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**ADDIS ABABA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**CHALLENGES AND PROSPECTS OF FULL-FLEDGED  
ISLAMIC BANKING OPERATIONS IN ETHIOPIA; THE CASE  
OF SELECTED BANKS (ZAMZAM AND HIJIRA) IN ADDIS  
ABABA**

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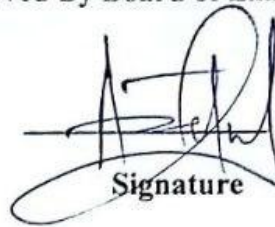
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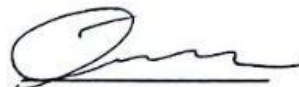
  
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I, Yonas Mulugeta, herewith acknowledge this benefit on the business labeled: challenges and prospects of full-fledged Islamic banking operation in Ethiopia: the cause of picked banks (Zamzam and Hijira) in Addis Ababa, presented in prejudiced completion of the necessity of strength of Master of Erudition program in bookkeeping and finance accompanying the counseling and support of the research guide.

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## **Abbreviations**

<b>AB</b>	Addis International Bank
<b>CBE</b>	Commercial Bank of Ethiopia
<b>CBO</b>	Cooperative Bank of Oromia
<b>OIB</b>	Oromia International Bank
<b>PLS</b>	Profit and Loss Sharing
<b>USD</b>	United States Dollar
<b>S.C</b>	Share Company

## ***Abstract***

*This research aims to examine the challenges and prospects of full-fledged Islamic banking operations in Ethiopia. To realize this objective descriptive research design was used Primary data is collected through a structured interviewing of purposely selected key informants including the banks' management group, board members, shareholders and customers. Moreover, questionnaire on a form of both close-ended and open ended questions are used for the bank's employees. Secondary data are journal articles, various post graduate studies, banks report and internal document, and web particularly Google scholar. The researcher apply a mixed (both qualitative and quantitative) research approaches. The data was analyzing via descriptive occurrence, statistics of mean and standard deviation using SPSS version 25 Software. The result shows that Islamic banking service has a potential to attract investors, have contribution to support and expand local businesses, creates employment opportunities and the service represents additional deposit to the banks. by way of, the communication imply that skilled concede possibility be vital public explanation programmers to build more consideration and to remove argument and changeableness between Muslim and non-Muslim; Shareholders, board of managers and the administration of the bank endure recognize the idea and be helpful accompanying interest free banking as a consequence, the following pieces of advice were forward apiece analyst established the results of the influence association accompanying research impression: create awareness by using the marketing tools, training employees about principles and practice of Islamic banking operations, create awareness in non Muslim societies service is based on non interest, not on religion.*

***Key words:*** *Full-fledged Islamic banking, Islamic Finance, Operational challenges of IFB, Prospects of IFB*

# CHAPTER ONE

## INTRODUCTION

### *1.1 Background of the study*

The economic development of any country depends on the existence of well-organized financial system. Financial institutions are one important components of financial system of a given country which involves a process of accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise through banking system. The principal function of a Bank is to bring into a common fund or pool of idle money of the general public, for the purpose of making advances to others, to gain a return in the form of interest, fee and dividends in making advances and providing services to others.

The origin of Islamic finance dates back to the era of Prophet Muhammad (Mohamad, et al., 2013). From the rise of Islam until the 12th century, there were different Sharia-compliant financial instruments utilized in the Muslim World. Among these financial instruments accepting deposit, Money transfer, bankers called sarrafeen or sayarifah, Promissory notes (reqaah al-sayarifah), bills of exchange (suftaja), cheque (sakk) and treasury (Baytal-Mal) were common (Chachi, 2005; Mohamad, et al., 2013; Alharbi, 2015). The decline of Muslims civilization, mainly due to gradual deviation from sharia, extravagance, lack of well-established organization, political breakdown, the rise of different Islamic sects and different wars shifted the balance of trade from Muslims to Europeans. Consequently, Muslims also lost their technological and economic advancement. Henceforth, the financial system of all Muslim countries went astray from Sharia-compliance resulting in the adaptation of the western-based conventional financial system (Chachi, 2005).

Finally, in the 1940s, the idea of establishing an interest-free banking system gained momentum in the theoretical arena, a milestone to modern Islamic finance (Alharabi, 2015). The first attempt to establish an interest-free bank was commenced in the rural area of Pakistan in the 1950s. On 25th July 1963, Mit- Ghamar Islamic saving Bank (MGISB) was established in Egypt by El-Naggar (Chachi, 2005). In addition to the establishment of Islamic banks, in the 1970s the

modern practice of Islamic insurance (Takaful) as well emerged. The first Islamic insurance company was established in Sudan in 1979. Following the success of this company, the practice of Takaful expanded through Muslim and Non-Muslim countries (Hussain and Pasha, 2011). The Islamic model of microfinance project also started in Sudan in the late 1980s (Mollah and Uddin, 2013).

In Africa starting of Islamic finance can be traced back to the 1960s with Egypt being the first African country offering Islamic banking under a low profile for political reasons (Aburime and Alo, 2009, Mouawad, 2009). Through time Islamic banking industry is thriving in the continent as even countries with small Muslim population began to offer Islamic banking to its citizens. Examples of those countries are Ethiopia, Kenya, Tanzania, Mauritius, and South Africa (Ahmad,2020).

One of African country Ethiopia, integrate Islamic finance with its financial system lately when the Banking Business Proclamation (No. 592/2008) (hereafter proclamation no. 592/2008) was enacted in 2008. However, the National Bank issued its directive in 2011 to authorize the business of interest free banking (No. SBB/ 51/2011) (hereafter directive No. SBB/ 51/2011), which allowed Islamic banking operations only through separate windows within the conventional banks. The subsequent enactment of another directive No. SBB/72/2019, however, allowed the establishment of independent and full-fledged interest free banking business. Following directive No. SBB/72/2019, several new interest free banks applied for the permission to provide Islamic banking services independent from the existing conventional banks. Subsequently, full-fledged Islamic banks like Hijra bank, Zamzam Bank, Zad banks starts their formation to play their own role for development of saving and investment of the country (Gebregiorgis E. 2022).

Accordingly, the purpose of this study is to assess the challenges that Banks have faced while operating a full-fledged Islamic banking service by taking the cases of Zamzam and hijra bank S.C located in Addis Ababa. Moreover, the study will try to identify the potential prospect and opportunities of Islamic banking in Ethiopia.

## 1.2 Statement of the problem

Islamic banking offers feasible and effective modes of finance and used as a catalyst for profitable development. This is indicated by numerous exploration findings For illustration, the study by Chapera(2000) indicates that the top pretensions and functions of the Islamic banking system include profitable well- being with full employment and maximum rate of profitable growth, equal distributions of income and wealth and as a result socio- profitable justice, and the generation of sufficient savings and their productive rallying and stability in the value of plutocrat. also, Habib( 1992), had decided that Expanding of Islamic monetary organizations is advantageous to each prudence cause it embellishes unfeeling allocate of salary, function interest free deals and purchase only allowable grants and in absolute area of the thrift. In spite of the necessity they gambled in the money-making tumor of some country, the movement of Islamic investment organizations is obstructed by many challenges. Considerable studies have existed administered general in the Islamic investment area and many studies in challenges of IFB. From common people studies, NijeriS.(2013), study “challenges facing the development of Islamic banking ” assignments from the Kenya experience has linked factors similar as offering product and services that meet the client’s requirements, reduced borrowing cost, minimal conditions to open an account and service effectiveness influences the development of Islamic banking.

Iqbal etal,( 1998) has try to identify the institutional as well as functional challenges in Pakistan, Iran and Sudan that hinders Islamic banking. Among the institutional challenges poor institutional frame, shy legal frame and administrative programs, poor administrative frame, difference in account norms, lack of equity institutions, absent of systematized secondary fiscal request, and lack of short- term request placement of finances. While the functional challenges are indecorous fiscal engineering, lack of tutoring, training, exploration and development in this institution, lack of profit- participating finance, incapability to adequately rally deposits, competition, and eventually globalization. Aqilahet.al,( 2016), “ challenges and openings of Islamic banking and fiscal institutions in Malaysia ” has shown mistaking and lack of standardization of Islamic fiscal conception is the top challenges that's faced by Islamic banking in Malaysia. Over a century, the banking assiduity in Ethiopia has been operating; still, interest-free banking had no way been rehearsed indeed though further than one third of Ethiopians are identify as Muslim( Jemal, 2018). Until 2011, there were no banking products were available to

serve the Muslim community and non-Muslim population who don't want interest. Numerous people in the country wince down from banking services due to the interest attached on plutocrat savings. Indeed though the National Bank of Ethiopia certified the operations of window grounded Islamic banking in 2011, an IFB window service given by conventional banks are, by far and large, is believed to be shy with the growing Muslim population in the country both in type of IFB products and ways of furnishing them( ways of sheria complying). The main question hen's what are the major constraints that affect the operation and expansion of full-fledged Islamic banks to adequately address the demand of similar inviting population? In addition to the adding demand what are the implicit openings or opportunities to Islamic banking in the country? Many studies like MehammedS.( 2020) has linked the implicit openings of Islamic finance in Ethiopia as high public demand, acceptable capital for the establishment, vacuity of substantial guests, and easy deposit rallying and profitability. while, the implicit challenges are negative comprehensions about Islamic finance from non-Muslim communities, legal frame challenges and lack of professed mortal coffers. GetachewY.( 2020) on his study on “ assessment of prospects and challenges of interest free banking in Ethiopia “ lack of suitable banking programs and comprehensive legal frame, lack of mindfulness, lack of equity request, warrant good mortal resource in Islamic banking, lack of trust by the client, attainability of IFB products in all branches and unstable Treatment of Debt and Equity and Double taxation are some major obstacles to deliver and use the IFB service. Since Islamic banking is a contemporary miracle in the Ethiopian banking sector, it lacks enough exploration contents as a result the sector involves a knowledge gap. As indicated above indeed though there are many studies, substantially they try to concentrate on the challenge and prospect conception of Islamic banking, and previous research papers that done in Islamic banking have not explained the operational prospects and challenges faced by full-fledged Islamic banks after the establishment and while they are on working. Also, it's clear that none of them are held on the real functional disquisition of full- fledged Islamic banks.

This research is done to explain the actual operational prospects and challenges faced by some selected full-fledged Islamic banks specifically located in Addis Ababa.

## **1.3 Research Objective**

### **1.3.1 General objective**

The overall objective of this study is to evaluate the main challenges facing full-fledged Islamic banking operations and prospects for expansion of full-fledged Islamic banking sector in Ethiopia.

### **1.3.2 Specific objectives**

1. To investigate the genesis and current status of full-fledged Islamic banking operation in Ethiopia.
2. To identify the potential prospects of Islamic banking operations in Addis Ababa.
3. To assess the main challenges confronting Islamic banking operations in Ethiopia.

## **1.4 Research question**

The study will attempt to answer the following questions;

1. What is the genesis and current status of full-fledged Islamic banking operations in Ethiopia?
2. What are the potential prospects of Islamic banking operations in Addis Ababa?
3. What are the main challenges confronting Islamic banking operations in Ethiopia?

## **1.5 Scope of the study**

The main aim of the study is to evaluate challenges facing full-fledged Islamic banking operations and prospects for expansion of full-fledged Islamic banking sector in Ethiopia, specifically located in Addis Ababa, The study is mainly confined to full-fledged Islamic banks (Zamzam and Hijra bank s.c) on branch operation managers, staff and customers.

## **1.6 Significance of the study**

Since Islamic banking is a contemporary phenomenon in the Ethiopian banking sector, this study will contribute great to various stakeholders like: potential investors, banking communities,

customers as well as future researchers by identify challenges and prospects of operations of full-fledged Islamic banks.

As untapped investment sector Islamic banking will provide a substantial investment opportunity through financial inclusion of segregated population from banking industry because of interest. Through screening the future prospects of Islamic banking in Ethiopia, the study is implying investment opportunities for potential investors.

The study would also contribute towards better understanding of the challenges and future prospects of Islamic banking sectors based on real operational investigation of evidences. Moreover, not only identify the major challenges, but the study is recommend a better way of responding to those difficulties and alarming for future opportunities of the sector based on the findings as well. In general, the study will help both those banks currently have Islamic banking operations and intended to launch such product and service in the future.

Since they are a means of providing information for the study, customers will free of raising their comments on the operations of selected Islamic banks. Therefore, they have a chance to forward any issues that needs improvement while served with the bank's service as well as pending factors from taking the bank's product or services.

Moreover, this study would give direction for further researchers who are held an investigation in relation to the topic under study.

## **1.7 Organization of the study**

The researcher is organized the study into five different chapters as follows Chapter one the first introductory chapter is contain back- ground of the study, statement of the problem, exploration objects along with exploration questions, significance of the study, limitations and compass of the study and association of the study. The alternate chapter is epitomizing theoretical and empirical literatures on Islamic banking and the affiliated issues. Chapter three is about the methodology of the exploration; that's the exploration design, slice fashion, system of data collection, data collection instruments, system of data analysis and so on. The fourth chapter of the paper is present the findings as well as the quantitative and qualitative data analysis. Eventually, in chapter Five, the researcher is epitomized and concludes the study in a way to raise a fruitful recommendation grounded on the study findings.

## 1.8 Operational definition of words

Amanah: Trust, accompanying joined intentions of blame, honesty and straightforwardness. As a main subordinate intention, the term more recognizes a contract place individual body keeps another's money. This is really ultimate widely assumed and secondhand request of the term, and has a long record beneficial in Islamic marketing regulation. IFB: Interest free banking.

.Ijara: Ijara is a somewhat hire; it admits the bank to win profits by taxing rentals on the property leased to the client.

Murabaha: Purchase and resale. A suggestion of correction accommodating out services, the capital householder purchases the desire merchandise from a mediator and resells it at a definite taller price to the capital consumer. By repaying this greater price over installments, the capital consumer has favorably got credit outside repaying interest.

Musharaka: profit and misfortune giving. It is a alliance place profits are joint as per as concurred percentage inasmuch as the misfortunes are joint balanced to the financing of each wife. Quran: The Sacred book of Muslims disclosed on Person Muhammad.

Riba: Interest, Exploitation, covers some return of services on services-either the interest is established or buoyant, plain or mixed, and at anything the rate. Riba is rigidly forbidden in Islam. Sha'riah: Islamic standard as told in the Quran and through the model of Person Muhammad. A Shariah obedient device meets the necessities of Islamic regulation. A Shariah board is the task force of Islamic philosopher feasible to an Islamic fiscal organization for counseling and project in the growth of shariah obedient amount. Sha'riah Obedient: Showing or project that acquiesces accompanying the necessities of sha'riah or Islamic society. Takaful: Islamic protection. Projected as a composite pool of collaterals established the plan of shared help, takaful blueprints are created to prevent the components of established security (i.e., interest and betting)

## CHAPTER TWO

### 2. LITERATURE REVIEW

This section reviews the literature written by different authors, scholars and researches in relation to the study and presents a summary of challenges and prospects of Islamic banking. Also, this section is go through issues similar as delineations, principles and major generalities regarding to Islamic banking operations and review of empirical plant.

#### 2.1 Concept of Islamic banking

Many scholars' gives different meanings to Islamic banking. While Islamic banks respond to the conditions of Muslim guests, they aren't acting as religious institutions, but their activities are regulated by Islamic law(sharia). Like other banks they're profit- maximizing realities. They act as interposers between savors and investors and offer custodial and other services set up in traditional banking systems.

According to Yahiy Abdul-Rahma ,(2010), Islamic banking defined as conventional banking excluded interest. Islamic law affects how the banking system functions. Islamic banks can be defined as a fiscal institution that abides by sharia principles in all of its exertion through its part as a fiscal middleman between savors and investors provides banking services within the frame of legal contracts and achieves a balance between profitable and social return( Haseeb 2018). According to El- Gamal( 2006) Four factors in particular are unique to Islamic banking.

#### **Prohibition of interest( Riba).**

Riba has been takeout from Raba. It means addition or increase (Maudoodi, 1987, p84). Riba is the major difference between Islamic and traditional banking. Islam prohibits all forms of riba( interest paid on loans) on the grounds that interest rates are a form of exploitation, inconsistent with the notion of fairness. Nearly, this implies that Shariah law doesn't allow fixing in advance a positive return on a loan as a price for staying. The argument is that riba implies an incongruous appropriation of other people's property and is bad for growth. Islam does fete the significance of the time value of plutocrat, but the time value isn't realized as part of a loan contract; it can be realized only as part of a real trade. For illustration, in a leasing agreement, the

time value of plutocrat is an integral part of the rent to which the parties agree, with longer plots anticipated to yield advanced returns.

### **Prohibition of maysir( games of chance) and of gharar( chance).**

Islamic banking bans enterprise, which is adding one's wealth by chance rather than productive trouble. In practice, still, the distinction between enterprise and productive trouble is constantly blurred. While entrepreneurship itself could be interpreted as a form of gambling, maysir refers to gratuitous misgivings not part of everyday life, similar as going to a pavilion. Necessary trouble is permitted. Affiliated generality is the prohibition of gharar contracts. It applies to doubtful or uncertain contracts, similar as bearing a business adventure without sufficient information or taking devilish trouble. It's analogous to asymmetric information; the ideal is to minimize possibilities of misreading and conflicts between constricting parties.

### **Prohibition of haram( illegal) exertion.**

The law of conduct for Islamic banks allows them to finance only halal( legal) exertion. They aren't supposed to advance to companies or individualities involved in conditioning supposed to have a negative impact on society (for illustration, gambling) or that are illegal under Islamic law(for illustration, financing construction of a factory to make alcoholic potables).

### **Payment of part of bank earnings to benefit society ( zakat).**

Muslims believe that justice and equivalency in occasion (not outgrowth) are vital for a society to serve. One medium to achieve this thing is to redistribute income to give a minimum standard of living for the poor. This form of giving, zakat, is also one of the five tenets of Islam. It's generally agreed that the quantum of zakat is 2.5 percent of means held. In countries where zakat isn't collected by the state, Islamic banks establish a zakat fund for collecting commercial to be bestowed to religious institutions.

## **2.2 Key Islamic financial Instruments**

Vital Islamic fiscal Instruments Islamic banking products and services are adding day by day and former studies set up that Islamic banking products are on a par with conventional banking products (Haidi and Malik( 2006). In Islamic finance, the term "loan" refers only to a benevolent

loan (qard al hasan), a form of fiscal backing to the indigent to be repaid free of charge. Other instruments of Islamic finance aren't appertained to as "loans" but rather as backing modes falling under one of the three orders Profit- and- loss sharing( PLS),non-PLS contracts, and figure- restedproductsHussainet.al.( 2015).

### **2.2.1 QardHasan loans or Amanah ( Benevolent loan)**

It's a benevolent loan given to meritorious guests by Islamic banks to palliate poverty. The devisee is needed by Shari'ah to pay back only the star to the Islamic bank.

The customer may pay an addition to show appreciation to the Islamic bank but this intention shouldn't be bared to the bank by the client at the morning of the sale, Audu Bello etal.(2014). In the case that the debtor doesn't pay redundant quantum to the creditor, this sale is a true interest-free loan. Some Muslims consider this to be the only type of loan that doesn't violate the prohibition on 'riba', since it's the one type of loan that truly doesn't compensate the creditor for the time value of plutocrat,(Mohammed, 2012).

### **2.2.2 Profit and loss sharing (PLS) Financing Products**

As explained in its core principles it's equity and participation, as well as it has strong link to real profitable conditioning, help promote a further indifferent distribution of income, leading to a more effective allocation of coffers and promoting social justice and fairness (Chapra, 1979).

#### **1. Mudarabah( Silent Partnership)**

A mudarabah contract is a fiscal sale in which there are two mates in the contract. Mudarabah encourage labor and expertise to participate in financial activities to prove themselves as an productive society (Kettele,B.2011) One of the mates will give the demanded capital ( Rabb- ul- Maal) and the other mate will go into the business as entrepreneur( Mudarib). Audu Bello etal.( 2014) and Journal of Islamic Banking and Finance 2016 report show Mudharabah is one of the most well- known Islamic investments and its principles are extensively espoused by Islamic banks. The report also describes Mudharabah, cooperation which one mate(investor) gives plutocrat for investing, while the other mate is responsible in furnishing labour and skill to manage the plutocrat; the gains generated out of the investment are participated in a destined

rate. The profit- participating rate could be 5050, 4060, or 3070, depending on the constricting parties.

## **2. Musharaka( Equity Partnership)**

Grounded on Audu Bello et al.( 2014) Musharaka is a contract in which two or further persons contribute capital for the establishment of a particular business adventure in such a way that each mate has right to either involve in the administration of the business or not. still, mates may decide to be active or sleeping mate at their own will. In this kind of sale in Islamic banking, gains are participated grounded on agreed rate which need not be equal to their individual capital donation, but loss is participated rigorously grounded on individual capital donation. So, Islamic bank will act as a mate in this case in order to contribute in the capital conformation as well as in participating gains and loss. Grounded on Ahmed (2000), Musharakah or cooperation is a type of investment whereby all mates (investors) share gains of a common adventure according to a mutually agreed rate, while losses are participated exactly in proportion to capital invested by each mate; at the same time, all mates have the right whether or not to share in the operation of the business.

### **2.2.3. Non-PLS Financing Products**

Non- PLS contracts are most common in practice. They are generally used to finance consumer and marketable credit, as well as asset payment and manufacturing, Hussain et al.( 2015).

#### **1. Ijarah( leasing)**

Under this type of investment, the owner or letter of an asset( a motor vehicle or house) will lease out his means to a user or lessee for a certain amount of marketable or agreements and at the same time, the power of the asset remains with the letter. The end of this kind of investment is for the investor or owner of the asset to recover the capital cost of copping the asset, plus a profit frame, which are attained out of the rental payments, Ahmed (2000).

As Hussain et al.(2015) a variety of ijārah takes a hire- purchase form, whereby there is a pledge by the leaser to sell the asset to the lessee at the end of the parcel agreement, with the price of the residual asset being fated.

## **2. Bai- salam or Salam**

Bai- salam' means a contract in which advance payment is made for goods to be delivered subsequently.

### **3. Murabahah(Cost-Plus-SalesContract)**

According to Journal of Islamic Banking and Finance 2016 Just like Musharakah, Mudharabah is also a partnership, but the difference is that in Mudharabah, one partner (investor) gives money for investing, while the other partner is responsible in providing labor and skill to manage the money; the profits generated out of the investment are shared in a predetermined ratio.

#### **2.2.4. Fee- Grounded Products**

According to Hussain etal.(2015) the figure- grounded services handed by Islamic banks include bank transfers, issuing letters of credit and guarantees, credit cards, and offering collection and safe- guardianship services, substantially used in trade backing.

### **2.3 Retail Islamic Banking Products**

It's division of a bank that deals directly with retail guests. In Islamic banking retail product are the following.

#### **2.3.1. Current Account (Alwadhiah)**

The current account is principally keeping or Al- wadhiah ' account and used for day to day cash operation. In' Al- Wadhiah', a bank is supposed as a keeper and trustee of the finances, Mohammed (2012). Current accounts are demand deposit accounts kept with the bank on custodial arrangements and are repayable in full on demand. Current accounts are grounded on the principle of wadia( trust or safe keeping) or amanah(trust), creating an agency contract for the purpose of guarding and keeping the depositor's means.( Iqbal and Mirkahor, 2011). A person deposits finances in the bank and the bank guarantees refund of the entire quantum of the deposit, or any part of the outstanding quantum, when the depositor demands it and permits the bank to use the depositors' plutocrat. It's veritably analogous to similar accounts in conventional banks. No return is paid to depositors, still, at the bank's discretion, may be awarded with' Hibah' as a form of appreciation for the use of finances by the bank.

### **2.3.2. Savings Account**

Islamic banks practice the principle of wadia in operating customer saving account. The bank may request permission to use customer funds deposited in these accounts as long as these funds remain within the bank's discretion. The bank does not share with the customer profit earned from the use of customer funds deposited in these accounts funds but does guarantee the customer deposits. The bank however reward customer with gift as a token of its appreciation for being allowed to use the funds (Balla et. al 2009).

### **2.3.3. Investment Account**

According to Getachew (2018) Investment deposits represent the case when owners of the fund seek a return on their funds and are willing to spare these funds for an agreed period. These accounts also operate on the principle of mudarabah, but the modes of investment of the funds and distribution of the profits are customized to suit the needs of the clients.

## **2.4. Islamic banking Modalities**

Expanding on the classification advanced by Sole (2008), four forms for operations could be identified:

### **2.4.1 Islamic banking window.**

As the simplest form to provide Islamic banking services, a conventional bank can set up an Islamic window that allow banks customers to conduct business utilizing only Shari'ah compatible instruments, including deposits and Islamic trade-finance products for small and medium companies. A number of South East Asian and Western countries have opted for this vehicle to introduce Islamic services into their countries.

### **2.4.2 Islamic (full-fledged) Banking.**

A full-fledged Islamic bank might be better equipped to engage in Islamic investment banking activities, such as underwriting sukuk issuances or managing Shari'ah-compliant investments and hedge funds, or to manage its own treasury and money market operations. A full-fledged conventional banking conversion would signal the bank's firm commitment to operate under

Shari'ah principles—thus enhancing its credibility—although it is not exempted from challenges, namely:

Operationally, the transition from conventional into Islamic transactions would require special attention to items in the banks' balance sheet that are subject to interest-bearing transactions. Several Islamic products—like ijara and Murabaha) have been designed to deal with these problems. In addition, the phasing in of Islamic instruments would need to be appropriately paced to maximize the benefits, while mitigating any potential risks.

The supervisory burden is exacerbated as the regulator will be required to become familiar with the application of IFSB standards for Islamic banks.

### **2.4.3 Islamic Investment Banking.**

Banking systems worldwide have increased the offering of Islamic products and instruments to attract Shari'ah compliant investors. Benefiting from today's high cross-border capital mobility, instruments and tools for expanding Islamic investment banking include: sovereign and corporate sukuk and more sophisticated investment.

### **2.4.4 Islamic Insurance (fiso-takaful)**

Takaful and retakaful represent forms of Islamic insurance and re-insurance based on principles of mutual assistance, burden-sharing and joint guarantees. Under these schemes, individuals pool resources with the agreement to use them only if there is a need.

## **2.5 Sources and Uses of Funds of Islamic Banking**

### **2.5.1 Sources of Funds**

Moreover, its shareholders (own) capital and equity, the main source of funds if Islamic banks would be two forms of deposits transaction deposits and investment deposits. Mohasin & Abbas (1986) in their book said that transaction deposits are directly related to transaction and payments, and can be regarded as equivalent to demand deposits in a conventional banking system. Even if a bank would warranty the nominal value of the deposit, it would pay no return on this type of liability. Generally speaking, funds mobilized through this source cannot be used

for profitable investment by banks. As such, banks would most likely have to impose a service charge on deposit holders to cover the cost of administering this type of account.

Investment deposits constitute the principal source of funds for banks and they more closely resemble shares in a firm, rather than time and saving deposits of the customary sort (Belayneh, 2020). The bank offering investment deposits would provide no guarantee on their nominal value, and would not pay a fixed rate of return. Depositors, instead, would be treated as if they were shareholders and therefore entitled to a share of the profits or losses made by the bank. The only contractual agreement between the depositor and the bank is the proportion in which profits and losses are to be distributed. The profit-or- loss- sharing ratio has to be agreed in advance of the transaction between the bank and the depositors, and cannot be changed during the life of the contract, except by mutual consent (Mohsin & Abbas, 1986).

### **2.5.2. Uses of Funds**

Unlike conventional banks that have a relatively simple financing mechanism, Islamic banks are facing a complicated task in allocating their resources. There are many factors that differentiate Islamic banks and conventional banks. First, Islamic banks are not guided by a profit hunting motive. Their utmost objective is for the betterment of the whole community and other its overall business philosophy is based on justice and equity. Second, the status of Islamic banks in relation to their customers is that of partner, investor, and trader, whereas, for conventional banks the relationship is more of creditor-debtor. Third, for many conventional banks, their lending policy normally is that the loan wanted to a customer is for the additional capital and not as initial capital (with the exception of venture capital institutions). Islamic banks however will participate in either new or existing projects as long as the proposed venture is viable and profitable. Another factor that makes Islamic banks differ from the conventional banks is in terms of their lending criteria. Normally, conventional banks will use the interest rate as a cut-off point in making loan decisions. No loan will be approved if the rate of return of the borrower's business is below the interest rate on loan. Contrary to this practice, Islamic banks will participate many project as long as the selected project generates profit (Sudin, 1996).

Non-commodity trading is strictly prohibited by Shari'ah considers money as a non- commodity item (Siddiqi, 1986) granting loans to customers for profit is therefore, unlawful. In the most

case the funds will be used through equity participation or partnership. Principal of Mudaraba, Musharaka, and Murabaha are commonly used by the Islamic banks in helping their commercial customers. Principle of Iira and principle of Ijara-Wa-Iktina are for the leasing facility, whereas, principles of Bai Mua'ajal and Qard-e-Hassan are for ordinary customers who need financial assistance in buying houses durable goods, and other personal needs. Other banking services such as letters of guarantee, letters of credit, remittance services, travelers' checks, and safe-deposit boxes are considered as fee-base services principle of Wakalah and principle of Kafalah are normally used by the Islamic banks when rendering these services (Sudan, 1996).

## **2.6 The Genesis of Islamic banking in Ethiopia**

The history of banking in Ethiopia goes back to the reign of the Emperor Menelek II who established a bank called Abyssinia on 16 February 1906.<sup>1</sup> The banking business in Ethiopia is regulated by the National Bank of Ethiopia. The term 'bank' in Ethiopia is defined as: "a company licensed by the National Bank to undertake banking business".

The general conception of Islamic banking is that of a financial institution whose statutes, rules and procedures expressly state its commitment to Islamic law and to the banning of receipt and payment of interest on any of its operations in accordance with the Sharia principles. Likewise, the Ethiopian law defines Islamic banking as banking business in which "mobilization or advancing funds is undertaken in a manner consistent with Islamic law or Sharia principles".

The development of Islamic banking start after 2008 when commercial bank of Ethiopia (CBE) start to implement Special Non-interest Savings Accounts (i.e. Special Demand Deposit), but there were no Sharia-compliant transactions up to 2013. Even though, National Bank of Ethiopia (NBE) issued a directive to banks allowing them to provide interest-free banking service using a separate window along with their other banking services, the system was started to implement only in 2013 by few commercial banks like Oromia international bank S.C, Commercial Bank of Ethiopia and united bank S.C.

NBE enacted a directive for the authorization the conventional banks to undertake an interest free banking business which is titled as "Directives to Authorize the Business of Interest Free Banking No. SBB/51/2011" in 2011, The Directive requires those banks that wish to get license

and carry on an interest free banking service to comply with the principles of Islamic finance and standard modes of operation and fulfill some other procedural requirements.

Although conventional banking is a system based on interest-bearing loans, Islamic banking is not entirely different from conventional banking as both types of banks perform similar functions, such as saving deposits and consumer finances. However, there are fundamental differences in the practice and objectives of Islamic banking. Mzee has identified five religious features of Islamic banks that distinguish it from conventional banks.

### **2.6.1 Current status of full-fledged Islamic banking operations in Ethiopia**

According to the study conducted by Hailu, Kapusuzoglu and Ceylan( 2019) Muslims aren't satisfied with the interest-free window practice because the service is furnishing by interest-grounded conventional banks. Muslims are continually asking the government to permit the establishment of full- fledged Islamic finance institutions. Eventually, after seven times of exclusive IFB window practice in Ethiopia, the current prime minister of Ethiopia, Abiy Ahmed pledged to permit the establishment of full- fledged interest-free fiscal anticipations on May 22, 2019.

(Getachew & Kedir, 2019), Following the pledge made by Dr. Abiy Ahmed, the National Bank of Ethiopia issued a new proclamation known as “Proclamation No1159/2019”. The new proclamation permits the establishment of full- fledged Islamic banking in Ethiopia. Composition 59( 1) of this proclamation states “ Without prejudice to the conditions of specified under the vittles of the proclamation, the National Bank may issue a Directive to define fresh conditions of licensing, supervision and conditions to establish Interest- Free Bank. Currently, Interest- Free Bank means a company certified by National Bank to take over only interest-free banking business. ” After the release of ProclamationNo.1159/2019, the inauguration to establish several fullfledged Islamic banks, Islamic Insurances and Islamic microfinance institutions started. Zam Zam, Hijira, Nejashi, kush and Huda are among the banks start dealing the share to the public to establish full- flagged Islamic Banking. Presently, as of July 2021, Zam Zam and Hijira banks are entered a functional license from the National Bank of Ethiopia and Zam Zam Bank officers started furnishing services. The establishment inauguration of Islamic fiscal institutions in Ethiopia isn't only in the banking sector. Still, interest-free microfinance

institutions are operating in Ethiopia without acceptable legal firework. According to Ali( 2020), The following microfinance institutions are furnishing sharia- biddable microfinance services in the Muslim dominated areas of Ethiopia. After the 2019 proclamation that permits the establishment of full- fledged Islamic fiscal institutions, there are some carbons to establish Islamic microfinance institutions in all corners of Ethiopia. According to Capital Newspaper, two new companies are asking for licenses to give Islamic Insurance services. To epitomize, the current status of Islamic finance in Ethiopia is composed of IFB window, fulfilled Islamic banking, Islamic Insurance and Islamic microfinance institutions. The first implicit occasion for the Islamic finance assiduity is the vacuity of huge possible guests for Islamic finance products and services. As stated preliminarily, half of the Ethiopian population is anticipated to exercise Islam. This means about 50 million Muslims are available in Ethiopia. This number of the Muslim population is further than utmost of the Muslim countries that applied Islamic finance. Still, it's also anticipated non-Muslim communities who are interested in ethical finance may also pierce Islamic finance products and services. The alternate implicit prospect for Islamic finance in Ethiopia is a strong demand for Islamic finance products and services. The trouble of Ethiopia Muslims asking the government since 2007, the establishment process of Zam Zam Bank from 2008- 2011 and other serves crimated that there is a high demand for Islamic finance in Ethiopia.

The vacuity of abundant capital to establish full- fledged Islamic Financial Institutions is one of the prospects for Islamic finance in Ethiopia. As stated beforehand, the capability to collect 137 million Birr within four months by Zam Zam bank in 2011, when the minimum paid- up capital to establish a bank in Ethiopia was 75 million Birr indicated that there's acceptable capital for this sector.

According to the Data collected from the National Bank of Ethiopia, as of September 30,202, the total deposit collected by all conventional IFB windows was about66.5 Billion Birr. This indicated that full- fledged Islamic banks can rally deposits fluently. Hailu and Bushera( 2020) stated that the growth of IFB Window deposit rallying from 2018 to 2019 Commercial Bank of Ethiopia( CBE), Cooperative Bank of Oromia( CBO) and Oromia International Bank( OIB) was and 38 independently. The growth of profit from 2018 to 2019 for the Cooperative Bank of

Oromia( CBO) was 281. Thus, this loftiest rate of growth in deposit rallying and profit indicates a good prospect for full- fledged interest-free Banking in Ethiopia. Challenges of Islamic Finance in Ethiopia Indeed though there are promising openings for Islamic finance in Ethiopia, they're also implicit challenges facing the Islamic finance assiduity. After reviewing available sources of data, the main challenges facing Islamic finance in Ethiopia are negative perception about Islamic finance from non-Muslim communities, legal frame challenges and lack of professed mortal coffers. The global propaganda on Islam also affected the expansion of Islamic finance. In Ethiopia, someone-Muslim scholars aren't supporting Islamic finance. They tried to explain the negative perception like if Muslims are open their bank, other religious followers may ask to establish their bank and It may affect in the division of fiscal system. To assess the perception toward Islamic finance, Hailu and Bushera( 2020) anatomized the commentary on the news about the authorization of full- fledged Islamic banking in Ethiopia. The result indicated that there was a substantial reflection of negative perception about Islamic finance. The main and significant challenges of Islamic finance are coming from the marketable law of Ethiopia-legal frame challenges. The marketable law of Ethiopia is an interest based marketable law and when an interest-free fiscal system is permitted a need for correction for some proclamations.

## **2.7 Empirical literature**

There are many researches perform referring to demanding situations and possibilities of Islamic banking. The Islamic finance and banking literature suggests that many pupils have undertaken the issues rely of the Islamic finance demanding situations and possibilities.

Some of the studies that done concerned on the challenges, prospects and opportunities of Islamic banks of Ethiopia, are before the establishment and starting actual operational situation. This study will have depth explanation about the current challenges and opportunities of Islamic banking operation in Ethiopia specifically in Addis Ababa.

### **2.7.1 Challenges in operating of Islamic banking**

With go through various studies on the subject matter the following are described as a potential challenges hindering the operation of Islamic banking services:

Hailu, Kapusuzoglu and Ceyla(2019), The unavailability of opportunity sahria compliant financial service and products in Ethiopia performed a vast function in inducing banking exclusion which in flip ended in low financial institution utilization in Ethiopia. Eventually, after seven times of exclusive IFB window practice in Ethiopia, the current prime minister of Ethiopia, Abiy Ahmed pledged to permit the establishment of full- fledged interest-free fiscal anticipations on May 22, 2019.

Mohammed.M. (2012), Islamic banking: prospects, opportunities and challenges in Ethiopia qualitative and quantitative statistics have been used to special Islamic banking services and offering to research banking, offering lack of know-how and micro concepts. There is a need to institute professionalism in banking practice to enhance management capacity by competent bankers committed to their profession. Because, the professionals working in Islamic banking system have to face bigger challenge, they must have a better understanding of industry, technology and the management of the business venture.

A look at made through way of means of Akmel in 2015 about ”challenges and prospects of Islamic banking for resource mobilization in Ethiopian commercial banks “ conclude that Islamic banking carrier will deliver un banked customers and employment possibilities with in the country via power full resource mobilization and allocation of capital. Additional studies executed via way of means Debebe(2015) on eliminates affecting customers” use of IFB in Ethiopia located out that 100% of IFB account holders had been all Muslims, there is lack of customers, cognizance and false impression concerning the advantage the IFB carrier and the financial institution is not going as deliberate in view that its miles new for the industry.

According to Aman(2019), window based IFB customers of need a full-fledged Islamic banks due to the limitation of IFB products and services in conventional banks.

### **2.7.1.1 Lack of Human Capital**

Ismail ibn Ebrahim,(2020), qualified human resources play a pivotal role in the development and success of any industry. There is a dearth of qualified bankers and professionals who are well versed in Islamic laws as well as contemporary economics and finance.

They also have to understand the moral and religious implications of their investments with the business ventures. There is also a need for banking professionals to be properly trained in Islamic banking and finance. Most banks' professionals have been trained in conventional economics. They lack the requisite vision and conviction about the efficiency of the Islamic banking.

#### **2.7.1.2. Lack of Public Awareness**

In spite of the tumor of Islamic banking over the general, individual of the main challenges covering Islamic banking is the weak understanding about allure movements in the Muslim and non-Muslim planet (Mohammed,2012).Skilled further debris a reduced seepage rate and lack of crucial point in the Islamic Finance Manufacturing. This is on account of for the most part a lack of public knowledge and information of Islamic Finance. Islamic Banks, managers and Governments endure attempt bulk knowledge programs to drive the progress of Islamic Finance and build crucial point for the manufacturing.

#### **2.7.1.3. Lack of harmonization between Sharia Law and Legal Framework**

There remains a great need to harmonize Sharia Law with the existing legal framework. This creates huge difficulties and challenges in the event of disputes and legal matters as Islamic Financial concepts are not recognized by certain legal frameworks.

Whatever the goals and functions are, Islamic banks came into existence in an environment where the laws, institutions training and attitude are set to serve an economy based on the principles of interest. For example, the operations of Islamic banks are on a profit and loss share basis (PLS), which actually does not come fully under the jurisdiction of the existing civil laws.

#### **2.7.1.4. Benchmarking from conventional banks**

The usage of the conventional interest-based benchmark (Libor) creates a negative perception among investors who tend to associate the Islamic Financial system with the conventional financial system due to the usage of the interest-based benchmark.

### **2.7.1.5. Knowledge gap**

Islamic finance remains poorly understood across many markets. With some validity, it is frequently considered to be more challenging to implement than conventional/non-Islamic finance techniques. Traditional aspects of modern commercial banking and capital markets practices have existed for many decades, but modern Islamic finance is in relative terms very new and niche. It comes as no surprise that potential end-users of Islamic finance, both in the public and private sectors, when given a choice, will often favor conventional over Islamic financing, just because it is more familiar.

### **2.7.1.6. Lack of Advanced Technology and Media**

Many Islamic banks do not have the difference of production owned by assuage the increasing needs of their customers. The significance of utilizing decent leading science in improving the reputation of a device and diversifying allure request cannot bring or come to a halt or end stressed. Likely the capability of state-of-the-art science, Islamic banks should give in accompanying fast changes in electronics, and revamp the administration and in charge makeup and, above, all present up-to-date electronics in their movements. Many Islamic banks too lack the unavoidable knowledge and uniform ability for Test (Investigation into new products) namely not only essential for the achievement of their adequate potential, but too for allure very endurance in this place age of menacing contest, advanced markets and an conversant public. Islamic investment cannot but stall and droop outside vital and continuous programs. Also, Islamic banks have up until now not secondhand the news suitably. E.g., even Muslims are not extremely knowledgeable that the Islamic investment is being trained in the globe. Islamic banks destitute always secondhand an persuasive television to promote their endeavors (Mohammed, 2012). Additionally, Iqbal (2001) “the challenges binding Islamic commercial manufacturing” show that restricted set of short agreements fiscal tool and incompetent medium – to long – term commercial agents, restricted inclusion of Islamic finance, aggregation of Islamic investment, weak risk administration and government foundation, and distinctness betwixt Islamic finance theoretical and in essence are the main challenges that Islamic banks face. Study by Shaukat and others,(2011) too show lack of best expert that rule Islamic commercial manufacturing, incompetent limited human means in two together unoriginal investment and Islamic societies,

illiquidity of Islamic long - term property accompanying short - term burdens, lack of Shari'ah scrutinizing standard crew, and deficiency of short – term asset production are the challenges of Islamic investment method. They further state that the added challenges embroidery Islamic investment plan are lack of change, lack of devotion to local supervisory newsgathering and functional necessities, lack of transperance and responsibility, operating manually, and lack of excellence aids.

Current study on challenges on interest free investment aids in Monetary Bank of Ethiopia by Kerima,(2016) show that exercise of the existent IFB device have existed disputed by lack of knowledge of client, incompetent shopping and publicity, double tax, character of IFB commodity, non-supplying of IFB fruit/aids completely arms, the IFB being brought in a Fenestrate model and lack of trust and assurance. Mehammed S,(2020) further resolved three expected challenges in IFB in the way that negative Understanding, allowable foundation, lack of masters and workforce the one are skillful two together in common and Islamic finance information. Mohammed, (2012) intentional the prospects, freedom and challenges of Islamic Investment in Ethiopia“ and accompanied the potential challenges expected lack of knowledge, supervisory and administrative challenges, bland challenges, lack of support and link organizations, breach in test in Islamic studies, lack of limited human ability in addition to wrong partnership accompanying distinguishing church and the worldwide disorder.

### **2.7.2 Opportunities for Islamic banking in Ethiopia**

As per Usmani (2002), beyond satisfying the need of Ethiopian customers Islamic banking will also create for Ethiopian government to gain diplomatic advantages to make financial dealings with Muslim dominated nations. It is known that Ethiopia is garnering attention for forging investors.

Aman(2019). In 2018 only Oromia international bank and Cooperative bank of Oromia had 248,614 and 660,000 customers of IFB respectively. This implies that the need of sharia compliant banking system by Muslim communities is too high.

the study result conducted by Mahammad S. (2020) " Interest Free Banking in Ethiopia: Prospects and Challenges" indicated that Islamic finance has a golden opportunity in Ethiopia

such as unbanked huge customers, high-level needs and the profitability of IFB window. This result converges with conclusion reached by Ahmed (2019) regarding the potential opportunities of Islamic finance in Ethiopia. In addition to Ahmed (2019), Aman (2019) also concluded that IFB has a bright future in Ethiopia.

#### **2.7.2.1. Huge Amount of Potential Customer**

There are several potential opportunities for Interest free finance in Ethiopia. Among these opportunities, the first one is the availability of huge potential customers who have been excluded from accessing conventional finance products and services mainly due to religious reasons. As the basic principles of Islamic finance are originated from Sharia rules, it is expected to be Muslims are the primary customers for Interest free finance products and services. According to the World Population Review (2019) estimation, the population of Ethiopian reached 113 million and 34% (38.5 million) out of the total population are Muslims. The availability of a substantial Muslim population is the primary potential opportunity for the expansion of Interest free finance in Ethiopia. The ever-increasing number of banks providing IFB service in window and subsidiary model, and customers who have accounts in these window services is another indicator of huge amount of potential customer.

#### **2.8.2.2. High Popular Demand**

The second freedom that spurs Interest free banking in Ethiopia is the extreme common demand for it from the Muslim culture exhibited for a chronic ending. The always-growing number of IFB help consumers in the fenestration model is supplementary evidence that represents the bigger demand for IFB help. Likely the case that the dormers are providing restricted IFB fruit (Aman, 2019) and the concern concerning sharia agreement of IFB bay will be an enough reason for clients to use adequately-fledged banks. As Mohammed, (2012) establishment of Islamic banking for Ethiopian management will absolutely construct tactful benefits to form monetary business accompanying Muslim governed countries with its own government particularly to engage heap greenbacks of impartiality finance from the deep nations.

### **2.8.2.3. Easy Deposit Mobilization and Profitability of IFB Windows**

The tertiary freedom that means the potential influence of fully developed interest-free banking in Ethiopia is the boom of Interest-free banking dormers in accumulating enormous amount of services through interest-free deposit blueprints. United states of America-possessed Commercial bank of Ethiopia (CBE) that ruled the banking subdivision in Ethiopia too governed the interest-free banking bay duties. Tadesse,(2019) famous that the total deposit composed by all marketing banks providing interest-free aperture duties in the end of Grant permission 2019 was 40 Billion Ethiopian Energy (1.5 billion USD) and CBE has a 66% share from this deposit. Cooperative Bank of Oromia (CBO), Oromia International Bank (OIB) and Addis Bank (AB) likewise has a solid share from the total deposit calm during the whole of the country. Taye,(2019) states that, the total amount of deposit calm by all interest-free investment bay internet access provider monetary banks was 20 billion ETB (715 heap USD) before 2 years and it attained immediately 40 billion ETB (1.5 billion USD) . So, deposit group in interest-free window banking in Ethiopia shows a 100% increase inside just in 2 years.

## **2.8 Conceptual framework**

The conceptual framework of the study displays the logical organization of interrelated concepts within the selected theoretical frameworks. Therefore, the conceptual framework of this study will be designed to have a comprehensive understanding of the possible factors confronting the operations of Islamic banking services as well as potential prospects anticipated in the sector. Based on the existing theoretical literatures related to Islamic banking and finance, lack of experienced human capital, lack of public awareness, benchmarking from conventional banks and existing knowledge gap are identified as a restraining factor for Islamic banking. While, huge amount of potential customer, high popular demand, risk sharing and easily deposit mobilization & profitability of IFB window identified as a prospects/opportunity for expansion of Islamic banking in Ethiopia.

## **2.9 Literature gaps**

From the theoretical literature it is clear that Islamic banking is a broader financial concept with provision of various products and services. As it involves on financial inclusion of un banked societies (due to fear of interest and other sharia prohibited practices) and as a means of new alternative way of providing banking services. Islamic banking needs substantial research to Ethiopia beheld. However, the sector lacks wider research coverage on operational challenges and opportunities of full-fledged Islamic banks in Ethiopian specifically, Addis Ababa. As indicated in the above imperial literature, even though the above studies conducted on the issues of Islamic banking they are threatened by conceptual limitation that is they mainly try to focus on the narrower concept of studying IFB window-based service and try to focus on the challenges and prospects of Islamic banks they done researches before the establishment of full-fledged Islamic banks in Ethiopia, rather than studying the more comprehensive and broader Islamic banking concept, In addition, no one of studies does not try to evaluate challenges facing full-fledged Islamic banking operations and prospects for expansion of full-fledged Islamic banking sector in Ethiopia, specifically located in Addis Ababa, Therefore, this pioneering research will raise its contribution to fill this gap and is carried out to examine the potential challenges and prospects of full-fledged Islamic banking operations in Addis Ababa, through gathering real operational information from full-fledged Islamic banks that engaged in practicing the broader Islamic banking concepts and principles than a single window based conventional banks.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

This section of the study is highlight the research methods used in collected and analyzed data from the sample respondents and the collected data using appropriate instruments, respectively. The insight gained from this chapter is providing essential information about the general procedure of the research process that could be applied in the subsequent chapters.

#### **3.1 Description of the study area**

The study area of this paper is mainly be confined to full-fledged Islamic banks located in Addis Ababa specifically by focusing on Zamzam and Hijra banks S.C as a means of data gathering organizations.

#### **3.2 Research design/approach**

Research design refers to the framework in which the research fits depend on the theory and nature of the research problem. This is underpinning all of the research activities (Walliman, 2006). The choice of research design depends on objectives of the researcher Want to achieve or the research questions the researcher wants to answer (John, 2007). To achieve the above-mentioned research objectives, the researcher adapt a descriptive research design.

According to Kothari (2004), descriptive research includes surveys and fact-finding enquiries of different kinds. Since it is a study with clearly stated investigative questions and with a clear-cut definition of the population to be studied, this study use a descriptive research design to assess the views of the respondents with regard to the challenges and prospects of full-fledged Islamic banking in Ethiopia.

In order to enhance a breadth and depth of understanding about the situations as well as to confirm findings from different data sources the researcher apply a mixed (both qualitative and quantitative) research approaches.

### **3.3 Population, Sampling Techniques and Sample Size**

#### **3.3.1 Target population**

A population can be defined as a relatively large collection of people, groups or categories, items or cases that a researcher studies and about which generalizations are made (Andersen & Taylor, 2012). It is also defined as totality of any group of subjects sharing some characteristics (Boone, & Sabo, 2013). Accordingly, the target population for this study will be consisted of clerical staffs of the two selected Islamic banks, Zamzam and Hijra. According to the June 30, 2022 report there are 64 employees of Hijra and 260 employees of Zamzam who works in Addis Ababa branches. Therefore these 324 employees are target population for the study in which the required data will be collected from.

#### **3.3.2 Sampling design**

According to Ogula, (2005) sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected. Therefore, the researcher will follow two steps to select the studied banks. In the first step, among banks who registered to operate full-fledged Islamic finance in Ethiopia, Zamzam and Hijra bank S.C, will systematically selected because those banks are engaged in real operating of full-fledged Islamic banking services and products as a result they will provide a comprehensive set of information on the topic under study than other conventional banks with a single window based provision of IFB services. In the second step, among the city and outlying branches the study was delimited to branches only located in Addis Ababa. This is mainly to make the study manageable. Accordingly, as per the Banks' Dec 31, 2022 report there are 45 full-fledged Islamic banking branches located in A.A (14 branches held by Hijira and 31 branches held by Zamzam Bank S.C). There for, these 45 branches will be the targets by the researcher from which sampled employees will be taken.

As per their proportion in the target population (A total of 143 employees, 80% from Zamzam and 36, 20% from Hijra bank) is selected with a simple random sampling method. Sample size is the actual respondents from the total target population. Simple random sampling method was used for questionnaire distribution purpose among the randomly selected branches according to

the sample size. The major reason for selecting simple random sampling is that it represents the population, in which each employee has an equal probability of being selected.

Moreover, to make the study more reliable the data collected from the sampled employees was backed by the responses of purposely selected key informants consists of bank's management group, board members, shareholders and customers through key informant interview.

### **3.3.3 Sample size**

A sample is a small proportion of a population selected for observation and analysis. The researcher is used Yemane's (1967) formula to determine the employees sample size. In a finite population the corrected sample size is determined by using Ymane's formula as follows:

$$n = N/(1 + N(e)^2)$$

$$n = 324/(1 + 324(0.05)^2)$$

$$n=179$$

Where: n=sample size, N=total population, and e=error term

Accordingly the sample size of the study become 179 employees

### **3.4 Data source and type**

In a view to gather enough information and to fully explore the topic under discussion, the researchers will employee both primary and secondary data sources.

Primary data will be collected through a structured interviewing of purposely selected key informants including the banks' management group, board members, shareholders and customers. Moreover, questionnaire consists of a number of questions typed in a definite order on a form of both close-ended and open ended questions are used for distributed to the bank's employees.

The researcher will also use various secondary data in a view to understand the challenges and opportunities including, journal articles, various post graduate studies, banks report and internal

document, and web particularly Google scholar. It will help answer the what, when, where, and how questions regarding the research problem rather than the why.

### **3.5 Data collection techniques**

According to (Levy & Lemeshow, 2001), data are the facts present to the researcher from the study's environment; they include primary and secondary data. Primary data are the original works of research or raw data without interpretation or pronouncements that represent an official opinion or position (Chandran, 2004). According to Bless et al. (2008), secondary information or data sources are data neither collected by the user nor specifically for the user.

With questionnaire, the most important tool in this study, the quick response in data acquisition is possible. The questionnaire with both open-end and close-end questions will be consisted of two main sections; the first section will address general demographic data of the respondents such as age, gender, educational level, years of experience and religious affiliation. The second section will address the specific research objectives. This section will cover the opportunities and main challenges impeding the operations of Islamic banking services in Ethiopia.

The other instrument used to collect primary data from the bank's stakeholders like management team, Board of directors, shareholders, and customers will be structured interview. This method of data collection gives an opportunity to clarify any issues raised by the respondent or ask probing or follow-up questions. The researcher will conduct interview through a face to face contact.

The secondary data will be collected by extracting relevant and supportive data from the bank's report obtained through its database and other relevant published and unpublished sources.

### **3.6 Data analysis**

To make the data ready to interpret, data preparation was done on the completed questionnaires by editing, coding, entering and cleaning the data. The collected data analyzed using descriptive statistics. Through descriptive statistics/analysis the study result will be presented using tables and graphs that show the mean and standard deviation which facilitate the analysis and to make it easily understandable for readers.

Data from the interview was collected by taking written notes during the interview and a recording of what is said, which provide the raw materials for the report. The analysis will be made by summarizing and interpreting the information provided by the informant and relating it to the main objectives of the study using a narrative approach. Moreover, qualitative analysis like quoting will also be used to triangulate some of the responses obtained through close-ended questions.

### **3.7 Ethical consideration**

Ethical conduct states that it is the responsibility of the researcher to assess carefully the possibility of harm to research participants, and to the extent that it is possible, the possibility of harm should be minimized (Bryman & Bell, 2007). During the data collection and interpretation processes, the researcher will convince the participants that any confidential information they disclose will be kept confidential and convince them that the importance of the study is to help the bank and the employees by investigating the major challenges pending their operations. The respondents will also be informed that the study is only for academic purposes and no one would be a victim because of any adverse findings in connection with their professional duties. This is done in order to motivate them to give their responses without reservation. Each questionnaire will not require the names of the respondents; this will be to protect their identity and remain anonymous.

## CHAPTER FOUR

### 4. DATA ANALYSI, PRESENTATION AND DISCRPTION

#### 4.1 Response Rate

From the total 179 distributed questionnaires 167, 93% questionnaire were found to be completed correctly and used for further analysis and the remaining 12 questionnaires were not returned. According to Baruch & Holtom, (2008) an acceptable range for response rates in most social science research could be 30%–80%. And the response rate of this study is 93% which is sufficient enough.

**Table 4.1 Response rate**

Company	Distributed		Collected		Uncollected	
	Number	Percentage	Number	Percentage	Number	Percentage
ZamZam	143	100%	133	93%	10	7%
Hijra	36	100%	34	94%	2	6%
<b>Total</b>	<b>179</b>		<b>167</b>		<b>12</b>	

Source: Own computation from primary data source, 2024.

#### 4.2 Background Characteristics of Respondents

Literatures indicated that analyzing the socio-demographic status of the target population is too indispensable in order to have general understanding about the background of the study subjects and speculate the potential findings. Hence In this section, personal profiles of respondents which are collected through questionnaire have been summarized. These include their gender, age, religion, year of banking experience, year of IFB experience and educational qualification. Descriptive statistics has been used to analyze the demographic items as a means of describing therespondents.

## 1. Gender of respondents

As shown in the below table, from the total response, 105 (62.9%) of the respondent were male while 62(37.1%) are female which shows the bank’s majority employees are male dominated.

**Table 4.2 Gender of respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	105	62.9	62.9	62.9
	Female	62	37.1	37.1	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

## 2. Age of respondents

The survey data showed that large proportions of respondents were in the age group of 26-30 years (40.7 %). Significant number of respondents (36.5 %) reported that their age was between 18-25 years, besides, (12.6%) of the respondents failed between the ages of 31-35 years. The age group 36-40 years constituents (5.4%). The rest (4.8%) of respondents acknowledged that their age was above 40 years. This figure implies that majority of banks employees are young enough.

**Table 4.3 Age of respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	61	36.5	36.5	36.5
	26-30	68	40.7	40.7	77.2
	31-35	21	12.6	12.6	89.8
	36-40	9	5.4	5.4	95.2
	41-45	5	3.0	3.0	98.2
	Above 46	3	1.8	1.8	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

### 3. Religious affiliation

From the total response, 155 (92.8%) of the respondents were Muslims while 12(7.2%) are non-Muslim which shows the bank’s majority employees are Muslim. From this it has cleared that even though the banks population is dominated by Muslim followers they have also an employment opportunity for other religion followers.

**Table 4.4 Religious affiliations of respondents**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Muslim	155	92.8	92.8	92.8
	Non muslim	12	7.2	7.2	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

### 1. Respondents banking experience

As it can be shown in Table 4.5 below, analysis of years of experience of respondents indicated that 37.7%, 31.1%, 19.2% and 6% of the respondents had 2-4 years, less than 2 years, 5-7 and 8-10 years of working experience. Similarly, the percentage share of respondents who had more than 10 years of experience constituted 6% of the total respondents.

**Table 4.5 Respondents banking experience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than two years	52	31.1	31.1	31.1
	2-4 years	63	37.7	37.7	68.9
	5-7 years	32	19.2	19.2	88.0
	8-10 years	10	6.0	6.0	94.0
	Above 10 years	10	6.0	6.0	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

This implies more than half percent of respondents have passed the trainee and junior banking positions. Thus, data obtained from them would be fair enough to draw reasonable conclusion.

## 2. Respondents exposure to IFB

Table 4.6 shows that 44.3% of staff has less than one-year IFB experience and 49.1% has work experience of 2-4 year. Only 6.6% of respondents have an IFB experience of 5-7 years. This shows that most of the staff has a recent exposure to the IFB system. This may be first due to the newness of the sector in Ethiopia. Secondly, lack of full- fledged banking institutions who work in compliance with full sharia principles.

**Table 4.6 Exposure to Interest-free banking**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Up to 1 year	74	44.3	44.3	44.3
	2-4 years	82	49.1	49.1	93.4
	5-7 years	11	6.6	6.6	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

## 3. Educational qualification of respondents

As it can be seen in Table 4.7, analysis of the educational qualification of respondents revealed that the majority (62.9%) of the respondents have degree holders. Significant numbers of the respondents (35.3%) have masters' degree and only 1.8% of the respondents have diploma. It seems surprising to see no one of the respondents are a PhD holder, indicating that operation in banking need not necessary a higher level of educational status. This might be because as long as the employees have basic knowledge of accounting and management, they can execute the entire tasks with respect to the principle and regulation of the bank. On the other hand, more than a quarter of the respondents have Master holder; indicating that the banking industry is nearly performs its duties with professionals.

Usually, the above data occupy that in cooperation branch managers and banks stick appendages.' the one have provide in the knowledge, were appropriate for the gain on account of the case that they had help the banks long enough for bureaucracy expected well sensitive of

Challenges of full-fledged Islamic banking movement available by their Ethiopian bank.

**Table 4.7 Educational qualifications of respondents**

		Frequency	Percent	Valid Percent	CumulativePercent
Valid	Diploma	3	1.8	1.8	1.8
	Degree	105	62.9	62.9	64.7
	MA (MSc)	59	35.3	35.3	100.0
	Total	167	100.0	100.0	

Source: Own computation from primary data source, 2024.

### 4.3 Trend and Status of Islamic Banking in Ethiopia

An assessment of secondary data shown that, since the inception of Interest-Free Banking services as a window in 2013 by Oromia International bank, the sector has swiftly grown in the past consecutive years. In 2013, the biggest commercial bank, the Commercial Bank of Ethiopia, followed and immediately started to attract many customers. In the next year, United bank followed the footsteps of the first two banks. In 2015, another three banks, namely the cooperative bank of Oromia, Wegagen bank and Nib bank had joined the market. In 2016, 2017 and 2018, Abay Bank, Abyssinia Bank, and Dashen Bank respectively have introduced the interest free window services. <https://journals.econsciences.com>

Currently, the banking industry in Ethiopia has registered significant change in interest free banking (IFB) with two full-fledged banks already operational, ZamZam and Hijra. Besides the two full-fledged banks most of private banks including the Government bank (Commercial bank of Ethiopia) are providing IFB services through windows. As of March 2022, over 11 million account holders registered for the deposit mobilization of 117.2 billion birr in the IFB, <https://www.capitalethiopia.com/2022/08/09/bank-profits-soared-in-2022/?amp>.

Beyond providing the window-based banking, some banks are currently under the progression of varying the model of delivering the Islamic banking services. The Commercial Bank of Ethiopia and Awash Bank is the leading banks in this course. They now possess distinct branches in selected places, which offer only IFB services. Even though the banks endorse these branches as

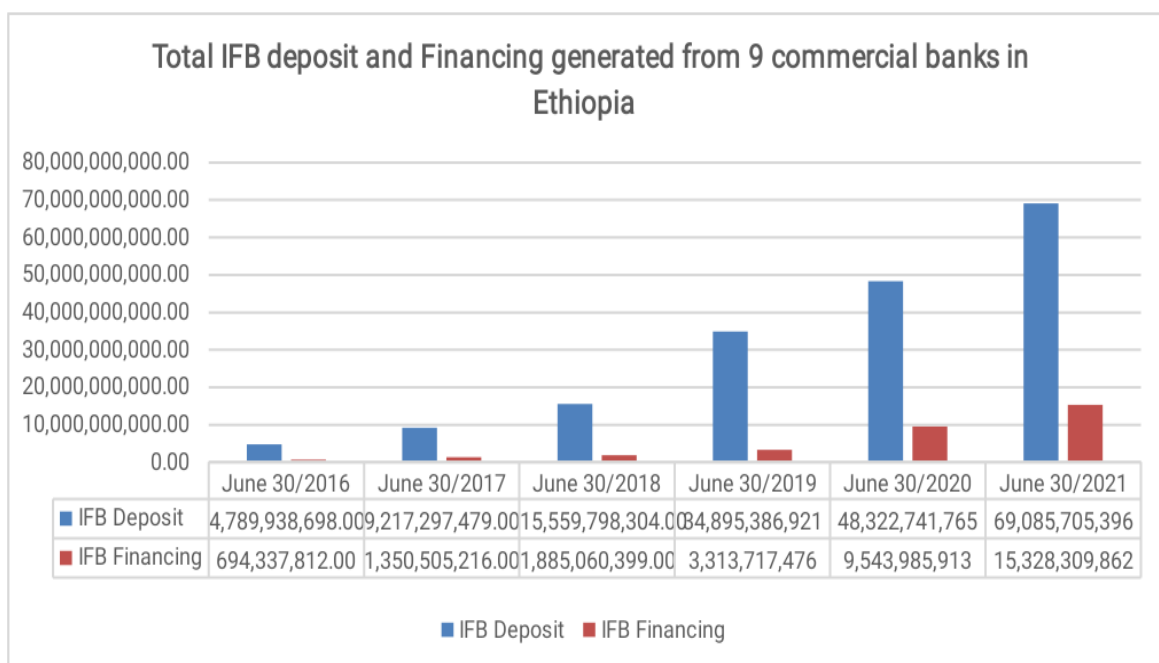
Full-Fledged Banks, they are just branches, which specialize in IFB services Wahab, (2019).

In a view to elaborate more about the journey of Islamic banking in Ethiopia, the researcher has tried to investigate the trends of Islamic banking operation by assessing a six-year deposit and loan generating performance of nine commercial banks: CBE, Awash, OIB, Wegagen, Nib, United, Abay, Dashen, and Bunna banks which provide the IFB window-based services. The analysis was made by taking the secondary data from Muhammad, (2022).

**Table 4.8 Analysis on the financial growth of IFB windows**

S.No	Banks Providing IFB	Particulars	As of June 30/2021	As of June 30/2020	As of June 30/2019	As of June 30/2018	As of June 30/2017	As of June 30/2016
1	CBE	Deposit	43,897,407,865*	32,516,598,419.00	23,972,301,088.00	9,814,801,727.00	6,090,617,941.00	3,171,799,790.00
		Finance	4,828,714,865*	3,319,502,633.00	253,236,212.00	168,560,399.00	295,545,261.00	185,497,812.00
2	AWASH	Deposit	7,490,279,000.00	3,951,712,000.00	2,155,308,000.00	650,987,000.00	-	-
		Finance	2,120,280,000.00	1,026,507,000.00	260,584,000.00	1,900,000.00	-	-
3	OIB	Deposit	4,878,000,000.00	3,948,000,000.00	4,155,000,000.00	3,013,000,000.00	2,194,910,000.00	1,250,850,000.00
		Finance	3,542,000,000.00	2,903,000,000.00	1,822,000,000.00	1,586,000,000.00	1,054,960,000.00	508,840,000.00
4	Wegagen	Deposit	1,349,650,229.00	1,336,644,165.00	778,400,000.00	409,100,000.00	155,831,017.00	11,520,925.00
		Finance	361,866,000.00	381,481,000.00	236,100,000.00	128,600,000.00	-	-
5	Nib	Deposit	3,100,000,000.00	2,000,000,000.00	1,400,000,000.00	733,166,600.00	322,294,300.00	55,950,300.00
		Finance	823,800,000.00	400,000,000*	280,000,000*	-	-	-
6	United	Deposit	1,649,217,302*	1,230,759,181.00	877,919,154.00	513,374,928*	346,874,952.00	219,817,683.00
		Finance	857,592,997*	671,554,280.00	461,797,264.00	-	-	-
7	Abay	Deposit	1,300,000,000.00	749,000,000.00	462,345,679.00	288,966,049.00	106,769,269.00	89,000,000.00
		Finance	538,000,000.00	299,600,000*	-	-	-	-
8	Dashen	Deposit	4,797,012,000.00	2,366,032,000.00	1,094,113,000.00	136,402,000.00	-	-
		Finance	2,256,056,000.00	542,341,000.00	-	-	-	-
9	Bunna	Deposit	624,139,000.00	223,996,000.00	-	-	-	-
		Finance	-	-	-	-	-	-
<b>Total IFB deposits</b>			<b>69,085,705,396.00</b>	<b>48,322,741,765.00</b>	<b>34,895,386,921.00</b>	<b>15,559,798,304.00</b>	<b>9,217,297,479.00</b>	<b>4,798,938,698.00</b>
<b>Growth Percentage</b>			<b>43%</b>	<b>38%</b>	<b>124%</b>	<b>69%</b>	<b>92%</b>	
<b>Total IFB Financing</b>			<b>15,328,309,862.00</b>	<b>9,543,985,913.00</b>	<b>3,313,717,476.00</b>	<b>1,885,060,399.00</b>	<b>1,350,505,261.00</b>	<b>694,337,812.00</b>
<b>Growth Percentage</b>			<b>61%</b>	<b>188%</b>	<b>76%</b>	<b>40%</b>	<b>95%</b>	
<b>Financing To Deposit Ratio</b>			<b>22%</b>	<b>20%</b>	<b>9%</b>	<b>12%</b>	<b>15%</b>	<b>14%</b>

Source: secondary data taken from National Bank's training material,(2022).



**Figure 4.1 Deposit and loan generated by nine conventional banks, through IFB windows**

By doing so, as Table 4.8 clearly depicts the IFB windows raised from Birr 4.7 billion to Birr 69 Billion over six financial years. In 2021, IFB deposits registered that an increment of Birr 20.7 billion (48%) over previous year same period. Regarding financing, total loans provided through IFB shows an increase from Birr 700 million to Birr 15.3 billion in the investigated six years. For the year 2020/21, the total financing provided to IFB customers grew by Birr 5.7 billion (61%) and stood at Birr 15.3 Billion.

The ever increasing IFB deposit and loan generating performance of selected conventional banks as shown in fig 4.1 indicates that there is rapid growth of IFB business, high potential market, stiff competition between banks and increase of new entrants to market, call for new product development, to increase financing, importance of IFB to pull in idle funds to the financial system in Ethiopia. This also indicates that, there is a promising future for Interest free banking in Ethiopia.

Despite its role played the history of Islamic banking in Ethiopia is recent. This is supported by Jemal, (2018) who confirmed interest free banking had never been practiced till 2013. The issue

is savior to full-fledged Islamic banking system whose commencement is lately in 2021. Therefore, under here, the researcher of this thesis tried his best to explain whether lack of demand and market potential, existence of capital resource constraint, lack of suitable banking policies, and legal and regulatory challenges were the reasons for late commencement of full-fledged Islamic banks in Ethiopia or not. The following mean score was applied to analyze the data.

**Table 4.9 Mean score range**

Mean value	Extent of the response
4.3-5	Strongly agree
3.4-4.2	Agree
2.7-3.4	Neutral
1.9-2.6	Disagree
1.0-1.8	Strongly Disagree

Source: Caddawan, (2021)

**Table 4.10 Respondents response towards the reason for late commencement of full- fledged Islamic banking in Ethiopia**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Lack of demand and market potential	F	99	35	11	18	4	167	1.76	1.121
	%	59.3	21.0	6.6	10.8	2.4	100		
	Cum.	59.3	80.2	86.8	97.6	100			
Existence of Capital resource constraints	F	48	37	34	37	11	167	2.56	1.292
	%	28.7	22.7	20.4	22.2	6.6	100		
	Cum.	28.7	50.9	71.3	93.4	100			
Lack of suitable banking policies	F	11	16	12	66	62	167	3.91	1.191
	%	6.6	9.6	7.2	39.5	37.1	100		
	Cum.	6.6	16.2	23.4	62.9	100			
Legal and regulatory challenges	F	5	4	10	41	107	167	4.44	.935
	%	3.0	2.4	6.0	24.6	64.1	100		
	Cum.	3.0	5.4	11.4	35.9	100			

Source: Own computation from primary data source, 2024.

As clearly depicted on Table 4.10 “Lack of demand and market potential” and “existence of capital resource constraint” were strongly disagreed and disagreed by respondents with a mean of 1.76 and SD of 1.121 and mean of 2.56 and SD of 1.292, respectively. This implies that there was an early interest to establish full-fledged Islamic banks and there was capital capacity among the Muslim community. While, Lack of suitable banking policies and Legal and regulatory challenges were agreed and strongly agreed with a mean of 3.91 and SD of 1.191 and mean of 4.44 and SD of .935 respectively. This implies that, according to the findings of the study legal and regulatory challenges are the first dominating factor contributes for late commencement of Islamic banking in Ethiopia followed by lack of suitable banking policies. Therefore, it can concluded that full-fledged Islamic banking in Ethiopia is not functional for those several years not because of lack of demand for the sector rather it was because of the existing regulatory challenges and unsuitability of the existing banking policies.

This result is consistent with some previous research findings. For instance, Jemal (2018) conducted a research on practices and challenges of interest free banking windows of commercial banks in Ethiopia. His findings indicted that lack of legal support from government is a big problem for the development of Islamic banking in Ethiopia.

Moreover, Neima, (2019) on her study “challenges of Interest free banking expansion in case of CBE, west Addis district” demonstrated that the mean value 66.7% of her respondents’ response lay above average score. And she has confirmed that Islamic banking expansion in Ethiopia faced lack of effective supervisory framework by the government, NBE.

In addition, as per the interview response with selected key informants, legal and regulatory frameworks specially the banking policy in Ethiopia is not only contributes for late commencement of Islamic banking system but the policies yet designed are not perfect fits to respond to smooth movements of full-fledged Islamic banks in the country. Moreover, from among various Islamic banking products, only the few products like: Wadiah (safe keeping product), Mudarabah (Profit-Loss Sharing), Qard (current/ demand), Kafalah (Guaranty/Warranty) are being applicable in Ethiopia. Again from various internationally applied financing products the Murabaha (Cost-plus) financing is dominated the Ethiopian Islamic banking sector. This shows the industry is not functional with its full capacity. The existing regulatory and policy framework set by the NBE raised as one of major challenge for the banks to

launce some financing products like musharaka. As a supporting to this, the interview held with one banking official was presented as follows;

“Fully fledged Islamic investment is initiated new in Ethiopia but the main Concern concede possibility be either they are now well operating a suggestion of correction? As be responsible to this question by way of the existent allowable foundations like grant and investment procedures the movements of fully fledged Islamic banks are being afflicted. Exemplification, as a habit of trade Islamic banks maybe complicated in asset and business projects but Islamic banks in Ethiopia are forbidden from bearing as well 10% of property on non-investment trade, this form the banks to have a minimum allotment agree their property .On account of this permissible frame work individual of the bigger Islamic expenditure crop, “Musharaka” is not still started to stock exchange .Additionally, while providing a “Murabaha” payment (that including commerce of advantage) skilled is a challenge of double.

#### **4.4. Prospects of Islamic Banking in Ethiopia**

##### **4.4.1 Existence of high amount of potential customer**

The success of every business is mainly depending on the availability of potential customers who can access the products and services provided. To get answer whether or not full-fledge Islamic banking in Ethiopia has high amount of potential customer and whether it is the positive prospect to the futurity of the sector, the researcher has raised the following three questions.

**Table 4.11 Availability of potential customer for Islamic banking in Ethiopia**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
The current global trends in financial services will have the positive expression on the future of Islamic banking expansion in Ethiopia.	F	6	10	18	67	66	167	4.06	1.034
	%	3.6	6.0	10.8	40.1	39.5	100		
	Cum.	3.6	9.6	20.4	60.5	100			
Existence of substantial number of unbanked communities in Ethiopia will have an opportunity for the futurity of Islamic banking in country.	F	8	16	25	76	42	167	3.77	1.081
	%	4.8	9.6	15.0	45.5	25.1	100		
	Cum.	4.8	14.4	29.3	74.9	100			
The growing population in the country will have a positive expression to increase in demand for Islamic banking.	F	5	4	16	86	56	167	4.10	.889
	%	3.0	2.4	9.6	51.5	33.5	100		
	Cum.	3.0	5.4	15.0	66.5	100			

Source: Own computation from primary data source, 2024.

As shown in table 4.11, all the three items: the current global trends in financial services, existence of substantial number of unbanked communities, and the ever growing population in the country were agreed as an indicators for existence of high amount of potential customer for Islamic banking in Ethiopia with a (mean of 4.06 and SD of 1.034), (mean of 3.77 and SD of 1.081) and (mean of 4.1 and SD of .889). This discloses that, as the plurality of accused accompanying a mean of 4.1 supported that the increasing society in Ethiopia shows a helpful verbalization to increase standard for Islamic investment in the country and enhances a big seeking determinant for the fully developed Islamic banks through growing the chance of potential consumers. In accordance with this verdict, the study by Suadiq (2020) shows that skilled is a extreme demand so important money-making prospect for Islamic investment, it is by

way of a extreme and increasing number of peoples in Ethiopia. Thus, Islamic investment in Ethiopia will have a important advertise potential. this judgment is likewise in accordance with verdicts by PWC (2013) the one raise that the demand for Islamic finance duties has happened growing on account of increasing Muslim public in nations exceptionally in The orient and Land of the Sahara. Additionally, Mutua(2017) disclosed that the demand for Islamic finance had existed growing on account of the increasing state.

#### 4.4.2 Existence of high popular demand for Islamic banking

According to Aman, (2019) the ever-increasing number of IFB service users in the window model is evidence that portrays the higher demand for IFB service. Given the fact that the windows are providing limited IFB products and the concern regarding sharia compliance of IFB window will be an adequate reason for customers to use fully-fledged banks. In line with this in the following section the researcher has tried to investigate whether Full-fledged Islamic banks in Ethiopia has a high popular demand or not. To assure these, on the basis of related literatures, three related questions were designed and provided to the respondents in order to have clear understanding on the topic raised:*Table 4.12 Existence of High popular demand for Islamic banking in Ethiopia*

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Existence of segregated communities who are not using conventional banking services due to involvement of interest.	F	8	25	28	81	35	167	3.72	1.046
	%	4.8	9.0	16.8	48.5	21.0	100		
	Cum.	4.8	13.8	30.5	79.0	100			
Customers demand for other products that conventional IFB windows are currently not providing.	F	11	26	44	65	21	167	3.35	1.093
	%	6.6	15.6	26.3	38.9	12.6	100		
	Cum.	6.6	22.2	48.5	87.4	64.7	100		
Limited accessibility of the existing Islamic banks to well address the community.	F	5	11	14	89	48	167	3.98	.954
	%	3.0	6.6	8.4	53.3	28.7	100		
	Cum.	3.0	9.6	18.0	71.3	100			

Source: Own computation from primary data source, 2024.

As depicted in Table 4.12, the analysis of the study showed that, “Existence of segregated communities who are not using conventional banking services due to involvement of interest” and “Limited accessibility of the existing Islamic banks to well address the community” with a (mean of 3.72 and SD of 1.046) and (mean of 3.98 and SD of .954), respectively were agreed as factors indicating the existence of high popular demand for Islamic banking in Ethiopia. Besides, the claim “Customers demand for other products that conventional IFB windows are currently not providing” responded as neutral with a (mean of 3.35 and SD of 1.093). This implies that the majority of respondents with a mean of 3.98 agreed that “Limited accessibility of the existing Islamic banks to well address the community” becomes a major prospecting factor which indicates the existence of high popular demand for Islamic banking but the demand is not fully satisfied with the existing Interest free banks. Therefore, it is fair to conclude that the Ethiopian market has a potential opportunity for Full-fledged Islamic banks. In addition, if they are come with increasing their accessibility full- fledged Islamic banks will tap the high demand and will have a great pool of customers.

Consistence with the present finding, the result by Getachew, (2018) on the study “assessment of prospects and challenges of interest free bank in Ethiopia” in case of CBE indicated that, there exists a limited accessibility of IFB service in Ethiopia. Therefore, Islamic banks needs to increase accessibility of their products in thecountry.

#### **4.4.3 Easy deposit mobilization and profitability of IFB window**

Despite the economies of scale advantage conventional banks enjoy when providing IFB window service, the tremendous growth in deposit mobilization and higher profit margin they earned by providing a restrictive IFB window service indicate the potential for full-fledged interest free banks to be profitable by providing a wide range of Sharia Compliant products and services (Suadiq (2020). In line with this, the researcher of this paper has forwarded three questions to assess whether easy deposit mobilization and profitability of IFB window implies an opportunity for full-fledged Islamic banks ornot.

**Table 4.13 Easy deposit mobilization and profitability IFB window**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Success of Interest-free banking windows in collecting huge amount of money through interest-free deposit schemes will lead to expansion of Islamic banks.	F	11	11	16	57	72	167	4.01	1.180
	%	6.6	6.6	9.6	34.1	43.1	100		
	Cum.	6.6	13.2	22.8	56.9	100			
IFB help conventional banks to maintain their liquidity through decreasing interest expense.	F	3	13	31	61	59	167	3.96	1.008
	%	1.8	7.8	18.6	36.5	35.3	100		
	Cum.	1.8	9.6	28.1	74.9	64.7	100		
Conventional IFB operations (window based IFB) have positive effect on mobilization of financial resources.	F	6	10	22	59	70	167	4.06	1.057
	%	3.6	6.0	13.2	35.3	41.9	100		
	Cum.	3.6	9.6	22.8	58.1	100			

Source: Own computation from primary data source, 2024.

As shown in Table 4.13, the survey result demonstrated an agreed response to the assertions that, “Success of Interest-free banking windows in collecting huge amount of money through interest-free deposit schemes will lead to expansion of Islamic banks”, “IFB help conventional banks to maintain their liquidity through decreasing interest expense” and “window based IFB have positive effect on mobilization of financial resources” with a (mean of 4.01 and SD of 1.180), (mean of 3.96 and SD of 1.008) and (mean of 4.06 and SD of 1.057), respectively. The highest mean score result (4.06) to the assertion “Conventional IFB operations (window based IFB) have positive effect on mobilization of financial resources” indicates the respondents agreement on how much window based IFB operations have positive effect on mobilization of financial resources which in turn contributes for the profitability of conventional IFB operations. Success of Interest-free banking windows in collecting huge amount of money through interest-free deposit schemes with a mean of 4.04 also agreed as other major indicator for positive prospect of Islamic banking in Ethiopia.

Concomitant with the present finding, the study by Muhammad (2022) “An assessment on Interest free banking practice in Ethiopia” shows that majority 91.1 % of his respondents are agreed with the assertion that window based IFB has positive effect on mobilization of conventional banking financial resources and facilitated the banks to take an opportunity of increasing their financial performance. This indicates an ample opportunity for full-fledged Islamic banks and improving their competitiveness than other conventional banks which provide a limited window-based service.

## **4.4 Challenges of Full-Fledged Islamic Banking Operations in Ethiopia**

Literatures all over the world, particularly in Ethiopia were dominated by the challenges of interest free banking which is given along with the conventional window banking system. However, in this section, an attempt is made to assess the main impediments that affect the real operations of full-fledged Islamic banks in Ethiopia.

### **4.4.1 Lack of public awareness**

The level of understanding, awareness, and knowledge of the public in general and, bankers and customers in particular are the cornerstones for the development of any banking service. This is particularly true in full-fledged Islamic banking service, which is still emerging in Ethiopia. Therefore, under here, the researcher of this thesis tried his best to analysis whether lack of public awareness became one of the challenges of full-fledged Islamic banking operations in Ethiopia or not. To assure this, three related questions were designed and provided to the respondents in order to have clear understanding on the topic raised:

**Table 4.14 Lack of public awareness as a challenge for Islamic banking in Ethiopia**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Islamic Banking products and services are largely unknown in Ethiopian finance market.	F	4	14	20	59	70	167	4.06	1.045
	%	2.4	8.4	12.0	35.3	41.9	100		
	Cum.	2.4	10.8	22.8	58.1	100			
Negative attitude of people towards Islamic banking (wrong association with religion).	F	6	19	29	59	54	167	3.81	1.117
	%	3.6	11.4	17.4	35.5	32.3	100		
	Cum.	3.6	15.0	32.3	67.7	100			
Banks communities like employees and shareholders remain a lot to promote Islamic banking products and services given.	F	12	10	18	55	72	167	3.99	1.197
	%	7.2	6.0	10.8	32.9	43.1	100		
	Cum.	7.2	13.2	24.0	56.9	100			

Source: Own computation from primary data source, 2024.

As table 4.14 indicates, all three items regarding lack of public awareness: “Islamic Banking products and services are largely unknown in Ethiopian finance market”, “there is a negative attitude of people towards Islamic banking (wrong association with religion)” and “there remain a lot by Banks communities like employees and shareholders to promote Islamic banking products and services they provide” were agreed by respondents with a (mean of 4.06 and SD 1.045), (mean of 3.81 and SD of 1.117) and (mean of 3.99 and SD of 1.197), respectively. As the mean score implies, the majority of respondents with a highest mean of 4.06 agreed that Islamic banking products and services are largely unknown in Ethiopian finance market. This signs the existence of lack of public awareness about Islamic banking products and services in Ethiopia. Accordingly, it can be concluded that Islamic banks in Ethiopia are threatened by a chronic problem of lack of public awareness about products and services they given.

This result is in harmony with some previous research findings. For instance, Tsion, (2017) confirmed that lack of awareness by customers about IFB services, institutional, lack of specialized human resource and the need for special regulations were the main challenges in implementing IFB system in her study on the challenges and opportunities of interest free banking in Ethiopia. Moreover the study by Mohammed (2012), Akmel (2015), Kerima (2016), Getachew, (2018) and different studies also reported lack of public awareness as one of the major challenges of Islamic banking in Ethiopia.

In addition, as per the interview, the awareness of people in Ethiopia concerning the Islamic Banking concept is very low and eventually it has made their participation in Full-fledged Islamic Banking services below expectations. Moreover, Islamic banking products also remain largely unknown and misunderstood in the country.

#### **4.4.2 Lack of trained and experienced human capital**

Research finding indicated that even many managers of commercial banks and staffs of interest free banking department/division who are responsible for operating and marketing Interest free banking products are not very well trained in Interest free modes of finance (Jemal, 2018). In a view to assess whether full-fledged Islamic banking operations in Ethiopia are challenged by lack of trained and experienced human capital or not the researcher of this study has proposed the following questions:

**Table 4.15 Lack of trained and experienced human capital for Islamic banking in Ethiopia**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Islamic banking employees have not adequate knowledge about the services and products they provide.	F	23	35	24	67	18	167	3.13	1.259
	%	13.8	21.0	14.4	40.1	10.8	100		
	Cum.	13.8	34.7	49.1	89.2	100			
There is absence of trainings, works shops, seminars to enhance the capacity of employees.	F	12	29	14	75	37	167	3.57	1.214
	%	7.2	17.4	8.4	44.9	22.2	100		
	Cum.	7.2	24.6	32.9	77.8	100			
Islamic banks are threatened by lack of experienced workforce to make their Services up to date and fully comply with Sha'riah law.	F	21	29	26	57	34	167	3.32	1.078
	%	12.6	17.4	15.6	34.1	20.4	100		
	Cum.	12.6	29.9	45.5	79.6	100			

Source: Own computation from primary data source, 2024.

As displayed in Table 4.15, the majority of respondents with a mean of 3.57 and SD of 1.078 agreed with the first item, “There is absence of adequate trainings, workshops and seminars to enhance the capacity of employees by the banks”. When in fact accused are concurred towards the first and the last parts accompanying a mean of 3.13 and SD of 1.259 and mean of 3.32 and SD of 1.078, individually. This implies that Islamic banking employees have a challenge of gaining adequate training and other knowledge building activities.

This is supported by the employee’s response from the open-ended question which shows lack of adequate training program on Islamic banking system create some difficulties with in the staff to well deliver the service. These show that not providing training service become challenge to deliver Islamic banking products and services.

In line with the present finding a study by Getachew, (2018) indicates that the majority 85% of respondents were agreed with lack of training program on IFB system create knowledge gap with in the staff to deliver the service.

#### 4.4.3 Benchmarking from conventional banks

The Islamic banking and finance industry have continued to grow in leaps and bounds over the years. It is now the fastest-growing segment of the global financial system, with the unremitting establishment of Islamic banks in the Muslim world and beyond. By considering its profitability and huge resource mobilization the competition on the Islamic banking sector shows a strong hold. This indicates that the full-fledged Islamic banking services and products are affected by other conventional banks due to prevailing window based IFB competition. To investigate whether benchmarking from conventional banks is a challenging factor for full-fledged Islamic banks in Ethiopia ornot, the researcher of this thesis raised the following questions:

**Table 4.16 Benchmarking from conventional banks as a challenge for Islamic banking in Ethiopia**

Statements	Response	Response categories					Total	mean	SD
		SD	D	N	A	SA			
Negative perception among investors due to usage of Interest-based benchmark with the conventional banks	F	9	17	49	69	23	167	3.48	1.029
	%	5.4	10.2	29.3	41.3	13.8	100		
	Cum.	5.	15.6	44.9	86.2	100			
Accessibility-based benchmark- customers prefer to go to the nearest conventional banks rather than going for far Islamic banks.	F	6	19	29	59	54	167	3.81	1.117
	%	3.6	11.4	17.4	35.3	32.3	100		
	Cum.	3.6	15.0	32.3	67.7	100			
Customers strong bonding with conventional banks- due to longer relation period.	F	5	11	21	58	72	167	4.08	1.044
	%	3.0	6.6	12.6	34.7	43.1	100		
	Cum.	3.0	9.6	22.2	56.9	100			

Source: Own computation from primary data source, 2024.

As shown in table 4.16, all the three items regarding to the challenge of benchmarking from conventional banks: “Negative perception among investors due to usage of Interest- based benchmark with conventional banks”, “Accessibility-based benchmark”, and “Customers strong bonding with conventional banks- due to longer relation period” with a (mean of 3.48 and SD of 1.029), (mean 3.81 and SD of 1.117) and (mean of 4.08 and SD of 1.044), respectively were agreed as challenges for full-fledged Islamic banks in Ethiopia. as the majority of respondents with a mean of 4.08 agreed that Islamic banks in Ethiopia are mainly challenged by customers’ strong bonding with conventional banks due to their longer relation period and existing long term financialcontracts like: long term loan agreement between them.

This is also supported by employee’s response on the open-ended questions. In line with this the interview response also reveals that, the existing strong bonding of customers with conventional banks like long term financing contracts are other challenges for full-fledged Islamic banking operations in Ethiopia. This is because of customers are challenged to easily shift their transactions from conventional banks.

Moreover, Louis S. Nkwatoh et al. (2014) who examine the operational challenges of Islamic banks in Nigeria with particular reference to JAIZ International Bank Plc. concludes that competition with conventional banks is a major setback to Islamic banking in Nigeria.

#### **4.4.4 Lack of confidence on Islamic banking system**

In today’s competitive era, getting a strong customer trust and loyalty is considered as a very challenging issue. This will be severe if the organizations are new. As a new venture, full-fledged Islamic banks in Ethiopia may face this problem. In this regard, the researcher of this thesis has raised the following questions to understand the issue under study in detail:

**Table 4.17 Lack of confidence on Islamic banking system**

Statements	Response	Response categories					Total	Mean	SD
		SD	D	N	A	SA			
Customers perceive that Islamic banking operation is still under the conventional bank system pressure.	F	10	30	22	61	44	167	3.59	1.223
	%	6.0	18.0	13.2	36.5	26.3	100		
	Cum.	6.0	24.0	37.1	73.7	100			
Wrong perception of customers about the interest factor under conventional banking and profit factor under Islamic banking are the same.	F	9	21	17	75	45	167	3.75	1.143
	%	5.4	12.6	10.2	44.9	26.9	100		
	Cum.	5.4	18.0	28.1	73.1	100			
Lack of clear understanding about Islamic banking is equally beneficial to other non-Muslim communities.	F	8	8	22	67	62	167	4.00	1.064
	%	4.8	4.8	13.2	40.1	37.1	100		
	Cum.	4.8	9.6	22.8	62.9	100			

Source: Own computation from primary data source, 2024.

As displayed in Table 4.17, the survey result indicates that respondents were agreed to the above all three items: “Customers perceive that Islamic banking operation is still under the conventional bank system pressure”, “there is a wrong perception of customers about the interest factor under conventional banking and profit factor under Islamic banking are the same” and “there is lack of clear understanding by the public about Islamic banking is equally beneficial to other non-Muslim communities” with a (mean of 3.59 and SD of 1.223), (mean of 3.75 and SD of 1.143) and ( mean of 4.00 and SD of 1.064), respectively. But, majority of respondents with a highest mean value of 4.0 were agreed more to the third item “there is lack of clear understanding by the public about Islamic banking is equally beneficial to other non-Muslim communities”. This creates lack of confidence on the system which in turn being a challenge for full-fledged Islamic banking operations.

In addition, the interview result also shows even if Islamic Banking is a business model where people are to be served disregarding their religion, but still non-Muslim communities look the business only for Muslims. The negative influence of such societal belief is also one of the challenges for full-fledged Islamic banks.

Concomitant with the present finding, the study by Getachew, (2018) indicates the majority, about 66.5% of respondents were agreed that the non-Muslims cannot use the product of IFB due to wrongly associating the system with religion. This signifies there is lack of confidence by the potential customers to think Islamic banking will equally beneficial to non-muslim customers.

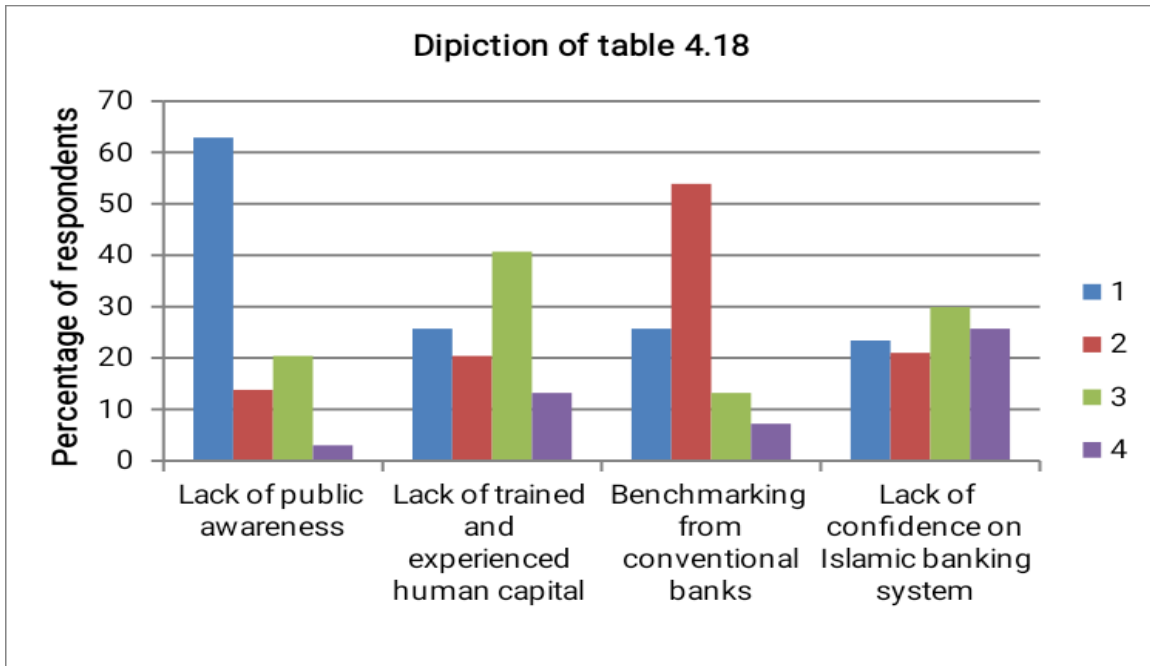
#### **4.5 Intensity of Challenges Facing full-fledged Islamic Banking Operations**

Among the different challenges that Islamic banks are currently facing, some might be more pressing and serious ones than the other that might hinder the operations and profitability of full-fledged Islamic banks. To figure out which challenge might be affecting the banks more and requires more attention, the respondents were asked to give rates to the challenges according to their seriousness. The respondents were asked to rate "1" to the most serious challenge, "2" to the second most serious challenge, "3" for the third most serious challenge, and "4" for the fourth most serious challenge. Based on this instruction respondents gave their opinions on what they think are the biggest challenges according to their seriousness as follows:

**Table 4.18 Intensity of challenges facing Islamic banking operations**

Statements	Response	Response categories					Total	Mean	SD
		1	2	3	4				
Lack of public awareness	F	105	23	34	5	167	1.63	.908	
	%	62.9	13.8	20.4	3.0	100			
	Cum.	62.9	76.6	97.0	100				
Lack of trained and experienced human capital	F	43	34	68	22	167	2.41	1.013	
	%	25.7	20.4	40.7	13.2	100			
	Cum.	25.7	46.1	86.8	100				
Benchmarking from conventional banks	F	43	90	22	12	167	2.02	.825	
	%	25.7	53.9	13.2	7.2	100			
	Cum.	25.7	79.6	92.8	100				
Lack of confidence on Islamic banking system	F	39	35	50	43	167	2.58	1.110	
	%	23.4	21.0	29.9	25.7	100			
	Cum.	23.4	44.3	74.3	100				

Source: Own computation from primary data source, 2024.



**Figure 4.2 Intensity of challenges facing Islamic banking operations**

Accordingly, as clearly depicted in table 4.18, respondents were give a rate to lack of public awareness with a (mean of 1.63 & SD of 0.908), lack of trained and experienced human capital with a (mean of 2.41& SD 1.013), benchmarking from conventional banks with a (mean of 2.02 & SD of 0.825) and lack of confidence on Islamic banking system with a (mean of 2.58 & SD of 1.110), respectively. This implies that, as majority of respondents give a least mean of 1.63 (the least the mean the first most serious the challenge become), lack of public awareness becomes a first most serious challenge which impend the operations of full-fledged Islamic banking in Ethiopia which is followed by bench marking from conventional banks, lack of trained and experienced human capital and lack of confidence on Islamic banking system. Therefore it can conclude that, full-fledged Islamic banks are facing a major challenge of lack of public awareness in Ethiopia.

This finding is in agreement with findings of the study done in Islamic banks in Palestine by Hisham J. 2002 who found that one of the biggest setbacks in Islamic banks is that people don't have enough understanding about Islamic banking services as it was also a newly establishing banking system in Palestine at the time. The research put lack of awareness as one of the most serious challenges of the newly establishing Islamic banks.

The present study finding is also supported by various researchers. For instance, Mohammed (2012), Akmel (2015), Kerima (2016), Tsion, (2017), and Getachew, (2018) has confirmed that lack of public awareness is a major setback for Islamic banking operations in Ethiopia.

## CHAPTER FIVE

### 5. CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary of Findings

Chapter four gave a detailed analysis of the research findings and discussion with the previous studies. It assesses the demographic information of the respondents like their gender, age, years of experience, level of education and religion. The chapter also highlighted the trend, current status, major prospects and challenges of Islamic banking operation in Ethiopia. From the demographic analysis of respondents, it has clear that the full-fledged Islamic banks are operating with a majority of young population. Consisting of both Muslim and non Muslim religion followers. This indicates that Islamic banks are not only for Muslim communities. Moreover, the study has shown that majority of respondents have a recent exposure to Islamic banking since the concept is a recent to Ethiopia. As a result, the sector lacks well experienced workforce.

While investigating the trends of Islamic banking operations in Ethiopia, the study has shown that the issue is a recent but the continuous growing banking segment which starts its service with only window-based provision via conventional banks with around twelve years history. until 2019 there was no bank registered to provide the service on a full-fledged based. While assessing the root cause of this late commencement, the researcher has finds out “the legal and regulatory challenges” as a major challenge, which is agreed by the majority (88.7%) of respondents and having a highest Mean of (4.44). Moreover the “existing banking policy” was also agreed by more than half (76.6%) of respondents and having a mean of 3.91.

Through its journey with in the window provision, the deposit and financing performance of Islamic banking in Ethiopia has shown a continual increment but still it is at its infant stage which does not respond to the market demand both in type of existing products and ways of providing it. Close analysis of the questions related to the prospects of Islamic banking in Ethiopia displayed that, easy deposit mobilization and profitability of IFB window signifies the major opportunity/ positive prospect for Islamic banking sector. This is assured by a greatest aggregate

mean of 4.01. The study also finds out the growing population in the country will have a positive expression to increase in demand for Islamic banking”. This is assured by the majority (85%) of respondents and become another opportunity/positive prospect for Islamic banking with having a highest mean of 4.10.

While investigating the major challenges regarding Full-fledged Islamic banking in Ethiopia the researcher has found out “lack of public awareness” as a major influential factor. As more than half (77.2%) of the respondents witnessed it is mainly due to the claim that “Islamic Banking products and services are largely unknown in Ethiopian finance market”. This is also supported by the highest mean value of 4.06 and SD of 1.045. This might be attributed to the fact that the banking communities like employees and shareholders remain a lot to promote the products and services they provide. This was agreed by 76% of respondents and a mean of 3.99 and SD of 1.197. There is also absence of trainings, works shops and seminars to enhance the capacity of employees in relation to Islamic banking operations as well as lack of experienced human capital on the sector. This creates a knowledge gap within the employees.

Benchmarking from conventional banks specially their easy accessibility and their strong bonding with customer is another challenge for the operations of the newly adopted Full-fledged Islamic Banks. Since customers prefer to go to the nearest conventional banks than going too far for full-fledged Islamic banks. This shows the limited accessibility of existing full-fledged Islamic banks to well address the community.

The study also reveals that there is lack of clear understanding by the public about Islamic banking is equally beneficial to other non-Muslim communities and wrongly associating the system with religion. This is assured by 77.2% of respondents.

Moreover, as the study finds out, the Islamic banks are regulated by the same framework as that of conventional banks except related to interest the banking policies yet designed are also not perfect fits to respond to smooth movements of full-fledged ISB services in Ethiopia. According to Article 3 of limitation on investment of bank, directive SBB/12/1996, “A bank may hold shares in a non-banking business only up to 20% of the company’s share capital and total holdings in such business shall not exceed 10%”. This article creates a conflict for issuing Musharaka

financing partnership agreement in which a bank could own majority of the share of a business/transaction at the time of the signing of the contract. Thus, this directive hinders the delivery of this product at all. In addition to this the Interest free banking directive does not give detail guide line and there is also weak support and follow up from NBE. From this it can concluded that, full-fledged Islamic banking operation in Ethiopia is still at its infant stage and being under the conventional bank system pressure.

## **5.2 CONCLUSIONS**

Based on the findings of the study the following conclusions are made.

Speaking of challenges, this study concludes that:

- There are absence trainings, workshops, seminars to enhance the capacity of employees.
- The study also found out that the banks are not working towards creating more awareness about full-fledged Islamic banking. The study revealed that the bank's officials are not working diligently on awareness creation.
- The findings of the study also revealed that there exists inadequate infrastructure for information dissemination and consumer acceptance of full-fledged Islamic banking is in query.
- The legal and regulatory challenges are the most dominating factor for contributes for late commencement of full- fledged Islamic banking in Ethiopia.
- Also the study exposed there is lack of adequate banking law for full fledged Islamic banking due to these experience in Islamic shariah (sharia advisory) is low also there is inadequate legal and supervisory framework

In terms of opportunities, the study concludes the following as the main opportunities of Islamic banking in the country

- Islamic banking service has a potential to attract investors because of these there will be growing users of the service (Islamic banking is growing and the tendency that it will keep growing further in the future) which brings contribution for economic growth

- Islamic banking will have contribution to support and expand local businesses (by providing Saving and loan Service when the service expand it creates employment opportunities and the service represents additional deposit to the banks.

### **5.3. RECOMMENDATIONS**

Based on the aforementioned conclusions, the researcher recommends the following points.

- In order to create awareness and acceptance to the public the full fledged Islamic banks needs to create awareness by using the marketing tools. Officers of the bank should play a vital role in educating the public about Islamic banking products.
- In order to have well trained man power there must be training program. Most of the training given to the officers and staff of banks are in line with customer handling. Compared to Islamic banking products, principles and practice, Islamic banking is a contemporary issue with new discipline and has distinct rules and principles. Since many of their employees do not know the difference between their products, this implies for a need of training for the employees.
- The service of Islamic banking is not only for Muslims also the followers of other religion can access the service but majority of the followers of other faiths have little or no knowledge about it at all. So the banks must work more on marketing to introduce that the service is based on non interest, not on religion
- For every financial organization deposit is a vital and crucial issue for the existence of the sector in order to increase the deposit of the bank, the banks has encourage the clients to place their deposit with Islamic banks by employing good marketing techniques.

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