GOLLiS UNIVERSITY

THE ROLE OF ISLAMIC BANKING SYSTEM ON ECONOMIC GROWTH IN HARGIESA, SOMALILAND

(Case of study Dahabshiil Dank and Dara-salaam Bank)

by

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A Thesis submitted to the faculty of management science and economics in partial fulfillment for the Bachelor degree in accounting

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May, 2016

Hargiesa Somalilan
DECLARATION

“We hereby declare that this thesis is my original work and that it has not been submitted by any other person for the award of a degree in any other university/ institution.”

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DEDICATION

We dedicate this research paper to our dear parents’ Siciid Sheikh Omer and Jaamac Abdi Abdilaahi for their love and support.
APPROVAL

The undersigned certify that they have read and hereby recommend to the GOLLIS UNIVERSITY to accept the thesis submitted by Abdirashid Abdillaahi Hassan and Hoodo Jaamac Abdi, and entitled “the role of Islamic banking system in economic growth at hargiesa somaliland” in partial fulfillment of the requirements for the award of a bachelor of Accounting.

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ABSTRACT

The purpose of this paper is to give the true meaning of development from an Islamic perspective. This paper examines the dynamic interactions between Islamic banking and economic growth in Hargeisa Somaliland, to see if the financial system affects and growth, transformation and growth of the financial system. Usually, in most Muslim countries, and in some non-Muslim countries, Islamic banking and works as a part of the banking system and the Islamic Republic of Somaliland is one of them. The aim of this paper was to consider the opinions of the questionnaires regarding the role of Islamic banking in economic growth. 26 questionnaires were asked about the types of effects of Islamic banking on economic growth in the Hargeisa Somaliland. They were asked about different types of effects. Most respondents believe that Islamic banking in Hargeisa Somaliland had positive impact on economic growth. Some scholars around the world consider the use of Islamic banking system more convenient for economic growth. This result also indicates that improving the infrastructure of Islamic finance in Somaliland could benefit economic development. Islamic banks can play an important role in Somaliland today.

A total of 115 Islamic banking system managers and staff were randomly selected from the cities dahabshiil bank and darasalaam bank in Hargeisa Somaliland. A questionnaire was constructed and distributed to the selected people. The responses were collected and analyzed using spss and Excel sheet 2016 for analytical tools. This study was divided into five chapters:

Chapter One: introduction, background of the study, thesis statement, problem statement, the purpose of the study, research objectives, research questions, hypothesis, significance of this study, scope of the study and definition of terms.

Chapter Two: provides a theoretical overview of the study and related studies.

Chapter Three: research methodology and design.

Chapter Four: analysis and interpretation of findings.

Chapter Five: Conclusions, recommendation, references and appendix.
CHAPTER ONE

1.0 Introduction
This study examines the role of Islamic banking system on economic growth in Hargeisa Somaliland. This chapter outlines the background the research as well as the detailing its problem statement examine the purpose of study and objectives of the study and defining the key concepts of variables.

The relationship between economic growth in the broad sense, like increasing the size of financial services of banks and other financial intermediaries and financial transactions in capital markets and economic growth has long been a major developing economy. Islamic Banking system has established itself as an emerging alternative to interest based banks, and has grown rapidly in the last two decades, both in Islamic countries and non-Muslims. Islamic banks have recorded high growth in size over 60 countries around the world, and Bankers predict that the Islamic bank can control more than 50% of deposits in Islamic countries over the next decade (Ahmad, 2004). Today, the financial and banking system, especially in activities related to economic development, all countries can play an important role in economic activity. Indeed, an economic system and has a direct relationship between the level of overall growth and development. While a necessary condition for economic growth, investment is an important factor for economic development. Thus, investors can play an important role in financing economic development, giving credit to an economic system, particularly in banking. Generally, income and wealth distribution and a more Islamic and more equitable participation in the economy as a contribution to a larger bank, but the reason comes from the Islamic confirmed that, despite their claims to be there for your interest in the sequence. Since there are two main groups in any society with money to spare, but cannot or do not want to invest and produce, and can act as producers and even writers, but not enough money to invest, the primary responsibility of banks to raise money for the remaining depositors and deposits (mobilization) and provide the producers and creators.

1.1 Background of the study
Islamic banking system and the Shariah-compliant financial products that form the core of Islamic banking have become one of the fastest growing segments of the financial market industry, operating through more than 300 institutions in 75 countries (Cihak, Hesse 2008).
However, empirical evidence regarding the effect of Islamic banking transactions on economic growth has yet to be analyzed in detail largely due to data limitations. Legal origin has been established as a substantial determinant of financial and economic growth. However, Islamic banking system is derived from a legal origin, Shariah Law, frequently separate from that of the institutions in the countries where it operates. While researchers have hypothesized that this phenomenon could change the effect of legal origin on development (Imam et. al 2010),

Africa has been one of the major beneficiaries. Africa alone has 27 countries as members of the Bank and thus, in the Bank classification of Least Developed Member Countries (LDMCs) of 28 countries, 18 of these countries are African (IDB, 2008a). By virtue of being members of this special group, they enjoy a lot of privileges in terms of allocations and projects execution of the Bank, which aimed at poverty alleviation, boosting economic growth and enhancing institutional capacity so as to manage and sustain development projects and programs. More so, most of the activities in the LDMCs are concentrated in education, health, agriculture and water supply sectors (IDB, 2004).

Somaliland (and Somalia) has not seen non-state owned commercial banking since January 1971 when the military dictatorship regime nationalised the few existing commercial banks including the National & Grindlays Bank which was the only main commercial bank operating in Somaliland (referred to them as “the Northern Regions”). It was only in its last year of rule when the country and economy was collapsing that the dictatorship passed belatedly a law allowing “private” commercial banking - Law No. 7 of 26 January 1989.

**ISLAMIC BANKS** The House of Representatives approved the Law on Islamic Banks on 19 September 2012 and the President signed the Law on 3 October 2012 (Decree No. 0270/102012). Here is a copy (in Somali) of the Somaliland Islamic Banks Law (Law No. 55/2012). The Law consists of 41 Articles and an addendum setting out the Application Form for Licence to set up an Islamic Bank.

Whether or not this issue becomes a dispute to be referred for adjudication to the Constitutional Court, it is important that the House of Representatives adopts a clear policy of certifying bills, before it passes them, as being financial bills and perhaps also inform the House of Elders so that
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any disputes can be ironed out before the Law is passed and promulgated by the President. - Editor 12/10/2012

Another bank source of loans, mostly for small and medium-sized enterprises (SME), are microfinance organisations. Strictly speaking, there is only two company that specialises purely in SME – **dara salaam bank dahabshiil bank** (translated as Loan Helper from the Somali language). Other organisations treat microfinance as a sideline business. **Dar- Salaam bank** previously known as Salaam financial services is your solid listening bank. Since its inception in 2010. Bank value and quality as financial service provider has rejuvenated Somaliland economy and beyond Hargeisa city. Dar-Salaam bank has continuously grown in branches and money tech. Since rebranding, Dar- Salaam bank customer growth has grown rapidly. National approval rate was 87% in the fiscal year-2013. Believe and perpetuate our values which emanates from customer centered banking, Islamic morality, innovation and reliability.

**Dar- Salaam Bank** is part and parcel of Telecom Group of Companies. As a bank we boast of the leading financial market in republic of Somaliland and entire region. Our ATM and KAAFI service are the unique pioneer money-tech in our country dar-salaam bank offered two types of loan: individual and group. Both types have been given for further development of already existing businesses but not for starting up new ones. Individual loans are now no longer available, but the organization continues to work with borrowers who already have them. There are only a handful of individual loan takers (just 30), less than one per cent of the total number borrowers. The main reason for such a low rate is the strict requirement of property ownership (a car, house etc) in order for the applicants to prove their solvency.

Dara salaam bank customers have to pay a fixed charge on the loans they take out. The bank claims that this is not riba, which is forbidden according to Shari’ah, but rather a fixed commission for services provided. For example, the first group loan, which is limited to $500?

1.2 Problem statement

The development of my country is not performing well and since the declaration of Somaliland from Somali in 1991 the economic growth of the country still needs to be developed. Consequently, the economic problem has influenced the different aspects. On the other hand, Islamic banking systems have been established in Hargeisa Somaliland. So that in this paper, we are getting much deep the role of Islamic banking systems on economic growth in Somaliland.
1.3 The Purpose of the Study
The main purpose of the present study was to examine the role of Islamic banking in economic growth in Somaliland markets. The secondary purpose was to investigate the impact of Islamic banking on the economic development, by identifying and understanding the best ways that Islamic banking can be successful.

1.4 Research Objectives
The general objective of the study is to find out the role of Islamic banking in economic growth in Somaliland markets. The special objectives of this study are to:

1. To find out customers views and satisfaction on Islamic banking products.

2. To find out how banking institution are applying these product in accordance with Shariah principles in order to achieve their goal.

3. To assess the degree of Islamic banking at hargeisa Somaliland.

4. To find out the extent of economic growth at hargeisa Somaliland

5. To establish a significant relationship between Islamic banking and the economic growth at Hargiesa Somaliland

1.5 Research Questions
This research paper will answer the following questions.

1. What is the customer’s views and satisfaction on Islamic banking products?

2. How banking institution are applying these product in accordance with Shariah principles in order to achieve their goal?

3. What is the degree of Islamic banking practiced in Hargiesa Somaliland markets?

4. What is the extent of economic growth in Hargiesa Somaliland?

5. Is there any significant relationship between the successful Islamic banking and the economic growth in Hargiesa Somaliland?
1.6 Hypothesis
There is a significant relationship between Islamic banking and economic growth in Somaliland markets.

The successful Islamic banking affects the economic development in Somaliland cities

1.7 Significance of this Study
This study is important for the business of Somaliland and especially for the entrepreneurs; those starting a new small business and those have already started and all so Islamic banks in Somaliland. This study is also important for the government to decide the best ways to improve the development of Islamic banking in order to contribute to the economic growth and the creation of employment opportunities to avoid inflation and unemployment.

This study will provide strategies and procedures to establish successful Islamic banking and the role of Islamic banking towards the economic growth, as much as this undertaking is primarily for academic purposes, its findings and recommendations are important for both practical use and future references.

1.8 Scope of the Study
The present study is confined to the the role Islamic banking in economic growth in Somaliland with case study data- salaam bank and dahabshiil bank the study will be conducted with the help of data that will be obtained from manager and staff of the dara- salaam bank, and dahabshiil bank the employee of dara- salaam bank and dahabshiil bank.

This study will be limited in Somaliland special in hargeisa districts within the context of business markets; it will primarily focus on the relationship between Islamic banking and economic growth. This study will generally be conducted feb-may 2016.

1.9 limitation of the study
As part time student who needs to balance with studies full time employment. The researcher was not able to undertake an extensive and exhaustive research limiting the researcher to a small and less research time. The researcher a self-sponsored student relying on saving to progress his studies and therefore there was a limitation on financial resources there were challenges during data collection where some target respondent failed to give the required information. The research however worked at winning the confidence of those involved in this research by giving them the reasons for the research and assuring them of confidentiality.
CHAPTER TWO

2.0 LITERATURE REVIEW

Islamic banking has been defined as banking in consonance with the ethos and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariah. Interest-free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, the more general term, is expected not only to avoid interest-based transactions, prohibited in the Islamic Sharia, but also to avoid unethical practices and participate actively in achieving the goals and objectives of an Islamic economy.

2.1 The Philosophy of Islamic Banking

Islamic banking system is based on risk sharing, owning and handling of physical goods, involvement in the process of trading, leasing, and construction contracts using various Islamic modes of finance. As such, Islamic banks deal with asset management for the purpose of income generation. They will have to prudently handle the unique risks involved in management of assets by adherence to best practices of corporate governance. Once the banks have stable stream of Halal income, depositors will also receive stable and Halal income. The forms of businesses allowed by Islam at the time the Holy Quran was revealed included joint ventures based on sharing of risks & profits and provision of services through trading, both cash and credit, and leasing activities. In the Verse II: 275, Allah the Almighty did not deny the apparent similarity between trade profit in credit sale and Riba in loaning, but resolutely informed that Allah has permitted trade and prohibited Riba.

Profit has been recognized as ‘reward’ for (use of) capital and Islam permits gainful deployment of surplus resources for enhancement of their value. However, along with the entitlement of profit, the liability of risk of loss on capital rests with the capital itself; no other factor can be made to bear the burden of the risk of loss. Financial transactions, in order to be permissible,
should be associated with goods, services or benefits. At macro level, this feature of Islamic finance can be helpful in creating better discipline in conduct of fiscal and monetary policies.

2.2 Basic Principles of Islamic Banking

The fact that a global network of Islamic banks, investment houses and other financial institutions has started to take shape based on the principles of Islamic finance laid down in the Quran and the Prophet’s traditions 14 centuries ago. Islamic banking, based on the Quran prohibition of charging interest, has moved from a theoretical concept to embrace more than 100 banks operating in 40 countries with multi-billion dollar deposits worldwide. Islamic banking is widely regarded as the fastest growing sector in the Middle Eastern financial services market. Exploding onto the financial scene barely thirty years ago, an estimated $US 70 billion worth of funds are now managed according to Shariah. Deposit assets held by Islamic banks were approximately $US5 billion in 1985 but grew over $60 billion in 1994. The rules regarding Islamic finance are quite simple and can be summed up as follows:

a. Any predetermined payment over and above the actual amount of Principal is prohibited

Islam allows only one kind of loan and that is Qard-el-hassana (literally good loan) whereby the lender does not charge any interest or additional amount over the money lent. Traditional Muslim jurists have construed this principle so strictly that, according to one commentator “this prohibition applies to any advantage or benefits that the lender might secure out of the Qard (loan) such as riding the borrower’s mule, eating at his table, or even taking advantage of the shade of his wall.” The principle derived from the quotation emphasizes that associated or indirect benefits are prohibited.

b. The lender must share in the profits or losses arising out of the Enterprise for which the money was lent.

Islam encourages Muslims to invest their money and to become partners in order to share profits and risks in the business instead of becoming creditors. As defined in the Shariah, or Islamic law, Islamic finance is based on the belief that the provider of capital and the user of capital should equally share the risk of business ventures, whether those are industries, farms, service
companies or simple trade deals. Translated into banking terms, the depositor, the bank and the borrower should all share the risks and the rewards of financing business ventures. This is unlike the interest-based commercial banking system, where all the pressure is on the borrower: he must pay back his loan, with the agreed interest, regardless of the success or failure of his venture. Islam encourages investments in order that the community may benefit. However, it is not willing to allow a loophole to exist for those who do not wish to invest and take risks but rather content with hoarding money or depositing money in a bank in return for receiving an increase on these funds for no risk (other than the bank becoming insolvent). Islam encourages the notion of higher risks and higher returns and promotes it by leaving no other avenue available to investors. The objective is that highrisk investments provide a stimulus to the economy and encourage entrepreneurs to maximize their efforts.

c. Making money from money is not acceptable in Islam
Money is only a medium of exchange, a way of defining the value of a thing; it has no value in itself, and therefore should not be allowed to give rise to more money, via fixed interest payments, simply by being put in a bank or lent to someone else. The human effort, initiative, and risk involved in a productive venture are more important than the money used to finance it. Muslim jurists consider money as potential capital rather than capital, meaning that money becomes capital only when it is invested in business. Accordingly, money advanced to a business as a loan is regarded as a debt of the business and not capital and, as such, it is not entitled to any return (i.e. interest). Muslims are encouraged to purchase and are discouraged from keeping money idle. In Islam, money represents purchasing power, which is considered to be the only proper use of money. This purchasing power (money) cannot be used to make more purchasing Power (money) without undergoing the intermediate step of it being used for the purchase of goods and services.

d. Investments should only support practices or products that are Not forbidden
Islam discourages it. Trade in alcohol, for example would not be financed by an Islamic bank; a real-estate loan could not be made for the construction of a casino; and the bank could not lend money to other banks at interest.
2.3 RIBA (Interest, Usury)

What is RIBA?

Riba (interest, usury) is primarily an economic issue in view of the fact that all religions and mythologies have prohibited, restricted, discouraged, disliked, or degraded Riba in one or the other sense the inception of human interaction. All three major revealed religions i.e. Islam, Christianity, and Judaism have strongly condemned and prohibited Riba in its original versions. Later, the clerics of Jews and Christian church abandoned the prohibition of Riba (interest, usury) that led the mankind into economic anarchy of the present era. Islam—the most modern revealed religion is still upholding the righteous prohibition of Riba although not in practice in any of the Islamic country at government level but there is immense enthusiasm for Riba-free financial system in Muslims. The western economists have discussed the issue at large in the twentieth century and many of them are also of the view that the religious prohibition should be brought back into the conscious of the people.

2.3.1 Historical Background of RIBA

Even prior to the dawn of Islam, over 1400 years ago, the majority of ancient philosophers and almost all the religions of the world had prohibited money lending as a business; Riba, interest or usury. In A.D 1300, Pope Clement V made the prohibition of usury absolute and declared all legislations in the favors of usury as null and avoid. The teaching of Jesus on the subject is very clear—“love your enemies and do good, lend, expect nothing in return”. The charging of interest has also been prohibiting in Judaism. It says, “If you lend money to any of my people who are poor, you shall be to him as a creditor, and you shall not exact interest from him”. It is interesting to note that in A.D 605; just before the dawn of Islam, on a stormy day, a spark of fire caught the curtains of Ka’ba (house of Allah in Makkah) resulting in serious damages to the holy building. For the repair and reconstruction of the building contributions were asked from the general public living in the locality. It was, therefore, strongly announced that for THE HOLY BUILDING, only pure, clean, and honestly earned money should be donated; prostitutes and usurious people were specifically debarred from contributing anything. It is, therefore, obvious
that even among the pagans of Arabia, in the dark days of civilization, usury and interest was considered to be the money earned by unethical means.

The word “interest” indicated a reasonable and moderate rate as against usury, which was symbolized as an excessive rate of return. Laws were framed for legalizing the charging or paying of interest on money lending transactions.

2.3.2 Nature and Meaning of RIBA

Riba is an Arabic word, which means, “increase”, “addition”, “expansion”, or “growth” and refers to the additional amount, which a lender recovers from the borrower according to a fixed rate over and above the principal amount. In the New Encyclopedia Britannica, usury is explained as compensation for the use of money regardless of the amount, according to earlier English law. According to Hughes, Riba in terms in Muslim Law as: “An excess according to legal standard of measurement or weight, in one or two homogeneous articles opposed to each other on a contract of exchange and in which such excess is stimulated as an obligatory condition on one of the parties without any charge”.

According to Quran illustrations, the literal meaning of Riba is ‘increase’. In Shariah, it means “AN ADDITION”, however slight, over and above the principal”. Riba is, therefore, the premium that is recovered by the lender from the borrower along with the principal amount as a part of lending arrangements, or for an extension in the maturity period of loan.

2.3.3 The Prohibition of RIBA

Prohibition of Riba in the Light of Holy Quran

The following are the relative verses from the Holy Quran on the subject. It is to be noted that the Holy Quran has used the Arabic word Riba in the verses, which has been retained in the English translation. “And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in zakah, desiring the countenance of Allah - those are the multipliers.”(Room 30:39) “And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment “O you, who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.”(AL.IMRAN 130)
“Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever.” (2:276) “O you, who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers.” (2:278) “And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged.” (2:279).

2.3.4 Prohibition of Riba In The Light of Ahadith

There are numerous Ahadith (sayings, deeds or tacit approvals of the Holy Prophet of Islam, Peace Be upon Him) on the subject of Riba. From Jabber: the prophet, (Peace Be upon Him), cursed the receiver and the payer of Riba, the one who records it and the two witnesses to the transaction and said: “they are all alike [guilt]”. (Tirmizi) From Abu Hurayrah: the Prophet, (Peace Be upon Him), said: “on the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the outside. I asked Gabriel who they were. He replied that they were people who received Riba.” (Musnad Ahmed) From Abu Hurayrah: the prophet, (Peace Be upon Him), said: “there will certainly come a time for mankind when everyone will take Riba and if he does not do so, its dust will reach him.” (Abu Daud). In his last sermon during the pilgrimage, the Holy Prophet, (Peace Be Upon Him), in the presences of about one hundred thousand revered companions declared: “Every form of Riba is cancelled.” (Musnad Ahmed) It is, there for, clear, that interest, Riba and usury, in all forms and intent are strictly prohibited, as per teachings given herein above.

2.3.5 RIBA and Islamic Banking

Islamic banking, which principally should be completely free form Riba (interest)” is practiced under the same “fractional reserve” banking system that has to maintain a minimum “capital adequacy ratio” instructed by central bank of the country they are operating in. Capital adequacy ratio (CAR) is a defined percentage of customer’s deposit that goes to the central bank while the customer’s bank is free to lend/invest remaining part to its other customers, also it is the main constituent of formula that define the “money multiplying factor” in monetary terms. The bank to create money use “money multiplying factor”.
2.4 Various Islamic Modes of Financing

Concept of Various Islamic Modes of Financing
Islamic banks around the world have devised many creative financial products based on the risk sharing, profit sharing principles of Islamic banking. For day to day banking activities, a number of financial instruments have been developed that satisfy the Islamic doctrine and provide acceptable financial returns for investors.

2.4.1 Musharaka as a Mode of Islamic Financing
“Musharka” is a term frequently referred to in the context of Islamic modes of financing. There are certain ingredients, which are peculiar to the contract of “Musharka”. They are summarized here:

Musharka is a relationship established by the parties through a mutual contract. All the necessary ingredients of a valid contract must be present here also. For example, the parties should be capable of entering into a contract; the contract must take place with free consent of the parties without any duress, fraud or misrepresentation, etc. The proportion of profit to be distributed between the partners must be agreed upon at the time of affecting the contract. If no such proportion has been determined, the contract is not valid in Shariah.

The ratio of profit for each partner must be determined in proportion to the actual profit accrued to the business, and not in proportion to the capital invested by him. It is not allowed to fix a lump sum amount for any one of the partners, or any rate of profit tied up with his investment. Is it necessary that the ratio of profit of each partner conform to the ratio of capital invested by him? There is a difference of opinion among the Muslims jurists about this question.

In the view of Imam Malik and Imam Shafi’i, it is necessary for the validity of Musharakah that each partner gets the profit exactly in the proportion of his investment. Therefore, if A has invested 40% of the total capital, he must get 40% of the profit. Any agreement to the contrary which makes him entitled to get more or less than 40% will render the Musharakah invalid in Shariah. On the contrary, the view of Imam Ahmad is that the ratio of profit may differ from the
ratio of investment if it is agreed between the partners with their free consent. Therefore, it is permissible that a partner with 40% of investment gets 60% or 70% of the profit, while the other partner with 60% of the investment gets only 40% or 30%. The third is presented by Imam Abu Hanifa, which can be taken as a via media between the two opinions mentioned above. He says that the ratio of profit may differ from the ratio of investment in normal conditions however, if a partner has put an express condition in the agreement that he will never work for the Musharakah and will remain a sleeping partner throughout the term of Musharakah, then his share of profit cannot be more than the ratio of his investment.

Sharing of Loss

But in the case of loss, all the Muslims jurists are unanimous on the point that each partner shall suffer the loss exactly according to the ratio of his investment. Therefore, if a partner has invested 40% of the capital, he must suffer 40% of the loss, not more, not less, and any condition to the contrary shall render the contract invalid. There is a complete consensus of jurists on this principle. Therefore, according to Imam Shafi, the ratio of the share of a partner in profit and loss both must conform to the ratio of his investment.

Imam Ahmad, the ratio of profit may differ from the ratio of investment according to the agreement of the partners, but the loss must be divided between them exactly in accordance with the ratio of capital invested by each one of them.

2.4.2 Mudarabah as Islamic Mode of Financing

“Mudaraba” is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The investment comes from the first partner who is called “Rabb-ul-mal” while the management and work is an exclusive responsibility of the other, who is called “Mudarib” The difference between the Musharakah and Mudaraba can be summarized in the following points:

The investment in Musharakah comes from all the partners, while in Mudaraba; investment is the sole responsibility of Rabb-ul-mal. In Musharakah, all the partners can participate in the management of the business and can work for it, while in Mudaraba; the Rabb-ul-mal has no
right to participate in the management, which is carried out by the Mudarib only. In Musharakah, all the partners share the loss to the extent of the ratio of their investment while in Mudaraba the loss, if any, is suffered by the Rabb-ul-mal only, because the Mudarib does not invest anything. His loss is restricted to the fact that his labor has gone in vain and his work has not brought any fruit to him.

However, this principle is subject to a condition that the Mudarib has worked with due diligence which is normally required for the business of that type. If he has worked with negligence or has committed dishonesty, he shall be liable for the loss caused by his negligence or misconduct. In Musharakah, as soon as the partner mix up their capital in a joint pool, all the assets of the Musharakah become jointly owned by the all of them according to the proportion of their respective investment. Therefore, each one of them can benefit from the appreciation in the value of the assets, even if profits have not accrued through sales. The case of Mudaraba is different. Here all the goods purchased by the Mudarib are solely owned by the Rabb-ul-mal, and the Mudarib can earn his share in the profit only in case he sells the goods profitably. Therefore, he is not entitled to claim his share in the assets themselves, even if their value has increased.

2.4.3 Murabahah as an Islamic Mode of Financing

Murabahah is a particular type of sale and not a mode of financing. The ideal mode of financing according to Shariah is Mudaraba and Musharkah. In the perspective of the current economic set up, there are certain practical difficulties in using Mudaraba and Musharaka instrument in some areas of financing. Therefore, the contemporary Shariah experts have allowed, subject to certain conditions, the use of the Murabahah on deferred payment basis as a mode of financing. But there are two essential points: It should never be overlooked that, originally, Murabahah is not a mode of financing. It is only a device to escape from “interest” and not an ideal instrument for carrying out the real economic objectives of Islam. Therefore, this instrument should be used as a transitory step taken in the process of the Islamization of the economy, and its use should be restricted only to those cases where Mudaraba or Musharkah are not practicable.

Then second important point is that the Murabaha transaction does not come into existence by merely replacing the word interest by the word of “profit” or “mark-up”. Actually, the Shariah
scholars with some conditions have allowed Murabahah as a mode of finance. Unless these conditions are fully observed, Murabahah is not permissible.

Infact, it is the observance of these conditions, which can draw a clear line of distinction between an interest-bearing loan and a transaction of Murabahah. If these conditions are neglected, the transaction becomes invalid according to Shariah.

**Basic Features of Murabahah Financing**

Murabahah is not a loan given on interest. It is the sale of a commodity for deferred price, which includes an agreed profit added to the cost. Murabahah cannot be used as a mode of financing except where the client needs funds to actually purchase some commodities. For example, if he wants funds to purchase cotton as a raw material for his ginning factory, the Bank can sell him the cotton on the basis of Murabahah. But where the funds are required for some other purposes, like paying the price of commodities already purchased by him, or the bills of electricity or other utilities or for paying the salaries of his staff, Murabahah cannot be effected, because Murabahah requires a real sale of some commodities, and not merely advancing a loan.

The commodity must come into the possession of the financier, whether physical or constructive, in the sense that the commodity must be in his risk, through for a short period. The best way for Murabaha, according to Shariah, is that the financier himself purchases the commodity and keeps it in his own possession, or purchases the commodity through a third person by him as agent, before he sells it to the customer. The sale cannot takes place unless the commodity comes into the possession of the seller, but the seller can promise to sell even when the commodity is not in his possession. The same rule is also applicable to Murabahah.

**2.4.4 Ijarah as an Islamic Mode of Financing**

“Ijarah” is a term of Islamic Fiqh. It means ‘to give something on rent’. In the Islamic jurisprudence, the term Ijarah is used for two different situations. In the first place, it means to employ the services of a person on wages given to him as a consideration for his hired services. The employer is called “Musta’jir while the employee is called “Ajir” while the wages paid to the Ajir are called their “Ujrah”. Therefore, if A has employed B in his office as a manager or as a clerk on a monthly salary, A is Musta’jir and B is Ajir. This type of Ijarah includes every transaction where someone else hires the services of a person. The second type of Ijarah relates
to the uses of assets and properties, and not to the services of human beings. Ijarah in this sense means to transfer the use of a particular property to another person in exchange for a rent claimed from him. In this case, the term Ijarah is analogous to the English term “leasing”. Here the lessor is called “Mujir”, the lessee is called “Musta’jir and the rent payable to the lessor is called “Ujrah”.

2.4.5 Salam as an Islamic Mode of Financing

The modern banks and financial institutions especially to finance agriculture sector use this mode of financing. Salam is a sale whereby the seller undertakes supply of specific goods to the buyer at a future date an exchange of an advanced price fully paid at spot. Here the price is paid as cash, but the supply of the purchased goods is deferred.

Purpose of Salam financing

When Allah declared Riba as Haram, the farmers could not take usurious loans. Therefore Holy Prophet allowed them to sell their agricultural products in advance. Salam is beneficial to the seller because he receives the price in advance and it is beneficial to the buyer also because normally the price in Salam is lower than the price in spot sales. The permissibility of Salam is an exception to the general rule that prohibits forward sale and therefore it is subject to strict conditions, which are as follows:

Conditions of Salam

It is necessary for the validity of Salam that the buyer pays the price in full to the seller at the time of affecting the sale. In the absence of full payment, it will be tantamount to sale of a debt against a debt, which is strictly prohibited by the Holy Prophet (P.B.U.H.).

Moreover, the basic wisdom for allowing Salam is to fulfill the instant need of the seller. If it is not paid to him in full, the basic purpose of the transaction will be defeated. Only those goods can be sold through a Salam contract in which the quantity and quality can be exactly specified. For example, the precious stones cannot be sold on the basis of Salam because each stone differ in quality, size, weight and their exact specification is not possible.
All details in respect to quality of goods sold must be expressly specified leaving no ambiguity, which may lead to a dispute. It is necessary that the quantity of commodity be agreed upon in absolute terms. It should be measured or weighted in its usual measure only. The exact date and place of delivery must be specified in the contract. Salam cannot be affected in respect of things, which must be delivered at spot. The commodity for Salam contract should remain in the market right from the day of contract up to the date of delivery or at least till the date of delivery. The time of delivery should be at least fifteen days or one month from the date of agreement. Price in Salam is generally lower than the price in spot sale. The period should be long enough to affect prices.

Since price in Salam is generally lower than the price in spot sale, the difference in the two prices may be a valid profit for the bank. A security in the form of guarantee, mortgage or hypothecation may be required for a Salam in order to ensure that the seller delivers.

### 2.5 Economic growth

Economic growth, which is defined as an increase in Gross National Product (GNP) or increase in Gross Domestic Product (GDP), has been the main purpose of most economic studies and models from Adam Smith (the father of Classical Economics) until the present time. Even before Smith there were some opinions regarding this issue.

Today growth is still an important topic of serious discussion among economists. Transfer from exogenous to endogenous growth models was in fact a progress toward a better explanation of reality. While in exogenous growth models the focus was on the accumulation of capital and innovations and technological changes were determined outside the model, in endogenous growth models they are determined within the model. For example, in Romer's model (1987) the technology factor is determined by the knowledge spillover effect. He followed Arrow (1962) who reasoned that every investment unit not only increases physical capital stock but also increases the technology level of firms via the knowledge spillover effect. Romer (1990) also developed a new growth model which is a combination of the knowledge spillover effect model and the monopoly power model. Furthermore, Romer (1994) compared endogenous and exogenous growth models according to the five realities which every growth model should contain. In addition, King and Levine (1993c: 514) developed an endogenous growth model
focussing on connections between finance, entrepreneurship, and economic growth. Their model as an endogenous growth model aimed at:

Featuring connections between finance, entrepreneurship, and economic growth suggested by the insights of Frank Knight (1951) and Joseph Schumpeter (1912). We combine the Knightian role of entrepreneurs in initiating economic activities with two ideas of Schumpeter. First, we build on the well-known Schumpeterian view that innovations are induced by a search for temporary monopoly profits. Second, we incorporate the less well-known Schumpeterian idea that financial institutions are important because they evaluate and finance entrepreneurs in their initiation of innovative activity and the bringing of new products to market. (King and Levine, 1993c: 514)

In the endogenous growth models there are some factors which affect economic growth, including services provided by financial intermediation which have a positive effect on economic growth.

2.6 Economic growth versus the business cycle

Economists distinguish between short-run economic changes in production and long-run economic growth. Short-run variation in economic growth is termed the business cycle. The business cycle is made up of booms and drops in productions that occur over a period of months or years. Generally, economists attribute the ups and downs in the business cycle to fluctuations in aggregate demand.

In contrast, the topic of economic growth is concerned with the long-run trend in production due to structural causes such as technological growth and factor accumulation. The business cycle moves up and down, creating fluctuations around the long-run trend in economic growth.

2.7 THEORIES ISLAMIC BANKING

According to Abdouli (1991), Kahf, Ahmad and Homud (1998), Siddiqi (2002), and Iqbal (1997), maximizing of profitability is not the only concern for Islamic banking institutes and the principles that Islamic banks are based on are deeply integrated with ethical and moral values. They also state that Islamic Banks do not depend on tangible collaterals and lead to a better
distribution of income, allowing access to finance for those in poorer classes of society, and resultin
g greater benefits for social justice and long term growth. In contrast with conventional methods, Islamic financin
g is not centred only around creditworthiness but rather on the worthiness and profitability of a project, and therefore recovering the principle becomes a result of profitability and worthiness of the actual project. Entrepreneurship and risk sharing are therefore promoted by Islamic finance and its expansion to the unwealthy members of society is an effective development tool. The social benefits are clear, as currently the poor are often exploited by financial institutions charging usurious rates.

(Iqbal, 1997) 7 The nature of Islamic banking operations are directly affected by the success or failure of client enterprises as a result of the profit-loss-sharing process (Abdouli, 1991). The relationship is based on a partnership, with cash being entrusted to bankers for investment, and returns shared between depositors and bankers. Losses are carried by fund owners. This sharing principle is very different to traditional banking practices. It introduces the concept of sharing to financing and creates a performance incentive within the mind of bankers that relates deposits to their performance in the use of funds. This increases the deposit market and gives it more stability (Kahf, 2002). Iqbal (1997), Martan, Abdul-Fattah, Jabarti, and Sofrata (1984), and Ziauddin (1994).

Are of the opinion that Islamic bankers encourage people to invest as investment depositors receive a share in the bank’s profits. Investors are motivated by the human desire toward ownership, high rewards and the satisfaction of being part of a successful project (Martan et al, 1984). Issuers of Islamic finance have wider latitude in financing services and negotiate a profit share between zero and 100 when dealing with savers and investors. This allows them to better mobilize resources and attract investors as a higher profit share results in lower finance costs. (Ziauddin, 1994) According to Iqbal (1997),

The economic development of Islamic countries can be greatly enhanced by the Islamic financial system due to the mobilization of savings that are being kept away from interest based banks and the development of the capital markets. This motivation to invest in Islamic banks may also stem from the fact that research shows that the share in the bank’s profits may at times be higher than the fixed rate of interest given by conventional banks. Some of the literature on Islamic banking states that replacement of interest by profit-loss-sharing may result in high instability of the entire economic system as problems originating in one part of the economy will
rapidly spread to others. However the general consensus is that interest-free banking tends to enhance stability and it is in fact interest based debt financing that contributes to economic instability. 8 Islamic finance allows a closer link between real economic activity that creates value and financial activity to be forged. According to Iqbal (1997), the Islamic financial system can be expected to be stable due to the elimination of debt financing and enhanced allocation efficiency. Analytical models show that the Islamic banking system is stable as the term and structure of liabilities and assets are symmetrically matched through profit-sharing, lack of fixed interest costs and the impossibility of refinancing through debt (Yusri, 2005). Chapra (1992), Kahf (1982), Siddiqi (1983) and Zarqa (1983) all support the idea that profit sharing is more stable than the interest based system resulting in prevention of fluctuations in rates of return. It has been pointed out that interest based debt financing is a major factor in causing economic instability in capitalist economies. As soon as the bankers find that business concerns are beginning to incur losses they reduce assistance and call back loans (Yusri, 2005).

In an Islamic banking system more stability is experienced as in times of crisis investment depositors automatically share the risk due to profit-and-loss sharing, meaning that individual banks as well as the entire banking system is less likely to break down (Zaher and Hassan, 2001). The focus of Islamic finance on profitability and rate of return of investments due to equity and profit sharing has the potential of directing financial resources to the most productive investments and hence increases the efficiency of the financing process and in the real sectors (Kahf et al, 1998). Economic development requires mobilization of financial resources both internally and externally and any resources left hoarded indicate unrealized potential for economic development. Qureshi (1984) and Nagvi (1981 and 1982) claim that Islamic bankers are increasingly exposed to risk due to equity-based financing, however Islamic scholars believe that the elimination of interest increases stability. In financial theory a linear 9 relationship exists between risk and return, meaning that low risk is associated with low return and high risk brings about high return. (Chapra, 1992).

Risk is a key component of making investment and investors share the risk involved with those carrying out investment activities. Islamic finance provides depositors with some influence on investment decisions and gives banks and financial institutions a share in the decision making process. This allows both risk and decision making to be spread over a much larger number and variety of people, allowing wider involvement in economic activities (Ziauddin, 1994). In a
study by Turen (1996) on the risk analysis of Islamic banks, he states that as interest is abolished for deposit holders and replaced by profit-sharing, the fixed interest payment is minimized or eliminated and therefore Islamic banks experience higher coverage of interest charge ratios and therefore lower financial risks. A further study by Samad and Hassan (1997) that compares an Islamic bank with a group of conventional banks shows that Islamic banks are less risky than conventional banks. Sarker (1997).

However, found that the risk involved in profit sharing is very high, but states that many external factors and obstacles interfered with the proper implementation of the Islamic banking system. Sarker (1997), Samad and Hassan (1997), concluded that if Islamic banks are supported with appropriate banking laws and regulation, they can provide efficient banking services which encourage economic development. From the literature it is evident that both theoretically and empirically, economists find Islamic banking viable, acceptable and also efficient and significantly effective in developing the economy.

2.8 EMPIRICAL STUDIES

Huang and Lin (2009) re-examined the dynamic relationship between financial development and economic growth on the dataset used in Levine et al. (2000). Using a novel threshold regression with the instrumental variables approach, they support a positive linkage between financial development and economic growth, and found that financial development has an important effect on growth in low-income countries.

Gries et al. (2009) have tested for the causality between financial deepening, trade openness, and economic development. This study focuses on 16 Sub-Saharan African countries, using 20 annual time series observations. For the purpose of establishing the causal relationships, the Granger Angel method, the Vector Auto-Regression (VAR), and the Vector Error Correction Model (VECM) were used. This study shows support for the hypothesis of finance-led growth. It, however, suggests that the adoption of a more balanced policy approach may reduce financial system deficiencies among the Sub-Saharan Countries.

Kar et al. (2011) focused on developing countries and also introduced new indicators of financial development with a view to establishing the causal relationship between financial development and economic growth. Using countries, which constitute the Middle East and North Africa (MENA) for the period 1980 to 2007, the study uses a simple linear model. This model defines economic growth as a function of financial development. Six new indicators of financial
development was introduced and these include; the ratio of narrow money to income, ratio of broad money to income, ratio of quasi money to income, ratio of deposit money bank liabilities to income, ratio of domestic credit to income, and ratio of private sector credit to income. On the other hand, the real income was employed as a proxy for economic growth. The Granger Causality test was employed to establish the causal relationship between financial development and economic growth. The study concludes that the direction of causality is bi-directional, but it is country or financial development indicator specific. This study, however, suggests that a strong link may exist between financial development and the real sector.
Bangake and Eggho (2011) also supported the view of an existing two-way directional causality between financial development and economic growth among developing countries. This study focuses on seventy-one countries, which included eighteen developing countries, for the period 1960 to 2004. The study carried out its empirical analysis using both the Panel Cointegration tests and the Panel cointegration estimation (i.e. Dynamic OLS and panel VECM approach). It establishes that both financial development and economic growth have influence on one another, but suggests that a long-run policy approach may prove beneficial among the developing countries. Mosab I. Tabash, Raj S. Dhankar Islamic Banking and Economic Growth: An Empirical Evidence from Qatar, Hassan et al. (2011) focused more on the low- and middle-income countries from 1980 to 2007. This study comprises 168 countries, which are classified by geographic regions, and uses the panel estimation techniques (i.e. the VAR models). The study came up with two important findings. These include; a strong long-run linkage between financial development and economic growth, and two-directional causality exist between financial development and economic growth among the Sub-Saharan African countries, the East Asian countries, and the Pacific countries. This study emphasized the need for the adoption of long-run policy measures among the developing countries.

Ibrahim (2012) has examined the impact of financial intermediation on economic growth in Nigeria. Time series data from 1970 to 2010 were used and were gathered from the CBN publications. For the analysis, the unit root test and cointegration test were done accordingly and the error correction model was estimated using the Engle-Granger technique. The growth rate of the real gross domestic product is used as a proxy for this variable. For financial intermediation, two indicators commonly used in the literature are used as proxy. These are the ratio of broad money supply (M2) to nominal gross domestic product (NGDP) and the ratio of domestic credit to the private sector (CPS) to the nominal gross domestic product (NDGP).

While the former measures the capability of the banks to mobilize funds for investment purposes, the latter measures the financial opportunities available to firms, most especially new firms. The paper established that financial intermediation has a significant impact on economic growth in Nigeria.

With regard to the relationship between Islamic financial development and economic growth, Abduh and Omar (2012), Furqani and Mulyany (2009), and Majid and Kassim (2010) are among the limited studies in this area. Abduh and Omar (2012) identifies that the relationship is bi-
directional. Therefore, the government policies in supporting the development of Islamic finance in Indonesia are strongly needed in order to support the economic development. However, using different time span of quarterly data, findings from Furqani and Mulyany (2009), and Majid and Kassim (2010) are different in terms of the direction of the relationship. Furqani and Mulyany (2009), on the one hand, states that the relationship between Islamic financial development and economic growth is following the view of “demand-following”, which means that growth in real sector economy stimulates Islamic banking institutions to change and develop. On the contrary, finding from Majid and Kassim (2010) is in favour of the supply-leading view.

In this study, we examine the relationship between Islamic banking and economic growth in case of Qatar. This study has some advantages compared to other Islamic finance studies, for example, the data for all full-fledged-Islamic banks are used. More variables for economic growth are utilized and more data is collected, since time series data from 1990 to 2008 is used.
CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deals with the practical procedures which were used in carrying out this study. It gives details of the research design to be adopted, population of study, nature of sample, sampling procedure, data collection procedures and the final data analysis techniques that were applied. It gives the framework within which data were collected and analyzed.

3.1. Research Design

This study used the descriptive survey research design specifically the descriptive correlation strategies. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or of a group. It dealt with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that had universal validity. It also involves events that have already taken place and could be related to present conditions (Kothari, 2004). Further, descriptive surveys were used to discover causal relationships (descriptive correlation) to provide precise quantitative description and to observe behavior (Amin, 2005).

3.2. Research Population

This study was focused on dara-salaam bank and dahabshiil bank who operate in Maroodi-jeex region in Islamic banks system. Total number of staff who working in these Islamic banking system are 100. Dara-salaam bank working 40 staff while 60 staff are working dahabshiil bank for Islamic banks system.

3.3. Sample Size

In view of the nature of the target population where the number for both dara-salaam bank and dahabshiil bank are many, a sample of workers from both dara-salam and dahabshiil bank was taken from each category. Table 1 below shows the respondents of the study with the following categories: dara-salaam banks and dahabshiil banks, target population and sample size. The Slovene’s formula was used to determine the minimum sample size.
\[ n = \frac{N}{1 + N \alpha^2} \]

Table 1

<table>
<thead>
<tr>
<th>NO</th>
<th>Category</th>
<th>population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dahabshiil bank</td>
<td>70</td>
<td>54</td>
</tr>
<tr>
<td>2</td>
<td>Dara-salaam bank</td>
<td>45</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>115</td>
<td>89</td>
</tr>
</tbody>
</table>

### 3.4 Sampling technique

Systematic random sampling is a type of probability sampling technique [see our article Probability sampling if you do not know what probability sampling is]. With the systematic random sample, there is an equal chance (probability) of selecting each unit from within the population when creating the sample. Purposive sampling was also used to get employees, and managers in selected dahabshiil bank and dara-salaam bank involving Islamic banking system.

### 3.5 Research Instruments

The research instrument designed by researcher is questionnaire.

### 3.6 Questionnaire:

The questionnaire was intended to collect data from respondents as questionnaire distributed by the respondents in a written way. Questionnaire was distributed by the all respondents to contribute the study. Questionnaire on this study will contain three sections. Section I deals with profile of respondents with questions like age of the respondent, marital status, educational level, Section II, the role Islamic bank, Section III deals with economic growth.
• Sources of Data

• Primary Sources

Primary of Research refers to the information that one collects one self. It involves collection of the data in a given subject directly from the outside world.

Primary research is collected specifically for the research at hand. It obtained by communicating directly or indirectly with the subject. Carrying out primary research may be developed into excellent skill that is useful in business personal or academic settings.

• Questionnaire

• Secondary Sources

According to level Ten Design (2006) Describes secondary Research as information gathered through Literature, publication and other non-human sources. Secondary research is generally easier to perform than primary research.

In this study secondary research focuses on the collection of information relevant to topic. The work mostly comprised a literature of both published and unpublished documents including Books, Journals, internet and other material

3.7 Validity and Reliability

Validity of the instrument assures through expert judgment and the researcher makes sure the coefficient of validity to be at least 70%. After the assessment of the questionnaire, the necessary adjustments will be made bearing in mind the objectives of the study. The formula that is used to calculate the validity of the instrument will be Content Validity Index (CVI) = no of items declared valid/total no of items.

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability of the instrument establish through a test-retest technique. The researcher will conduct a pre-test of the instrument on group of subjects and wait one week then will administer the same test to the same subjects a second time.
3.9 Analysis

The data analysis will carry out based on the research instrument. From the responses to the questionnaire, the researcher will able to quantify the data using frequencies, and percentage tables were drawn for logic analysis.

3.10 Ethical Consideration Here are some specific points that the researcher is considering when conducting the study, these include:

1. Asking the permission to the respondents of the study.
2. Focusing on confidentiality.
3. Asking respondents not to write their names in the questionnaires.
4. Not harming or forcing the respondents to take part of the study.
5. Freedom of response.
CHAPTER FOUR

DATA PRESENTATION

4.1 Introduction
This chapter presents the research findings in reference to the research objectives found in chapter one. The chapter is divided in two sections. The first one presents the descriptive information about the respondents and as well as Islamic banking system staff and manager of bank while the second one presents the results in relation to the objectives of the study. The results are categorized per different statistical tests performed, which are factor analysis, correlation analysis and regression analysis.

4.2. Descriptive Information
To describe the respondents, cross tabulations were run to document the demographic factors of the respondents. These describe the respondents in terms of sex, age, level of education and working experience with the Islamic banking system and are indicated in figures 4.3.1 – 4.3.2 below.
4.3.1 Gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Male</td>
<td>17</td>
<td>65.4</td>
<td>65.4</td>
<td>65.4</td>
</tr>
<tr>
<td>Female</td>
<td>9</td>
<td>34.6</td>
<td>34.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The above graph refers to that is your Gender: Out of total respondents. 65.4 percent respondents are male. While 34.6 percent respondents are female, the majority of respondents 65.4 percent are male.
Table 4.3.2 age

2. What is your Age?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>20-40</td>
<td>23</td>
<td>88.5</td>
<td>88.5</td>
</tr>
<tr>
<td></td>
<td>40-60</td>
<td>3</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The above graph refers to that is your Age: Out of total respondents. 88.5 percent respondents are range between 20-40. While 11.5 percent respondents are range between 40-60, the majority of respondents 88.5 percent are ranges between 20-40.
Table 4.3.3

3. your Martial status?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Married</td>
<td>15</td>
<td>57.7</td>
<td>57.7</td>
</tr>
<tr>
<td></td>
<td>single</td>
<td>11</td>
<td>42.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The above graph refers to that marital status: Out of total respondents. 57.7 percent respondents are married. While 42.3 percent respondents are single, the majority of respondents 57.7 percent are married.
Table 4.3.4

4. Level of education?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degree</td>
<td>10</td>
<td>38.5</td>
<td>38.5</td>
<td>38.5</td>
</tr>
<tr>
<td>Master</td>
<td>16</td>
<td>61.5</td>
<td>61.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The above graph refers to that level of education: Out of total respondents, 61.5 percent respondents are master. While 38.5 percent respondents are degree, the majority of respondents 61.5 percent are master.
Table 4.4.1

5. What is your position in the bank?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td>8</td>
<td>30.8</td>
<td>30.8</td>
<td>30.8</td>
</tr>
<tr>
<td>Staff</td>
<td>18</td>
<td>69.2</td>
<td>69.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.7

The above graph refers to that is your position in the bank: Out of total respondents, 30.8 percent respondents are manager. 69.2 percent respondents are staff, the majority of respondents 69.2 percent are staff.
Table 4.4.2

6. What type of bank do you run?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid sole proprietorship</td>
<td>6</td>
<td>23.1</td>
<td>23.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Partnership</td>
<td>5</td>
<td>19.2</td>
<td>19.2</td>
<td>42.3</td>
</tr>
<tr>
<td>Corporation</td>
<td>15</td>
<td>57.7</td>
<td>57.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The above graph refers to the type of bank you run: Out of total respondents, 23.1 percent employees are sole proprietorship. 19.2 percent Employee are partnership, 57.7 percent are corporation, majority of respondents 57.5 percent are corporation.
Table 4.4.3

7. Islamic bank system based on shariah principle?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>9</td>
<td>34.6</td>
<td>34.6</td>
<td>34.6</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>6</td>
<td>23.1</td>
<td>23.1</td>
<td>57.7</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>42.3</td>
<td>42.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.4.4

The above graph refers to. That Islamic bank system based on principle: Out of total respondents. 34.6 percent employees are strongly agreed. 42.3 percent Employee are Agree, 23.1 percent are disagree, zero present are strongly Disagree.
Table 4.4.5

8. What type of service does your bank offer?

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Frequency</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid All</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Mudarabah</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mudarabah musharakah</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above graph refers to those satisfied with the overall Islamic banking service. Out of total respondents, 100 percent employees are all muraabaha, musharakah, and mudaraba, the all of employee are 100 percent.
Table 4.4.5

9. Government are satisfied with the overall Islamic banking service and its product

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strongly agree</td>
<td>11</td>
<td>42.3</td>
<td>42.3</td>
<td>42.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>15.4</td>
<td>15.4</td>
<td>57.7</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>42.3</td>
<td>42.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The above graph refers to there are satisfied with the overall Islamic banking service. Out of total respondents, 42.3 percent employees are strongly agreed. 42.3 percent Employee are Agree, 15.4 percent are disagree, zero present are strongly Disagree.
Table 4.4.6

10. Customer’s are views and satisfaction on Islamic banking service

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>9</td>
<td>34.7</td>
<td>34.7</td>
<td>34.7</td>
</tr>
<tr>
<td>strongly agree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>7.7</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>disagree</td>
<td>2</td>
<td>7.7</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

11 islamic banking institution are applying this product in accordance with shariah princible in order to achieve their goals

The above graph refers to There are customer’s views and satisfaction on Islamic banking service Out of total respondents. 34.7 percent employees are strongly agreed. 50 percent Employee are Agree, 7.7 percent are disagree, 7.7 present are strongly Disagree the majority og respondent agree 50 percent.
Table 4.4.7

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid strongly</td>
<td>13</td>
<td>50.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Agree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>11.5</td>
<td>11.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>38.5</td>
<td>38.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The above graph refers to Islamic banking institution are applying these product in accordance with shariah principles Out of total respondents. 50 percent employees are strongly agreed. 38.5 percent Employee are Agree, 11.5 percent are disagree zero present are strongly Disagree.
Table 4.4.8

12. Does Islamic banking system encourage people to new system and service?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Explanation

The above graph indicates that does Islamic banking system encourage people to new system; out of total respondents. 100 percent employees mentioned yes. While zero percent mentioned no.
Table 4.4.9

13. Do Islamic banking system create employment opportunities?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>23</td>
<td>88.5</td>
<td>88.5</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3</td>
<td>11.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Explanation
The above graph indicates that; does Islamic banking system create employment opportunities out of total respondents. 88.5 percent employees mentioned yes. While 11.5 percent mentioned no.
Table 4.4.10

14. Does Islamic banking system take part economic growth social life improvement?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The above graph indicates that; does Islamic banking system take part economic growth social life improvement out of total respondents. 100 percent employees mentioned yes. While zero percent mentioned no.
Table 4.4.11

15. Does Islamic banking system affect inflation?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid yes</td>
<td>7</td>
<td>26.9</td>
<td>26.9</td>
<td>26.9</td>
</tr>
<tr>
<td>no</td>
<td>19</td>
<td>73.1</td>
<td>73.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.16

The above graph indicates that does Islamic banking system affect inflation: out of total respondents 26.9 percent employees mentioned yes. While 73.1 percent mentioned no the majority of respondents 73.1 present are mentioned no.
Table 4.4.12

16. Does Islamic banking system contribute economic growth of the country?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>23</td>
<td>88.5</td>
<td>88.5</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Explanation

The above graph indicates that does Islamic banking system contribute economic growth of the country; out of total respondents. 88.5 percent customers mentioned yes. While 11.5 percent mentioned No. the majority of respondents 88.5 percent are mentioned yes.
Table 4.4.13
17. Does Islamic banking system take part growth real GDP

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>23</td>
<td>88.5</td>
<td>88.5</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3</td>
<td>11.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>26</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Explanation
The above graph indicates that does Islamic banking system take part growth real GDP; out of total respondents. 48 percent customers mentioned yes. While 52 percent mentioned no.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0: Introduction
This chapter presented the discussion of the key data findings conclusion drawn from the findings highlighted and recommendation made there-to the conclusions and recommendations drawn were focused on addressing the purpose of this study which was to analyses the importance of the role of Islamic banking system and economic growth with specific salaam bank and dahabshiil bank in hargeisa Somaliland from the analysis and data collected the following discussions conclusion and recommendation were made

5.1 Research objectives revisited
The study focuses on two main areas – Islamic banking system and economic growth. This whole study concentrates on Hargeisa and especially Darasalam and Dahabshil to get some informations related how Islamic banking system effects economic growth of Somaliland

5.2: Summary
The objective for this study was to investigate the role of Islamic banking in economic growth of Somaliland in selected banks of Hargeisa especially Darasalam bank and Dahabshil Bank. In this research, the results were collected from 26 respondents; employee and managers at Dahabshil and Darasalam Banks. Descriptive, Analytical methods were used in this study. Both managers and employee were used to investigate to find out whether there is the remarkable impact of Islamic banking in economic growth of Somaliland.

Aiming to get enough information, two institutional sectors were used. Research questionnaire were used and responses were analyzed and interpreted separately and other whose answers are identical was combined. When collecting data, relevant documentary analysis for this study was also used. To interpret and analyze Data in the chapter four, the researchers took into account the
respondents` point of view toward Islamic banking and economic growth of Hargiesa Somaliland.

The researcher, also analyzed how respondents understand what Islamic banking system and how it relates economic growth of Hargeisa Somaliland, to see if their responses can lead to the objective. Basing on the data, the researcher also analyzed the impact Islamic banking in economic growth of Hargeisa Somaliland. After the analysis, the findings of study agree with the hypothesis that impact of Islamic banking in economic growth of Hargeisa Somaliland especially Darasalam and Dahabshil banks.

5.3: Conclusion

The purpose of this research paper is to identify the main issues, Islamic banking system and economic growth. Questionnaire were held with personnel who are directly involved with the Islamic banking system. And also aimed to investigate the relationship between banking systems, and economic growth, in other words the role of banking systems in general and Islamic banking in particular in economic growth. For this reason the relevant literature has been analyzed. The vast majority of the reviewed literature showed there to be a significant positive relationship between Islamic banking system and economic growth in several countries. Also, some research has confirmed that contribution of Islamic banking to economic growth has been reported. Furthermore, some theories and opinions regarding the role of Islamic banking systems, with an emphasis on the effect of the banking system on economic growth, have been discussed. They showed the ways in which banking systems can affect economic growth. In addition, advantages of Islamic banking regarding economic growth have been considered. According to this review there are several advantages in Islamic banking in this regard including: efficient use of money, distribution of risk between entrepreneurs and depositors, importance of quality of a business plan rather than credit rating of the borrowers, stability, control of excessive credit, creation and decreasing moral hazard and adverse selection.

5.4: Recommendations

The findings of the research managed to reveal certain issues in Islamic banking in Hargeisa that need to be addressed for corrective action. Due to the lack of public awareness of Islamic bank products, bankers should promote these products intensively via advertising and effective marketing strategies to increase the market share. Service quality of Islamic banking is an
important factor driving bank customers; emphasis on service quality is therefore essential to attract more customers. A “shariah audit” is also necessary to ensure that shariah compliant products are recommended to the public through the Islamic banking system. The staff involved in Islamic banking should be well trained to equip themselves with sufficient shariah knowledge and principles for the Islamic banking product development process as well as for the operation of the system.

These recommendations have been made

- **The banks should understand the concept of Islamic banking and Shari'a complement**: Islamic banking is important for banks it plays an important role in banks and it is the backbone of banks so the banks should respect and understand the meaning and concept of Islamic banking and how it works.

- **The Marketing department should arranged get together functions, and create knowledge of Islamic banking in customers minds**: because the customers is very important in the banks because banks work for people and they deposit their financial and also it invest and help the entrepreneurs and whenever business increase and the economic is become growth.

- **Banks should complete all the functions of Islamic banking and its products**: our banks provide Mudaraba, Murabaha and Musharaka so the banks should provide the other services such as Salam, Ijara, Intisna and whole functions of Islamic banking and give the customers full information about Islamic banking.

- **The government should assist the banks in order to practice the Islamic banking**: banks plays an important role of economic growth and employee opportunity of the country in order the economy of the country be stable in get high opportunity at the side of employee.

- **In Hargeisa, nowadays there is good Islamic banking system**, but, it is not enough for hargeisa Somaliland to let it go on being good only; it would much better to improve it to be very good or excellent. Thus, the implementation of these recommendations below can help in Islamic banking improvement.
APPENDICES

APPENDIX 1: TRANSMITTAL LETTER FOR THE RESPONDENT

Dear sir/Madam

Greetings!

We are bachelor of business administration candidate of GOLLIS University. Part of the requirements for the award is a dissertation. My study is entitled, Islamic banking in economic growth in Hargeisa Somaliland.

In this context may I request you to participate in this study by answering the questionnaires? Kindly do not leave any option unanswered. Any data you will provide shall be for academic purpose only and no information of such kind shall be disclosed to others.

Thanks you very much in advance.

Yours faithfully,

Abdurashiid Abdullahi Hassan
Hodo Jama Abdi
SECTION I: FACE SHEET: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Please place (√) in the space that most accurately reflects you

1. Gender: Male             Female

2. Age group:
   20-40  41-60  Above 160

3. Your marital status?
   married             Single

4. Level of Education
   University  Degree  Master  PHD

5. What is your position in the bank?
   Owner  Partner  Manager  Staff

SECTION II: questionnaire to determine the degree of Islamic banking system

Direction: please describe the degree of Islamic banking system by using the scoring guide below. Kindly write your best choice in the box. Be honest about your option as there are no rights or wrong answers.
Scores | Responses
---|---
1 | strongly disagree
2 | strongly agree
3 | Disagree
4 | Agree

5. What type of bank do you run?
Sole proprietorship ☐ Partnership ☐ Corporation ☐

6) Islamic bank system based on Islamic principle?
1 ☐ 2 ☐ 3 ☐ 4 ☐

7) What type of service does your bank offer?
murabaha ☐ musharaka ☐ mudarabaha ☐ other specify ☐

8) There are satisfied with the overall Islamic banking service?
1 ☐ 2 ☐ 3 ☐ 4 ☐

9) There are customer’s views and satisfaction on Islamic banking service?
1 ☐ 2 ☐ 3 ☐ 4 ☐

10. Islamic banking institution are applying these product in accordance with shariah principles in order to achieve their goals?
1 ☐ 2 ☐ 3 ☐ 4 ☐
SECTION III: Questionnaire to determine the Degree of economic growth

Direction: please describe the degree of economic growth by using the scoring guide below. Kindly write your best choice in the box. Be honest about your option as there are no rights or wrong answers.

11) Does Islamic banking system encourage people to new system?
   Yes  
   No  

12) Do Islamic banking system create employment opportunities?
   Yes  
   No  

If yes briefly discuss

----------------------------------------------------------------------
----------------------------------------------------------------------
----------------------------------------------------------------------

If no explain the reason

----------------------------------------------------------------------
----------------------------------------------------------------------
----------------------------------------------------------------------

13) Do Islamic banking system take part economic growth/social life improvement?
   Yes  
   No  

If yes explain the reason

----------------------------------------------------------------------
----------------------------------------------------------------------
----------------------------------------------------------------------

If no explain the reason
15). Does Islamic banking system affect inflation?

Yes ☐

No ☐

If yes explain the reason

If no explain the reason

16) Does Islamic banking system contribute economic growth of the country?

Yes ☐

No ☐

17) Does Islamic banking system take part growth real GDP?

Yes ☐

No ☐

We are kindly informing you that the purpose for this questionnaire is only for academic purposes. Thanks for your time and consideration.
REFERENCE


https://en.wikipedia.org/wiki/Allan_Amin


