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The State of Global Islamic Finance: A 47-Country Survey of Developments and Challenges

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Abstract

The main objective of this paper is to investigate the development of the Islamic banking and finance (IBF) industry worldwide. In addition, it will show the obstacles that prevent the IBF industry from developing. This paper is a conceptual paper in nature; it discusses the growth of the IBF industry across the world and the factors hindering its development. The findings show that the Islamic banking and finance industry has been making significant breakthroughs at the global level, with total assets exceeding $3.69 trillion in 2024. However, there are issues that need to be addressed by the industry to assure the continuity of its growth. These issues include the need for greater standardization of laws and regulations, a persistent dearth of qualified human resources, inconsistency of *fatwa*, undeveloped Islamic money and capital markets, and a need for more research to develop new products, particularly in the areas of fintech and sustainable finance. This paper provides a comprehensive and updated investigation into the status of the IBF industry in 47 countries, building upon previous studies that were often limited to specific regions or used smaller samples.

Keywords: *Islamic Finance, Global Finance, Shariah Compliance, Sukuk (Islamic Bonds), Financial Regulation, Fintech*

1. Introduction

Islamic banks are a new phenomenon in the modern economic system; Al-Harbi (2015) highlighted the modern developments of Islamic banks:

1. Interest-Free Banking as an Idea. This marked by the writings of Abul Aala Maudud (1937).
2. The Emergence and Establishment of Islamic Banks (1963–1976). This period was associated with a surge in oil revenues and great liquidity. During that time, many important events have occurred including the launch of the first commercial Islamic bank in 1977 (Dubai Islamic bank).
3. The Spread of Islamic Banks, 1977 to Present. During this phase, the number of Islamic banks around the world boomed, and many of the banks established in the early 1970s and1980s are still in operation today.

Islamic banking has become one of the fastest-growing sectors in the global financial industry over the past two decades. According to the Islamic Financial Services Board (IFSB; 2024), the global Islamic finance industry's assets are projected to reach $3.69 trillion by 2024, demonstrating sustained strong growth. However, the Islamic banking and finance industry faces intense competition from the conventional interest-based economic system, as well as the rapidly expanding fields of ethical and ESG (Environmental, Social, and Governance) investing. This paper will try to track the status of the IBF industry in different countries to see if there is a real thriving in the industry worldwide. In addition, it will highlight the problems facing the growth of the IBF industry. It should be noted that this paper focuses on the development of the IBF industry in Asia, Africa, and the Middle East. A detailed analysis of its expansion in Europe and North America has been explored in a separate study by the author (Alharbi, 2016) and is therefore excluded from this investigation.

2. Trends in Islamic Banking in Australia and the Asia-Pacific Region

2.1 Australia

According to the 2021 Australian Bureau of Statistics Census, the Muslim population in Australia grew to 813,392, or 3.2% of the total population, a notable increase from the 604,200 (2.6%) recorded in 2016. Islamic financial services became available in the country in the late 1980s. The first Islamic financial services provider in Australia was the Muslim Community Co-Operative, which established in 1989 and provided Islamic mortgage services. The second provider was the Muslim Community Credit Union, which established in 1999. Two other smaller providers are Islamic Cooperative Finance Australia (established in 1997) and Iskan Finance (established in 2001). These two firms offer a range of products to consumers, such as housing loans and funds for educational purposes. In addition, Kuwait Financial House opened a branch in Melbourne in 2008. This branch currently focuses on wholesale.

The Australian government has established some financial institutions and has made some other efforts to promote Islamic banking in the country. In 2004, the state of Victoria made some reforms to encourage Islamic banking in the state. To begin with, the state removed the double-stamp duty charges on property purchases. In addition, the state allowed Islamic contracts to give financial institutions the flexibility to avoid certain terms that are not permissible in Islamic religious law, such as interest. Furthermore, the state recognized the principle of profit and loss sharing. In 2010, the Board of Taxation released a discussion paper entitled “Review of the Taxation Treatment of Islamic Finance,” which was written in response to a government request to ensure that Islamic financial products have parity with conventional products. Furthermore, the Australian government released a booklet entitled “Islamic Finance” in 2010. The media release stated, “The booklet Islamic Finance provides a detailed explanation of the opportunities that booming *shariah*-compliant investment and banking offers Australia’s financial services sector”. On the institutional level, Westpac and National Australia Bank have both introduced *shariah*-compliant products to the market. From late 2021 to the present day in 2025, Australia's Islamic finance, banking, and sukuk industry has seen notable developments and challenges. A significant milestone was the granting of a restricted Authorized Deposit-taking Institution (ADI) license to Islamic Bank Australia (IBA) by the Australian Prudential Regulation Authority (APRA) in July 2022, aiming to offer a full suite of retail and business banking services. However, this license was subsequently revoked in 2023 at IBA's request, indicating a hurdle in its full establishment. Despite this, the broader landscape suggests a growing demand for Islamic banking, with the Federal Treasury announcing a taskforce in February 2025 to examine tax treatment for Islamic finance products, signaling potential regulatory alignment to foster growth. National Australia Bank (NAB) has been a prominent player, becoming the first "Big Four" bank in 2021 to offer Islamic finance for businesses seeking over $5 million, and was recognized as the 'Best Islamic Bank in Australia' at the 2025 IFN Islamic Finance Awards and 2025 Euromoney Islamic Awards. While Australia has seen a growing inflow of Shariah-compliant funds, propelling it among non-Muslim jurisdictions with significant Islamic assets, concrete data on overall market share growth for the entire industry within this period remains broad, though the sector is clearly expanding. There have been no sovereign sukuk issuances by Australia during this period; discussions have highlighted the potential for Islamic mortgage-backed securities but no actual government-backed sukuk has materialized.

There are still some challenges that face IBF industry in Australia: small size of Muslim community, doubt about shariah- compliant and investment products, and absence of a regulatory and legal framework.

2.2 Afghanistan

The financial industry in the country has been devastated by decades of conflict. After 2001, the financial industry gained some momentum as the economic condition started to improve due to billions of dollars of international assistance. There are 12 banks operating in Afghanistan consisting of three state banks, seven private banks and two branches of foreign banks; the central bank has a *shariah* board. The government was set to enact an Islamic banking law by the end of 2011. However, the first Law to regulate the Islamic finance industry in the country been passed by the parliament in 2015. Moreover, since 2014, the central bank started to develop Islamic banking rules by the help of Afghanistan Holding Group and Malaysia’s Amanie Advisors, with funding from Harakat-AICFO, a non-profit body that channels funds from foreign donors into projects that help to develop the Afghan economy. Furthermore, the central bank issued a regulatory framework for Islamic banking in 2015 based on standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These laws and rules will cover areas such as operating procedures, contract specifications and the operation of a centralized *sharia* board. Later, in April 2018 Islamic Bank of Afghanistan (IBA) obtained a license to operate as full-fledged Islamic bank; IBA was previously known as Bakhtar Bank and operated under a conventional banking license since it was acquired by Azizi Bank in 2009. As well, conventional banks in the country offer Islamic products via its Islamic windows. These developments will encourage people to open banking accounts, as the lack of Islamic banks could be the reason that so many people have not opened accounts.

From late 2021 to the present day, Afghanistan's Islamic finance, banking, and sukuk industry has been overwhelmingly shaped by the severe repercussions of the Taliban takeover in August 2021. The ensuing political instability and international sanctions, including the freezing of approximately $9 billion in Afghan assets, plunged the entire banking sector into a profound crisis, leading to temporary closures, severe cash shortages, and a dramatic loss of public trust. While Da Afghanistan Bank (DAB) introduced an "Islamic Bank Liquidity Facility" in late 2022 and provides guidelines for converting conventional banks to Islamic ones, new regulatory advancements have been largely overshadowed by efforts to stabilize the financial system amidst a weak economy and low financial inclusion. There have been no reported major bank mergers or launches; instead, the focus has been on the survival of existing institutions. Despite prior discussions and a 2020/2021 IMF assumption about Afghanistan potentially issuing a three-year domestic sukuk, actual sovereign sukuk issuances have been highly unlikely given the prevailing financial crisis and the country's cut-off from global financial systems. Although Islamic finance is recognized as a growing sector aiming for financial inclusion, overall market share growth is severely hampered by the shrinking financial sector and the broader economic challenges, including a persistent liquidity shortage and a lack of robust government support.

2.3 Azerbaijan

The foundation of Azerbaijan's modern banking sector was laid after the dissolution of the Soviet Union. Prior to 1991, all banks operated as branches of Soviet state banks. Following independence, these entities were separated and established as public banks (Aliyev and Gasimov, 2014). It was within this new financial landscape that the first elements of Islamic finance were introduced, primarily through the activities of Kovsar Bank (originally known as Kauthar Bank). Established as a successor to a Soviet-era branch, the bank was re-registered in 2002 and began functioning as a *de facto* Islamic bank, albeit operating officially as a conventional bank with interest-free products. Its offerings have included mudarabah, musharakah, ijarah wa iqtina, and bill-based instruments analogous to sukuk, which were permissible under existing Azerbaijani law (Aliyev, 2008). However, its operations have been constrained; for instance, the murabaha principle has been prohibited due to legislative restrictions on bank trading activity (Humbatov, 2009).

Early international partnerships were crucial for growth. Starting in 2006, the Islamic Corporation for the Development of the Private Sector (ICD), a subsidiary of the Islamic Development Bank (IsDB), allocated credit lines totaling over $17 million to several Azeri banks, including the International Bank of Azerbaijan, Unibank, and Turanbank, for SME financing using instruments like ijara. Furthermore, non-banking Islamic investment vehicles emerged, such as the Caspian International Investment Company (established in 2008 with a 75% stake from ICD) and the Kuwait Finance House (established in 2009). A significant early initiative was Shamil Bank of Bahrain's purchase of a 49% stake in Amrahbank in 2008, with an announcement to fully convert it into an Islamic bank; however, this conversion was still not complete as of early 2020, highlighting the sector's persistent challenges.

From late 2021 to the present day, Azerbaijan's Islamic finance, banking, and sukuk industry has been characterized more by preparatory developments and ongoing challenges than by significant breakthroughs. A key persistent challenge—identified from the sector's inception and still relevant today—remains the absence of a comprehensive Islamic banking law, which complicates product development and compliance within the existing regulatory framework.

Despite this, there is a visible commitment at the official level to fostering the sector. The Central Bank of Azerbaijan (CBA) has deepened its partnership with the IsDB, notably in early 2024, for capacity building and technical assistance in Islamic finance and sukuk issuance. Furthermore, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has offered support for developing Islamic banking standards in the country.

Regarding structural changes, specific details on significant new Islamic bank launches or major mergers within the 2021-2025 timeframe remain largely unconfirmed. While one report vaguely mentioned the uniting of Islamic windows after a bank merger, no specific entities or dates were provided. A notable contemporary development signaling strengthened partnerships was Turan Bank's financing agreement with the ICD. In terms of sovereign sukuk, Azerbaijan has been actively exploring this avenue. For instance, the state-owned company AzerGold and the ICD signed a Memorandum of Understanding to investigate sukuk issuance for project financing, and the CBA is collaborating with the IsDB on the same goal. However, there is no definitive public record of an *actual* sovereign sukuk issuance by Azerbaijan between late 2021 and 2025.

Consequently, the market share growth for Islamic finance in Azerbaijan continues to be characterized by significant potential rather than substantial realized expansion. A 2022 CBA assessment identified a potential Islamic banking loan volume of ₼300 million ($176.5 million). Despite this, Islamic banking remains a marginal segment of the financial system, with a Fitch assessment at the end of 2024 suggesting limited actual market share growth during this period.

In conclusion, the key challenges for Islamic finance in Azerbaijan continue to revolve around the foundational issues of establishing a robust legal and regulatory framework, enhancing the capacity of local institutions to manage associated risks, and effectively integrating Islamic finance into national financial strategies to facilitate SME access—challenges that have persisted since the industry's earliest days but are now being addressed with renewed official commitment.

2.4 Bangladesh

The establishment of Islamic finance in Bangladesh was driven by both the government and key entities such as the Islamic Economics Research Bureau, the Bangladesh Islamic Bankers Association, and the Muslim Businessman Society. This foundational support led to the incorporation of the nation's first Islamic bank, Islami Bank Bangladesh, on March 13, 1983. The sector grew steadily with the addition of other pioneers, including Al-Arafah Islami Bank (1995), Social Investment Bank Limited (1995), and First Security Islami Bank (1995). A significant milestone was the full conversion of The Export-Import Bank of Bangladesh (EXIM Bank) to Shariah-compliant operations in 2004, demonstrating the model's viability. More recently, the central bank, Bangladesh Bank (BB), has approved the conversion of conventional banks like Standard Bank Limited and NRB Global Bank Limited to Islamic banking, reflecting continued institutional interest.

From late 2021 to the present, Bangladesh's Islamic finance, banking, and sukuk industry has experienced significant developments amid consistent growth, yet also faced notable challenges. The market share of Islamic banking has solidified its substantial role in the national economy, with its share of total industry loans and advances rising to 29.1% by mid-2023 and reaching 28.93% by March 2025.

Regulatory advancements have been critical to this growth. While all banks in Bangladesh are governed by general banking laws like the Bank Companies Act 1991, the central bank has taken significant steps to tailor its oversight. This includes establishing a dedicated Islamic Banking Regulations and Policy Department and issuing detailed guidelines for Shariah Supervisory Committees to strengthen governance. To address chronic liquidity issues, BB has progressively enhanced its sukuk programs. After initiating a short-term sukuk program in 2004, it later introduced three-month and six-month Bangladesh Government Islami Investment Bonds (BGIIB) exclusively for Islamic financial institutions. More recently, it has increased the sukuk allocation for Islamic banking units to 80%. This built upon the landmark success of the government's first sovereign sukuk issuance in 2022, with the market deepening further through the 5th series in early 2025 and the announcement of a 6th Bangladesh Government Investment Sukuk in May 2025. A major structural shift is now underway with the proposed merger of five private Islamic banks, a move aimed at creating the country's largest lender by assets and scheduled for completion by July or November 2025.

Despite this impressive growth and regulatory progress, key challenges persist. The industry continues to grapple with significant liquidity issues, ongoing regulatory and governance concerns tied to the lack of a dedicated Islamic banking law, and a critical need to regain public trust. Furthermore, underlying obstacles such as a shortage of trained human resources and relatively low public awareness of Islamic banking principles remain significant hurdles to future development.

2.5 Brunei

Brunei's Islamic finance industry was established during the 1990s with the creation of pioneering institutions. The first Islamic bank, Tabung Amanah Islam Brunei (TAIB), was formed in 1992 as a trust fund to facilitate the Hajj pilgrimage. This was followed by the conversion of the International Bank of Brunei into the Islamic Bank of Brunei in 1993. A significant consolidation occurred in September 2005 when the Islamic Bank of Brunei merged with the state-owned Islamic Development Bank of Brunei to form Bank Islam Brunei Darussalam (BIBD), creating a dominant local player. This foundational period was supported by a robust regulatory framework, established through a series of orders and acts including the TAIB Act (1991), the Islamic Banking Order (2008), and the Takaful Order (2008).

From late 2021 to the present day (2025), Brunei's Islamic finance, banking, and sukuk industry has continued its robust development within the framework of the Brunei Darussalam Financial Sector Blueprint 2016-2025. The sector has matured significantly from its early days, with the Islamic banking industry now maintaining a dominant position, holding an overwhelming majority of the market share.

While no major new bank mergers or launches akin to the historical formation of BIBD have been prominently reported in this recent timeframe, the sovereign sukuk market has seen consistent and active issuance. Building upon the first sukuk issuance in 2006, which brought the total to BND 13.97 billion by August 2020, the Brunei Darussalam Central Bank (BDCB) has continued this momentum. It regularly issues sovereign sukuk, with recent examples including Sukuk Al-Ijarah securities (e.g., the 252nd series in September 2025) and Islamic Bills (e.g., the 231st series in September 2025).

Despite this maturity and dominance, key challenges persist. The industry continues to grapple with a shortage of high-quality liquid Islamic financial assets and inconsistencies in certain regulations. Furthermore, the absence of green sukuk issuances by Brunei has been identified as a gap in the nation's sustainable financing initiatives, pointing to a potential area for future market development and innovation.

2.6 India

India is home to the world's second-largest Muslim population and the largest of any non-Muslim majority country, representing a significant demographic. Despite this, the Islamic banking industry remains in a nascent stage, constrained not by explicit prohibition but by a legal and regulatory framework that renders its full-fledged operation impractical. The foundation of this regulatory challenge lies in key legislative acts governing the financial sector, primarily the Banking Regulation Act of 1949. Critical provisions within this act create insurmountable hurdles; for instance, sections prohibit banks from investing on a profit-loss-sharing basis, forbid them from buying or selling goods, restrict holding immovable property, and mandate the payment of interest. Consequently, Islamic financial institutions in India are forced to operate not as full-service banks but as Non-Banking Financial Companies, which are subject to a different, though still challenging, set of regulations. Additional complications arise from tax regulations and stamp duty rates that disadvantage asset-based financing.

The history of interest-free finance in India is one of grassroots initiatives, dating back to the late 19th and early 20th centuries with institutions like the Anjuman Imdad-e-Bahmi Qardh Bila Sud and the Patni Co-operative Credit Society. A major wave of institution-building began in the 1960s, leading to the establishment of entities such as the Muslim Fund Deoband and Bait-un-Nasr Urban Co-Operative Credit Society, which became one of the largest. The 1980s and 1990s saw further growth with the entry of players like Al-Ameen Bangalore and Al-Baraka Finance House, the latter being the only institution with foreign ownership. A notable milestone was the launch of the Tata Core Sector Equity Fund, a Shariah-compliant mutual fund developed in collaboration with the Tata Group.

From late 2021 to the present day in 2025, the landscape for Islamic finance, banking, and sukuk in India has remained largely stagnant. The Reserve Bank of India has consistently maintained its stance against the introduction of full-fledged Islamic banking, asserting that all citizens already have access to conventional financial services. As a result, there have been no new regulations enabling comprehensive Islamic banking, no major launches of dedicated Islamic financial institutions, and no sovereign sukuk issuances by the Indian government. While India's overall Islamic Finance Development Indicator ranking showed an improvement in 2021, this does not reflect significant domestic market share growth in the intervening years.

The key challenges facing the industry are a direct continuation of historical and regulatory obstacles. The primary hurdle remains the existing legal framework, which would require substantial amendments to accommodate Sharia-compliant practices within the country's secular financial system. Compounding this issue is a persistent lack of public awareness of Islamic finance products and a shortage of qualified experts and scholars in the field. In conclusion, the immense potential for Islamic finance in India remains largely untapped, with the sector likely to remain static without a significant shift in regulatory policy.

2.7 Indonesia

The establishment of Islamic banking in Indonesia was initiated by a pivotal government policy in October 1988, which permitted banking operations with zero percent interest. This paved the way for the world's most populous Muslim nation to formally legalize Shariah banks with Act 7 of 1992, a legislative move supported by both the Soeharto and B. J. Habibie regimes. Following a banking workshop held by the Indonesian Ulema Council, Bank Muamalat Indonesia became the country's first Shariah bank in 1990. The legal framework was progressively strengthened by Act 10 of 1998, which allowed conventional banks to open Shariah branches, and ultimately by the comprehensive Islamic Banking Law 21 of 2008, which established full parity between Islamic and conventional banks. The sector's early growth was also fueled by strategic conversions of conventional banks, such as the transformation of PT Bank Susila Bakti into PT Bank Syariah Mandiri in 1999. A significant milestone was the passage of a new tax law in 2009 that eliminated double taxation on Shariah-based transactions, a crucial step in enhancing the industry's competitiveness. Despite this supportive regulatory environment, which saw assets grow from Rp 66 trillion in 2009 to Rp 272 trillion in 2015, the sector's development was often described as slower than expected by the central bank, hindered by challenges such as public debate over the permissibility of conventional interest, political dynamics, and a lack of determined public support for the industry.

From late 2021 to the present day, Indonesia's Islamic finance, banking, and sukuk industry has entered a new phase of maturation and ambition. A pivotal structural development was the merger of three state-owned Islamic banks in February 2021 to form Bank Syariah Indonesia (BSI), creating a national champion aimed at expanding Indonesia's presence in global Islamic banking. This period has also been characterized by a continued emphasis on regulatory refinement, as seen in instruments like Bank Indonesia Regulation No. 1 of 2025 concerning Commercial Sharia Banks, which underscores the need for banks to deeply embed Sharia principles into their operations. Indonesia has further solidified its position as a global leader in the sovereign sukuk market. The government has not only maintained its consistent issuance of green sukuk, with its eighth consecutive annual issuance contributing to an aggregate of USD 7.7 billion by late 2023, but has also innovated with social sukuk and a USD 2.75 billion global sukuk issuance in 2024. The updating of its substantial USD 35 billion Trust Certificate Issuance Programme in 2023 signals a long-term commitment to this market. While specific market share figures for the most recent period are still solidifying, the broader Southeast Asian Islamic finance market experienced 11% growth in 2022, and Indonesia has clear ambitions to increase the share of its Islamic Capital Market.

Despite these significant advancements, key challenges persist. The industry continues to grapple with low levels of Islamic financial literacy and inclusion, a issue particularly acute in rural and eastern regions. Furthermore, financial institutions face the ongoing challenge of navigating complex Sharia compliance requirements while simultaneously innovating their product development to compete effectively and fulfill their original promise.

2.8 Kazakhstan

Kazakhstan, a country with a majority Muslim population, began laying the groundwork for Islamic finance in the late 2000s. The central bank took a significant step in February 2009 by amending laws to facilitate Islamic banking, and the government further demonstrated its commitment in March 2012 by approving a comprehensive roadmap for the industry's development through 2020. Early market activity included a memorandum between Bank TuranAlem JSC and Emirates Bank Group in 2007, and the entry of Al-Hilal Bank, which began operations in March 2010 as the nation's first and only full-fledged Islamic bank for many years. Zaman Bank later joined the landscape in August 2017, receiving a license to provide Islamic financial products. Despite these initiatives, early studies highlighted persistent challenges, including a lack of public awareness, a shortage of experts in the banking sector, and an underdeveloped regulatory environment, which collectively hindered the industry's growth.

From late 2021 to the present, Kazakhstan's Islamic finance industry has entered a new and dynamic phase, largely driven by the Astana International Financial Centre (AIFC). The AIFC has established a favorable legal and regulatory framework, which includes reduced minimum capital requirements for Islamic financial institutions extended until May 2026. This modernized approach was further cemented at a national level when Kazakhstan's new banking law explicitly permitted Islamic financing services. A significant development in the banking sector was the licensing of Alif Islamic Bank in December 2022, which has since become an active provider of financing to retail and corporate clients, expanding the market beyond its earlier players.

In the capital markets, the sukuk sector has seen foundational progress. The AIFC has been instrumental, with participant Tayyab Finance issuing its inaugural Sukuk and the AIX facilitating Kazakhstan's first sukuk listing. While the government had a strategic plan for a Sovereign Green Sukuk within its 2021-2025 development framework, its actual issuance within this specific period has not been definitively confirmed. The market's ambitions, however, remain high, with official aims to increase the share of Islamic banking assets from 1% to 3% of the country's total banking assets by 2025, positioning Kazakhstan as a potential regional leader.

Despite this renewed momentum and a more supportive regulatory environment, the industry continues to face key challenges that echo earlier identified issues. These include a persistent lack of public awareness and Islamic financial literacy, a shortage of qualified human capital, issues related to double taxation on certain financial transactions, and general trust issues within the market that must be overcome to achieve its substantial growth potential.

2.9 Kyrgyzstan

Kyrgyzstan, a country with a predominantly Muslim population, initiated its Islamic finance journey with the launch of EcoIslamicBank in 2006. Established as a joint venture between the Islamic Development Bank and the National Bank of the Kyrgyz Republic, it initially operated under Islamic window principles. For a decade, it remained the primary player, but after 2016, other institutions began to offer Islamic products. The sector's early footprint was small but growing; the share of Islamic banking in the banking sector increased from 1.5 percent in 2016 to 1.6 percent in 2018, while its share in the microfinancing sector saw a more substantial jump from 0.3 percent to 6 percent in the same period. By the end of 2018, the market consisted of just two banks and two microfinance institutions licensed for an Islamic window. From its inception, the industry faced obstacles, including a lack of public awareness, an underdeveloped regulatory framework, and a shortage of qualified staff.

From late 2021 to the present day in 2025, Kyrgyzstan's Islamic finance industry has entered a phase of accelerated growth and regulatory maturation. The sector has experienced a remarkable surge, with Islamic financing increasing by 49.3% in 2024, significantly outpacing the conventional banking sector. This growth accelerated further, soaring by 61% in the first seven months of 2025. This expansion has been supported by critical regulatory advancements, including amendments to legal acts by the National Bank of the Kyrgyz Republic to align with Islamic finance principles and international standards. The Civil Code was also updated in 2022 to provide a clearer basis for regulating Islamic financial transactions.

In terms of institutional development, EcoIslamicBank transitioned from its earlier window-based operations to receive an official license to conduct Islamic banking and finance operations, now standing as one of Kyrgyzstan's fully-fledged Islamic banks alongside four licensed Islamic windows. In the capital markets, while the country has shown intentions to adopt instruments like Sukuk within its development finance strategies and has plans to develop local currency debt markets, specific sovereign sukuk issuances within this timeframe have not been explicitly confirmed.

Despite this significant growth and a more supportive regulatory environment, the industry continues to grapple with key challenges that have persisted from its early days. These include a notable lack of public awareness and Islamic financial literacy, a continuing shortage of qualified human capital, and operational issues such as double taxation on certain financial products.

2.10 Malaysia

Malaysia's journey as a global leader in Islamic finance began over half a century ago, rooted in a secular government system that actively encourages the sector. The pioneering effort was the establishment of the Pilgrims' Fund Board, or Tabung Haji, in August 1962, which provided Muslims with their first opportunity for interest-free savings to fund their pilgrimage. This initiative laid the groundwork for a system where Islamic financial institutions would eventually operate alongside conventional ones under separate, robust legislation.

A critical milestone was reached on April 7, 1983, with the enactment of the Islamic Banking Act, which empowered Bank Negara Malaysia to supervise and regulate Islamic banks. That same year saw the establishment of Bank Islam Malaysia Berhad, the nation's first Islamic bank, and the legalization of government investment issues, providing essential liquidity tools. Recognizing that a single bank could not serve the entire market, Bank Negara Malaysia introduced the Islamic banking scheme in 1993, allowing conventional banks to offer Shariah-compliant products. This strategic move rapidly expanded the industry's reach and led to the creation of the Islamic Interbank Money Market in 1994, a crucial step in building a complete financial ecosystem. Malaysia's innovation extended to the capital markets, where it made history with the world's first sukuk issuance by Shell MDS in 1990 and the first global corporate sukuk in 2001, cementing its reputation as a major sukuk issuer. The regulatory framework was further strengthened by the establishment of the National Shariah Advisory Council in 1997 to harmonize interpretations. Despite this remarkable progress, the industry has continually navigated challenges, including human capital development, liquidity risk management, and the need for product innovation.

From late 2021 to the present day, Malaysia's Islamic finance industry has built upon this strong foundation with significant new growth and strategic developments. Regulatory direction is now charted by the Financial Sector Blueprint 2022-2026 and the Twelfth Malaysia Plan (2021-2025), which prioritize thrusts such as Islamic social finance and innovation through risk-sharing instruments, supported by initiatives like a RM100 million matching fund. In the banking sector, a notable modern development was the launch of Aeon Bank in 2024, marking Malaysia's first fully digital Islamic bank and enhancing financial accessibility.

The sovereign sukuk market has continued to break new ground, with Malaysia successfully pricing the world's first sovereign US Dollar Sustainability Sukuk, upsized to US$1.3 billion, demonstrating a strong commitment to aligning Islamic finance with global climate goals. This period has been characterized by robust market penetration, with Islamic banking accounting for 45.6% of total financing in 2023 and projected to capture nearly 50% of total bank lending over the next decade.

However, even as a mature market, Malaysia's Islamic finance industry faces a new set of challenges. These include a shortage of AI talent with specialized expertise in Islamic finance, the absence of standardized halal certification for certain financial products, persistent gaps in public awareness and education, and a need for greater liquidity and depth in the Islamic FX swaps and money markets to support its continued global expansion.

2.11 Maldives

The establishment of a formal Islamic finance industry in the Maldives began with a crucial legislative change: the amendment of the Maldives Banking Act (Banking Law 24/2010). This legal reform empowered the government’s Department of Finance to grant licenses for Islamic banks, defining them as companies that carry out all banking activities according to shariah principles and mandating the establishment of a Shariah Board for each. This paved the way for the Maldives Islamic Bank (MIB), which opened on March 7, 2011, with a capital of US$12 million and ownership split between the Islamic Corporation for Development (85%) and the Government of Maldives (15%). The capital market soon followed, with the Maldives Monetary Authority issuing the first sovereign sukuk in 2013, the same year the Housing Development Finance Corporation raised US$3.9 million through the nation's first corporate sukuk. From its inception, the sector faced significant hurdles, including a lack of specific financial laws and regulations, a shortage of Shariah experts, limitations in product development, and a recognized need for international assistance.

From late 2021 to the present, the Maldives' Islamic finance industry has built upon this foundation with significant activity and strategic development. The Maldivian government has actively utilized sovereign sukuk as a key financing tool, evidenced by a USD 500 million issuance in 2021 set to mature in 2026, alongside other issuances from the same year. This commitment is projected to continue with further sovereign sukuk issuances planned for 2025 (USD 125 million) and 2026 (USD 250 million). Regulatory advancement has been a parallel focus, with the Maldives Monetary Authority prioritizing the sector's growth through targeted policy initiatives and the launch of a dedicated Participation Finance Strategy Document for 2022-2025.

Maldives Islamic Bank (MIB), remaining the country's only fully-fledged Islamic bank, has been central to the sector's growth, introducing new services and earning multiple accolades in 2025. The market is anticipated to see continued growth into the future, with strategic initiatives like the launch of MFLC Maal for Islamic social finance aiming to address enduring challenges. However, despite this progress, the industry continues to grapple with a foundational issue: limited awareness and understanding of Islamic finance within the broader population.

2.12 Pakistan

Islamic banking in Pakistan emerged as a profound response to both religious and economic needs, with its commitment constitutionally enshrined in Article 38(f), which mandates the elimination of Riba. The journey began in earnest in the late 1970s under President Ziaul Haq, who initiated a comprehensive Islamization of the financial system. This process saw the removal of interest from specialized credit institutions in 1979, the introduction of profit-and-loss sharing deposit counters in nationalized banks by 1981, and culminated in July 1985 with all commercial banking operations officially becoming interest-free. Pakistan was also a pioneer in capital markets, issuing the world's first Mudarabah certificates in 1980. However, the full-scale implementation of Islamic banking principles proved challenging, leading the State Bank of Pakistan (SBP) to introduce a pragmatic dual-banking system in 2001. This policy allowed for the licensing of full-fledged Islamic banks, such as Meezan Bank in 2002, and the establishment of Islamic windows by conventional banks. The sukuk market also developed, with Pakistan issuing its first global sukuk in 2005 and its first domestic issuance in 2006. Despite this long and pioneering history, the sector has continually faced hindrances, including a lack of regulatory uniformity, low public awareness, underdeveloped capital markets, and a shortage of qualified human resources.

From late 2021 to the present day, Pakistan's Islamic finance industry has entered a new phase of accelerated growth and strategic clarity. Building on its foundational history, the State Bank of Pakistan launched its third five-year Strategic Plan (2021-2025) with an ambitious target for Islamic banking to constitute one-third of the total banking industry. This ambition was further reinforced by a definitive parliamentary amendment setting January 1, 2028, as the deadline for eliminating Riba from the entire financial system. The sector has witnessed significant institutional developments, including the merger of Al Baraka Bank (Pakistan) Limited and the landmark launch of "aik," Pakistan's first Islamic digital bank. In the capital markets, sovereign sukuk issuances have remained active, exemplified by the Pakistan Energy Sukuk-II, and the government has established a Sovereign Sustainable Finance Framework to pave the way for green sukuk.

This strategic push has yielded substantial results. The market share of Islamic banking has shown a robust upward trend, with assets and deposits growing significantly and projections indicating a rise to 25-27% of the total banking sector by 2025. Despite this impressive growth and a clearer regulatory path, key challenges persist. These include the ongoing need to enhance public awareness of Islamic finance, addressing complex operational and regulatory hurdles, and ensuring coordinated support from the SBP, government, and Shariah scholars to maintain stability and achieve the nation's long-standing ideological and financial inclusion goals.

2.13 The Philippines

The roots of Islamic banking in the Philippines trace back to the 1970s with the creation of Al-Amanah Islamic Investment Bank of the Philippines by Presidential Decree 264 on August 2, 1973. Established to stimulate the economy in Mindanao, home to the majority of the country's Muslim population, Al-Amanah stood for decades as the first and only Islamic bank. However, the sector remained stunted due to a lack of a specific regulatory framework; while the Banking Law of 2000 recognized Islamic banks as a category, it provided no detailed rules for their operation. This regulatory gap, combined with internal challenges, led Al-Amanah to incur sustained financial losses. After being acquired by the Development Bank of the Philippines in 2008, it eventually ceased offering Islamic financial services, underscoring the profound obstacles faced by the industry, including a lack of political will, a shortage of Shariah experts, and limited public awareness.

From late 2021 to the present, the Philippine Islamic finance industry has experienced a significant revival driven by decisive regulatory action. The cornerstone of this new era is the implementation of the Islamic Banking Law (Republic Act 11439) of 2019. The Bangko Sentral ng Pilipinas (BSP) has been actively issuing prudential regulations and supplemental guidelines to facilitate the unique features of Islamic banking while ensuring regulatory alignment, with a key reform being the establishment of tax neutrality for Islamic banks. This enabling environment has spurred tangible institutional growth. A landmark development was CARD Bank securing the first new Islamic Banking Unit (IBU) license in June 2023, breaking Al-Amanah's long-standing monopoly. This was swiftly followed by Maybank, which launched its own IBU in 2024 and expanded its services to Zamboanga, signaling serious commercial interest.

In the capital markets, the government has signaled a strong commitment by actively planning for a sovereign sukuk issuance in 2025, building on a previous maiden dollar sukuk issuance. While specific market share figures for the sector remain limited, the entry of new players points to an expanding market and a positive outlook. Despite this promising momentum, key challenges persist. These include limited banking infrastructure in Muslim-majority regions outside of new IBU locations and the ongoing need to attract more players to fully unlock the sector's long-dormant potential and build a resilient and competitive Islamic finance ecosystem.

2.14 Singapore

Singapore's engagement with Islamic finance began with conventional banks like the Overseas-Chinese Banking Corporation (OCBC) offering Islamic deposit accounts. A significant early step was the government's move in 2005 to level the playing field by removing double-stamp duties on Islamic real estate contracts and ensuring tax parity for Islamic bonds. This led to the establishment of the Islamic Bank of Asia in 2007, the nation's first dedicated Islamic bank, though it ceased operations in 2015. The regulatory framework has long been structured so that Islamic and conventional banks are subject to the same core regulations, with the Monetary Authority of Singapore (MAS) assessing Islamic products and applying rules to conventional equivalents with necessary Shariah-compliant amendments, including the requirement for each bank to have a Shariah board. For years, the market has been served by a small number of foreign-owned entities, including OCBC Al-Amin Bank Berhad, Maybank Islamic Berhad, and CIMB Islamic Berhad. Historically, the sector's progress has been measured, constrained by challenges such as a lack of Shariah scholars, limited human capital, and low public awareness.

From late 2021 to the present, Singapore's Islamic finance industry has evolved with a clear strategic focus on wealth management and sophisticated financial services. A key regulatory enhancement came in July 2022 when the MAS updated its guidelines for a more cohesive, sector-wide approach to Islamic banking. This has supported growth in Islamic finance assets, which reached approximately US$27.4 billion by the end of 2024, bolstered by new investment vehicles like the Lion Global Islamic fund. A landmark development in banking was Maybank Singapore's launch in 2023 of the first end-to-end Islamic wealth solutions in the country, alongside new Shariah-compliant auto financing, signaling a move beyond basic banking services.

In the capital markets, Singapore continues to build its foundational capabilities. The MAS is in the final stages of setting up a sukuk issuance facility to provide greater market liquidity, complementing the existing sukuk it already offers. While no major new sovereign sukuk issuances or domestic bank mergers were prominent completed events in this specific period, the broader regional trend of consolidation is noted. The sector continues to face challenges, including global factors affecting the sukuk market. However, Singapore's strategic approach—emphasizing innovation, sustainability, and talent development through initiatives like the upcoming Singapore College of Islamic Studies—underscores its ambition to solidify its niche as a global hub for Islamic wealth management and expand its market share systematically.

2.15 Sri Lanka

Sri Lanka stands out as one of the few non-Muslim majority countries with specific legislation for Islamic banking. The pivotal moment was the 2005 amendment to the Banking Act, which, after years of advocacy led by Amana Investments, formally allowed commercial and specialized banks to operate on a Shariah-compliant basis. Amana Investments, established in 1997, has been the sector's torchbearer and was granted a full commercial banking license in 2011, becoming Amana Bank, the nation's first dedicated Islamic commercial bank. The market also includes other key players, such as the Muslim Commercial Bank Sri Lanka, which commenced operations in 2007, and the state-owned Bank of Ceylon, which established an Islamic window in 2009 that later evolved into a full-fledged branch. This foundational period was supported by other institutions offering Takaful and asset management, yet the sector has consistently faced challenges, including a shortage of Shariah scholars, a lack of public awareness, and a need for greater product innovation.

From late 2021 to the present day, Sri Lanka's Islamic finance industry has navigated a period of severe national economic turbulence and debt distress. Despite these challenging conditions, the sector has shown signs of resilience and renewed strategic intent. Amana Bank, in particular, has demonstrated robust growth, solidifying its position as a leading Islamic financial institution. While there have been no major new bank launches or mergers reported in this specific timeframe, there is a clear policy push for 2025. The government is actively working to introduce regulatory backing for Sukuk and establish a domestic Islamic capital market, recognizing its potential relevance for sovereign financing amidst the country's debt crisis.

However, specific sovereign sukuk issuances have not yet materialized in this period, and the overall market share growth, while positive for individual institutions, has seen Sri Lanka lose its position in the top 15 of the State of the Global Islamic Economy Report. The key challenges facing the industry remain a direct continuation of its historical hurdles, now set against a difficult macroeconomic backdrop. These include ongoing regulatory obstacles, a persistent and critical shortage of Shariah scholars, and the pressing need to innovate and raise public awareness to unlock the sector's full potential.

2.16 Thailand

The origins of Islamic finance in Thailand can be traced back to 1987 with the establishment of the Pattani Islamic Savings Cooperative, a grassroots initiative in the country's southern Muslim-majority provinces. This was followed by the introduction of Islamic windows at state-owned banks, beginning with the Government Savings Bank in 1998 and the Bank for Agriculture and Agricultural Cooperatives in 1999. A significant milestone was the establishment of the first Islamic branch by Krung Thai Bank in 2001. The sector's foundational legal framework was established with the enactment of the Islamic Bank of Thailand Act of 2002, which led to the creation of the Islamic Bank of Thailand (IBank) in 2003 as the nation's first and only full-fledged Islamic bank. A key development for the capital markets occurred in May 2011 when the Thai government passed tax legislation that facilitated the country's first sukuk issuance, though the market remained quiet for years afterward.

From late 2021 to the present day in 2025, Thailand's Islamic finance industry has continued its trajectory of steady but limited development. IBank remains the sole full-fledged Islamic bank, with its assets reaching $2.8 billion by the end of the first quarter of 2025. The sector continues to benefit from existing government assistance, though no major new Islamic finance-specific regulations or bank launches have been reported in this recent period. In the realm of sovereign financing, Thailand has demonstrated a strong commitment to sustainable finance, being ASEAN's first sovereign sustainability bond issuer. However, it is not explicitly confirmed that these recent sovereign instruments were structured as sukuk, highlighting a potential gap between the country's sustainable finance ambitions and its utilization of Islamic capital market tools.

The industry operates within a global Islamic finance market that is projected for significant growth, yet key challenges for the Thai sector remain deeply rooted. These include persistently limited consumer awareness, existing regulatory constraints that have hindered more dynamic expansion, and global economic pressures such as higher funding costs. Despite its early start and dedicated legal framework, the sector has yet to achieve a critical mass, with its development characterized more by gradual consolidation than by rapid breakthroughs.

3. Trends of Islamic Banking in Africa

3.1 Algeria

Modern banking in Algeria has been predominantly state-controlled since independence, with the government commanding the vast majority of bank assets. Within this financial landscape, Islamic finance found its footing following the economic reform law of 1990. This led to the establishment of Banque Al-Baraka d'Algérie in 1991, the nation's first Islamic bank. A second dedicated institution, Al-Salam Bank Algeria, followed in 2006, while other conventional banks like Algeria Gulf Bank began offering Islamic products. For decades, these institutions operated under the same regulations as conventional banks, and the sector's growth was constrained by significant barriers, including a lack of specific laws and regulations, low public awareness, and a shortage of qualified human resources, as identified in studies up to 2018.

Since late 2021, Algeria has embarked on a concerted and strategic push to significantly advance its Islamic finance, banking, and sukuk industry. This new phase is marked by proactive regulatory modernization. A key milestone was the introduction of Islamic real estate and mortgage finance regulations in October 2024, part of a broader effort to build a comprehensive legal framework designed to position Algeria as a regional sukuk hub. While no major new bank mergers have been reported, the market has evolved through the successful integration of Islamic banking experiences within major public banks, such as the National Bank of Algeria (BNA), and the expansion of Islamic windows, with institutions like ABC Bank Algérie planning new decentralized branches dedicated to Islamic finance in 2025.

This strategic expansion has yielded substantial market share growth. Islamic banking deposits reportedly rose by over 14% in the two years leading up to February 2024, and the share of Islamic deposits in public banks specifically increased from 13% in 2022 to 20% in 2023. The most landmark development, however, is in sovereign finance: Algeria has announced plans to issue its inaugural sovereign sukuk, valued at approximately $2.3 billion, and set to launch in November 2025. This move aims to diversify the nation's funding channels and represents a major leap forward.

Despite these significant advancements, the industry continues to face notable challenges that echo past issues. These include weak advertising and promotion, divergence in Islamic legal opinions, and complications within the tax system. These persistent hurdles highlight the continued need for robust legal and Sharia compliance frameworks to fully realize Algeria's ambition of becoming a regional leader in Islamic finance.

3.2 Ethiopia

Islamic banking in Ethiopia is a relatively recent phenomenon, with its origins tracing back to 2011 when the National Bank of Ethiopia (NBE) issued a directive (SBB/51/2011) allowing conventional commercial banks to establish licensed Islamic windows. The first such license was granted to Oromia International Bank S.C. in 2013, and subsequently, a majority of the country's commercial banks began offering basic Shariah-compliant products. However, the path to establishing full-fledged Islamic banks was challenging. Despite meeting capital requirements as early as 2008, the first dedicated institution, ZamZam Bank, faced regulatory delays and was not finally established until April 2019. This period also saw other Islamic banks, such as Hijra Bank and Zad Bank, in their final formation stages by 2020. From its inception, the sector has been recognized for its significant growth potential, though it has been consistently hampered by challenges including intense competition from conventional banks, a lack of public awareness, and a professional skill gap.

Since late 2021, Ethiopia's Islamic finance industry has entered a new phase characterized by significant foundational developments aimed at unlocking this potential. A pivotal regulatory stride was the 2021 Capital Markets Proclamation (No. 1248/2021), which established the legal basis for a capital market and created the Ethiopian Capital Market Authority (ECMA). This legislation is a crucial prerequisite for the future issuance of sukuk. Building on the NBE's 2019 decision to allow fully-fledged Islamic banks, the market has seen the operationalization of several such institutions, including ZamZam, Hijra, and Zad Bank, though they are still working to meet initial high expectations.

The interest-free banking sector has shown "notable progress" and "significant market share growth," making a positive contribution to financial inclusion. On the sovereign front, Ethiopia has expressed a clear intent to facilitate sukuk issuances and is working with international bodies like the African Development Bank Group to create the necessary mechanisms for investors. However, a confirmed sovereign sukuk issuance within this specific 2021-2025 timeframe has not yet been realized.

Despite this progress, the sector continues to grapple with key challenges that build upon its historical hurdles. These include an evolving regulatory environment that still requires a more specific legal framework to address issues like investment restrictions and double taxation. Furthermore, the persistent shortage of skilled human resources and the presence of negative perceptions about Islamic finance remain significant obstacles to the sector's full integration and expansion within the Ethiopian economy.

3.3 Guinea

Guinea holds a distinctive place in the history of Islamic finance in West Africa. The Islamic Bank of Guinea (BIG), which opened on May 2, 1983, in Conakry, was not only the nation's first Islamic bank but also its first private bank. Established as a private limited company under a Memorandum of Understanding between the Government of Guinea and the Dar Al-Maal Al-Islami Trust, the bank's ownership has included significant stakes from major international Islamic financial institutions like the Islamic Development Bank. Despite this pioneering start, BIG remains the only dedicated Islamic bank in the country to this day. For decades, the sector's development has been constrained by significant challenges, including a lack of specific laws and regulations, low public awareness, a shortage of trained manpower, limited product innovation, and government unresponsiveness.

From late 2021 to the present day in October 2025, the most significant development in Guinea's Islamic finance landscape has been a strategic move at the sovereign level. The government has approved a proposed debut sovereign sukuk, a landmark initiative sanctioned under Guinea's 2025 Finance Law and a dedicated Sukuk Issuance Framework from the Ministry of Finance. This represents a crucial step and a strong intent to leverage Islamic capital markets for national development, marking a potential turning point for the industry. While specific details on the actual issuance by the current date are not available, its approval is the most notable advancement in the period.

Beyond this sovereign ambition, specific new regulations directly impacting the day-to-day Islamic finance sector or details regarding major new bank launches or mergers have not been widely reported. The Islamic Bank of Guinea continues its operations as the sector's cornerstone. Information on the precise market share growth of Islamic finance within Guinea remains limited, though the bank operates within the broader African Islamic banking market, which is recognized for its long-term growth potential despite facing structural challenges. Therefore, while the sovereign sukuk plan signals a new, top-down commitment, the foundational challenges of the past—such as the need for a robust regulatory framework, human capital development, and greater public awareness—persist and will need to be addressed for the retail and commercial sectors to flourish alongside the government's capital market ambitions.

3.4 Kenya

Kenya holds the distinction of being the first country in the East and Central African region to introduce full-fledged Islamic banking. This pioneering move occurred in 2007 with the licensing of First Community Bank and Gulf African Bank, both of which commenced operations in 2008. However, their establishment required navigating a legal system not initially designed for Shariah-compliant finance. The Banking Act contained provisions, such as restrictions on trading and holding fixed assets, that were incompatible with Islamic finance principles. To address this, the government made crucial amendments to the Banking Act in 2006 and 2009, and later adjusted stamp duty and VAT regulations, creating a more enabling environment. This foundational work allowed the sector to grow to include three full-fledged Islamic banks and several conventional banks with Islamic windows, supported by institutions like Takaful Insurance Africa, the first Takaful operator in East Africa. Despite this early success, a persistent challenge identified from the outset has been a lack of public awareness of Islamic banking products.

From late 2021 to the present day in 2025, Kenya's Islamic finance industry has built upon this foundation with significant new developments and continued growth. The regulatory landscape has seen further refinements, with authorities undertaking revisions to banking and capital markets regulations to facilitate future sovereign sukuk issuances. Despite these efforts, the sector continues to operate primarily within a secular-based system, leading to ongoing challenges in contract standardization and Shariah compliance resolution, highlighting the need for an even more dedicated regulatory framework.

Institutional innovation has been a hallmark of this recent period. Absa Bank Kenya launched "La Riba Sultanah" in August 2025, introducing the nation's first Shariah-compliant bank account specifically tailored for women. Furthermore, Premier Bank partnered with Mastercard in December 2024 to roll out new Shariah-compliant payment solutions, expanding the range of financial technology available to customers.

In the capital markets, Kenya has taken concrete steps by listing its inaugural Islamic bonds (sukuk), valued at $23 million and issued by Linzi Finco Trust to finance affordable housing. The government has also officially announced its intentions to issue further Shariah-compliant instruments, including a potential sovereign sukuk. This activity has contributed to the remarkable growth of Islamic finance's market share in Kenya over the past decade, with Islamic banking being the primary driver. Nonetheless, key challenges persist, including the intricacies of standardizing Shariah-compliant contracts within the existing legal landscape and the enduring need to boost public awareness to ensure the sector's long-term and sustainable expansion.

3.5 Libya

The foundational push for Islamic finance in Libya began in the post-Qaddafi era. In 2009, Vice Governor Muhammad Shukri announced a gradual plan to implement an Islamic financial system, starting with windows in conventional banks before moving to full-fledged institutions (Shahine & Baltaji, 2011). This momentum was bolstered by the 2011 revolution, which was expected to boost the industry. The first Islamic branch of a conventional bank, Wahda Bank, opened to the public in early 2011. This intent was soon formally backed by law. In January 2012, the Central Bank of Libya (CBL) issued Law No. 46, specifically designed to facilitate the establishment and operation of Islamic banks, mandating each to have a Shariah supervisory board. A more ambitious step was Law No. 1 of 2013, which aimed to abolish interest from the entire financial system by 2015. However, this proved impractical; when enforced in 2015, it triggered a liquidity crisis, forcing the government to delay its implementation until 2020 via Law No. 7 of 2015.

From late 2021 to the present, Libya's Islamic finance industry has seen incremental, though limited, progress. A significant operational stride was the Libyan Islamic Bank's launch of a new digital platform, aimed at modernizing consumer banking services. On the regulatory front, the CBL has permitted the issuance of Sharia-compliant certificates of deposit, indicating a move to expand Islamic financial instruments. There have also been initiatives to leverage Islamic capital markets, such as the Libya Africa Investment Portfolio (LAIP) launching an Islamic Sukuk initiative to finance domestic projects. However, concrete details on actual sovereign sukuk issuances or major new bank mergers and launches beyond these digital and initiative-based developments remain scarce.

Despite these efforts, the sector continues to grapple with profound and persistent challenges. The foundational study by Abusloum et al. (2020) identified key obstacles, including a lack of trained human resources, low public awareness, and resistance to transitioning from the conventional system. These historical challenges are compounded by ongoing issues such as an outdated overarching banking law, difficulties in developing a diverse suite of competitive Islamic finance products, and the absence of a fully integrated Islamic finance framework. Political instability and economic structure further hinder significant market share growth and broader development.

In conclusion, while there is clear regulatory intent and recent operational modernization in Libya's Islamic finance sector, its development remains constrained by deep-rooted structural, regulatory, and societal challenges that have persisted since its inception.

3.6 Mauritania

Mauritania, one of the poorer countries in the Islamic world, has a population where the majority remains unbanked, not using either conventional or Islamic financial services. The sector's origins trace back to the establishment of the first Islamic bank, Banque Al-Baraka Mauritanienne Islamique, on September 21, 1985. Its start-up capital was provided by Al-Baraka Saudi Arabian shareholders (50%), Mauritania’s Central Bank (10%), and Mauritanian businessmen (40%; Wilson, 2011). The central bank and Al-Baraka later sold their shares to Mauritanian investors, leading to a name change in 2001 to Al-Wafa Mauritanian Islamic Bank, which faced several operational problems. The landscape expanded after 2011 with the establishment of three new Islamic banks: the People's Bank of Mauritania, Bank Al

Mouamalat As-Sahiha, and the Mauritanian Islamic Bank, alongside the New Bank of Mauritania. However, the sector has also seen instability, with the Mauritanian Islamic Bank bankrupting in 2015 and the New Bank of Mauritania facing persistent problems since 2019.

From late 2021 to the present, the sector has been characterized by a focus on regulatory strengthening and institutional cooperation, though concrete data on significant market share growth remains limited. The Central Bank of Mauritania has pursued amendments to its legal framework, signaling a commitment to modernizing the financial sector. These efforts are part of broader legislative enhancements, including a revised Investment Code and other anticipated legal reforms, which are expected to improve the overall investment climate and could indirectly benefit the Islamic finance landscape.

A significant indicator of future development is the cooperation agreement signed in April 2024 between the Islamic Development Bank Institute and the Central Bank of Mauritania. This partnership aims to foster capacity building and provide technical assistance for the further development of Islamic finance in the country.

Despite these regulatory and cooperative advancements, the industry continues to face profound challenges that have persisted since its inception. These include a lack of a robust legal and regulatory framework specifically tailored for Islamic finance, a critical shortage of qualified human resources, and deep-seated structural issues within the broader banking sector, such as a shallow local financial market and high non-performing loans. While most conventional banks in Mauritania offer Islamic windows, these persistent obstacles have hindered the sector's resilience, limited its market share, and prevented major structural breakthroughs.

3.7 Mauritius

The history of Islamic finance in Mauritius dates back to the 19th century, with records from 1871 indicating that Muslim merchants entered into profit-sharing partnerships with settlers, as documented in a study by Abdool Cader Kalla (Lallmahamood, 2016). In the modern era, the first attempts to introduce Islamic financial products occurred in the 1990s based on an Islamic trust model, though these initial efforts were unsuccessful. The sector gained a grassroots foundation in 1998 with the establishment of the Al-Barakah Cooperative Society Limited, an Islamic cooperative credit union that served the Muslim community (then 14% of the population) by offering *murabahah* financing, *hajj* savings accounts, and *istisna* products (Gelbard et al., 2014).

A significant regulatory turning point came in 2007 with amendments to the Banking Act of 2004, which formally allowed banks to provide Islamic banking services. This legislation mandated that each Islamic bank establish a Shariah advisory board or appoint a Shariah advisor, adhere to AAOIFI accounting standards, and pay *zakah*. Crucially, it removed legal impediments by lifting restrictions on purchasing and selling immovable property and eliminating double stamp duties on Islamic finance transactions. This framework was strengthened in 2009 by the Financial Act, which enlarged the scope of government securities to include sovereign *sukuk*. These enabling laws led to the licensing of the first full-fledged Islamic bank, Century Banking Corporation, in 2009 (commencing operations in 2011), and the launch of the first Islamic window by HSBC Bank Mauritius in April 2009.

From late 2021 to the present, the industry has been in a phase of regulatory consolidation rather than rapid expansion. The Bank of Mauritius has continued to solidify the framework, including through the adoption of international standards from the Islamic Financial Services Board (IFSB). While the government's 2020/21 budget reiterated plans to introduce *sukuk*, a sovereign issuance has yet to materialize. Structurally, the market has seen little change; one bank continues to operate as a full-fledged Islamic institution, while several conventional banks offer Shariah-compliant products through windows. No major new Islamic bank launches or significant mergers have been reported recently.

Despite the early regulatory initiatives and continued efforts, the sector has struggled to achieve widespread growth. Studies by Lallmahamood (2014) and Rassool (2018) identify persistent challenges, including a lack of Shariah-compliant liquidity instruments and inter-bank deposits, a shortage of qualified Shariah scholars and human resources, and insufficient education and training facilities. These factors, combined with the modest market share of Islamic finance, indicate that the sector continues to work towards realizing its full potential within the Mauritian economy.

3.8 Morocco

The development of Islamic finance in Morocco has been a protracted journey from early rejection to gradual integration and current growth. The first attempts to introduce Islamic finance date back to the 1980s, and in 1985, Wafa Bank began offering "alternative products." Subsequent initiatives, such as a 2003 proposal from Qatar International Islamic Bank (QIIB), were aborted due to legal incompatibility with the National Banking Law and political sensitivities, as Islamic banks were often perceived as being tied to Islamic political parties.

A tentative step forward came in 2007 when Bank Al-Maghrib authorized conventional banks to offer three Islamic products—*musharakah*, *ijarah*, and *murabaha*—mandating they be marketed as "alternative products." However, the sector remained stunted due to a confusing legislative process, restrictive marketing rules, and complex tax requirements. The landscape began to shift decisively with the passage of Law 103.12 in 2015, which provided a solid legal framework for "participative finance." This was followed by the licensing of Umnia Bank in 2017, the nation's first full-fledged Islamic bank, created as a joint venture between QIIB and CIH bank. A landmark milestone was reached in 2018 with Morocco's first sovereign sukuk issuance, valued at 1 billion Dirhams (approx. 90 million euros).

From late 2021 to the present, the sector has experienced significant development and steady growth. The participatory banking sector has shown remarkable dynamism, with assets growing by 52% between September 2020 and September 2021. Projections suggest it could eventually account for up to 5% of total banking assets. The sector's expansion was further bolstered by the launch of BTI Bank, a partnership between Al Baraka Banking Group and a Moroccan institution. Regulatory advancements have continued, including the introduction of crowdfunding regulations in 2021.

Most significantly, after a hiatus in sovereign issuance, Morocco is actively preparing for a second sovereign sukuk issuance in 2025, as confirmed by the Central Bank Governor, signaling a renewed government commitment to Islamic capital markets, pending final Shariah compliance approval.

Despite this positive trajectory, the sector continues to face challenges identified from its earliest days, including its relatively late start, a legacy of limited public awareness, and a need for more qualified human capital, as noted by Rhanoui and Khalid (2017). Nevertheless, the foundational legal framework and recent market momentum indicate a promising future for participative finance in Morocco.

3.9 Niger

Niger's Islamic finance sector is small and historically centered on a single institution, the Niger Islamic Trade and Investment Bank, established in 1997 with major shareholders including the Dar Al-Maal Al-Islami Trust and the Islamic Development Bank (IsDB). The bank underwent a recent restructuring that increased IsDB’s ownership share to 50.05%.

From late 2021 to the present, the landscape for Islamic finance in Niger has been shaped by its regional regulatory context and broader economic challenges. As a member of the West African Economic and Monetary Union (WAEMU), Niger's financial sector falls under the purview of the Central Bank of West African States (BCEAO), which has been working to implement harmonized banking regulations relevant to Islamic financial practices across the union. International support for the sector's development is ongoing, as evidenced by the IsDB Group and the Government of Niger launching a revamped Member Country Partnership Strategy in May 2023, which aims to bolster overall financial sector development.

However, comprehensive data on specific market share growth for Islamic finance, sovereign sukuk issuances, or major new Islamic bank launches within Niger during this period is not readily available. The sector's development is constrained by profound and persistent challenges. These include foundational issues such as widespread poverty, low access to financial services, low education levels, and a lack of public awareness of Islamic finance. These are compounded by macroeconomic and structural hurdles, including significant financing difficulties, liquidity pressures across the broader banking sector, and increased financial stability risks, all within a fragile political and security environment. These factors collectively hinder the potential for significant and rapid expansion of Islamic financial services in the country.

3.10 Nigeria

The development of Islamic finance in Nigeria has evolved from a niche offering to a significant and rapidly growing segment of the national financial system. The first institution to offer Islamic financial services was Muslim Bank in the 1960s, though its license was revoked in 1968. The country then had no dedicated Islamic financial institutions until the mid-1990s, when Habib Nigeria Bank and Ahmed Zakari Company began offering Shariah-compliant solutions. Habib Nigeria Bank, after receiving a full license in 1996, commenced operations in 1998 and later merged with Platinum Bank in 2004 to become Bank PHB.

A pivotal moment came in 2009 when the Central Bank of Nigeria (CBN) introduced a draft framework for regulating and supervising Non-Interest (Islamic) Banks. This framework established stringent licensing requirements, including a minimum capital deposit, and led to the creation of a Shariah council at the CBN. It also mandated that institutions could not use "Islamic" in their licensed names, leading to the term "Non-Interest Banking." This paved the way for the licensing of Jaiz Bank International in 2011, the nation's first full-fledged non-interest bank, which began operations in January 2012. The CBN further supported the sector in 2017 by introducing specific liquidity facilities for non-interest banks.

From late 2021 to the present, Nigeria's Islamic finance industry has experienced notable acceleration and maturation. The CBN has continued to refine the regulatory environment, introducing higher capital requirements for non-interest banks in March 2024 and approving new financial instruments. A key milestone was the approval of Nigeria's first non-interest commercial paper program by the FMDQ Securities Exchange. While no major new full-fledged Islamic banks have launched, existing leaders like Jaiz Bank and Taj Bank have pursued aggressive expansion and capital raising efforts.

The market has seen explosive growth, with deposits in Islamic banks increasing by 92.5% in 2023, and the overall industry reaching NGN 2.5 trillion in assets. The Federal Government has been a consistent player, using sovereign sukuk for infrastructure development, including a NGN 350 billion issuance, with plans for a dollar-denominated sukuk in the pipeline.

Despite this remarkable progress, the sector continues to face challenges that echo those identified in earlier studies like Abdullahi (2016). These include inadequate public knowledge, a scarcity of diverse Shariah-compliant investment opportunities, a shortage of trained manpower, and the ongoing need for regulatory refinements, all within a financial ecosystem still dominated by conventional banking. Nevertheless, the foundational framework, strong government support, and demonstrated market demand position Nigerian Islamic finance for continued significant growth.

3.11 Senegal

Senegal has been a pioneer in West African Islamic finance, with a history dating back to the incorporation of the Islamic Bank of Senegal on February 22, 1983, following a protocol between President Abdou Diouf and Prince Mohammed Faisal Al Saud. The bank was later acquired by Tamweel

Africa Holding in 2009. Senegal further solidified its leadership role by issuing its first sovereign sukuk in 2014, followed by a second issuance in 2016, both structured as *ijarah*.

The regulatory landscape has been shaped significantly by the regional central bank. As a member of the Central Bank of West African States (BCEAO)[1], Senegal's sector operates under its framework, which was enhanced by Instruction No. 002-03-2018 allowing conventional banks to offer Islamic products through dedicated windows. A major leap forward came in June 2023, with the WAEMU's adoption of a new uniform banking law that includes a dedicated framework to support Islamic finance.

From late 2021 to the present, Senegal's Islamic finance industry has built upon this foundation with significant diversification and continued market engagement. A key development was the launch of Taysir Finance in January 2022, Senegal's first exclusively Islamic microfinance institution, expanding the sector's reach. Demonstrating its sustained commitment to Islamic capital markets, Senegal returned to the sovereign sukuk market with a significant three-tranche, XOF 330 billion (USD 525.4 million) *Sukuk al-Ijarah* offering and has indicated plans for future issuances. While specific, up-to-date market share figures are not uniformly available, Islamic banking has historically captured a significant niche.

Despite this progress and pioneering history, the sector continues to face profound challenges. These include the lack of qualified human resources, a low rate of financial inclusion nationally, and difficulties in addressing the financial constraints faced by micro, small, and medium-sized enterprises (MSMEs). There is also a persistent need to attract more partners and mobilize resources to fully leverage Islamic finance within the framework of Senegal's economic vision.

3.12 South Africa

Although Muslims are a minority in South Africa, Islamic finance has established a significant and sophisticated presence in the country, making it one of the most developed markets in Africa for the industry. The sector's foundations were laid with the establishment of the first Islamic bank, Al-Baraka Bank, in 1989. The market expanded as conventional banks like First National Bank (2004) and Absa Bank (2005) launched Islamic windows, and a robust ecosystem of Shariah-compliant asset management companies emerged, constituting a substantial portion of the nation's registered funds.

A series of critical regulatory and tax reforms, beginning with amendments in 2010 and 2011, established tax neutrality for key Islamic finance instruments like *Mudaraba*, *Murabaha*, and Diminishing *Musharaka*. This demonstrated the National Treasury's early commitment to positioning South Africa as a hub for Islamic finance. A landmark milestone was reached in 2014 with the successful launch of a US$500 million sovereign sukuk, which marked the country's pioneering entry into the global Islamic capital markets.

From late 2021 to the present, the sector has demonstrated significant developments, solidifying its advanced position. The most pivotal recent event was the South African government's second sovereign sukuk issuance in November 2023—a ZAR 20.4 billion Sukuk al-Ijarah. This transaction was strategically important as it established a local Islamic fixed-income benchmark and is anticipated to spur further sukuk issuances by state-owned enterprises. The South African Reserve Bank has maintained a supportive stance, with ongoing engagement to refine regulations for Islamic banks. While no major new bank launches or mergers have been reported, existing players like Standard Bank's Shari'ah Banking have continued to be recognized for launching innovative, market-shaping Islamic products.

Despite this impressive progress, the industry continues to navigate several persistent challenges. These include a lack of public awareness, a dearth of specialized human capital, the absence of specific laws dedicated exclusively to Islamic finance, and the lack of a central Shariah governance framework.

[1] The Central Bank of West African States (BCEAO) is a central bank serving the eight west African countries which share the common West African CFA franc currency and comprise the West African Economic and Monetary Union (UEMOA).

Furthermore, the sector must continually adapt risk-sharing principles within a dominant conventional financial system. Nonetheless, with its strong foundational ecosystem, consistent government support via sovereign issuance, and a history of innovation, the outlook for South Africa's Islamic finance industry remains optimistic as it continues to hold the second-largest amount of Islamic finance assets in sub-Saharan Africa.

3.13 Sudan

The idea to Islamize the Sudanese financial system initiated when Omdurman University introduced the subject of having an Islamic economy as the primary method of business in 1966. At the time, such a system was not implemented because the idea faced too many obstacles and opponents.

However, the idea of Islamic banking was revived when Prince Mohammad Al-Fisal met with President Jaffar Numairi in February 1976 and requested that he establish an Islamic bank (he did, and it was called Faisal Islamic Bank of Sudan; Al-Sindi 2007). Later, in 1977, the bank was established as a public limited company by a special act of parliament, the Company Act of 1925 (Stianse 2004, p. 156). This act marked the first step in Islamizing all Sudanese banks. The rapid growth of Faisal Islamic Bank of Sudan indicates that it has had support from both the government and the public. The bank's equity increased by more than 350% from 1979 to 1982, and the bank's average growth rate was 70% in the same period, and this growth led to the bank having much more capital than the other commercial banks (Stianse 2004, p. 156).

The success of Faisal Islamic Bank of Sudan in this short period triggered the establishment of more Islamic banks. In mid-1983 three Islamic banks were established: Al-Tadamun Islamic Bank, Sudanese Islamic Bank, and Islamic Co-operative Development Bank (Al-Sindi 2007). One year later, Al-Baraka Bank and Islamic Bank of Western Sudan were established; the latter changed its name twice, first to Alghareb Islamic Bank and then to Export Development Bank on January 15, 2003 (Export Development Bank n.d; Al-Sindi 2007). Also, the Civil Administrative Act, which stipulated that no court in the country could enforce interest-based contracts, was in effect as of August 1983 (Stianse 2004, p. 155).

The first phase of the Islamization of Sudan's banking system took place from 1983 to 1985; interest was abolished in the country. The second phase occurred from 1985 to 1989; the government passed an act that allowed banks to offer Islamic and conventional products and this continued until the middle of 1989 when the new government issued some laws that led to the elimination of the dual-bank system. The third phase started in 1989. This phase marked the real implementation of Islamic banking in the country. The government issued several laws in the 1990's that made Islamic banking the only method of banking allowed in the country. These laws included provisions that established a *shariah* board within the Central Bank of Sudan and within each bank in the country. In addition, an Islamic deposit-insurance scheme was established in 1996. Currently, there are 34 banks operating in the country. (Al-Harbi 2015).

However, the Islamic banking system in Sudan has actually been a dual system (in 2005) because conventional banks have been allowed to operate in the southern part of the country. Currently, there are 34 banks operating in the country.

Southern Sudan became an autonomous region in 2005, and in 2011 the region became independent and was renamed the Republic of South Sudan.

Regarding *sukuk*, the country since 1998 has been issuing several types of investment certificates such as *Shahama*, *Shama*, *Srh*, *Shahab* and *Shamam* and were sold to the public. The international issuance of *sukuk* is trivial due to continuous sanctions.

3.14 Gambia

The Islamic finance industry in The Gambia has a foundational history centered on a single institution and has demonstrated continued, albeit modest, growth and traction from late 2021 to the present, positioning itself as a viable alternative within the national financial sector. The market's cornerstone is the Arab Gambian Islamic Bank, which was incorporated as a private limited liability company on November 11, 1994, and was granted a banking license by the Central Bank of The Gambia (CBG) on September 12 of the same year. The bank was licensed under the Financial Institutions Act of 1992, which was revised in 1993 specifically to permit its operations. In 2009, the bank was acquired by the Nigerian bank, FinBank. Alongside the banking sector, an Islamic insurance company (Takaful) was established in 2008.

A key indicator of sovereign-level commitment is the Central Bank of The Gambia's (CBG) consistent issuance of "Sukuk-Al-Salaam" instruments, a practice ongoing since 2008 as part of its liquidity management programs. This activity, exemplified by recent auctions such as one that raised GMD 165 million (approximately US$2.28 million), provides a foundational Shariah-compliant instrument for the market.

On the regulatory front, while a dedicated and comprehensive Islamic banking law is not yet in place, the CBG has introduced specific guidelines for the regulation and supervision of Islamic financial institutions. The existing legal framework stipulates that all banks must create a Shariah advisory board, though there is no central Shariah board at the CBG. Further modernizing efforts, such as updating the Payment Systems Act to better accommodate Islamic finance, are recognized as beneficial next steps.

Today, the market is served by leading institutions including Agib Bank (the former Arab Gambian Islamic Bank) and APS Islamic Microfinance Co. Ltd., a licensed Islamic microfinance institution. Despite this progress, the sector's expansion remains constrained by several key challenges that have persisted since its inception. These include a regulatory environment not yet fully tailored to Islamic banking, a shortage of human capital, limited public awareness, and the inherent limitations of The Gambia's small market size. Nevertheless, the industry maintains positive momentum, with Islamic banking identified as the primary driver of growth within the niche sector.

3.15 Tanzania

The Islamic finance industry in Tanzania has evolved significantly from its early beginnings to its current state of dynamic growth, particularly in the capital markets, while continuing to grapple with foundational regulatory challenges. The sector's origins trace back to early 2008 when Kenya Commercial Bank Tanzania launched Islamic banking products under the Amana brand. This was followed by other conventional banks, such as the National Bank of Commerce (a subsidiary of Absa), which introduced its offerings in 2010 and expanded to corporate accounts in 2011. A pivotal moment came in December 2011 with the establishment of Amana Bank, the nation's first full-fledged Islamic bank, alongside the launch of an Islamic window by the government-owned People's Bank of Zanzibar. This established a market structure that continues today, with several conventional banks operating Islamic windows, albeit often with a limited range of products.

A persistent and critical challenge has been the absence of a dedicated regulatory framework. While a law for Takaful (Islamic insurance) was approved in 2019, specific laws for Islamic banking have not been enacted, and taxation laws have not been amended to accommodate Islamic financial products, creating operational headwinds. Despite this, the Bank of Tanzania has signaled a willingness to develop the sector, collaborating with international bodies since January 2020 to establish a regulatory framework, and educational institutes have begun offering specialized courses.

From late 2021 to the present, the industry's most significant developments have occurred in the sukuk market, demonstrating its growth trajectory even within the challenging regulatory environment. This period was marked by a surge in corporate issuances, beginning with the first-ever sukuk by Imaan

Finance in 2021. This was followed by CRDB Bank's "Al Barakah Sukuk," the largest Sharia-compliant bond by a financial institution at its time, and KCB Bank Tanzania's public "Fursa Sukuk" in 2022. The Capital Market and Securities Authority (CMSA) has registered numerous sukuk issuances since 2021, indicating strong market traction.

Despite the impressive growth in banking and corporate sukuk, the sector continues to face significant challenges, including the scarcity of qualified Shariah scholars, difficulties in sourcing Sharia-compliant investments, and the overarching need for a tailored regulatory framework to ensure the industry's sustainable and long-term development.

3.16 Tunisia

Islamic banking has had a modest presence in Tunisia, mainly attributed to a political climate that opposes Islamic financial institutions. The first Islamic bank to open its doors in the country was Beit Ettamwil Saudi Tounsi Bank, which was established by Dallah Al-Baraka Group in 1983. Later, the bank renamed Al Baraka Bank Tunisia. Although the bank was able to easily obtain a license to operate, it experienced difficulties when it tried to begin operations. The Tunisian government owns 20% of the bank to keep close control of the bank’s operations. The bank was initially classified as an offshore bank, as defined in Banking Law 76-36 of July 12, 1976, which barred the bank from conducting business with Tunisians. The law was amended 2 years after the bank’s founding (Banking Law No. 85-51 of December 1985) to allow offshore banks to receive onshore deposits with a 1.5% total deposit ceiling (Parks 2004, pp. 248–249).

Subsequent developments included the opening of a regional office by the UAE-based Noor Islamic Bank in 2008 and the establishment of Tunisia's first full-fledged Islamic Bank, Zitouna Bank, which opened its doors on May 28, 2010. Other institutions, such as the Tunisian Solidarity Bank, the Bank of financing to small and medium enterprises, and the Arab Tunisian lease company, began offering Islamic products from 2013 onwards. Furthermore, Al-Baraka Bank transformed into an onshore full-fledged Islamic bank in January 2014, followed by the transformation of Wifack International Bank in November 2015. A new banking law introduced in 2016 was intended to help Islamic banks operate more efficiently, yet analyses concluded that Tunisia still needed to amend more laws and align its secular state law with Islamic principles to allow the industry to develop further.

From late 2021 to the present day, Tunisia's Islamic finance, banking, and sukuk industry has seen some notable developments against this backdrop of persistent challenges. A significant recent move is the Tunisian government's intention to issue its debut sovereign sukuk in 2025, as outlined in its Finance Bill, following earlier discussions about an issuance in 2021. While the Central Bank of Tunisia issued numerous notes and circulars in 2021, the broader regulatory and legal framework for Islamic banking continues to be described as underdeveloped and a key challenge for the sector. No major Islamic bank mergers or significant new launches were specifically identified within Tunisia during this period. Regarding market share, Islamic lenders held 5.1% of the market in Tunisia in 2021, indicating growth from previous low levels, though the sector is still considered "embryonic" and striving to expand its footprint. Key challenges impeding further growth include the impact of macroeconomic crises on Islamic banks, an evolving regulatory landscape, and the need for enhanced Islamic financial education to bolster the ecosystem and tap into a substantial, largely untapped market.

4. Trends of Islamic Banking in the Middle East and Turkey

4.1 Bahrain

The banking industry in Bahrain has deep roots, beginning in 1923 with the opening of a Standard Chartered Bank branch, followed by HSBC in 1945. The modern Islamic finance era was inaugurated in 1979 with the establishment of the Islamic Bank of Bahrain. While growth was initially slow—with only five Islamic investment banks and one offshore unit by 1994—the sector was significantly boosted by high oil prices and revenues, which spurred demand for Shariah-compliant products. This foundational period established a robust ecosystem, with 20 Islamic banks operating today and a comprehensive regulatory framework that has allowed the industry to operate efficiently. Bahrain's pioneering role was further cemented by its early and active participation in the Islamic capital markets; it issued its first sovereign *sukuk* based on *ijara* in 2001 and became the most active sukuk issuer in the Gulf region between 2001-2014, offering 94 international instruments valued at $6.8 billion (Erdoğan, Gedikli & Genç S 2018). Furthermore, the country solidified its status as a global standard-setter by hosting four key infrastructure institutions: the AAOIFI, the Islamic International Rating Agency, the International Islamic Financial Market, and the General Council for Islamic Banks and Financial Institutions.

Building on this strong historical foundation, Bahrain's Islamic finance sector has experienced significant developments since late 2021, actively working to solidify its position as a global leader, a status underscored by its current #1 global ranking in Islamic Finance Regulations. The Central Bank of Bahrain (CBB) has remained proactive, introducing initiatives like a draft netting law inclusive of Islamic finance. The period has also been defined by major market consolidation, most notably the landmark acquisition of Bahrain-based Ahli United Bank (AUB) by Kuwait Finance House (KFH) in late 2022—a deal valued at $11.6 billion—with KFH subsequently relaunching AUB under its new brand. Plans for further bank mergers are underway to foster larger entities capable of more active regional participation.

In the sukuk market, Bahrain has maintained a strong presence, returning to the international debt market in February 2024 with a dual-tranche issuance and executing a $1 billion commodity murabaha term financing, its first Shariah-compliant syndicated term. The Kingdom plans further sovereign bond and sukuk issuances of $2-3 billion in 2025, building on recent issuances like Bapco Energies' $1 billion sukuk, while the CBB regularly conducts oversubscribed Sukuk Al-Salam Islamic securities issuances. The industry projects substantial growth, with expectations to surpass $100 billion in assets within the next three to five years, and Islamic banks' financing growth is anticipated to outpace conventional banks, leading to market share gains. However, a key challenge has emerged as a decrease in Islamic banks' foreign assets, while conventional banks' increased, led to a reduction in the former's share of total industry assets, highlighting a dynamic landscape amidst overall expansion.

4.2 Egypt

The foundation of Islamic finance in Egypt was laid in 1963 by the late Ahmed Al-Najjar, who established a series of savings and investment houses in small rural towns in northern Egypt. The first branch was incorporated in Mit Ghamr, which inspired the company's name. This pioneering initiative grew to 53 branches serving 85,000 Muslim customers before the government liquidated and merged them with conventional banks in 1967, an action widely attributed to the state's political feud with Islamic groups at the time.

The Mit Ghamr houses operated by pooling savings from villagers and investing the funds according to *mudarabah* contracts in local projects, sharing the profits between the parties. The experiment's success forced the government to fill the void after its closure, leading to the incorporation of the Nasser Social Bank in 1971 via Banking Act 66. As a state-owned entity funded by the government, private companies, and *zakah*, the bank has since played a significant role in social development.

The second Islamic bank, Faisal Islamic Bank, opened its main branch in June 1979 and is often considered the first Islamic commercial bank in the country. Just prior to this, Banque Misr had registered an Islamic branch in January 1979, which opened in 1980 as the El Hussein Branch for Islamic Dealings. Its success led Banque Misr to convert 32 other branches to Islamic operations, overseen by a dedicated department under the supervision of the Al-Azhar Fatwa Committee and the Islamic Research Academy.

Following Banque Misr's lead, other banks like Suez Canal Bank and Al-Watani Bank began establishing Islamic branches.

Subsequent institutional developments included the establishment of the Islamic International Bank for Investment and Development in 1980, which later merged into United Bank in 2006. Another key player, Saudi Egyptian Finance Bank, began as the conventional Al-Ahram Bank in 1980, was taken over by Al-Barak Group in 1988, began its Islamization in 1984, and became a full-fledged Islamic bank in 1998. The formation of United Bank in 2006 from the merger of three banks also marked a significant consolidation, with the bank converting to a full-fledged Islamic institution. Notably, United Bank and Nasser Social Bank are state-owned, and the government holds shares in other Islamic banks. The broader banking industry is regulated by Banking Act 88 of 2003.

A significant step towards developing the capital markets was the passing of a sukuk law in 2013. This was followed in 2020 by the Financial Regulatory Authority's approval of the first sukuk issuance—an *ijarah*-based instrument worth EGP 2 billion ($127 million) by the Arab Company for Projects and Urban Development, a subsidiary of Talaat Mostafa Group. Historically, the main obstacle identified for the Islamic banking and finance (IBF) industry in Egypt was a pronounced lack of specific laws and regulations.

From late 2021 to the present, Egypt's Islamic finance industry has entered a new phase of significant development and growth, directly addressing previous regulatory gaps. Key regulatory advancements include the ratification of Sovereign Sukuk Law No. 138 of 2021 in August 2021, which clarified permissible issuance structures, supported by Executive Regulations No. 1574 of 2022. Additionally, Law No. 13 of 2022 introduced the concept of future cash flow securitization, broadening the financial instruments available.

This modernized regulatory framework has enabled landmark achievements in the sovereign sukuk market. Egypt issued its debut international sukuk in October 2022, raising $1.5 billion, and demonstrated sustained commitment with a second issuance of $1 billion in June 2025.

Concurrently, the Islamic banking sector has exhibited robust expansion. The total market size surged to EGP 1.079 trillion in March 2025, marking a 54% year-on-year increase, and grew further to EGP 1.303 trillion by June 2025. Sharia-compliant deposits also gained substantial traction, accounting for 7.4% of total banking sector deposits by March 2025. The sector continues to be anchored by established institutions such as Faisal Islamic Bank of Egypt, Al Baraka Bank Egypt, and Abu Dhabi Islamic Bank – Egypt, with no major new bank mergers or launches prominently reported in this period.

Despite this impressive progress, key challenges persist. The industry continues to grapple with administrative and legal complexities that affect the operational efficiency of Islamic financial institutions, even amidst a much more supportive regulatory environment.

4.3 Islamic Republic of Iran

The process of transition to Islamic banking in Iran had gone through three phases (Parveen et al., 2014). The period from 1979 to 1982 marked the first phase, when the banking system was nationalized, restructured, and reorganized. The second phase began in 1982 and lasted until 1986. The defining events in this period were the approval of the Usury-Free Banking Operation Law on September 1, 1983, and its implementation on March 21, 1984. The third phase began in 1986 and continues today. The Usury-Free Banking Law was enacted three years after the war with Iraq broke out.

The first *sukuk*, based on a *musharakah* scheme, were issued in 1994 by Tehran municipality to finance a construction project. A year later, the government and the central bank issued *sukuk* based on the same scheme (1995-2005). In 2005, the securities market act was enacted, allowing for the issuance of other types of *sukuk*. Since 2006, the Iranian government has developed laws and regulations to regulate *sukuk* issuance. However, the Iranian banking system started to deal with interest on January 15, 1992, and the banks began paying a fixed return termed “provisional profit” to create a safe and secure investment environment (Hossein, cited in Al-Harbi, 2020).

From late 2021 to the present, Iran's Islamic finance industry has been characterized by significant structural reforms and ongoing adaptation to a challenging economic climate. A major initiative involved the completion of mergers consolidating several military-affiliated banks, including Mehr Eghtesad Bank and Hekmat Iranian Bank, into Sepah Bank, an effort aimed at reducing the military's economic influence.

The sector continues to operate under the extensive rules of the Usury-Free Banking Law, which includes controls on rates of return and the allocation of subsidiced credit. In a strategic move to navigate international sanctions, the Central Bank of Iran authorized a "Centralized Integrated Messaging System (CIMS)" in late 2023, designed to facilitate foreign financial transactions outside traditional global payment systems.

In the capital markets, while Iranian corporates raised substantial funds through Special Purpose Vehicle (SPV) *sukuk* issuances in 2021, there are reports of government plans to re-enter the sovereign *sukuk* market to enhance liquidity and develop its domestic debt capital markets. However, specific large-scale sovereign issuances post-2021 have not been explicitly detailed. Despite these challenges, Iran remains one of the world's largest Islamic finance markets, with Islamic banking assets totaling US$1,039 billion in 2021.

The sector nonetheless faces persistent and profound challenges. These include systemic issues such as governmental influence, chronic undercapitalization, and liquidity shortages within the banking sector. Operational complexities related to certain Islamic contracts are compounded by the significant impact of international sanctions and currency depreciation, which necessitate the use of sophisticated financial mechanisms to conduct business.

4.4 Iraq

Islamic banking began in Iraq in the early 1990s when the Iraqi Islamic Bank for Investment and Development was licensed by the central bank on February 23, 1993. The sector expanded with the Central Bank of Iraq (CBI) approving the opening of Islamic windows in conventional banks in 2011, mandating that these be separate departments with their own Shariah advisory boards. Key institutional milestones included the establishment of Elaf Islamic Bank in 2001, the licensing of the National Islamic Bank and Kurdistan International Bank for Investment and Development in 2005, and the licensing of the first governmental Islamic bank, Alnahrain Islamic Bank, in 2012. By 2019, the landscape included 30 Islamic banks: one state-owned, 11 private, and 18 that were money exchange companies converted to Islamic banking since 2016.

A foundational obstacle has been the legal terminology of the Central Bank of Iraq, which historically did not differentiate between conventional and Islamic banks. A significant step was taken in late 2012 when a draft law for the Islamic financial industry was submitted for discussion, culminating in the issuance of the Islamic Banking Act No. 43 / 2015 (IBA). However, Salh (2017) argued that this law was incomplete, citing weaknesses such as a lack of clear licensing conditions and requirements. He also highlighted other obstacles, including a shortage of qualified human resources, improper Sharia supervision, and a limited customer base.

From late 2021 to the present day in 2025, Iraq's Islamic finance industry has demonstrated positive growth potential, building upon this foundation amidst ongoing structural reforms. The Central Bank of Iraq has been actively pursuing a broader strategy to modernize the financial sector, which includes objectives to strengthen the regulatory framework for all banks. These wider efforts have been supported by parliamentary amendments to the Central Bank of Iraq Law, aimed at enhancing its governance and operational independence.

The period has also been marked by institutional development and the entry of international players. A notable example is Abu Dhabi Islamic Bank (ADIB) expanding its digital footprint by launching the "ADIB Direct" platform in Iraq. While the CBI launched Riyada Bank to support SMEs and is establishing a "First Rafidain Bank" as part of a major banking overhaul, their explicit focus on

Islamic finance products remains unconfirmed. The market share of Islamic banking has continued its upward trend, with the 30 Islamic banks identified in 2019 solidifying their presence. However, specific sovereign sukuk issuances by the Iraqi government have not materialized during this period.

Key challenges persist, echoing earlier identified issues. These include persistent structural problems, low financial literacy, limited access to finance for Micro, Small, and Medium Enterprises (MSMEs), the ongoing need for more specific and refined regulations tailored to Islamic finance, and the fundamental hurdle of operating in a predominantly cash-based economy.

4.5 Jordan

The foundation for Islamic banking in Jordan was laid in May 1977 when the Jordanian Council of Ministers permitted its establishment. A blueprint for Banking Law 13, detailing the rules for Islamic banks, was approved in 1978 by the Jordanian Fatwa Agency, the Central Bank, and the Council of Ministries, becoming known as the Jordan Islamic Bank Law for Finance and Investment. The first Islamic bank, Jordan Islamic Bank, obtained its official registration on November 28, 1978, and began operations after receiving its license on March 26, 1979. The sector expanded with the launch of the second Islamic bank, the Islamic International Arab Bank—wholly owned by the conventional Arab Bank—on February 9, 1998. A significant conversion occurred when a consortium including Dubai Islamic Bank acquired a majority stake in the Industrial Development Bank in 2008, completing its transformation into an Islamic bank by 2010, initially named Jordan Dubai Islamic Bank and later renamed Safwa Islamic Bank, becoming the third Islamic bank in the country.

All Islamic banks in Jordan operate under the supervision of the Central Bank of Jordan and must adhere to Banking Law 28 of 2000, which mandates each institution to have a Shariah board and requires financial statements to comply with AAOIFI accounting standards. The legal framework for capital markets advanced in 2012 with laws enacted to regulate sukuk. This led to the country's first sovereign sukuk issuance in 2016, based on an *ijarah* scheme, followed the same year by a corporate *sukuk* from the National Electrical Company based on *murabaha*. Historically, a primary challenge identified for the industry was a perceived lack of specific laws and regulations.

From late 2021 to the present, Jordan's Islamic finance sector has built upon this foundation, experiencing notable growth and further regulatory refinement. The regulatory landscape has continued to evolve, with new frameworks emerging for FinTech and the Central Bank of Jordan providing enhanced tools for liquidity management specific to Islamic banks, with Shariah governance remaining a central pillar.

While no major industry mergers were highlighted in this period, institutional activity has been significant. Jordan Islamic Bank (JIB) has demonstrated strong leadership, launching an innovative strategic plan for 2025-2029 and being recognized as the best Islamic bank in Jordan for 2025. The broader banking landscape was also expanded with Arab Bank launching operations in Jordan in 2021.
The sovereign sukuk market has maintained its activity, with the Central Bank listing USD-denominated sukuk issues, including a Jordan Islamic Bond maturing in 2030. Sovereign and quasi-sovereign entities have continued to dominate new issuances, alongside a growing interest in Green Sukuk for sustainable financing.

This period has been marked by the rapid expansion of Islamic banking's market share, solidifying Jordan's position as a leading country in the global Islamic finance industry. Despite this robust growth, key challenges persist. These include addressing liquidity shortages that particularly affect micro, small, and medium-sized enterprises (MSMEs) and navigating broader economic vulnerabilities stemming from the volatile global environment.

4.6 Kuwait

Islamic banking in Kuwait began in 1977 with the establishment of Kuwait Finance House (KFH) as the first Islamic bank in the country. KFH has grown to become the second-largest bank in Kuwait, a success historically attributed to significant government support, including a 49% initial state share and certain regulatory exemptions in its early years. A formal regulatory framework was established in 2003 with the amendment of the Banking Act (Act 30/2003), which outlined the conditions for establishing new Islamic banks, creating Islamic banking units within conventional banks, and converting commercial banks to Islamic operations. This law mandated that conventional banks could practice Islamic banking through separately capitalized affiliates and required all Islamic banks to establish a Shariah board.

The sector expanded with the incorporation of the second Islamic bank, Boubyan Bank, in 2004. This period also saw a wave of conversions, with Kuwait Real Estate Bank transforming into Kuwait International Bank in 2007 and Ahli United Bank completing its conversion in 2010. Another entity, established in 2007 as Jaber Islamic Bank, underwent several name changes before emerging as Warba Bank, which began operations as an Islamic bank in late 2011. The capital market commenced with the first Islamic *sukuk* issued in 2005 by the Commercial Real Estate Company, paving the way for subsequent issuances by the government and private companies. Historically, the industry faced challenges related to high operating costs and an evolving regulatory landscape.

From late 2021 to the present day, Kuwait's Islamic finance industry has undergone a significant transformation, characterized by strategic consolidation, regulatory modernization, and robust growth. The Central Bank of Kuwait (CBK) has continued to advance its regulatory framework, introducing pivotal digital banking regulations to foster technological innovation and enhance the efficiency of Islamic financial services.

A landmark development was the acquisition of Bahrain-based Ahli United Bank (AUB) by Kuwait Finance House (KFH) in 2022, a deal valued at approximately $11.6 billion. This merger dramatically expanded KFH's global presence, cementing its status as one of the world's largest Islamic banks. KFH further demonstrated its market leadership through the launch and widespread adoption of its "KFH Digital" platform. In a parallel move, Boubyan Bank expanded its international footprint by acquiring the UK's Bank of London and The Middle East (BLME). The trend of consolidation continues to be a topic of market discussion, reflecting a strategic shift towards creating larger, more competitive entities. In the capital markets, corporate sukuk issuance has remained active, exemplified by KFH's successful US$1 billion 5-year Sukuk. While the Kuwaiti government has utilized sovereign issuances, the period from late 2021 saw a pronounced emphasis on corporate and financial institution sukuk to meet liquidity and capital requirements. The market is poised for sustained growth, with Kuwait remaining a dominant force in the GCC's Islamic banking sector, and KFH consistently ranking as one of Kuwait's most valuable publicly listed companies.

Despite this robust growth, the industry continues to navigate key contemporary challenges. These include managing the impact of global monetary policy and higher interest rates on financing costs, intense competition within the domestic banking sector, and the ongoing need for product innovation to deepen market penetration.

4.7 Lebanon

The formal regulation of Lebanon's Islamic banking sector began in 2004, building upon the earlier establishment of Al-Baraka Bank Lebanon in 1979 as the nation's first Islamic bank. Initially governed by the general Banking Law 520 of 1996, the sector operated without a tailored framework until the pivotal Banking Law 575 of 2004, which specifically addressed the establishment of Islamic banks. This law and subsequent circulars set stringent requirements, including a minimum capital of USD 100 million, the mandatory appointment of a Shariah board, and rules on fixed assets and profit-loss reserves

(Chammas, 2006). A significant restriction of this framework is that it prohibits conventional banks from opening Islamic windows.

This regulatory environment allowed for modest growth. By 2010, five Islamic banks were operating alongside Al-Baraka, including institutions like the Arab Finance House (formed from a merger), Lebanese Islamic Bank, Blom Development Bank, and Al Bilad Islamic Bank for Investment and Finance. Despite this, the sector remained a small niche. From its inception, the industry faced foundational challenges, including a legal framework still largely tailored for conventional banks, a lack of public awareness, perceived conflicts between civil and Shariah law, and limited product innovation, which collectively curbed its development and kept its market share minimal.

From late 2021 to the present day, Lebanon's Islamic finance, banking, and sukuk industry has been overwhelmingly overshadowed by the country's severe economic and financial crisis, described as one of the worst globally since the mid-19th century. This ongoing instability has completely halted the sector's growth and development.

The pre-existing challenges have been severely exacerbated. There have been no new Islamic finance regulations introduced, with the sector continuing to grapple with the limitations of the pre-crisis framework. The profound economic collapse has rendered the high capital requirements and operational rules of Law 575 largely theoretical, as the entire financial system is insolvent. Unsurprisingly, no major Islamic bank mergers or new launches have been reported, with Islamic banking's market share remaining negligible, not exceeding 1% of total banking assets. Furthermore, the Lebanese government, which has been in default on its sovereign debt since 2020, has not issued any sovereign sukuk, a direct consequence of its loss of access to international capital markets.

Consequently, the key challenges have intensified. The pervasive economic crisis has led to a catastrophic decline in access to financial services, constrained financial inflows to a trickle, and deterred all private investment. The persistent, pre-crisis need for comprehensive regulatory frameworks and product innovation now exists within a context of a failed state and a collapsed banking sector, leaving the future of Islamic finance in Lebanon entirely dependent on a broader national economic recovery that has yet to begin.

4.8 Oman

Until 2011, Oman was the only GCC country without Islamic banking services. This changed following a period of social protest, where one of the key demands was to allow Shariah-compliant finance. On May 3, 2011, Sultan Qaboos authorized conventional banks to offer Islamic products and approved the establishment of dedicated Islamic banks. This policy shift led the Central Bank of Oman (CBO) to license the nation's first full-fledged Islamic bank, Al Nizwa Bank, followed by Alizz Islamic Bank in 2013. Furthermore, six major conventional banks launched Islamic windows: Meethaq (Bank Muscat), Muzn (National Bank of Oman), Al Hilal (Al Ahli Bank), Maisarah (Bank Dhofar), Al Yusr (Oman Arab Bank), and Sohar Islamic (Bank Sohar). The CBO launched a Shariah governance framework in 2012, requiring full compliance by 2013, though analyses have noted room for improvement (Alnofli and Ali, 2019). A notable policy is the CBO's prohibition on the conversion of conventional banks into full-fledged Islamic banks.

The capital market developed with the first corporate sukuk issued by Meethaq in 2017, followed by the nation's inaugural sovereign sukuk in 2018. From its inception, studies identified inhibiting factors, including a lack of Shariah board standardization, intense competition from conventional banks, a shortage of specialized staff, regulatory gaps, and low public awareness (Salim and Al-Ani, 2015; Mubeen and Aslam, 2017).

From late 2021 to the present day, Oman's Islamic finance industry has experienced significant development, evolving from its foundational phase into a period of robust growth and regulatory maturation. The sector's market share has seen a notable increase, with Islamic banking assets—including those held by the dominant Islamic windows—projected to grow from 15% of the total banking market in

2021 to an anticipated 20%. The broader Islamic finance industry in Oman is expected to surpass $40 billion between late 2025 and 2026.

A major regulatory milestone was the enactment of the new Banking Law (Royal Decree 2/2025) on January 1, 2025. While not specific to Islamic finance, this comprehensive law introduced new capital requirements, updated licensing regulations, and enhanced consumer protection measures that significantly impact the operating environment for all financial institutions, including Islamic banks.

In terms of sovereign sukuk, Oman has continued to leverage Islamic capital markets actively. The government has announced plans to issue OMR 750 million (approximately US$1.94 billion) in bonds and sovereign sukuk in 2025, with a ninth local sovereign sukuk issuance expected in June 2025. While no major new standalone Islamic bank launches or mergers occurred in this period—the merger of Oman Arab Bank and Alizz Islamic Bank having been completed prior to late 2021—institutions like Dhofar Islamic have continued product innovation, introducing a specialized SME account in April 2024.

Despite this impressive progress, key challenges persist. The industry continues to navigate the complexities of a dual financial system, and fostering greater fintech acceptance remains a hurdle. However, the foundational issues of Shariah standardization and regulatory gaps are being actively addressed through the evolving legal framework, positioning the sector for sustained growth.

4.9 Palestine (Gaza Strip)

The establishment of Islamic banking in the Palestinian territories was marked by significant initial hurdles. In 1990, a group of Palestinian businessmen applied to the Israeli Authorities to found an Islamic bank in Ramallah, but the application was denied by the military governor (Jabr, 2003). The applicants later resubmitted their proposal without explicitly stating its Islamic nature, leading to its approval and the eventual establishment of Beit Elmal Al Philistini Bank, which was licensed on February 22, 1994. This pioneering institution led to the foundation of the Palestinian Islamic Bank in 1997. The sector expanded in the mid-1990s with the establishment of other key players, including the Islamic Arab Bank (founded by Bank of Jordan) and Cairo Amman Bank (opening an Islamic branch) in 1995, followed by Al-Aqsa Islamic Bank at the end of 1998. Conventional banks in the region are also permitted to offer Islamic financial services. Throughout its history, the industry has faced persistent challenges, including intense competition from conventional banks, a lack of investment opportunities, a shortage of qualified human capital, issues with Shariah harmonization, low public awareness, and a lack of product innovation.

From late 2021 to the present day, the Islamic finance, banking, and sukuk industry in the Gaza Strip has faced unprecedented devastation and a near-total collapse, overshadowing all previous challenges. Rather than experiencing growth or new developments, the sector has been catastrophically impacted by the ongoing conflict, particularly since late 2023.

The Gaza Strip is currently grappling with a severe liquidity crisis, and most banks and ATMs have been destroyed. Furthermore, blockades on the inflow of new currency have exacerbated the financial emergency, contributing to a wider humanitarian catastrophe. The conflict has inflicted immense damage on all economic activities, with the banking sector being completely incapacitated.

There is no evidence of new regulations specific to Islamic finance, major bank mergers or launches, or any sovereign sukuk issuances within this period. While global Islamic finance assets are projected to grow significantly by 2033, these trends are entirely disconnected from the reality in Gaza. The current focus for the region is not on financial market development but on discussions surrounding an "Arab-Islamic reconstruction plan" for after the cessation of hostilities.

The prevailing situation points to the near-total collapse of the financial sector. The primary challenge is no longer market growth or competition, but ensuring basic humanitarian survival and laying the groundwork for a future reconstruction of the entire economic and financial system from ruins.

4.10 Qatar

The foundations of Qatar's Islamic finance industry were laid with the establishment of the Islamic Exchange and Investment Corporation in 1979. The sector was solidified with the launch of Qatar Islamic Bank in 1982, followed by Qatar International Islamic Bank in 1990, Masraf Al Rayan in 2006, and Barwa Bank in 2009. The early success of these institutions led conventional banks to petition for entry, resulting in Banking Law 33 of 2006, which permitted Islamic windows. However, in a significant policy shift, the Qatar Central Bank (QCB) banned these windows in 2011, citing supervisory challenges. A major step towards standardization was taken in late 2019 when the QCB centralized the Shariah supervisory board for all Islamic banks and issued new Shariah standards. The market remains composed of four full-fledged Islamic banks, despite interest from conventional banks like Doha Bank to convert.

The sovereign sukuk market began with a US$700 million issuance in 2003 for the Hamad Medical City, followed by several others. Historically, studies identified key obstacles as a lack of regulations, low public awareness, and the need for *fatwa* harmonization (Alsayed, 2016).

From late 2021 to the present, Qatar's Islamic finance, banking, and sukuk industry has demonstrated significant growth and strategic development, directly addressing many of its earlier challenges. The QCB launched its Third Financial Sector Strategic Plan in 2023, aiming to position Qatar as a leading regional hub and implementing a new Prudential Regulatory Framework with specific capital adequacy standards for Islamic banks. This robust regulatory environment, supported by both the QCB and the Qatar Financial Centre (QFC), has been reinforced by the integration of forward-looking frameworks for digital assets and sukuk.

This strategic push has yielded substantial results. The market share experienced robust growth, with Islamic finance assets expanding at a compound annual growth rate (CAGR) of 6.4%, reaching a total of $187 billion. Notably, the Islamic fintech sector has seen a powerful surge, valued at US$2.7 billion and projected to hit US$4.4 billion by 2025. Sovereign sukuk issuances have been a key driver, with Qatari sukuk volumes surging from QAR 9.2 billion in 2020 to QAR 30.4 billion in 2024. In the first half of the current year, Qatar's sukuk issuances increased by 122% compared to the same period in 2023.

While no specific major Islamic bank mergers or new launches occurred in Qatar during this period, the sector's focus has been on deepening its market penetration and technological innovation. Key challenges have evolved to include managing funding costs in a higher interest rate environment and navigating ongoing global economic uncertainty, reflecting the sector's maturation and integration into the global financial system.

4.11 Saudi Arabia

The Saudi financial system has deep Islamic roots, yet its increasing complexity and integration with global banking have required a careful balance to maintain its Shariah character. The sector has historically enjoyed strong government and public support, exemplified by the establishment of the Islamic Development Bank (IDB) in 1975. Early pioneers like the Islamic Investment Company operated with quasi-legal status, and the consolidation of major money changers led to the creation of new Islamic banks like Al-Bilad Bank in 2004. A pivotal regulatory feature is that all banks in Saudi Arabia are required to operate according to Shariah principles, and the Saudi Central Bank (SAMA) prohibits the use of "Islamic" in bank names to reinforce this universal standard. The market evolved significantly with the full conversion of major institutions like National Commercial Bank (2009) and Al-Jazira Bank (2005). Today, the market is dominated by five full-fledged Islamic banks—Al-Rajhi Bank, Al-Bilad Bank, Alinma Bank, Al-Jazira Bank, and the Saudi National Bank (converted from NCB)—alongside Islamic windows in conventional banks. The capital market was firmly established with the first corporate sukuk in 2004, followed by active government and corporate issuances. Historically, the main hindrance identified for the industry has been the lack of unified *fatwa*.

From late 2021 to the present day in 2025, Saudi Arabia's Islamic finance industry has experienced significant developments, underpinned by its position as the dominant force in the global Islamic finance market. SAMA has consistently strengthened the overarching banking regulatory frameworks and enhanced Sharia governance, providing a robust foundation for the entire sector, including Islamic banks.

The market's scale is immense; Saudi Arabia held 24.6% of global Islamic banking assets in 2021, and its market share is projected to grow further. Islamic bank financing is expected to outpace conventional bank credit growth in 2025, reinforcing the Kingdom's strategic goal under Vision 2030 to increase its share of the global Islamic finance market. While there have been no major new traditional bank launches beyond the digital banks approved in 2021, the landmark creation of the Saudi National Bank (SNB) from the merger of NCB and Samba Financial Group in 2021 continues to shape the banking landscape.

Sovereign sukuk issuances remain a cornerstone of the Kingdom's financial strategy. The National Debt Management Centre (NDMC) maintains a proactive schedule, regularly issuing SAR-denominated domestic sukuk, including a four-tranche transaction in February 2025 and another issuance planned for September 2025.

Despite this robust growth and a favorable operating environment, key challenges persist. The broader industry continues to grapple with a lack of uniformity in Shariah rulings across different jurisdictions, and "persisting issues" related to product standardization and liquidity management remain a focus within the sophisticated Saudi Islamic banking market itself.

4.12 Syria

The Syrian banking system was exclusively state-controlled until April 2001, when Banking Law 28 legalized private banking. A significant milestone was reached in 2005 with Banking Law 35, which specifically authorized the operation of Islamic banks. This law established a distinct regulatory framework, initially setting the minimum capital for Islamic banks at $100 million—significantly higher than the $30 million required for conventional banks—though this was later raised to at least $300 million by Law No. 3/2010. A key feature of this framework is the prohibition of Islamic windows within conventional banks, although conventional banks can contribute up to 20% of the start-up capital for a new Islamic bank. The legislation also mandates that each Islamic bank must have a Shariah board composed of three members.

Syria's Islamic banking industry emerged in the mid-2000s. The first Islamic bank, Cham Bank, was established in September 2006 with partial ownership by Kuwait's Investment Dar. It was followed by the Syria International Islamic Bank (partly owned by Qatar International Islamic Bank) a year later, and Al-Baraka Bank Syria, which began operations in 2010. From their inception, these institutions faced foundational challenges, including a lack of public awareness of Islamic commercial jurisprudence (*Fiqh al-Mu'amalat*), a shortage of qualified human resources, an underdeveloped regulatory environment, and intense competition from mainstream banks.

From late 2021 to the present, Syria's Islamic finance sector has been overwhelmingly defined by the country's profound economic collapse, international sanctions, and a decimated financial system. Any potential for development has been severely constrained, and reports of progress are difficult to verify independently.

While there have been persistent discussions and theoretical government intentions to utilize Islamic finance instruments like sovereign sukuk to address the state's fiscal crisis—especially following failed traditional treasury auctions—no major, verifiable sovereign sukuk issuance has materialized. Similarly, while the central bank has expressed a need to review banking laws, tangible legislative advancements or the successful launch of new Islamic financial institutions have not been widely documented. The long-standing challenges of a large financial sector deficit, mounting public debt, and a lack of qualified human resources have intensified.

The most significant factors impacting the industry remain the crippling international sanctions, a severe liquidity crisis, and the overarching need for a comprehensive restructuring of the entire banking sector. Consequently, the key challenge for Islamic finance in Syria is no longer competition or market share growth, but basic operational survival within a failed financial system. Any future potential for the sector is entirely contingent upon a broader political and economic resolution to the country's crisis.

4.13 Turkey

Muslims form the majority of the population in Turkey, a country that has witnessed significant growth in its Islamic finance sector, known locally as participation banking. Despite the state's secular foundation, a shift towards a market-oriented economy since 1980 created an environment where Islamic finance could develop. The sector was formally authorized in 1983 via Decree 83/7506 to attract capital from the Middle East, with the first participation banks, then called special finance houses, opening in 1985. The legal framework was progressively strengthened by Banking Law 5411 in 2005, which formally recognized profit-and-loss participation accounts, and subsequent regulations between 2010 and 2013 that enabled sukuk issuance and standardized key Islamic contracts.

The sector's history includes resilience during the 2001 financial crisis, consolidation through mergers and closures (notably the shutdown of Bank Asya in 2016), and a pivotal expansion with the entry of state-owned banks Ziraat Katılım and Vakıf Katılım in 2015 and 2016, respectively. The market share grew slowly from 1985, reaching about 5.5% by 2013, with analysts like Moody's projecting strong future growth based on government support. However, foundational challenges identified in studies include a lack of public awareness, the legacy of secularism, a shortage of Islamic finance education, and capital constraints.

From late 2021 to the present, Turkey's participation banking industry has been characterized by a concerted strategic push for growth and diversification, directly addressing some of its historical hurdles while navigating ongoing challenges. The central guiding policy has been the Turkish Participation Banking Strategy Document (2022–2025), which set an ambitious target to increase the sector's market share to 15% by 2025. The sector has demonstrated steady progress towards this goal, with its market share rising from approximately 8.7% in 2020 to over 9.5% by 2024.

A key component of the national strategy has been the active utilization of sovereign sukuk to diversify funding sources and attract international Islamic investors. This commitment is evidenced by significant issuances, including a $2.5 billion sukuk in October 2022. While the landscape of the six participation banks has remained stable with no major new launches or mergers reported in this specific period, regulatory development continues to be a focus under the national strategy.

Despite this progress, a persistent and fundamental challenge remains the absence of a dedicated Islamic banking law, with participation banks still operating under the conventional Banking Law 5411, necessitating continual amendments. Looking to the future, the Central Bank of the Republic of Türkiye's exploration of a Digital Turkish Lira (CBDC) represents a potential transformative development that could shape the digital landscape of participation finance in the years to come.

4.14 United Arab Emirates

The UAE holds a pioneering role in global Islamic finance, with the establishment of Dubai Islamic Bank in 1975, widely considered the world's first modern Islamic commercial bank. The sector's foundational legal framework was established by Federal Law 6 of 1985, which authorized Islamic financial institutions to engage in a full range of banking and commercial activities, mandated their clear identification as Shariah-compliant entities, and established a federal Higher Shari'ah Authority with binding oversight. This law also stipulated that Islamic banks were subject to the same core regulations as conventional banks.

The sector expanded significantly with the founding of Abu Dhabi Islamic Bank in 1997, followed by a wave of conversions of conventional banks, including National Bank of Sharjah (becoming Sharjah Islamic Bank) in 2002 and Middle East Bank (becoming Emirates Islamic Bank) in 2004. The landscape was further refined with the introduction of the new Central Bank Law (Law No. 14) in 2018, which revoked previous legislation and consolidated regulatory power. A notable policy from the central bank has been the cessation of new licenses for conventional banks to operate Islamic windows, limiting existing windows to offering a specified number of products. The UAE's Islamic capital market, launched in the early 2000s, has grown to make the country one of the world's largest sukuk issuers.

From late 2021 to the present day, the UAE's Islamic finance industry has been characterized by significant regulatory maturation, robust sovereign sukuk activity, and sustained market growth. The Central Bank of the UAE (CBUAE) has continued to strengthen the regulatory architecture, with a key focus on enhancing Sharia governance. A major initiative is the full implementation of the Sharia Compliance Function (SCF) standards, requiring institutions to meet these enhanced requirements.

The sovereign sukuk market has been a standout feature of this period. The UAE government launched a benchmark local currency treasury bond and sukuk program in May 2022, building on foreign currency issuances from 2021. This program has continued with regular and heavily oversubscribed Treasury T-Sukuk auctions through 2024 and into 2025, demonstrating strong investor confidence and providing a deep pool of local currency liquidity for Islamic banks.

This supportive environment has underpinned consistent growth in the sector's market share. The Islamic banking industry has solidified its position, with the total value of Islamic financial assets consistently reported to exceed one trillion UAE dirhams, maintaining its significant contribution to the national banking sector. It is important to note that, contrary to some market speculation, no major mergers between large Islamic banks—such as a full merger of Emirates Islamic Bank with its parent, Emirates NBD—have been announced or taken place during this period.

Looking ahead, key challenges for the industry include navigating the evolving global financial landscape, deepening the integration of ESG (Environmental, Social, and Governance) principles with Islamic finance, and addressing ongoing legal and operational nuances, such as the standardization and enforceability of certain Shariah-compliant contractual terms.

4.15 Yemen

The foundation for Islamic banking in Yemen was laid in the 1980s, though its formal recognition in a 1987 bill initially created an obstacle by allowing only one bank and prohibiting the use of "Islamic" in its name. This restrictive environment changed with Banking Law 21 of 1996, which properly authorized and regulated Islamic banks. The sector grew with the licensing of pioneering institutions: Tadhamon International Islamic Bank in 1995, followed by the Islamic Bank of Yemen for Finance and Investment, Saba Islamic Bank, and Shamil Bank of Yemen and Bahrain. The regulatory framework evolved with Banking Law 16 of 2009, which initially banned Islamic windows before a later amendment allowed them, and set high capital requirements. Historically, the sector showed promise, with growth partly attributed to public demand and difficulties in the conventional banking sector, such as the bankruptcy of United Bank in 2005. However, even in its early stages, the sector was not immune to the country's underlying economic challenges.

Since late 2021, Yemen's Islamic finance, banking, and sukuk industry has been overwhelmingly defined by the catastrophic impact of the ongoing civil war and the nation's deeply fragmented governance. The previously noted "challenges" have escalated into a full-blown systemic collapse.

While the formal banking sector in government-controlled areas has seen a numerical increase—with the entry of 11 new banks, including Islamic institutions, since 2021, leading to a 60% expansion in the number of banks—this growth is deceptive. These new entrants are operating within a crippled financial system. Specific major Islamic bank mergers or large-scale, well-capitalized launches beyond this general numerical growth have not been prominent.

Instead, the landscape is marked by extreme regulatory instability and political interference. A prime example is the action taken by the Houthi-affiliated Central Bank of Yemen in Sana'a, which ordered financial institutions to cease transactions with Al-Kuraimi Islamic Microfinance Bank, a notable player in digital banking. This highlights the severe operational risks and the lack of a unified regulatory authority. Unsurprisingly, there is no evidence of sovereign sukuk issuances during this period, as the state lacks the stability and creditworthiness for such instruments.

Consequently, the overall financial sector, including both Islamic and conventional banks, has been critically weakened. This institutional fragility contributes significantly to rampant black market activity and extreme exchange rate destabilization. Therefore, any discussion of market share growth for Islamic banking is entirely overshadowed by the pervasive, existential challenges of conflict, a divided central banking system, and the overarching imperative for national economic recovery and humanitarian relief. The sector's primary challenge is no longer competition, but survival amidst a failed state.

Conclusion

There is no doubt that the Islamic Banking and Finance (IBF) industry is a significant and booming segment of the global financial system, with a presence not just in Muslim-majority nations but also in non-Muslim countries where it serves as a form of ethical finance. However, as the industry matures and expands into 2025, it faces both longstanding and emerging challenges that will shape its future trajectory:

1. Shariah Harmonization: The differing interpretations of Shariah by various schools of thought remain a fundamental barrier to creating standardized, easily scalable cross-border products. While international standard-setting bodies like AAOIFI and the IFSB have made progress, greater adoption and harmonization are needed to foster a truly seamless global market.
2. Restrictive or Incomplete Regulation: In many jurisdictions, Islamic banks still operate under a regulatory framework designed for conventional finance. This can stifle innovation, create competitive disadvantages, and lead to operational complexities. The development of tailored, comprehensive legal frameworks is crucial for the industry to flourish.
3. Lack of Skilled Human Capital: The talent gap remains one of the most critical issues facing the industry. There is an urgent need to establish more specialized educational programs, university degrees, and research institutes dedicated to producing a new generation of professionals skilled in both modern finance and Shariah.
4. Digital Transformation and Fintech: The IBF industry has generally been slower than its conventional counterpart to embrace digitalization and financial technology. There is a pressing need to innovate in areas like Islamic crowdfunding, blockchain-based sukuk, and AI-driven wealth management to attract younger, tech-savvy customers and improve efficiency.
5. Sustainability and ESG Alignment: While IBF principles are naturally aligned with ethical and social goals, the industry has not fully capitalized on the global surge in ESG (Environmental, Social, and Governance) and sustainable investing. There is a significant opportunity to develop and market green sukuk and other products that explicitly target socially responsible outcomes, thereby broadening the industry's appeal.
6. Public Awareness and Marketing: A persistent challenge is the lack of understanding among the general public—both Muslim and non-Muslim—about how Islamic finance works and what makes it different from conventional banking. More effective marketing and educational campaigns are needed to demystify the concepts and broaden the industry's customer base. Addressing these challenges will be paramount for the IBF industry to not only continue its impressive growth but also to fulfill its foundational promise of creating a more equitable and ethical financial system for societies worldwide.

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