



# **Assessment on Practical Challenges and Opportunities of Islamic Banking in Ethiopia: In case Hijra Bank S.C**

**A THESIS SUBMITTED TO ST. MERY'S UNIVERSITY SCHOOL OF  
GRADGUATE STUDIES IN PARTIAL FULFILMENT OF THE REQUAIMENTS  
FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN  
ACCOUNTING AND FINANCE.**

**BY: MUNA SULTAN**

**JUNE, 2023**

**ADDIS ABABA ETHIOPAI**



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**ADVISOR: MUHAMMED SEID (ASST.PROFESOR)**

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**BY**

**MUNA SULTAN**

**Approved by Board of Examiners**

Dean, graduate studies

Signature

Date

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Advisor

Signature

Date

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Internal Examiner

Signature

Date

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External Examiner

Signature

Date

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## **ENDORSMENT**

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

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Muhammed Seid (Asst. Prof.)

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Signature & Date



## **Declaration**

I, Muna Sultan, do hereby declare that this thesis is my original work and have never been submitted partially or fully by any person to any institution and that all source of materials used for this thesis have been properly acknowledge.

### **Submitted By:**

Full Name: Muna Sultan

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

### **Approved By:**

This thesis has been submitted for examination with my approval

Full Name: Muhammed Seid (Asst. Prof.)

Signature: \_\_\_\_\_ Date: \_\_\_\_\_



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All praise be to the almighty Allah (may he be praised and exalted) the most gracious the most merciful, without him there is nothing to be done. with the help of him I can recover from my tough time of health disorder and I was able to complete my work Alhamdulillah.

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## Abstract

*The topic of this paper is assessment of practical challenges and opportunities of Islamic banking in Ethiopia in case of Hijra bank S.C. The objective of this paper is to make an assessment on practical challenges and opportunities impact on the sustainability of Islamic banking. In order to do so, the researcher employed descriptive research design method. This thesis also applied qualitative research approach to accomplish the purpose of the study. Closed ended Questionnaire and semi-structured interview were utilized. The target respondents for the study were managers of different department at head quarter and also branch managers and supervisors of Hijra bank S.C. Total Number of the population for the study were 80. Purposive Sampling technique was used to investigate the entire population. Statistical package for social science (SPSS) used to analyse the data collected. Among 80 distributed questionnaires, 73 were completely filled and returned which have 91.25% response rate. The result of the study reveals that potential market share and availability of customers are practical opportunities for the sustainability of Islamic banking. Islamic banks can capture potential opportunity in financing SMEs for future sustainability. The findings of this study also indicate that there are practical challenges which harm the sustainability of Islamic banking. The major recommendations forwarded by the researcher are regulatory bodies should modify the current interest-based rules and regulations specific for Islamic banking and also Islamic banks should promote and create awareness about Islamic banking to the public. This can able Islamic banks to compete globally and sustainable on the banking industry.*

**Key Words:** Challenge, Islamic banking, Opportunities, Sharia complaint, Sustainability



## CHAPTER ONE

### 1. INTRODUCTION

#### 1.1 Background of the Study

Banking industry has an important role in economic development of a country through facilitation of business. They Play vital role in financial dealings and provide clients with variety of services as they are a means for financial intermediation. The Bank system facilitates local and global trade. The Global financial market is dominated by conventional banking system. Islamic banking is another system of financial intermediation which strictly adheres to the principles of sharia law which is a complete set of rules that manifest the holistic idea of Islam. Islamic finance is an old financing style or system and it was reborn again in 1970s, since then it has been increasing year after year (Nobanee, 2020).

There were traditional, cultural and social challenges in accepting the idea of Islamic finance and banking even if it was practiced broadly till several Muslim Countries were under colonial rule. During the colonial period, these Muslim societies to varying degrees lost touch with their old traditions, values and cultural heritage. It was only after the end of the colonial period that Muslims began to re-discover their identities and manifest the desire to regain the lost values in all aspects of life, especially in the economic sphere (Iqbal, 2011).

Because of trade and commerce linked always to Islam, making international business without the help of banking facility is not possible. The main reason for the introduction of Islamic finance in Ethiopia is to give a practical response to the global growth of Islamic finance and to attract foreign investors from (wealthy) Muslim majority countries. Similarly, development of IFB was aimed at responding to the strong demand of Muslims to engage in faith-based finance (Ahmed,2021).

Now a day, the growth of Islamic Banking over the globe moves with high speed. Islamic banking not only restricted in Muslim dominated countries rather in non-Muslim countries like United Kingdom, Luxembourg, South Africa, Hong Kong has a surge of interest in Islamic finance. Eminent economists who lived through the period 1929-33 fought to establish a banking system capable of preserving long term financial stability. Although they were unaware of Islamic finance and its principles, their proposals were a natural restatement of some of the basic pillars of Islamic finance (Iqbal, 2011). Sustained performance of



Islamic finance industry during the global financial crisis of 2008 has attracted increased attention on Islamic way of banking (Nawaz, 2016).

Sustainability is about ensuring long term business successes, while contributing toward economic and social development, a healthy environment and a stable society. Sustainable finance is defined as the provision of financial capital and risk management products to projects and business that promote, or do not harm economic prosperity, environmental protection and social justice (Parvez, 2015).

Sustainability can be looked into in three dimensions: social dimension, economic dimension, and environmental dimension. sustainability considers social and environmental factors when making loan decisions; it assures, transparency good governance, and integrity; it upholds the protection of the environment; it sets resource efficiency, and it promotes financial help through assisting enterprises. Sustainability is a value philosophy which states that a bank's business activities must benefit its employees, shareholders, customers, and the economy while also conserving the natural environment. The need for sustainability is actuated by the role of financial institutions in development (Nobanee, 2021).

Jan et al (2018). states that Sustainability in Business field refers to the process by which companies manage their economic, social and environmental risks, obligations and opportunities. These three impacts are sometimes referred to as profit, people and planet.

It has high potentials to contribute towards sustainable financing ecosystem for the green world. Islam primarily promotes the preservation of natural resources and the need to respect all living things regarding the relationship between humankind and the environment (Uddin, 2018).

This study investigates the sustainability of Islamic banking at Hijra bank S.C. Specifically, practical challenges and opportunities which has an impact on the sustainability of Islamic banking. Hijra Bank was established on January 16, 2022 in the wake of long-awaited government's approval of fully-fledged interest free banking in Ethiopia. It is one of the few banks in Ethiopia with certified Omni-channel digital banking solution (mobile banking, internet banking, USSD and ATM). Hijra bank's core banking system is acquired from the first and only AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) -certified Sharia-compliant software solutions: iMAL. Hijra bank offer core service of Islamic Banking which are Murabaha financing Mudarabah & Musharekah, Wakala, Istisna and Haremeyin ([Home - Hijra Bank \(hijra-bank.com\)](https://www.hijra-bank.com)).



## 1.2 Statement of Problem

Provision of High-quality Islamic finance service can capture high demand among Muslims as well as non-Muslim. Economic globalization has led to the flourishing of Islamic banking both in Muslim and non-Muslim countries (Ahmed,2019). As a financial business sector, Islamic banking aims to maximize wealth to shareholders besides keeping morals and values of the society and provide better service to their clients. Islamic banking can supply its product with a safe and sound manner by applying an opportunity specific to Islamic banking which are not available in conventional banking service. Islamic banks must think strategically by providing high quality products and services quick changes of technology to satisfy their customer as well as to face the strong competition with conventional banks. (Abdulqawi, 2011).

To carry out Islamic finance in a responsible and ethical manner as well as to render economic, social and environmental advantage to its customers permanently, there should be sustainable development on the sector to ensure long term business success. The sustainability development of Islamic finance offers benefits for economic growth, reducing poverty and fostering shared prosperity (The world bank, 2015).

In response to the long-standing demand of Ethiopian Muslims, the government introduce interest free banking in 2011 by enacting two directives: the directive to Authorize the business of interest free banking No. SBB/51/2011; and the directive to license and Authorize interest free banking Business No. SBB/72/2019. Although these directives Oblige the application of Islamic laws for interest free banking transactions (Ahmed, 2021). ZamZam bank, the first Islamic bank has officially received a licence from National Bank of Ethiopia (NBE), the country's banking regulator, on 12th Oct 2020 to specifically offer financial service and products that comply with Islamic law (IM Insights, 2020). Hijra, Zad second and third formed Islamic banks respectively.

It doesn't mean that to penetrate into the market is to be successful and sustainable in the market. There must be competitive advantages through differentiation which able the business to become sustainable. Because of their intermediation function between depositors and borrowers, banking Industry Holds a unique position with regard to sustainable development (Parvez, 2015).



The construction of a composite sustainability index includes the economic, environmental and social dimension of entrepreneurship. Each of the three sub-indices is a synthesis of several key performance indicators, which are usually the subjects of annual sustainability reports of an organization. A key tool to achieve sustainability in the banking sector is to analyse the corporate performance of the organization. This will give a competitive advantage to the bank Operators (Staupoulou, 2019).

Failure of banking industry is not a threat only toward the deterioration of country's economy performance and growth but it is additionally a threat to the international financial and economic development (Marimuthu, 2015). In current banking industry Islamic and conventional banks are weighted as two rivals alongside in many Muslims and even in non-Muslim lands. Maintaining strong sustainability is vital to the existence profile of both the parties. Even if the rapid growth of Islamic banking industry all over the world is shed the future light generally, each countries contribution over the sector is major role on the sustainability of the development and to meet its long-term mission. Islamic bank must outstand sustainable and resilience to be competitive with conventional banks.

Sustainability needs Islamic financing concepts in order to be achieved. Otherwise, the development will be for a certain period not constantly growing (Nobanee, 2020). There are many factors which have an Impact on the sustainability of Islamic banking and to remain competitive with conventional banks. Risk Sharing feature of Islamic Banking is protective comparative advantage among conventional banks, incentives of Islamic banking for the conservative share holders' responsibility on negligence and misconduct, encourage investment on small micro and medium enterprises (SMEs), Difficulty in accessing liquidity, lack of regulatory framework for Islamic banking, limitation from central bank on not to practice all Islamic finance instruments are some of practical opportunities and challenges which have positive and negative impact on the sustainability of Islamic banking industry.

Newly established Islamic banks in Ethiopia need to move forward with efficient performance and sustainable development to meet their Objectives and contribute continual economic, social and environmental benefit to the country. In this study the researcher will make an assessment on some practical challenges and opportunities that have an impact on the sustainability of Islamic banking. Potential market share, way of affordable access to small and medium and micro enterprises, lack of Islamic banking regulatory framework, public awareness, skilled human resource and Risk management framework are selected as



independent factors. On the other side the sustainability of Islamic banking as dependent variable.

Numerous researches on the sustainability of Islamic banking have been studied in many countries' context (Jan and Marimuthu (2015), Siswanti (2017), Siswanti et al (2017), Jan et al. (2018), Bayzid and Nobanee (2020), Nor, S. M. and Hashim, N. A. (2015) and along with doctoral dissertation on the sustainability of Islamic Banks: A theoretical and Empirical Analysis (Ayachi, R.A. (2017)). However, from my observation no research has been carried out on the practical challenges and opportunities impact on the sustainability of Islamic banking before in Ethiopia context. As Islamic banking is young for the banking industry, this study area helps Islamic banks to maintain their financial process over a long time. The researcher tries to fill the gap by determining Practical challenges and opportunities that has an impact on the sustainability of Islamic banking at Hijra Bank S.C.

### 1.3 Objective of the Study

Commonly research objectives are classified into General objective and specific Objective.

#### 1.3.1 General Objective

The General Objective of the study is to assess practical challenges and opportunities which have an impact on the sustainability of Islamic banking under the practice of Hijra Bank S.C. To attain the main objective, the following specific objectives are set;

#### 1.3.2 Specific Objectives

In line with the above general objective, the following specific objectives were specified

- Assessment of practical challenges of Hijra Bank S.C
- Assessment on practical opportunities of Hijra Bank S.C

### 1.4 Research Questions

In order to accomplish the intended Objective and to address the research problem the researcher attempt to find response to the following questions.

- What are the main practical opportunities which have an impact on the sustainability of Islamic banking?
- What are the main practical challenges which affect the sustainability of Islamic banking?



## 1.5 Significance of the study

An assessment of Hijra bank's experience on the sustainability of Islamic banking, the study will give clue for the rest newly implemented Islamic banks on how to remain sustainable on the Islamic finance sector, how to use comparative advantages appropriately and strategically. This practical experience assess in this paper helps Islamic banks in Ethiopia to take attention on which challenges and opportunities affect sustainability of the sector as well as to understand that sustainable development on the sector will meet the goal of Islamic banking and will give competitive advantage over conventional banks. In addition, this paper would facilitate the decision of policy makers. It would be useful to show policy makers to avoid the treatment of Islamic banks with the same rules and regulations to conventional banks and issuing separate law and regulation will help Islamic banks to be sustainable on the sector and contribute benefit on the overall economy of a country. Islamic banks differ essentially and spiritually from conventional one. Thereby, similar treatment with conventional banks can keep Islamic banks back from moving forward with required speed.

Moreover, due to the absence of research on this topic in Ethiopia, the Study seems to carry an enormous academic value on the area. As well, it will lead MS students to continue investigation with wide range from where the researcher left over or eliminate the mistakes.

## 1.6 Scope of the study

The study area is Hijra bank located at Addis Ababa. It takes employees and managers of the bank they have experience on Islamic banking as survey participants. The study will comprise data collected from participants through the use of well-structured questionnaires that will be distributed and administered to them and by making an unstructured interview to managers and Sharia Supervisory board members.

## 1.7 Limitation of the study

To obtain relevant data to the study is inaccessible because of they are recent. The study will have fruitful result if the selected study area has operational experience for a long period of time, but they don't have adequate operational experience on this short time. This limitation obliges the researcher to make the study using the available data. The absence of study on the topic in Ethiopia context as well as shortage of adequate research abroad the country restricts the researcher to make enough investigation. Thereby, this research will be employed with available data.



## 1.8 Structure of the Paper

The paper proceeds as follows. The first chapter is Introduction, which contain Background of the study, statement of problem, objective of the study, research questions, significant of the study, scope and limitation of the study and Structure of the paper. The second chapter address related literature on the sustainability of Islamic banking and banking industry. Research methodology is described in chapter three. The data collected will present and analysed on chapter four. Finally, conclusion of the study and recommendation of the researcher is highlight in chapter five.



## CHAPTER TWO

### 2 LITERATURE REVIEW

#### 2.1 Introduction

This chapter attempt to review and discuss related documents and findings that are related with banking sustainability to intensify and improve the research. The literature concerning about the sustainability of Islamic banking will be presented. The relevant literature will be collected from secondary data.

#### 2.2 Theoretical review

In order to be justified Islamic, the banking system has to avoid Riba (Interest). Consequently, much of the literature on theory of Islamic banking has grown out of concern that how monetary and banking system would function if interest is abolished by law (Islamic markets).

Islamic banks have similar purpose as conventional banking except that it operates in accordance with the rules of Sharia. Conventional banks intermediation is debt-based and risk transfer while Islamic banking asset-based and risk sharing. Conventional bank products were no way near to the principle of Islamic as the conventional banking products rotate the earning of interest (Riba) which is clearly prohibited in Islam. Islamic banking levy profit rate instead interest rate. Islamic finance is Equity-based, asset-backed, ethical, sustainable, environmentally and socially responsible finance. The basic principles of Islamic banking are the sharing of profit and Loss (PLS), the prohibition of Riba (interest), Gharar (uncertainty), maiser (gambling) and non-Halal (prohibited activities) (Rexhepi, 2017). Islamic banking is an ethical and socially responsible banking which is dedicated to human being and society with no adverse effect on the environment. It can play a supportive role in improving the environment for sustainable development.

Islamic Banking System has specific features and characteristics adheres to sharia law which is distinct from conventional banking system. These features are basic principles and major criteria they used as a competitive advantage for Islamic banking system. Shariah-compliance is a unique feature of Islamic Bank and is key to help ensure the integrity of Islamic Banks Mejia et al. (2014).



### 2.2.1 Prohibition of Riba (Interest/usury)

Key principle of Islamic finance is the prohibition on paying or receiving (Riba), Which is interpreted to mean all forms of interest and is not limited to Usury or excessive interest only. prohibition of Interest is rooted in the notion that money is to be used as a medium of exchange but is not itself a commodity (The world bank, 2021). This Prohibition is based on arguments of social justice, equality, and property rights. Islam encourages the earning of Profits but forbids the charging of interest because profit determine Ex-post, symbolize successful entrepreneurship and the creation of additional wealth. By contrast, Interest, determines Ex-ante, is a cost that is accrued irrespective or the outcome of business operations and may not create wealth if there are business losses. Social justice demands that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative or true productivity (Iqbal, 2011).

Allah the Almighty God Ordered in the Qur'an not to take or give Interest (Riba).

*“And whatever you give for interest [i.e., advantage] to increase within the wealth of people will not increase with Allah. But what you give in Zakah (charity), desiring the countenance [i.e., approval] of Allah those are the multipliers (Holly Quran, 30:39).*

*“those who consume interest cannot stand [on the day of resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say “ Trade is [just] like interest.” But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his lord and desist may have what is past, and his affair rests with Allah. But whoever returns [to dealing in interest or usury] – those are the companions of the fire. They will abide eternally therein (Holly Quran, 2:275).*

Conventional financing assumes that the banks and financial institutions deal in money and monetary papers only. That is why they are forbidden, in most countries, from trading in goods and accumulating inventories. Islamic finance, on the other hand, does not recognize money as the subject matter of trade, except in some special instances. Money has no fundamental utility; it is only a medium of exchange (Reille, 2016).

Islamic economists have argued for the adoption of a profit rate, rather than an interest rate. The most critical and significant implication of banning interest is the indirect prohibition of a ‘pure’ debt security. The key point to bear in mind is that Islamic law doesn’t recognize



money and money instruments as a commodity but merely as a medium of exchange (the world bank, 2015).

*“The most hated sort, and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of an modes of getting wealth this is the most Unnatural” (Aristotle).*

#### 2.2.2 Prohibition of Gharar (uncertain dealings)

Gharar means taking excessive risk or having unnecessary uncertainty in a deal. In Islam all aspect of the deal must to be transparent and known to all parties which significantly reduces conflicts between them ([www.course Hero.com](http://www.coursehero.com)).

#### 2.2.3 Prohibition of maysir or Qimar (Speculation behaviour): -

Islamic laws forbid to investment in the haram business, such as gambling. This is because in such trade practices the elements of free and fair exchange of goods and services is not observed, and rather are based on deceit and dishonesty (Jan, et al 2021).

The primary difference between Islamic banking system and conventional banks is that Islamic banking forbids usury and speculation. An Islamic financial system discourages hoarding and Prohibition transactions extreme uncertainty, gambling and risk (Iqbal, 2011).

#### 2.2.4 Profit and Lose Sharing

Because interest is prohibited, Pure debt security is eliminated from the system and therefore suppliers of funds become investors, rather than creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profit and losses (Iqbal, 2011). Risk sharing has the potential of ensuring economic growth with financial stability, and promoting financial inclusion through the fostering of entrepreneurship opportunities for all segments of society (Maghrebi, 2015)

As noted by Maghrebi (2015), Economic prosperity should be pursued through risk-sharing rather than at the expense of consumer loans and microcredit schemes that perpetuate the cycle of hand-to-mouth consumption and indebtedness.



Islamic finance has the concept of Risk Sharing and it provides tools to protect the wellbeing of the individual since it is driven by the rule of Sharia law, it will take in consideration the rights and objectives of everyone in the society (Nobanee,2020). According to Nobanee (2020), The concept of risk sharing in Islamic Finance is very crucial in developing society as a whole and reduce the gap between the poverty and the wealth level through either raise or fall together.

Hassen, (2018) states that the risk sharing system of Islamic banking and finance contributes to sustainable development by funding the untapped opportunities in emerging and developing countries that cover most of the world.

#### 2.2.5 Financial Inclusion

Financial inclusion is the provision of available and affordable access to financial service for everyone regardless of their level of income. It applies to provide service to both individuals and business. Financial Inclusion has become an increasingly important concern for vast number of countries worldwide. It plays an important role in driving away the poverty from the country. Financial Inclusion is the process of ensuring financial service to the weaker section of the society at affordable cost (Nazar, 2017). Financial inclusion has proven to be linked to desirable economic outcomes above and beyond those associated with the more familiar concept of financial depth. At the micro level, several studies show evidence that access to savings accounts at the local level produces benefits to the directly affected population by increasing savings, investment, consumption, or income (Naceur,2015).

#### 2.2.6 Prohibition of harmful Products

Mutual benefit relationship between people is encouraged in Islam. Allah command that exchanging goods and services should be done via transaction such as buying and selling because it enables our economy to run more efficiently and encourage people to be more industrious. Trading Goods Which are normally used to commit or encourage sin is forbidden. Permitting the sale or trade of such articles implies promoting and propagating them among people and consequently encourage them to do what is forbidden.

#### 2.2.7 Sanctity of contracts and the preservation of property rights

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of asymmetric information and moral hazard. Islam places great importance on the preservation of property rights, defines a balance between the



rights of individuals, society and the state, and strongly prohibits encroachment on anyone's property rights (Iqbal, 2011).

#### 2.2.8 Ethics and Social Responsibility

It is Known that the Economic responsibility of all companies is to offer goods and services. So, they can earn as much profit is possible. According to Islamic rules companies has to fulfil ethics and social responsibilities. Except national laws, regulations adapting to the world economy and globalization they must function according and respecting to the Islamic law.it is a request not an expectation. Islamic law is a complete and entire code that provides rules and norms of life that are based on ethics, moral and social responsibilities (Rexhepi, 2017).

#### 2.2.9 Payment of Zakat

Paying Zakat is one of the five fundamental pillars of Islam. Zakat is a form of worship which involves wealth. When a Muslim person's earnings reach a prescribed amount in excess of his needs, that person is obliged to pay a portion of his earnings to the poor and needy (Hossain, 2012). Payment of Zakat is Obligatory Since Zakat or Islamic tax is an important source of revenue for Islamic economies and Muslim societies. Scholars shared the opinion that it helps the state to support the needy to fulfil their basic human needs (Jammeh, 2010). The objective of levying Zakat on individual and corporate wealth is categorized into an economic dimension of sustainability as it boosts income. The payment of Zakat and its transparent reporting from the perspective of Islamic banking, shareholders would increase the goodwill of Islamic banks towards their stakeholders. As a result, the bank will obtain more funds. (Jan, et al 2021).

#### 2.2.10 Conformity with Sharia Law

Islamic financial system is the Shariah law which provides guidance to Muslims requiring them to conduct their business or non-business affairs strictly in accordance with laid down principles. For this reason, all Islamic banks are required to have a Shariah Supervisory Board tasked with the responsibility of overseeing compliance issues on all transactions and to offer advice on a timely manner where deviations occurred from the norm. ((Jammeh, 2010)



### 2.2.11 Sustainability on banking Industry

A firm is defined as social accountable if their management follow code of ethics, participate in projects that provide human rights, charity and volunteering program, provide proper conditions that protect their employee's health etc. (Telan,2022).

The general concept of sustainability is latterly related to various segment of life such as energy, transitional development, fiscal balances, education and banking and finance among others (Aliyu, 2017).

Banks Provide secure bank account and loans to large amounts of capital business to fund the growth of various industries from agriculture to housing. The concept and definition on sustainable development are undeniable and have positive connection to Islamic teaching. Hence, Islamic banks, should not avoid realising the objectives of sustainable development, as the main objective of Islamic banking is to promote socioeconomic justice (Nor, 2015).

Nowadays, financial institutions have begun focusing on sustainable development strategies as they believe that they can gain new customers in the long run as their reputation improve. True profit is recognized when the costs of the environment and social factors are considered when creating profit (Telan, 2022).

In current banking industry Islamic and conventional banking weighted as two rivals alongside in many Muslim and even in non-Muslim lands. Maintaining strong sustainability is vital to the existence profile of both parties (Jan, 2015).

(Nor, 2015) explore the social responsibility and sustainability Dimension of Islamic banking in Malaysia. The result of the study reveals that Islamic Banks are encouraged to perform various corporate social responsibility (CSR) activities.

There are multiple advantageous outcomes if sustainability has been incorporated within a company. Sustainable actions can improve business performance as these actions would bring job satisfaction, energy conservation, improve environmental innovation, better waste management (Telan, 2022).

The need for long-term economic, social and environmental sustainability are not a compromise issue. Therefore, Islamic banks must strike a balance between the institutional societal and environmental sustainability in order to achieve the objective of Sharia (Aliyu, et al. 2017)



Budiman et al. (2021) suggested that Islamic banks should focus on achieving environmental and social goals and facilitating sustainable infrastructure development such as poverty alleviation, ending hunger, promoting healthy living, equitable equity education, inclusive and sustainable growth. They also proposed that Charity (Zakat and waqf) should be delivered to welfare or public interest sectors that are related to sharia compliance.

Taking into account the impact of organization's operations and their impact on the society and environment is the most important step toward achieving sustainability (Al Meraikhi, 2021).

Different studies have looked at the topic of corporate sustainability. According to the Nobanee study (2021), which looked at the impact of sustainability on Islamic banks social, economic and environmental performance, the findings of the study show sustainability have significant impact on Islamic bank's financial performance. Banking industry holds a unique position with regard to sustainable development because of their intermediation function between depositors and borrowers. Islamic banking should balance economic, social and environmental sustainability in order to achieve the objective of sharia.

#### *2.2.11.1 Social Sustainability Dimensions*

Social Dimension deals with the impact of products and services of banks on the society. In this aspect the bank needs to develop ethical standards while granting loans to individuals, small or large businesses, and public sector bodies. It also deals with the involvement of bank's staff on community's fund raising and Philanthropic work (Marimuthu, 2015).

Social responsibility has its roots in business ethics, which places an emphasis on ethical and legal responsibility for the company's decisions that may have an adverse effect on various stakeholder groups (Dec, 2021). According to (Dec, 2021) the study shows that implementing the principle of sustainable development will offer socially responsible financial products in financial institutions.

The intended objective of the principle of sharia are to achieve socioeconomic justice for individual and society and to enhance welfare on society. Ignoring ethical elements in the delivery of products and service to society may directly affect the social sustainability of Islamic banks (Jan, et al 2021).



#### *2.2.11.2 Environmental sustainability Dimensions*

This dimension of sustainability also known as ecological or natural dimension. For sustainable development, the basis of this dimension lies in its capacity to provide the natural resource necessary for man. The environment has proven effective in the use and redistribution of natural resource to ensure balance and life in their space ([www.lifepersona.com](http://www.lifepersona.com)). Environmental Dimension is every bank's sustainability agenda. Banks need to minimize any negative impact of their activities which affect the environment (Saxena, 2014).

Environmental Sustainability Dimensions for banks deals with minimizations of banks activities which have a negative impact on the environment, at the same time it also deals with refusing of loans to such organizations whose actions cause negative and harmful impact on the environment. Furthermore, it also deals with granting funds to those organizations who are engaged in renewable energy products (Marimuthu, 2015).

(Marimuthu, 2015) take a source from Jeucken et al. (1999) divide the accomplishment of environmental sustainability in four steps starting from defensive banking, preventative banking, offensive banking till achieving sustainable banking.

#### *2.2.11.3 Economic Sustainability Dimensions*

Economic sustainability of banks is a broader concept which covers the micro, macro and structural factors. In general, economic sustainability refers to the business ability of keeping its high earnings and maintaining business operations successfully in the long run (Marimuthu, 2015).

Economic dimension comprises the impact of products, service and customer relationship on financial sector. The product and service of bank should be fair and transparent enough with customers. These products encourage people to believe economic condition of the organization as well as the country (Saxena, 2014).

According to sharia, the basic goal of Islamic banks is not to make money, but to promote economic activities and share risks. Islamic bank engages in promoting environmental activities of the community as per the principle of sharia (Al Meraikhi, 2021).



## 2.2.12 Practical Opportunities of Islamic Banking

### *2.2.12.1 The ability to grow potential market share*

To Increase market share will allow Islamic banks to take cost advantage, customer base, to boost its total sales, to be profitable, to dominance over the industry etc. The effort of Ethiopian Muslims on the establishment of Islamic bank since 2007, the establishment process of ZamZam Bank from 2008-2011 and other studies indicated that there is a high demand for Islamic Finance in Ethiopia (Hailu, 2021). Take into account the availability of huge number of Muslim populations, there is potential market share for Islamic Banks in Ethiopia.

### *2.2.12.2 Availability of substantial amount of customers*

Ethiopia is among the countries of the world with large Muslim populations. The current population of **Ethiopia** is **121,544,964** as of Wednesday, October 26, 2022, based on Worldometer elaboration of the latest United Nations data (worldometers.info). Half of this population is expected to practice Islam. The availability of substantial number of Muslim populations is an opportunity to Islamic Banks and they will not suffer with shortage of customers.

### *2.2.12.3 Way of affordable access to small medium and micro enterprises*

Small medium and micro enterprises are unable to provide acceptable collateral. With this and various other reasons, they fail to meet credit criteria of conventional banks. Conversely, Islamic finance is a way of affordable access to small medium and micro enterprises. Islamic bank gains ownership of a portion of assets and possible higher returns as an equity partner. Islamic bank can protect the world economy from financial crises of 2008. Kebede, (2021) and many studies abroad reveals that Islamic banking has supreme role in stabilizing financial and economic crises and arrests inflation. The 2008-2010 world financial crisis shows the fruitfulness of Islamic bank in stabilizing the economy. The crises we have been witnessing in the international financial system since 1997 have set the stage for Islamic finance to demonstrate its viability as potentially a genuine alternative global financial system (Iqbal, 2011).



### 2.2.13 Practical Challenges of Islamic Banking

Islamic financial institutions have performed well during the high growth period of the industry but, with a rapidly changing global landscape, maintaining sustainable growth is just one of many challenges (Iqbal, 2011). Even if there are encouraging practical opportunities which have positive impact for the sustainability of Islamic banking, challenges that influence the sustainability of Islamic banking exists as well.

#### *2.2.13.1 Lack of Legal and regulatory frame work specific to Islamic bank*

The development of financial institution requires proper regulation, supervision and monitoring of Business activities and measurement of the impact of the institution in the economy (Budiman, 2021). A sound legal framework is a key precondition for a safe development of Islamic Bank. In order to provide the legal foundations for the supervision of Islamic banks, general or specific banking laws need to define the nature of Islamic banks and their operating relationship with the central bank and other conventional banks Mejia et al. (2014).

The absence of Well-defined Regulatory framework is an issue for Islamic banks which lead them not to functioning in line with sharia principles. The absence of Sharia-compliant legal framework is major trouble which the Islamic banking system in particular and Islamic economic system in general is facing. The present-day conventional banking laws prohibit banks to engage directly in business activities using depositors' funds. On the other hand, this is the base on which Islamic banks and banking methods are built. So, new legislation becomes inevitable. (Lone, 2015).

Hailu, (2021) emphasize that the main and significant challenges of Islamic finance is coming from the commercial code of Ethiopia-legal framework challenges. The commercial code of Ethiopia is an interest-based commercial code and when an interest-free financial system is permitted the is a need for amendment for some proclamations. For instance, in the banking business proclamation Directive No. SBB/60/2015 article 4 (4) states "A bank may hold up to 10% equity shares in a single non-banking business other than insurance business" and article 4 (6) also stated that "A bank's aggregate equity investment in all non-bank business, including insurance companies, shall not exceed 10% of its net worth". Therefore, if this



directive applies to Islamic banking, they cannot do any Mudaraba and Musharekah businesses.

Lone (2015) in his study suggests that the treatment of Islamic banks as traders among Central Bank, unlike conventional banks makes legal and regulatory framework a serious challenge. Conventional banking laws prohibit banks to engage directly in business activities using depositors' funds. On the other hand, this is the base on which Islamic banks and banking methods are built. Islamic banking contracts are treated as buying and selling properties and hence are taxed twice. This treatment implies double taxation, an issue that is yet to be resolved by the Ministry of Finance.

An Important decision to be made by jurisdictions allowing Islamic Banks is whether to maintain a unified core set of banking laws or regulations convenient for both Islamic banks and conventional banks. Ensuring an adequate alignment of the regulatory framework with the guidelines of standard setters is key to address the main risks inherent in Islamic banks operations (Song, 2014).

Song (2014) Survey on the respondents of Palestine, Sudan, Turkey, United Arab Emirates Afghanistan, Malaysia, Pakistan, Palestine, Sudan, and Syria noted that the legal framework requires the setting up of national/ central Sharia board for the central Bank. In some jurisdictions, the central bank has a sharia board (e.g., Afghanistan, Malaysia, Pakistan, Palestine, Sudan and Syria). Despite, Sharia boards of central banks differ in their mandate, scope, governance and accountability. The ultimate overall responsibility for a central bank's Sharia compliance lies mostly with its Sharia board of directors, which typically delegate the responsibility for day-to-day sharia compliance to its senior management who is required to ensure sharia compliance in line with the guidance of the Shariah board.

In some Countries Including Ethiopia, Islamic banks are treated with same rules to conventional banks. National Bank of Ethiopia Should develop a comprehensive and transparent legal framework to grow confidence in Islamic banking. Ahmed (2021) proposes a practical dispute resolution framework for Islamic banking in Ethiopia with reference to the experiences of three key jurisdictions in this field, namely, Malaysia, Indonesia, and the United Kingdom. The article recommends that Ethiopia should adopt the Malaysian model, which has established dedicated benches that apply Islamic law alongside civil law in order to resolve Islamic banking disputes.



#### *2.2.13.2 Conformity with Sharia Principles*

It is observed that Islamic banks cannot perfectly comply with Islamic Shariah due to economic system, Government rules and regulations, lack of knowledge and seriousness of the employees and lack of research and development (Ullah, 2014).

Inadequate compliance with sharia law could weaken consumer protection as a result of fraudulent activities and misinterpretations of the fundamental sharia rules. If depositors lose confidence on Islamic bank's sharia compliance, a bank could face financial Problems, starting possibly with liquidity and developing ultimately into solvency issues (which could become systemic if the Islamic bank is sufficiently large and connected) (Mejia, 2014).

The lack of compliance is also increasing regulatory challenges for the Islamic banking industry in different countries. Sharia screening of investments is categorized in the economic sustainability dimension. As it is the responsibility of the sharia committee to screen and certify all investment of the Islamic banks in line with objectives of sharia, it attracts more investors, and positively affects the economic sustainability of Islamic banks through the preservation of faith (Jan, et al 2021).

Bayt al-mal (the treasury), Which used to care about the poor, the destitute, the old and the young became the monopoly of the governors, ministers, military commanders and tax farmers. As a result, the general public lost confidence and withdrew from urban prosperous centres to hills and deserts in the countryside to escape oppression, injustice, execution and confiscation. Ignorance, illiteracy, superstition, mysticism, idolatry, etc all became widespread. The centuries-old practice of finance in Islam form was largely eclipsed under the European influence. Most countries adopted western inspired banking systems and business models and abandoned Islamic commercial practices. (Chachi, 2005)

As we seen the above study, the main reason for early Islamic finance to remain inoperative and dominated with newly inspires interest-based banking system of western is not to practice according to the sharia law. Even if there are many factors which leads to have sustainable development and to continue with stability on Islamic finance, practice according to sharia law is the core issue to apply as it related with divine law. When we say according to the sharia law there must be fair and justice, need to follow rules and procedures settled by sharia law.



It has been indicated that use of proper Islamic banking fiscal and monetary tools can enhance the respective countries to recover from global economic slowdown (Global Compose.com, 2017).

#### *2.2.13.3 Lack of Public Awareness*

As long as the Islamic Banking is concerned in the Ethiopian context, both customers and bank employees themselves have low level of overall awareness about Islamic Banking (Kebede, 2021). According to Ahmed 2021, opponents argued that the introduction and concepts of Islamic banking promote religion which contravenes the constitutional principle of separation of state and religion and state interference in religious affair based on Article 11 of the FDRE Constitution states that religion should be separated from the state. As a result, there is the fear that establishing Islamic-based banking in a secular state such as Ethiopia might give rise to the possibility of discrimination against non-Muslims during the provision of Islamic banking services in the country. This critique arises from concerns about whether Islamic institutions will extend equal rights and opportunities to non-Muslims and Muslims during the provision of their services. In reality, this anxiety is a mere lack of understanding with respect to the operation of Islamic laws. The main goal of Islamic banking is the proper application of Islamic laws in the context of banking transactions without any concern of its customers' identity or personality.

The investors and depositors of Islamic banks would demand their banks to be prudently involved in sustainability practices, because they will get an economic return against it. providing scholarships to multiple stakeholders will raise the quality of education in society and will uplift social standards (Jan, 2021).

The global propaganda on Islam also affected the expansion of Islamic finance. In Ethiopia, some non-Muslim scholars are not supporting Islamic finance. They tried to explain the negative perception like if Muslims are open their bank, other religious followers may ask to establish their bank and it may result in the division of financial system (Hailu, 2021). The perception of the public about Islamic banking before their establishment is still exist and negatively influence Islamic banking industry market. This negative understanding among the public can harm the industry severely as the same time it will have negative impact on the sustainability of Islamic banking.



#### *2.2.13.4 Lack of Committed Entrepreneur*

It is notable that the growth of entrepreneurship volume can have a major impact on the development of the economy as a whole through such results as reducing unemployment and increasing levels of creativity and productivity. Islamic banks can be a source of financing for entrepreneurship, whereby entrepreneurs can obtain their capital from Islamic banks. studies have agreed that there is a gap in entrepreneurs' knowledge of Islamic banking products and services in addition to complexity of policies and procedures of Islamic bank. Entrepreneurs are ready to utilize the products of Islamic banks however, they are doubtful about Islamic banks procedures because of a lack of information in that area (Tawfiqi, 2018).

Islamic banks participate in sale and lease-based (Ijara) contracts also involve in benevolent finance (Qard Hasen). This mode of transaction tends to improve entrepreneurial growth which in turn has a multiplier effect on social prosperity (Hassen, 2018).

The absence of sharia compliant legal framework limit Islamic Banks from financing committed entrepreneur. Even if the establishment of Islamic banks in Ethiopia can have an opportunity for small business, the legal frame work restrictions limit the entrepreneur to involve in the business with Islamic banks. (Lone, 2015). Suggests that Islamic banks need research and training forums in order to develop entrepreneurship skills among their clients.

#### *2.2.13.5 Lack of Skilled Human Resource*

There is a need to institute professionalism in banking practice to enhance management capacity by competent bankers committed to their profession. This gives rise to a need for banking professionals to be properly trained in Islamic banking and finance (Lone, 2015).

If Islamic banks operate through education or training to maintain the intelligence of their workers, it would pave the way for them to conduct Islamic banking operations effectively. The impact of banking staff is directly linked to the people and society. As the main aim of the Sharia objectives is to achieve socioeconomic justice and development in line with the Sharia principles, Islamic training and education for staff must ensure quality education aimed at sustainable development. (Jan, 2021)



#### 2.2.13.6 Lack of Risk Management Framework

The risk characteristics of Islamic banking differ from conventional banking. The risk's sharia attributes as financial assets, non-financial assets, real estate, commodities or work on process inventories (Ijara, Salam or Istisna) or their result from financing made on profit sharing bases are exposed to losses (Mudaraba and Mushareka) (Abdulkader, 2015).

The absence of a developed risk management framework in Islamic finance has a significant impact on the current and future growth of the market because, a Sharia- compliant firm will lose its business competitiveness because of its inability to handle variability in its costs, revenues, and profitability through active hedging of financial risk. A firm without active risk management will be perceived as a high - risk firm and thus will be subject to higher funding costs and to a higher expected rate of return (Iqbal, 2011).

There is a strong relationship between the wellbeing of the banking sector and the growth of economy. The health of the banking sector effects the health of economy at large. similarly, the failure of banking system can disrupt economic development of the country. success of the banking business is dependent on how efficiently an institution manages its risk. It does not mean to eliminate or avoid risk altogether but it is proactive assessment and management of risk for the organization's strategic advantage. According to investment and financial management theories, risk management is one of the most important areas in companies that has a significant impact on the growth of a company (Ahmed et.al. 2017).

### 2.3 Empirical Review on Sustainability of Islamic Banking

Business firms focus upon achieving sustainable growth, as it enhances economic growth in a competitive business environment. It also improves business firms' social performance, which refers to "Triple-P" (Planet, People and Profit) (Abbas et.al. 2019)

Sustainability is a major global concern. The subject has become one of the most important ways for institutions to maintain their survival and continuance. Organizational success is today attributed to social and environmental performance and also meeting financial goals (Al Meraikhi, 2021).

Banks are already instructed to follow some of the policy guidelines from the central bank and at the same time banks are also familiar with some of the sustainable products & services



like green banking through technological advancement in the banking operation, environmental risk rating in the process of credit appraisal, diversified deposit & credit base for banks through the financial inclusion etc (Parvez, 2017).

Islamic finance and sustainable development are two connected terms that one of them affect the other (Nobanee, 2020). Most Banks have integrated sustainability within their strategic framework by choosing to finance sustainable customers. Successful integration of sustainability into the banking sector begins with the institution believing that sustainability added value (Telan, 2022).

The research conducted by (Santoso, 2019) suggests that SMEs have difficulties in obtaining financing from conventional banks due to the weak collateral they have. In addition, the recording of financial statements that are not in accordance with the standards makes SMEs more difficult to obtain financing from the banking sector. Therefore, it is not surprising that the existence of Islamic banking is still very low in the SMEs environment. Islamic financial institutions can capture the opportunities of financing capital needs of SMEs for their sustainable growth.

Islamic finance essentially promotes financial transaction with links to the local economy and abstains from financial activities that are detrimental to society. It supports financial inclusion by offering instruments suited to different socioeconomic groups (Tabash, 2014).

Tabash (2014) states that, the 2008 financial crisis led to difficulties in many conventional banks across the globe. Islamic banks in contrast were largely insulated from the crisis their Highly regulated operational environment guided by sharia principles prohibited investment in the type of instruments which adversely affected conventional banks and which prompted the crisis.

Siswanti et al (2017) states that Islamic banks must maintain and enhance Islamic corporate governance because implementation of Islamic corporate governance will have a positive impact on improving Islamic financial performance, which will ultimately have a positive impact on the improvement of the sustainability of Islamic banks.

Ayachi (2017) study focused on Tunisian case suggests that the Tunisian Government should establish legislative, fiscal and accounting framework which facilitate the implementation of all Islamic financial instruments such as Sukuk, Mudharaba, Musharaka, Murabaha, Qard



Hasan, Zakat, Muzaraa, Ijara, Salam, Istisnaa that contributes to the social welfare. As well as encourage innovative investment and hence contribute to economic growth.

In order to establish a sustainable Islamic Banking system all parties (Regulators, Civil Society, Customers, Shareholders, Employees, Managers and Shariah Advisers) should collaborate. Choosing adequate financing strategy Should help to reach at least two objectives of sharia namely, establishing justice and promoting welfare (Ayachi, 2017).

Hayat (2014) argues, even if the list of reasons ranges from history, law, politics regulation, taxation, consumer behaviour and beyond, an important reason is that Islamic finance is generally made to fit into a system designed for conventional finance and in the process of making concessions, it seems to lose what its critics regard as its substance.

The conduct of banking supervision needs to be undertaken in a manner that addresses the special characteristics of Islamic banks. There are two models of supervision of Islamic Banks in jurisdictions where Islamic and conventional banks are present. In the first model, Islamic Banks and Conventional Banks are subject to the supervision of a single supervisory authority (e.g., Saudi Arabia, Ethiopia, Kazakhstan, Kenya, Kuwait, Qatar, Tunisia, Turkey, the United Arab Emirates, and the United Kingdom). In the second model, supervision rests with separate supervisory units within a single supervisory authority (e.g., Bahrain, Indonesia, Jordan, Lebanon, Pakistan, and Syria). In practice there is typically substantial correspondence between the different supervisory frameworks (Mejia, et al. 2014).

According to Abbas et.al (2019) most of the workforce on Islamic banks lacks an understanding of sharia rules, and this is due to the fact that the majority of the workforce has come from conventional banks with the knowledge of non-Islamic banking structure. They offer the products and services of Islamic banks on the way which cause uncertainty and dissatisfaction among customers who are seeking Islamic banking products and services.

An Empirical study of Ullah 2014 on Sharia compliance of selected Islamic banks at Bangladesh reveals that, all the Islamic banks under study are more or less violating Islamic Sharia and it will avoid if the higher Authority and branch management give adequate attention and duly motivate their employee.

According to Jan et al (2018) Sharia screening during the investment falls under the category of essential and preservation of faith. It is because Islam prohibits haram business, and the investment in haram businesses as well. Therefore, it is necessary for the Sharia committee of



the Islamic banks to report about Sharia screening during the investment in their subjected report. Performing and reporting on this item will increase the stakeholder's confidence in the Islamic banks. The increased stakeholder's confidence will ultimately lead the bank towards generating more funds. Which ultimately will increase its economic sustainability.

(Nawaz, 2016) suggests that knowledge resource (intellectual capital) helps to sustain profitability of both conventional and Islamic financial institution. It helps maintaining profitability at all time.

## 2.4 Research Gap

In financial institutions, sustainability is a business strategy that balances economic, environmental and social concerns. It considers social and environmental factors when making loan decisions; it ensures transparency, good governance and integrity; it upholds the protection of the environment; it sets resource efficiency and it promotes financial help through assisting enterprises. Sustainability is the value philosophy that states a bank's business activities must benefit its employees, shareholders, customers and the economy while also conserving the natural environment. The need for sustainability is actuated by the role of financial institutions in development (Al Meraikhi, 2021).

The role of Islamic banking and finance is to maintain social, environmental and economic sustainability which comply with Sharia. The concept of sustainability should get attention any business. Financial institutions or industrial firms could contribute to the human welfare, prevent corruption and enhance social and Economic stability (Budiman et al. 2021). The sustainability of Islamic banking is not only benefitting Muslims; its service is convenient for all human beings without any discrimination with religion. It stands for country's healthy economy through alleviate poverty, promote healthy living, facilitate sustainable infrastructure development.

Along with the establishment of Islamic banks in Ethiopia, to be sustainable on the industry is more necessary to the development of the economy. To figure out which factors are affecting and which have positive impact on the sustainability of Islamic banking can benefit to solve problems early which prevent to survive on the industry. As a goal of Islamic banking is beyond profit maximization which is to bring balance between economic, social and environmental sustainability to meet sharia objective, it must achieve sustainable and continual development.



The literatures reviewed at chapter two of this paper were conducted on the sustainability of Islamic banking abroad the country. There are enough studies related to Islamic banking challenges and opportunities which conducted before the formation of Islamic banking in Ethiopia. But there are no studies conducted on the sustainability of Islamic banking due to Islamic banking is at infant stage for Ethiopia. This research topic is unexplored area in Ethiopia context. Even though the permission and formation of Islamic banks on our county Ethiopia thought as success due to stringent regulation and regulatory bodies, its sustainability is more important to meet its objectives. The researcher of this paper thought that as legal permission of Islamic banking achieved after years of struggle, its sustainability needs special attention. As Islamic banks are new to our country Ethiopia, there is a research gap on the sustainability of Islamic banking in which the researcher tries to fill.



## Chapter Three

### 3 Research Methodology

#### 3.1 Research Design

Research design is about how the research activities will be carried out. The research attempt to assess practical challenges and opportunities impacts on the sustainability of Islamic banking in Ethiopia, based on the practical experience of Islamic banking at Hijra Bank. To achieve the objective of the study, the researcher would apply descriptive research design method. Descriptive research design was used to describe the data gathered and obtain the general overview of the subject. Descriptive survey is popular in business research and will also enable to obtain the current information from a sizable population in a highly economical way. The study uses Survey as an appropriate research strategy.

#### 3.2 Research Approach

Qualitative research approach is concerned with subjective assessment of attitudes, opinions and behaviour. Research in such a situation is a function of researcher's insights and impressions (Kothari, 2004). This research used qualitative research approach. The rationale to employ qualitative research approach is to assess the practical impacts on the sustainability of Islamic banking through the experience of Hijra Bank.

#### 3.3 Source of Data

To achieve the objectives of the research, relevant data were collected through primary and secondary data. Branch managers and Operational Supervisors of each branch of Hijra bank located at Addis Ababa as well as managers at head office with different position were participants of the study to collect primary data through Questionnaires. Furthermore, the Director of branches Operation Mr. Husein Aman is volunteer to forward the relevant data and professional opinion for the research through the use of semi-structured interview at the head Quarter of his own Office locate at Bole denbel Olympya. Secondary data were collected from related studies and dissertations, reports, Journals books and 2021-2022



annual report of Hijra bank. The researcher gets permission from Mr. Husein Aman to record the interview with audio.

### 3.4 Data collection tools

The study will use Structured Questionnaires and semi structured Interview as Primary data collection tools to conduct survey. The contents of questioner will be categorized into two parts. Part one of the questionnaire will assess the attitudes of respondents about the practical opportunities impact on the sustainability of Islamic banking and second part will figure out the opinions of participants about practical challenges impact on the sustainability of Islamic banking generally and Hijra bank specifically. Five Likert scale method will be uses for measurement purpose. The interview used for this paper was semi-structured which led the interviewee to explore his attitude, thoughts and to delve deeply into sensitive issues. Financial Directors of Interest free banking at head office as well as Sharia supervisory board members of both banks will have unstructured Interview to collect the relevant data.

The interview also addresses about practical challenges and opportunities impacts on the sustainability of Islamic banking and hijra bank. Published sources which comprise related studies, Annual reports, Journals books and online sources which include websites and online archives will be used as secondary data collection tools.

### 3.5 Population

The research area of this paper is at Hijra Bank Head office and All branches located at Addis Ababa. The researcher committed to make the study on the sustainability of Islamic banking through an assessment on practical challenges and opportunities impact at hijra bank which led either to liquidate or sustain the bank. The rationale behind the decision of the researcher to select Hijra bank as the study area is, it is one of newly implemented Islamic banks which operate according to the principles of sharia law. Which enables the researcher to study on the topic in depth. Hijra Bank has 77 operational Branches in Ethiopia. Out of those branches over the country, 20 branches are located at Addis Ababa. Mr. Abdu, Manager of Branch Operation inform that there are 20 branches at Addis Ababa with 140 employees including Branch managers and Operational Supervisors. The following table is list of Hijra bank Branches located at Addis Ababa.



**Table 1: Total Number of Hijra Bank branches**

<b>No</b>	<b>Branch Name</b>	<b>Branches Location</b>
1	Medina Branch	Bole
2	Ansuar Branch	Betel
3	Quba'e Branch	Kolfe
4	Musab masjid branch	Alembank
5	Haji musa Kikiyan Branch	Ehil berenda
6	Oumu Aymen Branch	Dubay Ter
7	Sheik Esa Al Qatbare Branch	Sumale Tera
8	Remedan Nious	Berbere Tera
9	Hamza Branch	Girar
10	Selam Branch	Kera
11	Gofa Branch	Gofa
12	Bisrate Gebriel	Bisrate Gebriel
13	Kaliti	Kaliti
14	Lideta	Lideta
15	Haji Ture	Merkato
16	Abinet	Abinet
17	Gojam Berenda	Gojam Berenda
18	Shegole/medhanialem	Shegole
19	Hikma Branch	Furi
20	Hijretein Branch	Abdi nono

[Branch Locator - Hijra Bank \(hijra-bank.com\)](http://hijra-bank.com)

To make the research bearable, this paper addressed all branches of Addis Ababa to collect data from managers and Operation supervisors of Hijra bank. In addition, Ms. Genet, Director of Human Resource inform that there are more than 170 Employees including 11 directors and 40 Managers at Head Quarter. Total determined population at 20 Branches and Head Quarter to the study is below Eighty. Due to small size of population, this research will investigate all population without select sample size.



### 3.6 Sample Size

Total population sampling is a type of purposive sampling technique that involves examining the entire population. Most of the time, researchers consider this as their sampling method because the entire population is so small and well-defined, and a fraction of which may not measure what is required. It can eliminate any potential bias occurring through sampling technique (Canonizado, 2021). The researcher believes total population sampling is appropriate for the paper because the size of population is relatively small and defined which is below eighty.

### 3.7 Data Analysis

To screening validity and errors, and to analyse the data collected from source of data in appropriate way, software package used in statistical analysis of data called statistical package for social science (SPSS) was applied. Descriptive research approach was employed to describe the relation between all independent variables (potential market share, availability of customers, affordable access to small and medium enterprises, regulatory framework, conformity with sharia, public awareness, committed entrepreneur, skilled human resource and Risk management, and) with dependent variable (sustainability of Islamic bank). To interpret the data, the researcher utilized qualitative analytical tools such as, identification of commonality, categorization, and exclusion of irrelevant data, reorganization and synthesis.



## CHAPTER FOUR

### 4 DATA PRESENTATION AND DISCUSSION

#### 4.1 Introductions

In this chapter, the findings of the study that were gathered through questionnaire and interview will be presented and discussed. The questionnaire was composed of two sections to make an assessment on the sustainability of Islamic banking. Part one of the questionnaire were ask the respondents about practical opportunities and part two were about practical challenges which have an impact on the sustainability of Islamic banking. The researcher of this paper has not been involving questions about demographic details of respondents. Because, demographics of participants not add value linked with the topic of the paper and is not central to the purpose of the study. The assessment required to cover on this paper have no relation to demographic question and is not mandatory as there is no required measurement on the assessment. The researcher thought all that is required is just to be sure about the respondents are on management level to get relevant, reliable and sufficient data for the assessment of the paper. Accordingly, 80 questionnaires were distributed to the managers and supervisors of each branch of hijra bank located at Addis Ababa and managers of different department at head quarter of hijra bank. The response rate of the questioner distributed was 91.25%. From the total distributed 80 questionnaires used to collect data from participants, 73 were completely filled and returned.

#### 4.2 Practical Opportunities impact on the sustainability of Islamic Banking

In this section, practical opportunities impact on the sustainability of Islamic banking will be presented and discussed as follows. According to the response of questionnaire from respondents, the data collected from interview as primary data and from annual report of last year of hijra bank as secondary data will be compared.



#### 4.2.1 The Ability to grow potential market share

Increasing market share can make any organization continual, meet its goal and to be dominant over the industry. Participants were asked number of items to figure out practical opportunities which can be an opportunity for the sustainability of Islamic banking. They were asked to answer “with an Increase in market share, Islamic Banks will raise their dominance and stay sustainable on banking industry.” The following table shows the attitude of respondents.

**Table (1) Achieving potential market share**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	2	2.7	2.7	2.7
Neutral	1	1.4	1.4	4.1
Agree	49	67.1	67.1	71.2
Strongly Agree	21	28.8	28.8	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

According to table (1) 2.7% participants disagree, 1.4% neutral to forward their responses, while 67% of respondents agree and 28.8% Strongly agree with raising potential market share can make Islamic banks sustainable and continual.

Majority of participants' response exhibits that utilization of potential market share is potential opportunity for Islamic banking industry to stay sustainable. There is a wide market for Islamic banking in Ethiopia as it is unique by its nature from conventional banks and it is new for banking industry of Ethiopia. Therefore, Islamic banks can take this opportunity to be sustainable on the banking industry by utilize available market share for Islamic banking. (Hailu, 2021) also mention that there is high demand for Islamic banking in Ethiopia which is



potential opportunity for Islamic banks. Similarly, the finding from interview reveals, the market share achieved currently is appreciable and promises bright future. He also mentions that current market share achieved by Islamic banks is the result of efficient work for the last operation months.

Based on the findings on this part, there is solid and untapped market share for Islamic banks which can able them to compete with rivals through special service which comply with sharia. We can say this available market share is an opportunity which have positive impact on the sustainability of Islamic banking. The reader of this paper can also understand the findings from respondents' reveal that potential market share can be potential opportunity for Islamic banks to be sustainable on the industry.

#### 4.2.2 Availability of substantial amount of customers

The researcher tries to conduct an assessment whether the availability of customers can be an opportunity for Islamic banking to become sustainable on banking industry. The respondents were asked that “widening the customer base will contribute positive impact on the sustainability Islamic Banking.”

**Table (2) Availability of substantial customers**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	1.4	1.4	1.4
Disagree	1	1.4	1.4	2.7
Agree	26	35.6	35.6	38.4
Strongly Agree	45	61.6	61.6	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

The percent of respondents about the impact of availability of substantial customers on the sustainability of Islamic banking shown on table (2) is 1.4% strongly disagree, 1.4 % Disagree, 35.6% Agree and 61.6% Strongly agree. Majority of participants agree with availability of customer can be opportunity for the sustainability of Islamic banking.



According to Hailu (2021) Ethiopia is among the countries with large number of Muslim populations who strongly need Islamic banking service. It is also expected that non-Muslim communities who are interested in ethical finance may also access Islamic finance products and services. The findings of this paper are also similar with (Hailu, 2021) which is, availability of substantial customer is the first potential opportunity for Islamic finance industry. In addition to the result acquired from questionnaire, the following opinion is collected from the interview. The interviewee forwards his opinion about availability of customers all over the world who are satisfied with Islamic banking service. Additionally, mention that to utilize those available customers according to the sharia principle can enable Islamic banks to be sustainable.

According to the findings of this paper on this portion we can say that the availability of substantial customers can be a potential opportunity for the future sustainability of Islamic banking. Because, availability of substantial customer can help to widen customer base which in turn increases the market share of an organization.

#### 4.2.3 Way of affordable access to small medium and micro enterprises

As our country Ethiopia is among developing countries of the world, there are huge number of populations with low economic scale who need to be financed as small medium and micro enterprises. Islamic banks offer affordable access for small medium and micro enterprises which are able to alleviate poverty. Another important question asked to assess practical opportunities which have an impact on the sustainability of Islamic banking were about affordable access to small medium and micro enterprises. The question was asked “the encouragement of Islamic banking on small medium and micro enterprise will help to fight poverty and contribute positive impact on the sustainability of Islamic Banking.”



**Table (3) Affordable access to small medium and micro enterprise**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	1.4	1.4	1.4
Disagree	2	2.7	2.7	4.1
Agree	20	27.4	27.4	31.5
Strongly Agree	50	68.5	68.5	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

Table (3) reveals that 1.4% respondents were strongly disagree, 2.7 disagree, 27% agree with Islamic banks accessibility to small medium and micro enterprises can have positive impact on the sustainability of Islamic banks and 68.5% strongly agree with the statement that the nature of Islamic banking is an opportunity for the sustainability of Islamic banks.

The testimony of respondents indicates that financing SMEs is among practical opportunity which able Islamic banks sustainable. Similarly, the opinion collected from interview mention that Islamic banks stand or focus more for those whose economic scale is low and medium. It offers affordable products for small medium and micro enterprises which have vital role for economy growth.

Hassen, (2018) emphasize that in order to achieve Islamic banking objective, the spirit of inclusiveness should be a priority. With this in mind, one of the social objectives expected from Islamic bank is to focus on financing SMEs to drive those with an entrepreneurial mind out of abject poverty.

Bases on the findings we can conclude that promote and financing SMEs is an opportunity for Islamic banks to have sustainable growth on the future.

The respondents were asked for further information about whether Hijra Bank Promote financial inclusion through the provision of affordable financial access to micro small and medium enterprises or not.



**Table (4) financial inclusion of SME enterprises at Hijra Bank**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	3	4.1	4.1	4.1
Disagree	13	17.8	17.8	21.9
Agree	38	52.1	52.1	74.0
Strongly Agree	19	26.0	26.0	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

According to table (4) 4.1% respondents strongly disagree, 17.8% disagree, 52.1% agree and 26% strongly agree with Hijra bank promote financial inclusion through financing small medium and micro enterprises. High number of participants ensure that hijra bank promote financial inclusion through financing SMEs. This can contribute for Hijra bank as well for Islamic banks positive impact on their sustainability.

In a like manner, the data collected through interview mention that there are enterprises which has been financed at Hijra bank with in its last operation year. It finances up to 100,000 capitals for single SMEs to start a business. He also suggests that Hijra bank mainly works with low and medium economic scale population to grow together. The interviewee said that, Hijra bank have currently 11,000 shareholders within the range of 30,000-10,000,000. This figure shows Hijra Bank is not a capitalists' bank rather it includes communities from poor to rich. This can keep hijra bank sustainable on Islamic banking industry and contribute prosperity for countries economy.

The information collected from secondary data on 20212-2022 Annual report of hijra bank also notify that Hijra bank offer Murabaha financing to customers with different business who found at different regions of the country. Both findings which collected from primary and secondary data reveals that financing SMEs can be potential opportunity for the sustainable growth of Islamic banking.



### 4.3 Practical challenges impact on the sustainability of Islamic Banking

The study also investigates practical challenges which have an impact on the sustainability of Islamic banking. In the succeeding portion the results and findings will be presented.

#### 4.3.1 Lack of Legal and regulatory frame work specific to Islamic bank

One of the research questions which tries to investigate practical challenge is whether or not the current rule and regulation available for Islamic banking is the challenges for the sustainability of Islamic banking. The respondents asked that “does the treatment of Islamic Bank and Conventional Bank under similar rules and regulations will drive Islamic Bank to lose its concept and negatively affect the sustainability of Islamic bank?”

**Table (5) Lack of Islamic rules and regulation framework**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	4	5.5	5.5	5.5
Agree	27	37.0	37.0	42.5
Strongly Agree	42	57.5	57.5	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

As presented in table (5) 5.5% participants disagree, 37% Agree and 57.5% strongly agree with the treatment of Islamic Bank and Conventional Bank under similar rules and regulations will drive Islamic Bank to lose its concept and negatively affect the sustainability of Islamic banks.

High number of respondents' attitude indicates, the current interest-based banking rules and regulations which serve Islamic banking are not convenient to implement and practice fundamental products of Islamic banking which are Mudarabah (passive partnership in which earned profit will be allocated between investor and entrepreneur, but the bank will bear all loss except the negligence of the entrepreneur) and Mushareka (is joint partnership in which



both partners will share profit and loss as pro-rata amount). This can make limit Islamic banks not to deliver their special service to the customers as well as not to compete with rivals through utilization of all Islamic banking products.

The above finding shows similar result with (Hassen, 2018) he suggests that the regulations which govern Islamic banking transaction are entirely different from those covering conventional counterparts in principle. Islamic banks should comply with international regulation that is compatible with Islamic jurisprudence so they can compete globally.

The findings of this paper also share the suggestion forwarded by (Hailu, 2021) that the main and significant challenges for Islamic banking is current interest-based commercial code. the commercial code of Ethiopia is an interest-based commercial code and there is a need for amendment for some proclamation to able Islamic banking implement fundamental financial products of Islamic banking which are Mushareka and mudarabah.

The researcher tries to ask further question on lack of rules and regulation impact on the sustainability of Islamic banking to find out the participant's opinion regarding Islamic growth.

**Table (6) Applying particular rules for Islamic bank**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	1.4	1.4	1.4
Agree	23	31.5	31.5	32.9
Strongly Agree	49	67.1	67.1	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

In table (6) the percentage figures are based on the numbers of participants. 1.4% of participants disagree, with the statement. While the majority number of respondents which is 31.5% Agree and 67% strongly agree with the statement which Islamic banks can achieve should future sustainable growth if rules and regulations convenient for Islamic banks formulated.



The respondents' opinion ensures that Islamic bank and finance is completely differing with conventional banks. Setting particular rules to treat Islamic banks can make Islamic banking industry sustainable and help to meet its goal effectively.

The interviewee of this paper also suggests, the current rules of banking industry are not convenient to apply all Islamic banking instruments. Governor of national bank of Ethiopia does not grant permission to apply Musharaka as any bank can't involve in the business which need more than 10% of its equity. Additionally, the absence of sharia advisory board who advice at National Bank of Ethiopia makes the rules not to consider the principle of sharia for Islamic banking. The interviewee finally forwards that the lack of rules and regulatory framework specific to Islamic banks have negative impact on the sustainability of Islamic banking.

According to the above findings, rules and principle specific for Islamic banks are used for the execution of commercial and financial contracts and transaction. In contrary, the treatment of similar rules for those different systems can harm the industry and as the same time it affects the sustainable growth of Islamic

#### 4.3.2 Lack of Public Awareness

The following question which asks the participants of this paper is about the challenge of lack of public awareness on the sustainability of Islamic banking. Which asks Lack of public awareness about Islamic banking will negatively influence the sustainability of Islamic banking.

**Table (7) Lack of public awareness about Islamic banking**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	1.4	1.4	1.4
Agree	20	27.4	27.4	28.8
Strongly Agree	52	71.2	71.2	100.0
Total	73	100.0	100.0	

Source: Survey result 2023



The output shown on table (7) reveals that 1.4% disagree, 27.4% Agree and 71.2% strongly agree with lack of public awareness about Islamic banking will negatively influence the sustainability of Islamic banking.

The respondents with high percent indicate that lack of public awareness have negative impact on the sustainable growth of Islamic banks. The interviewee of this paper similarly suggests that there are many findings which assure Islamic banking was a cure for the great financial crises of 2008. It stabilizes the world economy. But majority of population especially in Ethiopia the perception about Islamic banking is entirely wrong. This can be a challenge for Islamic banks to compete with conventional banks and become sustainable. The interviewee raises David Cameron's speech on 2014 about Islamic banking service that "I want to make Great Britain the centre of Islamic banking". The interviewee explains David Cameron's speech as he doesn't mean he wants to make Great Britain Muslim through the application of Islamic banking but, Islamic banking can stabilize country's economy. Those who have appropriate awareness about Islamic banking understand that sustainability of Islamic banking can have a vital role for healthy development of country's economy.

From the response of the participants the reader of this paper can clearly understand, there is still an awareness gap among the public about the concept of Islamic banking. This perception can harm its future sustainability. Many non-Muslim populations thought Islamic banking is all about religion, it establishes to promote Islam, it serves only Muslims. But the reality is on the contrary. Islamic bank is for all without discriminating with religion or other criteria. Islam strictly forbids paying or receiving interest, to involve in harmful business. This principle is not only used for Muslim it is also necessary for all human beings, the social and environment too. To overcome this challenge which can affect the sustainability of Islamic banking, Islamic banks which are already on the market should focus on educating the public.

The respondents were asked further questions to determine whether or not the public have clear and adequate awareness about financial products of Hijra Bank as well as the concept of Islamic banking is not to promote religion.



**Table (8) Awareness about Hijra bank products**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	21	28.8	28.8	28.8
Disagree	34	46.6	46.6	75.3
Agree	12	16.4	16.4	91.8
Strongly Agree	6	8.2	8.2	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

According to table (8) 28.8% respondents strongly disagree with the public have clear and adequate awareness about financial products of Hijra Bank as well as the concept of Islamic banking is not to promote religion, 46.6% disagree, 16.4% Agree and 8.2% strongly agree with the statement.

The outcome of the above data shows the respondents' opinion. It ensures the public doesn't have clear and adequate awareness about Islamic banking. This in turn affects its sustainability of Islamic banks.

One of the respondents from Branch managers of Hijra bank additionally mention that lack of public awareness is practical challenge for Islamic banks. The respondent recommended public awareness gap is among main setbacks which need to be solved to the continuity and sustainability of Islamic banking.

The finding from interview also suggests that the public have negative understanding and wrong information about Islamic banking as well as hijra bank which affect the sustainability of Islamic banking. Rather than to compete with special products and service to satisfy customer, there is spreading wrong information and unethical competition with rivals too. The interviewee additionally mentions that unethical competition like segmentation with religion and racism will harm not only Islamic banks it also harms banking industry through time. Lack of public awareness is a challenge which practically influences the sustainability of Islamic banking. Finally, he recommended that Hijra and other Islamic banks must solve this challenge.



The finding about public awareness gap collected from secondary data 2021-2022 Annual report of hijra bank similarly notify that advertisement and promotion about hijra bank and its service must widely operate to overcome the current negative understanding of the public.

According to the findings collected from both primary and secondary data, we can conclude public awareness gap about Islamic banking service and its objectives has negative impact on the sustainability of Islamic banking.

#### 4.3.3 Lack of Committed Entrepreneur

Entrepreneurship gives large scale employment. It is the way to generate income and create wealth. Another critical item assessed with this paper is whether lack of committed entrepreneur have negative impact on the sustainability of Islamic banking or not. The respondents asked “Lack of committed entrepreneur who utilizing the product and financial contracts (i.e Musharaka and Mudarabah) of Islamic banking will have negative impact on the sustainability of Islamic banking.”

**Table (9) lack of committed entrepreneur**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	1.4	1.4	1.4
Disagree	6	8.2	8.2	9.6
Agree	47	64.4	64.4	74.0
Strongly Agree	19	26.0	26.0	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

Table (9) shows that 1.4% respondents strongly disagree, 8.2% disagree 64.4% agree and 26% strongly agree with lack of committed entrepreneur as Islamic bank will have negative impact on the sustainability of Islamic banking. As shown in the table the respondents opinion indicates that entrepreneurs are the one who utilize fundamental Islamic banking



products those are Mushareka and Mudarabah. Complexity of current regulation restrain entrepreneurs from utilizing those business contracts. This can affect the growth of Islamic banks. It has negative impact for the sustainability of Islamic banking.

#### 4.3.4 Lack of Skilled Human Resource

Intellectuality and skill are fundamental issue to comply Islamic banking operation with sharia principle. To treat customers and investors according to the sharia principle, skilled and intellectual manpower must be available. Which have positive impact on the sustainability of Islamic banking. In order to assess this item, the respondents were asked whether lack of skilled human resource have an impact on the sustainability of Islamic banking or not. They asked “Lack of higher level of intellectuality and skill among sharia supervisory board and employees about the sharia principle of Islamic banking will affect the sustainability of Islamic bank.”

**Table (10) lack of skilled human resource about Islamic banking principles**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	38	52.1	52.1	52.1
Strongly Agree	35	47.9	47.9	100.0
Total	73	100.0	100.0	

Source: Survey result 2023

The table above with the percentage of participants along with their opinion reflects 52.1% respondents agree with lack of higher level of intellectuality among sharia supervisory board and employees will affect the sustainability of Islamic bank. where, 47.9% respondents strongly agree with the statement.

The opinion of participants reveals similar result to Nawaz (2016), which is Intellectual capital (higher education and skill) is a resource which helps to sustain profitability also it is necessary for banks being conventional or Islamic to create value.



2021-2022 Annual report of hijra bank also notify that there is lack of human resource on the market which is a challenge faced by Islamic banks. To overcome this challenge hijra bank give training about customer service, Islamic banking and other trainings related to banking operation to more than half of the staff and management training for managers.

The data gathered from the interview express that Personnel at any organization should know and understand about the firm's goal. If it goes to the contrary, it will harm the sustainability of that organization. having experienced and skilled human resource have vital role on the sustainability of Islamic banking.

All the above findings reveal to the reader of this paper, intellectual and skilled human resource about sharia principle of Islamic banking and finance is critical for Islamic banks to protect Islamic banking and financing concept from misleading in wrong way and it helps to achieve their business objectives.

#### 4.3.5 Lack of Risk Management Framework

Finally, this study tries to assess lack of risk management impact on the sustainability of Islamic banking. Business risk cannot be completely eliminated, but it can be alleviated through risk management strategies.

Respondents were required to forward their opinion on the question, "The absence of developed risk management frame work in Islamic bank negatively affect the growth and sustainability of Islamic bank."

**Table (11) lack of risk management framework**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	2.7	2.7	2.7
Disagree	4	5.5	5.5	8.2
Agree	42	57.5	57.5	65.8
Strongly Agree	25	34.2	34.2	100.0
Total	73	100.0	100.0	



Source: Survey result 2023

An output result of participants on table (11) shows 2.7% strongly disagree, and 5.5% disagree, with the question asked. While 57.5% agree and 34.2% strongly agree with the absence of developed risk management frame work in Islamic bank negatively affect the growth and sustainability of Islamic bank.

The question tries to asses whether lack of risk management have an impact on the sustainability of Islamic banking. It is inevitable that any business exposes for variety of risk. Lack of risk management frame work cause firms not to be able to achieve future goal, it can also result in business failure. On the contrary, any organization should undertake good risk management to reduce default risks and operational loses. The result shows that, lack of risk management frame work have negative impact on the sustainability of Islamic banking. As Islamic banking operation is equity-based, it needs to adopt good risk management to be sustainable on the business invested.

The study conducted by Iqbal et.al. 2018 on the role of risk management on the sustainable growth of Islamic banking also reveals similar result with the above findings. which is credit risk having significant impact on sustainable growth of the Islamic banks and credit risk management is an important predictor of sustainable growth rate of Islamic banks. The study conclude with the sustainable growth rate of Islamic banks is affected by the bank's risk management capabilities.

The respondents were asked Additional question for further data about lack of risk management impact. They required to forward their opinion whether or not Hijra Bank apply risk management framework to keep its loyalty to the investors and to make its business sustainable.



**Table (12) Application of risk management frame work at Hijra bank**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	5.5	5.5	5.5
	Neutral	2	2.7	2.7	8.2
	Agree	43	58.9	58.9	67.1
	Strongly Agree	24	32.9	32.9	100.0
	Total	73	100.0	100.0	

Source: Survey result 2023

Table (12) shows 5.5% of respondents Disagree, 2.7% neutral, 58.9% Agree and 32.9% strongly agree with Hijra Bank apply risk management framework to keep its loyalty to the investors and to make its business sustainable.

Majority of the respondents' opinion indicates Hijra bank adopt risk management framework to achieve sustainable growth. The findings gathered from interview also mention that there are variety of risk like sharia compliant risk and investment risk which need good risk management. The interviewee suggests Hijra bank have risk management frame work to make ongoing investments and business operation manageable. It also has a department which implement for the purpose of risk management.

Based on the findings we have got we can conclude, lack of risk management frame work affects the sustainability of Islamic banking.

The researcher of this paper would like to include additional suggestion forwarded by the interviewee as well as put on annual report of Hijra Bank 2021-2022. This was, competition with conventional banks with current banking policy is the main challenge for Islamic banks because the current rule does not allow competing effectively. Among the challenges put on the annual report, competition and political issue are another setback for the sustainability of Islamic banking.



## CHAPTER FIVE

### 5 SUMMERY, CONCLUSION AND RECOMMENDATION

In this section summery of the findings about practical opportunities and challenges impact on the sustainability of Islamic banking will be summarized, the findings of the study get into conclusion, finally some typical recommendation will be forwarded.

#### 5.1 Summery

Sustainable growth is a key for an organization to achieve the objective of the firm. The aspiration of this paper is to recognize those determinants which have an impact on the sustainability of Islamic banking. As the same time this study aims those challenges and opportunities tried to be assessed should get solution for long term survival of Islamic banking. This study selected independent variables to make an assessment on their impact on the sustainability of Islamic banks in Ethiopia. The response gathered with questionnaire and the data collected from the interview for the purpose of this study was assist to meet the objective of the study.

The respondents were asked about practical opportunities impact on the sustainability of Islamic banking. The first practical opportunity for the sustainability of Islamic banking is Potential market share. There are few Islamic banks now established in Ethiopia. This bank can capture potential market share for the products and services they offer.

The next opportunity which assessed in this study is availability of customers who strongly need the service and products of Ethical banking. As our country Ethiopia is among those countries which have huge number of Muslim communities. These substantial numbers of Muslim communities were excluded from banking sectors because of the services offer in conventional banks are entirely on the contrary of sharia. Therefore, Islamic banks can be sustainable by serving those Muslim even non-Muslim communities. They can build strong customer base which have significant impact for their continuity and sustainability.

The last opportunity selected for this paper is small and medium enterprises can be way for the sustainability of Islamic banking. It is not easy for SMEs to be financed by conventional banks due to the criteria they asked and the collateral they pledge. There for SMEs need to be financed with Islamic banking and finance institutions. This is an opportunity for Islamic



banks to make a business with those SMEs and prosper together. This prosperity lightens future sustainability of Islamic banking.

This paper also tries to make assessment on the challenges which influence the sustainability of Islamic banking. Current rules and regulations applied for Islamic banks are not convenient to make all financial contracts of Islamic banking.

Another challenge is public awareness about Islamic banking. The perception of the public about the sector is still negative. There is an attitude among the public that Islamic bank is formulated to serve only Muslim communities and it is about promoting religion. This perception can severely harm the Islamic banking sector from moving forward with expected speed. It affects sustainability of Islamic banking.

The respondents were also asked their opinion about lack of skilled human resource, lack committed entrepreneur and lack of risk management impact on the sustainability of Islamic banking. The responses of the participants were all the challenges mention above affect the sustainability of Islamic banking.

## 5.2 Conclusion

The key findings of this paper are summarized as follows

There is wide market share for Islamic banking which can be used as an opportunity for the sustainability of Islamic Banking Industry. To achieve available market share can help Islamic banks to have sustainable growth.

Utilizing the available amount of customer is practical opportunity for the sustainability of Islamic banking. Customers who need to use sharia compliant banking are substantial. If existing Islamic banks conform to sharia rules, they can achieve more than expected number of customers to be served under their operation.

In developing countries including Ethiopia majority of the population needs to be financed with small micro and medium enterprise. Islamic banking can keep its sustainability through financing small medium and micro enterprises as SMEs have vital role for the economy of a country. Islamic banking is a way of affordable access for SMEs. The nature of Islamic banking itself is an opportunity for its sustainability.



The commercial and banking laws appropriate for implementation of Islamic banking and financial contracts do not exist. On the contrary the existing banking laws contain provision which is narrowly defines and prohibits the scope of Islamic banking activities with in conventional limits. They are not convenient to Islamic banks to apply all their products and limit Islamic banks not to get into the intended goal. The current rule applied for Islamic banks directly or indirectly prohibits banks to engage directly in business activities. On the other hand, this is the base on which Islamic banks and banking methods are built. This is critical challenge which harms the sustainability of Islamic banking industry.

There is a gap in public awareness; the public have wrong understanding about Islamic banking.

The fundamental contracts of Islamic banking (Musharala and Mudaraba) are business which Islamic banks as an investor engage to do with entrepreneurs. But the rules settled by national bank of Ethiopia don't allow those financial instruments of Islamic Banking. This causes lack of entrepreneur who will join Islamic banks. The findings of this study indicates that Lack of committed entrepreneurs whom utilize the products of Islamic banking have negative impact on the sustainability of Islamic banking.

Performing the operation of an organization without the appropriate knowledge and skill can harm the customers of the firm. This study assessed and come up with the conclusion that lacks of skilled and intellectual human resource about Islamic banking principles have negative impact on the sustainable growth of Islamic banking.

Any business organization faces business risk. But the risk of Islamic banking sector is special as it is asset-based operation. It needs more attention and must be manageable. On the contrary the lack of risk management for Islamic banking can cause failure and have negative impact for its sustainability.

Which we come to finalize the conclusion of this paper, sustainability can be achieved if Islamic banks utilize available opportunities and overcome current practical challenges as well as if the industry performing well with steady growth in the market.



### 5.3 Recommendations

Islamic banks should promote about Islamic banking and its products to completely avoid the wrong understanding of the public. As well as they should create proper awareness about the objective of Islamic banking is not about promoting religion.

The treatment of different system under similar rules can hurt the sustainability of Islamic banking. There must be suitable and specific banking policy for Islamic asking. because Islamic banking system is completely different with conventional banks. Standard setters at National bank of Ethiopia should adopt its own Sharia advisory board as experienced in other countries and collaborate to set specific rules and regulations in line with sharia principle and to motivate Islamic banks.

As Islamic banking industry is young, the concept of sustainable growth of Islamic banking in Ethiopia requires further empirical research and investigation.



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## **APPENDIX**

### **Questionnaire for Data Collection**

**St. Mary's University**

**School of Graduate Studies**

**Department of Accounting and finance**

#### **Dear Participants:**

This survey is aimed at the **Assessment of Practical Challenges and opportunities Impact on the sustainability of Islamic Banking at Hijra Bank**. It is conducted by Graduate Student of MBA in Accounting and Finance. It will require approximately 5-10 minutes to fill in this questionnaire. Thank you for taking your precious time in assisting me with this research. Your participation is entirely volunteer. However, in doing so will greatly enhance the understanding of this research focus. It is insured that all the information will be kept confidential and anonymous. It is also ensuring that this information will be used solely for academic purpose.

Thank You for Your Cooperation!

Please use **SD** for (Strongly Disagree), **D** (Disagree), **N** (Neutral), **A** (Agree), and **SA** (Strongly Agree) to respond the questions below.

#### **Part One: Assessment on Practical Opportunities for the sustainability of Islamic banking**

<b>S. N</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
1	With an Increase in market share, Islamic Banks will raise their dominance and stay sustainable on banking industry.					



2	Availability of substantial customers can build customer base and it will contribute positive impact on the sustainability Islamic Banking.					
3	The encouragement of Islamic banking on small medium and micro enterprise will help to fight poverty and contribute positive impact on the sustainability of Islamic Banking.					
4	Hijra Bank Promote financial inclusion through the provision of affordable financial access to micro small and medium enterprises.					

#### **Part Two: Assessment on Practical Challenges for the sustainability of Islamic banking**

S.N		SD	D	N	A	SA
1	The treatment of Islamic Bank and Conventional Bank under similar rules and regulations will drive Islamic Bank to lose its concept and negatively affect the sustainability of Islamic bank.					
2	Islamic banking will grow faster and meet its goal if it will be treated with particular rules and regulations which compliant with the sharia principles.					
3	Lack of public awareness about Islamic banking will negatively influence the sustainability of Islamic banking.					
4	The public have clear and adequate awareness about financial products of Hijra Bank as well as the concept of Islamic banking is not to promote religion.					
5	Lack of committed entrepreneur who utilizing the product					



	and financial contracts (i.e Musharaka and Mudarabah) of Islamic banking will have negative impact on the sustainability of Islamic banking.					
6	Lack of higher level of intellectuality and skill among sharia supervisory board and employees about the sharia principle of Islamic banking will affect the sustainability of Islamic bank.					
7	The absence of developed risk management frame work in Islamic bank negatively affect the growth and sustainability of Islamic bank.					
8	Hijra Bank apply risk management framework to keep its loyalty to the investors and to make its business sustainable.					

#### Additional Comments

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## **Interview for Director of Brance Operation at Hijra bank S.C**

1. What is the impact on the sustainability of Islamic banking to increase market share?
2. What is the impact on the sustainability of Islamic banking to have substantial customers who need sharia compliance Islamic banking service?
3. What is the contribution for the sustainability of Islamic banking to finance small medium and micro enterprise?
4. Does hijra bank start financing small medium and micro enterprises?

## **Interview about practical Islamic challenges**

1. What is the impact of the lack of legal and regulatory framework on the sustainability of Hijra bank specifically and Islamic banks generally?
2. Is current rules and regulation of Ethiopian banking industry challenge for hijra bank to operate in line with sharia principles?
3. As it is the fundamental issue to comply with sharia principle, does Hijra bank follow all the procedures of the sharia without the interfere of regulatory bodies?
4. Lack of compliance with the sharia rule can be reason to lose customers and investors which occur the bank financial problem and affects economic sustainability?
5. Does the public have clear and adequate awareness about Islamic banking and its concept is not to promote religion?
6. What impact the absence of committed entrepreneur can have on the sustainability of Islamic?
7. Does Hijra bank set up risk management platform to make the business with the entrepreneurs and investors manageable?
8. As sharia screening of investment is categorized in economic sustainability dimension, Does Hijra bank's sharia committee responsible to screen and certify investment?
9. If You have additional opinion or suggestion from your experience and your profession on the topic, please?



### በኢስላሚክ ባንኪንግ ዘላቂነት ላይ ተጽዕኖ ያላቸው እድሎች

1. የገበያ ድርሻን ማሳደግ ለኢስላሚክ ባንኪንግ ዘላቂነት ያለው አዎንታዊ ተፅዕኖ ምንድን ነው?
2. ከፍተኛ የሙስሊሙ ህብረተሰብ ቁጥር መኖር እንዲሁም የደንበኞችን ፍላጎት የሽሪዐ ህጉን በመከተል ውስጥ ማሟላት ለኢስላሚክ ባንኪንግ ዘላቂነት ያለው አዎንታዊ ተፅዕኖ ምንድን ነው?
3. የሀገሪቱን ድህነት ለማቅለል ጥቃቅንና አነስተኛ ተቋማትን ፋይናንስ ማድረግ ዘርፉ ዘላቂነት እንዲኖረው አዎንታዊ ተፅዕኖ ይፈጥራልን?
4. ሂጅራ ባንክ ጥቃቅንና አነስተኛ ተቋማትን ፋይናንስ በማድረግ ኢስላሚክ ባንኪንግ ዘላቂነት እንዲኖረው ድርሻውን እየተወጣ ነውን?

### በኢስላሚክ ባንኪንግ ዘላቂነት ላይ ተጽዕኖ ያላቸው ተግዳሮቶች

1. ዘላቂነት ላለው የኢስላሚክ ባንኪንግ ቢዝነስ ከመደበኛው የባንክ መተዳደሪያ ህግ የተለየ ህግና ደንብ አስፈላጊ ነውን?
2. ለኢስላሚክ ባንኪንግ የተለየ ህግና ደንብ አለመኖሩ ለሂጅራ ባንክ እንደ አጠቃላይ ደግሞ ለኢስላሚክ ባንኪንግ ዘላቂነት ያለው አሉታዊ ተጽእኖ ምንድን ነው?
3. አሁን ኢትዮጵያ ላይ ያለው የባንኮች ህግና ደንብ ሂጅራ ባንክ ከሽሪዐ ህግ ጋር እንዲጣረስ አሉታዊ ተፅዕኖ የሚፈጥር ነውን?
4. ለኢስላሚክ ባንኪንግ ሽሪዐን ተከትሎ መስራት መስረታዊ ጉዳይ እንደመሆኑ ሂጅራ ባንክ ያለ ሶስተኛ ወገን ጣልቃ ገብነት ሁሉንም የሽሪዐ ህግ ተከትሎ እየሰራ ነውን?
5. በሂጅራ ባንክ ሽሪዐ ኮሚቴ የሚደረግ ኢንቨስትመንትን መከታተልና ከሽሪዐ ህጉ ጋር መዛመዱን መመርመር ኢስላሚክ ባንኪንግ ኢኮኖሚያዊ ዘላቂነት እንዲኖረው አዎንታዊ ተፅዕኖ ይፈጥራልን?
6. ማህበረሰቡ ስለ ሂጅራ ባንክ፣ ስለ ኢስላሚክ ባንኪንግ አግልግሎት እንዲሁም የኢስላሚክ ባንኪንግ አላማ ሀይማኖትን ማስተዋወቅ እንዳልሆነ ግልፅና በቂ ግንዛቤ አለውን?
7. በዕውቀት የዳበረና በልምድ የታገዘ ሰራተኛ እንደልብ አለመገኘት ለኢስላሚክ ባንኪንግ ዘላቂነት ያለው አሉታዊ ተፅዕኖ ምንድን ነው?
8. የሪስክ ማኔጅመንት አለመኖር የኢስላሚክ ባንኪንግ ዘላቂነት ላይ የሚፈጥረው አሉታዊ ተፅዕኖ ምንድን ነው?
9. ሂጅራ ባንክ ለሚስጣቸው አገልግሎቶች እንዲሁም ከባለሀብቶች ጋር በጋራ ለተሰማራባቸው ንግዶች ያስቀመጠው ሪስክ ማኔጅመንት መዋቅር አለን?
10. ለኢስላሚክ ባንኪንግ ዘላቂነት ቢስተካከሉ ወይም ቢቀጥሉ የሚሏቸውን ተጨማሪ አሉታዊና አዎንታዊ ተፅዕኖዎች ካሉ;