



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**CHALLENGES OF INTEREST FREE BANKING EXPANSION: THE
CASE OF COMMERCIAL BANKS OF ETHIOPIA, WEST ADDIS
DISTRICT**

BY

NEIMA ABDU

MAY, 2019

ADDIS ABABA, ETHIOPIA

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Declaration

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr Gashaw Tibeb. All sources of material used for the thesis have been duly acknowledged, I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination for approval as a university advisor.

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Acronyms and Abbreviations

CBE: Commercial Banks of Ethiopia

CSA: Central Statistical Authority

IFB: Interest Free Banking

IFBW: Interest Free Banking Window

NBE: National Bank of Ethiopia

PLS: Profit and Loss Sharing

PWC: Population World commission

SD: Standard Deviation

SPSS: Statistical Package for Social Science

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Abstracts

Currently, the use of interest free banking shows increment as the total number of demanders' increases from time to time. Thus, the main purpose of this study was to investigate the challenges of interest free banking expansion in commercial banks of Ethiopia, west Addis district. To attain the main intents of the study, the required information were drawn both from primary and secondary sources. Purposive sampling method was used to select 16 banks among 116 banks operating interest free services in the west Addis district and 90 bank's employees who are directly related to the topic. Five point likert scale structure questionnaire was main means to acquire the primary data. Secondary data were also used to supplement the primary data. In analyzing and interpreting the primary data, quantitative research techniques had been employed. SPSS version 24 and Microsoft Excel Spread Sheet soft wares were used to analyze the quantitative data. Statistical tools like percentages and means were employed and the findings were displayed in tables and figures accordingly. The study revealed that lack of sufficient knowledge and unfavorable towards interest free banking services and products, absence of Shariah scholars as well as trained employees, absence of market based intermediation and product, and lack of regulatory platform and government support were main impediments affecting the expansion of interest free banking services and products in commercial banks of Ethiopia. However, the majority of the respondents confirmed that Interest free banking has adequate demand or customers, incomplete traditional IFB instruments and smaller economic of scale compared to the conventional banking system. Accordingly, the study recommends that there should be vigorous public enlightenment programmes to create more awareness, and to remove misconception and doubt among the customers and potential customers. Shareholders, bank's board directors and the management of the bank should accept the concept and be cooperative with interest free banking window of the banking and establish a working Shariah supervisory board for interest free banking operation and strictly comply with its guidance. The government of Ethiopia should take more proactive efforts to promote Interest free banking services in accordance with customers' satisfaction. The NBE and the Ethiopian government had better to be in a position to laid dawn sound regulatory plate form and support toward the expansion of IFB services and product in accordance with Shariah Law.

Key words: *Interest free banking, Shariah, likert scale, SPSS*

UNIT ONE

INTRODUCTION

1.1 Background of the Study

Banks have always played an important position in the country's economy. They play a decisive role in the development of the industry and trade. They are acting not only as the custodian of the wealth of the country but also as resources of the country, which are necessary for the economic development of a nation (Kalpana & Rao, 2017). It is one of the essential mediums for mobilizing development funds and sustainable economic activities (Jemal, 2018). Banks pay interest to the depositors for savings and term deposits, and charge interest to the borrowers for loans advanced. Interest is the amount charged to a recipient or paid to an investor, and may be a proportion of the principal amount advanced or deposited. The bank is in a position to cover its expenses and earn a profit by charging the recipient of facilities such as loans a higher interest than is paid to the depositor (Nwite, 2005)

Banking is a financial service that primarily consists of receiving money owned by individuals and entities, and then lending out this money at a price (interest) in order to make profit. Banking services also include checks, credit and debit cards, ATM services, safe custody of valuables, Trade Finance and For ex-services, funds transfer, internet and mobile banking services. The primary role of banks however, is financial intermediation which refers to channeling of funds from depositors to borrowers (Allen & Carletti, 2008). Financial intermediation provides savers with an outlet for their funds whereas at the same time providing funds to borrowers for their expenditure. The most recent and notable development in the banking industry is the emergence of Islamic Banking System and Interest-Free Banks in both developing and developed countries of the world (Ibrahim *et al.*, 2011)

Literatures on Islamic banking indicated that Interest free banking or Islamic finance has grown rapidly over the past decade, and its banking segment has become too vital for various countries in a wide range of regions (Tsion , 2017). For instance, according to

IMF (2015), Islamic finance is projected to continue to expand in response to economic growth in countries with large and relatively unbanked Muslim populations. It is also fueled by the large savings accumulated by many oil-exporting countries that are seeking to invest in *Shari'ah*-compliant financial products. Aziz (2009) also asserts that the Islamic financial industry has gained great acceptance and appreciation that has led to expansion beyond the traditional borders of the Muslim-based economies into the major industrial economies. Islamic banking is non-interest bearing and needs contractual agreement between the bank and the depositors; which identify the profit and loss sharing principles. Profit and loss sharing is an agreement between the transacting parties to invest their pool resource in a project to share profit and loss. On other hand, the conventional banking provides fixed rate of interest in return on the investment deposited by the depositors.

Moreover, The Islamic financial institutions are increasing at a much faster pace in comparison to the conventional banking system, especially in the Islamic countries in the last 30 years due to the increase in demand for *Shariah* compliant products. Currently, there are about 200 Islamic banks providing *Shariah* compliant banking in more than 70 nations. These include not only in Islamic countries but also in western countries (Ramazan *et al.*, 2012). According to Teferi (2015), introduction of IFB does not only create inclusive financial system for the Muslim population but also has a potential to influence and enhance the economic development of the country through resource mobilization and employment creation by encouraging people to use the banking system. Various research studies confirmed that Islamic banking principles promote economic growth in many countries of the world. For example, (Tabashi&Dhankar, 2014) in their study showed that Islamic finance principles and instruments are vital for economic growth and welfare of the society, if it is applied for the financial system of any country, it will lead to creation of job opportunities and optimal wealth distribution in the society. The positive growth rate and progress of Islamic finance industry year after year combined with its stability during financial crisis attracts the attention of many policy makers in different countries and particularly in where multi-race and religion back ground, and the possibility of adapting it as an alternative financial system besides the conventional one.

Islamic finance products are available for all people irrespective of their religions, race and beliefs. For instance, the Vatican's claim that banks should look at the rules of Islamic finance to restore confidence amongst their clients at a time of global economic crisis (Mutua, 2017). In Malaysia, for example, 52% of Islamic banks' customers are non-Muslims, which means everybody in the world can have access to Islamic banking products particularly in countries where there are many people with different backgrounds, thoughts and religious beliefs (Musab, 2017).

Research findings indicated that Islamic banking offers viable and efficient modes of finance (Nedel, 2017) and used as a catalyst for development. The principle goals and functions of the Islamic banking system include economic well-being with full employment and maximum rate of economic growth, equal distributions of income and wealth and as a result socio-economic justice, and the generation of sufficient savings and their productive mobilization and stability in the value of money (Chapera, 2000). Financing the Islamic banks have contributed to the increment of investment and attracting Foreign Direct Investment inflow (FDI) in the long term and in a positive way in UAE (Tabashi & Dhankar, 2014).

The empirical studies that have been conducted so far have mainly examined the efficiency, superiority and stability of Islamic banks compared to conventional banks to achieve some intermediate monetary target for the ultimate target which is concentrated towards the achievement of sustaining real economic growth, reducing inflation and lowering unemployment. For example, Darrat (1988) found that interest-free banking system is more superior to achieve the monetary target. This indicated that expanding interest free banking that support the growing need of the population is indispensable not only economic growth but also to tolerate any trouble resulted from economic ill.

1.2 Statement of the problem

Over a century, the banking industry in Ethiopia has been operating; however, interest-free banking had never been practiced even though more than one third of Ethiopians are

identify as Muslim (Jemal, 2018). Until 2011, there were no banking products were available to serve the Muslim community and non-Muslim population who do not want interest. Even if the National Bank of Ethiopia (NBE) has launched an Interest Free Banking (IFB) directive, there is still a need to develop an adequate legal framework to effectively implement and capitalize on a prosperous IFB sector in Ethiopia. There has been no concrete work conducted for a proper roll out of *Shariah* based products and services. Currently, the directive is very broad and does not provide any specificity in terms of product lines, rules and regulations to ensure fully, the products developed by financial institutions are truly, in line with *Sharia* law.

Ethiopia is a country where Muslims account for nearly 34 % of the population (CSA, 2008) began IFB system too recently. Many people in the country shy away from banking services due to the interest attached on money savings. However, in Ethiopia, now nine banks have the license from NBE and start promoting IFB service and accepting non interest deposits but five of the conventional banks are involved in Islamic financing system. But, the service given by such banks are, by far and large, is believed to be inadequate with the growing Muslim population in the country. Therefore, the question is what are the major constraints that affect the growth of Interest free banking products and services to fully and adequately address the demand of such overwhelming population? Correspondingly, various literatures indicated that constraints related to shortage of adequate knowledge and unfavorable attitude towards IFB expansion, lack of *shariah* scholars and trained man power, lack of market based intermediation and products and lack of legal system are supposed to be affect the expansion of IFB services and products.

Additionally, by considering the overall importance of IFB in Ethiopia, few studies were conducted on the attributes of IFB. Among these studies Mohammed (2012) conducted a research on the prospects, opportunities and challenges of Islamic banking in Ethiopia. His findings identified lack of awareness, regulatory and supervisory challenges, institutional challenges, lack of support and link institutions, gap in research and development in Islamic studies, lack of qualified human resource as well as wrongful association with specific religion and the global terrorism are the potential challenges of

IFB. Debebe (2015) also conducted a study on the factors affecting customers to use interest free banking in Ethiopia and found that perceived relative advantage, perceived compatibility, customers' level of awareness and subjective norm have a significant positive impact on the attitude towards interest free banking in commercial bank of Ethiopia.

Kerima (2016) conducted a study on the challenges of IFB services in the case of commercial bank of Ethiopia and found that lack of commitment of the bank, lack of *Shariah* advisor, lack of supportive regulatory directives, Problem related to Ethiopian Commodity Exchange (ECX) law, lack of capacity to deliver IFB product at full range, lack of awareness of customer about IFB products, lack of trust and confidence of customers, inadequate marketing and promotion, double taxation, nature of IFB products, unavailability of IFB products in all of its branches and the IFB being delivered in a Window model.

Tsion (2017) conducted a research on the challenges and opportunities of IFB in Ethiopia. Her study found that lack of awareness by customers about IFB services, institutional need for special regulations and lack of specialized human resource and segregation of funds for effective implementation of IFB were main challenges of IFB. Moreover, A study by Jemal (2018) on practices and challenges of interest free banking windows of commercial banks in Ethiopia confirmed that lack of supervision by NBE, lack of confidence and trust of clients, lack of legal support from government, lack of qualified human resource, lack of cooperation among Islamic windows, lack of infrastructure suitable for Interest free banking operation, and doubt of clients identified by the practitioners as major challenges in the process of offering interest free banking services in Ethiopia.

However, none of the above studies have addressed the challenges that affect the growth or expansion of IFB products and services in Ethiopia. Therefore, this study hopes to fill this research gap by investigating the potential constraints that hinder the expansion of IFB services and products by taking CBE west Addis district as a case study.

1.3 Research Questions

The study guided by the following basic research questions.

- 1) What are the major factors related to knowledge and unfavorable attitude towards IFB services and products that challenges IFB expansion in Ethiopia?
- 2) What are the bottlenecks related to *Sheria* experts and trained man powers that hinder the expansion of IFB in Ethiopia?
- 3) What are the major constraints related to market based intermediation and products that challenges IFB expansion?
- 4) What are the major factors related to legal system (regulatory plate form and government supports) are the challenge for IFB expansion?

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of the study was to investigate the challenges on the expansion of interest free banking in some selected commercial bank of Ethiopian, West Addis District

1.4.2 Specific objectives

The research has the following specific objectives

- ☞ To assess whether inadequate knowledge and negative attitude towards IFB services are challenge to IFB expansion or not.
- ☞ To assure shortage of *Sheria* experts and lack trained man power are the challenges for the expansion of IFB or not.
- ☞ To investigate whether the lack of market based intermediation and products become challenges to IFB expansion or not.
- ☞ To assess whether the legal system (regulatory plate form and government supports) become challenges for IFB expansion or not.

1.5 Significance of the study

This study has its own theoretical, methodological and practical contributions. Theoretically, the study contribute to the existing pool of knowledge on the challenges of interest free banking expansion particularly in the Ethiopian context; serve as a basis for

further research in the field of interest free banking. It also provides an understanding and explanation of the challenges facing interest free banking with in Commercial banks.

Methodologically, this study clearly shows the way how to assess the major constraints that affect the expansion of IFB. This is the sole contribution of the study. Practically, Commercial banks of Ethiopia and other commercial banks may use the findings from this study to enhance their knowledge on practices and challenges of interest free banking. This study also can assist the bankers in formulating different strategies and policies to tackle challenges related with the expansion of interest free banking services and products. This study could also help both those banks currently have interest free windows and intended to launch such product and service in the future.

1.6 Scope of the Study

This study could be comprehensive and all-inclusive in getting information and giving deep view of investigating the major impeding factors of interest free banking expansion in Ethiopia if it addresses all banks in the country. However, in order to make the study more manageable in terms of the researcher's aim and interest, available time, finance and facilities, attempt was made to delimit the scope of the study on some selected west district of CBE in Addis Ababa.

There are about 124 conventional commercial banks under west district operating in Addis Ababa, Ethiopia. Of these, 116 of them have licensed to offer Interest free banking products and services, and began to operate. Thus, on the basis of scientific justification stated in unit three of this study, the scope of the study comprised of 16 conventional banks fully operating Interest free banking or Sharia compliant banking under the west district of Addis Ababa branches. So that, the study is centered on the them rather than other banks

1.7 Organization of the Paper

The rest of the dissertation is organized into five chapters. It begins with the introduction chapter in which background of the study, the statement of the problem, objectives of the study, the research questions, significance of the study, limitation and delimitation of the

study, and organizations of the study are included. The next chapter attempts to review the conceptual, theoretical and empirical related literatures. The third chapter is the methodology, which includes the research design, data collection methods, sources of data, research tools, sampling procedure and determination, validity and reliability of instruments, methods of data analysis and ethical considerations. The fourth chapter elaborates the discussion of the main findings of the study. Finally, the last chapter provides conclusions and recommendations of the study.

UNIT TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives an insight into various studies conducted by pioneer researchers on the challenges of IFB expansion in Ethiopia. It selectively reviews the concepts, theoretical literatures and empirical evidences related to the ways how various factors affects the expansion of IFB services and products. The main goal of the review is to assess why and how the existing impediments influence the IFB services and products given by the CBE in the context of varied and changing environmental, policy and institutional factors. Theoretical literature of the study, including Islamic banking is discussed briefly in this chapter. Then, based on the theoretical literature and basic research questions of the study, appropriate theoretical and conceptual frameworks have been selected and designed, respectively, at the view of seeing the world and conducting the research on the line of the road map. To these effects, the author starts with the discussion on the over view and evolution of IFB, followed by a brief explanation of the various theories related to the topic under discussion. Then, the empirical literatures related to the challenges of IFB or Islamic banking was discussed as well in this section of the study. Finally, The insights gained from this chapter will inform us necessary information pertaining to the main theme of the investigation that enable us to compare with the other findings and give clue about how to analyze the data in the subsequent chapters.

2.2 Over View of Interest Free Banking

According to the study made by Ibrahim (2012), the concept of Islamic Banking and Interest Free Banking is synonymously used in Islamic Economics literature as an alternative to the interest-based conventional banking practice. However, there is a difference between an interest-free bank and an Islamic bank but they are sometimes used interchangeably. Islamic banking not only avoids interest in all its ramifications but also it avoids all other *Islamically* prohibited activities. Interest-free banking system on the other hand, does not engage in interest but there is no reason to suppose that all its other activities will be done strictly according to Islamic law or “*Shariah*”.

Therefore, Islamic banking or interest free banking is a financial system whose key aim is to fulfill the principle of the Holy Quran and the teaching of Prophet Mohammed. Islamic law reflects the commands of God and this regulates all the various aspects of a Muslim's life and hence Islamic finance is directly involved with spiritual values and social justice (Nedal, 2017). In a similar vein, it has been described as a financial institution whose status, rules and procedures expressly states its commitment to the principles of Islamic *Shari'ah* Jurisprudence and forbids of the receipt and payment of interest on any of its transaction (Mohamed, 2013). The basic principle that has guided all theoretical work on Islamic banking is that although interest is forbidden in Islam, trade and profit is encouraged. This is the nature of the Islamic banking business; however, conventional banking uses the interest rate as a central mechanism to carry out its financial operations.

The Islamic banking model primarily relies on the instruments of *Mudarabah* (joint venture) and *Musharakah* (equity participation) to eliminate interest from the financial sector and economy. Other interest-free instruments such as *Murabaha* (deferred payment sale), *Ijarah* (leasing), *Bai Salam* (advance payment) and *bai Istisna* (procurement engagement) are also used to enhance the practical scope, diversification and risk management capabilities of the Islamic banking system.

2.3 Evolution of Interest Free Banking or Islamic Banking

Interest which is the backbone of the conventional banking system is not allowed in the four major religions of the world like Judaism, Christianity, Hinduism and Islam. Thus, their followers need the financial system which prohibited interest. This leads to the evolution of Islamic banking or participatory interest free Islamic banking (Mohammed, 2013). Even the non-Muslim scholars, economists and bankers acknowledge that Islamic banking has made a place for itself in the world of finance. The Vatican has put forward the idea that "the principles of Islamic finance may represent a possible cure for ailing markets". More over, they claimed that "Islamic finance may help western banks in crisis"(Lorenzo, 2009). The Sharia'h explains in detail the Islamic concepts of money and capital, the relationship between risk and profit and the social responsibilities of financial institutions and individuals. Based on this philosophy, Sharia'h compliant financial

instruments and techniques have been developed and successfully used by Islamic banks and their customers worldwide.

Islamic banking has established itself as an emerging alternative to conventional banking and has grown rapidly over the last two decades both in Muslim and non-Muslim countries. Islamic banks have recorded high growth rates in both size and number, and operate in over 60 countries worldwide and bankers predict that Islamic banking could have control over 50% of savings in the Islamic countries within the next decade (Ahmed, 2004). Although Islamic banking was practiced during the classical period, the modern experiment of profit and risk-sharing business, which is the cornerstone of Islamic banking business, was first undertaken in 1963 in Mit Ghamr, a city in Egypt. The main objective of the bank was to make fertile ground on the possibilities of mobilizing local savings and credits as an essential requirement for socioeconomic development in the area (El Naggar, 2005). The ripple effects of this successful experiment were felt in some other Muslim countries after some years. Few years before the bank consolidated its services in 1981, other banks such as the Islamic Development Bank (IDB) and Dubai Islamic Bank opened their doors to customers in 1975. Also, Malaysia followed suit with the enactment of the Islamic Banking in 1983. This brought about the establishment of the first formal financial institution in Malaysia in 1983 known as the Bank Islam of Malaysia (Oseni, 2009). The Islamic banking and finance industry has continued to grow in leaps and bounds over the years. The industry grows at a rate of 10–15% per year (Khan *et al.*, 2007). It is now the fastest-growing segment of the global financial system, with the unremitting establishment of Islamic banks in the Muslim world and beyond. However, in the era of globalization, both developed and developing countries operate interest free banking along with the conventional banking system.

2.4 Theories of Interest Free Banking or Islamic Finance

The theory of Islamic banking is based essentially on the premise that interest, which is strictly forbidden in Islam, is neither a necessary nor a desirable basis for banking operations, and that Islamic teachings provide a better foundation for organizing the working of banks. Moreover, literatures related to IFB were underpinned by certain theories in which their mile stone have to be established on Islamic banking principles.

For instance, before 1946, the contributions of literatures on the development of Islamic banking were only discussed as part of the subject in Islamic economic system. For example, the book written by Qureshi entitled on “Islam and the Theory of Interest” looked upon banking as a social service that should be sponsored by the government like other public institutions such as public health and education (Qureshi, 1946). His view was based on the point that the bank could neither pay any interest to account holders nor charge any interest on loans advanced. He also suggests the possibility for both Islamic banks and entrepreneur to create a partnership. He did not mention any thing about the profit-sharing principle.

Later on, in 1952, Ahmed in his book entitled on *Economics of Islam* proposes the establishment of Islamic banks on the basis of a joint stock company with limited liability. In his proposition, in addition to current accounts, on which no dividend or interest should be paid, there was an account in which people could deposit their capital on the basis of partnership, with shareholders receiving higher dividends than the account holders from the profits made (Ahmed S. , 1952). Like Qureshi (1946), Ahmad (1952) also suggests of possible partnership arrangements with the entrepreneur who seek capital from the Islamic banks. However, at that time, the partnership principle left undefined, nor was it clear who would bear the loss if any. It was also suggested that Islamic banks should cash bills of trade without charging interest, using the current account funds. From here, Islamic banks only charge fee to entrepreneur. Later, the principle of *Mudarebah*, *Mushareka*, *Murabaha*, *Bai Salam* (advance payment) and *Bai istisna* have been introduced as a theoretical underpinning of Islamic banking system. Brief accounts of them are discussed under here.

2.4.1 Profit and Loss Sharing (PLS) Theory

Islamic scholars treat PLS instruments like *Mudarabah* and *Musharakah* as a central pillar of the Islamic banking model. In *Mudarabah* banking, the Islamic bank accepts funds from depositors under risk-sharing arrangements. The Islamic bank either directly invests these funds in profitable investments or extends them to entrepreneurs on a risk-sharing basis. The Islamic bank shares the profit or loss made on *Mudarabah* ventures with its depositors. The principle of *Mudarabah* was appealed systematically by Uzair in

1955. His main contribution lay in suggesting *Mudarabah* as the main premise for 'interest less banking'.

However, his argument that the Islamic bank should not make any capital investment with its own deposits rendered his analysis somewhat impractical (Uzair, 1955). Mohammed (1966) also suggested a banking system with *Mudarabah* as the central instrument for interest free banking system. He conceptualized that the Islamic bank would act as a *Mudarib* in so far as the depositors were concerned, while the 'borrowers' would act as *Mudaribs* in so far as the Islamic bank was concerned. In his suggestion, the Islamic bank could provide not only the capital procured through deposits but also the capital of its own shareholders. He also took note that his view with regard to the distribution of profits and the responsibility for losses was strictly in accordance with the *Shariah*. *Mudârabah* is sometimes referred to as a sleeping partnership because the *mudarib* runs the business and the financier cannot interfere in management, though conditions may be specified to ensure better management of capital. Islamic banks mainly make use of *mudârabah* financing to raise funds; *mudârabah* contracts are also used for the management of mutual funds (Nedal, 2017).

In *Musharakah* banking, the Islamic bank contributes the depositors' funds to a joint enterprise with the client (an entrepreneur). Generally, the Islamic bank allows the client to manage all the affairs of a *Musharakah* business. The Islamic bank and the client mutually share the profit or loss made on the *Musharakah* investment. In a typical PLS arrangement, an Islamic bank provides the risk capital to a firm in which professional managers are responsible for making strategic and operational decisions. The bank shares in profits and is liable to any financial loss. There is no serious problem with this arrangement if the bank is able, and is allowed, to monitor business operations of the firm. However, proper monitoring mechanisms are yet to be devised for PLS, especially in case of *Mudaraba* that does not provide any control rights to the financier (the Islamic bank in this case). Fiqh literature on this issue is quite out-of-date and needs serious reconsideration. For example, Saleh (1986) lists three rights and one responsibility of the financier in a *Mudaraba* arrangement. The rights include ensuring that the borrowing

entrepreneur (firm) complies with the terms of the contract, sharing profits, and limited liability in case of loss. The sole responsibility is handing over the *Mudaraba* capital. He also outlines two rights and two responsibilities of the borrower.

The rights include conducting the business with an appropriate degree of freedom, and accounting decisions. The responsibilities are compliance with the terms of the contract, and liquidation of the *Mudarabah* business at the end of the contract. The modern use of *Mudaraba* as a mode of financing obviously requires more than such preliminary specification of rights and responsibilities. There is a need for construction of standardized PLS contracts, or by laws, in the light of the legal frameworks of Muslim countries.

2.4.2 Murabaha (Cost-Plus Sales Contract)

This type of contract is mostly used in the procurement of equipment. It is a sales contract between Islamic bank and its client at a fixed profit called mark-up. Under the *Murabaha* arrangement, the client makes a promise to buy specified goods from the Islamic bank on a deferred payment basis. The Islamic bank purchases goods from the original supplier and sells them on to the client after adding its own profit margin.

2.4.3 Musharekah (Equity Partnership)

Musharakah is a contract in which two or more persons contribute capital for the establishment of a particular business venture in such a way that each partner has right to either involve in the administration of the business or not. However, partners may decide to be active or sleeping partner at their own will. In this kind of transaction in Islamic banking, profits are shared based on agreed ratio which need not be equal to their individual capital contribution, but loss is shared strictly based on individual capital contribution. So, Islamic bank will act as a partner in this case in order to contribute to the capital formation as well as in sharing profits and loss.

2.4.4 Ijarah (Lease Financing)

The features of *Ijarah* financing are very similar to those of conventional lease financing. However, unlike in the conventional lease contract, *Shariah* holds the leaser responsible for all damage, repairs, insurance and depreciation of the leased asset. The leaser should also bear the risk of uncertainty attached to the useful life of the leased asset. In other expressions, *Ijarah* is a contract whereby an Islamic bank purchases an asset and leases it out to its client on the agreement that the client will be paying a fixed amount at regular interval usually monthly for a specified period of time to the Islamic bank. It may also include the option of the client purchasing the asset at the end of the contract from the bank.

Islamic financial institutions mostly rely on leasing, known as *Ijarah wa iqtina*, for meeting financing needs in the real estate, retail, industry and manufacturing sectors. Leasing enjoys strong support from *Shariah* scholars and bears a close resemblance to conventional leasing (Iqbal, 2000).

2.4.5 Bai Salam (Advance Payment)

It is a sale contract whereby Islamic bank agrees to supply some specific commodities to the buyer (its client) at a future date that is specified in exchange of an advanced full spot payment to the bank. That is, the client pays the full amount and delivery of the commodity to the client is done in specific future date by the Islamic bank. *Bai salam* and *bai istisna* are forward sale contracts in which the seller pays in advance the price of goods that are to be delivered to him at a specified future date. *Bai salam* was widely practiced in the Arabian agricultural sector long before the dawn of Islam. This instrument was best suited to meet the financing needs of the farming and manufacturing industries in the Islamic economy. *Shariah* stipulates that the terms and conditions of *bai salam* and *bai istisna* contracts, such as price, quantity and quality of goods, should be clearly determined without involving any features of interest, *gharar* (speculation) or dubious sale (Iqbal, 2000).

2.4.6 Bai Istisna (Procurement Engagement)

It is a contract in which a party orders another to manufacture and provide a commodity, the description of which, delivery date, price and payment date are all set in the contract. It is used by Islamic banks, and consists of two separate *Istisna* contract.

2.5 Empirical Studies of the challenges of IFB

2.5.1 Lack of adequate knowledge and unfavorable attitude towards IFB services and products

Up-to-date related literature indicated that adequate knowledge and favorable attitude towards the use of IFB products and services become too decisive for the expansion of the service itself as well as the growth of IFB. For instance, (Jorg & Kermit, 2004) investigated the relationship between university students' knowledge of Islamic and conventional banks in the United Arab Emirates. Their sample comprised six hundred and seventy six graduate and undergraduate students at the School of Business and Management at the American University of Sharjah. This sample contained both Arab and non-Arab students who purportedly may have different attitudes towards Islamic and conventional methods of finance. Their major finding was found that the more education completed tended to improve financial knowledge of both conventional and Islamic finance.

Moreover, In the city of Adelaide in Australia, 300 Muslims were surveyed regarding their awareness of Islamic banking products by (Rammal & Zurbrugg, 2007). Their results illustrated that the majority of the respondents were interested and prepared to use Islamic methods of finance, but they were not properly informed about their function. In other words, even though most of the respondents had knowledge about availability of Islamic financial products, they were still unaware regarding the basic Islamic banking principles and specific Islamic methods of finance such as profit/loss sharing contracts. They added that the lack of awareness and experience with "*halaal*" (in accordance with Islamic *Shariah*) products were not to be a damage to the willingness for respondents to use Islamic methods of finance even profit/loss sharing contracts.

Khattak & Rehman (2010) also investigated the relationship between customer satisfaction and awareness of Islamic banking system in Pakistan banking industry by taking a sample of 156 respondents from different cities in Pakistan. The respondents expressed their satisfaction to some of the services and dissatisfaction with a few, although overall the customers were mostly satisfied with the Islamic banking services provided to them. It was found that the awareness level with regard to the general products but were unaware of the different Islamic financial products such as *Mudarabah* and *ijarah*.

In addition, Mark (2010) studied the differences in attitude and perception towards Islamic banking between Muslims and non-Muslims by taking a sample of 200 Malaysians – 100 Muslims and 100 non-Muslims in Klang valley of Malaysia and found that Muslims are supportive of Islamic banking while non-Muslims view Islamic banking as relevant primarily to Muslims. In line with this, Haque (2010) conducted a face to face interview of 473 Malaysian customers to study the attitudinal difference of Malaysian customers about Islamic banking and found Malaysian consumers have positive attitude towards Islamic banking and a significant attitudinal difference exists only between Malay & Chinese and between Chinese & Indian, while the overall attitudes of all three races were positive towards Islamic banking.

A study carried out by Mohammad *et al.* (2014) across the four cities of North India found that both Muslims and non-Muslims showed a positive attitude towards Islamic banking. In a similar study, Nissar & Sudalai (2013) analyzed the demographic variables on attitude towards Islamic Banking by carrying out an empirical study based on primary data collected from 6 states in India and found that despite the significant growth of Islamic finance globally in 100 countries, Muslims in India have no idea and are not aware of the facts, issues and practices of Islamic banking and finance. They suggested that there was a need to conduct campaigns for creating awareness on the practice of Islamic banking and finance.

2.5.2 Shortage of *Sharia* Experts and Trained Man Power

Islamic banking is a very fast industry that does not lack capital but expertise and uniformity (Laldin, 2011). As the sector continues to grow, it is becoming increasingly important for banks to ensure that their employees receive the training and resources to follow both *Shariah* principles and traditional compliance laws. Banks must act now to provide documentation and training for their employees. It is only with a knowledgeable, educated staff that Islamic financial institutions can survive and compete (Eagle, 2009). In their research, Haji et al. (2009) confirmed that one of the main challenges of Islamic banking is the lack of expertise to perform the *Shariah* review. Most of the time, auditors lack the *Shariah* background and the *Shariah* employees lack also the experience and training to perform effective and efficient *Shariah*-compliant operations.

There has been an acute shortage of human capital resources in the Islamic banking industry. Islamic banking personnel are largely drawn from conventional banking. They are neither properly trained nor devoted to learning and practicing Sharia-compliant banking. They are interested only in eliminating interest from Islamic banking operations without realising the true objective behind this exercise (Abdulmalik, 2006). According to the executive director of the International *Shariah* Research Academy for Islamic finance, 80% of Islamic financial products are merely *Islamised* versions of conventional ones. Incumbent banks and new market entrants are facing vastly different market conditions and need to develop new sources of differentiation beyond compliance with *shariah* to compete or remain successful in the future (Vayanos *et al.*, 2008)

Most professional and training courses tend to be geared towards conventional banking rather than Islamic banking. In reality, there are a limited number of institutions and schools which offer training for Islamic institutions (Karbhari *et al.*, 2004). So, after properly documenting all policies and procedures, there is need for Islamic financial institutions to educate their personnel to understand the principles of *Shariah*. However, training for employees on both general and Islamic banking principles does not have to be a costly or timely expenditure. ELearning is a cost effective way to educate employees on general banking principles, as well as on Islamic banking law (Eagle, 2009). Eagle added that by providing eLearning training to its employees, a financial institution will

eliminate the need for costly and time-consuming in-house training. ELearning eliminates or greatly reduces the cost of travel, instructor time, materials and lost work days. ELearning provides a program that can be used for refresher training and new-hire training. Many larger conventional banks have a specialized function to educate employees and ensure ongoing adherence to Islamic principles (Hunt, 2009). Training will not only help bank employees to become familiar with general banking principles, it will also teach them about the complex regulations that apply to Islamic products and services. Through these training programs, employees will gain the knowledge and tools needed to benefit the customer-banking relationship (Eagle, 2009). Mohamed (2013) conducted a research on factors influencing the growth of Islamic banks in Kenya and confirmed that shortage of professionals in the Islamic banking sector was evident.

2.5.3 Lack of Market based Intermediation and Products

Up-to date literatures in the field of Islamic finance indicated that the availability of intermediation based on the current market is too decisive in the financial transaction in the era of globalization. For instance, PWC (2013) confirmed that the demand for Islamic finance services has been increasing due to growing Muslim populations in countries especially in Asia and Africa, which currently account for over 95% of the world's Islamic population and which are projected to increase by 35% by 2030. Moreover, Mutua (2017) revealed that the demand for Islamic finance had been increasing due to the growing Muslim population.

2.5.4 Legal system (regulatory plate form and government supports)

In many non-Muslim countries, Islamic and conventional banks are not on a level playing field, as there are numerous legal and tax restrictions that make it difficult for Islamic banks to compete. For example, in many jurisdictions, Islamic real estate financing through the diminishing *musharaka* technique leads to a double taxation, with conveyance duty on the acquisition of the real estate (Khan & Bhatti , 2006). In addition to that, the challenge facing Islamic banks is not only to offer products that cover the same scope as those of conventional banks, but also to ensure that their products are

different from those of their Islamic peers. In this regard, having a well-honed product development capability is paramount (Dusuki & Abdullah, 2007).

Furthermore, Wako *et al* (2014), in their literature review noted commercial banks cautioning of possibility of Islamic Banks operating within the existing legal and regulatory framework, which posed a great challenge, after all. In part, all banks offering Islamic banking have established their own separate *Shariah* Board to supervise and offer guidance to their respective banks on Islamic banking system. Islamic banking industry has been trying for the last over two decades to extend its outreach to bring it at least to the level of conventional banking. But the absence of *Shariah*-compliant legal framework needed to make interest-free banking acceptable (and create sound financial institutions) is the major snag behind its low penetration in the financial market (Kinyanjui, 2013).

2.6 Research Gap

Based on the foregone review of literatures, it becomes clear that there has been no empirical studies conducted on the challenges of IFB expansion in any setting of Ethiopia. Therefore, this pioneering research tried its contribution to fill this gap and is carried out to examine the potential challenges of IFB products and services by studying the knowledge and attitude levels, *Sheriah* scholars and trained employees, market based intermediation and products, and legal system.

2.7 Conceptual Framework of the study

The conceptual framework of the study displays the logical organization of interrelated concepts within the selected theoretical frameworks. Therefore, to have a comprehensive understanding of the possible factors affecting the expansion of IFB services and products, the conceptual framework of this study was designed, based on the existing theoretical literatures related to Islamic banking and finance coupled with early thoughts on the topic raised.

As displayed in the figure below, the conceptual framework of this study comprises four interrelated issues that entirely supposed to show the existing relationship between the independent variables (the four issues as listed below) and dependent variables

(expansion of IFB). The conceptual framework of this thesis indicated that if customers have adequate awareness and favorable attitude towards the existing IFB services and products provided by CBE along with conventional banking systems, the expansion of the IFB will be more likely provided that the other factors remain constant. Likewise, in the era of globalization, to execute interest free financial services effectively, qualified employees and *Sheriah* scholars are indispensable. Therefore, if the bank has educated employees and *Sheriah* scholars who involve in the operation of IFB services and products, the expansion of the IFB will be more likely given the other factors hold constant.

Moreover, market based entrepreneur become the milestone of implementing the IFB services and products in the banking industry. Thus, the availability of market based intermediation which provides savers with an outlet for their funds whereas at the same time providing funds to borrowers for their expenditure can affect the expansion of IFB services and products. In addition, well established regulatory platforms and government support enhance the possibility of the expansion of IFB services and services provided that the factors remain constant.

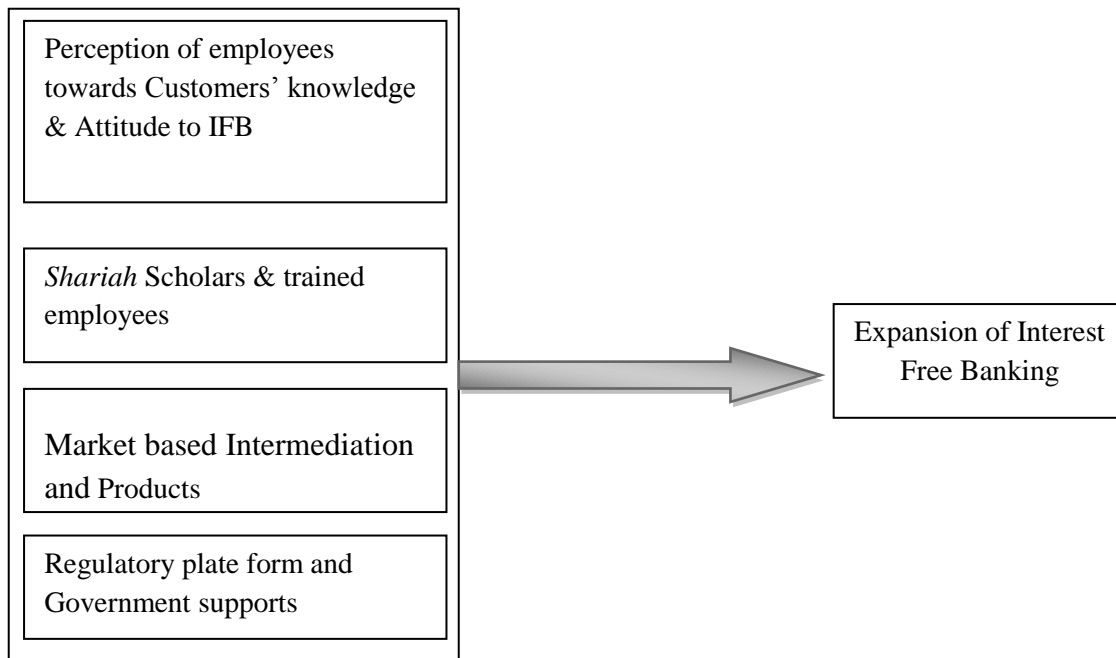


Figure 2.1: Conceptual Framework of the Study

Source: Developed by the Researcher Based on the Relevant Literatures (2019)

2.8 Summary

This chapter reviewed literatures in the Islamic Banking field, particularly on the challenges that affect the expansion of IFB products and services. From the literature, the main pillar of Islamic Finance is prohibition of interest unlike in conventional banking where interest is a key factor in the banking system. It also illustrates the theories related to Islamic banking, conceptual literatures on the topic of the discussion and the empirical studies of the challenges of IFB products and services.

The next chapter discusses the methodology to be applied to carry out the study. This section underlines research design, population and sample design, research procedures, data collection and analysis methods.

UNIT THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section of the study highlights the research methods used in collecting and analyzing data from the sample respondents and the collected data using appropriate instruments, respectively. The chapter also shows the process of the study or how the study was conducted using the selected research tool. Moreover, the chapter attempts to disclose the detailed accounts of methods involved in data acquisition and analysis, including the study design, methods of data collection, population and sampling procedures, reliability and validity of instruments and data analysis techniques. Definitions and measurements of variables and ethical consideration are also treated in this chapter. A short summary of the methods used to address the specific objectives and answer the research questions are also presented in the final section of the chapter. The insights gained from this chapter will provide essential information about the general procedure of the research process that could be applied in the subsequent chapters.

3.2 Research Design

Research design refers to the framework in which the research fits depend on the theory and nature of the research problem. This will underpin all of the research activities (Walliman, 2006). According to Creswell (2009), a research design is the conceptual framework within which a research was conducted. To achieve the above mentioned research objectives, a descriptive research design was adopted. According to Kothari (2004) descriptive research studies are those studies which are concerned with describing a particular individual or group. It is a study with clearly stated investigative questions and with a clear cut definition of the population to be studied. Moreover, According to Orodho and Kombo (2009), a descriptive survey design is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. The same source also noted that a descriptive survey design can be used when collecting information about peoples' attitudes, opinions, habits or any of the variety of education or research social issues. This study sought to collect opinions from the respondents on factors affecting the expansion of IFB services and products

in Ethiopia, west Addis district. the challenges that have hindered the growth of the bank and finally, In addition, the study adopted a quantitative research approach in addressing the research objectives of the study.

3.3 Population and Sampling Procedures

3.3.1 Population

Population is a relatively large collection of people, groups or categories, items or cases that a researcher studies and about which generalizations are made (Andersen & Taylor, 2012). It is also defined as totality of any group of subject sharing some characteristics (Boone, & Sabo, 2013). This study considered IFBW line employee, customer service manager, Customer service officer, Business quality control manager, branch manager and operational manager are the target population in which the required data was collected. The choice of such population was deemed to be most appropriate for this study because they are majorly involved in IFB operations; hence their opinions offer reliable information for this study. The total sample size of the study was 96. However, due to the presence of 6 un-returned questionnaires, the sample size was limited to 90.

Table 3.1 Number and Name of Sample Banks with Their Allocated Questionnaires

Name of Selected Banks from West Addis District	Number of Questionnaires	
	Distributed	Collected
Anwar mesgid	6	6
Alem Bank	6	5
Addis ketema	6	6
Abakoran	6	6
Kole	6	5
Mehal gebeya	6	6
Bethel	6	5
Sefare Selam	6	6
Somale tera	6	6
Paulos	6	6
Atana tera	6	6
T/haimanot	6	6
Alem gena	6	5
18 mazoria	6	5
H/georgis	6	6
Keranio	6	5
Total	96	90

Source: Field Survey (2019)

3.3.2 Sampling Design

Sampling Frame

Kothari (2004) describes a sampling frame as a list of all the items or names from a population or universe, from which a sample is to be drawn. He emphasizes that such a list should be comprehensive, reliable, appropriate and representative of the sample. The sampling frame was developed from the list of commercial banks of Ethiopia in west Addis district and a list of employees directly related to IFB operation. This list was comprehensive since it consists of all the employees, which have directly related with IFB within the banks. These help to ensure the representativeness of the sample.

Sampling Procedures

Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). It is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. Therefore, multistage purposive sampling techniques were employed. In the first stage, among the commercial banks of Ethiopia who operate IFB in Addis Ababa, Commercial Banks of Ethiopia was purposively selected because the bank is dominant enough for supporting huge employees operating IFB services and products as well as one of the prominent banks in implementing IFB services and products. In the second stage, among west, east, south and north districts of Addis Ababa, west district is purposively selected because the district consist of large number of customers who deposited their savings without interest and used IFB services and products (see table 3.2).

Table 3.2 Number of IFB Customers by District in Addis Ababa

S.N.	District in Addis Ababa	Number of IFB Customers	%
1	East	3125	7.1
2	North	5688	13
3	South	2,535	5.8
4	West	32,405	74
Total		44,151	99.9

Source: CBE: MIS, Semi-annual Report as of Dec. 31, 2015

In the third stage, according to the Semi annual report as of March 30, 2019, there are 124 CBE under the west district, 116 of them have been starting IFB services. Therefore, among these banks, 16 of them were purposively selected on the basis of proximity to the researcher, which constitute almost 13.79% of the total bank operating IFB under the west Addis Ababa district. In the fourth stage, since the study focused on challenges of the growth of IFB in Addia Ababa, the target population has to be employees directly related to the topic of discussion which was purposiffully selected.

3.4 Methods of Data Collections

3.4.1 Type and Source of Data

In this study, primarily quantitative data type is used. The quantitative data were derived from the survey of the respondents who have a direct relation with the topic under discussion. Secondary data sources which are derived from published and unpublished reports, the Internets, article, dissertation and theses were also used.

3.4.2 Data Collection Techniques

According to (Levy & Lemeshow, 2001), data are the facts present to the researcher from the study's environment, they include primary and secondary data. Primary data are the original works of research or raw data without interpretation or pronouncements that represent an official opinion or position (Chandran, 2004). According to Bless *et al.* (2008), secondary information or data sources are data neither collected by the user nor specifically for the user. Thus involves the collection and analysis of the published materials and information from internal sources. Secondary data may be obtained by collecting information from a diverse source of documentations or electronically stored information.

The study collected primary data using questionnaires. Kothari (2004) describes a questionnaire as a method of data collection in which a questionnaire consisting of a number of questions is mailed or delivered to respondents who are then expected to read, understand and write down the answers on their own. He further describes the merits as being low costs, freedom from bias of the interviewer, adequacy of time to give well thought out answers, approachability and access to large samples. Questionnaires further offer the benefit of the option anonymity to the respondents, enabling them to offer more authentic information.

Structured Questionnaires

A structured questionnaire was the most important tool employed in this study because the quick response in data acquisition is possible (Creswell, 2009). Almost all of the

items in the structured questionnaire were close ended. The questionnaire consisted of two main sections, the first section addressing general demographic data of the respondent such as age, gender, educational level, years of experience and religious affiliation. The second section addressed the specific research objectives. This section covered the main challenges impeding the growth of IFB services and products. A five point Likert scale was used for closed ended questions.

To investigate the precision and understandability of the questions as well as whether the questionnaires are able to collect the intended information or not, a pilot study with 20 subjects was carried out. The final version was prepared after incorporating the necessary modifications. The questionnaire, which was prepared in English language and checked, was directly distributed to the target population because bank employees believed to understand English language as most of them have above diploma educational level.

3.5 Validity and Reliability of Instruments

In social science research, ensuring the quality of data gathered and its instruments, on the one hand, and the accuracy and consistency of results, on the other hand, are very decisive. Reliability is the ability of an instrument to yield the same results on repeated trials, even by other researchers (Neale *et al*, 2004). Validity denotes the ability of the instrument to produce accurate results that are in agreement with theoretical values and to measure what is supposed to be measured (Mwanje, 2001). Therefore, validity, in this research, is tested with the purpose of drawing more credible and defensible analytical generalizations of the result about the population of the study sites. This was done through pilot survey and discussion with concerned experts prior to the actual data collection processes. The reliability, particularly internal consistency (or homogeneity) aspect of the reliability of the instruments was assessed by means of Cronbach's Coefficient Alpha method and confirmed that, as the value was above 0.71, the instrument was consistent over periods (see annex x).

3.6 Methods of Data Analysis

Before processing the responses, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. Data collected was analyzed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each objective. Data analysis was done using Statistical Package for Social Sciences (SPSS) and Microsoft Excel spread sheet to generate quantitative reports which were presented in the form of tabulations, percentages, mean and standard deviation in presenting a clear picture of the factors influencing the growth of IFB in Ethiopia. In particular, the analysis of the challenges of the growth of IFB emanate from the five scale likert scale accordingly. The analysis was made in respect to answering the research questions.

3.7 Summary

This chapter aimed to assess the methods of data collection and analyses related to the topic under discussion. To this effect, utmost investigations have been made to look through how the pioneer scholars and proponents have addressed the aforesaid problem. As noted in the introduction part of this chapter, the study followed the principles of quantitative research methods in which data were collected from purposively selected banks' employees.

This chapter has also described and explained the research design, population and sampling design of the study, data types and sources, data collection instruments. It has further detailed the data collection methods, research procedure and methods to be used in the analysis of data. The next chapter follows the collection of data will present the key findings of study accompanied with the discussion based on the research questions.

UNIT FOUR

DATA ANALYSES AND DISCUSSIONS

4.1 Introduction

This section instigates with a presentation of data analysis and interpretation of information on the challenges of the growth of Interest Free Banking (IFB) among selected banks of west district of Commercial banks of Ethiopia, Addis Ababa. These include the provision and analysis of data with respect to whether there was adequate knowledge and favorable attitude towards IFB services and products, shortage of *Sheria* experts and trained man power, lack of market based intermediation and products legal system (regulatory plate form and government supports).

A short summary of the overview of the key findings of the study is well presented in the final segment of this chapter. The insights gained from this chapter will help us to understand the main findings of the study, contributing a lot for the conclusion and recommendation part of the chapter.

4.2 Demographic Characteristics of Respondents

The survey has collected a wide range of information which is essential to the interpretation of the findings and the understanding of the results of the challenges related to the expansion of IFB in Addis Ababa, Ethiopia. Hence, in this section, the researcher tried to explain the percentage distribution of demographic characteristics of respondents, particularly the age and gender of the target population.

In this study, the analysis of demographic features showed that 74.4 % and 23.6% of respondents were male and female, respectively. Moreover, the survey data showed that large proportions of respondents were in the age group of 25-29 years (55.6 %). Significant number of respondents (32.2 %) reported that their age was between 30-35 years. Besides, 7.8% of the respondents affirmed that their age was greater than 35 and only 4.4 % of the target population acknowledged that their age was less than 25 years.

Table 4.1 Percentage Distributions of Respondents by Demographic Characteristics

Characteristics	Classification	Number	%
Gender	Male	67	74.4
	Female	23	23.6
	Total	90	100
Age	<24	4	4.4
	25-29	50	55.6
	30-34	29	32.2
	>35	7	7.8
	Total	90	100

Source: Survey Data, 2019

4.3 Socio-Economic Characteristics of Respondents

Literatures indicated that analyzing the socio-economic status of the target population is too indispensable in order to have general understanding about the background of the study subjects and speculate the potential findings. Hence, as it can be seen in Table 4.2, analysis of the educational status of respondents revealed that the majority (70%) of the respondents have degree holders. Significant numbers of the respondents (27.8%) have masters' degree and only 2.2% of the target population have diploma. It seems surprising to see no one of the respondents have a PhD holder, indicating that operation in banking need not necessary a higher level of educational status. This might be because as long as the employees have basic knowledge of accounting and management, they can execute the entire tasks with respect to the principle and regulation of the bank. On the other hand, more than a quarter of the respondents have Master holder, indicating that the banking industry is nearly performs its duties with professionals.

Table 4.2: Socio-Economic Status of Respondents

Characteristics	Classification	Number	%
Level of Education	Diploma	2	2.2
	Degree	63	70
	Masters	25	27.8
	PhD	0	0
	Total	90	100
	Years of Experience	< 2 years	4
2-4 Years		35	38.9
5-7 Years		33	36.7
8-10 Years		9	10
> 10 Years		9	10
Total		90	100
Religion		Orthodox Christian	45
	Muslim	30	33.3
	Protestant	10	11.1
	Catholic	2	2.2
	Others	3	3.3
	Total	90	100

Source: Survey Data (2019)

As it can be shown in Table 4.2 above, analysis of years of experience of respondents indicated that 38.9%, 36.7% and 4.4% of the respondents had 2-4 years, 5-7 years and less than 2 years of working experience. Moreover, 10% of the respondents had 8-10 years of experience. Similarly, the percentage share of respondents who had more than 10 years of experience constituted 10% of the total respondents. In terms of religion affiliation, 50%, 33.3%, 11.1% and 2.2% of the respondents acknowledged that they were following Orthodox Christian, Islam, Protestant and Catholic religion, respectively. Moreover, 3.3% of the respondents reported that they were following Adventist and Feka Waka.

4.4 Challenges of IFB expansion

Literatures all over the world, particularly in Ethiopia were dominated by the challenges of Islamic banking or interest free banking which is given along with the conventional banking system. However, in this chapter, an attempt is made to assess the main impediments that affect the expansion of IFB services and products by thorough reviewing of the potential constraints.

4.4.1 Lack of Adequate Knowledge and unfavorable Attitude towards IFB Services and Products

Adequate knowledge and favorable attitude towards IFB services and products are believed to be very important in the business industry both in developed and developing world. The level of understanding, awareness, and knowledge of the public in general and, bankers and customers in particular are the cornerstones for the development of any banking service. This is particularly true in banking service like Interest free banking, which is still emerging in Ethiopia. However, research finding indicated that even many managers of commercial banks and staffs of interest free banking department/division who are responsible for operating and marketing Interest free banking products are not very well trained in Interest free modes of finance (Jemal, 2018). Moreover, the greater awareness about the product and service offered by Islamic windows of commercial banks on the sides of the customers will enhance the continued growth of this type of banking service. Therefore, under here, the researcher of this thesis tried her best to explain whether lack of adequate knowledge and unfavorable attitude towards IFB services and products becomes the challenges of IFB expansion in Ethiopia or not.

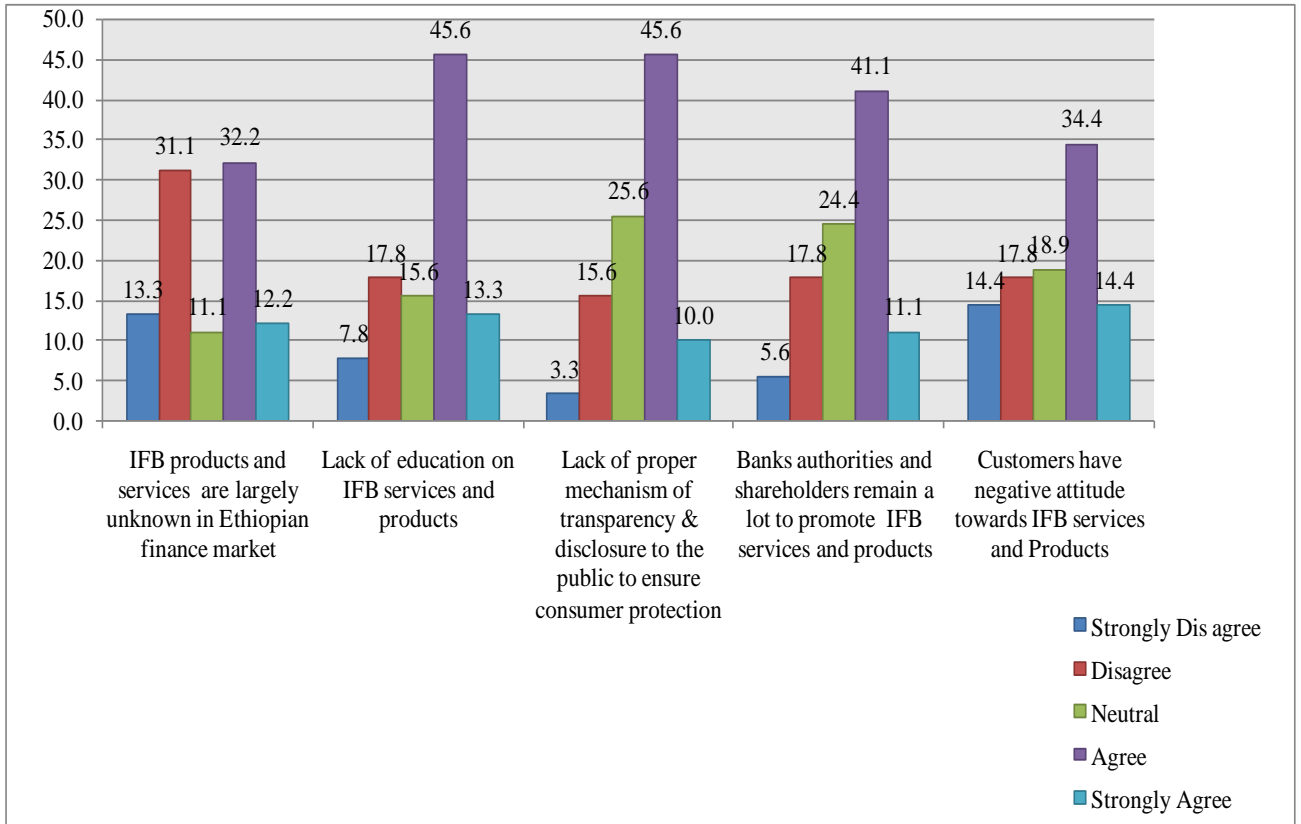


Figure 4.1 Adequate knowledge and favorable Attitude towards IFB Product and Services

Source: Own Computation Based on Survey Data, 2019

In doing so, based on related literatures, five questions related to knowledge and attitude towards IFB products and services were prepared and provided to the respondents. Therefore, as clearly depicted on Figure 4.1, most amusingly, equal number of respondents (44.4%) was answer affirmatively and negatively to the claim that IFB products and services are largely unknown in Ethiopian finance market where as relatively small percentage (11.1%) of the respondents became neutral to the point under investigation. This implies that the majority (44.4%) of respondents answer affirmatively to the question “is inadequate knowledge and unfavorable attitude towards IFB products and services became one of the challenges of IFB expansion in Ethiopia”; however, the opposite was true. This might be because of the fact that awareness and attitude are considered to be the two critical tools in which they ensure to participate in business activity. In addition to analyzing the frequency

distributions of respondents' response on the question "IFB product and services are not largely known in Ethiopia", computing the average value of the responses leads to sound conclusion. Consequently, as clearly displayed in Table 4.1, the overall average score of the respondents were 2.99. Moreover, classification of the mean value displayed that 55.6% of the respondents' response lay above average score while 44.4% of their response was fail below average score. This result is exactly the same with the frequency distributions value displayed above in figure 4.1.

This result is in harmony with some previous research findings. For instance, Tsion (2017) confirmed that lack of awareness by customers about IFB services, institutional, the need for special regulations and lack of specialized human resource were the main challenges in implementing IFB system in her study on the challenges and opportunities of interest free banking in Ethiopia. Mutua (2017) also conducted a research on factors affecting the growth of Islamic banking in Kenya and confirmed that Islamic banks and Islamic banking products remain largely unknown and misunderstood in the Kenyan market.

Moreover, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in Ethiopia and found that only 21.3% of his study subjects were reported that they had awareness about IFB products and services. His findings further indicated that even the majority of the branch managers and staffs of interest free banking department have little awareness about most of Interest free banking products and services. Moreover, he found that the majority of account holders little aware or unaware for most of interest free products. Most of them have familiarity only with *Al-Wadiah*, *Amana* and *Quard* saving. Furthermore, Yewubdar (2018) done a research entitled on prospects and challenges of interest free banking in Ethiopia in the case of commercial bank of Ethiopia, North Addis district. She confirmed that lack of *Shariah* advisor, lack of supportive regulatory directives, lack of awareness of customer about IFB products and absence of equity markets were the major challenges to deliver IFB services.

To assure whether the lack of education about IFB product and services became one of the challenges to the expansion of IFB in Ethiopia or not, the researcher tried to assess the degree of responses of the target population. Thus, as displayed on Figure 4.1, the majority of respondents (45.6%) of them were “agree” to the assertion that lack of education about IFB product and services became one of the challenges to the expansion of IFB. Besides, 13.3% of the respondents “strongly disagree” to the statement *lack of education about IFB product and services became one of the challenges to the expansion of IFB*. Moreover, 17.8%, 15.6%, and 7.8% of the respondents were “disagree”, “neutral” and “strongly disagree”, respectively to the claim on the lack of education about IFB product and services became one of the challenges to the expansion of IFB in Ethiopia. This might be because of the fact that education is number one instrument that helps to participate actively in business transaction through banking system.

As shown in table 4.1, the overall value of mean responses on the question “IFB product and services became one of the challenges to the expansion of IFB in Ethiopia” was 3.39. Regarding the classification based on the mean value shows that 58.9% of the respondents’ responses fail above average. Likewise, Mutua (2017) also conducted a research on factors affecting the growth of Islamic banking in Kenya and confirmed that lack of education on Islamic banking and products was one of the challenges of the growth of Islamic banking in Kenya, Jemal (2018) also confirmed that in the process of offering interest free banking services, inadequate training and education facilities are the main challenges affecting the growth of IFB services and products.

With regard to proper mechanism of transparency and disclosure to the public to ensure consumer protection from any risk, 45.6% of the respondents were “agree” to the statement that the lack of proper mechanism of transparency and disclosure to the public to ensure consumer protection became one of the challenges to the expansion of IFB. Moreover, 25.6%, 15.6%, 10% and 3.3% of the respondents were “neutral”, “disagree”, “strongly agree” and “strongly disagree”, respectively to the claim on

lack of proper mechanism of transparency and disclosure to the public to ensure consumer protection became one of the challenges to the expansion of IFB in Ethiopia. This implies that the majority of the respondents cited lack of proper mechanism of transparency and disclosure to the public to ensure consumer protection as a challenge to the expansion of IFB in Ethiopia. in tandem to the above findings, the overall value of mean responses on the question “Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection” was 3.43. Regarding the classification based on the mean value shows that 55.6% of the respondents’ responses fail above average.

This finding is corresponding with some previous studies. For instance, Kinyanjui (2013) found that lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as required by *Shariah* can be a major factor affecting the growth of Islamic banking. Moreover, Mutua (2017) confirmed that lack of proper mechanism of transparency and disclosure to the public in order to ensure consumer protection is one of the main factors affecting the growth of Islamic banking in Kenya.

As far as efficient and inclusive promotion towards IFB services and products is concerned, banks’ authorities and shareholders expected to take the line share of the activity. However, Figure 4.2 depicted that 41.1% of the respondents were “agree” to the claim that banks authorities and shareholders remain a lot to promote IFB services and products. The analysis of the study also revealed that 24.4%, 17.8%, 11.1% and 5.6% of the respondents were “neutral”, “disagree”, “strongly agree” and “strongly disagree”, respectively to the assert on the banks’ authorities and shareholders remain a lot to promote IFB services and products in Ethiopia. This indicated that efficient and inclusive promotion of IFB services and products became questionable as large proportion of the respondents witnesses the reality. This is because of the fact that, now days, we are living in the era of globalization where the world is entirely linked spatially, promotion plays a significant role on the

profitability of any firms. Moreover, as displayed in table 4.1, the overall value of mean responses on the question “Banks authorities and shareholders remain a lot to promote IFB services and products given” was 3.34. Regarding the classification based on the mean value shows that 52.2% of the respondents’ responses fail above average. A similar result was reported by Mutua (2017).

Attitude towards any activities is very important to execute any activities or not. In this regard, the analysis showed that 34.4% of the respondents were “agree” to the statement *customers have negative attitude towards IFB services and products*. Moreover, 15.5%, 17.8%, 14.4% and 14.4% % of the respondents were “neutral”, “disagree”, “strongly agree” and “strongly disagree”, respectively to the claim that customers have negative attitude towards IFB services and products became one of the challenges to the expansion of IFB in Ethiopia. “Customers have negative attitude towards IFB services” was 3.17. Regarding the classification based on the mean value shows that 48.9% of the respondents’ responses fail above average This finding is consistent with some of the previous research findings. For instance, Mohamed (2013) conducted a research on factors influencing the growth of Islamic Banking in Nairobi, Kenya and found that more than 50% of the respondents rated the services they receive from the bank as excellent, reflecting high levels of customer satisfaction among the bank’s customers, indicating that favorable attitude towards IFB services. Moreover, Jemal (2018) assured that most of the customers are uncertain about Interest free banking service given by the commercial banks as a viable and dependable alternative for conventional banking services. He further noticed that, customers use Interest free window of the commercial bank as a last alternative and basically for safety purpose rather than considering it as alternative to do business.

Table 4.3 Mean and Percentage Distributions of Knowledge and Attitude Related Questions

SN	Questions	Mean Value	SD.	Position from Mean	Number	%
1	IFB products and services are largely unknown in Ethiopian finance market	2.99	1.29	Below Mean	40	44.4
				Above Mean	50	55.6
2	Lack of education on IFB services and products	3.39	1.16	Below Mean	37	41.1
				Above Mean	53	58.9
3	Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection	3.43	0.98	Below Mean	40	44.4
				Above Mean	50	55.6
4	Banks authorities and shareholders remain a lot to promote IFB services and products given	3.34	1.07	Below Mean	43	47.1
				Above Mean	47	52.2
5	Customers have negative attitude towards IFB services			Below Mean	46	51.1
				Above Mean	44	48.9

Source: Survey Data (2019)

To sum up, whether the lack of adequate knowledge and unfavorable attitude towards IFB became one of the challenges of IFB expansion in Ethiopia or not, all the potential indicators listed above indicated that the majority of respondents responded affirmatively to the five knowledge and attitude related question. Thus, synthesis of the results of the five scales likert type questions showed that almost more than half of the respondents' witness the lack of insufficient knowledge and negative attitude towards IFB services and products given by the CBE became the main challenges of the expansion of IFB in Ethiopia. This might be attributed to the fact that knowledge and attitude towards IFB products and services is too indispensable for the participation of the banking industry.

4.4.2 Shortage of *Sheriah* Experts and Trained Man Power

In the era of globalization, availability and accessibility of adequate *Sheriah* scholars and trained employees on IFB services and products are thought to be crucial in the banking industry. Therefore, under here, the researcher of this thesis tried her best to analysis whether lack of *Sheriah* scholars and trained employees of IFB services and products became one of the challenges of IFB expansion in Ethiopia or not. To

assure these, on the basis of related literatures, five related questions were designed and provided to the respondents in order to have clear understanding on the topic raised.

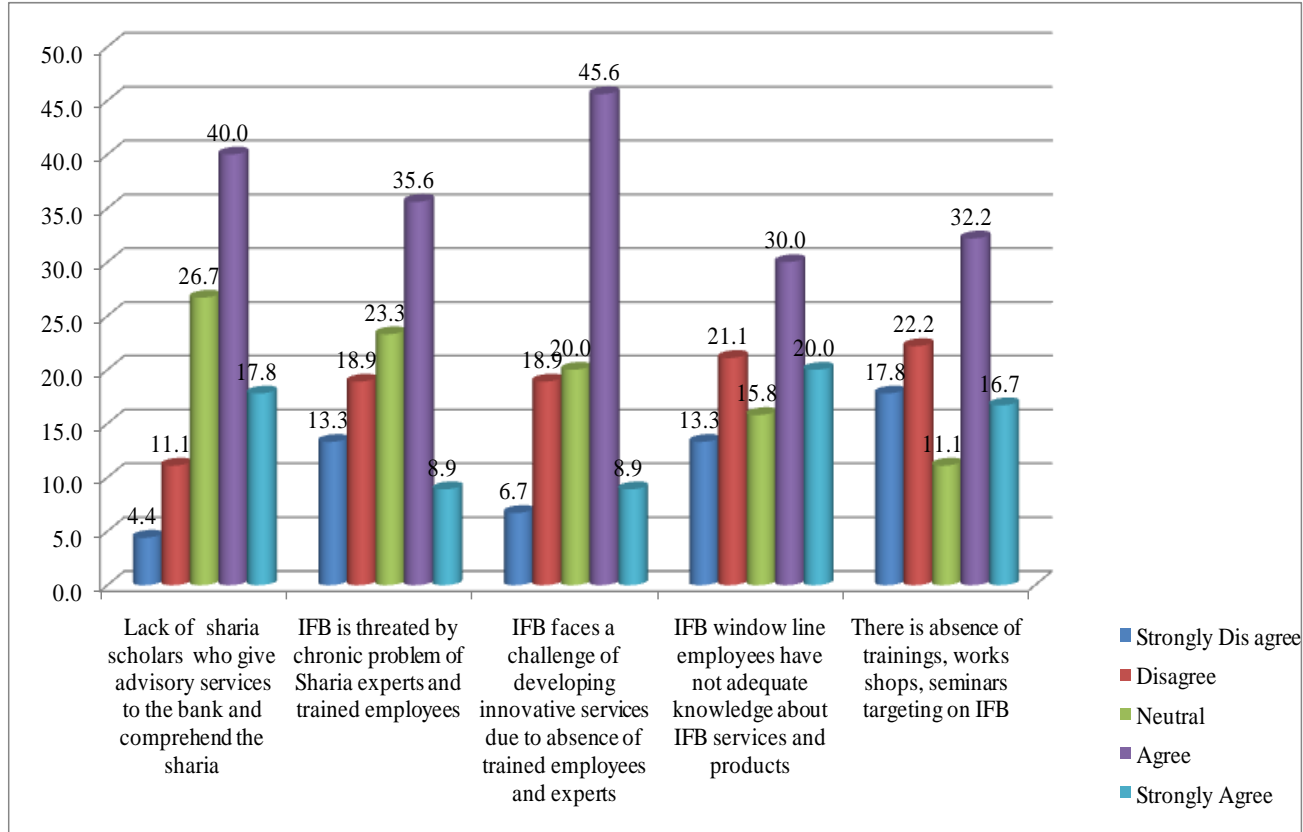


Figure 4.2 Shortages of *Sheriah* Experts and Trained Man Power

Source: Own Computation Obtained from Survey Data, 2019

As depicted in Figure 4.2, the analysis of the study demonstrated that 40% of respondents were “agree” to the assertion that lack of *Shariah* scholars who give advisory services to the bank and comprehend the Islamic *Shariah* became one of the challenges to the expansion of IFB. Moreover, 11.1%, 26.7%, 17.8% and 4.4% of the respondents were “disagree”, “neutral”, “strongly agree” and “strongly disagree”, respectively to the claim on lack of *Shariah* scholars who give advisory services to the bank and comprehend the Islamic *Shariah* became one of the challenges to the expansion of IFB in Ethiopia. In addition to analyzing the frequency distributions of respondents’ response on the question “lack of *Shariah* scholars who give advisory

services to the bank and comprehend the Islamic *Shariah*”, computing the average value of the responses believed to be feasible and apt. Consequently, as clearly displayed in Table 4.2, the overall average score of the respondents were 3.56. Moreover, classification of the mean value displayed that 57.8% of the respondents’ response lay above average score while 42.2% of their response was fail below average score. This result is exactly the same with the frequency distributions value displayed above in figure 4.2. That is, 57.8% of the respondents answer affirmatively for the question under investigation.

Consistent with the present findings, Yewubdar (2018) done a research entitled on prospects and challenges of interest free banking in Ethiopia in the case of commercial bank of Ethiopia, North Addis district. She confirmed that lack of *Shariah* advisor, lack of supportive regulatory directives, lack of awareness of customer about IFB products and absence of equity markets were the major challenges to deliver IFB services. The analysis also indicated that 35.6%,18.8%, 23.3%, 13.3% and 8.9% of the respondents were “agree”, disagree”, “neutral”, “strongly disagree” and “strongly agree” respectively to the claim on IFB is threaten by chronic problem of *Shariah* experts and trained employees in Ethiopia. This implies that the majority (45.5%) of the target population answer affirmatively to the assertion on *IFB* is threaten by *chronic problem of Shariah experts and trained employees* though the business industry is new for Ethiopians. In the same vein, Tasmir (2018) conducted a research on the determinants of Islamic banking in Saudi Arabia and found that the major constraints impeding Islamic banking growth include regulations, tax rates and skilled labor force. Moreover, Jemal (2018) found that lack of skilled and trained professionals to fulfill the requirements of the growing Interest free banking service in the country is a major challenge to the promotion and growth of interest free banking in Ethiopia.

With regard to the development of innovative services, 45.6% of the respondents were “agree” to the statement that IFB faces a challenge of developing innovative services due to absence of trained employees and experts became one of the

challenges to the expansion of IFB. Moreover, 20%, 18.9%, 8.9% and 6.7% of the respondents were “neutral”, “disagree”, “strongly agree” and “strongly disagree”, respectively to the claim on IFB faces a challenge of developing innovative services due to absence of trained employees and experts in Ethiopia. This implies that more than half of the respondents (54.5%) of the respondents answer affirmatively to the statement “IFB faces a challenge of developing innovative services due to absence of trained employees and experts, indicating how much trained experts and employees play decisive role in the expansion of interest free banking industry”. Moreover, as clearly displayed in Table 4.2, the overall average score of the respondents were 3.08. In addition, classification of the mean value displayed that 44.5% of the respondents’ response lay above average score while 55.6% of their response was fail below average score. This result is the synonymous with the frequency distributions value displayed above in figure 4.2.

The present finding is in harmony with some previous research findings. For instance, Tsion (2017) confirmed that lack of awareness by customers about IFB services, institutional, the need for special regulations and lack of specialized human resource were the main challenges in implementing IFB system in her study on the challenges and opportunities of interest free banking in Ethiopia.

Up to date literatures indicated that, in Ethiopia, the IFB services along with conventional banking operation is threatened by critical shortage of *Shariah* scholars and trained man power (Tsion, 2017). In tandem to this general indication, as displayed in figure 4.2, the analysis of this study exhibited that 30% and 20% of the respondents were “agree” and “strongly agree” to the assertion that IFB window line employees have not adequate knowledge about IFB services and products, respectively. However, 21.1% and 13.3% of the respondents were “disagree” and “strongly disagree” the claim that IFB window line employees have not adequate knowledge about IFB services and products, respectively. The analysis also indicated that significant proportion of the respondents (15.8%) were not given positive or negative answer to the assertion that IFB window line employees have

not adequate knowledge about IFB services and products. Moreover, as shown in Table 4.2, the overall average score of the respondents who answer “IFB services along with conventional banking operation is threatened by critical shortage of *Shariah* scholars and trained man power” were 3.31. In addition, classification of the mean value displayed that 54.4% of the respondents’ response lay above average score while 45.6% of their response was fail below average score.

Concomitant with the present finding, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in Ethiopia. His finding indicates that lack of supervision by NBE, lack of confidence and trust of clients, lack of legal support from government, lack of qualified human resource, lack of cooperation among Islamic windows, lack of infrastructure suitable for Interest free banking operation, and doubt of clients identified by the practitioners as major challenges in the process of offering interest free banking services in Ethiopia.

Trainings, works-shops and seminars on once job are supposed to empower the capacity, skill and performance of the employees. In this regard, the analysis of this study showed that 32.2% and 16.7% of the respondents were “agree” and “strongly agree” to the assertion that there is absence of trainings, works shops and seminars targeting on IFB, respectively. On the other hand, 22.2% and 17.8% of the respondents were “disagree” and “strongly disagree” the claim that there is absence of trainings, works shops, seminars targeting on IFB, respectively. This implies that nearly half of the respondents acknowledged that absence of trainings; works shops and seminars on IFB become one of the challenges that retard the expansion of IFB in Ethiopia. This might be because of the fact that the presence of trainings, workshops and seminars has the capacity of developing once capacity of performing the respective tasks. Moreover, as revealed in Table 4.2, the overall average score of the respondents who answer “the claim that there is absence of trainings, works shops, seminars targeting on IFB” was 3.22, having equal proportion of respondents above and below the mean score. In line with the present finding, Jemal (2018)

confirmed that in the process of offering interest free banking services, inadequate training and education facilities are the main challenges affecting the growth of IFB services and products.

Table 4.4: Mean and Percentage Distributions of *Sheriah* Experts and Trained Man Power

S N	Questions	Mean Value	SD.	Position from Mean	Num ber	%
1	Lack of <i>Sharia</i> scholars who give advisory services to the bank and comprehend the <i>Sharia</i> and the reality of the bank industry	3.56	1.61	Below Mean	38	42.2
				Above Mean	52	57.8
2	IFB is threaded by chronic problem of <i>Shariah</i> experts and trained employees	3.08	1.2	Below Mean	50	55.5
				Above Mean	40	44.5
3	IFB faces a challenge of developing innovative services due to absence of trained employees and experts	3.31	1.08	Below Mean	41	45.6
				Above Mean	49	45.6
4	IFB window line employees have not adequate knowledge about IFB services and products in accordance with <i>Sharia</i> law	3.22	1.34	Below Mean	45	50
				Above Mean	45	50
5	There is absence of trainings, works shops, seminars targeting on IFB to enhance the capacity of employees	1.489	0.50	Below Mean	46	51.1
				Above Mean	44	48.9

Source: Survey Data (2016)

4.4.3 Lack of Market Based Intermediation and Products

In the era of globalization where the world is ties within a fraction of seconds, accessibility of market based intermediation and products on IFB services and products are expected to be decisive in the banking industry. Therefore, under here, the researcher of this thesis tried to analysis whether lack of intermediation and products of IFB services and products became one of the challenges of IFB expansion in Ethiopia or not. To assure these, based on review of related literatures, five related questions were designed and provided to the respondents in order to have clear understanding on the availability of market based intermediation and products in the business industry in Ethiopia.

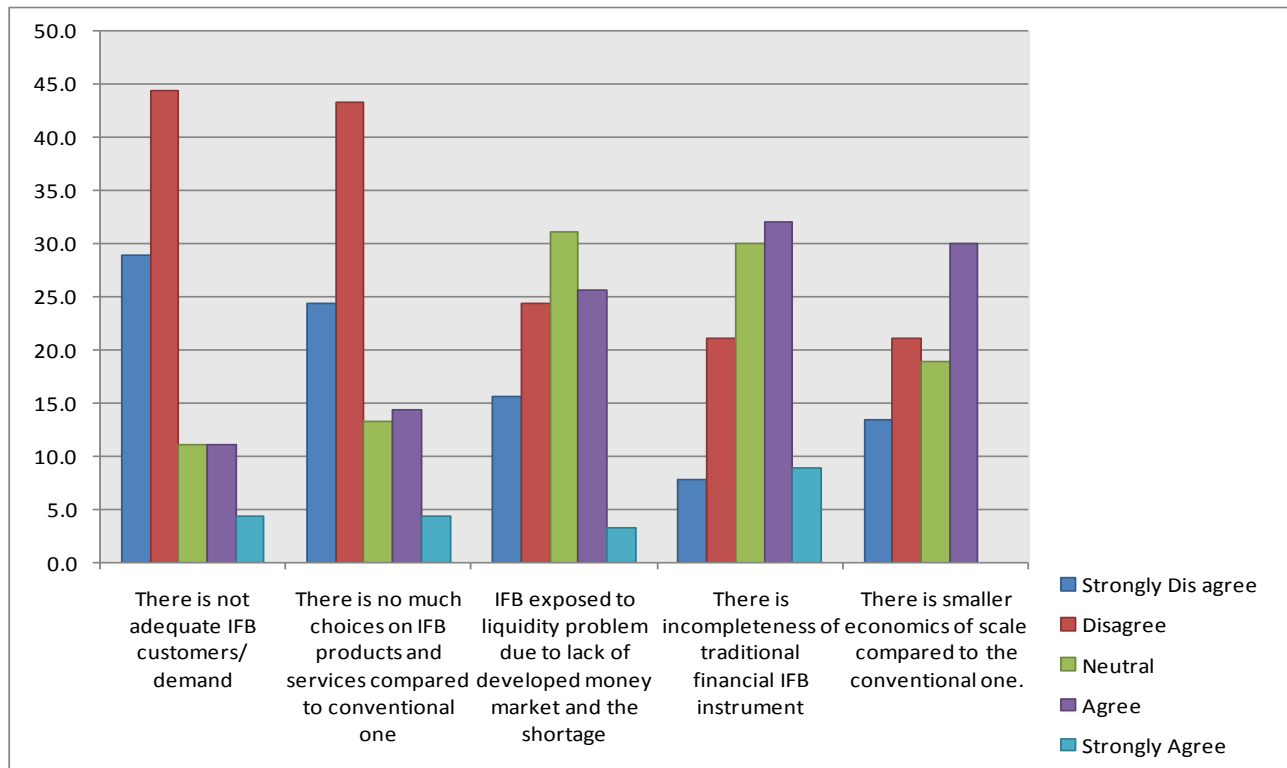


Figure 4.3 Market Based Intermediation and Products

Source: Own Computation from Survey Data, 2019

As depicted in Figure 4.3, the analysis of this study showed that 11.1% and 4.4% of the respondents were “agree” and “strongly agree” to the assertion that there is not adequate IFB demand (customer), respectively. Nonetheless, 44.4% and 28.9% of the respondents were “disagree” and “strongly disagree” to the claim that there is not adequate demand or customers of IFB, respectively. The analysis also indicated that significant proportion of the respondents (11.1%) was not given positive or negative answer to the assertion that there is not adequate demand or customers of IFB. This implies that close to three-fourth (73.3%) of the respondents acknowledged that IFB has adequate demand or customer. Moreover, computing the average value of the responses believed to be indispensable for the analysis. Accordingly, as clearly displayed in Table 4.3, the overall average score of the respondents were 2.18 with a SD of 1.107. Likewise, classification of the mean value displayed that 26.7% of the respondents’ response lay above average score while 73.3% of their response was

fail below average score. This result is exactly the same with the frequency distributions value displayed above in figure 4.3. That is, 73.3% of the respondents answer negatively for the question under investigation.

This finding is in agreement with findings by PWC (2013) who found that the demand for Islamic finance services has been increasing due to growing Muslim populations in countries especially in Asia and Africa, which currently account for over 95% of the world's Islamic population and which are projected to increase by 35% by 2030. Moreover, Mutua (2017) revealed that the demand for Islamic finance had been increasing due to the growing Muslim population.

Now days, in the era of globalization coupled with free market economy, computation in both provision of quality services and choices of product types play a significant role in attracting customers. Therefore, the analysis of this thesis exhibited that 43.3% and 24.4% of the respondents were “disagree” and “strongly disagree” to the assertion that there is no much choices on IFB products and services compared to conventional banking system, respectively. Nevertheless, 14.4% and 4.4% of the respondents were “agree” and “strongly agree” to the assertion that there are no much choices on IFB products and services compared to conventional banking system, respectively. Besides, 13.3% of the respondents were not given positive or negative answer to the assertion that there are no much choices on IFB products and services compared to conventional banking system. This implies that the majority of the respondents (67.7%) gave negative response to the assertion that *there are no much choices on IFB products and services compared to conventional banking system in Ethiopia*. This might be attributed to the fact that, in part, the newness of the business, and in part, less awareness about IFB and critical shortage of trained employees. Concomitantly, as clearly exhibited in Table 4.3, the overall average score of the respondents were 2.31 with a SD of 1.128. Additionally, classification of the mean value displayed that 32.2% of the respondents' response lay above average score while 67.8% of their response was fail below average score.

Consistent with the present findings, the majority of Mutua's (2017) study subjects were neutral as to whether Islamic financial institutions did not have complete item alternatives for all kinds of traditional financial solutions. Moreover, Yewubdar (2018) done a research entitled on prospects and challenges of interest free banking in Ethiopia in the case of commercial bank of Ethiopia, North Addis district. She confirmed that lack of *Shariah* advisor, lack of supportive regulatory directives, lack of awareness of customer about IFB products and absence of equity markets were the major challenges to deliver IFB services.

The banking industry is sometimes exposed to liquidity problem that hinder the possibility of development both in terms of capacity and profit. In this respect, as shown in figure 4.3, the analysis of this study demonstrated that 24.4% and 13.6% of the respondents were "disagree" and "strongly disagree" to the assertion that IFB exposed to liquidity problem due to lack of developed money market and the shortage of short term investment security, respectively. The analysis also showed that, 25.6% and 3.3% of the respondents were "agree" and "strongly agree" to the assertion that IFB exposed to liquidity problem due to lack of developed money market and the shortage of short term investment security. Besides, close to one-third (31.1%) of the respondents were not given positive or negative answer to the assertion that IFB exposed to liquidity problem due to lack of developed money market and the shortage of short term investment security. This implies that the majority of the respondents (38%) did not give positive response to the assertion that IFB exposed to liquidity problem due to lack of developed money market and shortage of short term investment security in Ethiopia. Computing the average value of the responses, as clearly displayed in Table 4.3, the overall average score of the respondents were 3.42 with a SD of 1.112. Moreover, classification of the mean value displayed that 60% of the respondents' response lay above average score while 40% of their response was fail below average score..

In line with the present finding, Muhamed & Yameen (2013) conducted a research on the determinants of Islamic banking profitability in Malaysia. They confirmed

that financial market development and market concentration has a significant positive impact in determining the profitability of Islamic banking in Malaysia.

Financial institutions should have a complete mechanism by which the financial transactions flow in and out based on their rules and regulations. In this regard, the analysis of this study revealed that 21.1% and 7.8 % of the respondents were “disagree” and “strongly disagree” to the assertion that there is incompleteness of traditional financial IFB instrument, respectively. Nonetheless, the analysis also illustrated that, 32% and 8.9% of the respondents were “agree” and “strongly agree” to the assertion that there is incompleteness of traditional financial IFB instruments. Moreover, 30% of the respondents were not given positive or negative answer to the assertion that there is incompleteness of traditional financial IFB instruments. This implies that the majority (40.9%) of the respondents answer affirmatively to the claim that there is incompleteness of traditional financial IFB instruments. This needs critical investigation and scholarly view on how to accustomed and contextualize IFB instruments to the existing situation. Likewise, computing the average value of the responses displayed that the overall average score of the respondents was 3.49 with a SD of 1.139. Furthermore, classification of the mean value demonstrated that 41.1% of the respondents’ response lay above average score while 58.9% of their response was fail below average score.

In line with the present study finding, Mutua (2017) confirmed that there was the perception that the Islamic Banks do not fully adhere to *Shariah* guidelines which led to low uptake. Moreover, According to Walid (2015), Islamic finance products and services are often accused of mimicking those of the conventional financial system and hence do not fully adhere to *Shariah* guidelines. Tsion (2017) confirmed that lack of awareness by customers about IFB services, institutional, the need for special regulations and lack of specialized human resource were the main challenges in implementing IFB system in her study on challenges and opportunities of interest free banking in Ethiopia. Moreover, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in

Ethiopia. His finding indicates that lack of supervision by NBE, lack of confidence and trust of clients, lack of legal support from government, lack of qualified human resource, lack of cooperation among Islamic windows, lack of infrastructure suitable for Interest free banking operation, and doubt of clients identified by the practitioners as major challenges in the process of offering interest free banking services in Ethiopia.

As clearly displayed in Figure 4.3, 30% and 14.4% of the respondents were “agree” and “strongly agree” to the assertion that there is smaller economics of scale compared to the conventional one, respectively. The figure also depicted that, 21.1% and 15.6 % of the respondents were “disagree” and “strongly disagree” to the assertion that there is smaller economics of scale compared to the conventional one, respectively. This implies that according to the findings of this study smaller economics of scale become one of the critical challenges that hold back the expansion of IFB in Ethiopia. Similarly, computing the average value of the responses displayed that the overall average score of the respondents was 3.389 with a SD of 1.139. Furthermore, classification of the mean value demonstrated that 44.4% of the respondents’ response lay above average score while 55.6 % of their response was fail below average score

Likewise, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in Ethiopia. His finding indicates that lack of supervision by NBE, lack of confidence and trust of clients, lack of legal support from government, lack of qualified human resource, lack of cooperation among Islamic windows, lack of infrastructure suitable for Interest free banking operation, and doubt of clients identified by the practitioners as major challenges in the process of offering interest free banking services in Ethiopia.

Table 4.5: Mean and Percentage Distributions of Market based Intermediation and Products Related Questions

SN	Questions	Mean Value	SD.	Position from Mean	Number	%
1	IFB products and services are largely unknown in Ethiopian finance market	2.18	1.107	Below Mean	66	73.3
				Above Mean	24	26.7
2	Lack of education on IFB services and products	2.31	1.128	Below Mean	61	67.8
				Above Mean	29	32.2
3	Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection	2.77	1.102	Below Mean	36	40
				Above Mean	54	60
4	Banks authorities and shareholders remain a lot to promote IFB services and products given	3.13	1.093	Below Mean	53	58.9
				Above Mean	37	41.1
5	Customers have negative attitude towards IFB services	3.07	1.314	Below Mean	50	55.6
				Above Mean	40	44.4

Source: Survey Data (2019)

4.4.4 Legal System (Regulatory Plate Form and Government Supports)

In any banking system, the underline legal system should be in a position of supporting and monitoring the overall business transactions. In this regard, the analysis of the study indicated that 42.2 % and 24.4% of the respondents were “agree” and “strongly agree” to the assertion that IFB faced lack of effective supervisory framework and it is one of the weaknesses of the prevailing system, respectively. Moreover, 18.9 % and 7.8 % of the respondents were “disagree” and “strongly disagree” to the assertion that IFB faced lack of effective supervisory framework and it is one of the weaknesses of the prevailing system, respectively. This implies that according to the findings of this study two-third (66.6%) of the respondents answered affirmatively to the claim that IFB faced lack of effective supervisory framework and it is one of the weaknesses of the prevailing system in Ethiopia.

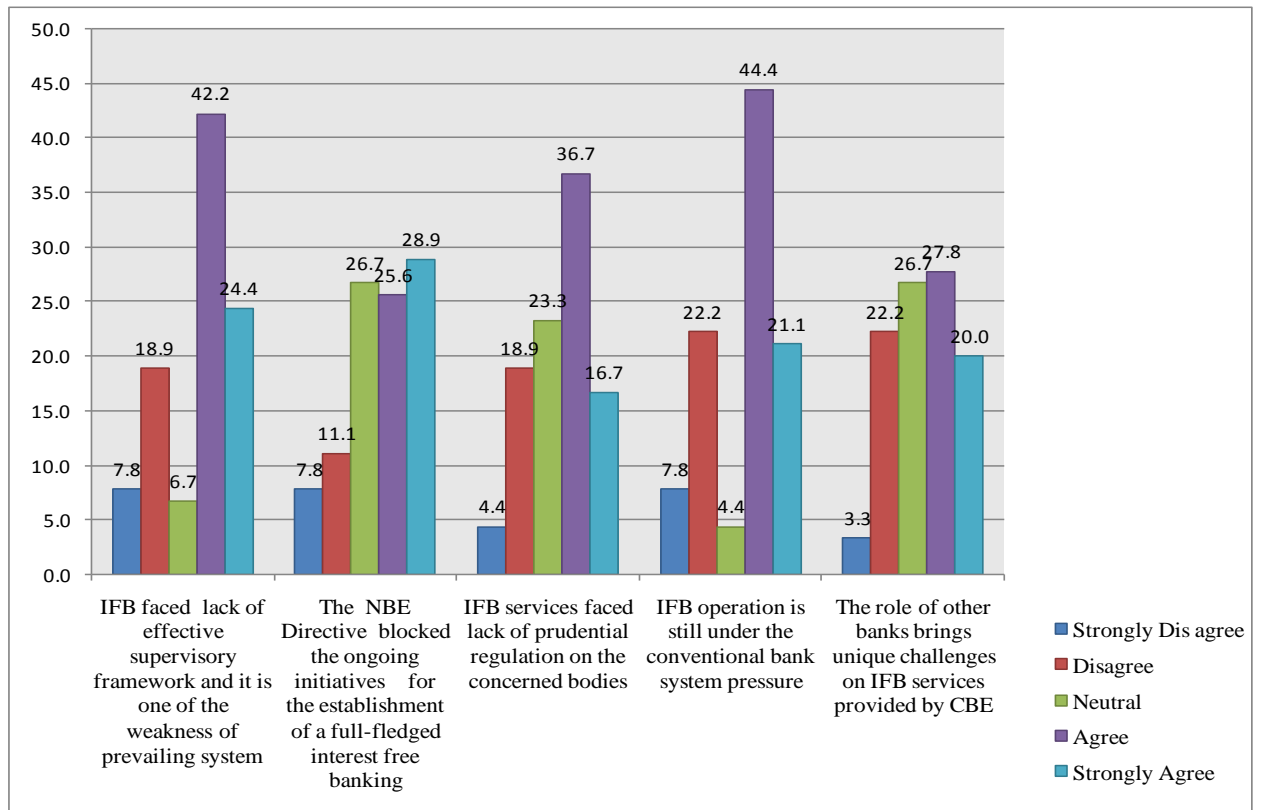


Figure 4.4 Legal System (Regulatory Plate form and Government Support)

Source: Own Computation from Survey Data, 2019

In addition to analyzing the percentage distributions of respondents against each question, considering the mean value of the responses seem to be critical. In this regard, as displayed in Table 4.4, computing the average value of the responses displayed that the overall average score of the respondents was 3.57 with a SD of 1.264. Moreover, classification of the mean value demonstrated that 66.7% of the respondents' response lay above average score while 33.3% of their response was fail below average score. This result is consistent with some previous research findings. For instance, Tasmir (2018) conducted a research on the determinants of Islamic banking in Saudi Arabia and found that the major constraints impeding Islamic banking growth include regulations, tax rates and skilled labor force. Likewise, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in Ethiopia. His findings indicted that

lack of legal support from government is a big problem for the development of interest free banking in Ethiopia.

The establishment of a full-fledged interest free banking in Ethiopia requires acceptance and permission of NBE. However, as displayed in figure 4.4, 25.6 % and 28.9% of the respondents were “agree” and “strongly agree” to the assertion that the NBE directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking, respectively in Ethiopia. Likewise, 11.1 % and 7.8 % of the respondents were “disagree” and “strongly disagree” to the assertion that the NBE directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking, respectively. This implies that more than half (54.5%) of the respondents answered positively to the claim that the NBE directive blocked the ongoing initiative for the establishment of a full-fledged interest free banking. Likewise, computing the average value of the responses displayed that the overall average score of the respondents was 3.57 with a SD of 1.237. Also, classification of the mean value demonstrated that 54.4% of the respondents’ response lay above average score while 45.6% of their response was fail below average score. This finding was corresponding with Mutua (2017) findings in which no *Shariah*-compliant legal framework needed to make interest-free banking acceptable in Kenya.

Literatures indicated that business organizations, particularly the banking industry need regular supervision and auditing. Therefore, as shown in Figure 4.4, 36.7 % and 16.7% of the respondents were “agree” and “strongly agree” to the assertion that IFB services faced lack of prudential regulation on the concerned bodies, respectively in Ethiopia. Likewise, 18.9 % and 4.4% of the respondents were “disagree” and “strongly disagree” to the assertion that the IFB services faced lack of prudential regulation on the concerned bodies, respectively. This implies that more than half (53.4%) of the respondents answered positively to the claim that the IFB services faced lack of prudential regulation on the concerned bodies. Similarly, computing the average value of the responses displayed that the overall average score of the

respondents was 3.42 with a SD of 1.112. Besides, classification of the mean value demonstrated that 53.3% of the respondents' response lay above average score while 46.7% of their response was fail below average score

Consistent with this finding, Tsion (2017) confirmed that lack of awareness by customers about IFB services, institutional, the need for special regulations and lack of specialized human resource were the main challenges in implementing IFB system in her study on challenges and opportunities of interest free banking in Ethiopia. Moreover, Yewubdar (2018) done a research entitled on prospects and challenges of interest free banking in Ethiopia in the case of commercial bank of Ethiopia, North Addis district. She confirmed that lack of *Shariah* advisor, lack of supportive regulatory directives, lack of awareness of customer about IFB products and absence of equity markets were the major challenges to deliver IFB services. However, to the opposite of this finding, Shaik (2014) found that Islamic financial institutions do not have complete item alternatives for all kinds of traditional financial solutions. Besides, Ahmed & Noor (2011) illustrated that Islamic banks have limited product range for firms that require finance in already ongoing projects in which lumpy investments had been made. Such opposing findings were attributed to the fact that the difference in the nature of the study subjects.

The first and foremost requisite for a true Islamic window is that it is carefully separated from the general side of the conventional bank Usmani (2002 cited in Jemal, 2018). Unless, the IFB service is separated from the conventional ones, the pressure on it is believed to be un-avoidable. Separation is not only a physical partition in a branch between Islamic windows and the conventional section, but also separation in all kinds of activities, functions, recording and reporting. In this regard, the survey result indicated that 44.4 % and 21.1% of the respondents were “agree” and “strongly agree” to the assertion that IFB operation is still under the pressure of conventional banking system, respectively in Ethiopia. Moreover, the analysis indicated that 22.2 % and 7.8 % of the respondents were “disagree” and “strongly disagree” to the assertion that IFB operation is still under the pressure of

conventional bank system, respectively. This implies that 65.5% of the respondents answered affirmatively to the claim that the IFB operation is still under the pressure of conventional banking system, respectively in Ethiopia. This indicated that the IFB services and products are under the influence of conventional banking system. However, Critics of the concept of Islamic finance do not see any difference between Islamic and conventional economics, and if any exists, it is artificial in nature and not substantive in any way (Hafeth, 2006). In the same line, Mutua (2017) confirmed that Islamic banks products were different from products and services provided by conventional banking, indicating that unavailability of visible pressure.

In addition, as shown in Table 4.4, computing the average value of the responses displayed that the overall average score of the respondents was 3.49 with a SD of 1.265. Furthermore, classification of the mean value demonstrated that 65.6% of the respondents' response lay above average score while 54.4% of their response was fail below average score

As clearly depicted in Figure 4.4, the survey result demonstrated that 22.2 % and 3.3 % of the respondents were “disagree” and “strongly disagree” to the assertion that the role of other banks brings unique challenges on IFB services provided by CBE, respectively. However, 27.8 % and 20% of the respondents were “agree” and “strongly agree” to the assertion that the role of other banks brings unique challenges on IFB services provided by CBE, respectively in Ethiopia. This implies that 47.8% of the respondents answered positively to the claim that the role of other banks brings unique challenges on IFB services provided by CBE in Ethiopia. This indicated that the IFB services and products provided by CBE are affected by other commercial banks due to the prevailing competition following free market economy implemented by the Ethiopian government. Likewise, computing the average value of the responses displayed that the overall average score of the respondents was 3.389 with a SD of 1.139. Furthermore, classification of the mean value

demonstrated that 47.8% of the respondents' response lay above average score while 52.2% of their response was fail below average score

Table 4.6: Mean and Percentage Distributions of Legal System Related Questions

SN	Questions	Mean Value	SD.	Position from Mean	Number	%
1	IFB products and services are largely unknown in Ethiopian finance market	3.57	1.204	Below Mean	30	33.3
				Above Mean	60	66.7
2	Lack of education on IFB services and products	3.57	1.237	Below Mean	41	45.6
				Above Mean	49	54.4
3	Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection	3.42	1.112	Below Mean	42	46.7
				Above Mean	48	53.3
4	Banks authorities and shareholders remain a lot to promote IFB services and products given	3.49	1.265	Below Mean	31	34.4
				Above Mean	59	65.6
5	Customers have negative attitude towards IFB services	3.589	1.13	Below Mean	47	52.2
				Above Mean	43	47.8

4.5 Summary

Chapter four gave a detailed account of the research findings and discussion with the previous research findings. It showed the demographic and socio-economic information of the respondents like their gender, age, years of experience, main position held in the bank and religion. The chapter also highlighted the main factors that contribute or affect the expansion of IFB in Ethiopia. The synthesis of the results of the five scales likert type questions, related to adequate knowledge and attitude towards IFB services and products, showed that almost more than half of the respondents' witness the lack of sufficient knowledge and negative attitude towards IFB services and products given by the CBE became the main challenges of the expansion of IFB in Ethiopia. This might be attributed to the fact that knowledge and attitude towards IFB products and services is too indispensable for the participation of the banking industry.

The analysis of the main points of the study indicated that the percentage of the respondents, who confirmed that the lack of *Sheriah* scholars and trained employees were the main challenges of the expansion of IFB in Ethiopia, outnumbered than those respondents who deny this claim.

Syntheses of the five questions related to market based intermediation and products inform as a fascinating and varying results. That is, IFB system has adequate demand or customers and has multiple choices of products and services. However, relatively higher proportion of respondents confirmed the incompleteness of traditional IFB instruments and smaller economic of scale compared to the conventional banking system.

Close analysis of the questions related to the legal system displayed that almost more than half of the respondents answered affirmatively to the first four questions related to the topic raised, i.e., whether the regulatory platform and government support became one of the challenges to the expansion of IFB services and products in Ethiopia. However, relatively less than half of (47.8%) the respondents answered positively to the claim that the role of other banks brings unique challenges on IFB services provided by CBE in Ethiopia. This indicated that the IFB services and products provided by CBE are affected by other commercial banks due to the prevailing competition following free market economy implemented by the Ethiopian government.

UNIT FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The main objective of the study was to investigate the main challenges to the expansion of IFB services and products in Commercial Banks of Ethiopia, west Addis district. To attain the main intents of the study, the required information were drawn both from primary and secondary sources. Purposive sampling method was used to select 16 banks among 116 banks operating interest free services in the west Addis district and 90 bank's employees who are directly related to the topic. Five point likert scale structure questionnaire was main means to acquire the primary data. Secondary data were also used to supplement the primary data. In analyzing and interpreting the primary data, quantitative research techniques had been employed. SPSS version 24 and Microsoft Excel Spread Sheet soft wares were used to analyze the quantitative data. Statistical tools like percentages and means were employed and the findings were displayed in tables and figures. Hence, in this chapter, the author draws together the key findings of the research in view of addressing and answering research objectives and questions, respectively. Following the conclusion remarks on the key findings, the possible recommendations were forwarded.

5.1.1 Lack of Adequate Knowledge and unfavorable Attitude towards IFB Services and Products

The services and products of IFB given by CBE is faced with a number of challenges that make the growth of this interest free banking system make an uphill task. One of the great challenges that hindered the growth of IFB services and products is that Islamic banking products remain largely unknown and misunderstood in the Ethiopian market which may be attributed to lack of education on Islamic banking. Thus, the synthesis of the results of the five scales likert type questions, related to adequate knowledge and attitude towards IFB services and products, showed that almost more than half of the respondents' witness the lack of sufficient knowledge and unfavorable attitude towards IFB services and products given by the CBE

became the main challenges of the expansion of IFB services and products in Ethiopia. This might be attributed to the fact that knowledge and attitude towards IFB products and services is too indispensable for the participation of the banking industry. Thus, it seems to be fair to conclude that the existing knowledge and attitude towards IFB deter the expansion of IFB services and products in Ethiopia.

5.1.2 Shortage of *Sheria* Experts and Trained Man Power

Now a day, more than half of the conventional commercial banks in Ethiopia are adopting interest free banking service. This might be attributed to the fact that interest free banking services are increasingly important within banks, particularly Muslim dominant countries like Ethiopia, as banks started to enjoy the benefits from Muslims' financial transactions. However, the findings of the study indicated that the commercial banks of Ethiopia are highly suffered from critical shortage of *Sheria* experts and trained man power. This has its own direct and adverse impact on the execution of services and provision of Islamic products according to the *Sheriah* Law. This might be resulted in the creation of unsatisfied customers whereby worsening of the banks' operation on the sides of IFB.

5.1.3 Lack of Market Based Intermediation and Products

Financial intermediation has largely been undertaken by the banking sector, as capital markets remain nascent, under-capitalized and illiquid. As literatures indicated that the financial intermediation process in the region remains largely unresponsive to the requirements of structural transformation for building resilient and competitive economies, the syntheses of the five questions related to market based intermediation and products inform as a fascinating and varying results. That is, IFB system has adequate demand or customers and has multiple choices of products and services. However, the study confirms that relatively higher proportion of respondents confirmed the incompleteness of traditional IFB instruments and smaller economic of scale compared to the conventional banking system. Therefore, it is possible to conclude that the financial intermediation and market based products remain a lot to support the existing IFB services and products

5.1.4 Legal System (Regulatory Plate Form and Government Supports)

Up to date literatures indicated that despite making up over 30 percent of Ethiopia's population, Muslims' wish to have an interest-free banking system has long been ignored, forcing believers into conventional banking, which many see as sinful. However, the NBE directives permitted to get the services along with conventional banking rather than permitting a fully fledged interest free banking. In line with this indication, the study found that the majority (far more than half) of the respondents confirmed that IFB faced lack of effective supervisory framework, the NBE directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking, IFB services faced lack of prudential regulation on the concerned bodies and IFB operation is still under the conventional bank system pressure.

The study also found that relatively less than half (47.8%) of the respondents answered positively to the claim that the role of other banks brings unique challenges on IFB services provided by CBE in Ethiopia. Therefore, it seems to be fair to conclude that the regulatory plate forms and government support of IFB services and product expansion are under question by any measurements.

5.2 Recommendations

Based on the major findings and conclusion remarks made so far, the following points are forwarded as recommendations in order to have clear understanding about the critical challenges that affect the growth of IFB services and in Ethiopia.

- ☞ As the study found that the majority of the respondents' witness the lack of sufficient knowledge and unfavorable attitude towards IFB services and products given by the CBE became the main challenges of the expansion of IFB services and products in Ethiopia, training targeting on creation of awareness and perceptions of Islamic finance products and services should be given to both the Muslims and non-Muslims communities by the existing *Sheriah* scholars and well trained employees. Moreover, it is possible to disseminate the products and services of IFB given by CBE through

brusher, pamphlet, news paper, mass media and legal wabe pages to create awareness and have favorable attitude towards the services and products.

- ☞ Since the study concludes that the commercial banks of Ethiopia are highly suffered from critical shortage of *Sheria* experts and trained man power, the responsible bodies like higher officials of the bank together with the religious leaders shall be in a position to ask the government in order to open Islamic college (university) in which capable and competitive graduates are produced.
- ☞ The study indicated that relatively higher proportion of respondents confirmed the incompleteness of traditional IFB instruments and smaller economic of scale compared to the conventional banking system. Thus, *Sheriah* scholars tried their best in contextualization of the *Sheriah* law with the existing reality and boards of the bank should be allotted adequate capitals that support effectively the IFB services and products.
- ☞ The analysis of the study showed that the IFB faced lack of effective supervisory framework, the NBE directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking, IFB services faced lack of prudential regulation on the concerned bodies and IFB operation is still under the pressure of conventional banking. Therefore, the NBE and the Ethiopian government had better to be in a position to laid down sound regulatory plate form and support toward the expansion of IFB services and product in accordance with *Sheriah* Law.

5.3 Research Limitations and Future Research Directions

The study has some potential limitations. Since the target population are busy of doing their regular duties, scarcity of time to fill the questionnaire was the major problem facing while data collection. Nonetheless, the researcher tried here best of convincing the responsible and target groups through informed consent. Moreover, critical shortage of related literature on the challenges of interest free banking expansion in Ethiopia. However, the author of the study used related literatures done

abroad rather than finding here in Ethiopia. Since the data collection technique was purposive, it is difficult to generalize the findings in to the other settings.

This study has added an important knowledge and concepts on the challenges that affect the growth of IFB among some of the CBE in west Addis, Ethiopia. Therefore, this research is the beginning of future research endeavors. However, as the study's theme and scope was limited, it did not have adequate space to deal with all the issues related to the problem under discussion. Thus, considering the limitations of the study and recommendations of the researcher, further study is needed in order to enrich knowledge related to the challenges of IFB expansion and solve the aforementioned problem more scientifically.

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Appendices

St. Mary University

School of Graduate Studies

Department of Business Administration (MBA)

Dear Respondents:

I am Neima Abdu, a Masters student at St. Mary's University School of graduate studies in the Department of Business Administration (MBA). Currently I am conducting a research that aims at investigating "the Challenges on Interest Free Banking (IFB) Expansion in Commercial Bank of Ethiopia: A Case Study on the West Addis Ababa District". The purpose of the study is for the partial fulfillment of the requirement for MBA Program. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. You have been selected purposefully from the employees in your branch. I assure you that the information to be shared by you will be used only for academic purpose and kept confidential. So, you are kindly requested to genuinely fill the questionnaire.

Thank you in advance for your cooperation!

Part One: Demographic and Socio-economic related questions

Please tick ("√") on the box next to the option that best applies to you.

1. Age: _____
2. Gender: Male , , Female
3. Level of Education: Diploma Degree , MA (MSc) , PhD
4. Main Job (function) : IFBW line employee , Customer service manager
Customer relationship officer , Business quality control officer
Branch Manager Operational manager
Others (Specify) _____
5. Years of Experience: less than years , 2-4years , 5-7 years
8-10years above 10 years
6. Religion: Orthodox Christian , Muslim , Protestant , Catholic
Others (Specify) _____

Part Two: Challenges of Interest Free Banking (IFB) expansion

On a scale of 1-5 where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree, 5= strongly agree. Please rate the following statements in regards to the challenges facing on the growth of Interest Free Banking in Ethiopia by Putting “√” on your choice.

I. Lack of Adequate Knowledge and unfavorable Attitude towards IFB Services and Products

S. N.	Questions	Strongly dis agree(1)	Dis Agree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
1	IFB products and services are largely unknown in Ethiopian finance market					
2	Lack of education on IFB services and products					
3	Lack of proper mechanism of transparency & disclosure to the public to ensure consumer					
4	Banks authorities and shareholders remain a lot to promote IFB services and products given					
5	Customers have negative attitude towards IFB services as it is given along with the conventional banking system (wrong association with religion)					

II. Shortage of *Sharia* Experts and Trained Man Power

S.N.	Questions related to sharia experts and Trained man power	Strongly dis agree	Dis Agree	Neutral	Agree	Strongly agree
1	Lack of sharia scholars who give advisory services to the bank and comprehend the sharia and the reality of the bank industry					
2	IFB is threatened by chronic problem of Sharia experts and trained employees					
3	IFB faces a challenge of developing innovative services due to absence of trained employees and experts					
4	IFB window line employees have not adequate knowledge about IFB services and products in accordance with <i>Sharia</i> law					
5	There is absence of trainings, works shops, seminars targeting on IFB to enhance the capacity of employees					

III. Lack of Market Based Intermediation and Products

S.N.	Questions related to market based intermediation and Products	Strongly dis agree	Dis Agree	Neutral	Agree	Strongly agree
1	There is not adequate IFB customers/ demand					
2	There is no much choices on IFB products and services compared to conventional one					
3	IFB exposed to liquidity problem due to lack of developed money market and the shortage of short term investment securities					
4	There is incompleteness of traditional financial IFB instrument					
5	There is smaller economics of scale compared to the conventional one.					

IV. Legal System (Regulatory Plate Form and Government Supports)

S.N.	Questions related to Legal system	Strongly dis agree	Dis Agree	Neutral	Agree	Strongly agree
1	IFB faced lack of effective supervisory framework and it is one of the weakness of prevailing system & should deserve series attention					
2	The NBE Directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking					
3	IFB services faced lack of prudential regulation on the concerned bodies					
4	IFB operation is still under the conventional bank system pressure					
5	The role of other banks brings unique challenges on IFB services provided by CBE					

NB. If you faced others problem, please state it

Appendices II

SPSS output

Statistics

		Gender of Respondents	Age_CAT
N	Valid	90	90
	Missing	0	0

Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	67	74.4	74.4	74.4
	female	23	25.6	25.6	100.0
	Total	90	100.0	100.0	

Age_CAT

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	4	4.4	4.4	4.4
	2.00	50	55.6	55.6	60.0
	3.00	29	32.2	32.2	92.2
	4.00	7	7.8	7.8	100.0
	Total	90	100.0	100.0	

Statistics

		educational level of Respondents	Respondents job	Years of Experiences of Respondents	Religion of Respondents
N	Valid	90	90	90	90
	Missing	0	0	0	0

educational level of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	deploma	2	2.2	2.2
	degree	63	70.0	72.2
	MA or MSc	25	27.8	100.0
	Total	90	100.0	100.0

Respondents job

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	IFB window line employees or officer	21	23.3	23.3
	customer service manager	23	25.6	48.9
	Customer Service Officer (CSO)	19	21.1	70.0
	Busness Quality Control manager	9	10.0	80.0
	branch manager	8	8.9	88.9
	Operational manager	10	11.1	100.0
	Total	90	100.0	100.0

Years of Experiences of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 2 years	4	4.4	4.4
	2-4 years	35	38.9	43.3
	5-7 years	33	36.7	80.0
	8-10 years	9	10.0	90.0
	more than 10 years	9	10.0	100.0
	Total	90	100.0	100.0

Religion of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid orthodox	45	50.0	50.0	50.0
Muslim	30	33.3	33.3	83.3
protestant	10	11.1	11.1	94.4
catholic	2	2.2	2.2	96.7
others	3	3.3	3.3	100.0
Total	90	100.0	100.0	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
IFB products and services are largely unknown in Ethiopian finance market	90	1	5	2.99	1.294
Lack of education on IFB services and products	90	1	5	3.39	1.158
Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection	90	1	5	3.43	.984
Banks authorities and shareholders remain a lot to promote IFB services and products given	90	1	5	3.34	1.072
Customers have negative attitude towards IFB services	90	1	5	3.17	1.292
Valid N (listwise)	90				

IFB products and services are largely unknown in Ethiopian finance market

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	12	13.3	13.3	13.3
Disagree	28	31.1	31.1	44.4
Neutral	10	11.1	11.1	55.6
Agree	29	32.2	32.2	87.8
Strongly Agree	11	12.2	12.2	100.0
Total	90	100.0	100.0	

Lack of education on IFB services and products

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	7	7.8	7.8	7.8
Disagree	16	17.8	17.8	25.6
Neutral	14	15.6	15.6	41.1
Agree	41	45.6	45.6	86.7
Strongly Agree	12	13.3	13.3	100.0
Total	90	100.0	100.0	

Lack of proper mechanism of transparency & disclosure to the public to ensure consumer protection

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	3	3.3	3.3	3.3
Disagree	14	15.6	15.6	18.9
Neutral	23	25.6	25.6	44.4
Agree	41	45.6	45.6	90.0
Strongly Agree	9	10.0	10.0	100.0
Total	90	100.0	100.0	

Banks authorities and shareholders remain a lot to promote IFB services and products given

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	5	5.6	5.6	5.6
Disagree	16	17.8	17.8	23.3
Neutral	22	24.4	24.4	47.8
Agree	37	41.1	41.1	88.9
Strongly Agree	10	11.1	11.1	100.0
Total	90	100.0	100.0	

Customers have negative attitude towards IFB services

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	13	14.4	14.4	14.4
Disagree	16	17.8	17.8	32.2
Neutral	17	18.9	18.9	51.1
Agree	31	34.4	34.4	85.6
Strongly Agree	13	14.4	14.4	100.0
Total	90	100.0	100.0	

Lack of sharia scholars who give advisory services to the bank and comprehend the sharia

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	4	4.4	4.4	4.4
Disagree	10	11.1	11.1	15.6
Neutral	24	26.7	26.7	42.2
Agree	36	40.0	40.0	82.2
Strongly Agree	16	17.8	17.8	100.0
Total	90	100.0	100.0	

IFB is threatened by chronic problem of Sharia experts and trained employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	12	13.3	13.3	13.3
Disagree	17	18.9	18.9	32.2
Neutral	21	23.3	23.3	55.6
Agree	32	35.6	35.6	91.1
Strongly Agree	8	8.9	8.9	100.0
Total	90	100.0	100.0	

IFB faces a challenge of developing innovative services due to absence of trained employees and experts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	6	6.7	6.7	6.7
Disagree	17	18.9	18.9	25.6
Neutral	18	20.0	20.0	45.6
Agree	41	45.6	45.6	91.1
Strongly Agree	8	8.9	8.9	100.0
Total	90	100.0	100.0	

IFB window line employees have not adequate knowledge about IFB services and products

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	12	13.3	13.3	13.3
Disagree	19	21.1	21.1	34.4
Neutral	14	15.6	15.6	50.0
Agree	27	30.0	30.0	80.0
Strongly Agree	18	20.0	20.0	100.0
Total	90	100.0	100.0	

There is absence of trainings, works shops, seminars targeting on IFB

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	16	17.8	17.8	17.8
Disagree	20	22.2	22.2	40.0
Neutral	10	11.1	11.1	51.1
Agree	29	32.2	32.2	83.3
Strongly Agree	15	16.7	16.7	100.0
Total	90	100.0	100.0	

There is not adequate IFB customers/ demand

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	26	28.9	28.9	28.9
Disagree	40	44.4	44.4	73.3
Neutral	10	11.1	11.1	84.4
Agree	10	11.1	11.1	95.6
Strongly Agree	4	4.4	4.4	100.0
Total	90	100.0	100.0	

There is no much choices on IFB products and services compared to conventional one

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	22	24.4	24.4	24.4
Disagree	39	43.3	43.3	67.8
Neutral	12	13.3	13.3	81.1
Agree	13	14.4	14.4	95.6
Strongly Agree	4	4.4	4.4	100.0
Total	90	100.0	100.0	

IFB exposed to liquidity problem due to lack of developed money market and the shortage

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Dis agree	14	15.6	15.6	15.6
	Disagree	22	24.4	24.4	40.0
	Neutral	28	31.1	31.1	71.1
	Agree	23	25.6	25.6	96.7
	Strongly Agree	3	3.3	3.3	100.0
	Total	90	100.0	100.0	

There is incompleteness of traditional financial IFB instrument

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Dis agree	7	7.8	7.8	7.8
	Disagree	19	21.1	21.1	28.9
	Neutral	27	30.0	30.0	58.9
	Agree	29	32.2	32.2	91.1
	Strongly Agree	8	8.9	8.9	100.0
	Total	90	100.0	100.0	

There is smaller economics of scale compared to the conventional one.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Dis agree	14	15.6	15.6	15.6
	Disagree	19	21.1	21.1	36.7
	Neutral	17	18.9	18.9	55.6
	Agree	27	30.0	30.0	85.6
	Strongly Agree	13	14.4	14.4	100.0
	Total	90	100.0	100.0	

IFB faced lack of effective supervisory framework and it is one of the weakness of prevailing system

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	7	7.8	7.8	7.8
Disagree	17	18.9	18.9	26.7
Neutral	6	6.7	6.7	33.3
Agree	38	42.2	42.2	75.6
Strongly Agree	22	24.4	24.4	100.0
Total	90	100.0	100.0	

The NBE Directive blocked the ongoing initiatives for the establishment of a full-fledged interest free banking

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	7	7.8	7.8	7.8
Disagree	10	11.1	11.1	18.9
Neutral	24	26.7	26.7	45.6
Agree	23	25.6	25.6	71.1
Strongly Agree	26	28.9	28.9	100.0
Total	90	100.0	100.0	

IFB services faced lack of prudential regulation on the concerned bodies

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	4	4.4	4.4	4.4
Disagree	17	18.9	18.9	23.3
Neutral	21	23.3	23.3	46.7
Agree	33	36.7	36.7	83.3
Strongly Agree	15	16.7	16.7	100.0
Total	90	100.0	100.0	

IFB operation is still under the conventional bank system pressure

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	7	7.8	7.8	7.8
Disagree	20	22.2	22.2	30.0
Neutral	4	4.4	4.4	34.4
Agree	40	44.4	44.4	78.9
Strongly Agree	19	21.1	21.1	100.0
Total	90	100.0	100.0	

The role of other banks brings unique challenges on IFB services provided by CBE

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	3	3.3	3.3	3.3
Disagree	20	22.2	22.2	25.6
Neutral	24	26.7	26.7	52.2
Agree	25	27.8	27.8	80.0
Strongly Agree	18	20.0	20.0	100.0
Total	90	100.0	100.0	