The Role of Interest Free Banking in Development of Ethiopia: In Case of Commercial Bank of Ethiopia in Dire Dawa District

Dire Dawa University

College of Business and Economics

School of Graduate Studies

Department of Public Administration and Development Management

Masters of Arts (MA) in Development Management

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June 2022

Dire Dawa, Ethiopia

The Role of Interest Free Banking in Development of Ethiopia: In Case of Commercial Bank of Ethiopia in Dire Dawa District

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A Thesis Submitted to Department of Public Administration and Development Management In partial fulfillment of the requirement for Degree of Masters of Arts (MA) in Development Management

School of Graduate Studies, College of Business, and Economics

Dire Dawa University

June 2022

Dire Dawa, Ethiopia

Dire Dawa University

School of Graduate Studies

Final Thesis Approval Sheet

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ACKNOWLEDGEMENT

First and foremost, I want to thank Almighty God for his never-ending blessings, protection, and guidance in my life, as well as for allowing me to finish my thesis. My sincere gratitude, acknowledgement, and gratitude to my adviser, Simachew G. (PhD), for his constructive advice, patience, enthusiastic support, and intellectual guidance provided from title selection to research end. I would also want to thank Amanis G. (Assistant Professor) for his significant contribution as an examiner, which greatly aided in giving the thesis proposal its comprehensive character.

I appreciate the patience and effort taken by the enumerators and sample respondents from Commercial Bank of Ethiopia in Dire Dawa District to complete the extensive questionnaire; without their willingness, this study would not have been possible to finish. I would want to express my gratitude in particular to Mr. Nuru Abdi, the manager of Commercial Bank of Ethiopia's Interest Free Banking.

My families, who have given me the best years of my life and inspired me throughout my entire personal life, as well as providing unwavering support for my education, deserve my heartfelt appreciation. Finally, I would want to express my profound gratitude to my dear wife, Miss Tizita Getachew, and our children for their unfailing support, love, and patience during the study process, as well as Anes Mohammed.

ABSTRACT

This study investigates the role of interest-free banking in economic development of Ethiopia in case of Commercial Bank of Ethiopia Dire Dawa District. The study was carried out using a descriptive research method. To answer the research questions, the researcher used a quantitative study approach and some qualitative data to establish the role of IFB on Ethiopia's economic development. The data for the study was gathered through a questionnaire and an interview. CBE customers and employees who use IFB services and work at IFB windows in Dire Dawa City provided data. For disseminating the questionnaire, 387 IFB clients and 100 IFB employees were chosen. Using SPSS version 26 software, the collected data was analyzed using descriptive statistics such as mean, frequency, and percentage and correlation analysis. Based on the findings, it can be concluded that if banks use all available interest-free banking services, IFB has a significant role on Ethiopian economic development, particularly in Dire Dawa City, by increasing savings, encouraging investment, lowering unemployment, and reducing poverty. The findings of the study clearly revealed that CBE's primary IFB instruments, such as Wadi'ah, Amana, and Mudarabah, promoted economic growth by increasing savings mobilization, promoting investment, reducing unemployment, and poverty reduction. According to the study, lack of financial mobilization can lead to poverty, unemployment, and economic stagnation. Without proper savings mobilization, it is impossible to maintain a sound investment effort. The development of CBE IFB services is contingent on the establishment of a flexible and supervisory framework that promotes a balance between market flexibility and investor protection. The study recommends that the CBE should be more proactive in promoting interest-free banking services, and government, and NBE should be better positioned to lay the groundwork for sound regulatory plat form and support for the expansion of IFB services and products in accordance with Sheriah Law.

Keywords: *Interest free banking, Islamic banking, Shariah, economic development, saving culture, investment, unemployment and poverty*

ACRONMY AND ABBREVIATION

CB	Conventional Banking
CBE	Commercial Bank of Ethiopia
COOP	Cooperative Bank of Oromia
CSR	Corporate Social Responsibility
DDA	Dire Dawa Administration
ED	Economic Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFB	Interest-Free Banking (Islamic Banking)
IFBW	Interest-Free Banking (Islamic Banking) Window
NBE	National Bank of Ethiopia
SBB	Supervision of Banking Business
SME	Small and Medium Sized Enterprises
SPSS	Statistical Package for Social Sciences

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CHAPTER ONE

INTRODUCTION

This chapter provides a broad summary of the entire research project. The background of the study, the statement of the problem, the research questions, the study's objectives, the study's importance, the study's scope, and the study's organization are all described in this part.

1.1. Background of the Study

The performance of a country's financial sector, with the banking sector being the most prominent, is largely responsible for its economic growth, among other things. According to Ahmad (2019), the banking sector's stability is crucial to an economy's stability and growth. Because banks' activities boost the mobilization of savings, improve the efficiency of resource allocation, and drive technical innovation. The banking industry's development is beneficial to economic growth (Shehu et al., 2021). The banking system's role and activities in today's economy are critical to the development process, and it is frequently referred to as the "heart" of any flourishing economy (Andri, 2021). In all countries, the banking industry plays an essential role in economic activities, particularly those related to economic development (Ghattis, 2016). Banks, according to Zainordin (2016), play a critical and significant role in economic development. As a result, a strong and thriving banking sector is essential for development, economic prosperity, and overall well-being.

Over the last decade, Islamic finance, often known as interest-free banking, has risen fast, and its banking section has become systemically important in a dozen nations throughout the globe. For the past two decades, Islamic banking and finance has been quickly expanding, and it is now implemented in both Muslim and non-Muslim countries around the world (Rashid, 2017). According to Ibrahim (2015), an Islamic bank is a financial intermediary that receives monies from the public in the form of deposits and invests them in Sharia-compliant real-estate investments. Islamic finance is expected to develop in response to economic development in countries with substantial and relatively unbanked Muslim populations, according to the IMF (2015).

Islamic banking is a banking system that follows *Shariah* (Islamic law), and one of the most fundamental aspects of the system is the restriction on collecting *Riba* (interest) and investing in *haram* (forbidden) companies such as selling alcohol, pork, or gambling (Bayar, 2016). Islamic banks offer business services that adhere to Islam's religious tenets. The importance of the Islamic banking system is to bridge the gap between the rich and the poor by changing

the distribution of income and economic resources in favour of the less fortunate, as Islam forbids concentration of wealth in a few hands (Said, 2017).

The importance of Islamic finance in promoting the social, financial, and economic well-being of individuals in a community cannot be overstated, and the fast-growing trend of various interest-free banking modalities cannot be disregarded (Arshad and Bilal, 2019). Due to its exponential expansion, it plays a critical role in socioeconomic development (Ahmad, 2019). Islamic banks offer a variety of products that allow for the mobilization of savings and the most efficient use of financial resources (Ghattis, 2016), and that play a significant part in a society's economic development (Rahman, 2017). It created numerous job opportunities for citizens of the country, resulting in economic development, and it gave a platform for businesses to participate in this way of Islamic financing and reap maximum benefits (Pratiwi, 2016).

The economic well-being of the populace is achieved through full employment and maximum rate of economic growth, equal distributions of income and wealth and, as a result, socio-economic justice, and the generation of sufficient savings and their productive mobilization, as well as stability in the value of money (Chapra et al., 2018). Furthermore, Islamic finance has been widely employed to help the needy by providing small loans depending on profit and loss (Andri, 2021).Islamic banking, according to research findings, is a viable and efficient source of finance that can be used as a catalyst for development (Rabiu and Besar, 2020). In the long run, Islamic banks' financing has helped to increased investment and attracting Foreign Direct Investment (FDI) (Arshad and Bilal, 2019).

Interest-free banking plays a critical role in increasing the financial inclusion rate of a country like Ethiopia, which has a large Muslim and a large unbanked population. The National Bank of Ethiopia issued Directive Number SBB/51/2011 on October 1, 2011, allowing banks to offer Islamic banking services entirely within a conventional bank by utilizing the Interest Free Banking (IFB) window (NBE Directive). Full-fledged Islamic banks have emerged to provide interest-free financial services, such as Zamzam Bank, Hijra Bank, and Zad Banks (Meka, 2020). The Commercial Bank of Ethiopia (CBE) is one of Ethiopia's oldest state banks, having been founded as a State Bank in 1942. It currently has more than 31.4 million customers spread across 1,700 branches around the country. As a result, 6.7 million individuals use the Bank's ATM service, which has 3,091 ATMs and 4, 350 POS devices deployed around the country. CBE contributed significantly to the country's economic

development as well as the generation of savings for future investment (CBE Annual Report, 2020).

The empirical studies that have been conducted so far have mainly examined the effectiveness, superiority, and stability of Islamic banks in comparison to conventional banks in order to meet some interim monetary targets for the long-term objectives of maintaining real economic growth, reducing inflation, and reducing unemployment (Ahmad, 2019; Arshad and Bilal, 2019; Rabiu and Besar, 2020). This demonstrated that extending interest-free banking to meet the growing needs of the populace is essential not just for economic growth but also for tolerating any economic ills. It is impossible to overestimate the value of interest-free banking in a country's efforts to close the income gap and increase people's well-being. Given the importance of interest-free banking in supporting and strengthening the economy, as well as providing a secure environment for investors to deposit and reinvest their capital, financial indicators are used to assess their performance. As a result, the study's goal was to evaluate the roles of interest-free banking on Ethiopia's development, particularly in the Dire Dawa District.

1.2. Statement of the Problem

In recent years, Islamic banks attempted to fulfill economic needs by providing services that are compliant with Shariah law. Islamic banks offer different instruments to satisfy providers and users of funds in a variety of ways i.e. sales, trade financing, and investment. These instruments serve as the basic building blocks for developing more complex financial instruments, suggesting that there is great potential for financial innovation and expansion in Islamic financial markets. Such products are constructed around the philosophy that no person should profit from another's loss, thereby prohibiting Riba (interest). Islamic banking is considered as one of the most important economic sectors and strongest financial intermediaries in the economy that plays a key role in economic development (Rabiu and Besar, 2020). However, the spread of Islamic banking to all parts of Ethiopia, especially Dire Dawa, is increasing as an alternative financial system for individuals who do not have access to traditional financing.

In relation to relevant studies, certain academics from various nations outside of Ethiopia have demonstrated the role of Islamic banks in development. Mustafa (2016), for example, conducted research on "The Role of Islamic Banks in the Development of the Jordanian Economy: "Exploratory Study on Arab Islamic Bank." One of the most notable conclusions

of the study is that Islamic banks play a medium role in the development of the Jordanian economy and the industrial sector, while they play a low role with a negative impact on the development of the agricultural sector. Setiawan (2016) looked into the "Role of Islamic and Conventional Banking in Combating Poverty with the Dual Banking System." The study's findings show that increasing Islamic banking and conventional banking loans both contribute to poverty reduction in Indonesia. Ahmad (2019) looked at "the importance of Musharakah in the economic progress of Tehsil Dargai, district Malakand, Khyber Pakhtunkhwa, Pakistan." Rabiu and Besar (2020) conducted a study titled "The Potentials of Islamic Banking on Poverty Alleviation in Nigeria". According to the conclusions of the study, Islamic banks use poverty alleviation techniques, strategies, and instruments such as *Murabaha, Mudaraba, Ijarah, Sukuk,* interest-free service, strong business ethics, Islamic microfinance, and corporate social responsibility.

However, there are few published works that look at the role of interest-free banking in the development of the Ethiopian economy from the perspective of clients and banks in developing countries like Ethiopia. There have been few such studies to date; however, one notable exception is the study undertaken by Senait (2016), (Meskerem (2018), Teshome, (2018), and Hailu (2020) who investigated the prospects, opportunities, and problems of Islamic banking in Ethiopia. Few studies examine the role of interest-free banking in Ethiopia's economic development. For example, Teferi's (2015) analysis on the contribution of interest-free banking to Ethiopia's economic development shows that revisiting IFB's infrastructure in Ethiopia could improve its pleasant operation and role in helping economic development. Thus, none of the studies above has specifically addressed the role of interest-free banking in Ethiopia's development by looking at the Commercial Bank of Ethiopia in Dire Dawa District in terms of interest-free banking's role in promoting saving culture, encouraging investment, reducing unemployment, and reducing poverty. As a result, this study was designed to address the aforementioned gaps by examining the roles of interest-free banking on Ethiopia's economic development in the case of the Commercial Bank of Ethiopia in the Dire Dawa District.

1.3. Research Questions

This study tried to answer for the following four main questions:-

1. What role does interest-free banking play in encouraging people to save?
2. What role does interest-free banking play in encouraging investment?
3. What role does interest-free banking play in the reduction of unemployment?
4. What role does interest-free banking play in poverty reduction?

1.4. Objective of the Study

1.4.1. General objective

The general objective of this study is to establish the role of interest-free banking towards economic development of Ethiopia.

1.4.2. Specific objectives

The specific objectives of this study are:-

- To assess the role interest-free banking play in encouraging people to save.
- To identify the role interest-free banking play in encouraging investment.
- To identify the role interest-free banking play in the reduction of unemployment.
- To identify the role interest-free banking play in poverty reduction.

1.5. Significance of the Study

This research would provide information and awareness to banking stakeholders about how interest-free banking affects the country's economic growth. The data from this study would also use by banks to make informed decisions about how to improve their various offerings. The findings of this study used to organize a tribunal to strategize on how to formulate more business-friendly regulations that would improve Islamic economic operations in their developing economies. This will make it easier for Islamic banks and other conventional banks to contribute to the country's economic development. This study will aid academics in gaining understanding about the roles of interest-free banking on a country's economic growth. This is due to the lack of study on interest-free banking and economic growth. As a result, this study provides a foundation on which future academics might build and expand their research.

1.6. Scope of the Study

The study looked into the role of interest-free banking in Ethiopia's development. The case study took place at the Commercial Bank of Ethiopia in the Dire Dawa District of Ethiopia. However, in order to make the study more manageable in terms of the researchers' goals and interests, time, money, and resources, an attempt was made to narrow the scope of the study to a few selected CBE branches in Dire Dawa City. In the Dire Dawa district, there are approximately 66 CBE branches operating in Dire Dawa, West Hararghe, East Hararghe, and Jigjiga. The study focused on 20 CBE branches in Dire Dawa City that were operational in terms of interest-free or Sharia-compliant banking. The study also looked into the role of interest-free banking on saving culture, investment, unemployment, and poverty reduction.

1.7. Limitation of the Study

The study looked into the role of CBE's interest-free banking (Dire Dawa District). It is worth noting that, since CBE is such a broad organization, even one district is a massive operation. The Dire Dawa District, for example, has over 66 branches. The study was conducted on the Commercial Bank of Ethiopia in Dire Dawa City and may not be applicable to other areas and regions due to contextual factors. This tactic was chosen due to its practicality and efficacy, as the researcher tried to justify. Ironically, this constraint may present an opportunity for future researchers to expand and develop the study in order to address the problem. Furthermore, because the study's findings will apply to the Bank's Interest-Free account users, any application of the results for analysis of conventional bank account holders must be done with caution.

1.8. Organization of the Study

The study was organized into five chapters. The study's background, statement of the problem, research question, research aims, significance of the study, scope of the investigation, and paper organization were all included in chapter one. The second chapter contains a literature review that informs the reader on what is already known in this field. In chapter three, the methodology used in this study was discussed, including the research design, sample size and sampling process, data source and collection method, data gathering procedure, and data analysis method. The fourth chapter covered data analysis and discussion of the findings. Finally, chapter five includes a summary, conclusions, and recommendations.

1.9. Definition of Key Terms

Economic development: is a process through which the overall education, well-being, health, income, and living standards of the general population improves.

***Ijaraha* Financing:** Lease financing.

Interest free banking: the banking system where interests are not used and in this system, banks do not offer a fixed rate of return on deposits and do not charge interest on loans.

Investment: is an asset acquired or invested in to build wealth and save money from the hard earned income or appreciation.

Islamic banking: is a form of banking based on Islamic principles and in Islamic banking it is not allowed to pay and receive interest but rather it is based on profit sharing.

***Istisna* Financing:** Building and plant construction financing.

Mudharabah: (trust financing) is a partnership between a bank and a customer in which the bank provides the capital for a project and the customer or entrepreneur uses his or her expertise to manage the investment.

***Murabaha* Financing:** Working capital financing on a cost plus a profit margin basis.

Musharakah: (partnership financing) refers to an investment partnership in which all partners share in a projects profits on the basis of a specified ratio but losses are shared in proportion to the amount of capital invested.

Poverty: is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living.

Saving culture: means to discipline into saving money regularly and over time, personal savings culture will lead to accumulated wealth.

Shariah: is the legal practice derived from the teachings of the Quran, Islam's holy book, and the teachings of the Prophet Muhammad, or *Sunnah*.

Unemployment: refers to a situation where a person actively searches for employment but is unable to find work and considered to be a key measure of the health of the economy.

CHAPTER TWO

REVIEW OF RELATED LITRATURES

This chapter explores the existing literature on the role IFB on economic development. The chapter reviews theoretical, empirical literature and conceptual framework.

2.1. Theoretical Literature Review

2.1.1. Definition and Basic Concepts of Interest Free Banking

The term "interest-free banking" is interpreted differently by different researchers. It refers to a financial system or banking activity that adheres to Shari'ah (Islamic rulings) principles and is put into practice through the creation of interest-free banking economics (Mehtab, Zaheer, & Ali, 2015). The concepts that emphasize moral and ethical standards in all relationships appeal to a wide range of people. The payment or acceptance of interest charges for the loan and accepting of money, as well as trade and other activities that supply goods or services that are regarded antithetical to Shari'ah principles, are all prohibited by Shari'ah. Interest fee banking is known by several names in different nations throughout the world. Non-interest banking, participation banking, La-Riba/No-Riba, Ethical Banking, Social Banking, and other terms are used to describe it. The term "Islamic banking" is the most generally used internationally, and most researchers use the terms "interest-free banking" and "Islamic banking" interchangeably. Despite their differing names, all phrases allude to a banking system based on the Islamic economics and finance idea and principles (Pratiwi, 2016).

Iqbal (2014) describes interest-free banks (Islamic banks) as financial intermediaries governed by Islamic law (Sharia law). Interest-Free Banking "Islamic Banking" is also defined as banking operations carried out in accordance with Islamic teachings Mirakhor (2000). Interest-free banking is defined by the National Bank of Ethiopia as "a banking business in which funds are mobilized or advanced in a way consistent with Islamic finance principles and mode of operation" (NBEs Directive no SBB/51/2011). Interest-Free Banks, according to Ketell (2011), provide commercial services that are compliant with Islamic religious edicts. Interest-free banking offers interest-free services to its customers because Sharia prohibits the practice of obtaining and paying additional money for money borrowed.

According to Ibrahim (2012), the terms Islamic banking and Interest Free Banking are interchangeably used in Islamic Economics literature as alternatives to interest-based traditional banking practices. Although there is a distinction between an interest-free bank

and an Islamic bank, the terms are frequently interchanged. Islamic banking avoids not only interest in all of its forms, but also all other Islamic ally forbidden actions. While an interest-free banking system does not charge interest, there is no reason to believe that all of its other activities will be conducted in strict accordance with Islamic law, or "Shariah."

Interest-free banking, as defined by Bello and Abubaker (2014), is a system that functions strictly according to Sharia law. Interest-free banking business, according to Teferi (2015), "refers to banking business in which funds are mobilized or advanced 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 that exclusively offers interest-free banking services. As previously stated, Interest Free Banking transactions necessitate and promote adherence to Islamic finance and economic principles, which include, among other things, the prohibition of paying and receiving interest in any form.

2.1.2. Evolution of Interest Free Banking or Islamic Banking

Islam is the newest of the world's main religions. It is the main religion in the Middle East and Africa's third world countries, and it is the world's second largest religion, with over 600 million adherents. Islamic philosophy is a mix of Arabic, Jewish, and Christian faiths, and it is one of the world's simplest religions. As a result, Islamic banking, or participation interest-free Islamic banking, has evolved (Mohammed, 2013). Islamic banking has a long history dating back to the time of Prophet Muhammad. He began his career as a trader, moving goods from one country to another. He demonstrates how to trade and conduct business in a Sharia-compliant manner. Islamic finance has grown in popularity in the modern world. In the early 1970s, Islamic banking emerged as a key player in the financial sector (Zainordin, 2016).

Even non-Muslim academics, economists, and bankers admit that Islamic banking has carved out a niche in the financial world. The Vatican has proposed that "Islamic finance principles may provide a possible solution for ailing markets." Furthermore, they stated that "Islamic money may assist western banks in times of crisis" (Lorenzo, 2009). The Islamic idea of money and capital, the relationship between risk and profit, and the social obligations of financial institutions and individuals are all explained in depth in the Sharia'h. Sharia'h compliant financial tools and processes have been developed and effectively used by Islamic banks and their customers around the world based on this principle (Zainordin, 2016). Islamic

finance has extended throughout Asia, the Middle East, and the Western world to create a worldwide system. Islamic banking is not limited to Muslim countries in the Middle East; it also operates in industrialised economies like the United States, Europe, and Asia. Today, more than 450 Islamic banks operate from China to the United States, with assets totaling more than one trillion dollars (Alfred, 2016).

2.1.3. Principles of Interest Free Banking

Interest-free banking principles are not a new phenomenon; they have existed since the beginning of Islamic religion. In the 7th century AD, Prophet Mohammed (peace be upon him) prohibited certain transactions involving *Riba* (interest), *Gharar* (deception), *Qimr* (gambling), *Mujazafah* (speculation), Ihtikar (monopoly), and other similar transactions. *Murabaha* (mark-up sale), *Musharakah* (partnership), *Mudarabah* (sleeping partnership), and other similar transactions were, nonetheless, permitted. Some of these processes were known to many ancient Islamic civilizations, but they were further refined and tailored to attain the desired feature and meet the needs of the current banking business (Chapra et al., 2018). Based on Sharia decisions on commercial and financial operations, Islamic economic ideas have evolved over time. The principle of fairness and truthfulness is, in general, the best component of Islamic finance. The following are some of the Islamic banking principles.

2.1.3.1. Prohibition of Riba

Even if the interest rate charged on a loan is low, Islam forbids its followers from receiving or providing usury. Only a few types of loans are permitted in Islam, such as Qard al-Hasan (benevolent loan), in which the borrower is not charged any interest or additional punishment for the amount borrowed. Interest rates are employed to limit demand in modern finance, which is one of the key concerns with eliminating interest. A specific interest rate corresponds to a price for a specific investment. Under classic capitalist frameworks, credit becomes impossible to manage without interest. Interest-free banking offers financial services in accordance with Islamic religious law, which forbids the taking and receipt of interest in all transactions. Interest is defined as any set, positive, predetermined rate related to the maturity and the amount of principal that is guaranteed regardless of the investment's performance (Iqbal, 2014).

2.1.3.2. Profit and loss Sharing

The donor of capital and the one who uses the fund must share the risk and benefit of the investment, based on the premise "no gain without pain," when undertaking interest-free banking financing activity. The risk and rewards of a business venture should be shared by the capital supplier (Customer), the bank, and the borrower. The profit and loss sharing principle is not a feature of traditional banking, because the borrower bears the entire burden regardless of the business venture's profitability. The core premise of interest-free banking financing is that the financier can only earn money if he is ready to take on the risk of a business enterprise. The basic goal of profit and loss sharing, according to Kettle (2011), is to encourage investment and hence provide a stimulus to the economy.

2.1.3.3. Risk and Return Sharing

Because interest is forbidden in Islam, in an Islamic banking setting, the fund providers and the entrepreneur share the company risk and rewards based on mutual agreement. This bill will distribute money more equally, improve social justice, and reduce poverty. Although Shariah prohibits Muslims from earning money by charging interest, it does permit income to flow through the sharing of risks and rewards between deposits and an exchange (no pain no gain strategy). This approach of benefit sharing is widely used to encourage people to become partners and collaborate rather than enter into a creditor-debtor relationship. Shared responsibility and efforts are the most important aspects for every project's success, which has a good impact on the economy (Ahmad, 2019).

2.1.3.4. Ethical Standards

When it comes to Islamic investment, it is critical for investors to know whether the company or businesses they are investing in are Shariah-compliant. In Islamic finance, certain activities are strictly forbidden to be invested in (Ghattis, 2016). Investing in businesses that engage in prohibited activities, such as selling alcohol, pork, or producing media like as gossip columns or pornography, is prohibited (Mehtab, Zaheer, & Ali, 2015). When investors are considering making an investment, they must first review the background of the proposed company, including its policy, products and services generated, business operations method, and the positive or bad impacts of the products or services contributed to society (Zainordin, 2016).

2.1.4. Major Interest Free Banking Products

Islamic financial solutions provide institutions with new ways to reach out to hitherto untapped consumer and business segments. Islamic financial solutions have been introduced around the world in response to a growing demand from a portion of the market that refuses to deal with interest-based securities. Islamic banks attempt to meet the demands of new segments by developing a range of Islamically acceptable products, which presents substantial obstacles due to the necessity for Shariah compliance as well as regulatory complications. In light of competition from traditional banks and the need for creative offerings, marketing such items is another difficulty (Alfred, 2016). Interest-free/Islamic banking follows Islamic law, which requires all transactions, including non-receipt and interest payments, to be Shariah compliant. Its main method is profit-sharing according to agreement and loss/risk sharing according to investment between banks and clients. It offers a variety of products through various channels. Contracts are used to identify products rather than commercial orientation (Pratiwi, 2016). Islamic banks have created (and continue to create) new instruments and products to help them achieve their goals while adhering to Islamic law. The following are the modes of operation in Islamic banking, according to Bello and Abubakar (2014). According to the authors, Islamic banking has many different modes of operation, and there is opportunity for more innovation as long as the modes of operation follow Shari'ah principles. They offered the following Islamic banking operations as the most popular.

2.1.4.1. Mudarabah (Profit & loss sharing)

A *Mudarabah* contract is a financial transaction in which two parties are involved. One of the partners (Rabb-ul-Maal) will offer the necessary funds, while the other will enter the business as an entrepreneur (Mudarib). That is, the Islamic bank will operate as a source of capital (Rabb-ul-Maal). This product is used to fund a borrower (entrepreneur) who has creative ideas and knowledge about how to put the funds to good use. The bank provides the funds, while the company supplies the labour. Profit is split between the two parties according to a predetermined ratio. If a loss occurs, the bank is responsible for it as long as the Mudarib did not intend for the loss to occur (Ahmad, 2019). Profits are split between the Islamic bank and the entrepreneur (client) according to a predetermined ratio in this sort of financial contract. In the event of a loss, however, the Islamic bank (or depositors) absorbs the loss, whereas the entrepreneur loses his or her effort, assuming the loss was not caused by his or her incompetence (Said, 2017).

2.1.4.2. Wadiah (Safekeeping) Deposit

It is a unique non-earning IFB deposit that works under the Wadiah Yad Dhamanah contract (guaranteed custody). The bank collects deposits from consumers seeking safe custody and convenience, and then requests permission to utilise the funds for investing purposes, thereby increasing transparency. Customers have the option to withdraw their funds at any time. The bank owns the profit created by the utilisation of the customers' funds. The bank, on the other hand, may choose to reward consumers by declaring earnings to them at its sole discretion. The custodian, i.e. the Bank, is not allowed to disclose or offer any reward on the deposit received under the Wadiah contract. Owners/depositors are also unable to seek any rewards or returns on their savings from their bank.

2.1.4.3. Demand Deposit (Amana Current Accounts)

Amana Current accounts are non-earning deposits that work on the principle of *alwadia*h, which guarantees depositors that their funds will be returned or withdrawn on demand. At the same time, because the guaranteed money will not be utilized for profit and loss activities, the depositor does not receive a return for depositing cash in a current account.

2.1.4.4. Murabahah (Cost-Plus Sale Contract)

An Islamic bank purchases an item on behalf of a client and then sells the same asset to the same client after a mark-up. This product is used to fund commercial ventures. It is a contract to sell items with a profit margin on the purchase price. The bank is instructed by the client to purchase the products from a third party. The bank then sells the items to the customer for a price that includes both the cost and profit. This item is also utilized to fund the company (Setiawan, 2016). This contract is commonly used in the purchase of equipment. The term "mark-up" refers to a selling contract between an Islamic bank and a client at a fixed profit. In this contract, the client provides all commodity specifications, and the Islamic bank assumes the risk of purchasing the commodity for the client at a cost-plus markup, which the client can pay in installments or in one lump payment at a certain time (Alfred, 2016).

2.1.4.5. Musharaka (Equity Partnership)

Musharaka is a contract in which two or more people contribute funds to the start-up of a business endeavor, with each partner having the option to participate in the management of the business or not. It is a partnership agreement between a bank and a client in which both partners contribute a share of their cash in a project. An Islamic bank contributes a portion of

the stock as well as working capital to a project, as well as profits and losses. They split the profit or loss in such a way that the loss is shared in proportion to how much each partner spent, while the profit is split in a predetermined proportion by mutual agreement. This product is commonly used in home loans (for the purpose of construction and renovation) (Mehtab, Zaheer, & Ali, 2015).

2.1.4.6. Ijarah (Lease)

In conventional banking, the term "ijarah" refers to a lease agreement. It is a contract in which an Islamic bank purchases an asset and leases it to a client on the condition that the client pays the Islamic bank a specific amount on a regular basis, usually monthly, for a set period of time. It may also include the opportunity for the client to purchase the asset from the bank at the end of the contract (Shahid, Hassan, & Rizwan, 2015). The Islamic bank buys a piece of equipment that the entrepreneur chooses and then leases it back to him for a set price. This product is mostly used to purchase vehicles such as cars, delivery vans, and other similar vehicles. The bank buys the car for the client, and the client rents it on a monthly basis. When the client pays the total cost of the car plus the profit, ownership is passed to the client (Chapra et al., 2018)

2.1.4.7. Salam (Forward Trade Contract)

This is a sale contract whereby Islamic bank agrees to supply some specific commodities to the buyer (its client) at a future date that is specified in exchange of an advanced full spot payment to the bank. That is, the client pays the full amount and delivery of the commodity to the client is done in specific future date by the Islamic bank. It is an arrangement whereby the customer delivers the type of product s/he produces in accordance with the type, quality, quantity, price and time agreed upon with the Bank or to the agent/body the Bank has entered Salam finance agreement (Mehtab, Zaheer, & Ali, 2015).

2.1.4.8. Istisna (contract of manufacture)

It is a contract in which one party instructs another to create and supply a commodity whose description, delivery date, price, and payment date are all specified in the contract. It comprises of two different *Istisna* contracts and is utilized by Islamic banks. *Istisna* is a contract for the sale and purchase of assets based on a specification or order, with the price paid in advance but the assets being made or produced and delivered later. As a result, when the producers' orders/specifications are finished, the Bank will supply industrially produced

goods or built and constructed things as per the customers' orders/specifications. The Bank may make payments to the institutions at once or in installments by assessing the completion of the work based on the customer's job order/specifications and a separate agreement with the builders/producers. The customer and the producer/builder may be asked for a guarantee by the bank (Mehtab, Zaheer, & Ali, 2015).

2.1.5. Interest-Free Banking Services in Ethiopia

The concept of providing an Interest-Free Banking service in Ethiopia is a novel one. Some concerned parties have made various efforts to see it through, but have run into numerous obstacles due to a lack of legal and regulatory framework, as well as a lack of understanding of the system. With all of these obstacles, the National Bank of Ethiopia's (NBE) directive No. SBB/51/2011, which allows banks to offer Interest Free Banking alongside their regular operations, came into effect in October 2011, but IFB in Ethiopia did not begin until 2013, when the Oromia International Bank (OIB) launched the service (Hailu, 2020). The CBE entered the market in late October, followed by United, who started offering the service on May 1, 2014. Commercial Bank of Ethiopia, Oromia International Bank S.C., United Bank S.C., Nib International Bank S.C., Wegagen Bank S.C., and Cooperative Bank of Oromia S.C. are the six banks in Ethiopia that offer IFB services. The three banks that have begun to provide IFB services provide savings (Wadia) and current (Amanah) accounts, as well as equity financing (Mudrabah), all of which are founded on Islamic principles. Avoiding interest, gambling, and uncertainty are among these ideas. All transactions should be documented, and earnings will be shared as agreed, but losses will be allocated according to capital (Senait, 2016).

2.1.6. Interest Free Banking and Economic Development

The purpose of Islamic economics is to achieve economic justice through equitable income distribution, one of which may be observed in the expansion of the real sector, which is a measure of the community's production and wellbeing. This has a direct connection to the world of business. If a result, as community productivity rises, it will have a broader impact on economic growth. Islamic banking, on the other hand, is one of the monetary instruments used in Islamic economics. This means that Islamic banking's improving performance must keep pace with the growth of the actual economy (Andri et al., 2021). Because banking financing is one of the most important instruments in monetary policy, economic progress in a country cannot be isolated from its role in banking financing. The relationship between

banking performance and economic growth is undeniably close, as the financial sector's progress influences economic growth and vice versa.

2.1.6.1. The Role of Interest Free Banking in Enhancing/promoting/ Saving Culture

An Islamic bank is a financial intermediary that gathers funds from the public in the form of savings and deposits, which are then invested in the actual economy as permitted by sharia. Islamic and conventional banks have certain parallels in terms of functions, particularly in terms of fundraising and investing. However, the financial instruments used by the two are vastly different. Profit- and loss-sharing, as well as increased margin, are two ideas that Islamic banks use to create interest-free financing instruments (markup margin). While traditional banks use loans (loans) based on interest (interest/usury), alternative banks use loans (loans) based on equity (equity) (Ibrahim, 2015). Islamic financing is the purest finance institution, whose path of operational activity has been guided by the tenets of beliefs, divine instructions, and principles of Islamic jurisprudence since time immemorial, allowing for an economic system based on social justice, beneficial to all people regardless of religion. As a result, it is a financial system devoid of interest (Riba) as earnings, which stands in stark contrast to traditional financing.

2.1.6.2. The Role of Interest Free Banking in Investment Opportunities

Economic activity has fluctuated throughout history for a variety of factors, some of which are difficult to eliminate, such as natural phenomena. However, economic instability appears to have worsened in recent decades as a result of financial market turbulence caused by excessive volatility in interest rates, exchange rates, commodities and stock prices. There is probably no portion of the world that has not had a significant crisis at some point in its history. Such crises amplify uncertainty, disturb the smooth operation of the financial system, increase financial fragility, and impede economic performance. Interest-free banking, according to Shehu et al. (2021), improves investment opportunities in the country, although not as much as traditional banks. This is due to a lack of investor and customer support for systems. The need for interest-free financing among Ethiopian Muslims, as well as the government's unwillingness to allow full-fledged interest-free banking, point to a vacuum in Ethiopia's financial inclusion program. As a result, Ethiopian Muslims are economically disadvantaged, marginalized, and a bystander in the country's massive investments. There are numerous research on the topic of financial exclusion at the international level. Only a few

researchers, such as Mustafa (2016), have investigated the role of Islamic finance in addressing financial disadvantage.

2.1.6.3. The Role of Interest Free Banking in Employment Generation

Saving, investment, hard and diligent work, technical innovation, and creative management, as well as supportive social conduct and government laws, are the essential components for long-term success. Savings has long been known to have a favorable impact on economic growth. It promotes capital formation, which boosts output and employment. It is a well-known fact that countries with higher savings rates have generally risen faster than countries with lower savings rates. Islamic finance has had an important role in determining the rates of unemployment. Many studies investigated the role of financial sector on unemployment and reported mixed impact. Conventional financial sector has no significant impact on unemployment in emerging economies. In most of the studies, inverse relationship was found between firm age and employment while very few argued positive relationship based on entry of new firms. This argument was based on the notion that new/entering firms grow faster than older firms (Bayar, 2016). In the context of Islamic banking products, research conducted by Selim (2020) discusses istisna-based monetary and its effectiveness in achieving full employment and price stability. This study examines the exploration of istisna' as a monetary policy tool and examines its effectiveness in achieving full employment opportunities and price stability and examines its effect on macroeconomic variables. The effectiveness and impact of istisna-based monetary policy is examined using aggregate output and aggregate expenditure models embedded with Islamic economic principles, including the function of zakat.

2.1.6.4. The Role of Interest Free Banking in Poverty Reduction

Poverty is currently one of the most serious socioeconomic issues in most emerging countries. Poverty is a complicated issue that stems from a lack of progress and inequality. Customers of Islamic banking benefit from interest-free services. In all transactions, the payment and withdrawal of interest is banned. The Islamic banking system (Islam) is distinguished from the ordinary banking system by the prohibition of interest rates (Setiawan, 2016). The major reason for Islamic banking's existence is to deliver the greatest advantage or benefit to society (Iqbal, 2014). In general, Islamic bank development is linked to three main goals: first, the commercial interests of Islamic banks to conduct banking operations in a healthy, competitive, and sustainable manner in order to meet earnings expectations

according to sharia regulations. Second, central banks and financial authorities have a vested interest in monetary and financial system stability. Third, the importance of Islamic banks in terms of macroeconomic development for society and the economy is considerably high. Islamic banks' immense potential must be backed up by a wide range of facilities and proper rules, so that their presence can contribute meaningfully to the economy and society (Setiawan, 2016).

The involvement of banks in tackling poverty is based on a study by Mallick (2008), which found that a fundamental component of monetary policy to combat poverty is the availability of credit for businesses. Expansion of credit, particularly for agriculture, is an important contributor to poverty alleviation. It demonstrated the relevance of loan financing as a macroeconomic policy tool in fight against poverty. A link exists between macroeconomic policy and poverty. After accounting for the effects of sectorial output and price ratio, the effects of development investment and financing policies have a direct impact on poverty. The importance of income distribution in the agriculture sector as a method for poverty reduction was shown. The increase of bank lending to the agricultural sector as a result of fiscal and monetary policy contributes greatly to poverty alleviation.

2.2. Empirical Review Literature

An empirical review of the literature allows for a clear grasp of the areas of research that have previously been completed as well as the possible areas that have yet to be explored. Many studies on the role of interest-free banking on economic development in different nations have been done. According to the literature on Islamic finance and banking, several experts have looked into the of interest-free banking on economic development. With this viewpoint in mind, a quick assessment of the work done on the roles of interest-free banking has been attempted. The following is a summary of some of the most important studies.

2.2.1. Empirical Literature Review-General

Setiawan (2016) looked into the "Role of Islamic and Conventional Banking in Combating Poverty with the Dual Banking System." The study's findings show that increasing Islamic banking and conventional banking loans both contribute to poverty reduction in Indonesia. In terms of poverty reduction, Islamic banking finance plays a smaller role than traditional bank credit. In addition to improving financing and credit, changes in the value of monetary policy tools, economic growth, unequal income distribution, and the depreciation of the local currency should be implemented to help alleviate poverty.

Mustafa (2016) conducted research into "The Role of Islamic Banks in the Development of the Jordanian Economy: "Exploratory Study on Arab Islamic Bank." One of the most notable conclusions of the study is that Islamic banks play a medium role in the development of the Jordanian economy and the industrial sector, while Islamic banks play a low role with a negative impact on the development of the agricultural sector. Islamic banks also promote the building sector at a high level, according to the data. The study advised that Islamic banks address the challenges faced by agricultural and industrial entrepreneurs in order to help farmers and manufacturers obtain the cash they require, as this improves the Jordanian economy's degree of development.

Said (2017) studied the "Impact of Islamic Banking on Economic Growth: A Case Study of Kenya's First Community Bank United States International University Africa." The goal of this research was to see how Islamic banking affected Kenya's economic growth. Islamic banking ideas, according to the study, contribute to the growth of the economy. Islamic banking theories promote economic development by encouraging equal income distribution, resulting in greater social justice and long-term growth benefits. The study also found that Islamic financial instruments aided economic development. Because of the favorable terms of the Islamic banking instruments, banks have been able to expand their customer base. Finally, the study found that a variety of risks influenced Islamic banking. Because their products are not fully secured, Islamic banks run the danger of losing all of their invested capital.

"Islamic Banks' Financing and Employment Generation: The Case of Punjab, Pakistan," according to Arshad and Bilal (2019), shows that on the basis of business size, asset formation, firm age, and technological adoption, the behavior of firms using Islamic finance was investigated. Asset creation showed a positive association with job generation, but firm age, firm size, and technology had an inverse relationship with employment generation, according to the model's findings. This underlined the significance of asset building through borrowers' financial assistance in the creation of jobs. As a result, it is suggested that Islamic Financial Institutions in the country place a greater emphasis on asset formation when providing Islamic finance to its customers.

Ahmad (2019) studied on "The role of *Musharakah* in the economic development of Tehsil Dargai, district Malakand, Khyber Pakhtunkhwa, Pakistan". Therefore, the purpose of this study is to examine the role of Islamic finance, mainly how *Musharakah* is playing its due role in creating employment, and maintaining sustainable development projects, which in

turn are causes of the development of the economy, particularly of Tehsil Dargai. The study found that Islamic finance is rapidly growing in Dargai; indeed, people are practicing different modes of Islamic finance and *Musharakah* is the most popular form of Islamic finance in this area.

The study "The Potentials of Islamic Banking on Poverty Alleviation in Nigeria" was undertaken by Rabiu and Besar (2020). The study is exploratory in nature, depending on secondary data from journals, periodicals, conference proceedings, textbooks, the internet, and other public sources. According to the findings of the study, Islamic banking can help people get out of poverty. *Murabaha*, *Mushraka*, *Mudaraba*, *Ijarah*, *Sukuk*, Interest-free service, strong business ethics, Islamic microfinance, and corporate social responsibility are among the poverty alleviation tactics, methods, and instruments employed by Islamic banks, according to the study's findings. The study went on to say that Abuja, Nigeria's Federal Capital, with its large Muslim population, the population's shifting attention and growing interest in Islamic banking products, as well as the promotion of infrastructure development in Malaysia and other countries, presents a huge opportunity for Islamic banking products to alleviate poverty. As a result, the report recommends that the proper authorities strongly push Islamic banking in order to aid in the fight against poverty.

2.2.2. Empirical Literature Review-Ethiopian Context

Despite the fact that interest-free banking is a common and usual alternative banking practice in the rest of the globe, it is clear that it is a relatively new phenomena in Ethiopia. As a result, given the topic and breadth pursued by the researcher, there is no or little empirical literature on the issue. So far, the available literature assessment on interest-free banking in Ethiopia has mostly supported the feasibility of implementing interest-free banking in Ethiopia. Sankaramu (2009) study and surveys on the subject have thus far been undertaken in the Ethiopian environment. At the time, the problem was not stated in terms of an educated or knowledge-based interest-free banking operation. It was more about whether or not a government should implement interest-free banking. As a result, the researcher recommended that Ethiopia consider introducing interest-free banking as an opportunity, based on its immense and untapped merits in filling the gap left by conventional banking in general and various microeconomic benefits in particular, by leveraging the smooth relationship between Christians and Muslims.

Teferi (2015) investigated the contribution of IFB to Ethiopia's economic progress. The purpose of this study is to assess the contribution of IFB to Ethiopia's economic development, the level of stakeholder awareness and attitude toward IFB services, the comparative advantages of IFB, the factors that account for IFB's growth, as well as challenges and prospects in the Ethiopian context, by looking at two banks that provide IFB services: Oromia International Bank S.C. and Commercial Bank of Ethiopia. The findings of this study also suggest that rethinking IFB's infrastructure in Ethiopia could improve its operational comfort and function in helping economic development. To summarize, IFB is expected to play an important role in catalyzing economic development in Ethiopia, provided that adequate awareness of its governing principles, compliance with prohibitions, familiarity with operating philosophies, expertise capacity building of operators-bankers, experience sharing from Islamic banking-pioneering countries, and the creation of an enabling regulatory environment are in place.

Senait (2016) studied the challenges of interest-free banking in the context of a few commercial banks in Addis Ababa. According to the study, there is a lack of a comprehensive legislative framework, adequate and competent workforce, and auditing and accounting standards. Teshome (2018) also did research in Ethiopia on the operational obstacles and prospects of interest-free banking. The findings revealed that a proper legal and regulatory framework is the most significant impediment to the operation of interest-free banking, that a lack of Sheria experts and manpower significantly slowed interest-free banking operations, and that Ethiopia's market makes very limited provision for the operation of Islamic banking.

Meskerem (2018) conducted study into the post-implementation problems of Ethiopia's Commercial Bank's Interest-Free Banking Project. Inadequate public awareness, a lack of manpower, a lack of Sharia advisory board, a lack of Islamic insurance, and a lack of an Islamic financial service board were identified as post-implementation issues of the IFB project that will have a negative impact, according to the report. Belayneh (2020) was polled to find out on the benefits and risks of Islamic finance in Ethiopia. The key potentials of Islamic financing in Ethiopia include high public demand and recruiting new investors. On the other side, the development of Islamic finance in Ethiopia is being hampered by a lack of competent labor, the absence of a capital market, a lack of public knowledge, and a negative impression of Islamic finance.

Hailu and Bushera (2020) conducted a rigorous qualitative analysis to analyze the prospects and problems of Islamic banking in Ethiopia. According to them, the availability of large numbers of unbanked consumers, significant demand, and the ability to mobilize sufficient capital and deposits are among the most promising prospects. While misconceptions about Islamic finance, legal and regulatory framework challenges, bank investment participation restrictions, double taxation, the lack of a central supervisory body, and a skilled human resource shortage are among the main challenges facing Ethiopia's newly permitted fulfilled Islamic banking.

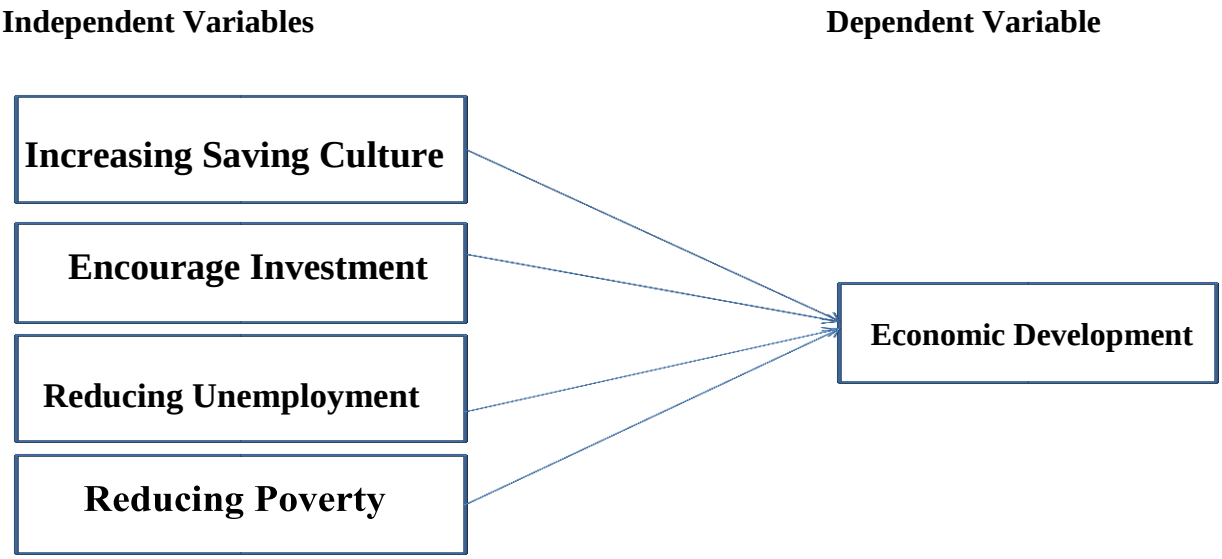
The main challenges, according to Meka (2020), are higher computation from conventional banks that open interest-free banking services in branch and window level, lack of societal awareness of Islamic banks, professional skill gap regarding Islamic bank operation, and lack of societal awareness of Sharia-based financing. The key possibility for Islamic banking expansions is that there is significant demand in the market, the banking system in Ethiopia is in its early stages of development, and Islamic banks may mobilize more additional deposits from the Muslim populace, which was previously untapped. The constraints and opportunities of Islamic banking expansions were clearly identified in this study.

Because interest-free banking is relatively new phenomenon, various researchers throughout the world are attempting to approach the subject from various perspectives. There are, however, few published publications that examine the role of interest-free banking in the growth of the Ethiopian economy from the standpoint of clients and banks in developing nations like Ethiopia. Few studies have looked into the role of interest-free banking in Ethiopia's economic growth. Teferi's (2015) research of interest-free banking's contribution to Ethiopia's economic development, for example, suggests that rethinking IFB's infrastructure in Ethiopia could improve its pleasant functioning and role in assisting economic development. Thus, none of the studies above has specifically addressed the role of interest-free banking in Ethiopia's development by examining the role of interest-free banking in promoting saving culture, encouraging investment, reducing unemployment, and reducing poverty at the Commercial Bank of Ethiopia in Dire Dawa District. As a result, this research will look into the roles of interest-free banking in Ethiopia's economic development, specifically in the case of the Commercial Bank of Ethiopia in the Dire Dawa District.

2.3. Conceptual Framework of the Study

The features of interest-free banking were taken from related literature for this study. The Ethiopian context's economic progress is the study's dependent variable. The independent variable characteristics are promoting saving cultures, encouraging investment, lowering unemployment, lowering poverty, and the function of interest-free banking in economic development, which are presented in Figure 1 below.

Figure 1: Conceptual Framework of the Study



Source: Developed by the researcher from literature review, 2022

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Description of the study area

This research was carried out on twenty-selected Commercial Bank of Ethiopia (CBE) branches in Dire Dawa. Dire Dawa Administration is located in eastern Ethiopia, straddling the Oromia and Somali regions, 515 kilometers southeast of Addis Ababa. According to demographic forecasts for 2019, the city of Dire Dawa has 313,000 residents (63%) while the rural areas have 180,000 residents (37%). Dire Dawa's economy has increased significantly. Textiles and apparel, automobile assembly, food processing, fertilizers, electronics, and paper are among the sectors served by a new industrial park. This opens up many job opportunities (DDA, 2021).

3.2. Research Design

The researcher attempted to evaluate the role of IFB in Ethiopia's economic development. Because it was appropriate, a descriptive research design was utilized to conduct this investigation and achieve the study's aims. The current information was similarly obtained using a descriptive study design. It was also employ fact-finding research to assist in the formulation of particular concepts and the provision of answers to challenges involving local or national difficulties. Descriptive research, according to Kothari (2004), encompasses several types of surveys and fact-finding inquiries. The most important goal of descriptive research is to describe the current state of circumstances. This study used a descriptive research design to meet the researcher's goal of describing the respondents' perspectives on the role of IFB in economic development.

3.3. Research Approach

To demonstrate the current phenomena, this research employed a qualitative study approach to answer the research questions and some quantitative data to determine the function of IFB in Ethiopia's economic development. The purpose of employing a qualitative research approach is to find out why people are interested in interest-free banking, and it was also used to investigate and comprehend the meaning that individuals or groups attach to a social or human problem. The data were gathered and analyzed using a questionnaire and an interview. Hence, the study was used mixed approach. By ensuring that the limitations of one form of data are balanced by the strengths of another, combining qualitative and quantitative data can

improve an evaluation. By combining diverse ways of knowing, it was ensured that knowledge would improve.

3.4. Sources and Types of Data

The researcher conducted the study using both primary and secondary data. Customers, staff of the interest-free banking department, managers and supervisors of the CBE, and higher officials of full-fledged Islamic banks in Dire Dawa were the key primary data sources. Secondary data were gathered and used to describe and elaborate on the concept of interest-free banking. Various websites, bulletins, revised manuals, documents, bank profiles, and records, books by various authors, National Bank of Ethiopia directives, and other materials were also be examined.

3.5. Population, Sample Size, and Sampling Techniques

3.5.1. Target Population

A population is a big group of individuals, groups or categories, items or situations that a researcher investigates and generalizes about (Andersen & Taylor, 2012). It can also describe as the entirety of any group of people who share certain features (Boone & Sabo, 2013). Based on location, CBE has fifteen districts in Ethiopia. The branches of the Dire Dawa districts are grouped into three clusters: Dire Dawa, West Hararghe, East Hararghe, and Jigjiga. Furthermore, as of March 2022, the number of IFB branches in the Dire Dawa district stood at 66. Dire Dawa City has twenty (20) branches out of the 66 CBE branches in the designated district. The study's goal is to determine the role of interest-free banking in Ethiopia's development; hence, the target demographics are CBE IFB employees and IFB clients in Dire Dawa City.

Because they are heavily involved in IFB operations, this population was chosen as the most suited for this study. As a result, their perspectives provide accurate information for this study. Customers of twenty CBE branches in Dire Dawa City were included in this study, as were IFB line employees, supervisors, branch managers, and customer service officers. The total number of IFB related employees in Dire Dawa City branches of CBE was 100, with front makers (40), supervisors (20), branch managers (20), and customer service officers (20) making up the sample. The total number of IFB deposit clients (customers) in Dire Dawa City branches of CBE was 12,163 from 20 branches.

3.5.2. Sampling Techniques

The study population consists of CBE customers and employees who use IFB products and work at IFB windows in Dire Dawa City, respectively. Questionnaire was issued to staff who had pledged to provide interest-free banking services to the bank's sample branches and clients. Employees who are the head of the district's interest-free banking department and the branch's line manager are interviewed. To reach specific respondents, this study used multistage sampling procedures (probability and nonprobability). The Commercial Bank of Ethiopia states that the Dire Dawa district has 66 branches that offer interest-free banking as of 2022. Twenty of the 66 branches are in Dire Dawa City; hence, those 20 branches were used as the study's population. As a representative sampling of branches, these 20 branches were chosen. Based on Carvalho's (1984) approach and the fact that a large sample size is always preferred, this study chose a large sample size for number of branches, which is 20, because the number of branches in Dire Dawa District that offered Interest Free banking was 66, which fell within the Carvalho's (1984) range (N= 51-90). These branches were chosen because they have more clients/customers than the other branches.

3.5.3. Sampling Size Determination

IFB clients and employees of CBE in Dire Dawa City were chosen as respondents. The sample size for branches was set first, before the sample size for clients and employees. As a result, sampling took place at least three times: at the branch, with clients, and with CBE employees in Dire Dawa City.

3.5.3.1. Branch Sample Size

The branch sample size was calculated using a method established by Carvalho (1984). According to Malhortra and Peterson (2006), the higher the sampling size of a study, the more accurate the data obtained, but sample sizes vary depending on the situation. As a result, using the Carvalho sample size determination approach, the researcher chose a large sample size of 20 CBE branches with IFB windows in Dire Dawa Districts from a population of 66 bank branches, where a bigger sample size is thought to improve data accuracy.

Table 1: Sample Size Determination

Population Size	Small	Medium	Large
51-90	5	13	**20**
91-150	8	20	32
151-280	13	32	50
281-500	20	50	80
501-1200	32	80	125
1201-3200	50	125	200
3201-10,000	80	200	315
10,001-35,000	125	315	500
35,001-150,000	200	500	800

Source: ***Carvalho (1984)***

3.5.3.3. Customer Sample Size

According to research methodologists like Kothari (2004), the sample size should be neither too large nor too small. It should be optimal, and an optimal sample is one that meets the efficiency and flexibility requirements (Kothari, 2004). In this study, a significant sample of the population was employed. During the creation of this study, the sample was determined to be representative; the sample size was obtained using the formula taken from (Yamane, 1967). In terms of population, it was assumed that the sample is 95% reliable and that the sampling error is 5%.

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

Where:

- n= sample size
- e= is the desired level of precision (i.e. the margin of error),+5% (a 95% confidence level)
- N = the population size
- 1=probability of event occurring
- Z= 1.96

Hence, the sample size for clients becomes

$$n = \frac{12{,}163}{1+12{,}163\ \ (0.05)^2} = \mathbf{387}\ \text{(IFB Customers)}$$

Based on the previously mentioned formula, a sample size of 387 has been estimated from a population of 12,163 IFB deposit customers of CBE from Dire Dawa City branches. The researcher utilized proportional computation to the number of consumers in each selected branch because the number of customers in each branch is not the same. That is, the number of respondents in each branch, as well as the proportion of customers in each branch compared to the total number of consumers considered. As a result, the number of respondents from each branch was calculated as follows:

Table 2: Proportional Distribution of Questionnaire

No.	Branches	N	% from N	Sample Size
1	Dire Dawa Industry Park Branch	1,434	11.8	46
2	Hayat Branch	1,380	11.3	44
3	Megalla Branch	928	7.6	30
4	Babu Rahema Branch	1,264	10.4	40
5	Sabian Branch	1,062	8.7	34
6	Melkajebdu Branch	667	5.5	21
7	Leg Oda Branch	618	5.1	20
8	Hafete Essea Branch	893	7.3	28
9	Chemin De Fer Branch	509	4.2	16
10	Greek Camp Branch	497	4.1	16
11	Biftu Adugna Branch	295	2.4	9
12	Feres Megala Branch	345	2.8	11
13	Kefira Branch	271	2.2	9
14	Gende Korrie Branch	188	1.5	6
15	Conel Branch	496	4.1	16
16	Dechatu Branch	324	2.7	10
17	Dire Dawa Branch	380	3.1	12
18	Sitti Branch	442	3.6	14
19	Madeya Branch	135	1.1	4
20	Habib Branch	35	0.3	1
	Total	**12,163**	**100.00**	**387**

Source: Own Survey, 2022

Convenience sampling was utilized to obtain data from the sample respondents after establishing the number of samples from each branch. This is a non-probability sampling strategy in which a sample is taken from a population segment that is close at hand, readily

available, or handy. Thus, in the selected branches, questionnaires were provided to customers on a walk-in basis, that is, until the predicted number of samples from the selected branch was satisfied.

3.5.3.4. Employee Sample Size

Following the selection of sample branches, employee sample size determination is used to pick a sample from the staff population. There were 100 IFB employees on the selected CBE branches (20), including front makers (40), supervisors (20), branch managers (20), and customer service officers (20) at Dire Dawa City branches. Staff questionnaires were distributed to the sample branches in equal numbers, with five questionnaires distributed to each sampled branch. Two questionnaires are for IFB staff front makers with different windows, one for supervisor, one for branch manager, one for branch manager, customer service officer, and interview for line manager of the branch from the five issued questionnaires for the sampled branches. The questionnaires were then sent to conveniently available branches and respondents using a convenience-sampling approach, which is one of the most extensively utilized sampling techniques in research. "Deliberate sampling is also known as purposive or non-probability sampling," according to Kothari (2004). This sampling method entails the deliberate or purposeful selection of specific universe units to form a sample that represents the entire universe. Convenience sampling refers to the selection of demographic elements for inclusion in a sample based on their accessibility. In summary, the researcher used a multi-stage sampling technique for this study, sampling 387 and 100 IFB customers and employees, respectively, and collecting data accordingly.

3.6. Method of Data Collection

The researcher used primary and secondary data sources to ensure that the study's objectives were met. Questionnaires and interviews were used to gather primary data. In Dire Dawa, questionnaires was sent to chosen IFB clients, CBE staff, and higher officials from full-fledged Islamic banks. The survey question had both closed and open ended questions, allowing data to be collected from a select group of responders. To gather realistic data, closed-ended and open-ended items were constructed. The researcher created the questionnaire items and adjusted them from diverse sources to meet the research's objectives. Five likert scales questions items used to determined customers and employees' perceptions on the IFB's role in economic development. The purpose of using a Likert scale is to make it easier for respondents to respond to questions in a straightforward manner. The goal of the

survey is to gain insight into the role of IFB in Ethiopia's economic development. To obtain data from interviews, the researcher conducted interviews with branch managers of selected CBE full-fledged Islamic banks. Secondary data was gathered via reading a variety of published and unpublished books and papers. The secondary data aims to gather information on respondents' overall awareness of the function of IFB in economic development.

3.7. Method of Data Analysis

Data entry, coding, verifying, and addressing missing data are all part of the data analysis process. The data was reviewed, sorted, and screened for any errors before being used in this study. The researcher used both qualitative and quantitative data analysis methodologies. The qualitative data acquired through questionnaires is organized. Descriptive statistics such as percentage, mean, and frequency were used to examine quantitative data. The researcher utilized the descriptive data analysis technique and Statistical Packing for Social Science (SPSS) Version 26 to analyze the data. The background of respondents is calculated using descriptive data such as frequency and percentage. The data collected from respondents under the descriptive statistic was explained and described using descriptive analysis. The researcher employed descriptive statistics in this study to learn more about IFB's influence in economic development. As a result, the researcher opted to use the descriptive method of data analysis to draw conclusions and inferences since the nature of the analysis necessitates the use of a table; percentages are used to make comparisons and the interface. For the data that demonstrate perceptions and opinions, the researcher also, investigate qualitative replies data through narrative analysis.

3.9. Ethical Consideration

In this study, the researcher made every effort to collect, analyze, and interpret data in an ethical manner. Each private commercial bank granted the researcher permission to perform this study; as a result, the interview was conducted and the questionnaires were given with the management's full knowledge. Because they are the primary point of contact for all respondents, caretakers from the chosen branches were approached during data collection and helped the researcher collect data. When completing the questionnaire, participants were informed about the purpose of the study, how their answers were kept private, and how to avoid having their personalities used against them.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

The data analysis, presentation, and interpretation of the study's findings are all covered in this chapter. As stated in earlier chapters, the primary goal of this research is to determine the role of IFB on the economic development of Ethiopia in case of Commercial Banks in Dire Dawa District. The descriptive analyses used in the research investigation. The information was gathered from both primary and secondary sources. The data collected from the questionnaire were analyzed using SPSS Version 26. The data were studied for four study questions: to determine the roles of IFB in improving saving culture, encouraging investment, reducing unemployment, and finally, determining the role of IFB in reducing poverty. The results indicate how the data was examined using methods such as frequency, percentage, mean, standard deviation, reliability test, and correlation analysis.

4.1. Response Rate

Table 3: Response Rate

Sample	Distributed	Returned	Percentage
Employees	100	95	95.0
Customers	387	375	77.0
Total	**487**	**470**	**96.5**

Source: Own Survey, 2022

As shown in Table 3, a total of 487 questionnaires were sent to Commercial Bank of Ethiopia clients (387) and IFB employees (100) in Dire Dawa City. Customers (77.0%) and IFB staff (95.0%) returned 470 questionnaires, resulting in a response rate of 96.5%. This response was adequate and representative of the population, and it complies with Mugenda & Mugenda (2003)'s recommendation of a response rate of 70% or above as excellent.

4.2. Reliability Test Statistics

4.2.1. Validity

The conceptual framework and questionnaire used in the research study were adopted after a careful examination of the research literature and were then tailored to the research environment in order to assure their validity. The questionnaire was also pretested, and depending on the feedback, revisions were made to create the final, accurate version.

Interviews and conversations were conducted with some of managers who have firsthand knowledge of interest free banking.

4.2.2. Reliability

The statistical tool SPSS version 26 was used to verify the reliability and validity of the data for the study's purpose and findings. The main purpose of reliability coefficients is to convey the consistency of outcomes. Cronbach's alpha is a reliability coefficient of internal consistency, which measures how closely a group of items are related. Cronbach's alpha is a coefficient indicating reliability, not a statistical test (or consistency). It is regarded as a scale dependability indicator. The presence of a "high" alpha value does not imply that the measure is one-dimensional. Cronbach's alpha is a coefficient of reliability in technical terms (or consistency). According to Hair, et al., (2006), if α is larger than 0.7, it indicates high dependability, whereas if is smaller than 0.3, it indicates low reliability. The questionnaire was tested using Chronbach's Alpha as mentioned in the table 4 below, and it was determined to be greater than 0.7 in general and for the five specific determinants, indicating that it is highly consistent because it is greater than 0.7.

Table 4: Reliability of Statistics (Test): Staffs items

Items	Cronbach's Alpha	No. of Items
Increasing Saving Culture	.712	6
Encouraging Investment	.738	6
Reducing Unemployment	.711	6
Poverty Reduction	.705	6
Economic Development	.772	24

Table 4 shows the reliability statistics of the variables used in the analysis. The alpha value of the items increasing saving culture, encouraging investment, reducing unemployment, poverty reduction, and economic development varies from 0.705 to 0.772, which its reliability was acceptable. The result of qualitative data shows the cronbach's alpha value of Economic Development is 0.772 that shows that 77.2 percent of the data taken for the study is valid and reliable.

4.3. Analysis of Respondents Demographic Profile

The demographic features of the respondents are presented in this section. The demographic characteristics of IFB employees and customers, such as gender, age, educational background, and experience are summarized using descriptive statistics with frequencies and percentages. As a result, the following variables pertaining to respondents have been compiled and reported in the tables below. Respondent information was required because it allowed the researcher to determine whether the target group had been contacted and whether the information requested had been acquired.

4.3.1. Demographic Characteristics of Employees Respondents

Table 5: Demographic Characteristics of Employees Respondents

Variables	*Alternatives*	*Frequency*	*Percent*
Gender	Male	61	64.2
	Female	34	35.8
	Total	**95**	**100**
Age	Under 25 Years	25	26.3
	25-35 Years	46	48.4
	36-45 Years	21	22.1
	Above 45 Years	3	3.2
	Total	**95**	**100**
Educational Level	Diploma	7	7.4
	Bachelor Degree	78	82.1
	Master's Degree	10	10.5
	Total	**95**	**100**
Current Position	Line employees	75	78.9
	Management staffs	20	21.1
	Total	**95**	**100**
Years of Experience	0-5 years	35	36.8
	6-10 years	41	43.2
	11-15 years	12	12.6
	16 and above years	7	7.4
	Total	**95**	**100**

Source: Own Survey, 2022

Table 5 illustrated that there were more males than females. Male respondents accounted for 64.2% of the total, while female respondents accounted for 35.8% of the total. This indicates that males dominated the major respondent. Majority of the employees in Interest Free Banking are aged between 25-35 years old 46(48.4%), following by the under 25years 25(26.3%), and range 36-45 years old 21(22.1%). Those respondents above 45 years old are the least percentage among all, only occupied 3.2% compare to other age range. From the above result, the researcher observes IFB sector is well performed by staff under 35years. Furthermore, in relation with the educational level of IFB staff, out of 95 respondents, 78(82.1%) have a Bachelor's degree, followed by 10 (10.5%) who have a Master's degree, and the remaining 7(7.4%) have a Diploma. According to the respondent's response, the majority of IFB employees have a bachelor's or master's degree, with only a few having a diploma. The outcome also suggests that staff have sufficient capacity to provide the service and can be quickly taught to provide interest-free banking.

On the other side, the majority of IFB staff respondents are from line employees, with 75(78.9%) responding, and 20(21.1%) responding from management. As a result, it can be deduce from the result that senior staff handles the majority of the service, followed by the rest. According to the data in table 5, 36.8%, 43.2%, and 12.6% of IFB staff respondents had 0-5 years, 6-10 years, and 11-15 years of work experience, respectively. Furthermore, 7.4% of respondents had 16 or more years of experience. As previously stated, the majority of the respondents were employees with less than ten years of experience. A substantial percentage of IFB employees have worked for 6 to 10 years. This demonstrates that the Bank is actively recruiting and assigning workers to various branches.

4.3.2. Demographic Characteristics of Customers Respondents

Table 6: Demographic Characteristics of Customers Respondents

Variables	*Alternatives*	*Frequency*	*Percent*
Gender	Male	268	71.5
	Female	107	28.5
	Total	**375**	**100**
Age	Under 25 Years	114	30.4
	25-35 Years	108	28.8
	36-45 Years	103	27.5
	Above 45 Years	50	13.3

	Total	**375**	**100**
Educational Level	Secondary School	52	13.9
	High School Certificate	54	14.4
	Diploma	155	41.3
	Bachelor Degree	110	29.3
	Master's Degree	2	0.5
	PhD	2	0.5
	Total	**375**	**100**

Source: Own Survey, 2022

As shown in Table 6, there were more males than females. Male respondents accounted for 268(64.2%) of all respondents, while female respondents accounted for 107(28.5%). This shows that males outnumbered females in the largest respondent group. The majority of customers in IFB of CBE are under 25 years old 114(30.4%), followed by 25-35 years old 108(28.8%), and 36-45 years old 103(27.5%). In comparison to other age groups, those over 45 years old had the lowest percentage of respondents, accounting for only 13.3%. Based on the preceding findings, the researcher concludes that customers under the age of 35 perform well in the IFB industry. Furthermore, 155(41.3%) of the 375 respondents have a diploma, 110(27.3%) have a Bachelor's degree, 10(14.4%) have a high school diploma, and the remaining 52(13.9%) have a secondary school diploma. According to the respondent's response, the majority of IFB consumers have a diploma or a degree, with only a few having a master's or Ph.D. This demonstrates that the respondents had necessary qualifications, were comfortable answering the question, and provided accurate responses.

4.4. IFB Customers and Employees Awareness of CBE's IFB Products

4.4.1. The Level of Customers Awareness about IFB Products

Table 7: The Level of Customers Awareness about IFB Products of CBE

Products Items	Fully Aware	Little Aware	Fully Unaware
	Freq & %	***Freq & %***	***Freq & %***
Murabaha	189(50.4%)	139(37.1%)	47(12.5%)
Musharaka	135(36%)	193(51.5%)	47(12.5%)
Mudharabah	215(57.3%)	139(37.1%)	21(5.6%)
Ijarah	42(11.2%)	286(76.3%)	47(12.5%)
Salam financing	67(17.9%)	261(69.6%)	47(12.5%)
Istisnaa	80(21.3%)	248(66.1%)	47(12.5%)
Wadi'ah/Amana	321(85.6%)	33(8.8%)	21(5.6%)
Wakalah	67(17.9%)	262(69.9%)	46(12.3%)
Quard	80(21.3%)	249(66.4%)	46(12.3%)

Source: Own Survey, 2022

The understanding of IFB products and services is summarized in table 7. The majority of respondents appear to have a good level of understanding *Wadi'ah/Amana, Mudarabah,* and *Murabaha*. Specifically, 321(85.6%) of respondents were aware of *Wadi'ah/Amana*, 215(57.3%) of respondents were aware of *Mudarabah*, and 189(50.4%) of respondents were familiar of *Murabaha*. This shows that a large percentage of the respondents are aware of interest-free deposit options. The data, however, show that concepts like *Ijarah, Istisna,* and *Salam* were not widely understood by the customers. Only 42.12% of clients are aware of *Ijarah* lease finance, 80.3% are aware of *Istisna* trade finance, and 67.9% are aware of *Salam* trade finance. Only 21.3% of the respondents knew who *Quard* was, and only 36.3% knew who *Musharaka* was when it came to profit and loss sharing accounts. This suggests that the majority of the bank's customers were unfamiliar with profit and loss statements. The increased awareness of interest-free banking techniques has a favorable impact on the prospective adoption of these types of financing. That is, customers' understanding should be influenced and shaped by their knowledge and awareness of IFB products and services.

From this result, the majority of account holders said they did not fully comprehend the interest-free products and services that have been supplied or are scheduled to be offered in the near future. This demonstrates that there is still a need to raise awareness regarding

interest-free banking services and products among the public, including bank customers. Better understanding of the products and services available by IFB of CBE through announcements and more media platforms will cause others who have been avoiding this type of banking to spend in it, causing the uncontrollable spread of this type of banking service.

4.4.2. Understanding of CBE's IFB Products and Services by Bankers

Table 8: Bankers understanding about IFB products and services of CBE

Products Items	Fully Aware	Little Aware	Fully Unaware
	Freq & %	***Freq & %***	***Freq & %***
Murabaha	51(53.7%)	32(33.7%)	12 (12.6%)
Musharaka	36(37.9%)	47(49.5%)	12(12.6%)
Mudharabah	54(56.8%)	33(34.7%)	8(8.4%)
Ijarah	29(30.5%)	57(60.0%)	12(12.6%)
Salam financing	26(27.4%)	54(56.8%)	12(12.6%)
Istisnaa	37(38.9%)	46(48.4%)	12(12.6%)
Wadi'ah/Amana	61(64.2%)	26(27.4%)	8(8.4%)
Wakalah	17(17.9%)	67(70.5%)	11(11.6%)
Quard Hassan	20(21.1%)	64(67.4%)	11(11.6%)

Source: Own Survey, 2022

Table 8 shows that a large proportion of the respondents are aware of *Wadiah/Amana* and *Mudarabah* techniques of setting down and economics, with roughly 61(64.2%) and 54(56.8%) respectively. However, when it comes to the Islamic provisos of *Murabaha* (53.7%) and *Musharaka* (37.3%), a significant percentage of respondents say they are only unclearly aware of the specifics. In all, more than half of the respondents are only imprecisely aware or unaware of the function-based and rent-based modes of support on the attention-free primary beliefs of Ijarah 30.5%, *Istisnaa* 38.9%, and Salam 27.4%, respectively. Furthermore, the majority of respondents are unaware of additional IFB product techniques such as *Wakalah* (safe-keeping contract for agency contracts) and favourable loan terms (*Quard*). This implies that, as a result of the accumulation of IFB branch managers and staffs, they require product awareness and a basic understanding of the IFB procedure, and that their complete trust is based on such products, which control a prominent and well-known component of speculation, trade, and rental investment methods.

4.5. The Role of Interest Free Banking (IFB) in Development of Ethiopia

The researcher investigated IFB's roles on four attributes of economic development (increasing saving culture, encouraging investment, reducing unemployment, and poverty reduction) as perceived by the sample respondents, based on the viewpoints given earlier in the measurement scale for role of IFB towards economic development. Respondents were asked to judge each aspect of economic development on a five-point Likert scale, based on their level of perception: "strongly disagree," "disagree," "neutral," "agree," and "strongly agree," with five different scores of 1, 2, 3, 4, and 5, respectively.

4.5.1. The Role of Interest Free Banking in Increasing Saving Culture

Table 9: Descriptive Statistics on the Role of IFB in Increasing Saving Culture

Items on Increasing Saving Culture	N	Min.	Max.	Mean	SD
CBE's IFB services are based on Islamic principles and law.	470	1	5	4.29	1.084
CBE's IFB services are socially and culturally appropriate with communities.	470	2	5	4.11	0.886
The CBE's IFB programme does not charge interest or collect payments on savings or loans.	470	1	5	3.74	1.051
The CBE's IFB has the ability to pool and mobilize savings.	470	1	5	3.93	1.401
The IFB service provided by CBE has encouraged communities to use the banking system.	470	1	5	3.99	1.201
The IFB service provided by CBE has boosted the community's saving culture.	470	1	5	4.03	1.353
Grand Mean	**4.01**				

Source: Own Survey, 2022

Table 9 demonstrates that the data received from 470 respondents indicates that they agree on the subject of the role of IFB in increasing saving culture, with means ranging from (3.74–4.29) and a grand mean of (4.01), indicating a high level of agreement. Regarding item 1 of table 3, the result shows that CBE's IFB services are based on Islamic principles and law with a mean of 4.29 and a standard deviation of 1.084. This was the highest mean score, indicating that the vast majority of respondents strongly agreed that the current CBE IFB

services are founded on Islamic principles and legislation. As a result, if the services are based on Islamic principles and legislation, the communities' saving culture will be boosted. With a mean of 4.11 and a standard deviation of 0.886, CBE's IFB services are socially and culturally suitable with communities, according to item 2 of table 9. This is the second highest mean score, indicating that the majority of respondents believe IFB services are socially and culturally appropriate for communities.

As the result of item 3 of table 9 reveals that the CBE's IFB program does not charge interest or collect payments on savings or loans with a mean of 3.74 and a standard deviation of 1.051. This was the lowest mean score, indicating that some of respondents of agreed that the CBE's IFB program did not charge interest or collect payments on savings or loans. With a mean of 3.93 and a standard deviation of 1.401, the result of item 4 of table 9 illustrates that the IFB can pool and mobilize savings. This is the moderate mean score, indicating that the vast majority of respondents thought that IFB can pool and deploy savings. According to item 5 of table 9 CBE's IFB service has encouraged communities to use the banking system with a mean of 3.99 and a standard deviation of 1.201. This is the third highest mean score, indicating that the majority of respondents believed that CBE's IFB service has encouraged communities to utilize banking system.

The last item 6 of table 9 stated that CBE's IFB service has boosted the community's saving culture with a mean of 4.03 and a standard deviation of 1.353. This is the third highest mean score, indicating that the majority of respondents believed that CBE's IFB service has boosted the community's saving culture. This explains that Islamic banks have played a great role in promoting the community's towards saving. As a result, CBE's IFB services were found to influence savings culture by increasing knowledge of Islamic banking regardless of social demographic differences, the IFB program did not charge interest or collect payments on savings or loans, and encouraged communities to mobilize savings through banking systems that are socially and culturally appropriate for communities and are based on Islamic principles and legislation.

4.5.2. The Role of Interest Free Banking in Encouraging Investment

Table 10: Descriptive Statistics on the Role of IFB in Encouraging Investment

Items on Encouraging Investment	N	Min.	Max.	Mean	SD
The IFB developed by CBE is capable of satisfying societal needs while also stimulating investment.	470	1	5	4.34	0.990
The IFB at CBE has produced information for clients in order to encourage investment.	470	1	5	4.06	0.942
The CBE's IFB has facilitated and encouraged foreign capital inflows to stimulate investment.	470	1	5	3.81	0.908
CBE's IFB products (savings and loan services) are increasing investment opportunities.	470	1	5	4.00	1.319
People would use the investment loan service because of its appeal and the simplicity with which they could access CBE's IFB.	470	1	5	4.04	1.175
The CBE's IFB promotes investment growth by allowing high-speed money transactions.	470	1	5	4.17	1.140
Grand Mean	**4.08**				

Source: Own Survey, 2022

Table 10 above shows that 470 respondents agree on the roles of IFB in encouraging investment, with means ranging from (3.81–4.34) and a grand mean of (4.08), showing a high level of agreement. Regarding item 1 of table 10, the result shows that IFB developed by CBE is capable of satisfying societal needs while also stimulating investment with a mean of 4.34 and a standard deviation of 0.990. This was the highest mean score, suggesting that the vast majority of respondents thought that CBE's IFB could meet societal demands while simultaneously boosting investment. As a result, if the services meet social demands while also promoting investment, they will help to improve local economic development by creating jobs. With a mean of 4.06 and a standard deviation of 0.942, the IFB at CBE has produced information for clients in order to encourage investment, according to item 2 of table 10. This is the third highest mean score, suggesting that the majority of respondents think IFB at CBE has produced information for clients to stimulate investment.

As the result of item 3 of table 10 reveals that, the CBE's IFB has facilitated and encouraged foreign capital inflows to stimulate investment with a mean of 3.81 and a standard deviation of 0.908. This was the lowest mean score, showing that some respondents felt that the IFB has helped to increase investment by facilitating and encouraging foreign capital inflows. With a mean of 4.00 and a standard deviation of 1.319, the result of item 4 of table 10 illustrates that the CBE's IFB products (savings and loan services) are increasing investment opportunities. This is the moderate mean score, which indicates that the vast majority of respondents believe IFB products increase investment prospects.

According to item 5 of table 10 indicated that people would use the investment loan service because of its appeal and the simplicity with which they could access CBE's IFB with a mean of 4.04 and a standard deviation of 1.175. This is the third highest mean score, suggesting that the majority of respondents thought the investment loan service would be used due of its appeal and ease. The last item 6 of table 10 stated that the CBE's IFB promotes investment growth by allowing high-speed money transactions with a mean of 4.17 and a standard deviation of 1.140. This is the second highest mean score, suggesting that the majority of respondents think IFB encourages investment growth by permitting high-speed money transfers. This illustrates how CBE's IFB has aided in the promotion of investment by meeting social demands, facilitating and encouraging foreign capital inflows, and permitting high-speed money transfers.

4.5.3. The Role of Interest Free Banking in Reducing Unemployment

Table 11: **The Role of IFB in Reducing Unemployment**

Items on Reducing Unemployment	N	Min.	Max.	Mean	SD
CBE's IFB has helped the poor improve their consumption by providing financing to start or expand businesses.	470	1	5	4.26	1.162
The IFB of the CBE has assisted the poor in increasing their consumption by providing funding to start or expand companies.	470	1	5	4.12	0.947
CBE's IFB assists in mobilizing community savings and making them available to businesses.	470	1	5	3.72	1.135
The IFB of the CBE has indirectly contributed in the development of business and the creation of	470	1	5	3.88	1.468

jobs.					
CBE's IFB has a beneficial effect on employment when it comes to raising awareness.	470	1	5	3.94	1.270
CBE's IFB activities have positive contribution towards employment generation in the country.	470	1	5	4.01	1.409
Grand Mean	**3.99**				

Source: Own Survey, 2022

Table 11 shows that 470 respondents agreement that IFB plays a role in reducing unemployment, with means ranging from 3.72 to 4.26 and a grand mean of 3.99, indicating a high level of agreement. With a mean of 4.26 and a standard deviation of 1.162, the CBE's IFB has helped the poor enhance their consumption by providing funding to establish or expand enterprises, according to item 1 of table 11. This was the highest mean score, indicating that the vast majority of respondents believed IFB had aided the poor in improving their consumption by providing funding to establish or expand businesses. According to item 2 of table 11, the IFB of the CBE has aided the poor in boosting their consumption by giving finance to establish or develop businesses, with a mean of 4.12 and a standard deviation of 0.947. This is the second highest mean score, indicating that the vast majority of respondents believe the CBE's IFB has helped the poor increase their consumption by giving capital to start or expand businesses.

As the result of item 3 of table 11 reveals that, the CBE's IFB assists in mobilizing community savings and making them available to businesses with a mean of 3.72 and a standard deviation of 1.135. This was the lowest average score, indicating that some respondents believe the IFB helps mobilize community savings and make them available to businesses. The result of item 4 of table 11 shows that the CBE's IFB has indirectly contributed to the development of business and the creation of jobs, with a mean of 3.88 and a standard deviation of 1.468. This is the moderate mean score, indicating that the vast majority of respondents believe IFB has indirectly contributed to business development and employment creation.

According to item 5 of Table 11 indicated that CBE's IFB has a beneficial effect on employment when it comes to raising awareness with a mean of 3.94 and a standard deviation of 1.270. This is the third highest mean score, implying that the majority of respondents believe IFB has a positive impact on employment by boosting awareness. The last item 6 of

table 11 stated that the CBE's IFB activities have positive contribution towards employment generation in the country with a mean of 4.01 and a standard deviation of 1.409. This is the third highest mean score, indicating that the majority of respondents believe CBE's IFB efforts contribute positively to the creation of jobs in the country. This demonstrates that IFB initiatives have a favorable effect on job creation in the country.

Similar results were found by Selim (2020), who found that Istisna'a-based services immediately produce well-paying jobs, positively influence and increase the size of the manufacturing sector, raise capital per worker employed, raise labour productivity, and ultimately increase output, employment, and encourage industrialization. An increase in the manufacturing sector's size will lead to a reduction in trade deficits over time by increasing manufactured exports with value added and decreasing high-value manufactured imports. This suggests that raising labour productivity will raise living standards and eventually lead to full employment, prosperity, and sustained high growth rates in the economy.

4.5.4. The Role of Interest Free Banking in Reducing Poverty

Table 12: Descriptive Statistics on the Role of IFB in Reducing Poverty

Items on Reducing Poverty	N	Min.	Max.	Mean	SD
CBE's IFB services will boost the community's ability to acquire a property.	470	1	5	3.82	1.391
The CBE's IFB's position on corporate social responsibility	470	2	5	4.23	0.932
CBE's IFB has promoted projects that promote sustainable development.	470	1	5	3.87	1.073
CBE's IFB products have the ability to boost real-world productivity.	470	1	5	3.88	1.436
CBE's IFB offers products that support the development of infrastructure.	470	1	5	3.63	1.336
CBE's IFB has a stronger effect on poverty reduction and economic development.	470	1	5	3.61	1.471
Grand Mean	**3.84**				

Source: Own Survey, 2022

Table 12 shows that 470 respondents agreement that IFB plays a role in reducing poverty, with means ranging from 3.61 to 4.23 and a grand mean of 3.99, indicating a high level of

agreement. With a mean of 3.82 and a standard deviation of 1.391, the CBE's IFB services will boost the community's ability to acquire a property, according to item 1 of table 12. This was the modest mean score, indicating that the majority of respondents thought IFB services would help the community to acquire a property. According to item 2 of table 12, the CBE's IFB's position on corporate social responsibility, with a mean of 4.23 and a standard deviation of 0.932. This is the highest average score, suggesting that the vast majority of respondents agree with IFB's corporate social responsibility position.

Result of item 3 of table 12 reveals that, the CBE's IFB has promoted projects that promote sustainable development with a mean of 3.87 and a standard deviation of 1.073. This was the high average score, showing that some respondents believe IFB has fostered sustainable development projects. The result of item 4 of table 12 shows that the CBE's IFB products have the ability to boost real-world productivity, with a mean of 3.88 and a standard deviation of 1.468. This is the moderate mean score, indicating that the majority of respondents feel IFB products may help them increase productivity in the actual world.

According to item 5 of table 12 indicated that CBE's IFB offers products that support the development of infrastructure with a mean of 3.63 and a standard deviation of 1.336. This is the lowest mean score, indicating that IFB does not completely assist infrastructure development with its products. The last item 6 of table 12 stated that the CBE's IFB has a stronger effect on poverty reduction and economic development with a mean of 3.61 and a standard deviation of 1.471. This mean score indicates that the majority of respondents believe IFB has a greater impact on poverty reduction.

This study was also supported by Setiawan's (2016) study, "The Role of Islamic Banking and Conventional against Poverty with the Dual Banking System," which found that in addition to bettering financing and credit, changes needed to be made to the instruments of monetary policy, economic expansion, unequal income distribution, and local currency depreciation, all of which contribute to poverty conditions. The focus of Teferi (2015) analysis, however, is on the IFB's role in Ethiopia's economic growth and its future prospects. The study evaluated the impact of integrating the Muslim community into the banking (financial system) on GDP growth and economic development.

4.5.5. Correlation Analysis

The findings of an investigation of the Roles of IFB on the development of the Ethiopian economy as assessed by increased saving culture, investment encouragement, unemployment reduction, and poverty reduction. The researcher employed bivariate correlation with Pearson correlation coefficient to determine the existence and level of relationship.

Table 13: Correlation Analysis

		ISC	EI	RU	RP	ED
Increasing Saving Culture (ISC)	Pearson Correlation	1	.046	.692**	.080	.723**
	Sig. (2-tailed)		.316	.000	.084	.000
	N	470	470	470	470	470
Encouraging Investment (EI)	Pearson Correlation	.046	1	.098*	.081	.464**
	Sig. (2-tailed)	.316		.033	.080	.000
	N	470	470	470	470	470
Reducing Unemployment (RU)	Pearson Correlation	.692**	.098*	1	.176**	.787**
	Sig. (2-tailed)	.000	.033		.000	.000
	N	470	470	470	470	470
Reducing Poverty (RP)	Pearson Correlation	.080	.081	.176**	1	.545**
	Sig. (2-tailed)	.084	.080	.000		.000
	N	470	470	470	470	470
Economic Development (ED)	Pearson Correlation	.723**	.464**	.787**	.545**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	470	470	470	470	470

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Own Survey, 2022

According to the correlation results on table 13, the role of IFB in saving culture has a relationship with unemployment reduction and economic development, with (r value=.692**, p value=.000) and (r value=.723**, p value=.000) respectively. The effect of the IFB in stimulating investment has (r value=.098*, p value=.033) and (r value=.464**, p value=.000) correlations with unemployment reduction and economic development, respectively. The correlation finding shows a link between growing saving culture, stimulating investment, poverty reduction, and economic development, as well as the function of IFB in lowering unemployment. In Dire Dawa, the role of the IFB has been significantly expanded to assist the community's growing saving culture. By mobilizing latent funds that are purposely kept out of interest-based financial channels and facilitating the growth of capital markets, a CBE

IFB can play a critical role in Ethiopia's economic development, particularly in Dire Dawa. As a result, strengthening saving culture is necessary for investment, and investment is necessary for economic growth. As a result, a high savings culture equates to high investment, resulting in a high rate of economic development.

The IFB plays an important role in making investments for the growth of many sectors of the economy. Investment expansion is seen as one of the most significant factors in achieving price stability and promoting job possibilities, as well as contributing to economic development. Increased deposits will result in lower interest rates, causing investors to demand more from the available money for investment. The findings of the study further revealed that CBE's IFB services not only promote economic development but also help to alleviate poverty and create job possibilities. Providing efficient finance to the poor is important for a number of reasons. For starters, providing efficient savings, credit, and insurance facilities can help the poor smooth out their spending, better manage risks, gradually build assets, develop micro-enterprises, increase income earning capacity, create job opportunities, and reduce poverty. CBE's IFB contributes to economic development, and the IFB deposit has a considerable impact on it.

Respondents were also asked open-ended opinionated questions in addition to the closed-ended ones in order to supplement the quantitative data analysis and investigate IFB's additional contributions to economic development. The majority of respondents believe that IFB can promote financial inclusion, which in turn promotes a sense of social justice, which leads to political stability, which is a foundation for national peace and growth. They also believe that IFB can play a positive role in attracting foreign direct investment (FDI), creating a fair and competitive working environment, bridging the wealth gap, reducing poverty, and improving standard of living. Furthermore, the majority of Interest-free Banking account holders are satisfied with the current Interest-free Banking services provided because it can potentially fill 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 opportunities, and supporting GDP growth.

4.6. Secondary Data Analysis on the Role of IFB in Economic Development

In addition to the above study, the researcher has acquired secondary data from the interim reports of the CBE in Dire Dawa District for the years 2018-2020 that corresponds to some of the above examined qualities of economic development that are reasonably expected to be

affected by IFB. These four characteristics are implied by increasing saving culture, encouraging investment, reducing unemployment, reducing poverty as economic development factors on the one hand, and encouraging people to use banking systems (number of IFB deposit accounts and employment opportunities on the other, as shown in table below).

4.6.1. CBE IFB Account in Dire Dawa District (2018-2020)

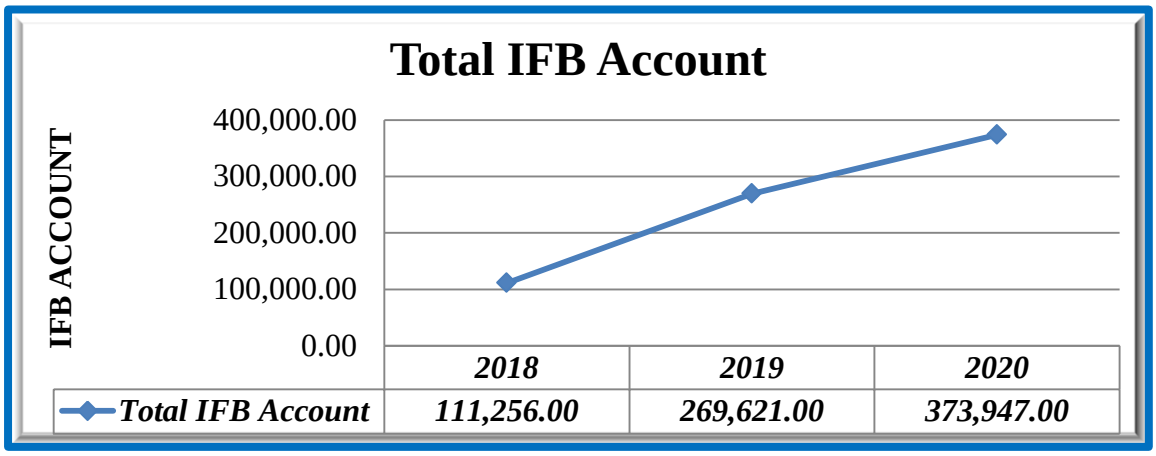
Table 14: Number of Account of IFB of CBE in Dire Dawa

Years	Number of Account			Total Account
	Amanah Deposit	*Mudarabah Saving*	*Wadiah Saving*	
2018	404.00	166.00	110,686.00	111,256.00
2019	468.00	193.00	268,960.00	269,621.00
2020	610.00	172.00	373,163.00	373,947.00

Source: CBE Dire Dawa District Annual Report, 2022

Table 14 shows that the number of CBE Interest Free Banking accounts in Dire Dawa District has been increasing over time. According to the above data, the *Wadiah* Savings account has the biggest number of users among CBE's Interest Free Banking products, with 110,686 in 2018, 268,960 in 2019, and 373,163 in 2020 (Figure 1). This conclusion was also corroborated by the results of a questionnaire concerning IFB products and services awareness. This means that an increase in the number of Interest Free Banking accounts indicates an increase in saving culture, which helps the country's economic development through IFB deposit mobilization.

Figure 2: Total Account of IFB of CBE in Dire Dawa District (2018-2020)



Source: CBE Dire Dawa District Annual Report, 2022

4.6.2. CBE's Interest-Free Banking Working Balance in Dire Dawa District

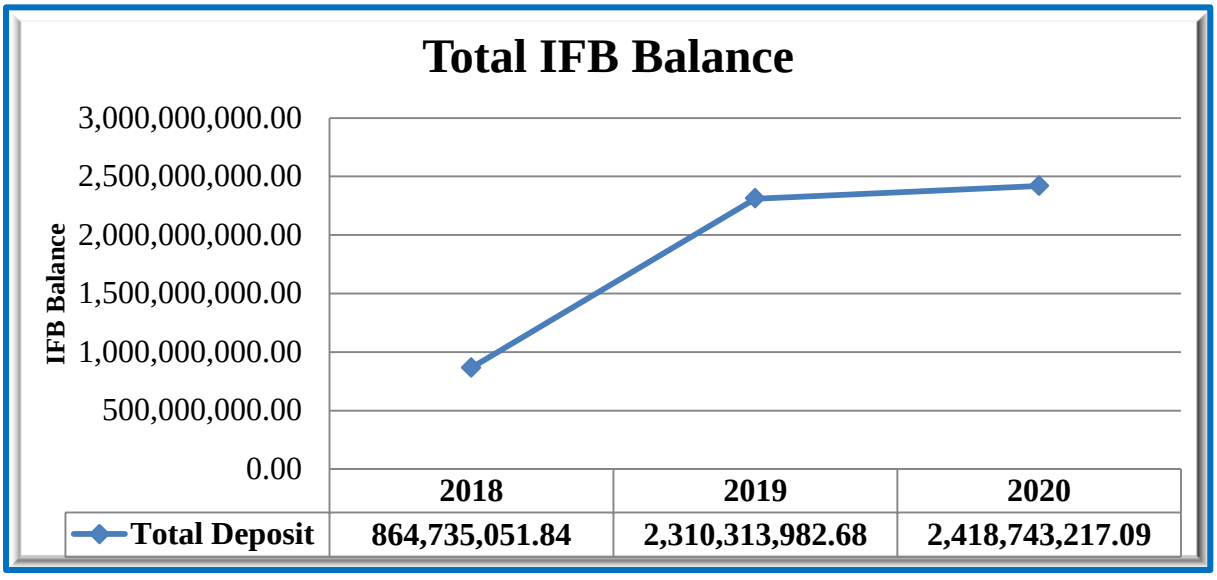
Table 15: CBE's IFB Working Balance in Dire Dawa District

Years	Working Balance			Total Balance
	Amanah Deposit	*Mudarabah Saving*	*Wadiah Saving*	
2018	99,279,879.62	6,119,628.49	759,335,543.73	864,735,051.84
2019	444,436,085.37	8,675,089.14	1,857,202,808.17	2,310,313,982.68
2020	154,922,163.38	11,614,874.12	2,252,199,113.19	2,418,743,217.09

Source: CBE Dire Dawa District Annual Report, 2022

As it can be observed from the above empirical secondary data of fact on the ground in table 15 above, *Wadiah* saving working balance is 759,335,543.73 birr in 2018, 1,857,202,808.17 birr in 2019, and 2,252,199,113.19 birr in 2020. This indicates that the CBE's Interest-Free Banking Working Balance in Dire Dawa District has risen over time. *Amanah* deposit and *Mudarabah* savings, on the other hand, have seen an increase over time. This means that the IFB has a positive impact on some aspects of economic development at the national level, such as the mobilization of monetary resources that have been kept out of the banking system, the allocation of monetary resources, encouraging people to use the banking system, and the creation of job opportunities for citizens. IFB can play an important role in economic development through improving monetary resource mobilization and allocation, as well as encouraging people to use the banking system.

Figure 3: CBE's IFB Working Balance in Dire Dawa District (2018-2020)



Source: CBE Dire Dawa District Annual Report, 2022

From the result, Commercial Bank of Ethiopia's IFB plays a critical part in a country's economic development. They collect people's unused money and make them available for investment. In the process of making loans and purchasing investment securities, they also create fresh demand deposits. The Islamic bank's main goal is to promote commerce as a form of active contact between surplus and deficit units in the economy. The Islamic bank's secondary duty is to provide agency services and other market-compatible products to its customers. IFB is expected to play a key role in catalyzing economic development in Ethiopia, if adequate awareness of its governing principles, compliance with prohibitions, and familiarity with operating philosophies, expertise capacity building of operators-bankers, and the creation of an enabling regulatory environment are in place.

4.7. Discussion of Interview Data

The following is an analysis and presentation of the qualitative interview on the roles of IFB to the economic development of Ethiopia, particularly in Dire Dawa.

- **How has IFB in Ethiopia, especially in Dire Dawa, influenced people's willingness to interact with the banking system?**

Savings are meant to cover future expenses and to create capital for investments. It is clear from the interview results that since riba was abolished, banks have been encouraged to work with religious people. After converting to the Islamic banking system, many businessmen in the market who had previously thought that the banking system was not Islamic were interested in the banks. This suggests that IFB wants to further the goals of a wealthy society and a sound economy. It provides a financially viable option based on moral principles like justice and compassion.

- **What impact has IFB had on the mobilization of financial resources (deposits) in Ethiopia, and specifically in Dire Dawa?**

The results of the interview show that the elimination of *riba* unquestionably had a positive effect because believers who previously did not deposit in banks have started to do so. The results of the interviews also show that the interest-free banking system was more effective than the interest-based banking system at mobilizing and allocating financial resources, and as a result, contributed more to economic growth.

- **What impact has IFB had on lowering unemployment in Ethiopia, especially in Dire Dawa?**

Selecting a banking system that can generate employment over other systems is necessary since employment is a crucial factor in both economic growth and income distribution. IFB is anticipated to increase jobs as a result of the relationship. Since there is little speculative demand for money in IFB, its financial resources are mostly employed to produce products and services, which increase employment. IFB works mostly in cooperation, which not only stimulates entrepreneurs but also increases jobs. Therefore, when they choose their partners, they go with those who have more knowledge, expertise, and innovation. As a result, the need for entrepreneurs grows in society.

- **What impact has the IFB had on reducing poverty in Ethiopia, especially in Dire Dawa?**

According to the interview results, IFB can indirectly lower poverty and income disparity by fostering economic growth, the benefits of which are distributed to the poor. IFB promotes economic development by, among other things, shifting resources from inefficient to effective usage. Therefore, the most effective means of alleviating poverty and raising living standards in developing nations is economic development.

- **How has IFB affected Ethiopia's economy, in particular that of Dire Dawa?**

Interviewees were asked how IFB has impacted economic growth in Ethiopia, especially in Dire Dawa, and their responses were reported. The mobilization of financial resources (deposits), allocation of financial facilities (financial facilities), effectiveness, encouragement of people, internal and external economic crises, inflation, employment, internal and external trade, real GDP, and profitability are all examples of how IFB has an impact on economic development in Ethiopia. By releasing latent savings that are purposefully kept out of interest-based financial channels and promoting the growth of the capital market, IFB can significantly contribute to the economic development of our country. IFB frequently uses trade-related operations to forge connections with the actual economic system's sectors. Money has a direct impact on the development of the economy since it is tied to actual assets. This suggests that promoting shared wealth, economic development, and poverty reduction are all advantages of IFB's sustainable development. IFB has a strong connection to physical assets and the actual economy, which means it, may greatly contribute to economic development.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This chapter discussed the important data results, the implications drawn from the findings, and the suggestions made in response to the conclusions and recommendations. The goal of this study was to analyze the role of interest free banking on Ethiopia's development using a specific Commercial Bank of Ethiopia in Dire Dawa District. Based on the analysis and data obtained, the following findings, conclusions, and recommendations were made.

5.2. Summary of Findings

The study's major goal was to determine the role of interest-free banking on Ethiopia's development, with a focus on the Commercial Bank of Ethiopia in Dire Dawa District. The research questions were to determine the role of IFB in enhancing saving culture, stimulating investment, lowering unemployment, and ultimately, determining the role of IFB in reducing poverty. Descriptive research design and correlation analyses were utilized in the study. Questionnaires were the most common technique of data collecting since they were easier and more effective for the researcher to employ. Tables and charts were utilized to present the data, which were described using descriptive statistics. The outcomes show how the data was analyzed using techniques like frequency, percentage, mean, standard deviation, reliability test, and correlation analysis.

- The majority of respondents appear to have a good understanding of interest-free banking products such as *Wadi'ah/Amana*, *Mudarabah*, and *Murabah*a, according to the study's descriptive analysis. *Wadi'ah/Amana* has the most customers and total assets in Commercial Bank of Ethiopia in Dire Dawa District, according to secondary analysis.
- Regarding the study's first goal, the role of interest-free banking in enhancing saving culture, 80.6% (mean of 4.03) of respondents agreed that the Commercial Bank of Ethiopia's IFB service in Dire Dawa District had improved the community's saving habits. This explains why Islamic banks have played such an important role in encouraging people to save.
- Concerning the study's second goal, the role of interest-free banking in promoting investment growth, 83.4% (mean of 4.17) of respondents agreed that the Commercial Bank of Ethiopia's IFB service in Dire Dawa District fosters investment growth by

allowing high-speed money transfers. This shows how the CBE's IFB has contributed in the promotion of investment by addressing societal needs, facilitating and encouraging foreign capital inflows, and allowing for high-speed money transactions.

- Concerning the study's third objective, the role of interest free banking in the creation of jobs in the country, the findings show that 80.2% (mean of 4.01) of the respondents agreed that the IFB service of Commercial Bank of Ethiopia in Dire Dawa District contributes positively to the creation of jobs in the country. This indicates the positive impact of IFB activities on job development in the country.
- Regarding the study's final objective, the role of interest-free banking in poverty reduction, the findings show that 72.2% (mean of 3.61) of respondents agreed that the Commercial Bank of Ethiopia's IFB service in Dire Dawa District has an impact on poverty reduction and economic development in Ethiopia. The majority of respondents believe IFB has a higher influence on poverty alleviation, as indicated by this mean score.
- In addition to the closed-ended questions, respondents were asked open-ended opinionated questions to augment the quantitative data analysis and study IFB's extra contributions to economic development. The majority of respondents feel that IFB can encourage financial inclusion, which leads to a sense of social justice, which in turn contributes to political stability, which is a basis for national peace and progress. They also believe that IFB can help to attract foreign direct investment (FDI), provide a fair and competitive working environment, close the wealth gap, alleviate poverty, and raise living standards.
- The findings reveal a link between increasing saving culture, promoting investment, unemployment, and economic development, as well as the role of IFB in poverty reduction. The IFB's position in Dire Dawa has been greatly expanded in order to support the community's increasing saving culture. A CBE IFB can play a vital role in Ethiopia's economic development, particularly in Dire Dawa, by mobilizing latent funds that have been kept out of interest-based financial channels and encouraging the establishment of capital markets. As a result, boosting the saving culture is required for investment, which is required for economic growth. As a result, a high savings culture leads to high investment, resulting in rapid economic growth.

5.3. Conclusion

Regardless of social demographic variations, CBE's interest-free banking services promoted savings culture through raising knowledge of Islamic banking, according to the findings. Interest was not charged on saves or loans, and the interest-free banking program encouraged communities to mobilize funds through banking systems that are socially and culturally acceptable for communities and are founded on Islamic values and legislation. Interest-free banking is one of the most important parts of creating a country's economy. Islamic banks play a critical role in helping to reduce unemployment. A variety of contracts and methods link customers to interest-free banking. As a result, consumers who deal with interest-free banking may gain in a variety of ways from these institutions.

According to the findings, interest-free banking instruments such as Wadi'ah/Amana, *Mudarabah*, *Murabaha*, *Ijarah*, *Salam*, *Istisna*, and *Musharaka* had an impact on the economy. In the end, such a culture of sustainable business while caring for society is thought to contribute to the development of a society that is physically, mentally, psychologically, and socially healthy, as well as economically empowered. Through ongoing sustainable development, such a society may easily propel the nation into the driver's seat. In the financial business, the function of interest-free banking in lowering unemployment is critical. Interest-free banking employs a variety of procedures and contracts to assist its depositors or clients in generating their own income. Furthermore, according to the aforementioned contracts, investors have the option of investing their money in interest-free banking. As a result, both interest-free banking and its depositors can gain from such transactions. The core premise of Islamic finance is profit-and-loss sharing. In order to avoid paying interest, the investor must partake in both the loss and the profit. The primary principle of Islamic banking, which differs from regular banking, is that it is interest-free.

Clients benefit on the basis of interest, as in conventional banking, which is prohibited under Sharia law. As a result, conventional banking systems are unable to alleviate unemployment as effectively as Islamic banks. In theory, Islamic banks have a variety of transactions and contracts at their disposal to assist their consumers in participating in banking activities and creating new jobs. However, due to a lack of protection laws, interest-free banking only uses a small percentage of these contracts in practice. Interest-free banking, on the other hand, continues to engage directly with customers to create new jobs for them. If Islamic banks use all existing interest-free banking products, the number of employment available to clients will

expand. However, Islamic banks use few transactions and goods due to a lack of confidence between interest-free banking and their business. However, interest-free banking continues to play an important role in lowering unemployment in society. Finally, the research found that legal risk had significant impact on interest-free banking products. To prevent compromising the faith and confidence of depositors/investors, banks should strictly adhere to *Shari'ah* regulations and principles. Failure to do so will result in harsh consequences, including withdrawal and insolvency. According to the findings of the survey, the majority of respondents believed that the legal risk associated with *Shari'ah* law had a significant impact on their lives.

5.4. Recommendation

This section contains implication statements based on the study's findings and conclusions, which are expected to aid future interest-free banking operations by improving the standard of interest-free banking in a way that benefits all stakeholders and contributes to the nation's economic development. Commercial banks, interest-free banking consumers, the NBE, and policymakers are among the most important stakeholders.

- According to the findings, interest-free banking aids a nation's economic development by mobilizing idle monitory resources, allocating monitory resources, creating employment opportunities, and attracting people to the banking system. As a result, the government has every incentive to support and should place a greater emphasis on enabling interest-free banking.
- On the other hand, it is widely accepted that interest-free banking plays a larger role in a country's economic shock stabilization by preventing financial and economic crises and reining in inflation. In today's world, every country, including Ethiopia, is experiencing hyperinflation. The government should promote interest-free banking, which can aid in economic crisis stabilization and inflation control.
- In addition, certain other transactions help to alleviate the problem of unemployment. In this instance, Islamic banks should employ all kinds of finance, including *Musharakah*, sell-and-buy-back transactions, and so on, in order to generate a significant number of jobs.
- Islamic banks have the potential to improve the community's well-being. Islamic banks use their intermediary function to raise funds deposits and route the funds to productive uses. Financial institutions, particularly interest-free banking, have the

potential to play a larger role in combating poverty. People's access to capital is facilitated and improved as part of the development program to eliminate poverty in metropolitan areas.

- In particular, the NBE will review the current interest-free banking provision and weigh the benefits and drawbacks of moving from the umbrella of commercial banks to a full-fledged operation, as well as lifting or relaxing the investment portfolio ceiling, in order to create an enabling regulatory environment for interest-free banking and, as a result, contribute to national economic development.
- The notion of interest-free banking is still new in Ethiopia, and it has yet to take hold. As a result, this study recommends that more research be done on the issues that Islamic banks face in Ethiopia, with the goal of making recommendations on how to address them. This study focused on the role of Islamic banks in economic growth; however, further research into the role of conventional banks in economic growth is needed to see if they play similar roles.

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APPENDIX-A

Dire Dawa University
College of Business and Economics
School of Graduate Studies
Department of Public Administration and Development Management
Masters of Arts (MA) in Development Management
Questionnaire to be filled by the Employees of CBE

Dear Respondents

My name is ***Tezera Demeke***, and I am a Development Management MA student at Dire Dawa University. The purpose of this questionnaire is to collect data on ***"The Role of Interest Free Banking in Development of Ethiopia: In the Case of Commercial Bank of Ethiopia Dire Dawa District."*** I sincerely urge that you spend five to ten minutes of your time filling out the questionnaire based on your thoughts on the Role of Interest Free Banking in Development of Ethiopia. Your help will be greatly appreciated, and you will be thanked when the dissertation is completed. I sincerely require that you complete this form to participate in this survey. I would also like to reassure you that any responses you submit would be kept strictly confidential and will never be used for any other purpose.

Thank you for your cooperation in advance!

Mobile Phone No.: +251 93 896 4941

Instructions

- Do not write your name in any part of the questionnaire.
- Please put a "√" mark on your choices.

Part One: General Information

1. ***Gender:*** Male ⬭ Female ⬭
2. ***Age:*** 18-30 years ⬭ 31-40 years ⬭ 41-50 years ⬭ 51 and above years ⬭
3. ***Educational Level:*** Diploma ⬭ Degree ⬭ Master ⬭ PHD ⬭
4. ***Work Experience:*** 0-5 years ⬭ 6-10 years ⬭ 11-15 years ⬭ 16 & above years ⬭
5. **What types of IFB services provided/used in CBE's?**

   Deposit and Investment ⬭ Trade Service ⬭ Others _____
   Financing ⬭ Money Transfer ⬭
   Guarantee ⬭ Foreign currency exchange ⬭

Part Two: - General Questions Related to the Study (Role of Interest Free Banking in Development of Ethiopia).

Direction: **-** Please read each statement in each section and rate your level of agreement or disagreement with each statement by placing a tick mark **"√"** in the column box in the parallel of the question requested below. **"1"** represents ***Strongly Disagree***; **"2"** represents ***Disagree***; **"3"** represents ***Neutral***; **"4"** represents ***Agree***; **"5"** represents ***Strongly Agree*** of the five alternatives.

	Statement related to the Role of Interest Free Banking in Development of Ethiopia	***Strongly Disagree***	***Disagree***	***Neutral***	***Agree***	***Strongly Agree***
SC	**INCREASING SAVING CULTURE**	**1**	**2**	**3**	**4**	**5**
SC1	CBE's IFB services are based on Islamic principles and law.	⬭	⬭	⬭	⬭	⬭
SC2	CBE's IFB services are socially and culturally appropriate with communities.	⬭	⬭	⬭	⬭	⬭
SC3	The CBE's IFB programme does not charge interest or collect payments on savings or loans.	⬭	⬭	⬭	⬭	⬭
SC4	The CBE's IFB has the ability to pool and mobilize savings.	⬭	⬭	⬭	⬭	⬭
SC5	The IFB service provided by CBE has encouraged communities to use the banking system.	⬭	⬭	⬭	⬭	⬭
SC6	The IFB service provided by CBE has boosted the community's saving culture.	⬭	⬭	⬭	⬭	⬭
EI	**ENCOURAGING INVESTMENT**	***1***	***2***	***3***	***4***	***5***
EI1	The IFB developed by CBE is capable of satisfying societal needs while also stimulating investment.	⬭	⬭	⬭	⬭	⬭
EI2	The IFB at CBE has produced information for clients in order to encourage investment.	⬭	⬭	⬭	⬭	⬭
EI3	The CBE's IFB has facilitated and encouraged foreign capital inflows to stimulate investment.	⬭	⬭	⬭	⬭	⬭
EI4	CBE's IFB products (savings and loan services) are increasing investment opportunities.	⬭	⬭	⬭	⬭	⬭

EI5	People would use the investment loan service because of its appeal and the simplicity with which they could access CBE's IFB.	⬭	⬭	⬭	⬭	⬭
EI6	The CBE's IFB promotes investment growth by allowing high-speed money transactions.	⬭	⬭	⬭	⬭	⬭
RU	**REDUCING UNEMPLOYMENT**	***1***	***2***	***3***	***4***	***5***
RU1	CBE's IFB has helped the poor improve their consumption by providing financing to start or expand businesses.	⬭	⬭	⬭	⬭	⬭
RU2	The IFB of the CBE has assisted the poor in increasing their consumption by providing funding to start or expand companies.	⬭	⬭	⬭	⬭	⬭
RU3	CBE's IFB assists in mobilizing community savings and making them available to businesses.	⬭	⬭	⬭	⬭	⬭
RU4	The IFB of the CBE has indirectly contributed in the development of business and the creation of jobs.	⬭	⬭	⬭	⬭	⬭
RU5	CBE's IFB has a beneficial effect on employment when it comes to raising awareness.	⬭	⬭	⬭	⬭	⬭
RU6	CBE's IFB activities have positive contribution towards employment generation in the country.	⬭	⬭	⬭	⬭	⬭
PR	**POVERTY REDUCTION**	***1***	***2***	***3***	***4***	***5***
PR1	CBE's IFB services will boost the community's ability to acquire a property.	⬭	⬭	⬭	⬭	⬭
PR2	The CBE's IFB's position on corporate social responsibility	⬭	⬭	⬭	⬭	⬭
PR3	CBE's IFB has promoted projects that promote sustainable development.	⬭	⬭	⬭	⬭	⬭
PR4	CBE's IFB products have the ability to boost real-world productivity.	⬭	⬭	⬭	⬭	⬭
PR5	CBE's IFB offers products that support the development of infrastructure.	⬭	⬭	⬭	⬭	⬭
PR6	CBE's IFB has a stronger effect on poverty reduction and economic development.	⬭	⬭	⬭	⬭	⬭

Part Three:- Open-ended Questions

1. What are your opinions on CBE's interest-free banking roles to economic development, both for customers and for the bank?

_____

_____

_____

2. Please contribute any further feelings you have on the ***role of CBE's interest-free banking in increasing savings culture*** in Dire Dawa City.

_____

_____

_____

3. Please contribute any further opinions you have on the ***role of CBE's interest-free banking in encouraging investment*** in Dire Dawa City.

_____

_____

_____

4. Please contribute any further thoughts you have on ***the role of CBE's interest-free banking in reducing unemployment*** in Dire Dawa City.

_____

_____

_____

5. Please contribute any further views you have on the ***role of CBE's interest-free banking in poverty reduction*** in Dire Dawa City.

_____

_____

_____

6. What initiatives do you suggest to promote CBE's IFB involvement in Dire Dawa City's economic development?

_____

_____

_____

_____

Thank you for your cooperation in advance!

APPENDIX-B

Dire Dawa University
College of Business and Economics
School of Graduate Studies
Department of Public Administration and Development Management
Masters of Arts (MA) in Development Management
Questionnaire

ውድ ምላሽ ሰጪዎች

ተዘራ ደመቀ እባላለሁ የድሬዳዋ ዩኒቨርሲቲ የዴቬሎፕመንት ማኔጅመንት ሁለተኛ ዲግሪ ተማሪ ነኝ። የዚህ መጠይቅ አላማ "ከወለድ ነፃ የባንክ አገልግሎት በኢትዮጵያ ልማት ያለው ሚና፡ በኢትዮጵያ ንግድ ባንክ የድሬዳዋ ወረዳ ጉዳይ" ላይ መረጃ መሰብሰብ ነው። ከወለድ ነፃ ባንኪንግ በኢትዮጵያ ልማት ያለውን ሚና በተመለከተ ያላችሁን ሀሳብ መሰረት በማድረግ መጠይቁን በመሙላት ጊዜያችሁን ከአምስት እስከ አስር ደቂቃ እንድታሳልፉ ከልቤ አሳስባለሁ። ለእርዳታዎ በጣም አድናቆት ይኖረዋል, እና ጽሑፉ ሲጠናቀቅ እናመሰግናለን. በዚህ ዳሰሳ ላይ ለመሳተፍ ይህን ቅጽ እንድትሞሉ ከልብ እጠይቃለሁ። እንዲሁም ማንኛውም የሚያቀርቡት ምላሾች በጥብቅ በሚስጥር እንደሚጠበቁ እና ለሌላ ዓላማ ፈጽሞ እንደማይውል ላረጋግጥልዎ እፈልጋለሁ።

ስለ ትብብርዎ አስቀድመው እናመሰግናለን!

የሞባይል ስልክ ቁጥር.: +251 93 896 4941

መመሪያዎች

- ☞ ስምዎን በማንኛውም የመጠይቁ ክፍል ውስጥ አይጻፉ።
- ☞ እባክዎ በምርጫዎ ላይ "√" ምልክት ያድርጉ።

ክፍል አንድ፡ አጠቃላይ መረጃ

1. *ጾታ:* ወንድ ⭕ ሴት ⭕
2. *ዕድሜ:* 18-30 አመት ⭕ 31-40 አመት⭕ 41-50 አመት ⭕ 51 እና ከዓመት በላይ ⭕

3. *የትምህርት ደረጃ:*

የመጀመሪያ ደረጃ ትምህርት ቤት ⭘ ዲግሪ ⭘

ሁለተኛ ደረጃ ትምህርት ቤት ⭘ MA ⭘

ዲፕሎማ ⭘ PHD ⭘

4. *የስራ ልምድ:* 0-5 አመት ⭘ 6-10 አመት ⭘ 11-15 አመት ⭘ 16 እና ከዓመት በላይ ⭘
5. በኢትዮጵያ ንግድ ባንክ ውስጥ ምን ዓይነት የIFB አገልግሎቶች ተሰጥተዋል/ጥቅም ላይ ይውላሉ

የIFB አገልግሎቶች	ሙሉ በሙሉ ግንዛቤ	ትንሽ ግንዛቤ	ሙሉ በሙሉ የማያውቅ
ሙራባሃ			
ሙሻራካ			
ሙድሃራባህ			
ኢጃራህ			
ሰላም ፋይናንስ			
ኢስቲስታና			
ዋዲያህ / አማና			
ዋካላህ			
ካርድ			

ክፍል ሁለት፡ - <u>ከጥናቱ ጋር የተያያዙ አጠቃላይ ጥያቄዎች (ከወለድ ነፃ የባንክ ሥራ በኢትዮጵያ ኢኮኖሚ ልማት ላይ ያለው ሚና)</u>።

አቅጣጫ፡ - እባኮትን እያንዳንዱን መግለጫ በእያንዳንዱ ክፍል አንብቡ እና ከእያንዳንዱ መግለጫ ጋር ያለዎትን የስምምነት ደረጃ ወይም አለመግባባት ደረጃ ይስጡ እና ከዚህ በታች በተጠየቀው ጥያቄ ትይዩ ውስጥ ባለው አምድ ሳጥን ውስጥ "√" ምልክት ያድርጉ። "1" በጠንካራ አለመስማማት ይወክላል; "2" አለመስማማትን ይወክላል; "3" ገለልተኛን ይወክላል; "4" መስማማትን ይወክላል; "5" የአምስቱን አማራጮች ጠንከር ያለ ስምምነትን ይወክላል።

	በኢትዮጵያ ኢኮኖሚ ልማት ላይ ከወለድ ነፃ የባንክ አገልግሎት ሚና ጋር የተያያዙ ጥያቄዎች	***ፈጽሞ አልስማማም***	***አልስማማም***	***ገለልተኛ***	***እስማማለሁ***	***በጣም እስማማለሁ***
SC	**የቁጠባ ባህል መጨመር**	**1**	**2**	**3**	**4**	**5**
SC1	የኢትዮጵያ ንግድ ባንክ የIFB አገልግሎቶች በኢስላማዊ መርሆዎች እና ህጎች ላይ የተመሰረቱ ናቸው።	⬭	⬭	⬭	⬭	⬭
SC2	የኢትዮጵያ ንግድ ባንክ የIFB አገልግሎቶች ከማህበረሰቦች ጋር በማህበራዊ እና በባህል ተስማሚ ናቸው።	⬭	⬭	⬭	⬭	⬭
SC3	የኢትዮጵያ ንግድ ባንክ የIFB ፕሮግራም በቁጠባ ወይም በብድር ላይ ወለድ ወይም ክፍያ አይሰበስብም።	⬭	⬭	⬭	⬭	⬭
SC4	የኢትዮጵያ ንግድ ባንክ IFB ቁጠባዎችን በማሰባሰብ እና በማሰባሰብ ችሎታ አለው።	⬭	⬭	⬭	⬭	⬭
SC5	ንግድ ባንክ የሚያቀርበው የIFB አገልግሎት ማህበረሰቦች የባንክ ስርዓቱን እንዲጠቀሙ አበረታቷል።	⬭	⬭	⬭	⬭	⬭
SC6	ንግድ ባንክ የሚሰጠው የIFB አገልግሎት የህብረተሰቡን የቁጠባ ባህል አሳድጎታል።	⬭	⬭	⬭	⬭	⬭
EI	**የሚያበረታታ ኢንቬስትመንት**	***1***	***2***	***3***	***4***	***5***
EI1	በኢትዮጵያ ንግድ ባንክ የተዘጋጀው IFB የህብረተሰቡን ፍላጎት ማርካት እና ኢንቨስትመንትን ማበረታታት የሚችል ነው።	⬭	⬭	⬭	⬭	⬭
EI2	ንግድ ባንክ ኢንቨስትመንትን ለማበረታታት ለደንበኞች መረጃ አዘጋጅቷል።	⬭	⬭	⬭	⬭	⬭

EI3	የኢትዮጵያ ንግድ ባንክ IFB ኢንቨስትመንትን ለማነቃቃት የውጭ ካፒታል ፍሰት አመቻችቶ አበረታቷል።	⬭	⬭	⬭	⬭	⬭
EI4	የኢትዮጵያ ንግድ ባንክ የIFB ምርቶች (የቁጠባና የብድር አገልግሎት) የኢንቨስትመንት እድሎችን እያሳደጉ ነው።	⬭	⬭	⬭	⬭	⬭
EI5	ሰዎች የኢንቬስትሜንት ብድር አገልግሎቱን የሚጠቀሙት በፍላጎቱ እና በንግድ ንግድ ባንክ IFB በቀላሉ ማግኘት ስለሚችሉ ነው።	⬭	⬭	⬭	⬭	⬭
EI6	የኢትዮጵያ ንግድ ባንክ IFB ፈጣን የገንዘብ ልውውጥን በመፍቀድ የኢንቨስትመንት እድገትን ያበረታታል።	⬭	⬭	⬭	⬭	⬭
RU	**ሥራ አጥነትን መቀነስ**	***1***	***2***	***3***	***4***	***5***
RU1	የኢትዮጵያ ንግድ ባንክ IFB ንግዶችን ለመጀመር ወይም ለማስፋፋት ፋይናንስ በማቅረብ ድሆችን ፍጆታቸውን እንዲያሻሽሉ ረድቷል።	⬭	⬭	⬭	⬭	⬭
RU2	የኢትዮጵያ ንግድ ባንክ IFB ኩባንያዎችን ለመጀመር ወይም ለማስፋፋት የገንዘብ ድጋፍ በማድረግ ለድሆች ፍጆታቸው እንዲጨምር አድርጓል።	⬭	⬭	⬭	⬭	⬭
RU3	የኢትዮጵያ ንግድ ባንክ IFB የማህበረሰብ ቁጠባን በማሰባሰብ እና ለንግድ ድርጅቶች ተደራሽ ለማድረግ ይረዳል።	⬭	⬭	⬭	⬭	⬭
RU4	የኢትዮጵያ ንግድ ባንክ IFB በተዘዋዋሪ ለንግድ ልማትና ለሥራ ዕድል ፈጠራ አስተዋጽኦ አድርጓል።	⬭	⬭	⬭	⬭	⬭
RU5	የኢትዮጵያ ንግድ ባንክ IFB በግንዛቤ ማስጨበጫ ስራ ላይ በጎ ተጽእኖ ይኖረዋል።	⬭	⬭	⬭	⬭	⬭
RU6	የኢትዮጵያ ንግድ ባንክ የIFB ተግባራት በሀገሪቱ ውስጥ የስራ እድል ለመፍጠር አወንታዊ አስተዋፅኦ አላቸው።	⬭	⬭	⬭	⬭	⬭
PR	**የድህነት ቅነሳ**	***1***	***2***	***3***	***4***	***5***
PR1	የኢትዮጵያ ንግድ ባንክ IFB አገልግሎቶች የህብረተሰቡን ንብረት የማግኘት አቅም ያሳድጋል።	⬭	⬭	⬭	⬭	⬭
PR2	የኢትዮጵያ ንግድ ባንክ IFB በድርጅታዊ ማህበራዊ ኃላፊነት ላይ ያለው አቋም	⬭	⬭	⬭	⬭	⬭
PR3	የኢትዮጵያ ንግድ ባንክ IFB ዘላቂ ልማትን የሚያበረታቱ ፕሮጀክቶችን አስተዋውቋል።	⬭	⬭	⬭	⬭	⬭

PR4	የኢትዮጵያ ንግድ ባንክ IFB ምርቶች የእውነተኛውን ዓለም ምርታማነት የማሳደግ ችሎታ አላቸው።	⬭	⬭	⬭	⬭	⬭
PR5	የኢትዮጵያ ንግድ ባንክ IFB የመሠረተ ልማት ዝርጋታዎችን የሚደግፉ ምርቶችን ያቀርባል.	⬭	⬭	⬭	⬭	⬭
PR6	የኢትዮጵያ ንግድ ባንክ IFB በድህነት ቅነሳ እና በኢኮኖሚ ልማት ላይ የበለጠ ተፅዕኖ አለው።	⬭	⬭	⬭	⬭	⬭

Part Three:- Open-ended Questions

1. ንግድ ባንክ ከወለድ ነፃ የባንክ አገልግሎት ለደንበኞችም ሆነ ለባንክ ያለውን የኢኮኖሚ ልማት ሚና በተመለከተ የእርስዎ አስተያየት ምንድን ነው?

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2. እባክዎን የኢትዮጵያ ንግድ ባንክ ከወለድ ነፃ የባንክ አገልግሎት በድሬዳዋ ከተማ የቁጠባ ባህልን ለማሳደግ በሚጫወተው ሚና ላይ ያሎትን ተጨማሪ ስሜት ይስጡ።

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3. እባክዎን የኢትዮጵያ ንግድ ባንክ ከወለድ ነፃ የባንክ አገልግሎት በድሬዳዋ ከተማ ኢንቨስትመንትን ለማበረታታት በሚጫወተው ሚና ላይ ያለዎትን አስተያየት ይስጡ።

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4. እባክዎን የኢትዮጵያ ንግድ ባንክ ከወለድ ነፃ የባንክ አገልግሎት በድሬዳዋ ከተማ ያለውን ሥራ አጥነት በመቀነስ ረገድ ያለውን ሚና በተመለከተ ያሎትን ማንኛውንም አስተያየት ይስጡ።

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5. እባክዎን የኢትዮጵያ ንግድ ባንክ ከወለድ ነፃ የባንክ አገልግሎት በድሬዳዋ ከተማ ያለውን ድህነት በመቀነስ ረገድ ያለውን ሚና በተመለከተ ያሎትን ማንኛውንም አስተያየት ይስጡ።

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6. የኢትዮጵያ ንግድ ባንክ የ IFB ተሳትፎን በድሬዳዋ ከተማ ኢኮኖሚ ልማት ለማስተዋወቅ ምን አይነት ውጥኖችን ትጠቁማላችሁ?

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INTERVIEW QUESTIONS

1. How has IFB in Ethiopia, especially in Dire Dawa, influenced people's willingness to interact with the banking system?
2. What impact has IFB had on the mobilization of financial resources (deposits) in Ethiopia, and specifically in Dire Dawa?
3. What impact has IFB had on lowering unemployment in Ethiopia, especially in Dire Dawa?
4. What impact has the IFB had on reducing poverty in Ethiopia, especially in Dire Dawa?
5. How has IFB affected Ethiopia's economy, in particular that of Dire Dawa?