

Interest-Free Window Banking and Finance in Ethiopia: Inception to Expansion

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Abstract

Interest-Free Banking and Finance services are continuously growing throughout the world in terms of customer size and the number of countries introducing the services. Entitled differently in different corners of the globe, numerous models have been implemented. Full-Fledged Banking, Subsidiary Banking, and Window Banking models are the eminent types. One of the countries, where an only Window Model has been practiced, is Ethiopia. In the last decade, the banking regulation of the country has legitimized the operations of only Window Models. Consequently, within 6 years (2013-2019), 10 conventional banks have rapidly introduced Window-Based IFB services. Most of these windows became very weak in financing but they could attract billions of Ethiopian Birr (ETB) within a short period. As a result, the Window-Based IFB sector of the country became exceedingly characterized by cost-free deposit accumulation under the cover of a manipulated term of Interest-Free Banking. However, the parliament has approved a regulation which permits the establishment of Full-Fledged IFB in 2019. Consequently, some banks are under formation. The aim of this study is, therefore, to assess the expansion of the Window Model and the performance of the banks in deposit accumulation and financing trade and investment. A descriptive analysis is used based on mainly the reports of the banks.

Keywords: IFB, Window Model, Ethiopia

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