



Stakeholders Perception and Attitude towards Interest Free Banking in Ethiopia

¹Rizwana Ashraf, ²Nathanim Andarige, ²Khushnuma Khurshid

¹Assistant Professor Department of Management Studies SSM College of Engineering

²Masters Student College of Finance, Management and Development Department of Public Finance Management and Accounting Masters of Science in Accounting and Finance Program, Ethiopia, e-mail a.nathanim.a@gmail.com

²Assistant Professor department of Management Studies SSM College of Engineering

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ABSTRACT

Since interest-free banking has been practiced in Ethiopia from last ten years, it is still in its infancy stage, with a primary focus on serving the demands of the religiously inclined and a soothing removal of the interest component from business operations. No research has yet been done to determine how customers in the nation feel about interest-free banking. As a result, this survey will be the first of its type to ask customers about their interactions with banks and attitudes toward the services they receive. However, the target population taken for study remains bank personnel and a stakeholder's as clients. A total of 120 respondents will be shared a questionnaire adopted from previous studies on random basis. The results of this study will help policymakers to implement efficient policies and marketing tactics and shall highlight weakness, limitations and future research required.

Key words: Product Awareness, Motivation, religion, product knowledge and perception & Attitude

1. INTRODUCTION

1.1 Background

Ethiopia has a sizable Muslim population, estimated at more than 38 million people. Ethiopia implemented Islamic banking through an interest-free banking window plan in 2011, with the goal of achieving full-fledged interest-free banking by the end of 2019. The purpose of this study is to look into customers' attitudes toward the newly implemented full-fledged interest-free banking system. The study will be based on primary data acquired from Islamic bank account holders and staff members working there for these purposes. The sample for the current study is 120 respondents randomly selected. The statistical tools shall be used regression model along correlation analysis to draw the inferences. The questionnaire for the said study is adopted forms the previous studies, which is modified as per the requirements discovered during pilot study. Besides it is intended to have pilot study for nearly 20 respondents on convincing sample basis before finalizing the questionnaire. The reliability and validity tests shall be taken into consideration for validity.

1.2. Statement of the Problem

In recent years, the global attitude of stakeholders toward Islamic Banking System has increased, not only due to religious motivation, but also due to a variety of considerations such as relative cost and benefits, service delivery and quality, personnel competency, and convenience. However, in places such as Ethiopia, where mainly conventional financial systems are in use, the Muslim community has been offered recently access to Islamic banking that too introductory stage. As a result, a sizable percentage of Muslims either have no interaction with the regular banking system or refuse to receive interest on their accounts. As a result, it is believed that the Islamic Banking System has enormous potential in countries such as Ethiopia. Research studies have indicated Islamic Principle as the key factor among Muslims for selecting Islamic Banking System (Metawa and Almosawi, 1998), while as profitable returns on investments generated by Islamic banks is the key motivator for non-Muslims (Gerrad & Cunningham, 1997; Ahmad and Haron, 2002).

It is clear that the motivation for the formation of modern Islamic banking is to provide alternative Sharia-compliant financial services and products for people who, for religious reasons, are unable to use conventional financial services. According to Gait and Worthington (2007:1), Islamic finance is "financial institutions and products designed to comply with the central tenets of Sharia (or Islamic law) - is one of the most rapidly growing segments of the global finance industry". According to Franzoni and Allali (2018), Islamic finance is founded on five pillars that are the necessary measurements of religious validity (Sharia Compliance) of every financial operation undertaken under the canopy of Islamic finance. These fundamental pillars are the prohibition of Riba (interest), the prohibition of speculative elements in financial contracts (Gharar), the prohibition of gambling (mayser), the prohibition

of trade and investment involving any element of prohibited asset or activity (Haram), the profit and loss sharing principle, and the requirement that real assets underpin any given financial transaction. Islamic finance can be traced back to the time of Prophet Muhammad (Mohamad et al., 2013). Various Sharia-compliant financial instruments were used in the Muslim World from the advent of Islam until the 12th century. Accepting deposit, money transfer, bankers known as sarrafeen or sayarifah, promissory notes (reqaah al-sayarifah), bills of exchange (suftaja), cheque (sakk), and treasury (Baytal-Mal) were all common financial instruments (Chachi, 2005; Mohamad et al., 2013; Alharbi, 2015). The fall of Muslim civilization, primarily owing to increasing divergence from Sharia, luxury, a lack of well-established structure, governmental instability, the formation of several Islamic sects, and various conflicts, changed the balance of trade away from Muslims and toward Europeans. As a result, Muslims lost technological and economic advancement. As a result, all Muslim countries' financial systems deviated from Sharia compliance, resulting in the adoption of the western-based conventional financial system (Chachi, 2005). However, given the current vast program of financial reform around the world, as well as the growing expansion and attraction of Islamic banking in comparable economies, there is hope and potential for a state-wide Islamic finance system. As a result, there is an urgent need for research into the prospects for Islamic ways of financing from the perspectives of both service users and service providers. So far, no research has been conducted in Ethiopia, and no serious studies on the perceptions and attitudes of the Ethiopia populace toward Islamic banking have been conducted. In order to fill this gap, the present study first of its type in the Ethiopian context has been undertaken to find the stakeholders perception and attitudes towards Islamic banking system. The overall study is conducted to analyze perception and attitudes towards Islamic finance with a main focus to identify the impact of basic parameters that influence the perception and attitudes towards the potential use of Islamic methods of finance by Ethiopian State stakeholders including IB account holders and bank employees etc. since no study has been conducted in the direction perception towards Islamic banking, therefore it shall be first of its kind in the perceptual direction. Hence is original and based on primary data

1.3. Research Question

1. What is the awareness of customers towards interest free banking in Ethiopia?
2. Why does customer prefer Islamic banks in Ethiopia?
3. What are the motivating factors for stakeholder to join hands with Islamic banks in Ethiopia?
4. What is the cause of not using Islamic methods by Ethiopians?

1.4. Objective of the Study

1.4.1. General Objective:

The general objective of the study is to analyze stakeholder's perception towards interest free banking in Ethiopia

1.4.2. Specific Objectives:

The specific objectives of this research paper are

- 1 To analyze the awareness of Interest free Banking amongst stakeholders in Ethiopia.
 1. To analyze the perception and preferences of stakeholders towards Interest banking in Ethiopia
 2. To analyze willingness and motivation of stakeholders to do business with Islamic Banks.

1.5. Significance of the study

The findings of this study are expected to be significant for the following reasons.

Government and other parties involved in the promotion of the development of people in general may use the findings of the study as additional information to address the problems uncovered in the development and for financial inclusion issues in the country.

2. REVIEW OF RELATED LITERATURE

The story of small business has been one of the most controversial stories in the world's economic development. It is not known when micro and small businesses will start. The role of small business in an economy has often been undermined and misinterpreted because many governments emphasize the attractiveness and encouragement of large business, believing that most economic development or income comes from large industries.

2.1. Theoretical review

2.1.1. Review of concept

Islamic banking, which began on a small scale in the mid-1970s, has grown rapidly over the last four decades. It has emerged as one of the fastest growing industries, with annual growth rates ranging from 15 to 30% (Haque et al, 2007; Iqbal and Molyneux, 2005; Khan et al, 2008), and has extended to all corners of the globe, with widespread support from both Muslims and non-Muslims (Aziz, 2006). According to the Islamic Financial Services Board

(IFSB), total assets were worth US \$ 700 billion in 2005 and are expected to grow to US \$ 2.8 trillion by 2015 due to the popularity of Islamic financial services among non-Muslims in various nations (Knight, 2007). Observing the growing demand for Islamic Banking Services, several multinational conventional banks have already established distinct Islamic banking windows that offer interest-free services to a widely dispersed audience (Hassan and Ahmad, 2001; Huda et al, 2007). It is not by chance that the global Islamic banking system is advancing rapidly in many countries; rather, it is due to the vision of those governments to develop a progressive and robust Islamic Banking Industry based on strong Islamic core values and principles that best serve the needs of the economy (Aziz, 2007). However, Islamic banks are currently competing with conventional banking and non-banking financial institutions in terms of product quality, service quality, and, most importantly, client happiness. To thrive in this strategic competitiveness, Islamic banks must comprehend and use customer satisfaction issues under existing Islamic Shari'ah privileges (McIver and Naylor, 1986). Several previous studies have identified religion (Islam) as the primary motivation for choosing Islamic banks, which are founded on the principles of the Qur'an and the Hadith. However, research in Malaysia Non-religious factors such as efficiency, cost-benefit analysis, and so on were found to be influential factors in choosing an Islamic bank in the UAE and Kuwait (Dusuki and Abdullah, 2006; Wilson, 1995; Ahmad and Haron, 2002; Kuehn and Bley, 2004, Owen and Othman, 2001; Metawa and Almosawi, 1998). While chances for Islamic banking will continue to expand, there is an immediate need to produce goods and services that are in line with evolving consumer wants and demands in order to remain competitive in the market. The banking business has become increasingly chaotic and competitive all around the world (Sadiq & Shanmugham, 2002). Globalization and liberalization have caused a paradigm shift in the banking industry as a whole in recent years.

Review of Literature Empirical

The banking system is no exception, and they face intense competition from traditional institutions. Islamic banking is no longer seen as a banking service aimed just at fulfilling the religious duties of the Muslim community, but rather as an innovation in the entire banking business, which should be as competitive as conventional banking. This involves Islamic banks understanding their stakeholders' true needs in terms of Islamic Banking Services. Customers' perceptions of Islamic banking are significantly more important in places such as Malaysia, where Islamic banks compete with dominant and long-established conventional banks in a dual banking system (Aziz 2006; Asyraf 2007). The studies of Erol and El Bdour (1989) and Erol et al. (1990) are regarded as the first patronage studies on 'Islamic Banking'. They discovered that clients who patronized Islamic banks viewed the three most essential criteria in bank selection to be the provision of a fast and efficient service, the bank's reputation and image, and secrecy. Islamic banking, in its modern form, is the younger of the two, with few in-depth empirical studies accessible. Zineldin (1990) contrasts the two systems of banking and presents his reasons using Islamic banking theory and practice, concluding that Islamic banking is preferable. Almost all of the empirical investigations that have been conducted in other Islamic nations, such as Egypt and Malaysia, have determined that Islamic banking performance is relatively better than conventional banking performance. While Kazarian (1993) analyzes the two types in Egypt, Samad (1999) examines the efficiency of the two types in Malaysia using a four-year empirical analysis. According to Samad (1999), Islamic banks in Malaysia have better managerial abilities than mainstream banks. Samad and Hassan (1999) examine Islamic banks' liquidity ratios as well as the popularity of Islamic lending. They examine the premise that Islamic banks' liquidity ratios are greater in the early years and decrease afterwards due to a learning curve. Zaher and Hassan (2001) have fully documented the operation and structure of Islamic finance and banking, as well as the theory underlying the growth of Islamic finance. They have also defined the distinction between profit and loss sharing (PLS) in Islamic banks and interest payment in conventional banks. Iqbal (2001) investigates the ratios of Islamic and conventional banks during an eight-year period in several Islamic nations. The article compares the performance of Islamic banks to that of conventional banks as a "control group" and concludes that Islamic banks outperformed normal banks. Samad (2004) investigates the two styles of banking in Bahrain for ten years, from 1991 to 2001. He maintained that there is no significant difference in terms of profitability and liquidity, but that credit risk is substantially lower in Islamic banks, which also have higher credit performance. Qorchi (2005) addresses the rise of Islamic finance in Europe and the United States, as well as Muslim countries. He covers the distinctive aspects of Islamic financial instruments, which are more contract-based between savers and money searchers, as well as the various contracts now in use. Based on a research of Malaysian banks, Choong and Ming (2006) suggest that the PLS, a distinguishing feature of Islamic banking, is only theoretical and that Islamic banking deposits are not interest-free, but are highly dependent on market interest rates. They found little variation in the structure of the two. Rosenblatt et al. (1988) studied 423 Canadian corporate treasury professionals to determine the responsible person(s) in picking bank(s) for their organization, factors ascribed to the selection of the bank(s), and these personnel's perceptions of the bank's service quality. They discovered that nearly half of these corporate treasurers were entirely responsible for selecting the bank(s). Banks with stronger branching networks and those who provide quality services were the two variables that influenced their decision-making. Half of those polled preferred that the bank assign a special officer with the most knowledge of the customers' company operations. Quality products and services were likewise more important to corporate treasurers than new products. They were also opposed to the concept of a "one-stop banking center." Turnbull and Gibbs (1989) conducted a research in South Africa with 'big' and 'very large' enterprises. The study's aims were to identify variables that corporate clients regarded significant when choosing their banks, as well as to determine whether organizations have a single or divided banking relationship. In general, corporate customers judged quality of service to be the most essential criterion in establishing a connection with Islamic banks. Other key aspects included employee quality, bank manager attitude, and service price. Although very large corporations deemed service quality to be the most critical criteria, price and personnel quality were equally important. Split banking relationships were common among corporate customers. Almost all treasurers stated that the outward appearance of the banks had no bearing on their decision-making process. In Hong Kong, Chan and Ma (1990) conducted a study to better understand corporate clients' split-banking, bank-switching, patronage factors, degree of awareness, and usage of banking products and services. They discovered that corporate customers preferred large, renowned banks and split banking. Corporate customers would only move banks if the new bank could demonstrate that its product quality was superior than that of competitors. Tyler and Stanley (1999) conducted a study using traditional grounded theory with the goal of finding essential factors of perceived service quality by large organizations. They discovered that crucial elements included dependability, certainty, empathy, responsiveness, and proactivity. Interest-free loans were practiced by Jews and Christians prior to Islam, and were afterwards pushed for by socialists and economists. The Old Testament teaches interest-free loans to the poor in Deuteronomy

(Stein, 1956), and Judeo-Christian philosophy considers loans with interest as accomplishing little to promote economic fraternity (Maloney, 1971). The Old Testament was the key influence on Jewish and Christian opposition to interest, and may have been the original reason for the Qur'an's dismissal of usury since the three religions share the same belief in the God of Abraham (Dar & Presley, 1999). Apart from religion, socialists condemned interest as encouraging a "parasitical existence" (Brunner, 1937). There is a wealth of supportive argument in Western literature for Islamic scholars to exploit as western economists have identified linkages between interest rates and macroeconomic instabilities which afflict most capitalist economies, such as, inflation, unemployment and negative growth (Mill, 1826; Smith, 1904; Keynes, 1931; Fisher, 1933; Wicksell, 1935; Hayek, 1933, 1939; Minsky, 1977; Bernante and Gertler, 1990). The abundant western literature that supports interest free loans should encourage Islamic scholars to take an empirical approach. Western economies have their roots in classical economics, which assumes a flawless environment, but they have developed by admitting uncertainty and imperfection and testing economic theories empirically. Islamic theory defines "how people, groups, or governments should behave in a perfect Islamic community," but people do not behave in this manner, and empirical testing is required to understand how Muslims behave in the actual world when it comes to Islamic banking. Islamic banking research is mostly undertaken among Muslims and, to a lesser extent, among non-Muslims. Erol and El-Bdour (1989) and Erol, Kaynak, and El-Bdour (1990) were among the first researchers to identify three major selection criteria for Islamic banks: speed and efficiency, reputation, and confidentiality. Furthermore, religious motive was not used as a primary criterion. However, Metawa and Almosawi (1998) and Naser, Jamal and Al-Khatib (1999) found adherence to Islamic tenets the primary criterion for selecting Islamic banks in Bahrain and Jordan. Likewise Kader (1993, 1995) and Osman et al. (2009), Othman and Owen (2001, 2002), and Wakhid and Efrita (2007) share the same findings in their studies in Malaysia, Kuwait and Indonesia respectively. Dusuki and Abdullah (2006) explained that Islamic bankers can no longer depend on promoting the Islamic factor but also have to improve service quality. Their survey among 750 respondents found the three most important factors were competence, friendliness and customer service quality. Gerrard and Cunningham's (1997) study in Singapore found 41.4% of Muslim respondents would deposit an unexpectedly acquired substantial sum of money in Islamic banks, but half of them would withdraw and transfer all deposits to another bank if no profit is announced, much like non-Muslims who deposit with banks that guarantee a return. Gerrard and Cunningham's (1997) study stressed the significance of customer awareness, product knowledge and informative advertising campaigns. The need to create awareness, enhance product knowledge and improve promotional campaigns is supported by Haron et al. (1994), Bley and Kuehn (2004), Dusuki and Abdullah (2006) and Thambiah et al. (2007) to combat growing competition from both Islamic and conventional banking products. Bley and Kuehn (2004) studied 667 business graduate and undergraduate students' knowledge and perception of conventional and Islamic finance in the United Arab Emirates (UAE). Non-Muslim students viewed Islamic finance as inherently appealing to Muslims, and did not perceive Islamic finance as provider of superior products. Overall, studies related to Islamic banking in Malaysia have largely focused on patronage factors (Thambiah et al., 2008). Recent studies indicate a deeper need to investigate the importance of marketing Islamic banking, reinforcing Al-Haran's (1995) proposition for market research to determine a viable Islamic economic system. Islamic banking should no longer be regarded as a business entity striving to fulfil the religious obligations but as a viable business that can win over customers (Dusuki & Abdullah, 2006). Bley and Kuehn's (2004) study in UAE showed although Muslim students indicated better knowledge and deeper interest in Islamic banking, they preferred conventional banking concurring with Omer's (1992) study among Muslims in UK. From the above literature review, it is inferred that most of the stakeholders are inclined towards Islamic banking because they feel Riba is not Halal as per Islamic principles. However, some of the studies have shown that Muslims are more inclined to Islamic banking system not only because of religious belief but they also feel that conventional banking products lack innovation in terms of risk measurement and management. Because of Riba, Islamic banks have had to develop financial products which are not in conflict with the Sharia'h. The task has been achieved by creating a number of special financial products (Ali and Ali, 1994). The excessive use of credit facilities by Islamic banks globally has drawn the ire of scholars such as Ahmad (1989) and El-Naggar (1994). Conventional futures are every controversial with the Ulema - religious scholars (Kamali, 1999). It should be noted that certain Ulema such as Justice Taqi Usmani have given their verdict allowing contracts with embedded options (Khan, 1999). The study of Erol and El-Bdour (1989), conducted in Jordan, aimed at establishing the attitude of local people towards Islamic banking. The results suggest that religious motivation did not appear to play a primary role in bank selection; the opening of new branches was not an important factor in increasing the utilization of financial services provided by Islamic banks; while 39.4 per cent of respondents would withdraw their deposits if an Islamic bank did not generate sufficient profit to make a distribution in any one year, 30.4 per cent would retain their deposits because the Islamic bank could distribute a higher dividend the following year. The approaches of Islamic banking are distinctly different from the ones of conventional banks. The basic principle beneath Islamic financial system is development based on partnership (Ahmed, 2000; Chapra, 2000; Hassan and Ahmed, 2001; Wilson, 1995). Under this principle, Islamic banks operate various deposit, loans and other commercial services for the retail and corporate customers.

2.1.2. Ethiopian Experience

Ethiopia is a country with a significant Muslim population. According to the Central Statistics Authority of Ethiopia census 2007 (CSA, 2007), Muslims make up 34% of Ethiopia's overall population. Unfortunately, Ethiopia has a low level of bank service penetration. According to the Global Findex Database 2017, just 34.8% of adults over the age of 15 have a bank account. This means that 65.2% of individuals in Ethiopia do not have access to fundamental financial services (Demirgüç-Kunt et al., 2018). The unavailability of alternative sharia compliant financial products and services in Ethiopia played a significant role in inducing financial exclusion which in turn resulted in low bank usage in Ethiopia (Hailu, Kapusuzoglu, & Ceylan, 2019). Prior to 2008, Ethiopia had no legislative framework that permitted the development of Islamic financing. As a result, Ethiopian Muslims have been calling for the development of interest-free banking services for many years. In 2007, delegates from Ethiopia's Muslim Diaspora asked late Prime Minister Meles Zenawi a variety of issues. Among these questions was the request for permission to establish Islamic banking in Ethiopia (Feyissa, 2012). Furthermore, in 2008, a group of entrepreneurs and community leaders with the goal of establishing an interest-free bank known as "Zem-zem bank" proposed the benefits and significance of Islamic financing to late Prime Minister Meles Zenawi. After the meeting, the prime minister directed the National Bank of Ethiopia (NBE) to issue a new proclamation that permitted the establishment of Interest-free finance in Ethiopia (Al-Hashimi, 2012).

Consequently, NBE issued a Proclamation concerning Banking Business: Proclamation No: 592/2008. In this Proclamation, Article 22, Sub-article 2 states “The National Bank may issue a directive to regulate banking businesses related to non-interest-bearing deposit mobilization and fund utilization.” This was the first practical measures taken by NBE to adopt the practice of Islamic finance in Ethiopia. Based on Proclamation No: 592/2008: Article 22, Sub-article 2, all conventional banks in Ethiopia started to accept interest-free deposits from those customers who are interested in interest-free banking service. A substantial amount of money is deposited in all conventional banks, with depositor aiming no more than a safeguard. Currently from the 18 conventional banks, 10 of them are providing IFB service through window and On the other hand, Zamzam bank organizers started selling shares in December 2010 to establish a full-fledged Interest free bank. Though the minimum paid-up capital to establish a bank was 75 million Ethiopian Birr(2.7 Million USD), Zamzam bank was able to collect 137 million Birr (4.9 million USD), almost twice as much the minimum paid-up capital, within four months from more than 6800subscribers (Zam-zam Bank Under formation, 2012). Nevertheless, a new directive was issued by NBE that undermined the hope of establishing full-fledged Islamic banking in Ethiopia. This directive is called “Directives to Authorize the Business of interest-Free Banking No. SBB/ 51/2011”. According to this directive, only established conventional banks can offer interest free banking merely on window modes. Article 2: sub-article 3 defines an interest-free banking window as a unit within a conventional bank exclusively offering interest-free banking services”. No explanation was given from the government as to why this directive is decreed outlawing the former one. Following this directive, Commercial Bank of Ethiopia (CBE) and Oromia International Bank (OIB) got an endorsement from the NBE to offer interest-free banking window services in 2013. Currently, almost all conventional banks in Ethiopia are offering interest-free banking window. Even though the NBE closed the door to establishing full-fledged Interest free bank in Ethiopia, Muslim communities did not give up from demanding it. After a 7 years exclusive interest-free banking window practice in Ethiopia, the NBE issued a new proclamation that permits the establishment of full-fledged interest-free banking in Ethiopia in May 2019. The proclamation is known as proclamation No: 1159/2019 to approve for the amendment of banking business proclamation. In this proclamation article 59 devoted to “interest-free bank” and sub-article 1 states that: “Without prejudice to the requirements of specified under the provisions of the proclamation, the National Bank may issue a Directive to prescribe additional conditions of licensing, supervision and requirements to establish Interest-Free Bank. For this sub-article, Interest-Free Bank means a company licensed by National Bank to undertake only interest-free banking business”.

Proclamation No: 1159/2019 made the dream of establishing a full-fledged interest-free bank in Ethiopia real. The proclamation was issued after the current Prime Minister Dr, Abiy Ahmed promised to permit the establishment of full-fledged interest-free banking on his speech during the Ramadan Iftar (fast-breaking) program organized by the Ethiopian Islamic.

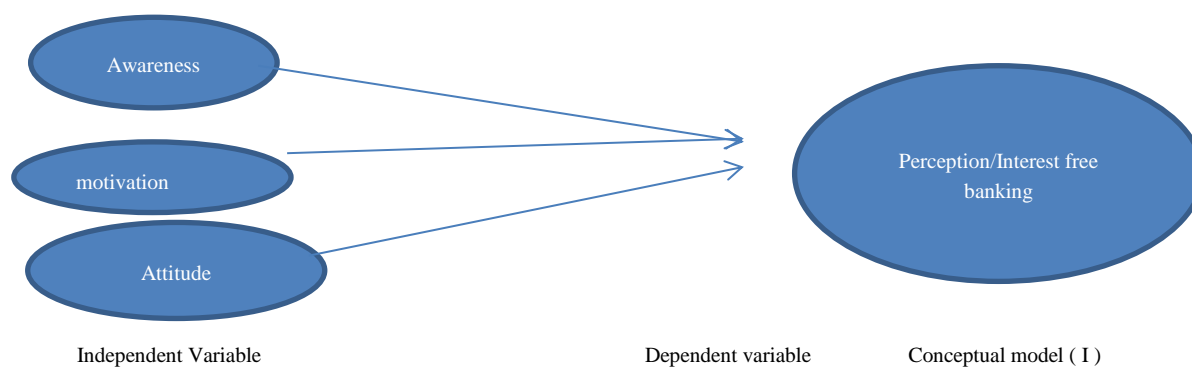
The findings of this study provide significant implications for policy makers who are responsible in issuing banking business regulation and for investors who are interested to invest in Islamic Banking sector. Further, this study will contribute to the literature on Islamic banking in Ethiopia as the newness of the sector and unavailability of adequate literatures. Finally, it will encourage researchers to do more investigations and academic studies on this area.

2.3. Research Gap

It is evident from the literature review presented in this chapter, that no major study has been undertaken to analyze the attitudes and perception of Muslims towards ‘Islamic Banking’ in Ethiopia in general and no such study has been made in the Even though in the year 2011 only, Banking authorities gave nod to certain interest free Non-Banking Financial Institution in Ethiopia, yet the full gloomed interest free banking system is still a dream. Therefore, in order to establish the Islamic Banking as an alternative way of banking, an empirical study to evaluate the perception and attitudes of stake holders towards Islamic banking is a multi-dollar question to explore with a short history experience to move ahead.

2.4. Conceptual framework

In line with this understanding, the independent and dependent variables were identified for the present study. The main independent variables identified were awareness, attitudes, motivation, whereas the dependent variable identified for the study is adoption of Islamic banking by the stakeholders based on perception. The Figure (I) shows the graphical representation of the research model / theoretical framework adopted for the study.



3. RESEACH METHODOLOGY

However, this study is a comprehensive research regarding attitudes of the customers IB and bank employees towards 'Islamic Methods of Ethiopia. In terms of these groups, there is a serious need to raise a major research question which enquires about how attitudes and perception towards Islamic banks can be used for predicting and understanding the potential use of Islamic methods of finance among the stakeholders of the State? From this major research question, the following four questions were developed for the analysis:

3.1 Research Approach:

Adopting a rational research approach is an effective strategy to increase the validity of any social research. In order to test the awareness, preferences, willingness and perception of stakeholders towards Islamic banking system a survey was conducted on representative respondents Ethiopia.

3.2 Research Design

For this purpose, a regional stratified sampling technique was used for the selection of 120 representative respondents as per the table 4.1.

3.3 Questionnaire Construction

Moreover, on the basis of instrument designed by (sheikh et.al., 2020, Yusuf, 1999 & Loo, 2010), a well thought out questionnaire given at Appendix-I, consisting of a list of 26 questions measuring four key constructs of the study was developed as a survey instrument. Additionally for the other factor analysis questions on demographic profile including gender, age, religion, region, level of education, income and occupation etc. were included in the questionnaire. In order to remove the lacunas in the questionnaire, it was first tested on a small group of 20 representative respondents. On the basis of their feeding and factor loading the instrument was refined again and again in the light of the objectives set for the study. The final study shall be 120 respondents

3.4 Data Collection Method

To gather evidences about various factors that led to the success of Islamic Banks, in addition to the primary data collected through issuing questionnaires both online and on paper format, secondary published data like international and national journals, documents, reports and resources were also used for the study only after testing their reliability.

3.5 Pretest

The pretest was conducted with an idea of testing the reliability of the questionnaire designed and to understand the respondents' case in answering the questionnaire. Primary concern regarding the length of the questionnaire, since it has 20 questions to measure 4 variables, in addition to demographic variables and subject related variables. A sample of 15% ($N=120 * 15\% = 20$ Approx.) respondents were selected for the purpose. Respondents were required to mention the time required to complete the questionnaire, items that were difficult to understand and answer and other general remarks. Respondents to pilot testing identified some words (*mostly of Arabic Nature*) as difficult to understand and answer. Based on the views and suggestions of the respondents, the required modifications were carried and the questionnaire was standardized.

3.6 Hypotheses:

On the basis of the objectives and the research questions framed for the study, following set of Null hypothesis have been tested:

H01: The awareness of stakeholders towards Islamic Banking is not prerequisite for developing right perception and attitude towards Islamic banking in Ethiopia

H02: Interest free methods of finance / products / services does not motivate stakeholders towards Islamic banking in Ethiopia

H03: Lack of awareness about Islamic Banking System, results in the negative attitude and perception among the stakeholders in Ethiopia towards Islamic banking system.

H04: Stakeholders in Ethiopia does not Adopted practice of Interest free banking products due to product ignorance

4. Scope of the Study:

The present study has been undertaken to identify the factors responsible for forming attitudes and perceptions of various stakeholders for establishing or not establishing the Islamic Banks Ethiopia. Muslim majority populated state in Ethiopia with diverse regional and religious variations. Hence, it occupies a significant position with respect to the adoption or non-adoption of Islamic Banking throughout Ethiopia.

Data Analysis

The demographic findings of sixty (60) customers of Islamic banking and sixty (60) employees of the bank where Islamic financing services are provided are shown in Table (I) above. Table (I) reveals a good diversity of respondents (six in the study) based on gender, age group, educational attainment, level of religious observance, and different banks. 86.66 percent of the pupils were male, and 13.33 percent were female. Every participant in the student poll was between the ages of 18 and 30. The age range of 31 to 42 years and 48.33 percent carry the largest weighting as account holders percent among participants (15%). In terms of education, 34.16 have a degree or higher, and 45.83 have a graduate degree. The reason could be because the 50% sample is made up of bank employees in the officer cadre, and it is clear that they have received at least a bachelor's degree. When assessing religious stickiness, 30% of respondents thoroughly practice their faith, and none of the respondents agree that they do not. After a year, United Bank (UB) launched an Islamic branch as well. Of the sample, 11.66 percent are clients, and 15% are bank staff. Since these two banks are currently the most senior banks, they make up two thirds of the sample. Regarding United Bank (UB), Wegagen Bank (WB), Nib Bank (NB), and Cooperative Bank of Oromia (CBO) launched their separate IB windows in 2014 and 2015.

Using awareness, Attitude, and motivation as independent variables and consumer perception as a dependent variable, we examine how Ethiopian customers perceive Islamic banking products and services. (Irfan et. al, 2020; Chhapra et. al, 2013) conducted earlier study. The correlation coefficient and Pearson's regression were used in this context to examine the relationship between the independent factors (knowledge, awareness, and religious motivation) and the dependent variable (perception). The equation for regression analysis is:

$$PER. = \alpha + \beta 1(AWO) + \beta 2 (KNO) + \beta 3(RML) + \varepsilon$$

Where,

- PER = perception
- AWO = Awareness
- KNO = Attitude
- RLM = motivation
- And ε = Error term.

Information and conversation

Reliability assessment

Table II displays the Cranach's alpha statistic, which is used to evaluate the dependability of each theme. The dependability standard value should be at least 0.70, according to (Hair et al., 1998; Irfan et al. (2020); & Sheikh (2021)). The results in this regard show that the alpha values for perception are (0.945), awareness is (0.889), motivation is (0.909), and Attitude is (0.923). As a result, all Cranach's alpha values for each variable are higher than 0.70, indicating that every variable in the questionnaire is reliable and follow the given standard line.

Table II

Variables	Items	Cronbach's Alpha Value	Results
Perception	5	.945	Reliable
Awareness	4	.889	Reliable
Motivation	9	.909	Reliable
Attitude	8	.923	Reliable

Note: The reliability analysis of four variables is displayed in this table..

Regression Analysis

Regression analysis of dependent variable (perception) on the set of independent variables (Awareness , attitude , motivation) across overall sample

Table 3. Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.463a	.215	.208	.5801454	1.761

(a.) Predictors: (Constant), **attitude, awareness, motivation**

(b) Dependent Variable: perception

Since there are few odds of autocorrelation being present in cross sectional data, and if it is, it is known as spatial autocorrelation, the independent variable explains 20.8% of variation in the dependent variable as measured by an adjusted R square of (.208). There is no geographic autocorrelation in the model, according to Durban-Watson. Given that the Durban-Watson value is less than 2 and within the predetermined range. Additionally, it automatically meets the criteria for values between 0 and 4.

The religious drive is the model's final slope. When b is 0.253, it means that changing b by one causes changes in consumer perception of .790+.253 in Ethiopia.

Correlational research

Figure IV This graph shows how the two variables are related to one another. While awareness and perception have a strong positive correlation (0.379)& (0.055), knowledge and perception have a weaker association. Perception and religious motivation have a moderately positive correlation (0.254), awareness and knowledge have a moderately lesser positive correlation (0.084), awareness and religious motivation have a moderately lesser negative correlation (-0.034), and knowledge and religious motivation have a moderately lesser negative correlation (-0.034).

Table IV

Correlations				
	PER	AWA	KNW	REL
PER	1	.379**	.055	.254**
AWA	.379**	1	.084	-.034
KNW	.055	.084	1	.111
REL	.254**	-.034	.111	1

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

According to the findings, there is a somewhat positive association between all of the variables—perception, awareness, knowledge, and religious motivation—with each having a correlation value more than 0.111

Data analysis and interpretation

This chapter is devoted to the extensive examination and interpretation of the study's results. It investigates the perceptions and attitudes of Ethiopian stakeholders toward Islamic Banking based on the replies of 120 representative respondents to the questionnaire's well-structured questions. The awareness, motivation, attitudes, and perceptions of Islamic banking stakeholders have been thoroughly addressed utilizing various statistical approaches including the IBM SPSS Version-20 statistical software. To have a better understanding of the predictor variables, correlation and regression analyses were utilized. Islamic banking adoption in the country.

Awareness

Assessing the Awareness of stakeholders towards Islamic banking:

The overall perception of stakeholders is determined by how well they understand Islamic banking in general and the numerous products offered by Islamic banks in particular. Thus, in order to understand stakeholders' views regarding Islamic banking, if adopted, in Ethiopia has been explored through an investigation of their awareness of how Islamic banks work. In this section of the chapter, an analysis of stakeholders' awareness of Islamic banking and the goods they offer is presented. Mean, standard deviation, and the t-test were utilized to assess the hypothesis presented in this regard. of the awareness of stakeholders towards Islamic banking and its products, the following null hypothesis was framed.

H01: The awareness of stakeholders towards Islamic Banking is not prerequisite for developing right perception and attitude towards Islamic banking in Ethiopia.

Assessing the stakeholders' Awareness towards Islamic banking

Code	Stakeholders' Awareness	Mean	Std. Dev.	t-Value	Sig. (2-tailed)
AW1	Do you agree that Interest free banks in Ethiopia are applying Islamic methods in their banking service?	4.07	1.675	41.056*	.000
AW2	How much you have clear understanding Mudarabah product?	4.11	1.620	42.705*	.000
AW3	How much you have clear understanding – Musharakah product?	4.13	1.615	43.312*	.000
AW0	I don't have clear understanding Islamic methods of finance?	2.07	1.663	14.302*	.000

At the 1% level of significance, there is a significant difference between the average score and all of the factors analyzed to assess stakeholders' understanding of Islamic banking and the products supplied by these institutions. The highest mean score is observed for AW9 (i.e., AW3 (Musharakah - 4.13), and AW2 (Mudharabah - 4.11). Furthermore, the mean score for AW1 (Do you agree that Interest free banks in Ethiopia are applying Islamic methods in their banking service) is 4.07, indicating that stakeholders are aware that Islamic banks exist in various countries but are only familiar with a few of the products or methods of finance offered by these banks. The large t-value significant at

1% and small p value indicates that awareness is important predictor for understanding the perception and attitudes of stakeholders towards Islamic Banking and as such the

H01 i.e., The awareness of stakeholders towards Islamic Banking is not prerequisite for developing right perception and attitude towards Islamic banking in Ethiopia. Is rejected

Motivation

Assessing the Motivation of stakeholders towards Islamic banking:

The degree to which stakeholders are driven to support Islamic banking generally and the various products made available by Islamic banks in particular will determine how they will be perceived as a whole. As a result, in order to comprehend the attitudes of stakeholders toward Islamic banking, if it is adopted, in Ethiopia, it is also necessary to analyze their motivations for using Islamic banking services and products. The motivations of the stakeholders toward Islamic banking and the products they offer have been examined in this section of the chapter. To evaluate the hypothesis provided in this regard, mean, standard deviation, and t-test have been used. To further our comprehension of this variable, regression and correlation analyses have also been conducted. The following null hypothesis was developed based on how significant stakeholder motivation for Islamic banking and its products was.

H02: Interest free methods of finance / products / services does not motivate stakeholders towards Islamic banking in Ethiopia.

Assessing the Stakeholders' Motivation towards Islamic banking.

Code	Stakeholders' Motivation	Mean	Std. Dev.	t-Value	Sig. (2-Tailed)
MF1	Because of Interest-free product	4.09	1.66	41.30*	.000
MF2	Products are as per Islamic Shari'ah.	3.28	1.91	26.52*	.000
MF3	I prefer Islamic methods because my religion	3.25	1.89	26.40*	.000
MF4	Cost of borrowing depends on the outcome of the business.	4.23	1.35	53.33*	.000
MF5	Invest with Ibis according to profit/Loss (Mudarabah).	4.16	1.53	45.85*	.000
MF6	Repayment of debt is not exploitive	4.19	1.31	54.03*	.000
MF7	Lending of money according to profit/loss sharing (Musharakah)	4.17	1.49	47.34*	.000
MF8	There is risk sharing but not shifting	4.43	1.12	68.11*	.000
MF9	Encourages business innovation as well as expansion.	3.77	1.22	50.18*	.000

The average score and all the variables taken into account to gauge the stakeholders' understanding of Islamic banking and the products offered by these banks show a substantial difference at the 1% level of significance. When comparing these mean values, it can be shown that MF3 (religious motivation) (3.25) and MF9 (innovation) have the greatest mean scores, indicating that stakeholders are not primarily motivated by religion to bank with Islamic Banks. The large t-value significant at 1% and small p value suggest that motivation is a key predictor for figuring out how stakeholders perceive and view Islamic banking, as such the

H02: Interest free methods of finance / products / services does not motivate stakeholders towards Islamic banking in Ethiopia. Is rejected.

Attitudes

Assessing the stakeholder's attitude towards Islamic banking:

The attitude of stakeholders toward Islamic banking in general and the various products provided by Islamic banks in particular will determine how they perceive the industry as a whole. As a result, it is necessary to analyze the stakeholders' views toward Islamic banks in order to determine how they might change if Islamic banking is adopted in Ethiopia. The hypothesis posed in this manner has been put to the test using the mean, standard deviation, and t-test. To further our comprehension of this variable, regression and correlation analyses have also been conducted. The following null hypothesis was developed based on the significance of the stakeholders' attitudes regarding Islamic banking and its products.

H03: Lack of awareness about Islamic Banking System, results in the negative attitude and perception among the stakeholders in Ethiopia towards Islamic banking system.

Assessing the Stakeholders' Attitudes Towards Islamic banking

The average score and all the variables taken into account to gauge the stakeholders' attitudes toward Islamic banking and the products offered by these banks show a substantial difference at the 1% level of significance. When comparing these mean values, the AT8 (i.e., If interest free banking is taught at college level as subject majority people will join this?) (4.18), AT3 (Interest-free bank will provide return which will be acceptable to you.) (4.33), and AT6 (There is an impression that interest free banking is doing good in Ethiopia (4.27)) have the highest mean scores. Additionally, the mean score for AT5 (i.e., Interest free banking is for rich people who have sufficient money) is recorded at 1.50, the lowest possible score, indicating that this is not the primary attitude for stakeholders to bank with Islamic Banks. The large t-value, which is significant at 1%, and the modest p value show that attitude is a key predictor for knowing how stakeholders perceive and feel about Islamic banking, as such the H03 i.e., **H03: Lack of awareness about Islamic Banking System, results in the negative attitude and perception among the stakeholders in Ethiopia towards Islamic banking system., is rejected.**

Code	Stakeholders' Attitudes	Mean	Std. Dev.	t-Value	Sig. (2-tailed)
AT1	those who are using interest free products are not satisfied	1.75	1.23	13.544*	.000
AT2	Only educated people having knowledge of Islamic products	2.72	.93	41.101*	.000
AT3	Are return of interest free banking acceptable to you	4.33	1.20	62.071*	.000
AT4	The product design is for Muslims only	1.60	1.221	13.585*	.000
AT5	Interest free banking is for rich people who have sufficient money	1.50	1.241	12.587*	.000
AT6	There is an impression that interest free banking is doing good in Ethiopia	4.27	1.252	54.992*	.000
AT7	Interest free banks have diversified products	3.95	1.089	60.733*	.000
AT8	If interest free banking is taught at college level as subject majority people will join this?	4.18	1.130	68.957*	.000

Perception

Assessing the stakeholder's perception of Islamic banking methods among themselves:

The use of Islamic banking practices by stakeholders affects their perception of the stakeholders as a whole. Therefore, the examination of stakeholders' use of Islamic methods will be looked at in order to understand the attitudes of stakeholders toward Islamic banking, if it is adopted, in Ethiopia. This chapter's study of the stakeholder's use of Islamic banking practices may be found in this section. The hypothesis posed in this way has been put to the

test using the mean, standard deviation, and t-test. To further our comprehension of this variable, regression and correlation analyses have also been conducted. The following null hypothesis was developed based on the significance of the stakeholder's implementation of Islamic banking techniques.

H04: Stakeholders in Ethiopia does not Adopted practice of Interest free banking products due to product ignorance

Assessing the perception

Code	Stakeholders' application of Islamic banking methods	Mean	Std. Dev.	t-Value	Sig. (2-tailed)
AW1	Do you recommend interest free banking to others who are not using this?	4.12	1.67	41.011	.000
AP1	You are satisfied with using - Mudarabah	3.96	1.67	39.217	.000
AP2	You are satisfied with using - - Musharakah	3.94	1.66	40.038	.000
AP3	You are satisfied with using - - Morabahah	2.52	1.85	18.853	.000
AP5	I have never used Islamic methods of finance	2.24	1.77	15.439	.000

the average score and all the criteria taken into account to evaluate how well the stakeholders applied Islamic, with a significant difference at a 1% level of significance. When comparing these mean values, the questions AW1 (Do you recommend interest free banking to others who are not using this ?) (4.12), AP2 (you are satisfied with using this - Musharakah) (3.94), and AP1 (you are satisfied with using - Mudarabah) (3.94) have the highest mean scores. Additionally, a mean score of 1.77 is also noted. The large t-value significant at 1% and small p value suggest that motivation is a crucial predictor for figuring out how stakeholders perceive and feel about Islamic banking, perception and attitudes of stakeholders towards Islamic Banking and as such the

H04 i.e., Stakeholders in Ethiopia does not Adopted practice of Interest free banking products due to product ignorance. is rejected.

Summary and conclusion

This study's primary goal was to investigate consumer impressions of Ethiopia's Islamic banking practices. 120 surveys were gathered from bankers and consumers, two stakeholder groups. Our results show that due to Islamic banks' lack of efforts, consumers expressed a lack of grasp of Islamic financial language. Islamic banks could provide simpler products that are easy to grasp, highly competitive, and more available to a larger public in order to enhance this. students might be helped to comprehend the principles of Islamic financial language through the introduction of courses connected to Islamic finance to educate students at the high school or college level. Additionally, Islamic banks should develop more effective marketing plans to reach potential customers. For instance, this might be done by enhancing banks' visibility through conferences and visits to mosques We propose that the financial sector and Islamic academics work together to advance Islamic banking practices. This integration may improve Shariah compliance, generate better concepts for novel products, and offer better guidance on matters pertaining to Islamic finance. Additionally, this integration can assist customers in dispelling myths about Islamic banking methods. Chapra (2000) contends that Islamic banks must advance further in order to demonstrate how Islamic principles are mirrored in judicial, economic, social, and political institutions. Islamic banks in nations like Pakistan should also be able to provide tools that can gather important economic data in order to create a well-thought-out plan for social and economic reforms. The data gathered would be transparent, especially the information on wealth and income distribution, and might assist Islamic financial institutions in developing better products to achieve the true socioeconomic goal of Islamic banking. We think that the Shariah framework of Islamic institutions needs to be reconsidered, and that without the participation of modern economists and intellectuals on advisory boards, the range and flexibility of Islamic banking alternatives would continue to be constrained. Only a small amount of research has been done on how Ethiopian consumers perceive Islamic banking. Our paper's significant contribution is that the majority of earlier studies neglected many stakeholders and only paid attention to one group at a time. The opinions of customers (students of Islamic finance), who have not been included in any previous Ethiopia studies, are the most important. Understanding of actual impressions of Islamic banking should be improved by combining the opinions of both customers and workers. It is obvious that more research is required to determine, for instance, whether people prefer Islamic financial institutions and banking over traditional ones. Do Islamic banks' goods and services advance social justice? Should Islamic scholars take a significant role in educating the public about money-related issues? Is it necessary to change the way that Ethiopia currently conducts Islamic banking in order to better serve customers? Does Pakistani Islamic banking provide women and young business owners more power? Whether Islamic Banking should be seen in the perspective of societal developments, such as globalization, and whether the industry can ever fully thrive in the present global economy.

Implications

The implications of the research are numerous. To reach a diverse range of potential customers, the country's concerned authorities must devise a well-thought-out strategy and allow institutions to serve a diverse range of clients with diverse religions. Product knowledge about features and Islamic products among potential customers would result in major changes in customer attitudes toward engaging in interest-free products. According to religion and income capability, the relevant institutions, banks, may compare their client base with interest-free institutions with cooperative engagements. The

perceptual study demonstrates that when the qualities of interest-free items are shown to potential customers/respondents, the indication is positive for large-scale adaptation. It is believed that once the poorest sections of our country are exposed to interest-free products, regardless of gender, a considerable number of impoverished will join the poverty alleviation program. The study also shown that when people are offered burden-free aid in kind with no interest, their motivation increases.

Research contribution

As of now, empirical research into stakeholders' attitudes toward interest-free finance is a burgeoning market. A small amount of research on attitudinal investigation among existing clients has occurred. As a result, the evident emptiness gap was filled, and the study's focus remains on determining the causes of possibilities for interest-free banking. In order to do so, an attempt was made in this study to broaden the choices of belief factors with attitudes-intention variables, as part of an examination into forecasting. Prior studies focused on both users and non-users of mainstream interest-free banking, with few studies on interest-free finance, particularly at the international level. It has contributed another dimension to the current study by providing insights concerning awareness of interest-free banking. Furthermore, it opens the door to future research into interest-free finance, which is currently considered as a hope with alternative mechanisms for reaching the poorest and poorest of the country's overall growth and development. With the goal of making it successful for the general public, the following ideas for easy implementation are made. In order to benefit the general populace from the Islamic financial system. For a better comprehension of creative concepts, it is advised to introduce subjects at the college and university levels.

Recommendations

These research findings will give an idea to central authority of Ethiopia for development of Policies pertaining to interest free mechanism in the financial set up.

- It is the time to introduce unconditional interest free institutions in the country. only Islamic windows are not sufficient for the country
- In order to be successful in the implementation programs of interest- free instituting the literacy is an issue. It is found highly important the Islamic products available must be translated into Amharic language to caught more customers
- To reach out masses it is recommended to introduce diplomas, masters at college and university level as interest free banking
- To encourage researchers to research in interest free banking by way of giving them some research incentives to reach out masses
- To work formally Islamic micro finance also

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