

Interest Free Banking in Ethiopia: Customer Awareness, Satisfaction and its Role on Economic Development

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Article Info

Article History:

Received : 13 May 2020
Accepted : 25 May 2021
Published : 1 June 2021

Abstract

This study is aimed at evaluating the customer's awareness and satisfaction toward Interest-free Banking and its role on Ethiopia economic development with some selected Commercial Bank in Ethiopia. This method achieves the aim of the study the primary data was collected from Customers and Managers of the selected banks by using convenience method through questionnaire and interview. While, secondary data was collected by compiling and summarizing the bank's Annual reports and Journals. The collected data was analyzed in descriptive and inferential analysis. The finding of the study depicts as low customer awareness regarding Interest-free Banking services except the Interest-free Banking account holders. Further, majority of Interest-free Banking account holders are more or less satisfied with the current Interest-free Banking services provided since, it can potentially serve as an alternative banking channel in filling the gap left unaddressed by conventional banking and economic development in relation to idle monetary resource mobilization and allocation, inviting to use banking system, creating employment opportunity, supporting GDP growth and assisting in stabilizing crisis and arresting inflation. Impact on the study result as Interest Free Banking have its own role on the country economic development through mobilizing the idle monetary resource, allocating the monetary resource, creating employment opportunity, and inviting to the banking system. it recommended as the banks should make aggressive promotion for customers out of Muslim customers, the government has to support and should give more emphasis to enable Interest Free Banking service, promote Interest Free Banking which can help assist the economy in stabilizing economic crisis and arresting inflation.

Keywords:

Awareness, Satisfaction, Role, Interest Free Banking, Economic Development, Ethiopia.

DOI: <https://doi.org/10.28918/ijibec.v5i1.2566>

JEL: L25, L31



1. Introduction

Today's world of globalization agendas demonstrates and realizes that the Interest-free Banking (IFB) convention commonly known as Islamic Banking has the potential to serve as an alternative banking service by filling the gap left unaddressed by the Conventional Banking. This breakthrough in banking industry is occasioned by the introduction and growth of the Interest free banking. However, despite the growth in Islamic banking, there are concerns that development of Islamic banking remains somewhat limited and that the industry may be suffering from a lack of innovation (Khan and Bhatti, 2008) and lack of initiatives in convincing customers that they are really offering Shariah compliant products and not dressing up conventional banking practices (Karbhari, Naser and Shahin, 2004).

Banking system is one of the most important economic sectors and strongest financial intermediaries in the economy that plays a key role in economic development in societies through receiving the deposits of depositors and instead pay loans and facilities to applicants and give interest (Iravani, Ghazali and Ghazali, 2012). In accordance with NBEBSD No. SBB/51/2011, authorized the business of IFB under the umbrella of the Conventional Banking with limited scope. "Interest-free banking business" refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest;" and "interest-free banking window" refers to a unit within a conventional bank exclusively offering interest-free banking services".

The authorization for the licensing of the IFB Business under the umbrella of the Conventional Banking with limited scope is thus aimed at addressing two contesting national objectives of two extremes; optimize economic values of IFB to address the interest of its stakeholder and satisfy the community that have problem with the current banking system in one hand and constrict its operation under the umbrella of the Conventional Banking with limited scope for the time being, perhaps for strategic reasons. The Interest Free Banking is let free to operate independently without pressing supervisory restrictions in Middle east, Asia and some European countries for its most fair economic liaison role (Shelton and Percival, no date).

According to research and surveys conducted by Sankaramuthukumar and Devamohan, (2008), it was then recommended that the Government of Ethiopia has to consider introducing Interest-free (Islamic) Banking by making use of smooth relationship between the Christians and Muslims as an opportunity and underscoring its immense and untapped contribution in filling the gap left by the conventional banking in general and various microeconomic benefits in particular. In general, despite the fact that the Interest Free Banking is newly embarking in Ethiopia with peculiar features that have repercussions unless otherwise, the overall awareness level of the stakeholders (commercial banks and customers) as to compliance with the governing principles, operating philosophy and practice in one hand and the supervisory platform on the other are believed among the key limiting factors and it is at an infant stage with potential gap (Debebe A., 2015).

The perceived trust of banking in Ethiopia are the one factors that affecting the customer's intention to use Interest Free banking financial products and services in Ethiopia (Debebe A., 2015). Its prospect towards successful ultimate contribution to the Economic Development of the country meanwhile depends on filling these gaps. In the Ethiopian context, the IFB convention is introduced in the form of IFBW short of full-fledged level, which has its own retarding impact on standard of the convention and its

contribution in driving the Economic Development and complementing the banking industry in the process. Moreover, as an emerging phenomena, it seems as it may face misconception challenges as a value-adding convention to the banking industry and the economy as well, which emanates from its peculiar features and operating principles.

The IFB convention is newly embarking in Ethiopia with peculiar operating philosophy, principles and practices that require debate on the customers awareness, satisfaction and its role to economic development working towards the convention's growth in the Ethiopian present context. Hence, this study tried to evaluating the customer's awareness and satisfaction toward Interest-free Banking and its role on Ethiopia economic development with some selected Commercial Bank in Ethiopia in Jimma town.

2. Method

The study was a descriptive study which was conducted using survey approach in which a cross sectional and panel design was applied to achieve the objective of the study. Customers and managers of some selected commercial banks providing interest free banking in Jimma town was considered as the target population of the study. To conduct this study the primary data of both quantitative and qualitative nature that was obtained from Interest Free Banking customers and Managers. Un-structured Interview and questionnaires was used to collect information from managers of the selected banks. However the prevailing estimated total number of Interest Free Banking customers irrespective of the scope of service and the intensity of relationship, the number of Interest Free Banking customers that have established comprehensive (deposit, financing and trade service) IFB services relationship.

Hence, this relevant group of Interest Free Banking customers was considered as target population of the customer sub-population. Based on carvalho (1984) sample size determination method the researcher was select a small sample size which is 200 customers of the selected Commercial banks in Ethiopia by using systematic sampling technique such that a questionnaire was given to every second customer come into branch separate window premises. Moreover, secondary data was also collected and used to augment the study. The secondary data was collected from clients' files, bank reports, supervisory directives and other working documents. The data generated was analyzed and presented by using descriptive and inferential statistical analysis techniques.

3. Result and Discussion

This section presents the analysis, discussion and inferences made on the basis of the responses obtained. All the data were coded and entered in to STATA 14 and inferences were made based on the statistical results. The research instrument used in the study was survey questionnaire. The study population comprised the commercial banks' managers and customers. Data was collected from all selected commercial bank's managers of 51 and customers of 178 which comprises 89% of target population.

Descriptive analysis

The current status of Interest Free Banking services, Customers awareness and Satisfaction

The conventional banking service restricts or discourages individuals' needs to some extent due to various socio-cultural, religious and economic reasons. Accordingly, a question is forwarded to investigate individual reason of choice and preference between the two banking services and customers satisfaction.

Table 1: Current status and customer satisfaction of Interest Free Banking

Items	Alternatives	Frequency	Percentage
Interest Free Banking Substitutes	Absolutely	62	35
Conventional banking in Mobilizing	To some extent	85	48
idle fund	Not at all	31	17
Interest free banking enhances doing	Absolutely	52	29
fair business	To some extent	114	64
	Not at all	12	7
Fairness in cost of services	Absolutely	94	53
	To some extent	72	40
	Not at all	12	7
Interest free banking properly	Absolutely	112	63
addressing corporate social	To some extent	55	31
responsibility	Not at all	11	6
Appropriateness of the Prevailing	Absolutely	0	0
National Bank of Ethiopia Interest	To some extent	77	43
Free Banking Provision	Not at all	101	57
Ethiopian IFB have Unprecedented	Absolutely	20	11
Bearing on Financial Stability of the	To some extent	52	29
Country from Risk Management Point	Not at all	106	60
of View	Total	178	100

Source: survey, 2018

Regarding Interest Free Banking Substitutes Conventional Banking in Mobilizing Idle Fund the respondents responded 35%, 42%, and 22% of the sample respondents agreed “absolutely agree”, “to some extent agree”, and “not agree at all”, respectively, that Interest Free Banking can substitute the Conventional Banking in mobilizing the idle fund in the economy. From the turnout, we can conclude that almost one-third of respondents believed that the Interest Free Banking can at least contribute little to mobilize the idle fund in the economy as substitute for the Conventional Banking. This doesn’t mean that it displaces the Conventional Banking, but fills the gap left by it.

The respondents asked whether Interest Free Banking Enhances Doing Fair Business in economy as compared to the Conventional Banking and they responded 29%, 64%, and 7% of the sample respondents agreed “definitely agree”, “to some extent agree”, and “not agree at all”, respectively. From this sample turnout one can conclude that Interest Free Banking better enhances doing fair business as compared to the Conventional Banking, as it is full of transparency and informed decision making in all aspects of business dealings. This also shows as the existence of alternative services satisfied the customers.

Also the respondents asked Interest Free Banking’s Fairness in Cost of Service and indicated, 53%, 40%, and 7% of the sample respondents indicated “agree”, “to some extent agree”, and “do not agree”, respectively, that Interest Free Banking’s is cost effective than Conventional Banking. From this it is possible to conclude that almost the two services are comparable in cost even though there is slight difference in which again Interest Free Banking is better in spending and receiving good value for money.

Regarding whether Interest Free Banking’s properly Addressing Corporate Social Responsibility respondents asked and their response indicated in the above table 1 above, 63%, 31%, and 6% of the sample respondents replied “agree”, “to some extent

agree”, and “did not agree” about the betterment of Interest Free Banking’s in addressing Corporate Social Responsibility as compared to the Conventional Banks service. From this fact it can be generalized that Interest Free Banking’s is highly regarded in addressing Corporate Social Responsibility as compared to the Conventional Banks.

From the above table 1 on the question whether the prevailing National Banks of Ethiopia Interest Free Banking provision is appropriate or not, of the total respondents, 57% of them were agreed that the prevailing provision is not appropriate while the remaining 43% agreed as to some extent there exists a good provisions that can assist the operation of Interest Free Banking. From this one can conclude that the existing National Banks of Ethiopia supervisory provisions are not appropriate enough for the effective implementation and operation of Interest Free Banking in the country.

Referring to the above table 1 whether or not Interest Free Banking service have unprecedented bearing on financial stability from risk management point of view or not, 11%, 29%, and 60% of the respondents agreed “definitely”, “to some existent”, and “not at all”, to the question. From this result, though the majority of the respondents believe that there is no as such risk but about 40% of the respondents think that the existing Interest Free Banking has unprecedented bearings on financial stability from risk management point of view, in one way or another.

In addition, the open-ended questions response indicated as the more than 52% of the respondents suggested creating awareness through campaign, workshop, market development is what expected from Commercial banks and National Banks of Ethiopia. Also, more than 40% of the respondents suggested as Capacity building must be takes place. Some of the respondents suggested as the undergoing best practice experience sharing of practitioners with Islamic banking pioneers is expected by National banks of Ethiopia and banks with Interest free banking services. Furthermore, 30% of the respondents suggests as National banks of Ethiopia should revising the prevailing NBE IFB provision restricted under CBB to fulfill along with lifting or relaxing the ceiling levied on investment portfolio. From the suggestion provided by the customers it can be concluded as there is awareness creation activities problem in Ethiopian banking industry. Further, Capacity building, Experience sharing and Enabling Supervisory Provisions problems are issues incurred by banks.

The Role of Interest Free Banking on Attributes of Economic Development

Here, respondents were asked to separately evaluate each attribute of economic development, according to the level of perception that they have, using a five-point Likert Scale: “Strongly disagree”, “Disagree”, “Neutral”, “Agree”, and “strongly agree”, assigned with five different scores of 1, 2, 3, 4, 5, respectively. The statistical test of one-sample t-test for the analysis of those economic development attribute variables were used. It is to be noted that the one-sample t-test procedure tests whether the mean of a single variable differs from a specified constant population mean.

Table 2 One Sample t-test

One-Sample Test						
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development			Mean Difference	Test Value = 3 95% Confidence Interval of the Difference	
	T	Df ¹	Sig.(2-tailed)		Lower	Upper

Mobilization of Monetary Resources	IFB has positive Effect on Mobilization of Monetary Resources	25.860	177	.000	1.540	1.42	1.66
	IFB has Positive Effect on Mobilization of Monetary Resources Subject to Awareness Creation	25.143	177	.000	1.480	1.36	1.60
Allocation of Monetary Resources	IFB has Positive Effect on Allocation of Monetary Resources	22.512	177	.000	1.487	1.36	1.62
	IFB has Positive Effect on Allocation of Monetary Resources Subject to Awareness Creation	19.679	177	.000	1.407	1.27	1.55
Encouraging People to use Banking System	IFB has Positive Effect on Encouraging People to use Banking System	25.540	177	.000	1.540	1.42	1.66
	IFB has Positive Effect on Encouraging People to use Banking System Subject to Awareness Creation	22.181	177	.000	1.447	1.32	1.58

Source: survey, 2018

As it can be seen from the above table 2, the figures on the opinion of respondents about the effect of Interest Free Banking on the attributes that have direct constructive effect towards Economic Development of a country were better expected to have t-positive values and service scores while for those attributes which have retarding effect towards the Economic Development the Interest Free Banking has negative effect while the result have negative t-values and service scores. The factors which had t-values greater than 1.96 were significant in positive direction and the factors with t-values less than -1.96 were significant in negative direction which implies that, in both cases, their p-values approach to zero and their respective mean difference values also largely deviate from the test value (3) as their t-values are far from the critical value in both direction.

On the contrary, those attributes whose calculated t-value lies between 1.96 and -1.96, were statistically insignificant in both directions. That means their mean value do not differ from the test value and thus we cannot reject the null hypothesis for these attributes. Accordingly, when we have look at the above table 2, we can safely generalize that in all attributes the respondents agrees that Interest Free Banking can play a significant role in contributing to Economic Development through enhancing mobilization and allocation of monetary resources, and encouraging people to use the banking system since all the attributes have a positive t-value greater than 1.96 and highly significant by rejecting the null hypothesis.

Table 3: One Sample t-test

		One-Sample Test					Test Value = 3	
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development	T	Df ¹	Sig.(2-tailed)	Mean Difference	95% Confidence Interval of the Difference		
						Lower	Upper	
Internal and External Economic crises	IFB has Positive Effect on Economic Crisis	-4.615	149	.000	-.620	-.89	-.35	
	IFB has Positive Effect on Economic Crisis Subject to Awareness Creation	-4.260	149	.000	-.553	-.81	-.30	
Inflation	IFB has Positive Effect on Inflation	-5.024	149	.000	-.6467	-.901	-.392	
	IFB has Positive Effect on Inflation Subject to Awareness Creation	-5.002	149	.000	-.620	-.86	-.38	

Source: survey, 2018

Referring to the above table 3, which depicts the result of one sample t-test of Interest Free Banking's impact on economic crisis and inflation, for both attributes we rejected the null hypothesis as their calculated t-values were greater than the critical value in absolute terms implying that the mean differences had negative sign and the means of each were less than (different from) the test value and they were highly significant since their p-value is less than 0.05 which is 0.00 highly significant. Therefore, we can plausibly conclude that Interest Free Banking has greater role in stabilizing economic crisis and plays great role in arresting inflation.

Table 4: One Sample t-test

		One-Sample Test					Test Value = 3	
Attribute of Economic Development	Effect of IFB on Attributes of Economic Development	T	Df ¹	Sig.(2-tailed)	Mean Difference	95% Confidence Interval of the Difference		
						Lower	Upper	
Employment	IFB has Positive Effect on Employment	23.698	177	.000	1.400	1.28	1.52	
	IFB has Positive Effect on Employment Subject to Awareness Creation	25.236	177	.000	1.353	1.25	1.46	

Business Compatibility with Factors Socio-cultural	IFB has Positive Effect on Business Compatibility with Socio-Cultural Factors	21.771					
	IFB has Positive Effect on Business Compatibility with Socio-Cultural Factors Subject to Awareness Creation	20.603	177	177	.000	1.307	1.327
Filling existing Banking Gap	IFB has Positive Effect on Filling Banking Gap Unaddressed by CBB	32.184	177	177	.000	1.627	1.53
	IFB Has Positive Effect on Filling Banking Gap unaddressed by CB Subject to Awareness Creation	35.475	177	177	000	1.667	1.57
Complementing the Banking Industry	FB has Positive Effect on Complementing the Banking Industry	25.059	177	177	000	1.453	1.34
	IFB has Positive Effect on Complementing the Banking Industry Subject to Awareness Creation	26.710	177	177	.000	1.440	1.33
Gross Domestic Product	IFB has Positive Effect on GDP	23.454	177	177	.000	1.427	1.31
	IFB has Positive Effect on GDP Subject to Awareness Creation	26.510	177	177	.000	1.453	1.35

Source: survey, 2018

The above table 4 shows the t-test result of the attributes of Economic Development that vindicate we rejected the null hypothesis for all the attributes since the t-values were greater than 1.96 in positive direction and the mean differences were large enough and they were highly significant with p-value 0.000. From this we can safely generalize that in all attributes, the respondents agreed that Interest free banking has constructive effect on creating employment opportunities, enhancing business compatibility with socio-cultural factors, filling the banking gap left by Conventional Banks, complementing the banking industry at large and in contributing to the national Gross Domestic Product.

Additionally, the open-ended question response of the respondents indicated as majority of respondents are suggested as the role of Interest free banking are Fostering financial inclusion, which in turn promotes sense of social justice that brings about political stability which is a foundation for national peace and growth, Has constructive role in attracting foreign direct investment, Creates fair and competitive working environment, Contributes in balancing wealth gap, Promotes poverty reduction and Contributes towards improving standard of living.

Finally, the Annual report of the selected commercial banks in Ethiopia commensurate

with some of the above analyzed attributes of economic development that are reasonably supposed to be affected by interest Free Banking, from the interim reports of the these target banks up to November 31, 2018. The attributes that analyzed by using secondary data sources are, Mobilization of Monetary Resources, Allocation of Monetary Resources as financial development factors and, Encouraging People to use Banking System and Employment Opportunity on the other hand. Hence, the document indicated as interest Free Banking has constructive effect on some attributes of Economic development at national level in general and mobilization of monetary resources that were kept away from the banking system (about Ethiopia birr 1,652,203,000), allocation of monetary resources (about Ethiopia birr 597,567,510), encouraging people to use banking system (about 113,058 depositors and about 80 financing customers) and created employment opportunity for about 150 citizens in particular.

The secondary data obtained after almost five year operation from the three Interest Free Banking-pioneering commercial banks of Oromia International Bank(OIB) and Commercial Banks of Ethiopia (CBE) and United banks (UB) supports the Interest Free Banking constructive effect on attributes of economic development and this is consistent with the study generalization above primary data t-test result under table 6 above in which respondents agreed that Interest Free Banking can play integral role in contributing to economic development through enhancing mobilization and allocation of monetary resources, and encouraging people to use the banking system since all the attributes have a positive t-value greater than 1.96 and highly significant by rejecting the null hypothesis.

4. Conclusion

Based on the study result it concluded as Interest Free Banking have its own role on the country economic development through mobilizing the idle monetary resource, allocating the monetary resource, creating employment opportunity, and inviting to the banking system. Therefore, it recommended as the banks should make aggressive promotion on Interest Free Banking services for customers awareness specially those of out of Muslim customers, the government has to support and should give more emphasis to enable Interest Free Banking service, promote Interest Free Banking which can help assist the economy in stabilizing economic crisis and arresting inflation.

The current study examines the role of Interest free banking on Ethiopian economic development. Thus, it gives hindsight for commercial banks, IFB customers, the NBE and policy makers are at the forefront of the key stakeholder. When new product is introduced, it is common to come across fear of new things which is always exists in mankind. Accordingly, as long as the Interest Free Banking is concerned in the Ethiopian context, both customers and bank employees themselves have low level of overall awareness about Interest Free Banking. In a bid to lay a foundation for Interest Free Banking in response to the observed overall stakeholder awareness inadequacy result of the analysis, commercial banks in collaboration with the NBE/government shall work on creating awareness through conducting stakeholder campaign, workshop and market development, to induce the very purpose of introducing Interest Free Banking, its comparative advantages, its governing principles, its operating philosophy (to some extent), and its contribution to economic development among customers, Conventional banks customers and government organs.

it is generalized that Interest Free Banking has a greater role in stabilizing the economic shock of a given country by stabilizing financial and economic crisis, and arresting

inflation. In today's world, every country is experiencing higher inflation including our country Ethiopia. The government should promote Interest Free Banking which can help assist the economy in stabilizing economic crisis and arresting inflation.

In particular, the NBE shall revisit the prevailing Interest Free Banking provision consider the pros and cons of revising the operation of from operating under the umbrella of conventional banking to full-fledge level along with lifting or relaxing the ceiling levied on investment portfolio, to create enabling regulatory environment for the Interest Free Banking product and ultimately contributes to the national economic development

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