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Social Sciences University of Ankara

Institute for Islamic Studies

ISLAMIC BANKING IN UGANDA: PROSPECTIVE BENEFITS, CHALLENGES AND LESSONS LEARNED FROM THE MALAYSIAN EXPERIENCE

Master Thesis

Ismael Muzamiru Nandala

Islamic Economics and Finance Department

March 2025

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ABSTRACT:

Islamic banking (IB) is gaining popularity in Uganda, fueled by its feasibility, legal framework, and challenges. In this research, the determinants of Ugandans' intention to use IB are investigated: religiosity, attitude, and subjective norms. This study gives an account of the regulatory framework of Islamic finance in Malaysia by exploring its evolutionary history, which will be of use to IB in Uganda. It explores the potential solutions toward achieving Shariah compliance, increasing consumer satisfaction, and enhancing financial literacy. This study compares IB in East Africa, briefly focusing on Tanzania, Rwanda, Kenya, and Uganda, highlighting the region's regulatory dynamics and prospects for growth. The qualitative inquiry revealed that adopting IB in Uganda will increase financial service alternatives and economic inclusion. It found that numerous challenges await its adoption, like limited Shariah compliance and minimal Shariah training for staff and corruption, etc. On the lighter side for Uganda, it can emulate offering tax incentives embracing service quality, and customer satisfaction, among others, from the Malaysian experience. On a positive note, Uganda can learn from Malaysia by adopting Malaysian practices such as providing tax incentives and customer satisfaction, and service quality. The focus was on the past lessons from the Malaysian experience and how they could be used to advance IB, particularly in Uganda. The recommended solutions include service delivery, SME financing, tax relief, and public education campaigns. The lessons and challenges learned in Malaysia to enhance IB and finance in Uganda are presented in the report.

Keywords: *IB, Shariah laws, Integration, Malaysia, Uganda.*

ÖZET:

İslami bankacılık (IB), fizibilitesi, yasal çerçevesi ve zorluklarıyla Uganda'da popülerlik kazanıyor. Bu araştırmada, Ugandalıların IB kullanma niyetinin belirleyicileri araştırılmıştır: dindarlık, tutum ve öznel normlar. Bu çalışma, Malezya'daki İslami finansın düzenleyici çerçevesini, Uganda'daki IB'nin işine yarayacak olan evrimsel tarihini keşfederek açıklamaktadır. Şeriat uyumluluğunu sağlamaya, tüketici memnuniyetini artırmaya ve finansal okuryazarlığı geliştirmeye yönelik potansiyel çözümleri araştırıyor. Bu çalışma, Tanzanya, Ruanda, Kenya ve Uganda'ya odaklanarak Doğu Afrika'daki IB'yi karşılaştırmakta ve bölgenin düzenleyici dinamiklerini ve büyüme beklentilerini vurgulamaktadır. Nitel araştırma, Uganda'da IB'nin benimsenmesinin finansal hizmet alternatiflerini ve ekonomik katılımı artıracağını ortaya koydu. Sınırlı Şeriat uyumu ve personel ve yolsuzluk için asgari Şeriat eğitimi gibi çok sayıda zorluğun benimsenmesini beklediğini tespit etti. Uganda için daha hafif tarafta, Malezya deneyiminden diğerlerinin yanı sıra hizmet kalitesini ve müşteri memnuniyetini kucaklayan vergi teşvikleri sunmayı taklit edebilir. Olumlu bir kayda göre, Uganda, vergi teşvikleri ve müşteri memnuniyeti ve hizmet kalitesi gibi Malezya uygulamalarını benimseyerek Malezya'dan öğrenebilir. Odak noktası, Malezya deneyiminden alınan geçmiş dersler ve bunların özellikle Uganda'da IB'yi ilerletmek için nasıl kullanılabileceğiydi. Önerilen çözümler arasında hizmet sunumu, KOBİ finansmanı, vergi indirimi ve halk eğitimi kampanyaları yer alıyor. Uganda'da IB ve finansı geliştirmek için Malezya'da öğrenilen dersler ve zorluklar raporda sunulmaktadır.

Anahtar Kelimeler: *İslami Bankacılık, Şeriat hukuku, entegrasyon, Malezya, Uganda.*

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LIST OF ABBREVIATIONS:

MFIs	Microfinance Institutions
SMEs	Small and Medium Enterprises
IDB	Islamic Development Bank
BOFIA	Bank and Other Financial Institutions
IB	Islamic Banking
BoU	Bank of Uganda
MDIs	Microfinance Deposit-taking Institutions
SDGs	Sustainable Development Goals
IBS	Islamic Banking Scheme
MIMB	Bank Islam Malaysia Berhad
NSAC	National Shariah Advisory Council
CSR	Corporate Social Responsibility
DEA	Data Envelopment Analysis
OIC	Organization of Islamic Countries
Fin-Tech	Financial Technology

CHAPTER ONE:

1.0 INTRODUCTION:

1.0.1 Historical Background of Islamic Banking:

Islamic banking's historical roots can be traced to premodern Islamic nations' financial systems, where social welfare and fairness were fundamental to business operations (Raja et al., 2020). However, the aim to establish a banking structure distinct from conventional banking fostered the development of contemporary Islamic banking practices in the 20th century (Nugraheni & Widyani, 2020). The first modern Islamic banks were established in the 1970s to create institutions that were strategically and operationally in line with Sharia law (Bayu, 2023). The growing interest in Sharia-compliant financial products around the world highlights the potential for expansion in Islamic banking. There are over 1,500 Islamic financial institutions (IFIs) in operation worldwide as of 2023. These organizations are dispersed throughout 80 nations, with notable concentrations in Africa, Southeast Asia, and the Middle East. Still in 2023, the expected total assets of the worldwide Islamic financial sector were USD 3.25 trillion. The strong expansion of the sector is shown in this substantial increase from USD 2.88 trillion in 2022. Islamic financial institutions have grown significantly and established themselves as a competitive alternative to traditional banking systems growing at an average annual rate of 10-12% over the past decade (*Source*: Ernst & Young (EY) Islamic Banking Outlook, 2023; Islamic Financial Services Board (IFSB) Annual Report, 2023, Thomson Reuters Islamic Finance Development Report, 2023).

Public awareness and stakeholder education are essential for increasing the allure of Islamic banking, especially in areas with sizable Muslim populations (Ali et al., 2021). This upward trend indicates that IB has the potential to expand globally further since Islamic financial institutions are deemed more trustworthy and effective compared to conventional banking institutions (Fahamsyah, 2023). The willingness of IBs to take on risk has enabled them to grow rapidly, particularly since the 2008 global financial crisis (Jusupova et al., 2018). Per capita income, the share of Muslims in the population, and economic ties with nations in the Middle East have been some of the forces that have driven the rapid growth of IB over the years (Imam and Kpodar, 2013). Religious devotion, especially in countries like Indonesia, has fueled demand for Islamic financial services, products, and services that have impacted the growth of IB (Setia et al., 2022). Islamic finance is on the rise worldwide.

The conceptual framework of Islamic banking started its formal introduction in the 1970s. The first modern Islamic financial institution, Dubai Islamic Bank, was established in 1975 in the United Arab Emirates (Iqbal and Molyneux, 2005). This marked the beginning of a more structured approach regarding Islamic banking. The Islamic Development Bank (IDB) was established in 1975 to promote Islamic banking principles and practices (Warde, 2000). Establishing the IDB marked an important milestone in creating a systematic framework for Islamic banking. During the 1980s, there was an increased formalization of Islamic banking practices. In 1985, the Organization of Islamic Cooperation (OIC) officially endorsed the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), intending to develop accounting, auditing, and Sharia standards relevant to Islamic financial institutions (Greuning and Iqbal, 2008).

Another milestone was achieved in 2002 when the Islamic Financial Services Board (IFSB) was established on 3rd November in Kuala Lumpur, Malaysia. The Islamic Financial Services Board has played a vital role in establishing regulatory and supervisory standards for Islamic financial institutions at the international level (Iqbal and Mirakhor, 2011). It is important to note that while these events mark significant steps in the formalization of Islamic banking, the development of an overall framework has been an ongoing process, continuously being modified to face the challenges and opportunities posed by the global financial system. The fundamental tenets of IB are based on the Quran, Sunnah, legal traditions, ethical considerations, historical contexts, and many other Islamic texts (Öner, 2023). These tenets guide the activities of IBs and make them quite different from conventional Western banking (Joseph and Mahalakshmi, 2021).

The global expansion of Islamic banking institutions is observed in both conventional Islamic locations and locations with no Islamic presence. Most strikingly, Middle Eastern and North African (MENA) nations, including Saudi Arabia, the United Arab Emirates, Kuwait, and Bahrain, hold the greatest market share in this industry; however, its reach has expanded to other locations, such as Southeast Asia, notably Indonesia and Malaysia, and some parts of Africa (Suzuki et al., 2020). The two banking systems in countries like the UAE are the best examples of this phenomenon, where traditional and Islamic banking exist side by side, resulting in a significant surge in traditional banks opening Islamic windows to offer Sharia-compliant products (Kaakeh et al., 2019). Recent trends have seen that the exponential expansion of Islamic banking institutions has coincided with a worldwide movement toward more socially responsible and ethical banking procedures. This is underscored by the growing usage of Islamic financial services in non-Muslim markets as a result of discontent with conventional financial systems and the pursuit of more ethical banking practices (Saiti et al., 2019; Puteri et al., 2022). The introduction of new financial instruments that are Shariah-compliant also indicates an expanding consumer base that is aware of the advantages of these services (Febriyanti et al., 2023).

The resilience of Islamic banks during periods of global financial crisis also contributes to their popularity as a sustainable alternative in an increasingly integrated world economy (Zulkhibri, 2018). The ongoing growth of the Islamic finance market demands diversification and innovation in products to maximize market share amid competitive global banking (Jawaid et al., 2024). Islamic banking has shown positive impacts on economic stability in several countries, particularly in Muslim-majority nations. According to a study using data from major Muslim countries, Islamic banks' assets, financing, and Islamic bonds (Sukuk) are significantly correlated with real GDP in the long run (Naz & Gulzar, 2020).

This suggests that Islamic finance contributes to economic growth and stability in these regions. In terms of specific countries, research covering nine Islamic countries with the highest levels of Islamic finance activity from 2013 to 2021 revealed that Islamic Financial Asset Volume (IFAV) exhibits convergence, indicating a stabilizing effect on these economies (Hassan et al., 2023).

1.0.2 Conceptual Background of Islamic Banking:

IB is a financial system that conforms to the norms set by Shariah and Islamic jurisprudence. Unlike traditional banking, IB is more based on profit or loss sharing, avoids uncertainty, forbids sinful or unethical investment, and prohibits payment or receipt of interest in financial transactions (Abdulrahim, 2018). The major differentiator for IBs from non-Islamic ones lies in offering Shariah-compliant goods and services (Kartika et al. 2019). These values, therefore, underpin IBs' operations and originate in Islamic teaching (Ramadhani, 2024). In particular, IB gives preeminence to capital-based financing through Mudharabah over debt-based products like Murabahah, focusing on investments in the real sector (Mahmudah and Djamhuri, 2020). Basic prohibitions on interest, investment methods based on moral guidelines, and profit-sharing agreements are part of the fundamentals of IB (Kusumawardani and Iftitah, 2022).

Islamic financial institutions must comply strictly by aligning all their operations according to Shariah tenets (Raja et al., 2020). In general, aligning any financial activity with Islamic values and tenets has fueled the expansion of IB (Azhar et al., 2022). As the basis of IB, Shariah law, therefore, forbids, among others, usury, uncertainty, speculation, gambling, and unethical investments (Abdulrahim, 2018). One of the major characteristics that differentiate Islamic financial institutions from conventional banks is their adherence to the requirement of Shariah compliance, which is also considered a prime driver behind the development of these institutions (Azhar et al., 2022).

Finally, IB is a banking system under Islamic law or Shariah that prohibits interest-based transactions while considering ethical investment and applying profit-sharing contracts. Islamic tenets and values play a crucial role in the functioning of IB institutions, distinguishing them from conventional financial systems. The essential goal of Islam is to free humans from all types of both material and ideological bondage, and at the same time, it has advocated social justice. In the economic world, especially in finance, Islam has also paid much attention to different factors that restrict freedom of action and lead to both material and intellectual subjugation (Behechti & Bahonar, 1990). In this regard, the Quran has formulated rules, one of which has been deemed as one of the visions of the Quran and has become the main thrust of Islamic economics and finance, i.e., the prohibition of riba. *O you who believe! Be careful of (your duty to) Allah and relinquish what remains (due) from usury if you are believers.* ***[2.279]*** *But if you do it) not, then be apprised of war from Allah and His Apostle*

1.0.3 Ugandan Experience in Islamic Finance:

The banking sector in Uganda has witnessed immense change in recent times through regulatory and technological advancements. There are both conventional and Islamic financial institutions in Uganda's banking market as of right now. Notably, Uganda has 25 licensed commercial banks in total, representing a range of financial institution types from smaller regional firms to global banks (Mindila et al., 2023). The conventional banks in Uganda are also diverse, including local and international banks such as Stanbic Bank, Centenary Bank, and Standard Chartered Bank. The nation has demonstrated a determination to enhance financial inclusion, where financial institutions have a central role to play in filling the financing gap through the provision of key financial services.

The Uganda Development Bank and the East African Development Bank exist in the country but are not directly regulated by the Bank of Uganda. The emphasis is particular because it captures their varied mandate in spurring economic development and financing projects whose objectives are within national priorities (Kakembo et al., 2021). Islamic banking has seen significant, albeit gradual, traction, driven mainly by the increasing awareness of Sharia-compliant financial instruments among the Muslim community, who make up approximately 14% of the population. Still, greater awareness and a wider base of Islamic banking products remain vital to enhance access and encourage wider acceptance. It is only Tropical Bank and a few others that currently have Islamic banking windows, which limits consumers who are willing to use Sharia-compliant financial products (Bananuka et al., 2020; Mindila et al., 2023).

The incorporation of technology into banking operations has largely transformed the finance landscape. The introduction of mobile banking and electronic financial services has played a critical role in improving access to banking services, particularly in rural regions. The process of digital transformation is central to facilitating a range of banking services, such as microfinance and Islamic microfinance, that are essential tools for promoting sustainable economic development among small and medium enterprises in Uganda (Mpora et al., 2023; Azrak & Edema, 2022). Islamic microfinance products provide interest-free loaning facilities and profit-and-loss-sharing contracts, which are tailored towards meeting the demands of individuals who are excluded from the conventional financial system (Azrak & Edema, 2022).

To this end, the Ugandan banking sector is still controlled by conventional banks, with over 25 functional commercial banks (Mindila et al., 2023). Islamic banking services are available in a few of these banks, and they are primarily provided through Islamic windows that provide Sharia law-compliant products Currently, there are three Islamic banks actively operating in Uganda: Uganda Islamic Bank, Abu Dhabi Islamic Bank Uganda, and Postbank Uganda, which has also embraced Islamic finance offerings (Azrak & Edema, 2022). Despite the opening of banking windows, the uptake of Islamic banking services has been sluggish due to limited awareness and misconception of Islamic finance principles (Kakembo et al., 2021; Mindila et al., 2023). Despite this, there are prevailing misconceptions and an extensive lack of understanding about the unique Islamic banking practices that remain barriers to its general acceptability.

Large numbers of potential customers are not well aware of the specific benefits that Sharia-compliant banking presents in addition to the moral guidelines that it supports (Mindila et al., 2023; Kakembo et al., 2021). There remain issues in the banking sector in Uganda, including limited public awareness of the concepts of Islamic finance and the need for clearer regulatory guidelines for Islamic banking instruments. Addressing these issues would facilitate the introduction of more Islamic financial instruments and improve the overall performance and competitiveness of the banking sector in its efforts to meet the diverse demands of Uganda's citizenry (Bananuka et al., 2020; Mindila et al., 2023).

Notwithstanding these challenges, there is significant potential for the development of Islamic finance in Uganda. As demonstrated in other markets, Islamic banking can serve as a significant contributor to economic development through the provision of financing solutions that are aligned with ethical and socially responsible values (As-Salafiyah & Radwan, 2023). The Islamic microfinance model that focuses on profit and loss sharing over traditional interest-based lending practices has been suggested as a viable alternative to financial exclusion and SME development in Uganda (Kakembo et al., 2021). Besides, the demand for Islamic finance is expected to grow, especially considering heightened public education and outreach efforts. The empirical literature has demonstrated that greater awareness and knowledge of Islamic finance and its distinctive benefits could powerfully enhance its uptake and utilization by the Ugandan populace (Mindila et al., 2023; Bananuka et al., 2020).

Drawing from the experiences of Malaysia in this field, researchers have investigated the feasibility of instituting an Islamic Banking framework in Uganda. These studies have identified regulatory challenges that need to be addressed by Uganda to fully embrace Islamic finance, specifically the need to align the legal and regulatory frameworks with Shariah tenets (Lujja et al., 2016). Given that Uganda has officially allowed IB, there is a need to look at the possible benefits and challenges of its introduction in the country and the lessons that can be learned from Malaysia's IB industry.

1.0.4 Statement of the Problem:

IB has been applauded for having more effective operations in stabilizing economies, containing fewer moral hazards, and aiding in poverty alleviation (Abasimel, 2023). This has been largely premised on its emphasis on profit/risk sharing provisions and collateral-free loans, making it compatible with micro-entrepreneurs, encouraging entrepreneurship, and fostering development (Abasimel, 2023). Without a doubt, emerging economies like Malaysia have also benefited from the short and long-term enhancements in agricultural, industrial, and service sectors by adopting IB tenets (Indrawan and Rahman, 2020; Bougatef et al., 2020). These claims seemed to affirm the effective functioning of the Malaysian IB sector in performing its main function of financial intermediation: pooling and channeling funds into productive investment endeavors (Gani and Bahari, 2021). It is also worth mentioning that barriers such as service quality and availability, Shariah compliance levels, awareness levels of target customers about IB, religiosity, trust, and innovativeness have been considered to affect the adoption of IB (Ali et al., 2024).

From the Ugandan perspective, however, many of the existing conventional MFIs have failed to provide financial services to SMEs, which has left them financially handicapped and unable to meet their financial expectations and ultimately collapse before celebrating their third/fourth birthdays (Kakembo et al., 2021). In addition, there is low financial inclusion in Uganda for many businesses. Among other solutions, the country has legalized the adoption of IB by enacting the Financial Institutions Amendment Act 2016 to address the financial obstacles faced by many MFIs and SMEs if fully embraced (Kakembo et al., 2021).

Given the optimism surrounding Uganda's recent legalization of IB, it was necessary to assess the potential advantages and difficulties of this adoption and pinpoint the lessons that Malaysia's IB industry could teach us.

1.1 General Research Objective:

The study generally explored the prospective benefits and challenges associated with adopting IB in Uganda and lessons from the Malaysian IB sector.

Objectives:

Specifically, the study explored the following objectives;

1) To explore the prospective benefits associated with adopting IB in Uganda.
2) To explore the prospective challenges associated with adopting IB in Uganda.
3) To explore the lessons Uganda can learn from the Malaysian IB sector.

1.2 Research Questions:

What are the prospective benefits and challenges associated with adopting IB in Uganda and lessons from the Malaysian banking sector?

Specifically, the study aimed at responding to the following questions;

1) What are the prospective benefits associated with adopting IB in Uganda?
2) What are the prospective challenges associated with adopting IB in Uganda?
3) What lessons can Uganda learn from the Malaysian IB sector in general?

1.3 Content Scope:

Content scoping defines the exact areas of interest within a broader subject field. Within the context of Islamic banking in Uganda, it may involve an exploration of attitude, subjective norms, and religiosity as precursors influencing the intention to adopt (Bananuka et al., 2019). It could also include exploring effective implementation strategies, likely barriers (Bananuka et al., 2020), and the influence of Sharia compliance on customer satisfaction (Usman et al., 2021). In terms of information, the study traced the socio-economic lessons learned from the Malaysian IB industry as well as the advantages and difficulties related to the implementation of IB.

1.3.1 Geographical Scope:

The study's geographic coverage mostly concentrates on Malaysia's experience with IB and finance, with little information available regarding the Ugandan setting. Uganda is still in the early phases of implementing IB methods, according to the references, whereas Malaysia has a more established and sophisticated Islamic financial sector. Few papers (Uula, 2023; Malini and Putri, 2020; Prasetyo et al., 2020) compare the competitiveness and performance of Malaysia‘s IBs with Indonesia, another Southeast Asian nation. The emphasis is mostly on the Malaysian context. Comprehensive studies comparing the IB industries in Malaysia and Uganda are, nevertheless, lacking.

On the other hand, there is little information on Uganda's experience with IB in the references. One paper in particular, Lujja et al. (2016), investigates the elements that influence the public's desire to accept IB in Uganda, a developing nation that has "yet to embrace IB." According to this report, compared to Malaysia's more developed Islamic financial sector, in Uganda, Islamic finance is still in its infancy in this emerging capitalist state. Many scholarly articles do not provide a comprehensive comparison of the IB and finance sectors in Malaysia and Uganda.

1.3.2 Time Scope:

Equally important is time scope because it identifies the period under study and assists in capturing relevant developments. For instance, a study on the development of Islamic banking in Uganda since the enactment of the enabling legal frameworks would be very instrumental (Bananuka et al., 2019). A comparative study of Malaysia's extensive experience in Islamic banking may yield valuable insights for Uganda's developing financial sector. In summary, careful delineation of content and temporal parameters contributes to a focused, thorough, and pertinent research inquiry. This approach facilitates the identification of critical areas for examination, including factors influencing adoption, strategies for implementation, and sustainability challenges, while also enabling significant comparisons with more mature Islamic banking markets such as Malaysia. In a nutshell, the research spans several decades, comparing the Malaysian experience with the Ugandan one; Malaysia boasts of a more developed and fully-fledged IB sector compared to Uganda, which is just about adopting IB. This study, therefore, focused on the time frame of publications between 2016 and 2024, with 2018 being the year in which the law to permit IB in Uganda was allowed but made slight progress in adopting Islamic finance.

1.4 Significance of the Study:

- The study intends to increase the Ugandan population's awareness of IB and, hence, their willingness to adopt its tenets. This will be achieved by analyzing the benefits linked to IB's tenets.
- The study will arm banking practitioners with knowledge of the benefits and challenges of IB through experiences gleaned from the Malaysian IB system.
- This research also intends to provide a more accessible and cost-effective source of capital for small and medium enterprises in Uganda by emphasizing IB structures such as profit and loss sharing.
- Moreover, this study is designed to enhance comprehension of IB within the Ugandan context, thereby serving as an important reference point for future scholars investigating related issues.

- Research in Uganda's quest for IB contributes greatly to our theoretical understanding of consumer behavior and financial decision-making processes. This will also prove very instrumental to scholars, financial institutions, and policymakers who want to propagate IB into various dynamic financial landscapes.

1.5 Organization of the Study:

This study was organized into five distinct chapters. The study's introduction, objectives and purposes, issue/problem statement, research questions, study scope, and study significance were all included in Chapter 1. The literature review is found in Chapter 2. The details of the preferred methods are covered in Chapter 3. In particular, chapter four offers a thorough explanation of the data and how the results were interpreted. Chapter 5: This is also the last chapter in which previous studies' results are discussed, together with some policy recommendations and the conclusion of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW:

2.1 Theoretical Review:

The study benchmarked on the financial inclusion theorization, which proposes ease of access, availability, and affordability of basic financial products and services to all members of the population, enabling them to meet their needs responsibly and sustainably (Ozili, 2020). This was because the ideals of IB were considered an innovation compared to the prevailing conventional banking practices in Uganda. IB presents an alternative framework in contrast to conventional banking institutions by underscoring the ban on interest, focusing on Islamic financial tenets, ethical considerations, collateral requirements, assurance regarding deposit safety and return predictability, transparency concerning liquidity and solvency risks, and objectives centered on profit generation (Aburime, 2008). Such theorization guided the exploration in finding out the prospective benefits and challenges that Uganda faces in adopting IB and also finding lessons from the Malaysian IB sector.

2.2 Overview of Islamic Banking and Finance:

Islamic finance and banking are unique models based on Islamic values and ethical tenets. Pitted against traditional banking, IB operates under the rules of Shariah, whereby a greater emphasis is given to profit-sharing arrangements rather than interest-based transactions (Bahoo et al., 2019). This relational approach allows the banks to assess the creditworthiness of the clients in a much better way and develop a holistic understanding of individual borrowers (Kabir et al., 2015). IBs have very effective risk management policies to avoid losses while managing the assets, especially the deposits of the customers (Mutamimah and Saputri, 2022). Based on previous research, Islamic financing behavior was found to be very close to conventional lending practices in terms of bank size, liquidity, and capital levels (Zulkhibri, 2018). IBs play a crucial role in the transmission of monetary policy since they provide funding and deposits that transform policy decisions into actual economic activities (Kashim and Sukmana, 2010).

Zulkhibri and Sukmana (2016) note the increasing demand for Islamic-style financing from around the world that boosts IB growth and requires developing a legal framework similar to that for conventional banks. Widarjono et al. (2020) mentioned that due to Shariah compliance, IBs have fewer investment contracts than conventional banks, which limits their ability to provide excessive financing. Diversification in the IB industry, which includes Islamic commercial banks and Islamic window banks, impacts the profitability of this sector in Indonesia, as was evidenced by Widarjono and Sidiq (2022). Otherwise, IB is inspired by profit-sharing concepts and does not rely on interest systems like other traditional banking methods. Over time, the Islamic manner of finance is effective for being risk-averse and avoiding speculation, where safekeeping and security in financial exchange are emphasized, as per Mosteanu (2019). Jusoh and Khalid, 2013, observed that equity-based finance, particularly profit and loss sharing (PLS), which prioritizes a collaborative and participative business model, is preferred in IB. Indeed, IBs are crucial in the formation of capital and financing for investment projects, which enhance the growth of the economy, Setiawan, 2019.

In conclusion, IB and finance represent unique financial systems under the regulation of Islamic law, which prioritize risk management, profit sharing, and ethical conduct. The growth of the Islamic finance sector is being driven by increasing global interest in it, hence the need for setting up regulatory frameworks that are Shariah-compliant.

2.2.1 The Concepts of Islamic Banking and Finance:

IB, which is premised on the tenets of Shariah law, derived from the Qur'anic revelations and Sunnah of the prophet Muhammed. The concept is divinely sourced by emphasizing the Shariah-compliant banking system that offers Riba-free (usury) banking, Gharar (uncertainty) free banking, and prohibits injustice but proposes generosity in transactions (Abasimel, 2023). Islamic finance and banking are based on a set of central ideas and precepts that set them apart from their conventional counterparts. These ethics, which emphasize moral, equitable, and socially aware financial behavior, are firmly rooted in Islamic law, or Shariah. Riba or interest or usury in any form is prohibited by Islamic finance. This has been one of its prime tenets. This prohibition stems from the premise that a profit can only be realized from useful activities.

On the other hand, Islamic finance encourages sharing-based structures and joint venture modes, such as Mudarabah and Musharakah, as they align the parties' interests and promote cooperation culture and mutual risk-taking (Kasim et al., 2013; Wardhani and Barthos, 2021; Hussain et al., 2016). It is important to emphasize the principle of risk-sharing, as it minimizes the potential for exploitation and thus motivates investment in permissible economic activities, which in turn promotes economic stability and growth (Hussain et al., 2016; Othman et al., 2021). The second fundamental principle is that of compliance with the ethical financing guidelines, which restrict investment in activities deemed haram, such as those dealing in alcohol, gambling, and pork products. Suhaimi et al. (2016) and Franzoni and Allali (2018) claim this ethical framework aims to prevent financial activities from having any negative impact on people or society but instead lead towards positive outcomes for society.

In line with the above, the tenets of Islamic finance have been incorporated into the requirements of social justice and equity in wealth distribution as ways of fostering financial inclusion, hence bridging economic gaps (Othman et al., 2021; Ali, 2021). Two of the common tools used for this purpose are waqf, which is an endowment, and zakat, meaning charitable giving. According to Khan (2023) and Rahman (2010), these are important elements in the Islamic social finance ecosystem. Further, all transactions under IB are done with justice and transparency. According to the Shariah governance framework, all financial contracts have to be clear and not ambiguous so that each party understands their respective rights and obligations (Kasim et al., 2013; Suhaimi et al., 2016). This will create transparency, which helps in building a trust factor among the customers, hence the growth of the IB sector (Amin et al., 2011).

The integration of SDGs in Islamic finance has garnered considerable attention in modern literature. Islamic financial institutions underline the operations guided by sustainable and responsible investment practices, ensuring greater socio-economic development, and are increasingly aligning their activities with the SDGs (Muhmad et al., 2021). This relationship deepens the ethical dimension of Islamic finance while, at the same time, placing it as a strong alternative to conventional finance in addressing global challenges such as environmental sustainability and poverty alleviation (Muhmad et al., 2021). In a nutshell, the basic tenets of IB and finance are as follows: prohibition of interest, risk sharing, ethical investment, social justice, transparency, and alignment with sustainable development goals. These regulations establish the basic structure for creating social welfare and economic stability while at the same time distinguishing IB from other financial systems.

2.2.2 Global Historical Development of Islamic Banking:

The historical evolution of Islamic banking is a convergence of religious doctrine, socio-economic context, and modern financial arrangements that collectively demonstrate the growth and development of this banking system from its earliest beginning to the modern day. The institutionalization of Islamic banking has been traced to have started in the mid-20th century and came into being primarily as a reaction to the socio-economic conditions of the Muslim world and the restrictions imposed by traditional banking systems. The first modern Islamic bank, Mit Ghamr Bank, was launched in Egypt in 1963. The bank was run based on profit-sharing principles, which is the characteristic of Islamic banking, instead of interest-based loans. The model gained traction because it coincided with the ban on riba (interest) provided for in Islamic law Öner (2023).

In the following decades, the launch of the Islamic Development Bank in 1975 was a landmark in the institutionalization of Islamic finance globally. The institution was established to offer financial and technical support to member states per Islamic teachings. Its establishment enabled the catalysis of the same institutions in other Muslim countries and beyond, aiding the growth of an Islamic finance ecosystem (Widityani et al., 2020; Khalifah et al., 2024). The latter part of the 20th century also saw the development of a range of Sharia-compliant financial products like Murabahah (cost-plus finance), Ijara (leasing), and Musharakah (venture capital financing), thereby enhancing the operational efficiencies of the Islamic banking institutions (Hoque et al., 2022).

The global financial crisis in 2008 was a watershed moment for Islamic banking, underscoring the systemic risks embedded in conventional financial systems and casting Islamic banking in the light of a more stable and ethical option. Empirical research has shown that Islamic banks fared more resiliently throughout this crisis, thanks largely to their ban on speculative transactions and focus on asset-backed financing (Zauro et al., 2020; Ismail et al., 2013). Consequently, there has been growing interest in Islamic banking among non-Muslim communities, thereby making it gain relevance in the international financial market (Ahmed et al., 2019).

Many countries across the globe have gradually adopted IB over the years. The Malaysian IB system was developed little by little and followed by countries like Bahrain, Qatar, UAE, Saudi Arabia, the United Kingdom, and Pakistan (Balarabe et al., 2023). Other countries like Indonesia only began developing the infrastructure for IB in the 1990s but had established the Islamic Development Bank some 15 years earlier, in 1975 (Dahlan and Mahfudz, 2023). Since 2000, the government of Pakistan adopted a gradual approach in terms of Islamizing the economy through embracing a dual banking system where the State Bank of Pakistan made the IB system the first choice for banking users in the country (Zafar and Sulaiman, 2020). In 1983, Sudan introduced the Islamic Shariah Law and thus initiated the process of Islamizing the nation's financial sector within the African continent by prohibiting interest charges (Mustafa, 2021).

The Banks and Other Financial Institutions Act, legislated in 1991, permitted the opening of profit-sharing banks in Nigeria, hence bringing more IB-like concepts to the market scene (Ishaaq El-Mubarak et al., 2020). Mwaniki (2017) indicates that Kenya has three specialized IBs in East Africa: the Community Bank, the Dubai Islamic Bank, and the Gulf African Bank. There are also about eleven banking and financial institutions that offer IB services. Though introduced in Zanzibar in 2011 to enhance economic activities, the introduction of IB was not followed by the requisite legal amendments to suit the smooth operationalization of IB tenets (Mustafa & Othman, 2020). While five banks offer IB services in Tanzania, they serve just 2.3% of the banked population, representing approximately 7% of the country's financial institutions (Kulshrestha and Ali, 2018).

Islamic banking has naturally spread to different sectors, such as retail banking, investment banking, and the newer field of Islamic FinTech, which integrates new technology with classical Islamic financial concepts. Financial technology has facilitated the development of innovative products and services in the Islamic banking industry, thereby enhancing access among a wider population, especially the young generation (Purwantini et al., 2020). This indicates the adaptive capacity of Islamic banking systems to accommodate current economic challenges while maintaining a foundation in ethical values and Shariah-compliance. Moreover, the international expansion of Islamic banking has created a demand for strong regulatory frameworks to facilitate adherence to Sharia principles under various legal systems. Institutions like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have been instrumental in creating seminal guidelines and standards governing Islamic banking operations worldwide in conjunction with national regulatory authorities (Saori, 2019).

Generally, Islamic banking development is characterized by a combination of adherence to conventional Islamic tenets, flexibility to meet the challenges of contemporary times, and dedication to ethical financing concepts. As the industry continues to develop, it has the twin challenge of maintaining adherence to Islamic principles while, simultaneously, standing tall in the globalized financial arena vis-à-vis conventional models, while advocating socio-economic justice and financial inclusion (Albaity & Rahman, 2019; Baloch & Chimenya, 2023).

2.3 Islamic Banking in Malaysia:

Malaysia is one of the important hubs for Islamic banking, with a strong infrastructure and a notable market share in global Islamic finance. The industry has grown quite substantially since the establishment of Bank Islam Malaysia Berhad in 1983. Islamic banks' assets in Malaysia amount to approximately 26% of overall banking assets in Malaysia, which means that Islamic finance is well incorporated into the system overall (Ibrahim et al., 2023). This growth shows that Malaysia is an important center for Islamic finance in the world. It is comparable to countries like Iran and Saudi Arabia, which have a bigger presence in Islamic banking (Ibrahim et al., 2023). Over the past few decades, Malaysia's Islamic banking industry has grown remarkably; since 2000, average annual asset growth rates have been projected to be around 15%. For the overall amount of Sharia-compliant assets, Malaysia is now one of the top Islamic finance nations, second only to Saudi Arabia and Iran, thanks to its substantial capital accumulation and steady growth. (Lo and Leow, 2014; Ibrahim et al., 2023).

In recent years, the Malaysian Islamic banking industry's total assets have increased significantly. The total assets held by Malaysian Islamic banks at the end of 2022 were over RM 1 trillion, or roughly USD 240 billion (Mortadza et al., 2024). This positions Malaysia among the leading players in Islamic finance, and it plays a key role in the overall development of this sector. Malaysian Islamic banking products are financing types, mainly Al-Murabahah (cost-plus financing) and Ijara (leasing). Both products represent about 90% of the total Islamic banking transactions (Ramlan et al., 2023). Their success has shaped how Islamic banks do business, meeting customers' needs for Sharia-compliant products.

2.3.1 Evolution and milestones for the Malaysian Banking and Finance sector:

The development of the banking and finance sector in Malaysia is marked by a sequence of historic milestones that have influenced its form and operational dynamics. Right from its inception to contemporary developments, particularly those painting digitalization, the sector has assumed a unique character, more so because of the parallel existence of both Islamic and conventional banking systems. The origin of the modern Malaysian banking system is attributed to the formation of the Central Bank of Malaysia (Bank Negara Malaysia, BNM) in 1959. Its primary objective was to oversee the financial system and maintain monetary stability in Malaysia, thereby laying the foundation for a regulated banking system (Harkati et al., 2019). The enactment of the Banking and Financial Institutions Act (BAFIA) of 1989 was a landmark, giving Bank Negara Malaysia (BNM) additional supervisory authority and a required regulatory framework for building a healthy banking system (Gani & Bahari, 2021).

The development of Islamic banking in Malaysia was gradual in the 1980s with the launch of Bank Islam Malaysia Berhad (BIMB) in 1983. The launch was prompted by the increase in demand for Sharia-compliant financial products. The formation of BIMB spurred regulatory and institutional support for Islamic finance, prompting the creation of a special framework to regulate Islamic banking operations, as represented by Bank Negara Malaysia releasing guidelines (Gani & Bahari, 2021; Kamarudin et al., 2019). During the 1990s and 2000s, the Islamic banking industry expanded significantly, primarily due to government policy that encouraged Islamic banking as a central feature of its general economic development strategy.

Significantly, in 1996, the government established a dual banking system to enable the coexistence of Islamic and conventional banking within a single umbrella regulatory framework. The system promoted competition and innovation, and by the early 2000s, Malaysia became a world-leading center for Islamic finance, characterized by a rising proportion of total banking assets managed by Islamic financial institutions (Ibrahim et al., 2023; Bougatef et al., 2020). The liberalization of the banking sector, particularly since 2000, introduced numerous foreign banks to the Malaysian economy, inducing competition and access to a broad portfolio of financial services. Studies have established that the wave of liberalization was critical in resuscitating the Malaysian economy, enabling domestic banks to connect with global capital markets, and improving operating efficiencies (Abueid, 2021; Harkati et al., 2020).

In addition, Bank Negara Malaysia's adoption of extensive risk management processes in 2005 facilitated banks' capacity to deal with evolving financial issues, thereby promoting industry stability (Harkati et al., 2020). In recent years, the incorporation of digital technologies in banking services has significantly transformed the face of financial transactions in Malaysia. The innovation of Internet banking, mobile banking, and other FinTech applications has offered customers a convenient and cost-effective banking experience (Sulub & Salleh, 2019). The COVID-19 pandemic hastened the digital revolution as banks were forced to innovate rapidly to ensure service continuity and Islamic banks also utilized technology on a large scale to improve the delivery of their services and engage customers (Alabbad et al., 2020; Zainudin et al., 2019).

Hence, Malaysia's Islamic banking is not only identified as a significant contributor to the national economy but also as a leading participant in the international financial market with a large share of worldwide Islamic banking assets. The fact that the sector has managed to post annual growth rates that consistently surpass the entire banking sector's growth rates year after year indicates its paramount importance in fostering economic stability and growth (Ibrahim et al., 2023; Bougatef et al., 2020; Abueid, 2021).

Malaysia's commitment to ensuring Shariah compliance in the IB sector is further evidenced by the establishment of the National Shariah Advisory Council on IB and Takaful, NSAC Nasser and Datin, 2013. The Islamic banking industry in Malaysia proved to be resilient and adaptable, having braved various challenges thrown by the global economic landscape. Based on the studies, Malaysian Islamic financial institutions generally outperform conventional banks in terms of profitability and efficiency, especially during economic downturns (Samail et al., 2018). It attributes this performance to unique risk-sharing models and ethical investments that attract more socially conscious investors (Chong et al., 2019). In risk management and corporate governance of Malaysian IB institutions, the system of organization remains relatively unique in comparison with conventional banks owing to a very crucial Shariah Supervisory Board in place (Wasiuzzaman & Gunasegavan, 2013). Corporate governance and risk management procedures have a big impact on Malaysian banks' performance (Wasiuzzaman & Gunasegavan, 2013; Chong et al., 2019). In addition, Malaysia's IB sector has been involved in social reporting and corporate social responsibility (CSR).

On an overall note, the IB sector in Malaysia has developed significantly to position the country as a strong hub for Islamic finance globally. The growth of IB in Malaysia has been facilitated by the government's encouraging policies, the industry's expansion, and customers' increasing understanding and adoption. Enhancing efficiency, competitiveness, and the alignment of procedures with Shariah tenets are among the areas that still require development, nonetheless (Ishak, 2019; Bakar & Rosbi, 2017). The introduction of the Islamic Financial Services Act 2013 has improved the legal framework for Islamic financial transactions in Malaysia et al., 2020. According to Prasetyo et al. (2020), there has been a notable increase in the assets, deposits, and lending of IBs in Malaysia, indicating a favorable trend in their performance. IBs now account for a sizeable portion of the nation's banking assets because of the financial services industry's explosive growth in the nation (Ishak, 2019).

Initiatives, such as the creation of Islamic unit trusts, Islamic stockbroking firms, and the Islamic interbank money market, demonstrate Malaysia's dedication to Islamic finance (Malini and Putri, 2020). Additionally, Malaysia has embarked on an exercise to enhance the concentration and competitiveness of the IB sector; existing literature indicates a relatively concentrated market structure with monopolistic competition (Syarif, 2019). In addition to the fortification of Shariah compliance and governance, the country has focused on enhancing the regulatory landscape for

Islamic financial institutions, borrowing from the good practices of peer countries, for example, Indonesia. Malaysia has been at the forefront of Islamic finance because of the historical development of IB, based on strong regulatory frameworks, government support, and commitment to Shariah compliance. Because of its success in the IB sector, Malaysia has become a global hub for Islamic finance and, therefore, sets standards for other countries.

Despite such advantages, the Islamic banking of Malaysia will still experience further evolution in the concept of operation intense competition from conventional banking pushes Islamic banking to further create varied and multi-dimensional product offerings for the customers of Malaysia (Uula, 2023). Malaysia is home to one of the most advanced Islamic banking sectors worldwide, with a strong regulatory framework, sizeable market presence, and strong performance. Challenges notwithstanding, Malaysia has been and will continue to be firmly committed to Islamic finance while being able to adapt its market positions, thus making it very strong on the international stage.

2.3.2 Key Challenges and Obstacles Faced by Malaysia in Islamic Banking and Finance:

IB and finance, though showing growth and strong performance, are faced with huge challenges. One of the major issues concerns the recurring problem of financial stability and risk management, which has gained greater significance amidst increasing economic uncertainties, including those generated by global economic shifts and crises like the COVID-19 pandemic. The financial crisis spawned stricter lending policies and a re-focus on credit risk management by the Malaysian Central Bank (Hamzah et al., 2020; Mohamad et al., 2019). This change brought about a compulsory re-evaluation of marketing operations in Malaysian banking organizations, more so the management of loan provisions and the health of their credit portfolios. Failure to manage these issues properly will lead to an increase in non-performing loans and consequently an adverse effect on profitability (Mohamad et al., 2019).

Additionally, Malaysia's dual banking system that combines conventional and Islamic banking methods presents a challenge to regulatory compliance and operational effectiveness. Islamic banks, despite significant growth, tend to lag in offering products and achieving a competitive stance relative to their conventional banking counterparts. Constraints, such as resistance to offering specific Shariah-compliant products, e.g., Musharakah Mutanaqisah home financing, manifest the dilemma of balancing product availability to address consumers' needs (Zaaba & Hassan, 2019). Moreover, the Islamic banking industry is continuously challenged to enhance its innovation capabilities to serve a technology-savvy customer while adhering to Shariah principles (Muhamad et al., 2020).

The other significant factor is heightened competition as a result of financial liberalization and foreign banking organization entry. Though this has witnessed improvements being experienced in the banking industry, it presents a significant threat to domestic banks in terms of market share and resource allocation (Harkati et al., 2020). International financial institutions' entrance is accompanied by sophisticated management practices and technological advancements, thus increasing the degree of expectations from domestic banks. This calls for Malaysian banks to be more operationally efficient while simultaneously reviewing their strategic positioning to stay competitive amidst increasingly changing environments (Ma & Soh, 2021)

Furthermore, the reliance of the Islamic financing model on moral principles might sometimes limit their entrance into riskier but potentially more return-bearing markets. This conservatism can hold back diversification and innovation in their product offerings, affecting their market growth potential (Gani & Bahari, 2021). Simultaneously, there is also a question of the financial literacy of consumers regarding Islamic banking products. The lack of awareness and understanding among the general public may lead to a slower rate of adoption of Islamic banking services, hence holding back the growth of this sector (Muhamad et al., 2020; Ibrahim et al., 2023). Lastly, the regulatory obstacles exert far-reaching influences on Malaysian banks' operating structures. The intricate regulatory environment necessitates complicated compliance processes, which can be costly and constrain the banks' capability to respond promptly to the evolution in the market (Mortadza et al., 2024; Arifin et al., 2024). Furthermore, the regulatory structures must possess the flexibility to facilitate evolving global financial standards rapidly, thereby underpinning the competitiveness of Malaysia's banking sector on the global front.

Previous challenges of Malaysian IBs include those related to social responsibility disclosure, Shariah compliance, and effectiveness in corporate social responsibility practices (Jaiyeoba et al., 2018; Amran et al., 2017; Salami and Adeyemi, 2017). For example, Jaiyeoba et al. (2018) examined the stakeholders' perception of the effectiveness of CSR practices by Malaysian IBs, indicating the need for more inclusion of customers, employees, local communities, and branch managers in CSR practices.

In response to these issues, Malaysian IBs have initiated systems to address default cases, improve the quality of assets, and raise the effectiveness of their operations. One of the ways of handling default scenarios and wealth protection for the bank is by integrating technology into its governance procedures (Hassan et al. 2021). Part of this huge responsibility towards strengthening the legal framework of Islamic financial transactions lies with the Central Bank of Malaysia (Ali and Oseni, 2017). The existence of competition and the level of market concentration also add more dimensions to the IB paradigm. Evidence from studies shows that the Malaysian IB sector functions within the monopolistic competition environment, where the market structure is relatively concentrated (Malini & Putri, 2020). This competitive environment provides every reason for continuous innovation and differentiation strategies to gain a competitive edge. Furthermore, there is a barrier to public awareness and acceptance of IB.

Improving depositors' financial literacy is essential because it can support the expansion and viability of IB (Ganesan et al., 2020). Moreover, guaranteeing the stability and risk control of Islamic institutions is crucial. According to a study that compared Malaysia and Indonesia by Hosen and Muhari (2018), adequate liquidity tools and cheap funding costs are critical to the success of Malaysia's IBs. Regulation observance and risk management techniques are essential for IB's robust expansions (Nidyanti and Siswantoro, 2019). In summary, notwithstanding the favorable growth and performance metrics, the long-term sustainability of IB in Malaysia faces some challenges at the regulatory framework level: public adoption, competition, financial literacy, efficiency, and risk management.

2.4 Islamic Banking in Africa:

The Islamic banking sector in Africa is expanding, operating per Sharia law and striving to address the financial demands of Muslim populations across the continent. By 2023, the Islamic banking industry made up roughly 5–7% of Africa's total banking assets. North Africa and certain East and West Africa have higher penetration rates, although this number varies greatly between nations and regions. (*Source*: Islamic Financial Services Board (IFSB) Annual Report, 2023; African Development Bank (AfDB) Report, 2023). The development of the sector has been underpinned by heightened consumer awareness, enhancement of regulatory frameworks, and rising demand for ethical financial products among various age groups (Imam & Kpodar, 2015; Muhammad & Yusoff, 2023).

Nigeria, a key player in African Islamic banking, has made deliberate attempts at developing the industry, with some of the Islamic banks like Jaiz Bank offering Sharia-compliant banking services. This is within a larger trend whereby Islamic finance is increasingly being seen as a means to promote financial inclusion and address the needs of individuals who have been underserved by traditional banking systems (Chamberlain et al., 2020). Secondly, in Gambia and Senegal, the introduction of Islamic banking has been facilitated by specific banking structures that are aligned to domestic market needs (Mbawuni & Nimako, 2017). Additionally, Islamic banking systems have notably been implemented in North African nations. Egypt, Algeria, and Tunisia have established frameworks for the inclusion of Islamic financial products in their banking systems. Morocco has also altered its approach in recent years to permit the creation of fully fledged Islamic banks after initially permitting Islamic banking via windows in conventional banking institutions for several years (Jimoh et al., 2021). Interestingly, Mauritania and Djibouti are the latest countries to promote Islamic finance as a way to economic growth and stability (Supriani et al., 2021).

In South Africa, there are Islamic financial institutions like Al Baraka Bank and Abu Dhabi Islamic Bank that provide a variety of Sharia-compliant products, mainly to the Muslim community but also to non-Muslims who are keen on ethical bank products (Moosa & Kashiramka, 2022; Saini et al., 2011). The evolution of Islamic banking in South Africa is primarily attributed to increasing awareness of Islamic finance methods and demand for banking products that align with customers' beliefs and values. Empirical research corroborates the notion that Sharia adherence is a strong driver of customer satisfaction and loyalty, which can enable the sector to grow its market share (Moosa & Kashiramka, 2022).

Evidence has shown that Islamic financial institutions often outperform conventional banks in terms of profitability and operational efficiency, particularly in countries with a significant Muslim population (Muhammad & Yusoffs, 2023). For example, a study on the technical efficiency of Islamic banks in several low-income countries, mostly in Africa, found that the banks often score better efficiency scores compared to their conventional counterparts (Jimoh et al., 2022). Moreover, compliance with Shariah principles has been associated with enhanced customer loyalty and trust, which can have a favorable influence on the financial outcomes of Islamic banks (Al-Sartawi, 2019).

In East Africa, the countries of Uganda, Kenya, Tanzania, and Rwanda, among others, have witnessed reasonable growth in IB, with each having different regulatory environments and prospects for expansion. Understanding IB tenets and perceived benefits are the two variables that have influenced the adoption of IB services in Uganda. et al. Mahdzan (2017). As Mahadin and Akroush (2019) identified, Shariah compliance assurance and enhancement of customers through quality service delivery are amongst the challenges being experienced in Uganda.

IB also spread in Kenya through different organizations, such as the Islamic Bank of Kenya, offering Shariah law-compliant financial products. The regulatory environment in Kenya, under the leadership of the Central Bank of Kenya, has been friendly. There are challenges experienced by IB operations while competing with conventional banks, as well as ensuring that its CSR activities are ensured with efficiency (Amran et al. 2017). IB has also come to Tanzania, with facilities such as the Tanzania Islamic Bank that offer Shariah-compliant facilities. The regulatory system controlled by the Bank of Tanzania inspires the development of IB. According to Hosen and Muhari (2018), the challenges of enhancing depositors' financial knowledge and maintaining the stability of IBs are issues with which Tanzania struggles. Rwanda expresses interest in IB by approving the establishment of institutions such as the Islamic Bank of Rwanda. IB in Rwanda is finding its place due to the appropriate regulatory framework provided by the National Bank of Rwanda.

One of the challenges faced by Rwanda is finding the optimal capital structure for IBs while maintaining market competitiveness (Ali & Oseni, 2017). The demand for Shariah-compliant financial services is increasing, thus boosting the development of IB in East Africa. The regulatory frameworks of these countries are vital to the development of IB. The issues that are yet to be addressed if IB has to realize its full potential in the area are those touching on Shariah compliance, client satisfaction, financial literacy, and market competitiveness. Despite these, challenges persist for the Islamic banking industry in Africa. Among the factors that slow down the potential of Islamic finance growth are regulatory barriers, poor public awareness, and competition from conventional banks (Muhammad & Yusoff, 2023). Besides, it was underlined that the call for improved corporate governance and Shariah-compliant structures is very important for improving the effectiveness and credibility of the Islamic banks in the region (Farag et al., 2018; Muhammad & Yusoff, 2023).

CHAPTER THREE:

3.0 RESEARCH METHODOLOGY:

This chapter describes the methodology used by the researcher during the data collection period. It covers the research design and sampling methodology, data collection methods and their sources, and data analysis. It also looks at methods employed for the data analysis.

3.1 Research Design:

This research paper employed a qualitative methodology, specifically a literature review methodology, to generate ideas and insights through benchmarking what previous scholars discovered about the research phenomena. This further agrees with opinions that a literature review method can broadly be defined as a systematic way of collecting and synthesizing previous research to generate a firm basis for advancing knowledge and facilitating theory development. The study also utilized a bibliometric analysis to aid in looking at the available literature on Islamic Banking in several countries but specifically settling with Malaysia as the benchmarked economy for Uganda. This was in agreement with opinions that a bibliometric analysis is a rigorous and popular method used in exploring large scientific data and enables scholars to unpack the evolutionary nuances of a given field while giving more in-depth explanations on emerging areas in the field of study (Donthu et al., 2021)

3.2 Study Approach:

A systematic literature review method was adopted by synthesizing and comparing the evidence from already published articles to arrive at conclusive observations for the prevailing study. This was because the cardinal aim of a systematic review is to identify all empirical evidence that fits into the current study's pre-specified inclusion criteria and appropriately answers its particular research questions.

3.3 Inclusion Criteria:

The study considered the research setting, variables of interest, participants of interest, and dates covered as its article/publication inclusion criteria. This helped the researcher to include studies about Islamic banking and finance from the Malaysian and Ugandan settings covering a period between 2017 to 2024.

3.4 Method of Data Collection:

The first step was to choose the database from where to extract the papers/data for analysis. At this point, the study selected the Web of Science (WOS) database, which is regarded as one of the most reliable and authentic databases for conducting the literature review analysis (Khan et al., 2020). During the second step, the study searched for relevant literature using appropriate keywords (IB in Uganda & Malaysia). The paper provided after the search was analyzed to arrive at comparative findings and conclusions. The study only sampled 27 studies from high-ranking publishers from the Web of Science (WOS) database for analysis. These were selected based on recency, relevance, and accessibility.

3.5 Data Analysis:

In this study, thematic content analysis was adopted by applying the principle of thematic proximity as designed by Armborst (2017) through arranging data/article information with similarities in the responses/content of the study regarding a given theme/objective of the study. The study summarized each research paper based on the three research objectives/questions and later identified specific themes, which were reported as concise themes for discussion to generate findings, conclusions, and recommendations on each objective.

3.6 Ethical Considerations:

In research, ethical considerations refer to a wide range of rules and regulations that control the use of human subjects in studies. These factors have developed from past abuses in research procedures and are essential for protecting the rights, dignity, and welfare of participants. Informed permission is emphasized as a fundamental ethical criterion (Undurraga et al., 2022; Arellano et al., 2023). There was a need to also avoid plagiarism while conducting the systematic literature review to obtain data for the study (Nepomuceno & Soares, 2020). This was avoided by appropriate in-text citation and referencing of all intellectual property used in the thesis. Also, since the study is a partial fulfillment of the study requirement of academic qualification, no conflict of interest would have resulted in a biased presentation of the results and conclusions of the investigation. In essence, the Researcher did not distort information for personal interest.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION:

This chapter provides insight into the study's data presentation, interpretation, and analysis. This chapter is presented as follows, firstly, per the objectives of this study each objective was thoroughly reviewed in detail highlighting the different opinions of scholars based on the availability of literature relating to the benefits as per the first objective then followed by the challenges of IB adoption in Uganda ending with the lessons that could be learned from the Malaysian perspective. This information is arranged as follows;

4.1 Findings on Objective One: Benefits/Opportunities of Islamic Banking and Finance:

The following table offers the themes relating to benefits/opportunities that Uganda could leverage after the adoption of IB and finance practices;

Table 4.1: Benefits/Opportunities of Islamic Banking and Finance:

S/N	Article	Benefits/Opportunities
1.	Zainordin et al. (2016). Challenges and opportunities of IB and financial institutions in Malaysia. *South East Asia Journal of Contemporary Business, Economics and Law*, *10*(1), 1-30.	There are greater opportunities for the adoption of Islamic financial banking since both the Muslim community and non-Muslims always express the desire to take up Islamic financial products and express

		willingness to spend their lives per their religious beliefs.
2.	Guizani and Ajmi (2022). IB and corporate investment efficiency: empirical evidence from Malaysia. *International Journal of Productivity and Performance Management*, *71*(5), 1854-1871.	Islamic financing enhances investment efficiency, especially through the positive effects of PLS contracts. Further, the contribution of Islamic financing reduces sub-optimal investments, which are more prominent once firms face over-investment challenges.
3.	Haron & Ibrahim (2020). Service quality of IBs: satisfaction, loyalty and the mediating role of trust. *Islamic Economic Studies*, *28*(1), 3-23.	IB enhances service quality, boosts customers' loyalty, and trust in enhancing customers' loyalty, and ultimately determines their satisfaction.
4.	Amin (2020). Critical success factors for the receptiveness of Islamic home financing in Malaysia. *International Journal of Emerging Markets*, 15(5), 849-873.	It was suggested that the home financing provisions of IB help boost debt collection policies and offer competitive value propositions in the market, especially when Islamic bankers highly comply with Maqasid al-Shariah. This increases customer receptiveness towards Islamic home financing products
5.	Mohd Haridan et al., (2023). Financial innovation in IBs: evidence on the	The inclusion of FinTech digital solutions and tools like the Robo Advisory system and

	interaction between Shariah board and FinTech. *Journal of Islamic Accounting and Business Research*, *14*(6), 911-930.	blockchain boosts Shariah Boards' roles by providing timely Shariah assurance to customers irrespective of the volume of data information and storage by the bank.
6.	Basri (2020). Competition and market structure of the Malaysian IB industry. *Journal of Islamic Accounting and Business Research*, *11*(3), 721-740.	The introduction of foreign IBs boosts market structure competitiveness and makes it less concentrated. Reforming towards the adoption of liberal financial systems that were proven to encourage competition results in more resilient, competitive, and dynamic Islamic baking systems.
7.	Khmous and Besim (2020). Impact of IB share on financial inclusion: evidence from MENA. *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(4), 655-673.	IB contributes to financial inclusion, specifically for individuals with strong religious affiliations, irrespective of their gender, age, income, and education levels.
8.	Abid & Jie (2023). Understanding farmers' decision-making to use Islamic finance through the lens of the theory of planned behavior. *Journal of Islamic Marketing*, *14*(4), 1084-1106.	IB boosts agricultural financing, especially when farmers have positive attitudes, subjective norms, and religiosity to use IB products.
9.	Thaker et al., (2020). *Leveraging IB and finance for small businesses: exploring*	IB offers appropriate financing for SMEs through "Mudharabah (profit-sharing),

	the conceptual and practical dimensions (No. 1156). ADBI Working Paper Series.	Musharakah (profit-loss sharing), Murabahah (sale with cost plus profit margin, Ijarah [Islamic leasing), and Salam (forward sale)" as possible solutions for addressing small businesses' funding challenges.
10	Muhammedi et al. (2023). Insurance industry in Uganda: Analyzing Islamic insurance opportunities and challenges in developing the industry. *Journal of Islamic Finance*, *12*(2), 33-47.	The adoption of IB practices will avail Islamic insurance products on the Ugandan market, which make additional contributions to the overall development of the insurance industry in Uganda.

Source: WOS Journals (2016-2023)

Data Analysis:

According to the results in **Table 4.1**, the study reveals that introducing IB in Uganda is likely to provide a wider range of financial service options to both Muslims and non-Muslims since both groups show a willingness to use Islamic financial products. Besides, Muslims show dedication to their financial activities being conducted in line with their faith (Zainordin et al., 2016). This finding is in line with the study by Saiti et al. (2022), which concluded that even though there were certain non-Muslim groups against IB systems in Nigeria, a substantial proportion of the customer base for IBs comprised non-Muslims. Moreover, the study shows that IB and financing in Uganda will also likely enhance investment efficiency because of the beneficial effects stemming from the Profit and Loss Sharing (PLS) contracts, as observed in the Malaysian context (Guizani and Ajmi, 2022). The study also found that the adoption of IB in Uganda will enhance service quality, increase customers' loyalty and trust in enhancing customers' loyalty, and ultimately determine their satisfaction, as was discovered from the Malaysian perspective (Haron & Ibrahim, 2020).

Moreover, the study has shown that IB adoption eases the doors of home financing opportunities, improves strategic debt collection, and develops competitive value propositions in the market, especially if followed by Maqasid al-Shariah, which has been highlighted in Malaysia (Amin, 2020).

Moreover, the study found that the adoption of IB and financing technologies like FinTech digital solutions and tools like the Robo Advisory system and blockchain by Uganda will boost Shariah Boards' roles in providing timely Shariah assurance to customers irrespective of the volume of data information and storage by the bank (Mohd Haridan et al., 2023).

Further still, the study found that the introduction of IB in Uganda will boost market structure competitiveness and less concentrated by reforming towards the adoption of liberal financial systems that were proven to encourage competition which results from more resilient, competitive, and dynamic Islamic baking systems as was witnessed in Malaysia (Basri, 2020). Another aspect that it established is that the implementation of IB would enhance financial inclusion for individuals with pronounced religious convictions, irrespective of their gender, age, income, and educational background (Khmous and Besim, 2020).

Furthermore, it was disclosed that the uptake of IB in Uganda would facilitate better agricultural financing, especially following the assurance that farmers possess favorable attitudes, subjective norms, and a commitment to religiosity in their utilization of IB products. Abid and Jie, 2023. The study also established that Uganda's adoption of IB will provide the country's SMEs with appropriate financing through profit-sharing, profit-loss sharing, sale with cost plus profit margin, Islamic leasing, and Salam (Thaker et al., 2020). In the final analysis, the study found that the adoption of IB tenets in Uganda will introduce Islamic insurance products in the Ugandan market, hence contributing further to the overall development of the insurance industry in Uganda (Muhammedi et al., 2023).

4.2 Findings on Objective Two: Challenges Associated with the Adoption of Islamic Banking and Finance:

The following Table 4.2 offers the themes relating to challenges associated with the adoption of IB and finance;

Table 4.2: Challenges of Islamic Banking and Finance:

S/N	Article	Challenges
1.	Mahdzan et al. (2017). The adoption of IB services in Malaysia. *Journal of Islamic Marketing*, *8*(3), 496-512.	The adoption of IB is challenged by the low levels of understanding of the various IB concepts.
2.	Ali et al. (2022). A comparative analysis of employees' and customers' attitudes towards IB. *International Journal of Ethics and Systems*, *38*(2), 209-234	The adoption of IB is challenged by the low IB knowledge and awareness among target customers, inadequate Shariah training of employees, and low Shariah compliance.
3.	Aish et al., (2022). Do IBs gain from corruption and money laundering (ML)? *Journal of Money Laundering Control*, *25*(4), 909-929.	IBs face challenges of corruption and money laundering, which affects their profitability and stability.

4.	Ali et al. (2023). Does stakeholder pressure matter in IBs' corporate social responsibility & financial performance? *International Journal of Ethics and Systems*, *39*(2), 236-263.	IBs face stakeholder pressure emanating from management, clients, competitors, Shariah advisory boards, and the community at large, hence calling for significant CSR funding.
5.	Zainordin et al. (2016). Challenges and opportunities of IB and financial institutions in Malaysia. *South East Asia Journal of Contemporary Business, Economics and Law*, 10(1), 1-30.	Islamic financial banking faces stiff competition from conventional banking, regulatory framework, and supervision issues.
6.	Muhamad et al. (2020). Islamic financing for small medium enterprises: Challenges and opportunities. *Global Business Management Review*, 12(2), 50-64	IB systems face slow adoption by SMEs due to factors like low awareness among SME owners hence culminating in readiness and poor attitudes towards the adoption.
7.	Oladapo et al., (2022). Customers' perceptions of FinTech adaptability in the IB sector: a comparative study on Malaysia and Saudi Arabia. *Journal of Modelling in Management,* 17(4), 1241-1261.	IBs face challenges of low awareness, poor attitude, and unsupportive subjective norms of target customers, especially towards new IB technological services like FinTech services.
8.	Bananuka et al. (2020). The intention to adopt Islamic financing in emerging economies: evidence from	The adoption of IB in Uganda might be affected by factors like low/lack of trust

	Uganda. *Journal of Islamic Accounting and Business Research*, *11*(3), 610-628.	among target clients which may hinder the success of IB.
9.	Saifurrahman and Kassim (2024). Regulatory issues inhibiting the financial inclusion: a case study among IBs and MSMEs in Indonesia. *Qualitative Research in Financial Markets*, *16*(4), 589-617.	The adoption of IB is challenged by regulatory imbalances, flaws, and restrictions that hinder access to finance for micro-, small- and medium-sized enterprises, thus affecting the achievement of financial inclusion and promoting sustainable growth.
10.	Alam and Miah (2021). Independence and effectiveness of Shariah supervisory board of IBs: evidence from an emerging economy. *Asian Review of Accounting*, *29*(2), 173-191.	The majority of IBs' Shariah supervisory board members often lack independence and seem powerless during staff selection/recruitment and guidance to the banking activities.

Source: WOS Journals (2016-2023)

Data Analysis:

The results in **Table 4.2** show that many barriers exist in the way of implementing IB and finance in Uganda. These could be in the form of a lack of understanding and awareness of various tenets of IB (Mahdzan et al., 2017), the lack of appropriate training on Shariah for staff, and a lack of proper Shariah compliance procedures and processes (Ali et al., 2022). It may be witnessed as being more vulnerable to corruption and money laundering, possibly weakening its profit and sustainability, which occurred when the first IB steps were being undertaken in Pakistan and Malaysia.

Aish et al. (2022) suggested that IB in Uganda will also face challenges resulting from several forces of pressure exerted by stakeholders, including bank management, clients, competitors, Shariah advisory boards, and the wider community, as already witnessed in Malaysia (Ali et al., 2023). In addition, IB in Uganda is also likely to face stiff competition from conventional banking, regulatory framework, and supervision issues, just like Malaysia was facing Zainordin et al. (2016). Besides, the SMEs in Uganda may impede the gradual implementation of the IB frameworks. It can result from unawareness on the part of the owners of SMEs, and they may also show poor preparedness and a negative attitude toward the adaptation process, as observed worldwide (Muhamad et al., 2020). The study also remarked that the integration of IB in Uganda could face an unfavorable subjective norm among its target customers concerning emerging technologies linked to IB, including FinTech services, a phenomenon reported in Malaysia and Saudi Arabia (Oladapo et al., 2022).

It was also found that adopting IB in Uganda may face challenges due to a lack of trust from potential customers, which may eventually hamper the performance of IB (Bananuka et al., 2020). In addition, the study showed that several challenges might hinder the introduction of IB in Uganda, stemming from differences, gaps, and shortcomings in the regulatory frameworks. These challenges might then limit access to finance for micro-, small--, and medium-sized businesses, thus hampering the achievement of financial inclusion and the fostering of sustainable development seen elsewhere in Indonesia (Saifurrahman and Kassim, 2024). Finally, the study concluded that the introduction of IB in Uganda could be hindered by the fact that most of those serving on the Shariah supervisory boards for different IBs do not usually enjoy autonomy and thus appear incapable of giving proper direction on the running of the banks, as has been evidenced in Bangladesh (Alam and Miah, 2021).

4.3 Findings on Objective Three: Lessons Learned from the Malaysian Islamic Banking and Finance Sector:

The following Table 4.3 presents the themes relating to the lessons that Uganda can learn from the Malaysian IB and finance sector;

Table 4.3: Lessons learned from the Malaysian experience:

S/N	Article	Lessons Learned from Malaysia
1.	Mahdzan et al. (2017). The adoption of IB services in Malaysia. *Journal of Islamic Marketing*, 8(3), 496-512.	The Malaysian banks have several avenues to avail tax incentives and conducted educational roadshows on IB to boost awareness and the adoption of IB.
2.	Abdul-Hadi and Muwazir (2021). IB selection criteria: a multi-ethnic perspective. *Journal of Islamic Marketing*, *12*(5), 1063-1078	Malaysian IBs consider religion and ethics, services and convenience, service quality and benefits, external and operational, and charges as the important criteria for targeting Malay customers, while Chinese and Indian customers are targeted by their choice of services and convenience factors.
3.	Jabari & Muhamad (2021). Gender diversity and financial performance of IBs. *Journal of financial reporting and accounting*, *19*(3), 412-433.	Malaysian IBs were advised to embrace more gender-diverse BOD and SSB to have better financial performance and to increase banks' size.

4.	Haron et al., (2020). Service quality of IBs: satisfaction, loyalty and the mediating role of trust. *Islamic Economic Studies*, 28(1), 3-23.	Malaysian IBs were implored to embrace service quality, customer satisfaction, customer loyalty, and trust to enhance customers' loyalty.
5.	Muhamad et al. (2020). Islamic financing for small medium enterprises: Challenges & opportunities. *Global Business Management Review*, 12(2), 50-64	Malaysian IBs promoted Islamic SME financing by granting rebates for participating Islamic financial institutions to boost adoption.
6.	Amin, H. (2020). Critical success factors for the receptiveness of Islamic home financing in Malaysia. *International Journal of Emerging Markets*, *15*(5), 849-873.	Malaysian banks also developed strong and competitive products and Islamic debt collection policies alongside boosting Islamic bankers' knowledge and *Maqasid al-Shariah* compliance to the accessibility of Islamic home financing.
7.	Shah et al., (2023). Role of FinTech in credit risk management: an analysis of IBs in Indonesia, Malaysia, UAE and Pakistan. *Journal of Science and Technology Policy Management*, *14*(6), 1128-1154.	Malaysian IBs reaped the benefits of having effective credit risk management policies, which have reduced pre-financing and post-financing credit risks.
8.	Ganesan et al., (2020). Does intention influence the financial literacy of depositors of IB? A case of	Malaysian IBs boost their performance by ensuring depositors' intention to learn about IB, which positively influences their

	Malaysia. *International Journal of Social Economics*, *47*(5), 675-690.	perceived behavioral controls, attitudes, and subjective norms.
9	Musa et al. (2020). Islamic business ethics and practices of IBs: Perceptions of Islamic bank employees in Gulf cooperation countries and Malaysia. *Journal of Islamic Accounting and Business Research*, *11*(5), 1009-1031.	IB personnel in Malaysia believe that their banks conform to Islamic ethical norms in business as a sign of commitment.

Source: WOS Journals (2017-2023)

Data Analysis:

As obtained from **Table 4.3**, the research thesis established that the IB and financing models in Uganda have the potential to borrow a leaf from the Malaysian IB system (Mahdzan et al., 2017) by adopting tax incentives and facilitating educational awareness programs to encourage the adoption of IB. Furthermore, the research indicated that Ugandan IB institutions ought to prioritize religion and ethics, the provision of services and convenience, service quality and advantages, as well as external operational factors and charges as crucial criteria for customer targeting, a finding corroborated by the experiences of Malay customers (Abdul-Hadi & Muwazir, 2021). This has further been evidenced by a study that found Ugandan IB emulates Malaysian IBs in the aspect of embracing more gender-diverse BOD and SSB to have better financial performance as well as to increase banks' size (Jabari & Muhamad, 2021).

In addition, the thesis recommended that IBs in Uganda could learn from their Malaysian counterparts in terms of prioritizing service quality, customer satisfaction, loyalty, and trust to improve customer loyalty (Haron et al., 2020). Additionally, Ugandan IBs may learn from their

Malaysian counterparts in terms of encouraging Islamic small and medium-sized enterprises by offering rebates for participating Islamic financial institutions towards wider adoption (Muhamad et al., 2020). It was also found that Malaysian IBs developed strong and competitive products and Islamic debt collection policies alongside boosting Islamic bankers' knowledge and Maqasid al-Shariah compliance to the accessibility of Islamic home financing (Amin, 2020), which aspect can be beneficial to Ugandan IBs. Correspondingly, it is found that Malaysian IBs have reaped benefits emanating from effective credit risk management policies that reduced the pre-financing and the post-financing credit risk (Shah et al., 2023), which can be emulated by Ugandan IBs.

It also found that Malaysian IBs enhance their performance by ascertaining depositors' intention to learn about IB through a positive influence on perceived behavioral controls, attitudes, and subjective norms (Ganesan et al., 2020), which practices would boost the adoption of IB products in Uganda. Finally, IB institutions in Uganda may consider adopting strategies to improve the caliber of their personnel, similar to the approaches implemented by their Malaysian counterparts, to foster a belief that their operations align with Islamic ethical standards in business, which serves as an indicator of their dedication (Musa et al., 2020).

CHAPTER FIVE

CONCLUSIONS, RECOMMENDATIONS, AND AREAS FOR FURTHER STUDY:

This chapter avails the study's conclusions, recommendations, and suggestions for further study as follows;

5.0 STUDY CONCLUSIONS:

The following conclusions were derived from the study's findings;

Findings on Objective One: Benefits/Opportunities of Islamic Banking and Finance:

The thesis has established that adopting IB and financing practices in Uganda will offer more financial service alternatives for Muslims and non-Muslims, catalyze investment efficiency, and improve service quality and timeliness, customer loyalty, trust, and satisfaction. The study also concluded that the adoption of IB in Uganda would offer windows for housing finance, make debt recovery mechanisms more efficient, offer competitive products in the market, increase the competitiveness of the market system, and lead to more liberalized financial systems.

According to the study, Uganda's adoption of IB will also help with financial inclusion, provide appropriate financing for SMEs, make agricultural loans more affordable, and increase the country's insurance penetration and overall insurance industry development by enabling the use of Islamic insurance products.

Findings on Objective Two: Challenges Associated with the Adoption of Islamic Banking and Finance:

The thesis noticed that there are many obstacles in the way of Uganda's adoption of IB and finance, including low awareness, poor employee training in Shariah, low Shariah compliance, corruption, and money laundering, all of which have an impact on the stability and profitability of these industries. The study also concluded that competitors, Shariah advisory boards, bank management, customers, and the general public might all exert pressure on Uganda to adopt IB.

The study also revealed that the IB sector in Uganda is anticipated to face strong competition from traditional banking, regulatory framework, supervision concerns, low SME adoption readiness, unsupportive target customer subjective norms regarding new IB technological services, such as FinTech services, and a lack of trust among target clients. Last but not least, the study discovered that the Shariah supervisory board members of IBs frequently lack autonomy and appear helpless to provide direction for the banking operations, which could pose a threat to the development of IB in Uganda.

Findings on Objective Three: Lessons Learned from the Malaysian Islamic Banking and Finance Sector:

The report suggests that through the use of tax incentives and educational roadshows to increase awareness and acceptance, Uganda's IB and financial institutions can distinguish themselves from those in Malaysia. The study also concluded that Ugandan IBs can learn from their Malaysian counterparts concerning external and operational factors: charges, service quality, and benefits; religion and ethics; and convenience. It also found that Ugandan IB should emulate Malaysian IBs in aspects embracing more gender-diverse BOD and SSB to have an improved financial performance and banks' size. This can be followed by embracing service quality, customer satisfaction, customer loyalty, and trust to enhance customers' loyalty, as was encouraged in the Malaysian market.

The research thesis also found that Ugandan IBs can benchmark their Malaysian counterparts in adopting the promotion of Islamic SME financing through granting rebates for the participating Islamic financial institutions to boost adoption as well as developing strong and competitive products and Islamic debt collection policies alongside boosting Islamic bankers' knowledge and Maqasid al-Shariah compliance to the accessibility of Islamic home financing.

Lastly, this thesis found that Ugandan IBs can learn from their Malaysian counterparts, reaping the benefits of developing effective credit risk management policies, which have reduced pre-financing and post-financing credit risks, boosting their performance by ensuring depositors' intention to learn about IB, which positively influences their perceived behavioral controls, attitudes, and subjective norms. The study also concluded that Ugandan IBs could benchmark on enhancing the quality of their personnel to improve their belief banks conform to Islamic ethics and norms in business as a sign of commitment, as was the case in the Malaysian context. Conclusively, the paper found that the adoption of an IB system by Uganda will contribute to financial inclusion, avail affordable agricultural financing since agriculture is Uganda's backbone, offer appropriate funding for SMEs as well as offer solutions to the MFIs in reaching their full potential, and so on. Above all, it concluded that the adoption of IB could face potential challenges stemming from Shariah compliance issues, corruption, inadequate training of the Banking personnel, and inadequate technology, among other issues, but laid a way through which the above challenges and more can be tackled henceforth the benchmarking of the Malaysian counterparts in dealing with them like enhancing the quality of service, personnel training among other issues for its success.

5.1 Study Recommendations:

This research paper recommended some Theoretical and practical alternatives as follows;

Recommendations on Objective One: Benefits/Opportunities of Islamic Banking and Finance:

These recommendations are as follows;

Practical Recommendations:

1. Policy Support and Regulatory Framework:
   - Government Action: The Ugandan government should develop and implement a clear and supportive regulatory framework for IB. This includes guidelines for Sharia-compliant financial products, ensuring they align with international best practices.
   - Collaboration with Central Bank: Work with the BoU to create conducive regulations for Islamic financial institutions, ensuring they operate in harmony with conventional banks while maintaining their unique Sharia-compliant tenets.
2. Awareness and Education Programs:
   - Public Awareness: Launch nationwide awareness campaigns to educate both Muslim and non-Muslim populations about IB and its benefits. This will help increase customer trust, loyalty, and satisfaction.
   - Training Programs: Financial institutions should organize training and workshops for employees to ensure they are knowledgeable about IB products, services, and customer needs.

3. Encourage Investment in Islamic Finance:
   - Private Sector Collaboration: Engage both local and foreign investors to support the development of financial products based on Islamic tenets, especially in sectors such as home financing, SMEs, agriculture, and insurance.
   - Market Research: Conduct regular market research to assess the need for Islamic financial products and adjust offerings accordingly to remain competitive.
4. Expand IB Product Offerings:
   - Home Financing: Encourage the development of Islamic home financing products such as Murabahah (cost-plus financing) and Ijara (leasing), catering to the need for affordable housing in Uganda.
   - Agricultural Financing: Establish partnerships with agricultural institutions to create financing products tailored for farmers under Islamic tenets, helping boost productivity and sustainability.
   - SME Financing: Develop Shariah-compliant loan products specifically for SMEs, addressing their unique challenges in accessing financing.
5. Boost Financial Inclusion:
   - Microfinance Integration: Collaborate with microfinance institutions to introduce Islamic microfinance products, increasing access to credit for low-income groups, particularly in rural areas.
   - Partnerships with NGOs: Collaborate with non-governmental organizations to provide Shariah-compliant microloans, targeting underserved populations.
6. Insurance Development:

- Islamic Insurance (Takaful): Promoting Takaful as an alternative to conventional insurance. Develop both individual as well as corporate Takaful products that cater to different sectors, including health, agriculture, and life insurance.
- Regulatory Framework for Takaful: Work with the insurance regulator to create a legal framework for Takaful providers, ensuring they operate efficiently and fairly.

Recommendations on Objective Two: Challenges Associated with Adoption of Islamic Banking and Finance:

Theoretical Recommendations:

1. Market Structure and Competition Theory:

- Improvement in Market Competitiveness: From a market structure perspective, the introduction of IB can increase competition in Uganda's financial services sector. This can lead to better service quality, innovation in financial products, and competitive pricing, benefiting both consumers and businesses.
- Dual Banking System: The theoretical framework of dual banking systems, which operate alongside conventional banks, can be adapted to study the effectiveness of IB practices in enhancing market dynamics, particularly in terms of product diversity and financial inclusion.

2. Financial Market Efficiency:

- Enhancing Investment Efficiency: IB, by focusing on risk-sharing instead of interest-based transactions, could contribute to greater efficiency in investment allocations. The application of financial market efficiency theories suggests that IB can optimize capital distribution, directing investments to productive and socially responsible sectors like agriculture and infrastructure.

- Optimal Resource Allocation: According to portfolio theory and capital market efficiency models, Islamic finance's focus on asset-backed financing and real economic activities can lead to a more sustainable and appropriate allocation of resources, particularly in sectors with significant potential like agriculture and SMEs.

3. Behavioral Finance and Trust Theory:

- Customer Trust and Loyalty: Theories in behavioral finance can explain how the ethical and transparent nature of IB can foster greater customer trust and loyalty. The focus on fairness, transparency, and mutual benefit, which aligns with the tenets of behavioral trust theory, emphasizes the importance of trustworthiness in financial institutions for enhancing customer retention and satisfaction.

- Behavioral Adaptation to Islamic Finance: Understanding how individuals and businesses might adapt to IB products through behavioral finance models can help design services that meet their preferences while overcoming cultural and financial barriers.

4. Development Economics and Financial Inclusion:

- Contribution to Financial Inclusion: Theories of financial inclusion suggest that IB can significantly widen access to financial services, especially for underprivileged populations. By providing products that are aligned with the values of different groups (including non-Muslims), Islamic finance can help bridge the financial inclusion gap and support sustainable development.

- Impact on Poverty Reduction: Islamic finance, emphasizing ethical investments and risk-sharing, can play a key role in poverty alleviation. Inclusive growth and poverty reduction theories highlight that offering financial products to small businesses, farmers, and underserved communities can contribute to broad-based economic development.

5. Social Capital Theory and Islamic Finance:

- Building Social Capital: Social capital theory suggests that trust and shared norms (such as those present in Islamic finance) are critical for the development of strong financial institutions and communities. IBs can leverage their ethical foundations to build stronger social capital in Uganda, particularly in rural areas where social bonds are crucial for collective economic advancement.

- Community-Oriented Financial Practices: IB's emphasis on risk-sharing and ethical investments may foster greater community engagement, as financial services are structured to benefit both individuals and society as a whole, aligning with theories on cooperative economics and mutual support.

6. Risk Management and Islamic Finance Theory:

- Risk-sharing Mechanisms: IB's risk-sharing tenets (such as those found in Musharakah and Mudarabah contracts) can be analyzed through the lens of risk management theory. By promoting shared risk, Islamic finance can offer more resilient financial systems that mitigate the negative impacts of market volatility.

- Improved Debt Collection Policies: From a risk management perspective, Islamic finance's ethical approach to debt collection can result in fewer defaults and better recovery rates. This can improve the overall health of financial institutions in Uganda, offering more stability and trust in the system.

Practical Recommendations:

1. Regulatory Support and Policy Framework:

   - Development of a Clear Regulatory Framework: The government of Uganda should establish a comprehensive regulatory framework for IB that ensures the tenets of Shariah compliance while safeguarding consumers and ensuring financial stability. This can involve the creation of specific rules governing Islamic financial institutions, ensuring they meet standards that align with international practices.

   - Collaboration with BOU: Central BoU should facilitate the integration of IB into the existing financial system by ensuring that it operates alongside conventional banking without conflicts. This may involve designing a dual banking system that allows IBs to offer products within the same legal structure as conventional banks.

2. Awareness and Education Programs:

   - Public Awareness Campaigns: Launch national educational campaigns to inform Muslim and non-Muslim populations about IB products and services, including home financing, investment opportunities, and ethical benefits. This will help mitigate misconceptions and increase customer adoption across all demographics.

   - Training for Financial Professionals: Conduct training and certification programs for banking staff, regulators, and policy-makers to enhance their knowledge of Islamic finance tenets and products, ensuring they can adequately serve the increasing demand for Shariah-compliant financial services.

3. Product Development and Innovation:

   - Islamic Home Financing: Encouraging banks to develop and offer Islamic home financing products (e.g., Murabahah, Ijara, and Musharakah) that provide affordable homeownership options, especially in urban areas where demand for housing is growing.
   - Agricultural Financing: Develop tailored Islamic financing products for Uganda's agriculture sector, addressing the needs of farmers by ensuring affordable, Shariah-compliant loans and investment opportunities for agricultural expansion.
   - SME Financing: Design Shariah-compliant loan products for small and medium-sized enterprises (SMEs) to address their unique financing needs, including profit-sharing arrangements (Mudarabah) and joint ventures (Musharakah) to support entrepreneurship and innovation.

4. Promotion of Islamic Insurance (Takaful):

   - Takaful Expansion: Encourage the development and marketing of Islamic insurance (Takaful) products to increase insurance penetration in Uganda. This would help meet the growing need for affordable and ethical insurance solutions in sectors like agriculture, health, and life insurance.
   - Strategic Partnerships: Facilitate partnerships between IBs and Takaful providers to bundle insurance with financing products, offering a more comprehensive financial service package.

5. Financial Inclusion and Access:

   - Inclusive Financial Products: Focus on developing Shariah-compliant microfinance products that cater to Uganda's low-income populations, particularly in rural areas, thus increasing financial inclusion.

   - Outreach to Underserved Communities: IBs should target underserved communities with affordable and accessible financial services to ensure broader access to credit, savings, and insurance products.

6. Debt Collection and Customer Relationship Management:

   - Ethical Debt Collection Mechanisms: IBs should implement ethical debt collection policies that emphasize fairness and empathy, in line with Islamic tenets. This can improve customer satisfaction and loyalty, as it promotes a culture of trust.

   - Customer-Centric Services: Develop customer relationship management strategies focused on transparency, timely service, and responsiveness, fostering a long-term relationship of trust with clients.

Recommendations on Objective Three: Lessons Learned from the Malaysian IB and Finance Sector:

Theoretical Recommendations:

1. Benchmarking and Institutional Theory:
   - Learning from Malaysian Experience: Uganda's IB system can benefit from institutional theory, which suggests that institutions evolve by adapting best practices from successful

models. By benchmarking against Malaysia, Uganda can adopt strategies that align with local needs, ensuring greater adoption and operational success.

- Adaptive Change: The study suggests that Ugandan IBs could apply organizational learning theory to constantly refine their operations by adopting international best practices (such as Malaysia’s experience) while accommodating Uganda's unique economic, cultural, and regulatory environment.

2. Service Quality and Customer Satisfaction Theory:
   - Customer-Centric Approach: High service standards are crucial for gaining and keeping customers, according to theories of customer satisfaction and service quality. The SERVQUAL theory, which evaluates service quality in five areas: tangibles, assurance, responsiveness, empathy, and reliability, can be advantageous to Ugandan banks. Uganda's IBs can improve their client interactions by highlighting these elements.
   - Relationship Marketing: Building on theories of relationship marketing, Ugandan banks should shift from a transactional approach to a relationship-based approach. This involves understanding customer needs, engaging with customers regularly, and developing products that meet both financial and ethical expectations.
3. Financial Inclusion and Development Economics:
   - Islamic Finance and Inclusive Growth: Theories of financial inclusion suggest that IB can contribute significantly to inclusive economic development. By offering financing to SMEs, agricultural sectors, and underserved communities, Uganda’s IBs can promote economic growth, reduce poverty, and foster social equity.
   - Maqasid al-Shariah and Economic Development: The concept of Maqasid al-Shariah (objectives of Islamic law) emphasizes the importance of socio-economic justice. Ugandan

banks can apply this concept in the design of their products, ensuring that financial services promote equitable growth, support sustainable livelihoods, and contribute to overall social welfare.

4. Risk Management and Behavioral Finance:
   - Risk-sharing and Islamic Finance: The adoption of risk-sharing mechanisms (e.g., Mudarabah and Musharakah) in Islamic finance can help mitigate the risks associated with interest-based financing, promoting more stable financial systems. Behavioral finance theories suggest that the ethical and risk-sharing aspects of Islamic finance can increase customer trust and lower perceptions of financial risk, leading to higher adoption rates.
   - Credit Risk Theories: The development of robust credit risk management models, inspired by Malaysia's practices, can be analyzed using credit risk theory to assess how IBs can effectively minimize credit risk while maintaining Shariah compliance.
5. Gender and Diversity Theories:
   - Diversity in Leadership: Diversity theories highlight that gender-diverse leadership can lead to better decision-making, improved performance, and a more inclusive organizational culture. Ugandan IBs could use these theories to justify greater gender balance in their governance structures, following Malaysia's lead in fostering diversity at the Board and Shariah Supervisory Board levels.
   - Leadership and Financial Performance: Transformational leadership theory suggests that inclusive, diverse leadership can inspire greater commitment, leading to enhanced performance. Applying this to Uganda's IBs, promoting diverse leadership could help improve operational efficiency and customer satisfaction.

Practical Recommendations:

1. Adopt Tax Incentives and Government Support:
   - Government Engagement: Uganda should follow Malaysia's example by offering tax incentives and other regulatory support to IB institutions. This could include tax breaks for IBs offering Shariah-compliant financial products, making these products more competitive and attractive to customers.
   - Incentivize IB Growth: Providing incentives such as reduced fees and simplified regulatory procedures could lower operational costs, encouraging both local and international Islamic financial institutions to expand their offerings in Uganda.
2. Public Education and Awareness Campaigns:
   - Educational Roadshows: Uganda should initiate roadshows, seminars, and workshops across the country to raise awareness about IB tenets and products. This would target both Muslim and non-Muslim communities, helping the public understand the ethical and financial advantages of Sharia-compliant finance. These efforts could be modeled after Malaysia's extensive public education programs.
   - IB Outreach: Collaborate with universities, community organizations, and media outlets to spread information about the ethical tenets of Islamic finance and its benefits, thus enhancing public understanding and adoption.
3. Focus on Religion and Ethics in Service Delivery:
   - Religious and Ethical Orientation: IB in Uganda should emphasize religious tenets and ethics in their product offerings, similar to the Malaysian approach. This includes prioritizing ethical business practices, aligning products with Islamic values (such as avoiding interest-based financing), and ensuring transparency in all financial dealings.

- Customer-Centric Service Design: Develop services that focus not just on convenience but also on ethics, fairness, and alignment with religious values to appeal to both Muslim and non-Muslim customers seeking ethical financial solutions.

4. Gender-Diverse Leadership and Governance:
   - Inclusive Board and Sharia Supervisory Board (SSB): Ugandan IBs should diversify their Board of Directors (BOD) and Sharia Supervisory Board (SSB) to include more women, as this has been linked with better financial performance in Malaysia. This will enhance decision-making, innovation, and representation within the organization.
   - Diversity for Enhanced Performance: Promote diversity within leadership and governance structures to reflect a broad spectrum of views and increase the competitiveness of IB institutions in Uganda.
5. Focus on Service Quality, Customer Loyalty, and Trust:
   - Quality and Trust-Driven Services: Ugandan IBs should prioritize service quality, customer loyalty, and trust by regularly seeking customer feedback, offering tailored services, and ensuring transparent practices. This mirrors Malaysia's approach to strengthening customer relationships through high-service quality and ethical business practices.
   - Loyalty Programs: Introduce customer loyalty programs that reward long-term customers, thus reinforcing trust and encouraging repeat business.
6. SME Financing and Incentives:
   - SME Financing Promotion: Adopt Malaysia's practice of offering rebates and incentives to encourage Islamic financial institutions to provide financing for small and medium-sized enterprises (SMEs). This could be a combination of reduced fees for SME loans or special funding programs to foster entrepreneurship and economic growth.

- Develop Tailored Products: Ugandan IBs should develop financing products for SMEs, including profit-sharing models like Mudarabah and Musharakah, allowing entrepreneurs to access capital without incurring debt.

7. Islamic Debt Collection and Risk Management Policies:
   - Credit Risk Management: Ugandan IBs should develop stronger credit risk management policies inspired by Malaysia's successful models. This would include pre- and post-financing risk assessment protocols that reduce defaults, minimize financial loss, and ensure compliance with Islamic ethical tenets.
   - Ethical Debt Collection: Implement Islamic debt collection practices based on mutual respect and fairness, ensuring that borrowers are not exploited. This can enhance customer satisfaction and trust while maintaining the ethical standards of Islamic finance.
8. Enhance Knowledge and Training for Bank Personnel:
   - Employee Training and Development: Uganda's IBs should invest in comprehensive training programs for their staff, focusing on Maqasid al-Shariah (the objectives of Shariah law) and Islamic financial tenets. This will ensure that employees are well-equipped to deliver high-quality services and uphold the ethical values of Islamic finance.
   - Continuous Professional Development: Establish partnerships with Islamic finance institutions in countries like Malaysia to facilitate knowledge transfer and training, ensuring Ugandan banks adopt best practices in staff management and customer service.

5.2 Areas for Further Study:

Subsequent research on the adoption of IB in Uganda could explore several key areas. These include examining its impact on financial inclusion, particularly for marginalized groups, and a comparative analysis of IB products offered in Uganda and Malaysia to reveal possible market opportunities. Investigations could examine the cultural and religious impediments to adoption, the impact of education in fostering awareness, and the potential of Islamic finance to facilitate SME funding and economic growth. Additional domains for investigation encompass the effect of gender diversity on the performance of banks, the sufficiency of Uganda's legal and regulatory structure, and the implementation of Maqasid al-Shariah tenets within banking practices. Additionally, studies could focus on risk management practices, the development of Takaful (Islamic insurance), customer perceptions, and the broader economic contributions of IB to Uganda's development. These studies could offer valuable insights for improving Uganda's IB sector and enhancing its contribution to the country's economy.

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