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of Commerce**

Department of MSc Corporate finance Specialty Investment Management

**An Assessment of Financial Product of Murabaha Practical Implications of
Murabaha of full fledged Islamic Banks in Ethiopian**

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DECLARATION

I hereby declare that this research is my own original work, and carried out under the supervision and guidance of the research advisor Khawlet A (PhD). It has not been submitted either partially or in full to any other institution for an award of MSC-Corporate finance specialty in investment management. Other sources of information have been duly acknowledged.

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LETTER OF CERTIFICATION

This is to certify that Salih Abdlsemed has carried out this research entitled “An Assessment of Financial Product of Murabaha Practical Implications of Murabaha of full fledged Islamic Banks in Ethiopian” under my supervision. It is the candidate’s original work and sufficient for submission as the partial fulfillment of the requirement for the award of master’s corporate finance Specialty Investment Management

Advisor: Khawlet A (PhD)

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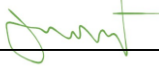


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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMIC
SCHOOL OF COMMERCE

**An Assessment of Financial Product of Murabaha Practical
Implications of Murabaha of full fledge Islamic Banks in
Ethiopian**

By: Salih Abdlsemed

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Contents

DECLARATION	ii
LETTER OF CERTIFICATION	i
Abstract	ix
Chapter one	1
1.1 Background of the Study.....	1
Islamic Banking: An Overview	1
Islamic Banking in Ethiopia	1
Financial Products in Islamic Banking	1
What is Murabaha	2
1.2 Statement of the Problem	2
1.3 Research Questions	4
1.4 Objectives of the Study	5
1.4.1 General Objective.....	5
1.4.2 Specific Objectives	5
1.5 Significance of the Study	5
1.6 Scope of the Study	5
1.7 Limitations of the Study	6
CHAPTER TWO: LITERATURE REVIEW.....	7
2.1 Introduction to the Literature Review	7
2.1.1 What is Islamic Banking?	7
2.1.2 Current practice.....	7
2.2 Theoretical Framework	8
2.3 Historical Foundations of Islamic Finance	11
2.4 Core ethical principles	11
2.5. Murabaha Practices in Other Countries.....	12
2.6 Islamic Banking in Ethiopia	14
2.6.1 Regulatory Framework	14
2.7 Development in Ethiopia’s Financial Ecosystem.....	14
2.8 Application of Murabahain Different Sectors	19
2.9 Empirical Review of Murabaha Financing.....	21
3.0 Challenges and Opportunities in Murabaha Financing	22
CHAPTER THREE: RESEARCH METHODOLOGY.....	26

3.1 Research Design	26
3.1.1 Research Approach	26
3.2 Target population	26
3.3 Sampling Techniques and Sample Size	26
3.4 Data collection Method	27
3.4.1 Primary data	27
3.5 Data Analysis Methods	28
3.6 Reliability and Validity	29
Chapter Four	30
4.1 Data presentation and analysis	30
4.2 Respondent demographics	30
4.3 Reliability Statistics	31
4.3.1 Reliability Statistics on customer	31
4.4 Likert scale interpretation guideline	31
4.5 OPERATIONAL MECHANISM	32
4.6 Effectives in Meeting Financial Needs	34
4.7 Accessibility and Adoption	36
4.8 Financial Outcomes and Satisfaction	38
4.9 Qualitative Feedback From (open –ended response summary)	39
Chapter Five	42
Conclusion and recommendation	42
5.1 conclusions	42
5.2 Recommendation	43
5.3 suggestions for future study	44
5.4 Reflection on study limitations	45

List of Acronyms

AAOIFI **Accounting and Auditing Organization for Islamic Financial Institutions**

IFSB **Islamic Financial Services Board**

SME **Small and Medium Enterprises**

NBE **National Bank of Ethiopia**

IFB **Interest-Free Banking**

IDB **Islamic Development Bank**

GDP **Gross Domestic Product**

FATF **Financial Action Task Force**

CSA **Central Statistical Agency (of Ethiopia)**

THESIS SUBMISSION APPROVAL FORM

This is to certify that the thesis entitled "**An Assessment of Financial Product of Murabaha in Ethiopia: A Case Study of Zamzam and Hijra Bank**" has been carried out by **Salih Abdrsemed** under my supervision. This thesis is submitted for the fulfillment of the requirements for the **Master of Science in Corporate Finance (With Specialty in Investment Management)** program at Addis Ababa University. I confirm that the candidate has met the necessary academic requirements and recommend the thesis for submission and defense.

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Abstract

The study examines the operational effectiveness, accessibility, financial outcomes and customer satisfaction of Murabaha in Ethiopia, focusing on Zamzam and Hijra banks. Using descriptive research design and mixed-methods approach, data were collected from 80 customer through structured and open-ended questions. Findings indicate that Murabaha is widely perceived as Shariah-compliant, transparent and effective in achieving both personal and business financial goals. Customer trust its asset-backed structures and show high willingness to recommend it. However, challenges such as complex documentation, repayment difficulties, communications gaps, and limited rural outreach persist. while both banks face similar issues, hijra bank performs slightly better in affordability and delivery. The study contributes to the limited empirical literature on Islamic finance in Ethiopia a supports Islamic finance and financial inclusion theory, emphasizing the importance of transparency, accessibility and customer trust. key recommendations include improving operational efficiency, expanding rural access, enhancing staff training, simplifying procedures and strengthening regulatory frameworks.

Key words: *Murabaha, operational effectiveness, accessibility, shariah-compliance, Islamic finance, customer satisfaction, financial Inclusion*

Chapter one

1.1 Background of the Study

Islamic Banking: An Overview

Islamic banking is a financial system governed by Shariah (Islamic law), emphasizing ethical, interest-free and socially responsible financial practice. Unlike conventional banking system that rely on interest (Riba) and speculative transactions (gharar), Islamic banking uses profit and loss sharing, asset-backed financing, and contractual clarity to ensure equitable outcomes and ethical integrity (Iqbal & Mirakhor, 2011). Its fundamental principles aim to promote transparency, fairness and participation in real economic activity.

Islamic Banking in Ethiopia

The development of Islamic banking in Ethiopia stems from the financial exclusion of a large segment of Muslim population-estimated at 34% of the total population (CSA, 2021)- who avoid interest-based financial services due to religious prohibition. Although Islamic financial services began in the form of interest-free windows in conventional banks following the 2011 banking proclamation, fully-fledged Islamic banks such as Zamzam and Hijra banks have only recently emerged. The sector remains in its early stages, challenged by limited awareness, capacity gaps, regulatory ambiguity, and low market penetration-especially in rural areas

Financial Products in Islamic Banking

Islamic banking offers a range of financial products that are structured to meet various financial needs without violating Shariah law. These products are:

1. **Murabaha (Cost-Plus Financing):**
2. **Ijarah (Leasing)**
3. **Mudarabah (Profit-Sharing)**
4. **Musharakah (Partnership)**
5. **Salam (Forward Sale)**
6. **Salam and Istisna (forward and Construction Financing respectively)**

Among these, Murabaha is the most widely adopted due to its simplicity, predictability and transparency. In Murabaha, the bank purchases an asset and sells it to the customer at disclosed markup, allowing for deferred installment payments. This structure complies with Shariah by avoiding interest while meeting the clients' financing needs

What is Murabaha

Murabaha is one of the most widely used products in Islamic finance, accounting for nearly 70% of global Islamic banking transactions. It is a cost plus-profit contract in which a bank purchases a requested asset and sells it to the customer as a disclosed profit margin. The simplicity, transparency, and relatively low-risk structure of Murabaha make it especially popular in countries with emerging Islamic finance sectors.

In Ethiopia, the Islamic banking sectors has grown significantly in recent years, marked by licensing of fully-fledge Islamic banks such as Zamzam and Hijra. These institutions offer a variety shariah-compliant financial products, with Murabaha being among the most commonly implemented due to its compatibility with local market needs.

Murabaha financing has provided a viable alternative to conventional interest -based lending, particularly for small and medium enterprises (SMEs) seeking capital for asset purchases or working capital needs. However, despite its widespread use, there is limited empirical evidence on how Murabaha functions in practice in Ethiopia. concerns remain regarding its operational efficiency, accessibility, affordability, and customer satisfaction. Especially given Ethiopia's unique economic, legal, and financial context.

1.2 Statement of the Problem

Murabaha Financing is the most widely used Islamic financial product globally, accounting for nearly 70% of all Islamic banking transactions (Al-Ajmi et al., 2009). It has been widely studied and implemented in countries such as Malaysia, Bahrain, Indonesia, Nigeria and Pakistan where Extensive research have been conducted on its operational mechanism, profitability, customer satisfaction and regulatory challenges. These countries benefit from evolving knowledge base that helps banks refine product delivery and enhance regulatory frameworks.

In Ethiopia, however academic and empirical research on Murabaha financing is extremely limited. While Islamic banking is growing-with the establishment of Zamzam bank and Hijra bank and the

introduction of Islamic windows by conventional banks-there is still a lack of rigorous, data-based studies that evaluate the actual performance, accessibility and practical effectiveness of Murabaha products.

Islamic banking in Ethiopia has seen considerable growth with the establishment of fully-fledge Islamic banks like Zamzam and Hijra. despite this expansion, empirical studies focusing on specific Islamic financing products such as Murabaha remain limited. Most of the existing literature has concentrated on general awareness, customer perceptions, and conceptual discussions of Shariah compliance (Abdulahi & Waqtola,2021; Yimam,2020). For example, Abdulahi and Waqtola (2021) examines customer awareness and acceptance of Islamic banking, while Yimam (2020) focused on challenges related to shariah governance and regulatory framework. However, these studies do not provide detailed operational or financial evaluation of Murabaha transactions.

A few attempts have been made to study Murabaha financing in the Ethiopian context, such as Abdu (2019), who explored customer satisfaction with Murabaha in selected branches of commercial banks offering interest-free windows. However, the study was narrow in scope, qualitative in nature and lacked comparative or financial performance data. similarly, Mohammed and Tesfaye (2022) investigated shariah compliance of Murabaha contracts but did not assess the accessibility, delivery efficiency or customer satisfaction in depth. Moreover, there is no comprehensive national data or systematic analysis showing how Murabaha is being implemented across institution, its financial outcomes or its effectiveness in addressing business and individual needs.

Most of the available literature review on Islamic banking in Ethiopia focuses on general awareness, customer perception, or conceptual aspects of Shariah compliance. Very few studies have analyzed Murabaha specifically, and those that exist are often qualitative, case-specific, or lacking in robust financial or operational analysis. There is no comprehensive national data on how Murabaha is being implemented, what financial outcome it generates or how effectively it addresses the needs of business and individuals

This research gap is particularly concerning because Murabaha is one of the t few Islamic product being offered in the country. Without clear evidence about its effectiveness, Ethiopian banks and regulators' lacks the insight needed to improve its delivery and ensure financial inclusion.

Moreover, several practical barriers compound the issue:

Low market penetration, especially in rural areas (less than 15 % access to Islamic financial services- NBE, 2022)

Poor awareness of Murabaha among potential customers (Hassan & Hussein, 2021)

Limited technological infrastructure, with only 23% of Islamic banking transactions conducted digitally (NBE, 2023)

Lack of standardized operational and risk management procedures, particularly tailored to the needs of Shariah-compliant finance (IFSB, 2023)

An evolving but incomplete regulatory framework, which results in uncertainty for banks and consumers (World Bank, 2023)

Without addressing these gaps –both in research and practice Murabaha financing in Ethiopia may fall short of its potential to support inclusive economic development, especially for small and medium sized enterprises (SMEs) And faith driven individuals seeking interest free financial services.

Therefore, this study aims to fill the existing research and operational knowledge gap by evaluation the effectiveness, operational mechanisms, and financial outcome and accessibility of Murabaha financing in Ethiopia’s emerging Islamic banking sector.

1.3 Research Questions

1. What are the key operational mechanisms and structures that define Murabaha financing implementation in Ethiopian Islamic financial institutions?
2. How effectively do Murabaha financing products address the specific financial needs of businesses and individuals in Ethiopia?
3. What financial outcomes and risk management strategies characterize Murabaha financing at Islamic financial institutions in Ethiopia, and how do these affect profitability?
4. What are the primary accessibility challenges affecting Murabaha financing in Ethiopia, and what opportunities exist to improve market adoption?

1.4 Objectives of the Study

1.4.1 General Objective

To evaluate the practical implications of Murabaha as an Islamic banking financial product in Ethiopia by examining its operational effectiveness, financial outcomes, accessibility and customer satisfaction using empirical data.

1.4.2 Specific Objectives

1. To examine how Murabaha financing is operationalized by Islamic banks in Ethiopia, focusing on contractual structure, documentation process, and delivery mechanism.
2. To evaluate the practical effectiveness of Murabaha in addressing the financial needs of business and individual, based on customer experience and satisfaction
3. To assess the financial outcome of Murabaha, including customer perceived affordability, repayment performance
4. To explore the accessibility of Murabaha financing in Ethiopia, identifying key challenges such as market adoption, and opportunities for improvement.

1.5 Significance of the Study

This research contributes to the limited body of academic literature on Islamic banking in Ethiopia and provides practical insights for financial institutions, policymakers and customer. By evaluating the effectiveness and limitations of Murabaha, the study aims to inform future improvements in service delivery, regulatory policy and customer engagement, it also supports efforts toward financial inclusion for communities historically excluded from interest based financial systems.

1.6 Scope of the Study

This study focuses on Murabaha financing, a widely applied Islamic financial product used for asset acquisition and working capital, particularly among SMEs and individual clients. The products were selected for its practical relevance and strong presence within Ethiopia's emerging Islamic banking sectors. other products such as Ijarah and Musharakah are referenced briefly to provide contextual support

Geographical scope: - the study limited to Addis Ababa, focusing on selected branches and the head office of Zamzam and Hijra banks. Addis Ababa was chosen due to its role as the country's financial hub and its access to relevant data, stakeholders and Islamic banking infrastructures.

Product scope: - the primary focuses on Murabaha Financing, though other Islamic products are discussed for comparative and contextual analysis.

The institutional scope includes Zamzam and Hijra banks, the only fully-fledged Islamic banks currently operating in Ethiopia. Their exclusive adherence to Shariah principles offers a focused and authentic setting for examining the operational effectiveness and challenges of Murabaha

Respondents for this study are customers of these two banks who have directly utilized Murabaha. Their experience provides valuable insight into the products accessibility, effectiveness and user satisfaction in Ethiopian context

1.7 Limitations of the Study

The following were some limitations of the research:

- Access to detailed operational and historical performance data was limited, as Islamic banking is still relatively new in Ethiopian and such information is not yet publicly available due to institutional confidentiality
- Potential response bias from participants and customers due to self-reported nature of data collection but appropriate measurement has been taken

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction to the Literature Review

2.1.1 What is Islamic Banking?

Islamic banking refers to a financial system that is based on the principles of Shariah law, making it an interesting topic that has attracted global attention because of its ethical foundations and unique financial practices. It is based on the prohibition of interest (riba) and speculative transactions (gharar), provides a strong alternative to mainstream banking as it emphasizes transparency, equity and shared risk (Iqbal and Mirakhor, 2011). In recent decades Islamic banking has grown into a successful global industry that is based on its historical foundation, with total assets of over \$2.7 trillion as of 2022 (Wilson, 2017).

Murabaha has gained global adoption, particularly in Muslim-majority countries like Malaysia, Saudi Arabia, and Indonesia, as well as in non-Muslim countries like the United Kingdom. In Ethiopia, where approximately 34% of the population is Muslim, Murabaha has the potential to address the financial needs of underserved communities, particularly those who avoid conventional banking due to religious beliefs. This section provides an overview of Islamic finance principles and the relevance of Murabaha in Ethiopia.

2.1.2 Current practice

Types of Islamic Banking in Ethiopia

1. **Fully-Fledged Islamic Banks:** Fully-fledged Islamic banks are standalone financial institutions which exclusively provide services that are Shariah-compliant. These banks not only serve the local Muslim population; they also appeal to non-Muslims seeking ethical financing. The list of fully-fledged Islamic banks in Ethiopia includes such recently established institutions as Zamzam Bank, which began operations in 2020.
2. **Features:**
 - Separate Shariah boards to ensure compliance.
 - Full suite of Shariah-compliant financial products and services.
 - Concentrate on reaching unbanked and unserved populations

3. **Window-Based Islamic Banking:** -Conventional banks in Ethiopia began to offer Islamic banking windows after the Banking Business Proclamation was amended in 2011. The second model offers Islamic products through windows in traditional banks, which limit Shariah products. Services provided by Commercial Bank of Ethiopia and examples include services provided by Commercial Bank of Ethiopia and Awash Bank and other banks

Features:

- Limited product offerings — only offering Murabaha and Wadiah.
 - Targeted towards existing customers looking for interest-free options.
 - Standalone accounting and operational systems for Shariah compliance.
4. **Branch-Based Islamic Banking:** - Islamic banking based on branches: some banks having branches dedicated to only providing Islamic financial services This business model enables banks to provide services to target communities while utilizing its own infrastructure.

Features:

- Accredited Shariah compliant standalone branches
- Any other banking product akin to impeccable Islamic banks.
- The ability to become a full-fledged Islamic

2.2 Theoretical Framework

Thinking of these subsystems as three fields of operation makes it possible to see that they work together and are playing on the same team. This section looks at Islamic Finance Theory, Financial Intermediation Theory and Financial Inclusion Theory from the perspective of Murabaha financing. These three models provide a conceptual tool for understanding how Murabaha financing functions in practice and what its potential contribution could be to Ethiopia.

2.2.1 Islamic Finance Theory and Murabaha Financing

Understanding Islamic Financial Theory is critical to fulfilling the Shari'ah requirements in Murabaha Financing. In contrast to traditional finance that can't function without an interest-based economy where one-party benefits at the expense of the other (interest) - something which is called riba in Islam and prohibited in Islamic finance - Islamic finance is built around asset-backed transactions, risk-sharing,

and ethical practices. In contrast, Murabaha requires banks to purchase the underlying asset and resell it with a profit markup rather than lending in a vacuum, making it an assistance-oriented financing model.

This approach ensures transparency and fairness, making it a viable alternative for individuals and businesses seeking Shari'ah-compliant financial solutions.

Ethiopia: Theory of Islamic finance also serves as a framework with respect to the assessment of the operational efficiency, affordability and financial performance of Murabaha products. The focus of the theory on asset-backed transactions and risk-sharing is one that resonates in a country where very large segments of the population are not particularly interested in conventional banking due to religious reasons. By following these principles, Murabaha can be a solution for the financial needs of underprivileged communities while upholding ethical financial practices.

2.2.2 Financial Intermediation Theory and Murabaha

At the same time, Financial Intermediation Theory provides the theoretical justification for the existence of financial institutions that enable and facilitate the flow of funds between savers/lenders and borrowers while providing skills to minimize transaction costs, manage risks, etc. Traditional banking relies on interest-based lending for intermediation. Of course, Islamic finance forbids *riba*, thus banks must partake in trade-based dealings such as Murabaha. In this model, the Shariah-compliance bank buys an asset and sells it at a clearly defined markup, revolutionizing the traditional intermediation model.

The effectiveness of Murabaha as a tool of financial intermediation in Ethiopia, hinges on banks' compliance to Shari'ah principles. The regulation of Islamic finance is still nascent, and challenges remain for industries that would like to comply. Banks have to actually take over ownership of assets before reselling them, bringing with it its own risks and operational complexities. This article will further explore some of those challenges, as well as how Murabaha remains the more structured and transparent financing option for businesses and individuals looking for a truly interest-free solution.

As a form of financial intermediation, risk management lies at the heart of Murabaha. Because the bank holds the asset prior to resale, it assumes ownership risk until the transaction is settled. That's in contrast to more traditional lending, where the borrower is on the hook for everything. The sustainability of Murabaha financing in Ethiopia largely depends on effective risk mitigation strategies including thorough due diligence and structured payment plans.

2.2.3 Financial Inclusion Theory and Murabaha

The theory of Financial Inclusion focuses on widening the availability of financial services to disadvantaged groups, such as the low-income population and small companies. Financial inclusion is a major challenge in Ethiopia, especially for Muslims who want nothing to do with mainstream banking because of its dependence on interest. However, Murabaha financing provides a Shari'ah-compliant solution for those seeking to obtain credit without going against their religious beliefs and values.

It will be with the help of Murabaha loans that people in Ethiopia do not find themselves stranded for money. The small and medium-sized enterprises (SMEs) that are in urgent need of funds shuns high risks from investors or conventional banks. Because there is great risk, loan seekers from such sectors just cannot get any service at all-which in turn affects their activities throughout the whole year! Murabaha offers these loan applicants another hope, that is structured financing: Now with its separate financial institutions they can actually come through. You can also find it in the market to choose an un-self-financing option. Only by using Murabaha financing may an individual acquire a house or car, or other necessities for living.

On the other hand, in Ethiopia there are certain obstructions which hinder the popularization of Murabaha. Most consumers are unfamiliar with Islamic bank products, which pose a great problem for growth. Most of the people above have never heard of how Murabaha operates and that there are benefits it offers Comparative with usual credit patterns. Besides, the development of Islamic financial institutions is restricted by regulatory and infrastructural weaknesses. clear guidelines and friendly policies are not available, thus expansion of Murabaha financing is limited.

It is due to technological advances, such as mobile banking and digital financial services, we are witnessing greater financial inclusion. Digital platforms have not been widely used in the Islamic banking sector for making Murabaha transactions more accessible or efficient. In this case, Islamic fintech solutions would increase the financial inclusion outcome significantly if they can be made widely available. Murabaha also needs to be incorporated into digital platforms.

Islamic Finance theory, financial intermediaries' theory, financial inclusion theory these three arguments together give a comprehensive framework for understanding the role of Murabaha financing in Ethiopia. It shows that asset-backed transactions, joint usage of risks and principles of ethics in finance as well as cooperation among banks are innovation mechanisms fundamental to Murabaha's operation. Murabaha have the potential to become a driving force in Ethiopia? financial sector by addressing the needs of people with insufficient funds and achieving financial inclusion. However, overcoming challenges such as

regulatory constraints, limited awareness, and technological barriers will be essential for realizing this potential. This study aims to bridge the gap between theory and practice, offering insights into how Murabaha can contribute to Ethiopia's financial development

2.3 Historical Foundations of Islamic Finance

The origins of Islamic finance can be traced back to the early days of Islam and the Islamic Golden Age, where principles of partnership, trust, and risk-sharing were integral to trade and commerce. Early Islamic Principles, Qur'an values and the Prophet Muhammad (PBUH) all promote ethical banking practices; such as the ban on usury and risky dealing. Early Islamic scholars such as Abu Hanifa and Imam Malik produced elaborate legal judgments (fiqh) that introduced rules for ethical financial transactions. Today, these have not only influenced business practices in the Muslim world but also affected those in Europe in mediaeval days. (Iqbal & Mirakhor,2011; Warde,2010)

During the medieval period (12th–18th century), Islamic finance saw a decline due to colonialism, but practices like Mudarabah and Murabaha persisted, and some principles were indirectly adopted in European financial ethics (Hassan & Lewis, 2007).

The modern revival of Islamic banking began in the mid-20th century, with the establishment of the MitGhamr Savings Bank in Egypt in 1963, which operated on a profit-sharing model and provided interest-free loans (Wilson, 1990). With the 1970s oil boom, Islamic finance hastened further its growth. In 1975 created key institutions like the Islamic Development Bank (IDB) and Dubai Islamic Bank (Iqbal & Mirakhor, 2011). Islamic finance's growth went global from the 1980s on; countries like Malaysia took the lead in innovation and regulatory standardization. AAOIFI and IFSB were formed to provide assurances of Shariah compliance and to create uniformity in jurisdictions (Ali & Sarkar, 2019). This global growth has established Islamic finance as an alternative to the conventional banking systems.

2.4 Core ethical principles

Ethical Foundations of Islamic Banking

The ethical framework of Islamic banking distinguishes it from conventional systems. Key prohibitions and principles include:

1. **Prohibition of Riba (Interest):** -Quran definitively prohibits Riba, guiding towards mutual benefits in transactions. Islamic banking does not rely on interest which is forbidden under Islamic law, but rather participates in profit-sharing mechanisms between debtor and creditors,

such as Mudarabah and Musharakah which are contracts governing such partnerships, where profit (and loss) is shared, thereby harmonizing the interests of the financier and entrepreneur (El-Gamal, 2006). It means the financial risk is evenly distributed, there is no way to take advantage of it.

2. **Avoidance of Gharar (Uncertainty):** -Islamic finance contracts must be clear and transparent. This eliminates uncertainties in terms, conditions or results, without leaving the contractors in any doubt about their obligations. This postulate prevents differences and encourages equity, especially in complex fiscal apparatus (Rosly, 2005).
3. **Halal Investments:** - Investments must conform to moral and social principles, barring sectors including alcohol, betting, and prostitution. This method guarantees social welfare and economic growth in all financial events (Ahmad & Hassan, 2007).

Murabaha is used mostly for trade financing, real estate purchases, and consumer goods. Its simplicity and adaptability have made it the choice in both Muslim majority and non-Muslim majority markets.

2.5. Murabaha Practices in Other Countries

Murabaha is implemented in many Islamic banking markets, with their respective modifications to suit local regulations and economic circumstances.

1. Malaysia

Murabaha is widely used in retail banking in Malaysia for home financing and vehicle purchases. Islamic banks in Malaysia have implemented fintech-based solutions to automate and digitize their Murabaha processes, making them more efficient and enhancing customer experiences. For example, digital platforms allow customers to track the status of their transactions in real time (Kammer et al., 2015).

2. Saudi Arabia

Murabaha is fundamental in corporate financing in Saudi Arabia, especially for infrastructure and industrial projects. It's asset-backed nature is consistent with the country's economic diversification plans included in Vision 2030. In the case of high value Murabaha deals, to finance megaprojects there may be the cooperation of several banks (Wilson, 2017).

3. United Kingdom

Murabaha has been embraced by the ethical banking systems in the United Kingdom, providing services for both Muslim and non-Muslim clients. Murabaha is also widely used by Islamic banking institutions in UK companies, especially for trade financing and real estate transactions. The ethical appeal of the product also extends its relevance to investors with social responsibility (World Bank, 2020).

4. Indonesia

In a Muslim-majority nation like Indonesia, SME financing is practiced in the Murabaha process. In this regard, Islamic microfinance institutions in Indonesia have adapted Murabaha for the benefit of entrepreneurs and small enterprises by offering them assistance to obtain working capital in ways that do not conflict with Shariah (Iqbal & Mirakhor, 2011).

2.5.1 Sub-Saharan Africa

Islamic banking in Sub-Saharan Africa has seen significant growth, although at different speeds across countries such as Kenya, Nigeria, and Sudan. Islamic banking has proven its ability to finance small and medium enterprises (SMEs) and, ultimately, promote financial inclusion and stimulate economic development; even though, challenges like regulatory restrictions, low awareness and infrastructure limitations still exist.

Murabaha Financing in Nigeria

Islamic banking has really taken off lately in Nigeria. One of the hottest products is called Murabaha, which a lot of the Islamic banks there are using to fund small businesses, especially in farming and agriculture. Since Murabaha is an asset-backed kind of deal, it works well for Nigerian farmers and agri-companies who've always had a hard time getting regular financing because of the crazy high interest rates and insane collateral demands. So, for them Murabaha has been a godsend and a way easier path to get the money they need to grow their operations (Ndung'u, 2020).

Yet despite its popularity in Nigeria, numerous factors including regulatory inconsistencies and weak public awareness have combined to obstruct the real spread of Murabaha. Nonetheless, the Nigerian government has initiated actions to overcome such difficulties: it introduced new regulations on consumer protection and encouraged finance literacy schemes. Since its inception, these moves could serve to increase both the role of Murabaha in financial inclusion and promoting economic development in Nigeria. (Hassan & Hussein, 2021)

2.6 Islamic Banking in Ethiopia

2.6.1 Regulatory Framework

2.6.1.1 The Evolution of Islamic Banking Principles

Shariah law underlying Islamic banking philosophy promotes fairness in financial transactions, just distribution of wealth, and avoidance of haram (unlawful) activities like riba (interest), gharar (excessive uncertainty), and investments in immoral businesses. These principles have been further elaborated by Islamic jurisprudence, historical economic practices, as well as contemporary innovations in finance (Chapra, 2008).

2.6.1.2 Introduction to Islamic Banks

Role of Institutions

1. **Zamzam Bank:** Ethiopia's Islamic banking sector is led by Zamzam Bank (National Bank of Ethiopia, 2020). Zamzam Bank provides a number of Shariah-compliant products and services.
 - Small and medium-sized enterprise (SMEs) financing through Islamic financial products such as Murabaha and Mudarabah models is a priority, especially for sectors such as manufacturing, agriculture, and small trade.
 - It partners with development agencies to offer capacity-building programs to SMEs.

2. **Hijra Bank:** - As such, Hijra Bank complements the efforts of Zamzam Bank by providing innovative financial solutions that cater to the needs of underserved markets in Ethiopia (National Bank of Ethiopia, 2020).
 - With these local cooperative's partnerships, Hijra Bank aims to open up Islamic finance for rural Small and Medium Enterprises that are progressive and ethical in business.

Other Institutions: -More interest-free financial windows and complete Islamic banks are expanding, for SMEs this implies promoting competition and capital width.

2.7 Development in Ethiopia's Financial Ecosystem

The development of Ethiopia's financial ecosystem Ethiopia's financial ecosystem has gradually witnessed the rise of Islamic financial products, where Murabaha financing emerges as a structuring Sharia's-compliant consumables. Nonetheless, the field is still in its infancy and presents several

problems which have held back its full potential This part explores the story of Islamic banking in Ethiopia--starting from motto-Lobbying with Murabaha: how it works, and why it isn't taking off.

1. Emergence of Islamic Banking in Ethiopia

At best, the Islamic banking sector of Ethiopia is in its infancy. The first fully fledged Islamic bank, known as Zamzam Bank, only started operations as recently as last year. Before the amendment of the law on the Banking Business Proclamation in 2011, such window-based operations were a type of Islamic banking service. And that is how it came to pass that Islamic banking under mutual agreement - interest free banking services-- was available at some mainstream banks, although not being officially recognized by this name (National Bank of Ethiopia, 2020).

This regulatory change represented a landmark in the growth of Islamic finance in Ethiopia. That is, the leading sector of Ethiopian Muslims was now in a position to play a full part in the financing of its people, since they make up some 34 per cent of Ethiopia's total population (Central Statistical Agency of Ethiopia, 2021).

In Ethiopia, it has become well known due to its simplicity, transparency, and compliance with Islamic law. The most widely used Islamic banking and finance product worldwide is Murabaha (Fleming, 2016). Commonly used in trade financing, asset acquisitions and real estate transactions, it is attractive to small- and medium-sized enterprises with little access to funding sources for credit or loans but also appeals to individuals (SMEs) as that portion of their income I.etrovertable remains free from taxation if reinvested directly back into the business (Abdullahi, 2019).The structured nature of Murabaha itself---in which a bank purchases an asset, then it turns around and resells that asset to the customer against a disclosed profit-margin---is suited to this set of laws and offers a fair financing method with traditional perfection in exchange for only moderate risk.

2. Operational Mechanisms of Murabaha in Ethiopia

Ethiopians buying things through Murabaha usually got to set process. Customer picks what they trying get, then bank gets it from some supplier. After, bank sells it back to customer for more money upfront or in payments down the road. Makes sure they actually buying something real, not just getting cash which'd be Riba and no good in Islam (Al-Ajmi heads 2009) and it's a decent system. Bank makes cash; buyer gets their stuff in a way respecting the rules. Some people argue details but mostly works out.

Islamic banking has gained traction in Ethiopia, with full-fledged Islamic banks like Zamzam and Hijra making Murabaha financing a key product. Murabaha involves the bank purchasing assets requested by the client and reselling them at cost plus an agreed profit margin and this model meets financing needs for businesses and individuals in a Sharia's-compliant way. Even conventional banks with Islamic windows utilize Murabaha, although on a smaller scale given its straightforward structure.

However, there's room for improvement on the operational side in Ethiopia. Particularly when it comes to documentation and confirming compliance with Murabaha's guidelines inefficiencies persist. Tightening up these processes could allow Islamic banks to scale Murabaha's adoption and better serve their target clientele through this mainstay product.

3. Challenges Facing Murabaha Financing in Ethiopia

While the Islamic banking system holds significant potential, there are various challenges the Islamic banking sector in Ethiopia faces that continue to limit the acceptance of Murabaha financing. These challenges fall under one of three umbrellas: regulatory, awareness, and technological constraints.

a. Regulatory Challenges

The rules around Islamic banking in Ethiopia are still taking shape. That means banks don't always agree on what kinds of products they can offer or how to make sure they follow religious laws. A 2011 law opened the door for banks to operate without charging interest. but experts point out that it doesn't give practical advice for creating compliant mortgages or loans. and it also skims over how to manage risk.

So, banks have had to fill in a lot of blanks themselves. In particular, they struggle to structure Murabaha deals within Islamic principles. These transactions involve a bank buying an asset and reselling it to a customer at a markup. But critics wonder whether banks actually take ownership before passing assets on. More guidance could help standardize practices (Islamic Financial Services Board, 2023).

Overall, the unpredictable oversight leads to Hit-or-miss compliance. Ethiopia's regulators have some work to do in mapping out their expectations for Islamic banks. Clearer rules would allow the industry to grow on a sound footing.

b. Public Awareness

A big problem stopping people in Ethiopia from using Murabaha financing is that most folks don't know or get how Islamic banking products work. Research by Hassan and Hussein in 2021 found that around

65% of possible customers there don't really understand the basics of Islamic banking or know about the different products they offer and this lack of understanding seems to be worse in rural zones, where getting access to financial stuff is already hard for people. So, a bunch of individuals and businesses have no clue about good things with Murabaha financing, like how it's transparent, predictable and matches up with morals and religious beliefs.

c. Technological Constraints

Murabaha products in Ethiopia are further hampered by the limited availability of technological infrastructure that would enable their efficient delivery, as well as by other factors that limit the impact of Islamic banking in the country. The sector is still heavily reliant on traditional paper-based processes, and only 23% of Islamic banking transactions are performed digitally (National Bank of Ethiopia, 2023). This absence of digitization leads to an unnecessary increase in operational expenditures and limits access to Murabaha financing, particularly in outlying regions. While fintech solutions, including digital platforms and mobile banking, can substantially increase the efficiency and scalability of Murabaha transactions, these innovations remain nascent in Ethiopia (Kammer et al., 2015).

4. Potential for Growth

Despite these challenges, the Islamic banking sector in Ethiopia has considerable growth potential due to the rising demand for Sharia's-compliant financial products. With a large Muslim population and a growing recognition of Islamic banking as a vehicle for financial inclusion, this presents an opportunity for the growth and expansion of Murabaha financing in the country. Additionally, the commitment of the Ethiopian government to the liberalization of economy and establishment of financial industry creates a favorable environment for Islamic banking development (World Bank, 2023).

For this potential to be fully realized, however, several steps need to be taken. This will be achieved through enhancing the regulatory environment of Islamic banks, increasing public awareness through education and outreach programs, and investing technologies to increase the accessibility and efficiency of Murabaha financing. By overcoming these challenges, Ethiopia can establish itself as a leading player in Islamic finance in Sub-Saharan Africa, using Murabaha as a catalyst for economic growth and financial inclusion.

Operational Mechanisms of Murabaha

Murabaha is popular Shariah compliant Islamic financing instrument based on cost-plus profit principle. This literature review aims to identify the operational mechanisms used in Murabaha in terms of a business structure, documentation, pricing models, and risk allocation per the framework outlined.

1. Structure and Transaction Flow

Murabaha Transaction Flow is a well-defined setup, which helps to maintain juristic compliance in terms of Islamic finance. It all starts when the customer chooses a particular asset to purchase. The bank acts in between by supply the supplier with the asset and then reselling it to the customer with an agreed markup by the two sides. The debtor pays back the financial institution, based on an agreement made after the loan was taken out, in all at once or repeatedly. By implementing this structure, the bank can still make a profit while avoiding interest lending, which is forbidden in Islamic finance (Ayub, 2007). "Therefore, one of the important elements to maintain the integrity of Murabaha contracts is the clearness in the flow of the transaction, where it shall be clear to both parties the role of the Bank and the Customer in purchasing and selling the object.

2. Documentation and Legal Requirements

Murabaha transactions must be documented in accordance with Shariah principles and legal regulations. All contracts shall clearly state cost price, profit and selling price to the customer. A primary characteristic of an Islamic financial transaction is this transparency, which is essential to eliminate gharar(ambiguity) and ensure muthalboreeh (consent between parties), (Usmani, 2002). Compliance with the national banking regulations is also critical in Ethiopia, where Islamic banking is still in its infancy. Murabaha as a financing tool will remain valid and accepted only to the extent that it is financially transparent and compliant with local laws. Such studies have highlighted the importance of standardized contracts and regulatory frameworks in minimizing risks and ensuring that Murabaha agreements are enforceable (Abdul-Rahman, 2010).

3. Pricing Models and Profit Determination

However, in general, the Murabaha (cost-plus) implementation may charge various types of profit over the purchase price, which can vary between banks or institutions as per their policies along with the type of transaction being executed. A typical fixed markup price is a ratio for the agreed price margin, and this price margin will be kept during the repayment period. Instead, flexible pricing models might be used

— especially if the type of asset or its size means margin must be adjusted. Risk adjusted pricing is in the picture as well: higher risk deals are priced higher to an extra profit margin. Risk adjusting pricing, banks can also increase their profit margins for riskier transactions or may use it for things, where market values are often found (Khan & Ahmed, 2001). The Murabaha instrument allows customers to purchase goods or services on a deferred basis with profit margin established

4. Risk Allocation between Parties

The risk in Murabaha transactions is usually allocated and stucked to Shariah compliance rules and perspectives. From the time the bank purchases the asset until it is transferred to the customer, it takes on the ownership risk. The lower the collateral value, the higher the chance the bank will recoup its losses if the asset suffers damage during this time, ensuring it is in the bank's best interest to conduct due diligence on where to invest their clients' cryptocurrencies and how to safeguard against potential loss. Customer is responsible for payment under the stated terms in the contract once asset is transferred. This unambiguous division of risks means that neither party is excessively burdened and that they transaction remains balanced (El-Gamal, 2006). This explanation demonstrates that Islamic banking presents unique ownership risk due to the prohibition of owning transactions that are not part of ownership, which necessitates effective risk management strategies.

2.8 Application of Murabaha in Different Sectors

Murabaha uses a large set of Shariah-compliant tools, which can therefore be flexible and can be applied throughout various sectors as per Islamic principles. The paper moves beyond speculative rhetoric on the digital currency and actively investigates how it can be applied to specific sectors including trade financing, asset acquisition, and consumer financing — recommending decentralization and sector-specific adaptations in Ethiopia.

1. **Trade and Import Financing** Murabaha enable trade because it allows businesses to get goods without interest-based loans. Banks memorizes goods and sells them at a markup, allowing for deferred payment, which is especially useful for small and medium-sized enterprises that require working capital. Ethiopia: it optimizes trade and supply chain efficiency.
2. **Asset Acquisition for Businesses:** Murabaha is used to finance fixed type assets such as real estate, machinery, and equipment. Banks buy the asset outright and sell it to businesses at a profit, allowing lenders to align repayments with cash flow. This facilitates business growth and infrastructure development, most important for Ethiopia's industrialization goals.

3. **Consumer Financing:** Murabaha allows for the provision of housing/vehicle/ household goods with structured payment plans as opposed to interest-based loans. By addressing gaps in Ethiopia's housing and consumer goods markets, it promotes financial inclusion by making homeownership and essential assets accessible.
4. **Sector-Specific Adaptations in Ethiopia:** Ethiopia, Murabaha fulfills the peculiar challenges of agriculture, SME growth, and general financial inclusion. It can finance agriculture inputs and equipment (including but not limited to seeds, fertilizers, and farm machinery), be used to support small and medium enterprises (SME) expansion, offer Shariah-compliant options to underserved populations, which is going to drive sustainable development.

Effectiveness and Financial Outcomes of Murabaha

As one of the most widely used Islamic finance tools, Murabaha has demonstrated successfully in producing financial benefits that comply with Shariah law. This review delves into its profitability and risk management, performance relative to conventional financing, and case studies from developing economies.

1. **Profitability Metrics:** For this purpose, Murabaha provides stable income where the markup structures are predictable to ensure consistent revenue generation (Ayub, 2007). It has a fair and low-risk financial process but is not efficient in high-risk situations due to the absence of compound interest (Khan & Ahmed, 2001). Its ethical quality draws customers, thus ensuring long-term sustainability.
2. **Risk Management:** Due to its asset-based nature, Murabaha greatly decreases the chances of default as banks do not transfer ownership of the asset until the payment has been completed (El-Gamal, 2006). Trust is fostered in Shariah-compliant investments through regulatory steps like clear profit margins and Shariah governance (Abdul-Rahman, 2010).
3. **Performance Comparison:** Due to its direct links to real economic activity, Murabaha minimizes speculative risks and provides greater resilience during the financial crisis compared to conventional loans (Usmani, 2002; Hassan & Dridi, 2010).
4. **Case Studies:** Digital Innovations in Malaysia Why Digital Innovations Helped Improve Murabaha (Dusuki, 2011) For example, the International Fund for Agricultural Development (IFAD) expanded rural financial inclusion in Nigeria, benefitting small-scale farmers (Sani,

2018). In Saudi Arabia, it supported the construction of massive infrastructure projects, underlining its structured and transparent nature (Al-Suwailem, 2015)

2.9 Empirical Review of Murabaha Financing

From Topic to empirical Question: Cross-Country studies Analyzing Murabaha transactions from an empirical perspective allow some valuable insights on the implementation, effectiveness, and challenges of the two types of financing across contexts. These studies cover issues such as its impact on financial inclusion, risk mitigation, and the regulatory and market obstacles it has to face. This review of literature forms the basis of a synthesis of key findings from the empirical literature in light of the research objective of information on the financial effectiveness of Murabaha financing, such as profitability and risk management strategies of Islamic financial institutions in Ethiopia

.1. Murabaha and Financial Inclusion

Among the common types of Islamic financing, Murabaha is known as a reliable and effective tool for achieving the objective of financial inclusion, especially for developing economies. In the Ethiopia context, Abdullahi (2019) reveals that Murabaha and Islamic banking in general remains largely underutilized, with both serving less than 15% of the banking population. The limited awareness and understanding of Islamic finance, regulatory issues and the absence of an adequate Islamic financial services infrastructure have been cited as the reasons for this under-utilization. On the other hand, Hassan and Hussein (2021) found that Murabaha has stimulated a lot of financing for small and medium-sized enterprises (SMEs) in Nigeria, greatly enhancing economic growth and creating jobs. These results indicate that Murabaha could improve financial inclusion, especially in target and underserved markets, given capabilities of enhancing awareness and regulatory structures.

2. Murabaha's Role in Risk Mitigation

Being asset backed Murabaha serves as an effective tool to serve the purpose of risk mitigation. Kammer et al. (2015) compared Murabaha to conventional loans and found that the risk of default in Murabaha is lower because it is based on tangible assets. It mitigates the risk of default, since the bank only relinquishes the asset once the customer has met their payment obligations.

Ali and Sarkar (2019) study in Malaysia on also part of this research confirm the important role of financial technology (FinTech) on efficiency of Murabaha transaction. Digital platforms and blockchain

technology have streamlined processes, reduced operational costs, and improved transparency, further mitigating risks associated with manual errors and delays. These findings highlight how technology can be employed to tutor the productivity of the Murabaha financing.

3. Regulatory and Market Challenges

The scalability of Murabaha financing is held back by regulatory and market challenges. Murabaha has no growth in Ethiopia due to the arbitrary nature of Islamic financial services (World Bank, 2020). Examples could include the absence of clear frameworks and supportive policies, which can foster uncertainty for both financial institutions and customers. Conversely, Ndung'u (2020) conducted a proximate analysis on Sudan and Kenya to arrive at the conclusion that government policies in the two countries that are favorable to Shariah compliant financial service categories resulted in higher acceptance of Murabaha and other Islamic financing tools. These findings emphasize the need for coherent regulatory frameworks and government support to foster the growth of Murabaha financing in Ethiopia and other developing economies.

3.0 Challenges and Opportunities in Murabaha Financing

However, the practical applications and benefits of Murabaha financing are limited, which can present disruptive challenges for ethical and inclusive finance solutions. At the same time, evolving opportunities offer pathways for growth and innovation. This literature review highlights the potential risks, regulatory and compliance challenges, operational constraints faced by neobanks, competition from traditional banking, and the market growth potential for Murabaha financing, with a focus on Ethiopia.

Challenges and Opportunities in Murabaha Financing

Murabaha faces challenges but offers significant growth potential, particularly in Ethiopia.

1. **Regulatory Challenges:** low Murabaha Adoption: Lack of regulatory frameworks on Shariah-compliance in Ethiopia is still ambiguous to discourage Murabaha adoption (Abdullahi, 2019). Unless clear legal frameworks outlining the alignment of Shariah principles with national regulations are established (World Bank, 2020).
2. **Operational Constraints:** Manually carried out processes in Murabaha transactions add to operational inefficiencies increasing the cost and risk (Ali & Sarkar, 2019). Digital tools are in high demand and they streamline such operations like blockchain (Dusuki, 2011)

3. **Competition from Conventional Banking:** Islamic banks in Ethiopia have less than 6% market share, competing with conventional banks with interest-free products (Abdullahi, 2019). And Islamic Banks need to be position themselves through differentiated development of innovative ethical brands.
4. **Market Growth Potential:** Digital banking, and SME financing. While mobile banking may increase access in rural areas, the asset-backed model of Murabaha can fit the financing needs of SMEs (Hassan & Hussein, 2021; Ndung'u, 2020).

Research Gaps in Existing Literature

Despite the burgeoning interest in Islamic finance and the pervasive demand for Murabaha as a significant financing mechanism, the existing literature is replete with gaps, especially in relation to Ethiopian context. Bridging these gaps can provide greater insight into the practical applications, financial implications, and market viability of Murabaha. This section elucidates the research gaps within existing literature and how the proposed research intends to fill these gaps.

1. Limitations in Current Studies on Ethiopian Murabaha Practices

The existing literature on Murabaha financing in Ethiopia is characterized by several limitations:

- **Theoretical Focus with Limited Empirical Data:** However, the majority of studied (especially the recently) on this aspect of Murabaha in Ethiopia remains a theoretical aspect that put on the most emphasis for conceptual framework and the literatures of Shariah principle rather than the empirical aspect which may have derived from the implementation of Murabaha based Islamic banks in Ethiopia. This limited access to data-driven research stifles the opportunity for assessing the efficacy of Murabaha in meeting the financial dynamic of individuals and businesses in real-world applications (Abdullahi, 2019). Empirical insights are the only way to ascertain the operational efficiency, profitability, and risk management practices of Islamic financial institutions that offer Murabaha products.
- **Absence of Financial Performance and Risk Management Studies:** In Ethiopia, there is limited research evaluating the performance of Murabaha financing and the risk management practices. Although studies conducted in some countries like Malaysia and Nigeria have investigated these aspects, Ethiopia's distinct regulatory, economic and cultural milieu has been underrepresented in literature (Hassan & Hussein, 2021). This gap prevents the design of specific strategies to increase the utilization and impact of Murabaha in Ethiopia.

3.1 Conceptual Framework

Theoretical Foundations

1. Islamic Finance Theory

- This theory provides the foundation for understanding Murabaha as a Shariah-compliant financial product
- Key principles: prohibition of interest (Riba), profit-and-loss sharing, asset-backed transactions
- This theory will help you analyze how Murabaha structures in Ethiopia align with Islamic principles

2. Financial Intermediation Theory

- Explains how financial institutions serve as intermediaries between surplus units (depositors) and deficit units (borrowers)
- Addresses information asymmetry, transaction costs, and risk management
- Helps explain how Murabaha financing transforms savings into productive investments while managing risks

3. Financial Inclusion Theory

- Focuses on expanding access to financial services for underserved populations
- Addresses barriers to entry and strategies for expanding financial service accessibility
- Relevant for analyzing accessibility challenges and opportunities for Murabaha in Ethiopia

Research Variables

Framework organizes your research around four key variables that connect directly to your objectives:

1. Operational Mechanisms

- Contract structure and documentation
- Pricing and profit determination methods
- Compliance verification procedures

2. Effectiveness

- Client satisfaction measures
- Need fulfillment assessment
- Comparative advantages over conventional financing

3. Financial Outcomes

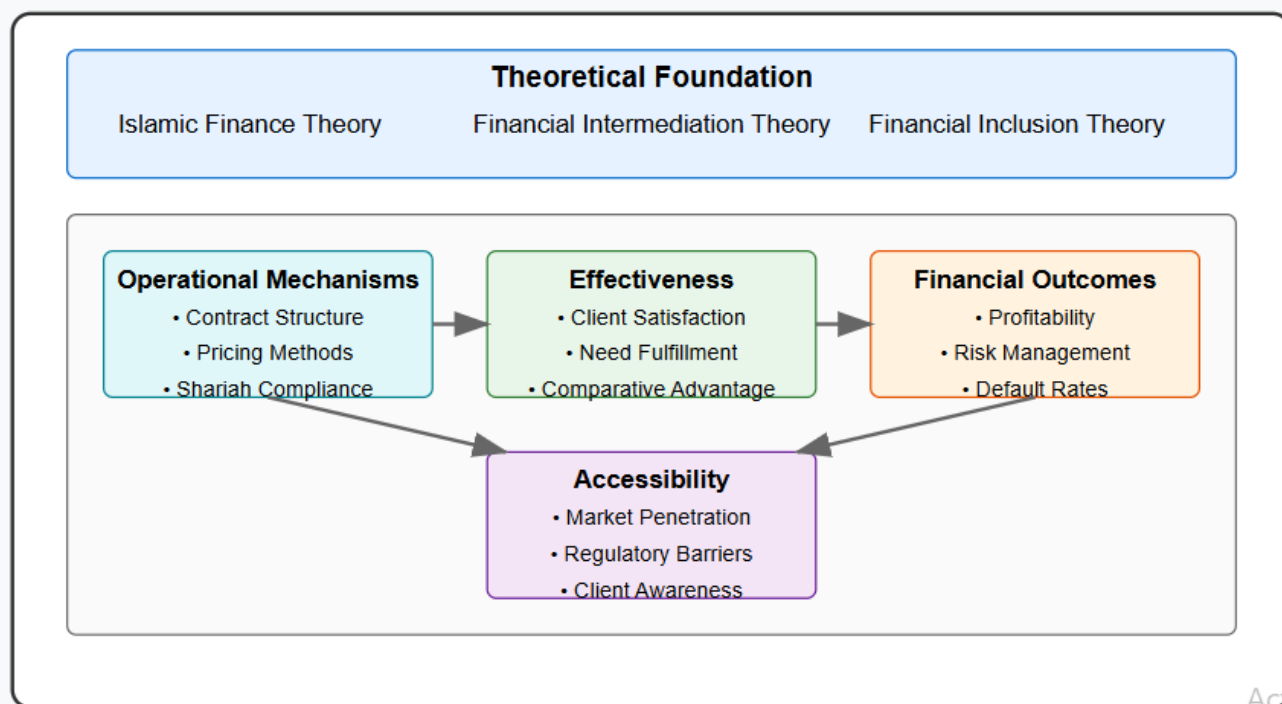
- Profitability metrics for institutions
- Risk management techniques
- Default and recovery rates

4. Accessibility

- Market penetration metrics
- Regulatory enablers and barriers
- Client awareness and education

This framework is developed by the researcher based on the objectives of the study and relevant literature in Islamic finance and financial inclusion. The arrows in the framework show how these variables interact: operational mechanisms influence both effectiveness and financial outcomes, which in turn affect accessibility. This integrated framework, developed by the researcher, is informed by prior literature on Islamic finance and financial inclusion theory.

Conceptual Framework for Comprehensive Evaluation of Murabaha Financing



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CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study employed a descriptive research design to assess the practical aspects of Murabaha financing in selected Islamic banks in Ethiopia. The purpose of the study is to describe the operational procedure, accessibility and perceived effectiveness of Murabaha as experienced by customer, without inferring causality or testing hypotheses. A quantitative approach was used, supported by a structured questionnaire designed to collect standardized data from respondents.

3.1.1 Research Approach

This research followed a quantitative research approach, quantitative methods are appropriate when the aim to collect and analyze numerical data from a defined population using structured instruments, such as questionnaires (Creswell, 2014). This approach enabled the researcher to systematically measure the perceptions and experiences of respondents involved in Murabaha financing and to present the findings using statistical summaries. The data was analyzed through descriptive statistics to capture patterns and trends in respondent's view

3.2 Target population

The target population for this study included customers of Zamzam bank and Hijra bank who had used Murabaha financing services. These customers were selected from branches located in Addis Ababa, including the head office, Piyasa and Bethel branches.

3.3 Sampling Techniques and Sample Size

This study employed purposive sampling, a non-probability technique used when the researcher intentionally selects individuals who are most knowledgeable or experienced with the phenomenon under study. This approach was chosen due to its suitability for descriptive studies that aim to gather in-depth information from specific target groups—namely, customer who have used Murabaha financing at Zamzam and Hijra banks.

Purposive sampling is good because of respondents possess direct and relevant experience with Murabaha products, enable collection of rich, context-specific data that would not be obtainable through

random sampling, particularly useful in niche financial studies where not all population members are exposed to the product under study.

These purposive sampling may be having limitation like

Lack of generalization: findings may not represent their entire customer or staff population in Ethiopia and

Selection bias: there is a risk of over representing certain views while missing others not include in the sample

the study employed a Purposive sampling technique, targeting customers from Zamzam and Hijra banks in Addis Ababa who have used Murabaha financing services. According to internal records provided by the respective institution, that total number of Murabaha user in the selected branches was **244 customers**-comprising 96 from Zamzam bank and 148 Hijra bank.

Using Yemane's (1997) formula for sample size determination at 5 % margin of error:

$$n = \frac{N}{1+N(e)^2} = \frac{244}{1+244(0.05)^2} = 152$$

The statistically recommended sample size was approximately 152 respondents.

However, due to time limitations, resource constraints and the limited accessibility of respondents, the study adopted reduced but focused sample size of 80 respondents from (40 from each bank). This decision was also influenced by the study's descriptive and exploratory nature, where the goes was not to generalize findings to the entire population but to gain in depth understanding from individuals with direct experience in Murabaha financing.

While the smaller sample size may limit external generalizability of the results, the use of **purposive sampling** ensures that the insights gathered are **contextually rich** and **relevant**. This approach is consistent with qualitative research standards where **information-rich case** is prioritized over statistical representativeness

3.4 Data collection Method

3.4.1 Primary data

Primary data was collected through a structured questionnaire administered to customers, a widely used tool for gathering quantitative data in descriptive research (Creswell,2014) The questionnaire consisted

primarily of closed-ended question using a 5-point Likert scale ranging from “strongly disagree” to “strongly agree” these questions measured perceptions of the clarity, accessibility, fairness and efficiency of Murabaha financing.

Sample items the questionnaire includes:

“The Murabaha process is easy to understand”

“The profit margin applied in Murabaha is reasonable”

In addition to quantitative data collected through structured Likert-scale, the questionnaire included open-ended questions; responses to these open-ended items were analyzed thematic analysis, a qualitative method that identifies, organizes and interprets patterns (themes) within textual data.

3.5 Data Analysis Methods

Given the descriptive nature of this research only descriptive statistical methods were used to analyze the collected data. These include:

- **Frequencies and percentage to describe respondent demographics and distribution of responses**
- **Means and standard deviations** to summarize levels of agreement with specific statements on Murabaha financing

Data were analyzed using SPSS software. Descriptive statistics, particularly **Means and standard deviations**, were used to summarize customer agreement levels on Murabaha financing aspects. To interpret the mean scores, the study applied the scale proposed by **Best and Kahn (1997)**, where mean ranges correspond to levels of agreement:

- “4.21-5.00 = Very High”
- “3.41-4.20 = High”
- “2.61 – 3.40 = Moderate “
- “1.81-2.60 = Low”
- “1.00-1.80 = Very Low”

Standard deviation was used to assess a variability of responses. This approach allowed clear interpretation of customer perceptions as presented in Chapter four.

The results were presented using tables

3. 6 Reliability and Validity

Reliability

To assess the internal consistency of the survey instrument, Cranach's Alpha was calculated for each major construct (e.g., operational mechanisms, effectiveness, accessibility, financial outcomes) all variables yielded alpha values ranging from 0.88 to 0.98, indicating high reliability. According to George and mallery (2003), Cranach's Alpha values above 0.7 are considered acceptable, with values above 0.9 considered excellent.

Validity

Content validity was censured by reviewing the questionnaire with academic advisories and Islamic banking professionals, who confirmed its alignment with the research objectives and Shariah financing principles.

To reduce the potential for responses bias associated with self-reported survey data, the study applied methodological triangulation. Quantitative data were collected via structured questionnaires was complemented by qualitative data from open-ended questions. Additionally, insights from informal observations and cross-checking with selected internal bank documents helped ensure consistency and credibility in the findings.

3.7 Ethical Considerations

The study adhered to standard ethical research protocols

- Participants were fully voluntary
- Respondents were informed of the study's objective and provided with informed content
- Confidentiality and anonymity were assured. And no personal identifiers were used
- The data collected was used exclusively for academic purpose

Approval for data collection was obtained from the appropriate academic and institutional bodies

Chapter Four

4.1 Data presentation and analysis

The purpose of the study was to assess the financial product practical implication of Murabaha in Zamzam and Hijra bank. This chapter presents the finding of the study based on the data collected from total of 80 respondents, who have used Murabaha financing customer. The analysis uses descriptive statics

4.2 Respondent demographics

To ensure representatives, the study gathered responses from 80 customers (40 from Zamzam and 40 from Hijra bank) . The data collected from head office, bethel branch and piyasa branch.

Customer demographic

Variable	Category	Frequency	Percentage
Gender	Male	49	61.3 %
	Female	31	38.7 %
Age	18–25	3	3.8 %
	26–35	36	45.0 %
	36–45	24	30.0 %
	46+	17	21.2 %
Educational Level	Primary	6	7.5 %
	Secondary	18	22.5 %
	Diploma	26	32.5 %
	Degree and above	30	37.5%
Business Type	Trade	20	25.0%
	Export	9	11.3%
	Manufacturing	15	18.7%
	Services	25	31.3%
	Other	11	13.7%
Frequency of Using Murabaha	Once	14	17.5%
	2–3 times	29	36.3%
	More than 3 times	37	46.2%

The customer respondents were mostly male (61.3%) and between the age of 26-45, showing that Murabaha financing is primarily used by working age adults only 3.8% were aged 18-25, showing limited youth engagement. most had diploma or degree- level education, suggesting that users generally understand financial products. The service and trade sectors dominated the business types, reflecting high

demand for asset-based financing in these areas. importantly over 80% customer had used Murabaha more than once, highlighting a strong level of trust and satisfaction.

The customer insights collected in this study provide a credible internal perspective on **the Operational practices, Shariah compliance and risk perceptions** associated with Murabaha financing. The internal view is valuable for assessing both the effectiveness and challenges of Islamic financial product delivery within Ethiopia’s emerging Islamic banking environment.

4.3 Reliability Statistics

4.3.1 Reliability Statistics on customer

		Cronbach's Alpha	Cronbach's Alpha Based on Standardized items	N of Items
1	Operational mechanisms on customer	.958	.963	7
2	Effectives In Meeting Financial Needs	.926	.915	7
3	Accessibility And Adoption	.962	.972	5
4	Financial Outcome and Satisfaction	.948	.955	4

4.4 Likert scale interpretation guideline

This study employed a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). To interpret mean values effectively, the classification guideline proposed by best and kahn(1997) was adopted . this standard divided the range of mean score into the following categories.

- “4.21-5.00 = Very High (very good perception)”
- “3.41-4.20 = High (Good perception)”
- “2.61-3.40 = Moderate (Neutral or Fair Perception)”
- “1.81-2.60 = Low (poor Perception)”
- “1.00-1.89 = Very Low (Very Poor Perception)”

These categories help provide a consistent and academically grounded interpretation of descriptive statics generated in this chapter

4.5 OPERATIONAL MECHANISM

Descriptive Statistics					
	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
The Murabaha contract is transparent and easy to understand.	80	4.09	.091	.814	.663
The pricing (cost-plus profit) was clearly explained and fair.	80	3.91	.118	1.058	1.119
The bank followed Islamic Shariah rules throughout the process.	80	3.89	.115	1.031	1.063
Documentation and paperwork were efficient and timely.	80	3.61	.147	1.317	1.734
The process of acquiring and transferring assets was smooth.	80	3.90	.106	.949	.901
I received clear communication from the bank throughout.	80	3.54	.150	1.340	1.796
I trust that the transaction was approved by a Shariah board.	80	4.19	.110	.982	.964
Valid N (listwise)	80				

Operational Mechanism-interpretation based on Best & Kahn(1997)

The descriptive statistics presented for operational mechanism indicators reveal that customer perceptions of Murabaha financing processes are generally positive. According to the interpretation thresholds suggested by Best and Kahn (1997), all items scored within the “high” category (means scores ranging from 3.41-4.20), indicating a favorable assessment of the operational attributes of Murabaha.

The highest -rated item was “**I trust the transaction was approved by a Shariah board**” with a mean score of 4.19, which falls at the upper end of the “High” category, approaching “Very High”. This suggests a strong level of customer trust in the religious compliance of the product. This finding supports

the theoretical underpinnings of **Islamic finance theory**, which emphasizes the importance of shariah governance and the legitimacy of financial products through independent religious oversight (Iqbal & Mirakhor, 2011).

Similarly, the item **“the Murabaha contract is transparent and easy to understand”** received a high mean score of 4.09, reflecting customer satisfaction with the clarity and comprehensibility of contract documentation, transparency is considered a fundamental principle in Islamic finance, as discussed by Usmani (2002), and is critical in establishing trust between financial institutions and clients.

The items **“the pricing (cost-plus profit) was clearly explained and fair”** (mean=3.91) and **“the process of acquiring and transferring assets was smooth”** (mean = 3.90) also received favorable responses. These findings indicate that the key operational features of Murabaha-namely, cost disclosure and asset delivery-are effectively implemented, aligning with the procedural requirements of **Shariah-Compliant financing**.

Further, the item **“the bank followed Islamic rules throughout the process”** scored a mean of 3.89, affirming customers perception that the operational execution of Murabaha adheres to Islamic legal standards. this is consistent with empirical studies in similar contexts such as Nigeria and Malaysia (Hassan & Hussein, 2021), where Shariah compliance is a major determinant of customer confidence and continued usage.

However, two items scored relatively lower within the “High” category. **“Documentation and paper work were efficient and timely”** (mean =3.61) and **“I received clear communication from the bank throughout”** (mean-3.54) were evaluated less favorably, suggesting moderate concerns among respondents regarding the efficiency of administrative procedures and the quality of customer-bank communication. Although still within the “High” range, these results suggest areas requiring improvement. These findings align with Kammer et al, (2015), who emphasize the **effective communication and procedural clarity** are crucial for enhancing customer satisfaction and reducing informational asymmetry in Islamic financial services.

In summary operational mechanisms of Murabaha financing at both Zamzam and Hijra banks are generally well-regarded by customers. the processes related to contract transparency, asset delivery, and Shariah compliance are positively perceived, thereby reinforcing the product alignment with **Islamic Ethical banking standards**. Nonetheless, the findings indicate that **enhanced communication**

strategies and streamlined documentation process are necessary to further improve operational efficiency and customer experience.

4.6 Effectives in Meeting Financial Needs

Descriptive Statistics

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Murabaha helped me purchase key assets (e.g., home, car, equipment).	80	4.08	.075	.671	.450
It is a good alternative to interest-based loans.	80	4.14	.129	1.156	1.335
The financing terms were flexible and suited my needs.	80	4.11	.082	.729	.531
Murabaha supported my personal or business goals.	80	4.39	.055	.490	.240
It is suitable for people with small businesses or SMEs.	80	3.70	.128	1.141	1.301
Repayment terms were affordable.	80	3.51	.137	1.222	1.494
The application process was easy to complete.	80	3.81	.098	.873	.762
Valid N (listwise)	80				

Effectiveness in Meeting Financial Needs -interpretation based on Best & Kahn(1997)

The analysis of customer responses regarding the effectiveness of Murabaha in meeting financial needs reveals a predominantly favorable perception. all mean scores fall within the “**High**” (3.41-4.20) and “**Very High**” (4.21-5.00) categories based on the interpretation thresholds set by Best and Khan(1997), indicating that respondents largely agree on the positive contribution of Murabaha to their personal and business financial objectives .

The highest-rated item was “**Murabaha supported my personal or business goals**” with a mean of 4.39, placing it in the “**Very High**” category. this result suggests a strong endorsement of the products

practical value in achieving key outcomes, especially for entrepreneurs and self-employed individuals. This aligns with the argument made by **Abdulahi (2019)** and **sole (2007)**, who highlight Murabaha's role in enhancing financial access for individuals lacking collateral or those excluded from conventional interest-based banking.

Similarly, the item “**it is good alternative to interest-based loans**” achieved a mean of 4.14, and “**the financing terms were flexible and suited my needs**” scored **4.11**-both classified under the “**High**” category, these findings reflect that customer view Murabaha not only as Shariah-Compliant, but also practically flexible. This observation supports the broader **Islamic finance theory**. Which promotes risk-averse, asset-backed transactions that avoid Riba (interest), Gharar (uncertainly), and other prohibited elements.

The item “**Murabaha helped me purchased key assets (e.g., home, car, equipment)**” also scored **highly (mean=4.08)**, further confirming that the product is fulfilling its intended purpose of enabling asset acquisition. Asset-based financing models are considered particularly effective for **financial inclusion**, especially among underbanked segments such as micro-entrepreneurs and small-scale traders (World Bank, 2015).

The statement “**it is suitable for people with small business or SMES**” received a mean of 3.70, which is also within the “High” range, including that while customers Recognize the products utility for small business, the rating is somewhat lower that for general personal use. This may point to gaps in awareness or specific challenges faced by SMEs in accessing tailored Murabaha packages.

On the lower end, “**repayment terms were affordable**” recorded the lowest mean score of 3.51 (still in the “**High**” category but closer to the “**Moderate**” threshold). This suggest that while the product is appreciated, there **are perceived affordability issues** among some customers. The findings resonate with the work of **Boone & Boone (2012)**. Who noted that customers satisfaction with financial services can be undermined repayment's structure are rigid or lack flexibility for different income groups.

Finally, the item “**the application process was easy to complete**” received a mean score of **3.81**, indicating moderate satisfaction with procedural accessibility. This suggest that while the majority of customers do not face significant barriers, there is still room to simplify or digitize the application process to improve overall convenience.

The results clearly demonstrate that Murabaha financing is considered effective and purpose serving by its users. Most respondents agreed that it supports both personal and business objectives, serves as a Shariah-compliant alternative to conventional loans and enables key asset acquisitions. However, certain

areas-including affordability of repayment and the ease of the application process-require attention to maximize inclusion and customer retention.

These findings are in line with the broader goals of **Islamic Financial intermediation**, which emphasize ethical, inclusive and practical access to financial services for all societal segments, they also support policy-level recommendation to enhance product flexibility and affordability for small business, particularly within Ethiopia’s evolving Islamic banking ecosystem

4.7 Accessibility and Adoption

Descriptive Statistics

Descriptive Statistics

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
I was well-informed about Murabaha before using it.	80	3.58	.144	1.290	1.665
It was easy to access Murabaha through my bank.	80	3.69	.102	.908	.825
There were no major delays or barriers in the process.	80	3.39	.128	1.142	1.304
I believe Murabaha is available in rural areas	80	2.72	.151	1.350	1.822
I faced some challenges due to low awareness or regulation.	80	2.54	.096	.856	.733
Valid N (listwise)	80				

Accessibility and Adoption- interpretation based on Best & Kahn(1997)

The descriptive results customers perceptions of accessibility and adoption of Murabaha financing show a mixed response. The mean values range between **2.54 and 3.69**, indicating customer experience that fall within the “**moderate**” to “**high**” categories, based on the Likert scale interpretation proposed by Best and Khan (1997). these findings reflect relatively good access among urban customers but also highlight significant concerns regarding regulatory challenges, rural availability and pre-engagement awareness.

The highest-rated item was “**it was easy to access Murabaha through my bank**” (mean =3.69), which falls within the “**High**” category. this result suggests that for most respondents who are primarily based in Addis Ababa and other urban centers-Murabaha financing is reasonably accessible through mainstream banking channels. This supports previous findings by **Sole (2007)** and **Zainuddin et al (2011)** that Islamic financial products, while less widespread than conventional ones, can still be efficiency delivered through institutional and trained personnel.

Similarly, the item “**I was well-informed about Murabaha before using it**” received a mean of 3.58, also in the “High” category. this indicates that informational accessibility is relatively strong, though not optimal. While bank-drives awareness campaigns appear to be reaching existing users, there may be a **gap in broader public education**, particularly for first-time or potential customers.

Conversely, the statement “**there were no major delays or barriers in the process**” received a mean of **3.39**, placing in in the “**moderate**” category. This suggests that some customers did experience logistical or administrative challenges during the application or approval process. Such delays may stem from underdeveloped digital platforms, lack of product specialization, or gaps in internal efficiency. these issues were similarly reported in the studies of **Kammer et al. (2015)** and **Abdul-Rahman (2010)** on the accessibility of Islamic financial services.

More notably, **two items scored in the “low” category**. the item “**I believe Murabaha is available in rural areas**” had a mean of 2.72, while “**I faced some challenges due to low awareness or regulation**” had the lowest score of **2.54**. these findings highlight systematic challenges in extending Murabaha services to **rural and underserved areas**. This rural-urban accessibility gap reflects issues noted in the **financial inclusion theory**, which posits that equitable access to financial services for economic development, particularly in low income and rural communities (world bank,2015)

The low rating related to **regulatory and awareness challenges** also suggests that customers may perceive inconsistencies in how Islamic financial regulations are applied, or lack of comprehensive product guidance. This aligns **IFSB (2019)** concerns about the absence of fully developed regulatory frameworks in emerging Islamic finance jurisdictions such as Ethiopia.

The results indicate that while Murabaha is **reasonably, accessible to urban customers**, significant barriers persist in terms of **Rural outreach, regulatory clarity and broader public awareness**. This

issue can hinder adoption and limit the potential of Islamic banking to serve as an inclusive alternative to conventional finance

To enhance the reach and adoption of Murabaha, banks must invest in **targeted financial literacy programs**, strength **regulatory -clarity**, and **expand branch and digital infrastructure** in rural areas. these steps are necessary to fulfill the broader goal of **Shariah-compliant financial inclusion**, as envisioned under Islamic economic principles.

4.8 Financial Outcomes and Satisfaction

Descriptive Statistics

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Murabaha was affordable and cost-effective for me.	80	3.71	.113	1.009	1.018
I feel confident using Murabaha due to its asset-backed structure.	80	4.11	.078	.693	.481
The profit margin was reasonable.	80	3.99	.081	.720	.519
I would recommend Murabaha financing to others.	80	4.41	.081	.724	.524
Valid N (listwise)	80				

Financial Outcome and Satisfaction - interpretation based on Best & Kahn(1997)

the analysis of customer responses related to financial outcomes and satisfaction with Murabaha financing reveals a generally **Strong and positive perception**, with mean scores ranging between 3.71 and 4.41. the results fall within the “High” (3.41-4.20) and “Very High” (4.21-5.00) categories, according to the interpretation standards proposed by Best and Kahn (1997). The findings suggest that customers are both **Financially satisfied** with the product and **confident in its Shariah-Compliant structure**.

The highest-rated item was “**I would recommend Murabaha financing to others**” **with** a mean score of **4.41**, categorized as “**Very High**”. this response reflects a strong level of overall satisfaction and endorsement, which is a key indicator of customer loyalty and trust. it also affirms the growing acceptability of Islamic finance in Ethiopia. This finding supports **Khan and Bhatti (2008)**, who argue that customer recommendation is a reliable proxy for product credibility and perceived in Islamic banking.

Similarly, “**I feel confident using Murabaha due to its asset-backed structure**” achieved a mean score of 4.41, classified as “**High.**” this suggests that the risk-sharing and tangible nature of Murabaha, in contrast to speculative or interest-based financing, provides psychological and financial reassurance to customers. This aligns with the principles of **Islamic finance theory**, particularly its emphasis on **asset-backing and value creation**, which serve to eliminate Gharar (excessive uncertainty) and promote economic justice (Usmani,2020; Iqbal & Mirakhor,2011)

The item “**The profit margin was reasonable**” also received a mean score of **3.99**, failing with the “**High**” category. Although slightly below the top-tier, this indicates that most customers consider the pricing terms acceptable. However, this result also suggests the need for transparency in pricing mechanisms and possible differentiation strategies for customer segments such as SMEs or low-income individuals, as supported by **Sole (2007)** and **IFSB (2019)**

Meanwhile, the item “**Murabaha was affordable and cost-effective for me**” had the lowest mean score in this group, at **3.71**, though it still falls within the “High” range. this suggest that affordability is **relative concerns** for a subset of respondents. While the product is not viewed as prohibitively expensive, there is a clear signal that banks should explore **flexible pricing models** and **product tiering** to address varying levels of financial capacity. This finding is consistent with **Boone and Boone (2012)**, who emphasize the link between perceived value and overall satisfaction in financial service delivery.

The findings indicate that customers are **Highly satisfied** with Murabaha financing, particularly regarding its structure, ethical foundation and general financial benefits. The very high likelihood of recommendation highlights a strong level of trust and user approval. Nevertheless, concerns regarding **cost-effective** and **affordability**- especially among more price sensitive groups- suggest the need for continued innovation in pricing and service delivery.

To reinforce satisfaction and broaden adoption, financial institutions should consider implementing **customer outreach programs, financial education initiatives and digital delivery strategies** aimed at improving **transparency, accessibility and affordability**. These measures will not only enhance user experience but also contributed to **inclusive financial development** in Ethiopia in line with the goals of **Shariah-Compliant finance** and national financial inclusion strategy.

4.9 Qualitative Feedback From (open –ended response summary)

Customer response to the open-ended question “**What are the Challenges faced when using Murabaha?**” revealed a mix of positive and negative experience. While one respondent explicitly noted having encountered no problems, several others cited institutional and informational challenges. A recurring theme was limited awareness, especially prior to engaging with bank staff. For example, one customer stated:

“My challenge was the lack of information about Murabaha before communicating with the bank employee.”

Another common issue was related to understanding repayment procedure, particularly for new clients unfamiliar with Islamic financial services:

“Since I am new, I didn’t know the procedure and faced difficulties with the repayment process.”

Additionally, some respondent highlighted a systemic delay in accessing financing, noting that:

“There were some delays because of the National bank credit limit over the past two years”

Overall, the challenges primarily reflect gaps in customer education, on boarding clarity and institutional capacity constraints

Suggestion for improving Murabaha Product

In response to the question **“what suggestions do you have for improving the Murabaha product?”**

Customer provided several actionable recommendations. A dominant theme was the need for enhanced information availability:

“Those who ask about Murabaha should be given a clear information and requirement”

Respondents also emphasized process efficiency, suggesting that the steps involved in Murabaha approval be made shorter and more customer-friendly. One recommendation called for

“Making the Murabaha process shorter and supported digitally”

Several customers also addressed the issue of accessibility and equity, advocating for greater outreach in non-urban areas;

“Make interest-free banking available in rural areas”

Finally, awareness creation was strongly recommended;

“Awareness creation is required to address significant part of the people “

These suggestions reinforce the need for digital transformation, decentralized service delivery, and targeted public education campaigns.

Suggestions for improving Murabaha services and accessibility

To enhance Murabaha’s effectiveness accessibility and risk management customers offered several constructive suggestions:

1. Developing standardized operational guidelines to streamline processes across branches and ensure consistent service delivery
2. Enhancing staff training to improve communication contract explanation and efficiency in handling Shariah compliant financing
3. strengthening the regulatory framework especially regarding pricing compliance and approval timelines to reduce ambiguity and delays
4. simplifying and digitalizing Murabaha processes such as applications approvals and repayments to minimize paperwork and improve turnaround time

- 5.improving transparency and customer awareness particularly at the pre contract stage to empower clients with a clear understanding of their rights responsibilities and financing structure
- 6.enhancing operational infrastructure including better integration between Islamic banking platforms and core banking systems to eliminate manual bottlenecks
- 7.introducing practical collateral alternatives such as allowing the business itself cash flows inventory or assets to service security an approach that would support micro and small enterprises that lack formal collateral

Chapter Five

Conclusion and recommendation

5.1 conclusions

This study was conducted to assess the practical implementation and effectiveness of the Islamic financial product Murabaha in Ethiopia, using Zamzam and Hijra banks as case studies. The research focused on key dimensions including operational mechanisms, accessibility, customer satisfaction, financial outcomes and overall alignment with Islamic banking principles.

The findings demonstrate that Murabaha financing, as implemented by these institutions, is widely perceived as transparent, Shariah-compliant, and beneficial in supporting both personal and business financial goals. Customer expressed high levels of confidence in the ethical structure of Murabaha, particularly due to its asset-backed model and interest-free nature. These attributed make Murabaha a viable alternative to conventional loans, particularly for faith-driven individuals and small enterprises seeking ethical financial services.

Despite its strengths, the study also uncovered several challenges limiting the broader adoption and effectiveness of Murabaha in Ethiopia. These includes issues related to repayment affordability, inconsistencies in operational communication, limited public awareness-especially in rural areas-and a lack of technological infrastructure for efficient service delivery.

These findings align closely with the conceptual framework adopted in the study. The principles of **Islamic finance theory** are reflected in Murabaha's prohibition of interest, emphasis on asset backed transactions, and promotions of equitable financial practice. The role of Murabaha as a tool for transferring funds from surplus to deficit units under Shariah guidelines validates its relevance under **financial intermediation theory**. Furthermore, **Financial inclusion theory** is partially supported, as the product demonstrate potential to enhance inclusion, though challenges related to awareness and digital accessibility remain significant

This research fills a critical gap in the Ethiopian Islamic banking literature by providing empirical evidence on Murabaha's operational performance, practical challenges and client perceptions-areas previously underrepresented in scholarly discourse. The study offers a foundation for enhancing Shariah-Compliant financing models and informing regulatory and institutional strategies aimed at strengthening financial inclusion and ethical banking in Ethiopia

5.2 Recommendation

Based on the key findings, the following recommendation are proposed for Islamic financial institutions, regulatory authorities and future research

For Islamic Financial Institutions:

- 1. Enhance product affordability:** the study revealed relatively lower levels of agreement regarding the affordability of Murabaha financing. specifically, the item “repayments terms were affordable” received a mean score of **3.51** (section 4.6), and “Murabaha was affordable and cost-effective” scored **3.71**(section 4.8). although these fall with the “High” category per Best and Kahn (1997), they are the lowest-rated items within their respective sections. these findings suggest that cost concerns remain for some customer segments, particularly low-income individuals and small business owners. Therefore, Islamic financial institutions are encouraged to introduce **tiered pricing models** or flexible profit margin structure to enhance the affordability and accessibility of Murabaha across different income levels
- 2. Expand awareness campaigns:** awareness and understanding of Murabaha financing emerged as a significant barrier to broader adoption. The item “I faced some challenges due to low awareness or regulation” scored **2.54**- the **lowest mean across all measured** items (section 4.7). additionally, “I was well-informed before using Murabaha” scored 3.58, indicating that pre-engagement awareness remains sub optional. These findings underline the need for targeted financial education campaigns. Islamic banks should invest in **public awareness initiatives**, particularly in **rural and underserved communities**, to ensure customers fully understand Murabaha principles, process and benefits. This will also enhance informed decision-making and trust in Islamic financial services.
- 3. Digitize service delivery:** process-related concerns were identified in relation to Murabaha accessibility and administrative flow. The item “there were no major delays or barriers in the process” received a mean score of **3.39** (section 4.7), indicating a moderate perception of service efficiency. Furthermore, “the application process was easy to complete” scored **3.81**, reflecting room for improvement in user experience. these findings suggest that traditional, paper-based process may slow service delivery. To address this, financial institutions are advised **to invest in digital platforms**, including **mobile and online Murabaha application** systems, to streamline

procedures, minimize paperwork, and enhance operational speed, particularly for tech-savvy and remote customers

4. **Strengthen operational communication:** communications during the Murabaha process were as key area requiring improvement. The item “I received clear communication from the banking throughout” scored 3.54(section 4.4), the lowest among operational mechanism indicators. Ineffective communication may lead to confusion, delays or reduced customer confidence. Islamic financial institutions should therefore develop **standardized customer communication protocols**, including scripted guidance, multilingual support, and regular follow-up mechanisms. Clear, consistent engagement through the financing lifecycle is essential not only for transparency but also for ensuring adherence to Shariah principles, which prioritize full disclosure and trust.

For Islamic Financial Institutions:

1. **Establish clear regulatory guidelines:** formulate comprehensive standardized frameworks for Islamic financial products, including operational, risk management and disclosure requirements
2. **Promote inclusive financial policy:** integrate Islamic banking into national financial inclusion strategies and provide institutional support for expanding Shariah-compliant services.
3. **Support Islamic Fintech development:** encourage innovation through regulatory sandboxes and capacity-building initiatives to develop digital tools that enhance the delivery of Murabaha and other Islamic financial products.

5.3 suggestions for future study

Given the evolving nature of Islamic finance in Ethiopia and the scope limitations of the current study, the following areas are suggested for future research:

1. **Conduct longitudinal studies** to assess the long-term financial performance, profitability and sustainability of Murabaha financing portfolios.
2. **Compare Murabaha with other Islamic financial** instruments such as Murabaha and ijarah to evaluate their relative advantages, customer preferences, and risk management practices
3. **Extend the study to regional and rural areas** to investigate geographic disparities in access to and understanding of Islamic financial product.

4. **Explore behavioral aspects of Islamic finance adoption**, examining how religious beliefs, financial literacy, and trust influence the uptake of Shariah-compliant products among different population groups.

5.4 Reflection on study limitations

While this study contributes to the understanding of Murabaha financing in Ethiopia it is important to acknowledge certain limitations that may have influenced its findings and implications.

Firstly, the study was geographically limited to Addis Ababa, where both Zamzam and Hijra banks operate their head offices and primary branches. This urban focus may not capture the experiences of clients in rural or underserved areas, where access to Islamic banking service is more constrained. As such, the generalization of the findings to the national context is limited.

Secondly, the use of Purposive sampling-through appropriate for exploratory research –restricted the study participants who had direct exposure to Murabaha financing. This approach excluded individuals who may be interested in, but have not accessed, Islamic financial services. Their perspectives on barriers to access or awareness could offer further insights.

Thirdly, the study relied on self-reported data collected through structured questionnaires. Although the instruments demonstrate high internal consistency (as shown by cronbachs Alpha values), self-reporting is inherently subject to biases such as social desirability and inaccurate recall, which may have affected the objectivity of some responses

Finally, the relative novelty of Islamic banking in Ethiopia meant that access to historical finance performance data was limited. This restricted the ability to conduct in-depth default trends associated with Murabaha financing.

Despite these limitations, the study offers valuable empirical insights and lays a foundation for future academic inquiry and policy development. it contributes to the emerging body of knowledge on Islamic finance in Sub-Saharan Africa and provides practical recommendations for improving the delivery and effectiveness of Shariah-compliant financial product in Ethiopia

APPENDIX 1

Addis Ababa University

School of Commerce

MSC-Corporate finance (Specialty Investment Management)

Dear Participant,

This questionnaire is part of a research study being conducted for academic purposes by a graduate student at Addis Ababa University, School of Commerce. The study is titled:

“Assessment of Murabaha Financing in Ethiopia: A Case Study of Hijra and Zamzam Banks.”

Your responses will be kept confidential and used only for research. You may skip any questions you're not comfortable answering.

Thank you for your valuable time and cooperation.

Customer Questionnaire

Section A: Demographics

- 1. Gender:** Male Female
- 2. Age:** 18–25 26–35 36–45 46+
- 3. Educational Level:** Primary Secondary Diploma Degree and above
- 4. Business Type:** Trade export Manufacturing Services Other: _____

Frequency of using Murabaha: once 2–3 times More than 3 times

Section B: operational Mechanisms and Structures

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Murabaha helped me purchase key assets (e.g., home, car, equipment).					
2	It is a good alternative to interest-based loans.					
3	The financing terms were flexible and suited my needs.					
4	Murabaha supported my personal or business goals.					
5	It is suitable for people with small businesses or SMEs.					
6	Repayment terms were affordable.					
7	The application process was easy to complete.					

Section D: Accessibility and Adoption

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	The Murabaha contract is transparent and easy to understand.					
2	The pricing (cost-plus profit) was clearly explained and fair.					
3	The bank followed Islamic Shariah rules throughout the process.					
4	Documentation and paperwork were efficient and timely.					
5	The process of acquiring and transferring assets was smooth.					
6	I received clear communication from the bank throughout.					
7	I trust that the transaction was approved by a Shariah board.					

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	I was well-informed about Murabaha before using it.					
2	It was easy to access Murabaha through my bank.					
3	There were no major delays or barriers in the process.					
4	I believe Murabaha is available in rural areas.					
5	I faced some challenges due to low awareness or regulation.					

Section E: Financial Outcome and Satisfaction

No	Questions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Murabaha was affordable and cost-effective for me.					
2	I feel confident using Murabaha due to its asset-backed structure.					
3	The profit margin was reasonable.					
4	I would recommend Murabaha financing to others.					

Open-Ended Questions

1. What challenges did you face when using Murabaha?

2. What suggestions do you have for improving Murabaha products?

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