



**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**CHALLENGES AND PROSPECTS OF INTERST FREE BANKING: CASE  
STUDY ON BANK OF ABYSSINIA**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY,  
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CHALLENGES AND PROSPECTS OF INTERST FREE BANKING,  
EVIDENCE FROM BANK OF ABYSSINIA

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**Declaration**

I, Frehywot Astatke, affirm that this thesis represents my own original work, adheres to university regulations, meets the established standards for thesis quality, and appropriately acknowledges all the resources utilized in the thesis.

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Signature 

Date 28/12/23

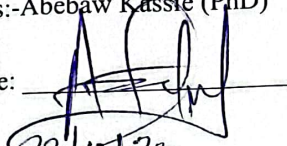
### **Certification**

This is to confirm that Ms. Frehywot Astatke conducted research on the subject "Challenges and Prospects of Interest-Free Banking, the Case of Bank of Abyssinia." The research is her original work, and proper acknowledgment has been given to all sources of material used in the study.

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## **Acronyms**

**ATM** stands for Automated Teller Machine,

**BBA** refers to BAI Bithman Ajil,

**BOA** stands for Bank of Abyssinia,

**IBS** represents Interest-Free Banking Service,

**IB** is an acronym for Islamic Banking,

**IFB** stands for Interest-Free Banking,

**IFI** denotes Islamic Financial Institution,

**IS** represents Interest-Free Banking,

**NBE** is the abbreviation for National Bank of Ethiopia,

**R&D** stands for Research and Development.

## **Abstract**

*This research explores the challenges and prospects of interest-free banking services in Ethiopia, specifically focusing on the Bank of Abyssinia East Addis Ababa District. Employing descriptive research through a survey, the study gathered data from a total sample of 355 interest-free banking customers and 60 bank staff. The collected data underwent analysis using descriptive statistics, including mean, frequency, and percentage, through SPSS version 26 software. The study identifies challenges such as awareness, manpower, legal framework, social beliefs, and resource needs. In contrast, economic progress, attraction of investors, and fostering investment are highlighted as potential prospects for the banks. The analysis reveals that the prospects of interest-free banking lie in the presence of potential customers and diplomatic advantages.*

*To achieve the study's objectives, respondents were selected through multistage sampling. The study concludes that interest-free banking services have the potential to enhance the economy by providing additional resources for banks, investment opportunities, reaching unbanked customers, and creating employment opportunities through effective mobilization. Based on these conclusions, recommendations include creating awareness for public acceptance, providing training for staff, employing effective marketing techniques, establishing a clear legal framework, and ensuring compliance with Sharia law. The researcher suggests aggressive promotion and marketing campaigns for interest-free banking products, continuous training to enhance manpower capacity, focused attention on the business, transparent operations in interest-free banking, and the government's preparation of a compatible regulatory framework.*

### **Key word**

***Interst Free Banking, challenge, prospect***

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# CHAPTER ONE

## 1. INTRODUCTION

*This chapter presents an overview of the study, encompassing the study's background, organizational context, problem statement, research questions, study objectives, significance, scope, and the organizational structure of the study.*

### 1.1. Background of the Study

Banking has traditionally held a significant role as a crucial financial intermediary within the economic structure of nations, mobilizing savings and idle funds to facilitate their effective utilization (Uzair, 1976). In recent times, interest-free banking has emerged as an alternative to conventional banking, gaining global traction since its inception in the 1960s (Okumus & Genc, 2019). Operations within interest-free banking adhere to Islamic principles known as Shariah, drawing guidance from sources such as the Holy Quran, Hadith, Sunna, Ijma, Qiyas, and Ijtihad (Gait & Worthington, 2019).

The foundational concept across these sources, particularly concerning banking activities, is the prohibition of interest, known as Riba (Kabir, 1999; Okumus & Genc, 2019). Riba is characterized as predetermined payment or any interest exceeding the actual principal amount, contributing to an unequal distribution of wealth in society. Additionally, Islamic principles advocate for the fair sharing of profits, risks, and losses between transaction parties, prohibiting transactions involving uncertainty and speculation (Gharar). Islamic banks, adhering to these principles, are also restricted from engaging in businesses associated with sectors like alcohol, pornography, and gambling. This foundation underlies the structure of modern interest-free banking, defining Islamic banks as institutions aiming to implement Islamic economic and financial principles within the banking realm.

Presently, interest-free banking is widely adopted globally, primarily catering to the needs of Muslim communities and others seeking services aligned with Islamic principles (Khan, 1998). Countries around the world are moving towards transforming their economic systems and banking sectors to better align with the tenets and conditions of Islam.

Ethiopia has implemented a similar measure by introducing a directive in 2019 titled "Licensing and Supervision of Banking Business (Directives to Authorize the Business of Interest-Free Banking)," abbreviated as Directives Number SBB/51/2019 of the National Bank of Ethiopia (NBE, Directives Number SBB/51/2019). This directive responds to a growing public demand for interest-free banking products in Ethiopia, compelling banks in the country to incorporate and provide interest-free banking services. Since then, several banks, including the Bank of Abyssinia, have been offering this service to their customers. Despite this, there is limited knowledge about the ongoing practices of interest-free banking in Ethiopia, given the nascent nature of the field. Aspects such as the challenges and prospects of interest-free banking at the business or sectoral level in Ethiopia remain underexplored. Hence, this study aims to delve into this contemporary phenomenon, specifically focusing on investigating the challenges and prospects of interest-free banking practices within the Bank of Abyssinia (BOA).

## **1.2. Statement of the Problem**

In the contemporary business landscape, both Islamic and non-Islamic nations are integrating interest-free banking practices into their banking regulations to foster economic growth (Imam & Kodar, 2019). While there is extensive literature on the regulatory, monetary, and institutional aspects of traditional/conventional banking systems, the same cannot be said for interest-free banking practices (Zangeneh & Salam, 1993). Interest-free banking is a relatively recent development in Ethiopia, with the National Bank (NBE) authorizing interest-free banking services in 2019, effective from December 1, 2019 (NBE, Directive No. SBB/51/2019). Therefore, the objective of this research is to explore the challenges and prospects of interest-free banking in Ethiopia, focusing on the case of the Bank of Abyssinia. The aim is to shed light on the encountered challenges and prospects, addressing a theoretical and empirical gap given the lack of studies on the challenges and prospects of interest-free banking in this developing part of the world that has recently introduced interest-free banking. The Bank of Abyssinia is chosen due to its status as the second largest private bank in the country and its pioneering role in introducing interest-free banking services to its customers.

Additionally, as previously mentioned, the recent emergence of interest-free banking in the country has resulted in a lack of studies exploring its practices, particularly in addressing the associated challenges and prospects. A related study conducted by Akmel (2019) focused on United Bank and Oromia International Bank; however, both banks had recently introduced interest-free banking services, with United Bank launching in May 2019. Akmel's study, conducted shortly after the launch, could be considered premature, especially given that both Oromia International Bank and Bank of Abyssinia introduced interest-free banking in November 2019. This timeframe indicates that Akmel's study occurred within just a year or so after the banks implemented interest-free banking, highlighting a potential research gap related to timing. Furthermore, Akmel's findings were generalized for the three banks without providing specific insights into the challenges and prospects unique to each institution, suggesting a lack of specificity in the study. This observation underscores the existence of a research gap.

Moreover, other research in Ethiopia has explored the attributes of Interest-Free Banking (IFB). For instance, Mohamed (2021) investigated the prospects, opportunities, and challenges of Interest-Free Banking in Ethiopia, identifying potential challenges such as lack of awareness, regulatory and supervisory challenges, institutional challenges, insufficient support and link institutions, gaps in research and development in IFB studies, a shortage of qualified human resources, and the misassociation with specific religions and global illegal trafficking.

To address the existing research gap, as mentioned previously, the aim of this study is to investigate the challenges and prospects of interest-free banking in Ethiopia, focusing specifically on the case of the Bank of Abyssinia in the eastern district. The objective is to provide insights into the challenges and prospects faced, contributing to the closure of the current gap in research.

### **1.3. Research Questions**

To achieve the specified objectives, the study aimed to answer the following research inquiries:

- 1) What interest-free banking services does BOA offer to its customers?
- 2) What are the primary challenges encountered by the bank in delivering interest-free banking services?

- 3) What prospects have been identified in the bank's interest-free banking services?

## **1.4. Research Objective**

### **1.4.1. General Objective**

The objective of this study is to assess the challenges and prospects of interest free banking practices of Bank of Abyssinia.

### **1.4.2. Specific Objectives**

The specific objectives are to:

- 1) To categorize the varieties of interest-free banking practices offered by Bank of Abyssinia to its customers.
- 2) To examine the hurdles encountered by Bank of Abyssinia in the provision of its interest-free banking services.
- 3) To highlight the potential opportunities linked to the interest-free banking services provided by Bank of Abyssinia.

## **1.5. Delimitation/Scope of the Study**

This research aimed to investigate the challenges and prospects within the banking sector, particularly focusing on the Eastern District of BOA, one of the promising sectors in the country. Due to the extensive presence of the bank with numerous branches and considerations of time and cost, the study was constrained to the specific district of Eastern Addis Ababa. Studying interest-free banking at the corporate level is complex, and the choice of Eastern District was driven by convenience, considering the uniformity of interest-free banking services across the bank's districts and the researcher's established contacts in the Eastern District.

## **1.7. Limitations of the Study**

The research concentrated on evaluating the interest-free banking service within the Eastern District of BOA. It is essential to highlight that, given the extensive nature of BOA as a large organization, even a single district, such as the Eastern District, constitutes a substantial operational domain with over 70 branches. The decision to focus on a specific district was driven by considerations of convenience and efficiency. Paradoxically, this limitation could serve as an opening for future researchers to overcome by extending and enhancing the study.

## **1.8. Significance of the study**

This study aims to provide valuable insights and improve our understanding of interest-free banking in the region. The results of the research will not only contribute to academic knowledge, but will also offer practical implications for the Bank of Abyssinia and similar institutions. Understanding the specific identified interest free banking services, challenges and prospects will help improve the delivery of these services and support growth and development in the financial sector. In addition, the findings of the study can inform policy makers, regulators and industry stakeholders, facilitate informed decision making and support the overall progress of interest free banking practices in Ethiopia.

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

This study is structured into five chapters. The introductory chapter contains an introduction that includes background, problem statement, objectives of the study, significance, delimitation of the study, limitations and organization. The second chapter summarizes the relevant literature related to the research. The third chapter focuses on research design and methodology. Chapter four includes analysis, interpretation of data and discussions of significant issues. Finally, chapter five provides the summary, conclusions and recommendations for the study.

## **1.10. Operational definition**

The researcher aims to clarify the key terms and concepts relevant to this study for better understanding of the research report.

**Bai'salam:** This contractual arrangement is commonly used to finance agricultural production. In this arrangement, the seller undertakes to deliver specific goods to the buyer at a future date in exchange for a fully paid advance price at the time of the contract (Hasan, 2008).

**Istisna'a:** This is a new concept in Islamic finance that presents possibilities for future structuring in trading and financing (Farkhd, 2010).

**Haram:** Haram is the term for any activity forbidden by God (al-ahkam al-khamsah).

**Shariah:** Shariah, literally meaning a well-trodden path to a source of water, is used to describe Islam as a comprehensive way of life (ibn Al-Qaym).

Riba (Usury): Riba includes any unjustified increase in borrowing or lending money (AbdelRahman Yousri Ahmad).

Mudaraba: Mudaraba is a basic principle of profit and loss where the banker engages in partnership with the borrower instead of simply lending money (Ketel, 2010).

Musharaka: Musharaka refers to a partnership where an Islamic institution provides the capital required for the customer and both parties share in the profit and loss (Farhod, 2009).

Murabaha: Murabaha is a purchase contract in which a financial institution acts as an intermediary and purchases the desired goods for the customer (Haque, 1993).

Ijara: Ijarah is a contract where a bank acquires and leases assets or equipment required by its customer for rent (Hume, 2008).

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1.Introduction**

*This section presents a literature review aligned with the study's objective and research questions, which aim to explore the challenges and prospects of interest-free banking practices at Bank of Abyssinia (BOA). The review encompasses major types of interest-free banking products, challenges associated with interest-free banking, and potential prospects. Additionally, the paper starts with an overview of interest-free banking, providing a thorough theoretical and empirical review of related literature. Ultimately, a conceptual framework is developed to outline the research trajectory.*

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## **2.2. Theoretical overview**

### **2.2.1. Overview of interest-free banking**

The rise of influential Islamic movements has recently fueled a renewed interest in Islamic economics, particularly interest-free banking. Countries such as Iran and Pakistan have introduced interest-free banking systems, and many others have adopted hybrid systems that combine Western and interest-free banking practices (Yusefi, Abizdeh & McComick, 1999). Currently, interest-free banking has developed into a substantial segment in the global financial market, which is recognized as a competitive form of financial intermediation not only in Muslim countries, but also outside them, offering various financial products and services (Dusuki, 2019). From its humble beginnings in the mid-1960s and 1970s, the industry has experienced rapid growth and development over the past three decades, standing out as one of the fastest growing sectors with double-digit annual growth for nearly 30 years (Iqbal and Molynux, 2015; Okmus&Genc , 2019).

Duski (2019) emphasizes that Islamic banks should not only focus on profits but should also strive to promote Islamic norms, values and protect the needs of Islamic society. This model places significant social responsibility and religious obligations on Islamic banks to achieve Islamic economic goals, including social justice, equitable distribution of income and wealth, and promotion of economic development. Additionally, Akmel (2019) notes that scholars attribute different meanings to the term "interest-free banking" in reference to a banking system in accordance with the principles of Shariah and the practical application of Islamic economics. The Shariah prohibits interest charges for lending and receiving money, as well as engaging in trade or other activities that are contrary to its principles. Although these principles have historically supported a flourishing economy, Islamic banks only emerged in the late 20th century to provide an alternative base accessible to a wider audience, not limited to Muslims.

This document adheres to the definition of interest-free banking given in the introduction, which states that interest-free banking, is governed by Islamic principles known as Shariah. These principles are derived from the Holy Quran, Hadith, Sunnah, Ijma, Qiyas and Jihad, which

fundamentally prohibit interest or *riba* (Gait & Worthington, 2019). Bello and Abubakar (2019) confirm this view by stating that interest-free banking revolves around the observance of Islamic law (Sharia) and views it as a banking system in accordance with Islamic laws and principles. Essentially, “interest-free banking is interest-free banking where there is no fixed rate of return. It operates in accordance with Islamic law and is governed by the Sharia Council” (Akram, Rafique, & Alam, 2019).

#### 2.2.2. interest-free banking vs conventional banking

There are significant differences between Islamic banks and their conventional counterparts that go beyond their operational practices, as proponents of interest-free banking argue. The differentiating factor lies not only in how they do business, but more importantly, in the values that guide the entire operation and perspective of Islamic banks. Interest-free banking is more comprehensive than simply refraining from charging interest; it is a system designed to contribute positively to the fulfillment of the socio-economic goals of Islamic society, outlined in the *Maqasid as-Shari`ah* (goals of the *Shari`ah*) (Ahmad, 2002; Erol, 1990; Dusuki, 2019a).

Comparing interest-free and conventional banking, Samad (2008) emphasizes that Islamic banks are unconventional financial institutions. Unlike conventional banks that rely on interest as a cornerstone, interest is completely prohibited in interest-free banking. In addition, Islamic banks operate under two constraints. While they operate as commercial banks, they follow not only conventional business laws but also Islamic principles. This duality requires giving up many profitable investment opportunities that are not in accordance with the divine laws of Islam. The following section defines the differences between interest-free banking and conventional banking practices.

There are many differences between conventional banking and interest-free banking. The key difference lies in the fact that while the functions and operations of conventional banking are primarily governed by secular principles, interest-free banking operates on the basis of religious doctrines and values. Moreover, in conventional banking, institutions emphasize profit

maximization, while in interest-free banking we focus on balancing the doctrine of profit maximization with social responsibility.

### **2.2.3. Principles of interest interest free banking**

In complying with Shariah principles, Islamic financial institutions must strictly adhere to four basic principles as outlined by Sammad (2018): Ribb, Gharar, Zakat and Ethical Investment. First, all transactions within these institutions must be interest-free and riba exemption must be ensured. Second, activities or transactions involving speculation (gharar) should be avoided. The third principle involves the implementation of zakat, which is a compulsory Islamic tax. Finally, these institutions are prohibited from participating in the production or consumption of goods and services considered haram (illegal from an Islamic point of view). The following discussion will delve into these four principles and highlight what characterizes interest-free banking according to Sammad (2108).

#### 1. Prohibition of interest (Riba):

The Qur'an expressly forbids riba, which includes any amount charged in excess of the principal. Interest-free banking centers on the prohibition of interest on payment or income, which makes it the basic principle of financial instruments in Islamic banking (Bala et al., 2009:26).

#### 2. Gharar (speculation or gambling):

Islam prohibits speculation or gambling (gharar), especially transactions involving excessive risk. While risk taking in business is permitted, speculative activities such as buying stocks at a low price and selling them at a higher price are considered illegal. Conventional banks lack such restrictions when financing speculative investments (Bala et al., 2009:26).

#### 3. Zakat (compulsory religious tax):

Zakat is a compulsory religious payment on the wealth of the rich that ensures the redistribution of wealth and a fair standard of living for the poor. Islamic banks are required to establish a zakat fund and pay zakat from the profits earned, in addition to all conventional taxes. This contrasts with conventional interest-based banks, which are only subject to business tax, giving them a particular advantage (Bala et al., 2009:30).

#### 4. Islamic investment ethics:

Islamic investments are governed by strict codes of ethics that prohibit involvement in activities such as alcohol, pork, gambling, illegal drugs, etc. Islamic banks cannot finance such activities as they ensure compliance with Sharia principles. Conventional banks do not face similar restrictions in their investments (Bello & Abubakar, 2019).

#### 5. Forms of interest-free banking:

The various modes of operation in interest-free banking include Qard Hasan loans, Mudarabah (silent partnership), Murabahah (cost-plus sale contract), Ijarah (lease), Musharaha (equity partnership) and Salam (future trade contract) (Bala et al. , 2009:25-31).

#### 6. Models of interest-free banking services:

Interest-free banking service models include window service (offering Sharia-compliant products within a conventional bank), subsidiary/branch service (a specific branch offering Sharia-compliant products) and full-service (an independent Islamic bank offering a wider range of products in Sharia compliance) (Sole, 2014).

#### 7. Challenges of interest-free banking:

Challenges include lack of knowledge, skills and technical capacity for regulation and oversight. This includes challenges in human resources, education, creating awareness and the absence of legislation on Sharia governance (Ibrahim & Adnan, 2021; Bala et al., 2009:36).

#### **2.4.2. Lack of Shariah-compliant liquidity management tools**

Islamic banks cannot invest their excess liquidity in interest-based instruments, which are liquidity management tools in the market, putting them at a competitive disadvantage relative to their conventional counterparts. Also, the current interbank market and instruments used by the central bank for monetary policy operations are all based on interest rates without equivalent government securities or other money market instruments that comply with Sharia law, all of which are necessary to avoid liquidity constraints. for Islamic banks when they become operational.

### 1. Absence of Islamic Insurance (Takaful):

The absence of Islamic insurance (Takaful) poses a problem as it leaves Islamic banks unprotected against unforeseen risks and hinders the growth of the industry. This challenge is closely related to the absence of a deposit insurance system to protect Islamic bank depositors.

### 2. Insufficient knowledge of accounting and auditing standards:

The problem is the lack of understanding of accounting and auditing standards relevant to Islamic financial institutions. Despite the availability of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, there is a need to train conventional accountants and auditors in the use of these standards due to the unique balance sheet structure of Islamic banks.

### 3. Lack of a robust and comprehensive legal framework:

The absence of a solid and comprehensive legal framework presents challenges, particularly in the adjudication, settlement and resolution of conflicts involving Islamic financial contracts, products or entities.

### 4. Lack of Shariah Scholars:

The lack of Shariah scholars with expertise in conventional economics, law, accounting, banking and finance places significant constraints on the Shariah compliance regulatory mechanism.

#### 2.4.7. Double taxation

The double taxation that would be imposed on Islamic banks as a result of stamp duty and capital gains tax that can be deducted on transfer of assets. Islamic banks face a huge challenge in this regard because their financial intermediation is asset based. For example, in housing finance, Islamic banks take possession of property either through a sale or construction contract and pay stamp duty on it. When they sell the asset to a customer through a markup sale or a lease ending in a title deed, an additional stamp duty is charged on the transfer of the asset. Other jurisdictions, including the United Kingdom and Luxembourg, have amended their tax laws to exempt Islamic banks from double taxation on the assets they acquire for financing purposes.

Thus, authors such as Bello and Abubaker (2019); Louis and Ahmed (2019) stated that the main challenges of interest-free banking include Shariah-related issues, lack of awareness and understanding, regulatory issues, absence of liquidity tools, insufficient human resources, absence of a secondary Islamic financial market. Similarly, (Nafees, Masum, Ahmed, & Hassan, 2019) listed the problems/challenges faced by interest-free banking as lack of human resources and education, lack of awareness creation, and absence of Shariah governance legislation.

## **2.5. Prospects for interest-free banking/interest-free banking**

This section shows the prospects for interest-free banking. Some of the prospects of interest free banking are economic growth, attraction of investors and promotion of egalitarian society which are likely prospects for establishment of interest free banking. It concludes that an interest-free banking system will bring transformation to all sectors of the economy in the form of poverty eradication, equitable distribution of income and employment opportunities in the country through effective capital mobilization and allocation (Akmel, 2019). More specifically, the author enumerated the prospects of interest-free banking as follows: it helps as a means of reaching those potential customers who have been away from banks due to the application of interest, and responds to the demands of those who do not have conventional banking services; helps to create another source of bank deposits and attract potential customers who have been put off by the conventional bank interest application; through the application of various modalities of credit services that interest-free banking helps to attract investors and supports economic growth and investment.

## **2.6. An empirical review**

This section presents an empirical overview focusing on the challenges and potential of interest-free banking. Examining the challenges in Lebanon, a developing country, Saleh and Zetum (2015) found that significant barriers include lack of public awareness and acceptance, insufficient research and development institutions, lack of skilled labor, and intense competition from conventional banks offering Islamic windows. Another study by Njaike (2010) examined the problems in Zimbabwe and identified issues such as undue political intervention in the selection of borrowers, financial instability, inability of the government to restore law and order, opposition from the banking community, lack of information dissemination infrastructure, inconsistency of fiscal and monetary authorities, control central banks and the supervision of

interest-free banking by unqualified individuals in Islamic finance, the absence of Islamic interbank systems, misperceptions and the current unstable political and economic situation in the country.

In addition, Ammin's (2019) study of interest-free banking practices through e-business in Malaysia highlighted the challenges of Islamic e-business, including lack of consumer acceptance, pricing complexity, the need for complex infrastructure, and legal risk concerns. Jabrr's (2013) investigation into the challenges and prospects of interest-free banking in Palestine outlined various challenges facing Islamic banks operating in the Palestinian territories. These challenges include the absence of adequate banking laws, the existence of unproductive money, lack of awareness, operational similarities between Islamic and conventional banks, limitations in channeling deposits for long-term investments, lack of experience with Islamic Shariah, reliance on too short-term financial instruments, limitations in the use of Mudaraba and Musharaka financial institutions, technological inferiority, the obligation of Islamic banks to hire staff trained in traditional banking, difficulties in distinguishing ownership from management, and lack of financial innovation.

In addition, Sanusi's (2019) survey of interest-free banking issues in Nigeria identified issues such as insufficient manpower, lack of Shari'ah-compliant liquidity management tools, absence of Islamic insurance (Takaful), lack of knowledge of accounting and auditing standards. by Islamic financial institutions, inadequate legal frameworks, lack of Shariah scholars well-versed in conventional economics, law, accounting, banking and finance, problems related to multiple taxation, absence of tax relief on interest-free banking profits and misconceptions about interest-free banking. Bell's (2019) study on the challenges of interest-free banking in Nigeria revealed that these challenges can be categorized as institutional or operational. Institutional problems include inappropriate institutional frameworks, inadequate legal structures, lack of capital institutions, weak supervisory frameworks, differences in accounting standards, absence of secondary financial markets such as Takaful (Islamic insurance), and lack of short-term financial instruments and institutions. Operational challenges are manifested in the form of religious and cultural differences, lack of innovation in financial products, absence of profit-sharing financing,

Sharia-related issues, insufficiently skilled workforce, lack of awareness and competitive pressures.

Empirical evidence needs to be considered regarding the potential benefits of interest-free banking. For example, Amin's (2019) examination of e-business from an Islamic perspective in Malaysia revealed that the future prospects of e-business depend on factors such as government support, liberalization of the interest-free financial system, economies of scale, workforce enhancement, and an expanding service user base. Meanwhile, Akram, Rafique and Alam (2019) in their study on the prospects of interest-free banking in Pakistan observed the continuous growth of interest-free banking and predicted its further expansion in the future. As another perspective, they also highlighted the potential for increased efficiency to increase customer satisfaction.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

*This section aims to outline a comprehensive research methodology that includes aspects such as research design, target population, sampling techniques used, determination of sample and population size, data collection methods and finally the approach used for data analysis.*

#### **3.1 Research Approach and Design**

This research used a descriptive survey design using a mixed methods approach that includes both quantitative and qualitative methods. Due to the contemporary nature of the study, a descriptive approach was considered appropriate (Patton, 2002; Yin, 2003). Descriptive research as defined by Kothari (2008) includes surveys and fact-finding that are commonly used in social

science and business research to provide insight into the current state of affairs. There are various methods for collecting primary data, especially in surveys and descriptive research, of which questionnaires and interviews are key. This research, in line with Kothari's approach, adopted a survey design with a descriptive approach, using both questionnaires and interviews.

### **3.2 Target Population**

Population according to Kothari (2008) refers to all individuals or items sharing the characteristics under investigation. Bank of abessinia covers a total of fifteen districts in Ethiopia, categorized by location (Annual Report 2021/2022). In the city of Addis Ababa, branches are distributed in four districts: North Addis, South Addis, West Addis and East Addis. In order to improve the manageability of the research in terms of time and cost, this study focuses on the eastern Addis Ababa district of the bank.

The population of the study includes both employees and customers of interest free services/windows in thirty two branches in the eastern part of Addis Ababa of the Bank of abessinia. These thirty-two branches were selected as a representative sample. Following Carvalho's (1984) approach, which favors larger sample sizes, the study opted for a total of 32 branches. This choice is consistent with Carvalho's categorization because the number of branches offering interest-free banking in Eastern Addis Ababa district was 106, which falls within the range (N= 91-150) suggested by Carvalho (1994). As a result, the total number of depository customers in BOA East District branches is 5656 in 32 branches which were selected due to their larger customer base compared to other branches.

### **3.3. Sampling Design**

Participants for this study were selected from both customers and employees of BOA's Eastern District. The determination of the sample size was carried out in three stages: firstly at the branch level, followed by the selection of customers and finally the inclusion of employees in the eastern part of Addis Ababa.

### 3.3.1. Sampling Branches

Initially, East Addis Ababa district branches were selected using Carvalho's (1984) method, emphasizing the preference for a substantial sample size. Subsequently, 32 branches offering interest-free banking were selected from a total of 106 in the specified range (N=91-150) based on Carvalho's table. Hill (1998) supports the importance of large samples and Carvalho's guidelines for this study are detailed below.

**Table 3.1: Determination of sample size**

N	51-90	91-150	150-280	281-500	501-3200	1201-3200	3201-10000	10001-35000	35001-150000
Small	3	8	13	20	32	50	80	125	200
Medium	5	20	32	50	80	125	200	315	500
Large	20	32	50	80	125	200	315	500	800

Source: Carvalho (1984)

### 3.3.2. Sampling Customers

Research methodologists, including Kothari (2008), advocate an optimal sample size that does not lean toward either over- or under-sampling. This optimal size is consistent with efficiency and flexibility criteria (Kothari, 2008). Roscoe (1975), Abranovic (1997) and Hill (1998) confirm the acceptability of samples larger than 30. In this study, a common approach was used to determine the sample size for a large population. A formula derived from Yamane (1967) was used to determine a representative sample size, expressed as:

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

Here ( n ) denotes the sample size, ( e ) represents the desired level of precision (with a +5% margin of error for the 95% confidence level), ( N ) denotes the population size, and ( Z ) is set to 1.96. Using this formula to determine the sample size for customer yields:

$$n = \frac{16296}{1 + 16296(0.05)^2} = 391$$

Distribution in proportion of questionnaires

**Table 3.2: Proportional distribution of questionnaire**

No.	Branches	Total Number of Customer	Percentage From Total Population	Total Number Of Customer Sample
1	Figa Mazoria	89	0.5%	2
2	Jakkros	338	2.08%	8
3	Beshlie	1142	7.03	27
4	Ayat Mekodonya	389	0.2%	1
5	CMCE	1398	8.2%	32
6	CMC MichaMicelel	5578	3.4%	13
7	Gerji	1453	8.9%	35
8	Goro Adebaba	1326	8.1%	32
9	Gurd Shola	1507	9.2%	36
10	Hayahullet Mazoria	3477	2.1%	8
11	Haile Gebresilasie Avenue	3965	2.4%	9
12	Koren Hospital	1535	9.4%	37
13	Lem Area	335	2%	8
14	Laamberet	258	1.6%	6
15	Megengna	7286	4.4%	17
16	Meri	1069	6.3%	25
17	Gerji-geiorgis	4764	2.9%	11
18	Sefera Lemi	934	0.5%	2
19	Mesrak	538	0.3%	2
20	Shoolla Akababi	299	1.8%	7.
21	Dejazmach Wondsyrad	6508	0.39%	2

22	Imperial Akababi	3398	2.08%	8
23	Gerjji Mebrat	2489	1.49%	6
24	Misrak Dill	1486	0.88%	3
25	Baldderas	205	1.22%	5
26	Lokee	296	1.78%	8
27	Karaamara	9462	0.57%	2
28	Cheffe Ayatt	189	1.07%	4
29	Sumit Condominum	158	0.96%	4
30	Sumit Saffaffafriiri Branch	149	0.08%	1
31	Wojji	299	1.77%	7
32	Yererr Ber	918	5.62%	22
	<b>Total</b>	<b>16296</b>	<b>~100%</b>	<b>390</b>

Source: Result of own survey, (2023)

### 3.3.3. A selection of employees

In addition, it should be noted that since interest free banking is done in bank of abyssinia based on window model,two employees were contacted from each window in the selected branches. Questionnaires were distributed to two employees from each branch, as BOA assigned only two employees to each interest-free banking window. A total of 64 employees completed the questionnaires (32 branches x 2 employees). In both cases, the samples were greater than 30 and are considered acceptable (Hill, 1998).

Then, using the convenience sampling approach, questionnaires were distributed to easily accessible branches and respondents by purposive sampling, which is one of the widely used sampling techniques in research. According to Kothari (2008), “purposive sampling is also known as purposive or non-probability sampling. This sampling method involves purposive or deliberate selection of specific units of the universe to create a sample that represents the universe. When elements of a population are selected for inclusion in a sample on the basis of ease of access, it can be called convenience sampling.

### Data source and types

This research used a primary data source that was generated through questionnaires and interviews. Questionnaires distributed to customers, employees and branch managers. In addition, interviews were conducted with some managers of branches that provided interest-free banking services. So the main form of data was numerical, which was collected using a questionnaire.

### **Data collection tools**

Data collection tools included questionnaires and interviews. These questionnaires were distributed to both customers and employees of specific Bank of abessinia branches. The creation of the questionnaire followed the literature review and contained structured questions with a Likert scale, including five rating options: strongly disagree, disagree, neutral, agree and strongly agree. According to Kothari (2008), Likert-type questionnaires are commonly used in surveys, whether for sample surveys or censuses, emphasizing primary data collection through observation or direct communication with respondents.

To address the initial research question regarding the interest-free banking products offered, interviews were conducted with branch managers. In addition, secondary sources such as the website and documents of the bank of abyssinia were consulted to identify the types of interest-free banking services/products available. For the second and third research questions, examining the challenges and prospects of interest-free banking, a questionnaire was used in the study.

### **Method of data analysis**

After data collection, the researcher focuses on analysis as stated by Kothari (2008). The analysis includes a combined quantitative and qualitative approach. Qualitative analysis involves interviews and observations, while the quantitative approach involves descriptive analysis applied to questionnaire data. Tables illustrating percentages, frequencies, and means were created using the Statistical Package for Social Science (SPSS) version 26.

### 3.7 Reliability Test

Ensuring validity is essential when assessing measures within a thesis. In this study, the analysis is considered valid due to the systematic arrangement of the research questions and the collected data. Questionnaires derived from similar research contribute to their validity.

To ensure reliability, the author conducted a pre-test with thirty sample questionnaires for customers and fifteen for staff. As suggested by Martyr & Mallery (2003), a Cronbach's alpha exceeding 0.70 is considered internally consistent and appropriate, allowing for further analysis unless deemed unacceptable.

**Table 3.3 Validity and reliability test**

Dimensions	Cronbach's Alpha Value	Number of items
Challenge for staff	0.974	16
Prospect for staff	0.816	9
Overall Reliability for Staff	0.969	25
Difficulty for Customers	0.932	16
Prospect for Customers	0.906	9
Overall Reliability for Customers	0.959	25

Source: Own survey result, (2023)

### 3.8 Ethical considerations

During the research process, researchers have to solve various problems, with both the researcher and the participants playing a key role. Respecting participants' rights and considering research from their perspective is paramount, as Huma Parveen and Nayeem Showkat (2010) have pointed out.

Ethical approval was obtained from the relevant authorities before conducting the research. Initially, the researcher sought permission from the BOA to access the bank's documents and obtain the main customers from the selected branches to complete the questionnaire.

Introduced with the academic purpose of research, the questionnaire ensures confidentiality by using codes instead of names and personal information. Participants were included based on their willingness and questionnaires were distributed exclusively to voluntary participants.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND DISCUSSION**

In this section, the researcher presents and discusses the demographic data of the respondents, the reliability of the data, and the challenges and prospects of interest-free banking. Information is derived from both questionnaire responses and interviews, with a predominant focus on descriptive analyses.

*For this research, a total of 355 questionnaires were distributed to customers in selected branches, and 60 questionnaires were sent to employees of the interest-free banking window in the same branches.*

## **4.1. Background of respondents**

This section summarizes the respondents' personal profiles, which include their qualifications, job title, religion, year of banking experience/relationship as an IFB product and/or IFB staff/customer behavior as appropriate. Descriptive statistics were used to analyze demographic data.

### ***4.1.1 Background of employees***

This section provides a brief overview of the demographic characteristics of the respondents' employees, emphasizing their composition in terms of gender, education, work experience and occupation. According to Table 4.1, 41 (68.33%) employees are men and 19 (31.67%) are women. In terms of education, 34 (56.66%) employees have a bachelor's degree, 5 (8.33%) have a diploma and the rest have a master's degree. Regarding total work experience, 18 (30%) respondents have 1 to 5 years of experience, 38 (63.33%) 6 to 10 years, and 4 (6.67%) 11 to 15 years. Regarding experience in interest-free banking, 35 (58.33%) employees have worked for more than three years, 20 (33.33%) for 1 to 2 years, and 5 (8.33%) for less than one year.

Interpretation: The demographic data collected from the respondents are considered reliable to achieve the objectives of the study. This information provides insight into the gender distribution, education, and work experience of employees, which are key to analyzing potential correlations with study outcomes. For example, the gender distribution (68.33% male, 31.67% female) allows for any gender-related patterns to be examined in the responses. Similarly, the distribution of education levels and work experience helps to understand how these variables may affect the study's findings. The relevance of each demographic variable to the research objective underscores the importance of considering these factors in the analysis.

Demographic data obtained from respondents provides valuable insights that are interpreted in conjunction with a specific research question or objective.

**Table 4.1: Basic information about the employee**

Valid	Gender		
	Male	41	68.33
	Female	19	31.67
	Total	60	100.00
Qualification			
Valid	Diploma	5	8.33
	BA/BSC	34	56.66
	Master	21	35
	Total	60	100.00
Year of Experience			
Valid	1-5 years	18	30
	6-10 years	38	63.33
	11-15 years	4	6.67
	Total	60	100.00
Valid	IFB Year of service		
	1 year	5	8.33
	1-2 year	20	33.33
	Over 3 years	35	59.34
	Total	60	100.00

Source: Own survey result, (2023)

#### **4.1.2. Background Information of Customers**

This section (Table 4.2) provides a brief overview of the customer respondent profile. It is important to note that the researcher managed to collect 355 fully completed questionnaires out of 390 distributed questionnaires.

In terms of product choice, as shown in Table 4.2 below, 83 (34.44%) used Wadiah Amanah, 50 (20.75%.8) used Qured, 105 (43.57%) used Amanah and the rest 3 ( 1.24%) of customers used Mudaraba. Accordingly, in terms of religion, the majority of respondents/customers (241 or 67.8%) were Muslim while the remaining 114 (32.2%) were non-Muslim. This very important mix to know the common understanding of interest free banking services of companies.

Table 4.2: Religion of respondents

Valid	Religion	Frequency	Percent
	Muslim	241	67.88
	Non-Muslim	114	32.12
	Total	355	100.00
Type of account customer have			
Valid	wadiah amanah	83	34.44
	Qured	50	20.75
	Amanah	105	43.57
	Mudaraba	3	1.24
	Total	241	100.0

Source: Own survey result, (2023)

## 4.2. Reliability Test Statistics

As per Bhattacharjee (2021), reliability refers to the consistency or dependability of a construct's measurement, emphasizing consistency rather than accuracy. The widely used test for internal consistency is Cronbach's alpha, where higher coefficients indicate a better measuring instrument. If  $\alpha$  exceeds 0.7, it signifies high reliability, as noted by Hair et al. (2010).

Additionally, George and Mallery (2003) (cited in Joseph & Rosemary, 2003) state that Cronbach's alpha serves as a reliability coefficient, commonly employed to measure the internal consistency or reliability of a psychometric test score for a sample of examinees. The Cronbach's alpha reliability coefficient typically ranges from 0 to 1, with a decision rule indicating higher reliability when the coefficient surpasses certain thresholds.

**Table 4.3: Cronbach's Alpha**

Cronbach's Alpha	Description
$\geq .9$	Excellent
$\geq .8$ but $< .9$	Good
$\geq .7$ but $< .8$	Acceptable
$\geq .6$ but $< .7$	Questionable
$\geq .5$ but $< .6$	Poor
$\leq .5$	Unacceptable

Source: Zikmund, et al., 2010.

In this research, the Cronbach's alpha test yielded a result exceeding 0.8, indicating high reliability. Regarding validity and reliability, the questionnaire demonstrated excellent reliability with a strong alpha value, except for the prospect dimension of the staff. Minor enhancements were implemented based on feedback from the pilot test. The reliability statistics affirm that the questionnaire employed in the analysis is well-suited for further examination.

**Table 4.4: Reliability analysis (Cronbach's Alpha)**

Dimensions	Cronbach's Alpha Value	Number of items
Challenge for staff	0.965	16
Prospect for staff	0.821	9
Overall Reliability for Staff	0.957	25
Challenge for Customers	0.951	16
Prospect for Customers	0.977	9
Overall Reliability for Customers	0.969	25

Source: Own survey result, (2023)

### **4.3. Challenges and prospects of interest free Banking**

This segment focuses on analyzing and interpreting the data gathered from the responses received through the distributed questionnaires. Initially, a detailed analysis is conducted for the data collected from customers, followed by a separate detailed analysis of the data obtained from employees.

#### **4.3.1. Analysis of Data from Customers**

As evident from the conceptual framework and the questionnaire, the collected data revolves around two primary dimensions: challenges and prospects. The initial presentation will cover the findings related to challenges, followed by an exploration of the prospects.

##### **4.3.2.1.1. Challenges/Difficulties of interest free banking related to**

when evaluating the presence of a lack of public awareness and acceptance toward interest-free banking, 137 respondents (38.6%) strongly agree, while 212 (59.7%) agree that such a lack

exists. Only 6 respondents (1.7%) express disagreement with this notion. The findings strongly affirm the existence of insufficient public awareness and acceptance regarding interest-free banking. Additionally, the mean value of 4.35 surpasses the threshold, indicating an inclination towards agreement.

In terms of manpower inadequacy, the results presented in the above table reveal that 177 respondents (49.9%) agree, and 102 (28.8%) strongly agree that there is a shortage of manpower. Conversely, 26 (7.2%) strongly disagree, and 50 (14.1%) disagree. In summary, the majority of respondents assert the presence of manpower inadequacy. Furthermore, the mean value of 3.38 suggests a general consensus among respondents that there is insufficient manpower.

The findings related to public awareness and acceptance of interest-free banking indicate a substantial agreement, with 98.3% of respondents strongly agreeing or agreeing. The mean value of 4.35, surpassing the midpoint of a five-point Likert scale, reinforces the prevalence of this sentiment. This aligns with previous research emphasizing the challenges associated with promoting interest-free banking.

The prevailing consensus on manpower inadequacy, with 78.7% of respondents either agreeing or strongly agreeing, is reinforced by a mean value of 3.38. While this signifies a general agreement, it's important to note that a significant proportion (21.3%) expresses disagreement or strong disagreement. Drawing comparisons with previous research could shed light on whether similar perceptions regarding workforce issues exist in analogous contexts.

The implications of the findings related to public awareness and acceptance underscore a clear necessity for initiatives aimed at improving understanding and advocating for interest-free banking. This is pivotal for creating a supportive environment and addressing the identified lack of awareness and acceptance. Regarding manpower inadequacy, the predominant agreement highlights the urgency of tackling workforce issues, potentially through training programs or recruitment strategies to bridge the identified gap.

In summary, these findings underscore a dual challenge: the need to enhance public awareness of interest-free banking and address the perceived shortage of manpower. These results provide

valuable insights for decision-makers aiming to devise strategies that resonate with the prevailing sentiments among respondents, drawing on insights gleaned from similar studies.

Regarding the gap in research and development, the results presented in the above table reveal that 168 respondents (47.3%) agree, while 134 (37.7%) strongly agree. In contrast, 28 (7.9%) express disagreement, and 25 (7.04%) remain neutral. Hence, based on the data, it is evident that a majority of respondents agree that there exists a gap in research and development. Additionally, the mean value of 4.15, exceeding the average, indicates a consensus among respondents regarding the existence of a gap in research and development.

Concerning competition from conventional banks, the results indicate that 172 respondents (48.5%) agree, 49 (13.8%) remain neutral, and 134 (37.7%) disagree. The mean score value of 3.1 suggests that, overall, the data indicate average competition from conventional banks.

Analyzing resistance from the banking community to interest-free banking, the majority of respondents, 274 (77.2%), agree, while only 40 (11.3%) disagree. The mean value of 3.6 confirms a high level of resistance to interest-free banking within the banking community.

Regarding the existence of inadequate infrastructure for information dissemination, 274 respondents (77.2%) agree, and 40 (11.3%) strongly agree that inadequacies exist. A small proportion of 26 (7.3%) respondents disagree. This sentiment is further supported by the mean value of 3.9, indicating a consensus on the inadequacy of infrastructure.

Examining consumer acceptance, the majority of respondents, 238 (67%), confirm a lack of consumer acceptance of interest-free banking, while 39 (11%) express disagreement. The mean value of 3.6 also suggests a lack of consumer acceptance of the service.

Assessing whether there is a lack of adequate banking law for interest-free banking, the majority of respondents, 281 (79.2%), agree that there is insufficient banking law in the country. Only 49 (13.8%) respondents disagree, and the mean value of 3.6 reinforces the perception of a deficiency in banking laws related to interest-free banking.

Concerning the lack of experience in Islamic Shari'ah, a significant majority of respondents, with 164 (46.2%) strongly agreeing and 149 (42%) agreeing, express a consensus on the issue. Only 22 (6.2%) respondents disagree, and the mean value of 4.2 indicates a perceived lack of experience in Islamic Shari'ah.

Addressing the challenge of using staff trained in traditional banking rather than interest-free banking, a substantial majority of respondents, 279 (78.6%), agree that this is indeed a challenge. The mean value of 3.98, exceeding the average, confirms that the use of staff trained in traditional banking is considered a significant challenge.

In relation to the lack of financial innovations in interest-free banking products, the majority of respondents, 315 (88.7%), agree with this perspective. The mean value of 3.99 further indicates a consensus on the existence of a lack of financial innovations in interest-free banking products.

Examining the presence of a secondary market (such as Takaful/Islamic insurance), findings reveal that 194 (54.6%) strongly agree and 85 (24%) agree on the lack of a secondary market. The mean value of 4 underscores the perception that there is indeed a lack of a secondary market, such as Takaful/Islamic insurance.

Regarding the adequacy of the legal and supervisory framework, 78 (22%) and 163 (45.9%) respondents strongly agree and agree, respectively, indicating a perceived inadequacy. However, 35 (9.9%) respondents disagree, and the mean value of 3.7 suggests a consensus on the presence of an inadequate legal and supervisory framework.

Considering the lack of segregation of funds between interest-free banking and conventional banking, a significant majority of respondents, 281 (79.2%), agree, while only 74 (20.8%) disagree. The mean value score of 4 reinforces the finding that there is a perceived lack of segregation of funds between interest-free banking and conventional banking.

In relation to the misperception of Islamic banking, the results displayed in the table indicate that 298 respondents (84%) agree, and 53 (14.9%) strongly agree that people perceive interest-free

banking negatively. A minimal proportion of 4 (1.1%) respondents express disagreement. In summary, the majority assert the existence of a misperception of interest-free banking. Additionally, the mean value of 4.1 underscores that a significant majority of respondents agree on the presence of a misperception of interest-free banking, reflecting a negative attitude toward it.

Considering awareness creation campaigns, the majority of respondents affirm the lack of such campaigns. Specifically, 194 respondents (54.7%) strongly agree, while 81 (22.8%) agree that there is a deficiency in awareness creation campaigns. Those in disagreement include 37 (12.1%) respondents, and 37 (10.4%) strongly disagree. The mean score value of 4 further affirms the perception that there is a lack of awareness creation campaigns about interest-free banking services.

#### **4.3.2.1.2. Prospects/ Future Outlook of interest free banking**

Regarding the notion of liberalizing the interest-free financial system, the analysis from the table above reveals that a majority of respondents, with 158 (44.5%) agreeing and 110 (31%) strongly agreeing, while 48 (13.5%) strongly disagree, and 39 (11%) disagree. Overall, the majority of respondents express agreement on this issue. The mean score value of 3.7 substantiates the prospect of increased interest-free financial system liberalization.

Assessing the growth of service users, data collected from customers indicates substantial agreement among respondents, with 171 (48.2%) strongly agreeing and 80 (22.5%) agreeing. Only a limited number of respondents, 18 (5%) strongly disagree, and 30 (8.5%) disagree on this matter. The mean score value of 4 further affirms the perception of a growing user base for the service.

Considering the contribution to economic growth, concerning interest-free banking, 159 (44.8%) respondents agree, and 116 (32.7%) strongly agree that interest-free banking contributes to economic growth. A small proportion of 42 (11.7%) respondents express disagreement. This sentiment is also supported by the mean value of 4, indicating a consensus that interest-free banking contributes to economic growth.

As indicated in the table, the majority of respondents, totaling 307 (86.5%), agree that interest-free banking plays a crucial role in attracting investors and investments to the country. Only 48 (13.5%) respondents hold a contrary view. The mean value of 4.3 further substantiates the assertion that interest-free banking indeed has a pivotal role in attracting investors and investments. Thus, the finding affirms the significant role of interest-free banking in attracting investors and investments to the country. Consequently, the creation of supportive financial markets is deemed necessary, as emphasized by Akmel (2019).

Concerning the bank's contribution to the equitable distribution of income in the country, the majority of respondents, with 236 (66.5%) agreeing and 41 (11.5%) strongly agreeing, assert that the bank contributes to the equitable distribution of income. The mean value of 3.9 further supports the notion that interest-free banking fosters an egalitarian society, contributing to the equitable distribution of income.

Concerning the contribution of expanding employment opportunities in the country; 192 (54.1%) agree and 149 (42%) strongly agree that interest free banking contributes to expand employment opportunities in the country. Only a small proportion 14 (3.9%) of respondents disagree on this. Moreover, this is also verified by the mean value 4.3. Therefore, it can be concluded that interest free banking contributes to expand employment opportunities in the country.

As regards to the data collected; all respondents confirm their agreement with the idea that states “interest free banking facilitates financial inclusion (attract the potential customers who were discouraged by the conventional banking interest application)”. All of the respondents 355 (100%) agreed on the idea. Besides, the mean value 4. verifies that interest free banking facilities financial inclusion. Concerning with the item “interest free banking represents additional deposit to banks” almost all respondents 315(88.7%) confirms their agreement. The mean value (4.4) verifies that interest free banking represent additional deposit to the bank.

Regarding to interest free banking’s contribution to support and expand local businesses by providing saving and loan service. The finding indicates that majority of respondents 163(45.9%) and 156(43.9%) agree and strongly agree respectively. Majority of respondents confirm their

agreement on the issue. The mean value 4.3 also verifies that interest free banking will have contribution to support and expand local businesses by providing saving and loan service.

#### **4.3.2.2. Analysis Data from Employees on Challenges and prospects of interest free Banking**

The data collected on the employee's perspective listed as follow the findings of challenges is outlined first and it is followed by prospects.

##### **4.3.2.2.1. Challenges of interest free banking**

In relation to public awareness and acceptance; the collected data from 60 employees verifies their agreement on the issue as shown in table 4.7, 32 (53.3%) and 10 (16.7%) agree and strongly agree respectively confirms that there is lack of public awareness and acceptance of interest free banking. It is only 8 respondents (13.3%) who disagree on this fact. The finding confirms that there is lack of public awareness and acceptance about interest free banking. In addition, the mean score value, 3.7 is above the average inclined to agreeing that there is lack of public awareness and acceptance.

With respect to the item in relation to adequacy of manpower in the windows that provide interest free banking and the sector in general; results as shown in the table hold that majority of the respondents confirms their disagreement on the matter 6 (10%) strongly disagree and 28 (46.7%) disagree that there is manpower inadequacy. Whereas, 5 (8.3%) strongly agree and 16 (26.7%) agree. In short, on the view of employees the majority assert that there is no manpower inadequacy. In addition, the mean value 2.77 also indicates that majority of respondents disagree that there is inadequate man power.

Concerning the gap in research and development in interest free banking services and Islamic finance modalities to fill the gap in qualified human resource; the data collected from the employees in brief described the agreement on the matter. From the respondents 16 (26.7%) and 24 (40%) responded strongly agree and agree respectively. The mean value 3.9 confirms that there is a gap in research and development in interest free banking services and Islamic finance modalities to fill the gap in qualified human resource.

With respect to competition from conventional banks; on the view of employees majority of respondents confirms their disagreement 18(30%)strongly disagree and 29(48.3%) disagree only 8 (13.3%) respondents agree on the issue. Therefore, it can be concluded that there is no competition of interest free banking service from conventional one. The mean value 2.1 below average verifies there is no competition.

Concerning the resistance from the banking community against interest free banking; majority of respondents disagree on the matter. 30 (50%) disagree and 24 (40%) agree that there is resistance from the banking community against interest free banking whereas the mean value 2.7 below average verifies there is no resistance from the banking community against interest free banking.

In relation to the existence of adequate infrastructure for information dissemination; the data collected from employees in brief describes the agreement on the matter. From the respondents 9 (15%) and 22 (36.7%) strongly agree and agree respectively. The mean value 3.5 confirms that there exists inadequate infrastructure for information dissemination.

With respect to the idea related to consumer acceptance of interest free banking; 24 (40%) respondents agree on the issue and 18 (30%) respondents confirms their disagreement. The mean score value 3 shows that it is on average. Regarding the banking law for interest free banking; majority of respondents confirms their agreement. From the respondents 33 (55%) agree and 4 (6.7%) strongly agree whereas 9 (15%) respondents disagree and 5 (8.3) respondents strongly disagree on the matter. The mean value 3.4 describe that there is lack of adequate banking law for interest free banking.

As the table above shows majority of respondents 38 (63.3%) believed that there is lack of experience in Islamic Shariah. Only 9 (15%) respondents disagree on the matter. Moreover, this is also verified by the mean value of 3.6. In general, there is lack of experience in Islamic Shari'ah. In concerning with the use of staff trained in traditional banking than interest free banking is a challenge; 8 (13.3%) respondents strongly disagree and 19 (31.7) disagrees while 22 (36.6%) and 5 (8.3%) agree and strongly agree respectively. The mean value 2.95 describe that it is on average.

Regarding the question of whether there is lack of financial innovations (in interest free banking products), findings indicate that respondents 27 (45%) confirmed their agreement 15

(25%) respondents confirm their disagreement whereas the mean value 3.3 indicates that there is lack of

Concerning with the idea of lack of secondary market (Such as Takaful/Islamic insurance) on the employees perspective majority of the respondents agree on the issue 27 (45%) only 6 (10%) respondents confirm their disagreement while the mean value 3.5 describes above average so it can be concluded that there is lack of secondary market (Such as Takaful/Islamic insurance).

Regarding the adequacy of legal and supervisory framework; majority of respondents confirm their agreement. Among the respondents 14 (23.3%) respondents disagree on the matter whereas 40 (66.6%) agree. The mean value 3.5 describe that there is inadequate legal and supervisory framework.

Concerning segregation of fund between interest free banking and conventional banking; the finding shows that 42 (70%) confirms their agreement whereas 18 (30%) disagree on the matter however the mean value 3.8 verifies that there is lack of segregation of fund between interest free banking and conventional banking. With respect to the perception of interest free banking; results as shown in the table above hold that 20 (33.3%) agree and 15 (25%) strongly agree that there is misperception. While 16 (26.7%) respondents disagree and 3 (5%) strongly disagree on the fact. In short, the majority assert that there is misperception of interest free banking. In addition, the mean value of 3.6 also indicate that majority of respondents agreed that, there exists misperception of interest free banking (negative attitude of people regarding interest free banking),

In relation to awareness creation campaigns about interest free banking; the collected data from the employees in brief describes the agreement on the matter. Among the respondents 9 (15%) and 33 (55%) strongly agree and agree respectively, only 4 (6.7%) strongly disagree. The mean value (3.7) confirms that there is lack of awareness creation campaigns about interest free banking.

#### **4.3.2.2.2. Prospects of interest free banking**

There are listed items which deal with employees view on prospects of interest free banking in the banking sector. In order to assess the prospects of interest free banking, the items that were utilized include:-

The analysis of the findings on the prospects are discussed as follows.

Concerning the liberalization of the interest-free financial system, the analysis indicates that a majority of respondents, with 14 (23.3%) in agreement and 18 (30%) strongly in agreement, support the prospect. In contrast, 4 (6.7%) respondents strongly disagree, and 13 (21.7%) respondents disagree. In essence, the majority of respondents endorse the potential for interest-free financial system liberalization. The mean score value of 3.5 affirms the likelihood of increased liberalization in the interest-free financial system.

Regarding the anticipation of growing users of the service, the results in the table below indicate that 47 (78.3%) respondents agree that there will be an expansion of users for the service, emphasizing the continuous growth of interest-free banking in the future. Only 4 (6.7%) respondents disagree with this assertion. In essence, the majority of respondents assert that there will be a surge in users for the service, with the mean value of 4.2 further supporting the notion of sustained growth in interest-free banking.

Concerning the contribution of interest-free banking to economic growth, 10 (16.7%) respondents agree, and 36 (60%) respondents strongly agree that interest-free banking plays a role in fostering economic growth. A small proportion of respondents, 14 (23.3%), disagree with this perspective. This is reinforced by the mean score value of 4.1, affirming the contribution of interest-free banking to economic growth. In relation to the item addressing the attraction of investors/investment to the country, the analysis in the table above indicates that the majority of respondents, totaling 46 (76.6%), confirm their agreement on the importance of interest-free banking in attracting investors/investment, with only 14 (23.3%) respondents expressing disagreement. The mean value of 4.1, surpassing the average, verifies that interest-free banking indeed plays a significant role in attracting investors/investment to the country.

Regarding the contribution of interest-free banking to the equitable distribution of income in the country, the results in the table below reveal that 33 (55%) respondents agree that interest-free banking promotes an egalitarian society, contributing to the fair distribution of income. Only 5 (8.3%) respondents express disagreement with this assertion. The mean value of 3.8

substantiates that interest-free banking indeed fosters an egalitarian society, contributing to equitable income distribution.

As indicated in the table above, the majority of respondents, totaling 46 (76.7%), agree that interest-free banking contributes to the expansion of employment opportunities in the country. The mean value of 4.1, surpassing the average, validates the view that interest-free banking plays a role in expanding employment opportunities in the country.

Regarding the item related to whether interest-free banking facilitates financial inclusion, attracting potential customers who were discouraged by conventional banking interest applications, the analysis indicates that the majority of respondents, comprising 31 (77.5%), confirm their agreement. The mean value of 4.3, exceeding the average, verifies that interest-free banking indeed facilitates financial inclusion by attracting potential customers who were discouraged by conventional banking interest applications.

Regarding the aspect of additional deposits to banks, among the 60 employee respondents, 42 (70%) express agreement that interest-free banking constitutes an additional deposit to the banks. Only 4 (6.7%) respondents disagree with this assertion. The mean score value of 4.1 further confirms that interest-free banking indeed represents an additional deposit to the banks. In relation to the concept of interest-free banking contributing to supporting and expanding local businesses through providing saving and loan services, all 60 (100%) employee respondents affirm their agreement on this matter. The mean score value of 4.8 surpasses the average, leaning towards agreement that interest-free banking will contribute to supporting and expanding local businesses through providing saving and loan services.

In general, Ethiopia presents various potential opportunities for interest-free banking finance. One significant opportunity lies in the presence of a large potential customer base previously excluded from accessing conventional finance products and services primarily due to religious reasons. The success of any business hinges on the accessibility of potential customers to the offered products and services. Given that the fundamental principles of Islamic finance are derived from Sharia rules, it is expected that Muslims constitute the primary customers for

interest-free banking finance products and services. According to the World Population Review (2021) estimation, Ethiopia's population has reached 113 million, with 34% (38.5 million) identifying as Muslims (Suadiq M, 200 pp126). The substantial Muslim population serves as a primary potential opportunity for the expansion of interest-free banking finance in Ethiopia. The increasing number of banks providing IFB services in both window and subsidiary models, along with the growing customer base holding accounts in these window services, further underscores the considerable potential for customers. In 2019, Oromia International Bank and Cooperative Bank of Oromia alone had 248,614 and 660,000 IFB customers, respectively (Aman, 2021).

#### **4.4. Interview analysis Challenges and prospects of interest free Banking.**

To illustrate the range of interest-free banking services provided by the bank to its customers, an interview was conducted with the Eastern branch manager. Specifically, the interview focused on the modes of Islamic operation at BOA, delving into the types of interest-free banking products and services offered. In response to this inquiry, it was revealed that the bank provides a diverse array of interest-free banking products to its customers. These offerings include Wadiah Amanah (Safekeeping Saving), Qured, Amanah (Current Account), Mudaraba, Safekeeping and Qured, as well as Safekeeping and Mudaraba. Additional details about these products can be found in the bank's online document available on its website, [www.boaeth.et/IFB](http://www.boaeth.et/IFB). The online document provides further information on specific interest-free banking products, notably Wadiah Amanah, Qured (Qard), Amanah, and Mudharabah (Profit-sharing Saving Account).

**Wadiah Amanah(saving with guarantee):-** This type of account is opened for unspecified length of time by customers who own the funds in the Bank for safekeeping. Depositors give their consent to the Bank to deal with the whole or any part of their monies in the manner that it deems fit, so long as it is not against sharia. The Bank will guarantee repayment of the whole sum or any outstanding part in the depositor account without any interest when demanded.

**Qured (Qard)** – it is a shariah complaint product. It is opened to all Ethiopian citizens and permanent residents. For this deposit product, the bank issues cheques specifically designed for this purpose.

**Amanah** - This is interest-free current account opened for unspecified length of time and managed through checks until the depositor demands payment and is paid promptly/right away.

**Mudharabah (profit sharing saving account)** - This is a type of investment partnership where a customer deposits money for unspecified length of time and the Bank shares both the profit and loss with her/him. The customer may withdraw his/her deposit at any time, but the Bank may impose some restrictions on the amount to be taken out as this arrangement is both profit and loss sharing partnership.

Moreover, lack of awareness, regulatory and supervisory challenges, institutional challenges, lack of support and link institutions, gap in research and development in Islamic studies as, lack of qualified human resource as well as wrongful association with specific religion and the global terrorism movements in recent.

### **Data Analysis Based on theme**

In the realm of interest-free banking products, customers emphasize their trust and satisfaction with Wadiah Amanah, appreciating its safekeeping features. They also value the accessibility of Qured, recognizing its appeal to Ethiopian citizens and residents. Employees, on the other hand, highlight the operational efficiency associated with Amanah's interest-free current account, managed seamlessly through checks. Top officials acknowledge the variety of interest-free products, emphasizing the bank's commitment to catering to diverse customer needs.

Operational procedures aligning with Sharia principles are a key theme. Customers value the transparency of Wadiah Amanah, ensuring actions adhere to ethical standards. Employees reinforce the Sharia compliance of Qured, underscoring the bank's commitment to ethical practices. Top officials stress the importance of upholding Sharia principles in all operational procedures, emphasizing the bank's commitment to an ethical foundation.

Customer satisfaction emerges as another theme, with customers expressing contentment with Amanah's prompt payment features, contributing significantly to overall satisfaction. Employees acknowledge the role of Amanah in achieving customer satisfaction through timely payments. Top officials recognize customer satisfaction as pivotal to the success of interest-free banking, influencing the bank's reputation positively.

Challenges faced by all stakeholders include the significant lack of awareness, suggesting a need for educational initiatives. Top officials and employees highlight institutional challenges, such as the need for qualified human resources and support from link institutions, indicating areas for improvement. Additionally, all stakeholders recognize the challenge of wrongful association with specific religions and global terrorism movements, underscoring the importance of addressing public perception.

Prospects, identified by all stakeholders, showcase optimism regarding the diverse interest-free banking products offered by BOA, foreseeing growth and enhanced customer satisfaction. Top officials and employees link prospects to addressing challenges, emphasizing the potential for increased awareness, regulatory improvements, and enhanced institutional support. Moreover, stakeholders identify the gap in research and development in Islamic studies as an area for improvement, indicating future prospects for the bank's expansion and innovation.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

*The fundamental aim of this study was to evaluate the Challenges and Prospects of Interest-Free Banking in the Eastern District of Bank of Abyssinia. Drawing from the study's findings, this chapter provides a summary, draws conclusions, discusses policy implications, and outlines future directions for research.*

#### 5.1. Summary

The primary aim of this paper was to evaluate the challenges faced by Bank of Abyssinia in the eastern district of Addis Ababa and to explore the prospects that interest-free banking services hold. The methodology and analysis chapters highlight the utilization of questionnaires as the primary data collection instrument distributed among both employees and customers of BOA. A total of 355 questionnaires were distributed to interest-free banking customers, and 60 were distributed to bank employees for analysis.

The findings reveal that the bank offers various interest-free banking products, including Wadiah Amanah (Safe-keeping savings), Qured, Amanah (current account), Mudaraba, Safe-keeping and Qured, and Safe-keeping and Mudaraba.

In terms of challenges, the study identifies gaps in performance attributed to factors such as lack of customer awareness, ineffective marketing and promotion, issues with tax policies, the variety of interest-free banking products, non-availability of IFB products in all branches, limitations in IFB operations within the window model, absence of trust and confidentiality, and lack of public awareness and acceptance. Additional challenges include inadequate manpower in IFB windows and the sector as a whole, a research and development gap, high competition from conventional banks, resistance from the banking community, insufficient infrastructure for information dissemination, consumer acceptance issues, inadequacy of banking laws for interest-free banking, and a lack of experience in Islamic Shari'ah.

Regarding prospects, the study identifies significant opportunities, including interest-free financial system liberalization, the growth of service users, contributions to economic growth, attraction of investors and investments to the country, equitable distribution of income, increased employment opportunities, and the potential to attract customers discouraged by conventional banking interest rates. These prospects also encompass additional deposits to banks and support for the expansion of local businesses through savings and loan services.

## **5.2. Conclusions**

Based on the study's findings, the following conclusions are drawn regarding the challenges and prospects of interest-free banking in the country:

**Lack of Public Awareness and Acceptance:** The study highlights a significant lack of public awareness and acceptance of interest-free banking services. Additionally, there is a divergence of perspectives between customers, who perceive inadequate manpower, and employees, who oppose this view. Given that customers are the ultimate judges of service quality, their concerns should be prioritized. The study emphasizes that the bank is not actively working to create more awareness about interest-free banking.

**Inadequate Awareness Creation Efforts:** The study reveals that officials of the bank are not diligently working on awareness creation, which adds to the challenges of interest-free banking.

**Inadequate Infrastructure for Information Dissemination:** The findings indicate a lack of adequate infrastructure for information dissemination, contributing to challenges in consumer acceptance of interest-free banking.

**Legal and Supervisory Framework Challenges:** The study exposes inadequacies in the legal and supervisory framework for interest-free banking, including a lack of adequate banking laws and a low level of experience in Islamic Shariah.

Prospects for Attracting Investors: Interest-free banking services have the potential to attract investors, leading to the anticipation of growing users in the future. This growth is expected to contribute to economic growth.

Support and Expansion of Local Businesses: Interest-free banking is identified as having the potential to support and expand local businesses by providing savings and loan services. This expansion is expected to create employment opportunities and represent additional deposits to the bank.

### **5.3 Theoretical Contribution and Policy Implication**

The researcher provides the following recommendations based on the conclusions:

To foster awareness and acceptance, the private bank should employ marketing tools. Bank officers play a crucial role in educating the public about interest-free banking products. Establishing a training program is imperative to ensure a well-trained workforce, addressing the lack of knowledge among employees, as most training aligns with conventional banking concepts. Interest-free banking, being a contemporary issue with distinct rules, requires specialized training.

Interest-free banking services are not exclusive to Muslims; followers of other religions can access them. However, there is limited awareness among non-Muslims. Enhanced marketing efforts should communicate that the service is based on non-interest, not religion. Encouraging customers to deposit with interest-free banking is vital for the sector's existence, necessitating effective marketing techniques.

Bank officials should actively educate the public about interest-free banking products, and Islamic banks should intensify marketing efforts, including promotional campaigns. Training programs in interest-free banking, marketing, communication, and internal marketing for employees are essential. To promote interest-free banking, Islamic banks must offer attractive products to the majority, capturing large deposits through effective marketing.

For effective service implementation, the National Bank of Ethiopia should establish a clear legal framework for the Shari'ah Control Committee of Islamic Banks. Given the religious dimension,

financial innovations must align with Shari'ah requirements. Majority Muslims are familiar with interest-free banking, but there is limited knowledge among followers of other faiths, hindering public acceptance. Addressing this knowledge gap is crucial for the successful promotion of interest-free banking.

#### **5.4. Limitation and Future Research Directions**

The quality of the research was influenced by several factors, according to the researcher. One notable limitation was the scarcity of related literature specific to the Ethiopian context and reference books. Additionally, due to time constraints, the research focused solely on city branches, omitting branches in rural areas. While this choice narrowed the scope, it may have implications for the generalizability of the findings. Another factor impacting the research was the concentration on a specific area, potentially limiting the applicability of the recommendations to the selected branches rather than the broader context. Furthermore, the researcher highlighted limited collaboration from various stakeholders, which hindered full cooperation for in-depth interviews. These factors collectively contributed to the identified limitations in the research. Looking ahead, future research endeavors should consider addressing these limitations and expanding the scope to enhance the comprehensiveness and applicability of findings.

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**Appendix I Questionnaire**  
**Questionnaire to Staff**  
**Addis Ababa University**  
**MAF Program**

**Frehywot Astatke.**

**Contract Address: ++251-960100893**

**Email: freastatke@gmail.com**

**Dear Respondents,**

This questionnaire is designed to collect data on the topic ‘challenges and prospects of interest free banking in Bank of Abyssinia (Eastern District). The purpose of the study is for the partial fulfillment of the requirement for MAF program. For the successful accomplishment of the study, the response of employees who work in interest free banking windows of the bank will have pivotal role to obtain useful insights. I assure you that the information to be shared by you will be used only for academic purpose and kept confidential. So, you are kindly requested to genuinely fill the questionnaire.

**Thank you in advance for your cooperation!**

Instruction: -

- Writing your name is not required.
- Put “✓” Mark as per the question required in the box or answer in the space provided.

**Part II- Demographic Characteristics**

1. Gender

- Male
- Female

2. Please indicate your educational qualification.

- Diploma
- BA/BSC
- Master’s

- PHD

3. How many years of experience do you have in the banking sector?

- 1-5 years
- 6-10 years
- 11-15 years
- 16 years and above

4. How long have you been working in interest free banking/ interest free banking?

- Less than 1 year
- 1-2 year
- 2-3 year
- Over 3 years

No	Items	Strongly Disagree(1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	There is lack of public awareness and acceptance	0	8	10	32	10
2	There is inadequate manpower in the Windows that provide interest free banking and the sector in general	6	28	5	16	5
3	There is a gap in research and development in interest free banking services and Islamic finance modalities to fill the gap in qualified human resource.	0	0	20	24	16
4	There is high competition from conventional banks	18	29	5	6	2
5	There is resistance from the banking community against interest free banking	15	15	6	24	0
6	There exists inadequate infrastructure for information	0	9	20	22	9

	dissemination					
7	There is lack of consumer acceptance of interest free banking	9	9	18	20	4
8	There is lack of adequate banking law for interest free banking	5	9	9	33	4
9	There is lack of experience in Islamic Shari'ah	0	9	13	29	9
10	The use of staff trained in traditional banking than interest free banking is a challenge	8	19	6	22	5
11	There is lack of financial innovation (in interest free banking products)	5	10	18	18	9
12	There is lack of secondary market (Such as Takaful/Islamic Insurance)	0	6	27	18	9
13	There is inadequate legal and supervisory framework	5	9	6	35	5
14	There is lack of segregation of fund between interest free banking and conventional banking	9	9	0	10	32
15	There exists misperception of interest free banking (negative attitude of people regarding interest free banking)	3	16	6	20	15
16	There is lack of awareness creation campaigns about interest free banking	4	0	14	33	9

**Would you please list down additional challenges that you face related to interest free banking in Ethiopia?**

1. \_\_\_\_\_

2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

### Part III- Prospects of interest free banking

Next, there are listed to items which deal with respondents view on prospects of interest free banking in the banking sector. These items will explore respondent's assessment of challenges facing in the banking sector. So please tick the number that you feel most appropriate, using the scale from 1 to 5 (Where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree).

No	Items	Strongly Disagree	Disagree	Neutral (3)	Agree	Strongly Agree
1	There is a prospect that there will be more of interest free financial system liberalization	4	13	11	14	18
2	There will be growing users of the service (interest free banking is growing and the tendency that it will keep growing further in the future)	4	0	9	14	33
3	interest free banking contributes to economic growth	5	9	0	10	36
4	interest free banking has an important role to attract investors /investment to the country	0	14	0	11	35
5	interest free banking fosters/promotes egalitarian society (contribution to equitable distribution of income) in the country	0	5	22	14	19
6	interest free banking contributes to expand employment opportunities in the country	0	0	14	24	22
7	interest free banking facilitates financial inclusion (attract the potential customers who were discouraged by the conventional banking interest application	0	0	14	15	31
8	interest free banking represents additional deposit to bank	4	0	14	10	32
9	interest free banking will have	0	0	0	13	47

	contribution to support and expand local business (by providing Saving and loan Service)					
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**Would you please list down additional prospects that you face related to interest free banking in Ethiopia?**

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_
- 5. \_\_\_\_\_
- 6. \_\_\_\_\_

**Questionnaire to Customers**  
**Addis Ababa University**  
**MBA Program**

**Frehywot Astatke.**

**Contract Address:**

**Email: freastatke@gmail.com**

**Dear Respondents,**

This questionnaire is designed to collect data on the topic ‘challenges and prospects of interest free banking in Bank of Abyssinia (Eastern District). The purpose of the study is for the partial fulfillment of the requirement for MBA program. For the successful accomplishment of the study, the response of employees who work in interest free banking windows of the bank will have pivotal role to obtain useful insights. I assure you that the information to be shared by you will be used only for academic purpose and kept confidential. So, you are kindly requested to genuinely fill the questionnaire.

**Thank you in advance for your cooperation!**

Instruction: -

- Writing your name is not required.
- Put “✓” Mark as per the question required in the box or answer in the space provided.

**Part I- Demographic Characteristics**

1. Would you please indicate your religion?

Muslim

Non –Muslim

2. Which interest free banking/interest free banking product (s) of BOA do you use?

- Wadiah Amanah (Safe keeping saving)
- Qured
- Amanah (current account)
- Mudaraba

- Safe keeping and Qured
- Safe keeping and Mudaraba

## Part II- Challenges of interest free banking

Next, there are listed to items which deal with respondents view on challenges facing interest free banking in the banking sector. These items will explore respondent's assessment of challenges facing interest free banking. So please tick the number that you feel most appropriate, using the scale from 1 to 5 (Where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree)

	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	There is lack of public awareness and acceptance	0	6	0	212	137
2	There is inadequate manpower in the Windows that provide interest free banking and the sector in general	26	50	0	177	102
3	There is a gap in research and development in interest free banking services and Islamic finance modalities to fill the gap in qualified human resource.	0	28	25	168	134
4	There is high competition from conventional banks	0	134	49	172	0
5	There is resistance from the banking community against interest free banking	40	0	41	274	0
6	There exists inadequate infrastructure for information dissemination	0	26	15	274	40
7	There is lack of consumer acceptance of interest free banking	0	39	78	238	0
8	There is lack of adequate banking law for interest free banking	24	25	25	281	0
9	There is lack of experience in Islamic Shari'ah	22	0	20	149	164
10	The use of staff trained in traditional banking than	37	0	39	197	82

	interest free banking is a challenge					
11	There is lack of financial innovation (in interest free banking products)	0	0	40	278	37
12	There is lack of secondary market (Such as Takaful/Islamic Insurance)	38	38	0	85	194
13	There is inadequate legal and supervisory framework	35	0	79	163	78
14	There is lack of segregation of fund between interest free banking and conventional banking	0	74	0	124	157
15	There exists misperception of interest free banking (negative attitude of people regarding interest free banking)	4	0	0	298	53
16	There is lack of awareness creation campaigns about interest free banking	37	43	0	81	194

**Would you please list down additional challenges that you face related to interest free banking in Ethiopia?**

7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_
11. \_\_\_\_\_
12. \_\_\_\_\_

**Part III- Prospects of interest free banking**

Next, there are listed to items which deal with respondents view on prospects of interest free banking in the banking sector. These items will explore respondent’s assessment of challenges facing in the banking sector. So please tick the number that you feel most appropriate, using the

scale from 1 to 5 (Where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly Agree).

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	There is a prospect that there will be more of interest free financial system liberalization	48	39	0	158	110
2	There will be growing users of the service (interest free banking is growing and the tendency that it will keep growing further in the future)	18	30	56	80	171
3	interest free banking contributes to economic growth	0	72	38	159	116
4	interest free banking has an important role to attract investors /investment to the country	0	48	0	116	191
5	interest free banking fosters/promotes egalitarian society (contribution to equitable distribution of income) in the country	0	0	78	236	41
6	interest free banking contributes to expand employment opportunities in the country	0	14	0	192	149
7	interest free banking facilitates financial inclusion (attract the potential customers who were discouraged by the conventional banking interest application	0	0	0	275	80
8	interest free banking represents additional deposit to bank	0	0	40	125	190
9	interest free banking will have contribution to support and expand local business (by providing Saving and loan Service)	0	0	36	163	156

**Would you please list down additional prospects that you face related to interest free banking in Ethiopia?**

7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_
11. \_\_\_\_\_
12. \_\_\_\_\_

