

PROSPECTS OF ISLAMIC BANKING AND FINANCE MODEL IN GHANA

By

QUANSAH, FESTUS BREW

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DEDICATION

I dedicate this piece of research work to my parents, Mr. and Mrs. Quansah and my siblings, Stephen, Abraham, Ebenezer and Helena.

ABSTRACT

In its 58 year history as a country, Ghana has operated the conventional banking model (i.e. interest-based banking). It is however in the process of moving towards a 'dual banking system' with the emergence of the Islamic Banking and Finance model (i.e. non-interest banking) in the global economy as a viable alternative of financial services provision and calls made to regularise the model in Ghana's financial system. This research work attempts an *ex ante* assessment to provide empirical evidence on the viability or prospects of the model in the near, medium and long term. It therefore uses a mixed method and exploratory case study strategy to draw on four critical perspectives to reach its conclusion: perspective of bankers (level of knowledge on the IBF model and outlook on its viability), support institution (outlook and role), regulation and supervision and macroeconomic trends. The findings show that currently knowledge of bankers on Islamic financing contracts are low. Moreover perceptions of bankers sampled show they are not optimistic about the viability of the model in the near to medium term. Findings from the support institution of IBF practice in Ghana vis a vis bankers' perception shows mixed prospects for the model in the near to medium term. Full regulation of the model is also yet to be put in place. In terms of the trend of macroeconomic indicators in Ghana used for the research (i.e. interest rates and inflation rates) it is seen that the model has poor prospects in the near to medium term. Given an aggregate of findings from these perspectives, the researcher concludes that the prospects of the IBF model in the near to medium term is poor. However, in the long term, there could be space for changes that could make the prospects good once it is regularised in Ghana.

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LIST OF ABBREVIATIONS

BOG- Bank of Ghana

IBF- Islamic Banking and Finance

PLS-Profit and Loss Sharing

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- Appendix D Data Extract for the Interest rates and Inflation rates

CHAPTER ONE

INTRODUCTION

1.0 Background of Study

The global financial scene has undergone significant changes over the years. In the 21st century where financial markets are globalised and increasingly interconnected, a form of financial services provision that is on the rise is Islamic Banking and Finance (hereinafter IBF).

IBF is predicated on the Islamic law (i.e *Shari'ah*) which permits a business transaction once they are deemed to be devoid of *riba* (interest), *gharar* (uncertainty), *maisir* (gambling activity) and *non-halal* (prohibited) activities (Turk-Arris,2010). Therefore, unlike conventional finance, central to IBF model is the prohibition of interest (Chong and Liu, 2009; Beck et al., 2012). Moreover, IBF is structured around unique arrangements and financing contracts that are in line with the Islamic faith (Chong and Liu, 2009).

Although, IBF may be considered to have a relatively lower market share at the global level, it has expanded rapidly across various economies with record growth rates over the past three decades (Siddiqi 2006;Chong and Liu, 2009; Turk-Arris, 2010; Goaeid and Sassi,2010; Fatai, 2012; Miniaoui and Gohou, 2013).

Historically, the emergence of IBF is linked to certain developments. Siddiqi (2006) highlights that, the last two decades of the twentieth century was characterised by economic instability and volatility in currency values. Again, there has been widespread dissatisfaction with conventional banking, as it was perceived to fuel inequality and unfavourable distribution of incomes within countries and among countries (ibid.).

Similarly, Beck et al. (2012), indicates that more recently, IBF has particularly received attention from economists and pundits in Finance due to the 2007 global financial meltdown which brought the conventional (western-style) banking system under scrutiny. Therefore, in search of what may be referred to as a more 'ethical model of financial intermediation', a dual banking and

financial system where the conventional system operates alongside the IBF model has come to stay (Chong and Liu, 2009).

The IBF model began as small scale banking experiment in Egypt in the early 1970s and over the years has spread across the Middle East and the Arabian Gulf and many other non-Islamic countries (Iqbal and Molyneux, 2005; Turk-Arris, 2010). Consequently, many banks (especially multinational banks) are diversifying their operation to open Islamic windows (Okumus, 2005; Turk-Arris, 2010). In 2010, Islamic financial institutions worldwide were estimated to be 270 (Turk-Arris, 2010). These include banks, mutual funds, mortgage companies, and insurance companies (ibid.). In 2012, Islamic financial institutions had increased to about 435, with other 191 conventional banks operating with Islamic windows (Duran and Garcia-Lopez, 2012).

The rise of Islamic Banking and Finance as an alternative and viable mode of financial services provision is also based on its adoption by countries of different religious and socio-cultural backgrounds (Turk-Arris, 2010). The geography of IBF now extends beyond few countries in the Middle East to other continents such as North America, Asia, Europe and Africa (Duran and Garcia-Lopez, 2012). In some countries, IBF is the only model practiced in the entire economy. These include Iran, Pakistan and Sudan (Okumus, 2005; Chong and Liu, 2009). In others, the model coexists with the conventional system of banking thereby creating a dual banking system or structure (Chong and Liu, 2009; Turk-Arris, 2010). Examples of such countries are Malaysia, Indonesia, Bangladesh, Jordan, Egypt and Turkey (Okumus, 2005).

In Ghana, there have been calls by key stakeholders to introduce the IBF model just like countries in Sub-Saharan Africa such as Nigeria in order to address the funding gaps in the economy and also attract investible funds from the Middle East (Kunateh, 2013; Sulley, 2014). In 2012, Absa (a South African Banking group) for instance, declared its plans to start Islamic Banking in Ghana after its takeover of Barclays Africa operations (Quandzie, 2012). As at March 2014, it was reported that two applications to establish Islamic Banks were pending before the Bank of Ghana and therefore moves were underway to review the Banking Act, 2004, (Act 673) to encompass

regulation of Islamic Banking and Finance in the country (Graphic Business ,2014). Thus, it emerges that operation of the model is at its embryonic stages of development in Ghana.

Although, the practice of IBF continues to spread beyond Islamic countries even into jurisdictions with minority Muslim populations where the conventional system of banking has been the only framework for banking (including Ghana), the International Monetary Fund (IMF) acknowledges there remains a gap in understanding the processes and principles of IBF amongst practitioners and regulators as it expands especially into non-Islamic financial systems (Solé, 2007). Again empirical studies indicate a low level of awareness and understanding of IBF products and culture amongst customers (Gerrard and Cunningham, 1997; Rammal and Zurbruegg, 2007; Khattak. and Rehman, 2010; Fatai, 2012).

It is therefore beneficial to expand the frontiers of IBF research, especially in economies and jurisdictions that have adopted the IBF model in recent times. This will help demystify its conceptual underlings and also empirically appreciate the benefits and challenges associated with it, moving into the future. Given this context, this study is set out to shed light on the IBF model with particular emphasis on its prospects in Ghana.

1.1 Research problem

The 2014 Ghana Banking Survey published by the PricewaterhouseCoopers identifies Islamic Banking as one of the key competition drivers in Ghana's banking sector moving into the future (PWC, 2014). In addition, Gelbard et al. (2014) in an IMF working paper that analyses the status of IBF in Sub-Saharan Africa identify that IBF had mainstream presence in the financial systems of countries such as Nigeria, Mauritius, Senegal , Gambia, Niger, Botswana, Kenya, South Africa, Guinea, Liberia and Tanzania . However, others like Ethiopia, Zambia, Malawi, Uganda and Ghana have been categorized as countries with scope for further development of IBF (ibid.). The practice of the IBF model will potentially alter the dynamics of Ghana's financial system. The changes in the structure of the financial system obviously will lead to other changes such as regulatory architecture, risk profiles of financial institutions, competition in banking industry,

bank management, macroeconomic trends, efficiency of banks etc. A model that could have a significant impact on the financial system and Ghana's economy at large in its 58 year history is worth looking into. Moreover, given that Ghana has its unique demographic, socio-cultural and economic characteristics, the outlook of IBF appears fuzzy. The emergence of the IBF model has also resulted in a gradual growth in literature in the field. A body of IBF literature has highlighted its geography and expansion (Bassens et al, 2010; Duran and Garcia-Lopez, 2012; Beck et al., 2012) with many studies particularly focusing on country-specific experiences and perspectives in the practice of IBF (Arif, 1989; Gerrard and Cunningham, 1997; Ebrahim and Joo, 2001; Okumus, 2005; Rammal and Zurbruegg, 2007; Butt et al., 2011; Saini et al., 2011; Fatai, 2012). Despite the growth of IBF literature, Gerrard and Cunningham (1997) observe that IBF literature is limited in countries with Muslim minority populations relative to majority Muslim populated countries. Again, there remains a paucity of research that addresses the model purely within the Ghanaian context. Hence, in this study, an attempt is made to fill this gap and also respond to Gerrard and Cunningham (1997)'s observation by investigating the prospects of the IBF model in Ghana.

1.2 Objectives of Study

The main objective of the study is to investigate and analyse the prospects of Islamic Banking and Finance in Ghana as it moves towards adopting the model into its financial system. In the quest to achieve this overall objective, the following objectives will specifically be addressed:

- 1, To assess bankers' knowledge of Islamic financing contracts or products and investigate their outlook of the model's viability in Ghana
- 2, To investigate outlook (i.e. benefits and challenges) of the IBF model in Ghana from support and regulatory institutions
- 3, To assess preparedness in Ghana to regulate and supervise IBF practice
- 4, To analyse the macroeconomic environment of Ghana in relation to prospects of the IBF model

5, To posit ways of developing and sustaining the practice of the IBF model as an alternative mode of financial services provision in Ghana

1.3 Research Questions

In line with the set objectives, this study will attempt to discover answers to the following questions:

- 1, Are banks ready to establish Islamic Banking windows or diversify into full-fledge IBF operations?
- 2, What is the outlook of support and regulatory institutions on practicing the IBF model in Ghana?
- 3, Are there regulations and guidelines to supervise the IBF model in Ghana?
- 4, Is Ghana's macroeconomy propitious or favourable for practicing the IBF model?
- 5, What is the general outlook of IBF model in Ghana vis a vis experiences of selected countries already practicing the model?
- 6, What are implications of such prospects for the Ghanaian economy?

1.4 Justification/ Significance of Study

The significance of this research lies in underscoring the increasing importance of Islamic Banking and Finance as an emergent and alternative financial market in the global economy. It is will also be relevant for bankers in their quest to embrace the Islamic Banking and Finance Model and shape strategies for its successful practice in Ghana. Regulators of the banking sector could also draw insights from the study in order to design a robust regulatory architecture (i.e. institutional frameworks, rules and procedures, engagements with Islamic Scholars etc.) for the supervision this novel banking model in the Ghanaian economy. Again, the findings of this study could inform economic policy direction of monetary authorities in relation to the changes this model presents in the overall Ghanaian economy.

For academic purposes, the study will seek to contribute to existing literature on Islamic Banking and Finance across the world, and moreover in the Ghanaian context serve as part of the foundational research text of a relatively underdeveloped area of research in Banking and Finance in the Ghana. With the onset of full operation of the IBF model in Ghana, it is also believed that this study will be helpful to students in core Banking and Finance modules such as Commercial Banking, Risk Management, International Finance, Financial Regulation and Supervision etc., given that in future they may work in Islamic Banks or Islamic windows in conventional banks.

1.5 Scope of Study

This study focuses on IBF from the Ghanaian context. Therefore, the scope of research is geographically limited to Ghana. Data gathered for the research will therefore relate to institutions in Ghana and perspectives of banks in Ghana. Again, secondary data will be gathered on variables which relate to economic environment in Ghana to appreciate how such variables will influence the viability of IBF in Ghana.

Given that the whole field of IBF is broad conceptually and in its applications and implications, it could be approached from several perspectives. However, this study narrows its scope to critical aspects of the IBF model such as, banks' perspectives, perspective of support institution, regulation and how the economic environment (i.e variables in the Ghanaian economy) will influence its viability.

1.6 Methodology

The research employed both primary and secondary data. The primary data was gathered using questionnaires from bankers and the Central Bank (i.e the Bank of Ghana) and an interview guide from a support institution. However, the secondary data was retrieved from the Bank of Ghana's monetary time series data for analysis. Sampling for respondents of primary data instruments were based on a mix of convenience, purposive and snowballing techniques. Data analysis was

carried out using both qualitative and quantitative techniques (tables and graphs). A summary of the conclusion and recommendations was presented based on the findings of the study.

1.7 Limitations of the study

The study could not cover every aspect of banking with regards to the viability of the IBF model across the country because of time and financial constraints. Furthermore, the researcher encountered some challenges during the data collection process. In some cases, questionnaires had been misplaced and therefore needed to be replaced before extra time could be allowed for collection. Bankers were very busy during the data collection period. This delayed the data gathering process and also limited the sample size that could be used. However, none of these affected the quality of the research.

1.8 Organisation of the Study

The study is organized into five chapters. The first chapter captures the introductory elements of the research including the background of study, research objectives and questions and justification of research work. It follows with a review of relevant literature on selected themes and past studies surrounding the topic under study. In the next chapter, the research methodology which involves research methods (data collection and analysis methods) and positions adopted are described. In the fourth chapter the analysis of data and findings are presented and discussed. The final chapter of this study includes the Summary of findings, conclusion, and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The review of relevant literature forms a critical part of any research activity. It helps establish the theoretical framework and foundation of the field of study. To this end, this chapter attempts to capture the literature on various themes that underpin the topic under study. These include the conceptual underlying of IBF, its history and evolution, its practice and related contracts, and how it differs from conventional finance. Again, the chapter captures the literature on the benefits of the IBF model and its regulation.

2.1 Concept of Islamic Banking and Finance

In the Islamic Religion, the mosque is linked to the state and therefore by extension, what governs the practices allowed in the state and its institutions whether in the political or socio-economic arena should be governed by the *Shar'iah* (Islamic law) (Chong and Liu (2009). The moral code established by *Shar'iah* regulates all social and economic pursuits of Muslims (Ahmed, 2010).

According to Turk-Arris (2010), the premise for operation of the Islamic financial system is known as '*fiqh al-mu'amalat*'. This law encapsulates issues of social justice, fairness and equity as they apply to transactions, and also based promoting entrepreneurship, transparency and sanctity of contracts, as well as protection of property rights.

The Holy *Qu'ran*, in verse 278 of surah Al-Baqarah, states:

“O ye who believe! Fear Allah and give up what remains of your demand of riba, if ye are indeed believers” and vs 2: 279 says. *“If you do it not, take notice of war from Allah and His Messenger but if ye turn back, ye shall have your capital sums. Deal not unjustly and you shall not be dealt with unjustly.”* (Obiyo, 2008,p.228).

In the spirit of this law, receiving or charging interest on loans is prohibited in Islam as established in the Holy *Qu'ran* and therefore a significant feature of the IBF model is provision of interest free loans. (Obiyo, 2008).

Hence, from an Islamic perspective, financial transactions should be geared towards the overall wellbeing of the individual and society (Duran and Garcia-Lopez, 2012). In this context, Islam does not frown upon true profit realized from entrepreneurial ventures (Zaher and Hassan, 2001).

Basically, an entrepreneur would want to finance a venture with debt or equity finance (Khan, 2010). The proponents of IBF argue that equity financing is preferable to interest based debt financing so that the borrower will not bear the cost alone when the venture fails. (Khan, 2010).

Therefore conceptually, El Hawary et al. (2004) offer a four-tier philosophical basis for appreciating the IBF model. These include *risk-sharing* (participants in the transaction share risk and returns), *materiality* (the need to directly link financial transaction to real asset or real economy thereby prohibiting speculative derivatives trading), *no exploitation* (the need to avoid exploitation of any party and therefore ensure fairness) and *no financing of sinful activities* (avoiding transaction that are used to produce alcohol, pork etc) (ibid.).

2.1.1 History and Evolution of Islamic Banking and Finance

Islamic banking has grown rapidly over four decades after its first experiment with Mit Ghamr Bank in Egypt in 1963 (Zaher and Hassan, 2001; Chong and Liu, 2009). Miniaoui and Gohou (2013) indicate that expansion of Islamic Banks has been hinged on strong economic growth in their domestic economies. This is corroborated by the account of (Duran and Garcia-Lopez, 2012). Duran and Garcia-Lopez (2012) point out that oil price shocks that occurred in the 1970s led to huge increase in wealth of oil producing countries. Fundamentally, wealth transferred from oil consuming countries to the countries that produce oil thereby leading to excess liquidity or income for the latter (Duran and Garcia-Lopez, 2012; Bassens et al, 2010). This development led to the need to seek alternative modes of financing which is in line with the Islamic faith (Duran and Garcia-Lopez, 2012).

The 1970s saw the establishment of several Islamic Banks including Dubai Islamic Bank Nasser Social Bank Cairo, Dar Al-Maal Al-Islami, Kuwait Finance House (KFH) and (Faisal Islamic Bank of Sudan (Khan, and Bhatti, 2008; Zaher and Hassan ,2001). Furthermore, between, 1974 and 1976, three major institutions which played major roles in the diffusion of IBF had been established: The Union of Arab Banks in 1974, the Islamic Development Bank in 1975, and the Arab Monetary Fund in 1976 which is similar to the IMF in its institutional mandate (Duran and Garcia-Lopez, 2012).

The evolution of IBF practice gained momentum particularly with the establishment of the Islamic Development Bank in Saudi Arabia the 1975 (Duran and Garcia-Lopez, 2012). The establishment of the IDB helped to concentrate expertise at an institutional level and moreover increased demand for *Shar'iah* scholars The Islamic Financial Services Board was also established more recently in 2002 to ensure prudential regulation of Islamic financial institution (ibid.).

Khan and Bhatti (2008) point out that IBF gained global recognition particularly when three countries namely Iran, Pakistan and Sudan transformed their economy and financial system entirely into the Islamic model.

During its three decade evolution, Duran and Garcia-Lopez, 2012) mention Bahrain and Malaysia as the leading financial centres in IBF. These countries have been regarded as giants in IBF partly because they have successfully operated a dual financial system over a long period (ibid.).

In recent times, Major global financial institutions such as Citibank, Bank of America, Commerzbank, Merrill Lynch, ABN AMRO, BNP Paribas, Deutsche Bank, Barclays, Standard Chartered, HSBC, American Express, ANZ Grindlays, Goldman Sachs, Royal Bank of Canada and Flemings are diversifying into Islamic Banking to capitalize on an attractive and growing market (Zaher and Hassan, 2001) . The expansion of IBF has been phenomenal over the years. Currently IBF is present in about 75 countries in various regions including Asia, Africa and North America (Duran and Garcia-Lopez, 2012)

2.1.2 The IBF model (practice and contracts)

The practice of the IBF model is underpinned by key principles. First and foremost is the *prohibition of interest* (or *riba*). It is noteworthy that although Islam prohibits interest or *riba*, capital in IBF model is not entirely costless (Obiyo, 2008). As Duran and Garcia-Lopez (2012) explains that Islam recognises the time value of money but holds the belief that it should only be considered as part of a real business transaction but not in a loan contract.

Although capital is perceived as a factor of production, it should not earn a fixed rate of return and therefore an alternative to this mechanism is the Profit and Loss (PLS) sharing scheme (Obiyo, 2008). Duran and Garcia-Lopez (2012) point out that the PLS scheme is an incentive for both parties of the financial contract to work together to ensure the success of a venture.

In addition, there is *prohibition of games of chance* (*maysir*) and *uncertainty* (*gharar*). The IBF model prohibits increasing wealth by chance or events of uncertainty but rather encourages the wealth earned through productive activity (Duran and Garcia-Lopez, 2012).

Again, IBF *prohibits of illegal or forbidden activities* (*haram*). The IBF model permits the financing of industries deemed *halal* (legal) under Islamic law. These industries may range from production alcohol, pornographic material, pork etc (ibid.)

Furthermore, IBF upholds *contribution to society through zakat* (giving alms). In line with one of the five pillars of Islam, Islamic banks are expected to give to the poor as way of redistributing income in a way that ensure a just and equitable society (Duran and Garcia-Lopez, 2012). The provision of *Qard al-Hassan* (charitable loans) is an integral part of the IBF model. These are interest free loans given to the needy to ensure their welfare in society. Provision of such loans is common in Islamic countries (ibid.).

These major principles underlying the financing contracts can be found in Islam. These financing contracts are used to structure products and services offered by Islamic Banks and windows. These include *Qard al-Hassan*, *murabaha* (cost plus), *Ijarah* (leasing), *Bai'muajjal* (deferment payment sale), *Bai'salam and Istisna* (contract manufacturing contracts), *Musharaka* (joint

venture) (Chong and Liu, 2009; Dususki, 2008). The mechanics of these contracts are briefly captured below:

- *Qard al-Hassan*: This is a typical interest free loan which will require the borrower to pay the principal (Dususki, 2008). Usually, an administrative fee is charged but no predetermined rate of interest. It is usually given on welfare basis (ibid).
- *Mudaraba*: This involves an agreement where one party finances another party referred to as the *mudarrib*, who manages the business solely without control of financing party. (Dususki, 2008). Obiyo (2008) describes this contract as a silent partnership where an Islamic Bank provides capital for industrialist for instance in return for a share of the factories net profits. Losses in this contract are borne by the financing party (Dususki, 2008).
- *Musharaka*: This takes the form of a 'joint venture' agreement where the Islamic Bank enters into an equity participation or 'venture capital-style' financing for a project and mutually shares profits and losses (Obiyo, 2008). This arrangement is usually appropriate for project financing, working capital financing, project financing. (Dusuki, 2008). This contract conforms the PLS scheme where profits from the venture are shared in a pre-agreed ration whereas losses are shared based on the amount of equity contributed by the parties. Duran and Garcia-Lopez, 2012). Due to its direct use of the PLS technique (Duran and Garcia-Lopez, 2012), points out that it is considered the purest form of Islamic financing.
- *Murabaha*: This form of financing involves a bank buying goods or a tangible asset for a customer and reselling them to the customer at a predetermined price which involves the cost (which should be made known to customer) and a markup that is negotiated between the parties. This financing arrangement is considered different from the conventional method which involves interest because it involves exchange of goods for money not money for money. They usually relate to working capital and trade finance. In a situation where the *Shari'ah* board deems the profit as excessive, it would require the bank to send

part of it the customer (Chong and Liu 2009; Duran and Garcia-Lopez, 2012). Repayment may be done on installment basis as specified by the contract (Dusuki, 2008). Proponents of IBF explain that the profit on this form of financing is different from the interest charged by conventional banks because it was earned as a result of exchanging goods for money not money for money (Duran and Garcia-Lopez, 2012). And, this is in line with the *materiality* principle as highlighted by El Hawary et al. (2004). If the goods are deemed to be lower than expectation in terms of its quality or specification, the customer may reject it (Zaher and Hassan, 2001). Pollard and Samers (2007) indicate *murabaha* is the most widely used of IBF contracts.

- *Ijarah*: This is akin to a leasing contract and therefore involves a bank buying an asset and leasing to a customer at a fixed charge. Islamic law permits charges on property to the extent that the owner of the asset (in this case a bank) bears the risk of owning the asset (Chong and Liu, 2009). A variation of this contract similar to capital lease in conventional finance is *Ijara Wa-Iqtina* where the bank buys an asset like machinery or real estate and leases it to the customer for an agreed rental and arrangement to make payments towards acquisition of the asset. (Duran and Garcia-Lopez, 2012).
- *Bai'muajjal*: This is another form of the *Murabaha* arrangement. However, payment of goods are deferred for the customer and done on a basis of installment or lump-sum payments. Although payment is deferred, the bank is not allowed to charge for deferring the payment (Chong and Liu, 2009).
- *Bai'salam*: This is an arrangement based on forward sale and allows an entrepreneur to sell goods to a bank at a predetermined price at the time of the contract. However delivery of the goods is made in future (Chong and Liu, 2009). It is usually employed in financing of agriculture which may require capital at important stages of farming activity, for instance. (Dusuki, 2008).
- *Istisna*: This involves contracts usually used for financing manufacturing, construction and infrastructure projects (Chong and Liu (2009).

Hybrid forms of these contracts which can be tailored to suit the preferences of the parties. (Dusuki, 2008). Khan (2010) categorises such contracts into participatory (based on profit and loss sharing) and non-participatory (non-profit and loss sharing) modes of financing.

In addition to these contracts, Duran and Garcia-Lopez, (2012) indicate that innovation in IBF products has led to the growth of *sukuk* (*Shari'ah* compliant bond issues) and *takaful* (insurance products). Some Islamic banks may also offer services provided by traditional bank which do not involve interest. These may include financial advising, letters of credit, etc. (Ahmad and Hassan, 2007).

2.1.3 Differences between Islamic Banking and Finance and Conventional (western) finance

The IBF and conventional models differ both in operations and philosophy (Duran and Garcia-Lopez, 2012). At the philosophical or conceptual level, Iqbal (1997) indicates that whereas conventional finance focus on economic and financial dimension of transaction, the IBF model goes beyond these to incorporate the moral, ethical, social and religious perspectives of finance in order to ensure the wellbeing of society at large.

In practice, Beck et al. (2012) explain that contrary to conventional systems, Islamic finance disallows charging of interest or *riba* as it is only good and services which should carry price. Therefore from the outset, a clear distinction between IBF and conventional system in the non-interest nature of the former compared to the latter. IBF is rather based on profit and loss sharing (Duran and Garcia-Lopez, 2012). From the perspective of depositors, conventional systems in a similar fashion to their lending model offer a predetermined return. However, this is not the case of the IBF model (Duran and Garcia-Lopez, 2012).

Unlike conventional finance that is underpin by the time value of money concept, Islamic conceptualisation of making a return on capital depends largely on the performance of the activity being financed and therefore making a return is justified by the risk taken and not only when time passes (Turk-Arris ,2010). However, Pollard and Samers (2007) note that some Islamic Scholars

argue in favour of price for time which should be different from the fixed rate of interest known in western finance model. For instance Al-Baraka International bank in the UK has offered a bonus (not necessarily fixed return) for account balance kept for about 6 months.

Unlike the conventional banking model, Siddiqi (2006) argues that Islamic Banking theory holds a different view to financial intermediation. Fund owners and financial intermediaries share risks with users of the fund. It is perceived as unfair to make the user of the fund bear totally the risk whilst the bank claims a predetermined rate of return as is the case of the conventional banking model. Moreover, the environment within which the fund user may operate may not be favourable enough to guarantee a return (ibid.). Siddiqi (2006) further advances that in economies saddled with unemployment, inflationary pressures, poverty and skewed income distribution, abolishing interest and sharing risks and profits will be directed toward creating a more just society.

Again, IBF practice aspires to tie money with real assets rather than viewing them as commodities in themselves (Pollard and Samers, 2007). In this vein, Duran and Garcia-Lopez, (2012) advance that unlike economies with conventional banking systems, those with Islamic Banking systems have less exposure to business cycles primarily because of their connection with the real economy. Islamic banks are therefore seen also as traders of goods and services unlike the conventional counterparts which are lenders of cash (Duran and Garcia-Lopez, 2012). Most of their financing modes used in trade include, *Ijarah*, *Istisna'a*, *Murabaha*, *Bai' salam*, *Bai' muajjal* and *Musharaka*. In cases where cash is needed Islamic Banks resort to PLS schemes with tools such as *Musharaka and Mudaraba* (Duran and Garcia-Lopez, 2012).

Furthermore, Duran and Garcia-Lopez, (2012) points out a difference between the two models in relation to the mechanics in both money markets. Duran and Garcia-Lopez, (2012), explains that the conventional model of banking through the interest rate variable captures the demand and supply dynamics of money. On the other hand, the IBF model does not readily offer a scientific mechanism for profit and loss sharing (ibid.). Given this difference, Duran and Garcia-Lopez, (2012), further argues that since the demand and supply dynamics are reflected in interest rates and by extension crucial information in the market are captured, conventional systems help reduce the

search cost for alternative financing schemes compared to the IBF model which may be more costly and take a longer time.

Despite the differences in the two models, some authors (Zaher and Hassan, 2001; Siddiqi, 2006; Ahmad and Hassan, 2007; Chong and Liu, 2009; Khan, 2010) observe that IBF practice in recent times has not been significantly different from conventional methods of finance.

2.2 Benefits of Islamic Banking and Finance

The literature of Islamic Banking and Finance is replete with several benefits of adopting the IBF model as a viable alternative to conventional finance (Zaher and Hassan, 2001, Siddiqi, 2006; Khan and Bhatti, 2008; Dusuki, 2008; Chong and Liu, 2009 Ahmed, 2010; Turk-Arris, 2010; Goaeid and Sassi, 2010; Duran and Garcia-Lopez, 2012). It could be beneficial to banks, their customers, the economy and society at large.

2.2.1 Economic system stability

Major international institutions like the IMF and the World Bank find that IB system is more stable compared to their conventional counterparts. It is also argued that the IB system does not create new money and therefore not inflationary as their conventional counterparts (Goaeid and Sassi, 2010). In addition, some authors (Ahmed, 2010; Turk-Arris, 2010; Duran and Garcia-Lopez, 2012) maintain that Islamic banks showed greater resilience during the 2007 financial crisis largely because they are prohibited from investments in the derivatives markets. Such arguments have been strengthened over the years as they have been backed by Islamic economists with sound macroeconomic analysis that attests to the system-wide benefits of Islamic banking operation (Siddiqi, 2006).

Furthermore, Islamic Economists argue that profit sharing model of banking will ensure a stable economy especially with respect to financial markets (Siddiqi, 2006). To a large extent, such a model resonates with a world experience a financial turmoil. This explains why the spotlight has

fallen on IB, especially in the post financial crisis era where there is greater concern for ethical financial practices (ibid.).

2.2.2 Efficiency

Goaeid and Sassi (2010) indicate that Islamic Banks are more efficient. This is because they are not subject to the volatile principle. Since IBs prohibit interest rates, they eliminate all speculative activities that relate to interest rate expectations (ibid.). Again, Proponents of the IB model advance that IB have greater market discipline as they are technically expected to do better screening of credit risks and be honest in their financial reporting (Chong and Liu, 2009).

2.2.3 Reduction of moral hazard and adverse selection problems:

Goaeid and Sassi (2010) indicate that since IB are able to provide both debt and equity capital simultaneous they are able to reduce the risk of moral hazards and adverse selection. In addition, IBs could influence firms as they have representation on boards. They will be able to monitor and reduce moral hazards (ibid.). Zaher and Hassan (2001) also argue that conventional systems allocate capital to credit worthy units and not productive ventures as IBF model would through the PLS scheme.

2.2.4 Pro-poor system of banking

In a conventional system, funds are usually directed to those who have guarantees and collaterals and demonstrate better capacity to repay loans. On the other hand, funds in Islamic Finance system are based sharing of profit and loss and therefore one can access funds whether rich or poor, to the extent that one has ideas to undertake a venture (Goaeid and Sassi , 2010). The provision of interest free charitable loans (known as *Qard al-Hassan*), are also geared towards making life better for the poor. (Dusuki, 2008).

2.2.5 Wide scope of financial products

Islamic Banking will increase product variety and ranges and also improve quality of institutions in the financial sector (Goaeid and Sassi, 2010). Khan and Bhatti (2008) also capture that Islamic Banking offers the opportunity to deliver competitive, flexible and diversified tools in finance.

In addition, Goaeid and Sassi (2010) identify three major benefits of the IBF model which are described as its “developmental characteristics”. According to Goaeid and Sassi (2010), IBF has a productive characteristic, ethical and moral characteristic and relational characteristic.

2.2.6 Productive characteristic

The Islamic Banking model has a unique link with the real economy. Contracts such as *Musharakah* and *Mudarabah* are available for firms engaged in real production and contribute real-life businesses. The firm should be profitable so that such profits can be distributed between the entrepreneur and the bank. Other financing contracts such as the *Murabaha* and *other sale related contracts* are also linked to real assets or provision of some service. In this direction all forms of Islamic Banking are interlinked with production or exchange of real goods and services (Goaeid and Sassi, 2010). Again, in relation to this, it is seen that the Islamic Banking Model is detached from purely monetary activities such as debt rescheduling and derivatives trading (such as swaps etc.) which usually form part of the operations in conventional banks (ibid.). According to Siddiqi (2006), the strongest argument put forward in favour of IB is its unique mechanism of integrating the financial sector with the real economy. To this extent, it could be argued that, all other things being equal economies with high level of IBF activity will experience real growth over time.

2.2.7 The ethical and moral characteristic

The uniqueness of the IBF model also lies in its ethical and moral dimension. The Islamic Banking model fully incorporates moral and ethical issues such that funds are not made available for production of goods that are harmful like alcohol and tobacco or services such as casino and production of pornographic material. Although such products and activities may be profitable, they are perceived to have negative long term effects on the economy and society (Goaeid and Sassi, 2010).

On another level, the Islamic Bank is seen to be committed to giving interest free credit to the poor and needy usually from social funds. These are usually funded by yearly Zakah funds paid by Muslims, interest money accumulated from deposits in conventional banks and transactions

deemed suspicious by *Shari'ah* boards. In some cases, Islamic Banks maintain charitable funds. A typical fund is the “Waqf” account maintained in the Islamic Development Bank in Jeddah, Saudi Arabia purposely spent on research, developmental study, disaster relief services etc.

2.2.8 Relational characteristic

Islamic banks have unique relationships with customers and workers (Goaeid and Sassi (2010). For instance, Financial contracts like *Musharaka* which takes the form of a ‘joint venture’ agreement or ‘venture capital-style’ financing for a project and mutually shares profits and losses (Obiyo, 2008) allows for ongoing interaction and stronger partnerships and relationship with customers.

These special relationships are a source of competition among Islamic Banks. In order to keep pace with competition, Islamic Banks offer “*culturisation programmes*” to orientate their staff on the religious perspectives of the banking activity. Their knowledge of *Shari'ah* strengthens their competitive completion (Goaeid and Sassi, 2010).

2.3 Regulation of Islamic Banking and Finance

The concern of regulation is to monitor the safety and soundness of the financial system in order to ensure that the public has confidence in the system (Hassan and Bashir, 2003). As Turk-Arris (2010) points out, regulation of conventional banks and Islamic banks differ. This is because Islamic banks operate with different rules and principles and may be characterised with unique risk profiles (ibid.).

Unlike conventional finance, regulation of Islamic Banks is partly undertaken by *Shari'ah* boards (Pollard and Samers, 2007). Such boards comprise one or more Islamic scholars who are given authority of interpreting text (i.e. offer an *Ijtihad*) in the Qur'an in relation to what financial practice is acceptable and issue an opinion (known as *fatwa*) which becomes part of jurisprudence in Islam. It is therefore important any financial institution adopting an Islamic window works with

a *Shari'ah* board to ensure their practice complies with prescription in Islamic Banking and Finance (Khan, 2010; Duran and Garcia-Lopez, 2012).

Experts clearly establish that regulatory clarity is critical to the development of an Islamic Banking industry (Ernst and Young, 2013). It has been one of the critical success factors underpinning the progress made countries like Malaysia and Bahrain as top centres in Islamic Banking (ibid). It is therefore vital for regulators to recognise the uniqueness of the IBF model and design a distinct framework for regulating and supervising Islamic Banks (Ernst and Young, 2013). Empirical research conducted into IBF regulation supports this position. Ahmad and Hassan (2007), for instance suggested a separate set of rules for the efficient functioning of Islamic Banks in Bangladesh.

Despite, regulatory and institutional changes witnessed in the Global Islamic Banking and Finance system over the years, Gelbard et al. (2014) acknowledge that there are difficulties in regulating an IBF system. Again, Duran and Garcia-Lopez (2012) conclude that standards are weak and still growing. Therefore to sustain and improve its practice, Duran and Garcia-Lopez (2012) suggest, the growth in IBF should co-evolve with institutional and regulatory changes at both national and international levels.

2.4 Related studies in research area (Empirical review of country specific studies)

A substantial amount of literature in relation to IBF is already in place, especially in the context of countries that have adopted the system and practices over the years of its evolution. For instance, Demir et al. (2004) analysed the prospects and challenges of Islamic Banking in Turkey. In another study in Turkey, Okumus (2005) studied the theoretical and practical aspects of interest free banking in Turkey by assessing the degree of customer awareness and satisfaction with this Islamic Banking.

In Bangladeshi context, Ahmad and Hassan (2007) and Mamun (2011) have studied regulatory issues and, the prospects and problems of Islamic Banking from Bank's perspective in the Bangladeshi context respectively.

In Malaysia, several authors (Arif, 1989; Mokhtar et al., 2006; Haque, 2010; Rahim et al., 2015) have conducted various studies on its experience with IBF. Arif (1989) for instance, conducted an assessment of Islamic Banking performance and presents new directions for its growth in Malaysia. Again, Mokhtar et al. (2006) and a more recent study by Rahim et al (2015) empirically investigated the efficiency of Islamic Banking, Islamic windows and conventional banks using Stochastic frontier approach and Data Envelopment Analysis (DEA) respectively. Haque (2010) also studied IBF from the Malaysian context by using t-test and ANOVA analysis to investigate the attitudinal difference of customers towards IBF services.

Ghauri et al. (2012) and Akram et al. (2011) also studied prospects and determinants of growth of IBF in Pakistan. Ghauri et al. (2012) find out that factors such as good bank spread, customers' perspective of good returns on deposits and better services, are key determinants to IBF growth. The study of Akram et al. (2011) examines the growth and prospects of Islamic Banking in Pakistan from banks perspective using performance indicators such as assets, deposits, sources and uses of funds. Other studies in Pakistan have adopted the market perspective of IBF in Pakistan (Butt et al, 2011; Awan and Bukari, 2011).

Again, Karbhari et al (2004) also investigated the main problems, challenges, and opportunities facing Islamic banking in the United Kingdom using interviews that were undertaken with senior officials of several key financial institutions. The study revealed that, although by strict definition Islamic banks do not currently exist in the UK, London is one of the major centers for Islamic banking and finance.

Other country specific studies on IBF include those of Rammal and Zurbruegg (2007) (conducted in the context of Australia), Samad (2004) (conducted in the context of Bahrain), Ebrahim and Joo (2001) (conducted in the context of Brunei Darussalam), Gerrard and Cunningham (1997) (conducted in the context of Singapore), Karim and Affif (2006), (in the context of Indonesia), and Wilson (1987) (in the context of Jordan).

As Islamic Banking spread into Africa, many country studies have been conducted. For instance Fatai (2012), Gumel and Othman (2013), Obiyo (2008), Nwaolisa, and Kasie (2013), Daud et al. (2011) study the IBF in the Nigerian context by addressing key themes such as its applicability, viability and prospects, regulation and marketing. Again, Saini et al (2011) and Vahed and Vawda (2008) have conducted IBF studies from the context of South Africa by addressing the market perspective and growth prospects. The work of Hussein (2003) also examines the operational efficiency of Islamic Banking using the case of Sudan.

It is seen that these studies have produced mixed result due to the variety of methods and aspects of IBF addressed. Specifically, in relation to the prospects of IBF practice it is problematic to generalize since each country environment has unique variables or characteristics.

Therefore, in order to arrive at more conclusive results with respect to the practice of IBF in Ghana, more studies are required to empirically investigate the model purely from a Ghanaian perspective. Thus, this study will seek to contribute to the literature by examining the Ghanaian context in the practice of IBF.

2.5 Conceptual framework of study

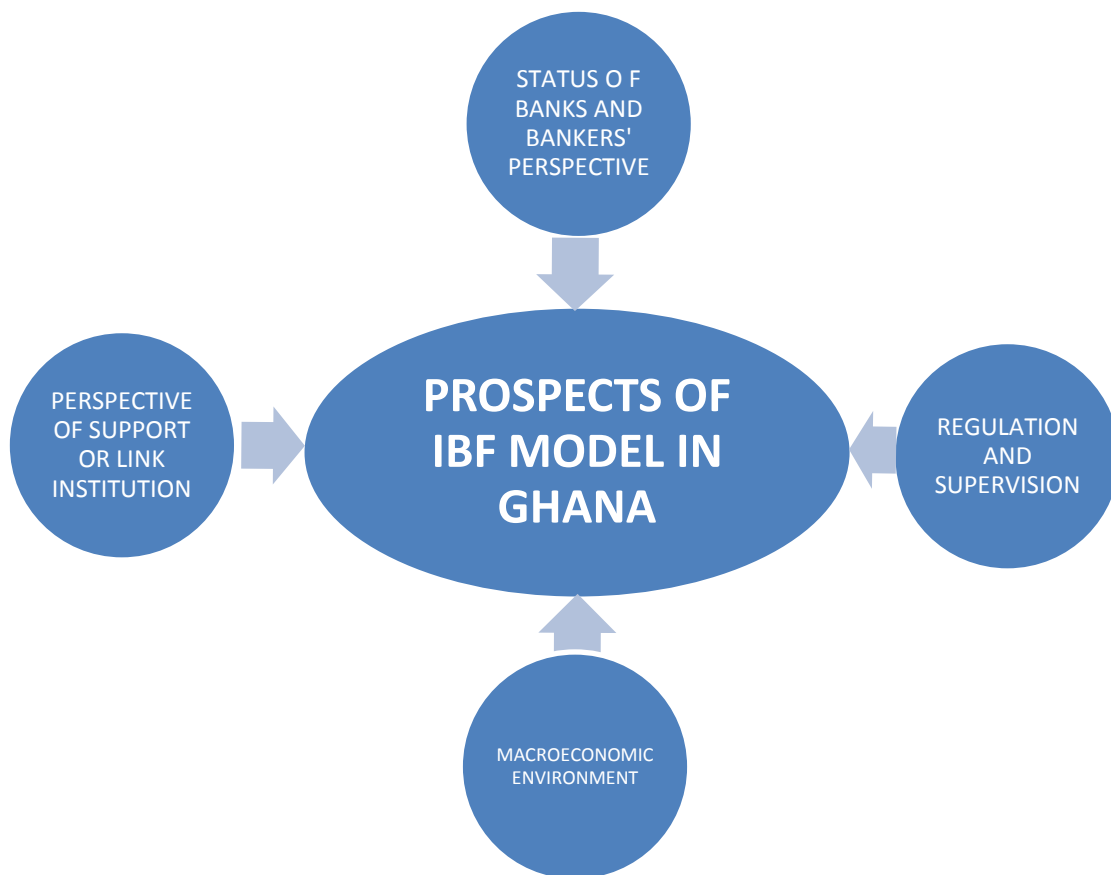


Figure 2.5- Conceptual framework of study

A conceptual framework represents a network of interconnected concepts that gives a comprehensive understanding of a phenomenon (Jabareen, 2009). The conceptual framework illustrated in figure 3.1, clearly outlines how the research problem will be addressed. In order to analyse the overall outlook or prospects of the IBF model in the Ghanaian context, various critical elements including status of banks in relation to the model and bankers' perspective, regulation and supervision, perspective of support or link institutions and macroeconomic perspective will be investigated and analysed.

As it has been graphically expressed, the smaller elements aggregate to give a bigger picture or impact on the outlook of the model in the Ghanaian context and have therefore been chosen for the purposes of this study.

These aspects were chosen based on the literature on IBF, critical thinking, and reflection on the research philosophies, approaches and design that fits the overall research problem and direction of the study. In relation to bankers' perspective, two major studies were inspirational for this study. These are the studies of Mamun (2011) which analyses the prospects and problems of Islamic from banks perspectives in Bangladesh and Karbhari et al (2004) which investigates the challenges and opportunities facing Islamic banking in the United Kingdom from perspective senior officials of banks. Again, the choice to analyse the regulatory and supervision aspects of the model in the Ghanaian context were also inspired by works such as Ibrahim (2007), Karim (2001) and, Ahmad and Hassan (2007) which focus on the regulatory frameworks of Islamic Banking. In the work of Mamun (2011), it is also identified that support or link institutions play a role in the growth of Islamic Banking system and therefore their perspectives would be vital to the study. An analysis of the macroeconomic climate would undoubtedly be critical as Islamic banks would operate in that context and therefore their prospects will be impacted on by its dynamics. The studies of Kader and Leong (2009) and Imam and Kpodar (2013) bring to fore variables which are important to Islamic banking expansion including macroeconomic variables such as interest and inflation rates and therefore inspired the inclusion of this dimension of the conceptual framework of the study.

Given that a case study strategy is adopted for the study, it is helpful to triangulate findings (Saunders et al. 2012). The conceptual framework depicts one that would facilitate triangulation due to several dimensions or levels of the IBF model it captures. It also allows for the research to be done by mixed method research choice (i.e. a combination of quantitative and qualitative data collection and analysis techniques) (Saunders et al., 2012).

It is worth noting that since the conceptual framework outlined in figure provides the basic structure for the study, it should therefore provide the context or scope within which the overall findings will be appreciated.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Research methodology forms a critical component of any research activity. It is the part of a study that encapsulates processes, methods and design (i.e. approach, choices and philosophy) with which the study is conducted. It is the means by which the research problem is scientifically addressed including the logic underlying them (Kothari, 2004). It is therefore broader in scope as compared to research methods which involves direct research operations including data collection (ibid).

This section reports the research process, methodological choices and research design that were adopted to arrive at the findings and conclusions of the study. In this regard, several themes including the conceptual framework of the study, research design, sources of data, population and sampling techniques, data collection instruments (i.e. design and content) and techniques of data analysis are outlined. Again, in line with ethical and proper research standards, other key concerns such data reliability and validity, ethical concerns and pretesting have been captured. Since the case study research strategy was used, this section concludes with a brief profile of Ghana's economy and evolution of banking.

3.1 Research Design

Before delving into the research design that was adopted for this study, it is important to appreciate the research philosophy or philosophical assumptions influencing the direction of the study, and the research approach adopted by the researcher. As Saunders et al (2012) highlights, these underpin the research strategy and methods that could be chosen as part of a study since there are systematic or logical links between the research philosophy and approach, strategies, choices, time horizons for the study and techniques. This systematic relationship is what is

conceptually structured and explained by the research ‘onion’ put forward by Saunders et al (2012).

In business and management research, several **research philosophies** have been put forward to guide and explain the type of study. These include positivism, realism, interpretivism and pragmatism (Saunders et al, 2012). The philosophical standpoint adopted for this study, is one of realism and more specifically critical realism (ibid). Realism holds the view that the reality in the social world is different from what the mind suggest (i.e. idealism) (ibid.). There are two major perspectives of realism that Saunders et al (2012) suggest as the philosophy relates to business research. These are direct realism and critical realism (ibid.). The direct realist perceives the world to be relatively static such that in the business context a subject could be explored at one level (ibid). On the other hand a critical realist believes that the social world is very dynamic (ibid.). Thus, critical realists believe that each of the different aspects of a subject and their interaction could influence how it is understood by the researcher (ibid.). In this direction, critical realism favours a multi-level study or multi-dimensional study which is in line with the direction of this study. In this study, the researcher attempts to understand the prospects or outlook of the Islamic Banking and Finance model in the Ghanaian context. It therefore sought to explore different dimensions and levels relating to the model including bankers’ perspective, outlook of regulation, outlook of support and link institutions and the macroeconomic environment.

In terms of **research approach**, the inductive approach was adopted for this study. This research approach is particularly concerned with the context within which events occur (ibid.). This approach allows the researcher to gather data within a more flexible research design as compared to a deductive approach that favours a more rigid structure of testing hypotheses to explain causal relationships between variables (ibid.). It also allows for alternative explanations that can emerge from a multi-level and exploratory study which better reflect the purpose this study.

Among the research purposes explained by Saunders et al (2012) such as including explanatory, exploratory and descriptive studies, this study is in line with the need to explore the IBF model in the Ghanaian context rather than to explain causal relationship between variables in relation to the

IBF model. The latter purpose leans more towards an explanatory study which reflects to a greater degree the approach of deduction (ibid.). Exploratory studies enable the researcher to discover insights and ideas about the problem of the study. It therefore allows for different aspects of the research problem to be considered and analysed to understand a phenomenon (in this case the IBF model) in a new light (in this case, the Ghanaian context) (Kothari, 2004; Saunders et al. 2012). Kothari (2004) therefore suggests that its research design should be flexible to accommodate its purpose of exploration.

The various research positions adopted by the researcher based on the research purpose, and in relation to the research philosophy and approach, research strategies, choices, time horizons and techniques (collectively referred to as the research design) are expressed in the figure below. The progression (from top to bottom) is in line with the various elements of the research ‘onion’ as depicted by Saunders et al. (2012) and applicable or chosen for this study.

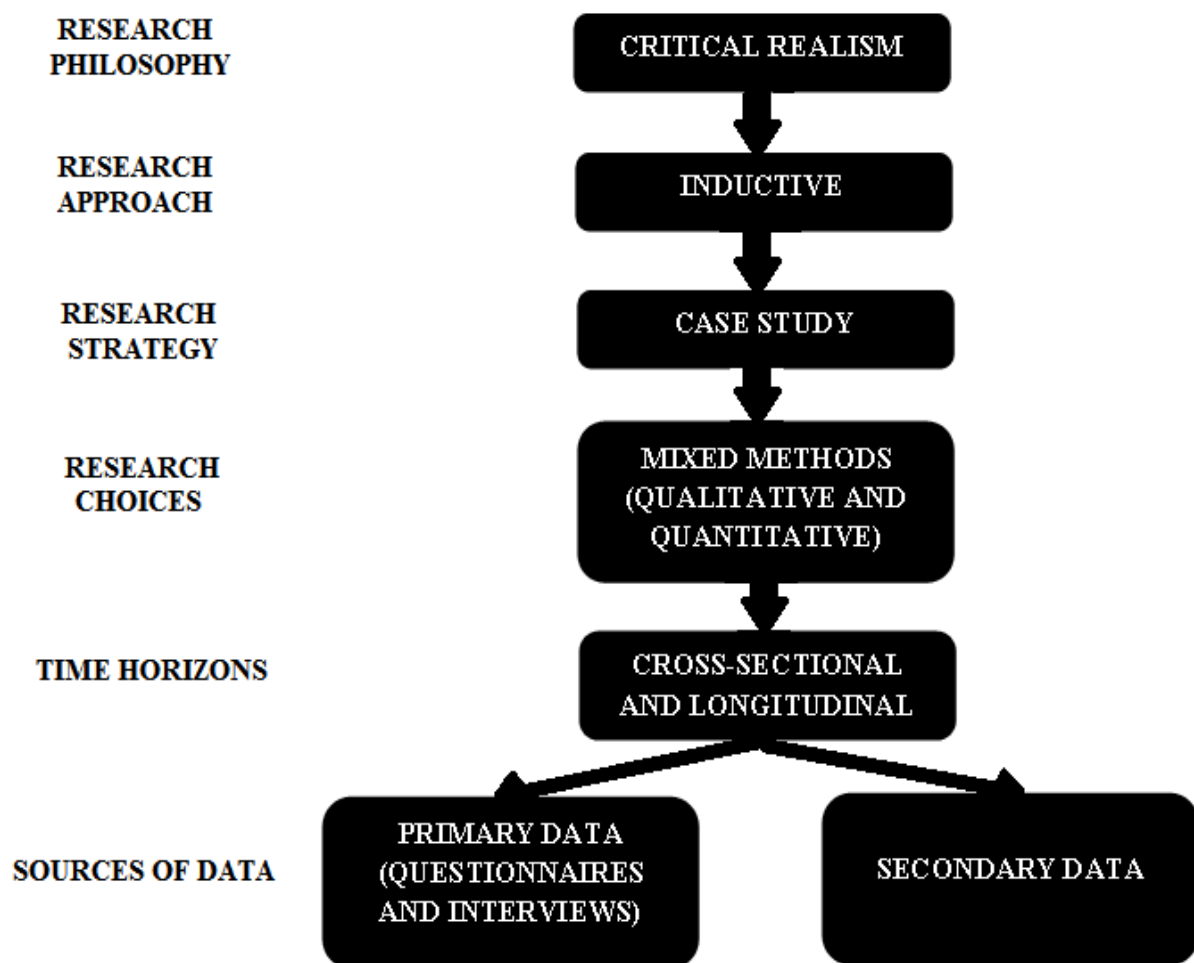


Figure 3.1- Research philosophy, approach and design, Adapted from Saunders et al (2012)

Among **the research strategies**, a case study strategy was chosen for this study using Ghana as the unit of analysis. As it has been established earlier, many research works deal with the IBF model in the context of various countries (Arif, 1989; Gerrard and Cunningham, 1997; Ebrahim and Joo, 2001; Okumus, 2005; Rammal and Zurbruegg, 2007; Butt et al., 2011; Saini et al., 2011; Fatai, 2012). However, empirical studies which analyse the case of Ghana are rare. The strategy helps address the subject properly in order to help make a contribution in relation to the gap identified in the literature on Islamic Banking and Finance. The case study strategy is also useful for exploratory studies since they help explore theory within a unique context of analysis (Saunders et al. 2012). Again, a case study strategy is advantageous because it helps provide a comprehensive view or picture of the subject under study (Noor, 2008). Furthermore, a case study strategy in line with an exploratory research purpose, gives room for triangulation. Triangulation involves the use of multiple data collection methods in the same study usually to ascertain if other results confirm what a researcher may think the data are actually presenting (Saunders et al., 2012).

In this direction, **the research choices** (i.e. mode of data collection and analysis) for this study are based on the mixed-method approach. A mixed-method research choice allows for both quantitative and qualitative data to be gathered and analysed using their respective quantitative and qualitative techniques. For this study, it is seen that various aspects of the IBF model under study were researched into and analysed by both quantitative and qualitative methods. For instance bankers' perspectives were elicited using a closed ended questionnaires which were analysed quantitatively, open ended questionnaires and interview of regulatory and link institution respectively, were analysed qualitatively, whereas quantitative secondary data which were processed using statistical techniques.

In terms of the **time horizons**, it could be said that this study is predominantly a cross sectional study due to the short period within which the primary data (i.e. responses from questionnaires and interview) were gathered. On the other hand, secondary data was retrieved to span a period of

24 years to in order analyse the macroeconomic trends. It could therefore be said that the study is mix of a cross sectional and longitudinal study although it is predominantly cross sectional.

The mixed method approach allowed the researcher to use questionnaires, interview data and secondary data to triangulate findings. This was helpful to seek patterns in the responses across the various aspects of the model that were studied and also to analyse disparities when they emerge.

3.2 Sources of Data

Both primary and secondary data were gathered for the study.

3.2.1 Primary Data

The researcher gathered primary data from questionnaires and interviews.

3.2.1.1 Questionnaires

Two questionnaires were designed for the study: A closed ended questionnaire for bankers and an open ended questionnaire for regulatory authorities (i.e the Bank of Ghana). The first questionnaire was designed to elicit the perceptions of bankers on their outlook (benefits and challenges) of practicing the IBF model in Ghana. Bryman and Bell (2007) rightly note employing questionnaires in a study is beneficial since they are more economical and faster to administer. This advantage was realized in this study as the use of questionnaires was very helpful given constraints of time and finance. On the hand using questionnaire in a study has its downsides. It may limit the number of questions that a researcher may be able to ask since a long list of questions may lead to what Bryman and Bell (2007) refer to as ‘respondent’s fatigue’. And moreover for this study, a long questionnaire would have reduced cooperation and response rates for bankers who have a very busy schedule. In recognition of this limitation, the researcher strove for a questionnaire which would elicit the necessary responses yet reasonably short to facilitate responses amongst bankers. Generally, reactions from respondents who filled the questionnaires were favourable. The two page questionnaire could be filled in no more than 10 minutes.

The questionnaire begins with a brief cover letter that captures the subject of the study, the nature of study and its academic purpose, and an assurance of anonymity and confidentiality of responses given. The response-seeking content of the questionnaire is divided into three major parts. Part 1 consisted of general questions about the current status of bank in question in relation to the IBF model. It sort to gather data on country origin of bank, availability of Islamic Banking window or department in bank, availability of IBF (particularly interest free loans) and bankers' familiarity with Islamic financing contracts and products. Part 2 of the questionnaire comprises 5 measures on benefits or opportunities for growth related to the practice of the IBF model whilst Part 3 of the questionnaire similarly consisted of 5 measures related to the challenges of practicing the IBF model. These were expressed in the form of statements which encapsulate an array of benefits and challenges with respect to their bank and the Ghanaian banking environment and economy at large. Bankers were asked to indicate their level of agreement or otherwise on 5 point Likert scale ranging from strongly disagree, disagree, neutral, agree to strongly agree.

These measures or statements were inspired by literature review conducted during the early stages of the research process as well as critical reasoning through the epistemology of Islamic Banking and Finance (i.e. in terms of its application and implication). Particularly the works of Ahmed (2010) which provides an Islamic Finance perspective of the Global Financial Crisis, Goaeid and Sassi (2010) which addresses Financial Development and Economic Growth in the Middle Eastern and North African (MENA) region and Mamun (2011) which analyses the prospects and problems of Islamic Banking from the banks perspective in Bangladesh were helpful in shaping the statements in the questionnaire. However, the choice to design questionnaires to seek perceptions based on a Likert scale was inspired by the study of Daud et al (2011) which was involved a perception study on the role of the central bank of Nigeria in relation to the establishment and operation of Islamic Banks in Nigeria. It is however noteworthy that the study of Daud et al (2011) involved the use of a 7 point Likert scale ranging from strongly disagree, disagree, slightly disagree, indifferent, slightly agree, agree to strongly agree. Although this type of response scale increases the range of possible scores (Pallant, 2007), it was not adapted by the

researcher in order to make the questionnaire simple in design and user friendly for respondents by avoiding any misunderstanding that may arise when thinking about the variation of degrees associated with the seven-point scale, and moreover facilitate data analysis and presentation.

All items used in the questionnaire for bankers were closed ended questions and therefore offered several benefits to the research. First, closed-ended question are more user friendly since they simply involve ticking appropriate areas as they apply to respondents and therefore allows responses to be more easily codified or structured for analysis compared to interview questions used in qualitative techniques of research (Bryman and Bell, 2007). However, in the case of questionnaire for the central bank (i.e. the Bank of Ghana), an open-ended questionnaire was helpful to explore the regulatory dimension of the model as well as outlook of authorities on the model. The questions related to a wide range of issues relating to regulation and supervision of the model in the Ghana. Responses on their overall outlook (benefit and challenges) of the model in Ghana were elicited to facilitate the study. Particularly, the studies of Ahmad and Hassan (2007), Daud et al (2011) (which focus on IBF regulation) and Obiyo (2008) which focus on prospects of IBF in Nigeria were helpful in designing this questionnaire. The full questionnaires can be found in the Appendix section of the research report.

3.2.1.2 Interview guide

An interview guide was prepared to elicit responses on the perspective of the support or link institution on Islamic Banking and Finance identified by the researcher. This was a semi-structured interview, although the interview guide was designed to contain 10 questions. This means that follow up questions were asked to elicit more responses and clarify earlier responses. The questions related to a wide range of issues relating to roles and contributions of Global Institute of Islamic Banking and Insurance (GIIBIC) (i.e. the only support institution identified to spearhead growth of the model in Ghana). Again, responses on their overall outlook (benefit and challenges) of the model in Ghana were elicited to facilitate the study. As captured earlier under the conceptual framework of the study, the works of Ibrahim (2007), Karim (2001) and, Ahmad

and Hassan (2007) and in addition Obiyo (2008) which addresses the workability of Islamic financing in the Nigerian economy inspired the content of this interview guide. It is noteworthy that the use of interviews in IBF research is not new in literature. Karbhari et al (2004) for instance used interviews to analyse challenges and opportunities facing Islamic Banking in the United Kingdom. The full interview guide can be found in the Appendix section of the research report.

3.2.2 Secondary Data

Secondary data was also gathered for this research work. Specifically the researcher was interested in analyzing the macroeconomic environment of Ghana. Therefore, the researcher selected certain variables that could be used to explain the trends of the Ghanaian economy especially in relation to the banking and in this case, the IBF model. The choice of such variables was particularly informed by the seminal work of Imam and Kpodar (2013) which analyses several factors (i.e social and economic variable) that have led to the expansion of Islamic Banking and Finance around the world using country-level data of 117 countries between 1992 and 2006. The variables included in this study in are interest rates and inflation rates which Imam and Kpodar (2013) used as a standard proxy for macroeconomic stability. Data were retrieved from the Bank of Ghana (BOG) monetary time series data found on the BOG website (www.bog.gov.gh).The full extract of data can be found in the Appendix section of the research report.

3.3 Primary Data collection

According to the researcher's plan, the time frame allotted for data collection was 3 weeks. However, due to the busy schedule of bankers, their absence (in some cases), and difficulty of preparing the research report concurrently with data collection, distribution and collection of questionnaires took approximately 1 month (i.e. from 16th June 2015 to 17th July 2015). The questionnaires were delivered in person by the researcher and subsequently collected from the gatekeepers approached for various banks. The researcher distributed about fifty-eight (58)

questionnaires for eighteen (18) banks and the central bank and collected 52 representing a response rate of approximately 90%.

The interview with the support institution was also conducted on the 23rd of July 2015 after a long period of making contacts due to the busy schedule of the official. The interview lasted approximately 1 hour and 40 minutes.

3.3.1 Population

From the perspective of banks approached for the research, the population was all registered commercial banks in Ghana. According to the website of the Bank of Ghana, there are twenty-seven (27) licensed banks currently in Ghana.(Bank of Ghana, 2013). Out of these, twenty-five (25) have branches in the Kumasi Metropolis and therefore represented the actual population available to be sampled by the researcher due to constraints of distance and time available for the study.

The researcher therefore focused on branches of these banks in the Kumasi metropolis. It is believed that data gathered with respect to bank's current status in relation to the practice of IBF model would be reflective of their wider operations in the country since their branch is only an arm of their operations in the country. In an attempt to draw on bankers' perspective on the model, target population were bankers in general management, marketing department and operations departments of banks. The specific respondents or participants in the research were reached based on the sampling techniques described below.

3.3.2 Sampling techniques

Sampling of respondents was based on a mix of convenience, purposive sampling and snowballing. Banks covered for the research was based on convenience. This sampling technique was used due to constraints of time, financial resources and distance as highlighted earlier. Although it was a very herculean task, the researcher was able gather data from seventeen (17) out of twenty-five (25) banks identified to be in operation in Kumasi metropolis and other areas in the Ashanti region.

Again, three (3) bankers were sampled in every bank approached. The technique used was **purposive and based on snowballing**. The researcher sampled a banker each from general management, marketing department and operations department. These bankers were sampled on purpose or strategically approached because it is believed that could allow for a truer reflection of the overall perspective or outlook on the model. Due to their department's strategic functions and contributions to the overall operation of the banks, it is believed the bankers from these departments in the banks are abreast with unique perspectives which are relevant to enrich the outlook of this banking model especially in relation to their internal and external banking environments. For instance, respondents from general management bring to the table a strategic-level perspective to their perceptions. Again, bankers in marketing departments would capture perceptions in the context of their markets and what may be feasible given that they are in direct touch with their various market segments and therefore understand their demand patterns. Bankers in the operations department also are involved directly in the day to day provision of banking services and therefore are positioned to share perspectives on real banking practice in relation to the IBF model.

Again, studies based on perceptions could suffer from social desirability bias of participants which relates to the tendency for participants to respond in a manner that have an appeal which may not be reflective of wider facts under investigation (Mohr et al., 2001). Therefore the samples were chosen from these departments strategically to help neutralize or minimize the possibility of personal biases from affecting results.

The use of snowball sampling comes to the fore as the researcher identified the gatekeeper of the banks (usually the manager or operations manager in some instances) who in turn identified the other two respondents in the relevant departments as requested by the researcher.

Again, purposive sampling was also used in collecting data from the Central Bank. In relation to the case sampled for interview, the technique was purposive and based on convenience, as the support institution was the only to be identified in Ghana to spearhead the growth of this model.

3.4 Validity and reliability

Validity refers to the extent to which findings represents what they appear to be about. (Saunders et al., 2012). Reliability also relates to the degree to which data collection procedure and analysis techniques will yield consistent results (ibid.). When a researcher keeps such standards in focus, it assures the credibility of findings (Saunders et al., 2012).

In this study, measures, statement and questions used in the questionnaires and interviews were inspired by studies of expert researchers and academics in the field of Islamic Economics and Finance and therefore guarantee the validity of findings. Again questionnaires were pretested before they were administered on a larger scale and therefore allow for validity and reliability of responses. The mixed method approach used as part of the research design enables triangulation which minimise the potential threats to validity. Care was taken during inputting of data to avoid errors during processing in SPSS software.

As a check for internal reliability of data, the researcher computed the Cronbach's Alpha for 10 items used to measure outlook of bankers (i.e. benefits and challenges of IBF practice). The resulting Cronbach's Alpha is 0.740. The Cronbach's Alpha statistic varies between 1 (an indication of perfect internal reliability) and 0 (an indication of no internal reliability) (Pallant, 2007). Therefore with a Cronbach's alpha of 0.740, a high degree of reliability is assured. The table below shows the reliability statistics as computed by the SPSS software.

Table 3.4 Reliability Statistics

Cronbach's Alpha	N of Items
.740	10

Source: Researcher's analysis

Secondary data was obtained from the database of the Bank of Ghana which is a credible institution for obtaining economic data in Ghana and therefore a high degree of validity and reliability is assured.

3.5 Ethical Concerns

Several ethical concerns emerge during any research activity and considering ensures that no party or subject is subject to harm, embarrassment or disadvantage during the research process (Saunders et al, 2012).

In this study, the researcher strove to cater for ethical issues throughout the research process. Some of these related to access, informing respondents on purpose research, assurance of anonymity and data collection and storage.

From the outset, the researcher approached various institutions with an official introductory letter from the faculty (i.e KNUST School of Business) to facilitate access. In order to make respondents aware of the nature and purpose of the research, the objectives of the study and more importantly its academic purpose were explicitly communicated to them. This was vital to address organisational concerns on ethics and enable access. In several instances, samples of the questionnaire were thoroughly read before gatekeepers gave the researcher the green light by identifying other respondents. As a result, they were able to decide to participate or otherwise based on assurance and information provided by the researcher.

Ethical concerns were again catered for during the data collection stage of the study. In several instances, collection of respondents especially bankers were difficult due to their busy schedules. The researcher therefore had to be patient with respondents to allow them to fill at their convenience. Undoubtedly, this made the data collection process stressful as there were several occasions questionnaires had not been filled even at times when the researcher was assured to return for them. In no circumstance did the researcher exert undue pressure on respondents to complete the questionnaire.

Furthermore, the researcher upheld confidentiality of data and anonymity of respondents throughout the entire process. In the case of the support institution which was the only to be found in Ghana, permission was sought from the official interviewed to capture name of the institution in the research report. Data gathered for this research work cannot be accessed by any other party except the researcher and supervisor upon request. Again, the questionnaires were designed to be silent on name of banking institutions and bankers.

3.6 Pre-test

Pretesting or pilot testing enables researcher to identify errors(for instance with sentence structure, wording and meaning etc.) in the research instrument and amend them so that they will be user friendly to respondents and also reduce problems related to recording of data (Bryman and Bell, 2007;Cooper and Schindler, 2008; Saunders et al, 2012).

Before the questionnaires were rolled out on a larger scale, the researcher therefore found it appropriate to survey few bankers to test how user friendly the questionnaire was. Feedback given was considered and subsequently, minor modifications were made to the questionnaire before other bankers were approached.

3.7 Data Analysis techniques

Bank's current status and knowledge of bankers in relation to the model were analysed statistically using frequencies presented in tables. This allowed to capture a true reflection of the facts on the ground in a way that readers will be able appreciate. In relation to bankers' outlook or perceptions on the viability of the model, statistical analysis and inferences were made by the use of means presented in tables. This statistic is deemed representative of a distribution and therefore was found appropriate to help present findings in a clear manner (Gordor and Howard, 2006). The researcher employed the Statistical Package for Social Scientist (SPSS) software version 21 for these analyses.

Qualitative data obtained from the open-ended questionnaire and interview was also presented using narrative analysis. Since the study is based on a case study strategy and adopted a mixed

method choice, the researcher attempted to triangulate findings from bankers, the central bank and support institution in order to reach stronger conclusions.

To aid trend analysis of the secondary data on selected macroeconomic indicators (i.e. interest rates and inflation rates) in relation to how they may affect the viability of the model, line graphs were generated with Microsoft Excel software 2013 version.

3.8 Profile of Ghana's economy and Evolution of Banking

Ghana's economy has been relatively strong despite the global economic recession (ISSER, 2013). Due to its growth over the past decade, Ghana has been able to achieve the Millennium Development Goal of reducing poverty by half although there are high inequalities in income distribution and development especially in the Northern part of the country (AFDB,2015).Currently, the service sector constitute 50.2%, the industrial sector constitute 28.4%, whereas the agriculture sector constitute 19.9%. These sectors continue to be the drivers of the economy (ibid). Further, Ghana remains the world's second largest producer of cocoa behind Ivory Coast, and Africa's biggest gold miner after South Africa (BBC, 2015).

However, The Ghanaian economy currently experiences several challenges including, deepening energy crisis, sharp currency depreciation, unemployment, rising inflation and deteriorating macroeconomic imbalance, and interest rates(ISSER 2013; AFDB,2015). In 2014, Ghana's current account and budget deficits increased to 9.2% and 10.4% of GDP respectively, On the other hand, the inflation rate averaged 17.0%. By close of 2014, inflows from the Eurobond of USD 1 billion and a cocoa syndicate loan of USD 1.7 billion helped guarantee foreign reserves at 3.2 months of import cover. Again, the Ghana cedi depreciated by over 30% in nominal terms over the first nine months of 2014 compared to a depreciation of 4.1% during the corresponding period in 2013 (ibid.). As a result increasing budget deficit, public debt rose from 55.8% of GDP in December 2013 to 67.1% of GDP by the end of December 2014. The Ghanaian authorities therefore started engagements for a stabilisation programme with the International Monetary Fund

(IMF) that was expected to begin in early 2015 to help deal with the fiscal and current account challenges (AFDB, 2015).

It is expected that in 2016, the economy will be stronger by recording a growth of 6% largely hinged on the oil sector, investments in the private sector and infrastructure and relative political stability (ISSER, 2013; AFDB, 2015).

The Ghanaian banking sector on the other hand has evolved over several years since the establishment of the first bank in the Gold Coast known as the Bank of British West Africa (BBWA) in 1896 (Incoom, 2010). This became the banknote distribution bank for British West Africa until the establishment of the West Africa Currency Board (WACB) in 1912 (ibid). The struggle towards independence led to establishment of the Bank of the Gold Coast in 1953 which became the Bank of Ghana officially on the 14th March 1957 (ibid). The Bank of Ghana of Ghana took over functions of the WACB whilst the Bank of Gold Coast was renamed Ghana Commercial Bank. Therefore by 1957, there were four (4) banks in Ghana, namely the Bank of Ghana, Bank of British West Africa (BBWA), Barclays Bank DCO, and the Ghana Commercial Bank (ibid.). Towards the end of 2000, several banks entered the banking sector. This increased the total number of all banks to about 17. Beyond 2000, many other banks have entered the industry increasing the total number of commercial banks to 27 (ibid.). Over the years, the conventional model has been the major practice of these banks and therefore moving into the future, the introduction of the IBF model will be a novel practice in the Ghanaian economy.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This section reports the findings of the study. In line with objectives and research questions of the study the findings are presented and analysed from the data gathered. Analytical inferences was also be made in relation to the literature and critical reasoning through the findings. Themes addressed in the chapter include current status of banks in relation to the practice of IBF model, bankers' perceptions (knowledge of IBF model and outlook), and perspective of support and regulatory institutions and outlook of Ghana's macroeconomic environment in relation to the model (i.e. analysis of selected macroeconomic indicators and how they will affect the viability of the IBF model). Analysis was made by tabular representation of means, frequencies, trend analysis of line graphs and narrative analysis of qualitative data. Since the study is based on a case study strategy and adopts a mixed method choice, the researcher attempted to triangulate findings with other sources as a means of reaching stronger conclusions.

4.1 Current Status of Banks in relation to practice of the IBF model

In order to provide empirical evidence on the practice of the IBF model in Ghana, the researcher gathered data from executives directly engaged in the field of banking. With reference to calls that have been made to regularise IBF model in Ghana (Kunateh, 2013; Sulley, 2014 ; Graphic Business ,2014), the researcher ascertained the current status of operation of their respective banks in relation to the IBF model before their perceptions on the model were sought . (See Appendix for questionnaire for bankers). This would help make an aggregate inference of the current practice of IBF model in Ghana. It should be noted that in a dual banking system where both the conventional banking model and IBF model operate, three types of banking institutions can be found: full-fledged conventional banks, conventional banks operating together with Islamic Banking windows and full- fledged Islamic banks (Gelbard et al., 2014).

According to the website of the bank of Ghana, there are twenty-seven (27) licensed banks currently in Ghana (Bank of Ghana, 2013). Out of these, twenty-five (25) have branches in the Kumasi Metropolis and therefore represented the actual population available to be sampled by the researcher due to constraints of distance and time available for the study. Out of the twenty-five (25) banks, the researcher was able to gather data from 17 banks. Data gathered with respect to bank's current status in relation to the practice of IBF model was reflective of their wider operations in the country since their branch is only an arm of their operations in the country. To ascertain the current status of banks in the country in relation to the IBF model, the researcher found out if banks in question operated Islamic Banking windows and whether they offered interest free loans. The responses given by the various banks have been captured in Table 4.1 below.

Table 4.1 Current Status of banks in relation to the IBF model

Measures		Frequency	Percent	Valid Percent	Cumulative Percent
Does your bank operate an Islamic Banking window or department?	No	17	100.0%	100.0%	100.0%
	Yes	0	0.0%	0.0%	100.0%
	Total	17			
Does your bank offer interest free loans?	No	16	94.1%	94.1%	94.1%
	Yes	1	5.9%	5.9%	100.0%
	Total	17			

Source: Field Survey (2015)

As the minimalist or basic way to practice the IBF model, a conventional bank can set up an Islamic window to provide products preferred by customers who demand *Shari'ah* compliant instruments (Gelbard et al., 2014). According to the responses given, none of the 17 (100%) banks surveyed is reported to practice the IBF model formally since they indicated that they did not operate an Islamic Banking window. Qualitative data gathered from the Bank of Ghana

affirms this finding as it was stated that no bank has so far been given the license to open an Islamic window (Field survey, 2015).

Again, the researcher found out if any of the banks offered interest free loans. Out of 17 banks surveyed, only 1(5.9%) bank reported to provide interest free loans. Although, this product is in line with the nature of IBF, the same bank reported not to operate an Islamic banking window which suggests that the product was structured as part of its day to day operations and therefore cannot be classified as part of a *Shar'iah* complaint portfolio. Although the provision of interest free loans constitute the IBF model, its compliance to IBF principles will require that they are offered in an Islamic window to allow for monitoring and compliance.

Taken together, this finding suggests that as at July 2015, practice of the IBF model had not entered mainstream banking system in Ghana although authors like Gelbard et al. (2014) in an IMF working paper highlight that Ghana has the scope for development of the IBF model in its economy. The provision of IBF products therefore remain an untapped area in the Ghanaian banking industry.

4.2 Bankers' perspective on the IBF model

4.2.1 Bankers Knowledge in Islamic Financing contracts

The IBF model is different from the conventional model in terms of its mechanics, operation, and accounting. Therefore for bankers to adopt it and practice very well, they have to be familiar with the nature of the products or financial contracts that constitute the model. The researcher was therefore interested in accessing the level of bankers' knowledge sampled or familiarity in Islamic financing contracts. Bankers were therefore asked to indicate which of the IBF contract (i.e. *Qard al-Hassan* [charitable loans], *murabaha* [cost plus], *Ijarah* [leasing], *Bai'muajjal* [deferment payment sale], *Musharaka* [joint venture], *takaful* [insurance]). Bankers were expected to indicate how familiar they were with such contract, at the personal level and therefore the options allowed for selection of one or more contracts as they applied to them. There was also an option to indicate if they were not familiar with any of them.

The responses given in relation to the various products or Islamic financing contracts are shown in the tables below.

4.2.1.1 *Qard al-Hassan* (charitable loans)

Table 4.2.1.1 Familiarity with *Qard al-Hassan* (charitable loans)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<i>Qard al-Hassan</i> (charitable loans)	2	3.9	100.0	100.0
Missing	System	49	96.1		
Total		51	100.0		

Source: Field Survey (2015)

Qard al-Hassan is basically an interest free loan that is given for the purpose of welfare and therefore requires the borrower to repay only the principal borrowed sometimes with an administrative charge for processing the loan and not a pre- fixed interest rates (Dususki, 2008). Out of the 51 bankers of the 17 banks that took part in the survey, only 2 (3.9%) indicated that they were familiar with this IBF product as individual bankers.

4.2.1.1 Familiarity with *murabaha* (cost plus finance)

Table 4.2.1.2 Familiarity with *murabaha* (cost plus finance)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<i>Murabaha</i> (cost plus)	3	5.9	100.0	100.0
Missing	System	48	94.1		
Total		51	100.0		

Source: Field Survey (2015)

Murabaha involves buying goods or an asset for a customer and reselling at a higher price including a markup that is predetermined by both bank and customer to allow for transparency.

(Dususki, 2008). In relation to this product, 3 (5.9%) out of 51 bankers across 17 banks indicated their familiarity. On the other hand, there remain 48 bankers (94%) who were not familiar with this financing arrangement.

4.2.1.3 Familiarity with *Ijarah* (leasing)

Table 4.2.1.3 Familiarity with *Ijarah* (leasing)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<i>Ijarah</i> (leasing)	3	5.9	100.0	100.0
Missing	System	48	94.1		
Total		51	100.0		

Source: Field Survey (2015)

Ijarah contracts are similar to a leasing contract. In the context of the IBF model the bank buys the asset and bears the risk of owning the asset as it is leased to a customer at a fixed charge (Chong and Liu, 2009). In relation to this financing contract, 3 (5.9%) out of 51 bankers indicated their familiarity whereas 48 (94.1%) were found not to be familiar with the mechanics of the contact.

4.2.1.4 Familiarity with *Bai'muajjal* (deferment payment sale)

Table 4.2.1.4 Familiarity with *Bai'muajjal* (deferment payment sale)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<i>Bai'muajjal</i> (deferment payment sale)	2	3.9	100.0	100.0
Missing	System	49	96.1		
Total		51	100.0		

Source: Field Survey (2015)

Bai'muajjal is a variation of cost plus finance done with *murabaha*. In this type, payment for the goods by the customer is only deferred and made on installment or sometimes lump sum depending on agreement of parties. In the context of IBF, the bank is not allowed to charge for deferment on payment (Chong and Liu, 2009). Amongst the 51 bankers, 2(3.9%) indicated they were familiar with the product whereas 49 (96%), were reported not to be familiar with this mode of financing.

4.2.1.5 Familiarity with *Musharaka* (joint venture)

Table 4.2.1.5 Familiarity with *Musharaka* (joint venture)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<i>Musharaka</i> (joint venture)	2	3.9	100.0	100.0
Missing	System	49	96.1		
Total		51	100.0		

Source: Field Survey (2015)

In the IBF model, *Musharaka* is an arrangement packaged as a joint venture between the bank and the customer. Both contribute equity in the form a ‘venture capital financing scheme’, manage the project, share risks and profits or losses that arise from the venture (Obiyo, 2008; Dusuki, 2008). Bankers who were surveyed predominantly did not appreciate the mechanics of the IBF arrangement as 2(3.9%) out of 51 indicated they were familiar with it as against 49 (96.1%) who were reported not to be familiar with this mode of IBF financing.

4.2.1.6 Familiarity with *Takaful* (insurance)

Table 4.2.1.6 Familiarity with *Takaful* (insurance)

		Frequency	Percent
Missing	System	51	100.0

Source: Field Survey (2015)

Takaful is the insurance product in the IBF model. This product is however different from traditional insurance product as premium payers are partners in the company and can therefore take part in profit or losses of the insurer. It is therefore an insurance package based on joint guarantee and profit and loss sharing (Warde, 2000). Interestingly, the finding of the study indicates that none of the 51 (100%) bankers from 17 banks surveyed for the study were familiar with the mechanics of *takaful*.

4.2.1.7 Unfamiliarity with Islamic financing contracts

Table 4.2.1.7 Unfamiliarity with Islamic financing contracts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	43	84.3	100.0	100.0
Missing	System	8	15.7		
Total		51	100.0		

Source: Field Survey (2015)

Bankers who were not familiar with any of the products in the IBF model, were also given the option (i.e none) to indicate their unfamiliarity with any of the products in the model. The researcher found out that out of 51 bankers, 43 (84.3%) indicated they were not familiar with the nature of the products found in the IBF model. On the other hand 8 (15.7%) fell in the category of those who were familiar with one or more products as analysed above since the question allowed for multiple response to familiarity with the product as it applies to the banker.

Overall, the findings of this study clearly show that there is a low of knowledge of products offered by the IBF model amongst bankers who participated in the study. This is consistent with the findings of authors such as Karbari et al. (2004), Gerrard and Cunningham (1997) and Obiyo (2008) who provide empirical evidence that in previously existing conventional banking systems (i.e. the United Kingdom, Singapore and Nigeria respectively) there is a dearth of understanding of the IBF model, and therefore bankers will require retraining if the model will be viable. It

could be inferred that the trend found in this study is logical since it was earlier reported that their respective banks do not operate Islamic Banking windows. The basis for this inference is that in Ghana many bankers learn on the job and build experience and knowledge through their operation from time to time. As a result, the low level of knowledge could be explained by the non-regularisation of the model in the country. However, this finding is indicative of a problem that may arise moving into the future if the IBF model is adopted into mainstream banking in the country. Currently, the finding shows that bankers find the model very fuzzy. They do not appreciate the mechanics and operational dimensions of the model. Therefore if the IBF model is regularised, there can be difficulty in its practice, all other things being equal. The low level of knowledge among bankers could also be a source of unwillingness on their part to accept the model as part of their operations or open Islamic windows in the near to medium term. If bankers will be able to learn about the model and operate it in the longer term, it will come as an extra cost of training. Banks may be willing to bear this cost only when there is ample evidence of the benefits the model can give to their institution when it is regularised. Therefore, there is a tendency on the part of bankers to be cautious in the near to medium term about opening Islamic windows as part of their operations. In the longer term, there could be room for adjustments as they may come to appreciate the model through training, education, and on the job learning if it is regularised in the country.

4.2.2 Outlook of bankers' on viability of IBF model (perceptions on benefits and challenges of practicing the IBF model)

As part of the study, the researcher was also interested in the outlook of bankers on the model's viability. This will help evaluate how they perceive the idea of interest free banking and profit and loss sharing as presented by the IBF model. The bankers were therefore asked to indicate their level of agreement to statements or measures that capture the benefits (or opportunities for growth) and challenges of IBF in relation to its practice in the Ghanaian banking environment, their respective banks and the economy at large. In this area, the researcher is interested in capturing the reality or representation of their perception as they indicated and therefore

computed the means of the measures through SPSS software version 21 since the mean statistically representative of their perception. The findings are reported in the following sections.

4.2.2.1 Benefits or opportunities in IBF model for growth

Table 4.2.2.1 Bankers' perception on benefits of Islamic Banking and Finance

Measures	N	Min	Max	Mean	Std. Dev.
Islamic banking will improve competitiveness of our bank	51	1.00	5.00	2.9216	1.14618
Islamic banking will enhance bank's brand image as ethical	51	1.00	5.00	2.8824	1.16012
Zero interest rate on loans will minimise our risk and improve repayment	51	1.00	5.00	2.2941	1.37541
Islamic banking will increase our customer base	51	1.00	5.00	3.2745	1.28185
Islamic banking will enable bank provide variety of products	51	1.00	5.00	3.1176	1.19410
OVERALL	51	1.00	5.00	2.8980	.88306
Valid N (listwise)	51				

Source: Field survey (2015)

First and foremost, bankers were asked to show their level of agreement the statement that Islamic Banking will increase the competitiveness of their banks. The competition in the Ghanaian banking industry has gradually become intense with arrival of many foreign banks. Experts actually predict in the Ghana Banking survey that Islamic Banking and Finance will be one of the major drivers of competition in the industry (PWC, 2014). Furthermore, Ahmed (2010) notes that in the era of a global financial meltdown Islamic Banks have been resilient and competitive relative to their conventional counterparts. Therefore, the model could help banks to increase what business strategists may refer to as a 'point of difference' to seek competitive advantages in the banking industry. Since, it has been found out in earlier findings that practice of IBF remains

an untapped market, banks who are quick to capitalize on the niche when regularised could enjoy a first mover advantage. The reported mean for this measure was 2.9216 (see Table 4.2.2.1). This indicates a degree of neutrality about the statement. It shows that bankers are unsure of the competitive advantages that practicing the IBF model can offer. It could be seen that although the reported mean is approximately 3, (an indicator of neutrality on the measure), it slightly tilts to 2, the indicator of disagreement. The tilt of this mean towards disagreement suggests that the uncertainty could make them hesitant to adopt the model if it regularised in Ghana. The reported mean also indicates that all other things being equal, bankers are satisfied with their competitive strategy and outcomes they are able to achieve with the practice of the conventional model. In sum, the outcome of the measure (i.e. the competitiveness the model can offer) in the context of overall purpose of this study is that in the near to medium term the prospects of the IBF model is not very positive.

In addition, bankers were asked to indicate whether they believe practicing the IBF model will improve their banks image as ethical. The IBF model is predicated on the philosophy of concern for society and justice in how money is handled such that the poor for instance will not be overburdened with debt that may arise from high interest rates. Again, in an IBF window a conventional bank will not be allowed to finance sectors that are considered unethical such as alcohol industry. The importance of ethics comes to play in the wake of a current of recognition for responsible behavior amongst business and concern for wellbeing of society through the concept of Corporate Social Responsibility. The reported mean for this measure was 2.8824 (see Table 4.2.2.1). This indicates that bankers are neutral or unsure yet pessimistic about the possibility of the IBF model improving their brand as an ethical bank. This finding is contrary to the widely held view about the model that it is ethical and contributes to wellbeing of society especially its pro-poor nature (Dusuki, 2008; Goaeid and Sassi, 2010). This divergent opinion could be attributed to the preferences of customers of Ghanaian banks who relatively may be more sensitive to product offerings in relation convenience and costs as offered by banks rather than the ethical and moral dimensions of the bank's operations. As a result, it could be inferred

that in Ghana, the IBF model may have a religious and moral appeal rather than a general ethical appeal that cuts across various segments of society. To this end, the practice of the model could be said not to have very positive prospects in the near to medium term.

Furthermore, bankers were asked to indicate whether they believed offering zero interest rate loans will minimize their risks and improve repayment of loans. It was found that bankers largely disagree to this statement (mean=2.2941). This suggests that to these bankers, offering a loan to a customer that is interest free does not necessarily guarantee repayment. Therefore, practicing the IBF model where interest is not permitted will not necessarily reduce their credit risk profiles. Proponents of the IBF model largely opine that the model is less risky to practice since it not interest based (Ahmed, 2010; Goaeid and Sassi, 2010). However, the findings of the study indicate that per the banking experience, trends in the markets, risk profiles as known to the banks, interest free loans will not be beneficial to reducing risks and improving repayment. This finding is consistent with that of Mamun (2011) who found out that conventional bankers in Bangladesh also do not perceive the zero interest loans to minimize risk since there were charges that Islamic Banks offered that could equate to interests. This perception ,if it is a major variable to go by, shows that all other things being equal, bankers will be reluctant or hesitant to adopt the IBF model in the near to medium term.

Again, bankers were asked to show if they believe that practicing the IBF model will increase their customer base. Particularly the model could be a market segmenting tool to attract customers who make choices on ethical, moral and religious grounds (especially Muslims with respect to the model although technically Islamic banking product are not reserved for Muslims).The finding indicates that bankers are uncertain about this proposition or benefit that the IBF model may offer (mean=3.2745). It suggests that they are unsure whether practicing the model will help reach more customers or not. This uncertainty may be overcome if the model is regularised and it is visibly reflected in their operations that their IBF windows seem to attract more customers. Again, an extensive market survey may reveal whether their customers have preferences for IBF products. The neutrality of their perception on this measure could be positive or negative for the

prospects of the model. On the positive side, banks may want to experiment it once it is regularized to know the reaction of the customers. On the negative side, it could be a disincentive for banks to adopt the model once they are unsure about the reaction of their customers. It will actually depend on the risk appetite, strategic capabilities etc. of the bank in question. Therefore in relation to this measure, the prospect of IBF model is mixed (i.e. neither positive nor negative).

Finally in relation to the perceptions of benefits of the model, bankers indicated their belief whether offering Islamic banking will enable their banks provide a variety of products for customers. The finding of the study indicate again their neutrality on the measure (mean= 3.1176). There is variety of Islamic financing products as captured earlier in the analysis. However, it could be inferred that since the bankers are not familiar with the mechanics of such contracts, they cannot make meaningful analysis at the moment on which of the products can add to their portfolio of product offerings. This suggests that if they will adopt any product through opening an Islamic window there will be the need for education on the nature of the products. Bankers particularly may be concerned about the risks inherent in the products and its operation and therefore once they are certain on those, they could adopt the model once it is regularised. This finding suggests that in relation to this measure the prospect of IBF is mixed (neither negative nor positive) especially due to their unfamiliarity with the products.

The next section of the chapter reports findings on the perception on challenges of bankers related to the practice of the IBF model

4.2.2.2 Challenges of practicing the IBF model

Table 4.2.2.2 Bankers' perception on challenges of Islamic Banking and Finance

Measures	N	Min	Max	Mean	Std. Dev.
Interest free loans will reduce bank's profitability	51	1.00	5.00	3.7843	1.31626
Training and education in Ghana on Islamic Banking and Finance is inadequate	51	1.00	5.00	3.7843	1.13690
There is a lack of supportive and link institutions (such as <i>Shar'iah</i> boards and consultancies) for successful practice of Islamic Banking and Finance	51	1.00	5.00	3.4902	.96690
Profit and loss sharing with clients will be difficult to operate	51	1.00	5.00	3.4706	1.23860
Regulation for operating Islamic Banking windows and products is non-existent	51	1.00	5.00	3.1373	.95958
OVERALL	51	1.00	5.00	3.5333	.75648
Valid N (listwise)	51				

Source: Field Survey (2015)

The measures used for the challenges were to capture some reasons why the bankers may find it difficult to operate or adopt the model. Hence, know why the model may not be viable from their perspective.

First bankers were to indicate the level of agreement about the possibility of interest free loans reducing their profitability. The reported mean was 3.7843 (see Table 4.2.2.2). This finding suggests a general agreement to that statement. This suggests that in the conventional banking system interest payment form a critical component of the sources of profits and therefore if they forgo the interest they make on their loans then their profits can be reduced. With this finding, it can be inferred that it will be difficult for bankers to switch to adopt the IBF model if there is no surety of promise for increase in profits. They could be willing to switch only when there is

evidence that adopting the model will be profitable. Banks will therefore transition with caution even when the model is regularised in Ghana, a sign of poor prospects, all other things being equal.

Again, bankers were asked to show if they felt education on the IBF model was inadequate. The result shows an agreement to this measure (mean=3.7843). This is seen to be of very great concern as it reported the highest mean amongst the measures for challenges. It is very clear that until bankers understand the applications and implications of the model for the banks and the economy, they will be reluctant to practice it irrespective of the benefits associated. There will be a great difficulty if the model is regularised without enough education amongst bankers because partly, they are captains of the economy. Again, bank executives will not be willing to open Islamic Banking windows when their workforce is not adequately trained. In an interview with an official from support institution identified to be spearheading the education of Islamic finance, it emerged that there are only about 25 experts in the country well trained in the area of Islamic finance. In the view of the researcher, this number is inadequate to facilitate education about the model throughout the country in the near to medium term.

Again, the interviewee acknowledged that currently in Ghana, *“We don’t have the human capital, we don’t have the capability, we don’t have the resource, the people”* and that is why the institution has been established to train the workforce for the adoption of the IBF model.

Based on this measure, it could be inferred that the practice of the IBF model has little prospects in the near to medium term.

In addition, the researcher asked the bankers to indicate if they felt that currently operation of the IBF model will be difficult due to lack of supportive institutions such as *Shar'iah* boards and consultancies. Due to the specialized nature of Islamic Banking and Finance, its operation is done together with other bodies such as *Shari'ah* boards. These boards for instance will help regulate banks activities to ensure that their Islamic window operations are *Shari'ah* compliant. Again, consultancies give education and strategic advice for banks to enable them

operate (Field interview, 2015). The result shown (mean=3.4902, see Table 4.2.2.2), indicate that largely banks are unaware of such institutions and possibly their functions. Again, the uncertainty about the existence of such institutions will not motivate banks to adopt the model in the near to medium term although they may be willing to adopt the model. The study of Mamun (2011) corroborates the position as it was found that conventional bankers were not willing to adopt the IBF model because of insufficiency of support institutions in the operation of IBF. This perception held by bankers may however change if such institutions increase in the country in the long term.

In another measure, banks were asked to indicate if they believed profit and loss sharing will be difficult to operate. The reported mean was 3.4706 (see Table 4.2.2.2). This indicates that they were largely unsure of the outcome of this method of profit generation. The findings may also be reflective of wider structure of the Ghanaian society where transparency in business activities may be difficult to monitor to ensure that profits are declared truly. There can also be the concern of difficulty in dealing with the informal sector on profit and loss sharing basis due to low level of profitability, and high illiteracy levels in Ghana. In relation to this concern the official interviewed at the Global Institute of Islamic Banking, Insurance and consultancy (GIBIIC) (the support institution) explained that when Islamic Banking is regularized, it will behove the bank to design products that are *Shari'ah* compliant yet feasible for their market target. This result indicate mixed prospects for operation of the PLS scheme.

Finally bankers were asked to indicate if regulation of the IBF model was existent in Ghana. The reported mean was 3.1373, this indicates lack of surety on guidelines that the central bank has in place to regulate the model. This result is corroborated by interview conducted by the researcher with the support institution on Islamic banking in Ghana. The official noted that Global Institute for Islamic Banking , Insurance and Consultancy (GIIBIC) organized a stakeholder forum which engaged on 20th Feb 2014 that involved key stakeholders of the financial services industry in Ghana, including the BOG all departments, (financial stability, banking supervision, securities),

the Ministry of Finance, Ghana Bankers Association, National Insurance Commission, the pension scheme, Through the meeting the model was explained to them that as a *“third world country we need it”* . There was opportunity for interaction and deliberations on the model. The outcome of the meeting was the need to review the Banking Act of Ghana to capture rules on operating Islamic windows and banks in the country. Although interest was shown in the model by the stakeholders and the GIBIIC had engaged the Bank of Ghana subsequently in this direction, a regulatory framework has not yet been fully designed by the central bank. The official however hinted that about four banks have applied for licenses to operate the model in Ghana but was awaiting regulation and the green light from the central bank. The official remarked that regulation design is in the pipeline but has probably delayed because *“doing things in Ghana takes a long time because there is bureaucracy”*. The official added that regulation is the most important for the operation now as it was expressed that *“all depends on when BOG finishes regulation”*.

Experts advise that for IBF to be successful there should be regulatory clarity (Ernst and Young, 2013). Therefore, for the prospects of the model to be positive there is the need to redesign the current banking act or better still create a separate regulation for operation of IBF in the country before the model can be regularized.

4.2.3.3 Overall outlook (aggregate analysis of perceived benefits and challenges)

In order to make an overall inference on whether bankers are optimistic or pessimistic about the viability of the IBF model, the researcher sought to compute the overall mean of the measures of optimism (i.e. the perceptions of benefits) and measures of pessimism (i.e. perception on challenges) given by the bankers. This analysis is still seen as feasible and will still be representative of their overall outlook on the model since the standard deviation reported for measures in the benefits category ranged between 1.14618 and 1.37541(indicating a low degree of dispersion or variability of responses) (see Table 4.2.2.1) whereas the measures in the challenges showed a standard deviation ranging between 0.95958 and 1.31626(also indicating a low degree of dispersion or variability of responses)(see Table 4.2.2.2).From the computation of the researcher, the overall mean for perceptions on the benefits was reported to be 2.8980 (see Table

4.2.2.1). This indicates a high degree of uncertainty about the fortunes of adopting the IBF model. Although the mean is near to neutral, the fact that it tilts towards their disagreement largely suggests that although they are uncertain about what the practice of the model will bring, they are generally more pessimistic than optimistic about the outcomes of adopting the IBF model. Bankers are however most optimistic (highest mean of perceptions on benefits=3.2745) (see Table 4.2.2.1) about the possibility of IBF practice increasing their customer base although the mean indicate a low level of surety if that can happen when they adopt the model

On the other hand the overall mean reported for the measure of challenges perceived by the bankers is given as 3.5333(see Table 4.2.2.2). This also indicates a great degree of neutrality about the challenges they perceive to face when the model is adopted. However, 3.5333 is closer to the scale measure of Agreement which is 4, and therefore an indication that, although they may be uncertain about the future outcomes of the model, they largely agree to the challenges it might pose. This is a clear suggestion that bankers are more pessimistic than optimistic about adopting the model. However, two major measures recorded the highest means. First, it is seen that the challenge they find daunting the most is the lack of training and education on the model which reported on of the highest mean of 3.7843. Again, they largely believe that offering interest free loans will reduce their profitability which also recorded a mean of 3.7843.

When the overall mean for measures of optimism (2.8980) (see Table 4.2.2.1) and the overall mean of measure of pessimism (3.5333) (see Table 4.2.2.2) about the model are compared it is clear that bankers are more pessimistic about the model than optimistic about the outcomes of adopting the model. However, there is also a degree of uncertainty about the overall outcomes of the model since the overall means are close to neutral (i.e. 3).

In sum, it could be concluded that from the perspective of bankers surveyed for the study, the prospects of the IBF model is not positive in the near to medium term and therefore could be inferred that they demonstrate unreadiness to establish Islamic banking windows or diversify into full fledged Islamic banking operations. This finding underscores Karbari et al (2004)'s observation that most bankers and customers in the conventional banking system have been

accustomed to the conventional banking model and therefore with the introduction of an alternative model, it will be unlikely to see them switch unless the model offers extra benefits.

However, the prospects of the model can change the long term especially when there is training and education on the model and the trends in the market shows its viability.

4.3 Perspective of Support or link institution for practice of the IBF model

The only institution identified was the Global Institute of Islamic Banking, Insurance and Consultancy (GIBIIC) in Accra. An interview was therefore conducted with an official of this institution to access the perspective or outlook of the institution on IBF practice in Ghana.

4.3.1 Role of Support institution towards IBF practice in Ghana

GIBIIC is an institution that aims *to develop Islamic banking in Ghana by to offering training, education and consultancy services in the short term*. As a long term strategy, the Institute intends to offer Islamic financial products by opening a sister company (i.e. GIBIIC Finance) (Field interview, 2015). In an interview, an official from GIBIIC noted that *“If we are successful in Ghana then we can have a global reach where we can look at the West African region, and extend coverage to international markets.”*

The official indicated that the Institute has global strategic partners that allows for sharing expertise and experience. These can be found in countries such as in Pakistan, South Africa, UK, Bahrain, Dubai, and Pakistan. It emerged in the interview that the Institute had to go to UK for experience since the UK had been successful in applying the model and replicate it in Ghana since Ghana is not a Muslim dominated country like Saudi Arabia or Pakistan (Field interview, 2015).

Again, the Institute has sent proposal to the Bank of Ghana for review to help design regulation for IBF practice and also to the Ministry of Finance (MOF) to offer Islamic *Sukuk* (Islamic Bonds) (Field interview, 2015). This is corroborated by data received by the Bank of Ghana which affirms that the central bank is collaborating with GIIBIC help regulate the model in Ghana (Field Survey, 2015).

The researcher was interested in knowing the structures and process proposed for the operation of the IBF model in Ghana. In answering the question “*What framework do you use to certify Islamic Banking products?*” The interviewee explained that banking product should be *Shari’ah* compliant which means that it should conform to *Shari’ah* principles and therefore the Institute could certify products for any financial institution that wants to offer Islamic banking products and do not have the requirements to do so once the model is regularised in the country. In general, this will be done by *Shari’ah* boards and Supervisors affiliated to the financial institution in question. The official further explained that for a product to be deemed *Shari’ah* compliant, they should be transparent, not be interest related, free from *gharar* (i.e. uncertainties), not have things forbidden associated to it like alcohol (Field interview, 2015).

The official explained that there is a process map for certification so that financial institution will offer products that are *Shari’ah* compliant. These include cleansing of banking assets. The official remarked, “*if it is found out from a bank they are mixing products that are not Shari’ah compliant, that is impure products, and then the product added exceeds excess 5 % of total value of assets, then the bank will be qualified as non-Islamic*”. And therefore *Shari’ah* board members will have the authority to issue a statement for customers to take their monies from the bank. *Shari’ah* boards are affiliated to bank every two months to ensure it is doing the right things. There are however going to *Shari’ah* supervisors who are going to be permanent bank staff who check daily to ensure the activities of the bank is *Shari’ah* compliant and facilitate monitoring, a conventional bank operating an Islamic window ought to separate the platform of operation or software for operation to avoid mixing information on operations. Another duty of *Shari’ah* supervisors the official explained was that they have to give the report to shareholders on IBF activities of banks (ibid.).

According to the literature of IBF, it is found that since interpretation of *Shari’ah* are left to Muslim scholars, different schools of thought have emerged across different cultures and societies. And therefore for instance there is no consensus on whether *riba* and interest are same across different schools of thought. Due to these variations, there appears to be a lack of

standardization since each *Shari'ah* board could give its own interpretations to a bank it is affiliated to. This lack of standardization makes it difficult for regulators for instance to understand the IBF model (Karbhari et al., 2004). Against this backdrop, the researcher asked the official of GIIBIC the efforts are being made to harmonise *Shari'ah* interpretations especially in relation to practice of Islamic Banking and Finance. The official explained that cooperation and harmonization on the use of terminologies is required for the various financial products. However, the use *itihad* (effort on interpretation by *Shari'ah* scholars) is offered on areas that are not specified directly by *Shari'ah* principles. After the interpretation, a fatwa (ruling) is issued. He further explained that *Itihad* and *fatwa* are used in to deal with the current trends in finance to make them *Shari'ah* compliant and that is allowed. And in relation to variations in schools of thought he explained that in Ghana, scholars largely subscribe to one school of thought (i.e the Maliki School of thought) which guarantees uniformity in the operation of the model in the country once it is regularized. He further remarked that in Ghana, there is a set of English terminologies for the products that would be applied and that is in line with what has been used in the United Kingdom and the United Arab Emirates (Field interview, 2015).

4.3.2 Outlook (anticipated benefits and challenges) of Support or Link Institution

As part of the objectives, the researcher also found out the anticipated benefits of the model for the Ghanaian economy from the viewpoint of the institution. Some of the anticipated benefits of the model as expressed by the official have been captured below.

First, it was explained that it will help use money for moral and ethical activities. The official further explained that although it is said that conventional banking has its own ethics, there is a difference which is in the article of association which clearly specify the 'do's and don'ts' of a banks activity. The interviewee believed that for conventional banks those are not provided, and such articles of association or clauses should be included for Islamic Banking supervision in the reviewed Banking Act.

In addition by regularising, Islamic banks or windows, the official of GIIBIC made it known that Ghana can attract investment from emerging markets in the Middle East who prefer to channel funds through *Shari'ah* compliant banks.

Furthermore, the interviewee believed that the IBF model will lead to an equal distribution of resources through financial inclusion to bridge the income gap between the poor and the rich and moreover strengthen the economy since IBs are involved in imports and exports. The interviewee argued that Islamic banks will help finance the farmers, give them inputs and resources they need including fertilizers, give supervision by going to the farm, ensure output is produced, by produce from farms, look for market for them, just like venture capital financing to encourage exports and improve foreign exchange position of Ghana. IMF economists also corroborate that IBF model can be used as a tool for financial inclusion Gelbard et al (2014).

The interviewee was asked to comment on the anticipated challenges of practicing the IBF model in Ghana. Some responses related to misconception of the religious link to the model and misunderstanding of the public concerning interest free nature of IBF. It was explained that “*there is a weak understanding of the aims and principles*”. The official explained there was an erroneous impression that Islamic banking means promoting Islamic ideology. The official expressed that “*When people hear the word Islamic, they think it is the ideology, but ideology is different from finance*”. The researcher asked why it will not be marketed as moral finance or ethical finance given the multi-religious nature of the Ghanaian society. The interviewee explained that the Organisation of Islamic countries object to that since the morality concept around which the model is structured is based on Islamic meaning of morality. He further explained that it was important the concept is preserved since morality can differ from context to context. To overcome this challenge, the official suggested that IBF products when regularised should be marketed as “*products for economic development not products for religion*”. The interviewee argued that religion should not be a hindrance for operation of the model as it is even acceptable for any person of any other religion to be part of a *Shari'ah* board once the person has training in Islamic finance. In relation to this question, it was affirmed by the Bank of Ghana,

Islamic banking is available to both Muslims and non-Muslims as pertains in countries like the UK. Therefore the central bank believes the multi religious nature of our society will not pose any challenges to the operation when regularised (Field Survey, 2015).

Again, the interviewee cited another challenge about a widely held public misconception that Islamic banks do not take interest but do not know that they rather share risks, profits and loss. When asked if Profit and Loss sharing schemes will work in Ghana, as people may not be comfortable sharing their profits with banks. The interviewee was optimistic it would work since it has been experimented internationally and therefore implementing the right procedure will get people to understand the PLS schemes. The interviewee expressed that in Ghana, PLS schemes will work best with the formal sector than informal sector since the formal sector is established and constitute businesses that are registered.

When asked to comment about the prospects of IBF model in Ghana, the interviewee remarked that the prospects in the near to medium term is bright because a lot of people have shown interest in the model. And when regulation is put in place by the central bank the prospects will be brighter because that will attract more banks to practice the model.

4.4 Perspective of Regulation and Supervision

4.4.1 Current state of regulation of IBF model in Ghana

As part of the objectives of the study, the researcher was interested in assessing the preparedness in Ghana to help regulate and supervise the model. A questionnaire was therefore submitted to the central bank to elicit responses in relation to regulatory dimension of the model in Ghana.

First, it was found that as at July 2015, one (1) conventional bank application with the prospect for introducing Islamic Banking was being processed at the central bank. And, in order to ascertain the nature of the model, the central bank has conducted studies on Islamic banking operations in Kenya (Field Survey, 2015).

Further, It was found that Ghana is yet to pass a law on operation of the IBF model as there is a bill before parliament. This bill which is known as ‘The Bank and Specialised Deposit Taking

Bill' has introduced non-interest finance as a permissible product to accommodate IBF operations. This process may have taken time to complete as proposals would have to be sent to parliament through the Ministry of Finance (Field Survey, 2015).

Therefore as at July 2015, the Bank of Ghana had not put full regulation in place which include requirements for starting the operation of the model, guidelines in *Shari'ah* governance for non-interest financial institutions (i.e full fledged Islamic Banks in Ghana) and guidelines on non-interest window and branch operations of conventional banks and other financial institution (i.e. Islamic windows and departments)(ibid).

Beyond legal requirements, the researcher was interested to know institutional changes in the central bank that might accompany supervision of the model. In relation to whether a specialised supervision department for the model will be created in the central bank, it was made known that BOG is yet to decide on that but most likely it will be done under the Banking supervision department with their dedicated team of staff.

Also the Bank of Ghana had not taken a decision yet as at July, 2015 on whether it will work with a centralized *Shari'ah* board or individual *Shari'ah* committees to supervise the model. It was however stated that much will depend on response received from industry and the availability of persons knowledgeable in Islamic finance. It is also expected that prudential requirements for operation will not vary significantly for Islamic Banks. According to the central bank the change that needs to occur to facilitate the operation of the model is the review of the Banking Act (Field Survey, 2015).

These findings indicate that regulation is not fully structured to monitor and supervise the model although processes are underway. The researcher anticipates that when ready, it might take a bit of time and a lot of education to diffuse the new regulations across the entire financial system. The findings in relation to regulation supports banks uncertainty about the availability of regulation the model since the processes have not been completed. Due, to unavailability of full regulation, it is difficult to conclude on how it might affect the model in Ghana. It could therefore

be inferred that prospects of IBF in relation to regulation is mixed in the near, medium and long term.

4.4.2 Outlook (anticipated benefits and challenges) of the Bank of Ghana

In relation to benefits, the Bank of Ghana anticipates that regularising the model in Ghana could facilitate inflow of capital from the Middle East. Again, IBF presents a new model of banking different from the conventional banking currently existing in Ghana (Field Survey, 2014).

The Bank of Ghana also acknowledges that lack of expertise on the model in the country will hinder the operation of the model. This corroborates the finding from the bankers' perspective which showed a general agreement that training on the model was inadequate. However, some effort had been made to organise a training programme which was organised on 20th Feb. 2014 in collaboration with GIBIIC at ALISA Hotel in Accra. (Field Survey, 2015)

Also, another challenge cited was that there are limited avenues to Islamic banks for investing excess liquidity due to their non-participation in open market operations (ibid).

4.5 Analysis of Ghana's macroeconomic environment in relation to the IBF model

Finally since the IBF model will obviously be operated in the overall macroeconomy of Ghana, the researcher finally attempted to analyse the macroeconomic outlook of the country using two major macroeconomic indicators (i.e. inflation rates and interest rates) in relation to how they may affect operation of the model in Ghana. Secondary data on these indicators were therefore retrieved from the Bank of Ghana monetary time series data to generate line graphs for analysis as shown below.

4.5.1 Trend analysis of interest rates in relation to the viability of IBF practice

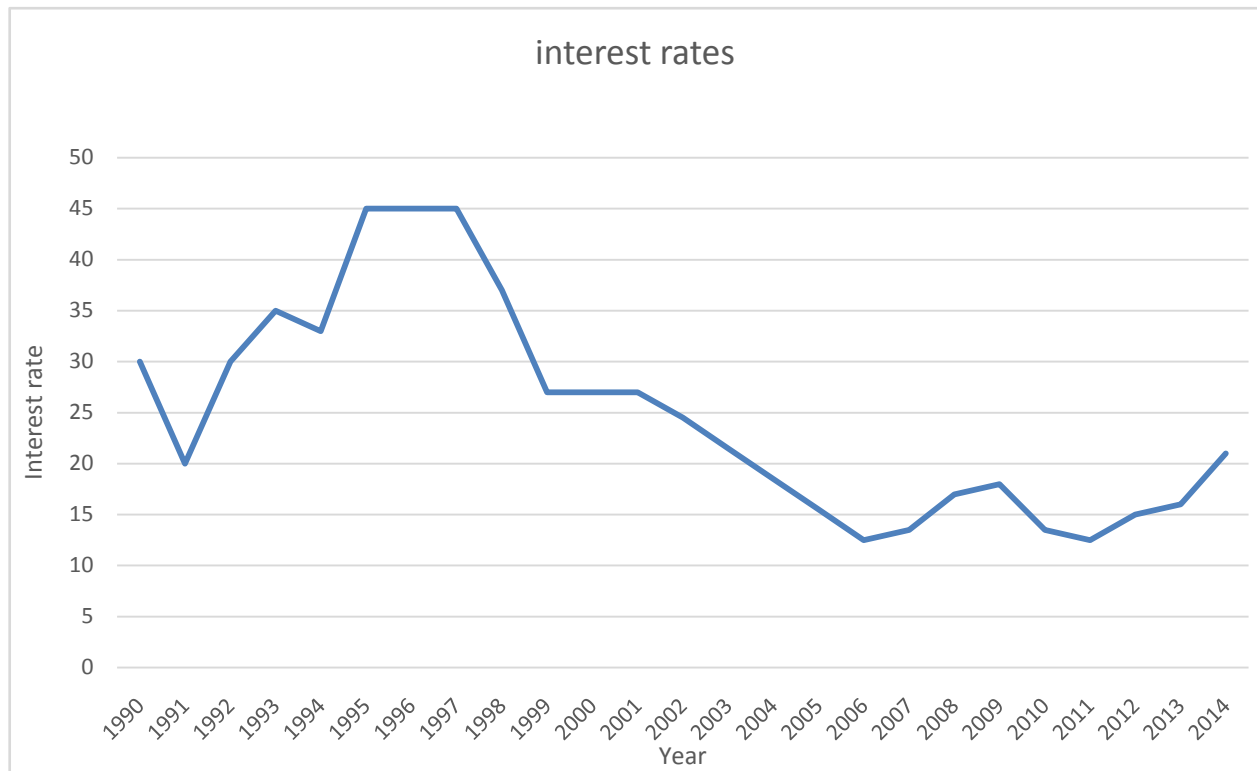


Figure 4.5.1 Line graph of interest rates from 1990 to 2014 (Source: Bank of Ghana monetary time series data)

The line graph in figure 4.5.1 graphically represents the trends of interest rates in Ghana over a period of 24 years (from 1990 to 2014). It is seen that from the perspective of interest rates movements, the macro economy of Ghana has not been very stable over the 24 year period. Going into 1991, there was a downward trend where the interest rate dipped to 20% from 30%. However from this period the rates took an upward until it peaked at 35% (in 1993) followed by a slight dip in 1994 (33%). Beyond this point, rates increased to 45% and flat lined for three years (1995 to 1997). This period was followed by a down ward trend before rates flat-lined again (at 27%) for three years from 1999 to 2001. From 2001, interest rates assumed a downward path by a 3 % successive reduction over 5 years (from 2002 to 2006). Beyond this year, rates increase to 18% (until 2009) over three years. From 2009, rates fell incrementally until 2011 when it reassumed an upward trend from 12%. Since, 2011, the rates have risen to 21%, which has been the most recent rate given by Bank of Ghana. Although there are three possibilities of changes in interest rates (i.e. a fall, a rise or stability), the researcher anticipates a scenario where the rates will be

stabilized or may continue to increase given the upward trend (from 12.5% to 21%) experienced over the past four years (i.e. from 2011 to 2014). This trend or scenario moving into the future has many implications for the practice of the IBF model.

In every economy, interest rates have direct and indirect effect on practically every economic unit (Incoom, 2010). Although the IBF model is not based on interest, institutions that operate it whether Islamic windows or full-fledged Islamic Banks, are also affected by interest rates (Bacha, 2004). When interest rates are falling, banks which operate the conventional model of finance are able to change the lending rates or base rates and deposit rates to make maintain the level of profits (Kader and Leong, 2009). On the other hand the IBF model does not give this luxury due to its interest free nature. Again, when interest rates rise cost of funds will increase for conventional banks because they would have to increase their rates to guarantee new deposits and meet competition or else they may face the risk of deposit withdrawals (Bacha, 2004). Empirically, it has been proven that when conventional banks increase deposit rates, Islamic banks would also have to make adjustments on profit ratios given to depositors to be competitive since there is opportunity for arbitrage (ibid.). An extra difficulty for Islamic banks is that they cannot mitigate such rate risks by hedging with derivatives because they are not permitted in the model as governed by *Shari'ah* principles, therefore off balance sheets activity offers no protection except adjustments by balance sheet activities (ibid). Again, although Islamic banks become competitive when interest rates rises specifically on the side of lending (given that conventional loans become expensive), when interest rates are falling or customers expect it to fall, they will switch to conventional loans, since Profit and Loss sharing ratio is fixed over the period of the financing given by Islamic banks. The substitution effect between Islamic banks and conventional banks created by the direction of interest rates or lending rates in dual banking system as highlighted by Kader and Leong (2009) is one that is relatively disadvantageous to Islamic banks especially on the asset side.

This raises the concern of macroeconomic stability. Therefore if the IBF model is regularised thereby creating a dual banking system, the monetary authorities will have to ensure

macroeconomic stability especially in relation to interest rate movement if banks which practice the model will be competitive or the IBF model will be viable in the economy. Given the upward trend of interest rates in Ghana given the past data trends, it could be inferred that from the viewpoint of interest rate movements, the model does not have positive prospects in the Ghanaian economy, *ceteris paribus*. The basis for this inference is that conventional banks have the cushion or space of varying their rates to withstand any shocks relative to counterparts that operate IBF model on a fixed PLS ratio.

4.5.2 Trend analysis of Inflation rates in relation to viability of IBF practice

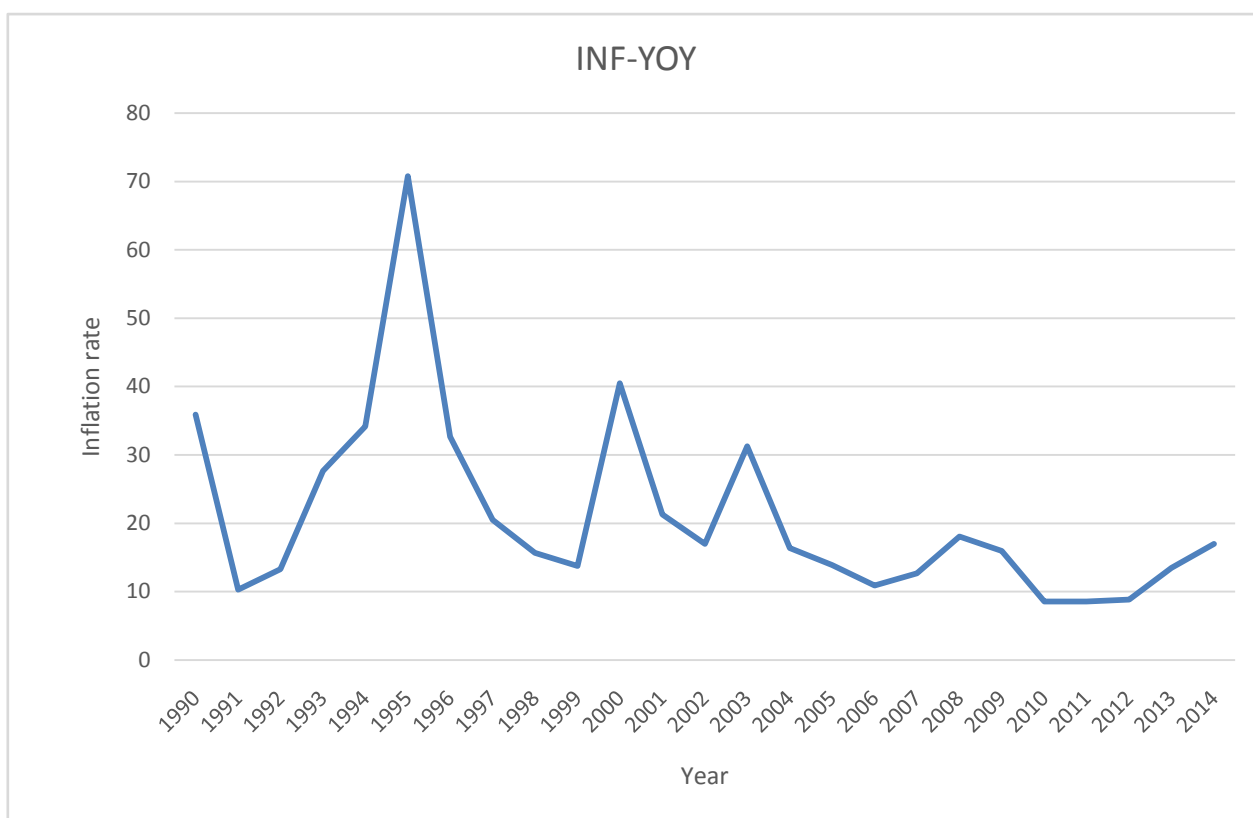


Figure 4.5.2a Line graph of inflation rates from 1990 to 2014 (Source: Bank of Ghana monetary time series data)

The line graph in figure 4.5.2 graphically represents the trends of inflation rates in Ghana over a period of 24 years (from 1990 to 2014). From 1990 to 1991, it is seen that there was a sharp decline in inflation from 35.9 % to 10.3% largely attributable to the cumulative macroeconomic success of the Economic Recovery Programme and the Structural Adjustment Programme

pursued at the time. However, inflation assumed an upward trend to an 'all period' (between 1990 and 2014) high of 70.8% in 1995. After 1995, there was a steep but gradual decline over three years as inflation fell to 13.8% in 1999. Inflation peaked again at the end of 2000 at 40.5% before falling gradually to 17% in 2002. After this period, it rose again and peaked at 31.3% before falling through 16.4%, 13.9% to 10.9% over three years (i.e. 2004, 2005 and 2006). Beyond this period, inflation rose slightly and peaked again at 18.1% in 2008 before assuming a new downward trend to single digits (eg. 8.58%) in 2010 and 2011. In these two years, inflation reached an 'all period' low before rising in subsequent years from 8.84%, 13.5% to 17% (in 2012, 2013 and 2014 respectively). Over the 24 year period, it could be seen that inflation trends have assumed a zigzag pattern or alternate 'highs and lows'. This suggests that from the perspective of general price movements, Ghana's macroeconomy has relatively been unstable.

Although there are three possibilities of changes in inflation rates (i.e. a fall, a rise or stability), the researcher anticipates a scenario where the rates will continue to increase given the upward trend (from 8.84% to 17%) experienced over the past four years (i.e. from 2012 to 2014). Again, this anticipated scenario is highly plausible given that inflation has seldom flat lined over the last 24 years but has rather followed a volatile pattern. This trend or scenario moving into the future has many implications for the practice of the IBF model.

Inflation in any economy is an indicator of macroeconomic stability. Specifically, when an economy is unstable due rising inflation the financial system is negatively affected (Imam and Kpodar, 2013). In the case of Islamic Banks instead charging interests which conventional banks will ideally peg (i.e. lending or base rates) above the prevailing level of inflation in order not to lose, they rather share risks through the profit and loss sharing mechanism. (ibid) Therefore, Islamic Banks profitability is prone to macroeconomic risks arising from rising inflation since a high inflation erodes their profits shared with a client which is an additional loss to already foregone profits. Again if such macroeconomic risk leads to a loss on the part of a client, the loss although shared with the client will have a double loss effect on the IB since a rising inflation will erode value of the return on their investment although they have earned partly from the part of the

loss that was borne by the client. It therefore suggests that in any economy a rising inflation rate is detrimental to the viability of an Islamic Bank. This is corroborated by Imam and Kpodar (2013) in their seminal work on the IBF expansion as highlighted that with increasing inflation, the intermediation effect of Islamic banks break down.

Further, Rab (2004) with rising inflation, real profits on *mudaraba* contracts for instance continue to decrease. Again, cost plus financing could be difficult to practice since rising inflation suggest an increase in prices offered in *murabaha* contracts. Rising inflation will therefore influence clients to forgo consumption in the short term or not engage in cost plus financing.

From the perspective of deposit mobilization, it has been found in the case of Islamic Banks, that Inflation has been found to affects significantly and negatively savings mobilization which is a source of funding for Islamic Banks (Mobin and Masih, 2014). Preferably, customers will want to save with conventional banks to earn a rate of return that compensate to the real loss of value caused by inflation.

In addition, rising inflation will increase for cost of production in the economy all other things being equal. In profit and loss sharing based *mudaraba* and *musharakah* returns are based on real sector performance (Kader and Leong, 2009). Therefore when real sector performance is hindered due high cost of inputs, contracts like *mudaraba* and *musharakah* will be difficult to perform all other things being equal. Moreover, in a developing economy where disposable incomes are low, raising prices to maintain a markup due to rising cost of production may not necessarily lead to high profits because of low demand.

Another major Islamic financing contract affect by rising inflation is *Bai' muajjal* which involves deferment of payment. With inflation rising, the real value of payment that is made at a later date is reduced.

In essence, for the IBF model to be sustained or be viable, it is vital to maintain relative stability with respect to inflation in the economy. However, the trend as shown does not suggest that moving into the near to medium term, such stability can be achieved in the Ghanaian economy.

This scenario does not paint a very positive picture of the prospects of the IBF model in the Ghanaian economy.

To give a deeper context and avoid the limitation that arises by doing trend analysis with standalone metrics, a line graph with both inflation and interest rates is generated to make other inferences.

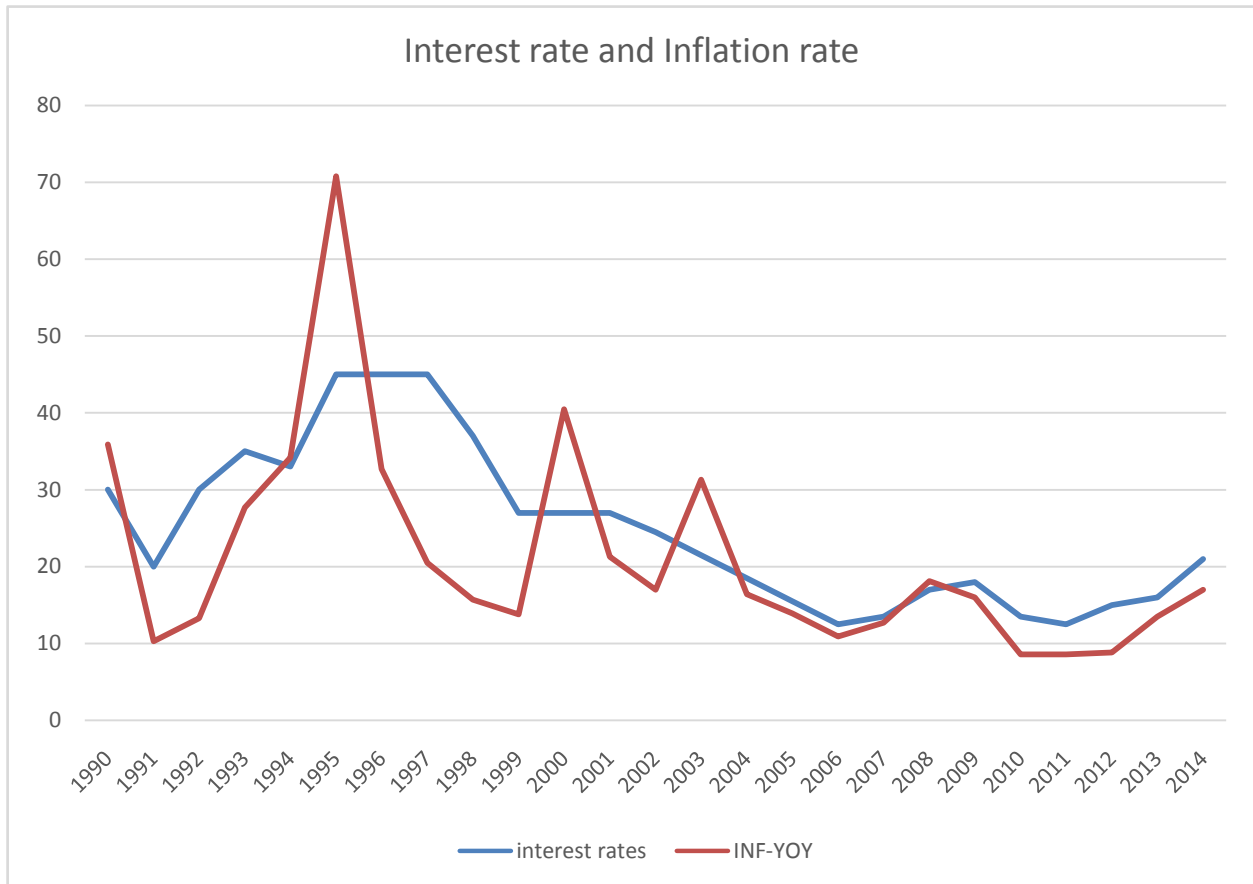


Figure 4.5.2b Combined Line graph of interest and inflation rates from 1990 to 2014 (Source: Bank of Ghana monetary time series data)

From 2011 to 2014, it is seen that both metrics (i.e. inflation and interest rates) have assumed an upward trend. If such trends continue in the near to medium term, which is very plausible, there will be a double risk experienced by financial institutions practicing the IBF model

This is because they are less competitive due to the relative advantages enjoyed by rate adjustments that can be made by conventional banks and also may experience losses in real value

of returns on financial contracts such *mudaraba* and *musharakah* due to fixed PLS schemes and *Bai' muajjal* due to the deferment nature of payment.

In conclusion, the macroeconomic outlook as given by the trends of interest and inflation rates show relatively sluggish prospects for the practice of the IBF model in Ghana.

The following chapter presents the summary of findings, conclusions and recommendations for ensuring the viability of the model when regularised.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This study is designed to contribute to the literature on Islamic Banking and Finance, an increasingly emerging and alternative mode of financial services provision in the global economy. Specifically, it seeks to analyse the model in a new geographical context by analyzing its prospects using Ghana as a case. By using an inductive approach, the researcher attempts to fill the gap in literature relating to the model and its viability in Ghana by drawing from several perspectives including banks' current practice, bankers' perceptions, support institutions and macroeconomic viewpoints. This chapter presents a summary of the findings of the study. Further, through an aggregation of the findings found from the various perspectives as shown in the conceptual model, an overall prognosis on the prospects of the IBF model is then given as a conclusion. From the findings and conclusions, recommendations are made with respect to how the model can be made to work to benefit all Ghanaians. Future directions on research are also suggested to increase knowledge in this area of banking and finance in Ghana.

5.1 Summary of findings

Out of the twenty-seven (27) licensed banks in Ghana, the researcher gathered data from seventeen (17) to ascertain their current status of financial services provision in relation to IBF. This helped to obtain empirical evidence on the practice of the model in the Ghanaian financial system as there had been formal engagements with key stakeholders in Ghana's banking industry in 2014 (Sulley, 2014; Graphic Business, 2014) to regularise IBF. The findings obtained indicate that none of the 17 banks operated an IBF window in Ghana although some banks hinted they operated IBF windows in their operations in other countries where they operated. However, 1 of the 17 banks indicated that it offered interest free loans as part of its product offerings although it did not operate an IBF window. The interest free loan was also not designed with respect to *Shari'ah* compliance but had been included in the bank's normal operations. Therefore by July

2015, practice of the IBF model had not entered mainstream banking system in Ghana. The provision of IBF products therefore remain an untapped area in the Ghanaian banking industry.

Before the IBF model can be practiced effectively by bankers, there is the need for bankers to have adequate knowledge on the nature of IBF products. The researcher therefore investigated banker's familiarity with products that are found in the IBF model. These include (i.e. *Qard al-Hassan* [charitable loans], *murabaha* [cost plus], *Ijarah* [leasing], *Bai'muajjal* [deferment payment sale], *Musharaka* [joint venture], and *takaful* [insurance]). Bankers were made to indicate their familiarity with any of these products. On the other hand, in cases of unfamiliarity with any, there was an option to indicate "none". The findings indicate that 2 (3.9%) out of 51 (100%) were familiar with *Qard al-Hassan* (charitable loans), 3 (5.9%) out of 51 (100%) were familiar with *murabaha* (cost plus finance), 3(5.9%) out of 51(100%) were familiar with *Ijarah* (leasing), 2(3.9%) out of 51(100%) were familiar with *Bai'muajjal* (deferment payment sale), 2 (3.9%) out of 51 (100%) were familiar with *musharaka* (joint venture), none was familiar with *takaful* (insurance), whereas 43 (84.3%) out of 51 (100%) were not familiar with any of the products in the model (which suggest that 8 bankers were familiar with at least one or more of the products). The statistics visibly show a low level of knowledge of the nature of IBF products among bankers. Therefore in Ghana even if conventional banks want to open Islamic windows, they will be cautious to adopt a minimalist approach. This means that they will engage in very few and simple Islamic banking products that gives them the convenience in terms of risk appetite, competition and strategic objectives that they will want to achieve.

Further, the study also sought to analyse the outlook of bankers on the IBF model by seeking their level of agreement on 5 measures of potential benefits of practicing the model and 5 potential challenges of practicing the model. By evaluating their perception on these measures, sense can be made about their optimism or pessimism about practicing the model in the near to medium term or long term.

Measures on the benefits of IBF model included competitiveness it may offer banks, enhancement of bank's image as ethical, possibility of interest free loans reducing risks, possibility of increase in customers and scope for providing variety of products. The finding of the study showed that bankers were largely neutral and partly pessimistic on the possibility of the IBF model to improve their competitiveness (mean=2.9216). Again, in relation to whether bankers believed that practicing the model will improve the bank's image as ethical, bankers were unsure and partly pessimistic (mean=2.8824). Further, bankers generally disagreed to the possibility of zero interest loans reducing their risks and improving repayment of loans (mean=2.2941). On whether bankers believed that practicing the IBF model will increase their customer base, the finding shows that bankers were uncertain yet optimistic of this possibility (mean=3.2745). Finally, it was also found that bankers were neutral and slightly optimistic on the scope the IBF model offers to increase variety of products they offer (mean=3.1176). Taken together, the overall mean of all measures of benefits related to practicing the IBF model indicates that bankers were largely uncertain about the potential benefits their institutions could derive from practicing the model (mean=2.8980). Again this uncertainty is underlain by a sense of pessimism about practicing them model.

Also, measures in relation to challenges in practicing the IBF model included, the possibility of interest free loans reducing bank's profitability, the adequacy of training and education on the model, availability of support institutions for practicing the model, feasibility of operating profit and loss sharing schemes in Ghana and existence of regulation on the model. The finding of the study shows that bankers generally agree on the possibility of interest free loans reducing their profitability (mean=3.7843). Again, in relation to bankers' perception on the adequacy of training and education on the model in Ghana, the finding shows that bankers agree that believe that education on the model is low (mean=3.7843). It also emerged that, this is the greatest concern that needs to be addressed as it recorded the highest mean among the measures used for challenges. With regards to bankers perception availability of support institutions such as consultancies and *Shari'ah* boards that would help their efforts in operating the model , the finding of the study indicated that bankers are generally unaware of such institution and their

function (mean=3.4902). Furthermore, bankers were generally unsure and partly pessimistic about the outcomes of operating the Profit and Loss sharing mechanism (mean= 3.4706). Finally, bankers were neutral on the existence on regulation and guidelines set by the central bank for the operation of the model in Ghana (mean=3.1373). The overall mean of the measure of pessimism about the model or challenges was found to be 3.5333. This indicates a degree of neutrality underlain by pessimism. It shows that bankers are unsure about the challenges they might face by adopting the model yet they are pessimistic about its outcomes. By comparing the overall finding on measures of optimism (mean=2.890) (which shows a rather negative outlook for practicing the model) and the overall finding on the measures of pessimism (mean=3.5333) (which represents the perception that practicing the model will be challenging), it could be inferred that from the perspective of bankers, the IBF model does not have positive prospects in the near to medium term and will be perceived with a high degree of uncertainty when regularized.

In order to help triangulate the findings on perceptions or outlook of bankers and seek alternative perspectives on the prospects of the model, the researcher conducted an interview with the Global Institute of Islamic Banking Insurance and Consultancy, the only support institution identified to facilitate the adoption of the model in the Ghanaian economy.

Some findings of the interview actually corroborated the responses given by bankers. For instance in relation to their agreement on inadequacy of training on the model, the interview revealed that currently there are about 25 experts in Islamic Finance in Ghana. This number is seen by the researcher as inadequate to rapidly educate banks all over the country which may be interested in opening Islamic banking windows in the near to medium term. Again, it was found that the Institute had begun engagement with authorities to ensure that the Banking Act is reviewed to put in place regulation of the model.

In relation to the feasibility of practicing the PLS scheme, the official explained that in Ghana it may be difficult due to a high proportion of businesses in the informal sector which is saddled with issue of location, documentation etc. However, such arrangements can be made with formal

business institutions. In this vein, banks that adopt the model could offer products designed to fit their market targets.

With respect to the outlook for the model (i.e. anticipated benefits and challenges), the official was upbeat about the prospects of the model in Ghana. A benefit that are anticipated include the infusion of ethics and morality into financial services provision in Ghana as the IBF model is associated with rules and practices such as non-financing of industries such relating to alcohol, gambling etc, as well as products that do not increase debt burden of the poor. Another anticipated benefit that was found during the interview was the possibility of Ghana attracting investors from emerging markets in the Middle East who actually prefer to keep their funds in *Shari'ah* compliant financial institutions. In addition, it was found that by regularizing the model there would be financial inclusion thereby bridging the income gap between the poor and rich in society. Finally, it is anticipated that the model through its products like *Musharaka* will boost Ghana's real economic sector and strengthen the Ghanaian economy.

In relation to the anticipated challenges in operating the model, it was found that the multi-religious nature of the Ghanaian society in relation to how the model may be perceived due it its conceptual origin in the Islamic religion could hinder how it is perceived and marketed. Again, the study revealed that there is a wide misconception that Islamic banks do not charge interest and therefore gave riskless and cost-free finance. In fact, Islamic banks generate profits by sharing risks and sharing profits and losses. This general misunderstanding is also anticipated to hinder the growth of the model.

In addition, the study also sought to assess preparedness to regulate and supervise the model in Ghana. The researcher therefore sent an open ended questionnaire to the Bank of Ghana to elicit responses in this direction.

It was found that an application is pending to establish an Islamic window in the country, regulation had fully not been put in place as parliament is yet to ratify 'The Bank and Specialised

Deposit Taking Bill' which has introduced non-interest finance as a permissible product. This bill when reviewed and pass will accommodate IBF operations in Ghana. Again decisions are yet to be made if specialised department within the central bank will be created to supervise the model once it is regularised.

In relation to the outlook of the central bank on anticipated benefits, the central bank hopes regularizing the model could attract capital from the Middle East as well as offering a new alternative to the already existing conventional model.

However, the central bank anticipates that the lack of expertise on Islamic Finance in the country and limited avenues to channel excess liquidity due non participation in open market operations could be challenges for operating the model in the country one it is regularized.

Finally, the study also attempted to analyse the macroeconomic environment of Ghana in relation to the prospects or viability of the IBF model based. In relation to this analysis, two major macroeconomic indicators (i.e. interest rates and inflation rates) were used. Particularly the research retrieved secondary data (i.e. longitudinal data from 1990 to 2014) on the variables as was available from the Bank of Ghana monetary time series data to analyse the trends and plausible scenario in relation to the IBF model.

It was found that both metrics (i.e. inflation and interest rates) have assumed an upward trend especially in relation to the past three years (i.e. 2011 to 2014). If such trends continue in the near to medium term, which is very plausible, there will be a double risk to be faced by financial institutions practicing the IBF model.

First, Islamic banks will be less competitive because conventional banks enjoy relative advantages due to their ability adjust their rates (i.e both lending and deposit rates)in a situation of increase in interest rates where as they are restricted by agreed profit and loss ratios. Also, due to rising inflation rates, Islamic banks may experience losses in real value of returns on financial contracts such *mudaraba* and *musharakah* due to fixed PLS schemes and *Bai'muajjal* due to the

deferment nature of payment. Therefore, it is inferred that macroeconomic outlook as given by the trends of interest and inflation rates in Ghana show relatively sluggish prospects for the practice of the IBF model in Ghana.

5.2 Conclusion

In sum, this piece of research work has sought to analyse if the IBF model is viable in Ghana. It therefore answers the overall question “What are the prospects of practicing the IBF model in Ghana?” In an attempt to answer this umbrella question, many perspectives were drawn in line with specific objectives set for the study: bankers’ knowledge and perceptions on viability of IBF model, outlook of support and regulatory institutions and outlook of macroeconomic environment in relation to IBF practice and its viability. From the perspective of bankers (in terms of current practice, knowledge of mechanics of Islamic financing contracts and overall perceptions on viability of the model), it seen that the IBF model has poor prospects in the near to medium term. From the perspective of the support institution, however, outlook for the practice of the model is bright for the Ghanaian economy and therefore suggest that the model has good prospects both in the near to medium term and long term. The researcher’s triangulation of bankers’ level of knowledge, vis a vis number of experts of Islamic finance in Ghana and current state of regulation in relation to the model suggests that the prospects of the model is poor. Taken together, it is concluded that from the perspective of the support institution prospects of the model in Ghana is mixed. Since regulatory mechanisms have not been fully put in place, it is seen that operating the model in Ghana is in the near to medium may come with mixed prospects due to a high level of uncertainty of the viability of the model given the content of the full regulation. The macroeconomic trends as analysed in this study also show that all other things beings equal, practicing the IBF model in Ghana could be hindered (given the trend of interest and inflation rates) in the near to medium term. It therefore seen that from this perspective, the near to medium term prospects of the model in Ghana is poor. The overall prognosis, therefore, is that given these perspectives *“the prospects of the Islamic Banking and Finance model is poor in the near to*

medium term (i.e about 5 to 10 years from now). However, in the long term (i.e beyond 10 years), there is scope for further development and adjustments as suggested by Gelbard et al.(2014) to make its prospects good”.

5.3 Recommendations

The following recommendations are posited to facilitate the practice of the model when regularised for the benefit of all Ghanaians.

First, the researcher recommends that the support institution collaborates with strategic partners and regulatory authorities to give proper training and education on to bankers to help them appreciate the mechanics of Islamic banking products or financial contracts. This is critical because they would need to appreciate these products if they can establish Islamic windows or work in full fledged Islamic Banks. Business schools and Economics departments could also design modules that train future bankers in Islamic Banking and Finance. This is important because the study revealed that there is a dearth of knowledge on these contracts amongst bankers.

In addition, it is recommended that the conventional banks that establish Islamic windows market their products effectively and professionally to their customers. The intersection of religion and finance can be very complex. And in societies where religious diversity exists, there can be difficulty in expanding a finance model that is hinged on religious principles. This is because, technically, Islamic Banking products are not for Muslims alone although they are operated based on guidelines given by *Shari'ah*. Moreover, any person from any religious background can work in an Islamic window or bank. It should therefore be emphasized that any customer who prefers such products is free to choose them. Therefore the model should be operated as a tool for financial inclusion in the Ghanaian society not one to create division or exclusion based on religion. This is a way to go given the multi-religious nature of the Ghanaian society.

Again, the researcher recommends that the Bank of Ghana design robust regulation and guidelines for the operation of Islamic windows and Islamic Banks in the country. This should be based on extensive consultation of stakeholders in the industry and critical studies based on the experience of countries that are already operating a dual banking system where the conventional and IBF model operate side by side in the same economy.

Finally, monetary authorities and managers of the Ghanaian economy should consistently fight inflation and pursue policies that create a stable financial system as well as a relatively stable macroeconomy, if practice of the IBF model will thrive over time.

5.4 Directions for future research

Although this research work does not offer the final or conclusive prognosis of this new model in the Ghanaian economy and society, it has attempted to throw light on a new model within a new context to enable academics, financial analysts, bankers, regulators and monetary authorities, and other major stakeholders in Ghana's banking industry and society at large to encourage debate and learning on the model and look for ways that its practice when adopted into mainstream financial system of Ghana can promote socio-economic development of Ghana.

To deepen understanding of the IBF model in Ghanaian context, the researcher suggests that these areas are considered for an *ex post* perspective or research moving into the future when the model is regularised:

- Analysis of the economics of Profit and loss sharing schemes
- Customer's attitudes and preferences for Islamic Banking products
- Competition dynamics between conventional banks and Islamic banks in Ghana
- Impact of the IBF model on Economic Growth in Ghana
- Impact of IBF model on Financial development in Ghana
- Regulatory dimension of the IBF model in Ghana

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APPENDIX A: QUESTIONNAIRE FOR BANKERS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY COLLEGE OF ARTS AND SOCIAL SCIENCES SCHOOL OF BUSINESS

Questionnaire for data collection on the topic: “PROSPECTS OF ISLAMIC BANKING AND FINANCE MODEL IN GHANA”

Dear Respondent,

This is a questionnaire for research that seeks to explore the perceptions of bank executives on Islamic Banking and Finance (**i.e zero interest banking and profit and loss sharing forms of banking**) as an alternative mode of financial services provision in Ghana. The survey is conducted as part of the researcher’s MBA (Finance) programme at the Kwame Nkrumah University of Science and Technology and therefore responses will be used purely for academic purposes. Your anonymity is assured and all responses given will be held in due confidence. It might take you around 10 minutes to complete the questionnaire. Your participation is really important for the success of this research. Thank you so much for your help. I really appreciate it.

PART 1-STATUS OF BANK IN RELATION TO ISLAMIC BANKING AND FINANCE

Instruction: You are required to select as appropriate

1, Is your bank from an Islamic country? Yes [] No []

2, Does your bank operate an Islamic banking window or department? Yes [] No []

3, Does your bank offer interest free loans? Yes [] No []

4, Which of the following Islamic financing contracts are you (as a banker) familiar with?

Qard al-Hassan (charitable loans) [] *murabaha* (cost plus) [] *Ijarah* (leasing) []

Bai’muajjal (deferment payment sale) [] *Musharaka*(joint venture) []

Takaful (insurance) [] none []

5, Are there Muslim shareholders in your bank? Yes [] No []

PART 2-BENEFITS OF PRACTISING ISLAMIC BANKING AND FINANCE

The following statements indicate benefits or opportunities for growth related to the practice of Islamic Banking and Finance. You are asked to indicate your level of agreement or disagreement on the scale provided.

6, Islamic banking will improve competitiveness of our bank

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

7, Islamic banking will enhance bank's brand image as ethical

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

8, Zero interest rate on loans will minimise our risks and improve repayment

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

9, Islamic Banking will increase our customer base

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

10, Islamic Banking will enable bank provide variety of products for customers

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

PART 3- CHALLENGES OF PRACTISING ISLAMIC BANKING AND FINANCE

The following statements indicate challenges related to the practice of Islamic Banking and Finance. You are asked to indicate your level of agreement or disagreement on the scale provided.

11, Interest free loans will reduce banks' profitability

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

12, Training and education in Ghana on Islamic Banking and Finance is inadequate

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

13, There is a lack of supportive and link institutions (such as *Shar'iah* boards and consultancies) for successful practice of Islamic Banking and Finance

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

14, Profit and loss sharing with clients will be difficult to operate.

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

15, Regulation for operating Islamic Banking windows and products is non-existent

Strongly disagree [] Disagree [] Neutral [] Agree [] Strongly agree []

APPENDIX B: QUESTIONNAIRE FOR THE CENTRAL BANK
KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
COLLEGE OF ARTS AND SOCIAL SCIENCES
SCHOOL OF BUSINESS

**Questionnaire for data collection on the topic: “PROSPECTS OF ISLAMIC BANKING
AND FINANCE MODEL IN GHANA”**

This questionnaire seeks to explore the regulatory dimensions of Islamic Banking and Finance (i.e zero interest banking and profit and loss sharing forms of banking) as an alternative mode of financial services provision in Ghana. It is conducted as part of the researcher’s MBA (Finance) programme at the Kwame Nkrumah University of Science and Technology and therefore responses will be used purely for academic purposes. Anonymity of respondents is assured and all responses given will be held in due confidence.

QUESTIONS

1. What laws have been passed to regulate Islamic banking in Ghana?

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2. Are there operational guidelines on *Shari’ah* Governance for Non-Interest Financial Institutions (i.e Full fledge Islamic Banks) in Ghana?

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3. Are there operational guidelines on Non-Interest Window and Branch Operations of Conventional Banks and Other Financial Institution (i.e. Islamic windows and departments?)

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4. Is the central bank going to create a separate Islamic Banking division or department to supervise Islamic Banking and Regulation?

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5. Is the central bank going to work with centralized *Shari'ah* boards or individual *Shari'ah* committees to supervise Islamic Banking?

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6. Has the Banking Act been changed to accommodate Profit and loss sharing (PLS) schemes and Islamic Banking operations?

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7. What processes are involved in making such changes?

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8. Are there going to be new prudential requirements for Islamic Banks?

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9. Are there any applications for the establishment of Islamic banks or windows pending before the Central Bank?

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10. How many banks have been given licensed to open Islamic windows? And full fledge Islamic banks?

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11. What are the regulatory requirements for opening an Islamic Banking window?

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12. What are the anticipated benefits of Islamic Banking operation in the Ghanaian economy? (eg. FDI from middle east, job creation etc.)

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13. What are the anticipated challenges of Islamic Banking operation in the Ghanaian economy?

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14. What are the challenges banks are likely to face if they want to diversify into Islamic Banking?

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15. What are some of the anticipated challenges given the nature of our economy (i.e high interest rates)?

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16. What are some of the anticipated challenges given the multi-religious nature of our society?

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17. Has the Central Bank conducted studies to ascertain these benefits and challenges?

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18. Is the Central Bank collaborating with multinational institutions and consultancy firms to help regulate Islamic Banking? Which institutions?

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19. Has the Bank of Ghana organized training programmes to educate banks on regulation and accounting practices in relation the model?

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20. What changes need to occur for efficient operation of Islamic Banking in Ghana? (in our economy, society, banking practice etc.)

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THANK YOU

APPENDIX C: INTERVIEW GUIDE FOR SUPPORT INSTITUTION
KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
COLLEGE OF ARTS AND SOCIAL SCIENCES
SCHOOL OF BUSINESS

Interview guide for data collection for on the topic: “PROSPECTS OF ISLAMIC BANKING AND FINANCE MODEL IN GHANA”

This interview seeks to explore the outlook of support institutions on Islamic Banking and Finance (i.e. zero interest banking and profit and loss sharing forms of banking) as an alternative mode of financial services provision in Ghana. It is conducted as part of the researcher’s MBA (Finance) programme at the Kwame Nkrumah University of Science and Technology and therefore responses will be used purely for academic purposes. Anonymity of respondents is assured and all responses given will be held in due confidence.

QUESTIONS

1. What is the mission of the Global Institute of Islamic Banking, Insurance and Consultancy? And in Ghana?
2. What roles have been played to advance the practice of Islamic Banking in Ghana?
3. Is the Global Institute of Islamic Banking, Insurance and Consultancy collaborating with the Bank of Ghana to design regulatory architecture? (i.e establish *Shari’ah* boards etc)
4. What framework do you use to certify Islamic Banking products?
5. What efforts are being made to harmonise *Shari’ah* interpretations especially in relation to practice of Islamic Banking and Finance?
6. What are the anticipated benefits of Islamic Banking operation in the Ghanaian economy? (eg. FDI from middle east, job creation etc.)
7. What are the anticipated challenges of Islamic Banking operation in the Ghanaian economy?
8. What are the challenges banks are likely to face if they want to diversify into Islamic Banking?
9. What are some of the anticipated challenges given the multi-religious nature of our society?
10. What changes need to occur for efficient operation of Islamic Banking in Ghana? (in our economy, society, banking practice etc.)

THANK YOU

APPENDIX D: DATA EXTRACT FOR INTEREST RATES AND INFLATION RATES

Year	Interest rates (MPR)	Inflation rates (INF-YOY)
1990	30	35.9
1991	20	10.3
1992	30	13.3
1993	35	27.7
1994	33	34.2
1995	45	70.8
1996	45	32.7
1997	45	20.5
1998	37	15.7
1999	27	13.8
2000	27	40.5
2001	27	21.3
2002	24.5	17
2003	21.5	31.3
2004	18.5	16.4
2005	15.5	13.9
2006	12.5	10.9
2007	13.5	12.7
2008	17	18.1
2009	18	16
2010	13.5	8.58
2011	12.5	8.58
2012	15	8.84
2013	16	13.5
2014	21	17

Source: Bank of Ghana monetary time series data