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The potential critical success factors of full-fledged interest-free banks in Ethiopia

By Abdulkadir Wahab AMAN [a]
Abdu Seid ALI [b†] & Abdurahman Jemal YESUF [c]

Abstract. The role of interest-free banking (IFB) is vital to enhance the financial inclusion rate of a country like Ethiopia that has a substantial number of Muslims and unbanked population. Although IFB windows have been operating in Ethiopia since 2013, the country allowed a full-fledged IFBs recently. Accordingly, two banks have already fulfilled all the requirements and are expected to operate soon while another 2 – 4 banks are under formation. The aim of this paper is, therefore, to assess the potential critical factors that will determine the success or failure of the newly establishing full-fledged IFBs in Ethiopia based on global experiences and specific bank cases from more than 14 countries using the concept of Critical Success Factors (CSFs). The outcomes of our analysis indicate three things. First, every country has its unique success and failure factors, thus, benchmarking should consider these factors. Second, based on the current circumstances, the most important CSFs which can determine the fate of the full-fledged IFBs in Ethiopia in the near future will be an adequate legal, regulatory and institutional framework; management skills and capacity; good reputation and image; product innovation and investment alternatives; unconflicting Shariah verdicts and availability of central Shariah supervisory body; and entrepreneurial discipline and ethical values. Third, full-fledged IFBs in Ethiopia will confront severe competition from the existing window banks that has big potential, better experience, and flexible Shariah controls.The study suggests that the government's regulatory intervention to introduce guidelines and banking regulations specific to the full-fledged IFBs.
Keywords. Interest-free bank, Shariah compliance, Critical success factors, Ethiopia.
JEL. G21, G41, Z12.

1. Introduction

In the modern period, the bank initiated by Ahmed Nejar in Egypt in 1963 is said to be the first Interest-Free Bank. This bank, called MitGhamr Local Savings Bank, was effective to meet the saving and credit service demands of its clients. Therefore, it became originally a successful project which paved the way for modern Interest-Free Banks throughout the globe. The Nasir Social Bank was the next project followed the way of MitGhamr in 1967, which was hailed as the first full-fledged Shariah-compliant bank. Similarly, it became as a motivational project for

[a] Farkmaker International Training and Consultancy, Istanbul,Turkey..
☎. +905532833618 ✉. abdiscoop@gmail.com
[b†] Istanbul University, Center for Islamic Economics and Finance, Istanbul, Turkey.
☎. +905426745633 ✉. abduseid81@gmail.com
[c] Hamad Bin Khalifa University, Department of Islamic Finance, Qatar.
☎. +974 5569 1489 ✉. ayesuf@hbku.edu.qa

many Muslim nations. The Islamic Development Bank of Saudi Arabia (1975), Dubai Islamic Bank (1975), Faisal Islamic Bank of Egypt (1976), Faisal Islamic Bank of Sudan (1977), Jordan Islamic Bank (1978), Jordan Financial and Investment Bank (1978), Islamic Investment Company Ltd of the United Arab Emirates (1978), and Kuwait Finance House (1979) have risen to become indicators for the expansion of the sector at a higher scale than ever (Venardos, 2005).

Currently, there are more than 1447 interest-free banks and financial institutions operating in more than 60 countries of which 44 countries have Islamic finance regulations. The sector is unceasingly aggregating its share in the economies of the countries where it is endorsed to function. It is tempting investors and entrepreneurs even in non-Muslim nations such as the UK, Luxemburg, and the USA. Based on the Islamic Finance Development Report 2019, the Islamic finance sector assets reached 2.5 trillion dollars in 2018 recording a rise of 3 % from the previous year. While Iran, Saudi Arabia, and Malaysia are the dominant countries in the size of the asset of the industry, Morocco, Cyprus, and Ethiopia saw the fastest growth in assets in 2018 (IFDI, 2019).

The IFB sector is mounting in several African nations too. Egypt is the first country to introduce the model while Sudan has made it a leading sector in the mainstream banking system. Kenya, Nigeria, Tanzania, Ghana, the Gambia, Togo, Niger, Somalia, Uganda, the Democratic Republic of the Congo, Zimbabwe, Namibia, South Africa, and Ethiopia are the major countries in Africa who have familiarized Interest-Free Banking practices in its various forms and levels. Ethiopia has preferred to allow an interest-free window banking model in 2013. Since that time, almost half of the commercial banks in the country have started to offer IFB services in a window model. In addition to the windows, several banks are under formation. Two have wrapped up the primary phases and have got the decisive approval of the regulatory bodies. This insinuates that there is a high possibility of getting 3-5 full-fledged and more than 10 IFB windows in the Ethiopian market in the near future. Nevertheless, there is very little study on the extensive matters of these banks. Hence, in this study, we intended to investigate the prospective success and failure factors of the IFBs, principally the full-fledged ones.

2. Methodology

To pinpoint the success and failure factors of an interest-free banking and finance industry, diversified studies have been conducted on distinctive country-specific or project-specific topics. Most of them concentrate on risk management, general management issues, the legal system, and Shariah-related topics. However, in this study we tried to employ a different approach by using the concept of Critical Success Factors (CSFs) to distinguish the potential factors of success or failure in the IFB industry in general and the full-fledged IFBs in particular.

Many researchers have studied various topics by using the concept of CSFs, applied literature reviews, expert interviews, surveys and case studies or a combination thereof (Aerts *et al.*, 2014; Alotaibi & Nufei, 2014). Pickings the experience of other companies or projects to identify success or failure factors is a common occurrence in the CSFs-related studies (Nah & Lau, 2015). Thus, in this study, we used the experiences of selected countries IFBs' or specific Interest-free banks and financial institutions. We used a purposive sampling so as selected the countries which have similar macroeconomic and social status with Ethiopia. Besides, we considered the Islamic Finance Country Index rankings to identify the success factors in selected countries. Accordingly, first, we identified the failure factors of Interest-free banks and institutions and challenges faced in some countries. Secondly, we identified the success factors in some countries cheered as flourishing in the sector. Finally, based on these, we tried to identify the potential CSFs in the IFB sector in Ethiopia.

3. Critical success factors

The concept of Critical Success Factors was first raised by John Rockart in 1979 in his work on management information needs (Rockart, 1979). Since then many researchers have used the term, interchangeably with Key Success Factors, in heterogeneous disciplines. In all forms of businesses, CSFs are the limited number of areas, if they are well managed, they can ensure fruitful competitive performance for the organization. They are the few pivotal areas that must be right for the organization to flourish. Otherwise, the organization's efforts will be futile or less than anticipated. Success, in this context, can be aspects, mainly planned by the organization such as profitability, high market share or high customer size, and so on or otherstates which can determine the existence of the company. Therefore, the CSFs are areas of serious concern in planning and performing for the management of any organization (Rockart, 1979).

Any manager, at any level, has many areas of concern. However, CSFs are the few key situations in which encouraging results are unambiguously needed to reach his/her goals. Therefore, since these factors are critical, the manager should have the proper knowledge and preparedness to enable him/her to analyze whether things are ensuing satisfactorily well in each aspect. For an organization with forethought to be successful, only setting goals, objectives, and strategies is not enough to be competent in the market (Bullen & Rockart, 1981).

Bullen & Rockart (1981) classify CSFs using three dimensions; the internal-external, the monitoring vs. building – adapting, and the extended classification one. In the third dimension, noticing that CSFs are distinctive for different organizations and level of management, Bullen and Rockart have identified five sources of CSFs.

1. *The Industry* – These factors are related to the characteristics of the industry. Every manager of the company in the specific industry pays

attention to these factors. These factors include the demand, the technology used, product categories and so on.

2. *Competitive Strategy and Industry Position* – Organization's own history, internal situation and current competitive strategy create various CSFs. Besides, its particular niche in comparison to the leading firms in the market and geographic position are sources of CSFs for any company.

3. *Environmental Factors* – These are factors which are uncontrolled or insignificantly influenced by the company. Therefore, organizations always try to cope up with the environmental determinants. In this regard, the most common examples of environmental sources of CSFs are the national economy, national politics, population trends, regulatory trends,andenergy sources.

4. *Temporal Factors* – These are time-bounded sources of CSFs which arising from a lack of resources to implement a strategy or perform an activity. Lack of managerial expertise or skilled workers in a specific but critical activity are the best examples.

5. *Managerial Position* – Each managerial position produces many associated CSFs for a company. For example, managers affect the product quality or service quality, inventory control, financial management and so forth.

4. Identifying CSFs

Since the birth of the concept of CSFs, manifold studies have been conducted in broadening disciplines. These works have identified a lot of CSFs in different areas by using various methods. In general, studies on project management and related topics, project management actions, project procedures, human-related factors, project-related factors, and external environment are CSFs (Alias *et al.*, 2014). Similarly, project control, schedules, budget, top management support, access to organizational resources, the competence of the project manager and project team, clarity of project goals, cultural factors, team building, risk management, the motivation of project team members, effective communication between project stakeholders, and effective coordination of project activities can be sources of CSFs in project management (Alotaibi & Nufei, 2014; Pourhanifeh & Mazdeh, 2016).

Similarly, many have tried to identify the CSFs in the banking sector. Bank reputation and good image, (Canals, 1993; Bamberger, 1989), location, number of branches (Canals, 1993; Wilde & Singer, 1993), staff professional knowledge (Canals, 1993; Bamberger, 1989), internal auditing and control (Canals, 1993; Wilde & Singer, 1993), the ability of computerization (Canals, 1993), and deposit acquisition (Canals, 1993; Porter, 1985) can affect the success of a bank. Additionally, the number of and quality of services (Bamberger, 1989; Johnson & Johnson, 1982), staff politeness and kindness (Aaker, 1989; Crag & Grant, 1993), government deregulation policy (Aaker, 1989; Bamberger, 1989), and accurate prediction of future bank business (Porter, 1985; Rochart, 1982) are some of the CSFs in the banking sector.

Likewise, the major CSFs in the banking industry can be categorized into four general areas; administrative factors, human resource factors, technical factors, and regulatory factors (Rus *et al.,* 2016). These are presented in the table below.

Table 1. *Categories of CSFs in the Banking Industry*

Administrative	Technical	Regulatory	Human Resources
Efficiency of Information System Administrative Structure and Processes Ability of Computerization Size of the Bank Quality of Services Bank Reputation and Good Image Transparency Organizational Culture Strategic Approach Software and Techniques	Risk Management Liquidity Management Security Functional Safety Production Innovation Trust to Information System CRM (Customer Relationship Management) Soundness of bank System Bank safety Speed of Business Handling	Monitoring Mechanisms and Management Conformity with the National Law Compatibility with Economy's Sectors Government Deregulation Policy Number of Bank Branches Procedures and Internal Regulations the Level of Taxes	Capacity of the Top Management Staff Professional Knowledge Communication Availability Specialist Human Resources Education and Training

Source: Adapted from Rus *et al,* 2016.

5. Discussion

5.1. Critical failure factors in the IFB sector

5.1.1. South Africa

South Africa is one of the Sub Sahara African countries, which introduced an IFB early. Islamic Bank Ltd (IBL), the country's first IFB, established in 1988 as a result of community efforts and private persuasion sidestepping the clear reservations expressed by the regulator. It was intended to be an initial test of the concept in the country and was granted a license with a condition to follow the Shariah principles. However, its collapse in 1997 created reputational damage to the persistence of the sector in South Africa. Its failure was not by chance or by any concealed reasons.

Nathie (2010) argues that there were some noticeable reasons for the downfall of IBL. The first reason was the unique circumstances seen from the commencement. Rather than following strict regulatory requirements, the bank was established with the special help and efforts of individuals and community leaders. The second reason was the consistent liquidity stress of the bank since its formation. High proportions of assets were tied up in customer advances, which made it unmanageable to collect. As a result, the bank became in jeopardy to liquidity problems since the assets were unable to meet astonishing mass withdrawals. Thirdly, IBL has faced serious management problems. Its management was more concentrating on real estate development projects than the routine but critical daily operations. This made the bank poor in credit risk management, internal control, and related issues. In the end, the regulative body (South Africa Reserve Bank) has observed dubious management practices and was forced to act even though there was a political pressure not to do so. The reserve bank found that the bank was bankrupted mainly due to large insider and unsecured lending practices.

IBL has also faced grave irregularities, Shariah non-compliance risks, and accounting shortcomings (Nathie, 2010). The large proportion of the bank's revenue source was the trade-based Murabaha contracts and real estate contracts. Indeed, these contracts had long tenure spread over longer periods and created a mismatch with the short-term deposits of customers. Besides, such transactions were notified using manipulated accounting figures and resorted reports. Moreover, the bank was forced to secure riba-based loans from other banks using a fixed property as collateral. This was a clear break from the Shariah norms and practices which affected the earlier genuine debt of senior customers. When the problems started, the irregularity was expanded by allowing immense withdrawals by large depositors closely associated with the management of the bank. It is also observed that the Shariah scholars assigned as a supervisory team do not satisfactorily accomplish their duties due to a lack of knowledge of such a complex financial condition. However, they could only raise the number of Shariah non-compliance practices of the bank.

5.1.2. Turkey - Ihlas Finance House

Ihlas Finance, a subsidiary of Ihlas Holdings, registered as a Special Finance House (SFH) in 1995 to offer interest-free financial services to investors and small savers. It was the first domestic Interest-free financial institution. Its nominal capital was initially 1 trillion Turkish Liras, (which was equivalent to $12.3 million), and this grew to 6.5 trillion (equivalent to $80 million) within a year (Ali, 2007). In 1999, the balance-sheet assets reached above 633 trillion Turkish liras. However, when the banking crisis happened in the country in 2000, Ihlas Finance faced a run out of its deposits, and the regulatory body canceled its license in Feb. 2001.

According to Ali (2007), the main reasons for the failure of the bank include macroeconomic factors, banking industry-related factors, SFH Sub-Sector related factors, and some internal problems. The macroeconomic factors were caused as a result of the hyperinflation the country faced. Similarly, the banking industry-related factors were mainly caused by the overall economic crisis and affected the sector in general. When the conventional banks were affected, they withdrew a high amount of money from the Special Finance Houses in which Ihlas Finance had more 40% market share. The internal factors behind the collapse of the institution include its lower capital adequacy ratio than similar financial organizations, controlling failures, management failures, fraud, strategic failures such as allowing withdrawals from investment accounts, regulatory failures, and lack of enough support from the governmental bodies such as the Capital Markets Board. Besides, since it is an Interest-free financial institution, the deposits were not protected by the Central

Bank's insurance system, and it was impossible to invest in government securities. Furthermore, its ownership structure, in which about 54% were in the hand of a single holding had accelerated its failure.

5.1.3. Jordan – The Islamic Investment House

Jordanian expatriates working in Kuwait and a group of Kuwaiti investors started an initiative to establish a financial institution in Jordan that can work based on Shariah principles. In 1981, they succeed to do so by collecting 4 million Jordanian dinars (JD) out of which about 75% were covered by Jordanians and started to operate within a year. In the first three years, it recorded an amazing performance by boosting the confidence of its customers. However, in the coming year, it started to lose the Market Value Added (MVA), which is a direct reflection of the market value of equity and became negative in 1986. This is mainly due to weak management. The management was unable to observe the problem early and failed to immediately fill the gap. Consequently, the bank started to collapse and the Central Bank of Jordan started to interfere. When the situation became clear to the public, depositors rush to withdraw their money and the efforts of the Central Bank to save the bank had failed. In the end, an interim committee found that the loss of the bank was far higher than the value of its stockholders. As a result, the military persecutors investigated and directed a number of charges for the management in which a couple of cases of embezzlement, fraud, manipulation of credit, and fabricated financial statements identified (Salamah, 2014).

5.2. Critical challenges of the IFB sector

5.2.1. Morocco

Morocco is one of the African countries, which recently recorded an evident rise in Interest-free Banking and Finance. Its record in gaining the highest increase in a position in the Islamic Finance Country Index from 48th in 2018 to 19th in 2019 is a comprehensive indicator (IFCI Report, 2019). However, it does not mean that everything is going well in a country where the IFB sector is in its unfledged age. The IFB sector in Morocco has been facing some hurdles even though it is in the top 20 major IFB economies list because of its recent signs of progress. The first challenge is the lack of legal and institutional setup. Unlike the conventional banking sector, the IFB in Morocco lacks a proper regulatory and institutional framework. Secondly, there is a huge gap of skilled human power in the industry. So far, those employed in the sector are mostly experiences in general banking operations. Consequently, a lack of educated personal both in Shariah and banking practices are affecting the sector. Thirdly, there is a critical gap in customer knowledge of the sector. It is identified that the appetite for IFB products is high in the population. However, most of the customers are not aware of its services, which affected the penetration of the banks into the market. Finally, the sector is challenged by the lack of enough infrastructures in the sector, which could attract more foreign investment to the economy (Rhanoui & Belkhoutout, 2017).

Moreover, the other critical factor affecting the IFB sector in Morocco is the socio-cultural orientation to the concept of Islamic banking and finance (Rhanoui & Belkhoutout, 2017). Even though most of the clients are accepting the idea of Islamic banking and finance as an economic institution, significant segments of the population do not accept the use of 'Islam' as a promotional term for the economic transaction. They prefer to be attracted by the IFBs' legal and financial rules and strengths than their attachment to the religious moral rules.

5.2.2. Tanzania

One of the countries with magnifying IFB in Eastern Africa is Tanzania. Established in 2011, Amana Bank was the first full-fledged Interest-free bank in the country. Currently, it has eight branches throughout the country, and its total assets reached nearly 100 million dollars. In addition to Amana Bank, two local banks, namely the National Bank of Commerce (NBC) and People's Bank of Zanzibar as well as three foreign banks, Stanbic Bank, Kenya Commercial Bank, and Eximbank have Interest-free banking window services (IFN, 2020). Moreover, there are few Interest-free Saving and Credit Cooperative Societies (SACCOS) in the country.

Since the inception of the IFB services in the country, the most vital hurdle of the sector in Tanzania is the lack of a legal framework (IFN, 2020; Issa, 2018; Sulayman, 2015). Despite the growth of the services, there is no dedicated legislation or legal framework for Interest-free banking and finance in Tanzania. There is no recognition of Shariah-compliant banking products in the regulation. Consequently, the IFBs are treated equally with the existing conventional banks.

Even though there is no legal support for the establishment of the IFBs, the aspiration of the Muslims in the country has pushed for the existing banks to emerge. However, the success of the sector is not comparable to the aspirations of the people. Primarily, they failed in the financing side to concentrate on deposit services (Issa, 2018). Moreover, in addition to the major legal challenge, they got other reasons for their failure. These include historical, political, taxation, consumer behavior, lack of creativity, lack of research, and lack of effective marketing strategies (Issa, 2018; Sulayman, 2015).

Based on the challenges being faced in the sector in Tanzania, Issa (2018) argue that the challenges can be managed if some solution were implemented. The primary recommendation is the introduction of a special legal system addressing the sector. Secondly, there should be an effort on promoting disciplined entrepreneurship and ethical values. IFB is based on shariah principles and thus needs to follow the overall Islamic values in practicing the business transaction. Moreover, the banks in Tanzania have to concentrate on overall risk management than specific credit risk. This is because there are tendencies to guarantee capital providers with a fixed and predetermined rate of return. Finally, producing committed and qualified management personnel in the sector is important.

5.2.3. Ghana

The initiative to launch a full-fledged IFB in Ghana has begun in 2008. The proposal of establishing an IFB which concentrates on corporate banking, car financing, house financing, and retail banking products earned an affirmation by the Bank of Ghana and the Ministry of Finance. Consequently, entrepreneurs, small and medium enterprises, and corporations have been prompted to engage in the sector. However, the drive faded because of a high interest-rate in the country which above 17%. Currently, only Access Bank Ghana, Wenchi Rural Bank, Ghana Islamic Microfinance, and Salam Capital offers limited Interest-free banking services in the country (Abdul-Wahab & Abdul Razak, 2019).

In Ghana, even though its importance is recognized and introduced into the banking sector, it has faced some challenges. The first one is a lack of awareness about interest-free banking. Not only non-Muslims but also Muslims have a scanty perception on the issue. The awareness about the sector is too low to attract sufficient clients and investors (Abdul-Wahab & Abdul Razak, 2019; Mbawuni & Nimako, 2016). Secondly, in the mostly non-Muslim populated nation, there is a disinclination of non-Muslims to utilize the services. As a result of a lack of awareness, there is a tendency not to use the IFB services by the non-Muslims. This makes the proportion of the population using the services very low (Abdul-Wahab & Abdul Razak, 2019). Besides, it became wearisome for the interest-free banks to compete with the experienced and strong conventional banks.

5.2.4. Nigeria

Nigeria has introduced IFB operations lately. When the Central Bank of Nigeria issued a new regulation which included the operationalization of non-interest banks in 2011, it paved the way for the establishment of the first full-fledged bank in the country. Later, another full-fledged bank followed and several conventional banks have introduced window-based services (Dabor & Aggreh, 2017).

Like most of the other new entrant countries to the sector, Interest-free banking and finance service providers in Nigeria have also dealt with various challenges. Religious connotations, lack of human resources, lack of common Shariah board, poor linkages with investment institutions, double taxation challenges, and corruption are the major ones. As a result of the political condition of the nation, the first critical challenge was the misrepresentation of IFB services. Many groups created ethnoreligious sentiments and connotations. Some considered it as a process of "Islamization" of the country. This has affected the investors' genuine interest in the sector (Dabor & Aggreh, 2017; Abdullahi, 2016). Moreover, the sector has faced a lack of skilled and trained human resources and law awareness problems. Furthermore, the absence of a well-organized and communal Shariah advisory committee is a potential challenge. Besides, the linkage of the IFB sector with investment institutions is very limited because of the difference in nature. This problem has seriously affected the operation of the IFBs in mobilizing funds for investment (Dabor & Aggreh, 2017; Abdullahi, 2016; Olaoye *et al.,* 2013).

5.2.5. Pakistan

Pakistan is one of the countries, which introduced modern IFB. The introduction of IFB in the country goes back to the 1970s. In 1979, House Building Finance Corporation and another two mutual fund companies (NIT and ICP) have initiated non-interest based operations in Pakistan. With the positive support of the government, currently, Pakistan is the owner of many IFBs with thousands of branches throughout the country. However, the IFB sector has various challenges, even though it is hailed as one of the swiftly growing IFB services in the world (Zaheer & Laila, 2019).

Firstly, the sector in Pakistan, as did in other countries, is facing a lack of innovative products. The products available in the market are very limited. Secondly, there is an absence of a price benchmarking problem. In a country dominated by conventional banking operations, the IFBs also have similar benchmarking for pricing their products. Thirdly, as observed in many countries, there is a lack of public awareness in the sector. Many people do not differentiate the products of the IFBs from conventional banks due to a lack of knowledge. Besides, the IFB sector in Pakistan has limited operations in financing products with high-return, poor risk management practices, absence of microfinance services, absence of secondary markets, conflict on Shariah verdict, lack of qualified human resources, and delay in repayment. Furthermore, the presence of Window based IFBs, which operates by fulfilling the minimum requirements of the regulatory body, has created a challenge for the full-fledged banks. This created confusion among the community makes them question the sources of finance and the reality of their operations to be interest-free (Zaheer & Laila, 2019).

5.3. Critical success factors in the IFB sector

According to the Islamic Finance Country Index, Indonesia, Malaysia, Iran, Saudi Arabia, Sudan, Brunei Darussalam, United Arab Emirates, Bangladesh, Kuwait, and Pakistan are the top ten countries in the IFB sector performance (IFCI, 2019). This implies that these countries have higher total rates for the number of full-fledged IFBs, number of non-banking Islamic financial institutions and windows, Shariah supervisory regime, Islamic financial assets, Sukuk, education and training and Islamic law and regulatory system. In general terms, there are some factors for the availability of strong or successful IFB sectors in these countries. However, each country has its strong characteristics.

5.3.1. Indonesia

Being on the top of the list, Indonesia has the strongest IFB sector which includes various interest-free financial institutions. According to the Indonesian Islamic Economic master plan (2019), the IFB sector has been moving ahead due to support from regulators and government bodies, government's vision encouragement of the halal industry and social interest-free finance, the growing number of education programs dealing with interest-free banking at the university level and the development of research outcomes related to it, the enhancement of financial literacy which initiates to broaden the market size of interest-free banking. Moreover, the development of financial technology (fintech) plays a vital role in the great progress of the sector in Indonesia. Moreover, it created a sector accepted as truly shariah-based by the customers and employees of the sector (Widigdo *et al.*, 2016).

5.3.2. Malaysia

Malaysia is the other global leader of the sector. It has been praised as the center of IFB. Even though Indonesia is now on the top because of the vast expansion of the sector to its vast population, Malaysia has one of the best IFB industries in the world. Some of the factors which helped the country to be a leader include the legal framework, capital growth, product diversification, and strong Shariah governance. Generally, the availability of a strong legal framework created a very constructive environment for the IFBs to grow. Besides, the country attracted huge investments in the sector. The share of the IFB assets in the overall banking sector is one of the top rates in the world. Moreover, Malaysian IFBs have a lot of products to offer their customers (Abdullah, 2017). Furthermore, investment in an information system (IS) infrastructure in Interest-free financial institutions in Malaysia is remarkable. Technological developments play an ever-increasing role in providing quality banking services and staying competitive in the market (Kuppusamy *et al.*, 2009).

5.3.3. Brunei Darussalam

Brunei Darussalam is in the other country with a strong IFB sector in the world. In addition to Indonesia and Malaysia, Brunei Darussalam created a favorable environment for the sector. In 2019, the country has jumped to the 6th position from its previous position in the Islamic Finance Country Index ahead of all GCC countries except Saudi Arabia. Consequently, Brunei Darussalam, Indonesia, and Malaysia created the second strongest regional IFB block in the world next to the GCC (IFCI, 2019). The reasons for the emergence of successful IFB sector in Brunei Darussalam are welcoming political condition; well-organized socio-political process; the collaboration of different groups in different economic classes; economic growth; and the enormous oil exports of the country (Yusuf *et al.*, 2019).

5.3.4. Iran

The other country with a strong IFB sector is Iran. Since the enactment of the Law of Usury-Free Banking Operations in 1983, the country has replaced the whole banking industry with the IFB system. According to the law, banks accept three types of deposits; Qard al-Hashanah, general term investment deposits, and project-specific investment deposits. On the asset side, banks have many contracts to provide finance. These include Qard al-Hashanah, Mudarabah, Musharakah, and Salam (Iqbal & Molyneux, 2005). In addition to this IFB favoring policy, there are other success factors of the sector in Iran. The effective administrative and management styles, technical and infrastructural strengths and the legal and regulatory frameworks are the most CSFs of the current IFB in Iran (Javadin *et al.*, 2016).

5.3.5. Bangladesh

The IFB sector is also very strong in Bangladesh. It is an influential sector in the overall banking industry (Yousuf *et al.*, 2014). One of the reasons for the strong IFB sector in Bangladesh is strong managerial efficiency (Samad, 2019). The other factors are popular support and vigorous market demand for IFB services, the focus of the IFB on the welfare of the community, the encouragement of equity and justice in the economy, and innovative Interest-free banking services (Rasel *et al.*, 2018).

Besides, the Central Bank of Bangladesh has given some special treatments for Interest-free banks. The first is Interest-free banks were permitted to maintain a 10% statutory liquidity rate, which enables them to have excess liquid funds, in so doing, the banks' return rise. The second one is the freedom of fixing profit-sharing ratios and markups. Finally, the recompense of 10% of the comparable administrative cost on a portion of their balances set aside to the central bank that lets them reap a high profit (Perves, 2015).

5.3.6. United Kingdom

IFB sector was also successful in expanding in Western Countries and the United Kingdom has emerged as a hub for Islamic financial activities in the West. In the United Kingdom, IFB has been hailed as a promising element of the banking sector in the last few years as a result of interlinked factors. The first factor of success is the willingness of the UK government. Second, it was clearly stated that there was an ambition to make the country the hub of IFB for economic gains and for ensuring the rights of citizens. The third important factor was the availability of a favorable legal system. The UK has established a single regulatory system that oversees the operations of the whole financial. This later helped the development of the IFB sector. Moreover, the active pressure and commitment of individuals and community leaders have helped a lot in the expansion of IFB in the UK (Belouafi & Chachi, 2014).

Table 2. *Summary of Critical Success/Failure Factors of an IFB Sector*

	INTERNAL CSFS	
Administrative CSFs	Technical CSFs	Human Resources Related CSFs
Overall Management Efficiency	Liquidity Management	Qualified Top Management
Marketing Strategy	Risk Management	Skilled and Professional Staff
Corruption, Fraud And Embezzlement	Software and Technology	Staff Creativity
Organizational Culture	Safety and Security	Investment in Research
Capital Adequacy	Technical Irregularities Management	Investment in Training And Education
Sharia-Based Deposits Management	Accounting and Auditing	
Strategic Approach	Product Innovation	
Ownership Structure	Investment and Financing Capacity	
Administrative Structure	Customer Relationship	
Procedures and Internal Regulations	Sharia-Compliant Price Benchmarking	
Speed of Business Handling		
Size of the Bank		
Reputation and Image		
	EXTERNAL CSFS	
Shariah Related CSFs	Social CSFs	Industry Related CSFs
Shariah Non-Compliance Risk Management	Community Awareness	Competition with Conventional Banks
Riba-Based Financial Transactions With Others	Religious Connotations	Presence of Window-Based IFBs
Conflict on Shariah Verdict	Readiness of Non-Muslims to Utilize the Services	Availability of Microfinance Institutions
Capacity of the Shariah Board	Healthy Aspirations of the Community	Availability of Secondary Markets
Availability of a Common Shariah Board	Disciplined Entrepreneurship and Ethical Values	
	Community Participation	
Regulatory CSFs	Macroeconomic CSFs	
Legal and Institutional Set Up	Economic Growth	
Controlling Capacity	Inflation	
Positive Support of the Government	Money Supply	
	Infrastructure	
	International Trade	

Source: Compiled from the Countries' Experiences.

5.4. The potential CSFs of full-fledged IFBs in Ethiopia

Interest-free banking and finance is at its infancy stage in Ethiopia. Like most of the countries, especially African countries, the sector is facing challenges, but also progressed into another phase. The ascendancy of Window-Based IFB services may be challenged soon by the commencement of full-fledged IFBs. In such a dual banking system, to analyze the potential CSFs, it is important to deduce some general nature of the internal and external environment.

First, there is an enormous demand for full-fledged interest-free banking and finance in the country (Abdukadir, 2019). This demand is very vast considering the immense Muslim population of the country. Second, the banking and finance services in the country are highly condensed in urban areas, which is not more than 15% of the total. Only 34.8% of the population, above the age of 15, has an account in any financial institutions including microfinance institutions. This rate is far below the world average (67.1%) and Sub – Saharan Africa average of 42.6% (World Bank, 2017). Third, the banking sector in Ethiopia is closed for any foreign financial institutions. Only local banks and financial institutions function in the country. Besides, the IFB industry commenced in 2013 and since then 10 banks have introduced the window system. Most of them have a high rate of deposits using sharia-based products.

Considering these facts, we can try to identify the potential CSFs for the full-fledged IFB banks in Ethiopia from the global experiences presented above. From the administrative CSFs category, Overall Management Efficiency, Ownership Structure, Sharia-Based Deposits Management, Size of the bank, Reputation and Image, and Marketing Strategy are very critical to the Ethiopian IFB sector. Overall management efficiency is an obvious factor of success in any business organization so as in the IFB global practices. However, the ownership structure of IFB is a critical factor that needs serious attention. Some people try to generally promote the strength of the IFB sector in some countries. But the ownership structure of interest-free banking and finance industry in many countries, especially the GCC, has been highly dominated by three or four families such as Prince Mohamed Al-Faisal, Sheikh Saleh Kamil, and Sheikh Suleiman Al-Rajhi, all from Saudi Arabia (Iqbal & Molyneux, 2005). If some groups or individuals have extraordinary influence in the IFB, the sector is always at risk of failure.

Sharia-Based Deposits Management is the other factor that can determine the fate of the full-fledged IFB sector in Ethiopia. Central banks usually pay interest on deposits conventional banks are required to make. Similarly, the central banks offer interest-based loans to the banks. Theseare impossible for the IFBs. This problem can be managed if there are interest-free markets for securities (Pita, 2014). However, if the full-fledged banks in Ethiopia failed to manage the deposits made by their clients as a result of such snag, it may create a risky situation.

Like Nigeria, the reputation and image of the banks in the community are critical factors (Dabor & Aggreh, 2017). Nigeria and Ethiopia have some common macroeconomic, social, and political characteristics. They are both emerging economies with high economic growth recorded in the last couple of decades. They are the leading highly populated African nations. Besides, they have a similar social structure of almost equally populated Muslim and non-Muslim populations. Likewise, the IFB sector in Tanzania, where the socio-political and economic characteristics are similar to Ethiopia, has faced a similar challenge (Abdul-Wahab & Abdul Razak, 2019). Besides, the same problem is challenging the IFB sector in Ghana even though the socio-economic situation is different from Ethiopia (Issa, 2018). As a result, the full-fledged IFB sector may have various reputations, religious connotations, and an image in the non-Muslim community in Ethiopia too. This in return affects the success of the IFB sector in general and the full-fledged banks, in particular (Canals, 1993; Bamberger, 1989). This needs serious work on awareness creation and effective marketing strategy.

In the technical CSFs category, product innovation, Sharia-compliant price benchmarking and risk management, need attention in the Ethiopian full-fledged IFB sector. One of the criticisms of the IFB industry, in general, is the lack of product innovation. There is a huge gap in innovating sharia-based new products, which can attract more customers and enable the banks to win the competition with conventional banks. The service if highly dominated by Murabaha products (Mustafa, 2019). Within the general product categories of Murabaha, Musharakah, and all the others, it needs to develop specific Sharia-compliant products, which fit the needs of the local markets. Moreover, as many countries are facing, the IFB in Ethiopia has a potential critical factor of using a Shariah –noncompliant price benchmarking. Using the interest rates offered by the conventional banks as a benchmark in pricing all products of IFB is very common (Zaheer & Laila, 2019). This is becoming a critical concern on the degree of sharia-compliance of the IFB industry worldwide.

Furthermore, risk management is one of the key success factors in the banking sector. Generally, interest-free banking and finance face four major risks; business risk, governance risk, financial risk, and treasury risk. Business risk includes a rate of return risk and displaced commercial risk while governance risk includes operational risk, reputation risk, and Shariah – noncompliance risk. Financial risk has credit risk, market risk, and equity risk categories. Liquidity and solvency risk and hedging risk are the two categories of treasury risk (Rahahleh *et al*., 2019). Even though the degree of facing each risk is different, the full-fledged IFBs in Ethiopia need to pay attention to risk management to successfully penetrate the market.

In the next category of CSFs, human resources seem to be a critical challenge in the IFB sector worldwide. Almost in all the collapsed IFB projects, there were unqualified top managers and a lack of skilled staff. The lessons from South Africa, Turkey, Jordan, Morocco, and Nigeria are more than enough to consider this issue as a serious one in Ethiopia too. The absence of Islamic finance education and training institutions in the country makes the problem more severe.

In the external CSFs group, there are some factors to consider too. However, these are mostly out of the control of the specific bank. They need collaboration among all the IFB stakeholders. In this group, the Sharia-related CSFs are the primary ones to be considered. The first one is managing conflict on Shariah verdict. In some countries, the sector has faced a critical challenge because of the different judgments given by various scholars on a similar issue (Zaheer & Laila, 2019). This confuses customers and became a pushing factor towards conventional banking, or simply a withdrawal from the financial services. It also creates a relaxing and a favorable working environment for the IFB windows that can help them easily dominate the full-fledged IFBs. Secondly, as clearly observed in South Africa, the lack of capacity of the Shariah board can be a failure factor in IFB (Nathie, 2010). A board consists of skilled and knowledgeable Shariah scholars can make the bank effective in various aspects and vice versa. However, the availability of a strong Shariah board in each bank does not determine the success of the IFB sector. Lack of a common Shariah board in the IFB market is very important. As Nigerian IFBs have faced (Dabor & Aggreh, 2017; Abdullahi, 2016), this challenge leads to a lack of consensus on many issues on the IFB industry in general. In Ethiopia, where every IFB window is recruiting particular Shariah advisers, lacking a common Shariah board may be a solemn factor for the emerging full-fledged IFBs.

The full-fledged IFBs in Ethiopia may also face social CSFs. The first one is the lack of awareness in the community in general. As a result of the absence of education and training institutions in the country, little has been done to create social awareness on the sector. Besides, as discussed above, there is a possibility of facing religious connotations like the cases in Nigeria, Ghana, and Tanzania. However, the most important factor in the social CSFs category is getting disciplined entrepreneurial culture and ethical values. IFBs are founded based on the ethical values of Islam. These values have to be respected on both sides in order to promote a successful IFB sector in any country. Therefore, to utilize the IFB products, creating a disciplined entrepreneurial culture is very critical.

The other external critical factor which can determine the fate of the banks is the regulatory system. The first one is the legal and institutional set up which affects many aspects ofthe basic foundational issues of the taxation and property ownership rights of the IFBs. It is the legal framework which played a major role in the unsuccessful projects presented above. On the other side, it is the legal framework which supported the successful IFB industry in Malaysia (Abdullah, 2017), Indonesia (Indonesian Islamic Economic master plan, 2019), Brunei Darussalam (Yusuf *et al.*, 2019), Iran (Javadin *et al.*, 2016), Bangladesh (Rasel *et al.*, 2018), and UK (Belouafi & Chachi, 2014). Another example, in this aspect is the favorable legal environment created for the expansion of the IFB sector in Kenya. The country has amended banking and finance regulations to integrate the IFB industry to the banking sector (Salim, 2017).

In addition to the existence of an attentive legal and institutional setup, the encouraging support of the government is an important factor. The common thing which the IFB sector in Malaysia, Indonesia, Iran, Sudan, Pakistan, Bangladesh, the GCC, Turkey, the UK, Nigeria, Kenya, and some others share is the explicit engagement of the government. Nonetheless the engagement must be limited. Otherwise, either it creates a dependent and weak IFB sector, or it fails when the government changes (Iqbal & Molyneux, 2005). In Ethiopia, positive support of the government can be a critical factor for the expansion of the full-fledged IFBs. Conversely, if it is not supported by a strong legal system any political change in the country can simply impede the sector.

The potential CSFs of the IFB sector in Ethiopia also include industry-related factors. The most important factor is the existence of the dual banking in the IFB sector; the window model and the forthcoming full-fledged IFB services. Even though there are different Shariah verdicts on the sharia-compliance nature of the window model, it is yet an important element of the global IFB industry. Currently, 10 conventional commercial banks are using IFB windows to deliver services in Ethiopia. Including the Commercial Bank of Ethiopia, the largest commercial bank in the country, there is an inclination to involve more in the IFB sector. They are expanding their IFB services throughout the country. The full-fledged banks may be challenged by the windows because of the experience gap, size of capital, customer base, and the existence of established infrastructure. Moreover, it needs high investment and financing capacity of the full-fledged banks to attract customers by competing with the windows. Therefore, this is a clear and very critical success factor for the full-fledged IFBs.

Finally, the macroeconomic factors are also an important part of the potential external CSFs. The country's economic growth, international trade, and rate of inflation can affect the sector's journey in Ethiopia.

6. Conclusion

Every individual, company, sector, or an economy has various factors, which can determine the fate of its success. These are called as CSFs or Key Success Factors. Similarly, there are CSFs in the interest-free banking and finance industry. Most of these factors are the reasons for the failure of specific Interest-free banks in some countries, or they are challenging the IFB industry not to expand. The aim of our study was, therefore, to identify the CSFs that can determine the success of the newly establishing IFBs in the country. Based on these facts, plus considering the socio-cultural, economic, and political situations of Ethiopia, we can draw some conclusions.

First, the experiences of many of the most successful nations in the IFB industry cannot be taken as raw reality or a role model for the basic foundation of the sector in Ethiopia. Because in these countries either there are extremely wealthy families who own a great deal of the shares or the government's role is very high. In the GCC countries, for example, the ownership structure is highly dominated by some affluent families. In Iran, Sudan, Malaysia, Indonesia, Turkey, and many others, the assistance of the government is very bold. Therefore, the success and failure factors or the overall benchmarking must consider these facts.

Second, the internal and external environment of the IFB industry is relatively similar to the environment in Nigeria, Tanzania, Kenya, South Africa, and somehow Pakistan and Bangladesh. Based on this reality, the most important potential CSFs which can determine the fate of the full-fledged IFBs in Ethiopia are Overall Capacity of the Management, Legal, Regulatory and Institutional Setup, Sharia-Based Deposits Management, Risk Management, Reputation and Image, Product Innovation, Conflicts on Shariah Verdict, the Absence of a Common Shariah Board, and Disciplined Entrepreneurship and Ethical Values.

Finally, the presence of Window-Based IFBs must get a special policy consideration in Ethiopia. The international experiences, such as Qatar, Kuwait, and Bahrain, shows that windows are discouraged through time. However, they are still an important part of the industry in general in some countries. In Ethiopia, without a consensus on this dual IFB banking issue, the leading Shariahscholars are advising different IFB windows. When the full-fledged ones start to operate, this may create confusion in the community and the sector's growth will be affected. This is mainly because of two reasons. First, once the products of the dual banking system start to vary, the Shariahverdict on the products and the acceptance of the windows may be different. Second, if the leading Shariah scholars working with the window-based service delivering banks continue serving them, it will pave the way for the users to continue using the conventional banks under the mostly deposit – oriented window services. Consequently, the share of the full-fledged banks will be marginal and it will let the sector to be limited to some deposit-based products we have today. Moreover, if things settle and the dual banking system continues smoothly, for the full-fledged banks, it will not be an easy matter to compete with the windows which are big and experienced enough. Therefore, there must be a special regulation which treats the window-based IFBs differently.

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