



Issues and Challenges of Islamic Banking: The Case of Gambia

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Abstract

Islamic banking, which adheres to *Shariah* principles, has gained momentum in predominantly Muslim countries. However, in The Gambia, it remains relatively new, presenting both opportunities and challenges. This study explores the issues and challenges of Islamic banking in The Gambia, identifying its current state and customer's level of knowledge and awareness. The study adopts a qualitative approach, utilizing structured interviews with key stakeholders, including Islamic bank officers, regulatory bodies, and customers. The study examines critical aspects such as the regulatory environment, *Shariah* governance, and market participation. Findings reveal that while Islamic banking offers growth potential, several challenges hinder its expansion. The regulatory framework is not specifically designed for Islamic banks and financial institutions. Although the Central Bank of The Gambia introduced guidelines (CBG) to regulate Islamic financial institutions, gaps remain as these guidelines are yet to make significant impacts. Other major challenges include a shortage of *Shariah* experts, *Shariah* non-compliance issues, operational inefficiencies, inadequate liquidity management tools, and limited Islamic banking knowledge among bank employees. While customers in Gambia recognise the existence of Islamic banking within the country, however, their overall knowledge and understanding remains low. Religious motivation is the main factor influencing customer preference. This study contributes to the body of literature by analysing Islamic banking challenges in The Gambia, a region with limited prior study. It provides recommendations to enhance regulation, improve *Shariah* governance, and increase awareness.

Keywords: Central Bank of The Gambia, Islamic banking, Islamic financial institutions, Islamic finance, *Shariah* governance, *Shariah* governance framework.

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1. Introduction

Islamic banking continues to operate within the framework of conventional banking system, adopting certain structures while maintaining its distinct principles. While the objective is broad, unlike the conventional banking system, the main principle is the promotion of interest-free banking, ensuring all operations and activities are carried in accordance with *Shariah* law. Over the past few decades, Islamic banking has experienced rapid growth. According to the Islamic Financial Services Industry Stability Report 2023, global Islamic banking assets have surpassed \$2.9 trillion, with major contributions from the Middle East, Southeast Asia, and parts of Africa. Countries such as Malaysia, Saudi Arabia, the UAE, and Pakistan have well-established Islamic banking frameworks, while emerging markets like Nigeria and Kenya are increasingly adopting Islamic financial practices (Kammer et al., 2015). Critics of the conventional banking systems argue that it relies heavily on interest (*riba*), which leads to economic inequality and creates financial instability. This leads to a shift to another alternative, the Islamic banking system which provides social and economic justice, encourages ethical investments and overall contributes meaningfully to socio-economic development. However, the practice of interest free banking system can be difficult under the common law system that does not inherently support Islamic principles.

Islamic banking in The Gambia started in 1997 with AGIB bank as the first Islamic bank to operate fully

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Shariah compliant Islamic banking instruments. Since its establishment, the Islamic bank have been operating alongside with the conventional banks (Sillah, 2005). Over the years, stakeholders from both Muslims and non-Muslim communities demonstrated remarkable interest in Islamic banking and finance, which as a result, made a significant impact in the development and growth of the sector in The Gambia. The central bank of The Gambia in collaboration with the ministry of finance, has initiated capacity building programs for financial professionals to enhance expertise in Islamic banking and finance. This remarkable step taken by the government reveals the keen interest shown in the area of Islamic banking in The Gambia which for many years lacked consideration and concentration from the side of the government. The industry is currently at its nascent stage, posing both unique challenges and opportunities. The country been one of the smallest in West Africa, has a total population of approximately 2.4 million with 95.3% being Muslims.

The number of Islamic financial institutions (IFIs) has grown significantly, increasing from six in 2022 to ten in 2023. These include one Islamic bank, one conventional bank with an Islamic banking window, four *Takaful* operators, one Islamic credit union, and one microfinance institution expected to transition into a fully-fledged Islamic entity (Sawaneh, 2022). The regulatory environment comprising the Islamic bank is still at its development stage despite many efforts to transforming it to cater for the Islamic financial institutions. Notwithstanding, the central bank through the banking act 2009, is primarily responsible for regulating the banking institutions including the Islamic bank. Key efforts have been undertaken by the central bank in reviewing the banking act in order to include a section for Islamic finance.

Despite the presence of an Islamic bank in The Gambia for nearly three decades, studies have revealed that public awareness, knowledge and understanding of Islamic banking remain significantly low (Conteh & Hassan, 2021; Sonko, 2020). Several factors are attributed to lack of awareness including, inadequate financial literacy programs, absence of well-defined regulatory guidelines, deficiency in proper marketing strategies, and limited accessibility of Islamic banking products, especially in the most concentrated areas. Majority of customers even from the Muslim majority community, still perceive Islamic banking to be a mere transformation of the conventional banks with no significant difference. While others argue that the complexity and lack of proper explanation of the banking procedures deter them from banking with the Islamic banks. As a result, the sector struggles in attracting sufficient customer base to meet the need of the Gambian population, which is strongly motivated by *Shariah* principles. The limited availability of empirical research on Islamic banking poses a significant challenge to its development.

While Islamic banking in The Gambia co-exists alongside with conventional banking institutions, a critical gap exists in understanding the regulatory constraints, market participation consumer behaviour and several other issues affecting the sector. To the best knowledge of the researchers, no empirical study has examined the current state of Islamic banking practice in relation to the regulatory environment, market participation and *Shariah* government practice. Further, there is limited research on the issues facing the Islamic banking industry, addressing the regulatory, *Shariah* and operational issues that are prevalent and deter the growth of the sector. Previous studies on Islamic banking mainly focus on consumer knowledge, adoption, perception and awareness of Islamic banking products. Thus, this research explores the issues and challenges facing the Islamic banking in The Gambia, while elaborating on the current state of Islamic banking practices. By doing so, this research builds on previous research by providing a more holistic and in-depth analysis of the industry. Unlike past studies that primarily focused on awareness, adoption barriers, or regulatory issues, this research provides a comprehensive analysis on the regulatory environment, the market and *Shariah* governance practice under which the Islamic banking is operating in The Gambia. Additionally, the research discusses general challenges that are hindering the growth of Islamic banking through a qualitative research approach.

In response to these issues, the research deliberates on the challenges of Islamic banking in The Gambia. Structured interview is conducted to explore on the current practice of Islamic banking, challenges, and the level of knowledge and awareness of Islamic banking among customers. This study has several objectives. Firstly, to explore on the current state of Islamic banking practices in The Gambia. Secondly, to assess issues and challenges of Islamic banking in The Gambia. Thirdly, to explore on the level of knowledge and awareness among customers of Islamic banking in the Gambia. Lastly, to provide suggestions and recommendations for the improvement of Islamic banking in The Gambia.

The study is organized into five key sections. First part is the overview of Islamic banking in The Gambia, research objectives, and significance of the study. The second part examines existing research on Islamic banking, highlighting challenges and opportunities in both global and Gambian contexts. The third part details

the research methodology, describing the qualitative approach, data collection methods, and analysis techniques. The fourth part presents the findings and discussions. The fifth part offers conclusions and policy implications, summarizing the key insights and suggesting strategies for strengthening the Islamic banking sector.

2. Literature Review

2.1. Overview of Islamic Banking Principles

Islamic banks unlike conventional banks act as Investment managers on behalf of depositors according to basis of sharia law. Therefore, the basic features of Islamic banking as opposed to its conventional counterparts with respect to the client-bank relationship is based on partnership and trust. These principles are the fundamentals guidelines that determine the operations of Islamic banks. One of the basic principles governing Islamic banking is the prohibition of *riba* which applies to both giving and accepting in terms of loan and deposits. Unlike conventional banks whose primary activities are based on *riba*, Islamic banks operate fully under sharia law, ensuring all the activities are in accordance with requirements of *Shariah*.

The second principle is the prohibition of all forms of cheating, deceit and fraud with regards to uncertainty that might lead to loss or risk of losing capital. Parties entering financial contracts are required to have full knowledge of contract terms and conditions beforehand. Scholars define *gharar* in many ways based on different school of thought. However, the unanimous aspects of *gharar* simply circulate around anything its consequences are undetermined or not known to the parties of contract.

Thirdly, apart from being *riba* and *gharar* free, Islamic banking business keeps a distance from trading in unlawful goods and services that are prohibited in the *Quran* and *Hadith*. Some of the notable prohibited goods and services include non-Halal foods such as pork, animals that are not slaughtered according to Islamic principles, intoxicating drinks, pornography, tobacco-related products, and weapons. Non-involvement is not only limited to buying or selling but also includes all chains of production and distribution, such as packaging, transportation, warehousing and marketing of these prohibited goods and services.

Fourthly, the application of Islamic guidelines in banking is not just for cleaning the financial system from interest and *gharar*, rather it is to establish justice in finance for which *riba* and *gharar* have been prohibited. Islamic finance tries to promote social justice and equity in human society. Justice in business or partnership requires that both the parties should contribute cash, assets or work and bear or share the risk in business. Based on contribution and risk bearing or sharing, the profit and loss are distributed to the parties.

2.2. Global Islamic Banking Experience

The *Shariah* law allows Muslims to engage in activities that generate income in a manner that does not contradict the laws and principles of Islamic faith. Put simply, all the conducts and activities of individuals are strictly guided by the *Shariah* law whether they be commercial, social, political, or religious activities. Islamic banking faces so many challenges globally and need critical discussions to improve the efficiency of the industry (Yusuff, 2015).

Nonetheless, the industry has realised a tremendous growth since its existence for more than 50 years both internationally and domestically, providing financial services to the Muslim communities who are willing to spend their wealth in accordance with *Shariah*. This growth is supported mainly by factors including knowledge and awareness, *Shariah* governance and many other relevant factors. Despite significant headwinds, the global Islamic finance industry increased its assets size by 11% from 2021 to US\$4.5 trillion. In the past decade, industry grew by 163% as covered in the special analysis report. The industry is expected to continue to grow, with assets forecasted to reach US\$6.7 trillion by 2027. Several key factors contribute to this outlook, including the large Islamic finance markets such as the GCC, Malaysia and Indonesia continuing to strengthen their domestic Islamic finance industries, and Pakistan addressing the requirements to convert its financial system to become interest-free following its Federal Shariah Court judgement on Riba in 2022.

2.3. Islamic Banks Regulation, Sharia Governance and Market Dimension

While Islamic banks operate alongside with conventional banks, they have a unique regulatory framework that highly integrates *Shariah* principles with financial regulations. Effective regulations and supervision are crucial to ensure stability and transparency of Islamic banks, ensuring compliance with *Shariah* and international standards. Chapra and Ahmed (2002) emphasize the need for tailored regulatory frameworks for Islamic banks

to create a unique distinction from the conventional banks. They highlighted that Islamic banks require specific guidelines tailored to their needs addressing profit and loss sharing mechanisms and risk mitigation tools. Furthermore, [Ahmed and El-Gamal \(2020\)](#) examined the complexity of applying international regulatory frameworks to Islamic banks, especially in countries where Islamic banking have just started to operate. While the international standards provide risk assessment mechanism, they do not fully cover the unique risk sharing nature of Islamic banks. This creates discrepancies and puts the Islamic banks in higher risk. Furthermore, Islamic banks are known to have survived financial crisis that affected conventional banks. [Hasan and Dridi \(2011\)](#) studied the resilience of Islamic banks during financial crisis. Their findings suggest that Islamic banks were less affected during the 2008 financial crisis mainly due to their asset-back nature. [Kammer et al. \(2015\)](#) examined the effectiveness of regulatory frameworks in Islamic banks. They emphasize strong regulatory framework to prevent inconsistencies in Islamic banking practices. [Rahman \(2020\)](#) explores the role of technology in enhancing Islamic banking regulation. He argues that fintech solutions can improve regulatory compliance through real-time monitoring and automated *Shariah* screening mechanisms. [Naim and Abdul-Rahman \(2023\)](#) discuss the potential role of artificial intelligence in regulatory compliance for Islamic banks. They propose AI-driven solutions for automated compliance monitoring and fraud detection.

Several countries have established robust Islamic banking regulatory frameworks to ensure compliance, stability, and growth within the sector. Malaysia, for instance, has a well-structured regulatory system under the purview of Bank Negara Malaysia, with dedicated *Shariah* governance guidelines and Islamic Financial Services Act (IFSA) 2013 ([Archer & Karim, 2007](#)). The United Arab Emirates (UAE) follows a comprehensive dual banking system, regulated by the UAE Central Bank and supported by the Higher Shariah Authority ([Hussain et al., 2021](#)). Bahrain, a key player in Islamic finance, houses the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and follows strict regulatory standards ([IFSB, 2018](#)). Pakistan's State Bank has actively promoted Islamic banking through dedicated policies and *Shariah* compliance mechanisms ([Chapra & Ahmed, 2002](#)). Additionally, Saudi Arabia, home to some of the largest Islamic banks, has integrated Islamic banking within its broader financial sector, ensuring *Shariah* compliance through its central regulatory body ([Rahman, 2020](#)).

Shariah governance is crucial for the development of Islamic banks and maintaining their positions in accordance with the principles of *Shariah* law. It collaborates regulatory frameworks, *Shariah* boards, risk assessment mechanism tailored to uphold the ethical aspects of the Islamic banks across the world. [Chapra and Ahmed \(2002\)](#) emphasize the essentials of *Shariah* governance in Islamic banks, highlighting that effective sharia governance practice boost shareholder's confidence. Their study emphasizes the need for robust *Shariah* governance framework with the integration of qualified *Shariah* scholars. [Grais and Pellegrini \(2006\)](#) examine the role of *Shariah* boards and emphasize the necessity of having independent and well-qualified scholars to ensure adherence to Islamic principles. [Hasan and Dridi \(2011\)](#) examined several *Shariah* governance models adopted in different countries, including centralized and decentralized models. His findings suggest that country with centralized Sharia models demonstrate strong regulatory frameworks and ensure consistency in Islamic banking practices.

Islamic banks play a significant role in financial markets by offering *Shariah*-compliant banking products and services. Their market participation is influenced by regulatory frameworks, competition with conventional banks, customer demand, and financial performance. An overview of the expansion of Islamic banking globally, emphasizing its rapid growth in Muslim-majority countries and increasing presence in non-Muslim markets. [Beck et al. \(2013\)](#) compare Islamic and conventional banks, his findings reveal that Islamic banks have lower leverage and higher capital buffers, making them competitive players in the financial market. [Kammer et al. \(2015\)](#) highlight that Islamic banks compete effectively in markets with strong regulatory support and *Shariah* governance frameworks. They note that dual banking systems, such as those in Malaysia and the UAE, provide a conducive environment for Islamic banks to thrive. [Hussain et al. \(2021\)](#) analyse the profitability and efficiency of Islamic banks in competitive markets. Their findings suggest that while Islamic banks face challenges in liquidity management, their ethical banking model attracts customers seeking *Shariah*-compliant alternatives. [IFSB \(2018\)](#) examines the role of regulatory institutions in facilitating Islamic banking market participation. The study highlights the importance of standardized regulations and *Shariah* governance in ensuring market confidence. [Dusuki and Abdullah \(2007\)](#) discuss stakeholder perceptions of Islamic banking regulation, emphasizing the need for greater transparency and regulatory consistency to enhance market participation.

2.4. Banking Sector in The Gambia

The banking sector in The Gambia is characterised mainly as conventional dominants and had begun since the pre-colonial eras. The development of the banking sector became wider spread during the first half of the second republic in around 2000s onwards when so many international investors combined with domestic investors started to demonstrate keen interest in The Gambian financial market. As of 2021, the sector comprised of twelve banks, eleven of which are conventional, and one Islamic bank. Government support for the development of the banking sector also became a contributing factor for the success of the banking industry. At the end 2021, the banking industry expanded during the year, benefiting from higher investments in government securities, placements, and private-sector credit. Total assets stood at D73.0 billion as at end December 2021, representing an increase of 24.1% from a year. This significant growth is supported by key factors including robust governance and supervision from the central bank, increase in the number of foreign investors and other fundamental indicators.

In terms of market share, data from 2012 to 2021 indicates that no single bank held a monopoly. The largest market share during this period was 25%, held by Trust Bank, which does not constitute a monopoly under the Competition Act 2007. While more recent specific market share data is limited, the sector has continued to expand.

The range of services offered by conventional banks in The Gambia varies. Some institutions provide a comprehensive suite of financial products, including personal accounts, corporate banking, and digital solutions, while others focus on more basic services. For example, Zenith Bank Gambia Limited offers services such as pension management, corporate and investment banking, and treasury and cash management services. The banking sector is well-regulated by the Central Bank of The Gambia, which is responsible for licensing, regulating, and supervising financial institutions under Section 71 of the Central Bank Act, 2018. The core mandate of the Banking Supervision Department is to maintain public confidence in the safety and soundness of the financial system.

Despite the growth in total assets, the banking sector in The Gambia remains dominated by conventional banks, which hold approximately 93.2% of the market share, while Islamic banking institutions, led by the Arab Gambia Islamic Bank (AGIB), account for only 6.8%. Trust Bank Gambia Ltd, Ecobank Gambia, and Standard Chartered Bank remain the leading financial institutions in terms of asset size and customer base. However, Islamic finance is gradually gaining traction, particularly within the microfinance and Takaful (Islamic insurance) segments.

2.5. Islamic Banking in the Gambia

Islamic banking has been growing steadily in The Gambia, driven by increasing demand for *Shariah*-compliant financial services (Jallow et al., 2021). The development of Islamic banking in the country has been shaped by government intervention, market participants, governance structures, product offerings, market demand, and educational trainings. Previous studies have examined the challenges and opportunities in these areas, providing insights into the sector's growth and the obstacles that hinder its full potential. The regulatory framework governing Islamic banking in The Gambia is overseen by the Central Bank of The Gambia (CBG). Studies highlight that while The Gambia has no standalone Islamic banking law, the existing Banking Act allows for Islamic financial services under a dual banking system (Jallow & Sillah, 2020). The absence of a dedicated regulatory framework poses challenges for the standardization and supervision of Islamic banks. Researchers argue that this regulatory gap results in inconsistencies in *Shariah* compliance and product structuring, making it difficult for Islamic financial institutions to compete effectively with conventional banks (Sillah, 2021). Efforts to introduce a comprehensive regulatory framework remain ongoing, with policymakers exploring the adoption of AAOIFI and IFSB standards to enhance governance and standardization (Sawaneh, 2022).

Islamic banking in The Gambia is primarily driven by a few key players, including Trust Bank Limited (which offers Islamic windows) and AGIB bank. These institutions play a crucial role in providing *Shariah*-compliant financial solutions, particularly to small and medium enterprises (SMEs). However, literature indicates that the limited presence of full-fledged Islamic banks restricts market expansion and financial inclusion (Sonko, 2020). The lack of a diverse range of institutions results in low competition, which affects service quality and product innovation. Some studies suggest that policymakers should incentivize the entry of more Islamic financial institutions to enhance competition and improve financial accessibility for consumers

(Jallow et al., 2021). Effective *Shariah* governance is critical for ensuring compliance with Islamic financial principles. The Gambia under the side of the regulation lacks a central *Shariah* board, leading to a reliance on individual *Shariah* Advisory Committees within financial institutions (Sawaneh, 2022). This decentralization has been criticized for creating inconsistencies in fatwa issuance and product standardization. Some scholars argue that establishing a national *Shariah* Supervisory Board would enhance credibility and harmonization in the industry, ensuring that Islamic banking products align with international best practices (Conteh & Hassan, 2021). However, challenges remain in terms of capacity-building and the availability of qualified *Shariah* scholars who can provide consistent guidance across institutions.

Islamic banking products available in The Gambia include *Murabaha* (cost-plus financing), *Ijarah* (leasing), and *Mudarabah* (profit-sharing). *Murabaha* remains the most popular financing mode due to its simplicity and risk management advantages. However, the limited range of products restricts competitiveness with conventional banks, which offer a broader suite of financial instruments. Studies suggest that product innovation, such as the introduction of *Sukuk* (Islamic bonds) and *Takaful* (Islamic insurance), could further expand the sector and attract a more diverse customer base (Sillah, 2021). The lack of sophisticated Islamic financial products limits investment opportunities and slows the sector's growth. Several studies have explored the demand for Islamic banking services in The Gambia. While many Gambians express interest in Islamic banking, there is a lack of awareness regarding its principles and benefits. Research finds that misconceptions, such as the belief that Islamic banking is only for Muslims, hinder its adoption among the general population. Limited marketing efforts and inadequate consumer education contribute to this challenge (Jallow et al., 2021). Scholars recommend targeted educational campaigns and marketing strategies to improve consumer understanding and increase uptake of Islamic financial services.

The role of education and training in promoting Islamic banking has been widely discussed in the literature. The absence of specialized Islamic finance programs in Gambian universities hampers the development of skilled professionals in the field. Some studies recommend partnerships between local institutions and international Islamic finance bodies to offer certifications and degree programs. Additionally, training programs for bank employees are considered vital for industry growth, as a lack of expertise in Islamic finance among banking professionals limits the sector's expansion and efficiency (Sonko, 2020). Islamic banking in The Gambia has been the subject of several studies examining customer awareness and perceptions. A notable study by Sonko (2020) analysed customers' perceptions of Islamic banking in the country. The research involved 150 customers from both conventional banks and the Arab Gambia Islamic Bank (AGIB), the only Islamic bank in The Gambia. The findings revealed that while AGIB customers demonstrated higher religious commitment and greater knowledge of Islam and Islamic banking compared to conventional bank customers, overall awareness and usage of Islamic banking products among all respondents were low. Interestingly, despite a general agreement that interest is prohibited in Islam, many customers perceived AGIB as not fully *Shariah*-compliant. The study identified religious commitment and knowledge about Islam and Islamic banking as significant factors influencing the choice to bank with AGIB. (Joof, 2017) assessed and compared the performance of Islamic and conventional banking in The Gambia from 2006 to 2016, focusing on Arab Gambian Islamic Bank (now Agib Bank Ltd) and Trust Bank Ltd. The findings revealed that conventional banking outperformed Islamic banking in terms of profitability from 2006 to 2015. However, in 2016, Agib Bank Ltd surpassed Trust Bank Ltd in return on assets (ROA). Additionally, the study found that Agib Bank Ltd generally maintained higher liquidity than Trust Bank Ltd.

Similarly, compared the financial performance of Agib Bank Ltd (Islamic) and Trust Bank Ltd (conventional) in The Gambia from 2008 to 2017 using the CAMEL framework. The findings revealed that Trust Bank Ltd was more profitable in terms of Return on Assets (ROA) and Return on Equity (ROE), while Agib Bank Ltd outperformed in Earnings Per Share (EPS) and Dividends Per Share (DPS) from 2015 to 2017. Agib Bank Ltd was more liquid in terms of Total Equity to Total Assets (TETA), whereas Trust Bank Ltd had higher liquidity based on Loans to Total Assets (LTA) from 2014 to 2017. Additionally, Agib Bank Ltd had lower Non-Performing Loans (NPL) compared to Trust Bank Ltd, but a sharp decline in Trust Bank's NPL from 4% in 2016 to 0.4% in 2017 indicated an improvement in loan portfolio quality. These results suggest that Agib Bank Ltd.'s management was more effective in asset management, particularly in loan performance. Similarly, Drammeh (2019) compared Islamic and conventional banks performance. Her study evaluates the performance of AGIB bank during the financial crisis. The study found that Arab Gambia Islamic Bank (AGIB) outperformed conventional banks in terms of liquidity and financial leverage during the 2009 financial crisis,

showing lower risk and better ability to meet short-term obligations. However, conventional banks were more profitable, with consistently higher returns on assets and equity than AGIB throughout 2009 to 2012.

Another study by [Conteh & Hassan \(2021\)](#) explored public perceptions of Islamic banking in The Gambia. The research aimed to assess the level of awareness, understanding, and willingness to patronize Islamic banking, as well as to evaluate bank selection criteria among the Gambian public. The results indicated that while awareness of Islamic banking's existence was high, knowledge of its principles and products was limited. Despite this, there was a notable willingness among respondents to engage with Islamic banking services. The study also found that, although religion played an important role, it was not the primary factor driving patronage of Islamic banking in The Gambia.

These studies suggest that while there is a foundational awareness of Islamic banking in The Gambia, there remains a significant gap in detailed knowledge and understanding of its products and principles among customers. Addressing this gap through targeted educational initiatives and marketing strategies could enhance customer engagement and trust in Islamic banking services within the country. The literature on Islamic banking in The Gambia underscores both the progress and challenges facing the industry. While there is growing demand and interest in Islamic financial services, the sector is constrained by regulatory gaps, limited product offerings, inadequate Shariah governance, and low consumer awareness ([Bah, 2021](#)). Future research should focus on policy reforms, market expansion strategies, and the integration of digital Islamic banking solutions to enhance financial inclusion. Strengthening collaboration between regulators, financial institutions, and educational bodies will be essential for the sustainable growth of Islamic banking in The Gambia.

2.6. Challenges of Islamic Banking: Review of Previous Studies

Islamic banking has gained significant global recognition, but it continues to face several challenges that impede its growth and effectiveness. Previous studies on Islamic banking highlight key issues such as regulatory challenges, *Shariah* governance issues, product development and innovation constraints, market awareness and education gaps, and operational and financial performance limitations. Several studies emphasize the inconsistencies in the regulatory frameworks governing Islamic banking across different jurisdictions. For instance, the lack of standardized regulations, which creates an uneven playing field between Islamic and conventional banks. These scholars argue that the absence of a harmonized regulatory structure complicates cross-border transactions and deters foreign investments in Islamic financial institutions. However, other scholars, argue that the diversity in regulatory frameworks allows Islamic banks to tailor their operations to local economic and legal conditions. This debate underscores the need for international regulatory bodies, such as the Islamic Financial Services Board (IFSB), to play a more active role in ensuring regulatory harmonization without compromising local adaptability.

Another critical issue concerns *Shariah* governance and compliance. Inconsistencies in *Shariah* interpretations across different jurisdictions, leading to concerns about the authenticity of Islamic banking products. These studies emphasize the lack of a centralized *Shariah* board and the varied interpretations of Islamic law as significant barriers to the standardization of Islamic financial products. While scholars argue that decentralization allows for flexibility and contextual application of Islamic principles, others counter that it weakens consumer confidence and leads to a lack of trust in Islamic banking.

A growing body of research focuses on the limited innovation in Islamic banking products. Studies by [Archer and Karim \(2007\)](#) and [Rahman \(2020\)](#) argue that Islamic banks tend to replicate conventional banking products, leading to concerns about the true Islamic nature of their offerings. These scholars highlight the overreliance on debt-based instruments such as *Murabaha*, rather than risk-sharing contracts like *Mudarabah* and *Musharakah*, which are more aligned with Islamic economic principles. However, an opposing view which suggests that customer preferences and risk aversion among Islamic banking clients make debt-based products more viable in the current financial landscape.

Several studies, including [Dusuki and Abdullah \(2007\)](#), point to the lack of consumer awareness and financial literacy as major challenges to the expansion of Islamic banking. These studies argue that many potential customers do not fully understand the benefits and principles of Islamic finance, leading to low adoption rates. Additionally, inadequate training of Islamic banking professionals exacerbates this issue. Critics argue that while education gaps exist, Islamic banking institutions bear the responsibility of addressing them through targeted awareness campaigns and professional development programs. Scholars such as [Naim and](#)

Abdul-Rahman (2023) highlight the operational inefficiencies and financial performance constraints of Islamic banks compared to their conventional counterparts. Their studies indicate that Islamic banks often face higher transaction costs due to *Shariah* compliance requirements, making them less competitive. Additionally, they highlight liquidity management challenges due to the prohibition of interest-based instruments, limiting Islamic banks' ability to efficiently manage short-term funding needs. However, some argue that the long-term sustainability of Islamic banking justifies these short-term inefficiencies, especially in economies where ethical banking practices are gaining traction.

Beyond these core challenges, some studies have identified additional obstacles facing Islamic banking. One such issue is the limited integration of technology in Islamic financial services. Studies by Alam et al. (2019) indicate that many Islamic banks lag in adopting financial technologies (FinTech), such as blockchain and artificial intelligence, which can enhance efficiency and transparency. Another emerging issue is the difficulty in accessing global financial markets. Islamic banks often struggle to develop instruments that comply with both *Shariah* principles and international financial regulations, limiting their global competitiveness. Furthermore, cultural and social biases against Islamic banking persist in some regions. These biases contribute to slow adoption rates, even in Muslim-majority countries. Addressing these challenges requires a multi-faceted approach, including greater investment in technological advancement, improved cross-border collaboration, and stronger consumer engagement to overcome misconceptions about Islamic banking.

In addition to these challenges, risk management remains a significant issue in Islamic banking. Research by Nurhafiza (2015) highlights the *Shariah*-related risks Islamic banks face, particularly in credit risk management under Mudarabah contracts. Due to *Shariah* restrictions, banks cannot fully investigate customers' business activities, increasing financial risks. Akkizidis & Khandelwal (2008) argue that these risks lead to potential financial losses, as Islamic banks may lose their entire capital investment in failing businesses. The lack of unified accounting and auditing standards, citing challenges in Bahrain where not all institutions recognize the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The issue of standardization also extends to legal frameworks and financial intermediation. Zainordin et al. (2016) identified misunderstandings surrounding Islamic financial concepts, legal ambiguities, and a limited market-based financial intermediation system as key constraints in Malaysia. Moreover, Bokhari (2007) noted a global shortage of skilled Islamic banking professionals, limiting the industry's growth. Ahmad (2008) further emphasized the need for stronger educational programs in non-Muslim countries like the United Kingdom, where public awareness of Islamic banking remains low. Lastly, product differentiation remains a concern. Many scholars, including Yusuff (2015), argue that Islamic banking products closely resemble their conventional counterparts, leading to misconceptions that Islamic banking lacks distinctive value. This issue underscores the need for further innovation in product development to enhance customer confidence and distinguish Islamic banking from conventional finance.

2.7. Identifying the Research Gap

Despite studies on Islamic banking in The Gambia, most research has focused on customer awareness, regulatory issues and the comparison between the Islamic and conventional banks performance. However, there is limited empirical research specifically examining the impact of Islamic banking on socio-economic development in The Gambia. While the sector is growing, its potential role in financial inclusion, economic empowerment, and poverty alleviation remains underexplored. Additionally, the lack of technological integration in Islamic banking and its effect on operational efficiency has not been sufficiently studied. Furthermore, while prior research acknowledges issues like the shortage of *Shariah* scholars and limited product innovation, there is a lack of comprehensive solutions tailored to the unique Gambian context.

Another significant research gap is the absence of studies on customer behaviour and market segmentation in Islamic banking within The Gambia. There is a need to investigate what specific factors influence customers' decision-making when choosing Islamic banking services and how financial literacy programs can be structured to enhance adoption rates. Moreover, research on gender inclusivity in Islamic banking remains limited, particularly in terms of how women in The Gambia engage with Islamic financial products.

3. Methodology

This study uses a qualitative approach for the collection of secondary data which focused on reports generated

from the central bank of The Gambia, the annual reports of AGIB and different literatures published in Islamic banking. Primary data collection through structured interview conducted with different stakeholders including bank officers, customers and the regulatory body. AGIB bank officers who are heads of specific departments are interviewed since it is the only fully-fledged Islamic bank in the Gambia. This interview with bank officers and customers is relevant for getting useful information. In addition, interview is conducted with few experts at the regulatory level from the Central bank of the Gambia (CBG). This study focuses on the regulatory body at the central bank and AGIB bank for the targeted population. Experts from the Central bank were interviewed who gain depth knowledge and experience in Islamic banking.

In addition, the study uses purposive sampling, a non-probability sampling that assists the researcher chooses samples based on certain criteria. Interview was designed and conducted with the relevant parties involve within the Islamic banking sector. Thus, the interview covers different individuals with different roles and responsibilities, internally such as, head of products and development, the internal auditor, head of credit risk and Shariah officer.

The study targets fourteen (14) respondents for the purpose of the interview. Four bank officers from AGIB bank were interviewed, two Islamic bank specialists at the regulatory body and while eight customers were interviewed respectively. The interview was conducted through zoom calls and each session was recorded to enhance better data collection. The interview took approximately two months between the months of July and August 2024. It is worth mentioning that all the participants were chosen based on their direct involvement with the bank activities, their credibility and willingness to undertake interviews. Key questions directed to the interview include: How would you describe the regulatory framework for Islamic banking in The Gambia? What challenges does the current regulatory system present for Islamic banks? What efforts have been made to create a dedicated regulatory framework for Islamic banking? How does the *Shariah* governance structure of Islamic banks in The Gambia function? What are the major *Shariah* compliance issues faced by Islamic banks? What factors influence customers to choose Islamic banking over conventional banking? What efforts have been made to educate the public on Islamic banking principles? What is your level of knowledge about Islamic banking principles? What factors motivated you to choose an Islamic bank? Do you believe that Islamic banking products are truly *Shariah*-compliant?

The researcher used thematic analysis to analyze the responses from the respondents. This is an effective way of analyzing data based on the predominant views expressed by the respondents on the current practice and challenges of Islamic banking in The Gambia. On the customer side, the level of knowledge and awareness was assessed through levels such as High, Moderate and low. High indicates that a customer has basic knowledge of Islamic banking principles and equally have basic awareness and usage of Islamic banking products and services. While moderate indicates a customer has a bit knowledge of Islamic banking principles and as well, uses one of two products from the Islamic bank. Low means a customer does not have basic knowledge and awareness of Islamic banking. The tables below represent information about the respondents.

Table 1: Informant profiles institution A (Agib Bank)

No	Name of Informant	Institution	Position
1	Respondent 1	AGIB	Head of Audit
2	Respondent 2	AGIB	Sharia officer
3	Respondent 3	AGIB	Head of credit risk
4	Respondent 4	AGIB	Head of Business department

Table 2: Informant profiles institution B (Central Bank of The Gambia (CBG))

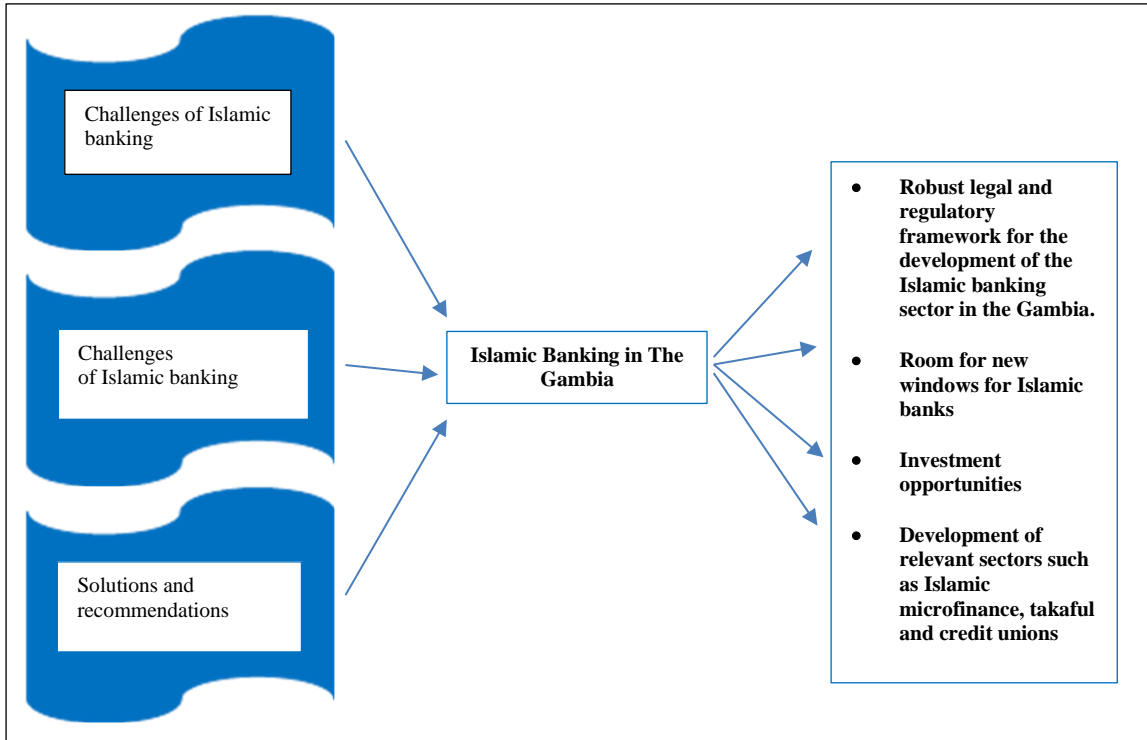
No	Name of Informant	Institution	Position
1	Respondent 1	CBG	Islamic finance specialist
2	Respondent 2	CBG	Islamic finance specialist

3.1 Conceptual Framework

This study relies on a conceptual framework as a guide with the aim to achieve the overall research objectives. The framework basically put together all the concepts by linking the current state of Islamic banking practice, the challenges, and the recommendations in achieving better performance and growth of the Islamic banking

sector in The Gambia. From the different literatures reviewed on the challenges of Islamic banking, few are summarized ranging from *Shariah* issues, regulatory challenges, lack of knowledge and awareness, governance issues and challenges in practice. To appraise a better understanding of the conceptual framework, these challenges are put together with the specific areas identifying the current state of Islamic banking practice. After identifying how Islamic banks operate based on specific areas and the major challenges, recommendations are provided at the end.

Figure 1: Conceptual Framework



Source: Author's own (2024)

This study employs a qualitative approach to explore on the current practice and the challenges of Islamic banking in The Gambia ranging from legal and regulatory challenges sharia and governance issues, practical challenges, knowledge and awareness etc. The conceptual framework developed in this study assumes that identifying the current practice of Islamic banking in The Gambia and addressing the challenges while considering the suggested solutions will result to a better performance of the Islamic bank currently operating in the country and pave a way for more Islamic banking windows. Through government support, building a robust regulatory framework will open new windows for other sectors in the Islamic financial system. More Islamic banks are expected to be established through the development of the current state of Islamic banking practice while considering the solutions and recommendations presented by the researcher and many other researchers in the field of Islamic banking in The Gambia.

4. Findings and Discussion

4.1. Interview Result: Current State of Islamic Banking Practice

- Regulatory environment of Islamic banking in The Gambia
The regulatory landscape for Islamic banking in The Gambia is evolving, with the Central Bank of The Gambia (CBG) taking steps to develop a regulatory framework that accommodates the unique characteristics of Islamic financial institutions. The findings from the interview highlight Islamic banks in The Gambia currently operate under the Banking Act of 2009, which is primarily designed for

conventional banking institutions. This presents a fundamental challenge, as Islamic banking principles differ significantly from conventional banking in terms of prohibition of *riba*, risk-sharing, and asset-backed transactions. Although the act provides a general regulatory framework for all financial institutions, its conventional nature creates compliance difficulties for Islamic banks.

Another finding reveals a significant development in recent years which is the establishment of an Islamic Finance Unit within the Central Bank. However, this unit comprises a small number of professionals in Islamic finance, albeit with a limited number of *Shariah* scholars, making it difficult to create a fully designed regulatory framework for the Islamic banks. Additionally, the central bank has initiated reforms, including the development of specific guidelines such as *Murabaha* financing guidelines and *Shariah* governance guidelines, expected to be issued in early 2025. Despite the positive steps taken by the Central Bank, respondents highlighted several challenges that persist. The reliance on the 2009 Banking Act, which does not cater to the specific needs of Islamic banking, creates operational inefficiencies and potential non-compliance issues. The shortage of *Shariah* scholars within the Central Bank raises concerns regarding the effectiveness of supervision and compliance. Reports from central bank staff highlight concerns about the implementation of *Murabaha* financing, with some transactions failing to meet *Shariah* requirements. Issues such as hidden interest components and improper ownership transfers undermine customer trust and the integrity of Islamic banking. Some customers have expressed concerns about potential similarities between Islamic banking products and conventional interest-based financing. This perception gap must be addressed through clear regulations and enhanced public awareness.

Studies on Islamic banking regulation in other jurisdictions, such as Malaysia, Sudan, and Nigeria, provide insights into how The Gambia's regulatory framework compares. Malaysia's dual banking system, where Islamic banking operates under a separate regulatory framework, ensures that *Shariah* compliance is strictly adhered to. Malaysia also has a well-established *Shariah* Advisory Council under the central bank. Nigeria introduced dedicated Islamic banking guidelines under the Central Bank of Nigeria (CBN), which provide clear governance frameworks, including *Shariah* compliance measures and consumer protection mechanisms. The Gambia could benefit from adopting a similar structured regulatory approach. Sudan follows a fully Islamic banking system, where all banks operate under *Shariah*-compliant laws. The presence of strong *Shariah* regulatory bodies ensures strict compliance, reducing the risks of non-compliance issues seen in The Gambia.

To enhance the regulatory environment and address the identified gaps, several measures should be considered. The Central Bank should formulate a specific legal framework tailored to Islamic banking principles, rather than relying on the conventional Banking Act. Increasing the number of *Shariah* scholars within the regulatory framework will improve supervision and compliance. Regulatory authorities should enhance consumer education to clarify Islamic banking principles and address misconceptions about interest-like practices. Conducting regular *Shariah* audits and compliance checks will ensure that Islamic banks adhere strictly to *Shariah* principles. The Central Bank can benchmark successful regulatory models from Malaysia, Nigeria, and Sudan to develop a robust Islamic banking framework.

The findings indicate that while The Gambia has made significant progress in regulating Islamic banking, substantial challenges remain, particularly in *Shariah* compliance and regulatory clarity. The planned issuance of *Murabaha* and *Shariah* governance guidelines marks a positive step forward, but a more comprehensive and dedicated regulatory approach is needed to ensure the sustainable growth of Islamic banking in The Gambia. By drawing lessons from leading Islamic finance jurisdictions, The Gambia can strengthen its regulatory environment and enhance public confidence in Islamic banking services.

- **Shariah governance practice**

Sharia governance is a fundamental aspect of Islamic banking, ensuring that financial activities comply with Islamic principles. While this framework is well-established in many jurisdictions, the practice in The Gambia is still developing, and several areas require improvement. Strengthening Sharia oversight is crucial to enhance compliance, consumer confidence, and industry growth. The Central Bank of The Gambia (CBG) is expected to release *Shariah* governance guidelines in early 2025 to provide a structured regulatory framework. These guidelines will likely outline the composition, roles, and responsibilities of *Shariah* governance structures in Islamic financial institutions. Currently, the CBG conducts regular Sharia

audits and oversight visits to AGIB Bank, the only fully-fledged Islamic bank in the country, to ensure compliance. However, the effectiveness of these audits is limited due to a lack of specialized regulatory expertise in Islamic banking.

Despite being the only dedicated Islamic bank in The Gambia, AGIB Bank does not have an independent internal Shariah Supervisory Board (SSB) to oversee its activities. This creates a significant governance gap, as *Shariah* compliance oversight is a fundamental requirement for ensuring the integrity of Islamic banking operations. Although the bank has recently established a Shariah Committee, it is not yet fully functional, and the *Shariah* experts involved do not have direct involvement in the day-to-day operations of the bank. This weakens internal compliance mechanisms and raises concerns about the effectiveness of *Shariah* governance. One of the most pressing challenges facing Sharia governance in The Gambia is the shortage of qualified *Shariah* scholars with expertise in both Islamic jurisprudence and financial operations. This shortage has led to several operational inefficiencies, including incorrect sequencing of *Murabahah* transactions, where contract execution does not follow prescribed *Shariah* guidelines, and a delayed product approval process due to the limited availability of *Shariah* scholars, hindering the introduction of new Islamic financial products. Currently, a few Sharia scholars rotate between AGIB Bank and other Islamic financial institutions, such as Islamic microfinance and Takaful companies. This practice results from the insufficient number of *Shariah* experts in the country, making it impractical for each institution to have a dedicated in-house Sharia board. While this shared resource approach helps to fill the expertise gap, it also raises concerns about potential conflicts of interest and the depth of oversight each institution receives.

The CBG has emphasized the need for financial institutions to have qualified *Shariah* experts in accordance with forthcoming regulatory guidelines. However, the shortage of experts means that institutions struggle to comply fully with this requirement. Without a sufficient number of dedicated *Shariah* experts, the risk of non-compliance remains high, potentially undermining consumer trust in Islamic banking. A more robust *Shariah* governance framework requires capacity building and education through investments in training programs, university courses, and certifications to develop a new generation of *Shariah* scholars specialized in Islamic finance. Institutional collaboration between Islamic banks, regulators, and international Islamic finance institutions is also necessary to import expertise and establish best practices. Islamic banks should prioritize forming dedicated Shariah Supervisory Boards with members who are actively involved in decision-making processes. The CBG must ensure strict adherence to upcoming guidelines by requiring all Islamic financial institutions to appoint independent Shariah boards.

- Market participation

The Islamic banking sector is represented primarily by Agib bank, the only fully-fledged Islamic bank in the country since its establishment in 1996. Over the years, Agib Bank has solidified its position as a key financial institution, ranking among the top-performing banks in the country despite undergoing financial turmoil around 2008. The crisis led to the bank being acquired by Affin Bank, a Nigerian financial institution. However, Agib quickly regained stability and has since continued to expand, providing *Shariah*-compliant financial services to various economic sectors.

As noted by respondents, one of the bank's notable contributions is its strong presence in Islamic financing, particularly through *Murabaha* contracts, which remain the most utilized financing facility. *Murabaha* financing is primarily preferred in real estate and trade financing, where clients seek structured, transparent purchase agreements. The popularity of *Murabaha* in the real estate sector suggests that customers are drawn to the structured payment plans that align with Islamic principles while ensuring affordability and risk mitigation. In contrast, the agricultural sector leans towards the *Salaam* contract, which is particularly beneficial for government-led programs such as groundnut purchases. This highlights a key role played by Agib Bank in supporting agricultural development through Islamic finance instruments. However, other Islamic financing structures, such as *Mudarabah* and *Musharakah*, are less common, indicating lack of awareness, regulatory constraints, and risk aversion by both the bank and its customers.

Beyond providing *Shariah*-compliant financial services, Agib Bank plays a critical role in fostering financial inclusion and economic development. Its collaboration with the Central Bank of The Gambia in

supporting farmers by purchasing agricultural produce reflects a strategic effort to integrate Islamic banking into national economic policies. The agreement between Agib Bank and the Central Bank signifies an acknowledgment of Islamic finance as a viable mechanism for promoting sustainable agricultural financing. This partnership not only benefits farmers but also strengthens the overall economic stability by ensuring that agricultural output is effectively monetized without engaging in conventional interest-based financing.

The bank's impact extends beyond financial transactions, as it actively engages in public awareness campaigns to promote Islamic banking. Through seminars and workshops, Agib Bank takes the lead in educating both businesses and individuals on the benefits and principles of Islamic finance. This role is crucial in a country where Islamic banking remains a developing sector, requiring continuous efforts to enhance market awareness and consumer confidence. Despite Agib Bank's efforts, challenges such as limited Islamic finance literacy and competition from conventional banks with established customer bases persist.

While Agib Bank remains the dominant player in the Islamic banking sector, a few conventional banks, such as Trust Bank Gambia, have recognized the growing demand for *Shariah*-compliant products and have subsequently introduced Islamic banking windows. These banks provide limited Islamic financial services alongside their conventional offerings, giving customers more options while allowing conventional financial institutions to test the viability of Islamic banking. However, these Islamic banking windows often face structural limitations, such as the lack of a fully dedicated team with expertise in *Shariah* compliance and product innovation. This suggests that while Islamic banking is expanding, its full integration into The Gambia's financial sector still requires strategic policy support, institutional capacity-building, and market-driven innovation.

Despite the promising growth of Islamic banking in The Gambia, there remain several critical areas that require attention. The regulatory framework for Islamic banking, although present, needs further strengthening to provide clear guidelines and enhance operational efficiency. The limited use of risk-sharing contracts such as *Mudarabah* and *Musharakah* indicates a conservative banking approach, which may be due to regulatory concerns, risk aversion, or a lack of customer awareness. Encouraging diversification of Islamic financial products could foster greater financial inclusion and cater to a wider range of economic activities.

Overall, Agib Bank has demonstrated resilience and growth in The Gambia's banking sector, positioning itself as a key player in promoting Islamic finance. Its role in providing *Murabaha* and *Salaam* financing, collaborating with the Central Bank, and raising public awareness underscores its contribution to the country's economic development. However, for Islamic banking to reach its full potential, there is a need for greater regulatory support, innovation in product offerings, and enhanced financial literacy among businesses and consumers. The growing interest in Islamic banking, as reflected in the emergence of Islamic windows in conventional banks, signals a positive trend, but the industry's sustainability and expansion will depend on addressing existing challenges and seizing opportunities for further

4.2. Challenges of Islamic Banking in The Gambia

Islamic banking in The Gambia faces significant regulatory challenges due to the absence of a specific legal framework tailored for its unique operations. The Islamic banking sector operates under the Banking Act of 2009, a legislation primarily designed for conventional banks, which fails to address the operational and governance requirements of Islamic financial institutions. This lack of dedicated regulations has led to inadequate government supervision, leaving institutions like Agib Bank to navigate a regulatory landscape that does not fully accommodate their needs. The primary factors contributing to this regulatory gap include the lack of *Shariah* experts at the regulatory level, insufficient expertise in Islamic banking practices, and limited awareness of Islamic financial principles among stakeholders. Furthermore, the dominance of conventional banking practices makes it difficult for Islamic banks to function effectively within the existing regulatory framework. *Shariah* compliance remains a critical issue for Islamic banking in The Gambia, with customers, bank officers, and regulatory bodies raising concerns about various aspects of *Shariah* adherence. For example, Agib Bank offers a product called "Agib Handshake," which allows customers to receive a loan equivalent to 40% of their salary, payable within three months. However, customers have expressed concerns that the processing fees charged on this loan may not be in strict accordance with *Shariah* law. Additionally, the

execution of *Murabaha* contracts has presented several *Shariah* compliance issues. A central bank officer noted that Agib Bank does not always adhere to proper procedures in acquiring underlying assets used for financing. Specifically, the bank has been known to sign *Murabaha* contracts before actually acquiring the asset, which undermines the legitimacy of the contract. Moreover, the agency agreement, which should precede the *Murabaha* contract, is often signed only after the contract has been concluded. These procedural lapses compromise the validity of the transactions and highlight the need for restructuring to align with proper *Shariah* guidelines.

Islamic banking in The Gambia also encounters substantial challenges in product implementation, particularly in the real estate and home financing sectors. A key issue is the preference of Gambian customers for short-term financing over long-term commitments, making it difficult for banks to introduce sustainable home financing solutions. Additionally, the country relies heavily on imported raw materials for construction, and the rising costs of these materials complicate the pricing and structuring of Islamic home financing products. This fluctuation in market prices forces banks to constantly restructure their financial products to maintain affordability for customers while ensuring profitability. Another major challenge is customer behaviour concerning loan repayment. Many customers exhibit dishonesty by failing to make timely payments, thereby increasing credit and default risks for the bank. The absence of *Shariah*-compliant investment facilities and liquidity management tools further compounds these difficulties, making it challenging to sustain *riba*-free banking. Additionally, there is a lack of awareness among customers regarding Islamic banking principles, as well as a shortage of professionals specialized in Islamic banking products. These factors collectively hinder the effective functioning of Islamic banks in The Gambia.

Operational challenges further complicate the landscape for Islamic banking in The Gambia. One significant hurdle is the slow processing of customer transactions due to technological and internet connectivity issues, which occasionally disrupt daily banking operations. Another issue is the prolonged approval process for new financial products by both the bank's *Shariah* Committee and the central bank. The slow approval process stems from a shortage of qualified *Shariah* experts within the banking and regulatory institutions, which delays decision-making and product implementation. Risk management also presents a formidable challenge, as the bank lacks proper *Shariah*-compliant risk management techniques. Unlike conventional banks that have multiple liquidity management options, Islamic banks like Agib have very limited tools available. The primary liquidity instrument currently in use is *Sukuk Salaam*; however, this tool has been flagged for *Shariah* compliance issues by the bank's *Shariah* officers. Recognizing the limitations of the existing framework, the Ministry of Finance has initiated efforts to develop alternative liquidity management solutions to better support the Islamic banking sector.

The various challenges faced by Islamic banking in The Gambia indicate the pressing need for regulatory reforms, improved Sharia governance, and enhanced customer awareness. The absence of a dedicated regulatory framework tailored to Islamic banking has resulted in inefficiencies in product implementation, compliance issues, and operational difficulties. The industry requires stronger government intervention, including the appointment of Sharia experts at the regulatory level, the development of Islamic banking expertise, and the introduction of specialized liquidity management instruments. Furthermore, increased public awareness and education on Islamic banking principles would help build trust and confidence in the system, encouraging more customers to adopt Islamic financial products. Addressing these regulatory, *Shariah* compliance, and operational challenges is essential for the sustainable growth and success of Islamic banking in The Gambia.

4.3. Level of Knowledge and Awareness Among Customers of Islamic Bank in The Gambia

Table 3: Summary of interview results from customers

No.	Basic knowledge	Motivation	Sharia compliant	Awareness of products	Interest	Personal use
Customer 1	Moderate	Banking services offered	Yes	Moderate	High	Yes
Customer 2	High	Sharia based, lectures from university	Yes	High	High	No
Customer 3	Moderate	Interest in Islamic banking	Not Fully	Low	Moderate	Yes
Customer 4	Moderate	Sharia based	Not Sure	Low	High	No

Customer 5	High	Interest in Islamic banking, sharia based	Yes	High	High	No
Customer 6	Low	Recommendation from Friends	Not Sure	Moderate	Low	No
Customer 7	Low	Services provided	Not Sure	Moderate	High	Yes
Customer 8	Moderate	Interest in Islamic banking	Yes	Low	Moderate	No

The above table summarizes responses from customer's level of knowledge and awareness of Islamic banking. The main aim of this section is to explore the level of knowledge and awareness of Islamic banking among customers of Islamic banks. The level of knowledge and awareness of Islamic banking among customers in The Gambia appears to be moderate, with a significant gap in understanding among the majority of respondents. The findings indicate that only a small number of customers have a high level of knowledge about Islamic banking, primarily due to their exposure to Islamic banking and finance education at the university level. This suggests that formal education plays a critical role in enhancing awareness and understanding of Islamic banking principles. However, for the majority of customers, knowledge remains limited or moderate due to a lack of accessible information regarding Islamic banking. This aligns with previous research by [Conteh and Hassan \(2021\)](#), which also highlighted the challenge of limited awareness among Gambians regarding Islamic banking.

A key observation from the responses is that religious motivation, specifically adherence to *Shariah* principles, is the primary factor influencing customers to choose Islamic banks. This finding reflects the strong role of religious beliefs in financial decision-making within the Gambian context. The fact that customers prioritize *Shariah* compliance suggests that Islamic banks have a unique value proposition that resonates with the moral and ethical concerns of their clientele. This also underscores the importance of *Shariah* governance in Islamic banks, as any deviation from Islamic financial principles could significantly impact customer trust and confidence.

Beyond religious considerations, some customers also cited practical reasons for choosing Islamic banks, such as lower service fees and more flexible banking options. This indicates that, in addition to *Shariah* compliance, economic factors such as cost-effectiveness and financial convenience also play a role in customers' decision-making. However, while these factors contribute to customer attraction, they seem secondary to religious considerations in the Gambian banking market. Awareness of specific banking products and services remains relatively low, as revealed in the study. This lack of awareness could hinder the full potential of Islamic banking in the country, as customers may not be fully informed about the range of services available to them. Despite this, there is a strong indication that Gambians are highly interested in Islamic banking products and services. The willingness of customers to adopt Islamic banking suggests that the main barrier to greater market penetration is the lack of knowledge and awareness. If banks take proactive steps to enhance education and marketing efforts, there is a high potential for growth in the sector. The findings support the conclusions drawn by [Conteh and Hassan \(2021\)](#), who also found that Gambians are willing to patronize Islamic banking products if they have sufficient knowledge about them. This reinforces the argument that banks need to invest more in financial literacy initiatives, public awareness campaigns, and customer engagement strategies. Increasing knowledge and awareness through targeted educational programs, community outreach, and digital marketing could help bridge the existing gap and drive greater adoption of Islamic banking services in The Gambia.

In conclusion, while there is a strong interest in Islamic banking among customers in The Gambia, limited knowledge and awareness remain major challenges. While religious beliefs are a primary factor in choosing Islamic banks, practical benefits such as cost savings and flexibility play a significant role in customer preferences. The study highlights the need for banks to focus on enhancing financial literacy and improving access to information to fully tap into the market potential of Islamic banking in the country.

5. Conclusion and Recommendation

The regulatory environment for Islamic banking and other Islamic financial institutions in The Gambia is still in its early stages of development. Despite recent guidelines issued by the central bank to regulate and supervise these institutions, their impact is yet to be fully realized. The effectiveness of these regulations depends largely on the awareness and commitment of both financial institutions and regulatory bodies to implement them effectively. It is crucial for the central bank to embark on training programs to educate stakeholders on the

importance of adhering to these guidelines. Additionally, the enactment of stricter laws and regulations is necessary to ensure that *Shariah* compliance is upheld at the institutional level. Without a robust regulatory framework and its proper enforcement, there is a risk that Islamic financial institutions may not fully adhere to *Shariah* principles, which could undermine trust in the industry.

A major challenge facing the Islamic banking industry in The Gambia is the lack of *Shariah* experts, both within financial institutions and at the regulatory level. The availability of qualified *Shariah* scholars who possess deep knowledge of Islamic banking and finance is limited, which creates difficulties in ensuring compliance with Islamic financial principles. This gap highlights the urgent need for capacity building within the industry. One of the critical steps in addressing this issue is for banks to appoint dedicated *Shariah* advisory board members who can oversee their activities. The research identifies the absence of internal *Shariah* advisory board members as a significant shortcoming. These advisory boards are essential in ensuring that the bank's operations, products, and services comply with Islamic financial principles. Without their presence, there is a risk that the bank may unknowingly engage in activities that contradict *Shariah* guidelines, leading to a loss of confidence among customers seeking genuinely Islamic financial services.

Another key area that requires improvement is the process of approving new Islamic banking products. The approval process, which involves *Shariah* committee members and the central bank, needs to be streamlined to enhance efficiency. Delays in product approval hinder innovation and the timely introduction of new financial solutions that could benefit customers. By improving this process, Islamic banks can respond more effectively to market demands and introduce products that cater to the needs of different customer segments. In addition, the research highlights concern regarding delays in processing customer requests. The time taken to approve financing applications, respond to customer inquiries, and execute transactions sometimes extends beyond reasonable expectations. This inefficiency affects customer satisfaction and could lead to a loss of confidence in the bank's ability to deliver timely and reliable services. Islamic banks should focus on improving their internal operations to enhance service delivery, ensuring that customers receive their requested services promptly.

Training and capacity building are also crucial for the growth of the Islamic banking sector in The Gambia. Bank staff members require continuous training to enhance their knowledge of Islamic banking products and principles. Without proper training, employees may struggle to explain Islamic financial products to customers, which can lead to confusion and mistrust. Furthermore, the lack of awareness about Islamic banking among the general public remains a significant challenge. Many potential customers do not fully understand the differences between Islamic banking and conventional banking, which limits their willingness to engage with Islamic financial institutions. Efforts should be made to educate the public through awareness campaigns, financial literacy programs, and community engagements. By increasing public awareness, Islamic banks can expand their customer base and promote the adoption of *Shariah*-compliant financial services.

This study is limited to the general challenges faced by Islamic banking in The Gambia, without examining specific issues in detail. More research is needed to explore each of these challenges individually to provide a more comprehensive understanding of the difficulties facing the sector. For instance, a deeper analysis of regulatory constraints, *Shariah* compliance issues, customer perceptions, and technological limitations could yield more targeted solutions. Additionally, other aspects of Islamic banking in The Gambia should be explored, such as how Islamic banks can contribute to financial inclusion. Given that a significant portion of the Gambian population remains unbanked, Islamic banks have the potential to provide ethical and interest-free financial solutions that align with the values of many people in the country. Research on the adoption of technology to enhance the efficiency of Islamic banking operations could also provide valuable insights into how digital solutions can bridge service gaps and improve customer experience. Addressing these areas will help strengthen the Islamic banking sector in The Gambia and ensure its sustainable growth.

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