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Islamic Finance 2025

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Introduction

Mahmoud S. Bassiouny, Iman Nassar
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Matouk Bassiouny & Hennawy



INTRODUCTION

Contributed by: Mahmoud S. Bassiouny, Iman Nassar and Habiba El Naggar, **Matouk Bassiouny & Hennawy**

Matouk Bassiouny & Hennawy was founded in 2005, and is a leading full-service business law firm in Egypt and the MENA region, with offices in Algeria, Sudan, and the UAE, and a New York satellite office for international dispute resolution. The firm also has country desks for Libya and South Korea. With over 230 lawyers trained in common and civil law, it provides services in English, Arabic, French, and Korean. The firm advises multinationals, corporations, and financial institutions in the MENA region, specialising

in conventional and Islamic finance. The finance and projects group focuses on Sharia-compliant transactions, Islamic banking, and Sukuk, offering practical guidance on Egypt's regulatory framework. In real estate, it has led financings including a EGP4.35 billion facility to Saudi Egyptian Developers and a EGP7 billion facility to Ora Developers Egypt, where it introduced "novation of debt" under Egyptian law. Its ability to combine conventional and Islamic finance solutions is highly valued.

Contributing Editor



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Islamic Finance Overview

Over the past decade, Islamic finance has emerged as a significant component of the global financial system. With total assets surpassing USD3.88 trillion by the end of 2024, according to recent estimates by the Islamic Financial Services Board (IFSB), the sector has not only demonstrated resilience in the face of global economic shocks – including the COVID-19 pandemic and geopolitical disruptions – but also matured into a sophisticated framework encompassing banking, capital markets, insurance (*Takaful*), and asset management. As we look ahead to the remainder of 2025 and beyond, a central question looms: will Islamic finance continue to consolidate its gains, or are we on the cusp of a new era of innovation and global integration?

Key jurisdictions in the GCC and Southeast Asia, as well as financial centres in Europe and Africa, are actively shaping the future of the practice, supported by robust demographic tailwinds and a growing appetite for ethical, Sharia-compliant financial solutions.

Islamic finance transactions are typically governed by the general financial laws and regulations applicable to the banking and non-banking sectors, rather than through a standalone Islamic finance code. Oversight is generally divided between regulatory authorities responsible for banking activities and those overseeing capital markets and insurance. These regulators supervise the offering of Islamic financial products such as *Murabaha*, *Ijara* (leasing), *Sukuk*, and *Takaful* within the broader financial framework. Definitions of various Islamic financial products can be found, for example, in the [Egypt Law and Practice](#) chapter of **Chambers' Islamic Finance 2025 Guide**, in 3.1 *Murabaha, Mudarabah and Musharakah* and 5.1 *Sukuk Overview*, as well

as in the [Kuwait Trends and Developments](#) article.

Although there may not be a dedicated Islamic finance law in many jurisdictions, the legal recognition of Sharia principles is often reflected in the constitution or primary legal texts. Financial institutions offering Sharia-compliant services are usually required to establish internal Sharia Supervisory Boards, which review and certify compliance of financial products with Islamic principles. In some cases, these internal boards operate under the guidance or oversight of centralised Sharia committees affiliated with financial regulators, helping to ensure consistency and compliance across the sector.

The offering of Islamic financial products generally falls under the scope of existing financial regulations and requires authorisation from the relevant banking or capital markets regulators. A financial institution intending to operate as a fully fledged Islamic bank or provide Islamic financial services through dedicated business lines typically must obtain prior licensing from the competent regulatory authority, in line with general banking or financial services regulations.

In the non-banking sector, entities wishing to issue *Sukuk* or offer other Sharia-compliant investment products are usually required to obtain a separate licence or approval from the authority responsible for capital markets. Similarly, providers of Islamic insurance must secure appropriate authorisation under the applicable insurance or financial services framework.

This structure ensures that Islamic finance activities are held to the same prudential, licensing and compliance standards as conventional finance, while also addressing the unique requirements of Sharia-compliant products.

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Market landscape and growth

The Islamic finance market is active and expanding across various sectors. It includes a broad range of retail and corporate offerings, including vehicle financing, home financing, microfinance, and commercial instruments such as *Murabaha*, *Ijara*, and *Istisna'a*. In many jurisdictions, both fully fledged Islamic banks and conventional institutions with Islamic windows participate in the market, offering Sharia-compliant services to individuals, businesses, and government entities.

Beyond traditional banking, the Islamic finance ecosystem continues to grow through the development of non-banking sectors such as *Takaful*, real estate financing, and Islamic microfinance. This demonstrates increasing demand for ethical financial alternatives, supported by evolving regulatory frameworks and market infrastructure that ensure compliance with Sharia while meeting modern financial needs.

Several jurisdictions have implemented targeted policy measures to support and grow Islamic finance. These initiatives often include regulatory reforms, tax incentives, and the establishment of dedicated vehicles to facilitate Sharia-compliant financing tools such as Sovereign *Sukuk*. In some cases, governments have created special-purpose entities to manage the issuance of *Sukuk* for infrastructure, development, or budget financing, aligning these efforts with broader strategies for financial inclusion and market diversification.

Moreover, legislative updates in certain markets have clarified the regulatory treatment of Islamic instruments, such as aligning the tax treatment of *Sukuk* with conventional debt instruments. These policies aim to remove structural disadvantages, encourage innovation, and position

Islamic finance as a core component of national financial systems.

Islamic finance is also embracing global trends in sustainability and technology. Two major areas of growth are sustainable finance, particularly the issuance of Green *Sukuk*, and the adoption of Islamic fintech solutions.

Emerging trends

Green *Sukuk* are increasingly being used to raise funds for environmentally responsible projects such as renewable energy, green buildings, and sustainable transportation. Several jurisdictions are now incorporating these instruments into their green finance strategies to attract socially responsible investors and expand access to ethical capital.

Simultaneously, Islamic fintech is gaining momentum. Start-ups and financial institutions are leveraging digital platforms to deliver Sharia-compliant financing, investment, and savings solutions. These innovations are helping to reach underbanked populations, reduce transaction costs, and make Islamic financial products more accessible and efficient.

Together, these developments illustrate the adaptability of Islamic finance to contemporary needs and its potential to support inclusive and sustainable economic growth.

Considerations

One of the key challenges in structuring Islamic finance transactions lies in the absence of a unified legal framework specifically tailored to Sharia-compliant contracts. This lack of harmonisation often results in varied interpretations by different Sharia Supervisory Boards, particularly regarding structures like *Murabaha*, *Ijara*, or *Istisna'a*. As a result, approval timelines can be

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prolonged, adding to the administrative burden and transactional costs.

Further complications arise from conventional legal and tax frameworks that are generally designed for interest-based lending. For example, stamp duties or tax implications may not align with the asset-based nature of Islamic finance, leading to inconsistencies or double charges. Practical requirements such as capital adequacy and liquidity ratios typically structured around interest-bearing instruments may impose disproportionately higher costs on Islamic financial institutions.

Moreover, many conventional risk management tools, such as interest rate swaps or conventional hedging instruments, are not permissible under Sharia. This limits the ability of Islamic institutions to hedge against currency or rate volatility, exposing them to additional market risks. Lastly, in many dual financial systems, Islamic and conventional assets must be accounted for separately, requiring institutions to implement parallel operational systems, which can increase overall costs by 10–15% and delay the rollout of new Sharia-compliant products.

In the context of Islamic finance, Sharia serves as a guiding framework for structuring transactions and ensuring ethical compliance. Regulators often collaborate with Sharia advisory boards to oversee financial products – such as *Sukuk* or Islamic funds – and ensure that they adhere to Islamic principles. This dual influence supports the broader integration of Islamic finance into national legal systems while maintaining the sector's religious integrity.

Islamic financial institutions are generally regulated by a combination of central banking and financial market authorities. These regulators

oversee compliance through licensing requirements, mandatory Sharia audits, and periodic inspections. In certain jurisdictions, ministries of finance may also play a role, especially in the issuance of Sovereign *Sukuk* or government-backed Islamic financial instruments.

Regulatory enforcement mechanisms include administrative fines for non-compliance, daily penalties for ongoing violations, corrective action orders, suspension or revocation of licences, and, in severe cases, referral for criminal investigation. These enforcement tools ensure that Sharia-compliant financial institutions are held to the same regulatory standards as their conventional counterparts, while accommodating the unique aspects of Islamic finance.

Disputes involving Islamic financial transactions are typically resolved through conventional civil or commercial court systems unless the parties have agreed to arbitration. There are generally no specialised Sharia courts designated exclusively for Islamic finance disputes in most jurisdictions.

However, if a dispute raises questions of Sharia compliance – such as whether or not a contract adheres to Islamic principles – courts may consider expert opinions from recognised Sharia scholars or rely on interpretations aligned with public policy and the legal framework. In arbitration settings, parties often include provisions for appointing arbitrators with expertise in both Islamic finance and commercial law to ensure a balanced resolution.

Transaction structures and conclusion

Islamic finance provides several structures that can effectively address the working capital needs of businesses while maintaining compliance with Sharia principles. The most commonly used instruments include: *Murabaha* (cost-plus

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sale), *Mudarabah* (profit-sharing partnership) and *Musharakah* (joint venture). These Sharia-compliant methods allow companies to access liquidity and manage cash flows without breaching Islamic prohibitions on interest or speculative financing.

Securitisation is generally implemented through the assignment of financial rights owed to a company by its debtors to a securitisation company, for the purpose of issuing securitisation bonds to investors. Once the assignment becomes effective, the assigned rights are no longer considered part of the assets of either the assigning company or the securitisation company. The assigning company bears no liability for the fulfilment of any obligations arising from the assigned financial rights after the assignment takes effect and shall have no further involvement, except for the potential role of acting as a servicer to collect the assigned receivables and transfer the proceeds to the relevant beneficiaries. Ownership of the assigned rights is limited exclusively to the holders of the securitisation bonds.

The sale of these rights to investors is typically structured on the basis of risk-sharing principles, allowing for a proportional allocation of any potential risks associated with the assigned financial rights across all investors.

This structure serves as a key factor in attracting banks and investors, particularly those seeking Sharia-compliant investment opportunities to participate in bond offerings issued under such frameworks.

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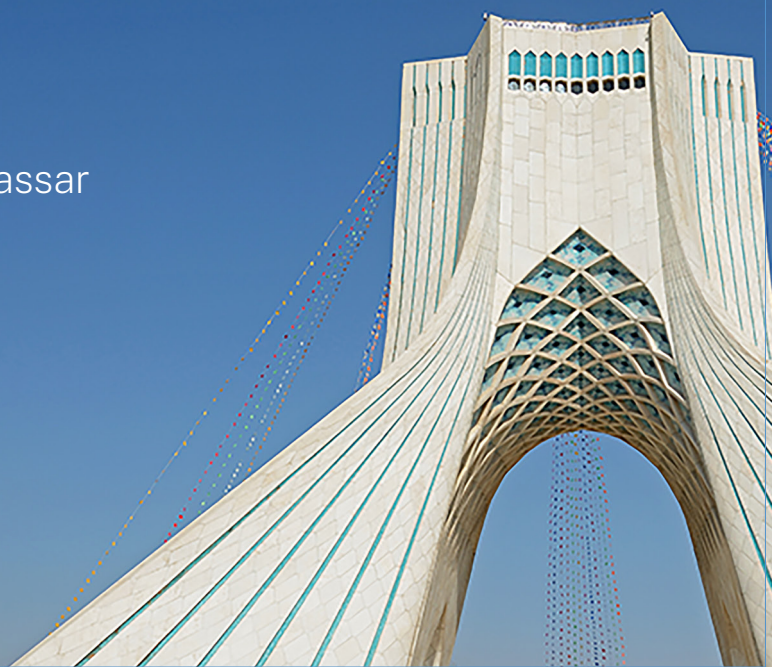
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Egypt: Law & Practice

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EGYPT



Law and Practice

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1. Islamic Finance Overview

1.1 Legal and Regulatory

Under Egyptian law, Islamic finance transactions are regulated within the existing financial statutes rather than a standalone code. The primary regulatory bodies are Central Bank of Egypt (CBE) which oversees Islamic finance transactions undertaken by Egyptian banks and other authorised financial institutions as regulated under the Banking Law No 194 of 2020, and the Financial Regulatory Authority (FRA) which oversees non-banking Islamic financial services under the Capital Market Law No 17 of 2018, including Islamic *Sukuk* issuances. It also oversees *Takaful* (Islamic insurance) under the Egyptian Unified Insurance Law No 155 of 2024.

Although Egypt does not have a dedicated Islamic financial law, Article 2 of the Egyptian Constitution designates Sharia as the principal source of legislation, underpinning the legitimacy of Islamic finance. Licensed Islamic banks, financial institutions and non-banking financial entities are required to establish their own Sharia Supervisory Boards, whose decisions are subject to review by either the CBE's Supreme Sharia Advisory Board or the FRA's Sharia Committee (as the case may be), depending on the nature of the financial activity. This framework ensures that products such as *Murabaha*, *Ijara*, *Sukuk*, and *Takaful* are compliant with Sharia principles and formally recognised under Egyptian law.

1.2 Licensing

Under Egyptian law, the offering of Islamic financial products is subject to regulatory oversight within the framework of existing legislation. A bank intending to operate as a fully fledged Islamic bank or to provide Islamic banking services through a designated window must obtain the requisite authorisation from the Central Bank

of Egypt (CBE), in accordance with the provisions of the Banking Law No 194 of 2020.

Within the non-banking financial sector, entities seeking to issue *Sukuk* or other Sharia-compliant instruments are required to obtain the authorisation from the Financial Regulatory Authority (FRA) pursuant to the Capital Market Law No 17 of 2018. Providers of *Takaful* (Islamic insurance) services must also be licensed by the FRA under the Egyptian Unified Insurance Law No 155 of 2024. Furthermore, the Capital Market Law requires the incorporation of a Sharia Supervisory Committee – for purposes of issuing Islamic *Sukuk* – in accordance with the regulations issued by the board of directors of the FRA and subsequent to the approval of Al Azhar Mosque.

This regulatory framework ensures that Islamic finance activities are subject to the same prudential, licensing, and compliance standards as conventional finance, while accommodating the specificities of Sharia-compliant products.

Each licensed institution is also required to establish a Sharia Supervisory Board to ensure compliance with Islamic finance principles. These boards are subject to oversight by the CBE's Supreme Sharia Advisory Board which supervises banking-related matters, and the FRA's Sharia Committee oversees capital market activities.

1.3 The Islamic Finance Market in Practice

The Islamic finance market in Egypt is active and growing. A recent report by the Egyptian Islamic Finance Association (EIFA) highlights the robust performance of Islamic banking in Egypt. In June 2024, the turnover of Islamic banking reached EGP737 billion, marking a substantial increase

of EGP175 billion compared to June 2023. This impressive growth represents a 31.1% year-on-year expansion.

Market Share

Islamic banking now constitutes 4% of the overall Egyptian banking market. The Egyptian market includes 14 banks licensed by the Central Bank of Egypt (CBE) to offer Islamic financial products.

Among these, three banks operate exclusively as Islamic banks:

- Faisal Islamic Bank of Egypt;
- Al Baraka Bank Egypt; and
- Abu Dhabi Islamic Bank Egypt.

Additionally, [11 other banks have Islamic branches alongside their traditional ones](#).

Furthermore, the Islamic finance sector extends beyond banking products to include *Takaful* (Islamic insurance), microfinance, and real estate financing. This demonstrates both robust market activity and ongoing innovation, all under the regulatory oversight of the Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA) (as the case may be).

1.4 Policy

Egypt has recently witnessed the issuance of new regulations boosting Sharia-compliant finance, notably the issuance of the Sovereign *Sukuk* Law No 138 of 2021. Accordingly, the Ministry of Finance has been solely authorised to incorporate one or more joint-stock companies for purposes of administering and undertaking Sovereign *Sukuk* issuance in favour of the Ministry of Finance within the Arab Republic of Egypt or abroad. Such entity must be fully owned by the Ministry of Finance, whilst the Ministry of the

Finance shall notify the FRA of its incorporation. The law mentioned further provides that interest on Sovereign *Sukuk* as well as their trading are subject to the same tax treatment of treasury bonds.

1.5 Emerging Trends

In Egypt, the Islamic finance market is actively embracing new trends, especially in areas that align with its national development goals. The two most significant emerging sectors are sustainable finance (including Green *Sukuk*) and Islamic fintech.

Sustainable Finance and Green Sukuk

Egypt is strongly committed to sustainable development. The government plans to issue Green *Sukuk*, which are Islamic bonds used to fund environmentally friendly projects. In this respect, the Egyptian government seeks to issue new *Sukuk* and green bonds valued between EGP5–10 billion during the third and fourth quarters of FY2024/2025, according to Finance Minister Ahmed Kouchouk. The Minister highlighted that this is part of a [broader strategy to diversify financing sources and attract both investors and savers to the local debt market](#).

1.6 Challenges

When structuring Islamic finance in Egypt, stakeholders often encounter delays and added costs due to the absence of a unified legal framework governing Sharia-compliant contracts. Each bank's Sharia board may interpret *Murabaha*, *Ijara* or *Istisna'a* differently, so approvals can drag on. Additionally, existing tax and stamp duty regulations are designed for conventional loans, do not always align with the asset-based nature of Islamic transactions. Capital adequacy and liquidity rules, developed with interest-based lending in mind, often impose higher charges on Islamic assets, limiting banks' ability to scale

Islamic finance. Furthermore, conventional risk management tools such as interest rate swaps or currency hedges are generally non-compliant with Sharia principles, exposing issuers to financial risk from market volatility. Regulators also require Islamic assets to be accounted for separately from conventional ones, compelling institutions to establish parallel systems – adding an estimated 10–15% to operational costs and slowing down the roll out of new Islamic finance products.

2. Sharia Compliance and Standards

2.1 Legal Overview

Egypt follows a civil law system, with the Constitution at the top of its legal hierarchy, followed by legislation, presidential decrees, ministerial decisions, and judicial rulings. The Constitution states that the principles of Sharia are the main source of legislation, which gives Sharia a direct role in personal status matters like marriage, divorce, and inheritance for Muslims. In other areas, such as civil, commercial, and criminal law, Sharia has an indirect influence, ensuring that laws do not contradict core Islamic principles.

Directly: Article (2) of the Constitution stipulates that Sharia is “the principal source of legislation”, which forms the basis for personal status and family laws for Muslims.

Indirectly: Sharia regulates the Islamic finance; regulators like the CBE and the FRA work with Sharia Supervisory Boards to ensure products like *Sukuk* and Islamic funds follow Sharia rules.

2.2 Regulatory Bodies

The Central Bank of Egypt (CBE) and the Financial Regulatory Authority (FRA) are the principal regulators overseeing Islamic banking and non-banking Sharia-compliant financial services, supported by the Ministry of Finance for Sovereign *Sukuk*. They derive their authority from the Central Bank and Banking Law No 194 of 2020 and the Capital Market Law No 95 of 1992 as amended in 2018 and its executive regulations, enforcing compliance through licensing, mandatory Sharia audits and on-site inspections. Penalties for non-compliance include administrative fines (from tens of thousands to millions of EGP per breach), daily fines for ongoing violations, corrective directives, suspension or revocation of licences, seizure of non-compliant products and referral to the public prosecutor for fraud or breach of fiduciary duty.

2.3 Dispute Resolution

There is no separate court system for Islamic products or participants. Civil courts or the economic courts would have jurisdiction to oversee such disputes or arbitration, if agreed upon by the parties in their contractual agreements. There is no separate jurisdiction for Sharia under Egyptian law. However, it is worth noting that the Egyptian Constitution provides that Sharia is one of the principal sources of legislation. To the extent that a Sharia principle is claimed, Egyptian courts would have discretionary authority in light of Egyptian legislation and public order to apply such principles.

3. Islamic Finance Solutions for Working Capital Needs

3.1 Murabaha, Mudarabah and Musharakah

Businesses in Egypt can use Islamic finance methods like *Murabaha*, *Mudarabah*, and *Musharakah* to manage their working capital and cash flow.

- *Murabaha* – in a *Murabaha* transaction, the bank purchases an asset and then sells it to the customer at a higher price, which includes a profit margin. The payment can be made in instalments. This structure ensures that profit is derived from sales rather than interest.
- *Mudarabah* – in a *Mudarabah* contract, one party provides the capital while the other provides expertise and management. Profits generated from the investment are shared between the parties based on a pre-agreed ratio, while losses are borne by the provider of the capital. This arrangement encourages transparency and aligns the interests of both parties.
- *Musharakah* – *Musharakah* is a joint venture where all partners contribute capital and share profits and losses according to their shareholding. This principle emphasises risk-sharing and co-operation, discouraging speculative behaviour and encouraging investment in productive business activities.

These Islamic finance methods help businesses access funds and manage payments in a way that suits their cash flow needs while following Islamic principles.

3.2 Securitisation

Under Egyptian legislation, securitisation is generally implemented through the assignment of financial rights owed to a company by its debt-

ors, to a securitisation company, for the purpose of issuing securitisation bonds to investors. Once the assignment becomes effective, the assigned rights are no longer considered part of the assets of either the assigning company or the securitisation company. The assigning company bears no liability for the fulfilment of any obligations arising from the assigned financial rights after the assignment takes effect and shall have no further involvement, except for the potential role of acting as a servicer to collect the assigned receivables and transfer the proceeds to the relevant beneficiaries. Ownership of the assigned rights is limited exclusively to the holders of the securitisation bonds.

The sale of these rights to investors is typically structured on the basis of risk-sharing principles, allowing for a proportional allocation of any potential risks associated with the assigned financial rights across all investors.

This structure serves as a key factor in attracting banks and investors – particularly those seeking Sharia-compliant investment opportunities – to participate in bond offerings issued under such frameworks.

3.3 Emerging Technologies

Fintech and emerging technologies do not consistently prioritise or deploy Islamic finance solutions, and their integration into Sharia-compliant working capital structures remains relatively less common. However, the authors have observed an adoption of revenue-based financing models, often structured in a *Musharaka/Mudarabah* style, serving as a Sharia-compliant alternative to traditional interest-bearing facilities. These structures align more closely with Islamic finance principles by linking repayment obligations to revenue flows rather than to interest.

Additionally, there has been movement toward developing Sharia-compliant equity financing instruments, with Simple Agreements for Future Equity (SAFE) being restructured to exclude interest, penalties, or other provisions inconsistent with Sharia principles. That said, non-Sharia-compliant financing structures, such as venture debt and standard convertible notes, continue to be the most common instruments utilised in the Egyptian market.

3.4 Challenges

In Egypt, structuring Sharia-compliant working capital finance involves navigating complex contract requirements and varying interpretations of Islamic law, which can cause delays in funding. Risk-sharing options are often limited because financiers prefer lower-risk products, while the strict requirement for tangible asset-backed financing restricts many SMEs from accessing finance. Additionally, regulatory uncertainties and a limited range of Sharia-compliant products hinder innovation in the market. To overcome these challenges, Egypt needs to standardise Islamic finance contracts, leverage fintech to improve risk assessment, develop more asset-backed solutions such as supply chain finance, and strengthen regulatory frameworks to enhance accessibility and efficiency for businesses seeking Sharia-compliant working capital.

4. Project Finance

4.1 Typical Project Finance Products

In Egypt, Islamic finance offers several Sharia-compliant products to fund businesses and projects while avoiding interest and promoting risk-sharing. *Murabaha* is a cost-plus sale where the bank buys an asset and sells it to the customer at a known profit, paid in instalments, helping busi-

nesses buy goods or equipment. *Mudarabah* is a partnership where one party provides capital and the other manages the business, with profits shared but losses borne by the capital provider, commonly used for investments and financing projects. *Musharakah* involves joint partnership where both the bank and client contribute capital and share profits and losses, often used in real estate and commercial projects. *Ijara* is a lease-to-own arrangement where the customer leases an asset and eventually owns it, useful for equipment or property financing. *Istisna'a* is a contract for manufacturing or construction, allowing clients to order customised products or buildings with payments over time. These products follow Islamic principles by being asset-backed, avoiding fixed interest, and encouraging shared risk between parties, making them suitable for various sectors like retail, industrial, real estate, and services in Egypt.

4.2 Advantages and Disadvantages of Islamic Project Financing

In Egypt, Islamic project finance products like *Ijara*, *Murabaha*, and *Musharakah* generally offer competitive pricing, with *Ijara* providing predictable rental payments and *Musharakah* sharing profits and losses, which can lead to variable returns. While Islamic financing may involve higher upfront structuring costs due to Sharia compliance, it avoids interest charges, appealing to ethical investors. Overall, Islamic project finance provides a Sharia-compliant alternative with both pricing and tax benefits under Egyptian regulations.

4.3 Guarantees

In Egypt, Sharia-compliant project finance typically involves a range of guarantees that are structured to comply with Islamic principles. Common forms include the following.

- Corporate or sponsor guarantees (*Kafala*) – support the obligations of the project company without involving interest-based liability, governed by Articles 772 and 782 of the Egyptian Civil Code No 131 of 1948, even if the guarantor is entitled to have a right of recourse against the debtor, and is offered at the request or with the consent of the debtor or voluntarily by the guarantor without the debtor's request or consent.
- Asset pledges (*Rahn*), covering project-related assets such as equipment, land, or receivables of the project.
- Performance bonds and advance payment guarantees – issued by Islamic banks through Sharia-compliant contracts such as *Wakalah* (agency agreements) or *Mudaraba* (profit-sharing partnerships).
- Assignments of receivables – limited to proceeds arising from permissible (*Halal*) transactions, such as *Ijara* (leasing) or *Murabaha* (cost-plus sale).
- Insurance through an Islamic insurance coverage for the debt obligations whilst not extending to conventional insurance.

These guarantees are structured to comply with Sharia principles by avoiding interest (*Riba*), speculation, and unlawful gains.

The principal difference lies in the purpose and scope of the guarantees. In conventional finance, guarantees usually secure repayment of debt including interest. In contrast, Islamic finance extends to the actual principal or real losses, excluding any interest or penalties.

4.4 Specific Limitations or Restrictions

Islamic financing should be directed only towards activities that do not entail dealing in Sharia impermissible commodities or services as directed by the directives outlined in

the Holy Quran and the noble Hadith of the Prophet (PBUH). These divine sources prohibit usury, alcoholic drinks, drugs, gambling, pork, illegitimate carcasses, prostitution, nightclubs, statutes, etc, as well as impermissible acts like deception, bribery, cheating in weight and measurement, and various types of prohibited sales. Each transaction is reviewed by the bank's Sharia board to confirm compliance before issuing, to obtain their internal approvals.

5. Sukuk

5.1 Sukuk Overview

According to the Executive Regulations of the Capital Market Law, in order for an entity to be able to issue *Sukuk* (an Islamic financial certificate, similar to a bond in conventional finance, but complying with Islamic law) convertible to shares, the underlying project, related agreements, prospectuses and information memoranda as well as applications in respect of listing and trading on the Egyptian Exchange are deemed permissible by the Sharia Committee according to the principles of Sharia. In the same vein, the underlying project must be an economic revenue-generating activity based on the feasibility study prepared in such respect. In this regard, *Sukuk* subject to the same issuance are issued in an equal value, non-tradable and non-divisible, and grant their holders the same rights.

5.2 Sukuk Roles

The Financial Regulatory Authority, often referred to as the FRA, is entrusted with overseeing *Sukuk* issuances, whilst its board of directors determines the regulations applicable on the listing of *Sukuk* on the Egyptian Exchange or any stock exchange abroad after obtaining the approval of the FRA and in accordance with the

regulations issued by the latter in such respect. Further, the board of directors of the FRA determines the accounting standards applicable to entities issuing *Sukuk* as well as their beneficial entities, and is entitled to authorise other accounting standards adopted by competent international authorities. Key regulatory considerations include ensuring transparency through comprehensive disclosure of subscription, allocation, and redemption terms.

5.3 Sukuk Prospectus

5.3.1 Required Information

Pursuant to Article 16 bis (1) of the Executive Regulations of the Capital Market Law in Egypt, a *Sukuk* prospectus must include the following key information:

- information about the *Sukuk*-issuing entity;
- information about the beneficial entity;
- information about the Sharia Supervisory Committee (if the *Sukuk* are Sharia-compliant);
- information related to *Sukuk*
- description of the project to be financed by the *Sukuk* proceeds; and
- subscription information.

5.3.2 Formalities

Under the Executive Regulations of the Capital Market Law No 95 of 1992, the enforcement of a *Sukuk* prospectus involves several regulatory requirements. The beneficiary entity must disclose key financial information, material events, legal rulings, and major corporate changes to the FRA, and notify both the FRA and the exchange in case of significant events such as dissolution or asset enforcement. The *Sukuk* company must report any changes to transaction parties and submit quarterly updates on investment use and return distributions. The payment agent must deliver monthly reports to the FRA and *Sukuk*

holders covering financial and operational updates. If the *Sukuk* are Sharia-compliant, the Sharia Supervisory Committee must issue quarterly compliance reports. Additionally, all *Sukuk* must be registered and deposited with the central depository in accordance with the Central Depository and Registration Law No 93 of 2000 and its Executive Regulations.

5.3.3 Sukuk Types

Under the Executive Regulations of the Capital Market Law No 95 of 1992, *Sukuk* may be issued in various Sharia-compliant forms.

Mudaraba Sukuk are based on a *Mudaraba* contract, with proceeds used to finance a specific project or activity managed by the beneficiary entity. Each *Sakk* represents a common share in the *Mudaraba* assets, and returns are derived from the project's revenues, while the nominal value is repaid upon its expiration.

Murabaha Sukuk are issued based on a *Murabaha* contract, where proceeds finance the purchase of commodities that are sold to a promisor after ownership and delivery. Each *Sakk* reflects a share in the commodities before their sale and in their value at resale. Returns are generated from the profit margin between purchase and resale prices.

Musharaka Sukuk, structured under a *Musharaka* contract, finance the construction or development of projects or other joint activities. Each *Sakk* represents a share in the *Musharaka* assets, and returns are distributed based on the holders' share in the revenues.

Ijara Sukuk are issued under an *Ijara* contract involving assets or services to be leased with the aim of transferring ownership. Each *Sakk* represents ownership in those assets or services.

Returns come from lease payments or the difference between the purchase and final sale price.

5.3.4 Committee Interference

The FRA Decree No 42 of 2019 (as amended) regulates the membership and membership requirements for the Sharia regulatory committees entrusted with the following (inter alia):

- ratification of the Sharia-compliant *Sukuk* issuance, whilst overseeing their issuance from an Islamic law standpoint and allocation of their proceeds and reviewing the quarter annual reports submitted to the FRA;
- ratification of the issuance of Sharia-compliant non-banking financial products; and
- developing Sharia-compliant non-banking financial products.

6. Islamic Finance and Fintech

6.1 Sharia-Compliant Fintech

Applying Islamic finance to fintech presents challenges, primarily ensuring that innovation does not conflict with Sharia principles. Many fintech tools, like smart contracts or blockchain transactions, are built on conventional models that may include interest, uncertainty, or speculation, all of which are not allowed under Sharia. The key issue is adapting these technologies in a way that respects both innovation and Islamic values.

In Egypt, there is currently no dedicated legal framework specifically for Islamic fintech. However, the FRA is gradually adapting existing digital finance regulations to support it. FRA Decree No 140 of 2023 sets rules for data security, encryption, archiving, and smart contracts – offering a foundation that can accommodate Sharia-compliant fintech, including blockchain-

based solutions like automated *Murabaha* or *Ijara* contracts. While the Decree is not specific to Islamic finance, its flexibility allows digital Islamic platforms to operate within a regulated environment, provided they comply with both technical standards and Sharia principles.

6.2 Fintech Trends

Pursuant to Article 206 of the Central Bank of Egypt (CBE) Law No 194 of 2020, the issuance, trading, or promoting cryptocurrencies or operating related platforms are prohibited in Egypt without obtaining a licence from the CBE. While cryptocurrency activities remain restricted, Egypt has made progress in other fintech areas relevant to Islamic finance. Peer-to-peer financing and crowdfunding remain unregulated for now. These developments are gradually shaping a regulatory framework that supports Islamic fintech innovation.

6.3 Oversight and Compliance

There is no specific law regulating Islamic finance in Egypt's fintech sector. However, Article 1 of FRA Decree No 42 of 2019 (as amended) established a Central Sharia Supervisory Committee responsible for approving and overseeing Sharia-compliant *Sukuk* and non-banking financial products. This committee oversees the use of proceeds, registers subsidiary Sharia committees and promotes the development of Sharia-compliant instruments in the non-banking sector.

Moreover, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) guidelines provide clear standards for Sharia Supervisory Boards overseeing Islamic crowdfunding and fintech platforms, ensuring they conduct regular supervision to maintain full compliance with Sharia principles throughout all stages of the funding process. This frame-

work ensures digital Islamic finance products align with Sharia while accommodating new technologies.

7. Tax Laws and Issues

7.1 Cross-Border Islamic Finance Transactions

Tax Challenges in Cross-Border Islamic Finance

Withholding tax and double taxation

Cross-border Islamic finance deals can trigger withholding tax on profit distribution or lease payments, which can reduce returns. There is also the risk of double taxation when both Egypt and the foreign jurisdiction tax the same income. These challenges often arise due to differences in national tax laws.

Varying tax treatments

Islamic finance structures may face inconsistent treatment across jurisdictions. In some countries the lack of specific tax guidance for Sharia-compliant products, may lead additional costs or unintended tax consequences.

Mitigation Strategies

To manage these challenges, the following strategies are often used.

- Double tax treaties – using double tax treaties to mitigate withholding taxes and avoid double taxation.
- Structuring flexibility – tailoring the transaction to meet both Sharia and local tax regulations.
- Tax opinions – obtaining binding rulings or guidance from local tax authorities to clarify the tax treatment and ensure compliance with local laws.

These strategies help legal advisers keep cross-border Islamic finance transactions that are both Sharia-compliant and tax-efficient.

7.2 Tax Benefits

In Egypt, Islamic finance transactions are generally subject to the same tax framework as conventional finance. However, Article 14 bis (19) of the Capital Market Law No 95 of 1992 provides a specific exemption relevant to Sharia-compliant *Sukuk* structures. It states that the transfer of assets from the *Sukuk* beneficiary to the securitisation company as part of the *Sukuk* issuance process is exempt from all taxes and fees.

This exemption is intended to eliminate any fiscal disadvantages for Islamic finance instruments compared to their conventional products, particularly in asset-backed structures. While there are no broader tax incentives exclusively for Islamic finance, this provision facilitates the issuance of *Sukuk* by ensuring tax neutrality during asset transfers.

7.3 Tax Reform

There have not been any recent tax reforms or regulations in Egypt specifically targeting Islamic finance. The existing framework remains unchanged, applying equally to both conventional and Sharia-compliant financial products without any notable updates in recent years.

8. Future Legal and Regulatory Outlook

8.1 Anticipated Regulatory Changes

With financial inclusion as a key element of Egypt Vision 2030, Egypt's Islamic finance sector is set for key changes to strengthen its legal and regulatory framework. The government aims

to refine *Sukuk* regulations, simplifying issuance and encouraging more Sovereign *Sukuk*.

Sharia governance is anticipated to be further regulated by the CBE and FRA enforcing stricter compliance rules for Islamic transactions. Additionally, potential tax incentives may also be introduced for products like *Murabaha* and *Ijara*, enhancing their competitiveness against conventional financing.

As Islamic fintech grows, Egypt is expected to roll out clearer rules for Sharia-compliant digital platforms, positioning itself as a regional leader in digital Islamic finance.

8.2 Necessary Reform

To support the long-term growth and sustainability of Islamic finance, further legal and regulatory development is necessary, with the view of harmonising Sharia standards across jurisdictions, which is essential to reduce interpretational inconsistencies and boost investor confidence. Achieving tax neutrality for multi-step Islamic transactions would level the playing field with conventional finance structures.

There is also a growing need for specialised dispute resolution mechanisms tailored to the unique features of Sharia-compliant contracts. As digital finance expands, clear regulatory frameworks for Islamic fintech, including crowdfunding platforms and smart contracts, are critical. Strengthening institutional Sharia governance and ensuring the legal recognition and enforceability of Islamic finance instruments under civil law will enhance both transparency and legal certainty.

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