

# **Factors influencing the Deposit Mobilization effect of Interest Free Banking service in Ethiopia (case of selected private commercial banks)**



A thesis submitted to the school of graduate studies of Addis Ababa University in partial fulfillment of the requirements for the degree of MA in **Marketing Management** in School of Commerce

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**May, 2018**  
**Addis Ababa**

Factors influencing the Deposit mobilization effects of interest free banking service in Ethiopia (the case of selected Private Banks)

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## Statement of Declaration

I hereby declare that this study entitled “**Factors influencing Deposit mobilization effects of interest free banking service in Ethiopia** (in case of selected Private Banks)” is my original work prepared under the guidance of my advisor, MesfinWorkneh (PhD). This paper is submitted in partial fulfillment of the requirement for the Award of Master of Arts Degree in Marketing Management and it has not been previously submitted to any diploma or degree in any college or university. I would like also to confirm that all the sources of materials used in this study are duly acknowledged.

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## Statement of Certification

This is to certify that Tewabech Gezahegn has carried out her research work entitled “**Factors influencing the deposit mobilization effect of interest free banking service** (*“the case of private commercial banks”*)” in partial fulfillment of the requirement for the Award of Master of Arts Degree in Marketing Management at Addis Ababa University College of Business and Economics School of Commerce. This paper is an original work and has not been submitted to any diploma or degree in any colleges or universities.

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Mesfin Workneh (PhD.)

May, 2018

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Last but not least, I would like to thank all people who have contributed one way or another for the successful completion of this thesis.

## **Abstracts**

*The study examined factors influencing the deposit mobilization effects of interest free banking service in selected private commercial banks. The study was conducted based on data collected from customers of the three banks through questionnaires and interview from experts of interest free banking services. To achieve the objectives of the study respondents were drawn from the selected three private banks of Oromia international bank s.c, Awash Bank s.c and United bank s.c using convince sampling. Data was collected through questionnaire by using cluster sampling from a sample of 382 and 359 were properly filled and returned. Besides, Semi-structured interviews were used to guide for the qualitative data collection tools.*

*The reliability of the data instrument were tested based on Cronbach Alpha  $r= 0.875$  which is Good and Questionnaire validity were confirmed by the advisor, technical experts of IFB and using factor analysis (KMO) and Bartlett's Test 0.656 which is close to 0.7 to ensure the questionnaires were consistent, clear and explains the variable under the study. The data collected from the questionnaire were analyzed using descriptive statistics, correlation and regression analysis with SPSS version 20 statistical tools.*

*The hypotheses result of the study showed that the independent variable of Diversity of IFB service, Customer awareness and skilled manpower have a positive relationship and significance on deposit mobilization(dependent variables) of interest free banking service.*

**Keywords: Interest Free Banking, Deposit Mobilizations, Descriptive statistics**

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## List of Abbreviation and Acronyms

<b>AB:</b>	Awash Bank S.C
<b>ANOVA:</b>	Analysis of Variance
<b>CBN:</b>	Central Bank of Nigeria
<b>CB:</b>	Conventional Banking
<b>COO:</b>	Cooperative Bank of Oromia S.C
<b>IFB:</b>	Interest Free Banking
<b>IDB:</b>	Islamic Development of Banking
<b>JIB:</b>	Jordan Islamic Bank
<b>NBE:</b>	National Bank of Ethiopia
<b>NIB:</b>	Nib International Bank S.C
<b>OIC:</b>	Organization of Islamic countries
<b>OIB:</b>	Oromia International Bank S.C
<b>PLS:</b>	Profit and Loss Sharing
<b>SIB:</b>	Sudanese Islamic Bank
<b>SPSS:</b>	Statistical Packing for Social Science
<b>SSA:</b>	Sub-Saharan Africa
<b>UB:</b>	United Bank S.C
<b>WB:</b>	Wegagen Bank S.C
<b>VIF:</b>	Variance Inflation Factor

# Chapter One

## Introduction

### 1.1 Background of the study

Over the past three decades, Islamic banking has emerged as one of the fastest growing industries (Dusuki and Abdullah, 2007). Recently industry estimates show that Islamic Banking, which managed around US\$1800 billion worth of assets worldwide as of 2013, is expected to grow at the rate of 15% to 20% per annum (Kuwait Finance House, 2014).

In August 2004, the Islamic Bank of Britain became the first bank licensed by non-Muslim country to engage in Islamic banking (Chong and Liu, 2006). Several major Western banks, e.g., Citibank, ABN Amro, Bank of America, HSBC, Standard Chartered, and the Union Bank of Switzerland, offer Islamic financial products to their customers (Khan, 2010). It means that Islamic financing is no more concentrated in the Islamic world; it is also coming up in the other areas. This makes sense to investigate how these types banks are operating in the non-Muslim regions.

The concept of Islamic banking is of sharing the profit as well as the loss both by the bank and the borrowers (Ali, 1993). It is also an institution that mobilizes financial resource and invests them in an attempt to achieve predetermined social and financial objectives. In Islamic economics literature the name Islamic Banking and Interest free banking are synonymously used as an alternative banking framework to the interest based conventional banking Practice.

The term “Interest Free Banking” refers to a system of banking that is consistent with Islamic law (Sharia) principles and guided by Islamic economics. In particular Islamic law prohibits usury, the collection and payment of interest, also commonly called *riba* in Islamic discourse. In addition, Islamic law prohibits investing in business that are considered unlawful, or *haram* (such as business that sell alcohol, pork, and gamble).

Coming to Ethiopia, the National bank, the supervisory body of all banks levied to do interest free banking business in one window with conventional banking as per “the licensing and supervision of banking business Directive Number SBB/51/2011”. To launch the service the

Central bank policy set the requirement to the bank not to go past the maximum share of Interest free banking business in their consolidated balance sheet without prior approval from the central bank. A violation of this could lead to the closure of an interest free banking window. Establishing a Sharia advisory board and separate financial reports, keeping all data and ensuring the segregation of activities from conventional banking.

The service can be used by individuals, government institution and non-governmental organization (NGOs). Service offered under interest free banking include, Deposit, Foreign exchange and money transferring service, and are commonly available for customers who engaged in trade partnerships, agricultural forwards contracts, construction, manufacturing and import export trade.

In conventional banking service resources are mobilized from interest based and interest free accounts as per the central bank directives stated former. Deposit mobilization is an integral part of banking activity. Mobilization of savings through intensive deposit collection has been regarded as the major task of banking in Ethiopia today.

Since Interest free banking service has a potential to attract saving from the unbanked society and channeled the collected fund into productive investment, some commercial banks started the service in one segregate window with the conventional banking service as per the requirement of NBE directive. Primarily the service is launched by Oromiya international Bank in 2013 and CBE joined the market at the end of October, followed by United Bank, which began providing the service on May 1, 2014. Currently, besides the above banks other three banks such as Nib International Bank, Cooperative Bank of Oromia and Awash Bank have started to deliver the service for customers.

The banking service mainly focuses on financing primarily based on profit-and-loss sharing, trading, leasing. Both mobilization and investment of funds should be conducted in accordance with the principles of Islamic Shari'a" ([www.albarakah.com](http://www.albarakah.com)). The financial resource allocated to this service found from Interest free activity. This indicates that not only their lending but also their funding should make use of interest free.

Mobilizing resource from Interest free banking service has faced different challenges among them lack of adequate legal framework by central bank policy, and the scarcity of skilled Interest free banking professionals and their limited knowledge of the Islamic finance product and service, lack of customer awareness about the service, further the financial institution do not make exhaustive effort to introduce the service through advertisement. This makes mobilizing of resource from the services are not to be grown as expected in contrast with the fast growing of the service in the world. This study therefore seeks to examine factors influencing resource mobilization effects of Interest free banking service evidenced from selected private commercial Banks.

## ***1.2 Statement of the problem***

Today the banking sector has showed remarkable and intensive growth over the other sectors, in developed country due to globalization, technology and governmental policy. However; in case of our country the bank sector has a short history of growth. According to AdmasuBezabih, and AsayehgnDesta (2014), the banking sector in Ethiopia is in a rudimentary and fragile state. It is small, relatively undeveloped, closed and characterized by a large share of state ownership. The state- owned commercial banks account for nearly two-thirds of the banking sector assets. Such extensive state presence in the banking sector coupled with total state ownership of land and telecommunications, as well as majority government ownership in many sectors of the economy have serious ramifications for private sector development in Ethiopia.

In Ethiopia, during the pre-1975 imperial era, there had few banks (dominated by foreign ownership) and the absorptive capacity of the economy was too low even to accommodate moderate competition. In the Derg regime (1975-1991), private banks were fully nationalized and left no room for competition. After the down fall of the Derg regime in 1991, private banks

were again allowed to operate in consistent with the ideology of market oriented economic policy under the proclamation of licensing and Supervision of Banking Business Proclamation No.84/1994. Accordingly, new private banks were established and their role and position in the industry have been flourished from time to time. Ethiopia appears unique compared to most African countries and many other developing countries because it has not yet opened its banking sector to foreign participation. (Gedey 1990, Abebaw 2011).

Even though the Banking sector of Ethiopia had a short history, the industry has witnessed a series of revolutions and growth over time. The dynamism and competitiveness in the market has made many banks to come up with various strategies in a bid to achieve the desired competitive advantage, to position and strengthen their business within the business environment. Because of this Banks have employed various strategies in a bid to enhance deposit mobilization. Such strategies have witnessed some banks introducing interest free savings accounts that encourage customers to save, while others have been conducting promotions that involve giveaways to customers who step up their savings.

Especially, after the Central Bank has introduced an explicit directive called 27% NBE bill purchase that forces private banks to invest 27% of their every new loan disbursements in Government security for 5 years at a very low interest rate, 3%, far below from what banks pay as an interest for the deposit (5%), the competition to be more stiffer in order to survive within the industry. (Getacheworku,2015)

Even if six banks have started to deliver Interest free banking services to mobilize high resource, the success of it for the targeted mission of mobilizing the resources are questionable. According to ( ZainebSefani, 2014 ) the number of customers registered to utilize the service by private bank of OIB and United bank since 2013 are 15000 and 1000, respectively. In 2013, the World Bank estimated Ethiopia's total population 94.1 million of which 35% to 40% are Muslims (<http://data.worldbank.org/>). Customers who registered to enjoy with the services are insignificant in number compare to the total Muslim population size. This indicates that the service has high resource and a good number of potential customers but there are different factors which influence the success of Interest free Banking service to mobilize deposit.

However, most of the studies related with Interest free banking service were emphasized with large number of Muslim community than those are Christian dominated country like Ethiopia. In our countries the studies were conducted focusing on analyzing the challenge of Interest free banking service and its prospect by (Akmel 2015, senait 2016). Besides, ZainebSefiani, further analyzed the legal aspect of the service by emphasizing on the current directives related with the services. There is no research undertaken specifically focusing on to examine factors influencing the deposit mobilization effect of Interest free banking service under commercial private banks. The purpose of the study is to find out the variables which influence the interest free banking service to mobilize deposit.

### ***1.3. Research Questions***

#### **Main Question**

What are the factors influencing the deposit mobilization effect of Interest free banking services?

#### **Sub Question**

1. How diversity of the IFB service influence in mobilization of deposit?
2. What are the levels of public awareness on interest free banking service to mobilize deposit?
3. How do employees' knowledge and skills influence IFB service in the mobilization of deposit of the banks?
4. How does policy of the National bank affect Interest free banking to mobilize deposit?

### ***1.4. Objectives of the Study***

#### **1.4.1 General objective**

The main objective of the study is to investigate factors that influence interest free banking service in the efforts of mobilizing deposit of private commercial banks.

#### **1.4.2 Specific Objectives**

Based on the general objectives of the research would have the following specific objectives;

- To identify various service of interest free banking channeling in mobilizing deposit

- To examine the level of public awareness of interest free banking service
- To identify the level of knowledge and skills among selected banking industry professional.
- To describe the central bank policy related with interest free banking service in mobilizing deposit.

### ***1.5 Significance of the Study***

The study has theoretical and practical contributions. Theoretically, the findings of this study add knowledge in the banking industry and as a basis for further research in the field of interest free banking service. Practically, this study helps to acquire knowledge and practical experience to the researcher, employees of the bank, bank policy and decision makers in formulating different strategies of deposit mobilization. Besides it helps other banks who do not launch interest free banking but would like to adopt the service. It also helps the customers to have knowledge of interest free banking product and service, the more knowledgeable the person is about the product, and the more likely he or she will utilize the facilities. Therefore; this study not only contribute to the theory, it is also intended to have practical value as well.

### ***1.6 Scope of the Study***

Different researcher has shown various variables that affect the success of interest free banking resource mobilizations (Reza LurakZada, 2016; Ahmed Aftabi, 2013). But this study specifically focus on factors influencing interest free banking service in mobilizing deposit using external factor variable, Central bank policy and Internal factors variable such as the diversity of banking service, Manpower skills and knowledge and Public awareness. The study delimited on three selected private banks ( Oromiya International Bank s.c, United Bank s.c and Awash Bank s.c ) found in Addis Ababa. In addition the data collected from customers, managers, and supervisor of the three banks using questioner and interview but not have a questioner for employees of the bank staff that would be a significant effect on the study. The findings have a paramount importance if more banks are included but the study focused on only these three banks.

## ***1.7 Limitation of the Study***

The study is subject to several shortcomings that limit interpretation of findings. When conducting the study the research limited to the scope only the factors influencing resource mobilization toward use of interest-free banking, thus, the results may not show others financial products and services of the banks. The study have focused only on the three private commercial banks in Addis Ababa city among the banks with dual services and thus the results from this case might not be generalized to other banks with conventional product and service including outside Addis Ababa. The finding of this study limited to Interest free banking product and service users of the banks, thus the generalization of the result for analysis of others account holders', firms and institutions must be made with caution.

One of the limitations to this study was use of Cluster sampling design for survey research since cluster sampling, no doubt, reduces cost by concentrating surveys in selected clusters. But certainly it is less precise than random sampling.

## ***1.8 Definition of Terms***

**Interest Free Banking Business:** refers to banking Business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest. (Directives No. SBB/51/2011)

**Interest Free Banking Window:** refers to a unit within a conventional bank exclusively offering interest free banking service.(Directives No. SBB/51/2011)

**Deposit Mobilizations:**refers to the main activities of banks that included attract money and capital of wisdom, variety of deposits of short term and long term investments of current, saving and loan account in financial statements.(Directives No. SBB/53/2011)

**Murabaha (Mark-up or Cost plus based Financing):**refers to a sales contract where the bank buys a product on behalf of a client and resells the product to the same client by clearly mentioning the cost incurred in buying the product and the margin or the mark-up when reselling the product to the client.(Delwin A. Roy, 1991)

**Musharaka(Partnership)** : refers to an agreement where two or more parties agree to contribute to the capital in cash or in kind. All partners entitled to a share in total profits of the project according to a ratio which is mutually agreed upon. (Delwin A. Roy, 1991)

**Mudaraba(Profit-Sharing)** : refers to a distinct type of partnership, herein one partner provides the capital to an entrepreneur (another partner) for investing in a commercial initiative, with the objective of sharing profit from the commercial entity. (Delwin A. Roy, 1991)

### ***1.9 Organization of the study***

The study will have five chapters.

Chapter-1 presents the Background of the study, Statement of the problem, Objective of the study, Research questions, Significance of the study, Scope and limitation of the study.

Chapter-2 presents Introduction of the chapter, overview of relevant theoretical literature review, model, and empirical studies. Finally discussed the variable and show the conceptual model related to the topic of the study.

Chapter-3 presents the methodology used in this thesis. The chapter includes the research approach as well as describes the data collection and analysis methods that will be used for the study.

Chapter-4 Analyses and Presents the research findings obtain through the methodology by showing how the research objective has attained and findings together contribute to the main purpose of the study.

Chapter-5 ends the thesis with Conclusion, Implication of the study, and suggestion for future study.

## **Chapter Two**

### **Review of Related Literature**

#### ***2.1 Introduction***

In this chapter, it includes review of relevant articles or journals and experience of other countries which are related with interest free banking service. Explanation of different types of Source and use of funds of Islamic Banking will be also included in this chapter. Then, this chapter would review the relevant theoretical model of Islamic Banking and review various empirical studies of factors influencing deposit mobilization. In addition, this chapter includes review of journals that related to factors influencing deposit mobilization effect of interest free banking service. Finally, it proposed conceptual model for this study.

#### ***2.2 Theoretical review***

Interest free (Islamic) finance is a financial service or product that is consistent or principally implemented to comply with the principles of Islamic law (Gait and Worthington, 2008).

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 Shari “a (Hassan and Ahmed, 2001). 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 ( Ahmed.et.al, 2008).

The secretariat of Organization of Islamic Cooperation (OIC) has defined Islamic banking as: “...An Islamic bank is a financial institution whose statute, rules and procedures expressly state its commitment to the principle of Sharia and to the banning of the receipt and payment of interest on any its operations...” From the above definitions, Ali and Sarkar (1995) concluded that Islamic banking system is a system based on the following Sharia principles: 0.

1. Prohibition of riba (interests).
2. Prohibition of gharar (uncertainty, risks, speculation).
3. Involves halal activities (permitted by Islam).
4. Based on justice (this is the ethics and aim of the religion)

Ideally, a banking system can be regarded as Islamic when its business conducts are based on profit and loss sharing, based on a participant's equity. The basis of the business is sharing with the customers, not as debtor and creditor. It does not only mean an elimination of interests, but more than that.

### 2.2.1 Differences between Interest Free and Conventional Banking

In theory Interest free Banking is different from conventional Banking because Interest(Riba) is prohibited in Islam,i.e., banks are not allowed to offer a fixed rate of return on deposits and are not allowed to charge interest on loans. The distinction between interest free financial systems with the conventional system is indicated in the following table.

Table 2.1 **Difference between Interest free and Conventional Banking**

Interest Free Banking	Conventional Banking
Function and operations are based on Sharia'h (Islamic Finance Principles)	Functions and operations are based on fully man made principles
Promote risk-sharing between provider of capital (investor) and users of funds (entrepreneurs)	Investors is assured of predetermined rate of interest
Aim at maximizing profit but subject to Islamic Finance restrictions	Aim at maximizing profit without any restrictions
Prices goods and services which creates real wealth	Conventional Banking Prices Money
Is based on profit sharing on the deposit and asset side	Is based on the fixed return on both sides of the balance sheet
Partners, investors and traders, buyer or seller relationship	Creditor-Debtor relationship

Encourage asset-based financing and based on commodity trading.	Based on money trading. Money is a medium of exchange and not a commodity, its sale and purchase is prohibited in IFB
No right of profit if there is no risk involved/loss sharing	It is almost risk free banking and depositor has no risk of losing its money because interest is guaranteed
Greater emphasis on the viability of the projects	The conventional banks give greater emphasis on credit worthiness of the clients
IFB can only guarantee for the repayment of deposit account(wadiah and qard)	A conventional bank has to guarantee all its deposit

### **2.2.2 Evolution of Modern Interest free Banking**

The first modern experiment with Islamic banking can be traced to the establishment of the MitGhamar Savings Banking in Egypt in 1963. This experiment lasted until 1967 by which time there were nine such banks in the country. These banks were neither charged nor paid interest, invested mostly by engaging in trade and industry, directly or in partnership with other, and shared the profits with their depositors.(siddiqi, 1988) Thus, they functioned essentially as saving investment institutions rather than as commercial banks.

The Islamic development of Banking (IDB) was established in 1974 by the Organization of Islamic Countries (OIC), but it was primarily an intergovernmental bank aimed at providing funds for development projects in member countries. The IDB provides fee based financial services and profit-sharing of Islamic Banking financial assistance to member countries. The IDB operations are free of interest and are explicitly based on *Shariah* principles.

A number of Islamic banks come in to existence in the Middle East, e.g. the first interest free Development Bank founded in Dubai in 1975. In 1977, in Egypt and Sudan two private Banks named the Faisal Islamic Bank were opened. During that period Iran, Sudan, Pakistan, Indonesia and Malaysia also adopted new guidelines of Islamic Banking. Bangladesh, Egypt, Indonesia, Jordan and Malaysia, Islamic Banking co-exists with conventional banking. Islamic Banking, moreover, is not limited to Islamic countries.

At present about 280 interests free Banking sectors are running in approximately 50 countries. Denmark, United States of America, Britain, Luxemburg and Switzerland have also adopted this special kind of banking system. South of London has developed as center of Islamic Banks. In August 2004, the Islamic Bank of Britain became the first bank licensed by a non Muslim country to engage in Islamic Banking and the numbers reached to 22. The businesses of Islamic Banks have grown by rate of 15% to 20% per annum and the total worth of assets had reached US\$1800 billion worldwide as of 2013.(Kuwait Finance House, 2014).

### **2.2.3 Islamic Finance in Sub-Saharan Africa**

Africa is the second-largest continent. Its 1.2 billion people make up 15% of the world's population. Muslims make up half of the continent's population. Therefore, the region has promise for the growth of Islamic banking. Nasser (2005) gives a detailed account of Islamic banks in Africa.

The financial sector in some Sub Sahran Africa countries has been growing rapidly in the past two decades. New products have been introduced and financial institutions are playing an increasing role in financial intermediation. However, Islamic finance in SSA remains small, although it has potential given the region's demographic structure and potential for financial deepening.

As of end-2012, about 38 Islamic finance institutions comprising commercial banks, investment banks, and takaful (insurance) operators were operating in Africa. (Dow Jones, 2012). Out of this, 21 operated in North Africa, Mauritania and Sudan, and 17 in Sub-Saharan Africa. There is also scope for development in Zambia, Uganda, Malawi, Ghana and Ethiopia, as all but Zambia has relatively large Muslim populations—Zambia is interested in using Islamic finance instruments to fund investment in the mining sector. In Uganda, the central bank has started the process of amending its banking regulations to allow for the establishment of Islamic banks and three Islamic banks have applied for a license.

In particular, four countries have considerable potential for becoming a regional hub of Islamic finance activities:

**South Africa:** Despite its relatively small Muslim population (1.5 percent), South Africa was the first Sub-Saharan African country to establish itself as a potential hub for Shari'ah-compliant banking in the region. In 1989, Al Baraka part of the Saudi Arabian-based Dallah Al Baraka group and the Islamic Bank were the first Islamic banks granted licenses by the South African Reserve Bank. Although Islamic Bank was liquidated in 1998 owing to corporate governance issues, in 2004, Wes Bank launched an Islamic window, the Wes Bank Motor Vehicle and Asset Finance, followed by First National Bank with an Islamic window operating in deposits and transactional banking. In November 2005, the bank Al Baraka Saudi Arabian also launched an Islamic window. Other Islamic finance institutions in South Africa are Oasis Crescent Equity Fund, Symmetry Islamic Fund, Element Islamic Equity Fund, and StanlibShari'ah Equity Fund (Buksh, 2006 and Gulf African Bank, 2010).

**Nigeria:** Although Nigeria hosts the largest Muslim population in Sub-Saharan Africa, (about half of its 170 million people), Islamic banking is still undeveloped in the country. Habib Bank (now Bank PHB) was the first bank operating an Islamic banking window (in 1992). Recently, there has been a new impetus to develop Islamic banking with the introduction of the Law Governing the Operation of Islamic Banks by the Central Bank of Nigeria (CBN) in March 2009. CBN has also set up a Advisory Council of Experts for Islamic Finance. In June 2011, CBN issued the latest guidelines for non-interest banking and approved a banking license for Jaiz International Bank, the country's first full-fledged Islamic bank, which became operational in, 2012. Diamond Bank has also started the process of establishing an Islamic banking window.(Gulf African Bank, 2010).

**Kenya:** Islamic banking emerged in Kenya with Barclays launching Islamic banking products in December 2005. The sector later expanded with the introduction of two Islamic banks, First Community Bank in 2007 and Gulf African Bank in 2008. Other conventional banks such as Kenya Commercial Bank now offer Shari'ah compliant products through special Islamic windows. In 2010, through the Finance Act, the Kenyan authorities amended Section 45 of the

Central Bank of Kenya Act to allow the Central Bank as the government's fiscal agent to recognize the payment of a return rather than interest on government securities, thereby opening up the spectrum of Shari'ah compliant investments in the country (Ndung'u, 2011). In 2013, Standard Chartered Bank has introduced an Islamic banking window in Kenya, adding to an existing window and two full-fledged Islamic banks operating in Kenya. As of end- 2013, Islamic banking accounts for two percent of the total banking business in Kenya.

#### **2.2.4 Interest free Banking in Ethiopia**

Among total population around 35%-45% Muslim live in Ethiopia. A considerable number of people from Muslim population are generally reluctant in doing business with the present banking system. In this age excluding Arab world, USA, Britain, China, Switzerland and Germany, large number of Islamic Banks run their business. Banking expert say that the Muslim population will also be able to improve their economic condition and this system must be helpful in eradicating poverty among Muslim and will certainly help in their overall uplift.

Around six years and a half year ago, ZemZem, a prospective new bank, asked to join the banking industry as a fully-fledged interest free bank, but was unable to start operations as the NBE's directive requires that IFB be given alongside conventional banking services, Zemzem Bank was floating shares with the sole intention of operating IFB since December,2010. It was able to raise 137 million Birr in paid up capital and 337 million Birr in subscribed capital from 6,800 shareholders.

However, IFB was implemented in Ethiopia following the enactment of the IFB Directives Number SBB/51/2011 which enters into force as of October, 2011. To disseminate IFB nationwide, OIB introduced to IFB scheme in, 2013, which allows existing banking institution to offer Islamic Banking service using their existing infrastructural and branch network.

Further; a second IFB, was established by CBE at the end of October, 2013 followed by United Bank which began providing the service on May 1, 2014. Consequently IFB licenses were issued for new five banks such as NIB, COO, AB and WB until 2017. At the end of June 2017 there

were seven IFB service providers in Ethiopian's banking system, which offer one window Interest free product and service.

In Ethiopia dual banking system, separate IFB service regulations exist side by side with those for conventional banks. For example, as in the case of directive of Conventional Banks, IFB Directives SBB/51/2011 contains similar provision on the licensing; financial requirement; ownership, control and Management; business restrictions; and supervision of IFBs.

## **2.2.5 Islamic Banking Service Models**

### **2.2.5.1 Islamic banking window service**

Islamic windows provide the best opportunities to build capabilities at the lower costs. According to Juan Sole, (2007) An Islamic banking window is simply a window with a conventional bank via which customer can conduct business utilizing only sharia compatible instruments. This model relies on the existing conventional infrastructure where all processes, operation, sales, channels and all functions are provided by conventional banks. Sanusi (2011) defines Islamic banking window as a business model in which conventional banks offer Islamic banking products and services from their existing branch network. In short, Islamic banking window refers to a situation whereby a conventional banking system provides some of the Islamic banking products or services just a segment of product offer. In other words, it can be seen as a banking system that meets up only the profit, loss, and risk sharing principle of Islamic banking for some of its products. (Audu and Mika'ilu, 2014)

The advantage of this model is the low set up cost. The financial institution depends on existing infrastructure and hires specialists in each function. There is no need to set up a different branch rather Interest free products are sold directly using existing branches and channels sales team. Many banks do not operate under the Islamic Banking window model. The main reason is the lack of product range i.e. competing with conventional banking products of the same branch or it depends on conventional Bank.

### **2.2.5.2 Subsidiary/branch Islamic banking service**

Islamic Subsidiary depends on the strength of the parent Bank, which is the conventional bank. The commercial banking units, which offer shariah compliant products and services, are only in the specific branch. It is a semi-independent office of a bank engaging in banking activities such as accepting deposits or making loans at facilities away from a bank's home office. This branch

banking established when the main bank feels there is a potential of concentrated customers are found in the area want to serve these customers. However, being a subsidiary Bank can also be a burden to set up. A differentiated system, processes or operation team requires cash for its set up.

Most of the conventional banks offers Islamic product via Islamic banking Subsidiary. The main advantage is that decisions are autonomous in a subsidiary, there is more control of marketing and sales and branches, the product and service offered are generally aligned to the product and service offered by the parents.

### **2.2.5.3. Full-fledged Islamic banking service**

These are separate banks that generally are not under any conventional banking influence. Once a conventional bank has operated an Islamic window for some time and has gathered a sizeable customer base for its Islamic banking service activities, it may decide to establish an Islamic subsidiary, or even fully convert into a full-fledged Islamic bank. By following either of these two routes, the bank may benefit from economies of scope and concentration of knowledge and expertise. The bank will be able to offer a wider range of Shariah-compliant banking products than through the Islamic window alone. For example, it may be better equipped to fully engage in Islamic investment banking activities, such as underwriting sukuk (bond) issuances or managing Shariah-compliant investment and hedge funds, or to manage its own treasury and money market operations.(Juan sole, 2007)

The main challenge for a full fledge Islamic Bank, is the costs of building the franchise from ground zero. To compete with a conventional bank, the Islamic Bank must invest similarly in its infrastructure and achieve operational efficiency and scale as soonest as possible. Another key

consideration is the ability for the Islamic Bank to build a strong source of cheap deposits for the funding requirements.

## **2.2.6 Sources of Funds for Islamic Bank**

It is well known that interest based banks accept deposits of different maturities, paying different rates of interest on different kinds of deposits. However; Islamic banks do not pay interest on deposit. Islamic banking institutions do not utilize various mechanisms to mobilizing funds from the general public, depending on the institution's organization, geographic, market strategy, capital resource, and charter. (DelwinA.Roy, 1991). The source of fund under Interest free banking services are:

### **2.2.6.1 Current Account**

All Interest free banks operate current accounts for their customers as traditional banks do. These accounts govern what is known as demand deposits, i.e. these deposits are payable on demand without a notice being given to the bank. The bank guarantees full return of these deposits on demand. The bank may use these funds in its business operations at its own risk. Since all risk is borne by the bank, the depositors are not entitled to any share in profits earned by the bank.

### **2.2.6.2 Saving Accounts**

Interest free banks also accept saving deposits from individuals. Four different methods of operating saving accounts by Islamic banks have emerged:

Accepting saving deposits on **the principle of wadiya** requesting the depositor to give the bank permission to use the funds at its own risk, but guaranteeing full return of the deposits and sharing any profits voluntarily; Accepting saving deposits with an authorization to invest and share profits in an agreed manner for the period in which a required minimum balance is maintained; Treating saving deposits as qard-e-hasen (benevolent loan) from the depositors to the bank and granting them pecuniary or non-pecuniary benefits; Accepting saving deposits in to an investment pool and treating them as investment deposits.

Generally speaking, the depositors are given a right of withdrawal without notice in saving accounts but are not entitled for any share in the profit for the period in which withdrawal is made.

### **2.2.6.3 Investment Accounts**

Investment deposits are the Islamic bank's counterpart of time deposits in the conventional system. They are also called profit-and-loss sharing (PLS) or participatory accounts. These accounts could be opened either by individuals or companies for any specified period such as six months, one year or even longer. The depositor does not receive any interest. Instead, they are entitled for a share in actual profit accrued from the investment operations of the bank. The profits are shared by the depositors according to their amounts and the period they are held by the bank in an agreed proportion.

### **2.2.6.4 Joint or General Investment**

Some Islamic banks establish some kind of an investment pool in lieu of fixed term deposits. The investment pool takes the form of a general investment account in which investment deposits of different maturities are pooled together. They are not tied to any specific investment project but are utilized in different financing operations of the bank. The profits are accounted and distributed at the end of the period on a pro rata basis.

### **2.2.6.5 Limited-period Investment Deposit**

Some Islamic banks also accept investment deposits for a specified period determined by the mutual consent of the depositor and the bank. The contract may terminate at the end of the period but profits are distributed and accounted at the end of the financial year.

### **2.2.6.6 Unlimited-period Investment Deposits**

These investment deposits are automatically renewable without specifying the period. They could be terminated by giving a specified notice to the bank. Usually the notice period is three months. No withdrawals or increases in the amount of deposit are permitted during the period. Profits are calculated and distributed at the end of the financial year.

### **2.2.6.7 Specified Investment Deposits**

Some Islamic banks have evolved an investment deposits scheme with specific authorization to invest in a particular scheme or a specific trade. In this case the profits of this specific activity are distributed between the depositor and the bank. The bank works as an agent of the investor. It may agree to perform this function against an agreed fee or may opt to have a share in the profit.

### **2.2.7 Uses of Funds by Islamic Banks**

Islamic financing techniques on the uses of funds side of the balance sheet marked a more significant departure from the traditional banking. This is mainly because of the prohibition of Interest rate. Most of the traditional banks use lending on interest as their major financing tool which is modified with respect to interest rate charged, period of loan, conditions of repayments, etc. to suit the requirements of various clients and different sectors. Since Islamic banks cannot use lending on interest as a financing device, they were compelled to find out innovative ways of financing which would not involve interest. Consequently, Islamic banks have drawn up the rich treasure of Islamic theory of contract to come up with the financing techniques which would conform to various requirements of the Islamic Shari'ah. These contracts were originally devised for commodity trade and deal with the contracts between two individuals. The application of these contracts at the institutional level and in the financial sector is a new phenomenon. In course of these applications, some of the contracts have been slightly modified from the point of view of Islamic jurisprudence. Financing techniques used by Islamic banks may be summarized as follows:

#### **2.2.7.1 Murabaha (Mark-up or Cost-plus-Based Financing)**

This is the most popular technique of financing among the Islamic banks. It has been estimated that 80 to 90 percent of financial operations of some Islamic banks belong to this category. It works in the following way:

The client approaches the Islamic bank to get finance for the purchase of a specified commodity. The bank, either itself or through some agent (who could be the client himself), collects all the required information about the commodity itself, such as price, nature and specification of the commodity, names of dealers, etc. The bank informs the client of these details as well as of the margin it would like to charge on the original price.

In case, these conditions are acceptable to the client, a contract of Murabaha transactions will be signed between the bank and the client. The bank will purchase the specified commodity from any seller of its choice paying the price of commodity in cash. In case a sale deed is required (e.g. in case of car or house) the registration is in the name of the bank. Once the ownership of the commodity is transferred to the bank, it sells the commodity to the client on the basis of deferred payment basis against an agreed price.

The new price at which the bank sells the commodity to the client includes the original price (which is cost to the bank) plus the mark-up the bank is charging (which is the profit margin). The client pays this price either in installment or in lump sum at an agreed later date.

There are certain requirements for the Murabaha contract to be valid. It is necessary that profit margin (or the mark-up) the bank is charging must be determined by mutual agreement between the parties concerned. Similarly, the good in question should be in the physical possession of the bank before it is sold to the client. Then transaction between the bank and the seller should be separate from the transaction between the bank and the purchaser. There should be two distinct transactions. That is why certain Islamic banks effect a murabaha transaction in two stages using two separate contract forms. The first form is a request to the bank through which the client informs the bank of his intention to carry out the murabaha. In this contract, the client promises to buy the good from the bank. It should also be noted that a promise is not legally enforceable. Hence, the client has a right to change his mind and the bank runs the risk of losing the money it has invested in this particular Murabah. The second contract deals with the sale of good by the bank to the client on deferred payment basis, the terms and conditions of which are clearly spelled out in the contract form.

#### **2.2.7.2 Musharakah (Partnership)**

Musharakah is another technique of financing used by Islamic banks. In this form, two or more financiers provide the finance for a project. All partners are entitled to a share in total profits of the project according to a ratio which is mutually agreed upon. However, the losses are to be shared exactly in proportion to capital. All partners have a right to participate in the management of the project. However, they also have the right to waive this right in favor of any specific partner.

There are two main types: Permanent Musharakah and diminishing Musharakah. In the first case, the bank participates in equity and receives an annual share of profit on a pro rata basis. The period of termination of the contract is not specified, so it can continue as long as the parties concerned with it to continue. The technique of diminishing partnership is getting quite popular with Islamic banks because of its potentialities. In permanent Musharakah funds may be committed for a long period, but it is not so in case of diminishing Musharakah.

Diminishing Musharakah allows equity participation in the first place and share of profit on pro rata basis. However, the contract also provides a further payment of a sum of money over and above the bank's share in profits as a payment of the part of the equity held by the bank. In this way, the equity held by the bank keeps on getting reduced progressively with time. After a certain time, bank will have zero equity and shall cease to be a partner. Islamic banks have found it quite suitable to finance commercial building in this way. Islamic banks in Sudan, particularly Sudanese Islamic Bank, have evolved yet another application of Musharakah which has tremendous potential for rural and agricultural development in the Islamic countries. SIB has been experimenting in providing finance to farmers under Musharakah arrangements. It works in the following manner: the SIB and the farmer enter into a Musharakah contract under which the bank provides the farmer with the fixed assets such as ploughs, tractors, irrigation, pumps, sprayers, etc and working capital such as fuel, oil seeds, pesticides, fertilizers, etc. Farmer's equity is confined to provide land, labor and management. Since it is a partnership contract, there is no need of collaterals or guarantees other than personal guarantees. First, the farmer is paid 30 percent of net profits as a compensation for his management. Rest of the net profit is shared between the bank and the farmer on a pro rata basis for each side's respective share in the equity.

### **2.2.7.3 Mudaraba (Profit –Sharing)**

Several theorists of Islamic banking have postulated Mudaraba to be a dominant mode of financing under the scheme of Islamic banking. However, this technique, for various conceptual, practical and legal hindrances, has not been able to find wide application by the Islamic banks. The Jordan Islamic Bank (JIB) is one among the few banks which use Mudaraba as a financing technique. The law of the JIB mentions two kinds of Mudaraba: Individual and Joint.

In case of individual Mudaraba, the JIB provides finance to a commercial venture run by a person or company on the basis of profit sharing. The joint Mudaraba may be between the investors. The joint Mudarba may be between the investors and the bank on a continuous basis. The investors keep their money in a special fund operated by the bank in continuous joint financing. The investors receive a proportionate share of the net profit realized even without the liquidation of those financing operations which have not reached the stage of final settlement.

#### **2.2.7.4 I Jar All (Leasing)**

Leasing is one of the approved methods of earning income according to Islamic law. In this method, a real asset such as a machine, a car, a ship, a house, etc. can be leased by the lessor to the lessee for a specified period against a specified price. The benefit and cost of each party should be clearly spelled out in the contract to avoid any element of uncertainty (gharar) with respect to the responsibility of each party.

Leasing is emerging as a popular technique of financing among the Islamic banks. Under this scheme of financing, the bank purchases a real asset (the bank may even purchase the asset as per the specification provided by the prospective client) and leases it to the client. The period of lease may be determined by mutual agreement according to the nature of assets. In general, it may be anywhere between three months to five years or more. During the period of lease, the asset remains in the ownership of the bank but physical possession of the asset and its right of use are transferred to the lessee. After the expiry of the lease agreement, these also revert back to the original owner.

At present, Islamic banks are experimenting with various forms of leasing, one of which is lease purchase agreement. In this scheme, the lessee can purchase the equipment at the end of the lease period at an agreed price. In certain cases, the rental paid during the period of the lease may constitute part of the price.

#### **2.2.7.5 Qard-E-Hasan (Interest Free Loan)**

Most of the Islamic banks also provide interest-free loans to their customers. Practices, however, differ. Some banks provide the privilege of interest-free loans to the holders of investment accounts at the bank. Some other banks have the provision to provide interest free loans to needy students and other economically weaker sections of the society. Yet some other banks provide

interest free loans to small producers, farmers, entrepreneurs who are not qualified to get financing from other sources. The purpose of this loan is to help them start independent life or to raise their income and standard of living.

This is therefore; from theoretical review it can say that Islamic finance has spread in the world including Christian dominated countries but still there is a gap on knowhow of the customers about the service, principle of Islamic finance and mode of operation to mobilize deposit from clients.

### ***2.3 Empirical Review***

This section provides the relevant empirical review related to the study of factors influencing deposit mobilization on banking services. According to Bello (2005), banking system is the backbone of financial intermediation through the mobilization and channeling of financial resources. Commercial banks as well as the sector in general do depend on deposit mobilization to advance its clients. According to Sharma (2009), the bank credit and bank deposits are very closely related with each other and they are two sides of the same coin.

Mohan (2012), Mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization increases the sources of the banks to serve effectively. Mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy. The success of the banking greatly depends on the deposit mobilization.

YazdaniDehnavi(2005), conducted a research entitled “ Factors Affecting the Success of banks and financial institution in mobilizing financial resources”, the study of the result suggest that variables such as Information and communication technology, human resources, skills, diversity of service, service quality, customer satisfaction, employee, indoor branches and subsidiaries located have a role to raise funds and brings successes to the financial institution.

According to Habibipour (2008), “Study on Factors affecting Banking Resource Mobilization “pointed out those internal factors are more influential than average bank in mobilizing

resources. He stated that having detailed customer information is vital for mobilizing of resource from customer. KYC is basic here to utilize the potential of the customer 360 degree related with the client's business, family, friends etc.

According to Khezra (2006), "Factors affecting mobilization of financial resources" stated that information technology and communications, skills of the staff working in banks and diversification of bank service quality, customer satisfaction, and acceptance of indoor environment and locations of branches are important tools to raise funds efficiently.

Abhiman et al (2009) studied some of the great branches of State Bank of India and concluded factors such as staffing; employee education, environment, location, advertising, government regulations, central bank policy and reducing government intervention are considered factors attracting deposits from the public. He stated that the most important factors affecting investment attractions are manpower.

This is therefore; from empirical review the gap identified that most of the studies related with factors influencing the deposit mobilization of interest free banking service has been made in Arabian countries there is no empirical research undertaken in our countries context.

### **2.3.1 Factors Influencing Deposit mobilization of Commercial Banks**

Financial resource attraction is extremely important in the activities of a bank because success in this area can be a factor for success in other areas. Financial resource attraction for banks are concerned both external factors and internal factors, so understanding these factors and level of their effectiveness are essential and important for success in this sectors.

External factors are uncontrollable factors of bank management and factors such as inflation, money supply growth rate, National income, economic growth, GDP growth rates and central bank policy are included. Internal factors can be categorized into service factors, financial factors, relationship and human factors, physical and institutional affiliation factors. At present time because of competition between banks and financial institutions to attract more resources,

control over the factors influencing service performance for the mobilization of financial resources is important.

The following factors influence the deposit mobilization effect of interest free banking service in commercial banks. All these factors have impact on interest free banking service in mobilizing deposit proven from the research results. Three of the first variables are analyzed through quantitative while the fourth one, central bank policy analyzed qualitatively through interview. This is because of the central bank policy is a fact & it is not necessary to collect opinion of the customer through questionnaires rather the researcher tried to examine through interview of the IFB experts of the three banks included under the study. Hypothesis was developed only for the three internal factors of the model.

### **2.3.1.1 Diversity of interest free Banking service**

Numerous studies conducted that every time bank activities are restricted to current accounts, granting loans and issuing credit cards. This means that banks do not utilize the opportunities to attract new deposits and investments even without expanding customer base by diversifying the product and service provided by institutions. It is only in the last few years that some Islamic banks have turned their attention towards expanding the base of their service by extending service of agency for investment such as creating investment funds and offering special investment accounts.

According to Laura, Alfred, Sylvia(2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice and enable depositors to easily select the product that best suits their needs.

Inventing a flow of investment products offers customers attractive alternatives that induce them to move their material assets from other banks or from outside the banking sphere to the Islamic bank, while, at the same time, attracting new customers with new deposits. Exhaustive expansion on the bases of the service or product is the advantage to the bank to improve its service

performance. Therefore to mobilize resource through customer deposit, diversifying new products and services have greater advantage to bank.

**H1: The diversity of IFB banking services in branch has significant influence and positive relationship on deposit mobilization.**

### **2.3.1.2 Customer Awareness**

A new idea does not go beyond the knowledge function, if sufficient knowledge is not obtained to become adequately informed so that, persuasion can takes place (Kotler &Amstrong, 2001). On the other hand, in the age of information in which bank new products are continuously being introduced, many new products providers are extremely conscious of the need to provide consumers with as much information as possible about their product to make customers aware because new products require effective communication (Samuel,2015)

There are numerous studies made on customer awareness while specifically in the area of on line banking, internet banking and self service technology adoption, it influence customer attitude. (Gerad et al., 2003; Gholami et al., 2010; Agarwal et al., 2009). Limited studies have investigated on customer awareness in the area of Islamic banking adoption. Most of these studies, Khattak&Rehman (2010) Saini et al. (2011);Okumus (2005) indicate that customers are aware of existence of Islamic banks. However, they are unaware regarding the use of specific Islamic method of finance or low usage rate since Islamic banks have not done enough in educating their customers and promoting products and service appropriately.

In South Africa it was found that the majority of Muslims are aware of Muslim banks but do not use them. The usage rate is very low, the main reason being that Muslim customers are looking for efficiency, ATM availability and accessibility. With this information, Islamic banks should not over emphasis and rely on the religious factor as a strategy in their effort to attract more customers (Haron,1994). The study suggests that Muslim banks have to understand their potential customers and develop products that will meet their needs.

The results of the study are in line with the study done in Malaysia in 2007, which indicated that Islamic banks must not rely solely on religious factors as a strategy for securing customer allegiance, but that they should also emphasize the provision of quality and efficient products and services (Dusuki& Abdullah, 2007). .

Khattak and Rehaman (2010) and Okumus (2005) found out that the customer's awareness level towards Islamic banking products in Pakistan and Turkey is good in some of the general products like current accounts and time deposit account. However, for some of the Islamic financial products such as Murabahah and Ijarah, most of the customers are unaware of of them. On the other hand, Rammal and Zurbruegg (2007) intended to examine the awareness of Muslim Australians of Islamic banking, especially the demand for profit-and-loss sharing agreements. Their results show that generally there is a lack of awareness in regards to the basic rules and principles of Islamic financing.

Therefore, in this study the intention is not only to know to what extent customers are aware of Interest free banking products and services but also to examine how customer awareness influence interest free banking service in mobilization of deposit.

**H2: Customer awareness has a significant influence and positive relationship on deposit mobilization.**

### **2.3.1.3 Professional skills of employees**

Islamic Banking and finance is already a recognized part of the international financial system. According to Dusuki and Abdullah, (2007) understand the basic principles among employees are very important to avoid misperception among customers especially in relation to the unique features of Islamic banking products and services.

Professional development is process of knowledge, skills and attitudes by learning from training whether these are on the job training. However, one of the factors that are currently affecting the growth of Interest free banking is the lack of available expertise of people who are well aware of the service and its principle.

A study conducted by Baba and Amin (2009) who reported that most bankers were not knowledgeable about Islamic banking since they still confused in regards of the practices of the system which still overshadowed by the conventional system. In light of this, it can be argued that true understanding of the principles of Islam and the characteristics as well as unique needs of the Islamic finance should be disseminated among the employees before extended to the customer (Laldin and Parid, 2010).

Therefore having knowledge on the product and service of the banking industry by employees helps the sector to improve its performance in mobilizing financial resources.

**H3: Skill of human resources has a significant influence and positive relationship on deposit mobilization**

#### **2.3.1.5 Central Bank Policy**

Central bank policy is one of the external factors that influence interest free banking service on mobilization of deposit in the financial institution. In the developing countries like Ethiopia banking industry is under the supervision of the National Bank of Ethiopia.

As quoted from SudinHaron (1996), the main reason for regulation is to provide a sound, stable and healthy financial system. Lax supervision allows some shortcoming in the bank escape the inspection of supervising authority hence becomes a source of failure. Similarly, over regulation, stringent bank supervision and restrictive rules can stifle the bank and can cause a bank failure.

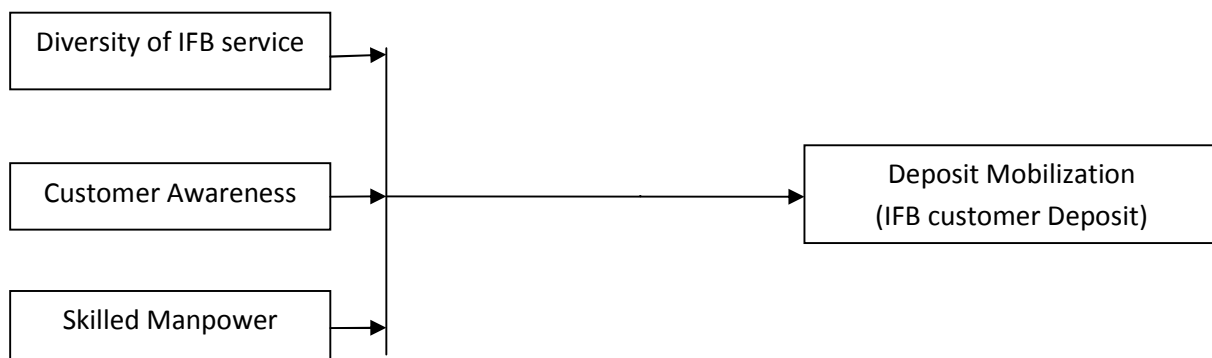
For example, prohibition of banks to enter into commerce or have their own non-financial subsidiary, the so called narrow banking, can stifle Islamic banking. Narrow banking restrictions make the banking system more unstable. Whereas if the banks are allowed to enter into investment on sharing basis the banking system is more stable, however involuntary withdrawal restrictions will apply.

Another disadvantage of too much supervision and control is that it reduces opportunities to innovate and puts the system into bureaucratic procedures. In a different context Sudin,(1996) Gerard, and Cunningham,(2003) in a study of banking systems around the globe have empirically shown that restricting banks from owning non-financial firms is positively associated with bank instability. Therefore the central bank policy has effect on efficiency of the bank for deposit mobilization of interest free banking.

## ***2.4 Conceptual Model***

According to Mugenda(2003), a conceptual framework helps the reader to quickly see the proposed relationships between variables in the study. Below conceptual framework on factors influencing deposit mobilization effect of interest free banking service of selected commercial bank in Ethiopia. The conceptual framework comprises of three independent variables which had an impact on deposit mobilization of IFB service (dependent Variables).

**Figure 1. Conceptual Model**



***Source: Modified from Reza Lurak(2016)***

## **Chapter Three**

### **Research Methodology**

#### ***3.1 Introduction***

Research methodology is a way to systematically solve the research problem. Doing research not only need to know how to develop certain test, how to calculate the mean, the mode, the median or standard deviation or chi square, how to apply particular research techniques, but also need to know which of these methods or techniques are relevant and which are not, and what would they mean and indicate why.(C.R.Kothari,2004). This chapter deal with the research methodology applied to obtain representative data of the factors influencing deposit mobilization effect of Interest free banking service from a sample of three private commercial banks in Addis Ababa. Research approach, research design, target population, source and type of data, sampling design, data collection method, method of data analysis, and ethical consideration employed in this study.

#### ***3.2 Research Approach***

According to Kothari (2004) there are two basic approaches to research, viz., quantitative approach and the qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis and it sub-classified into inferential, experimental and simulation approaches to research. The purpose of inferential approach to research is to form a data base from which to infer characteristics or relationships of population. This usually means survey research where a sample of population is studied (questioned or observed) to determine its characteristics, and it is then inferred that the population has the same characteristics. While, qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior; and it generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis through focus group interviews, projective techniques and depth interviews. Keeping in view of the purpose of this study the researcher was adopted mixed approach both quantitative and qualitative.Using both research approaches should be used when the contingency suggest that it

is likely to provide better answers to a research question. Qualitative information was gathered from expert of IFB through interview. Quantitative information was collected from active customers of IFB through questioners. The related data with questioner were collected and analyzed

### ***3.3 Research Design***

Research design is needed to make research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money. In addition research design required in advance of data collection and analysis for research project. (R. Kothari, 2004) In order to achieve the main objectives of the study descriptive and explanatory research design were used because the relationship between bank service in attracting monetary resources and factors that influence the mobilization of financial resources provided from the survey.

### ***3.4 Source and types of Data***

In conducting this research both primary and secondary data are used. The sources of primary data are from managers, supervisors and customers of the three banks. The secondary data were collected from quarterly and annual report of selected banks branch, head quarter and district. In addition to this the researcher were used different websites, books written by various authors, bulletins released by foreign banks and national bank of Ethiopia, etc

### ***3.5 Target population***

According to Kothari (2004), all items in any field of inquiry constitute a 'Universe' or 'Population. Target population is defined as the entire group a researcher is interested in.

The target population of this study includes active interest free banking customers and experts of IFB service of various branches from the selected private commercial bank for this study such as Oromia International Bank S.Co, United Bank S.Co and Awash Bank S.Co which are located in Addis Ababa.

Customers are targeted so as to know their awareness towards the interest free financial products and services; because they are the main stakeholders for which the service is to be adopted; therefore IFB account holder of bank clients in Addis Ababa city would be considered as sample frame of current research although, experts of the bank also targeted to know the intention of customers towards use of interest free banking; because they are one that participating on implementing and promoting the products and services provided by the bank to its customers.

Large numbers of private bank branches are found in Addis Ababa, taking branches of banks in Addis is found to be logical for the study and those branches are clustered geographically as south, north, east and west Addis Ababa districts by the banks. The branches are selected from each district randomly based on the availability of large number of interest free account holders found. Thus the researcher was selected branches from each district randomly from the selected private commercial banks branch of the study.

### ***3.6 Sampling Design***

A sample design is a definite plan for obtaining a sample from a given population. In this study the total populations are commercial banks that offer interest free banking service, IFB account holder customers, staffs of separate window, as well as the banks' branch managers of the selected banks using convenience sampling.

As of December, 2017 the number of IFB account holders in the selected commercial banks of Oromiya International Bank S.C, United Bank S.C and Awash Bank S.C are 54166, 13695 and 12101 respectively. Also the numbers of branches in the selected commercial banks are 114, 196, and 181 branches with separate windows that offering interest free banking service in Addis Ababa city.

In this type of sampling the researcher can conveniently choose the particular units of the universe for constituting a sample on the basis that the small mass that they so select out of a huge one will be representative of the whole. From the selected cluster sample of Oromiya International Bank, United bank and Awash Bank four branches were chosen from each district using simple random sampling based on the availability of large number of interest free

account holders found. In order to determine the sample size in this study, Morgan table was used.

According to Krejcie & Morgan, (1970) table the target population is finite, the following formula may be used to determine the sample size.

$$S = \frac{X^2NP(1-p)}{d^2(N-1) + X^2P(1-P)}$$

Where:

S = Required Sample Size

X = Z value (e.g. 1.96 for 95% confidence level)

N = Population Size

P = Population Proportion (expressed as decimal) (assumed to be 0.5(50%))

d = Degree of accuracy (5%), expressed as a proportion (.05); It is margin of error

Table 3.1 Total Number of IFB clients as of December 31, 2017 taken from each bank.

Oromiya International Bank S.C	United Bank S.C	Awash Bank S.C	Total
54166	13695	12101	79962

Source: Developed by the researcher

Then the total sample size is calculated as:

$$S = \frac{(1.96)^2 * 79962 * 0.5 * 0.5}{(0.05)^2 * 79962 + (1.96)^2 * 0.5 * 0.5}$$

$$= 382$$

The total sample size is 382. Since the number of customers in each bank is not the same, thus the number of samples for each bank is calculated by the following formula:

$$n1 = \frac{nN1}{N}$$

Where n= total number of sample  
 N= total number of population  
 N1= total number of population in each bank  
 n1= number of samples in each bank

Table 3.2 Total number of sample size of each bank

Oromiya International Bank S,C	United Bank S.C	Awash Bank S.C	Total
258	65	59	382

Based on the sample size the researcher were collected the data from customers who comes to counter to take the service in the selected district of branch using simple random sampling. Furthermore, the researcher was used purposive sampling to select supervisors of interest free banking service from the three banks chosen for the study to take data for interview.

### ***3.7 Data collection Method/Instrument***

In this study the primary data were collected through semi structured interviews and close-ended structured questionnaire items through the adaptation and modification of survey questions from related previous researches, respondents of IFB experts and reliable source were used to collect information of different factors influencing deposit mobilization effect of IFB product and service. The questioner was pretested by pilot test before starting the survey. For measuring this information the Likert scale methods were used to range of responses: strongly disagree, disagree, Neutral, Agree, and strongly agree, with a numeric value of 1-5, respectively. As Neuman (2003) explained, likert-scale is used to ask many people the same questions and examining their answers research questions. It is one of the most reliable ways to measure opinions, perceptions, and behaviors. The questionnaires were classified in to two parts: Part one- general questions and part two factors influencing deposit mobilization effects of interest free banking service.

The secondary data were collected by extracting relevant and supportive data and information from the secondary data sources.

### ***3.8 Data Analysis Methods***

The primary data that are collected through questioner is edited, coded and it has to be analyzed. In this research both qualitative and quantitative analysis techniques are used.

**Descriptive analysis** were used to achieve the first specific objectives primary data that are collected through, interviews, demographic characterized of respondents and mean of variables.

**Correlation analysis** also used to determine the relationship of the independent and dependent variables of this study.

**Regression Analysis** was used for testing hypothesis and investigating research objectives.

The collected data were presented and analyzed using multivariate analysis techniques. The techniques take account of various relationships among variables and it is a powerful tool to analyze data represented in terms of many variables. There are two types of Multivariate techniques: one type for data containing both dependent and independent variables, and the other type for data containing several variables without dependency. (Kotari, 2004)

According to Hair et al. (2006), **multiple regression analysis** isa statistic technique used to investigate the relationships between a dependent variableand two or more independent variables (Kothari, 2004). Multiple regression analysis wasused in order to test the hypotheses.As a result, Statistical Packing for Social Science (SPSS), software version 20.0 was used to process the raw data.

### ***3.9 Validity and Reliability***

#### ***Reliability Test***

According to Haire et al. (2006) defined reliability as the extent to which a variable or a set of variable is consistent in what it is extended to measure. In this study multiple items in all variables are used. Thus, testing the internal consistency among the variables or items was the basic thing. One of the reliability tests was carried out through Cronbach's alpha reliability tests. (George and Malley , 2003). Internal consistency reliability of all questions was assed by the

Cronbach alpha coefficients. They suggest that a Cronbach's alpha value of  $> 0.7$  indicates a considerably high reliability.

Table 3.3: Cronbach's alpha reliability coefficient

Cronbach $\alpha$	$\alpha \geq 0.9$	$0.8 \leq \alpha < 0.9$	$0.7 \leq \alpha < 0.8$	$0.6 \leq \alpha < 0.7$	$0.5 \leq \alpha < 0.6$	$\alpha < 0.5$
consistency	Excellent	Good	Acceptable	Questionable	Poor	Unacceptable

All the variables under study were measured using 27 items listed in questionnaire, which were combined into a single scale (Cronbach's alpha = 0.875) which was a range of cronbach alpha reliability coefficient between  $0.8 \leq \alpha < 0.9$  have good internal consistency among the items sated on questionnaires. (for detail see table on appendix 2)

#### Test 3.4 Reliability Test Statistics

Cronbach's Alpha	N of Items
.875	27

*Source: Researcher's Survey finding (2018)*

#### Validity Test

Validity is the degree to which a measure accurately represents what it is supposed to. According to Zikmund et al (2009) face validity refers to the subjective agreement among professionals that a scale logically reflects the concept being measured whereas Content validity refers to the degree that a measure covers the domain of interest. In this study to measure the validity of the questionnaire the researcher used different steps since there was not a single clear cut indicator. The researcher used the questionnaire adopted from previous research, which has been proven to be valid to measure the variables, with minor modifications. Besides, which was also proven by the advisor to ensure the questionnaires were consistent, clear and explains the variable under the study. Some items were amended, based on their valuable recommendations. Moreover, all variables (items) were inspected by IFB experts to ensure that they were an adequate and a

thorough representation of the construct under investigation. Furthermore, the researcher also tested the validity of the questions using factor analysis. To do factor analysis, Kaiser (1974) says that in general over 300 respondents for sampling analysis is probably adequate. There is universal agreement that factor analysis is inappropriate when sample size is below 50. Thus the researcher can check the validity with factor analysis. Meyer Olkin (KMO) and Bartlett's Test measures the strength of relationship among the variables. According to Kaiser (1974) recommend 0.5 (value for KMO) as minimum (barely accepted), values between 0.7-0.8 acceptable, and values above 0.9 are excellent. Based on this the study result showed the KMO measure is 0.655, which is close to 0.7 and therefore can be accepted. These all were made the purpose of enhancing the research instrument.

### 3.5 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.655
Approx. Chi-Square	7758.174
Bartlett's Test of Sphericity Df	231
Sig.	.000

*Source: Researcher's Survey finding (2018)*

### 3.10 Ethical Consideration

Ethical consideration in research is important because it prevents against the falsifying of data. The respondents were participated in the researches voluntarily. The questioner and interview of this research was cleared and it avoids any offensive, discriminatory and unacceptable languages. Furthermore, information collected from the respondents kept confidentially without disclosing them. Finally, the researcher was given acknowledgment of other author works for using all secondary sources.

## **Chapter Four**

### **Data Presentation and Analysis**

#### ***4.1 Introduction***

The purpose of this chapter is to present the results of the data analysis which were collected from the actual questionnaire survey and interview through the descriptive and statistical findings. A detail discussion regarding the research hypothesis is also presented and tested in this chapter.

#### ***4.2 Result***

##### **4.2.1 Sample and response rate**

A total of 382 questionnaires were distributed to respondents who used interest free banking services and 365 questionnaires were collected from respondents which was equivalent to 95%. Among the collected data only 359 (or 93%) of the questionnaire were valid to used for statistical analysis.

##### **4.2.2 Missing Data and Outlier**

According to Haire et al. (1998), Missing data frequently occurs in a situation in which a respondent cannot respond to one or more questions of a survey. To replace the missing values mean distribution is a widely used method for replacing missing data with the mean value based on all valid response. In this study, missing value above 1%, on a single item was considered as incomplete and the response was rejected from further statistical analysis. Besides before the statistical analysis made the outlier of the data was checked and there is no any odd items inserted on the data.

### 4.2.3 Descriptive Statistics

In the questionnaires, Part I was designed to capture some basic demographic details of the respondents involved in the study. Part II was designed to capture items on diversity of IFB services, customer awareness, skilled manpower and deposit mobilizations.

#### 4.2.3.1 Demographic Analysis of Respondents

The samples of this study have been classified according to several background information collected from the respondents during survey. This makes the analysis more meaning full to the viewer of the research.

Results depict from table 4.1 the male respondents constituted the largest share of the gender composition representing 68% of the respondents which was (244) while 115 (32%) were female interest free banking service users.

**Table. 4.1 Gender composition of respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	244	68.0	68.0	68.0
Valid Female	115	32.0	32.0	100.0
Total	359	100.0	100.0	

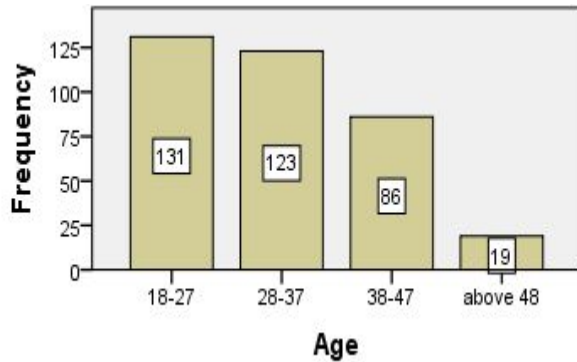
*Source: Researcher's Survey funding (2018)*

The age groups were distributed as shown in 4.2. As it can be seen from the figure, the groups were started from 18 years of age. This is due to the banking industry prohibit the person below 18 years age to open account since they aren't legally liable.

Further, the majority of respondent's age groups were less than 37 years age which was 254 out of 359 or 71% respondents. The age between 28 and 37 which amounted to 86 out of 359 or 24%

respondents were felled under this range. The last age group was made of respondents with age range of above 19 out of 359 or 5% respondents.

**Figure 4.1 Age Distribution**



*Source: Researcher’s Survey finding (2018)*

Based on the data collected from questionnaire most of interest free banking service users were Muslim societies which were comprise 322 out of 359 or 90% of the respondents and only 37 out of 359 or 10% were non Muslim. This is due to most of the societies were thinking that the services provided to only Muslim by relating free of the interest payment. However, the service also provided to non-Muslim societies who need to utilize other product like profit and loss sharing account than the interest payment collected monthly.

**Table 4.2 Religion of the respondent**

	Frequency	Percent	Valid Percent	Cumulative Percent
Muslim	322	89.4	89.7	89.7
Valid Non-muslim	37	10.3	10.3	100.0
Total	359	99.7	100.0	
Missing System	1	.3		
Total	360	100.0		

*Source: Researcher’s Survey finding (2018)*

From the sample under study regarding the educational background of the respondents were below certificate, certificate, diploma, degree and above which were constitute 33%, 34%, 27% and 6% of the respondents, respectively.

**Table 4.3 Educational level of respondent**

	Frequency	Percent	Valid Percent	Cumulative Percent
Below certificate	119	33.1	33.1	33.1
Certificate	122	33.9	34.0	67.1
Diploma	97	26.9	27.0	94.2
Valid Degree	10	2.8	2.8	96.9
2nd degree & above	11	3.1	3.1	100.0
Total	359	99.7	100.0	
Missing System	1	.3		
Total	360	100.0		

*Source: Researcher's Survey finding (2018)*

One of the general questions asked to the respondents were experience of the customer with in the banking industries. From the table 4.4 the researcher observed that five years ago only 8.4% or 30 out of 359 respondents using the service from bank and 329 out of 359 or 92% joined the banks after interest free banking introduced to our country.

**Table 4.4 Experience of the customers in years**

	Frequency	Percent	Valid Percent	Cumulative Percent
less than a year	38	10.6	10.6	10.6
1-3	186	51.8	51.8	62.4
Valid 3-5	105	29.2	29.2	91.6
above 5 years	30	8.4	8.4	100.0
Total	359	100.0	100.0	

*Source: Researcher's Survey finding (2018)*

As the table 4.5 below illustrate, 208 (58%) of the respondents have been using saving account, followed by the second largest respondents who used current account 151 or (42%) while the 3<sup>rd</sup> and 4<sup>th</sup> alternative cited on the survey of loan and foreign service weren't chosen by the respondents.

**Table 4.5 Type of product used**

	Frequency	Percent	Valid Percent	Cumulative Percent
Saving	208	57.9	57.9	57.9
Current	151	42.1	42.1	100.0
Total	359	100.0	100.0	

*Source: Researcher's Survey finding (2018)*

As shown in Table 4.6, majorities of the respondent were used interests free banking service which was 87% or 312 out of 359. Respondents who used both conventional and IFB window services were 8% or 29 while only 5% or 18 respondents were used conventional Banking window.

**Table 4.6 Type of window service used**

	Frequency	Percent	Valid Percent	Cumulative Percent
Interest free banking window	312	86.9	86.9	86.9
Conventional Banking	18	5.0	5.0	91.9
Both	29	8.1	8.1	100.0
Total	359	100.0	100.0	

*Source: Researcher's Survey finding (2018)*

### 4.2.3.2 Descriptive Analysis of Variables

#### 4.2.3.2.1 Influence of diversity of IFB service on deposit mobilization

The mean scores have been computed for all the six items of diversity of IFB service dimensions that are by equally weighting the mean scores of all the items under each variable.

The researchers used itemized rating scale (Max-Min/n1) to construct a range. Respondents were asked to rate their perception on a five point Likert type scale ranging from 1 being strongly disagree to 5 strongly agree. Intervals of the means are (1-1.8) strongly disagree, (1.81-2.60) Disagree, (2.61-3.40) Neutral, (3.41-4.20) Agree and (4.21-5.0) strongly agree. The result is presented in Table 4.7 below:

**Table 4.7 Descriptive Statistics of Diversity of IFB service**

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Variety service of IFB	359	4	1	5	3.92	1.149	1.320
Electronic Banking of IFB	359	4	1	5	3.48	1.205	1.452
Different award to IFB	359	4	1	5	2.09	1.036	1.074
Various payment type of IFB	359	4	1	5	3.99	1.023	1.047
Accessibility of IFB	359	4	1	5	3.63	1.305	1.703
IFB service delivered fairly	359	4	1	5	3.03	1.443	2.083
Valid N (list wise)	359						

**Source: Researcher's Survey finding (2018)**

The above table showed that the respondents perception towards the relationship between diversity of IFB service and service performance. From the result most of the respondents agreed on there is variety of service, electronic banking, various payment type and accessibility of IFB in interest free banking, with a mean score of 3.48 up to 3.99. Likewise, the respondents were neutral on interest free banking service delivered fairly with a mean score of 3.03. Whereas different award prepared to interest free banking service has got the least mean score value of 2.09 and sd. 1.036

#### 4.2.3.2.2 Analysis of customers' awareness

As shown in Table 4.8, the respondents were agreed that they were aware of interest free service delivered on their own banks with the mean scores of 3.73. Similarly, the respondents' were

agreed on the awareness of the difference between interest free banking and conventional banking service with a mean score of 3.79. However, majorities of the respondent were the range of 2.65 up to 3.23 this indicates that they did not know well each products delivered by their own banks. Lastly, respondents' were disagree that the existence of marketing activities on their banks of interest free banking service to influence them to use the service with the mean score of 2.46

**Table 4.8 Descriptive Statistics of customer awareness**

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Interest free banking offered by my bank	359	4	1	5	3.73	1.252	1.566
Difference b/n Interest free & conventional Banking	359	4	1	5	3.79	1.114	1.240
IFB service offered to non Muslim	359	4	1	5	3.15	1.256	1.579
Marketing service activities on IFB influence me	359	4	1	5	2.46	1.250	1.562
Amana is offered through separate window	359	4	1	5	2.65	1.380	1.905
Wadiya is offered through separate Window	359	4	1	5	2.99	1.372	1.883
Investment acc. offered through separate Window	359	4	1	5	2.81	1.211	1.467
Wadiya Haji and Umrah is offered through separate window	359	4	1	5	3.23	1.208	1.460
Valid N (list wise)	359						

*Source: Researcher's Survey finding (2018)*

#### **4.2.3.2.3 Analysis of skilled manpower**

According to the data illustrated below, respondents agreed on the existence of professional skilled staff on interest free banking service window. In contrast with this respondents had neutral attitude towards awareness of the staff on IFB technologies, their abilities to solve the problem on IFB, giving appropriate information regarding IFB , speed of the staff to deliver the service and their behavior to deal with IFB clients with the mean score range of 2.65 up to 3.18. However, respondents were disagree with employees ability to identify problem on interest free banking and availability of suitable waiting facilities to clients of IFB with the mean score of 2.42 and 2.56, respectively.

**Table 4.9 Descriptive Statistics of skilled manpower**

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Staffs are well known with IFB technologies	359	4	1	5	2.96	1.317	1.733
Employees' ability to Indentify problem on IFB	359	4	1	5	2.42	1.270	1.613
Employees ability to solve Problem on IFB	359	4	1	5	2.81	1.439	2.072
Professional skill staff on IFB	359	4	1	5	3.48	1.162	1.351
Suitable Waiting Facilities for IFB	359	4	1	5	2.56	1.352	1.828
staffs are Provide Appropriate information regarding IFB	359	4	1	5	2.65	1.485	2.205
Staff speed to deliver the service of IFB	359	4	1	5	2.70	1.630	2.657
Behavior of the Staff to deal with IFB	359	4	1	5	3.18	1.412	1.994
Valid N (list wise)	359						

*Source: Researcher's Survey finding (2018)*

#### **4.2.3.2.4 Descriptive statistics of deposit mobilization**

In this study deposit mobilization of interest free banking service is the dependent variables. All the above independent variables have direct influence on the effect of deposit mobilization of the banking industries. According to the descriptive statistics table 4.10 respondents' were agreed with diversity of IFB, customer awareness and skilled manpower has influence on deposit mobilization with the mean scores of 3.95, 3.64,3.49 and 4.61 respectively.

**Table 4.10 Descriptive Statistics of deposit mobilization**

	N	Minimum	Maximum	Mean	Std. Deviation
Deposit Mob. On DV	359	3	5	3.95	.562
Deposit mob. on AW	359	3	5	3.64	.586
Deposit mob. SM	359	2	5	3.49	1.098
Deposit mob. general	359	4	5	4.61	.488
Valid N (listwise)	359				

*Source: Researcher's Survey finding (2018)*

#### **4.2.3.2.8 Normality Test**

An assessment of the normality of data is a prerequisite for many statistical tests. To test the assumption of normality, a Normal P-Plot of regression standardized residuals was conducted for each of the four variables. For all variables, Normal P-Plots of regression standardized residuals were examined. The points lied in reasonably straight lines, therefore, the assumption of normality was found acceptable. The P-P lots were approximately a straight line instead of a curve. Accordingly, the residuals were deemed to have a reasonably normal distribution, as suggested by Hair et al. (1998) (see Fig 4 on Appendix 4)

#### **4.2.3.2.9 Assumption of Regression Analysis**

The regression analysis was conducted to know by how much the independent variable explains the dependent variable. Malhotra (2007) showed that regression analysis is a statistical tool for the investigation of relationships between variables. In order to ascertain the causal influence of one variable upon another, researchers assemble data on the underlying variables of the causal variables upon the variable that they influence. Before we go to detail of multiple regression assumption of variable type, multicollinearity, independence of errors, equality of variance were first tested.

**Validity type:** This assumption is maintained in this study by changing the ordinal data (which was originally gathered) to interval by multiplying each mean value by the respective number of questions of the instrument. So, there is no problem on variable.

**Multicollinearity Test:** According to Kleinbaum & Klein (2002) Multicollinearity exists when the independent variables are highly correlated ( $r = .7$  and above). But the correlation between independent variables in this study is not highly correlated because  $r < .7$  and some of them are close to  $.7$  (see table 4.14 above) and also calculation of both a Tolerance test and Variance Inflation Factor (VIF) can be used, so the results of these analyzes are shows as all predictors

VIF is between 1.039 up to 2.213 and which is below 10 and none of the Tolerance levels is  $\leq .1$  which is in between 0.452 up to 0.962 (see regression results of Appendix 3 ). This implies that multicollinearity was not a concern with this data and it is suitable to conduct regression analysis.

**Independent errors test:** This assumption can be tested with the Durbin–Watson test, which tests for serial correlations between errors. According to Andy (2009) the acceptable Durbin – Watson range is between 1.5 and 2.5. In this analysis Durbin – Watson values are 2.161, which are between the acceptable ranges; show that there was no auto correlation problems in the data used in this research. This study involves a relatively large sample (359 customers) and therefore, there is no question on normality of the data and outlier as the result of large samples. (see regression table 4.15 below)

**Homoscedasticity:** At each level of the predictor variable, the variance of the residual terms should be **constant**. This just means that the residuals at each level of the predictor should have the same variance (homoscedasticity); when the variances are very unequal there is said to be heteroscedasticity. In this study the normality of the first mediate variable with the independent variable the residual error term shows there is no homoscedastic problem while test for the second relationship of mediate variable with dependant variable test for heteroscedity fails to reject the null hypothesis of homoscedastic variance. However; according to Enders, (1995) states that the existence of normality problem does not affect and distort the estimators' unbiasedness and consistency property, because the main purpose of normality tests is for inference ( testing hypothesis about the population parameters). Therefore, regression analysis of predictors and dependent variables was conducted and the results of the regression analysis are presented as following section.

### ***4.3 Inferential Analysis of variables***

To test the hypotheses, simple and multi linear Regression analysis with (F) test using ANOVA table and Path analysis was used as follows:

#### **4.3.1 Correlation**

Correlations are the measure of the linear relationship between two variables (Andy, 2006). To find the association of the independent variables with dependent variables, Pearson product moments of correlation coefficient was used.

A correlation coefficient has a value ranging from -1 to 1. Values that are closer to the absolute value of 1 indicate that there is no linear relationship whereas value closer to -1 indicates that there is a weak relationship between the variables. As described by Andy (2006), the correlation is a commonly used measure of the size of an effect: values of  $r = \pm 0.1$  up to  $\pm 0.29$  represent a small effect,  $r = \pm 0.30$  up to  $0.49$  is a medium effect and  $r = \pm 0.5$  up to  $\pm 1$  is a large effect. As shown the correlation matrix table 4.14 stated below, correlation coefficient value illustrates as the entire independent and mediate variable has positive relationship and statistically significant correlation with resource mobilization of interest free banking service.

Table 4.11 correlation of the study variable

		Mean of Dv	means of AW	Means of SM	Means of Deposit Mob.
	Pearson Correlation	1	.139**	.735**	.713**
Mean of Dv	Sig. (2-tailed)		.008	.000	.000
	N	359	359	359	359
	Pearson Correlation	.139**	1	.195**	.455**
	Sig. (2-tailed)	.008		.000	.000
means of AW	N	359	359	359	359
	Pearson Correlation	.735**	.195**	1	.797**
Means of SM	Sig. (2-tailed)	.000	.000		.000
	N	359	359	359	359
	Pearson Correlation	.713**	.455**	.797**	1
Means of Deposit Mob.	Sig. (2-tailed)	.000	.000	.000	
	N	359	359	359	359

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Source: Researcher's Survey finding (2018)**

#### 4.4.2 Regression Analysis

The hypothesis testing was done jointly through multiple and simple regression analysis of the variables. The independent variables stated on the model are not influence resource mobilization directly rather they affects the service performance and which in turn influence resource mobilization indirectly. To see the first relationship the researcher used multiple regressions with dependent variable of service performance and other factors are independent variable. The other relationship is the mediate variable service performance to be independent variable and resource mobilization is dependent variable. According to Kothari, (2004) the multiple regression is a very useful tool that has become very popular to investigate the relationships between a dependent variable and two or more independent variables. After getting empirical data from the questionnaires, the regression coefficient and T-value from SPSS result have been used to estimate results for hypothesis testing and answer other research questions. This research used a standard of 95% confidence interval

to test all the hypotheses. The regression coefficient is interpreted as the rate of change in dependent variable and as a function of change in independent variables.

Thus the researcher used the equation for a straight line instead of some other type of curve. According to Malhotra et al. (2007), the simple linear regression model is given below:

$$y = \beta_0 + \beta_1x + \varepsilon \dots\dots\dots\text{Equation 4.1:}$$

simple linear regression model:

$\varepsilon$  = Error variable

y = Dependent variable

x= Independent variable,

$\beta_0$  = Intercept

$\beta_1$  = Slope of the line (defined as the ratio Rise/Run)

$\varepsilon$  = Residual

Table 4.15, present the regression results of diversity of IFB service, customer awareness, and skilled manpower on dependent variable of service performance and which in turn to be independent variable (service performance) to see the regression result of resource mobilization (dependent variable) on the service performance.

### A. Model summary

Table 4.12 model summary of multiple regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.875 <sup>a</sup>	.765	.763	.316	2.325

a. Predictors: (Constant), Means of SM, means of AW, Mean of Dv

b. Dependent Variable: Means of Deposit Mob.

The above model summary explains the results from the multiple regressions carried out using the three variables: Diversity of IFB service, customer awareness and skilled manpower as the independent variables and service performance as dependent variable. The result of R was (0.875) at level ( $\alpha \leq 0.05$ ); whereas the model's coefficient of determination,  $R^2$  was (0.765), which is used to describe the goodness-of-fit of the model or the amount of variance explained by a given set of predictor variables. Hence, 76 % of variation of the dependent variable, service performance, is explained by the stated independent variables, while the remaining 24% are unexplained variable in this model. Adjusted  $R^2 = (0.763)$  or 76% with estimated standard deviation of 0.316, the regression model is statistically significant.

## B. ANOVA

Table 4.13 ANOVA for multiple regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	115.526	3	38.509	385.402	.000 <sup>b</sup>
	Residual	35.471	355	.100		
	Total	150.997	358			

a. Dependent Variable: Means of Deposit Mob.

b. Predictors: (Constant), Means of SM, means of AW, Mean of Dv

The p- value of the model is 0.000 which is  $P < 0.05$ . This means the probability of variation in the dependent variable to occur by chance (not be affected by the explained independent variables) is 0.000. The Beta coefficients of the independent variables are greater than zero. (Regression result on Appendix 3). Hence, the model can be used to predict deposit mobilization based on the explanatory variables

The higher  $R^2$  value of the multiple regressions stated above indicate the independent variable of this research explained the dependent variable, deposit mobilization with 76% while but there are variable which influence resource mobilization other than the stated variable considers in this study.

## ***4.4 Hypotheses Testing and Discussion***

### **4.4.1 Diversity of IFB service and Deposit mobilization**

**H1:** Diversity of IFB service has positive influence on deposit mobilization of IFB

**H0:** Diversity of IFB service has no positive influence on deposit mobilization of IFB

Based on the P- value (0.000) diversity of interest free banking service was found to have a significant effect on deposit mobilization of interest free banking service at 1% significance level. The variable has a positive relationship with Pearson correlation  $r= 0.713$  it has also significance at Beta= 0.278 and  $t=7.343$ . Therefore, the alternative hypothesis is accepted and the null hypothesis is rejected. Hence, the diversity of product and service available in interest free banking positively significantly affects the growth of deposit mobilization of interest free banking service.

This is also supported by many studies conducted that every time bank activities are restricted to current accounts, granting loans and issuing credit cards. This means that banks do not utilize the opportunities to attract new depositor by expanding the base of their service to perform well. Which is also in line with the findings of Laura, Alfred, Sylvia (2009) that indicate to change the service of interest free banking and to mobilize more deposits, financial institution offer range of saving products that are tailored to their particular client. Currently the banking industries are trying to segment their clients in to corporate, business and retail in order to serve them as per their capacity and interest by diversifying the products and service they are interested in. Hence, making exhaustive expansion on the basis of the service or product is the advantage to the bank to improve its service performance. It is well known that interest based banks accept deposits of different maturities, paying different rates of interest on different kinds of deposits. However, Islamic banks do not pay interest on deposit. (Delwin A. Roy, 1991). Thus to attract the customer to utilize interest free banking service the banks should utilize various mechanism to mobilizing the fund through diversifying the use of funds product like musharaka; it is partnership contract, there is no need of collateral or guarantees other than personal guarantees. Besides other product like mudaraba (profit sharing based on the agreement); it is a dominant mode of financing under the scheme of Islamic banking. This is therefore to improve the service performance of interest free banking diversifying the product and service to be the main strategy to the sector.

From interview result the researcher found that the main reason the banks didn't introduce other product and services are products cannot be fully offered using the existing central bank policy Directive number SBB/12/96. The directives stated as equity participation in a project or a company shall be in strict compliance with " limitation on Investment of Bank" and Directive number SBB/ 60/2015 & SBB/65/2017 sub articles 4.4 ' a bank may hold up to 10% equity shares in a single non banking business other than insurance'. However; from different literature most products and service delivered in interest free banking other than the conventional accounts of saving and current, all service made with equity sharing since the banks didn't pay interest to them. Hence, this is the main challenging of the interest free banking to expand the business and excel the performance to meet the target of maximizing the resource. Besides the new product needs suitable core banking support and there should be clear risk mitigation techniques.

- ❖ **Therefore the researcher conclude to accept the alternative hypothesis that diversity of IFB service has significant and positive relationship with service performance of IFB.**

#### **4.4.2 Customer Awareness and Deposit mobilization**

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**H1:** Customer awareness has positive influence on deposit mobilization of IFB

**H0:** Customer awareness has no positive influence on deposit mobilization of IFB

Based on the P- value (0.000) customer awareness was found to have a significant effect on deposit mobilization of interest free banking at 1% significance level. The variable has a positive relationship with Pearson correlation  $r = 0.455$  it has also significance at Beta = 0.313 and  $t = 11.932$ . Therefore, the alternative hypothesis is accepted and rejected the null hypothesis. Hence, the customers' Awareness of using interest free banking positively significantly affects deposit mobilization of the interest free banking toward their growth.

This is in line with the proposition of Khattak and Rehman (2010) and Okumus (2005), found that the customer's awareness level towards Islamic banking products is good in some of the general product like Saving and current account while some of the financial products like Murabah and Ijarah, most of the customers are unaware of them which is also in line with the findings of Rammal and Zurbruegg (2007) that indicate as awareness have a significant impact on the use of banking product and services. On the other hand Gerard et al., (2003) indicated as the positive significant relationship between personal awareness level and decision to patronize an Islamic bank product. Moreover, limited studies have investigated on customer awareness in the area of Islamic bank adoption. Most of these studies, Khattak and Rehman (2010) Saini et al. (2011); Okumus (2005) indicates that customers are aware of existence of Islamic banks. However, they are unaware regarding the use of specific Islamic method of finance or low usage rate since Islamic banks have not done enough in educating their customers and promoting products and service appropriately. Which is also in line with Haron et al., (1994) that indicates the majority of Muslims are aware of Muslim banks but do not use them. This is because the Muslim customers are looking for efficiency, ATM availability and accessibility. The study suggests that Islamic banks shouldn't be emphasized on religious factor as strategy rather they have to understand their potential customers and develop products that will meet their need.

The interview results suggest as customers are not properly know the current service offered by the bank due to this the service performance of the interest free banking to be lag . The main reasons are the product and services offered by the IFB difficult to differentiate from conventional, not better marketing their products and services to the public and not believe as IFB is offered to both Muslim and non Muslim. Besides, the interview result suggests as the newness of the interest free banking service in Ethiopia will take time for the public to embrace and needs a large awareness creation activity from the bank even if the bank promoting it via commercial advertizing and personal selling techniques like TV, Radio, Newspaper, Magazines, Website, Brochures, Banners, decorations, Road Shows or Awareness programs like School visits, Religious Institutions, Edirs, Special events, inviting students to visit branch, corporate visits, use different occasions, etc. and Exhibitions/ Trade events/ Seminars/ conferences to Aware and lobby customers to open account, shift walking customers to prominent customer.

- ❖ **Therefore researcher conclude to accept the alternative hypothesis that customer awareness has significant and positive relationship with service performance of IFB.**

#### **4.4.3 Skilled Manpower and Deposit mobilization**

**H1:** Skilled manpower has positive influence on deposit mobilization of IFB

**H0:** Skilled manpower has no significant influence on deposit mobilization of IFB

Based on the P- value (0.000) skilled manpower was to have a significant effect on deposit mobilization of interest free banking service at 1% significance level. The variable has a positive relationship with Pearson correlation  $r = 0.797$  it has also significance at Beta= 0.532 and  $t = 13.901$ . Therefore, the researcher accepted the alternative hypothesis and rejects the null hypothesis. Hence, skill of employees delivering interest free banking service positively significantly affects the deposit mobilization effects of the interest free banking toward its growth.

This is in line with the study conducted by YazdaniDehnavi (2005) and kehzera (2006) in which skill of the staff working the bank has effects to change the service performance and to raise funds efficiently. Beside, According to Dusuki and Abdullah,(2007) understand the basic principle among employees are very important to avoid misperception among customers especially in relation to the unique features of interest free banking products and service. There is lack of available expertise of people who are well aware of the service and its principle. This is the main factors that are currently affecting the growth of interest free banking. Moreover, Abhiman et al (2009) the study results showed as the most important factors affecting resource attractions are manpower which is related with the result of this research. Moreover, a study conducted by Baba and Amin (2009) who reported the most bankers were not knowledgeable about Islamic banking since they will confused in regards of the practices of the system which still overshadowed by the conventional system. Similarly, Laldin and Parid (2010) argued that true understanding of the principle of Islam and the characteristics as well as unique needs of the Islamic finance should be disseminated among the employees before extended to the customer.

On the other hand the interview results suggest that since the service is new to our country there are shortages of expertise with in the industries to serve the clients as required. So, to improve the IFB service and raise the funds within the industries there should be an extensive operational and conceptual training which is on the shariah aspects and interest free banking. On top of that NBE

should also take the responsibility to make experience sharing with other experienced counties practice, and develop training guide line.

❖ **Therefore researchers conclude that accept the alternative hypothesis that skilled manpower has significant and positive relationship with deposit mobilization of IFB.**

## **Chapter Five**

### **Summary, Conclusion and Recommendations**

#### ***5.1 Introduction***

In this chapter, an attempt has been made to present the summary, conclusions and recommendations. At the end of the chapter, limitation and suggestions for future research are discussed.

The main purpose of the study was to answer research questions of: what are the factors influencing the resource mobilization effects of interest free banking service? How diversity of service, customer awareness, employee's knowledge and skill, and central bank policy affects the interest free banking service performance in the mobilization of financial resource of the banks?

#### ***5.2 Summary***

The purpose of this study was to investigate factors that influence interest free banking service in the efforts of mobilizing financial resource. In this study, four components, Diversification of banking service, customer awareness, skilled manpower and central bank policy, as the main success factors in attracting financial resource in IFB. All these factors have impact on the service performance of the interest free banking in mobilizing of resource proven from the research results. Three of the first variables are analyzed through quantitative while the fourth one, central bank policy analyzed qualitatively through interview. This is because of the central bank policy is a fact & it is not necessary to collect opinion of the customer through questionnaires rather the researcher tried to examine through interview of the IFB experts of the three banks included under the study. The study is made on selected private commercial bank of Oromiya International Bank, Awash Bank s.c and United Bank s.c. To trace the research objectives cluster sampling were used, 382 observations were comprised through simple random sampling procedure and to identify the variables that may influence interest free banking

serviceto mobilize deposit through Descriptive Analysis, Multiple regression and using F-test. Questionnaires and interviews conducted from customers and experts of IFB service from the three banks.

Interest free banking service is one of the strategies that the banking industries used to mobilize resource. The subsequent empirical secondary data of fact on ground obtained from the three banks taken under this study of OIB, AB and UB; in mobilization of monetary resource that were kept away from the banking system about ETB 2.87 billion, 478.9 million & 551.6 million with the number of depositor 237114, 28960 and 16236, respectively at the end of April 30,2018. From the data the researcher concludes that within the last five years from the product introduced to our country the total deposit collected from the depositor is encouraging. However, compare to the total population of the Muslim societies who utilized the service more, still there are high resource on the area. Hence, interest free banking will be used in future as a result of existence of large potential demand in country. The study results reveal that:

- Since the service is new to our country, 95% of the respondents used the service by young and middle age groups.
- Lack of the awareness of the IFB service and wrongly associated with religion
- Banking activities are restricted to current and saving account and they do not utilize the opportunities to attract new depositors by expanding the base of their service to perform well.
- Most of the respondents aware of interest free banking service offered on their banks and they can differentiate the difference between IFB and CB.
  
- There is a high level of customer awareness of some general products such as current account and saving account. As for other different type of borrowing products such as Murahaba (mark up or cost plus based financing), Musharaka (Partnership), Mudaraba (profit sharing), customers do not have a high awareness for any of them.
- Based on the mean value of 3.35 significances, the role of all the factors of diversity of IFB service influence service performance, more than average.
- Like conventional banks, the banking industries do not prepared different award to IFB service clients.

- There is a problem of skilled manpower in the IFB service performance with the mean value of 2.845. Lack of manpower for the service provision and sharia advisory members who have both as well as business knowledge.
- The result of the descriptive analysis depicted us diversity of IFB service, customer awareness and skilled manpower has a significance and positive relationship of the service performance with a mean value of 3.69, more than average.
- In this study service performance is the mediate variable which has influence on mobilizing of resource mobilization with a mean value of 4.61, more than average.
- The NBE directives limit the banking industries to offer the new product or service other than the general accounts of saving and current account because of the directive no. SBB/12/96, SBB/60/2015 and SBB/65/2017 which stated as equity participation in a project or a company shall be in strict compliance with “limitation on investment of bank” a bank may hold up to 10% equity shares in a single non banking business.
- Awareness has a significant impact on the use of banking products and services.
- There are no better marketing activities to introduce the product and service of IFB to the public.
- The banking sector should have been improving their service performance in response to the increase in competitive pressure and raise their fund.
- The study result showed as the bank service performance are efficient enough the sectors can maximize its market share which in turn helps to mobilize resource

In general the hypothesized factors in the model of the study represented almost 91% variation in service performance that is caused by diversification of IFB service, customer awareness and skilled manpower and 60% variation in resource mobilization is caused by service performance of the mediate variable, which indicates an acceptable goodness of fit of the model.

### ***5.3 Conclusion***

The NBE has reflected the government's policy of adopting interest free banking and responding to the need by issuing the Directive that mainly enlist the precondition for the authorization of CBs to IFB service. Based on the enabling directives of NBE, a number of conventional banks of the country including CBE, OIB and UB and others have got the license and started offering the products to the public. From the study results and summary the researcher concluded that:

The study results also reveal that the overall awareness level of respondents towards IFB in our country is inadequate.

The bank not going as it planned as a result of the newness of the products and service for the country and the restriction of the NBE directives and the countries law and regulation on the interest free banking service.

From the study result the IFB service experts agreed that the existing NBE interest free banking provisions are not appropriate which may affects the effective implementation and smooth operation of IFB in the country

The finding of the study reveals that banks who adopt IFB service used the following mechanism to promote awareness of the societies is pertaining its service: use of advertisement on TV, radio, newspaper, magazines, sponsoring films, TV dramas, documentary ,donation and various events.

The study reveals that through the various financing modalities of interest free banks those who have appropriate knowledge but shortage of capital can get access for the business opportunities on dual benefit basis.

The finding of the study reveals that diversification of IFB service, customer awareness and skilled manpower has positive and significant effects on IFB service performance, they should work on the stated variables in order to increase their deposit.

## **5.4 Recommendation**

Based on the finding and conclusions researcher draw the following recommendations:

- The mobilization of financial resources through non-balance sheet instruments such as letters of credit, guarantees and securities.
- Benefiting from the experience of successful countries in the implementation of interest free banking and its localization in line with the country's culture
- It is better to bank on personnel selection, human resources, technical competence, behavior, appearance and care-related to education.
- To promote learning among employees of branches and banking experience, job rotation in order to become fluent in all matters.
- If the bank branches training in discussions with customers identify the wants and needs of our customers and solve their problems in mind, it could result in more customers and more financial resources to attract.
- The NBE has to involve in awareness creation campaigns and public communication about the interest free banking products and their risks, so that it can achieve its purpose of attracting the saving of the large segment of the country's Muslim population towards the strengthening the country's financial system and economy.
- Regular training programs, Seminars, workshops on the conceptual (sharia) and operational aspect of Islamic finance, and standards and procedures of Islamic banking must be organized for the officials and employees on the interest free counters of the commercial banks.
- Providing rewards and incentives to employees or trainees either in the form of money or certificate in order to encourage them to have more interested on the training of IFB service.

As interest free windows do not involve in the payment or receipt of interest, the major source of profit constitutes the return from direct investments with or without partnerships. Thus, the directives which prohibit interest free windows from indulging in the direct investment of trade commerce and agriculture and it also limits the equity participation of Islamic windows in real estate and securities would seriously hamper the banks' capacity to pay profits to its depositors and to secure enough amount of profit for its shareholders which is the prime reason for its survival. Therefore, the application of this investment limitation in the directive of the NBE on interest free windows has to be lifted as the limitations do not suit the business of interest free banking.

- The Directives also should include the risk mitigation techniques related with the use of source of funds in order to bring the mattress money to the economy.

### ***5.5 Limitation and suggestion for further study***

This research intended to examine the factors influencing resource mobilization effects of interest free banking service in Ethiopia: a case of selected private banks OIB, AB, and UB located in Addis Ababa. The present study used IFB account holders only to investigate the perception of them toward the service performance of interest free banking in mobilizing financial resource. So; the future should consider other account holders. The research results do not show other financial products and service of the banks and not generalized to the conventional banking including outside Addis Ababa. To overcome the limitations to the study, this research suggests the need for further investigation. In addition, other variables should be added as independent variable or mediating/moderating variables in order to ascertain the variables influence on the service performance of interest free banking in mobilizing resource mobilization. Moreover, future research study should be conducted on large scale by considering more on conventional bank customers and rural areas dual banking system. Further study may focus on the relationship between interest free banking and financial performance in commercial banks in Ethiopia.

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<http://www.albarakah.com>,

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## APPENDIX – 1 MISSING VALUE

Table 4.14 Missing Value

	N	Mean	Std. Deviation	Missing		No. of Extremes <sup>a</sup>	
				Count	Percent	Low	High
GOR	359	1.32	.467	0	.0	0	0
AOR	359	1.98	.904	0	.0	0	0
ROR	359	1.10	.304	0	.0	.	.
EDUOR	359	2.09	.992	0	.0	0	0
COB	359	2.35	.780	0	.0	0	0
AWB	359	1.42	.494	0	.0	0	0
WAWB	359	1.21	.574	0	.0	.	.
DV8	359	3.92	1.149	0	.0	57	0
DV9	359	3.48	1.205	0	.0	0	0
DV10	359	3.99	1.023	0	.0	54	0
DV11	359	2.09	1.036	0	.0	0	38
DV12	359	3.63	1.305	0	.0	0	0
DV13	359	3.03	1.443	0	.0	0	0
AW14	359	3.73	1.252	0	.0	86	0
AW15	359	3.79	1.114	0	.0	.	.
AW16	359	3.15	1.256	0	.0	0	0
AW17	359	2.46	1.250	0	.0	0	0
AW18	359	2.65	1.380	0	.0	0	0
AW19	359	2.99	1.372	0	.0	0	0
AW20	359	2.81	1.211	0	.0	0	0
AW21	359	3.23	1.208	0	.0	0	0
SM23	359	2.96	1.317	0	.0	0	0
SM24	359	2.42	1.270	0	.0	0	0
SM25	359	2.81	1.439	0	.0	0	0
SM26	359	3.48	1.162	0	.0	0	0
SM27	359	2.56	1.352	0	.0	0	0
SM28	359	2.65	1.485	0	.0	0	0
SM29	359	2.70	1.630	0	.0	0	0
SM30	359	3.18	1.412	0	.0	0	0
SPDV	359	3.95	.562	0	.0	.	.
SPAW	359	3.64	.586	0	.0	0	0
SPSM	359	3.49	1.098	0	.0	0	0
SPRM	359	4.61	.488	0	.0	0	0

a. Number of cases outside the range (Q1 - 1.5\*IQR, Q3 + 1.5\*IQR).

b. . Indicates that the inter-quartile range (IQR) is zero.

## Appendix -2 Reliability Test

Table 4.15 Detail reliability test

	Mean	Std. Deviation	N
Variety service of IFB	3.92	1.149	359
Electronic Banking of IFB	3.48	1.205	359
Various payment type of IFB	3.99	1.023	359
Different award to IFB	2.09	1.036	359
Accessibility of IFB	3.63	1.305	359
IFB service delivered fairly	3.03	1.443	359
Interest free banking offered by my bank	3.73	1.252	359
Difference b/n Interest free & conventional Banking	3.79	1.114	359
Aware IFB service offered to non Muslim	3.15	1.256	359
Marketing activities on IFB service influence me	2.46	1.250	359
Amana is offered through separate window	2.65	1.380	359
Investment account offered through separate Wind	2.81	1.211	359
Staffs are well known with IFB technologies	2.96	1.317	359
Employees ability to solve problem on IFB	2.81	1.439	359
Employees ability to Indentify problem on IFB	2.42	1.270	359
Professional skill staff on IFB	3.48	1.162	359
Suitable Waiting Facilities for IFB	2.56	1.352	359
staffs are Provide Appropriate info regarding IFB	2.65	1.485	359
Staff speed to deliver the service of IFB	2.70	1.630	359
Behavior of the Staff to deal with IFB	3.18	1.412	359
service performance on Diversity(DV)	3.95	.562	359
service performance on awareness (AW)	3.64	.586	359
service performance on skilled manpower (SM)	3.49	1.098	359
means of service performance	3.69	.553	359
SP on resource mobilization	4.61	.488	359
Wadiya is offered through separate Window	2.99	1.372	359
Wadiya Haji and Umrah is offered through Sep Window	3.23	1.208	359

## Appendix -3 result of regression analysis

Table 4.16 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.841	.137		6.159	.000	
	Mean of Dv	.325	.044	.278	7.343	.000	.460
	means of AW	.350	.029	.313	11.932	.000	.962
	Means of SM	.346	.025	.532	13.901	.000	.452

a. Dependent Variable: Means of Deposit Mob.

Table 4.17 Collinearity Diagnostics<sup>a</sup>

Model	Dimension	Eigenvalue	Variance Proportions				Condition Index
			(Constant)	Mean of Dv	means of AW	Means of SM	
1	1	3.899	.00	.00	.00	.00	1.000
	2	.072	.03	.00	.09	.44	7.348
	3	.021	.14	.14	.77	.12	13.477
	4	.007	.83	.86	.13	.44	23.258

a. Dependent Variable: Means of Deposit Mob.

APPENDIX - 4 Normal P-Plot

Normal P-P Plot of Mean of Dv

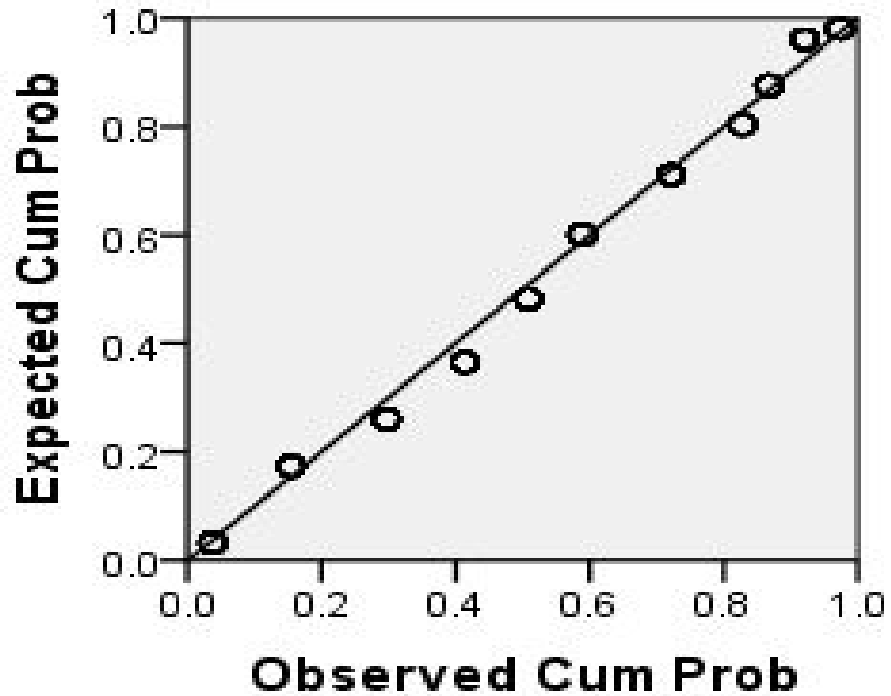


Figure -3 Normal P-Plot of Mean of Diversity

Normal P-P Plot of Means of SM

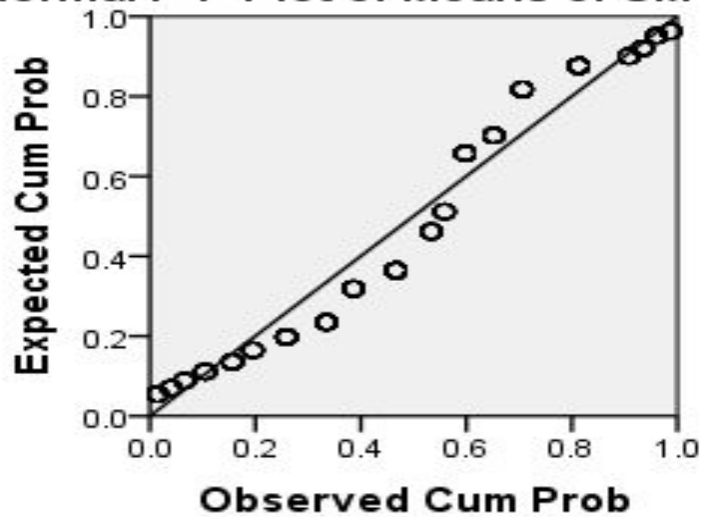


Figure-4 Normal P-Plot of Mean of Skilled manpower

**Normal P-P Plot of customer awarness**

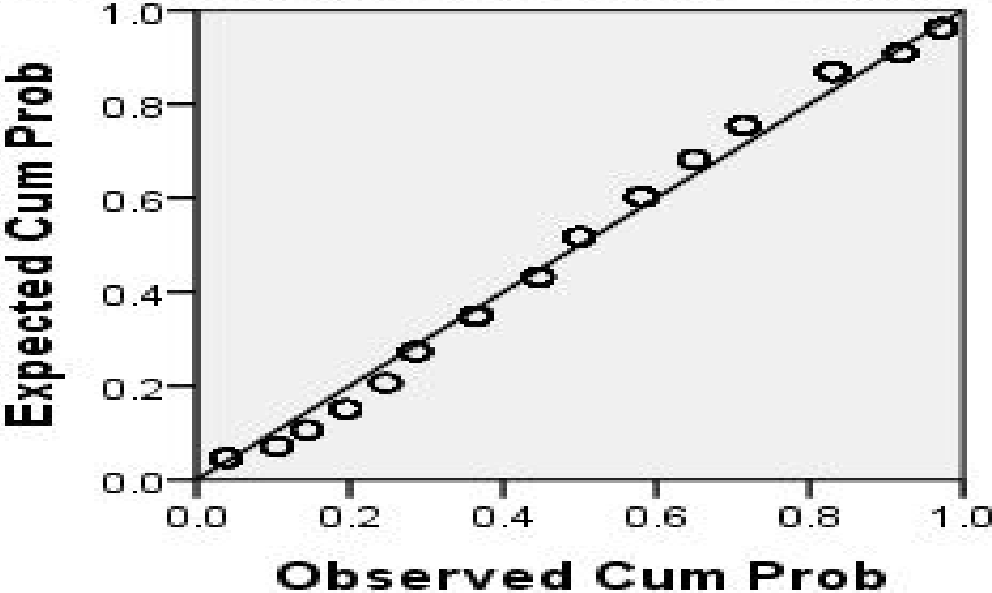


Figure 5- Normal P-Plot of skilled manpower

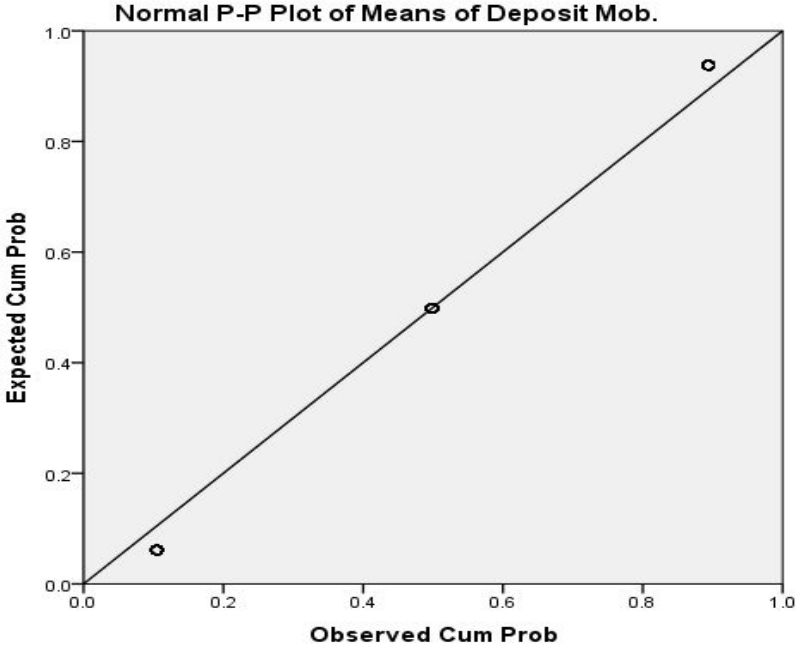


Figure 6- Normal P-plot of Deposit mobilization

## Appendix-5 Charts and scatters plot

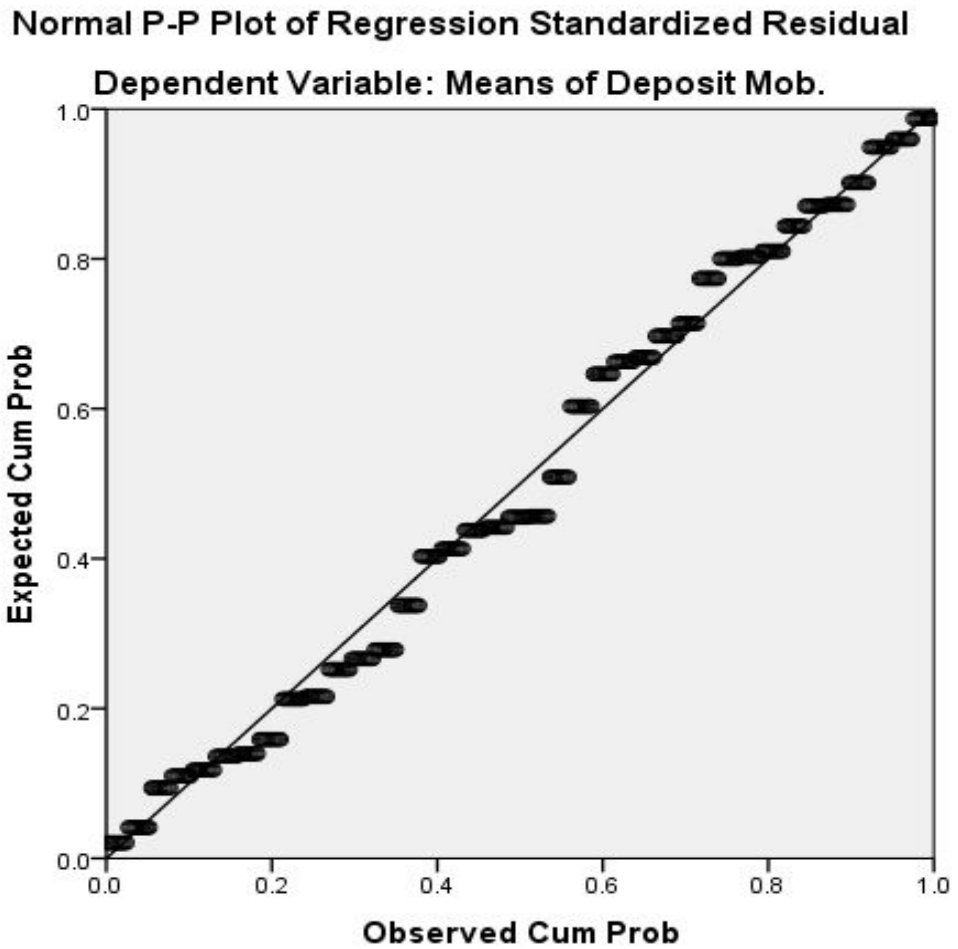


Figure- 7 Normal P-Plot of Regression standardized Residual

## Appendix -6 - Charts and scatters plot

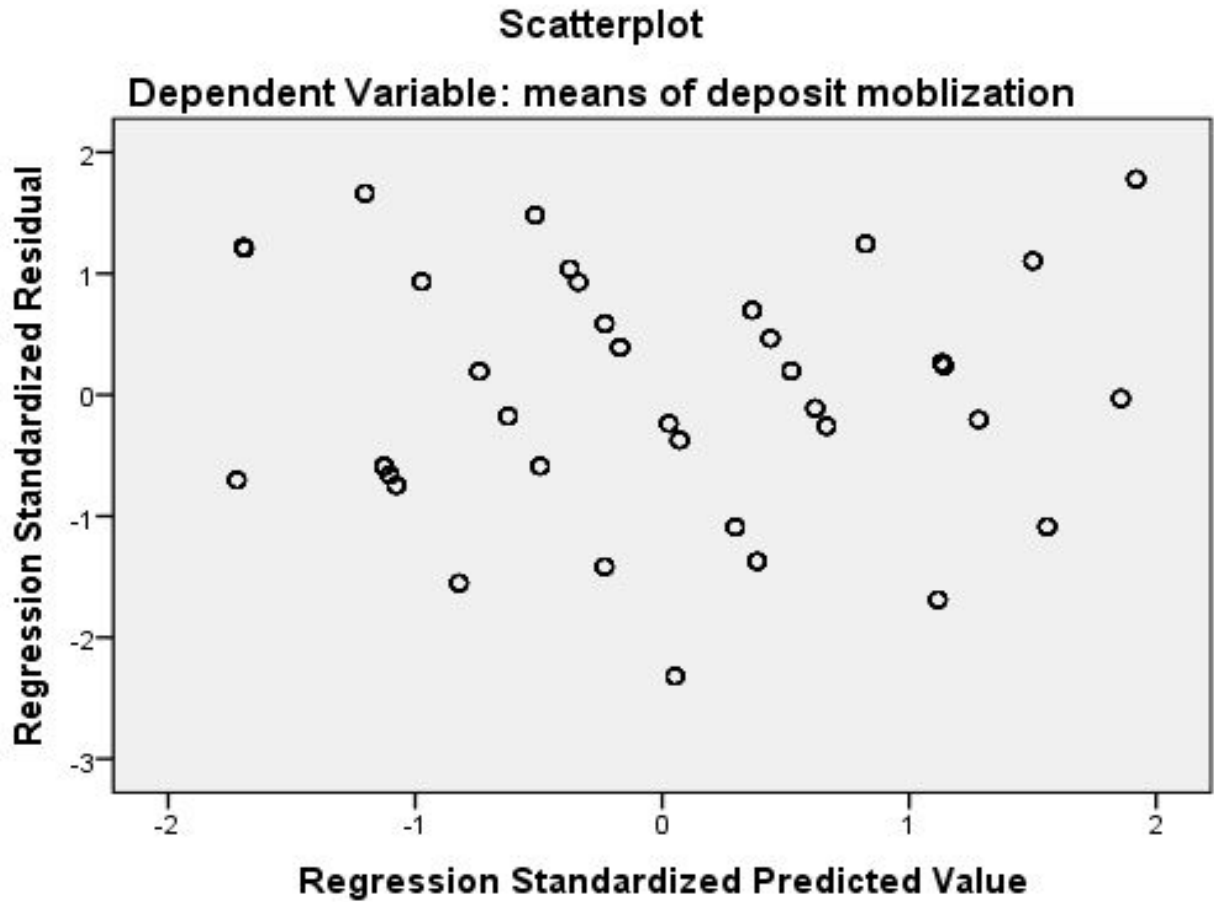


Figure- 8 Charts and scatter plot

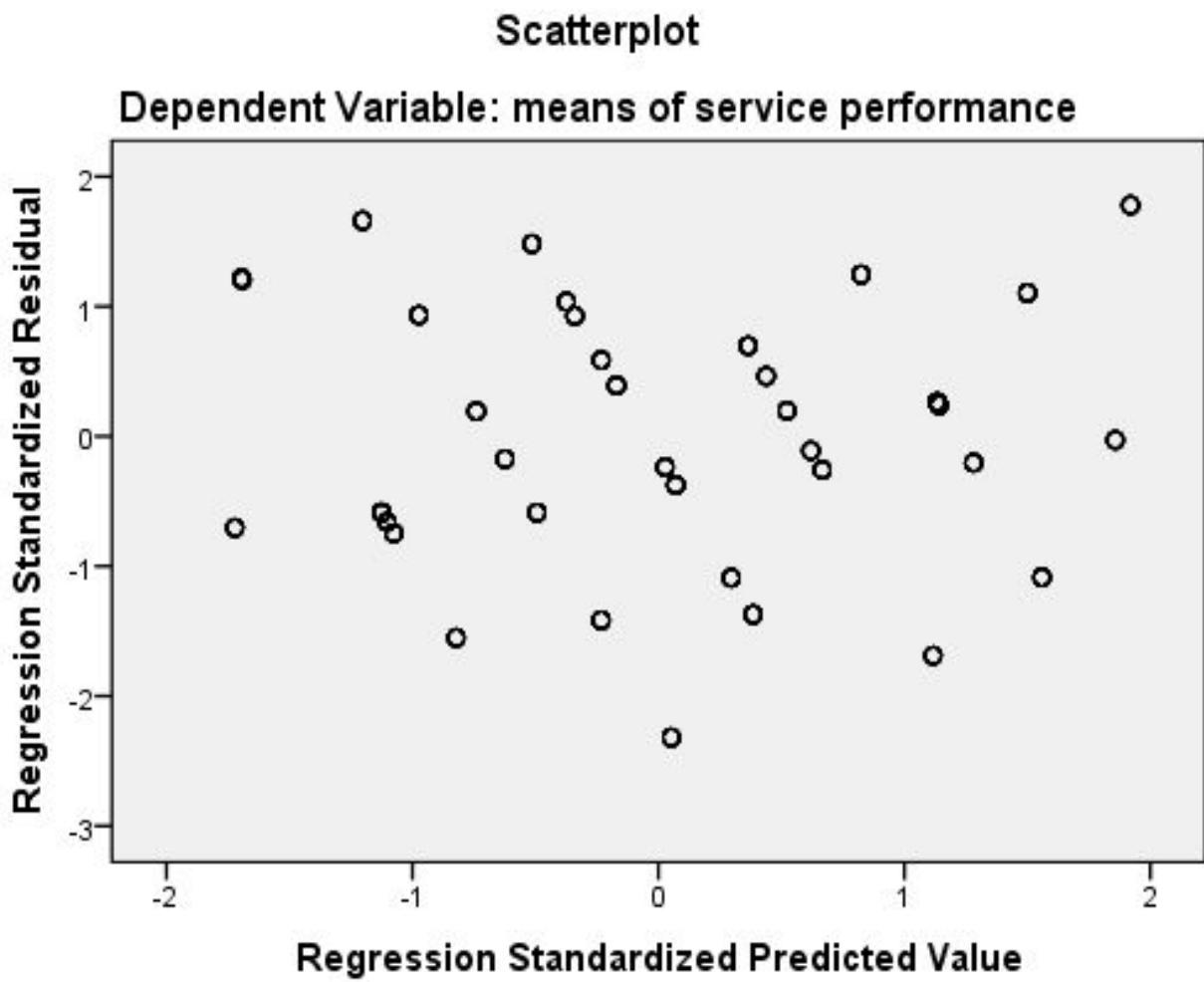


Figure – 7 Charts and scatter plot

## Appendix 7

Addis Ababa University School of Commerce

Master of Marketing Management Program

### Questionnaire to be filled by customers of interest free banking

#### Dear Respondents,

This questionnaire is prepared by MA in Marketing Management student of Addis Ababa University school of commerce to collect information on interest free financial products and services that are provided by commercial private bank under separate window. The information you provide will be kept confidential and be used only for an academic purpose. I would like to thank you in advance for your participation and sharing of your busy schedule. If you need further information about this study, or have problem in completing this questionnaire please contact me via +251 -911-574069 or email address [tewabiyoni1627@yahoo.com](mailto:tewabiyoni1627@yahoo.com)

#### General Instructions

1. There is no need to write your name or any other personal identity
2. For all question circle the alternative
3. If it is applicable you can answer more than one option where appropriate

#### Part One: Demographic information

1. Gender            1) Male                    2) Female
2. Religion        1) Muslim                2) Non Muslim
3. Age              1) 18-27 years.    2) 28-37 years.    3) 38-47 years.    4) 48 years and above.
4. Educational Level  
                         1) Below certificate    2) Certificate    3) Diploma    4) Degree    5) Master and above
5. For how long have you been the customer of this bank?  
                         1) Less than 1 year    2) 1-3 Years    3) 3-5 Years    4) above 5 years
6. Reason(s) for associating with a Bank  
                         1) Saving    2) Current    3) Loan    4) Remittance    5) All
7. Which windows you are associated with?  
                         1) Interest Free Banking window    2) Conventional window    3) Both

**Part Two: Factors that Influences resource mobilization of IFB**

In this part there is statements that indicate the stated variable has influence on IFB service and resource mobilization you intend to fill. Based on your agreement with the statement circle alternatives as:

“1” for Strongly Disagree “2” for Disagree “3” for Neutral “4” for Agree “5” for strongly agree

		Alternatives				
S.N	Questions	S D	D	N	A	SA
DV8	In my bank Interest free banking window has variety of service to depositor					
DV9	Interest free banking service expand on e- banking service					
DV10	For interest free banking service users variety of payment type are available					
DV11	Different award payment to depositors of interest free banking clients are prepared like conventional Bank					
DV12	Interest free banking services provided by my bank is accessible every branch of the bank					
DV13	Interest free banking product and service delivered by my bank is fairly.					
AW14	I know the Interest free banking service offered by my bank					
AW15	I understand the difference between interest free banking and Conventional Banking services					
AW16	I am aware of interest free banking services are offered to Non Muslim					
AW17	In my bank there is better Marketing activities on interest free banking service to influence me					

<b>AW18</b>	I know current account (amanah) is offered through separate window					
<b>AW19</b>	I know saving account (Wadiya) is offered through separate window					
<b>AW20</b>	I know Investment account (Profit and Loss sharing) is offered through separate window					
<b>AW21</b>	I know wadiya Haji and Umrah is offered through separate window					
<b>SM22</b>	Staffs are familiar with interest free banking service					
<b>SM23</b>	Staffs are well known with new technologies of Interest free banking					
<b>SM24</b>	Employees have ability to identify my problem on interest free banking service					
<b>SM25</b>	Employees have ability to solve my problem on interest free banking service					
<b>SM26</b>	My bank has professional skill staff on interest free banking service					
<b>SM27</b>	On interest free banking service there is appropriate waiting facilities					
<b>SM28</b>	Staffs are provide appropriate information to me regarding interest free banking service					
<b>SM29</b>	The staffs have speed to deliver the service to me					
<b>SM30</b>	IFB staffs have a good behavior to deal with me in the provision of service					
<b>DMDV 31</b>	In my bank variety of interest free banking service delivered alternatively					
<b>DMDV32</b>	I am well aware of the IFB service delivered in my bank					
<b>DMSM33</b>	In my bank staffs are deliver the IFB service efficiently					
<b>DM34</b>	IFB service delivered in my bank encourage me to increase my deposit					



**በአዲስ አበባ ዩኒቨርሲቲ ንግድ ስራ ኮሌጅ  
በገበያ አስተዳደር የሁለተኛ ዲግሪ መርሀ ግብር  
ከወለድ ነፃ ባንክ ንግ ተጠቃሚ የተዘጋጀ መጠይቅ**

**ወድመልስ ሰጪዎች፡**

ይህ መጠይቅ የተዘጋጀው በገበያ አስተዳደር መርሀ ግብር በአዲስ አበባ ዩኒቨርሲቲ ንግድ ስራ ኮሌጅ ዕጩ ምሩቅ ተማሪ ሲሆን ዓላማውም በንግድ ባንኮች ስዚሁ ተብሎ በተዘጋጀው መስኮት እየተሰጠ የሚገኘውን ከወለድ ነፃ የፋይናንስ አገልግሎት ገንዘብ መስጠት መረጃ ለመሰጠት ነው። መረጃውም የሚያገለግለው ተመራማሪው ሰጥኖቱ ርዕስ አድርጎ ለመረጠው “በኢትዮጵያ አገር ውስጥ የገልገልን ንግድ ባንኮች ከወለድ ነፃ የባንክ አገልግሎት ጋር ተያይዞ ከደንበኞች ሲገኝ የሚታሰበውን የተቀማጭ አሰባሰብ ጥረት ላይ መሰናክል የሚሆኑ ጉዳዮች ነው።”

ማንኛውም ከዚህ ምላሽ የሚገኝ መረጃ ከጥናቱ ወጤት ባለፈ ስራ አገልግሎት ወይም ስራ ሦስተኛ ወገን ተሳልፎ የማይሰጥ በመሆኑ ምላሻችሁን በነፃነትና በልቦና ስሜት እንድትሰጡ በአክብሮት እጠይቃለሁ። የሚፈለገውን መረጃ በመስጠት የሚኖራችሁ ንቁ ተሳትፎ ስሜት በሆነው ንግድ ጥናቱን ለማጠናቀቅ በከፍተኛ ደረጃ አስፈላጊ ነው። ስለዚህ ወደ ምላሻችሁ ከዚህ በታች ስለተዘረዘሩት ጥያቄዎች ትክክለኛውን መልስ በመስጠት እንድትተባበሩኝ ልጠይቅ እወዳለሁ።

ስለጥናቱ ተጨማሪ መረጃ ማግኘት ከፈለጉ ወይም ይህን መጠይቅ ለመሙላት ችግር ካጋጠምዎብስ.ቀ. +251 911-574069 ወይም በኢሜይል አድራሻ [tewabiyoni1627@yahoo.com](mailto:tewabiyoni1627@yahoo.com) ሲያገኙኝ ይችላሉ።

**አጠቃላይ መመሪያ**

1. ስምዎትን ምሆነ እርስዎን ሲገልጹ የሚችል የግል ጽሑፍ መጥቀስ አያስፈልገውም
2. ስሁሱም ጥያቄዎችን በመልስ ላይ ያክብቡ
3. እንደ አገባቡ መልሱን ከአንድ በላይ በማክብብ መግለጽ ይችላሉ

**አመሰግናለሁ**

**ክፍል 1. አጠቃላይ ጥያቄዎች**

**ትክክለኛውን መልስያክብቡ**

1. ዶታዎ
  - 1)ወንድ
  - 2)ሴት
2. ዕድሜዎ
  - 1) ከ18 -27 ዓመት
  - 3) ከ38 -47 ዓመት
  - 2) ከ28 -37 ዓመት
  - 4) 48 ዓመት እና ከዚያበላይ
3. ሀይማኖትዎ
  - 1) እስልምና
  - 2) እስልምና ያልሆነ
4. የተጠናቀቀዎትምህርት ደረጃ
  - 1)ከሰርተፍኬት በታች
  - 2)ሰርተፍኬት
  - 3)ዲፕሎማ
  - 4) ዲግሪ
  - 5) ሁለተኛ ዲግሪና ከዚያ በላይ
5. በዚህ ባንክ የደንበኝነት ቅደም ተከተል ያህል ጊዜ ነዉ?
  - 1)ከአንድ ዓመት በታች
  - 2) 1-3 ዓመት
  - 3) 3-5 ዓመት
  - 4) ከ 5 ዓመት በላይ
6. ከባንኩ ጋር የለዎት ግንኙነት
  - 1) የቁጠራ 2) ተንቀሳቃሽ (ጭክ)
  - 3) ብድር
  - 4) ከወጭ ሀገር የሚላኩ ገንዘብ
7. በየትኛው የባንኩ መስተናገጃ መስኮት ይጠቀማሉ?
  - 1) ከወለድ ነፃ አገልግሎት መስኮት
  - 2) በተለመደው አገልግሎት መስኮት
  - 3) በሁለቱም

**ክፍል ሁለት: ከወለድ ነፃ የባንክ አገልግሎት ጋር ተያይዞ ከደንበኛ ሊገኝ የሚችል ሰበሰብ ላይ መሰናከል የሚሆኑ ጉዳዮች**

በዚህ ክፍል ከወለድ ነፃ የባንክ አገልግሎትና የተቀማጭ አሰባሰብ ሂደት ላይ ተፅዕኖ ሲሆኑ የሚችሉ አማራጭ መንስኤዎች የተዘረዘሩ ሲሆን የእርዳታ ሐሳብ በመረጡት ላይ ያክብቡ፡፡

**“1” በጣም አልሰማም “2” አልሰማም “3” ገለልተኛ “4” እሰማለሁ “5” በጣም እሰማለሁ**

S.N		አማራጮች				
		1	2	3	4	5
	<b>ጥያቄዎች</b>					
DV8	የእኔ ባንክ ከወለድ ነፃ የባንክ አገልግሎት መስኮት ለአስቀማጭዎች የተለያዩ አይነት አገልግሎት ይሰጣል	1	2	3	4	5
DV9	ከወለድ ነፃ የባንክ አገልግሎት በኤሌክትሮኒክ ባንኪንግ ተሰፋፍቷል	1	2	3	4	5
DV10	ከወለድ ነፃ የባንክ አገልግሎት ተጠቃሚዎች የተለያዩ የመክፈያ አማራጮች አሉ	1	2	3	4	5
DV11	እንደ መደበኛው የባንክ አገልግሎት ደንቦች ከወለድ ነፃ የባንክ አገልግሎት ተጠቃሚዎች የተለያዩ የሽልማት ክፍያዎች ተመቻችቷል	1	2	3	4	5
DV12	በባንክ የሚሰጡ ከወለድ ነፃ የባንክ አገልግሎቶች በሁሉም ቅርንጫፎች ተደራሽ ናቸው	1	2	3	4	5
DV13	በባንክ እየተሰጠ ያለው ከወለድ ነፃ የባንክ አገልግሎት ተስማሚና ከመድሎ ነፃ ነው	1	2	3	4	5
AW14	በባንክ የሚሰጠውን ከወለድ ነፃ የባንክ አገልግሎት አውቃለሁ	1	2	3	4	5
AW15	ከዚህ ቀደም የነበረው የባንክ አገልግሎት አሰጣጥና ከወለድ ነፃ የባንክ አገልግሎት መካከል ያለውን ልዩነት እረዳለሁ	1	2	3	4	5
AW16	ከወለድ ነፃ የባንክ አገልግሎት ሙሴሊም ላልሆኑ ደንቦችም እንደ ሚሰጥ አውቃለሁ	1	2	3	4	5
AW17	በእኔ ባንክ ደንቦች ከወለድ ነፃ የባንክ አገልግሎት ተጠቃሚ እንዲሆኑ የተሻሉ የገበያ እንቅስቃሴ በማድረግ ተፅኖ ይፈጥራሉ	1	2	3	4	5
AW18	ከወለድ ነፃ የተንቀሳቃሽ ሂሳብ(አማናህ) በተለየ የመስኮት አገልግሎት እንደሚቀርብ አውቃለሁ	1	2	3	4	5
AW19	ከወለድ ነፃ የቁጠባ ሂሳብ(ዋዲያ) በተለየ የመስኮት አገልግሎት እንደሚቀርብ አውቃለሁ	1	2	3	4	5

AW20	የኢንቨስትመንት ሂሳብ(ትርፍናኪሳራ መጋራት) በተለየ የመስኮት አገልግሎት እንደሚቀርብ አውቃለሁ	1	2	3	4	5
AW21	ዋዲያ ሃጂ እናኡምራህ በተለየ የመስኮት አገልግሎት እንደሚቀርቡ አውቃለሁ	1	2	3	4	5
SM22	ሠራተኞቹ ከወለድ ነፃ የባንክ አገልግሎት በቂ ዕውቀት አላቸው	1	2	3	4	5
SM23	ሠራተኞቹ ከወለድ ነፃ የባንክ አገልግሎቶች ጋር ያለውን አዳዲስ ቴክኖሎጂዎችን በሚገባ ያውቃሉ	1	2	3	4	5
SM24	ሠራተኞቹ ከወለድ ነፃ የባንክ አገልግሎት ላይ የሚገጥሙትን ችግር የመለየት ችሎታ አላቸው	1	2	3	4	5
SM25	ሠራተኞች ከወለድ ነፃ ባንክ አገልግሎት ላይ ያለባቸውን ችግር መፍታት ይችላሉ	1	2	3	4	5
SM26	ባንክ ከወለድ ነፃ የባንክ አገልግሎት ላይ ሙያዊ ብቃት ያላቸው ሠራተኞች አሉት	1	2	3	4	5
SM27	ከወለድ ነፃ ባንክ አገልግሎት ተጠቃሚዎች መስተንግዶ እስኪያገኙ ድረስ ተገቢ የመቆያ ሁኔታዎች ተመቻችተዋል	1	2	3	4	5
SM28	ሠራተኞች ከወለድ ነፃ የባንክ አገልግሎትን በተመለከተ ተገቢ መረጃ ይሰጡኛል	1	2	3	4	5
SM29	ሠራተኞች መስተንግዶ ለመስጠት ፈጣን ናቸው	1	2	3	4	5
SM30	ከወለድ ነፃ የባንክ አገልግሎት ላይ የሚሰሩ ሰራተኞች በአገልግሎት አሰጣጥ ሂደት ሁሉ የሚያሳዩት ባህሪ መልካም ነው	1	2	3	4	5
SPDV31	በባንክ የተለያዩ ከወለድ ነፃ አገልግሎት በአማራጭ ቀርቦታ	1	2	3	4	5
SPAW32	በባንክ የሚቀርበው ከወለድ ነፃ አገልግሎት በቂ ግንዛቤ አለኝ	1	2	3	4	5
SPSM33	ከወለድ ነፃ አገልግሎት የሚሰጡ የባንኩ ሰራተኞች ብቃት አላቸው	1	2	3	4	5
SPRM34	በባንክ የሚሰጠው ከወለድ ነፃ የባንክ አገልግሎት ተቀማጭን እንዳሳድግ ረድቶኛል	1	2	3	4	5

## APPENDIX 8

### INTERVIEW QUESTIONS

1. The NBE directives prohibited fully fledged Islamic banking while allowing the opening of Islamic special windows through the existing commercial banks but do you think that the banking polices are suitable for Interest free Banking service? If your answer is yes, Please explain.
2. Recently the bank has introduced various new products on deposit accounts. Do you think IFB is one means of resource mobilization in the banking sector? If your answer is yes, Please explain.
3. There are various source of funds under IFB service to mobilize resource but currently in our country banks are provide only specific products to clients. Why don't introduce other services to users? If your answer is yes, Please explain.
4. Do you think that there is adequately prepared and trained staff for IFB service? What type of training would help to make the service easier? If your answer is yes, Please explain.
5. Do you think as your bank properly undertaking awareness creation campaign and public communication about IFB service? Which type of method mostly used by your bank to aware the customers about the service? If your answer is yes, Please explain.

