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ADDIS ABABA UNIVERSITY



Addis Ababa University
College of Business And Economics
Department of Accounting and finance

Challenges of Interest Free Banking in Ethiopia
Commercial Banks the case of selected private banks

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Challenges of Interest Free Banking in Ethiopia Commercial Banks

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A thesis submitted to Addis Ababa University Department of Accounting and Finance in partial fulfillment of the requirements for the of Masters of Accounting and Finance

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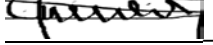
Challenges of Interest Free Banking in Ethiopian

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List of Acronyms/Abbreviations

AB	- Awash Bank
BOA	- Bank of Abyssinia
DB	- Dashen Bank
FCY	- Foreign currency
IFB	-Interest Free Banking
NBE	-National Bank of Ethiopia
OIB	- Oromia international bank
SSB	- Shari’ah Supervisory Board
WB	- Wegagen Bank

Abstract

The study aims at identifying the challenges of interest free banking in Ethiopia commercial banks. To achieve this objective descriptive research design was used and data has been collected mainly through primary source using questionnaire and personal interview from interest free banking customers and staffs of the bank. Secondary data were also used by reviewing the annual reports, and NBE and browser the bank. Total sample IFB customers and staffs of the bank constitutes 384 and 179 respectively total of 560 sample respondents were in use through multistage sampling. The data was analyzing via descriptive occurrence, statistics of mean and percentage using SPSS version 20 Software. The result show that IFB services have been benefit banks, not single in expressions of rising customers and mobilize deposit, but also they enjoy FCY making and better profitability. In addition the outcome indicate lack of legal support from government, lack of supervision by NBE, lack of awareness human resource, lack of confidence and trust of clients, lack of cooperation among Islamic windows and lack of infrastructure appropriate for IFB function and uncertainty of customers identified by the practitioners as foremost challenges in the procedure of contribution IFB services in Ethiopia. as a result, the lessons suggest that there should be dynamic public clarification programmers to build more attentiveness and to take away misunderstanding and uncertainty among Muslim and non-Muslim; Shareholders, board of directors and the management of the bank should accept the concept and be cooperative with interest free banking consequently, the following recommendations were forward by the researcher based on the consequences of the result in combination with writing review reflection: antagonistic promotion and marketing operation about IFB products, suggest sustainable and permanent training to build the capability of the manpower, the bank shall enhance simplicity of admission of its products with in every part of branches, the bank has just before have Shariah advisor, the bank should provide the essential understanding and center for the industry and the bank has to be obvious in its IFB business responsibility, in adding together government be supposed to practice well-matched authoritarian structure.

Key words: *Interest free banking, Interest free banking window, Shariah compliance, challenges*

CHAPTER ONE

INTRODUCTION

This chapter begins by presenting brief background of the study followed by the statement of the problem. Research questions and objectives of the study are presented in the third and fourth section respectively the fifth part describes the significance of the study. Section six discusses limitations of the study, respectively. The final section presents organization of this research paper.

1.1 Background of the Study

The latest and important expansion in the banking business is the materialization of Islamic Banking structure and Interest-Free Banks (hereinafter IFBs) in both developed and developing countries of the world (Abdullahi, Malami, and Ibrahim 2011). through the history five decades IFB have evolve from simple desire and concept into completely fledged reality and prove progressively more eye-catching, not only to Muslims but also to a lot of others who are launch to be aware of the exclusive aspect of Interest free business (DiVanna and Timewell ,2008) cite in Islam & Kozokov,2009).This is reaction to the collapse of the conventional IFB system to provide for the developmental desires of the majority country, for the most part the developing economy (Ahmed, 2000). In accumulation to this, there are also many causal factor for such growth Masood and Bellalah (2013) confirmed that “the liberalization of monetary guideline; the globalization of fiscal markets; change in tools; product modernization; the birth of a number of new Islamic states; and the on the rise Islamic incidence in the West” are a large amount outstanding factor for the expansion of Islamic Banking. The successful procedures of Interest free bank in numerous part of the world has lead to increasing interest in Interest free finance techniques and also raise a number of questions.IFB is slight ideas denote the number of bank instrument or operation, which keep away from interest. Interest free banking, the added worldwide term is expected not only to avoid interest base announcement, illegal in the Islamic Shariah, but also to pass up dishonest practice and contribute dynamically in attain the goals and objectives of an Islamic market. The business is now attractive a global occurrence while more and additional countries want to apply IFB in their authority (Sole, 2007). Captivatingly, Islamic bank has been raise by means of two special models. The first model consists in surroundings up wholly fledged Interest free whereas the next model consists in set up additional and windows

devoted to Islamic funding inside conventional banks (Kangoye ,Faye, & Triki, 2013).IFB windows are purely clear as exceptional services accessible by conventional banks to supply Interest free bank services to customers who wish to treaty with IFB. Besides, IFB is progressively touching into the conventional financial system (Sole, 2007).The expansion and attractiveness of IFB have been facilitate by the conventional banks that engaged their resources, retain, brand, expertise to capture, scale, technology, and grow their market shares. Mainly of these conventional banks recognized IFB windows or a split supplementary branch to recommend Sharia compliant products and solution in reaction to the growing command for such Sharia-compliant banking services and products. on the other hand, awaiting newly, there were no monetary institution catering to the great population require sharia-compliant products; even although efforts for the founding of IFB in Ethiopia was complete by ZemZem bank, a full-fledged IFB, but was incapable to begin process as the instruction requires that IFB be given beside conventional banking services. The suggestion of create an communications to sustain IFB in Ethiopia has gain further maintain in current years however announcement by the (NBE) National Bank of Ethiopia, and then in 2011, issue official directions on Sharia-compliant economics. Still, the directive has simply allow the admission for accessible commercial banks to structure an IFB window jointly with their operation.IFB in Ethiopia in progress in September 2013, the interest free banking launch by Commercial Bank of Ethiopia next Oromia Bank S.C follow and October 2013 United bank S.C and May 2014 respectively .presently, almost all banks contribution IFBW of Commercial banks, working with more than 2000 branches in special parts of the country as on June 30, 2020. The service is in receipt of support unrestricted recognition within this short phase of time, and the totality quantity of deposits that all these banks handle has increase quickly. Conversely, these expansion, no hesitation raised a number of vital issues, pose a number challenge to practitioners, regulators as well as customers. But, in sequence on the IFB practice and result on exceptional challenges of interest free banking is limited or cylinder. So that, it is significant to be aware of the condition, challenges and issue of IFB activities of conventional banks. Imprison in deepness information on these point would help practitioners to switch challenges for achieve a continuous increase of the IFB service with in Commercial banks. Consequently, in this revise, an effort through to empirically study challenge of IFB windows of Commercial banks in Ethiopia.

1.2 Statement of the Problem

As have been discussed in the background part in the country like Ethiopia IFB role to the national economy is powerful but this society have suffer to connect in to the modern banking industry although there exists a huge potential demand and financial flow of the majority branches as observed in day to day transaction of both the government and the non-government banks in Ethiopia. Banking products were available to serve the Muslim population and non-Muslim population who do not want awareness until 2011. NBE has begin an Interest Free Banking directive, there is silent a need to expand an acceptable legal structure to successfully implement and capitalize on a wealthy IFB division in Ethiopia; though, there has been no tangible work conduct for a appropriate revolve out of these products. at present, the directive is incredibly broad and does not offer any specificity in terms of item for consumption lines, rules and regulations to make certain that the products developed by financial institution are actually in line with Sharia law. According to tarik (2014) the launch of IFB not only complete the internal financial demand of the Muslim population but also have the capacity to progress the performance trend of the economy of the country through effective resource allocation and use of the work force in a sense of the community to access these banking system. In Ethiopia, conversely, a small number of studies were conduct on the quality of Interest free bank. Surrounded by this study Mohammed in 2012 has on purpose the “opportunity, prediction, and challenge of Interest free bank in Ethiopia” and his work has recognized the prospective challenge as: lack of understanding, institutional challenges, supervisory challenges, regulatory , The study is centered on customers” intention and motivation to use interest free banking”. The consequence show that supposed qualified gain, level of understanding professed compatibility; customers” and subjective standard have a important hopeful impact on the approach towards IFB in commercial bank of Ethiopia This study is about collision review on the attitude towards IFB practice which does not address the existing problem at offer. On the other hand Tefesi (2015) study is about “Contribution of Interest free bank to financial expansion and its view in Ethiopia”. The chal lenge faced by service supplier and user of IFB products and coverage of service provide by Ethiopian banking during IFBW including whether there is unmet require of users, understanding of customers and ability of bank as these have been predictable in the literature as challenge, and CBE is taken as a case study.

1.3 Research Questions

The following are the research's sub-questions:

1. What are the challenges of legal and regulatory structure on IFB procedure?
2. What is the customer level of understanding, knowledge and approach of IFB product?
3. What are the IFB product easy to use demands of the bank at present offer?
4. Which are the challenges faced by customers IFB products?

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of study is to explain” challenges of interest free banking in Ethiopia with Commercial banks presently contribution IFB service.

1.4.2 Specific Objectives

In these lessons have the following detailed objectives:

- 1, To examine the challenge of legal and regulatory structure on IFB operation.
- 2, To examine the customer level of understanding, knowledge and approach of IFB
- 3, To assess IFB product easy to use demands of the bank at present offer
- 4, To evaluate the challenges faced by customers IFB products

1.5 Significance of the Study

The lessons “the Challenges of interest free banking” This study has a practically and theoretically contribution. Theoretically, the study contribute to the existing pool of knowledge on interest free banking particularly in the Ethiopian context; serve as a basis for further research in the field of interest free banking. It also provides an understanding and explanation of the challenges facing interest free banking with in Commercial banks. Practically, Commercial banks Islamic windows may use the findings from this study to enhance their knowledge on challenges of interest free windows..

1.6 Scope of the Study

The research will be conducted to identifying the challenges of Interest free banking in Ethiopia Addis Ababa on the special private banks IFB activities of IFB managers, staff and IFB customers.

1.7 Limitation of the Study

The study limited mainly in challenges of interest free banking and the study could not cover every characteristic of banking with regard to the challenges of the IFB model across the country, and respondents may not be deep of the total IFB customers in Ethiopia. The further constraint was, study was conduct on Commercial Banks which have IFBW and did launch the service at full scale, The result of this lessons is not enough to these Commercial banks IFB Windows, have to be through with carefulness. However, none of these affect the feature of the research.

1.8 Organization of the Paper

The research organized under five chapters.

- **Chapter I** Provide with background of the study, statement of the problem, research objectives, scope of the study, and significance of the study and organization of the research.
- **Chapter II** provides appropriate literature to attach to the research questions. This chapter the include theoretical and empirical review approaching regarding the sector.
- **Chapter III** presents the methodological concerns that used in conducting this research and provides a justification for each step taken.
- **Chapter IV** presents the summarized results/findings of this study and interprets and/or discusses the findings to address the research questions and objectives.
- **Chapter V** presents the conclusion and the recommendations made to address the problems stated in chapter one. All the reference materials used in the study are listed under bibliography.

CHAPTER TWO

2.1 LITERATURE REVIEW

In This part review the literature in print by special author and research accomplish by special scholars in family member to the lessons and there a review of challenge of IFB such as definition, values and main perception concerning challenge and forecast and appraisal of experimental works. In conclusion the mixture evaluation of the learn is included by summarizing the literature consequences.

Definition of Basic Concepts

An Interest free (Islamic) bank is a financial and social institution whose objectives and operations as well as principles and practices must conform to the principles of Islamic Sharī'a (Hassan and Ahmed, 2002). Interest free (Islamic) banking provides services to its customers free of interest, as the giving and taking of interest is prohibited in all transactions rather it provides awards or returns on the basis of Interest free (Islamic) banking performance through profit-and-loss sharing (PLS) as well as hibah or gift (Lewis and Algaoud, 2001 and Ahmed, 2008).

2.1.1 Fee-Based Products

The services provide by Islamic banks include bank transfer, matter correspondence of acknowledgment and assurance, credit cards, and involvement gather and safe-custody services, repeatedly used in buy and sell economics Hussain et al. (2015).

2.1.2 Retail Islamic Banking Products

It is distribution of a bank that deals honestly with trade customers. In Interest free banking put up for sale product is the following:-

Current Account (Alwadiyah): - is essentially protection or Al-wadiyah' account and second-hand for day to day cash supervision. A bank is deeming as a custodian and trustee of the finances, Mohammed (2012). Current accounts are require deposit financial records set aside with the bank on custodial preparations and are repayable in full on command. Current accounts are base on the standard of wadia (trust or safe care) or (trust) amanah create an organization deal for the reason of defending and protection the depositor's resources. (Iqbal and Mirkahor, 2011).

Savings Account: -IFB perform the standard of wadia in operating customer saving account. The bank may call authorization to make use of customer finances deposit in these accounts as long as these funds stay behind within the banks carefulness. The bank does not share out with the customer income receive from the use of customer funds deposit in these monetary report resources but does declaration the customer deposit. The bank however compensate customer with return as a figure of its encouraging response for being permitted to use the possessions. (Balla et. al (2009)

Investment Account: - Investment deposits symbolize the casing when owner of the fund demand a go back on their resources and are pleasurable to extra finances for a recognized era. These economic statements also administer on the standard of mudarabah, but the Approach of assumption of the finances and distribution of the profits are modified to ensemble the necessities of the customers.

2.1.3 Mode of action in Islamic Banking

In Islamic business, the phrase “loan” refers only to a sympathetic loan (*qard al hasan*), a form of financial carry to the deprived to be repay free of accuse. Other tool of Islamic economics are not referred to as “loans’ but slightly as finance style moving back under one of the three category.

2.1.4 Amanah (Benevolent loan) or Qard Hasan loans

It is a compassionate loan given to worthy customers by Islamic banks to improve shortage. The receiver is necessary by *Shari’ah* to disburse back only the foremost to the Islamic bank. Conversely, the customer may pay an accumulation to explain optimistic reception to the Islamic bank but this target should not be disclose to the bank by the customer at the launch of the contract, Audu Bello et al.(2014). In the specs casing that the customer does not pay an additional amount to the financial institution, this business deal is a accurate interest-free loan.a few Muslims think about this to be the only kind of loan that does not split the exception on *riba’*, because it is the one type of economics that in fact does not pay reimbursement the creditor for the occasion price of change, (Mohammed, 2012).

PLS finance Products

As explain in its interior main beliefs it is fairness and contribution, as well as it have burly connection to genuine economic actions, assist encourage a more reasonable allocation of income, foremost to a extra specialized allowance of wealth.

Mudarabah(Silent Partnership) A *mudarabah* agreement is a monetary business in which there are two associates in the agreement. One of the associates will provide the needed resources (*Rabb-ul-Maal*) and the other and magazine of Interest free Banking and Finance 2016 account show Mudharabah is one of the majority recognized Islamic funds and its main beliefs are extensively approve by Islamic banks. As Journal of Islamic Banking and economics 2016 story Mudharabah, company which one (investor) partner gives money for invest, whereas the other partner is accountable in as long as labor and ability to administer the money; the earnings generate out of the venture are shared in a predetermined ratio. The profit sharing ratio could be 30:70, 50:50, 40:60, or depending on the astringent party.

Musharafa(Equity Partnership) base on (2014) *Musharafa* is a agreement in which two or more persons make a payment capital for the institution of a particular business system in such a method so as to every associate has accurate to moreover engage in the supervision of the industry or not. Though, associates may make a decision to be dynamic or dormant partner at their have possession of will. In this kind of process in Islamic banking, proceeds are common base on established ratio which requires not be equivalent to their personage resources involvement, but failure is mutual rigorously based on personality funds involvement.

Non-PLS Financing Products

Non-PLS contracts are most common in practice. They are usually used to finance customer and company credit, as well as asset charge and modern, Hussain et al. (2015).

1 .Ijarah (leasing)

Under this type of deal, the owner or lesser of an assets (house or motor vehicle) will rent out his assets to a customer or renter for a confident amount of money or rental; and at the equivalent occasion, the rights of the benefit remnants with the lesser.The aspire of this type of speculation is for the financier or vendor of the quality to improve the center expenditure of purchase the quality, in addition a return scope, which are obtain exposed of the charge expenses, (2000)

Ahmed. As Hussein et al. (2015) a mixture of *ijārah* take a hire-purchase variety, whereby there is a secure by the leaser to trade the asset to the resident at the last part of the rent agreement, with the cost of the great asset creature locate.

2. *Bai-salam or Salam* Mohammed, '*Bai-salam*' (2012) means a agreement in which go forward expense is finished for goods to be delivering presently. The supplier accept to afford some exacting commodities to the purchaser at a hope date in operate of a move on cost wholly fulfilled at the instant of contract.

3. *Istisna'* *Istisna'* is a conformity in which a produce can be transact prior to it comes into continuation. The exclusive attribute of *istisna'* (manufacturing) is that not no matter which is exchanged on the score or at the occasion of constricting. It is possibly the only advance conformity where the obligation of communally social gathering are in the opportunity. In hypothesis, the *istisna'* contract could be directly among the stop purchaser and the manufacturer, but it is obviously a three-party settlement, with the bank the stage as intermediary. As(2015) Hussain et al explanation there are four input difference linking *istisna'* and *salam* contract.(i) *istisna'* involve the trade of exceptional affected goods as conflicting to *salam* that can be use in homogeneous commodities; (ii) unlike *salam* which require the payment of packed price up front, *istisna'* allow for stain, overdue, or even repayment costs; (iii) an *istisna'* treaty can be cancelled unilaterally pending the engagement that the creator start working on the goods, despite the fact that the *salam* convention can be cancelled only earlier than the contract cross; and (iv) The moment in time of liberate is undeviating in *salam*, but *istisna'* can a maximum moment in time for freedom shortly than which the bargain seeker is no longer bound to permit the possessions.

4. *Cost-Plus Sales Contract (Murabaḥah)* According to *broadsheet of Islamic Banking and economics 2016* presently like Mudharabah, Musharakah, is also a corporation, but the discrepancy is that in Mudharabah, one come together gives money for afford, although the other colleague is responsible in on situation that attempt and facility to administer the money; the profits engender out of the project are communal in a indomitable small part. This type of concurrence is recurrently used in the procurement of equipment. It is a sale convention between Islamic bank and its customer at permanent revenue called mark-up. In this treaty, the shopper wills at hand all the situation of the invention and the Islamic bank will imprison the take a

likelihood of obtain it for the consumer at a cost plus point expand which the punter can moreover reimburse in compensation or accumulation at a spot or at a confirmed time.

Principles of IFB

Banks which involve by hand in the Islamic banking arrangement should go behind the shariah standard. This opinion deal with the ethical and moral principles which should be considered in commerce with business operation. The foremost ideologies are (usury) *riba*, (hazard and doubt *Gharar*), profit or loss sharing and prohibited transaction

1. *Riba* (USURY) Based on the set of guidelines of blessed Quran which is meaningful out in (2:275-280, 3: 130-132, 4:161-etc) and Hadith as *riba* (interest) is forbidden. Islam prohibits its collection to collect or offer usury yet for the idea of receiving a mortgage or the emotional significance fee is short. In Islam, only a number of loan are permissible, such as *Qard al-Hasan* (benevolent loan), where the borrower is not emotional a few interest or other incrimination on the on loan figure.

2. Risk and uncertainty (GHARAR)

“*Gharar*” means risk, improbability, and lawful ambiguity or improbability that any one of the party to a convention can make use of at the drop of the others as (2016) Khalifa M. Activities or communication like (advertising the fish in the stream contract of unborn-she-camel or sheep, sale with loan conditional sale, selling of agricultural fabricate before established etc.) are not allowable (2013) Ajagbe T. S. et al. nevertheless industry communication are in general weigh down by a optimistic level of hesitation, the avoidable one is not reception under Islamic finance. Consequently, contract form the origin of assembly contact and Islamic banking services should be celebrated to a great scope concerning their consequence, (2007) Latifa and Mervyn.

3. Profit and loss sharing (PLS)

Based on Dusuki and Abdullah (2007) study, because interest is forbidden in Islam, the cause of resources and the capitalist in an Islamic banking setting distribute the business hazard and earnings based on universal concurrence. This act will justifiably allocate returns, increase community justice, and alleviate poverty etc.

4. Prohibited transactions Islamic banking coordination is known as a system liberated of trade activities that contravene Sharia system such as venture in production connected to making a bet

and liquid consequently Islamic banks in Malaysia in challenging have knowable their own Syariah optional assembly, which comprise Sharia expert who complete as auditor and advisors to the bank. They are in every respect accountable in make certain that operation and actions of the reservoir do not violation the morals of Islamic ethics as(2013) Mohammad Taquiuddin et al.

Types of Islamic banking

I. IB-working within a monetary system where everything banks are Islamized

II. IB-functioning beside further conventional banks and

III.IB- Shariah- objection branches, windows and resources recognized by some conventional banks.

Conventional banking and Islamic banking

The major variance between Islamic and conventional banks is the use of money. In conventional banks, cash is used as a produce that is purchase and whole saled one the interest's practice (2014Pasha).

2.2. Empirical Literature Review

Considerable amount pragmatic studies on issue and challenges of Islamic banking have been conducted all over the world mostly in the environment of country that have adopt the system over the years of its advancement to move up the association and function of Islamic banking. Even though this study discussed the academic and sensible characteristic of IFB, some of this study is based on a single country concern and some of them based on the universal system of Islamic banking. It is the finale of a lot of studies from both single country as well as universal study on challenges of Islamic banking that the establishment of Islamic banking in any country be it Muslim or non-Muslim faces a number of challenges, but they are not without preparation. In these section the researcher review country accurate study and general system on the challenges of IFB

2.2.1 Empirical Evidences General review

Abdulmajid et.al (2015) write about the effectiveness in IFB and predictable: banking an global similarity examine the competence of IFB and conventional banks by means of an production reserve approach. Even after scheming for exact ecological distinctiveness and IFB. Because of this IFB are establishing to have high proceeds to extent than conventional banks. While this suggest that IFB may advantage from improved scale, they stress and the consequences recommend that identify and conquer the factor that reason IFB to have comparatively little

possible amount produced for a set effort procedure level will be the means challenges for Islamic banking in the future decades (Abdulmajid et.al, 2015). Ismaeil, et al. (2015) Showed the latest progress of liquidation of many conventional banks prepared by the Central Banks to begin the acquisition of a number of banks although others were planned to join together. This was a strong indication to inquire about for option banking structure. Conversely, the sponsorship for the Islamic banking structure as other to conventional banking system has been acknowledged with varied feelings. Look into the opportunity and foremost challenges celebrated in the united state of America Islamic banks Ahmad (2008). Data was serene from side to side in-depth interview of unlike group as well as banking the arrangement, clients and non- clients of Interest free banking. The study initiates universal chance for the Islamic banking scheme to generate and expand in the united state of America. additional to the above, the study also exposed some obstacle to such expansion as well as they contain the condition of the service network connected to Muslims diagonally the UK, The require of Islamic banks and institution that totally assure the total Muslim the people, the need of take simultaneously of the secretarial system, and the lack of experienced workers that are accomplished in Islamic financial yield, marketing and sale. In a interconnected learn, Ringim (2013) Deliberate the accepting of explanation holders in conventional banks just before Islamic bank commodities, and conduct a assessment of above 300 Muslim customers in the united state of America on Islamic windows by conventional banks and create that Muslim customers are not totally aware of Islamic banking yield. Jabr (2003) travel around the challenge and prediction of Islamic banks in expenses in the Palestinian ground and he carry to a put up the shutters that challenge of Islamic banks are as follow: be short of of adequate banking law for Islamic banking;; lack of knowledge in Islamic Shari'ah require of understanding; endurance of fruitless money lack of operational difference between Islamic and conventional banks; Islamic banking lacks the ability to control deposits into unwarranted short-term economic implement and long-term speculation; inability to construct apply of Musharaka and Mudaraba economic institution;

2.2.2. Challenges IFB

2.2.2.1. Lack of Awareness and understanding

Based on Many studies which are done in different part of the world to implement IFB religious and cultural difference which existed with in one country has influence. Audu Bello et al.(2014) One of the major challenges of Islamic banking in Nigeria has to do with the country's multiple

cultural and religious belief. This issue is a serious one that needs to be effectively and efficiently resolved if Islamic banking in Nigeria must prosper. This is because of the fact that others with different cultural and religious belief will have a misperception of the institutions that may lead to not accepting the institution by the general public. Obaidullah (2005), Brown, Hassan and Skully (2007), Louis S. Nkwatoh et al. (2014) and also others studies show that Non-Muslims see IFB as an Islamization process, while Muslims see it as an ethical act predicated on religious belief.

2.2.2.2. Regulatory challenges

Islamic Banking is anchored on the principles of Shari'ah (operations of Islamic banks). Momoh et al (2011), the policy framework should provide the basis for competition of Islamic banks with 18 conventional banks. However, this framework has been tailored in line with the conventional financial system which supports the existing conventional banking system and gives less credence to Islamic banking. The relationship between Islamic banks and monetary authorities is a delicate one. Whatever the goals and functions are, Islamic banks came into existence in an environment where the laws, institutions training and attitude are set to serve an economy based on the principles of interest. For example, the operations of Islamic banks are on a profit and loss share basis (PLS), which actually does not come fully under the jurisdiction of the existing civil laws, (muhammed, 2012).

2.2.2.3. Absence of Liquidity Instruments

Financial instrument will facilitate the business sector, the absence of this system on the Islamic banking taken as challenges for its development. According to Louis S. et al (2014), the financial market in Nigeria facilitates the banking relationship existing among commercial banks through the provision of short-term tradable financial instruments: inter-bank transactions, overnight funds and borrowings that satisfy the temporary liquidity needs of commercial banks. This places Islamic banking at a distinct disadvantage compared to conventional banking, because, it operates under the norms of Shari'ah (non-interest banking). More so, there are no institutions that provide long-term finances such as bond, equity etc. on the basis of Shari'ah. There is limited knowledge of accounting and auditing standards that mirrors the specificities of Islamic products.

2.2.2.4. Inadequate Human Resource

Louis S. et al (2014), the sustainability of Islamic banking depends adequately on qualified human personnel, training, and above all research on Islamic finance. This is due to the increasing challenges that continuously rock the banking industry especially with the advent of technology. They also have to understand the moral and religious implications of their investments with the business ventures. There is also a need for banking professionals to be properly trained in Islamic banking and finance. Most banks' professionals have been trained in conventional economics. They lack the requisite vision and conviction about the efficiency of the Islamic banking, (Mohammed, 2012).

2.2.2.5. Lack of Supportive Institutional and Market

Islamic banking is at an early stage of learning and experience, lacking the flexibility to choose arrangements which best suits their need in reacting to structural shifts in the economic setting as well as changes in consumer preferences. For example, Islamic banks, without having an interest-free money and capital market, will not have adequate instruments to meet the pre-condition for liquidity management and effective maturity transformation. So, adequate financial mechanism still has to be developed, without which financial intermediation, especially the risk and maturity transformation, will not be performed (Hassan and Skully, 2007).

2.2.2.6. Shari'ah Related Issues

Audu Bello et al. (2014), Due to the fact that Islamic banking has religious dimension, financial innovations in this institution needs to meet *Shari'ah* requirements. That is, any new financial products in Islamic banking cannot be adopted until it is approve by the *Shari'ah* advisory board and also followed by post *Shari'ah* auditing. However, this act delays Islamic banking ability to take advantage of changing financial environment due to the fact that time has to be wasted before it is finally approve by the *Shari'ah* board.

2.2.2.7. Lack of research and development

Many Islamic banks also lack the necessary expertise and institutional capacity for Research and Development (R & D) that is not only necessary for the realization of their full potential, but also for its very survival in this age of fierce competition, sophisticated markets and an informed public. Islamic banking cannot but stagnate and wither without dynamic and ongoing

programmers. In addition, Islamic banks have so far not used the media appropriately. For example, even Muslims are not very much aware that the Islamic banking is being practiced in the world. Islamic banks have not ever used an effective media to the public their activities (Mohammed, 2012).

2.2.3 Empirical Literature Review-Ethiopian Context

In Ethiopia, Interest free banking is a contemporary occurrence. As a end result, there is miniature investigational writing on the locale. The study conduct by Debebe (2015) is on „factor disturbing clientele to Use IFB in Ethiopia forecast, opportunity and challenge in Ethiopia“, investigate occupation manner by Teferi (2015) was on contribution of IFB to financial extension and its examination in Ethiopia“; on the other hand, education“ conduct so remote include the successive: Mohammed (2012) has conduct examine on, IFB as a result, their termination in summarizing and the hole there to is available as follow. These are taught was responsibility scheduled to the sensible commencement of the IFB in the territory. For that reason, it was not base on concrete examination of ground rules on the earth and the respondents do not have real life ability on interest free banking products independence and do exercises. Debebe, has conduct a lessons on, Factors Affecting Customers to Use IFB in Ethiopia “ His discover out has centered on customers” purpose and inspiration to use IFB “ The results show that supposed relation advantage, supposed compatibility, clientslevel of understanding and one-sided rule have a important encouraging impact on the position towards Islamic banking in commercial bank of Ethiopia This find out is about stop working dimension on the move toward Islamic banking system which does not instruct to the IFB to profitable advance and its view in Ethiopia“. He evaluate the contrib ution in as well as the Muslim residents in the banking (economic coordination) to the economic expansion and GDP progress. Not together with research conduct by Mohammed, the additional studies are not correlated to the in attendance revise. Consequently, not including in the wide-reaching study which take reality of other country, to the best awareness of the investigator, there is insufficiency of experimental lessons in Ethiopian circumstance interrelated to the range of once-over and challenge of as long as and by means of IFB yield. This learn, accordingly, endeavor to package this research space by examine the challenge face by both user of IFB goods and service provider and possibility of service provide by Ethiopian banking throughout Islamic banking window including whether to hand is un meet demand of user, extraordinary action of clients and facility of bank as these have been recognized in the reporting as most significant challenges, and CBE is in use as a casing study.

Research Gap

Based on the predetermined examination of writing, it become understandable that prior studies, which both focus on the vision and challenge of establish full-fledged Interest free banking or challenge of customer by means of Interest free banking or container revision on the challenges of Interest free banking exacting conventional bank. This study effort to be on familiar terms with the challenges and sharia conformity of Islamic banking manage by conventional bank in Ethiopia and to assess them significantly. The study was paying knowledge just on Commercial Bank of Ethiopia in A.A town involving the banks with double services and as a consequence the outcome since this casing may not be general to extra banks with conventional services and customers of banks in rural area. The discovery of this study is restricted Islamic bank to account owner" customers of the banks, thus the generalization of the outcome for analysis of others account holders", firm and institution necessity be through with concern. One of the boundaries to this study is possible due to moment in time and funds restriction. This study, therefore, attempts to fill this research gap by investigating the challenge faced by both service providers and users of IFB products and scope of service provided by Ethiopian banking through IFBW including whether there is unmet demand of users, awareness of customers and capacity of bank as these have been identified in the literature as major challenges, and commercial bank of Ethiopia is taken as a case study.

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

The researchers describe what are the challenges of Interest free banking face with in Addis Ababa selected private banks. In adding together, it also to observe the sharia fulfillment of the current IFB products and services with full investigation of the operation Islamic window of selected banks. In This part converse the do research methodologies make use of to answer the study questions. It outlines the lessons plan, the target population, sampling methods and sample size, data collection methods, and data analysis techniques.

3.1 Study Design

To achieve the stated objectives of this study descriptive study mean approach. Descriptive investigate is disturbed with situation and interaction that it allows for to be gather and analyze by means of their relevant quantitative and qualitative techniques. Purposely, the lessons used quantitative survey and qualitative in-depth interview. The assessment conduct with staffs of IFB windows, department and customers of IFB, although the carefully interviews with managers of Interest free banking department.

3.2 Source of Data

The investigator used both primary and secondary data. The primary statistics source were customer, staffs of IFB department and branches Managers of selected banks branches in Addis Ababa, The primary data collect by interviews and questioners IFB staff and customer and interview were also set for managers of the banks. Concerning secondary data, annual reports, NBE directives, web pages and articles of the bank were used.

3.3 Population

Interest free banking products and services provide banks select , namely: Awash Bank (AB), Dashen Bank(DB), Oromia international bank (OIB), Bunna international Bank (BIB) and Wegagen Bank (WB), the study in the Addis Ababa branch managers, IFB staff and customer of the chosen branches, The motive why Addis Ababa city is chosen is three-fold. Firstly, Interest free banking units that are Addis Ababa committed fully to interest-free banking are found Secondly, Addis Ababa city have a large number of Interest free banking customers. thirdly,

reflect on of distance and time available for the study. Because of these, the researchers focus on IFB windows of the preferred banks in the Addis Ababa branches.

3.4 Sampling methods and sample size

3.4.1 Sampling methods

The sample preferred from four special category of grouping. To be precise, commercial banks with IFB, branches of Commercial banks, the IFB customers, and branch managers of the chosen branches. For this exacting learn, the researcher data collection through questionnaires and structured interviews. further in particular, the Sampling of representative samples base on (SPSS) Statistical Package for Social Sciences version 20 The discover sample cover the following banks Islamic window: Awash Bank (AB), Dashen Bank(DB), Oromia international bank (OIB), Bunna international Bank (BIB) and Wegagen Bank (WB).The researcher branches' of conventional banks, branch managers, IFB staff and customer of selected branches.

3.4.2 Sample Size Determination

The decisions about sample size subjective by a lot of factor contain the cost and time that need to be in use into account. At the end of 2020 there were 5 banks 748 branches in Addis Ababa presently contribution IFB services and products. The figures of branches in bank were in use from their accurate annual report.

Table3.1 Sample size determination

NO	51-90	91-150	151-280	281-500	501-1200	1201-3200	3201-10000	10001-35000	35001-150000
SMALL	5	8	13	20	32	50	80	125	200
MEDIUM	13	20	32	50	125	200	315	500	800
LAREGE	20	32	50	80	125	200	315	500	800

Source: Carvalho (1984)

Base on this sample size strength of mind method the examiner elected a large sample size which is 125 branches in Addis Ababa out of Five Commercial banks the total branches (748) to

raise the truthfulness of the data. While the number of branch in every bank is unstable, the investigator divides his sample into five sub-samples.

Table 3.2: Sample size of each bank

Banks	IN A.A figure of Branch	Taster size	Percentage of sample
Awash bank	170	30	19%
Wegagen bank	156	26	19%
oromia international bank	149	24	19%
Bunn International Bank	111	20	19%
Dashen Bank	162	25	19%
Total	748	125	

The branches of Commercial banks in Addis Ababa city 19% of Islamic windows have taken as a sample. The biggest number of branch is Awash bank and the lowly number of branch Bunna Bank. Then, the branch' IFB customer, managers, and staff of these branches was in use as a sample As the June, 2020, the total number of account holders in IFB preferred banks would be around 560,000 as, it were taken from their relevant banks. The sample size of Interest free banking account holder customers determined in unity with Fischer (1998) technique of sample size resolve. The method for scheming the buck amount model size is the formula for calculating the minimum sample size is

$$n= Z^2 * P * Q$$

D2 Where n is sample size

P is proportion of variable of interest in the population

Z is standard error associated wi

th chosen level of confidence

Q is 1- p and d is the precision.

The taster size of Interest free banking account owner customers is determined in harmony with the following assumption: proportion (p) equals to 50%, this is the safest probable hypothesis,

the confidence level of 95% which correspond to z -value of 1.96 and an precision or error (d) of 5%.

$$n = 1.962*0.5*0.5 =384$$

Therefore, 384 would be adequate to achieve the necessary number or a dissemination point according to Fischer (1998).even though the sample size is little in evaluation to the real population, the sample size is sufficient for the learn. As Roscoe (1975) indicate a rule of thumb for formative sample size is that qualification the sample is less than 500 and larger than 30. Fraction of customers size to sample of branch chosen is $384/125=3.07$ which mean on average 3 customers will be elected per branch. So that, Number of customers in each bank= 3 * number of samples of branch preferred.

Table 3.3: Sample size of each bank customer

Sub group	Branch per Bank	Number of customers per Branch
AB	30	92
WB	26	80
OIB	24	73
BIB	20	62
DB	25	77
Total	125	384

3.5 Method of Data Collection

Designed for the purpose of this lessons, and in outlook of the reality that learn descriptive in character both in this study the most important data collect throughout semi controlled interviews open and closed ended questions were set and survey things through the revision and adjustment of instrument from appraise of previous writing in the area of IFB to make certain that all the significant issue for this study are cover in the list of 384 question; while the secondary data collected by takeout appropriate and compassionate data and information from the secondary data source

3.6 Data Analysis Method

The lessons has perform primary and secondary data analyze via descriptive information, the data collect using questionnaires, analyses (SPSS) Statistical Package for Social Sciences Qualitative data that acquire from the open-ended survey and interview obtainable using description analysis. Because the learn adopts a mixed process option, the examiner attempt to triangulate result from customers, and bankers, in order to attain sound conclusion.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This part current the consequences of the study on the challenges of IFB with in commercial selected private banks in Ethiopia. the aspire of this chapter is to analyses data collected from the questionnaire, interviews and secondary sources about the challenges of Interest free banking in Ethiopia selected private banks. The secondary data was in use from annual report respective banks. What's more, the primary data was gathered from the employees and Islamic banking customers of the banks. All the way through questionnaires and interview question to the particular department manager of the banks.

4.2 Response Rate, Respondents' Characteristics and Reliability test

4.2.1 Response Rate

In this study, the researcher all the way through the branches hand over out 176 and 384 questionnaires to the selected bank's branch managers and IFB staffs and IFB customers, respectively. Away from home of the 384 distributed questionnaires to IFB Customers 357 have been returns, Which a response % age 92.7 out of 125 questionnaires circulated to managers, 119 were returned these specify a response % age of 95 for manager and the 60 questionnaires circulated to staffs of IFB have been all fulfilled and return means 100%.

4.2.2 Demographic Characteristics of Respondents

The respondents significant role to analysis there demographic facial appearance and individual personality on survey. Statistics collect was process and analyze by means of (SPSS) Statistical Package for Social Sciences version 20. (Frequencies, %ages and means) explanatory statistic is correlated with the method of organize, summarizing, present data and to express the uniqueness of the sample in a practical and appropriate manner

4.2.2.1 Bankers Profile

Table 4.1 shows the wide-ranging locate of the bankers. Gender, age, educational qualification and occurrence of work as well as first part of the questionnaire composed information from respondents.

Table 4.1: Characteristics of Sample bankers

GENDER		Frequency	Percent
GENDER	Male	135	75.4
	Female	44	100
	Total	179	
AGE	18-27	35	19.5
	28-37	105	78.1
	38-47	36	98.2
	47 and above	3	100
	total	179	
Education	First Degree	119	0.66
	Masters	60	100
	Total	179	
Experience	< 1Years	22	12.3
	2-4 years	52	41.35
	5-7 years	51	69.84
	>8 years	54	100
	total	179	
location of the respondents'	branch manager	119	66.5
	IFB Loan officer	3	68.2
	IFB Accounts and operation officer	5	70.9
	IFB CRM	8	75.4
	IFB Finance and Investment officer	4	77.63
	IFB Loan officer	12	84.33
	IFB Officer	6	87.7
	IFB Research and development	13	95
	Internal Auditor	4	97.2
	Marketing officer	5	100
	total	179	

Source: Own computation from primary data source, March 2021

normally, the above data occupy that in cooperation branch managers and IFB staff members.’ who have contribute in the learning, were suitable for the learn in view of the fact that they had work for the banks long sufficient for them to be well reactive of Challenges of Islamic banking service to be had by their Ethiopian bank.

4.2.2.2 Customers Profile

Table 4.2: Characteristics of Sample Customers

GENDER		Frequency	Percent
	Male	230	64.5
	Female	127	100
	Total	357	
Religion	Muslim	357	100
	non-Muslim	-	
	total	357	
previous Account before IFB	Interest bearing account	116	32.5
	Non-interest bearing account	95	59.1
	I was not a bank customer because of interest	121	93
	I had not use to bank service due to some other reason	25	100
	Total	357	
Years attachment with the IFB window	< 1Years	105	29.4
	1-2 years	195	84
	2-5 years	57	100
	total	357	
Types of Islamic bank account connected with	Saving	256	71.7
	Current	61	88.8
	investment	40	100
	total	357	

Source: Own computation from primary data source, March 2021

Table 4.2 shows in the taster, minority 34.2% of the account holders were female while the mass of the account holders were male. Approximately all of respondents are categorize in Muslim religion that is also support by various obverse line up staff of the bank branches that specify as by any way the actions followed by bank is not concerned non-Muslim to open IFB account that only Muslim clients are contribute to use IFB, and the attendance of non-Muslim respondents is nothing. % age of 32.5 of the respondents exposed that they had Interest bearing accounts and out off 100 percent 26.6% had interest free account. More unexpectedly the table reveal that because of interest which is 33.9% not a bank customer and 7% of the respondents were do not utilize banking service because of personal explanation. The above table as well shows % age 54.6 of the respondents have been utilize Islamic Banking products within 1 up to 2year, 16% of the respondents have been provide IFB banking product between 2-5 years and an additional customer out of 100 percent 29.4% have relative for less than a year. Fraction of persons people who contribute in the review and they have exceptional types of accounts. subsequently to saving current account with a percentage of 17. A comparatively small sector of Investment accounts, in the analysis only 11 percent of the total sample size the gathering of the respondents have a reduction account with the maximum percentage of 72. for that reason people via IFB investment account however, still not in a considerable number measure up to to saving and current account.

4.2.3 Reliability Test Statistics

Reliability is the coverage to which a dimension gives consequences that are dependable and essentially anxious with issue of reliability of procedures (Bryman and Bell, 2007). As a test for interior challenge of IFB. The Cronbah's Alpha guide vary involving 1 (a suggestion of faultless internal dependability) and 0 (an suggestion of no internal reliability) (Pallant, 2007). by means of SPSS software, outcome of explain that Cronbah's Alpha coefficient is 0.831, 0.84, and 0.732 for the three essence inspect from customers respectively. Whereas, the compute Cronbah's alphas of the staff response are in the range of between 0.738 and 93%. These indicate significant domestic reliability of the response. The table under shows the stability figures as subtract by the SPSS software.

Table 4.3: Reliability of Statistics (Test): Customers Item

Item	Cronbach's Alpha	No. of Items
Customers accepting about Islamic bank	0.831	5
Customers awareness about IFB products and services	0.784	10
Customers' approach towards Interest free banking windows services	0.732	7

Source: Output of SPSS, March 2021

Table 4.4: Reliability of Statistics (Test): Staffs items

Item	Cronbach's Alpha	No. of Items
settlement of involved Islamic banking	0.831	5
understanding of bankers towards the IFB products on tender in Ethiopia	0.784	10
inclusive separation of finances	0.732	7
Sharia Supervisory Board	0.796	6
Managerial assurance	0.738	7
Challenges of committed interest free banking	0.874	17

Source: Output of SPSS, Feb 2020

4.3 The level of Awareness of Bankers and Customers about IFB products

4.3.1 Awareness of Bankers

Table 4.5: Bankers understanding about Islamic Banking products and services

Items	Fully Aware		Little Aware		Fully unaware	
	Freq	% age	Freq	% age	Freq	% age
Murabaha (mark-up rule)	123	68.7%	53	29.6%	3	1.7%
Musharaka (dual venture	23	12.6%	55	31%	101	56.4%
Mudharabah (trust financing	29	16.2%	60	33.5%	90	50.3%
Ijarah (leasing)	20	11.2%	52	29.1%	107	59.7%
Salam(acquire order) financing	24	11.1%	40	22.3%	115	64.3%

Istisnaa (pre-paid purchase	20	11.2%	45	25.1%	114	64%
Wadi'ah/Amana (safe-keeping contracts for current and saving deposit)	126	70.4%	37	20.7%	16	8.9%
Wakalah(safe-keeping contracts for agency contracts	55	31%	43	24%	81	45%
Quard Hassan	37	20.7%	69	38.5%	73	40.8%

Table 4.5 summarize First a elevated fraction of the respondents are approximately 70.4% and 68.7 % aware of Wadiah /Amana and murabaha means of set down and economics respectively. However, Islamic provisos of Musharakah 56.4 % and Mudarabah 50.3 % a important number of the respondents get up that they are slight aware of the specific In accumulation, extra than half of the respondents are miniature aware or unaware of the function base and rent based mode of support on the attention free main beliefs of Ijarah (59.7%) Istisnaa (64%) and Salam (64.4%), in the same way. In addition, the majority respondents are not-aware concerning other IFB product technique such as safe-keeping contract for agency contracts (Wakalah) and generous loan (Quard Hassan). This consequence may possibly be declare by the type of Islamic bank products and services the example banks at this time offer and how a large amount they know as regards the quality of every product and services. As per discussion outcome, the majority of interest free banking windows in Ethiopia easy to get to Wadiah/Amana deposit account and murabaha approach of operate business even though the list of products the banks advance in medium or in their website include extra style of investment Except they try to hold every customer economics and speculation requirements by means of a particular invention division of murabaha. These imply with the cause of accumulation of the branch managers and staffs of Islamic banking windows Require of awareness of IFB products and have slight understanding about the procedure of IFB that their total confidence is base on such products which control a foremost and a famous component of speculation, trade and rental manner of investment.

4.5.2. Customers' awareness about IFB

In this division of the investigation, the questions of the analysis were considered to come together the in order from the customers about awareness of the clients and their mandatory information about IFB was addressed. Purposely attentive on the complete understanding clients

about IFB main beliefs and Shari’ah based products and services in the market, i.e. to what amount the customers of Interest free banking aware

Table 4.6: Customers awareness about IFB and its’ principles

Benefits of practicing IFB	Strongly disagree	disagree	Neutral	Agree	Strongly agree	mean
be familiar with the benefit and types of IFB services in Ethiopia	20.4%	30.8%	12.9%	21.6%	14.3%	2.7843
I know how my deposits and savings are invest by the banks	22.7%	34.2%	21.3%	14.5%	7.3%	2.4958
be familiar with the technical differences and mechanisms of IFB	19.6%	28.0%	23.8%	14.6%	14.0%	2.7535
I be aware of the key concepts of IFB	21.6%	28.9%	28.3%	14.3%	7.0%	2.5630
be aware of the sharia principles of Interest free banking	13.2%	37.8%	19.0%	18.2%	11.8%	2.7759

Source: Own Computation from Primary Data Source, Feb 2020

Tables 4.6 show the response of the respondents concerning the announcement that customers of IFB in Ethiopia realize the key perception of Islamic banking. Along with 379 respondents, 50.5% of the respondents strongly disagree or disagreed to the report that clients Islamic bank be aware of the key in theory of IFB. The report suggest for the above declaration was 2.56 which specify customers lack appropriate accepting of the key concept of IFB and as such there is require for understanding design on this essential feature of IFB. Additionally, an announcement was incorporated to be familiar with whether customers of Islamic banking understand or attentive the shariah values of IFB. The reports mean of this announcement was 2.77 which designate a high degree of require of self-assurance about their knowledge of sharia principles which administrate Islamic banking operation. There survey there was no more than 30% applicant who agreed to the report and they be aware of the sharia main thinking of Interest free banking. Another 2.75 of respondents had an objective view the details mean of the proclamation was 2.75 which designate clients of the IFB uncertain concerning whether they genuine appreciate the procedural difference and mechanism of Interest based banking. Moreover, deposits and savings are invested by the banks the report represent was 2.49, which suggests a general agreement to that statement. The residual 12.9 percent show no answer to the

announcement and stay neutral. The report imply for the above statement was 2.78 which specify customer's lack of accepting of advantage and type of IFB services in Ethiopia

4.5.2.1 Customers awareness about IFB products and services

Table 4.7: Customers awareness about IFB products and services

Items	Fully Aware		Little Aware		Fully unaware	
	Freq	% age	Freq	% age	Freq	% age
Mudarabah investment	52	14.5%	140	39.2%	165	46.2%
Murabaha	24	11.1%	40	22.3%	115	64.3%
Wadiah	29	16.2%	60	33.5%	90	50.3%
Mudaraba deposit	20	11.2%	52	29.1%	107	59.7%
Ijarah	20	11.2%	45	25.1%	114	64%
Amana	23	12.6%	55	31%	101	56.4%
Salam	126	70.4%	37	20.7%	16	8.9%
Quard	123	68.7%	53	29.6%	3	1.7%
Istisna	55	31%	43	24%	81	45%
Musharakah	44	12.3%	74	20.0%	239	66.9%

Source: Own Computation from Primary Data Source, Feb 2021

The table 4.7 Result summary the knowledge about IFB products and services. It seems that the majority of the respondents show a good kind of Al-Wadiah, Quard and Amana savings and current accounts. More principally, 43.1% of the respondents were aware of current account based on the Quard principle; 58% of respondents were aware of AlWadiah savings and current accounts 54.6% of the respondents were aware of current and saving based on the Amana code and. This clearly indicates that a high proportion of the respondents are aware of Interest free deposit types. However, 80% of the respondents were not aware of Investment deposit (Mudarabah).Trade and lease based product are among the most common products and services offered by IFB including Islamic window of commercial banks. Important quantities of the respondents declare that they are not sensitive of the specific Islamic terms of mudarabah, 37% of all respondents have knowledge about murabaha mode of finance. However, the findings indicate that terms such as Ijarah, Istisna and Salam were not well understood. More exclusively, only 20.7% of customers are knowledgeable about the Ijarah of lease finance, only 16.2% of customers are knowledgeable about the Istisna trade finance and only 12.3% of customers are

knowledgeable about the Salam trade finance. Concerning profit and loss sharing account, only 14.5% of the respondents were aware of Mudharaba investment account while only 12.3% of the respondents were aware of Musharaka. This implies that majority of the bank's customers had a poor understanding of profit and loss accounts. Awareness of Interest free banking methods has a positive effect on potential use of Interest free methods of finance. According to the survey, majority of the account holders indicated that they did not well understand Interest free product and services that have been offered or expected to offer in the near quality. This shows that there is still a need to create understanding among the general public including the bank customers about Interest free banking services and products. Better awareness through announcement and further media platform with consider to the products and services accessible by IFBW of commercial banks self-control reason others who had continue away from this approach of banking to spend in it and increase the uncontrollably expansion of this type of banking service.

4.5.3 Customers approach towards Islamic products and services

Table 4.8: Customers approach towards IFB service and products

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The employees' Islamic windows are not fully attentive and skilled in the field	16.5%	11.9%	14.8%	31.1%	25.8%	3.3782
I judge that IFBW is not different from the conventional ones, but for the use of a only some Arabic terms to recommend Shariah compliance	24.1%	14.3%	17.9%	20.2%	23.5%	2.9524
An interest-free window of commercial bank is a good alternative to conventional banking	22.1%	22.4%	15.7%	19.3%	20.4%	2.9356
I consider that IFBW of conventional banks are following the Sharia principles of IFB	34.7%	14.3%	19.3%	21.3%	10.4%	2.5826
I do not think that IFBW of conventional commercial banks is a good way to through the customer's finances.	8.4%	14.3%	21.2%.	23.8%	32.2%	3.5714

Source: Own Computation from Primary Data Source, Feb2021

An IFBw by a conventional bank is one more measurement of Islamic banking operation which supervises customers' finances from Halal resource. On the other hand, a lot of clients disturbed about the finances of conventional banks future from interest base statement diverse with Islamic window carry. Charge in brainpower this, the account holder of Islamic windows were difficulty about their view on the issue of the statement that IFBw of conventional is a excellent way to control the customers' resources. The greater part of the customers agree or strongly agreed to the statement, 56 % assumed that they did not believe that Islamic banking of commercial banks is a high-quality way to control the customers' funds. Approximately percents of 21.2 of respondents stay not taking sides whereas 22.7% respondents disagree to the report. The report suggest of the above declaration was 3.57 which indicate agreement surrounded by the largest part of the respondents to the declaration. These indicate Commercial banks with Islamic window should to effort in collaboration to move up understanding in the midst of the set of people how Islamic windows control the finance raise from beginning to end IFB.39.7 Percents of the respondents assumed that an IFBW of commercial is a good choice to conventional banking. Whereas, 44.5 percent of the sample respondents do not the declaration and 15.7% had impartial analysis. The reported mean 2.93 of the statement imply that a large amount of the customers are unsure about IFB service of the commercial banks serves as a realistic and trustworthy another for conventional banking services. several response of customers from open ended branch of the feedback form tell us they use IFB of the commercial bank as a previous option and mainly for protection purpose rather than considering it as alternative to do business. The first and the majority important requirement for Interest free banks including Islamic window of the conventional commercial banks is to follow the Sharia principles of IFB. Among respondents, 31.7 % of the respondents do agree to the statement and 19.3% of the respondents had neutral view. 49% of the respondents did not judge that IFBW of conventional banks follows the Sharia morality of Islamic banking. The report mean was 2.58 which specify important number of the respondents supposed that the procedure of IFB is not in line up with the shariah theory. Additionally the table 4.8 shows that the massive "in attendance is a real IFB in Ethiopia". 70% of the sample respondents are in agreement or powerfully agreed that there is an actual require for Islamic banking products. While 16.2% of the respondents not agree to the declaration and another 12.9% had a impartial view. The reported mean 3.83 which designate a better conformity surrounded by the respondent about the existence of valid interest for Islamic

banking products and service constant if they are not certain the existing window lodge their interest. Along with sample respondents, 43.7% of the account holders strongly agree or agree to the statement that it is solitary adjust of family name. In opposing 38.4% of the respondents did disagree to the statement and 17.9% had an unbiased view. The report suggests of was the above declaration was 2.95 which indicates hesitation about whether Islamic gap of commercial banks meager a change of a name or in fact fluctuate in their attitude and process from the conventional banking industry.

4.6 Legal and Regulatory Challenges

It is fact that Islamic banking is not well regulated at the moment because they have not a strong branch network. (www.islamic-bank.com). and as same, what's mainly difficult about working in this area is that IFB is not making progress at the same rate as market require. This is appropriate to a require of knowledge around system. Banks are uncertain how to explain legal dispute that begin from interest-free finance, and there is a still a crack in knowledge about how to devise suitable products. It is under working to build the capacity of staff to design financial products and how to evaluate the market and, working with the Ethiopian government to establish an interest-free finance advisory board that will assist the industry to navigate regulations. Currently Islamic banking is opposite the challenge of the new manner of conventional banking in opportunity of Islamic banking window. It will improve the services of Islamic banking but there is a need that Islamic scholars work hard to maintain the priority of Islamic Sha'riah. Islamic banking is still extremely promising as compare with conventional banking, and this is an massive cause causative to the variety of challenges IFB are currently facing; Due to the innovation of Islamic banking systems, their legal and regulatory frameworks are still relatively complex and un-standardized. Therefore, they have a tendency to follow various accounting and other practice with no universally recognized principles. Some of them follow International Accounting Standards (IAS), others remain to standards issued by Accounting Auditing Organization for Islamic Financial Institutions (AAOIFI), while some implement accounting standards prevalent in their limited markets (Khalid and Amjad, 2012).

Table 4.9: Challenges of Interest free banking

	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree	Mean
Lack of suitable Interest free banking financing modes	10.4%	19.5%	15.9%	32.3%	22.0%	3.36
Lack of Top management and organization commitment	12.2%	9.9%	9.1%	30.5%	39.3%	3.75
Lack of confidence and trust of clients	4.3%	6.1%	7.3%	40.2%	42.1%	4.10
Lack of suitable Interest free banking financing modes	11.0%	12.2%	8.5%	20.7%	47.6%	3.82
Higher commission and fee on transactions	16.5%	48.2%	16.5%	11.0%	7.9%	2.46
Insufficient knowledge and understanding of IFB by NBE	6.1%	10.4%	16.5%	34.1%	32.9%	3.77
Lack of legal support from government	9.1%	10.4%	13.4%	26.2%	40.9%	3.79
Lack of qualified human resource	3.7%	6.1%	8.5%	28.7%	53.0%	4.21
Lack of cooperation among conventional banks Islamic windows	12.2%	18.3%	20.7%	21.4%	27.4%	3.34
require of infrastructure suitable for IFB operation	11.6%	11.0%	8.5%	42.7%	26.2%	3.61
Shortage of supportive and link institutions	6.1%	20.7%	27.4%	27.4%	18.3%	3.31
Inadequate training and education facilities	6.7%	19.5%	11.0%	32.9%	29.9%	3.60
Lack of Shariah advisor	6.7%	4.9%	7.9%	27.4%	53.0%	4.15
Higher tax burdens on the Interest free banking products	12.8%	19.5%	9.8%	36.0%	22.0%	3.35
Noncompliance with Shariah requirements	34.1%	32.3%	13.4%	9.8%	10.4%	2.30
Inability to meet financial needs of clients for different types of funds	12.2%	23.2%	13.4%	31.7%	19.5%	3.23

Source: Own Computation from Primary Data Source, Feb 2021

The table 4.9 shows that greater part of the bankers have contract with the statement that require of Shariah consultant is a challenge for the process of IFB in Ethiopia. Surrounded by 164 respondents, only 11.6 percents of the respondents not agreed to the statement and another 7.9 % had an free observation. an extra 27.4% of the respondents were approved to the statement but those who powerfully agreed to the statement were calculation to be 53%. The examination outcome show that nearly 80.4% of the respondent agreed that be short of shariah specialist is a challenge. The report of the above article was Table 4.12 which indicates contract among the respondents concerning the lack of shariah consultant is a challenge since existence of wholly efficient shariah consultant t is the fundamental point for both procedure and increases such banking service conditions the bank is completely fledged or Islamic window of conventional banks. On top of table also shows that 68.3% of the respondents strongly agreed or agreed that require of supervision by National Bank of Ethiopia is between challenges of Islamic windows by commercial banks. Only 23.2% of the respondents disagreed to the report and 8.5% of the respondents did not show any answer to this report. The report mean of the statement also recognized that there was an contract among the respondents concerning be deficient in of supervision by NBE as a challenge. Additionally, trust of clients is a challenge for Islamic window by commercial banks and the huge better part of the respondents has agreement with the statement that lack of self-assurance. The review outcome also show that 82.3% of the respondents agreed to the announcement. The report mean was 4.10 which specify a common concurrence to that statement, because growth of IFB depends on communal trust and self-assurance among clients of the bank. Furthermore, 77.1 percent of the respondents understood that be deficient in of legal sustain from government is a challenge for expansion of IFB in the state. while, 13.4% had an sovereign analysis and only 19.5% respondents disagree to the announcement. The reported mean for this statement was 3.79 that designate respondents agreed to the detail that Islamic window of commercial banks require legal and regulatory carry from the government. According to the examination consequences, 81.7% of the respondents supposed that they strongly agreed or agreed that require of trained human resource is a challenge for conventional banks currently contribution IFB products and services. There were only 9.8% respondents who not agreed to the above statement and anymore 8.5 % continue neutral. Along with the sample respondents, 68.9% of the respondents strongly agree or agree necessitate of communications which fit for IFB operation is a challenge for interest free banking operation. In addition, in the sample of respondents 164, 62.8% agreed that an not enough preparation and education capacity is a challenge for interest free operation. Whereas 26.2%

respondents not agreed to the statement and another 11 not show any reaction to the announcement. Besides, there were 67% of the respondents who agreed to the declaration that not enough information and understanding of IFB by authoritarian body i.e. NBE is a challenge for the development of interest free banking. It is also marked from the statistics shown in the above table show percents of 69.8 of the respondents agreed to the report that lack of top organization and association guarantee as a challenge. There were respondents that constitute only 22.1% of the sample who not agreed to the statement. The residual 9.1% do not react to this statement and remain independent. The reported mean of the above items were between 3.61 and 4.21 Which designate a greater degree of agreement among the respondents concerning the items as a confront for the procedure of IFB in Ethiopia. According to the survey consequence, need of suitable Interest free banking financing modes 54.3%, be short of of cooperation among conventional banks Islamic windows (48.8%), Higher tax burdens on the Interest free banking products(58%), disobedience with Shariah requirements(20.2%),and are Challenges of interest free banking.

4.7 Shariah requirements for conventional banks

Numerous commercial banks are gradually more appropriate interested in IFB. The mainly significant of these mandatory conditions are total severance of property survival of a sharia managerial group and supervision that is dedicated to advertising and promote Interest free banking. The primary and principal required for a accurate Islamic window is so as to it is suspiciously divided from the universal surface of the conventional bank (2002,Usmani).severance is not only a objective screen in a subdivision among Islamic windows and the conventional segment, but as well division in all kind of actions, functions, recording and reporting. There should be a sharia supervisory board or shariah advisor for any institution which tries to offer sharia compliant products and services. Moreover, the commercial bank's management, which is undertaking such Islamic banking, should be fully convinced of the concept and fully committed and dedicated to it. The following section attempted to discuss the shariah requirements for conventional commercial that operate Interest free banking.

4.8 Management Commitment

Table 4.10: Management Commitment

Management Commitment	Strongly Disagree	Disagree	Neutral	Strongly Agree	Agree	Mean
The bank has a proper institutional structure for Interest free banking system rides on the back of commercial Banking system.	21.3%	32.3%	25.6%	12.3%	8.5%	2.5427
Managements of the bank fear cannibalization of commercial banking by Interest free banking	26.8%	11.6%	37.2%	17.7%	6.7%	2.6585
The management of the bank is dedicated and dedicated to run its business according to the principles governing Interest free banking	20.1%	25.6%	23.2%	16.5%	14.6%	2.7988
commercial banks lack real assurance to the development of Interest free banking	16.4%	12.8%	12.8%	36.0%	22.0%	3.3415
The IFB have got the same admiration as other businesses within the bank	15.9%	26.2%	25.6%	20.1%	12.2%	2.8659
IFB are viewed mostly as a support division, rather than an operational division	15.9%	17.7%	16.4%	28.7%	21.3%	3.2195
The bank management shows commitment in marketing and promote Interest free banking products and services	30.5%	22.5%	17.7%	18.3%	11.0%	2.5671

Source: Own Computation from Primary Data Source, Feb 2021

The above Table shows that 58.8% of the respondents believe that, Conventional banks not have genuine commitment to the expansion of IFB while 29.3 % of the respondents did not agree to the statement that commercial bank presently involvement IFB products need concrete assurance. The reported mean for this article was 3.34. These designate a degree of impartiality about the announcement. It suggests that they are uncertain whether commercial banks dedicated to expand and encourage IFB services or not. Out of the sample respondents 179, 53.1% of the sample not agreed to the statement and it resources in their vision management of commercial banks not have obligation in promotion and marketing IFB products and services. The response of concerning the statement that the management of commercial bank are faithful and dedicated in the direction of run its industry according to the main beliefs governing IFB Statement in the questionnaire, 45.7% of the respondents strongly disagree or disagree to the announcement. The report mean ethics for the above two item were 2.79 and 2.56 respectively. This indicates a high degree of ambiguity about the management of conventional banks commitment. Table 4.10 show that 53.6% of the respondents with reported mean of 2.54 did not agree to the statement that commercial banks. Donation IFB products and services has a proper institutional structure for IFB system be carried on the sustain of conventional Banking system. besides 42.1% of the sample respondents strongly disagree or disagree to the item which state that IFB have get the same admiration as other businesses inside the bank. The reported mean of this item 2.86 is quicker to the level evaluate of a impartial which is 3, Therefore indications that, they have uncertainty about IFB have get the same admiration as other business contained by the bank. in addition, half of 50 Percent of the respondents with report mean of 3.29 agreed that the IFB by commercial banks are view commonly as a sustain separation, rather than an operational division. This be a sign of a high degree of hesitation about whether conventional banks in Ethiopia actually commit to support, sprint it's according to the ideology foremost IFB, to institute suitable institutional structure and give suitable respect as well as carry. while the mean is close to unbiased, the actuality that it tilt towards their deviation generally suggest that a large amount of commercial banks IFB window need commitment whereas it achievement depends on their assurance and attachment for the standard in which Islamic banking works.

4.9 Interview Analysis

The rationale of this lesson is to study Challenges of IFB by commercial banks in Ethiopia. As a element of research plan, and state in the research methodology part, interviews concerning key practice and challenges of IFB in commercial banks were perform. A total of five respondents

were interviewed in the clarity of the objectives of the research and to face some concern that capacity not be covered by the questionnaire. The chosen bankers were in the ability of administrator or Managers of Interest free department. To help interviewees become identifiable with the Issues, and clarification of the function of the learn was provided, and then bankers were asked about diverse aspects of IFB.

4.9.1 The repayment of adopt IFB for conventional banks

One of the significant progress in Ethiopian banking industry in the last five years is some conventional banks which include some of the massive banks in conditions of market share in the banking business have in development by means of IFB dealings, tools and method in their banking operations. The rising and exacting economic needs of Muslim group of people aggravated the management of commercial banks to include the banking services similar in temperament with the law of Shari'ah. Oromia International bank is the primary commercial bank which took the program to initiate IFB products and services well-matched with Islamic Shari'ah in to Ethiopian banking industry. Nowadays, there are nearly all commercial banks offer interest free banking windows, operating with approximately 2000 branches in diverse part of the country. It is a high-quality model of the quick development of IFB service in the country. IFB service is recently introduced for Ethiopian banking business. It indicates how conventional banks currently present IFB products benefit from Islamic window regardless of the innovation of the service, with imperfect number of products and resources, need of skill and misconception about IFB products. To computation, settlement of adopt IFB for conventional banks, through interviewing managers of IFB department, conclusion from questionnaire and secondary data analysis, authenticates that commercial banks at present having Islamic window have been benefited from the process of IFB services.

4.9.2 Shariah requirements of conventional banks for adopting interest free banking

The most essential element of an Islamic window is that all of its operations are in strict compliance with Shariah. Different scholars and practitioners have different views and thoughts concerning the compliance of Shariah by the Islamic windows of conventional banks (Sobhani et.al, 2015). There are different conditions necessary to meet the essential requirement suggested by the practitioners, Islamic scholars, and eminent world famous Shariah scholar such as Justice Mohammed Taqi Usmani and Nizam Yaquby. The majority significant of these

situation are: total isolation of funds; the subsistence of a Sharia supervisory board; administration dedicated to Islamic financial perception; safeguard Muslim investors' funds from infringe, carelessness, and fraud; and completion with the ideology of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This part deal with the interviewee results of necessary requirements.

4.9.2.1 Complete segregation of funds

Since the aim of the first question was to assess whether Islamic windows of conventional banks maintain a complete segregation of Interest free and conventional fund or simply it is “dressed-up” window that suspected with comingling of the two funds. The first question was: Does Islamic window of commercial banks properly maintain Interest free funds from mixing with conventional fund? There was agreement between participants in their views that Islamic window of conventional banks including their bank maintain separate accounts, books, ledger books, and software evidencing complete segregation of funds. The reason behind that might be it is a necessary condition to obtain license for opening Islamic window. sub section 6 states that banks engaged in interest free banking business shall keep separate books of accounts in respect of interest free banking operations and ensure The applying bank is required to submit a proposal for opening Islamic window to the concerned department of National Bank of Ethiopia with a working paper that states services and products to be offered; Commitment to keep funds and accounts of Interest free banking completely separate from those of the conventional ones; methods of segregating the funds of the Interest free banking from the funds of conventional branches of the bank; and accounting aspects to be followed. One of the interviewees commented that even if keeping and maintaining separations in each and every case is very difficult, segregating Interest free fund from conventional ones matter is not difficult or problematic in view of the availability of modern computer systems. Despite this fact, most customers of Interest free banking as well as Muslim community at large fear their fund could be comingling with the conventional fund. One of the participants explained that most of the customers have not have sufficient understanding about how the shariah principle. Even some of the customers asked the bank to prepare a separate vault for interest free banking operation. However, shariah mostly concern about the fund raised from interest free operation will used for conventional operation rather than mixing of physical cashes. Overall, the outcomes of interviewees with managers or directors of Interest free banking department/division are consistent with the questionnaire findings.

4.9.2.2 Sharia decision-making Board

Shariah boards are the essential require for accurate and sound IFB. Completely purposeful Shariah supervisory board consisting of honest and familiarity Islamic shariah scholars is fundamental part of any Islamic Banks including Islamic window. There need at least 3 shariah scholar with one being the chairman. But, conventional banks Islamic windows have their own Shariah boards which are totally purposeful that guarantee all the fundamentals for a true Islamic window are fulfilled in note and character, there should not be a opportunity to assess conventional banks just having Interest free window. So those, participant of interviewees were asking does their bank have a shariah supervisory board or shariah advisor. Unfortunately most of the commercial banks contribution IFB products and services in Ethiopia have not Shariah boards to play vital roles in promote IFB and ceremonial to Shariah principles. In view of the interviewees' responses, it is obvious that the require of shariah advisor is a huge issue for Islamic windows in Ethiopia, because no new procedure is undertake lacking previous support from the board as well as advisor must understand and agree every single agreement of the bank and as well as their other financial actions and communication. According to participants', it might be potential to sustain full Shariah plan about deposits, it is very complex to keep shariah ethics concerning finance and venture exclusive of having shariah board or advisor which supervise and legalize the contract facet and the character of business in which Islamic windows going to supply or economics.

4.9.2.3 Managerial Commitment

IFB with in conventional banks is treating as important result within bank. Successively these dissimilar types of banking measures under single sunshade are not trouble-free. Except the complete supervision of conventional banks is realistic and certain, IFB industry will not be free from variation and irregularity. The accomplishment of Islamic Window will depends exclusively on the suitability of the Islamic program by the front-end occupation of the conventional bank and how they become familiarized the Islamic banking themselves. These windows are not spiritual association but a commercial segment of the bank. However, several managers of conventional banks think about interest free banking business as a helpful division rather than a arranged and gainful section of the bank. The greater part of the interviewees agreed that Islamic windows have not had fully continue that should be practice.

4.9.3 Challenge of Interest free banking

IFB in Ethiopia has been determined for in advance some successes for the last five years. However, like Interest free banks of any other countries, it is a usual forecast that interest free banking by conventional banks has to expression many challenges in Ethiopia as well. Address some of these challenge is significant for civilizing IFB tricks in the country. Since this study attempt to recognize the challenges of interest free banking working in Ethiopia, these the challenges as acknowledged from the interviewees of Interest free banking by conventional bank with bankers declared below:

4.9.3.1 Hesitation of the customers

The development of IFB depends on community trust and self-assurance among the wider group of people. Conversely, A lot of people still have some doubts about Shari'ah fulfillment of Islamic windows by commercial banks and they are not completely happy with the validity of products and services accessible by these windows and they have many question unreturned. Consequently that number of customers is not certain and relaxed to transaction with IFB products of commercial banks and they request are purely based on shariah principles or not about Islamic window products. In reality mass of Muslims have very slight considerate of IFB and further financial concept of Islam and there was not any agreement on the subject between the scholars. Uncertainty of the customers is grand challenges for the IFB manage by the commercial banks in Ethiopia.

4.9.3.2 Need of management by NBE

Administration of Islamic window by commercial banks is as significant as that of the conventional segment since both section of the bank mange community money and directive and management of these banking actions make sure clarity and the accuracy of the financial system. NBE a directive in 2011 which recognized conditions & circumstances for the banks to attain certificate for working IFB. These directives include a slight scope concerning activities of Interest free banking within conventional banks. Lack of obtain separately act and, risk administration broad standards layer all areas for the IFB actions including prudential guideline, internal controls and business domination included in the amend Banking industry Proclamation Number 592/2008. NBE has not been locating any split department to channel, control and supervise the business of the IFB windows by commercial banks. So, ensure accomplishment of

the fundamental necessities by commercial banks to run IFB business is complicated. At present, not have of supervisory structure is one of the challenges of the established Interest free banking scheme and justify serious consideration.

4.9.3.3 Require of legal support from direction

Each banking structure nether Islamic or conventional requires legal and regulatory maintain from the administration. Conventional banks are not exemption Islamic windows, as they require a come to legal chains from the supervision to do their different necessary actions. IFB windows by CBE govern by banking industry proclamation and associated directives, lease proclamation, tax laws, and any other laws of the earth. Nevertheless, several of these laws are not adapted with the industry and product character of IFB services and products. IFB products such as murabaha just set, is an IFB product where the Islamic window (seller) and the bank's client (buyer) be in agreement on the mark-up for the items creature sold to the buyer by the seller. In the occasion that the item is vat able the operation will generate VAT equally at the mark the bank is attain it and at the position the bank is 'selling' it to the "buyer". because IFB products is no specific tax directive that eliminate double taxation, the cost of acquirement of an asset in an Islamic finance understanding will be significantly elevated for the customer.

4.9.3.4 Lack of skilled professionals

IFB is dependent on specialized and qualified banking personals as conventional banking system. Even if commercial banks engage both Muslim and Non-Muslim employees to perform IFB actions and classify establishment training programs for utilize employees, they choose to provide in the conventional banks because of aggressive advantage packages and support. The respondents also recognize that there is complicated to find competent and in principle sound workforces on the issues associated to shariah auditing to make certain Shariah fulfillment. Additionally, IFB has been increasing for the last five years and estimated to progressively develop over the coming years and will ultimately harmonize conventional bank assistance by provided that an acknowledged interest free saving, investment and financing donations. However, lack of experienced and a train specialized to fulfill the necessities of the rising IFB service in the country is a main challenge to the advertising and expansion of IFB in Ethiopia.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

The revision was an attempt to know challenges of IFB manage by CBE selected private banks. From the result of the review, in-depth interview and review of secondary sources so far attempt been made to near and examine the data.

5.1 Conclusion

The most important research conclusion

➤ Almost all of conventional CBE are adopt IFB service. IFB services are all the time more significant within banks since banks ongoing to get pleasure from the profit. The result from study exposed that IFB examine helps CB to stay presented consumers of the bank who are opting to switch to other banks and attract new customers from other banks that did not begin to offer IFB services .the number of clients and deposit also greater than before when banks create to provide IFB products.

➤ The survey also exposed that IFB service benefits banks to recover competitiveness and increase bank's brand image by serving as choice banking system. IFB services have been benefit, not only in terms of rising customers and mobilize deposits, but also some banks enjoy greater productivity and FCY creation. This indicates commercial banks currently having IFBW have been benefit from the procedure of IFB services.

➤ mass of the branch managers and staffs of IFB department have little understanding about mainly of IFB product. Their thoughtful about notice IFB products limited to murabaha and Wadiah/Amana mode of finance and deposit presently provide by most of IFBW of commercial banks in Ethiopia.

➤ The mass of the bank account holder did not sound be aware of the essential opinion used IFB. Moreover, it is doubtful to attentive every type of IFB services and products, but the best part of account holders little aware or unaware for nearly every one of interest free products. Most of account holders have awareness only with Amana, Al-Wadiah and Quard saving and current accounts. Only few number of account holders mortal attentive of investment and financing types of IFB products, even if they did not deal with them. Unpredictably, a most important

number of the account holders doubter about Interest free banking window of banks' gift supervise their support and Shari'ah agreement these windows.

➤ Conventional banks good enough to operating IFB services as long as they present services in agreement with Shariah standard and location essential for conventional banks to present with and affect when burden so. IFBW of commercial selected private banks in Ethiopia is take apart Interest free fund from conventional fund through split ledger books, books, accounts and software evidence totally isolation of resources

➤In the procedure of contribution IFB services, it face that there are a lot of challenges the practitioners of Ethiopia have been in frontage. The key challenges as recognized by the respondents are:- require of Shariah advisor, need of legal maintain from government, need insufficient training ,lack of regulation by NBE, lack of self-assurance and trust of clients, lack of teamwork among conventional banks Islamic windows, lack of infrastructure right for Interest free banking operation and education facilities, Inadequate knowledge and accepting of IFB by NBE, lack of skilled human resource, lack of crown management and organization commitment, and disbelief of customers.

5.2 Recommendations

The investigator gives the following prospective suggestion forwarded.

- BOD, Shareholders and the administration of the bank should believe the idea and be supportive with IFBW of the banking since these banks have been benefit from Interest free banking services.
- CBE should set up a working Shari'ah supervisory board (SSB) for IFB procedure and severely observe with its direction. Unusual to an sovereign shariah board, banks currently contribution IFB work together to have a common Shariah board that establish the Shariah compatibility of the IFB products
- NBE should design broad and healthy regulation with discussion with stakeholders in the production as well as Muslim society at large.
- The rule of Ethiopia should get more positive efforts to support IFB services with sure amendment of laws and policy such leasing ,tax and banking declaration.

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Glossary

Interest free banking: means Islamic banking.

Islamic banking: is banking which provides banking services Shariah

Interest free banking window: which conventional banks offer Islamic banking products and services from their existing network

Halal: Shariah compliant

አዲስ አበባ ዩኒቨርሲቲ ቢዝነስና ኢኮኖሚክስ ኮሌጅ

ከወለድ ነፃ የባንክ አገልግሎት ተጠቃሚ ደንቦች መጠይቅ

ይህ መጠይቅ የአዲስ አበባ ዩኒቨርሲቲ ማስተር ተማሪ የተዘጋጀ ሲሆን አላማው በኢትዮጵያ ውስጥ የሚገኝ ባንኮች ስለሚሰጠው ከወለድ ነፃ የባንክ አገልግሎት መረጃ መሰብሰብ

በዚህም መሰረት የጥናቱ ጥራትና በጊዜ የመጨረሱ ሁኔታ የሚወሰነው በተጠያቂዎች ትብብር ማለትም የተሰጣቸውን መጠይቅ በሚፈለገው ጊዜ ሲመልሱ ነው። በመጨረሻም ላረጋግጥላችሁ የምፈልገው ማንኛውም የእናንተ መልስ ለምንም ዓይነት መጥፎ ድርጊት የማይጋልጥ መሆኑን ላረጋግጥላችሁ እወዳለሁ።

ማብራርያ ቢያስፈልግዎ በዚህ አድራሻ ያግኙኝ

ምትኬ ፍቃዱ

ስልክ፣ 0924345019

መሰረታዊ መመሪያ

ለመልሳችሁ በተሰጠው ሳጥን ይህን ምልክት (✓) አስቀምጡ።

መድብ አንድ፡ የግል መረጃ

1,ጾታ

ወንድ

ሴት

2, የትኛው የሀይማኖት ተከታይ ነት?

ሙስሊም

ሙስሊም ያልሆነ

3, ከዚህ በፊት ባንክ የመጠቀም ልማድ እንዴት ነበር ?

መደበኛውን የቁጠባ እና ተንቀሳቃሽ የባንክ አገልግሎት

ወለድ የማልቀበልበት የቁጠባ እና ተንቀሳቃሽ የባንክ አገልግሎት

ባንኮች ወለድ ስለሚክፈሉ አገልግሎት ተጠቃሚ አልነበርኩም

በግል ምክንያት የባንክ ተጠቃሚ አልነበርኩም

4. የወለድ ነፃ የባንክ አገልግሎት መጠቀም ከጀመሩ ስንት ጊዜ ሆኖት?

ከአንድ አመት በታች

ከ1-2 አመት

ከ2-5 አመት

5. የትኛው ሂሳብ ነው በብዛት የሚጠቀሙት ?

የአደራ ተንቀሳቃሽ

ኢንቨስትመንት

ፋይናንስ

ክፍል ሁለት: ደንቦች ስለ ወለድ ነፃ የባንክ አገልግሎት ያላቸው ግንዛቤ ለመለካት በቀረቡት አማራጭ መሰረት ይህን ምልክት √ ያድርጉ::

1. በጣም አልስማማም 2.አልስማማም 3.ገለልተኛ 4.እስማማለሁ
5.በጣም እስማማለሁ

ተ.ቁ	ጥያቄ	አማራጮች				
		1	2	3	4	5
1	የወለድ ነፃ የባንክ አሰራር ሀሳቦችን ተረድቻለሁ					
2	የወለድ ነፃ የባንክ አገልግሎት የሻሪያ መርሆዎችን እና አሰራር እረዳለሁ					
3	ከወለድ እና ከወለድ ነፃ የባንክ አገልግሎት ያሉትን ልዩነቶችን ተረድቼያለሁ					

ክፍል ሶስት: ደንቦች ስለወለድ ነፃ የባንክ አገልግሎቶችን (ፕሮዳክትስ) ያላቸው ግንዛቤ ለመለካት መልሶት ለይ ይህን ምልክት √ ያድርጉ::

ተ.ቁ	የባንክ አገልግሎት	ተረድቻለሁ	አነስተኛ ግንዛቤ አለኝ	ሙሉ በሙሉ አላወቁም
1	ስለ ሰላም			
2	ስለ ኢጃራ-ስለሙዲረባ			
3	ስለ ሙዲረባ ኢንቨስትመንት			
4	ስለሙዲረባ ኢንቨስትመንት ተቀማጭ			
5	ስለሙራባሃ			
6	ስለአማና			
7	ስለቀርድ			
8	ስለኢስቲስና			
9	ስለዋድያ			
10	ስለሙሻረካ			

መደብ አራት: ስለወለድ ነፃ የባንክ አገልግሎቶች እና ስለወለድ ነፃ የባንክ መስኮቶች ደንቦች ያላቸውን ምልክታ ስለ ለመለካት

ተ.ቁ	ጥያቄ	አማራጮች				
		1	2	3	4	5
1	ከወለድ ነፃ የባንክ መስኮቶች ሰራተኞቹ በመስኩ ላይ ብቁ አይደሉም ብዬ አምናለሁ።					
2	ከወለድ ነፃ የባንክ አሰራር ለባህላዊው አሰራር ባንኮች ጥሩ አማራጭ ነው።					
3	አብዛኛው ከወለድ ነፃ የባንክ መስኮቶች ከተወሰኑ አረብኛ ቃላት ከመጠቀሙ ውጪ ባህላዊው የባንክ ስርዐት ውስጥ ያስመድባቸዋል።					
4	ከወለድ ነፃ የባንክ አገልግሎት የደንቦችን ገንዘብ በደንብ ያስተዳድራል ብዬ አላምንም።					
5	ከወለድ ነፃ የባንክ መስኮቶች በባህላዊ ባንክ ውስጥ ያሉ የሻሪያ መመሪያ የተከተሉ ናቸው ብዬ አምናለሁ።					

መደብ አምስት:

1. ከወለድ ነፃ አገልግሎቶች እንዲይጠቀሙ እንደ ችግር የሚያነሱት ነገር ካለ

2. ከላይ ለተጠቀሱት ችግር ከወለድ ነፃ የባንክ አገልግሎቶች መፍትሄ ይሆናል ያሉትን ቢጠቅሱልን?

3. ከወለድ ነፃ የባንክ አገልግሎቶች ጋር በተያያዘ የእናንተ እይታ ቢገልጡልን?

በጣም አመሰግናለሁ!!

ADDIS ABABA UNIVERESITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

SCHOOL OF GRADUATE STUDIES IN ACCOUNTING AND FINANCE

“CHALLENGES OF INTEREST FREE BANKING IN CONMMERCIAL BANKS IN ETHIOPIA”

Questionnaire to be filled by Bankers

Dear Respondent,

I would like to communicate in previous my deep admiration for your time, honest and prompt responses. This is a feedback form for research that seeks to explain the awareness and attitude of bankers “challenges Interest free banking within conventional banks in Ethiopia”. The survey is conduct as part of the researcher’s masters of Accounting and finance programmer at the Addis Ababa University and therefore responses will be used only for academic purposes. Your ambiguity is certain and all responses given will be held in due self-assurance. It might take you around 15 minutes to total the questionnaire. Your participation is actually important for the accomplishment of this research. Thank you so much for your help. I really be thankful for it.

Miteke Fekadu

Mobile: +251924345019

E-mail: miteke.f@gmail.com

Thank you in advance for your cooperation!

GENERAL INSTRUCTIONS

1. No require of writing your name.
2. Gratify fill the answer by put “√” mark.
3. Please ANSWER the accomplished questionnaire as much as possible
4. If you require additional justification, you can communicate me throughout the address mention above.

PART I: General Information

In this part you will discover some common issues about the employment, banking experience and level of education, please click on the box that represents the appropriate answer to you.

Section A: Information

1. Name of YOUR Bank _____
2. Name of Branch _____
3. Your position in the branch _____

Section B: Demographic Information

1. Gender:

2. Age: 18-27 28-37 38-47 48-57 57 and above

3. What is your maximum level of education?

Up to Diploma First Degree Masters PhD

4. How many years experience employment?

<1 Year 2-4 Years 5-7 Years 8>Years

PART II: ATTITUDE AND KNOWLEDGE TOWARDS INTEREST FREE BANKING

This component is divided in to three sections; in each section there are statement which address topic about challenges Interest free banking within conventional banks, level of agreement or disagreement with each statement by means of a mark “√” on one of the them.

Section A: bankers Knowledge OF the interest free banking products on offer in Ethiopia

No	IFB products	Fully Aware	Little Awareness	Fully unaware
1	<i>Musharaka</i> (joint venture)			
2	Salam financing			
3	<i>Mudharabah</i> (trust financing)			
4	<i>Ijarah</i> (leasing)			
5	Quard Hassan			
6	Murabaha (mark-up principle)			
7	<i>Wadi'ah</i> (safe-keeping contracts for current deposit)			
8	<i>Wakalah</i> (safe-keeping contracts for agency contracts)			
9	Istisnaa (pre-paid purchase)			

Section B1: BENEFITS OF PRACTISING INTEREST FREE BANKING

The following statements state benefits related to the apple of IFB within conventional banks currently offering IFB products and services. Please state your level of agreement for each given statement using the following scales:

1 = strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= strongly Agree

No	item	1	2	3	4	5
1	IFB provide as an option banking system					
2	IFB helps to stay existing customers who are change to other banks					
3	IFB helps to magnetize new customers from existing banks					
4	IFB progress competitiveness of the bank					

5						
6	IFB increase our customer bottom					
7	IFB improve bank's brand image					
8	Deposits improved with introduction of IFB					
9	IFB products are gathering the financial needs of Muslims trade					
10	IFB raise reassure levels of Muslim customers					
11	IFB allow the bank provide variety of products for customers					
12	IFB capable to tender workable and aggressive financial products					

PART III: SHARIA COMPLIANCE

Where: 1= strongly Disagree, 2=Disagree, 3=Neutral, 4=agree, 5=strongly agree

Sharia compliance	1	2	3	4	5
Complete separation of Funds					
The Resource mobilize through IFB are commingled with the finance of the deposits mobilize through conventional branches.					
The deposits expected by the Islamic window is not mixed up with the deposits taken on predictable side					
predictable capital is used for Shari'ah agreement					
The bank keep firewall between conventional liabilities and IFB					
IFB of the bank has an helpful system in place to separate Islamic assets and funds from conventional ones					
The bank prepare a split balance sheet, account ,book and record IFB Banks					
Sharia Supervisory Board					
There is no action which is undertaken without previous support from the board					
Shariah board take action as a regulator while issue different products					
Shariah scholars participate their role while issue different products					

They frequently monitor the function and operations of the windows					
The bank begin a operational Shari'ah supervisory board (SSB) and exactly comply with its direction					
Managerial Commitment					
require of valid assurance to the development of IFB in the bank					
The supervision of the bank is faithful and committed to run the business of IFB					
Our bank assure in advertising and promote IFB services and products					
The IFB within the bank have get the same respect					
IFB are analysis frequently as a carry division, rather than an prepared division					

PART IV- CHALLENGES OF PRACTISING INTEREST FREE BANKING

Key: 1- Strongly disagree 2- Disagree 3-Neutral 4-Agree 5-Strongly agree

ITEMS	1	2	3	4	5
require of self-confidence and trust of customers					
need of assistance among conventional banks Islamic windows					
incapability to assemble economic needs of customers for special types of resources					
require of government legal support					
incapacity meet financial needs of customers for different types of funds					
poor knowledge and understanding by regulators					
peak tax burdens on the IFB products					
Inadequate training and education facilities					
peak charge and fee on transactions					
need of management by central banks					
IFB operation lack of helpful and link institution					

Part v: Open ended question

Q.1. how would you assess the advantage of IFB windows by conventional banks in Ethiopia?

Q.2. what are the significance and factor control Shari'ah compliance in your bank?

Q.3.What are the Interest free banking windows challenges?

Q.4. Any other interpretation about IFB product and service? Please

THANK YOU SO MUCH!!

INTERVIEW QUESTION

Manager about challenges of Interest free banking

1. What kind of IFB products and services your bank at present offer?
2. What are the profit of accept IFB structure in the bank?
3. What are in severe fulfillment with Shariah requirements in IFBW operation?
4. Does IFB window of banks appropriately sustain Interest free funds?
5. does banks a shariah consultant? How to control?
6. Do the administration and shareholders of the bank loyal to Support IFB within the bank?
7. What are the challenges faces by the IFB windows of conventional banks in Ethiopia?
- 8, what are the challenges of legal and regulatory structure on IFB operation?
9. How can be made to improve of Interest free banking service in Ethiopia?
10. Does in Ethiopia Legal and Regulatory Challenges that Islamic banking?