undermine public trust, reduce	Hailu & Yatoo (2021)

		influencing public opinion or behavior in a detrimental way, often to serve a particular agenda or interest.	market confidence, and perpetuate misconceptions, ultimately hindering the industry's growth and financial inclusion efforts.	
Poor Communicatio n		refers to ineffective exchange of information that can lead to misunderstandings, compliance issues, and damage to reputation, hindering trust and transparency in the industry.	Poor communication in Islamic banking can result in misunderstandings, compliance issues, damaged reputation, and hindered trust, affecting customer satisfaction and market acceptance.	Kesto, & Wolela (2021)

As mentioned above, there is a need for tailored marketing strategies (Ezeh & Nkamnebe,2021) to market Islamic banking products and services; however, there is a gap in thisarea globally (Kamarulzaman & Madun, 2013). According to Kamarulzaman & Madun (2013), IBs should understand their target customers' needs, preferences, and behaviour by examining the five fundamentals of the Islamic banking market for products and services, namely:(i) the sellers; (ii) the buyers; (iii) the relevant products ot assets; (iv) the exchanges; and (v) the selling price.The authors added that the marketing of Islamic banking products should focus on the five tenets, provide accurate information, and avoid concealing important details to avoid Gharar, while also considering ethical and religious aspects. Based on these, some of best marketing strategies for islamic banking can be formulated. First, IBs should focus on education and transparency, since many people may not fully understand Islamic banking products. Islamic banks can address this by providing clear explanations of Sharia-compliant financial instruments and how they work. This builds trust and positions Islamic banks as a viable alternative. Second, IBs must highlight ethical and social values; Islamic banking principles promote ethical practices and social responsibility. Marketing materials can emphasize how Islamic banking aligns with a customer's values and contributes to a positive impact on society.

Third, IBs need to apply the concepts of segmentation and targeted marketing. In other words, IBs do not only just target Muslims. Islamic banking can appeal to a wider audience interested in ethical finance. Segment your audience and tailor messaging to resonate with their specific needs and interests. Fourth, they have to embrace innovation by developing Sharia-compliant financial products that cater to a modern lifestyle.This could include Islamic fintech solutions, investment products, or microfinance options. Fifth, Islamic banks should also leverage digital marketing. It is better forIBs to utilize social media platforms and online advertising to reach a wider audience. Partner with influencers and create informative content to educate potential customers. Sixth, IBs must focus on customer service excellence by providing exceptional customer service that builds trust and loyalty. Train staff on Islamic banking principles and ensure they can answer customer questions clearly. Seventh, IBs need to have good community engagement programs. This can be done by partnering with mosques, community organizations, and charity groups. Sponsor events and activities that resonate with your target audience. This builds brand awareness and strengthens community ties. Eighth, apply competitive benchmarking, meaning to stay informed about what conventional banks are offering and identify areas where Islamic banking can provide a differentiated value proposition. Ninth, IBs must build trust and credibility by obtaining certifications from reputable Shariah/finance organizations (professional bodies) and emphasizing commitment to Islamic principles. Transparency about fees and profit-sharing mechanisms is also crucial. Surely, by implementing these strategies, Islamic banks can effectively reach new customers, build brand loyalty, and grow their market share.

Strategies	Main Activities	Benefits to IBs/Society
Focus on education and transparency	Educational Training, Public Awareness, Information sharing	Better understanding of IBs products. Builds trust and positions IBs as a viable alternative
Highlight ethical and social values	Promote ethical practices and social responsibility	Reaching wider audience
Segmentation and targeted marketing	Market segmentation Develpoing tailored messeages	Minimised cost Increased Customer base
Embrace innovation	Align IBs products with modern lifestyle Develop full menu of options	Better customer attraction High level of cusntomer retention
Leverage digital marketing	Develop and utilise social media platforms Establish online advertising Partner with influencers Create informative content Educate potential customers	Reaching a wider audience Educating potential customers

Customer service excellence	Provide exceptional customer service Train staff on IBF	Builds trust and loyalty
Community engagement	Partneeship with mosques, community organizations, and charity groups. Sponsor relevant events and activities	Increased brand awareness and strong community relationships.
Competitive benchmarking	Condducting markter research and Collecting inductry data	Differentiated value proposition
Build trust and credibility	Plan and implement quality improvement programs Promate transparency Focus on complaince	Improved openness and efficient adherence Increased public confidence

CONCLSUION AND RECOMMONDATIONS

Modern Islamic financial systems emerged in Africa in 1963 and spread from there to the world. Some countries have recently established or have integrated Islamic finance into their traditional financial systems. This presents a significant opportunity for Islamic banking and finance, with countries like Ethiopia and Tanzania recognizing its importance for their economies and businesses. Others, like Nigeria, conducted legal reforms to support the existing systems of Islamic financial firms. The discussion reveled that government support is crucial for the success of Islamic banking, particularly in mixed or non-muslim-majority countries. However, it is realized that the perception of the public is a key predictor of product success, particularly in Islamic banking products, which are totally new to these markets., Islamic banking are widespread in Muslims and non-Muslim countries; however, religion still significantly influences customers' perceptions, motivating them to engage with Islamic banks. Moreover, Islamic religion promotes ethics and morality, considering them universal principles. IB's clients are now divided into five categories, namely, the religious group (only Muslims), the religious and economic group (only Muslims), the economic group (Muslims and non-Muslims), the ethical group (non-Muslims) and the ethical and economic group (non-Muslims). The other two essential factors for the success of Islamic banking in Africa are (i) service quality and (ii) Sharia compliance. The former one, service quality, is a key factor in customer satisfaction, while the latter one, Sharia compliance, contributes to ethics, loyalty, and transparency. In general, bank selection criteria differ for different groups.

On the other hand, Islamic banks face challenges in Africa due to social, cultural, legal, political, and economic factors, especially negative perceptions, legal framework restrictions, poor communication, and a lack of skilled human resources, which ultimately hinder their expansion. Misconceptions hinder Islamic banking acceptance, particularly among non-Muslims. To address these, Islamic banks need to raise awareness, address misconceptions, improve accessibility, and establish strong customer relationships. Fortunately, Islamic banks are seen as inclusive yet exclusive, aiming to maximize customer value, satisfy financial security needs, and support poor households and microenterprises by offering interest-free banking services. Islamic banking is gaining momentum in Africa, but empirical studies on factors influencing adoption are limited. Factors such as attitude, religiosity, social influence, knowledge, and government support influence adoption. Tailored marketing strategies and ethical banking services are needed to attract customers and increase product exposure, as well as formalization and demystification for Islamic banks. This review concludes that Islamic banking practices have opportunities in the region while facing some challenges. It is recommended to address he following key issues: First, IBs need to conduct continuous market research to gain a comprehensive understanding of the social, business, and legal environments. Second, they are advised to address customer and social needs by creating innovative and inclusive products. Third, Islamic banks should adopt tailored marketing strategies, considering competitive benchmarking, to effectively reach their target audience. For policymakers, the study recommends supporting Islamic banks by viewing them as a unique system of finance with a fundamental philosophy that requires some degree of freedom to practice. Moreover, the paper also suggests that authorities should support Islamic banks by viewing them as a distinct financial system with a fundamental philosophy that demands a certain level of independence for practicing Islamic law.

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