

**Master's Thesis on Public awareness toward Islamic banking
in Tajikistan: National wide survey**

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LIST OF ABBREVIATIONS

IB	Islamic Banking
IBs	Islamic banks
IBF	Islamic banking and finance
IDB	Islamic Development Bank
GCC	Gulf Cooperation Council
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institution
IIFM	International Islamic Financial Market
IIRA	Islamic International Rating Agency
IFSB	Islamic Financial Services Board
NBT	National Bank of Tajikistan
PLS	Profit Loss Sharing System
NPL	Non-performing loans
IFC	International Finance Corporation
MCDO	Microcredit and deposit organizations
IMF	International Monetary Fund

Certification Page

I, BOBOEV Bobutkhon (Student ID 51217605) hereby declare that the contents of this Master's Thesis are original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma.

All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

Boburkhon BOBOEV

14 June, 2019

Abstract

The main aim of this study is to determine public awareness and behavior regarding Islamic Banking and Finance in Tajikistan examining 38 cities and districts in 5 provinces at the country level. The primary data for this study compiled through structured-questionnaire comprising a sample size of 493 responses. The study is exploratory in nature to identify respondents' awareness to the subject of Islamic Banking. The study also explores the existing potential for Islamic banking in the financial market and the main features of Islamic banking that appeal to Tajiks. Through adapting a binary probit model, empirical analysis was conducted which found positive linkages between awareness of Islamic banking and demographic characteristics of the population.

The study found that more than half of the population in Tajikistan are not aware to the culture of Islamic banking and have very low-level of knowledge about its services and advantages. An empirical finding suggests that religion plays a vital role on level of awareness and banking selection among population and shown positive relationship. Other main finding arguing that there is significant potential for Islamic banks in the country which can positively affect financial inclusion through attracting new to bank clients.

However, the survey shows that people awareness is largely consistent with the misconception of the subject and therefore, development of Islamic banking industry deserves more attention from the regulators, commercial banks and other related organizations to initiate programs for educating public about Islamic banking concepts.

CHAPTER ONE. INTRODUCTION

1.1 Introduction

Islamic banking and finance in the form in which we know it today emerged in the second half of the last century and developed as a banking system in the late 1970s (Mohamed, A.H., 1995). With a half-century trend, this newborn banking system not only justifies the needs and trust in the Muslim world but became an important element of the global financial market. Over the last few decades, the terminology of Islamic banking widespread in the lexicon of modern bankers and financiers in the world.

Islamic banking is the way of approaching financial transaction which matching with the religious requirements of Islam rejecting all interest (riba) bearing financial transactions. In fact, it is characterized as interest-free financing which follows Sharia Law prohibiting all financial transactions involved in interest generation. Under this meaning Islamic banks provide different services based on the Profit and Loss Sharing (PLS) scheme of financing. Thus, the fund owner and the entrepreneurs share the risks associated with the implementation of the projects in predetermined shares. Islamic banking differs from its counterpart following an ethical concept, which leads to social justice through equal distribution of wealth generated from real economic activity.

Currently, the Islamic finance industry has reached 1389 full-fledged banks and windows across the world¹. The spectacular growth of the industry continued during the last decade illustrating a stable upward trend. By the first half of 2017 total asset

¹ Islamic Finance Development Report, 2018. Published by Thomson Reuters.

surpassed USD 2.1 trillion with 8.3% growth rate².

Alongside with its popularity in the Muslim world, this newly practiced banking industry expanding in highly developed financial markets like the United States, the United Kingdom, Japan, Canada, Australia, Luxemburg, China, Russia, Europe, Central Asia and etc. (T. Sasikala et al. 2014). Particular attention was given to Islamic banking and finance after the biggest recession of the United States due to a sub-prime mortgage loan crisis which caused a huge loss to the world economy.

Tajikistan as part of the global economy was affected from crisis through its interconnection to the international financial system. Recovering from negative impact of global financial crisis country faced to another recent external shock transmitted from the negative economic development of Russian Federation³ originated from geopolitical tensions between Russia and Western countries started from late 2013. Through the declining of remittance flow, this shock negatively widespread to the Tajik economy, paralyzing its financial system (Askar. H., 2012).

The geopolitical tensions, economic situation, and availability of free financial resources as well as the fact that Muslims account for 21% of the world population created favorable conditions for the evolution of alternative banking system in the world within a concept of the Islamic finance paradigm. The viability of the banking system, which operates with the canons of Islam, has now been confirmed by many scholars in various regions of the world, including post-Soviet Union space (Bekkin. R., 2010; N. Sumarti et al., 2014).

² Islamic financial services industry stability report 2018. Published by Islamic Financial Services Board.

³ According to statistics on trade turnover of Tajikistan, Russia is the main trade partner of the country and main country receiver of Tajik migrants.

In a number of Commonwealth of Independent States (CIS), the topic of IB evolution is on the agenda nowadays. For the post-Soviet Union countries, such as Kazakhstan and the Kyrgyz Republic where full-fledged Islamic banks are established at the legislative level, while in Tajikistan this issue is still in a nascent stage of development (Wolters, 2013).

Tajikistan is currently actively pursuing a policy of introducing alternative banking services with the support of the National Bank of Tajikistan (NBT) and other related organizations. Even though Tajikistan is a secular state, but religious factors should take into account when analyzing the improvement of the banking sector. The position of the government on this issue was clearly marked back in 2014 and its practical expression can be considered the adoption of the Law of the Republic of Tajikistan “On Islamic Banking Activities” in 2014 (S. Ali, N. Shirazi and M. Nabi, 2013).

Taking into consideration that most of Tajikistan’s population follow Islam (95.3%)⁴ one should accept that an indefinite number of population or conventional banking clients may be financially excluded from banking operations because of their religious belief. The study conducted by Islamic Center under the president of Tajikistan going with line of this idea disclosed that public religion awareness is increasing over the time. Out of 1027 of the surveyed population, 58% reported that they follow the requirements of religious teachings (F. Barotzoda et al., 2017).

It can be assumed that there are strong prerequisites for demand in alternative banking system standing with the application of Islamic principles in the country and

⁴ Tajikistan in figures (in Russian/Tajik). Statistical Agency under the President of the Republic of Tajikistan, Dushanbe, 2017. p. 157.

in recent upcoming years, Islamic banks may appear in the financial system of Tajikistan where monetary authority, domestic credit institutions, non-financial enterprises, government bodies, and the public should be aware and prepare to face with such economic challenges (Sh. Ashurov et al., 2018). Thus, it is necessary to understand public knowledge and awareness toward IB in Tajikistan in order to give insight information to the developers and practitioners who are focusing and interesting to adopt this alternative banking system in the future.

To the best knowledge of the author and according to the literature survey there are very limited studies existing on this topic in case of Tajikistan where most of them focused in particular cities of the country with limited sample sizes. There is no nationwide scholarly study conducted on IB in Tajikistan where this research going to fulfill the existing gap in the current knowledge base of literature. This study would add a piece of valuable information to the existing literature base, examining national wide awareness toward IB providing empirical findings by adopting binary probit model. The study is exploring the linkage between demographic characteristic and the level of awareness and preference of Islamic banking in the whole country level examining 493 responses from 38 cities and districts located in 5 regions of Tajikistan.

1.2 Problem Statement

Financial system is known to be an influential sector of every economy, since it is operating and regulating socio-economic movement of every states and connect it to the rest of the world. In recent years, the creation of a sound financial system and conducting of the government financial policies became an important issue. In this line, banks are an integral part of the financial system, their functions closely linked

with the needs of re-production of goods and services to achieve growth in the economy. (Al Khathlan, Gaddam and Malik, 2009).

In Tajikistan, the financial system is very small yet sensitive to external shocks. The financial market of the country is heavily dominated by banks and other credit organizations (Mogilevskii. R and Asadov. Sh, 2018). By the end of 2018 all credit organizations together accounted for 96.4% of the financial sector of Tajikistan, whereas banking system comprises of two group of institutions, banks⁵ and microfinance organizations⁶ (National Bank of Tajikistan, 2018).

Even though the banks are playing a predominant role in the financial market in Tajikistan, the banking system is not serving full potential of the economy. According to the National Bank of Tajikistan (2018), it seems that only 40.1 % of the banking assets equals to total lending (National Bank of Tajikistan, 2018). With such low level of loans to asset ratio, banks face liquidity problems after any repeated shocks in which exchange rate volatility and periodic insolvency among customers (to pay dept obligations) occurs.

Furthermore, another sophisticated burden on banking customers in Tajikistan is the interest rate of the loans issued by the banking system. According to the study conducted by International Finance Corporation and Swiss Confederation (2016) interest payments on loans charging by financial institutions in Tajikistan is very high. It fluctuates between 35% to 40% per annum, where monthly repayment for low income borrowers equal to the monthly leaving cost for one person (IFC and Swiss Confederation, 2015).

⁵ — It is includes state banks, foreign owned banks and other banks.

⁶ — It includes MCDOs, microcredit organizations and credit funds.

The year of 2015 left a negative memory for the recent development of Tajikistan's financial system. The Russian economic slowdown generated a significant external shock to the Tajik economy through a remittance channel. Sharp drop in remittance flows reduced the public income, customers' purchasing power and liquidity of financial system. As a result, the level of Non-Performing Loans (NPL) of the financial system increased dramatically from 13.6 % of 2013 to 47.6% in 2016 leaving asset quality to erosion. Further, this shock led pressure on exchange rate channel which negatively affected government finance and tax collection. (National Bank of Tajikistan, 2018)

All above mentioned challenges generate a banking crisis in the country which began in 2016, when four credit institutions at once fall into solvency problems and could not repay their liabilities to depositors and partners. As a result, two of them bailed out while the other two systemically important banks are still facing financial difficulties leaving public saving accounts frozen. In order to moderate a nascent panic across the country the President of the country Emomali Rahmon (the Founder of Peace and National Unity-Leader of the Nation), gave a speech to the parliament assuring that the government would intervene and protect the depositors' right (Jumhuriyat, 2016). Later, the government issued bonds of about 2 billion somonies for recapitalization of insolvent banks. Recapitalized funds were not enough to cover all the liabilities of banks and currently approximately 1.5 billion somoni⁷ of public savings is still blocked.

⁷ Somoni is a national currency of Tajikistan codes as TJS. By the end of 2018 USD/TJS exchange rate was 9.42 (=1\$). Source: <https://tj.sputniknews.ru/economy/20180209/1024706554/nacbank-soobshchil-skolko-dolzhny-vkladchikam-problemnye-banki-tadjikistan.html>

All above mentioned argument on country's financial system practice shows that financial system in the country needs huge reforms and innovations which can lead to financial stability of institutions and bringing back public trust to the formal banking industry. It is the time for financial system of Tajikistan to implement alternative ways to improve the banking system.

The only existing alternative banking system at the moment is IB which has many benefits and positive effects especially in the period of crises and financial turbulences (Toutouchian, 2009). Implementation of IB in Tajikistan can perform an alternative model of banking along with conventional one to provide competition in the financial market. Despite the supposed benefits of IB and the existence of a Muslim majority in Tajikistan, there is no IBs operating in Tajikistan. It is therefore essential to understand the awareness, perceptions and banking decisions of the people to better grasp the challenges and prospects of IB in the country.

As mentioned above, the law "On Islamic Banking Activities" is already adopted in Tajikistan and transformation of other supervisory legislation acts actively conducting by NBT. These efforts pushing forward the process of the implementation of IB in the country but, the practical application of this law has faced several objective difficulties as follow:

- low level of public awareness about the availability of IB and its features;
- additional legal risks due to inconsistency of legislation and sharia principles;
- poor development of appropriate infrastructure;
- insufficient elaboration or complete absence of Islamic financial reporting standards;
- less training of employees in financial institutions and Shariah experts dealing with

Islamic finance and an undeveloped legal base in this area.

Thus, these difficulties are common to the countries of the former Soviet Union states and require more focused and progressive policy of regulators in this area, taking into account the experience of other succeeded countries.

1.3 Research objectives and questions

The general objective of the study is to identify the level of public awareness to the culture of IB in Tajikistan. Following objectives are as follow:

- to find out potential of the market for IB (demand size);
- to understand the main features that attract people to IB in Tajikistan.

Based on objectives, the study focused to give the answers to the next following questions:

- What is the level of public awareness to the principles of Islamic Banking in Tajikistan?
- What is the demand for IB in Tajikistan's financial market?
- What are the main features of Islamic banking that appeals to Tajiks?

1.4 Structure of the study

This study structured in five different chapters to illustrate the whole content of the thesis. In chapter one we give some brief introduction to the IB system in the global context and its penetration into Tajikistan financial market. Lastly, this chapter captured the problem statements including objectives and questions of the study.

Literature review is captured in the second chapter, giving details to the fundamentals of IB, history, and principles of its functioning including investment structure of

banking modes. Then some existing literature reviewed on Tajikistan financial market provides an introduction to the country's economy, the banking system and current stage of the implementation process of IB in Tajikistan. Finally, the chapter concludes with a comparative analysis between Islamic and conventional banking in different country cases.

Third chapter focuses on survey methodology and data analysis illustrating how it was conducted and analyzed. Then, it will present a statistical explanation of the survey. Lastly, the model adopted for the empirical analysis described in this chapter.

Chapter four is empirical findings, giving the result of Probit model regressions in different tables to describe an output of models. Regression analysis describing how the demographic characteristic of the population of the survey responses to the level of awareness, demand and main features of Islamic banking.

Conclusion and recommendation remarks is presented in the last chapter along with the limitation of the study.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction.

Islamic banking and finance considered as a newborn financial phenomenon in the global economy functioning in practice for a last few decades. This system of banking surprised experts of the field with its high rate development in a short period of time, especially with its sustainability during the crises. The Islamic financial system can be described as a set of methods and mechanisms of financing that allows to carry out economic activities without violating the basic principles formulated in the Sharia (Muslim law) which regulates all aspects of the socio-economic life of Muslims (Chong and Lui, 2009). Currently, wide range of various literature existing that gives a clear understanding of different aspects of Islamic banking and finance where this chapter will focus on to describe recent development in this field.

In this chapter it is necessary first to give a brief illustration of the essence of IB. After that it will move to the explanation of the history of Islamic banking and its development, the primary idea and principles which should be followed by Islamic financial institutions. Although it will touch comparative studies between Islamic and conventional banking, it also provides some argument from recent studies on topic. Lastly existing literature about Islamic banking in Tajikistan will be captured to illustrate its current situation in the country.

2.2 Foundational structure of Islamic Banking and Finance.

It is well known that any institutional sector operating based on some sort of established norms, rules, regulations and laws which designed to provide thoroughly

function of the sector. Islamic banking institutions also act based to the same idea following the rules guiding the way of Muslims life contained in the code of Islamic law – which calls *Sharia*. This law applied in all socio-economic aspects of Muslim society as well as banking operations. IB is an organization dealing with financial transaction in accordance with Sharia principles. Islamic banks contain a higher share of Islamic finance around the globe. In Islamic model banks dealing with the same activity operating as it is in the conventional system of banking. They are a financial intermediary between users of banking services and at the same time operating a national payment system. The core difference of IBs from its counterpart is that the use of interest-based financial operations in their practice is prohibited. However, Sharia is not against of profit accumulation, but prohibition applied on fixed profit generation, where the results of profit activity is not considered. (Mohamed, A.H., 1995; Toutouchian. I., 2009 and T. Sasikala et al., 2014)

In Islamic financial system interest known as a “riba” (usury or surplus) which known as unjustified enlargement of funds in lending and trading transactions. Simplifying, it means that every pressured rate of income that depend on the terms and amount of the credits, and do not rely on the projects final outcome totally prohibited. According to A. Thomas (2006) and R. Bekkin (2010) who described in the same way that the prohibition of usurious economic activity not only prohibited in Islam but is has been banned in other religions as Christianity and Judaism. The only difference in that, in Islam unlike in other religions recognized to be not only a faith, but also a life guidance (Thomas, A., 2006; Bekkin, R., 2010). The economic way of life in Islam described by Sharia law which clearly prohibited usurious (interest) economic activity based from four sources listed below:

First, holy Quran itself stands as the main source, on which Muslims believe. The book contains divine revelations transmitted through the last God's (Allah-SVT) Messengers, Prophet Muhammad ﷺ by the Jibril archangel as a guide for all of his followers. The holy book is a true and unchanging source of spiritual knowledge.

Second source of these laws is Hadith. These are short stories about the statements and actions of the Prophet Muhammad, ﷺ or episodes associated with him, which form the basis of the Prophet's Sunnah and transmitted through reliable transmitters.

The *third* source that forms Sharia law is called "ijma". Ijma is the solutions worked out by authoritative Islamic scholars for a specific question or case. In the Islamic tradition, scholars who have the right to draw their own conclusions from the Quran and the Sunna are called mujtahids.

The *fourth* source is called "kyas." Original meaning of this term comes from the word's "measure" or "draw an analogy between two things." Kiyas is a judgment by analogy and the elaboration of new decisions by the *mujtahids* on complex and controversial issues based on the precedent described in the Quran or Hadith.

In Islamic law, arguments built on the ground of Holy Qur'an and Hadith calls Sharia (legal), their authenticity is beyond doubt because these two sources contain absolute truth and an indisputable fundamental doctrine of Islam. Arguments based on ijma and kyas are also known as furu - offshoots of sharia law. (N. Alam et al. 2017, pp. 25-29)

The most consistent negative attitude toward usury (interest payment) in all its forms has been preserved to this day by Islam. By the time of the Prophet Muhammad's ﷺ preaching, the Arabs were well acquainted with usurious practices due to their Middle Eastern neighbors. Mecca, located at the intersection of caravan routes, was one of the largest trading centers in the Middle East. (H. Visser 2013: pp 12-28, 187).

Riba (in its literally translated meaning from Arabic determined as an “increase”) categorically condemned by the Qur’an and based from various verses of it. Particularly, Sura 2:275, 276 and 278, Sura 3:130, Sura 30:39, and Sura 4:161 (H. Visser., 2009, pp. 30-37). The following the most ideal verses related to prohibition of usury:

QURAN, Sura 2, Al-Baqara, (The Cow)

275. *“Those who live in usury will not rise up before Allah except like those who are driven to madness by the touch of Satan. That is because they claim: ‘Trading is no different than usury’, but Allah has made trading lawful and usury unlawful. He who has received the admonition from his Lord and has mended his way may keep previous gains; Allah will be his judge. Those who turn back [repeat this crime], they shall be the inmates of the hellfire wherein they will live forever”;*

276. *“Allah has laid curse on usury and blessed charity to prosper. Allah does not love any ungrateful sinners”;*

278. *“O You who believe! Fear Allah and waive what is still due to you from*

*usury if you are indeed believers”.*⁸

From these verses, it can be concluded that they are the keystone of the economic concept based on the Qur'anic teachings and from here the prohibition of interest (usury) in all economic transaction for Muslim community flowing into implication level where IBs nowadays trying to provide such banking services to Muslim and non-Muslim population.

2.3 Evolution of Islamic banking

The guiding fundamentals of Islamic economics existed and accompanied Muslims from the first stages of the emergence of Islam as a religion, but modern understanding of Islamic banking is a new phenomenon with a relatively short history compare to traditional banking. The history of the IB system, in the form in which we know it nowadays, began to develop in the second half of the last century. While banking system based on interest has been used in the late XII century by Muslim dominated Ottoman Empire. Islamic scholars of that time were in thought to restrict the interest based economic activity because its contradiction with Islamic teaching which prohibits usury (riba). First idea to develop a system which eliminate the use of interest from economic activity of Muslim societies arranged by scholars-founders of IBF who established first Sharia-compliant products in the Muslim world. The pioneers like Qureishi (1946), Siddiqi (1948) and Ahmad (1952) created the first operational framework of Islamic banking in the modern stage of the global financial system. The successful evolution of an IB system can be counted from the establishment of the Egyptian savings bank Mit Ghamr, as well as Lembaga Tabun Hajj in Malaysia in

⁸ From: Quran (2004), The Qur'an in English Translation adapted and presented by MidEastWeb for Coexistence: www.mideasrweb.org

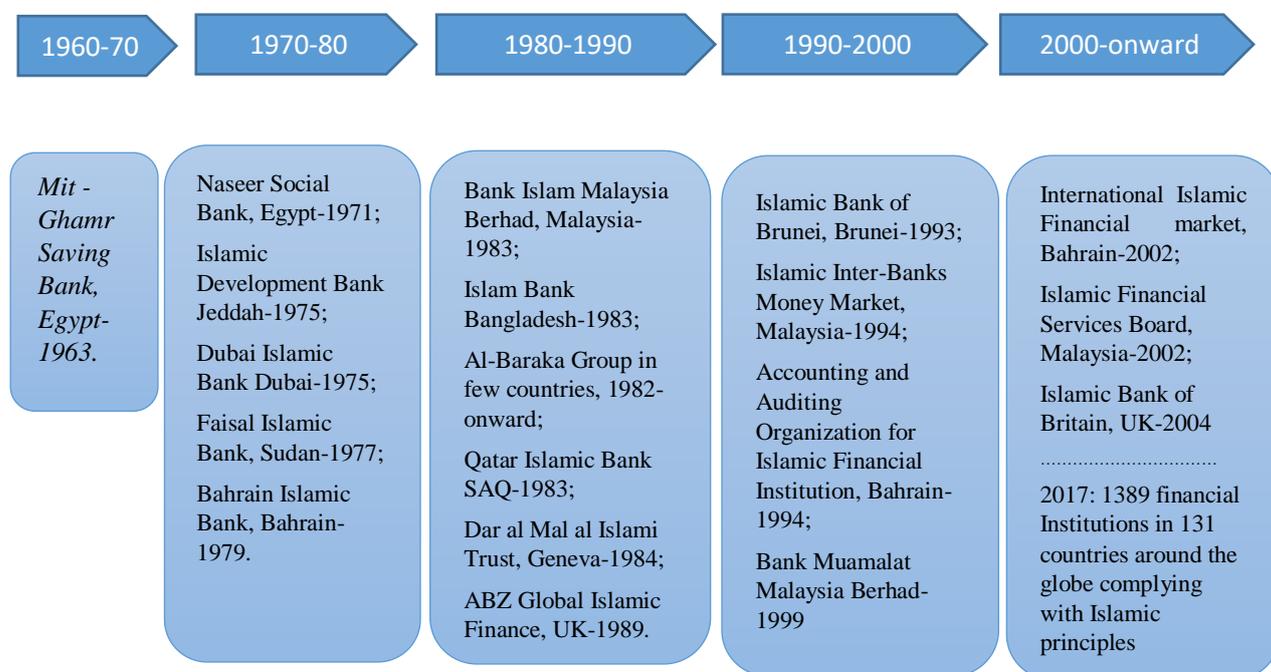
1963. It was a new occasion in the history of the development of IB and a kind of sensation among Islamic scholars and world economists (N. Alam et al., 2017, pp. 7-10).

Real development of the industry began in the mid-1970s when Islamic Development Bank (IDB) created by 22 member-countries in 1975. Simultaneously, at the same year Dubai Islamic Bank and two years after, another three IB began their official operations in 1977, namely as the Egyptian Islamic Bank Faisal, the Islamic Bank of Sudan Faisal and the Kuwait Finance House. In total, during the period from the 1970s and the beginning of the 1980s, 16 Islamic financial institutions were established. The history of the modern IB system divided into four main periods: the period of foundation, the period of distribution, the period of international recognition and the period of reassessment and new prospects, particularly in the post-crisis period. (Schoon, 2016).

The success of the Islamic bank in the field of servicing deposit and lending accounts proved that the principles of Sharia are still applicable and can be adopted by modern business. S. Basov and I. Bhatti (2016) highlighted that IBF mostly crowded around Middle East, Southeast Asia and South Asia countries. Year by year the radius of IBF expansion widened to the regions with highly developed financial markets as Australia, US, Canada and Europe. Special attention was given by UK where IB developed dramatically in this non-Muslim country. Big players of western financial market like HSBC, Citibank, AMRO, ABN and many others authorize a separate unit of IBF with the intention of deposit attraction from petrodollar Gulf Cooperation Council (GCC) from Middle East and many other Muslim majority states around the globe. (S. Basov and I. Bhatti, 2016, pp. 7-15). Figure 1.1 below presenting the history

of IB development.

Figure 2.1 Historical development of Islamic banking during 1960-2018

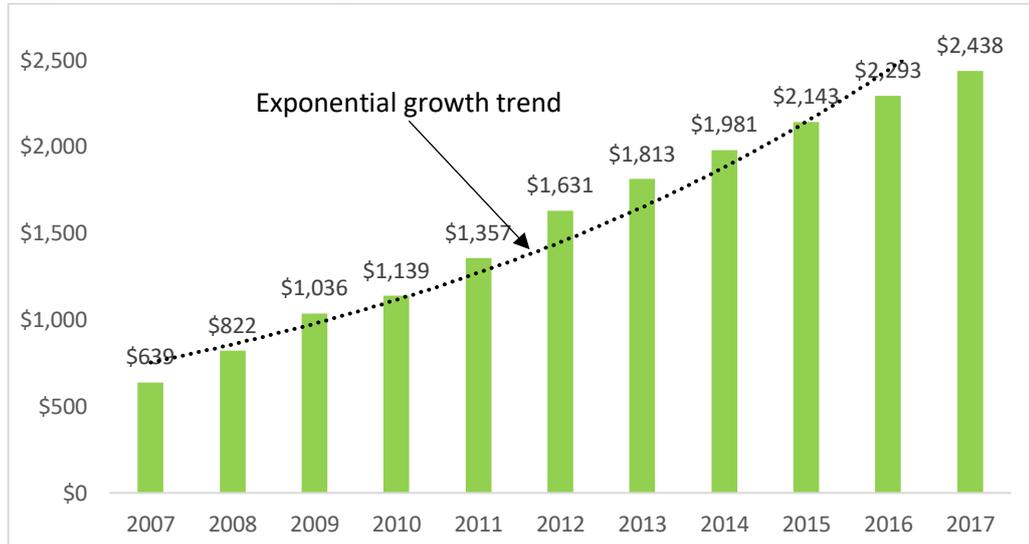


Source: Authors view designed from existing library survey on Islamic Banking

During the short historical development, IBF has been improved through establishment of regulatory agencies for Islamic financial services international institutions namely IDB, Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), International Islamic Financial Market (IIFM), Islamic International Rating Agency (IIRA) and Islamic Financial Services Board (IFSB) which promote the regulatory and supervisory frameworks of the Islamic financial services industry in the global financial environment (Tiby, 2011). These international institutions promoting the development of the industry's transparency by introducing new or modified worldwide standards to comply with Sharia principles. In the aftermath of these developments, the Islamic financial industry gained confidence through a stable high growth rate creating competition in the global financial system providing new services based on its unique features. Following Figure 2.2 illustrating

growth rate of IF for the years of 2006 to 2017.

Figure 2.2 Total assets growth of Islamic finance (2007-2016, Billion USD)



Source: Figure is the author's own creation from Tomson Reuters data; Islamic Finance Development Report 2016-2018

2.4 The concept of Islamic banking

Since, Islam prohibits involvement of interest - *riba*, an IBs need to come up with such banking services that would comply with Islamic standards to fulfill the demand from the clientele. The ban of interest is differing Islamic banks from the traditional model of banking. In conventional banking money has an intrinsic value and is widely applying as a commodity while in IBs it is only known as a medium of exchange (Alkassim 2005). In the book written by Toutouchian (2009) author believe that the interest is to be an Achilles heel of capitalism. He stated that in developed countries where they have strong capital, developed hi-tech, increased efficiency and many other advantages, but still have high unemployment and inflation due to fluctuations on interest rates (Toutouchian, 2009).

Islamic financial institutions offer a number of specific in content and design tools that are directly related to the commodity-money turnover and are secured by real

assets based on Profit-Loss Sharing (PLS) scheme. The following are the summaries of main aspects which IBs must-have allocate in conducting financial transactions:

Based on interest prohibition (riba) all transactions must be free of interest parallel with Quranic teachings focusing on investment and trade projects instead of lending transaction. Islamic banks can issue only a loan known as a charity lending without interest and calls Qard al-Hasan.

In conventional banks money is exogenous while in Islamic banks money attempt to be endogenous, meaning that money is potential capital not a commodity and from the Shari'ah point of view neither money nor time cannot be traded. They become real capital when they are invested in production activities (Toutouchian, 2009, pp. 190-200).

Risk sharing. Since IBs do not apply interest for investing capital, it wouldn't be as a lender, instead it becomes an investor. When investor and client jointly run a project and all risks related to the process of project implementation shared accordingly between them (Alkassim 2005).

Transparency of transactions: sale and buy are is ineffective when buyer have no idea or not perfectly aware from quantity and quality purchasing product. The basis of these considerations relies on Islam which emphasizes that all business transactions must be transparent and recorded to obviate any kind of uncertainty and diminish the possibility of its occurrence in the future contracts (Alkassim 2005).

Garar ("uncertainty") - a prohibition on the intentional risk that goes beyond what is necessary, and uncertainty in a contract that is fraught with large losses. They are derivatives, such as forwards, futures, swaps, and classical insurance. Garar is the

result of information asymmetry in relation to one of the parties of the contract, where Sharia law condemns the obtaining of unilateral advantages to a more informed party of the contract to another (N. Alam et al., 2017).

Maysir (Gambling). The ban on the financing in the production and consumption of goods of exact industries of the economy: pork, alcohol, tobacco, weapons, and a ban on financing openly criminal business: prostitution, witchcraft, drug distribution, pornography, etc. (N. Alam et al., 2017).

Every operation in Islamic banks must comply in accordance with Sharia law, which means that all activity needs to be ethical and harmful as it mentioned in Islamic teachings (N. Alam et al., 2017).

2.5 Islamic Banking contracts

As it was mentioned above Islamic financial institutions as the conventional ones oriented in profit generation through investment of the society. Both of systems are intending to accumulate and distribute funds among population to generate profit from businesses and projects. In its activities, an Islamic bank must rely on a certain set of financial instruments formulated by Sharia Law. Thus, it is necessary to identify the difference between two main terms the one which the “rate of return” and the second is “rate of return”. Accordingly, it should be emphasized that the trading activity which IBs mostly oriented may have risk of loss and low profit and at the same time the rate of return may be higher. The core meaning is that the banks in Islamic finance providing funds based in PLS feature, while the result of invested funds depends on the final outcome of business and divided into predetermined shared

between clients and banks (Visser, 2009, pp. 82-93). According to N. Alam et al. (2017), Islamic banks providing more than twenty kinds of contracts dividing into three broad categories as trading contracts, participation contracts and supporting contracts where we will discuss some of them further in this chapter (N. Alam et al., 2017)

Profit-and-Loss sharing system:

- Mudharabah (trust financing) – under this contract the bank providing funds for projects where the second party (entrepreneur) implementing project through the labor and expertise. Outcome of the project going to share between this two parties in pre-determined fixed ratios. It is significant that in the case of losses capital owner bears full financial loss, while mudharib does not get profit for provided time and efforts (Bekkin, 2010).

Mudarabah contract can be applied through two modes the first limited and second is unlimited. Limited Mudharabah contracts means that, bank giving chance to the client an independent choice to investment in particular projects, while in unlimited Mudharabah contracts investor trust banks to investment their funds. Moreover, Mudarabah can be special and general. Special Mudarabah applies when a client prefers that his funds should managed independently from the funds of other clients. Otherwise, the contract of general Mudaraba applies. Mudarabah contracts are usually used to finance short and medium-term investment projects (for example, in trade) and in securities transactions (S. Basov and I. Bhatti, 2016).

- Musharaka (partnership). Financing through equity participation is called Musharakah based contract. Two or more partners jointly contributing to the financial capital and expertise of an investment. Generated profits or losses are

shared based on the amount of capital invested into the project. Differing from Mudharaba Musharakah is a contract under which an investment project can be managed by all parties or by one of them. Practically, Islamic bank offering two types of contracts under Musharakah principles, *mufadan* and *ainan*. Under *mufada* contract the partners are owned an equal ratio of the capital and have equal power to regulate the property. In an *ainan* type of partnership the parties share is not equal, either in capital or in property management. The parties who owned the bigger share of the capital has a right managing the capital independently, whereas the other partners participating in the management process but has less influence on decision making (Bekkin, 2010).

- Musadaq: is the Musharakah contracts which focused with orchards (fruit garden). Arrangement between the owner of garden and the workers who undertakes some part of jobs to do, which help in the harvest and fruition process. According to the contribution of every partners in the activity harvest is shared among them (N. Alam et al., 2017).
- Muzarah: This is Muzarah: Mudarabah based contracts for the farming sector development. Based on this contract bank providing land and funds to the individuals or farmers with the condition to return for a share of harvest (N. Alam et al., 2017).
- Murabaha (markup or cost-plus sale) is a type of contract oriented in buy-and-sale of goods or assets between one party (seller) and the other party (buyer) at an agreed price, which includes the seller's mark-up to the cost of goods. In a broad sense, murabaha is financing through buying and selling of assets. The Murabaha contract comes into power when the bank acquires the goods or

assets ordered by the buyer from a third party. This is due to the fact that, in accordance with Sahria, the key condition is the actual possession of the specified goods by the seller (bank). After signing a Murabaha contract, the bank sells the goods to the customer at a price that includes the margin and with a payment installment agreed by both parties (H. Visser, 2009).

- Salam (forward contract) – is a contract of sale of commodities with a delayed delivery, under the terms of which the advance payment is made, and the commodities are provided later in a specified period pretrained between the seller and the buyer. Naturally, the goods must be authorized from the point of view of Sharia law from an Islamic country. This tool is usually applied to such goods for which the quality, quantity and specific characteristics can be clearly defined at the time of concluding a contract. It is found mainly in the agricultural and other industrial sectors (Toutouchian, 2009)
- Ijara (leasing contract). This product is similar to leasing in the traditional financial system. It provides for an agreement under which the bank first buys equipment, real estate, etc. based on the client request, and then rents property to the client. The duration of the lease and the amount of the rent (fixed or changing in time) are agreed by the parties. Note that with traditional leasing, the costs associated with depreciation, insurance and taxes are borne by the leaseholder. The ijara contract in this respect differs from conventional leasing, since it is the lesser who bears these costs when concluding this contract. However, in Islamic banking there are mechanisms that can transfer such costs to the leaseholder (N. Alam et al., 2017).

2.6. Tajikistan banking sector

Tajikistan is a small and low-income country with landlocked territory located in the Central Asia region. As many other countries in the region Tajikistan gained its independence in 1991 after a collapse of Soviet Union and immediately turned into a civil war until 1997. Being a post-Soviet Union country Tajikistan continuing close relationship with Russian Federation in both directions, economic and regional stability. Along short history of independence in a past few decades Tajikistan, become an exporter of labor force to the neighboring countries especially to the Russia. According to Immigration Office of Russian Federation, the number of migrants from Tajikistan reached around 1.0 million people⁹. It means that a significant part of population and entire economy of Tajikistan depends on capital flows from Russia which supporting households' income and most importantly balance of payment of the country. Due to the strong dependency on remittances and a big trade balance deficit, Tajikistan is very vulnerable for unfavorable changes in the economy of the region and the world. A large component of Tajikistan's import consists of commodities, which makes the country vulnerable for the volatility of the world market prices and exchange rates in the main trade partner countries (A. Kirayev, 2016; A. Stepanyan et al., 2015, pp. 7-12).

During last few years the geopolitical instability and economic environment of the world, financial and economic sanctions of the main trading partners of Tajikistan, exchange rate fluctuations in the money market and the changings of the commodity prices negatively influenced developing economies around the world as well as

⁹ Official webpage of the Central Bank of Russia,
http://cbr.ru/statistics/p_sys/print.aspx?file=sheet005.htm&pid=psrf&sid=itm_32730

Tajikistan. Current situation during the years of 2014-2016 affected Tajikistan's economy through declining of remittances and investment flows, which caused to depreciation of domestic currency, declining of real income of population and the consumption level of imported goods and services.

It is obvious that, remittances became a very important element for the Tajik economy. However, not only the economy of Tajikistan, but also the financial system depends heavily on the volume of remittances and is very vulnerable to its fluctuations. As a result of the sharp drop in remittances in 20 of this challenges nominal value of domestic currency to USD depreciated from 4.77 TJS in 2013 to 9.43TJS by the end of 2018, generating higher pressure on the liability positions of banking system denominated in foreign currency.

Providing some statistical information on banking system in Tajikistan we wanted to highlight to what extent banking system was affected from last the challenges described above. Thus, the Table 2.1 illustrates development of banking sector before and after remittance shock during the years of 2014 to 2018. As we can see from the Figure 2.1 remittance flow started to decline from the end of 2013 and beginning of 2014 and with a lag of one year, where it has directly affected banking system. It is clearly shown in Table 2.1 that the number of credit institutions slowly decreased from 138 unit in 2014 to 79 unit by 2018, meaning that close to half of interest-based financial institution of the country bailed out from banking system because they were prone to banking crisis.

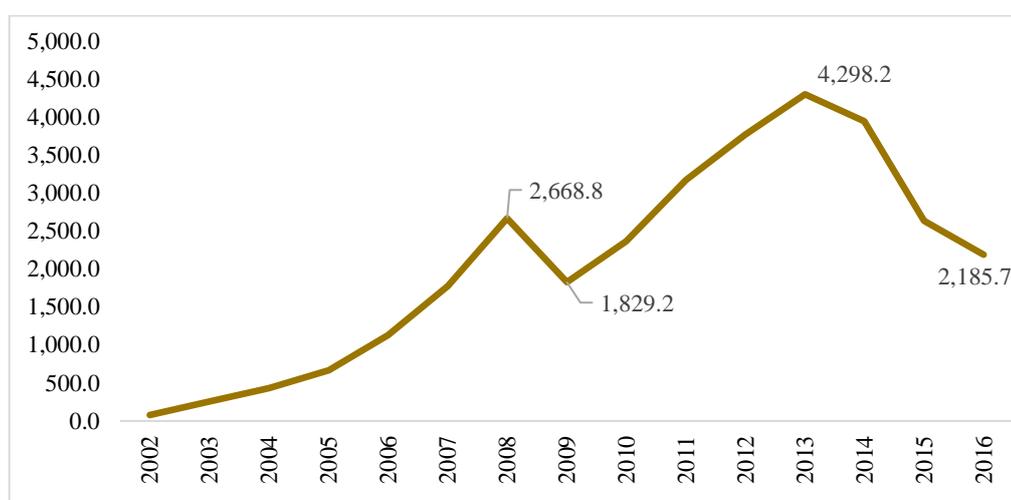
Table 2.1. The structure of banking system in Tajikistan

	2012	2013	2014	2015	2016	2017	2018
Credit institutions	142	137	138	123	104	84	79
Banks	16	16	17	17	18	17	17
Microfinance Organizations	125	120	120	106	86	67	62
Microcredit deposit organizations	35	39	42	39	38	27	25
Microcredit organizations	44	42	42	31	14	7	6
Microcredit funds	46	39	36	36	34	33	31

Source: National Bank of Tajikistan

According to the statistics of Russian Central Bank, in the figure below we can see that there were two periods where the remittance flow dropped during last decade in Tajikistan. The first drop was recorded right after the global financial crisis in 2007 where the level of remittances fell by 45.9%. The second shock which had negative impact to remittance flow occurred when geopolitical tensions between Russian and Western countries increased and this time remittances dramatically dropped by 96.6% (Central Bank of Russian Federation, 2019).

Figure 2.3. Remittance inflow to Tajikistan's economy (in billion USD)

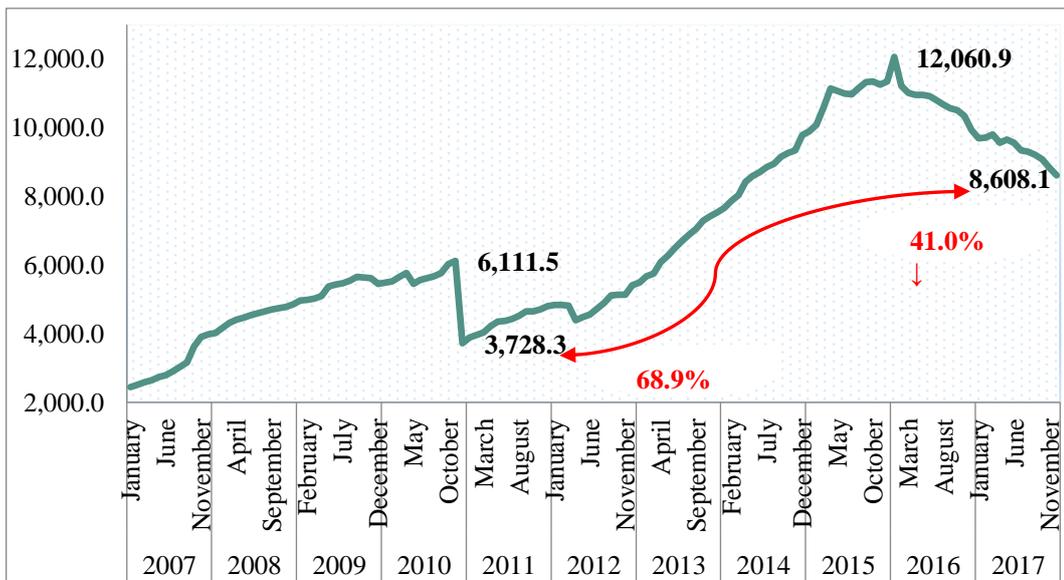


Source: Figure is the author's own creation from official statistics of Central Bank of Russian Federation. <http://www.cbr.ru/eng/statistics/Default.aspx?Prtid=tg>

Based on the fact that Tajik financial system negatively affected through significant drop of remittance flow, we tried to find the correlation between the remittances and total lending's of banking system. We found that the growth trend of remittances has similar pattern to total loans of banking system with an approximate lag of two years.

Figure 2.4 explaining that from the second half of 2010, the situation deteriorated considerably, banking system credits to the economy decreased 68.9% till beginning of 2011 when remittances fell after in 2009. Another drop started in 2016 continuing till 2017 and reached the new fell anchor of credits by 41.0%. Figures 2.3 and 2.4 illustrates strong relationship between remittances and issued loans of banking sector, suggesting that every future shock would have similar influence to banking sector.

Figure 2.4. Total loans of banking system to the economy (in mln. TJS)



Source: Figure is the author's own creation from dataset of National Bank of Tajikistan

2.7 Comparison between Islamic and conventional banking systems

According to T. Beck, A. Kunt and O Merrouche (2013) theoretically Islamic finance differs significantly from conventional finance. Precisely, Sharia-compliant finance prohibits charging of interest payments (riba or usury). In order to comply with the fundamental role of Sharia (justice), the activity of the Islamic banks is based on the principle of risk sharing, hence sharing the profits and losses. This type of principle assumes a lesser degree of regulation, focusing more attention on the information content of shareholders and investors. In this regard, greater attention is paid to transparency and openness, management verification and risk management through licensing and equivalent supervision.

Tumi et al. (2010) analyzed that Islamic banks use their own capital in order to finance various investment projects, when the same process in traditional banks takes place according to the law and banks rely on borrowed funds for financing purposes. This structural difference between Islamic and traditional banking points out that IB are greatly resistant to shocks compare to traditional banks (Tumi et al. 2010).

Comparing the quality of services in a two system of banking namely Islamic and traditional banking, Jaffar and Manarvi (2011) based on CAMEL test, disclosed that Islamic banks efficiency compare to the adequate position of capital and liquidity better allocated than in conventional banking. This study showed a similarity between traditional banks and an Islamic bank in terms of asset quality, where in conventional banks were recognized as better at managing quality and earning capacity.

K.K. Siraj and P. Sudarsanan Pillai (2012). In a comparative study using ANOVA tested performance indicators such as Net Profit Return, Return on Asset,

Return on Equity, operating expense, profit, assets, operating income, deposits and total equity. Authors disclosed that Return on Asset is a major indicator of profitability of bank and Islamic banks reported a higher Return on Asset compared to conventional banks. Return on Asset does not follow similar movement between Islamic bank and conventional banks (K.K. Siraj and P. Sudarsanan Pillai, 2012).

In research conducted by Kammer et al. (2015:6) authors indicated that *"Islamic finance promises a number of possible benefits. It is often argued that Islamic finance is inherently less prone to crisis because its risk-sharing feature reduces leverage and encourages better risk management on the part of both financial institutions and their customers. It is also argued that Islamic finance is more stable than conventional finance, because: (i) Islamic finance involves prohibitions against speculation; (ii) financing is asset-based and thus fully collateralized; and (iii) it is founded on strong ethical precepts"* (Alfred, K., Mohammed, Norat., Marco, P., and others, 2015).

Bintawim S.S., (2011) in his research on Saudi Arabian banks using performance indicators Return on Asset, Return on Equity, and Net special Commissions as the dependent variables disclosed that, the variables in the regression analysis reacted differently to profitability indicators for entire Saudi banks. Measure of the bank size-total assets has a negative effect on Saudi banks and it means that bigger banks has a less rate of profitability. Operating expenses, also have a negative impact on bank's Return on Asset and Return on Equity, while operating income has positive impact on bank's performance, meaning that increase in the activities of banks causes to increase banks performance (Bintawim S.S., 2011)

It should be noted that Islamic financial institutions are established in countries where Muslims are a minority within the population and developing dramatically. Of course, the clients of Islamic financial organizations in non-Muslim countries are predominantly Muslims, where their number approximately reach to 1.6 billion people worldwide and representing 23 percent of the global population. However, the attitude and interest of non-Muslim country authorities and field experts to Islamic banks has changed to the best side. They mostly concentrated on maximization of the profit generation of the financial market. Meanwhile, significant attention is paying to profitability differences of these two systems, hence Islamic and conventional banking. Using different estimation models Ramlan and Adnan (2016) tested profitability of Islamic banks and conventional banks in case of Malaysia. Based on the results of T-test model authors argued that profitability of Islamic banks is higher than in conventional banks at the level of 10-percent significance. Based on analysis they also conclude that the growth level of total loans with total assets better in Islamic Banks then in conventional banks. This idea also supported by Faye, Triki and Kangoye (2013) who did an empirical analyze on Islamic banking with evidence from Africa. Overall, the results of their study proving that the level of efficiency and stability of Islamic banks exceed the same indicators in conventional banks.

In this context, Iwona S, (2015) come out with a slightly insignificant future of Islamic banking in European Union countries. She argued that even in Germany and France existing a large number of muslim population, but Islamic banking industry less developed and still in the infancy level and also fully-fledged Islamic banks are not exist yet in these countries. Author also disclosed that it is improbable that Islamic banking could develop in the EU as in the Islamic states.

Main factors, which can contribute to the development of Islamic banks in EU are as follow: Large and increasing Muslim community in the EU, growing demand for ethical investments, also from non-Muslims, trade relationship between the EU and the ASEAN and GCC countries, where Islamic banking has a significant presence (Iwona S, 2015).

In his study on the example of the nine countries with a Muslim majority population who introduced Islamic banking in their financial systems, Hussain (2016) came to the main conclusion that, in order to maintain economic stability in the country and to minimize inflation pressure, the use of flexible exchange rate regime for monetary policy independency is needed. Although, the independent monetary policy does not always lead to stabilization of the price level, but the flexibility of the exchange rate can be a key element for isolating nine domestic economies from different domestic and external shocks. The author also concluded that the economic development of countries with a large number of Muslims are in the beginning stages of economic prosperity and their economy is desegregated and linked to the world economy.

It simply gives a clear understanding that they prone not only to ordinary domestic shocks, but also to external. It is fact that, in developing countries there is quite enough concerns regarding volatility of exchange rates, where in some cases capital control is needed to apply for financial market stability because they foreign exchange market are week. Sometimes it is necessary to implement capital controls to ensure financial sector stability in countries with narrow foreign exchange markets. Summing up, the author is disclosed that the favorable future of Islamic banking and finance does not cause doubts, but it can function and move at a fast pace in countries with a more stable economic environment, and this kind of environment can be created

through the implementation of the right policies (monetary and fiscal) in line of the framework of flexible exchange rate policy.

From literature review it can be concluded that, introducing and implementing of this system will have only positive effect in the period of financial system turbulence in Tajikistan and can be led in as an alternative model of banking along with conventional banking in the country. As many scholars mentioned that IBs are less prone to shocks and this unique feature of this system could support financial market development by stabilizing banking system. It also can help to generate a real competition in the financial market which was not exist till nowadays. Despite the supposed benefits of Islamic banking and the presence of a Muslim majority in Tajikistan, there are still very limited Islamic banking windows in the country on the one hand and limited indicators of an increased demand from the population on the other. It is therefore essential to understand the perceptions and banking decisions of the people in order to better understand the challenges and prospects of Islamic banking in Tajikistan.

CHAPTER THREE. Methodology and survey data description

3.1 Research methodology.

The study followed the advice of Mahoney and Goerts G. (2006), Carracelli and Green (1993) and Onwuegbusie and Teddlie (2003) who recommended the use of mixed research method qualitative and quantitative approaches if the study include multiple level of data generation and different type of data analysis depending on population sample size. As this study is the survey based it is better to use both approaches in order to give outcome explanation to statistical information. In the study researcher tried to define the level of respondent's awareness about Islamic banking and finance in Tajikistan. To do so, a survey questionnaire was conducted collecting data from individuals representing country level to draw collective conclusion.

3.2 Primary data collection

Data for this study obtained by organizing and distributing a survey in 38 cities and districts of Tajikistan included 4 provinces of Sughd, Khatlon, Badakhshon, Districts of Republican Subordination and capital city Dushanbe (see Table 3.1). Sampling part of the study adopted simple random sampling method where every member of population had an equal chance to be selected. The survey was conducted through State saving bank of Republic of Tajikistan "Amonatbank" by direct support of Research and Development Department and Banking Supervision Department of National Bank of Tajikistan.

Table 3.1. Survey distribution characteristics across regions in Tajikistan

	<i>Share of population by provinces</i>	<i>Surveyed cities and districts</i>	<i>Number of respondents</i>	<i>Share of responses by provinces</i>
TAJIKISTAN	100.0%	38	493	100.0%
DUSHANBE (capital city)	9.4%	1	51	10.3%
Districts of Rep. Sub	23.1%	7	91	18.5%
SUGHHD (province)	29.4%	8	149	30.2%
KHATLON (province)	35.6%	17	165	33.5%
BADASHON (province)	2.5%	5	37	7.5%

Source: Authors creation from survey statistics

Amonatbank was selected on the ground of having better access to the different population groups of the country with a wide spectrum of banking and non-banking services. Along with common banking transactions, this bank serves utility and many other different payments related to public and private organizations¹⁰ which differentiate it from other commercial banks. The Structure of Amonatbank across the country includes: headquarter located in the capital city—Dushanbe, 5 provincial branches, 71 branches and 554 banking service centers all over the country¹¹.

The share of the distributed questionnaire organized based on the population size of each province and then equally divided to the randomly selected cities and districts of each region. 530 questionnaires were distributed through 38 branches of Amonatbank where 493 of them were useful with 89% of response rate. the rest invalid responses removed after cleaning and coding procedure. According to H. Taherdoost, (2017) whose study disclosed that a reliable number of the sample size of 384 is fitting the range of 95 % level of confidence of the total population above 1 million. As we

¹⁰ Amonatbank accepts the following types of mandatory payments: all types of taxes; fines (penalties); customs duties; payment of passports and other documentations and payments for mobile services. Utility payments include: electricity, water, hot water and other payments.

<https://amonatbank.tj/ru/entities/utilities/>

¹¹ Official webpage of State saving bank of the Republic of Tajikistan “Amonatbank. <https://www.amonatbank.tj>.

have 493 sample size, the same level of confidence (95%) is applied in our study whereas the level of confidence interval equals to 4.41 meaning that every assumptions of the survey may add the sign of plus or minus by 4.41 percentage points (Taherdoost, 2017).

Based on the random selection of sampling technique questionnaires were distributed to those individuals who came for their banking service needs and other daily payments to the customer service department of Amonatbank branches. The distribution of the questionnaires assembled randomly to the people who visited the branches from 1st to 5th of April 2018. This period was selected with an idea represented researcher's view, that after a long spring national holiday (Navruz) and receiving a monthly salary, the probability of visiting bank branches by population to fulfill their services needs is higher than the rest part of the month. Besides, time and effort constraints of the responsible persons from bank branches were taking into consideration. During the period of conducting the research anonymity and confidentiality of respondents was fully provided.

Several studies found that the length of questionnaires including a number of pages and questions has a negative effect to the survey response rates (Walston, J. T., Lissitz, R. W., & Rudner, L. M., 2006). Considering these facts, the questionnaire was organized in a simple and easy way so that the volume and content would not affect the respondent's decision to fill it in a few minutes of their already limited time. The questionnaire included 16 questions from which 4 are a close ended question, 6 are open-ended questions, 4 are questions based on the five-points Likert scale and 2 of them multiple choice questions.

In order to give a statistical explanation of the survey, the author divided the

questionnaire into three main parts. The first part of the questionnaire consists of population demographic characteristic while the second part oriented on general understanding of financial matters and awareness toward Islamic banking and its main focus. Lastly, the third part of the questionnaire concentrated on attitude, banking selection criteria and appealing features of Islamic banking among the surveyed population.

3.3 Data Presentation

3.3.1 Population Demographic Characteristic

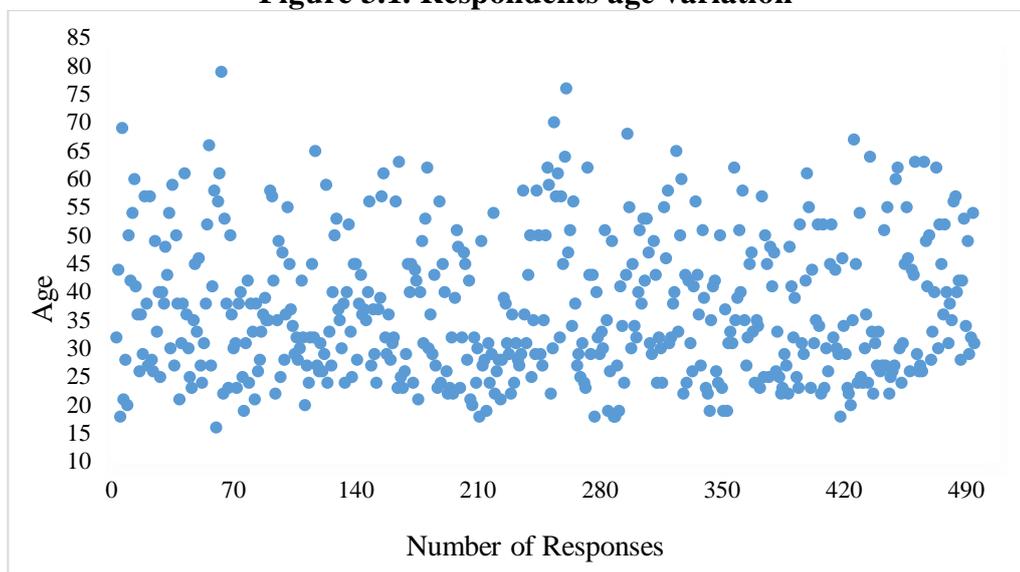
Demographic information of a survey represented as follows:

Gender. As it shown in Table 3.1 from 493 questionnaires the share of male equals to 63% (313 respondent) while female consists the rest 37% (180 respondents) of the population in our sample.

Age. The age structure of the study indicates that 19% of respondents fall into age group from 15 to 25 years old, 35% under the age 26 to 35 years old, 27% between 35 to 50 years old and 19% of the rest respondents over 50 years old. According to the age statistics of the survey showed in Figure 3.1 it can be seen that majority responses crowding between the age group of 25 to 45 years old. These groups founded 298 responses which equivalent to 60.4% of the total number of surveyed population. In the study conducted by Greuning and Bratanivich, (2009) the authors mention that people of this age groups are less riskier customers in approaching loans and other financial operations for credit institution (Greuning, H., and Bratanovic, S., 2009). Therefore, from this sample of respondents, we can give insight and useful information on how these people are aware from Islamic banking existence which is discussed

further.

Figure 3.1. Respondents age variation



Source: Figure is author's creation using age variable of the survey

Ethnic group of respondents. As it seen in Table 3.2 the ethnic group of respondents describes that 93% of them are Tajiks, while 6% consist of Uzbeks and only 1% belongs to other ethnic group which includes Kyrgys, Turkmens, Russians and others.

Education. The level of education among surveyed respondents indicate that significant part of them (60%) completed University education, 31% completed secondary education and 6% obtained a primary education level. Following, a very low share of respondents completed a higher level of education as a Master and PhD which altogether constitute 4% or 16 people of total sample size.

Profession. Following information of the table describe occupation characteristics of the survey, showing that majority of respondents stated that they belong to the group of people who work as a government employee (30%). In this group of people falling all persons who work for the governmental organizations.

Private sector workers accounted for 19% of the whole set of responses, where other 13% of them estimated as a self-business people or in other words entrepreneurs. Another significant part (16%) reported that they were unemployed at the time of completing the questionnaire. Students share was lowest in the study which constitutes 9% of responses. The rest 14% of the population indicate that they are belongs to other professions which is not be included in this question ranked as “other professions”.

Table 3.2. Population Characteristics

Variables	Frequency	Valid Percent
<i>Gender</i>		
Male	313	63%
Female	180	37%
<i>Age</i>		
15- 25	92	19%
26-35	172	35%
36-49	134	27%
50-65	88	18%
66 years or more	7	1%
<i>Nationality</i>		
Tajik	460	93%
Uzbek	28	6%
Others	5	1%
<i>Level of Education</i>		
Primary education	32	6%
Secondary education	151	31%
Bachelor	294	60%
Master	13	3%
PhD	3	1%
<i>Profession</i>		
Government Employee	146	30%
Private employee	94	19%
Student	43	9%
Self-Business	62	13%
Unemployed	79	16%
Other professions	67	14%
<i>Religion</i>		
Muslim	445	90%
Non-Muslim	48	10%

Source: Table is the author’s creation based on respondents’ demographic characteristics

Religion. According to official statistics, Tajikistan is not Islamic country, but majority of population following Islam. Data obtained from a survey indicating the religion of the respondents also very close to official statistics shown that 90% are Muslim whereas 10% are Non-Muslims.

3.1.2 Public awareness and understanding of Islamic banking

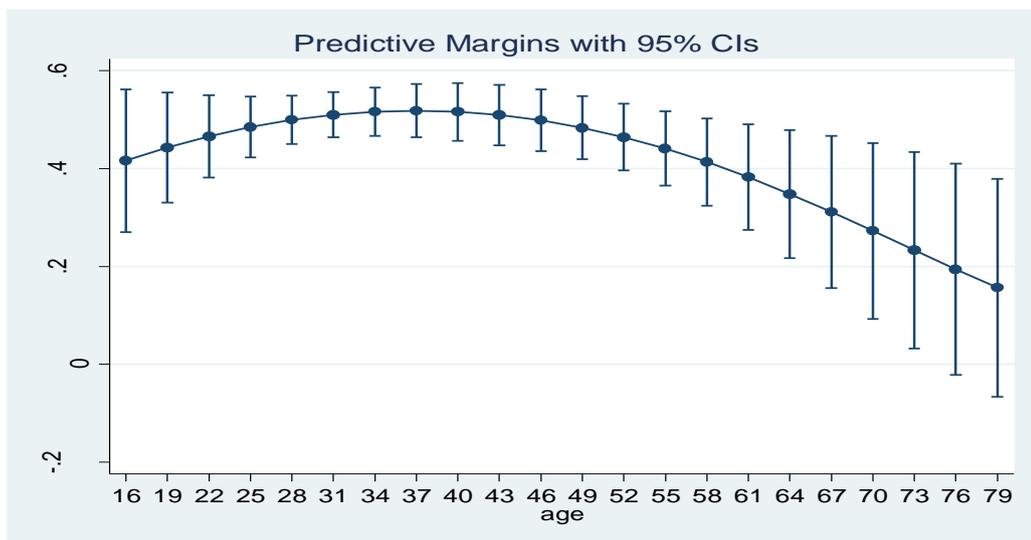
In this section of the study, we attempt to provide insight information about the respondent's awareness of the basic modes and existence of Islamic banking as an alternative model of banking which presented in Table 3.3. Analyzing responses of question regarding a general understanding of financial matters of the survey we found that over half of the respondents (59%) indicate their level of understanding "average" while 23% as "high" and only 3% rated "very high". Contrariwise, 13 % of respondents mentioned that the level of their knowledge about the financial matters is "low" whereas 3% of them rated as "very low". From this information we can assume that due to the fact that the study is strongly related to the sphere of banking and finance higher knowledge of respondent regarding financial matters leading to higher awareness of the topic and to lower in reverse.

Awareness of Islamic banking. According to the statistic information of the survey provided in Table1.5 where the question was organized to understand whether people in our study have heard and aware about the term of Islamic banking. Findings of the survey responses shows that 47% of population highlighted that they heard about Islamic banking before conducting of this study. The study also discovers that

remaining population (53%) which consists over the half of responses, were not aware about Islamic banking before the time of conducting survey.

The Figure 3.2 illustrates that as population age increase, the probability of being aware of Islamic banking also increases. As the slope shows population whose age above 25 years old are more likely to be aware of Islamic banking. The marginal effect of age reported in figure 3.2, predicted probability plot at the mean of population age which is equal to 33.7 years old. It means that, in our population size the most aware people belongs to the age of 33 to 34 years old. Overall, the slope indicating that the level of public awareness increases starting from age of 25 continuing till the age of 52. People younger than 25 and older than 52 years old are less likely to be aware of the existence of IB.

Figure 3.2. Relationship between population age and awareness IB

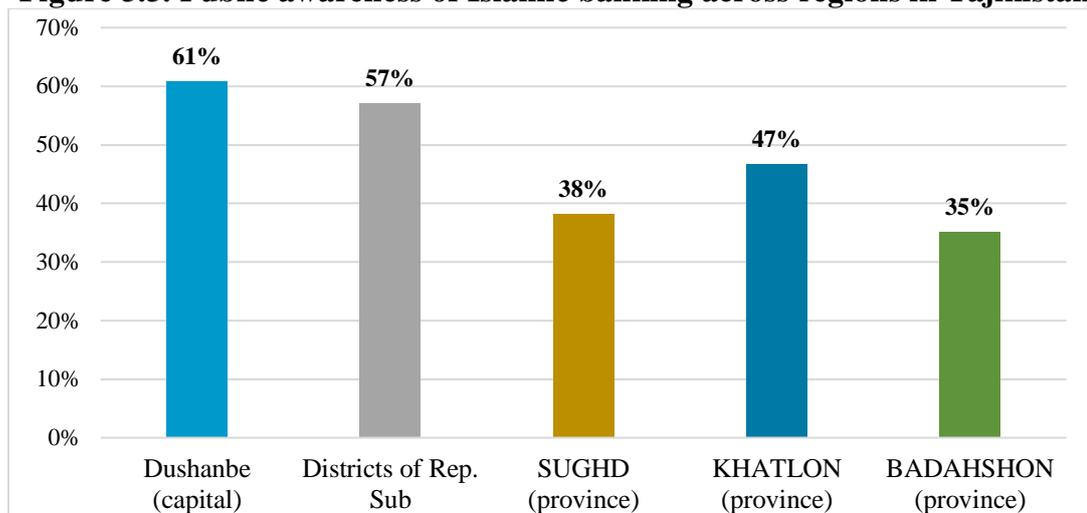


Source: Figure is the author's creation based on respondents' demographic characteristics

Figure 3.3 below demonstrate the level of public awareness toward IB by region breakdown in the country. As we can see, the level of awareness by regions varies with

a significant difference. Unsurprisingly, the higher level of awareness was recorded in capital city-Dushanbe (61%) and in Districts of Republican Subordination (57%) while it was lower at 47% and 38% in Khatlon and Sughd provinces respectively. We also found that the lowest level of awareness which recorded in Badahshan province (35%).

Figure 3.3. Public awareness of Islamic banking across regions in Tajikistan



Source: Figure is the author's creation based on respondents' demographic characteristics

The difference in the level of awareness which we see in the figure above gives understanding that the level of education and access to informational resources has a significant impact. Regarding the importance of public awareness to the culture of IB well stated in an exploratory study conducted by Laldin., (2008) who conclude that:

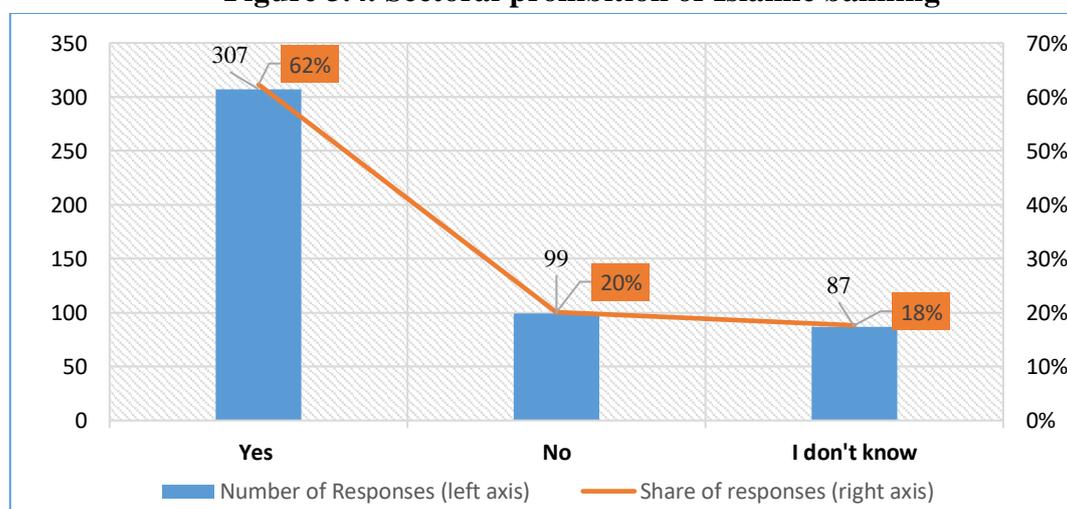
“Consumer education and awareness about Islamic banking is critical to its success and future development. A consumer education program needs to be developed to enhance public awareness of the features of Islamic banking products and services”. (Laldin, 2008)

Similarly, another question arranged which shortly described difference between Islamic and conventional banks and asked respondents to rate how free-interest based Islamic banks may be better from the interest-based system of

conventional banking. Based on five-point Likert scale rating answers were different where majority of respondents rated that Islamic banking operations are “better” and “much better” than conventional system 39% and 11% respectively. One third of respondents (33%) mentioned that Islamic banks are doing “the same” operations as conventional banks do, meaning that there is no difference in banking activities of two banking systems. However, another groups of respondents (13%) in the opinion that Islamic banks are “worth” comparing to its counterparts. The least group of people whose share consist of 4% of the survey rated IB “much worth” compare to conventional banks.

Following question presented in Table 3.3 asked respondents to point out their view with respect to the fact that Islamic banks are not investing in industries *dealing or producing* alcohol, pork, tobacco, weapon, gambling, pornography etc. Result of the question shows that significant share of respondents (62%) thinks that sectoral prohibition of Islamic banks leading to the welfare of society. Only one fifth of respondents (20%) reported that this prohibition has no positive effect to the society while 18% of them were neutral rated “I don’t know” (see Figure 3.4).

Figure 3.4. Sectoral prohibition of Islamic banking

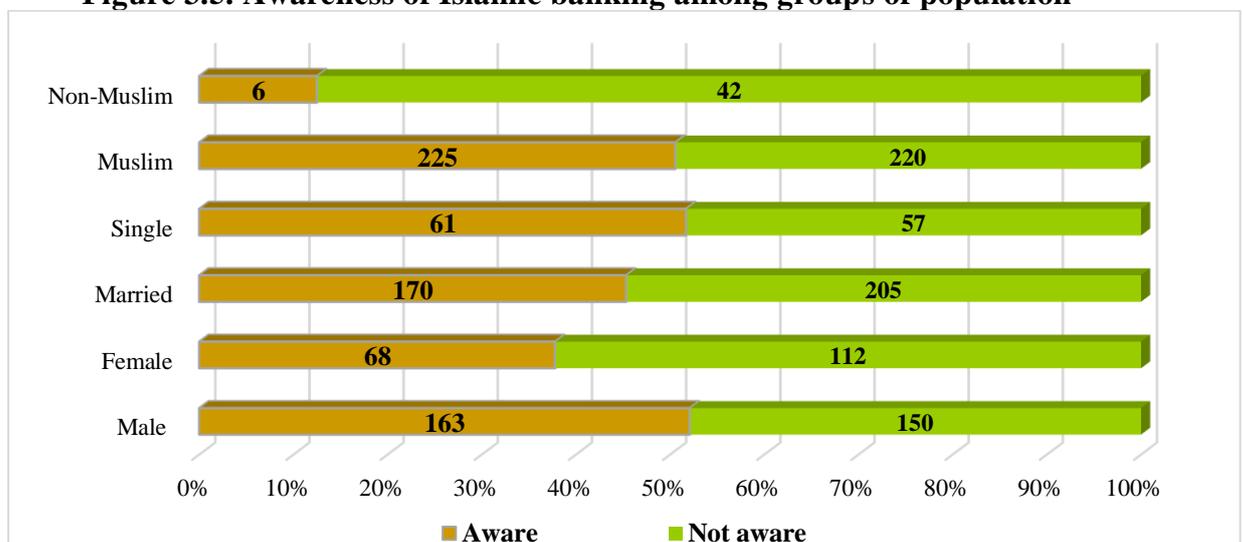


Source: The figure is the author's creation based on survey information.

Since the main goal of the research is to determine the level of awareness of Islamic banking in the country, we conducted a more extensive statistics analysis based on the demographic characteristics of the respondents.

Figure 3.5 represent number of responses of three demographic variables used in the study namely as religion, marital status and gender. As we can observe from the figure, there is a significant difference between the group of population. Looking at gender characteristics we found that, male more likely to be aware of IB. 52% of male in the survey are aware while 48% of them not. Out of 170 female respondents 68 of them seems to be aware and majority of females do not hear about IB at all (112 responses). Marital status parameter of survey describes a significant share of married which equals to 70% of total population of the study and the share of single is 30%. The study found that less than half (45%) of married people are aware to the term of IB while 55% not aware.

Figure 3.5. Awareness of Islamic banking among groups of population



Source: The figure is the author's creation based on survey information.

As it was mentioned in the first chapter of this research, there is no full-fledged Islamic bank operating in the country that could provide banking services based on the principles of Islamic Law to serve religiously oriented population of the country. However, it should be noted that a microcredit organization called Alif Sarmoya which founded in 2014, starts its banking operations based on Islamic banking principles providing “free-interest” banking product. The high demand for this kind of products contributed the rapid growth of the organization in the short term increasing its worker capacity by 30 times in 4 years of its functioning. Addition to that, as the Audited Statement of Financial Position of Alif Sarmoya shows the average growth of total assets during the years of 2015-2018 which increased by 2.1 times when the banking system of the country faced banking crisis expanded in the financial market during these years¹². Application of IB principles may be one of the key elements of success for this organization which need to be studied in the future as a prosperous case.

Based on this fact, we develop a question (see Table 3.3) which oriented to understand population awareness of existence of Islamic banking products in the financial system of the country. To our surprise 23% of respondents stated that they know about existence of Islamic banking services in the country whereas 77% of people still not aware of these phenomena.

¹² Short history development and Audited Statement of Financial Position of MDO of Alif Capital OJSC for 2014-2018 years. <https://alif.tj/>; https://deposit.alif.tj/files/BS%20and%20P&L_audited.pdf

Table 3.3. Respondents understanding of general financial matters and awareness toward Islamic banking modes.

<i>Understanding of general financial matters among respondents</i>				
<u>Very low</u>	<u>Low</u>	<u>Average</u>	<u>High</u>	<u>Very high</u>
2%	13%	59%	23%	3%
<i>Respondents awareness of Islamic banking existence</i>				
<u>Yes, I heard about Islamic Banking</u>		<u>No, I do not heard about Islamic banking</u>		
47%		53%		
<i>Advantages of Islamic banking compare to Conventional banking</i>				
<u>Much worth</u>	<u>Worth</u>	<u>The same</u>	<u>Better</u>	<u>Much better</u>
4%	13%	33%	39%	11%
<i>Sectoral prohibition of Islamic banking leads to the welfare of society</i>				
<u>Yes</u>		<u>No</u>	<u>I don't know</u>	
62%		20%	18%	
<i>Awareness about an existence of Islamic banking services in the country</i>				
<u>Yes</u>		<u>No</u>		
23%		77%		

Source: Table is the author's creation based on survey information

3.1.3. Attitude and demand for Islamic banking

In last Table 3.4. of this chapter we attempt to describe one of the major findings of the study which related to attitude and demand for Islamic banking in the country. The question was set asking respondents, whether they want to use Islamic banking services in the future when full-fledged Islamic banks established in the country. As we see from the table, significant share of the survey (70%) which equals to 346 responses out of 493, expressed interest to use banking services providing by Islamic banks. The rest 30% of respondents had a negative attitude toward the use Islamic

banking services who replied “no, I don’t want to use”.

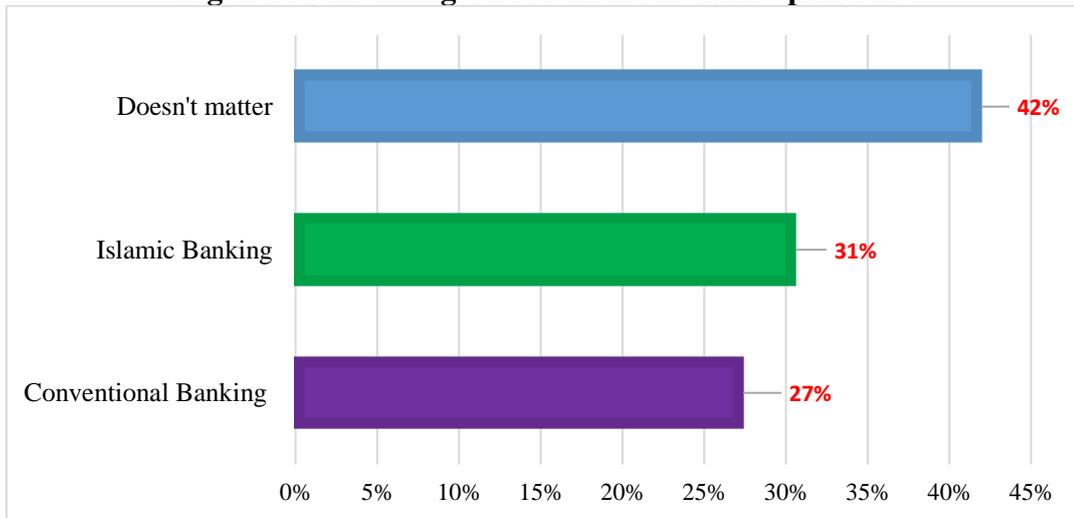
Table 3.4. Attitude and demand for Islamic banking in the country

<i>Public behavior to the use of Islamic banking services</i>		
Yes, I want to use 346	No, I do not want to use 147	
<i>Banking selection criteria of respondents</i>		
Islamic banking 151	Conventional banking 135	Does not matter 207

Source: Table is the author’s creation based on respondents’ demographic characteristics

Addition to that, another similar question was given to the respondent to identify people preference of banking selection for their future banking service needs. The responses illustrate that, the demand for Islamic banking is quite significant which is 31% (151 responses) of the survey population. Similarly, 27% (135 responses) of respondents selected conventional banking whereas majority of people chose the third option of the question which stated, “does not matter”. It means that this group of people need banking system to be served for financial transaction they do not care about the specification or prohibition of the products. Meanwhile there can be higher potential (from 42% of population who doesn’t care about the type of banking) for IB if it can proof the trust of people by providing better services quality than conventional banking do.

Figure 3.6. Banking selection criteria of respondents

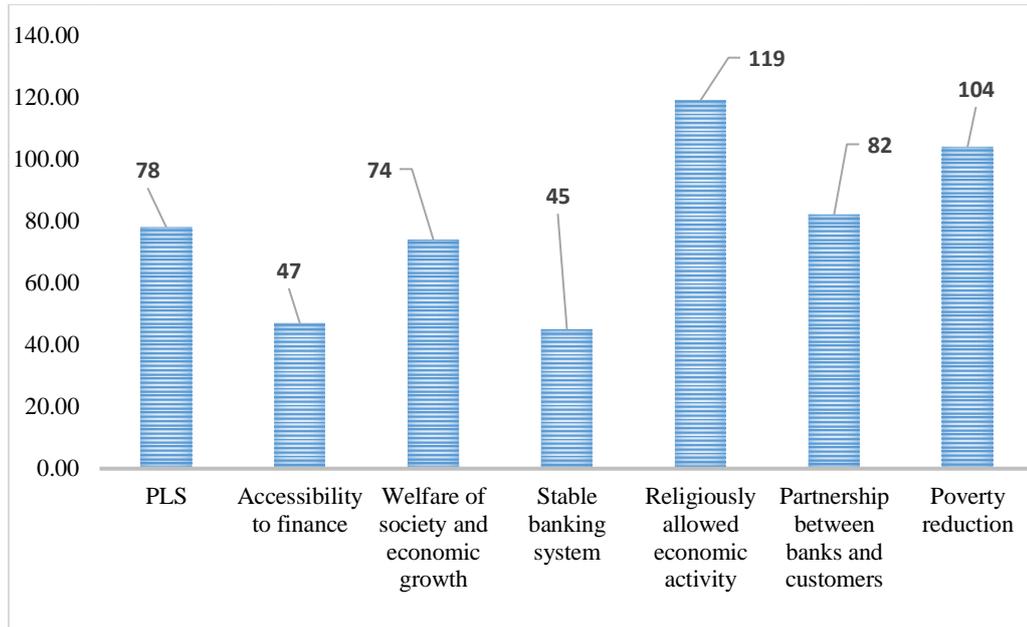


Source: The figure is the author's creation based on survey information.

Final question of the conducted survey concentrated to understand public behavior to the features that attracting people select Islamic banking. At the same time this information can give valuable idea which represents the people constrains with the regard to the formal banking services. Since the question had multiple choices every respondent had a chance to select one or more provided options, which means that one respondent could influence the result of each question options. The figure below illustrates number of responses for each particular features of Islamic banking. (See Figure 3.7)

As we can see from the figure, one of the important features of IB is religiously allowed financial transactions which has attracting majority of people in our survey and constitute 119 responses. Next feature which people focused on it is the poverty reduction where out of 493 people 104 of them select this feature. Close relationship between banks and customers assumed as another feature for which 82 responses rated. Other features as profit and loss sharing, welfare of society and economic growth, stable banking and accessibility to finance constitute 78, 74 and 45 responses respectively.

Figure 3.7. Responses distribution of the Islamic banking features



Source: The figure is the author's creation based on survey information.

3.4 Variables and Specification

According to survey dataset we organized three group of variables where the first group includes demographic characteristics (age, gender, marital status, education, profession, nationality and religion), the second group enclose the variables as understanding of financial matters, riba, sectoral prohibition of IB, existence of IB services. In last group we provided two variables such as attitude toward IB services and banking selection of respondents. All groups of variables included for our further analysis are based on the survey questions where representing correlation or connection with chosen dependent variables to build a best fit model.

Demographic Parameters of Respondents

Age: this variable was included to organize the age variation of the sample size and all statistical details about this variable described in data presentation of this chapter (see Table 3.2, figures 3.1 and 3.2).

Gender: For this variable we tried to identify how male and female responded to the main goal of the study. We define that, more than half of male respondents are aware of IB term while the women's share who are aware consist of 37 percent of women respondents.

Marital status: this variable is binary and showing whether respondents are married or no. We can observe from analysis that people who are married they are more likely aware of IB than the once who are single.

Education: here the variable has a several choices where the level education increases from 1 (no education) to 6 (PhD). Using this variable we explained that this variable has high significance level for all models used in regression analysis, meaning that in every shift of education (higher), the probability of being aware to IB increases.

Profession: For this variable we organize open ended question with 5 main profession across the country such as government Employee, private employee, student, self-business, unemployed and other professions for whom who couldn't find related option in the provided answers.

Religion: this demographic parameter of respondents was included as a variable to determine religion of respondent in order to understand how religion belief of people has an impact to the level of awareness of IB. Using this valuable we discover that Muslim-being has a significant effect, but even though half (50%) of Muslims still not aware of IB.

Understanding of general financial matters and awareness toward IB

Understanding of financial matters: this indicator describing the level of respondent understanding of general financial matters. In this variable we provided 5 options from

low level to high level of understanding of financial matter among population. Results shows that the people who have high understanding they more likely aware than the ones who have average to low level of general financial awareness.

Aware of Islamic banking: In this variable we focused to understand public awareness to IB in the country which was the main variable of the study. We collect the data for the variable using close ended question to find the share of population who heard and aware about the term of IB. Through this variable we come out to conclusion that around half of people in the country do not have any understanding of IB at all.

Riba: this is a variable which described the difference between free-interest banking (Islamic banking) and interest banking (conventional banking) and attempt to check respondents view whether interest-free banking is better than interest-based.

Sectoral prohibition of IB: here the variable organized to find out how population respond to the fact that IB has some sort of sectoral prohibitions which do not allow banks to invest in pork, gambling, alcohol, pornography, weapon producing sectors of the economy. The variable demonstrates the share of population who think that this prohibition is good for the welfare of society where it is equal to 62% of responses.

Existing of IB: this variable analyses the situation whether the respondents are aware of the fact that some financial institutions in the country providing the services which based on Sharia principle. Data for this variable through close ended question and it has a significant effect to the independent variable. The variable also gave the insight information showing that $\frac{3}{4}$ of respondents who know about service existence they have accurate understanding of IB compare to the rest respondents.

Attitude and demand for Islamic banking

Attitude toward IB: an open-ended question designed to obtain information to create this variable. It is described, to what extent people have attitude to the use the of IB services in case when the full-flagged Islamic bank establish. The variable shows high rate of positive response arguing that 2/3 of respondents want to use IB services if there is Islamic bank operate in the country.

Conventional bank selection and Islamic bank selection: in order to obtain these variables, we create a question in which respondents' preference of banking selection for their future banking service needs were tested. The data from responses were transformed into dummy variables and used as a separate variable. Also, using this question we find out another important variable such as Islamic banking selection for our analyses. Islamic banking selection is the variable where describes the demand for IB in the country. Addition to that, this variable can include the share of population who were unbanked because of unavailability of IB in the country.

These two variables (conventional bank selection and Islamic bank selection) were included in the probit model to find the share of population who are aware of IB among the group of respondents who select conventional or IB. The data from probit model shows that (see table 4.2) both variables are significant to the dependent variable and the relationship between dependent variable and these two variables are significantly different. For example, we observed that among the responses falling into conventional banking selection around 1/3 are aware of IB where 2/3 are not. Similarly, it was founded that out of 151 respondents who select IB only 64% of them are aware of IB while more than 35% are not aware.

3.5 Binary probit model

In this study using Stata software Version 14 we applied binary Probit model regression, focused to find interaction between awareness of Islamic banking and demographic parameters of population in the country. As dependent variable in our base model is awareness of Islamic banking, Pr^* which is the binary response, and has value 1 indicates categorized "yes" and 0 otherwise, which can be assumed as:

$$Pr = \begin{cases} 1 & \text{if } Pr^* > 0 \\ 0 & \text{otherwise} \end{cases}$$

Awareness expressed as an unobserved variable Pr^* , in the following equation in such way that:

$$Pr = a + B_0age + B_1gen + B_2mstatus + B_3educ + B_4prof + B_5nat + B_6relig + B_7ufm \\ + B_8riba + B_9secproh + B_{10}exisIB + B_{11}attIB + B_{12}convb + B_{13}isb + \varepsilon$$

where Pr – is dependent variable represents awareness of IB;

B_0 – is coefficient for age; B_1 – is coefficient for gender; B_2 – is coefficient for marital status; B_3 – is coefficient for education; B_4 – is coefficient for profession; B_5 – is coefficient for nationality; B_6 – is coefficient for religion; B_7 – is coefficient for understanding of financial matters; B_8 – is coefficient for riba; B_9 – is coefficient for sectoral prohibition of Islamic banks; B_{10} – is coefficient for existence of IB services in the country; B_{11} – is coefficient for attitude toward IB; B_{12} – is coefficient for selection of conventional bank; B_{13} – is coefficient for selection of Islamic bank + e – error term.

CHAPTER FOUR. Empirical findings

Table 5.1 report a probit estimation of respondent's awareness divided in 5 models where apart from base model described in the equation above the second model includes population size of 38 cities while the third model added a group of cities. In the models four and five we included dummy variables of city identification numbers and province identification numbers respectively.

4.1. Reliability Analysis of quantitative variables

After adapting probit regression in Stata we intended to check the reliability of our variables which were based on survey results. According to Hair et al. (2010), who explained that identification of the degree of consistency in statistics calls the reliability analysis. To measure the consistency of the variables in our study we applied Cronbach's alpha test in Stata, where 7 quantitative variables were tested for reliability. Scoring range of Cronbach's alpha test has values starting from 0 to 1, where the value below 0.5 is unacceptable value while above the range of 0.5 to 1.0 indicating greater consistency of variable (Hair et al., 2010). Table 4.1 interpret consistency of the study's Cronbach's alpha test where we can observe that total result is equal to 0.67 for all variables which are overvalued minimum requirement of 0.60. The lowest value (0.61) of the test observed for two variables, "conventional banking selection" and "Islamic banking selection" has the highest range (0.68) recorded for the "existence of Islamic banking" variable.

Table 4.1. Cronbach's alpha test of variables

Variables	Obs	Item-test correlation	Average item-rest correlation	Interitem correlation	Cronbach's alpha
Awareness of IB	493	0.58	0.38	0.22	0.63
Riba	493	0.55	0.34	0.23	0.64
Sectoral prohibition	493	0.57	0.37	0.23	0.64
IB existance	493	0.45	0.22	0.26	0.68
Attitude toward IB	493	0.65	0.47	0.21	0.61
Conventional bank_selection	493	0.63	0.45	0.21	0.61
IB selection	493	0.63	0.44	0.21	0.62
Test scale					0.67

Source: Table is the author's creation based on Cronbach's alpha test from Stata software.

4.2. Probit regression results for awareness of IB

Based on information of probit regressions we found that the independent variable of age has a negative coefficient but, it was significant at 5% of significance level for the first four models, while the significance level dropped to 10% in model 5. This finding indicates that as younger the population the higher the probability of being aware of Islamic banking.

Another independent variable as gender and marital status has no significance, but show a positive coefficient, meaning that men and married people are more likely, whereas women and single are less likely to be aware of IB.

Education of respondents shows a positive sign in all models and is significant at 99% of confidence level. This finding arguing that, the higher the level of education among the population, the higher the probability to be aware of IB. Similarly, this finding goes along with the study conducted by Kodun Abiah and Wabekwa (2012) in case of Nigeria. The authors disclosed that Islamic banking awareness is high among the groups of people who are young and educated (F., Kodun Abiah and B., Wabekwa,

2012).

Furthermore, the coefficient of profession and nationality variables are not significant, but coefficients for profession variable is negative while for nationality variable is positive. This is justified by the fact that the proportion of respondents who are aware and not aware of IB are closely have the same pattern of deviation in the 6 professions that highlighted in the question. The same variation of responses observed in the variable of nationality where the share of aware people consist half both Tajiks and other nationalities.

One of the important valuables in our estimation is religion which has direct linkage with the topic, and it shows a positive coefficient and is highly significant in all models. The level of significance is equal to 99% of confidence for the base, second and third models, where in models 4 and 5 the level of confidence drop to 95%. This result arguing that, the Muslim being of population has a positive relationship to the dependent variable. Deep analysis of this variable in our model estimation discovered that half of the Muslim population in our survey were not aware of Islamic banking, meaning that the level of religiosity among people may play important role effecting public awareness positively. This is in line with Kuehn finding (2004) who studied student knowledge and perception in UAE argued that religion was an important factor to choose Islamic banks for their financial transaction in (Bley. J., and K. Kuehn, 2004).

Riba is another variable of the probit regression which indicates the difference between interest-free and interest-based banking systems namely Islamic and conventional, showing positive coefficient in all models. For base, second and the third models the significance level is equal to 1% whereas in the models' four and five the

level of confidence reduced to 5% of significance. This means that the group of people who think that interest-free banking is better than interest-based they more likely to be aware of IB and controversially respondents who are not aware of this difference they are less likely to be aware.

Similarly, a positive coefficient observed for the variable of sectoral prohibition of IB while it is significant at 10% of significance level in the model 4 and insignificant for other models. Existence of IB services is positive in all models where the significance is higher at 5% of significance level only for model 5 and is significant at 1% for other models. Explanation of this variable gives an idea that, the people who somehow know about existence of IB services in the country they are more likely to be aware of IB than the others who do not know about the service existence.

The variable of conventional bank selection has a negative coefficient with significance level of 5% for all models excluding model 4 where the significance level is lower at 10%, which means that people selected conventional banking had less probability to be aware of IB. This phenomenon can be justified by the fact that people who are involved in the use of banking services, they may have some basic knowledge of the development in the banking industry.

The following variable called Islamic banking selection is positive for all five models in 95% of confidence level, suggesting that the ones who prefer IB for their future banking transactions they more likely aware compare to the people who did not select IB. Data shows that even among the group of people selected IB there is significant share of respondents who are not aware of IB and do not have any knowledge about it.

Other variables like city population size, city groups, dummy for city ID and

dummy for province ID are positive, but not significant in models 4 to 5 where they added addition to the base model (see Table 4.2).

Table 4.2. Probit Estimation of population Awareness toward IB

Predictors	Base model	Model 2	Model 3	Model 4	Model 5
Age	-0.013** (0.006)	-0.013** (0.006)	-0.013** (0.006)	-0.014** (0.006)	0.013*** (0.006)
Gender	0.257 (0.137)	0.267 (0.138)	0.268 (0.138)	0.209 (0.160)	0.221 (0.142)
Marital Status	0.160 (0.166)	0.158 (0.166)	0.158 (0.166)	0.150 (0.188)	0.174 (0.168)
Education	0.477* (0.116)	0.471* (0.116)	0.471* (0.116)	0.418* (0.128)	0.460* (0.118)
Profession	-0.023 (0.036)	-0.023 (0.036)	-0.024 (0.036)	-0.009 (0.041)	-0.027 (0.037)
Nationality	0.282 (0.267)	0.279 (0.267)	0.278 (0.268)	0.452 (0.303)	0.294 (0.270)
Religion	0.878* (0.266)	0.877* (0.265)	0.877* (0.266)	0.782** (0.306)	0.863** (0.268)
Understanding of fin_matters	0.044 (0.095)	0.038 (0.095)	0.038 (0.095)	0.171 (0.110)	0.058 (0.097)
Riba	0.183* (0.070)	0.179* (0.070)	0.179* (0.070)	0.182** (0.083)	0.173** (0.071)
Sectoral prohibition of IB	0.188 (0.141)	0.184 (0.141)	0.185 (0.143)	0.273*** (0.163)	0.212 (0.145)
Existence of IB services	0.918* (0.157)	0.925* (0.158)	0.925* (0.158)	0.950* (0.183)	0.918** (0.160)
Attitude toward IB	-0.180 (0.164)	-0.173 (0.164)	-0.172 (0.165)	-0.077 (0.184)	-0.167 (0.165)
Conv. Bank selection	-0.398** (0.169)	-0.394** (0.169)	-0.393** (0.169)	-0.362*** (0.195)	-0.388** (0.172)
Islamic bank selection	0.381** (0.153)	0.372** (0.154)	0.373** (0.154)	0.382** (0.171)	0.352** (0.157)
City population size		0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
City group (5)			0.004 (0.075)	1.444 (2.381)	0.184 (0.130)
Dummy of city ID				included	NI
Dummy of province ID				NI	included
Pseudo R2	0.223	0.218	0.218	0.284	0.224
Number of observations	493	493	493	493	493

Notes: Table reports probit model included coefficient and standard errors in parenthesis

* Significant at 1%, ** at 5% and *** at 10% of significance levels.

4.3. Average Marginal effects for base model of probit estimation

After analysis of the breakdown models in probit regression, we focused to determine a more accurate numeric effects of significant independent variables to dependent variable. For reaching the exact numbers we conducted average marginal effects of probit model in Stata for base model, because this model was best fitted model with higher significance level compare to others in probit estimation.

By doing that, we found that 1 unit increase of gender variable (if male share increases) it is more likely that the level of the awareness increases by 0.8 percentage points. Very similar changes founded for marital status of respondents. A unit increase of married people able to increase awareness by 0.5 percentage points. Meaning that, if people are married there is a probability that one of them is aware and can affect another family members.

It is well-known that education has invaluable effect to the level of knowledge and as we observed, one shift-up of educated level of population increases the probability of being aware of IB by 14.6% points. Similarly, another significant variable is religion which tells us that an increase in the Muslim share by 1 unit, increases the probability of awareness of IB by 27% points. Basically, we can think that Muslim-being has a positive effect to the level of awareness of IB, but we also found that around half of Muslims in our survey are not aware of IB taking into consideration the fact that 90% of respondent are Muslims.

Similarly, a unit change in the existence of IB variable, increases probability of being aware of IB by 28%, it means that if the person who knows about existence of IB services they more likely of being aware of IB by 28% points.

Table 4.3. Average marginal effects of probit estimation (base model)

<i>Predictors</i>	Delta-method					
	dy/dx	Std. Err.	z	P>z	[95% Conf.Interval]	
Age	-0.004	0.002	-2.240	0.025	-0.007	0.000
Gender	0.080	0.042	1.910	0.057	-0.002	0.161
Marital Status	0.050	0.051	0.990	0.321	-0.049	0.150
Education	0.146	0.034	4.280	0.000	0.079	0.213
Profession	-0.007	0.011	-0.650	0.517	-0.029	0.015
Nationality	0.086	0.082	1.060	0.290	-0.074	0.247
Religion	0.271	0.080	3.400	0.001	0.114	0.427
Understanding of financial matters	0.014	0.029	0.480	0.634	-0.043	0.071
Riba	0.057	0.021	2.690	0.007	0.015	0.098
Sectoral prohibition of IB	0.058	0.043	1.340	0.179	-0.027	0.143
Existence of IB services	0.282	0.043	6.490	0.000	0.197	0.367
Attitude to use Islamic banks	-0.055	0.050	-1.100	0.273	-0.154	0.043
Conventional banking selection	-0.123	0.051	-2.400	0.016	-0.223	-0.022
Islamic bank selection	0.117	0.046	2.520	0.012	0.026	0.207

In this table we see that, if Riba variable increase by one unit, (when the people who know the difference between conventional and Islamic banking and think that interest-free banking is better than interest-based one), the probability of being aware of IB increases by 0.6 percentage points.

As we have seen in probit regression that conventional banking selection variable had negative coefficient and in average marginal effect it has the same sign. Overall it is interpreted in this way that, if the people are selected conventional banking, they are less likely to be aware of IB by 12% points. Controversially, a unit increase of the group of people who select Islamic banking rises the level of awareness of IB by 11.7% points. We can say that, as higher the awareness of Islamic banking of population the higher probability of using IB.

4.4. Probit estimation for Demand of Islamic Banking

Like our previous probit regression by replacing dependent variable we run another regression following our base model structure selecting demand for IB as a dependent variable. (See Table 4.4). The age variable which coefficient was negative in first regression has a positive sign in this model and significant at 95% of confidence level. The variable of marital status being insignificant for the first regression (see Table 4.2) seems to be positive and significant at 5% of significance level for current model expression. From this result, we can say that men are more likely demanding IB services for their future banking needs compare to the women.

Education is positive, but insignificant in this model while it was significant at 1% significance level in the models described in the regression represented in Table 4.2. Religion variable is also positive to the dependent variable with 5% significance level, suggesting that Muslims are more likely demanding IB. The variables of awareness and attitude of IB are positively reacted and they are significant at 99% of confidence level. This result suggesting that, as far as people aware from IB and have attitude toward them they are more likely want to use the services providing by Islamic banks.

Table 4.4. Probit estimation of Demand for Islamic Banking

Demand for Islamic Banking	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	
Age	0.012	0.006	2.050	0.041	0.001	0.024
Gender	-0.062	0.145	-0.430	0.667	-0.346	0.222
Marital Status	0.387	0.175	2.210	0.027	0.044	0.730
Education	0.005	0.115	0.040	0.968	-0.220	0.229
Profession	0.058	0.037	1.550	0.120	-0.015	0.130
Nationality	-0.080	0.290	-0.280	0.783	-0.647	0.488
Religion	0.855	0.357	2.390	0.017	0.155	1.554
Understanding of fin_matters	0.172	0.097	1.770	0.076	-0.018	0.362
Aware of Islamic banking	0.506	0.148	3.420	0.001	0.216	0.796
Riba verses interest rate	0.134	0.071	1.880	0.061	-0.006	0.274
Sectoral prohibition of IB	0.138	0.149	0.930	0.354	-0.154	0.429
Existence of IB services	-0.063	0.156	-0.400	0.687	-0.370	0.243
Attitude to use Islamic banks	1.128	0.191	5.900	0.000	0.753	1.502
_cons	-3.875	0.567	-6.830	0.000	-4.988	-2.763

Number of observations 493.

Pseudo R2 0.1891

4.5. Probit estimation for the features of Islamic banking

In Table 4.5 we provide probit regression results where 7 features of IB used as a dependent variable responding to other variables which are independent variables. The results showing significant difference in relationship between dependent and independent variables. From this table we found that the first feature (Profit and loss sharing) is significant for variables of marital status, and profession (negative coefficient) at 5% of significance level and for awareness of IB and Sectoral prohibition of IB at 10% of significance level with positive coefficient.

The feature of “access to finance” is significant at 1% of significance level and positive in age variable. Riba variable is negative and significant at 10% and attitude toward IB positive with 5% of significant levels. Another feature as an “economic growth and welfare of society” is positive in respect to profession and attitude toward IB variable with 1% and 5% of significance levels accordingly.

The feature “stable banking” is significant at 1% of significance level to age variable with negative coefficient. “Religiously allowed banking” which is one of the most important features of IB is positive to the variable religion, attitude toward IB and Islamic banking selection with 5% for religion and 1% of significance level for other two variables. Partnership between bank and client is negative for gender and conventional banking selection variables with at 5% and 1% significance levels respectively. Last feature is the “poverty reduction” where it is also significant in response for two variables, riba and attitude toward IB at 5% of significance level and have positive coefficient.

Table 4.5. Probit estimation for appealing features of IB among population in Tajikistan

<i>Predictors</i>	<i>Profit and Loss Sharing</i>	<i>Access to finance</i>	<i>Economic growth & welfare of society</i>	<i>Stable banking</i>	<i>Religiously allowed banking</i>	<i>Partnership between client & bank</i>	<i>Poverty reduction</i>
Age	-0.007 0.007	0.012*** 0.007	0.001 0.006	-0.022*** 0.008	0.002 0.006	-0.004 0.006	0.004 0.006
Gender	0.123 0.174	-0.134 0.179	0.024 0.159	0.186 0.186	0.187 0.152	-0.326** 0.151	0.037 0.146
Marital Status	-0.482** 0.214	0.089 0.218	0.008 0.187	-0.191 0.214	0.151 0.183	-0.227 0.191	-0.128 0.179
Education	0.049 0.152	0.011 0.149	0.133 0.135	0.051 0.150	-0.006 0.120	0.211 0.129	0.073 0.117
Profession	-0.088** 0.044	0.005 0.046	0.028*** 0.041	-0.007 0.048	-0.032 0.039	-0.012 0.039	-0.022 0.037
Nationality	-0.064 0.349	-0.240 0.392	-0.840 0.459	-0.080 0.364	0.287 0.282	0.013 0.298	-0.439 0.301
Religion	-0.164 0.327	-0.073 0.312	-0.196 0.268	0.136 0.324	0.886** 0.395	0.286 0.298	-0.133 0.239
Aware of IB	0.906* 0.186	0.208 0.189	0.037 0.167	-0.212 0.190	0.033 0.156	0.042 0.160	-0.209 0.153
Understanding of financial matters	0.135 0.115	0.084 0.120	0.080 0.102	0.073 0.118	-0.080 0.100	0.040 0.103	-0.090 0.094
Riba	-0.058 0.083	-0.179* 0.087	-0.026 0.079	0.011 0.089	0.052 0.075	0.050 0.081	0.147** 0.073
Sectoral prohibition of IB	0.532* 0.185	-0.039 0.185	0.364** 0.169	-0.010 0.185	-0.073 0.155	0.049 0.158	0.200 0.151
Existence of IB services	0.234 0.171	0.190 0.193	-0.092 0.177	0.178 0.199	0.000 0.164	0.036 0.173	-0.026 0.168
Attitude to use Islamic banks	-0.171 0.200	0.570** 0.237	0.157 0.193	-0.135 0.220	0.840*** 0.216	0.291 0.191	0.355** 0.177
Conventional banking selection	-0.066 0.218	0.233 0.226	-0.078 0.199	-0.105 0.231	-0.205 0.210	-0.557*** 0.205	-0.099 0.180
Islamic bank selection	0.179 0.180	0.276 0.197	0.128 0.170	0.270 0.201	0.710*** 0.155	-0.150 0.166	-0.102 0.162
Pseudo R2	0.087	0.062	0.046	0.047	0.176	0.063	0.047
Number of observations	493	493	493	493	493	493	493

Notes: Dependent variables in this table are the features of Islamic banking with a discrete value 0 (not chosen) and 1 (chosen). Every equation includes a constant term *standard errors in parenthesis*.

***, (**) and [*] indicate coefficient is significantly different at 1%, (5%) and [10%] level.

CHAPTER FIVE. Conclusion and Recommendations

5.1. Conclusion

This research carried out in order to determine the level of public awareness toward Islamic banking in Tajikistan. The study found that almost half of the population in the country are aware of Islamic banking and as consequences majority of them have a basic knowledge about the fundamentals and main products of Islamic banks. We also found that there is positive relationship between public awareness of Islamic banking and demographic characteristic of population as age, education, and religion belief.

Reviewing banking selection of the survey we discovered that there is significant demand for Islamic banks in Tajikistan and majority of people express the preference in use of Islamic banking services in case of their establishment and there is increasing potential also exist. We also found positive linkage between demand of IB and age, marital status, religion, awareness and attitude toward IB.

5.2. Recommendations

Based on conclusion following are recommendations for policy implications:

- conducting of Long-term State Program For improving financial literacy among population in Tajikistan which includes Islamic Banking;
- initiating a medium to long term strategy concentrated on financial inclusion of population along the country;
- Short term education programs aimed at increasing awareness of the population about Islamic banking;
- Including the topic of Islamic banking in the Universities curriculum across Tajikistan.

- establishment of separate unit at the NBT in charge of Financial Inclusion

5.4 Limitation of the study

This research is focused on understanding the level of public awareness in the country level based on 493 responses which assumed significant for this aim, but it has no power to explain this phenomenon in each province, cities and districts of the country because of sample size limitation. Thus, it would be more beneficial if future studies could increase the sample size of population which fit normal distribution of sampling for the cities and districts.

During the cleaning and coding procedure author found out that, it would be more appropriate to conduct a survey by doing face to face interviews in order to avoid misunderstanding from both sides' respondents and a researcher.

The survey conducted using only one bank as a distributor of questionnaires to the public, whereas it would be better also to capture other common places where the public more likely to visit. Thus, it will helpful if people visiting mosques also surveyed, for the reason that they may be financially excluded from formal banking following religious norms.

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