



AWARENESS, UNDERSTANDING AND
WILLINGNESS OF ISLAMIC BANKING SYSTEM
IMPLEMENTATION IN TAJIKISTAN

BY

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ABSTRACT

In the current financial system, the Islamic banking industry is increasingly playing vital roles. Due to the adaption of Islamic Banking facilities by customers, the growth of Islamic banking system has not reached only Muslim countries but also Non-Muslim countries has implemented it. However, the implementation of Islamic banking system still lacks in a few Muslim countries such as Tajikistan. Therefore, the current study has conducted probability study of Islamic banking system in Tajikistan. The study examines the level of awareness and understanding of citizens of Tajikistan on importance of Islamic banking system and the willingness of Tajiks to adopt Islamic banking system in Tajikistan. Moreover, the study analyses the relationship between awareness and willingness to adopt Islamic banking products and services as well as relationship between understanding and willingness to adopt Islamic banking products and services. To analyses the factors that affect customer behaviors for adaption of Islamic banking system, Theory of Reasoned Action (TRA) has been adopted. For collecting data, the self-structured questionnaire was employed and collected data from total of 304 citizens of Dushanbe city. The data was analyzed using Statistical Package for Social Science (SPSS). The findings of the paper illustrate that the population of Tajikistan have lack awareness and understanding of the practical and legislation part of the Islamic banking system. However, they have high awareness and understanding of the *Shari'ah* and some basic Islamic knowledge regarding Islamic banking and finance. Furthermore, the respondents have high intention to adopt the Islamic banking system in Tajikistan. The researcher hopes that the policy makers and financial institutions will consider the current results and initiate the establishment of Islamic financial institutions in Tajikistan.

خلاصة البحث

الصناعة المصرفية الإسلامية تلعب دوراً حيوياً بصورة متزايدة في النظام المالي الحالي. ويرجع ذلك إلى قبول الخدمات المصرفية الإسلامية من قبل العملاء، لم يصل نمو النظام المصرفي الإسلامي الدول الإسلامية فقط، بل الدول غير المسلمة قامت بتطبيقها أيضاً. ومع ذلك، فإن تنفيذ النظام المصرفي الإسلامي لا يزال يفتقر في عدد قليل من الدول الإسلامية مثل طاجيكستان. ولذلك، فقد أجرى البحث الحالي دراسة جدوى للنظام المصرفي الإسلامي في طاجيكستان. وتناول هذا البحث مدى مستوى الوعي والفهم لمواطني طاجيكستان على أهمية النظام المصرفي الإسلامي ورغبتهم في اعتماد النظام المصرفي الإسلامي في طاجيكستان. وعلاوة على ذلك، تهدف هذه الدراسة على دراسة مدى تأثير الوعي لتبني المنتجات والخدمات المصرفية الإسلامية، وكذلك العلاقة بين الفهم والرغبة في تبني المنتجات والخدمات المصرفية الإسلامية. لتحليل العوامل التي تؤثر على سلوكيات العملاء لقبول النظام المصرفي الإسلامي، تم اعتماد نظرية (TRA). وجمع البيانات استخدمت استبيان المسح الذاتي وجمعت البيانات من 304 من مواطني المدينة دوشانبي. تم تحليل البيانات باستخدام البرمجيات الحزمة الإحصائية للعلوم الاجتماعية (SPSS). وتوضح النتائج التي توصلت إليها الورقة أن سكان طاجيكستان لديها قليل من الوعي والفهم للجزء العملي والتشريعي في النظام المصرفي الإسلامي. ولكن، لديهم مستوى مرتفع من الوعي والفهم لأحكام الشريعة الإسلامية وبعض المعارف الإسلامية الأساسية المتعلقة بالصيرفة والتمويل الإسلامي. وعلاوة على ذلك، فإن المشاركين لديهم رغبة عالية لاعتماد النظام المصرفي الإسلامي في طاجيكستان. ويأمل الباحث أن على واضعي القرارات والمؤسسات المالية النظر في نتائج الحالية وبدء الخطوات لإنشاء مؤسسات المالية الإسلامية في طاجيكستان.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science (Islamic Banking and Finance).

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DECLARATION

I hereby declare that this research paper is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This research paper is dedicated to my beloved parents, wife and my sons Abdullah,
Abobakr and Omar for their love and patience.*

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LIST OF ABBREVIATIONS

BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
BRT	Bonki Rushdi Tojikiston
EFA	Exploratory Factor Analysis
EV	Eigenvalue
GDP	Gross Domestic Product
ICD	Islamic Corporation for the Development of the Private Sector
IDB	Islamic Development Bank
IFSA	Islamic Financial Services Act 2013
IiBF	Institute of Islamic Banking and Finance
IIUM	International Islamic University Malaysia
IMF	International Monetary Fund
IRB	Islamic Retail Banking
KMO	Kaiser-Meyer-Olkin
NBT	National Bank of Tajikistan
OIC	Organization of the Islamic Conference
SPSS	Statistical Package for Social Science
TJS	Tajikistan Somoni
TRA	Theory of Reasoned Action
UAE	United Arab Emirates

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

The innovative way for the Central Asian republics to strength their political and economic relationships with other Islamic countries according to the opinion of most of the Islamic scholars' opinion is through Islamic banking and finance (Khaki & Malik, 2013).

Tajikistan was one of the former Soviet republics and since the breakdown of the Soviet Union and rise of new republics in 1991, the Tajikistan becomes one of the independent republics in the Central Asia. Since the breakup of the Soviet Union, most Central Asian states and republics joined the Organization of the Islamic Conference (OIC), the Republic of Tajikistan has joined Organization of the Islamic Conference (OIC) since 1992 and joined Islamic Development Bank (IDB) since (1996).

Tajikistan, officially known as the Republic of Tajikistan is a country in the South-east of Central Asia. The territory of Tajikistan is 143.1 thousand square kilometers. The population increased from 7 564 500 in 2010 into 8,208,000 million in 2013, Tajikistan has the 96th largest population in the world. Currently 95% of Tajikistanians populations are Muslims.

Tajikistan experienced two types of economic and financial systems, namely the socialist and capitalist. The socialist system was adopted when Tajikistan was under the Soviet Union, whereas the capitalist system was introduced post-independence. Tajikistan's GDP in 2013 was US\$\$8.5 (World Bank) billion and it

growth around 7.4% (World Bank) on the same period, its inflation rate stood at 5.0% (World Bank).

According to (Aisen, 2012) currently there are 16 Commercial Banks and around 300 branches, two Non-Bank Credit Organizations, Micro-Credit Depository Organizations are 34, 44 Micro-Credit Organizations, Micro-Credit Funds and Deposit Insurance Fund are respectively having 46 and 1 branches practiced on Tajikistan.

The move to adopt the law of Islamic banking in financial activities began when the Parliament of Tajikistan (Deputies of the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan) has approved Law “On Islamic Banking Activity” on May 14, 2014. According to Mr. Abdujabbor Shirinov - Chairman of the National Bank of Tajikistan, the economic world crisis in 2009 has drawn attention of financially developed institutions towards Islamic banking which has successfully overcome the crisis (National Bank of Tajikistan (NBT)). According to the National Bank of Tajikistan (NBT), most banks in Tajikistan are interested in introducing the Islamic banking principles in their work. (Chorshanbiyev, 2014).

Therefore, this study is aimed to help practitioners as well as policy makers by examining the level of awareness, understanding and willingness of populations in Dushanbe capital city towards Islamic banking and to test whether or not the theory of reasoned action is suitable to model their behavioral intention in patronizing Islamic banking. Moreover, it is expected that this study would fill the gap of research done in the area of Islamic banking, particularly in the Republic of Tajikistan.

The structure of this paper comprised of five parts. Part one introduces Tajikistan and the need analysis. Part two shows previous related studies with bank customer awareness and the use of perceived values and TRA for bank patronizing

behavior. Part three will be the data and methodology and continued by the discussion of the findings in part four. Finally, conclusion, limitations of this study, and suggestions for future researches are drawn in part five.

1.2 STATEMENT OF THE PROBLEM

The Islamic banking system has spread and prevalent in the bank global banking scene. The understanding and awareness of the Islamic Banking products and services led customers to patronize the Islamic banks and its products and services. Islamic financial specialists have to educate and acknowledge the Muslims regarding the Islamic banking system and their products and services. This research explores to analyze the understanding and willingness of Islamic banking system implementation in Tajikistan.

Among possible reasons could be one of not having intention towards adoption of Islamic banking system but having lack understanding and awareness on Islamic banking system among population in Tajikistan. The other reason behind not adoption of Islamic banking system in Tajikistan could be lack understanding of differences between Islamic banking and conventional banks. This is because when the Muslims do not have knowledge of the differences between Islamic banking and conventional banking it is an obstacle to adopt Islamic banking and accept their products and services. The other obstacle that could affect adoption of Islamic banking system in Tajikistan is unwillingness of population toward Islamic banking adoption, and hence challenging to implement the system.

1.3 OBJECTIVES OF THE REASERCH

The purposes of this study are to identify and examine the level of awareness, willingness and understanding of Tajikistanians regarding to Islamic Banking. The specific objectives of the study are:

- 1- To analyse the level of awareness of Tajiks on the importance of Islamic Banking.
- 2- To analyse the level of understanding of Tajiks of Islamic Banking system.
- 3- To examine the willingness of Tajiks to adopt Islamic banking products and services.
- 4- To examine relationship between awareness and willingness to adopt Islamic banking products and services.
- 5- To examine the relationship between understanding and willingness to adopt Islamic banking products and services.

1.4 RESEARCH QUESTIONS

1. What is the level of awareness of Tajiks on the importance of Islamic banking?
2. What is the level of Tajiks understanding of Islamic Banking?
3. Does the level of awareness of Tajiks affect their willingness to adopt Islamic banking?
4. Does understanding of Tajiks affect their willingness to adopt Islamic banking?
5. Does willingness of people in Tajikistan affect adoption of Islamic banking?

1.5 HYPOTHESIS OF THE STUDY

In order to achieve the research objective and to answer research questions the study tested the following null hypothesis.

H1: There is significant relationship between awareness and willingness to patronize Islamic Banking system in Tajikistan

H2: There is significant relationship between understanding and willingness to patronize Islamic Banking system in Tajikistan.

1.6 SIGNIFICANCE OF THE STUDY

This research focuses on the level of awareness, understanding and willingness of Islamic banking system implementation in Tajikistan. Since no prior study that had been conducted to examine the willingness and understanding of people in Tajikistan could be found. This study has been motivated with the following reasons:

- **Knowledge**

This study will provide insight into the present Islamic banking and finance and other institutions planning to expand their Islamic financing products and services to invest and develop the Islamic Banking sector in Central Asia, particularly in Tajikistan. While presenting the study to several financial as well as economic sectors of the Tajik Government, it assists to provide a detailed illustration of the understanding and willingness of Islamic banking among Tajikistanians. In addition, this study will add to the literature pertaining to the Islamic banking system in Tajikistan.

Furthermore, Tajikistan is a multi-national country, as the statistical body of the country shows that 95% of the population are Muslims, it is thus vital for the Islamic banks to operate in Tajikistan to gain acceptance as compared to the conventional banks.

- **Practitioners**

Through learning the level of understanding of Tajikistanians about Islamic banking system, Islamic bankers possibly will design or prepare different marketing campaigns for the Tajikistanians based on their level knowledge. By investigating the level of willingness of those people towards Islamic banking system, bankers can use simple words to the Tajikistanians customers. Moreover, by knowing the level of awareness of Tajikistanians the bankers could expedite establishment of an Islamic bank for the goodwill of the people. This study could also be used by Banks or Financial institutions as a future reference to introduce and implement the Islamic banking system in Tajikistan. The research can benefit the professionals and other customers in the financial sector towards better understanding the prospects of Islamic banking and finance and its significance in Tajikistan and other Central Asian countries.

The research can help customers in all sectors of the economy to understand the prospects of Islamic finance, its significance in Tajikistan and its positive impact on the growing demand for financial assistance.

After the recent 2008 global financial crisis, the financial authorities have started searching for an alternative system to the conventional one. The Islamic financial system could be that alternative. Therefore, this research may help the

financial authorities, bank managers and staff in gaining better understanding Islamic banking and finance system.

- **Government/ policy makers**

The research may support the existing references for the government in supporting the Islamic Banking and financial system by improving the rural as well as the urban aspects of the economy, other sectors of the economy and promote greater awareness about the current and future state of the country's economy.

The government of Tajikistan is struggling to find easy ways to implement the Islamic banking system. We hope that this study will provide a clear understanding regarding Islamic banking facing Muslims in Tajikistan.

1.7 LIMITATIONS AND ASSUMPTIONS

For the purpose of the study, the researcher focuses on some limitations. Firstly, the sample of population focused on the Tajikistanians in general, without differentiating between Muslims and non-Muslims, because non-Muslims in Tajikistan is around 5% only. Secondly, the numbers of respondents are limited, 400 respondents are targeted, owing to financial and time constrains, the study only managed to collect 350 questionnaires from the participated respondents. Thirdly, the study will focus only on Dushanbe capital city of Tajikistan residence.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

The main objective of this study is to observe the level of awareness, understanding and willingness of Islamic banking and finance in Tajikistan. Mainly, the researcher tries to examine 1- the level of an awareness of Tajikistanians regarding Islamic banking system 2- the level of an understanding of Tajikistanians regarding Islamic banking system 3- to examine the relationship between awareness and understanding of Tajikistanians and their willingness to Islamic banking system and the possible recommendations and suggestion which might benefit the establish and growth of Islamic banking in future. To fulfill the objective of this research, it is important to review the current and past literature. Nevertheless, due to limitation of the most related articles regarding to this study the researcher will select the most relevant articles in the discussing issues.

The current chapter is divided into seven sections: the current section is introduction of the chapter and the following section reviews the conceptual framework of Islamic banking, then; section three discusses the brief history of Islamic banking. Fifth section illustrates the review of Tajikistan's economy. Fourth section is about development of Tajik banking sector, including the development of Islamic banking sector in the country. Section six is on awareness, understanding and willingness of Islamic banking system and their products and services in worldwide. Last section elaborates demographic information affecting the awareness,

understanding and willingness of Islamic banking industry and the last section is the conclusion of this chapter.

2.2 THE CONCEPTUAL FRAMEWORK OF ISLAMIC BANKING

Islamic banking is a modern banking system with basic Islamic legal principles known as *Shari'ah* principles. These principles come from the sources of the *Quran*, *Sunnah*, *Ijma'*, *Qiyas* and *Ijtihad* (Chapra 2000).

The most basic principles are as follows:

- a) The prohibition of *riba* is the most basic of these principles in Islamic banking and finance. The *riba* is Arabic words which means excess, increase or growth. Any interest or predetermined payment above and over from the principal amount is the same to *riba* and it is strongly forbidden by the *Quran* and *Sunnah*. *Allah* (s.w.t) prohibited *riba* in several verses:

Allah said:

“Those who devour usury will not stand except as stand one whom the Evil one by his touch hath driven to madness. That is because they say: “Trade is like usury,” but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past, their case is for Allah to judge, but those who repeat (the offence) are companions of the fire, they will abide therein (forever)” (al-Quran, 2:275-281)

The prophet Muhammad (s.a.w) prohibited *riba* clearly in the several *Ahadis*. This *Hadis* narrated by *Al Bukhari* and *Muslim* on the authority of *Ubadah bin al Samit*: “Gold for Gold, silver for silver, wheat for wheat, barely for barely, dates for dates, salt for salt – like for like, equal for equal and hand to hand (spot); if the

commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand or spot transaction”.

As mentioned above the *riba* is prohibited clearly in the Holy *Quran* and *Sunnah*. (Chapra, 2000) one of the opinion that the main justification behind the prohibition of *riba* is its inclination to act as a means of accumulating wealth in the hands of a few, weakening the natural concern towards their fellow man. Furthermore, Islam gives greatest important to the principle of reward following risk in that it does not allow gain from financial activities unless those activities include natural risk of potential loss. Simply, profits in Islam follow the formula of effort plus risk plus liability is equal to profit. This means that if an individual puts his effort, takes on equal risk and faces equivalent liabilities then he is entitled to the profit. However, if the individual has put no effort, or took no risk then he is not entitled to generate a profit. This is in line with the working of a risk oriented environment, where the principle (Lender) is rewarded for entrepreneurship rather than for just being the owner of the capital, as it happens in interest based environment.

- b) The second principle that must observed by Islamic banking is the prohibition of *Gharar*. *Gharar* is generally translated as uncertainty, hazard or deception. This implies *gharar* as uncertainty arising from asymmetry of information or the unlikelihood of delivery which might lead to harm to the o=parties involved. The prohibition of *gharar* can be inducted from verse 29 of surah *an-Nisa*’:

“O ye who believe! Eat not up your property among yourselves in vanities, but let there be amongst you traffic and trade by mutual goodwill, nor kill (or destroy) yourselves, for verily Allah hath been to you Most Merciful”.