



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS and ECONOMICS
DEPARTMENT OF MANAGEMENT**

**CONTRIBUTION OF INTEREST-FREE BANKING
TO ECONOMIC DEVELOPMENT AND ITS PROSPECT
IN ETHIOPIA**

THESIS

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the DEPARTMENT OF MANAGEMENT, CBE,
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ENDORSEMENT



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COLLEGE OF BUSINESS AND ECONOMICS
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Master's Degree, Executive MBA Program**

Thesis Title: "Contribution of Interest-free Banking to Economic Development and Its Prospect in Ethiopia"

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GLOSSARY OF KEY TERMS AND ACRONYMS

I. Operational Definition of Terminologies (Glossary)

Considering the fact that the interest-free banking convention is an emerging concept in Ethiopian context, the researcher would like to introduce some important key terms and concepts used in the proposal as well as the subsequent report along with their spirits and contexts for ease of understanding of the research subject.

Full-cycle IFB Service: Banking service including deposit, financing, international trade service and other various non-cash facilities.

IFB Functional Line Bank Employees: Bank employees with exclusive dedicated engagement on the IFB service line across the Main IFB Departments to branches.

Gharar: Any act of uncertainty.

Hadeeth; A report of the sayings or actions of Muhammad or his companions together with the tradition of its chain of transmission, or the collective body of these traditions.

Haram: is a forbidden activity and is considered as a major sin. A haram activity is punishable by Allah, and avoidance of haram activities, such as gambling and drinking, is rewarding.

Hawala: Remittance that involves a transfer of funds/debt from the depositor's/ debtor's account to the receiver's/creditor's account; a commission may be charged for the service.

Ijarah Financing: Lease financing.

Istisna Financing: Building and plant construction financing.

Mudharabah: (trust financing) is a partnership between a bank and a customer in which the bank provides the capital for a project and the customer or entrepreneur uses his or her expertise to manage the investment. Profits arising from the investment are shared between the bank and the entrepreneur on the basis of an agreed-upon profit-sharing ratio. If the project results in a loss, it is borne solely by the bank.

Mudarib: Entrepreneurial manager in Mudharabah(trust financing) partnership.

Murabaha Financing: Working capital financing on a cost plus a profit margin basis.

Musharakah/Musyarakah: (partnership financing) refers to an investment partnership in which all partners share in a project's profits on the basis of a specified ratio but losses are shared in proportion to the amount of capital invested.

Profit Sharing: concept governing allocation of return from IFB.

Prohibition: business engagements forbidden in compliance with the Sharia Principle.

Qarad: Interest-free financing.

Restricted Investment Deposits: Deposits to be deployed for investment by the bank for economical financing based on the recommendation of the depositor customer.

Riba/Usury: Interest.

Salam Financing: Agricultural products financing.

Standalone: a banking convention operating independently.

Sharia Committee: a team of an independent Sharia Scholars in charge of monitoring compliance aspect of the IFB.

Sharia Principle: Islamic law.

Sunna: The way of life prescribed in Islam, based on the teachings and practices of Muhammad and on exegesis of the Qur'an, or Muhammad's way of life viewed as a model for Muslims.

Unrestricted Investment Deposits: Pool of deposits to be independently deployed by the bank for any economical financing without any intervention of the depositor.

Wadiah Deposit: Return-free safekeeping deposit.

Wakalah: Agency service.

II. Acronyms

The researcher would also like to outline the interpretations of the acronyms used in the proposal and the prospective report;

BBP: Banking Business Proclamation

BSD: Banking Supervision Directive

CB: Conventional Banking

CBE: Commercial Bank of Ethiopia

CSR: Corporate Social Responsibility

ED: Economic Development

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

IFB: Interest-Free Banking (Islamic Banking)

IFBW: Interest-Free Banking (Islamic Banking) Window

NBE: National Bank of Ethiopia

OIB: Oromia International Bank S.C.

SPSS: Statistical Package for Social Sciences

ABSTRACT

This study is aimed at evaluating the contribution of IFB to economic development of the country-Ethiopia, the level of stakeholder awareness and attitude towards the IFB services, the comparative advantages of IFB, the factors that account for the growth of IFB, and challenges and prospect in the Ethiopian context by considering two banks that are providing IFB services: Oromia International Bank S.C. and Commercial Bank of Ethiopia. The study used both primary and secondary data. The secondary data was collected from clients' files, reports, directives and working documents while the primary data was collected through structured questionnaire having Likert scale and other forms of measurement. Out of 200 target population of the study, 150 individuals' sample was taken through stratified sampling techniques. The collected data was analyzed using descriptive analysis like tables, percentages and charts (using SPSS 20 version software) and t-test. The finding of the study depicts inadequacy of stakeholder awareness and experience in one hand, and limiting impact of the prevailing IFB provision on the service IFB on the other. Most respondents believe that IFB can potentially serve as an alternative banking channel in filling the gap left unaddressed by conventional banking and economic development: idle monetary resource mobilization and allocation, inviting to use banking system, creating employment opportunity, supporting GDP growth and assisting in stabilizing crisis and arresting inflation.. On top of that, the respondents suggested various factors that account for growth of IFB and forwarded valuable recommendations that help IFB to play the expected role in economic development. IFB prohibition on business dealings that are against the public interest is regarded by the writer as a new insight towards engaging in sustainable business while caring for the society. Some scholars around the world consider the use of IFB as more convenient for economic development. The result of this research also indicates that considering revisiting the infrastructure of IFB in Ethiopia could enhance its comfortable operation and its role in assisting economic development. In conclusion, IFB is deemed to play an integral role in Ethiopia in catalyzing the economic development subject to adequate awareness creation about its governing principles, compliance with prohibitions, familiarity with operating philosophies, expertise capacity building of operators-bankers, experience sharing from Islamic banking-pioneering countries, and devising enabling regulatory environment. Accordingly, plausible courses of action were forwarded by the researcher based on the conclusive results of the findings in conjunction with literature review reflections: creating awareness, providing tailored and sustainable training for practitioners, best-practice experience sharing from Islamic banking-pioneering countries, government support, revisiting the IFB provision for possible revision where applicable to an enabling level.

Key words; IFB/Islamic banking/, CB, Sharia principle, economic development, Ethiopia

CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 General Overview

During the present-day world of globalization literatures and global agendas show and there is a realization that the Interest-free Banking (IFB) convention commonly known as Islamic Banking has the potential to serve as an alternative banking service by filling the gap left unaddressed by the Conventional Banking (CB) due to various reasons basically pertaining to religious, social, economic and cultural motives and provide hitherto unparalleled contribution to the economic development by inviting an idle fund kept away from the conventional banking system into this convention and complement the economic movement in the process. Accordingly, it is believed to fill the missing middle of the banking industry and enhance the economic development(ED).

1.2 Interest-free Banking Situation in Ethiopia

Ethiopia's Growth and Transformation Plan (GTP) is the guiding document for all rounded development effort including transformation of the banking industry in a way that addresses strategic interests of the business community, as the case may be, to achieve the commitments of the Millennium Development Goals. One of these instruments is authorization of Interest-free Banking convention in the country primarily to satisfy economic reasons and other reasons in the process. Accordingly, the government of Ethiopia through the NBE has taken constructive step, which was of course after continuous pushing and pulling forces from notational and international stakeholders in authorizing and issuing a regulatory provision for Interest-free Banking under the umbrella of the conventional banking, on October 1, 2011 through the NBE. It is regarded as a constructive action in facilitating access to both convenient and or alternative banking convention based on religious, social, economical and cultural motives of the community in recent years.

As per this provision, all commercial banks that are licensed to engage in the CB are privileged to engage in IFBW business through CB branch offices only after securing independent license for the convention, which is subject to fulfillment of terms and conditions set out thereof. The IFB business as per the provision refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest and the IFBW refers to a unit or window within a conventional bank exclusively offering interest free banking services.

Subsequent to the issuance of the working directive, the NBE granted the IFB service license to the Oromia International Bank S.C (OIB) on September 16, 2013 enabling the bank to pioneer the Islamic Banking in Ethiopia Meraf (2013). Same license is granted to the Commercial Bank of Ethiopia (CBE) on September 17, 2013. Accordingly OIB launched the IFB operation on December 16, 2013 as a pioneer at its 24 branch offices and currently evened out to its other branches and the CBE does so sooner.

Notwithstanding the above constructive efforts made by the government, the supervisory provision of IFB has not been well comprehended with its economic potential. Moreover, as the convention is very emerging to the Ethiopian context, the awareness level and attitude among key stakeholders is another pillar to determine its prospect in contributing the desired role in enhancing ED.

1.3 Background of the Study

In accordance with Article 22(2) of Banking Business Proclamation (BBP) No. 592/2008, the NBE through the BSD No. SBB/51/2011, authorized the business of IFB under the umbrella of the CB with limited scope: “Interest-free banking business” refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest;” and “interest-free banking window” refers to a unit within a conventional bank exclusively offering interest-free banking services”. The authorization for the licensing of the IFB Business under the umbrella of the CB with limited scope is thus aimed at addressing two contesting national objectives of two extremes; optimize economic values of IFB to address the interest of its stakeholder and fill the gap left by the CB in one hand and constrict its operation under the umbrella of the CB with limited scope for the time being, perhaps for strategic reasons.

The IFB is let free to operate independently without pressing supervisory restrictions in Middle-east, Asia and some European countries for its most fair economic liaison role, PricewaterhouseCoopers (2013). According to research and surveys conducted by Sankaramu (2008), it was then recommended that the Government of Ethiopia has to consider introducing Interest-free (Islamic) Banking by making use of smooth relationship between the Christians and Muslims as an opportunity and underscoring its immense and untapped contribution in filling the gap left by the conventional banking in general and various microeconomic benefits in particular.

Though it is encouraging that the NBE introduced the IFB to operate in the form of interest-free banking window (IFBW), it needs to critically diagnose and take care of the key factors that determine the depth, width and standard of the IFB to play the desired catalyzing role in ED. Primarily, as the convention is newly embarking in Ethiopia with its own unique principles and features, the awareness level of the stakeholders (commercial banks and customers) about the IFB is a baseline in bringing about the expected level of benefit from the convention. Moreover, the authorization, licensing and supervision of IFB business is critical in devising permissible operating platform. To this regard, presently it is somewhat squeezed under the sunshade of the CB and made to operate through IFBW only under the license of CB branch and limited scope at all branches. The exclusion of *standalone(independent)* full-fledged IFB branch from the licensing directive as underlined as „unit within a conventional bank only“ seems to bear potential restricting elements on the free-navigation role of the convention and subsequent impacts on the prospect of the IFB.

In general, despite the fact that the IFB is newly embarking in Ethiopia with peculiar features that have repercussions unless otherwise, the overall awareness level of the stakeholders (commercial banks and customers) as to compliance with the governing principles, operating philosophy and practice in one hand and the supervisory platform on the other are believed among the key limiting factors and it is at an infant stage with potential gap. These gaps are observed on the day-to-day activities and interactions between the banks and their IFB customers. Its prospect towards successful ultimate contribution to the ED of the country meanwhile depends on filling these gaps. It is in this background of stakeholder awareness and knowledge gap debate with regard to IFB“s peculiar features and principles and, its effect on ED in the Ethiopian context that the researcher undertook this study. In other words, the premise of this research was stakeholder knowledge gap as to the peculiar features of IFB and its contribution to ED.

1.4 Statement of the Problem

The fundamental complement of IFB as vindicated in the Middle-east, Asia, some European countries and North America is to engage an idle fund that is deposited at the personal safe boxes of the community (especially due to religious motives for Muslims) in the economic transaction and complement the economic growth, PricewaterhouseCoopers (2013).

In Ethiopian, the IFB is in operation for about a year and few months period in the form of IFBW after series of acceptance challenges as to its importance to the ED. So far, the licensing and

authorization of the convention has brought encouraging complement for the stakeholders, the banking industry, and the economy as well in mobilizing idle fund, which has been out of the banking system into the economic transaction. Moreover, it became an emerging opportunity for the business community that reserve themselves from the CB due to *religious, social, economical and cultural* drives to make use of full-cycle IFB services including deposit, financing, international trade service and other various non-cash facilities.

Though the Oromia International Bank S.C. Meraf (2013) has been a pioneer in securing license for the IFB convention followed by the Commercial Bank of Ethiopia, presently, other commercial banks are following their footstep and engaging in the IFB service.

In the Ethiopian context, the IFB convention is introduced in the form of IFBW short of full-fledge level, which has its own retarding impact on standard of the convention and its contribution in driving the ED and complementing the banking industry in the process. Moreover, as an emerging phenomena, it seems as it may face awareness and, to some extent, perception or misconception challenges as a value-adding convention to the banking industry and the economy as well, which emanates from its peculiar features and operating principles. The case in point is the premature dissolution of Zazam Bank after almost finalizing the formation stage as a result of envisioning engaging in exclusively independent full-fledged *standalone* IFB business.

In conclusion, the IFB convention is newly embarking in Ethiopia with peculiar operating philosophy, principles and practices that require due awareness and knowledge of key stakeholders (commercial banks, customers and the NBE). To this regard, the researcher believed that there is debate on the *stakeholder knowledge level of IFB distinctive operating philosophy, governing principles and practices, and level of understanding about its contribution to economic development working towards the convention's growth in the Ethiopian present context*. The possible knowledge gaps about the feature and benefits of IFB were regarded as potential limiting factors of its future prospect. The worst scenario is that, the chain effect of the gaps may adversely affect the banking system and end up with more adverse repercussions in disrupting primarily the banking industry and the economy as well.

Hence, the focal investigation areas of the research were;

- ☞ Contribution of IFB towards the economic development,
- ☞ Awareness level of stakeholders (commercial banks and customers) pertaining to IFB governing principles, prohibition and operational philosophy,
- ☞ Comparative advantages of IFB, and
- ☞ Factors that account for fast growth of IFB.

Finally, this research was deemed to contribute in bridging the knowledge gap and its outcome helps to address the critical IFB related concerns of key stakeholders: commercial banks, customers and the NBE.

1.5 Research Question

1.5.1 General Management Question

What is the contribution of IFB towards economic development in catalyzing the gap left by the CB and does the prevailing IFB stakeholder awareness and knowledge about its distinctive governing principles, operating philosophy and comparative advantage adequate enough to enable the IFB play the desirable role?

1.5.2 Research Questions

- A. What does IFB contribute towards economic development in the Ethiopian context?
- B. What is the awareness level of stakeholders about IFB distinctive governing principles, and operating philosophy in the Ethiopian context?
- C. What are the factors that account for IFB growth?

1.6 Hypothesis

The researcher used a statistical test of one-sample t-test for partial analysis of some determinants of IFB; ten(10) attribute variables of economic development. Respondents were asked to separately evaluate each attribute, according to the level of perception that they have, using a five-point Likert Scale: „strongly disagree“, „disagree“, „neutral“, „agree“, and „strongly agree“, assigned with five different scores of 1, 2, 3, 4, 5, respectively.

Strongly/positively agreed respondents must have opinion equal to or more than average. So the hypothesized test value in this study is 3 as it corresponds to „neutral“ in the five-point scale and it can split respondents into satisfied and unsatisfied and the null and alternative hypotheses can be articulated as;

The perception of respondents about the ten(10) attributes of economic development is different from 3 which corresponds to average (neutral), and can be hypothesized as follows;

Null hypothesis $H_0: \mu = 3$

Alternative hypothesis $H_a: \mu \neq 3$

1.7 Objective of the Study

1.7.1 General Objective

The objective of the study was to investigate and describe the adequacy of the awareness level of stakeholders pertaining to IFB governing principles, compliance to IFB prohibitions, operating philosophy, factors that account for IFB growth; explore the dynamic interactions between IFB and ED, in the Ethiopian context and finally identify way forward actions that are necessary to promote it to the desirable level.

1.7.2 Specific Objectives

The specific objectives of the study were to;

- ☞ analyze the possible contribution of IFB to economic development of the country,
- ☞ assess the level of stakeholder awareness and their attitude towards the IFB services,
- ☞ describe the comparative advantages of IFB, and
- ☞ examine factors that account for the growth of IFB.



Figure 1; Specific Objectives of the Study

1.8 Significance of the Study

The researcher believed that the output of the study would primarily contribute to enhancing knowledge about the IFB distinctive governing principles, operating philosophy, comparative advantages and factors that have paramount influence on it. Moreover, the research was believed to vindicate the paramount contribution of IFB for the ED by playing a supplementary role in the banking industry. Ultimately, the research and its findings were supposed to assist the policy makers as an input and trigger to revisit and think of revising the prevailing working provisions of IFB convention. Of course, the study would suggest plausible courses of action to be taken to promote IFB and optimize the expected economical benefits.

Specifically, the study will contribute to:

1. investigate the opportunity behind the role of IFB in enhancing the economic growth by catalyzing the gap left by the CBB,
2. identify the overall IFB business awareness level gap pertaining to key stakeholders like customers, commercial banks and the NBE,
3. contribute theoretical base and literature on IFB in the Ethiopian context, and
4. fulfill partial requirement for the EMBA program.

1.9 Delimitations and Scope of the Study

The study was limited to evaluating (describing) the IFB knowledge as to IFB distinctive governing principles, operating philosophy, compliance, practices and factors that account for its fast growth in one hand and exploring its contribution to ED by catalyzing the gap left by the CB as an alternate banking convention on the other in the Ethiopian present context. The study did also cover exploring factors that account for the fast growth and rollout of IFB including challenges of the banking convention that may emanate from its emerging nature to the Ethiopian environment, its very nature, lack of adequate expertise, best experience and exposure to the banking convention.

On top of the above, the scope of the research sample was restricted to the OIB and CBE IFB functional line employees (both head office and branches employees that are full engaged in IFB) as they are the only banks engaged in IFB, and limited number of IFB customers that have established comprehensive (deposit, financing and trade service) IFB services relationship. The importance of such scope design is to make use of full picture concept of the respondents. It is also well noted that the banker and customer sample frames have common and valid understanding about the research questions and the research questionnaire content. In other words, they have common background about the research statement of the problem and are supposed to get equally involved as they are primary stakeholders in a manner that eliminates effects of samples heterogeneity.

1.10 Limitations

The researcher could not cover all the commercial banks operating in Ethiopia for two sound reasons; except the OIB and the CBE, most of them did not yet practically launch IFB convention and the only one (the United Bank S.C.) that launched the convention did not well into it at full scale (only at pilot stage), which is the limitation of the study. On the other hand, the lack of adequate expertise, established experience and exposure to IFB in Ethiopia has also its own undesirable impact by creating scarcity of information, which further compounds the limitation.

The other limitation was, it might be too early to conclude about the observed and prevailing knowledge gap, which is the statement of the problem of this research.

1.11 Research Presentation and Structure

The research is composed of five chapters represented in the outline below;

Chapter1: Introduction

Chapter 2: Literature Review

Chapter 3: Research Design and Methodology

Chapter 4: Data Analysis and Interpretation

Chapter 5: Conclusion and Recommendation

CHAPTER 2: LITERATURE REVIEW

Searches were made based on keywords: Interest-free/Islamic banking; Ethiopian context; Contribution to economic development and its prospects: Overall awareness of stakeholders, Comparative advantages and Factors that account for IFB growth. Journal Articles, Abstracts, Google Scholar, Peer-Reviewed Case Studies, Research Reports, Policy and Program Guidelines, proclamations, Supervisory Directives, as well as Assessment Reports were consulted for secondary data mining and the findings were synthesized as per the themes drawn from the theoretical framework guiding the research.

2.1 General Definitions, Principles, Operating Modality and Practice

2.1.1 General Definition

In accordance with BSD No. SBB/51/2011, the NBE authorized the business of IFB under the umbrella of the CBB with limited scope: “Interest-free banking business” refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest;” and “interest-free banking window” refers to a unit within a conventional bank exclusively offering interest-free banking services”. Moreover, this service discourages or prohibits business dealings that are against the interest of the public at large in general and business acts that are forbidden by the Sharia. It has also got its own distinctive operating modalities. All the distinctive features of IFB need adequate awareness and compliance by all stakeholders in general and key stakeholders in particular. The detail will be discussed under 2.1.1 along with its principles and modalities.

2.1.2 Discussion of Variables

I. Contribution of IFB to Economic Development

In the theoretical literature, it is clear that theoretically and empirically, economists consider IFB/Islamic banking as viable, acceptable and effective and also highly influential in enhancing ED in general and variable attributes of economic development like mobilization and allocation of monetary resources, encouraging people to use the banking system, creating employment opportunity, filling the gap unaddressed by CB, complimenting the banking industry and contributing to the overall national GDP growth. Moreover, most scholars in the world agree that

IFB play integral role in attracting FDI, minimizing internal and external economic crisis, and arresting inflationary situations.

More particulars of IFB's contribution to economic development can further extend to establishment of economic justice, need fulfillment, optimum economic growth, equitable wealth distribution and economic stability (Abdulkader Thomas, 2006, p 95-98). The detail will be discussed under 2.2 and 2.3.

II. Awareness of IFB Service

The IFB convention has got distinctive governing principles that emanate from the Sharia Principle, prohibitions, peculiar operating philosophy and practices that require due awareness and knowledge of key stakeholders like commercial banks, customers and the NBE as a regulator. The fact that it is newly embarking in Ethiopia makes necessary enriching the awareness level of key stakeholders highly demanding to ensure its sustainable growth and ultimate contribution to ED.

III. Comparative Advantages of IFB

The driving motive at the forefront of the introduction of IFB in Ethiopia among other things was filling the missing gap unaddressed by the CB due to various socio-cultural values. Moreover, the IFB service is believed to serve as an alternative banking channel and assumes better value for money as all its business dealing as are based on cost-benefit consensuses and clarity.

IV. Factors that Account for IFB Growth

There are factors that are believed to account for growth of IFB. The overall IFB stakeholder awareness pertaining to IFB *operating philosophy, governing principles and practices, and understanding about its contribution to economic development* plays a pivotal role among these factors. On top of that, the extent to which the supervisory provision is enabling, level of expertise skill of bankers, and the level of government support account for its fast growth.

2.1.3 Underlying Principles (Pillars) of Interest-free (Islamic) Banking

The IFB is governed by the following pillars that basically align to the Sharia Law as articulated by different authors;

I. The IFB Business is Based on Islamic(Sharia) Law

According to Abdul-Rahman (2010), Shanmugam and Zahari, (2009, p. 6 and 7) and Hassan and Lewis (2007) the main characteristic of these financial instruments is that they are compliant with the shari'a – the Islamic legal system. The Sharia Law compliance aspect of the IFB is monitored by team of independent Sharia Scholars called Sharia Committee. These laws as referred to the convention are consolidated in (Shari'a Standards for Islamic Financial Institutions, 1432 H-2010). The principles and sources of Shari'aa are: the Qur'an, which is the unchangeable and the proven inculcation of all God's messages to all His prophets, including the Torah and the Gospel; and the way of life and example of living (Sunnah) and sayings (Hadeeth) of Prophet Muhamma(pp). Moreover, they articulate the necessity of independent Sharia Board in that is entrusted give reasonable assurance of the Sharia Compliance aspect of the IFB.

II. Paying Or Receiving Interest(Riba) Is Forbidden(Haram)

As Islamic banking is interchangeably call interest-free banking paying or receiving interest(riba) is forbidden and this is considered as one of the governing principles of the banking convention. As articulated by Lina (2004) and Shanmugam and Zahari (2009, p. 6), lending money at interest has been condemned by men like Plato, Aristotle, Plutarch, Seneca and Cicero, early fathers of the Christian church; the majority of popes and councils up to 1830; likewise modern authors such as Goethe and Wagner. The author then underscores the fight against usury(interest) goes back to the earliest beginnings of civilization. (Ethica's Handbook of Islamic Finance, 2013 ed.,) stated that the concept of riba was widely recognized among the addressees of the Holy Quran, and it is that concept which is reflected in the legal definition provided for riba either in the hadith or in the later literature of Islamic jurisprudence. According to this definition, any transaction of loan where the payment of an additional amount on the principal is made conditional to the advance of such a loan is called riba and hence forbidden in Islamic banking. As the convention basis on Sharia Principle that bases on Holy Quran, riba is considered as one of the prohibitions in IFB.

III. Utmost Fairness in All Business Dealings

Fairness in all business dealings is a peculiar feature of the convention irrespective of religion background. According to Meezanbank (2014), if we consider the injunctions of the Holy Quran, it would appear that the system for the distribution of wealth laid down by Islam envisages three objects:

- The establishment of a practicable system of economy,
- Enabling everyone to get what is rightfully due to him, and
- Eradicating the concentration of wealth.

It further synthesizes that, of these three objects of the distribution of wealth, the first distinguishes Islam economy from Socialism, the third from Capitalism, and the second from both the same time.

IV. Transparency, Consensus and Contractual Agreement between Parties in All Business Dealings

In all business dealings transparency, consensus is a precondition so as all parties make informed decision that will subsequently be substantiated by contractual agreement. Contractual agreements set out the terms and conditions upon and subject to which the person has agreed to purchase the Goods/Service from time to time from the Suppliers and upon which the Institution has agreed to sell the same to the client from time to time by way of facility Shanmugam and Zahari (2009, p. 18-22) and Ethica's Handbook of Islamic Finance (2013 ed.).

V. Profit-and-loss Sharing

The return allocation from IFB is governed by the concept of sharing profit as agreed but loss as per the capital contributed for both the fund mobilization and the financing dimensions. According to Hassan and Lewis (2007), the main difference between an Islamic or interest-free banking system and the conventional interest-based banking system is that, under the latter, the interest rate is either fixed in advance or is a simple linear function of some other benchmark rate, whereas, in the former, the profits and losses on a physical investment are shared between the creditor and the borrower according to a formula that reflects their respective levels of participation. In Islamic finance, interest-bearing contracts are replaced by a return-bearing contract, which often takes the form of partnerships.

VI. Forbidden(Haram) Business Activities

There are many prohibitions of business activities to engage in IFB convention, but the following will make aqads or contracts invalid as per Islamic Banking Handbook (First Edition April 2010):

1. Businesses that adversely affect public interest;
2. Businesses that involve usury/interest(riba);
3. Alcohol related trade,
4. Producing and selling goods that are of no use therefore of no value;
5. Gharar, i.e. ambiguity or uncertainty;
6. Maisir(gambling), i.e. anything that involves betting;
7. Pornography; and
8. Pork.

2.1.4 Major IFB Products/Services

It is important to recall and sum up from the previous literature reviews that IFB is a form of banking convention that is based on Islamic concepts. It involves profit-sharing as per agreement and loss/risk sharing as per investment between banks and customers as its main method, but prohibiting financing/investing based on fixed pre- determined return. Moreover, it is alternative banking service that operates according to the Shari‘a principles in which both the bank and the customer agree to involve only in Shari‘a compliant activities. In a bid to address one of the rationales of this research i.e., „improve literature on IFB in the Ethiopian context“ the researcher believes it will be fair enough to complement and demonstrate the nature some core products of the IFB based on both literature, the practical application.

According to Ethica’s Handbook of Islamic Finance (2013 ed.), Abdulrazak (2009), Chapra (1986), Hassan and Lewis (2007), Islamic Banking Handbook (First Edition April 2010), Shanmugam and Zahari (2009) and the prevailing local practices governed by the working policies and procedures adopted by the two banks (OIB and CB), the Islamic banking products are clustered into three broad categories: Islamic Banking Deposit Products(Sources of Funds), Islamic Banking Financing Products(Use of Funds) and Other Services (Trade Service and Other), all with specific services. The researcher will briefly go through the review of key services based on the literature reviews and practical applications. Note that the subsequent literature about the basic IFB services is based on the above captioned sources.

I. Islamic Banking Deposit Products (Sources of Funds)

A. Unrestricted Investment Deposits(Unrestricted Mudaraba)

This type of deposit is an earning deposit which mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund without restriction and intervention of the capital provider in any Sharia compliant manner. The profit on the investment will be shared as per agreement and loss will be shared by the depositor(capital provider). The bank has discretion to participate in the investment. The bank can pool the money for its daily IFB business activities.

B. Restricted Investment Deposit(Restricted Mudaraba)

Such type of IFB deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund in restricted investment based on active intervention of the capital provider complemented with professional advice from the bank side. The profit on the investment will be shared as per agreement and loss will be shared by the depositor(capital provider). Example: Investment in the aluminum industry, real estate, etc.

C. Wadiah (Safekeeping) Deposit

It is a peculiar non-earning type of IFB deposit that operates under the contract of Wadiah Yad Dhamanah (guaranteed custody). The bank accepts deposits from its customers looking for safe custody and convenience and requests permission to make use of the customers' funds for investment purposes promoting transparency. The customers may withdraw their balances at any time. Profit generated from the use of the customers' funds belongs to the bank. However, the bank may at its absolute discretion reward the customers by declaring profits to them. Under the contract of Wadiah, the custodian i.e. the Bank is not allowed to mention or to promise any reward on the deposit received. The owner/depositors too cannot demand any rewards or return from their Bank on their savings.

D. Demand Deposit (Amana Current Accounts)

Amana Current accounts are non-earning deposits that operate based on the principle of al-wadiah, whereby the depositors are guaranteed repayment or withdrawal of their funds on demand. At the same time, the depositor does not receive return for depositing funds in a current account, because the guaranteed funds will not be used for profit and loss ventures.

II. Islamic Financing Products (Use of Funds)

These products are means of providing funds to those who need funds financial institutions in compliance with the IFB principles. Islamic mode of financing could not be based on lending of money as lending of money is not a remunerative way of financing. Prohibition of interest does not allow utilization of loan/lending as mode of earning. Therefore, there must be a way of funding that does not contain element of interest. Islamic financing products are highly secured from risk management point of view as the financing shall directly be made to the supplier of the goods or services to manage possible fund diversion, unlike the CB. Though the resource utilization nature of the IFB business generally consolidates to trading and equity(Musharaka) activities, Islamic mode of financing can be broadly categorized into three: trade-based financing, rental-based financing and partnership-based financing.

Trade-based Financing

It is a means of financing in which Islamic banks provide financing through sale and purchase of tradable goods and services. Islamic banks buy a good or service (directly or through its agent) from the market and sell it to customers on deferred payment basis (installments). The agent may be an employee on Islamic bank, a third party or the customer himself as well. There are four kinds of very common trade-based financing services:

A. Murabahah(Cost Plus) Financing

Murabahah means cost plus mark-up sale and it the most popular, convenient and flexible IFB financing product. Based on this contract, the bank may finance customer who wishes to acquire an asset by purchasing the said asset from the developer/supplier and subsequently sells to the customer Shanmugam and Zahari (2009, p. 19). The customer is allowed to settle the payment of the asset by installment within a pre-agreed period. Steps in Murabahah financing;

1. The customer identifies the developer/vendor and the asset he/she is interested to purchase.
2. The customer would then approach a bank for financing.
3. The Bank will first determine the requirement of the customer in relation to the amount of financing, the period and the manner of payment, etc.
4. The Bank purchases the asset from the vendor/supplier.
5. The Bank subsequently sells the asset to the customer at the Bank's Selling Price, which comprises;
 - i. the actual cost of the asset and;
 - ii. the Bank's margin of profit.

6. The Bank allows the customer to settle the payment by installments within the period and in the manner so agreed.

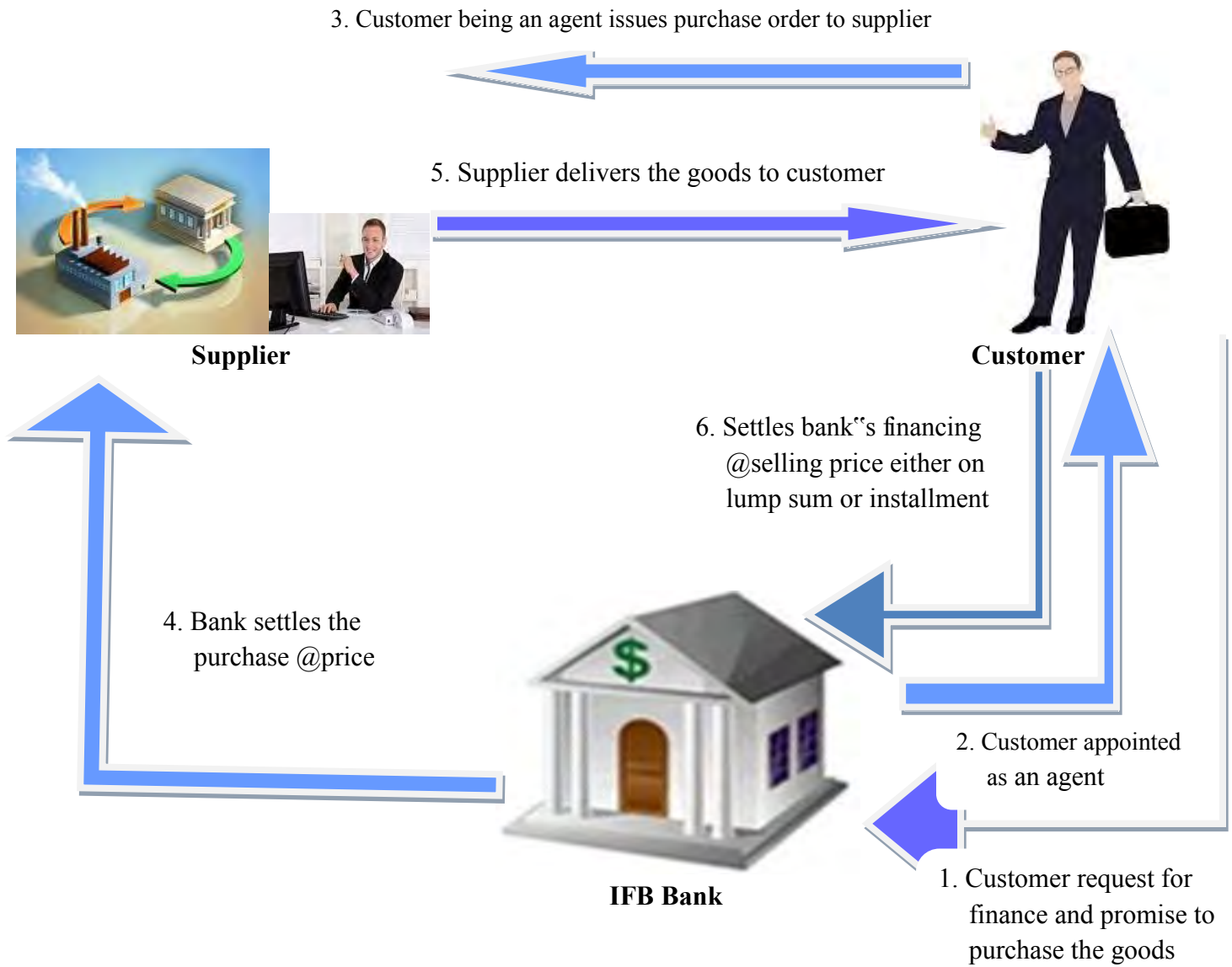


Figure 2; Typical Transaction Flow of Murabahah (Cost Plus) Financing

B. Salam Financing

A kind of financing in which a predetermined amount of financing fund is disbursed in advance for a production of specific commodity(most of the time agricultural products) to be delivered in future. Advance based on agreed price for future delivery of agricultural products.

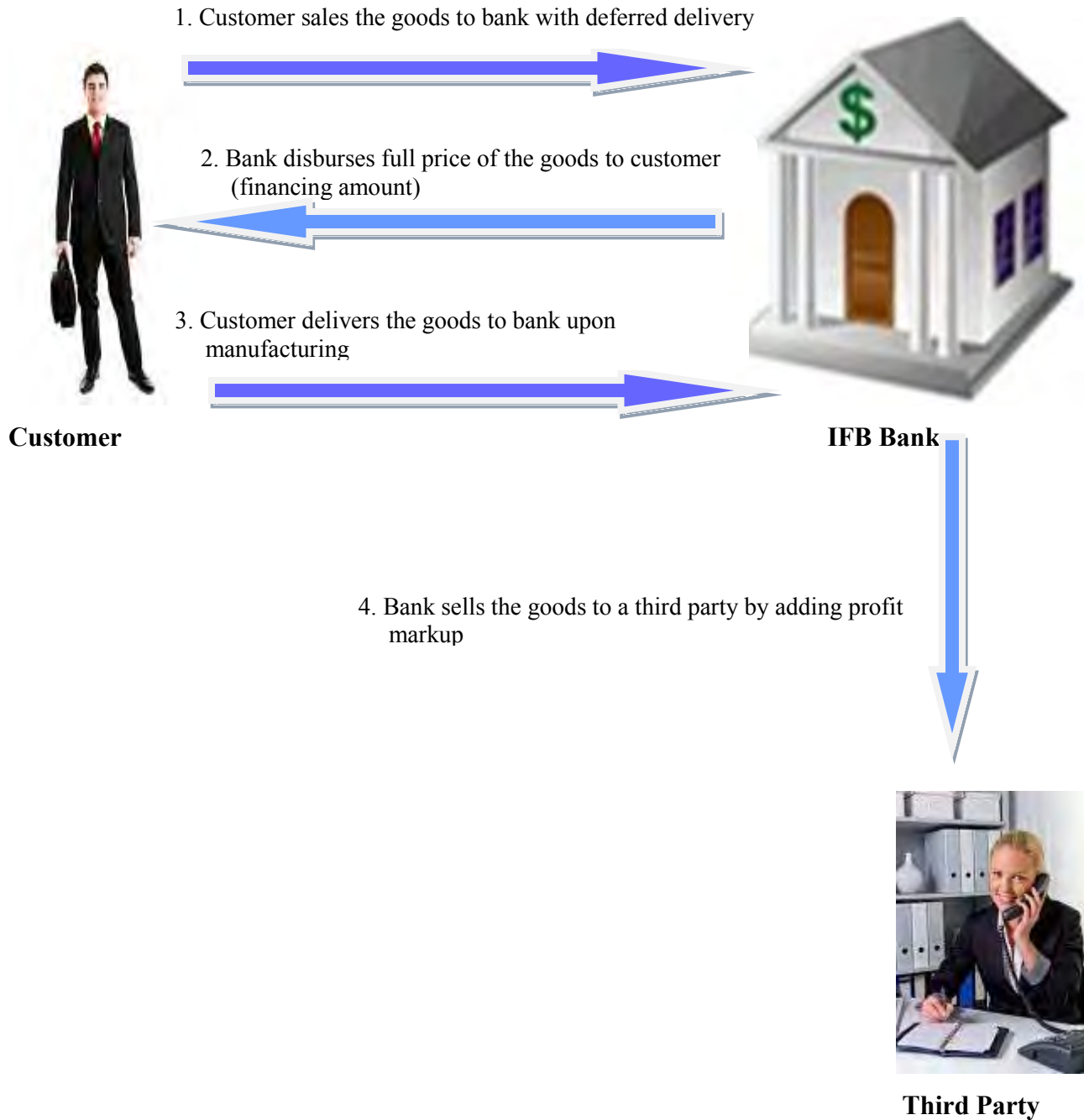


Figure 3; Typical Transaction Flow of Salam Financing

C. Istisna Financing

It is a mode of financing for manufactured/built assets. A bank manufactures/builds or get manufactured/built the assets on behalf of the customer at an agreed value, finances the cost and finally the customer settles the financing at an agreed installment and period.

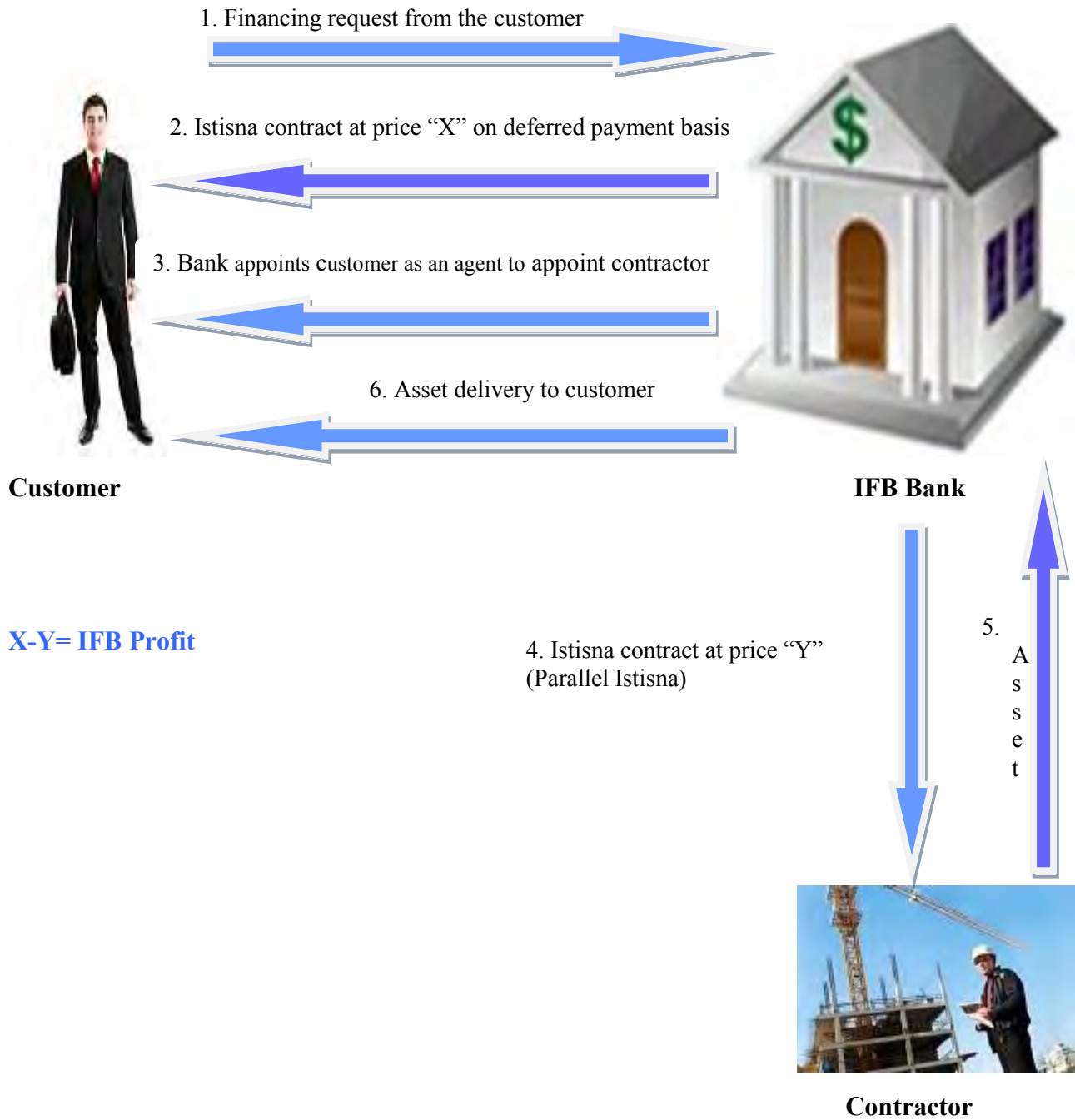


Figure 4; Typical Transaction Flow of Istisna Financing

Rental-based Financing

Ijarah means lease or rent. Generally, the contract of Ijarah financing means selling of the benefit or use or service of an asset, for a fixed price or wage. Leasing is a contract between a lessor(bank) and a lessee for the lease of an equipment or machine which is chosen by the lessee from a supplier or manufacturer Shanmugam and Zahari (2009, p. 20). Islamic banks lease or lease and sell machines or equipments to customers on deferred payment basis. Ijarah is the most common financing service under this mode. The lessor retains beneficial ownership to the equipment or machine. The lessee has physical possession and use of the equipment or machine through payment of rentals over a stipulated period of time.

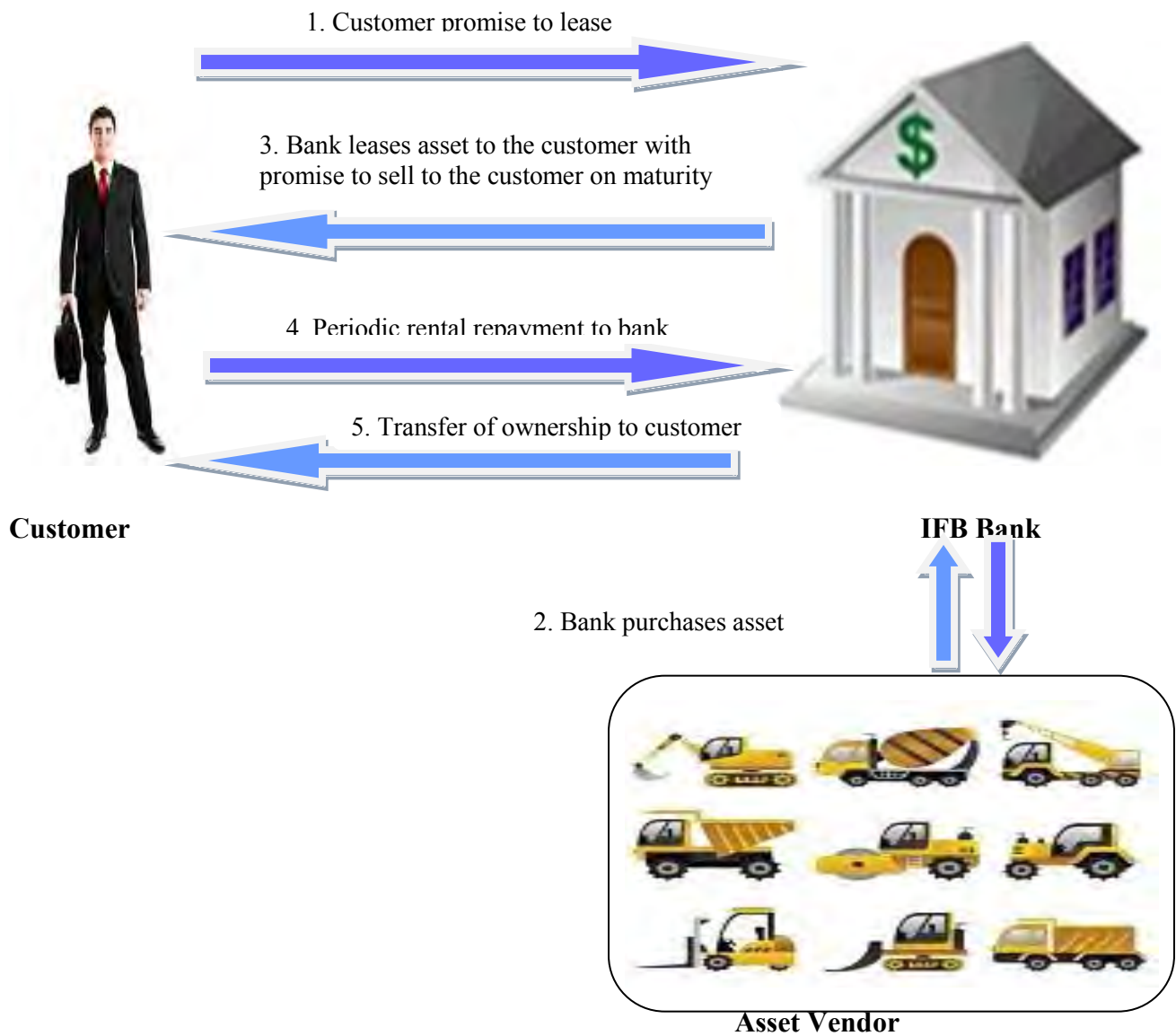


Figure 5; Typical Transaction Flow of Ijarah Financing

Partnership-based Financing

This mode of financing can take two forms: a partnership wherein bank provides fund and the other partner participate in contributing intellectual input and a partnership wherein both the bank and the other partner participate in both capital and intellectual input.

III. Other Services (Trade Services and Others)

These products are include various international trade services and over the counter services with little or no distinguishing features from the CBB;

1. Different Guarantees
2. All international documentary credit services
3. Trading in currencies
4. Debit Card, Charge Card and Credit Card
5. Wakalah (Agency)
6. Hawala (Transfer of Debt or Money)

2.2 Theoretical/Conceptual Literature Review

Though, there are numerous publications in Arabic and Urdu which have made significant contributions to the theoretical discussion, it is impossible to cover in this survey all the publications which have appeared on IFB. Hence, the researcher will cover as much literature review as possible based on their relevance to the research topic.

Economists often debate about the relationship between financial sector developments whether it is conventional banking or interest-free banking and economic growth. Schumpeter (1912) argued the importance of the banking system in the level and growth rate of national income in promoting ED through the identification and financing of productive investments. Islamic banking working hard to overcome the shortcomings and difficulties in helping the economy to move to a higher stage of development of self-sufficiency, resulting in a positive impact on socio-economic harmony due to the equal distribution of income. Ahmed and Ansari (1998) and Rousseau and Wachtel (1998) argued that the diversification and expansion in the banking system can have a positive impact on economic growth. Robinson (1952) believed that economic growth leads to financial sector development. Here is an act of diversification and expansion in the financial system as a result of real economic growth, or the next request. On the other hand, studies by Luintel and Khan (1999) prefer two-way causality between finance and growth. The IFB system and experimental studies to

date have been conducted to examine the efficiency and superiority and stability in Islamic banks as compared to conventional banks to achieve some milestones cash the ultimate goal that focuses towards the *sustainability of real economic growth, reducing inflation and reducing unemployment*. According to Abdoulie (1991) and Iqbal (1997) profit maximization is not the only concern of the institutes of the Islamic banking and principles but also the moral and ethical values. This is a principle of doing fair business. They also claim that Islamic banks do not rely only on the assurances of concrete and lead to better income distribution, but also allowing access to finance for the poorest classes of society, and lead to greater benefits for social justice and long-term growth. Moreover, the IFB is directly affected by the nature of Islamic banking operations through the success or failure of customer projects as a result of the income distribution and or risk sharing Abdoulie (1991).

The IFB relationship is based on a partnership, with cash being entrusted to bank for investment, and returns shared between depositors and banks as per pre-agreed upon ratio. Losses are shouldered by fund owners(depositors). This profit and risk sharing principle is very different to traditional/conventional banking practices. It introduces the concept of sharing to financing and creates a performance incentive within the mind of bankers that relates to the use of the funds. Islamic bankers encourage people to invest as investment depositors receive a share in the bank's profits. Investors are motivated by the human desire toward ownership, high rewards and the satisfaction of being part of a successful project Martan et al (1984). According to Iqba (1997), *the economic development of Islamic countries can be greatly enhanced by the Islamic financial system due to the mobilization of savings that are being kept away from interest based conventional banks and the development of the capital markets*. Such motivation to invest in IFB may also stem from the fact that research shows that the share in the bank's profits may at times be higher than the fixed rate of interest given by conventional banks. According to Iqbal (1997), one can expect that the Islamic financial system is best for the elimination of debt financing, and improve the efficiency of resource allocation. As the Islamic banking system has experienced stability in times of crisis, the share of investment depositors automatically be at risk because of participation in the profits and losses, and this means that individual banks and the whole banking system is less likely to break Hassan and Zaher (2001). Focus on Islamic finance in the profitability and rate of return on investment as a result of an exchange of shares and benefits has the ability to channel financial resources to more productive investments, and therefore increases the effectiveness of the funding process and real sectors Kahf et al (1998).

In the contrary, Qureshi (1984) and Nagvi (1981 and 1982), claim that Islamic bankers are increasingly exposed to risk due to equity-based financing, though Islamic scholars believe that the elimination of interest increases stability. In financial theory, it is obvious that a linear relationship exists between risk and return, meaning that low risk is associated with low return and high risk brings about high return. Chapra (1992), the risk is a key element in making investment decision, investors in the distribution of risks associated with those who are carrying out investment activities. Islamic finance offers depositors with some impact on investment decisions and gives banks and financial institutions to participate in the decision making process. This allows both for risk and decision making over a much larger number, and a variety of people, enabling greater public participation in economic activities Ziauddin (1994). A further study by Hassan and Samad (2000) that compares an Islamic bank with a group of conventional banks shows that Islamic banks are less risky than conventional banks. Sarker (2000), however, found that the risk involved in profit sharing is very high, but states that many external factors and obstacles interfered with the proper implementation of the Islamic banking system.

Globally, however, not all agree with the importance of the financial system in the process of economic growth. Lucas (1988, p. 6) asserts that economists badly over-stress the role of financial factors in economic growth. According to Robinson (1952), economic growth is the reason for financial development. It creates demands for particular types of financial arrangements and the financial system responds automatically to these demands. Bagehot (1873) argues that the financial system played a critical role in igniting industrialization in England by facilitating the mobilization of capital for 'immense works'. Schumpeter was most famous to see growth, which strongly supports the idea that a positive relationship between bank performance and economic development through the granting of loans to entrepreneurs to get the best projects that lead to technological innovation through the mobilization of savings, and the draft risk assessment and management, transmission control, and facilitate transactions. Shaw and McKinnon (1973) also support the idea that there is a relationship between financial systems and economic development.

There is a large amount of literature that discusses the relationship between financial intermediaries and economic development. Bashir and Hassan (2003) examined the relationship between financial development and economic growth in some Muslim countries (Egypt, Jordan, Morocco, Tunisia and Turkey). Bashir and Hassan (2003) noted that, financial development is expected to benefit

from interest rate liberalization in terms of high savings rate, which increases the size of the investment.

The concept of the Islamic economic system as described in all its aspects focuses on the worship of the creator, which includes man's duty to develop life on the earth, thus securing a decent standard of living for the individual. Islam stresses that man is the principal agent for developing life on the earth and hence the development of man is a required condition for the development of society. El--Ghazali (1994) and the beginning of the goals and tasks of the system of Islamic banking are the *economic well-being with full employment, and the maximum rate of economic growth, equitable distribution of income and wealth, and the result of social justice and economic, and generating enough savings and the mobilization of productive capacity and stability in the value of money*. It helps capital formation, which in turn helps raise output and employment. A well-established fact is that high-saving countries have generally grown faster than low-saving countries. Chapra (2000, pp. 1-12) "Economic growth, which is defined as an increase in Gross National Product (GNP) or increase in Gross Domestic Product (GDP), has been the main purpose of most economic studies and models from Adam Smith (the father of Classical Economics) until the present time. Even before Smith there were some opinions regarding this issue. Today growth is still an important topic of serious discussion among economists". In addition, King and Levine (1993) develop a model of internal growth with a focus on the link between finance and economic growth. King and Levine (1993) "In the endogenous growth models there are some factors which affect economic growth, including services provided by financial intermediation which have a positive effect on economic growth". Financial development occurs when financial instruments, markets and intermediaries, despite the improvement do not necessarily eliminate the effects of information, application and transaction costs.

Sarker (2000) and Hassan and Samad (2000) concludes that if banks are compatible with Islamic banking laws and regulations and operate in appropriate regulatory provisions they can provide effective services to promote economic development.

(Abdulkader Thomas, 2006, p 95-98) articulates the contribution of Islamic banking from different perspectives as follows;

“a. Establishment of Justice: the Central Goal of Islam

The *Quran* and the *Sunna* have both placed tremendous stress on justice, making it one of the central objectives of the According to the *Quran*, establishment of justice is one of the primary purposes for which God has sent His prophets.

b. Need-fulfillment

Financial intermediation on the basis of interest tends to promote living beyond means by both the private and public sectors. Financial resources become available to borrowers on the criteria of their ability to provide acceptable collateral to guarantee the repayment of principal and sufficient cash flow to service the debt. End use of financial resources does not constitute the main criterion. Hence, financial resources go to the rich, who fulfill both criteria, and also to governments, who, it is assumed, will not go bankrupt. The rich, however, do not borrow only for investment but also for conspicuous consumption and speculation, while governments borrow not only for development and public well-being, but also for chauvinistic defense build-up and white-elephant projects.

c. Optimum Economic Growth and Full Employment

The basic ingredients for sustained growth are saving, investment, hard and conscientious work, technological progress, and creative management, along with helpful social behavior and government policies. As far as saving is concerned, its positive effect on growth is now well-established. It helps capital formation, which in turn helps raise output and employment. A well-established fact is that high-saving countries have generally grown faster than low-saving countries.

d. Equitable Wealth Distribution

A number of Islamic values and institutions are directed towards making brotherhood, social equality, and equitable distribution a reality in Muslim societies. Of particular significance are zakat and the inheritance system. If both of these are effectively implemented in Pakistan, the effect on distribution of income and wealth in the country should be highly positive. The replacement of interest-based financial intermediation by the profit-and-loss sharing system should also be of great advantage.

e. Economic Stability

Economic activity has fluctuated throughout history for a number of reasons, some of which, like natural phenomena, are difficult to remove. However, economic instability seems to have become exacerbated over the last two decades or so as a result of turbulence in the financial markets due to

excessive volatility in interest rates, exchange rates, and commodity and stock prices. There is perhaps hardly any part of the world, which has not gone through a serious crisis at some time or other. Such crises tend to accentuate uncertainties, disrupt the smooth functioning of the financial system, create financial fragility, and hurt economic performance.

From the above theoretical insight, it is fairly plausible to argue for the contribution of IFB on the basis of *economic justice, public accessibility, optimum economic growth, employment, equitable wealth distribution and economic stability*.

To conclude, in the theoretical literature, it is clear that theoretically and empirically, economists consider Islamic banking as viable, acceptable and effective and also highly effective in enhancing economic development.

2.3 Empirical Literature Review

2.3.1 Empirical Literature Review-General

According an article contributed by Abdirashid Ahmed Guleid (December 21, 2013), the principle or concept for the PSB (also known as Islamic banking) has existed for more than 1400 years. Muslims have based their economic transactions on this principle ever since Prophet Mohamed (SAWS) migrated from Mecca to Medina, and the Muslims got the opportunity to practice the Sharia or Islamic law, which predominantly prohibits interest(Riba) based trade practices among others and allows the profit sharing principle instead.

In terms the fairness level of doing business, the basic difference between the CB and the IFB is that the CB which is interest-based ensures or secures the abnormal advantages of the lender, and disfavors the borrower. In other words, the lender dictates the terms in such a way that his/her profit is ensured at any cost. This system negates the element of risk in business deals and investments Abdirashid Ahmed Guleid (2013). On the other hand, the IFB as a profit sharing approach ensures the interests of both parties. The borrower comes up with a potential business proposal and the lender accepts the deal after carefully scrutinizing the merits or demerits of the proposal. The two parties agree on the business project after agreeing on the share of profit that each party shall collect, with the deal based on the profit of the project. The agreement also accepts the likelihood of risk in the business deal. In case of loss, the amount is distributed based on the profit sharing percentages that were agreed upon in the initial deal Abdirashid Ahmed Guleid (2013).

The CB has dominated the world economy for hundreds of years. By and large, it has contributed to the growth of the world economy. Needless to say the commercial banks, with the support of the modern insurance practices, have acted as the catalyst in the transformation of the agrarian economies into modern industrial and green tourism service economies Abdirashid Ahmed Guleid (2013). However, over the last century, weaknesses and gaps of the CB have been boldly reflected on the global economy. The American Great Depression of the 1930s is a case in point. Economic problems, like the Depression, incited the minds of world economists who wanted to find lasting solutions to the problems. Marxists, on their part, advocated for the socialist economic model by criticizing the CB as "western capitalism". Marxist economists convinced many governments to adopt the socialist system as the best economic model. Meanwhile, they failed to come up with workable solutions for the collapse of economies modeled strictly along the Marxist lines Abdirashid Ahmed Guleid (2013).

According to Abdirashid Ahmed Guleid, given this background, Muslim economists, who are mostly trained in the conventional system, have started to research alternative systems that have roots in the Islamic Sharia and over the last four decades or so, Muslim economists have built their economic model, which shares many principles with the other economic models came up with the Islamic Economic System sharing the "free market system with classical economics". It also shares with the Keynesians principles like a "strong government redistribution role".

Abdirashid Ahmed Guleid underscored that the main outstanding difference of the Islamic system is the role of the banks, which serve the community as agents for public fund deposits in all economic systems. The difference lies in governing principles and practices, and the business making part of the banks. Abduh and Omar (2012) demonstrated that existence of significant positive relationship between Islamic banking development and economic growth both in short-run and long-run. Tabash (2014), indicated that improvement of the Islamic financial institutions in the UAE will benefit economic development, and it is critical in the long run for the economic welfare, and also for poverty reduction. In the contrary, Johnson (2013) counter argued that the diffusion of Islamic banks has no significant explanatory power for GDP growth. However, these financial institutions do affect the determinative power of other common growth variables.

In the CB, the banks operate in compliance with worldwide practices in complement with local customs while in the case of the IFB (Islamic Banking), the operation shall be in strict compliance with the Sharia Principle and practices. In the CB, the banks collect customers' funds and make

money by lending on an interest basis. The IFB (Islamic Banking), on the other hand, collects customers' deposits and lends on a profit sharing basis. There are IFB financing modes, but the most outstanding is the Murabaha mode of financing, which is used for working capital bridging.

The bottom line is the IFB is the alternate banking convention with a thought that bases on Sharia Principles and takes care of the root causes of the prevailing challenges of the global economy in general. According to PricewaterhouseCoopers (2013), in particular, those countries like Middle East Countries (Qatar, Oman and UAE), Asia (South Korea, Japan and Hong Kong), Europe (UK, Germany and France) and North America (USA and Canada) that implemented the IFB with enabling supervisory governing provisions, adequate stakeholder awareness and knowledge level are proving that it is an alternate banking convention that can reinforce the economic activity by supporting role player business communities that might not opt or privileged for the CB due to stringent eligibility requirements of the CB, religious, social, economical and cultural motives characterizing their identity.

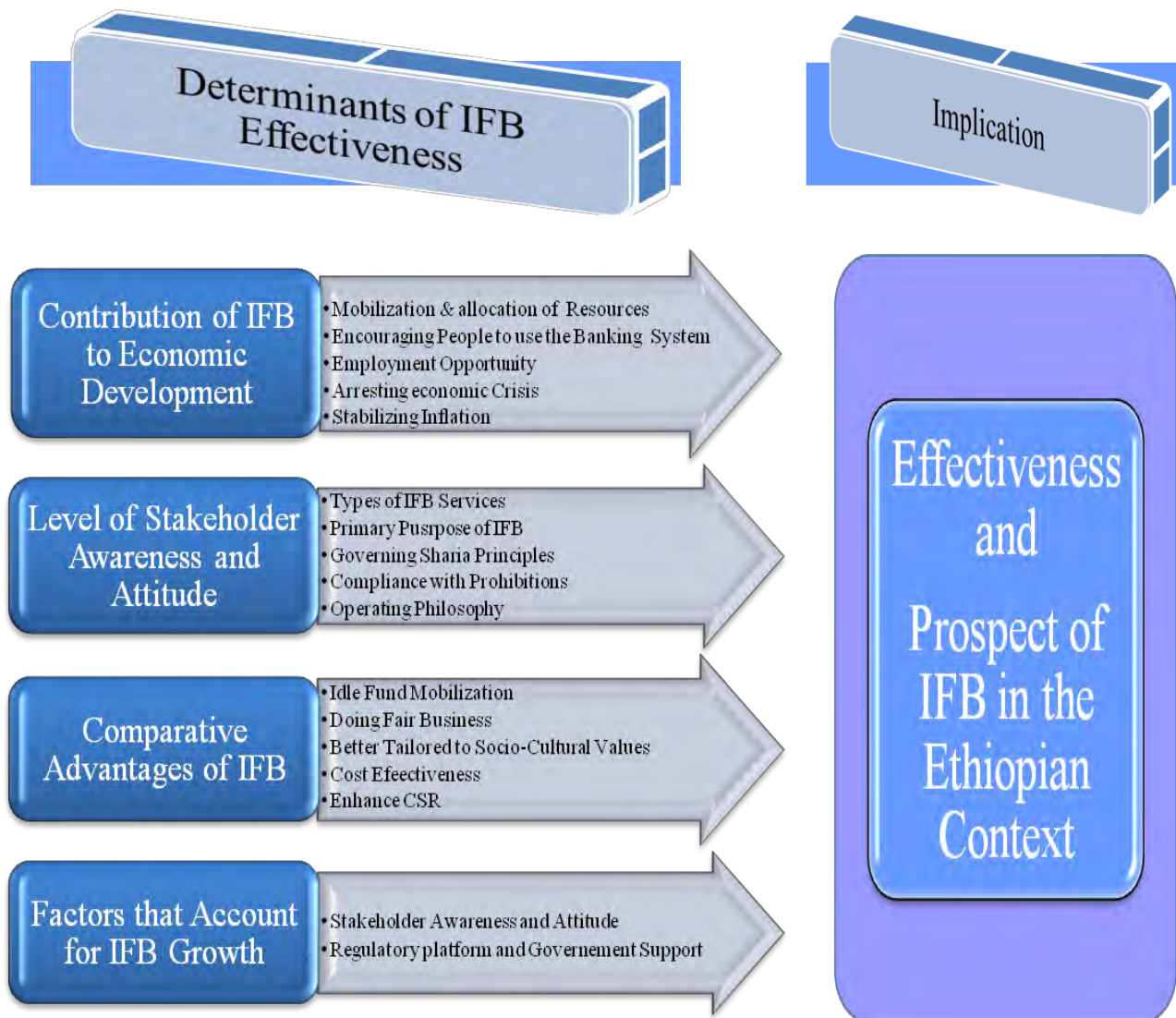
2.3.2 Empirical Literature Review-Ethiopian Context

Though it is prevalent and customary alternative banking convention in the rest of the world, it is obvious that the IFB is a very recent phenomenon to the Ethiopian context. As a result, there is no or little empirical literature conducted on the subject in view of the context and scope pursued by the researcher.

The available literature review so far about the IFB in the Ethiopian case basically put up the feasibility of introducing IFB in Ethiopia. Accordingly, among the researches conducted in the Ethiopian context so far on the subject is the research and surveys conducted by Sankaramu (2009). At that moment, the statement of the problem was not about informed or knowledge-based operation of IFB. It was rather about introducing or not of IFB as a country. Accordingly, the researcher recommended the importance of considering introducing the IFB into Ethiopia by making use of smooth relationship between the Christians and Muslims as an opportunity on the basis of its immense and untapped merits in filling the gap left by the conventional banking in general and various microeconomic benefits in particular.

2.4 Conceptual Framework of the Study

The study adopted the dimensions of IFB from related literature. The dependent variable in this study is the Overall Effectiveness and Prospect of IFB Services in the Ethiopian context. The independent variable dimensions are Level of Stakeholder Awareness and Attitude about (Compliance with the Governing Sharia Principles, Prohibition, Operating Philosophy and Practice), Preferences of Customers, Contributions of IFB to Economic Development, and Factors that Account for IFB growth.



Source: Adopted from Statement of the Problem, Objective of the Study and Research Design and Methodology, 2015

Figure 6: Conceptual Framework of the Study

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Research Strategy and Design

The study was a descriptive study which was conducted using survey approach in which a across-sectional sample data was applied to investigate/describe about the what, who and how of the subject: awareness level of stakeholders pertaining to IFB governing principles, operating philosophy, compliance, practices and factors that account for its fast growth, as the census requires more time and cost to address all the units of the study. Furthermore, the nature of the study also allows this method, since part of the respondent provides accurate and adequate data. On the other hand, the descriptive research design was supplemented by a piece of exploratory design to make inference about the effect of IFB on some attribute variables of economic development as it is scientifically recommended to make use of exploratory approach when few or no previous study exists and it is useful to look for ideas that can be tested and will form basis for further research. According to Chandra (2004), an exploratory design enables the researcher to collect in depth information about the population being studied. Thus, the research design is a blend of descriptive and exploratory in nature.

3.2 Type and Source of Data

As the focus of the study is on attitudes, perceptions, awareness and thoughts, the importance of primary data cannot be over-emphasized and therefore, this study has made use of primary data of both quantitative and qualitative nature that was obtained from employees of IFB-practicing commercial banks and IFB corporate customers. First hand data, in simple terms forms the bedrock of explanations, generalizations, conclusion and recommendations for this research. Both qualitative and quantitative data were used to meet the objective of this study. Moreover, secondary data was also collected and used to augment the study. The secondary data was collected from clients' files, bank reports, supervisory directives and other working documents.

The questionnaires was based on determinants that basically affect the IFB (level awareness and attitude about governing principles, operating philosophy, compliance and preferences of customers), effect of IFB on attributes of economic development, and other factors that account for IFB growth. The researcher mainly employed evaluative/descriptive measurements techniques and the Likert scale from 1 for „Strongly Disagree“ up to 5 for „Strongly Agree“.

3.3 Target Population

The banking sector and its customers were the focal area of the research. The target population further converges to a sampling frame composed of the OIB as it is engaging in the IFB business as a pioneer bank in Ethiopia in due compliance with its very principles and essences and the CBE. The target population of each sampling frame of the study is thus clustered into the following Small Units based on sample homogeneity. It is to be noted that the information about the population is gathered from the secondary data source of the two target banks and the two banks are acknowledged for the information and their direct and indirect participation in the primary data contribution and collection:

1. IFB functional line employees and executive management focus groups of OIB(70),
2. IFB functional line employees and executive management focus groups of CBE(60),
3. IFB customers that have established comprehensive IFB service relationship at both the OIB(40), and the CBE(30).

3.4 Unit of Analysis

The unit of analysis for the research was individuals composed of IFB practitioner bankers and corporate IFB customers of the OIB and the CBE.

3.5 Sampling Method and Sample Size

3.5.1 Sampling Method

It is obvious from the definition of the population above that a census is not feasible in this study. Accordingly, the researcher adopted the survey type of research in which a sample from the target population was used to collect data for the study.

The study adopted a multistage stratified sampling method to select representative sample. First, the target population was segregated into **Sample Frames** of the IFB functional line employees(employees that have exclusive or independent engagement on IFB only) of OIB, the IFB functional line employees of CBE and IFB customers that have established comprehensive IFB service relationship at both the OIB and the CBE.

3.5.2 “Rule of Thumb” for Determining Sample Size

Curry J. (Fall, 1984), Professor of Educational Research, provided his research students with the "rule of thumb" on sample size;

Table 3.5.2: Dr. John Curry’s “Rule of Thumb” on Sample Size Determination

“Rule of Thumb”	Range of Population Size(N)	Sample Size as a Percentage of Population(S)
1	The larger the population size, the smaller the percentage of the population required to get a representative sample.	
2	0-100	100%
3	101-1,000	10%
4	1,001-5,000	5%
5	5,001-10,000	3%
6	10,000+	1%

1. The larger the population size, the smaller the percentage of the population required to get a representative sample.
2. For smaller samples ($N < 100$), there is little point in sampling and survey the entire population.
3. If the population size is between 100 and 1,000, 10% should be sampled.
4. If the population size is between 1,000 and 5,000, 5% should be sampled.
5. If the population size is between 5,000 and 10,000, 3% should be sampled.
6. Beyond a certain point ($N > 10,000$), a sample size of 1% may be adequate.

On the other hand, the “general rule of thumb” adopted from the NEA Research Bulletin, (Vol. 38, December 1960, pp. 99), on small sample size selection techniques was used in complement with the above “rule of thumb”.

Accordingly, the target population size of the research, which was 200, is greater than the „rule of thumb number 2“ that presupposes 100% sample and less than the „rule of thumb number 3“ that presupposes 10% sample turnout. Therefore, the researcher went for a 75% sample size, which was by far more than the average between the two rules of thumb and get closer to population representation precision. Meanwhile, if we navigate through table for sample size for a given population in NEA Research Bulletin, Vol. 38 (December 1960), pp. 99), corresponding sample size for the target population of 200 is 132.

3.5.3 Sample Frame

Next, each component of the **Sample Frame** was further splitted into respective **Small Units** within each organization. Accordingly, the OIB and CBE staffs as sample frames were grouped into small sample units of IFB main functional department employees, focus group respondents that have executive engagement on the service and branch employees while the IFB customers' sample was taken from OIB and CBE without further stratification. This was believed to ensure a fair representation of each group and sub-groups of the target population since their operations were significantly different.

3.5.4 Sample Size

By deploying the method explained above, a total sample of 150 respondents was selected from an estimated target population of 200. Relevant OIB and CBE employees and relevant IFB customers were considered as target population for the survey as the rest commercial banks in Ethiopia did not yet practically launch IFB convention and some at pilot stage.

The estimated total number of IFB functional line employees and executive management focus groups in OIB and CBE were 75 and 65, respectively, aggregating to 140. Though the prevailing estimated gross total number of IFB customers at the time was about 65,000 as at December 31, 2015 (about 35,000 belong to the OIB, and about 30,000 to the CBE), irrespective of the scope of service and the intensity of relationship, the number of IFB customers that have established comprehensive (deposit, financing and trade service) IFB services relationship were not more than about 60 (about 40 belong to the OIB, and about 20 to the CBE). Hence, this relevant group of IFB customers was considered as target population of the customer sub-population. The importance of such alignment between scope of service relationship of the customers and the sampling design was supposed to make use of full picture based concept of the respondents.

Accordingly, the estimated total target population for the above sample frame was considered to about 200. Thus, the researcher would like to consider a 75% sample of the target population as a sample size, which was 150. Details of the sample per **sample frame/sample unit** from the organizations making up the target population are as follows:

1. Sixty (56) IFB functional line employees and executive management focus groups of the OIB,
2. Forty-five (49) IFB functional line employees and executive management focus groups of the CBE,

- 3. Thirty (30) Relevant IFB customers of the OIB, and
- 4. Five (15) Relevant IFB customers of the CBE.

The target population stratification phases underwent to determine sample for the two sample frames of bank employees and IFB customers is demonstrated in the diagram below;

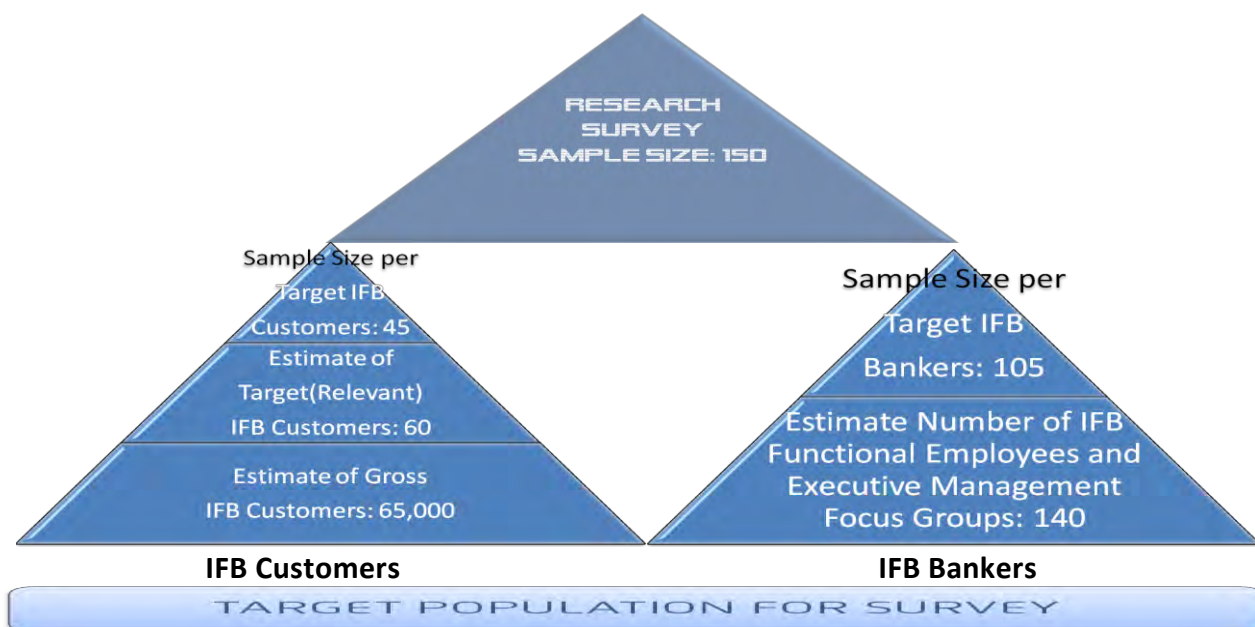


Figure 7; Demonstration of Population Stratification Phases of Sample Determination

Accordingly, the sample size and particulars of its components was condensed in Table 3.5.4 below;

Table 3.5.4: Sample Size and Its Distribution

Particular	Target Population in Sample Frame/Small Unit					
	1. Oromia International Bank S.C.		2. Commercial Bank of Ethiopia		3. IFB Corporate Customers	
	Main Functional Dep't Employees	Branch Employees	Main Functional Dep't Employees	Branch Employees	OIB	CBE
Sample per Sample Unit	40	20	30	15	30	15
Sample per Bank	60		45		30	15
Sample per Sample Frame	105				45	
Sample Size per Target Population	150					

3.6 Data Collection Instruments

The researcher collected the primary data by administering questionnaire as an instrument of data collection. The use of self-administered questionnaire was believed relatively sound as it assists effective way of gathering information from a large sample population in a short period of time and at a reduced cost compared to other methods. Moreover, questionnaire as a data collection instrument facilitates easier coding and analysis of the collected data.

The data employed for this study were both primary and secondary data. The primary data was gathered through structured questionnaire. Questionnaires which contain closed-ended questions having Likert scale and other forms of measurement were prepared and distributed to respondents requiring them to mark the appropriate box that matches the correct answer. Other open-ended (opinionated) questions, however, required respondents to give their opinions.

Whereas, secondary data was gathered from documents that exist in the banks, which include NBE directives, working policies and procedures, customers' files, banks' periodical reports, and journals for the period of the last two years.

Primary data was collected by the researcher and two enumerators who were selected from undergraduate students.

3.7 Data Analysis Techniques

The researcher has made quantitative and qualitative analysis on the responses given on the questions of the research. The data collection instrument used was both close-ended and open-ended in nature and the data generated was analyzed and presented by using descriptive statistical analysis techniques such as tables, graphs, and different types of charts. Frequencies and percentages of the data were calculated in order to facilitate the analysis and to make it easily understandable for the readers. Variables like *stakeholder awareness level*, *comparative advantage of IFB* and *factors that account for growth of IFB* are analyzed at sub-sample level: banker and customer, in addition to sample level analysis in a bid to fairly accommodate possible instances of inherent heterogeneity of perception among sample sub-groups(if any). On the other hand, attribute variables of economic development were analyzed by using one sample t-test considering test value =3. To facilitate the analysis of data, SPSS 20 version software was used.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

Under this chapter, data that were gathered from primary sources using questionnaire and secondary sources; the Banks' annual and interim reports, and journals articles are analyzed, presented, and interpreted.

Table 4.1: Questionnaire Response Rate

Questionnaire	Responses	
	No.	Percentage (%)
Distributed	150	100%
Collected	150	100%
Uncollected	0	0%

Source: Own Computation from Primary Data Source, 2015

From the above table 4.1, all the questionnaires distributed were fully returned and used as an input for the analysis and discussion. This shows that the returned questionnaire of respondents is maximum, which is very good to make conclusion from the collected data as per the research design.

4.2 Demographic Characteristics of Respondents

Demographic factors are very important indicators of performance in any organization and are basis for research questionnaire turnout. Even though demographic characteristics are not having great influence on this study, the researcher considers some of them which are believed to have correlation to the study. Hence, the demographic characteristics of Banking Experience/banking relationship and Job Position are emphasized.

Table 4.2: Demographic Characteristics of Respondents

Demographic Characteristic	Outcome	
	Frequency	Percentage
Years of Banking Experience/Relationship*		
Up to 5 years	38	25.3%
5-10 years	45	30.0%
10-15years	47	31.3%
Above 15years	20	13.3%
Total	150	100.0%
Current Job Position		
President/CEO	23	15.3%
Vice President	7	4.7%
Department Director	15	10.0%
Division Manager	53	35.3%
Staff Member	52	34.7%
Total	150	100.0%

*'Banking experience' is relevant for Bankers and "Banking relationship' is relevant for Customers

Source: Own Computation from Primary Data Source, April 2015

Table 4.2 above is designed to display the respondent's demographic outcome. When we look at the first demographic distribution of years of banking experience/relationship of respondents, 25.3%, 30%, 31.3% and 13.3% of them have banking experience/relationship of up to 5, 5-10, 10-15, and above 15 years, respectively. From this it is safe to generalize that the respondents have rich banking exposure that can be a basis to make a statement to secure genuine and mature information related to the banking services in general and the subject of the study-IFB in particular.

From the same table 4.2 above, when we see the „Current Job Position“ of respondents, 15.3%, 4.7%, 10%, 35.3% and 34.7% were Presidents, V/presidents, Department Directors, Division Managers, and Staff members, respectively. This can show us the respondents were broadly composed of leaders, middle management decision makers and the staff that can generate diversified expertise information about IFB with a span of range from policy makers to the operational staff by triangulating the data.

4.3 Reliability Test Statistics

Reliability is the extent to which a measurement gives results that are consistent and fundamentally concerned with issues of consistency of measures (Bryman and Bell, 2003). Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of sample items are as a group. It is considered to be a measure of scale reliability. A "high" value for alpha does not imply that the measure is one-dimensional. Technically speaking, Cronbach's alpha is a coefficient of reliability (or consistency). According to Hair, et al., (2006), if α is greater than 0.7, it means that it has high reliability and if α is smaller than 0.3, then it implies that there is low reliability.

Table 4.3a: Reliability of Statistics (Test)

Reliability Statistics	
Chronbach's Alpha	No. of Items
.785	67

Table 4.3b: Reliability of Statistics (Test): Stakeholder Awareness and Attitude

Reliability Statistics	
Chronbach's Alpha	No. of Items
.787	67

Table 4.3c: Reliability of Statistics (Test): Comparative Advantages of IFB

Reliability Statistics	
Chronbach's Alpha	No. of Items
.791	67

Table 4.3d: Reliability of Statistics (Test): Factors that Account for IFB Growth

Reliability Statistics	
Chronbach's Alpha	No. of Items
.779	67

Table 4.3e: Reliability of Statistics (Test): Contribution of IFB to Economic Development

Reliability Statistics	
Chronbach's Alpha	No. of Items
.783	67

Source: Own Computation from Primary Data Source, April 2015

To meet consistency reliability of the instrument, the questionnaire was tested by Chronbach's Alpha as indicated in tables above, it was found to greater than 0.7 in general and for the four specific determinants, which indicates it is highly consistent since it is above 0.7.

4.4 IFB Service Awareness Measurement

4.4.1 Level of Respondents' Awareness and Attitude

As IFB is newly embarking banking convention in our country-Ethiopia, the level of awareness of stakeholders about its very purpose, contribution to economic development and compliance with pertinent governing Sharia Principles, operating philosophy and best practice is believed to highly determine the effectiveness and prospect of its services. Accordingly, questions that are associated to these variables were forwarded to the respondents to know their perception/opinion based on their level of understanding and to the best of their knowledge. The result is analyzed and presented in the table 4.4.1a, below both at sample and sub-sample level per banker and customer segment.

Table 4.4.1a: Types of IFB Services/Primary Purposes of Introducing IFB

Types of Services Provided by IFB and Its Purpose	Outcome					
	Sample		Bankers		Customers	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Types of IFB Services Provided/Used**						
Deposit	40	26.7%	39	37.1%	1	2.2%
Financing	28	18.7%	17	16.1%	11	24.4%
Trade Service	6	4.0%	0	0%	6	13.3%
Others	4	2.7%	0	0%	4	8.9%
All the first three (<i>Deposit, Financing and Trade Service</i>)	72	48.0%	49	46.7%	23	51.2%
Total	150	100.0%	105	100.0%	45	100.0%
Primary Purpose of IFB Service						
To introduce a missing banking convention aspired for long and benefit as a bank and help the economy	81	54.0%	52	49.5%	29	64.4%
As an Alternative Banking Convention Channel	36	24.0%	24	12.9%	12	26.7%
Both	33	22.0%	29	27.6%	4	8.9%
Total	150	100.0%	105	100.0%	45	100.0%

**'IFB Service Provided' is relevant for Bankers and 'IFB Service Used' is relevant for Customers

Source: Own Computation from Primary Data Source, April 2015

I. Types of Services

A. Bankers Sub Sample

When we see table 4.4.1a above the distribution of the types of services provided under IFBW, 46.7%, 37.1% and 16.1% of the banker respondents have agreed that they are familiar(providing) the three types of the services of (deposit, financing and trade services), deposit and financing, respectively, at the two banks: OIB and CBE.

B. Customers Sub Sample

When we see table 4.4.1a above the distribution of the types of services used by IFB customers, 51.2%%, 24.4% and 13.3% of the customer respondents have agreed that they are familiar(providing) the three types of the services of (deposit, financing and trade services), deposit and financing, respectively, at the two banks: OIB and CBE.

C. Research Sample

When we see table 4.4.1a above the distribution of the types of services provided/used under IFBW, 48%, 26.7% and 18.7% of the respondents at sample level have agreed that they are familiar(using/providing) the three types of the services of (deposit, financing and trade services), deposit and financing, respectively, at the two banks: OIB and CBE.

Though the majority of the sample respondents were familiar with the three basic services of deposit, financing and trade service, one can assert from the response that there is lack of comprehensive use/provision of the service packages. When we see the response in segregation at banker and customer sub-sample level, still the majority of the respondents in both sub-categories were familiar(use/provide) with the three basic services of deposit, financing and trade service. However, it is interesting that the second highest runner up percentage response went to deposit(37.1%) and financing(24.4%) for bankers and customers, respectively, indicating their respective priority attention towards relevant resource base service from organizational interest point of view. Hence, from the sample breakdown analysis, we can conclude existence of organizational interest related comparative focus towards deposit(37.1%) and financing(24.4%) for bankers and customers, respectively.

II. Primary Purpose of Introducing IFB

A. Bankers Sub Sample

When we look at the other awareness variable of this study, which is the purpose of introducing IFB services, in table 4.4.1a above from bankers sub-sample opinion point of view, 49.5% of the respondents agreed that its primary purpose is „to introduce the missing banking convention aspired for long and benefit as a bank and help the economy“, 22.8% of them agreed that its purpose is „as alterative banking convention channel“ service while the remaining 27.6% of them agreed it meets both *gap filling* and *alternative* purposes. From the response, we can generalize that most respondents were on the right direction of thought about the primary purpose of introducing IFB except the difference in their depth of perception. However, the banker respondents better emphasized both purposes next to the *gap filling* purpose, which is believed the most comprehensive purpose of introducing IFB.

B. Customers Sub Sample

When we look at the purpose of introducing IFB services, in table 4.4.1a above from customers sub-sample opinion point of view, 64.4% of the respondents agreed that its primary purpose is „to introduce the missing banking convention aspired for long and benefit as a bank and help the economy“, 26.7% of them agreed that its purpose is „as alterative banking convention channel“ service while the remaining 8.9% of them agreed that it meets both *gap filling* and *alternative* purposes. From the response, we can generalize that most respondents were again on the right direction of thought about the primary purpose of introducing IFB except the difference in their depth of perception. However, most customer respondents skewed to the very purpose of introducing a missing banking convention aspired for long and benefit as a bank and help the economy with 64.4% turnout. From the turnout, one can conclude that the IFB customers are badly in need of the service they missed than bankers do.

C. Research Sample

When we look at the purpose of introducing IFB services from sample opinion point of view, in table 4.4.1a above, 54% of the respondents agreed that its primary purpose is „to introduce the missing banking convention aspired for long and benefit as a bank and help the economy“, 24% of them agreed that its purpose is „as alterative banking convention channel“ service while the remaining 22% of them agreed it meets both *the gap filling* and *alternative* purposes.

From the responses, we can generalize that most respondents were on the right direction of thought about the primary purpose of introducing IFB except the difference in their depth of perception. Moreover, the banker respondents better emphasize both purposes next to the *gap filling* purpose, which is believed the most comprehensive purpose of introducing IFB while most customer respondents skewed to the very purpose of introducing a missing banking convention aspired for long and benefit as a bank and help the economy with 64.4% turnout, implying that the IFB customers are badly in need of the service they missed than bankers do.

Table 4.4.1b: Level of Respondent's Awareness and Attitude on IFB

Level of Respondent's Awareness and Compliance on IFB	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Level of Compliance with the Sharia Principles						
Definitely	73	48.7%	62	59.0%	11	24.4%
To Some extent	71	47.3%	38	36.2%	33	73.3%
No	6	4.0%	5	4.8%	1	2.2%
Total	150	100.0%	105	100.0%	45	100.0%
Level of Familiarity with IFB Prohibition						
Yes adequately	82	54.7%	48	45.7%	34	75.6%
yes moderately	52	34.7%	41	39.0%	11	24.4%
yes to some extent	15	10.0%	15	14.3%	0	0%
Not at all	1	0.6%	1	1.0%	0	0%
Total	150	100.0%	105	100.0%	45	100.0%
Level of Awareness about IFB Operating Philosophy						
Adequate	38	25.3%	33	31.4%	5	11.1%
Average	65	43.3%	35	33.3%	30	66.7%
Inadequate	47	31.3%	37	35.2%	10	22.2%
Total	150	100.0%	105	100.0%	45	100.0%
Overall Awareness Level of IFB in the Ethiopian Context						
Adequate	36	24.0%	33	31.4%	3	6.7%
Average	66	44.0%	33	31.4%	33	73.3%
Inadequate	48	32.0%	39	37.1%	9	20.0%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

I. Level of Compliance with the Sharia Principles

A. Bankers Sub Sample

As it can be observed from the above table 4.4.1b; banker respondents were asked for their feeling towards their or their bank's compliance with the relevant governing Sharia Principle. Accordingly, 59%, 36.2%, and 4.8% responded they or their banks' level of compliance to the Sharia Principles by marking „definitely“, „to some extent“ and „no“, respectively. From this turnout, it is safe to generalize that even though majority of the respondents believe that they or their bank „definitely“ operate in compliance with the governing Sharia Principles, which means knowledge-based IFB practice, there were also bankers that were not operating well in compliance with the governing Sharia Principles. This may indicate low awareness level about its impact on the IFB services and its practices.

B. Customers Sub Sample

As it can be observed from the above table 4.4.1b; customer respondents were asked for their feeling towards their organization's compliance with the relevant governing Sharia Principle. Accordingly, 24.4%, 73.3%, and 2.2% responded they or their organizations' level of compliance with the Sharia Principle by marking „definitely“, „to some extent“ and „no“, respectively. From this turnout, it is safe to generalize that even though majority of the customer respondents believe that they or their organization „to some extent“ use IFB services in compliance with the governing Sharia Principles, which means somewhat knowledge-based IFB practice, while in the contrary showing most customers were not using the services in strict compliance with the governing Sharia Principles and very few compromise it totally.

C. Research Sample

As it can be observed from the above table 4.4.1b; the sample respondents were asked for their feeling towards their bank's/organization's compliance with the relevant governing Sharia Principle. Accordingly, 48.7%, 47.3%, and 4% responded they or their banks'/organizations' level of compliance with the governing Sharia Principles by marking „definitely“, „to some extent“ and „no“, respectively. From this turnout, it is safe to generalize that even though majority of the sample respondents believed that they or their banks/organizations „definitely“ or „to some extent“ operate in compliance with the governing Sharia Principles, which means somewhat knowledge-based IFB practice, there is still inadequacy to this regard. The other interesting implication of the sub-sample analysis is that, the strict Sharia principle compliance turnout of bankers was better than that of

customers indicating the extent to which bankers are more serious about the prospect of IFB service.

II. Level of Familiarity with IFB Prohibitions

A. Bankers Sub Sample

When we look at the familiarity of banker respondents with the variable of IFB prohibitions from the above table 4.4.1b, 45.7%, 39%, 14.3%, and 1% of them responded that they were familiar with the IFB prohibitions „adequately“, „moderately“, „to some extent“, and „not at all“, respectively. From this one can conclude that there were significant respondents who were not successfully familiar with the IFB prohibitions.

B. Customers Sub Sample

When we look at the familiarity of customer respondents with the variable of IFB prohibitions from the above table 4.4.1b, 75.6%, 24.4%, 0%, and 0% of them responded that they were familiar with the IFB prohibitions „adequately“, „moderately“, „to some extent“, and „not at all“, respectively. From this one can conclude that almost the majority of the respondents were successfully familiar with the IFB prohibitions, quarter of the respondents with moderate awareness and better awareness turnout in general.

C. Research Sample

When we look at the familiarity of sample respondents with the variable of IFB prohibitions from the above table 4.4.1b, 54.7%, 34.7%, 10%, and 0.7% of them responded that they were familiar with IFB prohibitions „adequately“, „moderately“, „to some extent“, and „not at all“, respectively. From this one can conclude that significant portion of respondents were not successfully familiar with the IFB prohibitions (54.3%), which adversely affect its effective implementation and promotion, as the very nature of the product necessitates strict knowledge and compliance. In other words, there should be 100% compliance both as IFB banker and IFB customer. On the other hand, the sub-sample turnout shows that customers have relatively better familiarity with the IFB prohibitions than bankers.

III. Level of Awareness about IFB Operating Philosophy

A. Bankers Sub Sample

Regarding the level of awareness of banker respondents towards IFB operating philosophy, as viewed from the above table 4.4.1b, 31.4%, 33.3%, and 35.2% agreed that they have „adequate“, „moderate“, and „inadequate“ awareness, respectively. One can conclude from that the respondents“

level of awareness towards the operating philosophy of IFB is low, which could be a key feature pertaining to operators and can be a bottleneck for the smooth operation of IFB.

B. Customers Sub Sample

As viewed from the above table 4.4.1b, the level of awareness for customer respondents towards IFB operating philosophy, 11.1%, 66.7%, and 22.2% agreed that they have „adequate“, „moderate“, and „inadequate“ awareness, respectively. Here we can conclude that the respondents“ level of awareness towards the operating philosophy of IFB is very low. In fact, as service users they are not as such expected to have perfect knowledge about its operating philosophy and rather they are supposed to acquire from their bankers through gradual and sustainable advice.

C. Research Sample

As viewed from the above table 4.4.1b, the level of awareness for sample respondents towards IFB operating philosophy, 25.3%, 43.3%, and 31.3% agreed that they have „adequate“, „moderate“, and „inadequate“ awareness, respectively. From the sample observation, we can conclude that the level of awareness towards the operating philosophy of IFB is very low, with high possibility of repercussion for bankers while customers are not as such expected to have perfect knowledge about its operating philosophy and rather they are supposed to acquire from their bankers through gradual and sustainable advice.

IV. Overall Awareness Level of IFB in the Ethiopian Context

A. Bankers Sub Sample

When we look at the last variable from the same table 4.3.1b above, banker respondents were asked about the *overall awareness level* of IFB in Ethiopian context. Accordingly, 31.4%, 31.4%, and 37.1% believe that there was „adequate“, „average“ and „inadequate“ awareness, respectively. From this turnout, it is safe to conclude that the *overall awareness level* feeling of banker respondents towards IFB in our country-Ethiopian context is low.

B. Customers Sub Sample

When we look at the last variable from the same table 4.3.1b above, customer respondents were asked about the *overall awareness level* of IFB in Ethiopian context. Accordingly, 6.7%, 73.3%, and 20.0% believe that there was „adequate“, „average“ and „inadequate“ awareness, respectively. This sub-sample turnout worsens the *overall awareness level* IFB in our country-Ethiopian context.

C. Research Sample

When we look at the last variable from the same table 4.3.1b above, sample respondents were asked about the *overall awareness level* of IFB in Ethiopian context. Accordingly, 24%, 44%, and 32% believe that there was „adequate“, „average“ and „inadequate“ awareness, respectively. In general, from the sample response it is safe to conclude the *overall awareness level* IFB in our country- Ethiopian context is very low.

4.4.2 Triangulated Qualitative Data Analysis on Perceived Awareness Gap

On top of close-ended questions, respondents were asked open-ended opinionated questions in a bid to augment the quantitative data analysis and describe the IFB awareness level. The respective open-ended(qualitative) opinions are well triangulated with the close-ended(quantitative) data of each respondent during the data entry process and ensured as to its consistency. Moreover, *relevance, frequency* and *validity* of opinions were the basis for consideration.

Table 4.4.2: Actions Suggested to Resolve Perceived IFB Awareness Gap

Actions Suggested by Respondents to Resolve Perceived IFB Awareness Gap	Particular	Responsible Organ	Remark
1. Awareness Creation	Creating awareness through conducting stakeholder campaign, workshop, market development	Commercial banks & NBE(Government)	Suggested by more than 33% of the respondents
2. Education	Providing sustainable and structured training for bankers, the Sharia Committee, the regulator, the legislative, the executive body of the government & the society at large.	Commercial banks & NBE(Government)	Suggested by some respondents
3. Attitude	Take IFB purely as a business concern-shouldn't be linked with religion and politics in any case	Commercial banks	Suggested by few respondents

As consolidated in the above table 4.4.2, all respondents were asked to suggest possible actions to be taken to fill awareness gap in instances of awareness gap perception along with the responsible organ supposed to take initiative. Accordingly, most respondents who agreed about the inadequacy of the overall IFB awareness contributed their suggested opinion as to the actions of resolution as summarized in the table on the basis of validity.

4.5 Comparative Advantages of IFB

Table 4.5: Comparative Advantages of IFB as Perceived by Respondents

Comparative Advantages of IFB	Outcome					
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
IFB Substitutes CBB in Mobilizing Idle Fund						
Yes Definitely	45	30.0%	33	31.4%	12	26.7%
Yes to some extent	59	39.3%	28	26.7%	31	68.9%
Not at all	46	30.7%	44	41.9%	2	4.4%
Total	150	100.0%	105	100.0%	45	100.0%
IFB Enhances Doing Fair Business						
Yes Definitely	47	31.3%	31	29.5%	16	35.5%
Yes to some extent	91	60.7%	62	59.0%	29	64.5%
Not at all	12	8.0%	12	11.4%	0	0%
Total	150	100.0%	105	100.0%	45	100.0%
IFB's Business Compatibility with Socio-cultural Factors						
Yes Definitely	52	34.7%	40	39.0%	12	26.7%
Yes to some extent	92	61.3%	61	57.1%	31	68.9%
Not at all	6	4.0%	4	3.8%	2	4.4%
Total	150	100.0%	105	100.0%	45	100.0%
Fairness in Cost of Service						
Yes Definitely	41	27.3%	27	25.7%	14	31.1%
Yes to some extent	93	62.0%	65	61.9%	28	62.2%
Not at all	16	10.7%	13	12.4%	3	6.7%
Total	150	100.0%	105	100.0%	45	100.0%
IFB on Addressing CSR						
Yes Definitely	78	52.0%	44	41.9%	34	75.6%
Yes to some extent	66	44.0%	55	52.4%	11	24.4%
Not at all	6	4.0%	6	5.7%	0	0%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

The conventional banking service restricts or discourages individuals' needs to some extent due to various socio-cultural, religious and economic reasons. Therefore, individuals prefer the IFB because of these reasons as some of them reflected on the above table. Accordingly, a question is forwarded to investigate individual reason of choice and preference between the two banking services.

I. IFB Substitutes CBB in Mobilizing Idle Fund

A. Bankers Sub Sample

When we look at the above table 4.5 above, the first question forwarded to respondents was whether the IFB banking can substitute the CB in mobilizing idle fund in the economy. Accordingly, 31.4%, 26.7%, and 41.9% of the banker respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively, that IFB can substitute the CB in mobilizing the idle fund in the economy. This clearly shows that almost half of the banker respondents believed that the IFB can at least contribute little to mobilize the idle fund in the economy as substitute for the CB.

B. Customers Sub Sample

When we look at the above table 4.5 above, 26.7%, 68.9%, and 4.4% of the customer respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively, that IFB can substitute the CB in mobilizing the idle fund in the economy. This clearly shows that almost all of the customer respondents believed that the IFB can at least contribute little to mobilize the idle fund in the economy as substitute for the CB.

C. Research Sample

When we look at the above table 4.5 above, 30%, 39.3%, and 30.7% of the sample respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively, that IFB can substitute the CB in mobilizing the idle fund in the economy. From the turnout, we can conclude that almost one-third of respondents believed that the IFB can at least contribute little to mobilize the idle fund in the economy as substitute for the CB. This doesn't mean that it displaces the CB, but fills the gap left by it. The sub-sample analysis, further shows that almost all the customer respondents believed that the IFB can at least contribute little to mobilize the idle fund in the economy as substitute for the CB. This in turn indicates that most IFB customers consider the IFB as a previously missing banking convention.

II. IFB Enhances Doing Fair Business

A. Bankers Sub Sample

As indicated in the above table 4.5 above, for the question about the IFB's benefit in doing fair business as compared to the CB, 29.5%, 59%, and 11.4% of the banker respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively. From this fact one can

conclude that IFB better enhances doing fair business as compared to the CB one, as it is full of transparency and informed decision making in all aspects of business dealings.

B. Customers Sub Sample

As indicated in the above table 4.5 above, for the question about the IFB's benefit in doing fair business as compared to the CB, 35.5%, 64.5%, and 0% of the customer respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively. From this fact one can conclude that IFB better enhances doing fair business as compared to the CB one, as it is full of transparency and informed decision making in all aspects of business dealings. The level of perception turnout on the variable for customers shows relatively better positive feeling.

C. Research Sample

As indicated in the above table 4.5 above, for the question about the IFB's benefit in doing fair business as compared to the CB, 31.3%, 60.7%, and 8% of the sample respondents agreed „definitely agree“, „to some extent agree“, and „not agree at all“, respectively. From this sample turnout one can conclude that IFB better enhances doing fair business as compared to the CB, as it is full of transparency and informed decision making in all aspects of business dealings. The sub-sample level of perception turnout on the variable for customers shows relatively better positive feeling.

III. IFB's Business Compatibility with Socio-cultural Factors

A. Bankers Sub Sample

As indicated in the above table 4.5 above, the question about business compatibility of IFB with socio-cultural factors as compared to the CB, 39%, 57.1%, and 3.8% of the banker respondents replied „agree“, „agree to some extent“, and „did not agree“, respectively. From this fact it is safe to generalize that IFB is more tailored to the socio-cultural values of the respondents than the CB.

B. Customers Sub Sample

As indicated in the above table 4.5 above, the question about business compatibility of IFB with socio-cultural factors as compared to the CB, 26.7%, 68.9%, and 4.4% of the customer respondents replied „agree“, „agree to some extent“, and „did not agree“, respectively. From this fact it is safe to generalize that IFB is at least better tailored to the socio-cultural values of the respondents than the CB.

C. Research Sample

As indicated in the above table 4.5 above, the question about business compatibility of IFB with socio-cultural factors as compared to the CB, 34.7%, 61.3%, and 4% of the sample respondents replied „agree“, „agree to some extent“, and „did not agree“, respectively. In general, from this sample response based fact it is safe to generalize that IFB is at least better tailored to the socio-cultural values of the respondents than the CB.

IV. IFB's Fairness in Cost of Service

A. Bankers Sub Sample

As indicated in the above table 4.5 above, in relation to the fairness in the cost of the service, 25.7%, 61.9%, and 12.4% of the banker respondents indicated „agree“, „to some extent agree“, and „do not agree“, respectively, that IFB is cost effective than CB. From this it is possible to conclude that almost the two services are comparable in cost even though there is slight difference in which again IFB is better in spending and receiving good value for money.

B. Customers Sub Sample

As indicated in the above table 4.5 above, in relation to the fairness in the cost of the service, 31.1%, 62.2%, and 6.7% of the customer respondents indicated „agree“, „to some extent agree“, and „do not agree“, respectively, that IFB is cost effective than CB with a little bit better positive intensity of turnout as compared to banker respondents. From this it is possible to conclude that almost the two services are comparable in cost even though there is slight difference in which again IFB is better in spending and receiving good value for money.

C. Research Sample

As indicated in the above table 4.5 above, in relation to the fairness in the cost of the service, 27.3%, 62%, and 10% of the sample respondents indicated „agree“, „to some extent agree“, and „do not agree“, respectively, that IFB is cost effective than CB. The sub-sample analysis indicates a little bit better positive intensity of turnout as compared to banker respondents. This in turn shows price sensitivity of customers on the way. From this it is possible to conclude that almost the two services are comparable in cost even though there is slight difference in which again IFB is better in spending and receiving good value for money.

V. IFB on Addressing CSR

A. Bankers Sub Sample

As indicated in the above table 4.5 above, on the last variable of comparison which is level of addressing CSR, 41.9%, 52.4%, and 5.7% of the banker respondents replied „agree“, „to some extent agree“, and „did not agree“ about the betterment of IFB in addressing CSR as compared to the CB service. From this fact it can be generalized that IFB is better in addressing CSR as compared to the CB.

B. Customers Sub Sample

As indicated in the above table 4.5 above, on the last variable of comparison which is level of addressing CSR, 75.6%, 24.4%, and 0% of the customer respondents replied „agree“, „to some extent agree“, and „did not agree“ about the betterment of IFB in addressing CSR as compared to the CB service. From this fact it can be generalized that IFB is highly regarded in addressing CSR as compared to the CB.

C. Research Sample

As indicated in the above table 4.5 above, on the last variable of comparison which is level of addressing CSR, 52%, 44%, and 4% of the sample respondents replied „agree“, „to some extent agree“, and „did not agree“ about the betterment of IFB in addressing CSR as compared to the CB service. From this fact it can be generalized that IFB is highly regarded in addressing CSR as compared to the CB. The sub-sample analysis further vindicates that customer highly believe about comparative betterment of IFB addressing CSR.

4.6 Factors that Account for IFB Growth

4.6.1 Evaluation of Factors that Account for IFB Growth

Table 4.6.1a: Appropriateness of the Prevailing NBE IFB Provision

Appropriateness of the Prevailing NBE IFB Provision	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Yes	65	43.3%	47	44.7%	18	40%
No	85	56.7%	58	55.3%	27	60%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

Bankers Sub Sample, Customers Sub Sample and Research Sample

From the above table 4.6.1a on the question whether the prevailing NBE IFB provision is appropriate or not, of the total respondents, 56.7% of them were agreed that the prevailing provision is not appropriate while the remaining 43.3% agreed as there exists a good provisions that can assist the operation of IFB. The sub-sample analysis as indicated in the table signifies similar direction of feeling both for bankers and customers with a relatively a little bit higher discomfort turnout from customers. From this one can conclude that the existing NBE supervisory provisions are not appropriate enough for the effective implementation and operation of IFB in the country.

Table 4.6.1b: Prevailing NBE IFB Provision has Limiting Impact on Growth of IFB

Prevailing NBE IFB Provision has Overall Limiting Impact on Growth of IFB	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Definitely	62	41.3%	43	41%	19	41.7%
To some extent	42	28.0%	31	29.5%	11	24.4%
No at all	46	30.7%	31	29.5%	15	33.3%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

Bankers Sub Sample, Customers Sub Sample and Research Sample

As it was indicated on the above table 4.6.1b; 41.3%, 28%, and 30.7% of the sample respondents indicated their perception about the overall limiting impact of the prevailing NBE IFB provision on the growth of IFB as „definitely“, „to some extent“, and „no at all“, respectively. The sub-sample analysis as indicated in the table shows consistent direction of feeling both for bankers and customers. Therefore, it can be concluded that the prevailing IFB NBE provisions has a limiting impact on growth of IFB since a significant percentage of the respondents-41.3% agreed definitely to the question and 28% showed their agreement to some extent, irrespective of the particular.

Table 4.6.1c: IFB as Window under the Umbrella of CB

IFB as Window Under the Umbrella of CBB	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Frequency	Percentage	Frequency
Constructive	23	15.3%	4	3.8%	19	42.2%
Neutral	47	31.3%	45	42.8%	2	4.5%
Adverse	80	53.3%	56	53.3%	24	53.3%
Total	150	98.7%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

A. Bankers Sub Sample

The above table 4.6.1c depicts the response of banker respondents on the appropriateness of providing IFB service in a window under the umbrella of CB outlet. Accordingly, 3.8%, 42.8% and 53.3% of the banker respondents perceive its impact as „constructive“, „neutral“ and „adverse“, respectively. From this fact it can be generalized that the majority of the banker respondents have perception that giving IFB service at window level under the umbrella of CB adversely affects it.

B. Customers Sub Sample

The above table 4.6.1c depicts the response of customer respondents on the appropriateness of providing IFB service in a window under the umbrella of CB outlet. Accordingly, 42.2%, 4.5% and 53.3% of the customer respondents perceive its impact as „constructive“, „neutral“ and „adverse“, respectively. From this fact it can be generalized that the majority of the customer respondents have perception that giving IFB service at window level under the umbrella of CB adversely affects it. However, the runner up weight goes to a perception view of constructive impact.

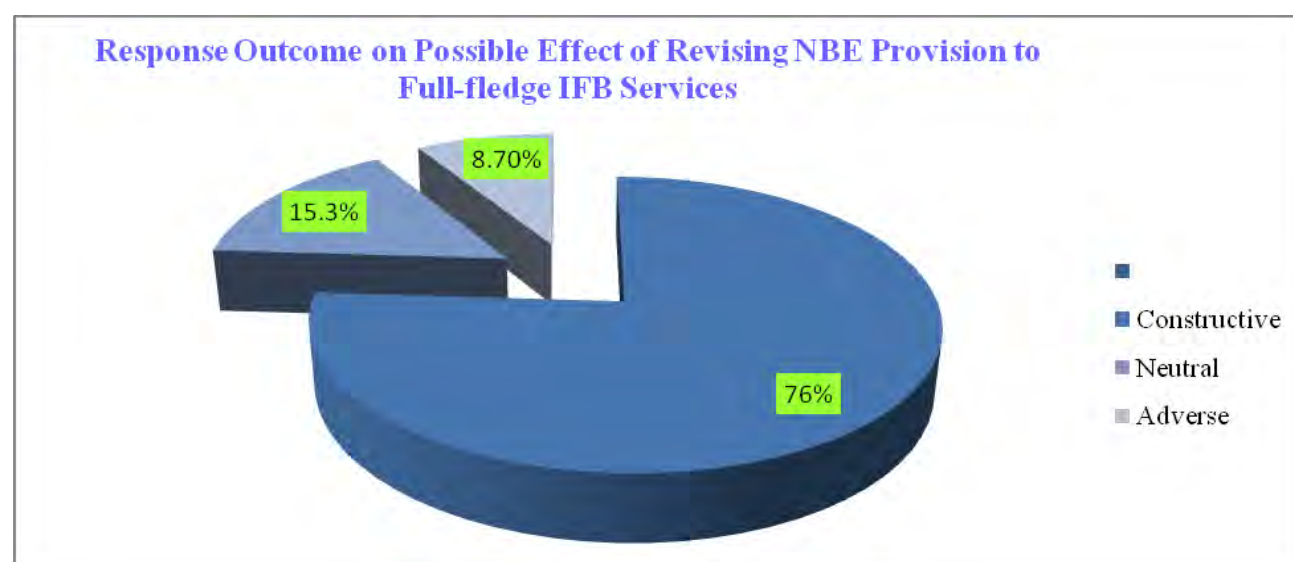
C. Research Sample

The above table 4.6.1c depicts the response of sample respondents on the appropriateness of providing IFB service in a window under the umbrella of CB outlet. Accordingly, 15.3%, 31.3% and 53.3% of the customer respondents perceive its impact as „constructive“, „neutral“ and „adverse“, respectively. From this fact it can be generalized that the majority of the sample respondents have perception that giving IFB service at window level under the umbrella of CB adversely affects IFB in one way or another.

Table 4.6.1d: Possible Effect of Revising the Prevailing NBE Provision to Full-fledge Level

Possible Effect of Revising NBE provision to Full-fledge	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Frequency	Percentage	Frequency
Constructive	114	76.0%	79	75.0%	35	77.7%
Neutral	23	15.3%	15	14.2%	8	17.7%
Adverse	13	8.7%	11	10.8%	2	4.4%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015



Source: Own Computation from Primary Data Source, April 2015

Figure(Chart) 8: Possible Effect of Revising the Prevailing NBE Provision to Full-Fledge Level

Bankers Sub Sample, Customers Sub Sample and Research Sample

Referring to the above table 4.6.1d and chart 7 on the possible effect of revising the prevailing NBE provision to full-fledge IFB services, 76% of the respondents agreed, 15.3%, were Neutral and the remaining 8.7% were having negative feeling, respectively, towards the revision of the prevailing IFB window level service to full-fledge IFB service provision. The sub-sample analysis as indicated in the table shows consistent direction of feeling both for bankers and customers. Therefore, from this fact it is possible to conclude that majority of the respondents are having a positive feeling on revising the prevailing NBE provisions to independent and full-fledge IFB service.

Table 4.6.1e: Ethiopian IFB have Unprecedented Bearing on Financial Stability of the Country from Risk Management Point of View

Ethiopian IFB have Unprecedented Bearing on Financial Stability of the Country from Risk Management Point of View	Outcome					
	Sample		Banker		Customer	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Definitely	16	10.6%	10	9.5%	6	13.3%
To some extent	43	28.7%	34	32.3%	9	20%
No at all	91	60.7%	61	58.2%	30	66.7%
Total	150	100.0%	105	100.0%	45	100.0%

Source: Own Computation from Primary Data Source, April 2015

Bankers Sub Sample, Customers Sub Sample and Research Sample

Referring to the above table 4.6.1e whether or not IFB service have unprecedented bearing on financial stability from risk management point of view or not, 10.6%, 28.7%, and 60.7% of the respondents agreed „definitely“, „to some existent“, and „no at all“, to the question. The sub-sample analysis as indicated in the table shows consistent direction of feeling both for bankers and customers. From this result, though the majority of the respondents believe that there is no as such risk but about 40% of the respondents think that the existing IFB has unprecedented bearings on financial stability from risk management point of view, in one way or another.

4.6.2 Triangulated Qualitative Data Analysis on Factors that Account for IFB Growth

In conjunction with the close-ended questions, respondents were asked open-ended opinionated questions in a bid to augment the quantitative data analysis and describe the factors that account for IFB growth along with possible actions to promote IFB against these determinant factors. The respective open-ended(qualitative) opinions are well triangulated with the close-ended(quantitative) data of each respondent during the data entry process and ensured as to its consistency. Moreover, *relevance, frequency and validity* of opinions were the basis for consideration.

Table 4.6.2: Actions Suggested to Promoting IFB Growth

Actions Suggested to Promote IFB Growth	Particular	Responsible Organ	Remark
1. Awareness Creation	Creating awareness through campaign, workshop, market development	Commercial banks & NBE(Gov't)	Suggested by more than 33% of the respondents
2. Capacity Building	Working on human capacity building/Training bankers/	Commercial banks and NBE	Suggested by about 30% of the respondents
3. Enabling Supervisory Provision	Revising the prevailing NBE IFB provision restricted under CBB to fulfill along with lifting or relaxing the ceiling levied on investment portfolio.	NBE(Gov't)	Suggested by about 20% of the respondents
4. Experience Sharing	Undergoing best practice experience sharing of practitioners with Islamic banking pioneers	Commercial banks and NBE	Suggested by some respondents

As compiled in the above table 4.6.2, all respondents were asked to suggest possible actions to be taken to promote IFB to a level that best enables it to provide the expected role towards ED in the Ethiopian context along with the responsible organ supposed to take initiative. Accordingly, most respondents who contributed their opinion on actions that inspire IFB growth as summarized in the table on the basis of validity.

4.7 Contribution of IFB to Economic Development

4.7.1 Analysis of Primary Quantitative Data: Contribution of IFB to Economic Development

From the viewpoints given earlier the measurement scale for contribution of IFB towards economic development, the researcher further investigated IFB's effect on 10(ten) attributes of economic as perceived by the sample respondents. Here, respondents were asked to separately evaluate each attribute of economic development, according to the level of perception that they have, using a five-point Likert Scale: „strongly disagree“, „disagree“, „neutral“, „agree“, and „strongly agree“, assigned with five different scores of 1, 2, 3, 4, 5, respectively.

The researcher used a statistical test of one-sample t-test for the analysis of those economic development attribute variables. It is to be noted that the one-sample t-test procedure tests whether the mean of a single variable differs from a specified constant population mean. This test assumes that the data are normally distributed; however, this test is fairly robust to departures from normality. The sample size in the study was 150 and based on „Central Limit Theorem“. It is presumed that the data were normally distributed approximately as the sample size gets larger and

larger. This can be substantiated by the fact that our sample is 75% of the target population. A 95% confidence interval for the difference between the mean and the mesmerized test value was supposed.

Strongly/positively agreed respondents must have opinion equal to or more than average. So the hypothesized test value in this study is 3 as it corresponds to „neutral“ in the five-point scale and it can split respondents into satisfied and unsatisfied and the null and alternative hypotheses can be specified as below.

Null hypothesis $H_0: \mu = 3$

Alternative hypothesis $H_a: \mu \neq 3$

As indicated above, the study specifies the level of sampling error 0.05 and thus the two-tailed critical value is ± 1.96 . The scores for each attribute were then tabulated below;

Table 4.7.1a: One Sample t-test Result for IFB’s Effect on Resource Mobilization and Allocation, and Encouragement People to Use the Banking System

One-Sample Test							
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development	Test Value = 3					
		t	Df ¹	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Mobilization of Monetary Resources	IFB has positive Effect on Mobilization of Monetary Resources	25.860	149	.000	1.540	1.42	1.66
	IFB has Positive Effect on Mobilization of Monetary Resources Subject to Awareness Creation	25.143	149	.000	1.480	1.36	1.60
Allocation of Monetary Resources	IFB has Positive Effect on Allocation of Monetary Resources	22.512	149	.000	1.487	1.36	1.62
	IFB has Positive Effect on Allocation of Monetary Resources Subject to Awareness Creation	19.679	149	.000	1.407	1.27	1.55
Encouraging People to use Banking System	IFB has Positive Effect on Encouraging People to use Banking System	25.540	149	.000	1.540	1.42	1.66
	IFB has Positive Effect on Encouraging People to use Banking System Subject to Awareness Creation	22.181	149	.000	1.447	1.32	1.58

Source: Own Computation from Primary Data Source, April 2015

¹ Df is degree of freedom which is similar for all attributes (n-1)

As it can be seen from the above table 4.7.1a, the figures on the opinion of respondents about the effect of IFB on the attributes that have direct constructive effect towards ED of a country were better expected to have t-positive values and service scores while for those attributes which have retarding effect towards the ED the IFB has negative effect while the result have negative t-values and service scores. The factors which had t-values greater than 1.96 were significant in positive direction and the factors with t-values less than -1.96 were significant in negative direction which implies that, in both cases, their p-values approach to zero and their respective mean difference values also largely deviate from the test value (3) as their t-values are far from the critical value in both direction. In the same token, in both directions the null hypothesis can be rejected. On the contrary, those attributes whose calculated t-value lies between 1.96 and -1.96, were statistically insignificant in both directions. That means their mean value do not differ from the test value and thus we cannot reject the null hypothesis for these attributes.

Accordingly, when we have look at the above table 4.7.1a, we can safely generalize that in all attributes the respondents agrees that IFB can play a significant role in contributing to ED through enhancing mobilization and allocation of monetary resources, and encouraging people to use the banking system since all the attributes have a positive t-value greater than 1.96 and highly significant by rejecting the null hypothesis.

Table 4.7.1b: One Sample t-test Result for IFB's Effect on Economic Crisis and Inflation

		One-Sample Test					
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development	Test Value = 3					
		t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Internal and External Economic Crisis	IFB has Positive Effect on Economic Crisis	-4.615	149	.000	-.620	-.89	-.35
	IFB has Positive Effect on Economic Crisis Subject to Awareness Creation	-4.260	149	.000	-.553	-.81	-.30
Inflation	IFB has Positive Effect on Inflation	-5.024	149	.000	-.6467	-.901	-.392
	IFB has Positive Effect on Inflation Subject to Awareness Creation	-5.002	149	.000	-.620	-.86	-.38

Source: Own Computation from Primary Data Source, April 2015

Referring to the above table 4.7.1b, which depicts the result of one sample t-test of IFB's impact on economic crisis and inflation, for both attributes we rejected the null hypothesis as their calculated t-values were greater than the critical value in absolute terms implying that the mean differences had negative sign and the means of each were less than (different from) the test value and they were highly significant since their p-value is less than 0.05 which is 0.00 highly significant. Therefore, we can plausibly conclude that IFB has greater role in stabilizing economic crisis and plays great role in arresting inflation.

Table 4.7.1c: One Sample t-test Result for IFB's Effect on Employment, Filling Banking Gap, Complimenting the banking Industry and GDP

		One-Sample Test					
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development	Test Value = 3					
		t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Employment	IFB has Positive Effect on Employment	23.698	149	.000	1.400	1.28	1.52
	IFB has Positive Effect on Employment Subject to Awareness Creation	25.236	149	.000	1.353	1.25	1.46
Business Compatibility with Socio-cultural Factors	IFB has Positive Effect on Business Compatibility with Socio-Cultural Factors	21.771	149	.000	1.327	1.21	1.45
	IFB has Positive Effect on Business Compatibility with Socio-Cultural Factors Subject to Awareness Creation	20.603	149	.000	1.307	1.18	1.43
Filling Banking Gap Unaddressed by CBB	IFB has Positive Effect on Filling Banking Gap Unaddressed by CBB	32.184	149	.000	1.627	1.53	1.73
	IFB Has Positive Effect on Filling Banking Gap unaddressed by CBB Subject to Awareness Creation	35.475	149	.000	1.667	1.57	1.76
Complimenting the Banking Industry	IFB has Positive Effect on Complimenting the Banking Industry	25.059	149	.000	1.453	1.34	1.57
	IFB has Positive Effect on Complimenting the Banking Industry Subject to Awareness Creation	26.710	149	.000	1.440	1.33	1.55
GDP	IFB has Positive Effect on GDP	23.454	149	.000	1.427	1.31	1.55
	IFB has Positive Effect on GDP Subject to Awareness Creation	26.510	149	.000	1.453	1.35	1.56

Source: Own Computation from Primary Data Source, April 2015

The above table 4.7.1c shows the t-test result of the attributes of ED that vindicate we rejected the null hypothesis for all the attributes since the t-values were greater than 1.96 in positive direction and the mean differences were large enough and they were highly significant with p-value 0.000. From this we can safely generalize that in all attributes, the respondents agreed that IFB has constructive effect on creating employment opportunities, enhancing business compatibility with socio-cultural factors, filling the banking gap left by CB, complementing the banking industry at large and in contributing to the national GDP.

4.7.2 Triangulated Primary Qualitative Data Analysis: Other Contribution of IFB to Economic Development

In conjunction with the close-ended questions, respondents were asked open-ended opinionated questions in a bid to augment the quantitative data analysis and explore the other contributions of IFB to economic development. The respective open-ended(qualitative) opinions are well triangulated with the close-ended(quantitative) data of each respondent during the data entry process and ensured as to its consistency. Moreover, relevance, frequency and validity of opinions were the basis for consideration.

Table 4.7.2: Other Contributions of IFB to Economic Development

S. No.	Other Contributions of IFB to Economic Development	Remark
1	Fosters financial inclusion, which in turn promotes sense of social justice that brings about political stability which is a foundation for national peace and growth.	Suggested few respondents
2	Has constructive role in attracting foreign direct investment (FDI)	Suggested by some respondents
3	Creates fair and competitive working environment	Suggested by some respondents
4	Contributes in balancing wealth gap	Suggested by few respondents
5	Promotes poverty reduction	Suggested by few respondents
6	Contributes towards improving standard of living	Suggested by a few respondents

As indicated in the above table 4.7.2, all respondents were asked to suggest contributions of IFB other than the attribute variables of economic development considered by the researcher. Accordingly, most respondents who contributed their opinion on the question suggested the supplements summarized in the table above on the basis of validity.

4.7.3 Secondary Data Analysis: IFB-based Financial Development Factors that Contribute to Economic Development

It is obvious that the IFB is newly embarking in Ethiopia and in operation for about a year and three months time as of March 31, 2015 in the OIB and CBE. Some other commercial banks like United Bank S.C. are undergoing pilot test and some others are undergoing preparatory processes like capacity building and licensing.

Hence, the researcher has gathered a secondary data that commensurate with some of the above analyzed attributes of economic development that are reasonably supposed to be affected by IFB, from the interim reports of the two target banks: OIB and CBE up to March 31, 2015. These four attributes are implied through, Mobilization of Monetary Resources (IFB Deposit Mobilized), Number of IFB Financing Accounts) and Allocation of Monetary Resources (IFB Financing) as financial development factors in one hand and, Encouraging People to use Banking System (Number of IFB Deposit Accounts and Employment Opportunity on the other, as detailed in the table 4.7.3 below.

Table 4.7.3: Secondary Data on Four Financial Developments Factors as Attributes of Economic Development

S. No.	Attributes of Economic Development	Particular	Data/period			Remark
			March 2015			
			OIB	CBE	Total	
1	Mobilization of Monetary Resources	IFB Deposit Amount	668,203,000	984,000,000	1,652,203,000	<ul style="list-style-type: none"> • Amana-Deamand, • wadiah-Saving Et • Special Saving
2	Allocation of Monetary Resources	IFB Financing Approved	497,567,510	100,000,00	597,567,510	<ul style="list-style-type: none"> • Murabahah-Local Et International, • Quard, • BG Et • L/C
		IFB Financing Disbursed	96,525,920	20,000,000	116,525,920	
3	Encouraging People to use Banking System	No. of IFB Deposit Accounts	48,058	85,000	113,058	
		No. of IFB Financing Accounts	50	20	70	
4	Employment	Number of Employees on the IFB Functional Line	80	70	150	

As we can observe from the above empirical secondary data of fact on the ground in table 4.7.3 above we can be convinced that IFB has constructive effect on some attributes of ED at national level in general and mobilization of monetary resources that were kept away from the banking system (about ETB 1,652,203,000), allocation of monetary resources (about ETB 597,567,510), encouraging people to use banking system (about 113,058 depositors and about 80 financing customers) and created employment opportunity for about 150 citizens in particular. The secondary data obtained after almost a year and three months operation from the two IFB-pioneering commercial banks of OIB and CBE supports the IFB's constructive effect on attributes of ED and this is consistent with our generalization above primary data t-test result under table 4.7.1a above in which respondents agreed that IFB can play integral role in contributing to economic development through enhancing mobilization and allocation of monetary resources, and encouraging people to use the banking system since all the attributes have a positive t-value greater than 1.96 and highly significant by rejecting the null hypothesis.

CHAPTER 5: CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides concluding statements on the level of stakeholder awareness pertaining to, compliance with the governing IFB principles (Sharia), comparative advantages of IFB, its contribution of IFB operation to ED, and way forward to promote IFB in the Ethiopian context. The conclusions are supported by a summary of the results from the analysis on the IFB operation in our country in relation to interest-free/Islamic banking framework and NBE's provisions, and critical reflections from the literature review. The general conclusions that are related to the objective of the study are provided and followed by recommendation based on the conclusion made which helps the stakeholders to find the way on how to implement and deploy IFB in our country in a way that it effectively contributes towards ED.

5.2 Conclusions and New Insights

The main conclusions and new insights of this study, which are drawn from the analysis result and critical literature review reflections are presented as follows:

5.2.1 Conclusions

- ☞ Based on the sample responses on the types of services provided/used under IFBW, 48%, 26.7% and 18.7% of the respondents agreed that they are familiar (using/providing) the three types of the services (deposit, financing and trade service), deposit and financing services, respectively. From this fact, we can assert that even though large proportion of the respondents are highly experienced in the conventional banking operation/relationship which is believed as a basis for genuine, matured and reliable information about banking services, there is short-lived exposure/experience in IFB operations in the country since the product by itself is newly embarking with a very infant age of about a year and three months. Hence, though the majority of the respondents are familiar with the three basic services, one can assert from the response that there is lack of comprehensive use/provision of the service packages. On the other hand, as per the sub-sample analysis, it is interesting that the runner up response skewed to deposit(37.1%) and financing(24.4%) for bankers and customers, respectively, indicating the natural motive to focus towards respective priority of institutional interest from resource point of view.

- ☞ Of the total respondents, 54% agreed that the primary purpose of introducing IFB service is to bring in a missing banking convention aspired for long and benefit as a bank and help the economy of the country while 24% of them agreed that its purpose for serving „as alternative banking convention channel“ service while the remaining 22% agreed as to both purposes. From the responses, we can generalize that most respondents are on the right direction of thought about the primary purpose of introducing IFB except the difference in their depth of perception. Moreover, the banker respondents better emphasized both purposes next to the *gap filling* purpose, which is believed the most comprehensive purpose of introducing IFB as vindicated in the literature review part while most customer respondents skewed to the very purpose of introducing a missing banking convention aspired for long and benefit as a bank and help the economy with 64.4% turnout, implying that the IFB customers are badly in need of the service they missed than bankers do. This conclusion is well consistent with the IFB’s need-fulfillment conviction of (Abdulkader Thomas, 2006, p 95-98), as a reflection from the literature review. This indicates that the banking service in our country is yet to encompass a bundle of alternate packages of products that satisfy the needs of all stakeholders on the basis of various values; religious, socio-cultural and economic.
- ☞ Though majority of the respondents believed that they or their organization „definitely“ or „to some extent“ operate in compliance with the governing Sharia Principles, which means existence somewhat knowledge-based IFB practice, it is safe to conclude such level of awareness is inadequate. The other interesting implication of the sub-sample analysis is that, the turnout of bankers on the level of Sharia principle compliance is better than that of customers indicating how much bankers are serious about the prospect of IFB service.
- ☞ A significant number of respondents were not familiar with IFB prohibitions which are part and parcel of the IFB in which almost 100% compliance is expected to this regard and familiarity level short of that may adversely affect its effective implementation, reputation and way forward. On the other hand, the sub-sample turnout shows that customers have relatively better familiarity and compliance with the IFB prohibitions than bankers.
- ☞ From the sample observation we can conclude that the level of awareness about the IFB operating philosophy is very low, which may bear high repercussion for banks while customers are not as such expected to have perfect knowledge about its operating

philosophy and rather they are supposed to acquire from their bankers through gradual and sustainable advice.

- ☞ The study result also reveals that the *overall awareness level* of respondents“ towards IFB in our country-Ethiopian context is inadequate.
- ☞ From the turnout about the level of IFB“s substitution of CB in mobilizing idle fund, we can conclude that almost one-third of respondents believed that the IFB can contribute to mobilize the idle fund in the economy as substitute for the CB. This doesn“t mean that it displaces the CB, but fills the gap left by CB. The sub-sample analysis, further shows that all most all the customer respondents believe that the IFB can at least contribute to mobilize the idle fund which was kept away from the CB system due to socio-cultural reasons into the economy as substitute for the CB. This in turn indicates that most IFB customers consider the IFB as a previously missing banking convention.
- ☞ Majority of the respondents responded that IFB is comparatively advantageous in doing fair business as compared to the CB. From this fact we can fairly assert that because of the provisions of some restriction that forbid unethical and immoral businesses that are against the public interest in one hand and it is full of transparency and informed decision making in all aspects of business dealings on the other, IFB is believed to be preferable in doing fair business. The sub-sample level of perception turnout on the variable for customers further shows relatively better positive feeling.
- ☞ The analysis result as to fairness of IFB“s comparative cost of service indicates that it is cost effective than CB. The sub-sample analysis further indicates a little bit better positive intensity of turnout as compared to banker respondents. This in turn shows price sensitivity of customers on the way. From this it is possible to conclude that almost the two services are comparable in cost even though there is slight difference in which again IFB is better in spending and receiving good value for money.
- ☞ Most of the respondents either agreed or agreed to some extent with a total turnout of 66% that IFB is advantageous in business compatibility with socio-cultural values. From this fact we can fairly conclude that the banking convention is better compatible with socio-cultural factors as it is more tailored to the socio-cultural values than the CB.

- ☞ The response turnout about the comparative advantage of IFB in addressing CSR as compared to the CB service can help us to fairly generalize that IFB is highly regarded in addressing CSR as compared to the CB. The sub-sample analysis further vindicates that customer respondents have high belief about comparative betterment of IFB in addressing CSR.
- ☞ The majority of respondents agreed that the existing NBE IFB provisions are not appropriate which may affect the effective implementation and smooth operation of IFB in the country.
- ☞ As an indirect test, 53.3% of the respondents were having adverse feeling on giving IFB service at window level under the umbrella of CB. This shows that the customers of the IFB are not happy about the prevailing IFBW provision and agreed about the necessity of revising the provision to a full-fledged IFB services including all the services at an independent branch in order to constructively promote its prospect.
- ☞ On the other hand as a direct test, on the possible effect of revising the prevailing NBE provision to full-fledge IFB services, 76% of the respondents agreed, 15.3% positioned neutral and the remaining 8.7% disagreed. Therefore, from this fact it is plausible to conclude that majority of the respondents are having a positive feeling on revisiting the prevailing NBE provisions to independent and full-fledge IFB service again vindicating the inappropriateness of the provision and necessity of considering the revision by the regulator.
- ☞ The analysis result also shows, the majority of the respondents believe that there IFB has no unprecedented bearing on financial stability of the country from risk management point of view, in one way or another.
- ☞ From the one sample t-test result for attributes of economic development of *resource mobilization, resource allocation and encouraging people to the banking system in the economy*, the respondents agreed that IFB can contribute to economic development since all the responses on the attributes demonstrated a positive t-value greater than 1.96 and highly significant having p-value 0.00. On the other hand, the subsequent empirical secondary data of fact on the ground obtained from the two IFB-pioneering commercial banks of OIB and

CBE about these attributes vindicated that IFB has constructive effect on these attributes of economic development at national level in general and mobilization of monetary resources that were kept away from the banking system (about ETB 1,652,203,000), allocation of monetary resources (about ETB 597,567,510), encouraging people to use banking system (about 113,058 depositors and about 80 financing customers) and created employment opportunity for about 140 citizens in particular. Hence, it is plausible to generalize that in all attributes the respondents agreed that IFB can contribute to ED through enhancing *mobilization and allocation of monetary resources, and encouraging people to use the banking system*. This conclusion is well consistent with literature arguments of Iqbal (1997), El--Ghazali (1994) and Luintel and Khan (1999) as a reflection from the literature review.

☞ For the attributes of economic crisis and inflation, IFB is believed to play significant role in arresting both as per the result of the relevant responses. For both attributes we rejected the null hypothesis as their t-values were greater than the critical value in absolute terms implying that the mean differences had negative sign and the means of each were less than (different from) the test value and they were highly significant since their p-value is less than 0.05, which is 0.00. Therefore, we can plausibly assert that IFB has greater role in stabilizing the internal and external economic crisis and arresting inflation of the country as well. This conclusion is well consistent with literature thoughts of El--Ghazali (1994) and Luintel and Khan (1999) as a reflection from the literature review.

☞ A t-test result also showed that attributes of ED like creation of employment opportunity, business compatibility with socio-cultural factors, filling banking gap unaddressed by CB, complimenting the banking industry, and in contributing to national GDP, we rejected the null hypothesis for all the attributes since the t-values were greater than 1.96 in positive direction and the mean differences were large and they were highly significant with p-value 0.05. This indicates that IFB have constructive impact on those attributes and it is plausibly supposed to enhance these variables and contribute to ED in return. This conclusion is well in conjunction with literature thoughts of (Abdulkader Thomas, 2006, p 95-98), El--Ghazali (1994) and Luintel and Khan (1999) as a reflection from the literature review.

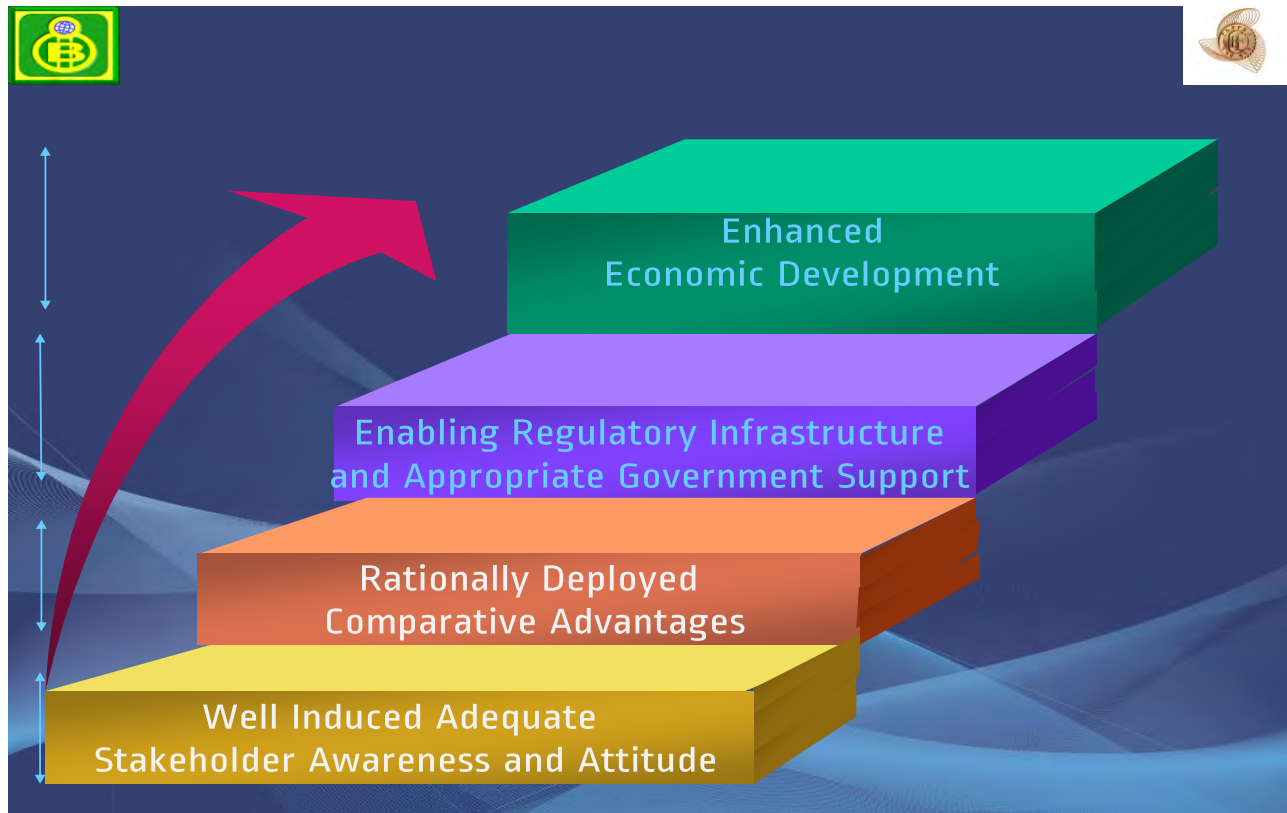


Figure 9: Contribution of well enabled IFB to economic development

5.2.2 New Insights

As part and parcel of the objective of this study and the analysis and interpretation made, IFB has appeared with very new insight of medium of business while ensuring the business sustainability. In other words, the very features of the IFB including its governing principle that emanates from the Sharia and its operating philosophy that basically revolves around transparency and informed decision making are explored and induced as new insights. More important is, IFB prohibitions that intend to protect public interest in general, discourage unfair business advantages involving interest and gambling, discourage business dealings in commodities that are against human health: drugs, alcohol and tobacco, prohibitions on pornography and pork trade to nurture socio-cultural disciplines/values and addressing CSR in the process while doing sustainable business. The writer believes such aspect of the research output, which cares for the sustainability aspect of IFB's business mediation as referred to promoting the ultimate benefit of the public at large above all is a very new insight.

The bottom-line is that, such culture of engaging in sustainable business while caring for the society is believed to play its own constructive role in building a society that is physically, mentally and psychologically and socially healthy, and economically empowered. Such society can in turn easily take the nation towards the driving seat through continuous sustainable development.

5.3 Recommendations

This section provides an implication statements based on the results of analysis and conclusions of the study which are believed to help in the future operation of the IFB through improving the standard of IFB in a way that benefits all stakeholders and contribute to the ED of the nation. Above all, commercial banks, IFB customers, the NBE and policy makers are at the forefront of the key stakeholdership.

- ☞ When new product is introduced, it is common to come across fear of new things which is always exists in mankind. Accordingly, as long as the IFB is concerned in the Ethiopian context, both customers and bank employees themselves have low level of overall awareness about IFB. In a bid to lay a foundation for IFB in response to the observed overall stakeholder awareness inadequacy result of the analysis, commercial banks in collaboration with the NBE/government shall work on creating awareness through conducting stakeholder campaign, workshop and market development, to induce the very purpose of introducing IFB, its comparative advantages, its governing principles, its operating philosophy (to some extent), and its contribution to ED among customers, CB customers and government organs. The governing Sharia Principle and IFB prohibition compliance aspect shall be at the pinnacle of the awareness creation agenda.
- ☞ Commercial banks in collaboration with the NBE/the government shall provide tailored, structured and sustainable training for bankers and the Sharia Committee of IFB pertaining to governing Sharia Principle, IFB prohibition compliance, IFB operating philosophy and best practice in a bid to make difference through human capacity building and enhance IFB growth in a knowledge-based way.
- ☞ Commercial banks in collaboration with the NBE shall make use of best practice experience sharing of practitioners with Islamic banking pioneers.

- ☞ As long as the IFB is believed to be advantageous in doing fair business as compared to the CBB, because of the provisions of some restriction that forbid unethical and immoral businesses that are against the public interest in one hand and it is full of transparency and informed decision making in all aspects of business dealings on the other, IFB should be recommended and promoted to any member of the community who believes in doing fair business, irrespective of any other background.
- ☞ As per the conclusions made, IFB supports ED of a nation through mobilizing the idle monetary resource, allocating the monetary resource, creating employment opportunity, and inviting to the banking system. Therefore, the government has every reason to support and should give more emphasis to enable IFB service.
- ☞ On the other hand, it is generalized that IFB has a greater role in stabilizing the economic shock of a given country by stabilizing financial and economic crisis, and arresting inflation. In today's world, every country is experiencing hyperinflation including our country Ethiopia. The government should promote IFB which can help assist the economy in stabilizing economic crisis and arresting inflation.
- ☞ In particular, the NBE shall revisit the prevailing IFB provision consider the pros and cons of revising the operation of from operating under the umbrella of CB to full-fledge level along with lifting or relaxing the ceiling levied on investment portfolio, to create enabling regulatory environment for the IFB product and ultimately contributes to the national ED.

Recommendation for Further Study;

☞ The limited time, scope and the immaturity of the research subject in the Ethiopian Context made the writer to focus on more descriptive aspect of the study. Accordingly, this study tries to focus on IFB overall awareness, governing principles, compliance with its prohibitions, comparative advantages, its contribution to economic development and other facts which account for IFB from banking perspective only. But in practice, IFB is also not yet evaluated from service excellence perspective in one hand and CB customer perspective on the other. Moreover, considering IFB from advanced quantitative models and metrics point of view would be vital as the convention progresses further. Hence, further study is recommended on the IFB with wider scope and depth as the service progresses further in the future in view of the following dimensions;

- ☞ At a relatively matured stage,
- ☞ Service excellence perspective,
- ☞ Service diversification perspective,
- ☞ CB customer perspective, and
- ☞ Concrete and measurable IFB impact.

END

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