Abstract

This study investigates whether inefficiencies in Islamic banking in Sub-Saharan Africa (SSA) are primarily driven by managerial limitations or by suboptimal scale of operations. While existing studies largely report aggregate efficiency scores, limited attention has been given to decomposing efficiency into its underlying components in emerging Islamic banking systems, particularly within the SSA context. The study employs a balanced panel of 35 fully fledged Islamic banks operating in SSA over the period 2010–2024. Operational efficiency is estimated using a bias-corrected Data Envelopment Analysis (DEA) model under an input-oriented Variable Returns to Scale (VRS) framework. To enhance statistical reliability, the Simar–Wilson bootstrap procedure with 2,000 replications is applied. Efficiency scores are decomposed into pure technical efficiency and scale efficiency to distinguish between managerial inefficiencies and structural scale constraints. The results indicate that overall efficiency levels remain low, with inefficiencies largely driven by scale factors rather than managerial performance. A significant proportion of banks operate under increasing returns to scale, suggesting suboptimal size linked to structural constraints such as limited market depth, fragmented regulatory environments, and underdeveloped financial infrastructure. Although pure technical efficiency shows moderate improvement over time, managerial gains are insufficient to offset these systemic limitations. The findings highlight the need for regulatory harmonization, market integration, and strategic expansion or consolidation to enable Islamic banks to achieve optimal scale and improve operational efficiency in SSA. This study provides one of the first comprehensive efficiency decomposition analyses of Islamic banks in SSA using bias-corrected DEA, offering new insights into the relative importance of structural versus managerial sources of inefficiency in emerging financial systems.