



ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF POST IMPLEMENTATION CHALLENGES OF
INTEREST FREE BANKING PROJECT: THE CASE OF
COMMERCIAL BANK OF ETHIOPIA**

By:

Meskerem Bati Edao

**A Project Submitted to the School of Graduate Studies
in Partial Fulfillment of the
Requirements for the Degree of Masters of Arts in Project Management**

Advisor:

Fisseha Afework (Ass. Prof.)

November, 2018

Addis Ababa, Ethiopia

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DECLARATION

I, the undersigned, declare that this thesis entitled ‘Assessment of Post Implementation Challenges of Interest Free Banking Project: the Case of Commercial Bank of Ethiopia’ is my original work, prepared under the guidance of Fisseha Afework (Ass. Prof). All sources of materials used for the thesis have been duly acknowledged.

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Abstract

The study assessed post implementation challenges of Interest Free Banking (IFB) project at Commercial Bank of Ethiopia. It was conducted based on data collected from employees of CBE through questionnaires and interview. Simple random sampling method was used to select branches and purposive sampling was used to select target respondents. For the data analysis, SPSS V.20 and descriptive data analysis method was used. Findings revealed that inadequate public awareness, scarcity of manpower, lack of Shariah advisory board, lack of Islamic insurance and lack of Islamic financial service board as post implementation challenges of IFB project that will bring adverse effect. It also revealed that the measures taken to reduce the challenges were unsatisfactory. The recommendation driven was that the Bank should conduct post implementation reviews and feedback mechanisms continuously, document lessons learned, involve Shariah advisory boards and IFSB and the government should establish Islamic insurance.

Key words: Islamic Banking, Interest Free banking window, IFB project, Post Implementation Challenges

CERTIFICATE

This is to certify that this project work, “Assessment of Post Implementation Challenges of Interest Free Banking Project: The Case of Commercial Bank of Ethiopia” undertaken by Meskerem Bati for the Partial fulfillment of the award of Masters degree in Project Management at Addis Ababa University, School of Commerce, is an original work and not submitted earlier for any degree either at this University or any other University and the thesis has been submitted for examination with my approval as a university advisor.

Fisseha Afework (Ass. Prof.)

Advisor

Signature

Addis Ababa University

November, 2018

Addis Ababa

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ACRONYMS

BBA	Bai Bithman Ajil
CBE	Commercial Bank of Ethiopia
NBE	National Bank of Ethiopia
IFB	Interest Free Banking
IFSB	Islamic Financial Service Board
AAOIF	Accounting & Auditing Organization for Islamic Finance Institutions
IFI	Islamic financial system
PIR	Post Implementation Review

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The emergence of Islamic banking system and interest free banks is the most recent and significant development in the banking industry both in developing and developed countries of the world. Although the religion Islam has existed since the fifth century, the practice of modern Islamic finance began in the 1970s as an alternative to conventional banking that was introduced by the western world (Hussien, Shahmoradi, & Turk, 2016). One of the key milestones in the Islamic finance development was the establishment of the Islamic Development Bank in 1975 (Kpodar & Imam, 2010). At that time, Islamic banking was introduced because some of the principles of conventional banking violated the Islamic philosophy, forcing Muslims to refrain from using conventional banking (Gafoor, 1995). In Islamic economics this role while maintaining the principles of Shariah has been granted to Islamic Banks. Shariah law prohibits the acceptance or giving of interest on the money borrowed or lent.

Islamic Bank is an institution that mobilizes financial resources and invests them in an attempt to achieve predetermined acceptable Islamic social and financial objectives. Interest Free Banking window is a business model in which conventional banks offer Islamic banking products and services from their existing branch network. It is a situation whereby a conventional banking system provides some of the Islamic banking products or services (Sanusi L. , 2011).

Given its ability to offer innovative financial solutions to an under-served market and attract the specific needs of the Islamic banking service, Commercial Banks are introducing Islamic banking service with considerable growth potentials. Currently, there are 392 Banks spread across 54 countries that have adopted an Islamic banking system; a fully-fledged Islamic Bank or business unit as part of the conventional Bank (Hussien, Shahmoradi, & Turk, 2016). In Ethiopia, Islamic banking was introduced when National Bank of Ethiopia allows Banks to exclusively offer the services within a conventional bank by using Interest Free Banking (IFB) window on 1st day of October 2011 under Directive Number SBB/51/2011 (NBE Directive). There are more than 18 private and government owned Banks operate in the Ethiopia

(www.nbe.gov.et). Among them, Commercial Bank of Ethiopia (CBE) is the first to start interest free banking service.

CBE is a government owned organization which was established in 1942 and a pioneer to introduce modern banking to the country. The history of the CBE dates back to the establishment of the State Bank of Ethiopia in 1942. It was legally established as a share company in 1963. In 1974, CBE merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the economic progress and development of the country. Currently the Bank has over 33,000 employees and more than 1280 branches stretched across the country. CBE has more than 18.8 million account holders and has reliable and long-standing relationships with many internationally acclaimed Banks throughout the world (www.combanketh.et). It has a total asset of 565.5 billion birr as of June 30th 2018. CBE introduced IFB service by adopting it with conventional banking since the end of 2013. Currently, the Bank has 971 branches opening IFB service with 1,064 windows. From the total customers, 949,689 are IFB customers with a deposit of Br. 10,985,708,306.79 and the trade financing of Birr 166,991,079.66 as of August 31, 2018 (CBE company profile). The Bank has been operating the service under all its districts using organized IFB windows and launched the service with the aim of attracting the business of Muslims who are out of the conventional system as well as non-Muslim investors who are seeking to diversify their portfolios or expand their investment base.

1.2 Statement of the problem

Projects go through a life cycle to completion, on time, within budget and satisfying the technical performance objective. As they progress to completion they transform project resources to a product, service or organization process. Effective implementation and execution relies on maintaining a balance between preventing failures and promoting success simultaneously. However, many projects are usually bedeviled by challenges, constraints and risks as they are execution through completion. Consequently, despite the significant input of human and financial resources, many fall short of expectation. Many failed to meet the priority needs of target beneficiaries, stated outputs were not achieved or if achieved were not sustained (Christine, 2010). Like any other projects, IFB is also facing constraints and challenges throughout its implementation phases. Since it is new to the banking industry, there is shortage

of manpower that can perform according to Shariah law, the service was not understood by the public as needed, there is lack of advisors who can give legal support, and unavailability of Islamic insurance may affect the confidence of the customers (Marikkar, 2010).

Different studies demonstrated that there are post implementation challenges which hinder the project from delivering the desired objectives. A research works by Adamu et al. (2012), Seyed et al. (2014), Zainab (2015) and others indicated that inadequate public awareness, absence of Islamic insurance, manpower problem and inadequate legal and regulatory environment as some of challenges that IFB project faces after the it is implemented. Another research by Audu (2014) pointed out that there are institutional and operational challenges like poor supervisory framework, absence of Shariah advisors, disparity in accounting standards, and inappropriate institutional framework that confront every Islamic bank around the world from delivering the desired output.

Zainab (2014) conducted a post implementation survey of challenges of IFB in Ethiopian banking institutions. The result indicated that lack of public awareness, inadequate legal framework, lack of supervisory framework, lack of trained manpower and unattractive knowledge sharing as the major challenges. Akmel (2015) also conducted a study on three Ethiopian Banks and reviewed manpower problem, inadequate societal belief and unavailability of resource requirements as some of post implementation challenges of IFB. However, those challenges still exists and was not given due attention.

Based on the above facts, Commercial Bank of Ethiopia faces many challenges after implementing IFB project. In an attempt to contribute in bridging the above stated problems, the study will focus on assessing post implementation challenges of IFB project in Commercial Bank of Ethiopia. It also tries to investigate whether the challenges have adverse effect and the measures taken to reduce those challenges.

1.3 Research Questions

The study attempt to answer the following research questions:

1. What kind of post implementation challenges does IFB project faces in Commercial Bank of Ethiopia?
2. Do these challenges have adverse effect?
3. What are the measures taken to reduce the challenges?

1.4 Objectives of the Study

General objectives

From the above research questions, the general objective of the study was to assess post implementation challenges of Interest free banking project in Commercial Bank of Ethiopia.

Specific objectives

Based on the general objectives the research has the following specific objectives;

1. To investigate post implementation challenges of IFB project that Commercial Bank of Ethiopia faces.
2. To explore whether the challenges have adverse effect.
3. To inspect the measures taken in order to reduce the challenges.

1.5 Significance of the Study

Theoretically, the study would fill an important gap to serve as a reference material to the existing body of the literature and would initiate other interested researchers to carry out more extensive studies in the area. In Ethiopia, since there were no enough researches done on this area, the study will also help to acquire knowledge and practical experience to the researchers,

bank policy and decision makers, management and any concerned organs to identify and understand post implementation challenges of IFB project and fill in the current gap.

1.6 Scope of the Study

Commercial Bank of Ethiopia is organized and divided its branches into districts. The scope of the study focused on assessing post implementation challenges of interest free banking project of CBE found in Addis Ababa districts. So, the study was from employees, customer service managers and Chairperson-IFB of branches of East Addis District, West Addis District, North Addis District and South Addis District. Even though there are other Banks which provide IFB service in Ethiopia, only employees of CBE was taken as a sample.

1.7 Limitation of the Study

Because of time constraint, a sample regarding public awareness was taken from the Bank's employees only and was not include customers of the Bank. There is also lack of sufficient references and adequate data which are published in Ethiopia. As a result, the study mainly considered published materials of scholars abroad.

1.8 Organization of the Study

The research is organized into five chapters. Chapter one contains background of the study, statement of the problem, research questions, research objectives, significance of the study, limitations and scope of the study. Chapter two provides a literature review informing the reader of what is already known in this area of study. Chapter three discusses the methodology which is employed in this study, including, research design, sample size and sampling technique, data source and collection method, and method of data analysis. Chapter four presents about data analysis and discussion of results. Finally, chapter five contains summary, conclusions and recommendations part.

CHAPTER TWO: REVIEW OF RELATED LITRATURE

This part of the study attempts to present a brief theoretical framework, views of different scholars which are one way or the other pertinent to the study and ends with presentation of conceptual framework and remedial actions.

2.1 Theoretical review

2.1.1 History of Islamic Banking and financial institution

Islamic banking is the financial industry which has played an important role in the economy. The history of Islamic banking began during the time of Prophet Muhammad. He was a businessman who trade from one country to another by dealing business using a Shariah law (Monica, Ng, Low, & Nur, 2016). During Medieval times (1,000 – 1,500 AD), Middle East people in trade activities tackled to financial transactions based on Shariah rules. European companies also started to launch banking service which was interest based in Middle Eastern and Asian countries as trading association between the two countries increases (Savalan I. I., 2012). With the escalating significant mission Western countries began to attend in the world economy, traditional financial centers tended to prevail (Molyneux & Iqbal, 2005). During Ottoman Empire the Arabs had healthy business relationships with the Spanish and set up financial regulations without committing interest which worked on a profit and loss sharing principle (Savalan I. I., 2012). After the Industrial Revolution, the entire banking system in all Muslim countries was designed according to the western banking model, the latter being inconsistent with Islamic law (Shahrukh, 1987). The emergence of Islamic banking has been driven by the increasing number of Muslims who wish to lead their lives according to the Shariah, the legal code of Islam (Greuning & Iqbal, 2009). In the middle of the 20th century some organizational entities were found to offer financial services that comply with Islamic laws. The first Islamic Bank was established in the late 1950s in Pakistan which charged no interest on its lending. In 1963, the first modern Islamic Bank on record was established in Egypt to appeal to people who lacked confidence in state-run Banks and the project was designed by Mit Ghamr (www.wikipedia.org). Mit Ghamr is a saving institution that operated under cooperative basis,

allowed their depositors to take out small portion of loan for productive usage and to provide possible return on the money of depositors (Nur, Monica, Ng, & Low, 2016). Malaysia also began the first Islamic financial service in September 1963 which was established for the purpose of assisting Muslims to save their expenses to pilgrimage to Mecca (Savalan I. I., 2012). In 1975, the Islamic Development Bank was set up with the mission to provide funding to projects in the member countries (Warde I. , 2000). The concept of profit sharing based Islamic banking is intended to substitute for interest based banking by the end of 1970s. In 1979, the first Islamic and Commercial Bank started in Egypt for the purpose of providing funding to support financial activities and in 1980s much of its analytic underpinnings and theoretical justifications were developed (www.wikipedia.org). Islamic banking received further endorsement in the mid-1980s when the Islamic Republics of Iran and Pakistan adopted banking systems that eliminated interest and recognized them constitutionally (Zamir & Abbas, 1998). From 1980-1985, Islamic investments underwent a spectacular expansion throughout the Muslim world attracting deposits with the gains and religious guarantees. By 1995, 144 Islamic financial institutions had been established worldwide and from year 2000 onwards Islamic Financial Institutions shows progressive development (www.wikipedia.org). The scopes of the Islamic Banks are no longer narrowed with small business profiles, rather big conventional Banks started to offer Islamic financial products via their “Islamic Windows” (Savalan I. I., 2012). As a result, the investment started to show growth and Islamic financial products were offered rapidly. Within a span of five decades; Islamic banking has been successfully developing into a viable alternative banking framework all over the world. It was announced that assets under management in its Shariah-compliant Islamic Investment Fund has hit the \$1trillion mark and estimated to come close around \$1.6 and \$5 trillion in 2012 and 2015 respectively (Savalan I. I., 2012). Also, Mamman (2005) states that there are over 75 countries operating Interest-Free Banks with an annual growth rate of 12-15% per annum (Mamman, 2005).

Ziyad (2010) outlined four reasons why Islamic banking is the fastest growing sector in global finance (Ziyad, 2010).

- i. Increasing demand for Shariah-compliant product.
- ii. Demand for diversification from conventional clients.

- iii. Regulatory amendments and increasing flexibility towards Islamic finance and
- iv. Seeking an alternative to volatile interest-driven markets

2.1.2 Concepts and Definition of Islamic Banking

Islamic banking is a banking system that is in compliance with Islamic Law – Shariah. Shariah means Islamic law and Islamic finance is known as Shariah-compliant finance. That's why Islamic banking and finance is secured by Shariah and its interpretation (Fiqh) (El-Gamal, 2006). The rules and practices under Islamic banking are in accordance with the primary sources of Shariah Law, such as Quran and Sunnah (Nur, Monica, Ng, & Low, 2016). The missions of Islamic Shariah Finance are to provide financial instruments and transactions for Muslims not to commit with usury, interest payment and gambling in their business life (Savalan I. I., 2012).

Different authors defined Islamic banking in different ways. Islamic banking system is defined as those banks that claim to follow Shariah (Islamic law) in their business transactions. Shariah requires these transactions to be in lawful (Halal) form and prohibits transactions that involving interest (Riba) (Maali, Peter, & Christopher, 2006). Sanusi (2011) views Islamic banking as an alternative form of financial intermediation that is based on profit motive (Sanusi L. , 2011). It is market driven but with a moral dimension based on the Islamic value system. Siddiqi (1983) conceived an Islamic Bank as a financial intermediary mobilizing savings from the public on the basis of Mudaraba (profit and loss sharing contract) and advancing capital to entrepreneurs on the same basis (Siddiqi, 1983). Ashan (1988) also defined an Islamic Bank as a financial and social institution whose objectives and operations as well as principles and practices must conform to the principles of Shariah and which avoid the use of interest in any of its operations (Ashan, 1988). Furthermore, Marimuthu, et al. (2010) defines Islamic Bank as the conduct of banking based on Shariah principles. (Marimuthu, Jing, W, L, & Ping, 2010). According to Akram, et al. (2011), Islamic Banking is a banking system which is run in accordance with the Islamic laws and the Shariah board; that guides the institutions (Akram, Rafique, & Alam, 2011).

Conventional banking system introduced by the Western countries was built upon the fundamentals of debtor-creditor relationship with interest being the price of credit and reflecting the opportunity cost of money. Hence, money is a commodity. This position is contrary to

Islamic finance which views money as a means to an end and not an end in itself (Mohamed, 2016). The functions and operating modes of conventional banks are based on fully manmade principles which are largely capitalist in nature as opposed to Islamic finance whose mode of operation is based on the principles of Islamic Sharia (Mohamed, 2016). Islamic banking differs from conventional Banks as they face a couple of prohibitions imposed by the Shariah. They do not pay or receive interest since it is not allowed to generate money with money. But in conventional banking the collected resources are used to finance any type of business by granting it as a loan with the intention of charging interest. The main distinguish point is that Islamic Finance is structured on Islamic Shariah and all financial transactions, dealings, businesses, investment portfolios and financial products are designed according to Islamic law that is opposite to most sectors procedures of conventional financial system (Lewis, 2001). Since Banks perform a useful service of financial intermediation, they are wholly acceptable in a Muslim society. What is not acceptable, however, from the Shariah point of view, is the use of interest rate mechanism in the process of financial intermediation (Ziauddin, 1994).

The main feature of Islamic banking is the interest free banking aspect and the profit and loss paradigm. Further, while Islamic banking promotes risk sharing between the investor and the entrepreneur, conventional banking holds that the investor or lender has a guarantee of a predetermined rate of interest or return (Mohamed, 2016). Interest free banking is consistent with the Shariah (Islamic law) which prohibit Muslims to invest in business that are considered haram (forbidden or sinful) such as sell alcohol, pork, produce un-Islamic media, uncertainty or exploitation, collecting riba (interest) and trading in financial risk which are seen as gambling (El-Hawary, Grais, & Iqbal, 2004). Islamic banking does not allow excessive earning that does not involved with real hard work and productivity. The investments under Islamic financial institutions involved with real assets instead of financial assets (Nur, Monica, Ng, & Low, 2016). There is no legal limit for acquiring profit from business in so long as the profit is reasonable morally and ethically. The objective of IFB is not only to earn profit, but to do good things and bring welfare to the people. IFB must be free from any sort of interest and all practices must be in line with Islamic law otherwise it will be similar with the conventional banking system. In the current banking system, as money is exchange for money with excess and delay, it falls under the definition of Riba (interest) which has been prohibited in Islam (Audu & Mika'illu, 2014).

The concept of Riba (Interest)

According to Mohammed & Mahdi (2010), interest is one of the most effective factors for deciding to deposit in banking system (Mohammed & Mahdi, 2010). Riba is the same as interest or usury and it has been defined by different scholars. Riba literally means the ‘increase’ or ‘excess’ above the principal on a loan transaction or in exchange for a commodity accrued to the owner (lender) without giving an equivalent recompense in return to the other party. It means usury since it is an inherently illegitimate practice which has been condemned in the Qur’an (Abraham, 2008). Riba is any positive, fixed, predetermined rate tied to the maturity and the amount of the principal - that is, guaranteed regardless of the performance of the investment (Greuning & Iqbal, 2008). Bank conclusively, riba means an increase or excess of the principal of a loan. However, Islam prohibits Muslims from taking or giving interest (riba) regardless of the purpose for which such loans are given as well as its rate (Audu & Mika'illu, 2014). It is further declared in the Qur’an that those who disregard the prohibition of interest (riba) are at war with God and His -Prophet. More so, the Prophet Mohammed also condemned not only those who take interest (riba) but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt (Audu & Mika'illu, 2014). Thus, by Islamic Bank operating on interest (riba)-free basis, it satisfies the interest–prohibition rule of Islam which cannot be achieved in the conventional banking system.

2.1.3 Principles of Islamic Banking Service

Islamic banking is a unique type of banking system that refrain all forms of transactions that are prohibited in Islam. So for any Bank to be classified as Islamic Bank, the following basic principles must be adopted for its operations (Greuning & Iqbal, 2008; Sanusi L. , 2011).

2.1.3.1 Prohibition of Riba (Interest) or Usury

Interest means a fixed predetermined amount in addition to the principal. All forms of interest are prohibited in Islam. According to Holy Quran, interest (riba) is prohibited and considered as a major sin, in both payment and receipt of interest. Prohibition of interest is a way to establish justice between the financier and entrepreneur. With interest financier is assured of a positive

return without sharing the risk (Zineldin, 1990). Under Islamic finance transaction, it is strictly disallowed the charging and receiving of interest between both parties. This is because interest is deemed as profit which had been generated without involving the actual productivity (Nur, Monica, Ng, & Low, 2016). Interest is also believed to be exploitative and unproductive because it is considered to represent sure gain to the lender without any possibility of loss as well as a reward in return for no work. These factors are believed to lead, in turn, to inflation and unemployment and to stifle the social and infrastructural development of a nation (Balla, Zaha, & Abdulbasit, 2009). For any Bank to be called Islamic Bank, it must not engage in any interest related transactions, but rather, profit and loss sharing transactions (Audu & Mika'illu, 2014).

According to Warde (2000), there are three main reasons for prohibition of interest (Warde I. , 2000).

- Riba is unfair:-Traditional relationship between borrower and lender is on interest, borrower has chance to receive all the profit or the risk to face all the losses that occur, where as lender earns money what so ever.
- Riba is exploitative:-It is exploitative because favoring rich, as surplus of money and it force needy and poor to borrow.
- Riba is unproductive:-Money should be used in economic ventures and contribute to the economy and enhance welfare.

2.1.3.2 Prohibition of Gharar and Maisir

Gharar refers to the uncertain outcome results from a risky transaction due to insufficient knowledge and information available to predict the nature and the quality of the subject matter (Nur, Monica, Ng, & Low, 2016). That means it is uncertainty or ambiguity. Maisir is gambling but used to mean speculation in Islamic finance. Involvement in contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain event in the future is maisir and forbidden in Islamic finance (www.wikipedia.org). Under Islamic Law, transaction exposes to excessive risk are prohibited to execute. Hence, most of the conventional financial instruments such as forwards, futures, options, short selling and speculation are strictly forbidden to be

execute because they involve with the uncertainty of the price for the underlying asset in future date (Nur, Monica, Ng, & Low, 2016).

2.1.3.3 Profit, loss and risk sharing

Since interest is prohibited in Islam, the providers of funds and the entrepreneur in an Islamic banking settings share the business risk and profits based on mutual agreement. This act will equitably distribute income, enhance social justice, and alleviate poverty (Audu & Mika'illu, 2014).

2.1.3.4 Ethical Standards

Under Islamic investment, it is crucial for the investors to clarify whether the invested company or businesses are compliance with Shariah. Certain activities are strictly forbidden to be invested in Islamic banking (Nur, Monica, Ng, & Low, 2016). Investing in business which involves forbidden (haraam) activities include things such as selling alcohol, pork and producing media such as gossip columns or pornography (El-Hawary, Grais, & Iqbal, 2004). When investors would like to make investment, they have to overview the background of the potential company, including the company's policy, products and services produced, method for company to operate the business and the positive or negative impacts of the products or services contributed to the society (Nur, Monica, Ng, & Low, 2016).

2.1.3.5 Social Justice

Islam prohibits Muslims from any transactions leading to injustice and exploitation of any kind. So, Islamic banks can not engage in any transactions that will lead to exploitation of any party (Audu & Mika'illu, 2014).

2.1.3.6 Overseen by Shariah Advisors

Every Islamic Bank must be regulated by experts in Islamic law who will have to audit the operations of Islamic banks and its products to make sure that they comply with Shariah guidelines (Audu & Mika'illu, 2014).

2.1.4 Products of Islamic Banking

According to Haidi & Malik (2006), Islamic banking products are increasing day by day and previous studies found that Islamic banking products are on a par with conventional banking products (Haidi & Malik, 2006). There are some common Islamic products that will be discussed briefly in this section.

2.1.4.1 Bai' al 'inah (sale and buy-back agreement)

Bai' al 'inah is a contract which involves sell and buy back transactions of an asset by a seller to the customer. The seller will sell the asset on spot basis but the customer will buy back the asset on deferred payment at a price higher than the cash price. In other words, the asset is sold to the customer on a deferred-payment basis and the price is payable in installments (Nur, Monica, Ng, & Low, 2016).

2.1.4.2 Bai' bithamanajil / BBA (deferred payment sale)

BBA refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties. It means that the Islamic Bank will purchase certain assets on a deferred payment basis and then sell the goods back to the customer at an agreed price including some margin or profit requested by the customer. The customer will pay in installments over an agreed period (Nur, Monica, Ng, & Low, 2016).

2.1.4.3 Murabahah (mark-up)

Murabahah is a cost-plus financing contract where a sale is made at a specified profit margin. It establishes a form of mutual contract between two parties where they agree to the mark-up. The Bank acts as an intermediary and purchases the goods requested by the customer. The Bank will later sell the goods to the customer in a sale and purchase agreement, whereby the lender resales to the borrower at a higher price agreed on by both parties. Murabahah is derived from the root word which means profit, gain or a legal addition (Nur, Monica, Ng, & Low, 2016). In this contract, the client will provide all the specifications of the commodity and the Islamic Bank will

take the risk of purchasing it for the client at a cost plus mark-up which the client can either pay in installment or sum at a spot or at a stated period (Audu & Mika'illu, 2014).

2.1.4.4 Mudarabah (trust financing)

Mudarabah is a form of partnership where one party (rab al-mal) provides the funds and the other party (mudarib) assumes the role of the entrepreneur through effective management. While rab al-mal is the sleeping partner in the partnership contract, the mudarib is directly involved in the day-to-day running of the business. The parties share the profit of the business venture based on agreed percentage and bear any loss incurred. In the event of losses the entrepreneur loses his or her labor and the financier loses the capital (Nur, Monica, Ng, & Low, 2016). Mudarabah contract is of two parts in Islamic banking system. One part of the contract is between the Islamic Bank and the depositors, and the second part is between the Islamic Bank and the entrepreneur (Audu & Mika'illu, 2014).

2.1.4.5 Musharakah (Partnership contract)

Musharakah is a word of Arabic origin and its literal meaning is 'sharing'. Musharakah emphasizes practical participation of parties in the partnership business and it is a form of partnership between two or more parties based on mutual trust. Musharakah means partnership whereby the Islamic financial institution provides the capital by the customer with the understanding that they both share the profit and loss according to a formula agreed before the business transaction is transacted (Nur, Monica, Ng, & Low, 2016). Profits are shared based on agreed ratio which need not be equal to their individual capital contribution, but loss is shared strictly based on individual capital contribution. So, Islamic Bank will act as a partner in this case in order to contribute in the capital formation as well as in sharing profits and loss (Audu & Mika'illu, 2014).

2.1.4.6 Ijarah (leasing)

Ijarah is a financing mechanism involving rental of an asset or hire purchase where a form of rental fee is paid for a stipulated period of time agreed by the parties. This is more in accordance with the Shariah concept of leasing where the Bank acquires ownership based on the promise

and leases back to the client for a given period. The customer pays the rental but the ownership still remains with the Bank. As the ownership remains with the lessor (Bank), who is responsible for its maintenance, it continues to give the service for which it was rented (Nur, Monica, Ng, & Low, 2016). It may also include the option of the client purchasing the asset at the end of the contract from the Bank (Audu & Mika'illu, 2014).

According to Savalan (2012), there are several conditions for implementing of Ijarah Financing (Savalan I. I., 2012):

- 1) Halal (the permissibility of using, selling, and buying of something In Islam) assets should be targeted. House, car or machine can be shown an example as a subject of Ijara.
- 2) During the setting of Ijarah contract the assets have to exist, if the assets are not available at that time, the contact can't be done.
- 3) An individual can't lease any kind of assets or property in a non-Islamic manner, the subject should be used in permissible ways.
- 4) The expiration of the contact has to be set up for predetermined future date.

2.1.4.7 Istisna (Manufacturing contract)

Istisna is a manufacturing contract of a made-to-order asset based on a deferred delivery basis. It is a transaction on a commodity before the commodity is produced. The manufacturer is morally obliged to produce items which are at the agreed time and in accordance with specifications (price, quality, description). The price, specification, description and quality of the commodity to be manufactured should be fixed with the consent of the parties to the contract. Normally, Istisna is used to finance construction and manufacturing projects (Nur, Monica, Ng, & Low, 2016).

2.1.4.8 Takaful (Islamic insurance)

Takaful is a conventional Islamic insurance and also is an alternative form of cover that Muslims can avail themselves against the risk of loss due to accident. It is depend on the concept of what is uncertain with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals. Insurance by combining the risks of many customers enables each

individual to enjoy the advantage provided by the law of large numbers (Nur, Monica, Ng, & Low, 2016).

2.1.4.9 Qard Hasan loans

It is a benevolent loan given to deserving customers by Islamic Banks to alleviate poverty. The beneficiary is required by Shariah to pay back only the principal to the Islamic Bank. However, the client may pay an addition to show appreciation to the Islamic Bank but this intention should not be disclosed to the Bank by the customer at the beginning of the transaction (Audu & Mika'illu, 2014).

2.1.4.10 Salam (Forward Trade Contract)

This is a sale contract whereby Islamic Bank agrees to supply some specific commodities to the buyer (its client) at a future date that is specified in exchange of an advanced full spot payment to the Bank. That is, the client pays the full amount and delivery of the commodity to the client is done in specific future date by the Islamic Bank (Audu & Mika'illu, 2014).

2.1.4.11 Diminishing Musharakah

This allows equity participation and sharing of profits on a pro rata basis, and provides a method through which the Bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the Bank's share in the profit for the equity held by the Bank. Simultaneously the entrepreneur purchases some of the Bank's equity, progressively reducing it until the Bank has no equity and thus ceases to be a partner (Almutairi, 2010).

2.1.4.12 Sukuk (investment certificate or bond)

They are investment certificates with both bond and stock-like features issued to finance trade or the production of tangible assets. Like bonds, sukuk have a maturity date and holders are entitled to a regular stream of income over the life of the sukuk along with a final balloon payment at maturity. However, sukuk are asset-based rather than asset-backed securities, with the underlying asset being necessarily Shariah-compliant in both nature and use (Savalan I. I., 2012). Sukuk prices can vary both with the credit-worthiness of the issuer and the market value of the

underlying asset. Also, it leaves no opportunity in creating secondary financial market (Alkhan, 2003). The eligibility of sukuk rests on identifying an existing or a well-defined asset, service, or project capable of being certified by a third party, and for which ownership can be recorded in some form (Savalan I. I., 2012).

2.1.4.13 Guarantee (Kafala)

In its literal sense Kafala means responsibility or surety-ship. Legally, it can be defined as making the guaranteed person's liability a joint liability of the guaranteed and guarantor at the time of demanding compensation. Thus, any individual, property, usurped object, or other item that can be demanded from the former can also be demanded from both parties by virtue of the guaranty (Marifa, 2014).

2.1.5 Source of funds for Islamic Banks

The opening of account in Islamic banking is different than the normal western banking style which has ordinary debtor and creditor relationship, but it is a partner relationship in which shareholders, depositors, borrowers and investors will participate on partnership basis (Zineldin, 1990). The main accounts available to customers are;

2.1.5.1 Demand Deposit Account (known as current accounts)

According to Imtiza (1990), these kinds of account in Islamic Bank do not earn any income from depositor directly or indirectly. The Islamic Bank receives these funds as a loan and their repayment to the current account customers is absolute and unconditional on its part. If these funds are used by the Islamic Bank for productive purpose, the Islamic Bank and the customer bears the risk and reward and the former assumes full responsibility for all consequence of their use. The Islamic Bank may, if conditions require charge fees to cover expense to service current account customers. Balance in current accounts is direct liabilities of the Islamic Bank (Imtiza, 1990). There are two dominant views with the Islamic banking community about current accounts. One is to treat demand deposits as Amanah (trust) accounts. The other view is to treat demand deposits as Qard Hasan (interest-free loans) (Mahmoud, 2017).

2.1.5.2 Saving Account

According to Zineldin (1990), in this account customer usually wants to save some funds and to earn income. In Islamic banking these funds are used in short range investment projects and ventures and can be withdrawn at any time. Government guarantees at the nominal value of the deposits. Depositor will not receive any premium if the Bank incurs a loss on its investment projects (Zineldin, 1990).

2.1.5.3 Investment Account

In this kind of account investor deposit their money and want to be invested by Islamic Bank, under their supervision. It is done on trust basis with terms and conditions between investor and Islamic Bank, dependent on relationship. Investors have to consider all risk and rewards in these investments. Islamic Bank receives fixed amount of percentage from the profit earned from the investment of investor, which can be assume as management fees and Islamic Bank can forego the part of its share of profit for the benefit of the investors. At that time Islamic Bank will waive the management fees as such kind of fees is only applicable on the profit obtained (Imtiza, 1990).

2.1.6 Islamic Banking Service Models

2.1.6.1 Islamic Banking Window Service

An Islamic banking window is a window with a conventional bank by which customer can conduct business utilizing only Shariah compatible instruments (Sole, 2007). Sanusi (2011) also defined Islamic banking window as a business model in which conventional banks offer Islamic banking products and services from their existing branch network (Sanusi L. , 2011). According to National Bank of Ethiopia, Interest free banking window refers to a unit within a conventional bank exclusively offering interest free banking services (NBEdirective). It refers to a situation whereby a conventional banking system provides some of the Islamic banking products or services that meets up only the profit, loss and risk sharing principle (Marimuthu, Jing, W, L, & Ping, 2010).

2.1.6.2 Subsidiary/Branch Islamic Banking Service

Branch model is similar to the windows model. However, dedicated branches are established for the delivery of Shariah compliant products. In subsidiaries model, conventional bank develops a subsidiary under its entity to deliver Shariah-compliant products. The advantage of this type of model is that the subsidiary can establish its own process and an independent operating structure (Ziyaad, 2009).

2.1.6.3 Full-fledged Islamic Banking Service

A full-fledged Islamic Bank is one which runs on Shariah approved policies and all the products are free of interest paid or received. These Banks are solely founded on the tenets of the Shariah. They have independent operating structures that are not part of conventional riba-based institutions. Only Shariah-compliant forms of investment and financing is offered (Ziyaad, 2009). The Bank may benefit from economies of scope and concentration of knowledge and expertise by establishing an Islamic subsidiary or full-fledged Islamic Bank. The Bank will be able to offer a wide range of Shariah-compliant banking products than through the Islamic window alone (Sole, 2007). Gusau (2000) argues that Islamic banking system is supposed to operate completely within the Shariah in all its activities both in sourcing of funds and disbursement of the funds. It not only avoids interest in all its ramifications but also it avoids all other Islamically prohibited activities. Interest-free banking system on the other hand, does not engage in interest but there is no reason to suppose that all its other activities will be done strictly according to Shariah (Gusau, 2000).

2.1.7 Comparison of Islamic Finance and Conventional Finance

According Savalan (2012), conventional financial system is built upon the debtor-creditor relationship and there are two sides; Bank and borrower. Interest is also considered as a gain from the credit which is the profit for the Bank. In addition, interest is taken into account as a price of credit which has got impact over the opportunity cost of money. However, Islamic finance is based on Shariah law and does not allow making business based on interest earning (Savalan I. I., 2012).

Table 1 Comparison of conventional finance and Islamic finance

CONVENTIONAL FINANCE	ISLAMIC FINANCE
The function and operating mode of conventional banks are based fully on manual or a manmade principle	The functions and working modes of Islamic Banks are based on the principles of Islamic Shari'ah.
The investor is guaranteed a determine date of interest	In dissimilarity, it promotes risk sharing between provider of capital (investor) and the user of funds (capitalist).
It aims at maximizing profit without any imitation.	It aims at maximizing profit, but subject to Shari'ah limitations.
It does not deal with Zakat	In the modern Islamic banking system, it has developed into one of the service oriented functions of the Islamic banks to be a Zakat Collection Centre; they also pay out their Zakat.
Lending money and getting it back with compounding interest is the fundamental unction of the conventional banks.	The Islamic banks have no stipulation to charge any extra money from the defaulter. Only small amount of reimbursement and these proceeds are given to charity. Rebates are given for early settlement at the bank's discretion.

Source: Savalan Ismayilov Ismayil (Savalan I. I., 2012)

2.1.8 International Regulatory bodies of Islamic Finance

In recent years, there were many efforts exerted by Islamic financial regulatory bodies to develop regulatory framework for Islamic financial institutions, which include capital adequacy standards, risk management framework, and corporate governance standards. Those efforts are aiming for enhancing and strengthening the regulatory framework in order to ensure a safe and sound Islamic financial system and to smoothly and effectively integrate and harmonize the Islamic financial system and practices with the international financial system and practices (Altiby & Ahmed, 2010).

According to Ziyaad (2009), there are two international regulatory bodies that are used as standard setting bodies and benchmarks for Islamic and IFB products (Ziyaad, 2009).

2.1.8.1 Accounting & Auditing Organization for Islamic Finance Institutions (AAOIFI)

This organization is an International autonomous non-profit making corporate body established in 1991 in the Kingdom of Bahrain that prepares accounting, auditing, governance, ethical and Shariah standards. These standards are standard-setting organization for the Islamic banking and finance industry and are implemented in the leading Islamic banking and finance centers globally. It issued 56 standards and is mandatory in certain member countries like Bahrain & Jordan. AAOIFI actively involved in developing the soundness and stability of the Islamic financial system. The objective of AAOIFI is to develop accounting and auditing standards relevant to Islamic financial institutions, dissemination of information, prepare and interpret accounting standards for IFI and review and amend accounting standards for IFI's (Ziyaad, 2009).

2.1.8.2 The Islamic Financial Service Board (IFSB)

IFSB is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial service industry by issuing global prudential standards and guiding principles for the industry (www.ifsb.org). According to Jamaldeen (2012), IFSB differs from AAOIFI in that AAOIFI sets best practices for handling the financial reporting requirements of Islamic financial institutions whereas, IFSB standards are mainly concerned with the identification, management and disclosure of risk related to Islamic financial products (Jamaldeen, 2012). IFSB has 110 members including 27 regulatory and supervisory authorities as well as the International Monetary Fund, World Bank and the Islamic Development Bank. By December 2005, the IFSB adopted 2 standards: Principles of Risk Management & Capital Adequacy Standard for non-insurance institutions offering only Islamic financial services (Ziyaad, 2009).

According to Zaineb (2014), adopting AAOIFI and IFSB provides several advantages (Zaineb, 2014).

- 1) IFB windows in Ethiopia can use models of products of existing institutions.
- 2) Consumers can more easily understand products and evaluate their risks and returns.
- 3) Potential for fewer disputes regarding a product being Shariah compliant.
- 4) Favorable tax treatment of products which would have otherwise had a double taxation due to the nature of IFB products.
- 5) Reduced risk of Shariah arbitrage.

2.1.9 Project Implementation

Project Management Institution defines a project as a temporary endeavor undertaken to produce a unique product, service or result (PMBOK, 2005). It is a unique process, consisting of a set of coordinated and controlled activities with start and finish dates, undertaken to achieve an objectives conforming to specific requirements, including constraints of time, cost and resources (Albert, 2014). A project can create a product, a service, an improvement in the existing product or service lines and a result such as an outcome or document (PMBOK, 2004). A deliverable is any unique and verifiable product, result or capability to perform a service that is required to be produced to complete a process, phase or project. Deliverables are typically tangible components completed to meet the project objectives and can include elements of the project management plan (PMBOK, 2004).

Project management is the application of knowledge, skills, tools and techniques to project activities to achieve project requirements. It is accomplished through the application and integration of the project management processes of initiating, planning, executing, monitoring and controlling and closing (PMBOK, 2004). Any project, from a new business venture to property construction, is carried out in phases. The number of phases in a project will vary according to the project's type and the manager's techniques, and may range from four to six steps (Albert, 2014).

Project implementation phase is a doing phase and it is important to maintain the momentum. It is during this phase that project becomes visible to outsiders, to whom it may appear that the project has just begun. To implement a project means to carry out activities proposed in the application form with the aim to achieve project objectives and deliver results and outputs (Christine, 2010).

A project is successful if and only if its customers are satisfied. It is a fact of life: even the best-run projects face problems. Once the project enters the implementation phase, problems tend to become more obvious (Christine, 2010). Most goal-oriented managers look only at the time, cost and performance parameters. Additional analysis is required to identify the cause of the problem. Looking only at time, cost and performance might identify immediate contributions to profits but will not identify whether the project itself was managed correctly (Harold, 2009).

Projects are influenced by a multitude of factors which can be external or internal to the organization responsible for its management and execution. The external influences are known as the project environment which includes customer, supplier, competitors, national and local government agencies, public utilities, pressure groups, end users and the general public. Internal influences include the organization's management, the project team, internal departments and the shareholders (Albert, 2014).

Harold (2009) listed the many faces of project failure (Harold, 2009).

- Ineffective planning, scheduling, estimating and cost control
- Project objectives being “moving targets”
- Poor morale
- Poor motivation
- Poor human relations
- Poor productivity
- No employee commitment

2.1.10 Implementation Challenges

2.1.10.1 Pre-Implementation Challenges

According to Rondinelli (1976), the most frequently occurred project implementation challenges are;

2.1.10.1.1 Ineffective project planning and preparation

This includes ineffective identification and preparation procedures, inability to commit available resources, inaccurate assessment of the market or needs for project outputs and insufficient preparatory analysis (Rondinelli, 1976).

2.1.10.1.2 Faulty appraisal and selection processes

This occurs when objectives and expected outputs of project not clearly defined, overemphasis on financial targets, long lag periods in the processing and approval of projects, difficulty of estimating true cost of capital and overemphasis on economic and technical criteria in project appraisal (Rondinelli, 1976).

2.1.10.1.3 Defective project design

Defective project design is occurred due to inappropriate project design to local conditions, underestimation of resource needs, inadequate specifications, failure to integrate capital construction, lack of contingency planning to meet emergencies, failure to select adequate baseline data, lack of interaction between project planners and failure to account adequately in financial plans (Rondinelli, 1976).

2.1.10.1.4 Problems in start-up and activation

This problem includes delays in granting approval, lack of cooperation in allocating resources, difficulty in obtaining local resource, failure to define the relationship of the project

organization, insufficient analysis o alternative methods, inadequate organizational planning and failure to redesign the project upon discovery of unanticipated obstacles (Rondinelli, 1976).

2.1.10.1.5 Inadequate project execution, operation and supervision

This occurs due to cost over-runs due to delays, failure to maintain adequate information flows, lack of continuity, insufficient capacity, lack of adequately trained project managers, inadequate resource and equipment specification, outdated accounting procedures, high turnover in personnel and conflict among project staffs (Rondinelli, 1976).

2.1.10.1.6 Ineffective external coordination of project activities

This kind of problem is due to insufficient supporting facilities, poor coordination of internal project funding, delays in receiving disbursement, political interference, and insufficient use of foreign technology (Rondinelli, 1976).

2.1.10.2 Post-Implementation Challenges

The major challenge of post-implementation for a project is deficiencies in diffusion and evaluation of project results and follow-up action. This includes project output restricted to a narrower group than intended by project design, inadequate utilization of complete projects, failure to adapt appropriate project output, failure to train personnel, faulty supervision and control, poor internal reporting and monitoring procedures, inadequate control by government and ineffective project post-evaluation methods and procedures (Rondinelli, 1976).

2.1.11 Post Implementation Challenges of Interest Free Banking

The challenges confronting every Islamic banking system over the world could be categorized into institutional challenges and operational challenges. Institutional challenges are those challenges that are unique to Islamic banking institutions while the operational challenges are those challenges confronting the operations of Islamic banking (Audu & Mika'illu, 2014).

2.1.11.1 Institutional Challenges

According to Audu & Mikailu (2014) the institutional challenges that may likely hinder the successful establishment and management of Islamic banking are;

2.1.11.1.1 Inappropriate Institutional Framework

The Islamic banking will be hindered by the current institutional framework that supports conventional banking. This is because the current institutional framework is structure in the line of conventional financial system which is against Islamic banking (Audu & Mika'illu, 2014).

2.1.11.1.2 Inadequate Legal Framework

This is due to the fact that the legal framework is designed to suit the conventional settings. Islamic banking cannot adequately operate if there is no special legal framework for its institutions (Audu & Mika'illu, 2014).

2.1.11.1.3 Lack of Equity Institution

It is generally accepted that the need for long term finance cannot be overestimated in any financial institution. This problem existed because the existing institutions that provide such facilities operate on interest basis which is against Islamic banking principle (Audu & Mika'illu, 2014).

2.1.11.1.4 Poor Supervisory Framework

Islamic banking may face the challenge of ineffective supervisory framework as well as the Shari'ah advisory board (Audu & Mika'illu, 2014).

2.1.11.1.5 Disparity in Accounting Standard

Islamic banking may be challenged by the disparity in their accounting standard (Audu & Mika'illu, 2014).

2.1.11.1.6 Lack of Short-Term Financial Instruments and Institutions

The lack of inter-bank transactions among Islamic banking due to their fewness leads to inadequate short term financial institutions and instruments. Islamic banking is however, in high need of short term institutions and instrument for effectively and efficient operations (Audu & Mika'illu, 2014).

2.1.11.1.7 Absence of Secondary Financial Market

Lack of secondary financial markets is another challenge that Islamic banking may likely face. This is because the existing secondary financial markets operate on interest basis is against Islamic ethics (Audu & Mika'illu, 2014).

2.1.11.2 Operational Challenges

The operation of Islamic banking in Nigeria may likely be confronted by the following challenges;

2.1.11.2.1 Religious and Cultural Differences

One of the major challenges of Islamic banking has to do with the multiple cultural and religious beliefs. This is because of the fact that others with different cultural and religious belief will have a misperception of the institutions that may lead to not accepting the institution by the general public (Audu & Mika'illu, 2014).

2.1.11.2.2 Inadequate of Financial Innovations

As financial markets are changing with time, there is the need to design financial products that will meet the needs and tastes of the users with regards to risk involve in the maturity of the instruments and return from such instruments. However, there is inadequate financial innovations or delay in implementing innovated products in Islamic banking due to Shari;ah guidelines requirement. This makes Islamic banking to be relatively rigid to innovations (Audu & Mika'illu, 2014).

2.1.11.2.3 Lack of Profit Sharing Finance

Islamic banking may likely be hindered by lack of profit sharing financial instruments. Islamic banking transactions are divided into fixed charge and profit sharing. The proponents of Islamic banking built up Islamic banking in the hope that it will operate on profit sharing basis. However in practice, profit sharing finance has remained relatively small in the operation of Islamic banking. This is a serious challenge to Islamic banking in the sense that one of the major reason for Islamic banking is to operate on profit sharing basis (Audu & Mika'illu, 2014).

2.1.11.2.4 Shari'ah Related Issues

Due to the fact that Islamic banking has religious dimension, financial innovations in this institution needs to meet Shari'ah requirements. That is, any new financial products in Islamic banking cannot be adopted until it is approve by the Shari'ah advisory board and also followed by post Shari'ah auditing. However, this act delays Islamic banking ability to take advantage of changing financial environment due to the fact that time has to be wasted before it is finally approve by the Shari'ah board. This act is very vital for Islamic banking in order to protect their clients' confidence in the institution (Audu & Mika'illu, 2014).

2.1.11.2.5 Inadequate Human Resources

The survival of Islamic banking highly depends on adequately qualified human resources in teaching, training and research in Islamic finance with knowledge in both Islamic and conventional finance as well as economics. In the case of training in Islamic banking, little or no effort has been made in this aspect. And this is very detrimental to the survival of Islamic banking (Audu & Mika'illu, 2014).

2.1.11.2.6 Inadequate awareness

Islamic banking will be challenged by lack of information about the objectives, principles, and advantages of Islamic banking. Majority Muslims only know that Islamic banking is based on non-interest basis, while the majority of the followers of other faiths have little or no knowledge about it at all (Audu & Mika'illu, 2014).

2.1.11.2.7 Competition

Islamic banking is an institution that took the world by surprise in development and growth. It is now facing serious competition in the financial system as some conventional banks are now converting to full fledged Islamic banks or providing Islamic banking windows. These banks are more developed in all aspects of financial transactions that will increase competition facing Islamic banking (Audu & Mika'illu, 2014).

2.2 Empirical review

Narinder & Anupama (2014) used secondary data to study the major issues and constraints in implementation of Islamic banking in India. They made proper consideration regarding the hurdles of Islamic finance and various supervisory and regulatory challenges involved in the matter. The findings were Indians have no experience in this field and the society is unable to access services and banking products due to reasons of trust issues (Narinder & Anupama, 2014).

According to S.Issath, et al. (2015), Sri Lanka's Islamic banking challenges were shortage of qualified resource persons. They pointed out that the level of success the Islamic banking achieves will depend at the micro level on the quality of management and the level of staff training. On the other hand, most staffs come to Islamic banks from conventional banks and are familiar only with the conventional approach. So many of staffs do not have the commitment required to implement the Shariah guidelines. There are also lack of Shariah knowledge, lack of financial engineering and lack of fair treatment in taxation and lack of globalization (S.Issath, Shibly, & Irfan, 2015).

A research done by Abduljebbar Kerimi (2000) states that the first most important challenge facing the Islamic banking industry is the legal support which is offered by commercial banking and company laws that are appropriate for implementation of Islamic banking financial contracts do not exist. Islamic banking contracts are treated as buying and selling properties and hence are taxed twice. The commercial banking and company laws contain provisions that are narrowly defined and prohibit the scope of Islamic banking activities within conventional limits. This legal framework of Islamic banking includes, Islamic banking courts, amendment of existing laws, Islamic banking law, Islamic banking balance sheet, monthly payment agreement, and profit and

loss sharing deposits. Other challenges were lack of effective Islamic prudential regulations, risks related to accounting and auditing standards, lack of transparency, lack of familiarity in rules of Shariah based products, lack of standard financial contracts and products and lack of availability of liquidation through secondary market (Abduljebbar, 2000).

Zainab (2017) penned challenges facing Islamic banking and finance system in Nigeria and found that there were lack of knowledge of accounting and auditing standards pertinent to Islamic financial institutions, inadequate legal and regulatory environment, problem of competition with dominant conventional banks, double taxation, lack of Sharia-compliant liquidity management instruments, absence of Islamic insurance to protect Islamic banks, and lack of public awareness on the importance of Islamic banking and finance (Zainab, 2017).

A research done by Seyed, et al. (2014) aimed at identifying and prioritizing the important challenges regarding to the Islamic banking system in I.R. Iran. After detailed literature review and studying, appropriate statistical analyses have been implemented and results provided. The results were lack of clear rules and adequate supervision, lack of variety for different investors' preferences, lack of determination at the senior executives, lack of sufficient awareness among customers, lack of failure to comply with the new financial system, lack of competitiveness with conventional banking system, investors' risk aversion, lack of variety for different facilities applicants, lack of appropriate solutions for banking deferred and lack of international banking interactions (Seyed, Reza, Mohammed, & Safari, 2014).

Ariff (1988) highlights the scholarly contribution pertaining to key problems and challenges encountered by Islamic banking and finance over the last 28 years. Unavailability of expertise pertaining to long-term financing, lack of back-up institutional structures such as secondary capital markets for Islamic financial instruments and strict compliance with the Shariah rules were the major confronting issues to Islamic financial system. He also saw some critical factors in implementing Islamic banking at large scale. These factors were inadequate institutional arrangements, lack of effective leadership and organization, and intellectual resources mobilization through centers for learning (Ariff, 1988).

Muhammad & Waseem (2015) observed loss of opportunities, Shariah law's admissibility in international courts, manpower shortage, undeveloped inter-bank and financial markets,

complexities of regulatory and supervisory issues, lack of central supervisory body, lack of competitiveness with conventional banking system, misperception against the religious dogmas, and lack of unified accounting standards for Islamic banking as the key weaknesses, handicaps and problems faced by Islamic banks (Muhammad & Waseem, 2015).

Another research done by Savalan (2012) viewed Islamic banking challenges from two aspects; theory aspect and practical side. The former include relevant institutional framework, managerial aspect, accounting standards, insufficiency of equity institutions, establishing well-organized secondary financial market and establishment of short-term marketplace of funds. The practical side covered financial engineering, Shariah principles and matters, training, educating, investigation and development, availability of deposits and deficiency of fund placement and competition (Savalan I. I., 2012).

Sanusi (2011) observed challenges of Islamic banking in Nigeria. The challenges were inadequate manpower, lack of Shariah-compliant liquidity management instruments, lack of Islamic insurance (Takaful), lack of knowledge of accounting and auditing standard, inadequate legal framework, lack of Shariah scholars, problem of multiple taxation and misperception of Islamic banking (Sanusi L., 2011).

Jabr (2003) in his work conclude that the challenges and prospects of Islamic banks operating in the Palestinian territories are lack of adequate banking law for Islamic banking, existence of unproductive money, lack of awareness, lack of operational difference between Islamic and conventional banks, Lack of ability to channel deposits into long-term investment, lack of experience in Islamic Shariah, excessive short-term financial instrument, inability to make use of Mudaraba and Musharaka financial institutions, inferior technical resources and technology, Islamic banks were compel to recruit staff trained in traditional banking, inability to differentiate ownership from management and lack of financial innovations (Jabr, 2003)..

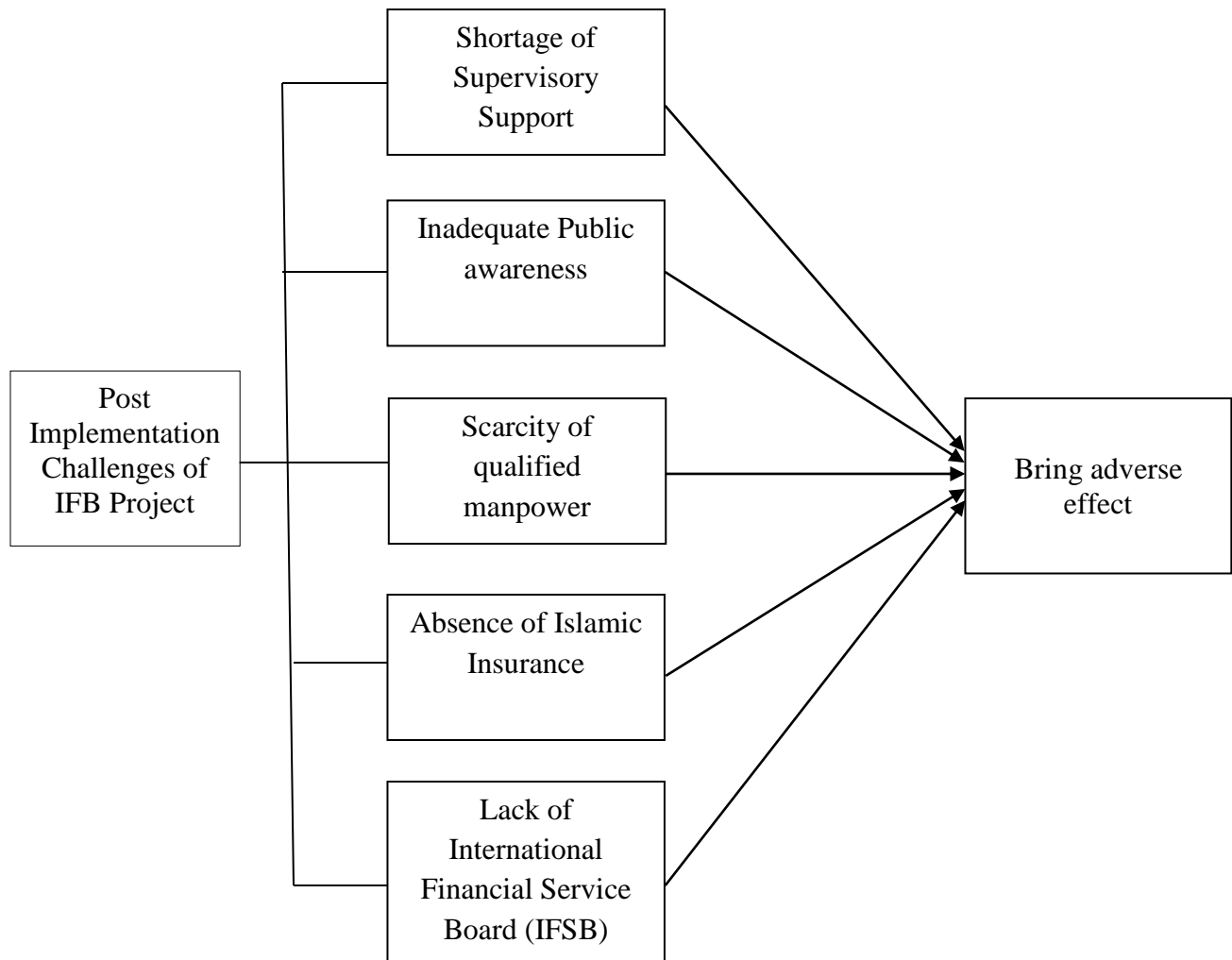
A research investigated by Akmel Hailu (2015) attempted to describe the challenges and prospects of Islamic banking for resource mobilization in three Ethiopian Commercial Banks. The study focused that awareness, manpower, legal framework, societal belief, and resource requirements as some of the challenges while economic growth, attraction of investors, and fostering investment were the likely prospects of the banks (Akmel, 2015).

Finally, Mohammed and Ishaq (2006) explored why interest free banking and finance movement failed in Pakistan. They pointed out several challenges that conclude intellectual, practical, political, constitutional and legal efforts undertaken in Pakistan to enforce an interest-free system were not meant in earnest and therefore they inflicted serious damage to the cause of Islamic banking. The main challenges were lack of a genuine political support, the noncommittal attitude of the bureaucrats, lack of professionalism in management, lack of the Islamic vision and training of the bankers, inefficient and unjust features of the financial sector of Pakistan, the risk-averse attitude of general depositors, foreign and domestic debt burden on Pakistan economy, and weak and tardy legal system of Pakistan (Mohammad & M. Ishaq, 2006).

2.2.2 Conceptual Framework

The conceptual framework of this paper is based on the theoretical and empirical literature depicted above. As stated by the theoretical as well as empirical literature, interest free banking is triggered by different post implementation challenges. The major challenges and drawback of interest free banking project in Commercial Bank of Ethiopia is due to inadequate public awareness, lack of supervisory support, shortage of qualified manpower, lack of Islamic insurance and lack of international financial service board. Therefore, the conceptual framework for the post implementation challenges of IFB project is presented based on this.

Figure 1 Conceptual framework on post implementation challenges of IFB project



Source: Developed by researcher

2.2.2.1 Inadequate public awareness on the importance of IFB

Islamic banking will be challenged by lack of information about the objectives, principles, and advantages of Islamic banking (Audu & Mika'illu, 2014). Raising awareness on Islamic finance is one of the key factors for sector's successful development. Because without fully appreciating strengths and weaknesses of Islamic finance compared to conventional, investor won't be interested to risk their funds (Savalan I. I., 2012). Hence, for interest free banking system to

work efficiently there is a great need for sensitization of all the stake holders (public, government and individuals) (Zainab, 2017). Some people misunderstand the concept of Islamic financial institutions; they thought that it is only available for Muslims. Although Islamic financial institutions are compliance to Shariah law, it is not only applicable for Muslims (Nur, Monica, Ng, & Low, 2016). Greater awareness about the products and services offered by Islamic banks will cause others who had stayed away from this mode of banking to invest in it and enhance the continued growth of this sector (Mohamed, 2016). Most of the Muslim communities also lack awareness about the benefit gained from this opportunity and they are not fully utilizing it. Prior to the launch of interest free banking, customers who doesn't want to receive interest on their savings would sign a waiver to the bank because of their religious belief. A research done by Zaineb (2014) states that in Ethiopian banks, clients who have signed the waiver for their conventional banking account have not yet asked the banks to switch their monies to an IFB saving accounts (Zaineb, 2014). The fact that clients waived their rights to receive interest does not mean that they are Shariah-compliant. This misconception and misunderstanding may limit the patronage of interest free banking service. Therefore, IFB project will be challenged by lack of information about the objectives, principles and advantages of Islamic banking.

2.2.2.2 Shortage of Supervisory Support

There is still the challenge of having qualified and competent Shariah scholars with good grounding in Islamic finance and jurisprudence on a global basis and this gap is wider on a local basis. This would be a critical issue since most of the instruments and services would have to be cleared by Shariah board (Adamu, Hussaini, & A. S., 2012). According to Iqbal, et al. (2009), Islamic banking suffers from lack of effective supervisory framework and it is one of the weaknesses of the prevailing system and deserves serious attention (Iqbal, Ahmed, & Khan, 1998). Shariah advisory board would be composed of Islamic finance experts, which are not necessarily scholars, but have gained sufficient Islamic finance expertise to provide expert opinions and recommendations in structuring IFB products. The advantage of Sharia advisors is that they do not have any specific affiliation but on the other hand, they are not considered as a religious authority. They can give guidance and legal support through modern economic experts' attendance to make sure whether it is implemented based on Islamic law (Zaineb, 2014). The

researcher also pointed out that Ethiopia has no adequate Shariah advisory board that authenticates the Sharia validity of an IFB product. This will leave the consumer at risk of not being offered genuine Islamic financial products (Zaineb, 2014).

2.2.2.3 Scarcity of qualified manpower

There is a global shortage of experienced professionals in Islamic finance sector to feed the industry and the regulators (Adamu, Hussaini, & A. S., 2012). The survival of Islamic banking is highly dependent on adequately qualified human resources in teaching, training and research in Islamic finance with knowledge in both Islamic and conventional finance as well as economics (Audu & Mika'illu, 2014). Furthermore, the significant shortage of qualified manpower and management inside IFBs leads to limited customer service (Elhiraika & Hamed, 2003). The level of success the Islamic banking achieves will depend at the micro level on the quality of management and the level of staff training (S.Issath, Shibly, & Irfan, 2015). Besides, most of the staffs are come to IFB from conventional bank and are familiar only with the conventional approach. Many of them do not have the knowledge required to implement Shariah guidelines. A research done by Zainab (2014) states that in Ethiopian Banks, the training strategy and quality assurance needed for IFB is unattractive. Senior managements who have gained knowledge through workshops and readings from internet try to train staffs at local branches. So, the transfer of knowledge is currently limited to the individual interpretation by these Banks. Moreover there is no certainty that the sources used for developing the internal training material are accurate and complete (Zaineb, 2014).

2.2.2.4 Absence of Islamic Insurance

The absence of Islamic insurance (Takaful) to protect investments of Islamic banks against unforeseen hazards and facilitate the growth of the industry respectively also serve as a contributing factor to the development of Islamic banking and finance (Zainab, 2017). Even though there are many insurance companies which serve conventional banks, they may not meet Islamic law and standards which may result to a mix up and contradict to Shariah principles. This contradiction may affect customers' confidence in using the service that questions will be raised in the matter where Islamic banking is following the Shariah law in its entire works.

Because the whole system is mutually based on trust, customers of interest free banking service wants high standards of banking practices and safety of their funds not to be mixed with the conventional banking. According to Haque (2009) customer perception about Islamic banking is being influenced significantly by quality of services, confidence in bank, social and religious perspective and availability of services (Haque, 2009). If a project is to be successful, it is essential to understand what the customers want and need.

2.2.2.5 Lack of International Financial Service Board (IFSB)

The accounting standard of Islamic finance is different from the standards of conventional banking system. A major problem that poses a great challenge on the growth of Islamic banking was the absence of recognized guidelines on prudential, supervisory, accounting, auditing and other corporate regulatory practices. This resulted in ineffective accounting standards and created considerable difficulties when it came to be comparing financial statements issued by Islamic financial institutions and those of conventional financial institutions (Mahmoud, 2017). Under Islamic Development Bank's instruction, certain Islamic banks have set up Accounting and Auditing Organization (AAOIFI) for Islamic Financial Institution with the intention to bring standardization in the accounting cycle of Islamic banks (Savalan I. I., 2012). Although AAOIFI is mandatory, there is a need for the application of IFSB which has a purpose of setting standards for regulatory and supervisory agencies of the Islamic financial services industry and to uniform the standards and policies with international standards and policies.

2.2.3 Controlling Measures to Address Post Implementation Challenges

For a project to have success and attain the desired objectives, it is important to conduct post implementation review and document lessons learned. Each will be discussed below.

2.2.3.1 Post Implementation Review

The Post-Implementation Review (PIR) is conducted after implementation is complete. It is a comprehensive feedback mechanism designed to assess project outcomes. The purpose of PIR is to evaluate whether project objectives were met, to determine how effectively the project was

run, to learn lessons for the future and to ensure that the organization gets the greatest possible benefit from the project. A Post implementation review and report documents the successes and failures of the project deliverable (Post Implementation Review Guidelines, 2004). It includes product effectiveness, risk management, communication management, acceptance management, change management and issue management. This evaluation will indicate how well the organization communicated the project outcomes and how well these were achieved (Post Implementation Reviews, 2016). In reviewing the project, it is important to identify gaps in project fulfillment or project failures and identify lessons learned.

PIR should include the following reviews;

2.2.3.1.1 Economic Review

Due to the increasingly stringent feasibility process being adopted for projects, especially economic appraisal, an important strand of PIR is to evaluate whether the project met its economic or service predictions (Post Implementation Review Guidelines, 2004).

2.2.3.1.2 Brief compliance review

An important aspect of PIR is to assess whether the completed project complied with its original brief, and, as a separate issue, whether the completed project meets the end user requirements. Examining these issues highlights how effectively translating the brief into reality has been. This component of PIR seeks to describe or to explain cause and effect relationships to enable project decision-makers to improve the quality of their future decisions (Post Implementation Review Guidelines, 2004).

2.2.3.1.3 Procurement/ Delivery process review

This review examines the time and resources used to deliver the project and review matters such as the level of variations and disputes etc. It examines whether original time and cost targets were met and may include ‘benchmarking’ against accepted norms, or against other similar projects (Post Implementation Review Guidelines, 2004).

2.2.3.1.4 Asset performance review

The traditional PIR concentrates on user feedback of the project performance. Such a review employs questionnaire, observation, walk-through and interviews as data collection techniques (Post Implementation Review Guidelines, 2004).

2.2.3.1.5 Technical review

A wide range of technical reviews may be undertaken, generally triggered by perceived consistent deficiencies, or a major technical change (Post Implementation Review Guidelines, 2004).

According to post implementation review guideline (2004), the benefits of performing a post implementation reviews are;

- Identification of ways to improve the functional value of a project
- Identification of ways and means to assist asset users overcome occupational problems
- Increasing user morale through the continuous improvement of asset created environments
- Longer-term gains
- Learning from precedent
- Economies resulting from improved project performance
- Improved concept criteria and project briefing
- Development of more precise design criteria
- Improved decision-making

2.2.3.2 Lesson Learned

Lessons can be learned from each and every project, even if the project is a failure. Today, there is increasing emphasis on documenting lessons learned (Harold, 2009). Documenting lessons learned helps a project team discover both strengths and weaknesses. It provides an opportunity for team members and/or partners to discuss successes during the project, unintended outcomes, and recommendations for others involved in similar future projects. It also allows the team to discuss things that might have been done differently, the root causes of problem that occurred, and ways to avoid those problems in later project stages (Mark & Cohan, 2014).

Chapter Three: Research Design and Methodology

This part of the study attempts to explain the research methodology applied to obtain representative data from a sample of Commercial bank of Ethiopia found in Addis Ababa districts. The research design, population size, sampling design, sources of data, methods of data collection, data analysis method and ethical consideration used pertinent to the study will be presented in this section.

3.1 Research Design

A research design is a plan, structure and strategy of the investigation so conceived as to obtain answers to research questions or problems. The plan is the complete scheme of the research. It includes an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data (Kumar, 2011). Many books of research methodology classify research types in different categories. In order to achieve the objective of the study, this research used descriptive research design that deploy both qualitative and quantitative data to gather information about the post implementation challenges of interest free banking project of Commercial Bank of Ethiopia. The researcher used descriptive research design because the research was done to investigate post implementation challenges of IFB project of the Bank which is taken from branches of Addis Ababa districts. In addition, descriptive research design gives a general overview of some valuable points that can be a useful tool in developing a more focused study. It can also yield rich data that lead to important recommendations in practice and further research.

3.2 Population and Sampling Design

The accessible target populations for this study were comprised of employees, customer service managers, and chairperson-IFB of Commercial Bank of Ethiopia branches found in Addis Ababa. Commercial Bank of Ethiopia divided its branches into districts. The districts found in Addis Ababa are East Addis Ababa District, North Addis Ababa District, South Addis Ababa District and West Addis Ababa District. In doing a research, there are two basic types of

sampling procedure: probability sampling and non-probability sampling. For this research simple random sampling was used for selecting the branches to do the quantitative part of the research because the population size is known. It was also used because it ensures the law of statistical regularity which states that if on an average the sample chosen is random one, the sample will have the same composition and characteristics as the universe. The researcher used Ms-Excel as a tool to select the sample. After listing exhaustively all branches of Addis Ababa districts, it was encoded to the Ms-Excel and list was generated to get the sample of the branches.

In addition, interview was made with Chairperson of IFB to cross-check the respondents' response with respect to the filled questionnaires and to further gain additional information about the challenges of IFB project and its consequence on the implementation. The Bank has one chairperson who has a direct accountability for IFB Project. The researcher used only one interviewee with the expectation that the required information can be gained and increasing the numbers will not add additional data.

The sample size of the respondents was set randomly by using sample determination formula developed by Yemane (Yemane, 1967).

Table 2: Number of branches and total Staff

Districts	No. of Branches	Total Staffs
East Addis Ababa District	94	2,731.00
North Addis Ababa District	108	3,035.00
South Addis Ababa District	89	2,745.00
West Addis Ababa District	115	2,674.00
Total Population	406	11,185.00

Source: Developed by researcher

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size, and

e = level of precision or sampling error = (0.05)

$$n = \frac{11,185}{1 + 11,185 (0.05)^2}$$

$$n = 387$$

As shown above, the total sample size is 387. Since the number of staffs in each district is not the same, the number of samples for each district was calculated by the following formula;

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

Where **n**= total number of samples

N= total number of population

N1= total number of population in each district

n1= number of samples in each district

Table 3: Number of population and sample size

Districts	No. of Population	Sample	Selected Percentage (%)
East Addis Ababa District	2,731.00	94	24.29%
North Addis Ababa District	3,035.00	105	27.13%
South Addis Ababa District	2,745.00	95	24.55%
West Addis Ababa District	2,674.00	93	24.03%
Total	11,185.00	387	100%

Source: Developed by researcher

After determining each district's sample size, the researcher use purposive sampling method to select the target employees whose job is directly related to the work. Purposive sampling is a non-probability sampling that is selected based on characteristics of a population and the

objective of the study. The main goal is to focus on particular characteristics of a population that are of interest. The researcher was not go beyond this sample size because of the assumption that increasing the number of sample size will not increase additional information rather it could be duplication of information.

3.3 Sources of Data & Type

3.3.1 Source of Data

The researcher use both primary and secondary data for conducting the research. The sources of primary data were from employees, customer service managers and chairperson-IFB of staffs of Commercial Bank of Ethiopia found in Addis Ababa. The secondary data was collected and used to describe and elaborate the conceptual aspects of the Interest free banking project. In addition, different websites, bulletins, revised manual, documents, Bank's profiles and records, books written by various authors, National Bank of Ethiopia directives and the like were reviewed.

3.3.2 Types of Data

For this research, both primary and secondary data was used as data collecting instruments. To collect primary data, structured questionnaire was distributed for employees and customer service managers and interview was employed to obtain reliable and sufficient data from chairperson-IFB to cross-check the questionnaire with the interview results. To make the research more valid, credible and applicable, the researcher used secondary data for the issues raised on the research. For this purpose, web sites, journal articles, different books, NBE directives, the Bank's policy, procedure and profiles of the Bank, various project papers was investigated.

3.3.3 Procedures for Data Collection

To answer the research questions, sufficient data was collected. To do so, the researcher design questionnaires to Bank staffs and interview for management member who have related to their day to day activities. The questionnaires were distributed to staff members. Data from the questionnaire were collected and organized in structural form of tables.

3.3.4 Research Instrument

Both questionnaire and interview research instrument was used for the purpose of collecting the needed data. In the first part of the research data collection process, secondary data were collected from the secondary sources. After getting information from secondary data, to further correlate the information and find first-hand information in relation to the post implementation challenges of IFB project, questionnaires were used as a means of data collection. Questionnaires were used because it is less time-consuming, the results can be easily coded for analysis and the respondents will not be biased. In this research, the questionnaire has two parts. Part one includes the demographic characteristics of the respondents and parts two includes the respondents' view about the challenges of IFB and its consequence.

The researcher asked respondents to rate their view by using a Likert/summated scale. Likert-type or frequency scales use fixed choice response formats and are designed to measure attitudes or opinions. These ordinal scales measure level of agreement/disagreement. When using a Likert scale, there is no specific rule on whether to use a two-point scale, three point scale or scale with still more points. In practice, three to seven point scales are generally used for the simple reason that more points on a scale provide an opportunity for greater sensitivity of measurement (Kothari, 2004). For this research a five-point Likert scale was used and the respondents rate their views as strongly disagree, disagree, neutral, agree and strongly agree so that it is easy to administer and do analysis work of such type of response. For the reliability of the questionnaire, similar questions were asked to the Chairperson of IFB to further correlate the information gathered and to check the trustworthiness of the data.

3.4 Data Analysis method

Data analysis involves the process of data entries, coding, checking and handling missing data. For this research, the collected data was checked, sorted and screened for any errors. They were tallied to prepare tables for making analysis. The researcher use both qualitative and quantitative data analysis techniques. To analyze the data, the researcher use SPSS V.20 and descriptive data analysis technique. Descriptive analysis was used to explain and describe the data that are collected from respondents under the descriptive statistic. In describing the collected data, visual

aids such as graphs and pi-charts were used to make the reader better understand the information gathered.

In order to interpret and analyze the data, it should be summarized in the scale. The safest way to do this is by estimating the median value of all the data. The response to questions in the given variables were scaled using the “five-point-scale” system and given weight. The level of each item was determined by using the following formula: (highest point in Likert scale – lowest point in Likert scale)/the number of the levels used. For this research, since it has five point scale, $(5-1)/5 = 0.80$, so the range between the scale was 0.80. SPSS was used in order to compute the weighted mean of the data to confirm the analysis which was done in descriptive analysis. Weighted arithmetic mean is the most common type of average which plays a role in descriptive statistics. It is used when some data values to be more important than other values and so want them to contribute more to the final average. The process of weighted mean/central tendency was used by using the following formula:

$$\bar{X} = \frac{\sum_{i=1}^n (W_i * X_i)}{\sum_{i=1}^n w_i}$$

Where;

Σ = the sum of

W = the weights

X = the Value

w = the total number of respondents

In addition, response from the interviewee was analyzed using qualitative data analysis technique.

3.5 Validity Test

Validity is defined as the accuracy and meaningfulness of inferences which are based on the research result (Mugenda & G.A., 1999). It is also the qualitative procedure of pre-testing or a prior attempt to ascertain that research instruments are accurate, correct, true, meaningful and right in eliciting the intended data for the study (Kasomo, 2006). To validate the research instruments, the researcher used pilot survey to six IFB officers who have a good experience in this field in order to check whether there were any ambiguous or confusing terms so as to improve the content validity of the instruments.

3.6 Ethical consideration

While doing the research, dignity and privacy of the interviewee was considered. Before the interview starts or research, the individual was notified about the aims, methods, anticipated benefits of the research and to what degree of confidentiality their answers will be kept. No questions were forced to answer from the interviewee. Interview was taken place with care; no aggressive attitude was used or which made interviewee threatened. Respect of religion was highly kept in mind, as topic is religion dependent. In addition, in preparing the questionnaire format, there was no space provided to fill the respondent's name for the purpose of privacy.

CHAPTER FOUR: DATA PRESENTATION, INTERPRETATION AND ANALYSIS

This chapter deals with the data presentation, interpretation and analysis of the study. It has three parts. The first is the introduction part; the second one is background of the respondents; and the third part deals with major components on challenges of interest free banking in Commercial Bank of Ethiopia.

4.1 Introduction

This chapter presents the collected data from the primary sources, the analysis of the same to answer the research question derived from objectives of the study and the findings from the analysis. The Interest Free Banking project in Commercial Bank of Ethiopia encountered post implementation challenges which can be observed in terms of the perspectives of the participants.

To achieve the objective of the research, a total of 387 questionnaires were prepared and distributed to customer service officers, customer service managers, credit relation officers, quality assurance officers, banking business officers and KYC officers. Out of these, 331 of them were collected with a response rate of 86%. However, only 296 responses were valid with complete answers. Therefore, 296 questionnaires were used for further analysis. Besides, interview was made to Chairperson-IFB of the Bank to gain further information on the post implementation challenges of IFB project.

The descriptive analysis and SPSS V.20 was used to interpret the raw data concerning post implementation challenges of Interest free banking project in Commercial Bank of Ethiopia. Frequencies, percentages and mean value of responses were considered in the descriptive analysis. Moreover, tables, pi-charts and column charts have been used to present the findings.

4.2 Background of the Respondents

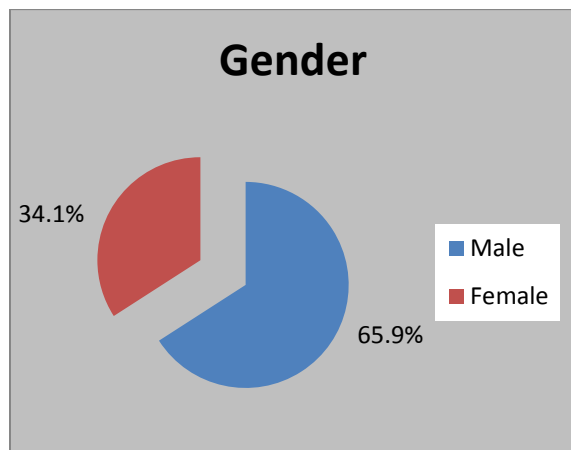
The characteristics of the sample target population gives some basic information about participants and their composition. The general and demographic information about the respondents is used to understand the background and personal data of the respondents. The items include gender, work experience, level of education and profession level. The table below shows the background information of the respondents.

Table 4.1 Gender of respondents

Gender	Frequency	% of response
Male	195	65.9
Female	101	34.1
Total	296	100

Source: Own survey

Figure 4.1 Gender of respondents



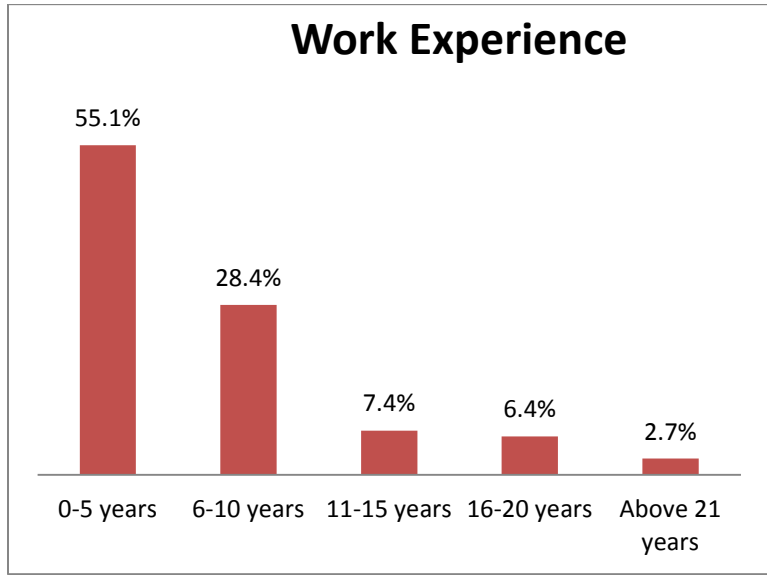
As shown in table 4.1, male respondents were 195 (65.9%) and female respondents were 101 (34.1%). This shows that there were more male respondents than females and the major response were dominated by males.

Table 4.2 Work experience of respondents

Work Experience	Frequency	% of response
0-5	163	55.1
6-10	84	28.4
11-15	22	7.4
16-20	19	6.4
Above 21	8	2.7
Total	296	100

Source: Own survey

Figure 4.2 Work experience of respondents



For a successful financial institution, employees must have enough experiences in their career fields. The respondents were asked about their work experience in the banking industry. Table 4.2 displays that 163 (55.1%) of the respondents' work experience were in range of 0-5 years, 84 (28.4%) employees worked in range of 6-10 years, 22 (7.4%) of the respondents have banking experience which was in range of 11-15 years, 19 (6.4%) of the respondents who participated in the study have a work experience of 16-20 years and the rest 8 (2.7%) of the respondents were worked above 21 Years. As shown above, the majority of the respondents were employees who have work experience below fifteen years. A large number of respondents are working between 0-5 years. This shows that the Bank is recruiting and placing employees to branches. In addition, the responses include employees with different work experiences.

Table 4.3 Educational level of respondents

Educational Level	Frequency	% of respondents
Diploma	15	5.1
Degree	253	85.4
Masters	28	9.5
Total	296	100

Source: Own survey

Figure 4.3 Educational qualification

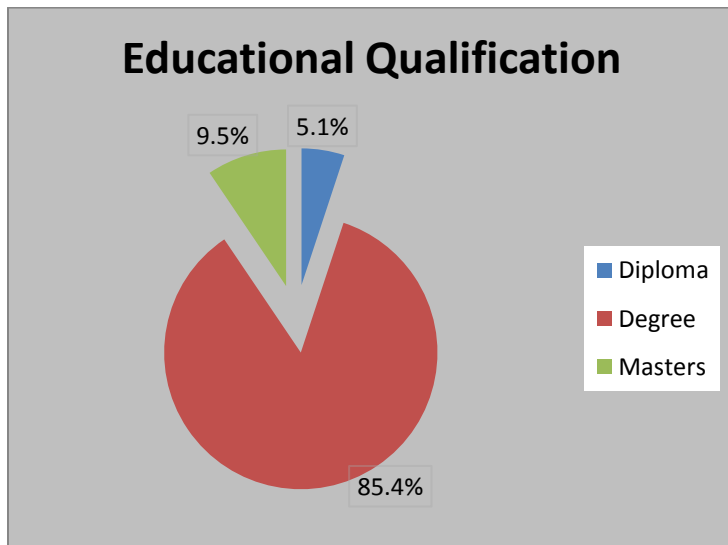


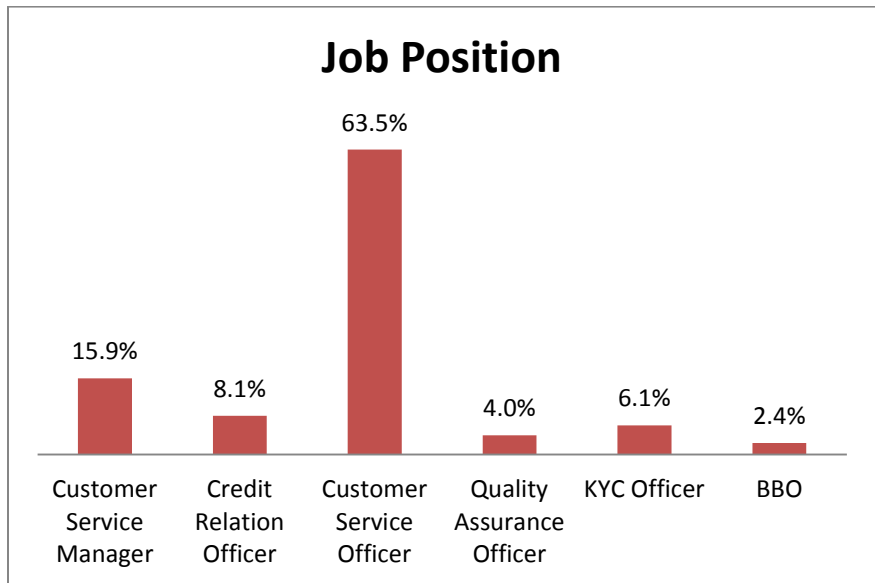
Table 4.3 indicates that data presentation carried out among 296 respondents, 15 (5.1%) respondents represent the Diploma holder, 253 (85.4%) respondents have done BA degree and the rest 28 (9.5%) respondents acquired masters degree in a specific field of study. This shows that most of the Bank’s employees were BA degree holders. The result also indicates that employees have enough capacity to deliver the service and can be easily trained for interest free banking service.

Table 4.4 Job position of respondents

Professional Level	Frequency	% of respondents
Customer Service Manager	47	15.9
Credit Relation Officer	24	8.1
Customer Service Officer	188	63.5
Quality Assurance Officer	12	4.0
KYC Officer	18	6.1
Banking Business Officer	7	2.4
Total	296	100

Source: Own survey

Figure 4.4 Job positions of respondents



Through the distribution of the questionnaire, the respondent's job position came up with varied job titles based on different job classifications. Table 4.4 depicted that 47 (15.9%) respondents' current job were Customer Service Manager, 24 (8.1%) of respondents were Credit Relation Officer and the highest number which is 188 (63.5%) of respondents were Customer Service Officers. The other 12 (4%), 18 (6.1%) and 7 (2.4%) respondents have a professional title of Quality Assurance Officer, KYC Officer and BBO respectively. This shows that the majority of the staffs found in the branches were Customer Service Officers. The table also shows that the response include employees from different job positions who have direct relations to IFB

customers so that they can view post implementation challenges of IFB from different perspectives.

4.3 Analysis and Presentation

The response that was gained from distributed questionnaire was analyzed and presented in this section. In addition, data obtained from interview with Chairperson-IFB was also analyzed using qualitative data analysis method.

Note: SD=strongly disagree, D=disagree, N=neutral, A=agree, SA=strongly agree

Table 4.5 Category of mean value

Rate	Extent of the response	Range
1	Strongly Disagree	1.00-1.80
2	Disagree	1.81-2.60
3	Neutral	2.61-3.40
4	Agree	3.41-4.20
5	Strongly Agree	4.21-5.00

Source: Own survey

4.3.1 Awareness about IFB

Table 4.6 General awareness about Interest Free Banking

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	The Muslim and non-Muslims community has awareness about Islamic banking system.	Frequency	147	54	35	41	19	2.09
		Percent	49.7%	18.2%	11.8%	13.9%	6.4%	
2.	Greater awareness about the products and services offered by Islamic Banks will cause others who had stayed away from IFB mode of banking to invest in it.	Frequency	0	8	2	97	189	4.58
		Percent	0%	2.7%	0.7%	32.7%	63.9%	
3.	There is Negative attitude of people regarding Islamic Banking (wrong association with religion).	Frequency	11	33	17	101	134	4.06
		Percent	3.7%	11.2%	5.7%	34.1	45.3%	

Source: Own survey

As depicted in item 1 of table 4.6, about 147 (49.7%) of the respondents strongly disagree that Muslim and non-Muslims communities has awareness about Islamic banking system. In addition to this, 54 (18.2%) of the respondents disagree and 35 (11.8%) responded neutral about the issue. Furthermore, 41 (13.9%) of the respondents agree and 19 (6.4%) strongly agree on the issue raised. This shows that the majority of the respondents were not agreed that communities have awareness about IFB. Moreover, the mean distribution of the response was found 2.09 which is closer to the value of “disagree”. Accordingly, it can be concluded that Muslim and non-Muslim communities do not have enough awareness about Islamic banking which can be post implementation challenge of interest free banking project of the Bank.

In this regard, the response from interview result shows that there is lack of public awareness about interest free banking that most people think IFB is for Muslim communities only. The interviewee replied that the service is given for those who don't want interest and diversify their business by using the credit modalities on investment options. Furthermore, the Muslims community also doesn't fully understand the requirement of Sharah principle. Customers need their deposited money in cash but in principle, the Bank should finance the deposited money for investment and apply profit and loss sharing paradigm. This would create contradiction between the customers and the Bank and creates dissatisfaction. So this problem hinders IFB project from implemented as required. The interviewee also replied that the Bank is trying to create customer session awareness creation but it was not satisfactory. Therefore, it can be concluded that most of the respondents agree that lack of awareness about IFB by Muslims and non-Muslim communities is the challenges that the Bank encounter after implementing the project.

As shown in item 2 of table 4.6, about 189 (63.9%) of the respondents strongly agree that greater awareness about the products and services of Islamic Banks will attract others who are out of the IFB mode to invest in it. In addition, 97 (32.7%) of them also agree about the issue. The rest 2 (0.7%) of the respondents were neutral and 8 (2.7%) of the respondents disagree about it. None of the respondents were strongly disagree about the issue. Furthermore, the mean distribution for this response was 4.58 that is more closer to “strongly agree”. So, creating greater awareness about each products and services of IFB will help the project in delivering the desired output. Therefore, the Bank should continuously review the awareness level of its IFB customers.

Item 3 of table 4.6 also shows that regarding the negative attitude of people about Islamic banking, 134 (45.3%) of respondents strongly agree and 101 (34.1%) of them agree about the issue. In addition, 17 (5.7%) of the respondents were neutral, 33 (11.2%) of them disagree and 11 (3.7%) of the respondents strongly disagree about it. Accordingly, the majority of the respondents believe that there is wrong association of IFB with religion. In addition, the mean distribution was 4.06 which is closer to “agree”. This implies that the community has lack of awareness about IFB. Since this banking service is open for any type of religion, it is essential to create awareness creation program for the community that any interested person can invest in it and broaden his/her investment opportunities. So, it can be concluded that wrong association with religion will prohibit the community from using the service. So this can be a post implementation challenges which in turn hinder the growth of the sector by holding back the project from delivering the desired output.

From table 4.6, it can be seen that the general awareness of the public towards interest free banking is low. Most of the respondents agree that people wrongly associate IFB with religion and think that it is only for Muslim communities. Accordingly it can be concluded that lack of awareness can be a post implementation challenge for IFB which affect the successful implementation of the project. This implies that the Bank should look for appropriate remedies in order to enhance the awareness level of the communities.

4.3.2 Customer perception about IFB

Table 4.7 Customer perception about IFB service

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	Customer perception about Islamic banking is influenced by quality of services, confidence in Bank, social and religious perspective and availability of services.	Frequency	0	11	0	173	112	4.30
		Percent	0%	3.7%	0%	58.5%	37.8%	
2.	Customers of IFB service wants high standards of banking practices and safety of their funds not to be mixed with the conventional Banking service.	Frequency	0	4	15	141	136	4.38
		Percent	0%	1.4%	5.1%	47.6%	45.9%	

Source: Own survey

As shown in item 1 of table 4.7, about 112 (37.8%) of the respondents strongly agree that customer perception about Islamic banking is influenced by quality of service, confidence in Bank, social and religious perspective and availability of services. Furthermore, 173 (58.5%) of the respondents also agree about it. There is no respondent who were neutral and strongly disagree about the issue but 11 (3.7%) of the respondents disagree that Islamic banking is influenced by the service quality of the Bank. This shows that the majority of the respondents believe that customer perception about IFB is influenced by the quality service and confidence in the Bank. Moreover, the mean value for this response was 4.30 which is nearer to “strongly agree”. Accordingly, it can be concluded that customer perception about Islamic banking service is a backbone for the growth of IFB. If customers have negative perception, lack confidence and lack information about the availability of the Islamic banking service offered by the Bank, it will be a challenge which inhibits the project from achieving its objectives.

Item 2 of table 4.7 shows that about 141 (47.6%) of the respondents agree that customers of IFB service wants high standards of banking practice and safety of their funds not to be mixed with the conventional banking service. In addition, 136 (45.9%) of them also strongly agree on the stated issue. 15 (5.1%) of the respondents were neutral, 4 (1.4%) of them disagree and none of the respondents strongly disagree about the issue. The majority of the respondents agree that high standard of banking practice is mandatory for IFB service. In addition, the mean distribution for this response was 4.38 that is closer to “strongly agree”. Accordingly, it is possible to conclude that Islamic banking should be different from conventional banking in its standards. In order to satisfy the IFB customers, their funds should not be mixed with conventional banking service. If customers do not believe that the Bank is giving high standard service, they will refrain from using IFB and shift to other banks or withdraw their funds. This will in turn affect the project that it couldn't deliver the desired quality and meet its objectives.

Response from the interviewee shows that the quality of service the Bank gives is highly influenced by the customers' perception. The interviewee replied that most of the customers are not satisfying with the provision of Islamic banking that the Bank gives. The major complaint from the customers is that they prefer high standards such as number of enough counters, available parking space nearby, recognition, segregated windows and so on. Moreover, most of the customers lack confidence that they think their funds will be mixed-up with conventional

banking system. Since the Bank should deliver the required quality and gain benefit from the new vista of IFB service, it is important to foster high standards for its customers. Furthermore, to gain confidence from its customers, segregating their funds from conventional banking is mandatory. A project is successful if and only if it satisfies its customers. From the above response it can be concluded that the service of IFB project is not best quality and the project is not delivering the desired output.

4.3.3 Regulatory governing organs

Table 4.8 Legal, supervisory and regulatory organs

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	There is Legal, Supervisory, and regulatory operational and/or institutional challenge in Islamic banking Service.	Frequency	11	25	53	123	84	3.82
		Percent	3.7%	8.4%	17.9%	41.6%	28.4%	
2.	The current Financial Institutions regulatory and supervisory organ has future initiatives to establish Islamic financial institutions	Frequency	4	11	65	166	50	3.83
		Percent	1.4%	3.7%	21.9%	56.1%	16.9%	
3.	Islamic financial institutions should be governed by different set of regulations as they differ from conventional Banks in many aspects.	Frequency	0	0	12	73	211	4.67
		Percent	0%	0%	4.1%	24.6%	71.3%	

As shown in item 1 of table 4.8, about 84 (28.4%) of the respondents strongly agree that there is legal, supervisory and regulatory operational and/or institutional challenge in Islamic banking service of the Bank. 123 (41.6%) of the respondents also agree with the same issue and 53 (17.9%) of respondents were neutral. Moreover, 25 (8.4%) of the respondents disagree and 11 (3.7%) of them strongly disagree about it. Accordingly, almost 207 (69.9%) of the respondents believe that there is regulatory institutional and operational challenge in Islamic banking which hinder the growth of the sector. Furthermore, the mean distribution for this response was found 3.82 which is closer to a value of “agree”. Therefore, it can be concluded that lack of supervisory

and regulatory framework is the challenge that the Bank encounter after implementing the IFB project.

Item 2 of table 4.8 also shows that 50 (16.9%) of the respondents strongly agree and 166 (56.1%) of them agree that the current financial institutions regulatory and supervisory organ has future initiatives to establish Islamic financial institutions. 65 (21.9%) of the respondents were neutral and 11 (3.7%) of them disagree about the issue. The rest 4 (1.4%) of the respondents strongly disagree that the institutions has future initiative to develop Islamic banking. The mean value for this response was 3.83 which is closer to “agree”. Therefore from the above response it can be concluded that the financial institution’s future initiative to establish Islamic banking will help the sector to regulate and supervise their work according to the Shariah law. This in turn will help the project to attain its objectives by reducing post implementation challenges.

As depicted in item 3 of table 4.8, 211 (71.3%) of the respondents strongly agree that Islamic financial institutions should be governed by different set of regulations. Furthermore, 73 (24.6%) of the respondents also agree about the issue and 12 (4.1%) of them were neutral. None of the respondents disagree or strongly disagree about the issue. In addition, the mean distribution for this response was found 4.67 which is more closer to a value of “strongly agree”. This implies that since Islamic banking is different from conventional banking in many aspects, the legal and regulatory framework of interest free banking should be governed by different set of regulations. If the regulations are not separated from conventional banking, it will be a post implementation challenge for IFB project to proceed.

From the above response it can be concluded that IFB project of the Bank is suffering from supervisory and regulatory challenges. The initiation of the current financial institutions supervisory and regulatory organs to establish Islamic banking can reduce the post implementation challenges.

4.3.4 Islamic Insurance

Table 4.9 Establishment of Islamic insurance

Item	Variable	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	Islamic insurance should be established to safeguard the Islamic banking service from hazardous situations.	Frequency	12	17	15	163	89	4.01
		Percent	4.1%	5.7%	5.1%	55.1%	30.0%	

As shown in table 4.9, 163 (55.1%) of the respondents agree that Islamic insurance should be established in Ethiopia. In addition, 89 (30%) strongly agree about the subject matter. From the total respondents 15 (5.1%) were neutral and 17 (5.7%) disagree that Islamic insurance is mandatory for IFB service. 12 (4.1%) of the respondents also strongly disagree about the issue. The majority of the respondents believe that Islamic insurance companies are needed for IFB service. In addition the mean value for this response was found 4.01 which is closer to “agree”. This implies that unavailability of Islamic insurance to safeguard the investment of Islamic Banks from various hazards will have adverse effect on IFB project of the Bank. Since conventional insurances are not Shariah-compliant, contradiction will be created which will affect customer confidence in using the service. From the above response it can be concluded that unavailability of Islamic insurance is a challenge that IFB encounter after implementing the project. This will in turn inhibit the project from delivering the desired end result.

In this view, interview response shows that Islamic insurance is mandatory and most customers are not comfortable in using conventional insurance services. They complain that the current insurance companies may not meet Shariah’s law and Islamic standards which may result to a mix up and contradict to Shariah principles. Therefore, from the above response it is possible to conclude that lack of Islamic insurance in Ethiopia is a post implementation challenge for the IFB and will affect the successful implementation of the project.

4.3.5 Scholars and Shariah Advisory Board on IFB

Table 4.10 Response about IFB scholars and Shariah Advisory Board

Item	Variables	Response	Response Category					Mean value
			SD	D	N	A	SA	
1.	There is deficiency of scholars, who can give guidance and legal support through modern economic experts.	Frequency	43	52	13	114	74	3.42
		Percent	14.5%	17.6%	4.4%	38.5%	25.0%	
2.	Lack of Shariah advisory board would create institutional and operational difficulties to Islamic banking.	Frequency	0	13	16	197	70	4.09
		Percent	0%	4.4%	5.4%	66.6%	23.6%	

As shown in item 1 of table 4.10, about 74 (25.0%) of the respondents strongly agree and 114 (38.5%) of them agree that there is deficiency of scholars and legal support who can give guidance and legal support through modern economic experts. Among the total respondents, 13 (4.4%) of them were neutral and 52 (17.6%) disagree about the issue. In addition, 43 (14.5%) of the respondents strongly disagree that there is shortage of legal support in the Bank. This implies that about 188 (63.51%) of the respondents believe that the Bank lacks Shariah advisors and legal support for its IFB service. Moreover, the mean distribution was found 3.42 which have a mean value of “agree”. Accordingly, it can be concluded that the Bank lacks Shariah advisory board who can give guidance to make sure whether the service is implemented based on Shariah law.

In item 2 of table 4.10, it can be depicted that the majority of the respondents that is 197 (66.6%) agree that lack of Shariah advisory board would create difficulties to Islamic banking. In addition 70 (23.6%) of the respondents also strongly agree about the stated issue. But from the total respondents, 16 (5.4%) were neutral, 13 (4.4%) of the respondents disagree and none of the respondents strongly disagree about the concern. In addition, the mean value was 4.09 which is closer to “agree”. Their involvement is mandatory to operate the service according to the Shariah principles and gain the confidence of customers. Accordingly, it is possible to conclude that lack of Shariah advisors can be post implementation challenge to the IFB project.

In this regard, response from the interviewee shows that even though there is Shariah board on the organizational chart, currently it is not active and doesn't start work. The interviewee replied that if the Bank wants to launch new product, there is no one who can give guidance and legal support and check whether it is implemented based on Shariah principles and standards. So unavailability of Shariah advisors will limit IFB sector to grow and to benefit from its huge investment opportunity. Accordingly, this implies that unavailability of Shariah advisory board would create customer dissatisfaction and lacks their confidence in using the service. In addition, launching new products will be difficult for the Bank that no one is there to check the Shariah validity of the product. From the above response, it can be concluded that shortage of Shariah advisors and legal support in the Bank can be post implementation challenge for IFB which inhibit the project from delivering best quality and performance.

4.3.5 Qualified and trained human resource for IFB project

Table 4.11 Human resource required for IFB

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	There is scarcity of Trained Human Resource in Islamic Banking.	Frequency	0	0	7	124	165	4.53
		Percent	0%	0%	2.4%	41.9%	55.7%	
2.	The shortage of qualified manpower and management inside IFB service leads to limited customer service.	Frequency	0	2	25	91	178	4.50
		Percent	0%	0.7%	8.4%	30.7%	60.2%	
3.	The human resources who perform Islamic banking service are come from conventional Bank.	Frequency	0	0	0	135	161	4.54
		Percent	0%	0%	0%	45.6%	54.4%	
4.	The Bank has enough qualified staffs and scholars. in Islamic banking to ensure that the services are up to date and fully comply with Shariah law.	Frequency	120	147	17	7	5	1.75
		Percent	40.5%	49.7%	5.7%	2.4%	1.7%	

Item 1 of table 4.11 shows that 165 (55.7%) of the respondents strongly agree that the Bank has scarcity of trained staff in Islamic banking. Furthermore, 124 (41.9%) of the respondents also agree with them. 7 (2.4%) of the respondents were neutral about the issue and there is no

respondent who disagree or strongly disagree with the statement. This shows that the majority of the respondents believe that there is shortage of manpower in Islamic banking who perform service. In addition, the mean distribution for this response was found 4.53 which is closer to “strongly agree”. So it can be concluded that the Bank lacks human resource in the area of IFB and this can be post implementation challenge for the project. This in turn will affect the project from fulfilling its objective and give reliable service.

As shown in item 2 of table 4.11, about 178 (60.2%) of the respondents strongly agree and 91 (30.7%) of them agree that scarcity of qualified manpower and management in IFB service leads to limited customer service. Regarding this issue, 25 (8.4%) of the respondents were neutral and only 2 (0.7%) of them disagree about it. None of the respondents strongly disagree about the issue. Furthermore, the mean value was found 4.50 which is nearer to “strongly agree”. Accordingly, it can be concluded that shortage of manpower that are qualified in IFB field will create customer dissatisfaction which in turn will lead to the delivery of inadequate service quality.

Item 3 of table 4.11 also shows that 161 (54.4%) of the respondents strongly agree that the human resource who perform Islamic banking service are come from conventional Bank. In addition, 135 (45.6%) of the respondents also agree with them. None of the respondents are neutral, disagree or strongly disagree with the issue. Additionally, the mean distribution for this response was 4.54 that is closer to “strongly agree”. This implies that all of the staffs who perform IFB service are come from the normal conventional bank system. Since the staffs do not have the knowledge of Shariah guideline, it will affect the confidence of the customer from using the service. Accordingly, it is possible to conclude that IFB will be challenged by lack of trained manpower that will affect the successful implementation of the project.

As depicted in item 4 of table 4.11, about 120 (40.5%) of the respondents strongly disagree that the Bank has enough qualified staffs and scholar that ensure Islamic banking services are up to date and fully comply with Shariah law. 147 (49.7%) of the respondents also disagree and 17 (5.7%) were neutral about the issue. 7 (2.4%) of the respondents agree that there is qualified human resource in the Bank that perform Islamic banking service and 5 (1.7%) of the respondents also strongly agree with them. Furthermore, the mean value was 1.75 which has a

value of “strongly disagree”. This shows that the majority of the respondents do not believe that the Bank has enough qualified staff to give advice, control and manage IFB service.

From table 4.11, it can be concluded that there is shortage of qualified manpower and management in the Bank who can serve IFB project and who can check whether the service is in compliance with Shariah principle. This will be the major post implementation challenge for the field. Since project implementation should be long-term nature and contribute to the organization, the Bank should review these challenges to provide best performance.

In this regard, interview response shows that even though the Bank aggressively trains staffs that can perform IFB service, there is still a gap that trained staff will shift to another position or leave the Bank. The interview replied that to make the service easier, there should be continuous training session. The management and senior staffs should be familiar with Shariah standard and laws. Accordingly, this implies that there is scarcity of trained staff and management inside the Bank which can be post implementation challenge to IFB project. This will hold the project from being on track and hinder the delivery of good quality and performance.

4.3.6 Service quality, capacity and IFSB of interest free Banking

Table 4.12 Response on the service quality, capacity and IFSB

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	The Bank gives the service in compliance with the service requirement of Islamic banking.	Frequency	87	105	43	37	24	2.34
		Percent	29.4%	35.5%	14.5%	12.5%	8.1%	
2.	The Bank has sufficient capacity to serve the customers of IFB	Frequency	49	37	22	106	82	3.46
		Percent	16.6%	12.5%	7.4%	35.8%	27.7%	
3.	Islamic Financial Service Board should be used in order to enhance the soundness and stability of Islamic financial service industry.	Frequency	0	2	19	91	184	4.54
		Percent	0%	0.7%	6.4%	30.7%	62.2%	

In item 1 of table 4.12, it shows that about 87 (29.4%) of the respondents strongly disagree and 105 (35.5%) of them disagree that the IFB service that the Bank gives is in compliance with the service requirement of Islamic banking. But 43 (14.5%) of the respondents were neutral, 37 (12.5%) of them agree and the rest 24 (8.1%) of the respondents strongly agree about the issue. The majority of the respondents do not believe that the Bank's IFB service is in compliance with the requirement of Islamic banking. In addition, the mean distribution for this response was found 2.34 which is closer to "disagree". Therefore given shortage of trained staff, lack of Shariah advisory board, lack of Islamic insurance and lack of public awareness, it can be concluded that the project delivers poor quality and would not meet its objective.

As shown in item 2 of table 4.12, 82 (27.7%) of the respondents strongly agree and about 106 (35.8%) agree that the Bank has sufficient capacity to serve the customers of IFB. 22 (7.4%) of the respondents were neutral, 37 (12.5%) of them disagree and about 49 (16.6%) of the respondents strongly disagree about the issue. This implies that the majority of the respondents believe that the Bank has enough capacity to perform the service and serve IFB customers. Furthermore, the mean value was found 3.46 which is nearer to "agree". Accordingly, it can be concluded that even though the Bank has desirable capacity to implement IFB project successfully, it is not fully utilizing it and satisfy the objectives of the project.

As depicted in item 3 of table 4.12, about 184 (62.2%) of the respondents strongly agree that IFSB should be used in Islamic financial service. Furthermore, 91 (30.7%) of the respondents also agree and 19 (6.4%) were neutral about the issue. Only 2 (0.7%) disagree that IFSB is important for interest free banking service and none of the respondents strongly disagree about the issue. Additionally, the mean value for this response was found 4.54 which is closer to strongly agree. This shows that to enhance the soundness and quality of the deliverables, IFSB is mandatory for IFB. From the above response it can be concluded that unavailability of this board can be post implementation challenge for the project.

From table 4.12, it can be concluded that although the Bank has enough capacity to implement IFB project, it is not fully utilizing it and the service of the project is not delivering the desired output. In addition, the Bank lacks IFSB. These deficiencies can be a major post implementation challenge for IFB and it will affect the successful implementation of the project.

In this regard, interview response shows that the Bank doesn't start using IFSB who can give advice, regulate the service and prepare standardization for IFB products and services. Accordingly, it can be concluded that lack of IFSB can be post implementation challenge for IFB project.

4.3.7 Effect of the challenges of IFB

Table 4.13 Response about effect of the challenges of IFB

Item	Variables	Response	Response Category					Mean Value
			SD	D	N	A	SA	
1.	Challenges of IFB would adversely affect the successful delivery of the service.	Frequency	0	0	0	142	154	4.52
		Percent	0%	0%	0%	48%	52%	
2.	IFB offers huge investment opportunities if challenges are eliminated and/or minimized.	Frequency	0	0	0	54	242	4.82
		Percent	0%	0%	0%	18.2%	81.8%	

As shown in item 1 of table 4.13, 154 (52%) of respondents strongly agree and 142 (48%) of respondents agree that the challenges of IFB would adversely affect the delivery of the service. None of the respondents were neutral, disagree or strongly disagree about this issue. Almost all of the respondents believe that challenges of IFB have adverse effect on the successful delivery of the service. In addition, the mean distribution was found 4.52 which is closer to strongly agree. For this reason, it can be concluded that post implementation challenges will have adverse effect.

Item 2 of table 4.13 also shows that about 242 (81.8%) of the respondents strongly agree that if post implementation challenges of IFB eliminated, it can bring huge investment opportunity. Furthermore, 54 (18.2%) of the respondents also agree about the stated issue. There were no respondent who were neutral, disagree or strongly disagree with the issue. Furthermore, the mean value for this response was 4.82 which is nearer to strongly agree. This implies that all of the respondents agree that if challenges of IFB are eliminated and/or minimized, the objective of the project will be met and the project could deliver the desired output..

Table 4.13 generally shows that post implementation challenges of IFB project will have adverse effect and should be eliminated and/or minimized to benefit from its enormous investment opportunity. The project also would fulfill the desired objective.

Response from the interviewee regarding this view indicates that post implementation challenges of IFB project will create a major setback to the performance of the project. The interviewee replied that after implementing IFB project, the major challenges were the level of public awareness is low and there is shortage of trained staff to give the service effectively. In addition, since most of the staffs have conventional banking background, customers were not comfortable and confident and they look the service in suspicion way. They believe their funds will be mixed up with the conventional banking. The interviewee also added that the adverse effect of these challenges are customers may refrain from using the service and the Bank will lose its deposits, the trustworthiness of the Bank will be minimized by the Muslim communities, it will lack standardization with international Islamic financial institutions, deliver poor quality of IFB products and overall the Bank will lack investment opportunity in Islamic banking service. This implies that the project output was not satisfying the customers of the Bank. So from the above response it can be concluded that the post implementation challenges of IFB project if continued would affect the performance and quality of the project. In addition, the project would not deliver the desired outcome and end result.

Interview response for the measures taken by the Bank to reduce the challenges

The interviewee responds that the Bank took different actions to reduce the post implementation challenges. It tries to perform awareness creation campaign using different marketing tools and train staffs aggressively. The interview also replied that there is shortage of Shariah advisory boards on global base and the gap is wider on local base. Even though the Bank intends to involve them, it couldn't be done as intended. But regarding the Islamic Financial Service Board, no actions were taken by the Bank. From the above response it can be concluded that the measures taken by the Bank were not satisfactory. Since the major post implementation challenges of IFB have adverse effect on the successful delivery of the output, the Bank should try to take appropriate actions to minimize or eliminate them.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

The primary purpose of this study is to assess post implementation challenges of interest free banking project in Commercial Bank of Ethiopia. This chapter based on the findings of the study, presents the summary, conclusions and recommendations.

5.1 SUMMARY

The research tried to assess post implementation challenges of interest free banking project in the case of Commercial Bank of Ethiopia. The objective of the paper was to investigate the major post implementation challenges that IFB faces after implementing the service, to explore whether the challenges have adverse effect and to inspect the measures taken to reduce the challenges. In order to assess the challenges that CBE face after implementing IFB project, the view of different employees which was in one way or other pertinent to the study was used. Questionnaires were conducted to 387 staffs of the Bank and 296 were fulfilled and returned. In addition, interview was made with Chairperson of IFB of the Bank. The study result shows that;

- ✓ There is lack of awareness and negative attitude by Muslim and non-Muslims community regarding Islamic banking service of the Bank.
- ✓ Customer perception about Islamic banking is influenced by the quality of service the Bank gives.
- ✓ There is lack of legal, supervisory and regulatory framework which can be a post implementation challenge to IFB project of the Bank.
- ✓ Islamic financial institutions should be governed by different set of regulations as it differs from the conventional banking.
- ✓ Absence of Islamic insurance to safeguard Islamic banking service is post implementation challenge for IFB project of the Bank.

- ✓ The Bank lacks scholars and Shariah advisory boards that can give guidance and legal support to its IFB service.
- ✓ There is scarcity of trained manpower and management inside the Bank to perform IFB.
- ✓ The human resources who perform Islamic banking have conventional banking background. This will leads inadequate service quality.
- ✓ Even though the Bank has enough capacity, it is not fully utilizing it to implement IFB successfully and deliver the desired output.
- ✓ Lack of Islamic Financial Service Board that enhance the soundness and stability of Islamic financial service is a post implementation challenge for IFB project of the Bank.
- ✓ The service quality which is delivered by the Bank is inadequate and not meets the objective of the project.
- ✓ Post implementation challenges have adverse effect on the success of the project. This includes unsatisfied customers, the trustworthiness of the Bank will be minimized by Muslim communities, lack of standardization with international Islamic financial institutions, delivering poor quality of IFB products and lack investment opportunity in Islamic banking service. In other words, it will make the deliverables of IFB project to be poor and not meeting the end result.
- ✓ The measures taken to address the post implementation challenges were performing customer session awareness creation programs and making continuous manpower training.

5.2 CONCLUSIONS

From the findings of this study, the following conclusions are revealed.

- Project implementation phase is the phase where visions and plans become reality. For any project, there may be challenges that inhibit the visions and plans from becoming reality. In turning strategies and plans into actions, IFB project of CBE face many post implementation challenges that hinder it from delivering the desired output. Lack of awareness, shortage of manpower, lack of supervisory framework, unavailability of Islamic insurance, and lack of Islamic financial service board were the significant post implementation constraints and challenges on Interest free banking project of the Bank.

- The study revealed that lack of public awareness is post implementation challenge of IFB project.
- The study also revealed that the Bank is suffering from shortage of manpower after implementing IFB project.
- Having an adequate Shariah advisory board guarantees a product is in compliant with Shariah principles. The study also revealed that CBE has no Shariah advisory boards that supervises and authenticates the Shariah validity of IFB products. Lack of authority leaves the consumer at risk of not being offered genuine Islamic financial products. Therefore, this is post implementation challenge of IFB project.
- The study revealed that unavailability of Islamic insurance will create contradiction since conventional insurance's legislations and directives are in direct conflict with IFB and they are not inbound with Shariah principles. So that unavailability of Islamic insurance could be post implementation challenge for IFB project.
- Interest free banking should be governed by regulatory framework and standards in order to ensure a safe and sound Islamic financial system and to effectively integrate the system with the international financial system. The study also revealed that lack of Islamic Financial Service Board on Shariah compliance question means that the products are at high risk of not complying with authentic Islamic principles. It can be concluded that lack of IFSB is post implantation challenge.
- Project implementation consists of carrying out the activities with the aim of delivering the outputs with the desired quality. To gain implementation success, a project should make contribution to the organization and have long-term nature. The factor that constitutes post implementation challenges for IFB project will hinder the deliverables from giving best quality and bring adverse effect to the success of the project. In addition, the challenges will hold back the project from being on track and achieve the end results.
- The measures taken by the Bank to reduce the challenges were unsatisfactory.

5.3 RECOMMENDATIONS

Based on the findings of the study and the conclusions drawn, the researcher recommends the following points with a view to addressing the post implementation challenges and improving the performance of interest free banking service in Commercial Bank of Ethiopia.

- The Bank should conduct continuous post implementation review in order to assess whether the project remains appropriate and how effective and efficient it has been in meeting its objectives.
- Feedback is useful and important mechanism for detecting project issues, challenges and shortcomings as well as suggesting future ways of improvement. Therefore, the Bank should use a comprehensive feedback mechanism in order to assess the project outcomes by focusing on how well the project outcomes were matched to the actual needs that the project aimed to fulfill.
- The Bank should conduct lessons learned which allow continuous improvement and adaptive management by revisiting the objectives and deliverables of the project. It also allows communicate acquired knowledge more effectively and ensure beneficial information factored into planning, work processes and activities.
- Since there is a need to address how IFB products can be controlled at the product development stage and monitored on a regular basis, the Bank shall involve Shariah advisory boards and Islamic financial service boards to ensure IFB products continuously comply with Shariah principles. In addition, the Bank should engage in technical cooperation with other international Islamic Banks offering interest free banking service.
- Staff training should not be done only on internal base in order to widen the transfer of knowledge. The Bank should use its utmost effort to give its staffs capacity building initiatives, education and trainings and ensure correct expertise and knowledge is disseminated.
- The government should address the issue of establishing and operation of Islamic insurance in Ethiopia objectively. There should also be government participation in the patronage of interest free banking at all levels.

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ANNEX - I

QUESTIONNAIRE

Addis Ababa University School of Commerce

MA in Project Management

Researcher: Meskerem Bati

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Dear Respondents,

This questionnaire is designed to collect data on the topic **Assessment on post implementation Challenges of Interest Free Banking Project in the case of Commercial Bank of Ethiopia**. The purpose of the study is for the partial fulfillment of the requirement for MA program in Project Management. For the successful accomplishment of the study, the response of employees of the Bank will have pivotal role by being used as valuable input for the study. I assure you that the information to be shared by you will be used only for academic purpose and kept confidential. So, you are kindly requested to genuinely fill the questionnaire.

Thank you in advance for your cooperation!

Instructions:-

- Writing your name is unnecessary.
- Put “ ✓ ” mark as per the questions required in the box or answer in the space provided.

Part One: Respondents Profile

1. Gender Male Female

2. Number of years you have worked in the Bank (in years)

0-5 6-10 11-15 16-20 21 Yrs& above

3. Educational Level

Certificate Diploma Degree Masters PhD

4. Your current position _____

Part Two: Respondents opinion investigation important aspects of Islamic Banking

There are listed of items which deal with respondents view on challenges facing Interest free banking in the banking industries. These items will explore respondents' assessment of challenges facing Islamic Banking. So Please tick the number that you feel most appropriate, using the scale from 1 to 5 (Where 1 = Strongly Disagree, 2 =Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree).

Post Implementation Challenges Facing IFB project

	Items	Strongly Disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly Agree 5
1.	The Muslim and non-Muslims community has awareness about Islamic Banking system.					
2.	Greater awareness about the products and services offered by Islamic Banks will cause others who had stayed away from IFB mode of Banking to invest in it.					
3.	There is Negative attitude of people regarding Islamic Banking (wrong association with religion).					
4.	Customer perception about Islamic Banking is influenced by quality of services, confidence in Bank, social and religious perspective and availability of services.					
5.	Customers of interest free Banking service wants high standards of Banking practices and safety of their funds not to be mixed with the conventional Banking service.					
6.	There is Legal, Supervisory,					

	and regulatory and/or institutional challenge in Islamic Banking Service.					
7.	The current Financial Institutions regulatory and supervisory organ has future initiatives to establish Islamic financial institutions.					
8.	Islamic financial institutions should be governed by different set of regulations as they differ from conventional Banks in many aspects.					
9.	Islamic insurance should be established to safeguard the Islamic Banking service from hazardous situations.					
10.	There is deficiency of scholars, who can give guidance and legal support through modern economic experts.					
11.	Lack of Shariah advisory board would create institutional and operational difficulties to Islamic banking.					
12.	There is scarcity of Trained Human Resource in Islamic Banking.					
13.	The shortage of qualified manpower and management inside IFB service leads to limited customer service.					
14.	The human resources who perform Islamic Banking service are come from conventional Bank.					
15.	The Bank has enough qualified staffs and scholars in Islamic Banking to ensure that Islamic Banking Services are up to date and fully comply with Shariah					

	law.					
16.	The Bank gives the service in compliance with the service requirement of Islamic Banking.					
17.	The Bank has sufficient capacity to serve the customers of IFB and mobilize the required resource.					
18.	Islamic Financial Service Board should be used in order to enhance the soundness and stability of Islamic financial service industry.					
19.	Challenges of interest free Banking would bring adverse effect.					
20.	IFB offers huge investment opportunities if the challenges are eliminated and/or minimized.					

21. Do you have any other opinion regarding to Islamic Banking challenges?

End!!!!

Annex - II

Interview questions

The following are questions prepared and communicated to Chairperson-IFB of the Bank.

1. Do you think that there is adequately prepared and trained staff for Islamic Banking /interest free Banking / service?
2. What training and/or support would help to make the service easier?
3. What are the major challenges that you encounter after rendering IFB project implementation?
4. What are the major complaints from customers on the service the Bank provide?
5. Do you have reached a satisfying number of clients through the provision of Islamic Banking /IFB/?
6. Do Muslims & non-Muslims have awareness about the Islamic financing given by the Bank?
7. Does the Bank have Shariah advisory board? If not, what problem does it create in giving the service?
8. Do you think that Islamic Insurance is necessary? Why?
9. Does the Bank use the Islamic Financial Service Board? If not Why and what is its effect?
10. What are the adverse effects of the challenges of IFB if not corrected quickly?
11. What are the measures taken to reduce the challenges?