

## Introduction of Islamic Banking and Finance in Ghana: Opportunities and Challenges

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### Abstract

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This paper presents a general review of opportunities and challenges of Islamic banking and finance (IBF) introduction in Ghana. It relies on existing literature, especially from Islamic banking and finance, and positional views of the authors. The paper identifies key factors in Ghana's economy that present prospects for the introduction and adoption of IBF in Ghana by policy makers and consumers. These include opportunity for employment, democratic political system of governance, flexible industry regulatory framework, existing agrarian sectors, high demand for banking products, high interest rate, Muslim population, and quest for sound business practices. It also discusses the potential challenges that are likely to face full-fledge IBF products and institution in Ghana in terms of IBF governance, consumer behaviour and performance of IBF institution. Finally, the paper proposes strategies for overcoming the potential challenges for the effective introduction of IBF in Ghana. Managerially, this paper puts together a rich blend of objective appraisal of IBF from many perspectives and serves as an important source of information on IBF in Ghana for stakeholders, especially the Bank of Ghana, policy makers, and IBF practitioners. Theoretically, this paper provides valuable source of literature for academics and practitioners interested in IBF research and business in Ghana Banking Industry.

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**Keywords:** Riba, sharia, corporate governance, Ghana, consumer behaviour, bank profitability

### 1. Introduction

Islamic banking and financing (IBF) is considered as one of the fastest growing industries in the past three decades (Wajdi Dusuki & Irwani Abdullah, 2007). IBF industry has grown to more than 1.8 trillion dollars in total assets, in spite of its relatively small size compared with global banking industry (Ernst & Young, 2012). HSBC (2012) indicates that the growth rate of IBF is over 10% annually and has the potential of increasing its total assets to USD 4.4 trillion by 2020.

IBF has become an innovative way of banking which has been widely accepted and adopted in in both Islamic and non-Islamic countries (Iqbal & Molyneux, 2005). IBF are fundamentally different from conventional banking because IBF institutions principally operate on the basis of Sharia law, which prohibits the charging of interest (Hassan, Kayed, & Oseni, 2013; Hassan & Lewis, 2014). According to Karbhari, Naser and Shahin (2004), Islamic banks may function in countries adopting Islamic *Sharia* principles (e.g., Malaysia, Iran, Pakistan, and Sudan), or function in predominantly Muslim countries along with conventional banks (Arab and Muslim countries), or function in predominantly non-Muslim countries along with conventional banks (Western countries).

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The rise in IBF could be attributed to many factors. It has long been noted that the growth in IBF institutions is due to the rise in significant oil revenues (Ali, 1981). With growth of Middle Eastern oil exploitation, there is also huge Islamic investment and Muslim capital, estimated at \$830 billion (Ali, 2010; Walsh, 2007). Also, recent developments in Middle Eastern markets have created attractive prospects for foreign companies seeking substantial investments including banking that is in accord with Islamic principles (Usmani, 2010).

While considerable empirical studies have been done in IBF by scholars and practitioners, it has been observed that, much of the literature on IBF is limited to Islam dominated or Islamic countries (e.g., Iqbal, Zamir & Abbas Mirakhor, 2007; Iqbal, Munawar & Philip Molyneux, 2005; Manzoor & Amanullah, 2010; Ismail et al., 2008; Echchabi & Abdul-Aziz, 2012; Rashid et al., 2012). In this regard, Iqbal et al. (2005) observed that IBF was unheard of in non-Muslim countries, and considered a wishful thinking by those who desired to engage in banking that was in accord with Islamic principles. Few studies have examined customer perception of IBF in Sub-Saharan Africa context (e.g., Danjuma, Kumshe, Daneji, & Ibrahim, 2015; Jinjiri, 2014). As a result, there is very limited literature on IBF in non-Islamic countries such as Ghana (Fada & Wabekwa, 2012; Jinjiri, 2014). There is dearth of empirical research in IBF in Ghana. It is therefore academically interesting to explore the opportunity and challenges of introduction of IBF to the economy of Ghana. This will provide scholars and practitioners with a general review of IBF based on literature and expert opinion as a guide for intellectual discourse for the successful introduction and adoption of IBF in Ghana by stakeholders. Therefore, this paper seeks to provide a general review of IB in Ghana, with emphasis on prospects and challenges of IBF introduction in Ghana.

The rest of the paper is organized as follows: It continues with a review of literature in IBF concepts, IBF in Africa and Ghana. This is followed by a discussion of the prospects and challenges of IBF in Ghana, and ends with some recommendations, conclusion, limitations, and directions for future research.

## **2. Literature review**

### *2.1 The nature of Islamic Banking and Finance*

Islamic banking (IBF) refers to banking and financial operations and activities that are based on Islamic principles and laws (Hassan, Kayed, & Oseni, 2013; Hassan, & Lewis, 2014). Based on Islamic law, there are four main principles that govern the activities of the Islamic banks. First, IB prohibits Riba, the taking or giving of interest, which is believed to be unequal trade of values in exchange. (Abedifar, Ebrahim, Molyneux, & Tarazi, 2015; Hassan & Lewis, 2014). Thus, it is only acceptable for profit to be earned from trade in goods and services. The prohibition of taking or giving of interest on transactions also implies the removal of debt-based financing from the economy. Instead of charging of interest, IB permits profit and loss sharing (PLS) concept in which both parties agree on predetermined amounts in the business contract.

Second, IBF prohibits Gharar. Gharar refers economic transactions that have absolute or excessive uncertainty or risk in business transactions (Abedifar, et al., 2015; Hassan & Lewis, 2014). Gambling, deceit or fraudulent activities are examples of activities involving uncertainties that cause great loss to one party and unreasonable profit of the other party. Thus, IBF ensures the full disclosure of information and removal of any potentially deceitful or risky information in a business contract. Third, IBF prohibits Maisir. Maisir refers to unlawful, unethical activities, sinful and socially irresponsible activities, such as bribery, prostitution, drug abuse, alcohol, sale, and consumption of pork, and gambling. These bad business practices are considered forbidden behaviour (haram) to all Muslims, because they adversely affect justice and fairness in financial transactions, lead to the exploitation of one party to a contract, and are detrimental to human life, fairness, societal well-being (Hassan et al., 2013; Hassan, & Lewis, 2014). Fourth, IBF ensures that financial transactions must be directly or indirectly linked to a real economic transaction and must have real economic values to both contractual parties, and the society at large.

A review of IBF literature (e.g. Abedifar, et al., 2015; Hassan et al., 2013; Hassan, & Lewis, 2014; Nawi et al., 2013) shows that IBF products take many forms based on the Islamic finance methods, which include (i) Mudarabah, the provision of capital in a partial equity partnership; (ii) Musharakah, full equity partnerships, (iii) Murabaha, an instrument used for financing the purchase of goods; (iv) Bai muajjal, deferred payments on products; (v) Bai Salam, advance sale contracts; (vi) Istisna, or manufacturing contracts; (vii) Ijarah, lease financing; and (viii) Qard Hassan, a system of benevolent loans.

## 2.2 Islamic Banking in Africa

IBF in Africa originated from Egypt in the 1960s when the first Islamic bank in Africa was established in Egypt (Aburime & Alo, 2009; Mouawad, 2009). Since then, there has been significant growth in revenue for African IBF estimated at USD 37.5 billion as of 2008 (The City UK, 2011). In spite of this promising trend, recent empirical research shows that, in Africa the IBF and finance market remains greatly underdeveloped and scarce in many sub-African regions, representing less than 10% of commercial banks operating in 21 African countries offering Islamic financial services (Faye et al., 2013; Gelbard et al., 2015).

According to Faye et al. (2013) the continent has only 116 Islamic financial service providers from 21 countries out of the 54 African countries. Out the 116 institutions offering four different Islamic financial services, 74 of them are providers of IBF services, 33 institutions offer Islamic insurance "Takaful," 4 offer Shariah-compliant investment services through investment funds and 5 offer Islamic microfinance. This indicates the wide diversity in the type of Islamic finance services available in Africa. In Africa, Sudan remains the country with the highest number of Islamic financial service providers, having 32 Islamic banks, 15 Islamic insurance companies (Takaful) and 2 Islamic micro finance service providers. Aside the relative smallness of Islamic finance in Africa compared with conventional banks, the prevalence of IBF is greatly skewed towards Northern and Eastern Africa. Faye et al. (2013) also shows that East Africa has the largest number of Islamic finance providers (65) followed by North Africa (25) and West Africa (14).

In Sub-Saharan Africa, there are 7 institutions offering IBF in West Africa, with Nigeria and Guinea having 2 IBF institutions each. IBF in West Africa is being offered mainly through Islamic banks. Only Nigeria counts an Islamic window. In Senegal, Guinea, and Niger, Islamic banks have been developed through joint ventures involving the Islamic Development Bank (ISDB) and Investors from the Gulf (Faye et al., 2013; Gelbard et al., 2015). The Gambia, Ghana and Senegal have Islamic Insurance companies – Takaful, with two in Ghana. IBF is also developing greatly in South Africa and Mauritius. In South Africa, there are established sharia board and IB regulators to ensure the effective implementation of Sharia-compliant Islamic finance. These reforms include the introduction of tax neutrality for Mudharabah, Murabahah and Musharakah. In Mauritius the prospects for IBF is great (Faye et al., 2013; Gelbard, Hussain, & Maino, 2015). According to Moody (2008), the Central bank of Mauritius, which is a member of the International Financial Services Board, has made partnerships with both Malaysia and Gulf countries. Mauritian authorities have started issuing licenses to operate Islamic windows. HSBC Bank Mauritius is the only conventional bank offering Shariah-compliant banking services in the country.

## 2.3 Islamic Banking and Finance Practices in Ghana Banking Industry (GBI)

Currently, there are 30 licensed banks in GBI, all of which are conventional banks made up of commercial and rural banks (BoG, December, 2015 <https://www.bog.gov.gh>). The main GBI regulator is the BoG that supervises and regulates the industry using regulatory instruments such as Bank of Ghana Act 2002 (Act 612), Banking Act, 2004 (Act 673), Non-Bank Financial Institutions Act, 2008 (Act 774), Companies Code Act 179, 1963, and Bank of Ghana Notices/Directives/ Circulars / Regulations. The GBI is fast growing and has high potential of attracting local and international banking and financial investors.

Currently, there is no full-fledge IBF in Ghana; the first IBF licensed is yet to be issued by the BoG. However, there are IB windows already existing in various forms of Islamic finance practices, products, and microfinance established by existing conventional banks and Islamic microfinance institutions. Two licensed Islamic microfinance institutions exist in Ghana: The Ghana Islamic Microfinance (GIMF) and Salam Capital. GIMF has been established as an asset-based Islamic microfinance to assist the poor, to raise awareness about Islamic microfinance, to discourage predatory loan practices in Ghana, to promote innovation and integrity in microfinancing in Ghana ([ghanaislamicmicrofinance.org](http://ghanaislamicmicrofinance.org)). GIMF offers several products such as *Halal livestock Mudarbaha* intended for goat and sheep farming for Muslim community, *Asset Sala'm* for purchasing maize and groundnut from Islamic farmers at affordable prices, the *Ijarah* is intended to rent farm lands to farmers who pay back in the form of cultivated crops, and *Istisna* which assists micro scale farm producers in training, production and marketing of their farm products ([ghanaislamicmicrofinance.org](http://ghanaislamicmicrofinance.org)). Apart from GIMF, Salam Capital is an Islamic micro-finance institution established to provide pure alternative Islamic financial solutions for the modern and emerging markets.

It provides a trusted platform for all and sundry to be able to access pure Islamic compliant banking products as a means of reaching their business and personal objectives ([salamcapital.net/about-us.html](http://salamcapital.net/about-us.html)). Moreover, some banks and financial institutions are already practising aspects of IBF, but they do so quietly because the Central Bank has not regulated it yet (Graphic online, 16 June, 2014). A statement issued by the Director General of the Global Institute of Islamic Banking, Insurance and Consultancy (GIIBC), Mr. Saeed Abdul-Muumin, stated that banks such as Access Bank Ghana, and Wenchi Rural Bank are practicing Islamic banking (Graphic online, 16 June, 2014). The key drive for the adoption of IB and finance concept by these conventional banks is the potentially high demand from customers in the banking and financial market.

#### *2.4 Introduction of Full-fledge Islamic Banking in Ghana*

The BoG informed that it would complete the process to issue the first full-fledge IBF license in Ghana by December 2015 ([citifmonline.com](http://citifmonline.com), September 3, 2015). The news about the introduction of IBF in Ghana has received mixed feelings among Ghanaian consumers. According to Ghana Business news (December, 2011), some publics, however, recognize the potential economic benefits of IBF but believe its dangers are far greater. However, the real challenge in the introduction of IBF would arise from the need to structure more complex Islamic financial services and products to be both Sharia-compliant and VAT-neutral. Most Central Banks require commercial banks to follow a capital adequacy ratio for liquidity purposes by investing a percentage of their liabilities in approved securities which are often interest bearing. In addition, regulators do not generally authorize banks to engage directly in business enterprises using depositors' funds. Islamic banks also need an interbank money market not using interest bearing transactions or using dual system off-loans their excess liquidity, which may not be available in Ghana (Aziz Sulley, 2015; [modernghana.com](http://modernghana.com), 2015). The basic assumption expressed by the BoG is that IBF is welcome in Ghana since it is based on partnership and not on interest taking ([citifmonline.com](http://citifmonline.com), September 3, 2015). In spite of these warm welcome and potential benefits of IBF, there are real challenges it is likely to face. In the next section, we shall discuss the prospects of IBF in Ghana.

### **3. Prospects of IB in Ghana**

This section discusses the prospects of IBF in Ghana by highlighting the key opportunities for IBF as well as opportunities IBF hopes to bring the Ghanaian economy. A critical examination of the characteristics of the Ghanaian economy and business environment reveals enormous opportunities for IB in Ghana. From the external business environment, a number of macro-economic variables could provide opportunities for IB.

*3.1 Opportunity for Employment.* IBF has the potential of creating more jobs for the people, majority of who are unemployed. The nature of Ghana's economy offers enormous job creation opportunities for the introduction of IBF. Ghana's economy is characterized by high rate of poverty and unemployment. The Ghanaian population stands at 27,043,093 as of 2014 (Ghana Statistical Service –GSS, June, 2014 [http://www.statsghana.gov.gh/pop\\_stats.html](http://www.statsghana.gov.gh/pop_stats.html)) with majority of them in the economic active age. Out of this, the poverty still stands relatively high, estimated at 21.4% (<https://www.ghanabusinessnews.com>) and unemployment rate is 5.6% (GSS, 2014). As part of her poverty alleviation strategies, Ghana's government has strived to improve youth employment and job creations, and encourage entrepreneurship and small business development. The condition of high rate of poverty and unemployment in Ghana presents great opportunity for the establishment of IB institutions in other to create more job opportunities for the people. Thus, the introduction of IBF would create more jobs and help Ghana achieve her poverty alleviation plans.

*3.2 Democratic Political System of governance.* Ghana adopts a democratic political system, which welcomes freedom of speech, religion, and association. This permits individuals to freely establish and develop IBF institutions, and allows consumers to freely associate with IBF products and services, if they find IBF useful to their banking needs. Thus, the political system in Ghana provides enabling environment for IBF introduction and adoption by consumers in Ghana. Additionally, the government of Ghana has indicated support for all economically productive ventures that will help government achieve its objectives in reducing unemployment, increasing household income and allowing everyone to enjoy competitively priced financial products. Similarly, the nature of political system of governance has been a major driving force for the growth and survival of IBF in the UK (Belouafi & Chachi, 2014).

Belouafi and Chachi (2014) report that at end of 2008, the UK government's support for IBF was two-fold, first, to enhance the UK's competitiveness in internal IBF, and second, to ensure that everybody have access to competitively priced financial products, irrespective of their religious beliefs.

- 3.3 *Flexible Industry Regulatory Framework.* Ghana's banking industry has a number of flexible regulatory instruments that allows for continuous review in order to reflect dynamics of the business environment in Ghana. First, by law and its policy, the BoG has not closed admission of new entrants into GBI. This provides opportunities for other banks and financial institutions to apply to the BoG for license to operate both conventional and innovative forms of banking and financial operations such as the IBF. Second, the BoG as an open social and business system, welcomes innovations, contributions and suggestions from stakeholders towards continuous improvement in existing banking regulatory frameworks. To this end, as the business environment in Ghana is affected by international and local business innovations and developments in IBF, it becomes critically relevant for policy makers to allow banking regulatory framework to be adjusted to incorporate IBF development. This is one way the banking laws and regulatory instruments could be consistently relevant to the lives of individuals and banking institutions for whom banking laws are made. In this regard, Ghana has begun a review of its banking regulations to incorporate key aspects and implications of IB. Thus, the flexible banking regulatory framework provides opportunities for the introduction and success of IB in Ghana.
- 3.4 *Existing Agrarian sectors:* Ghana's economy is fundamentally agriculture-based. Currently agriculture contributes 22% to GDP in Ghana (GSS, 2013, [http://www.statsghana.gov.gh/docfiles/GDP/GDP\\_2014.pdf](http://www.statsghana.gov.gh/docfiles/GDP/GDP_2014.pdf)). Agri-businesses have greater prospects for growth and development in Ghana, especially among the economically active population who are faced with unemployment. IBF institutions could develop banking and financial products that are agriculture-based. The opportunity for IBF presented by the agriculture sector of Ghana has already been exploited by the two existing Islamic window institutions. For example, as mentioned earlier, micro finance products developed by GIMF such as Halal livestock, Asset Sala'm and the Ijarah are all agriculture-based ([ghanaislamicmicrofinance.org](http://ghanaislamicmicrofinance.org)). With the introduction of IBF in Ghana, more and more innovative business opportunities can be exploited and developed from the agriculture sector to boost national productivity in term GDP, and generate sustainable income for existing and potential agricultural practitioners, majority of whom are in the low-income earners' group. IBF would find more opportunities in the Ghanaian agriculture sector since IB concept of profit-Loss sharing could be successfully applied to agriculture-based business (Abdul Samad, 2014; saqib et al., 2015; Obaidullah, 2015).

From the consumer's perspective, financial market characteristics in the Ghanaian banking and financial market could provide opportunities for IBF as discussed in the following points.

- 3.5 *High demand for banking products:* The demand for financial products and services by individuals and business owners is still high. The Ghanaian financial marketing is still developing and has high potential for growth. Existing banking institutions have not fully addressed the banking needs of the majority of the poor consumers. Financial inclusion has been an important issue the BoG is attempting to address. IBF has the capacity to address financial inclusion of the poor consumers because of its interest-free and innovative profit-loss sharing business concepts.
- 3.6 *High interest rate:* Most Ghanaians are not able to access loan and other financial credit facilities in Ghana because of high interest and lending rate. This provides opportunity for IB to survive and grow in Ghana since it promotes interest-free banking and profit-loss sharing transactions. Thus IBF concepts appear most suitable and sustainable form of micro credit, micro finance and credit facilities for Ghanaian consumers.
- 3.7 *Muslim population.* Research has shown that in many non-Muslim countries IBF quickly gains acceptance and high patronage among the Muslim community and then develops gradually for acceptance among non-Muslims (Abdullah, et al., 2012; WajidiDusukiet al., 2007). Although Ghana is typically a Christian nation, it has a relatively sizeable Muslim representation. With 17.6% Muslims in Ghana (GSS, 2010 Census) who tend to have large family sizes, there is great opportunity for IB acceptance among the Muslim community in its introductory stage.
- 3.8 *Quest for sound business practices.* One area of opportunity for introducing and accepting IBF by stakeholders is the ability of IBF to promote consumer welfare, ethical business practices and to avoid socially undesirable behaviour like prostitution, alcoholism, crime, among others. Inherent in its principles, IBF prohibits all forms of cheating and unfair business practices.

According to Bin Yusuf (2010), there are many sales promotion activities undertaken by many business firms in Ghana that are unethical according to Islamic principles. Ghana's business environment needs more institutions that would help promote socially responsible business practices. Therefore, IBF principles of fair business that prohibits consumer exploitation could become profitable for ensuring socially responsible and ethical business practices into Ghana banking and financial industry.

#### 4. Potential Challenges of IBF in Ghana

The introduction of IBF in Ghana is likely to face a number of challenges from regulatory frameworks to service quality issues. Challenges refer to factors that can become barriers if they are not overcome. For IBF to survive and grow in GBI, a number of issues and factors would have to be overcome or addressed effectively. This section provides a discussion of four of the challenges of IBF in Ghana, namely, *Sharia governance, consumer behaviour, service quality and human resource challenges.*

**4.1 Compliance to Sharia Law and governance.** First, one major challenge of IBF that would have to be managed in Ghana is the adoption of Sharia compliance for IBF in Ghana. There is the need for BoG to ensure the effective incorporation of Sharia law into Ghana's banking regulations for a successful management and operations of IBF institutions in Ghana. The BoG has informed that it is reviewing its banking regulations to cater for Islamic banking and finance before granting full-fledged license to operate IBF. The BoG and other stakeholders should be aware of the risk and challenges of IBF related to regulatory and governance of IBF and develop strategies to manage it effectively.

According to IBF literature (e.g., Alam Choudhury and NurulAlam, 2013; Aldohni, 2011; Muhamad, 2015) to achieve a successful introduction and sustainable IBF there is the need to establish Sharia Boards and Sharia counsellors who will provide guidance on compliance with Sharia law for IBF. Muhamad (2015) noted that,

*The Shariah compliance requirement is unique to the Islamic banking operations, and, hence, it is pertinent that a comprehensive and rigorous mechanism is implemented to ensure shariah compliance, and an effective and reliable shariah review process is in place as part of the overall corporate governance for IB institutions. (p.46)*

The establishment and adherence to Sharia principles of IBF pose some challenges identified in the IBF literature. First, in some countries especially non-Islamized economies, some IBF institutions eventually drift away from its distinctive products towards a convergence to the conventional banking products. For example, it has been criticized that the practice of murabaha financing grossly violates sharia principles. Khan and Bhatti (2008). Some IBF have moved into debt-like products rather than profits sharing contracts. In following this practice, the industry has moved. Some IBF institutions tend to prefer for debt-like instruments (mark-up based) over equity based PLS investments; yet the mark-up contracts are not considered strictly Islamic by many Islamic scholars (Muhamad, 2015). Some IBF institutions have also been criticized for widespread use of collateral when providing financing (Aldohni, 2011; Muhamad, 2015). IBF institutions have not addressed the ubiquitous issues of moral hazard and adverse selection arising from asymmetric information, agency problem and incomplete contracts in any way different from that practiced by the conventional financial institutions.

This Non-compliance results in compliance and reputational risks which erode depositors and investors' confidence and negatively affects a bank's reputation (Muhamad, 2015); this is against the fundamental thrust of IBF which promotes an atmosphere of mutual trust between the providers and the bank customers in IBF (Amin et al., 2013).

Second, some researchers have questioned the role of sharia scholars and Sharia Boards for the lack of transparency in their relations with Islamic financial institutions (e.g., El-Gamal 2008).

In this regard, Islamic scholars and other researchers have discussed fatwa shopping or regulatory arbitrage as a major threat to Islamic Finance (Malik et al., 2011; Uppal and Mangla, 2014). Fatwa shopping arises from differences in interpretation between sharia scholars about what is permissible and what is not. Islamic scholars do not fully agree on the true meaning and boundaries of *Riba* (Farooq, 2009; Uppal and Mangla, 2014).

Third, IBF institutions would need to deal with a unique challenge in developing innovative products, which is the risk and capital management tools, such as risk adjusted returns, fund transfer pricing, economic capital etc., within the constraints on risk management practices imposed by *Sharia*.

Fourth, challenges of ensuring effective corporate governance (GC) must be considered. Rezaee (2009) describes CG as “an ongoing process of managing, controlling, and assessing business affairs to create shareholder value and protect the interests of other stakeholders”. He identifies seven essential functions of CG; namely, oversight, managerial, compliance, internal audit, advisory, external audit, and monitoring. IBF regulations have to be based on effective IBF models. Several Models of IB governance for sharia complaint exist in the literature (Hashim, 2009, Rezaee, 2009; Muhamad, 2015). To overcome GC challenge, IBF regulatory framework and models of operation must ensure that both the “*ex-ante*” shariah audit and the “*post-ante*” shariah audit are firmly observed. While the “*ex-ante*” shariah audit focuses on all activities performed by IBF institutions to ensure that they comply with shariah rules and guidelines in all contractual activities for planning and executing contracts and agreements, the “*post-ante*” shariah audit focuses on compliance in terms of the operations and management of IBF products (Abdallah, 1994; Muhamad, 2015).

#### 4.2 Consumer behaviour challenges

Apart from Sharia governance issues, potential consumers' perception, and behaviour towards IBF in Ghana are likely to pose challenge to consumer adoption behaviour for IBF. In this regard, consumer will need to overcome many perceptual and behavioural challenges such as low level of knowledge and understanding of IB concepts, attitude towards IBF, perceived benefits, perceived risk, and threat of violence, perceived religion factors, and readiness to comply with Sharia law for IBF.

*First, consumer would need to have adequate knowledge of IBF* regarding its fundamental Islamic principles, basic nature of IBF products and operations. *Second, potential consumers would need to know more about the perceived benefits of IB.* IB would certainly be beneficial to the socio-economic development of developing countries like Ghana (Faye et al., 2013; Gelbard et al., 2015), given its potential in the country. However, potential consumers would need to overcome the challenges of not understanding the benefits of IB. Most potential Muslim consumers are likely to be more knowledgeable than non-Muslims are. Research has shown that, in non-Islamized countries, knowledge of IB could be generally low, especially among non-Muslims (Yunusa and Nordin, 2015; Onuoha et al., 2013; Rammal and Zurbruegg, 2007). In Nigeria, one challenge that faced the introduction of IB was low level of knowledge of consumers about IBF (Yunusa and Nordin, 2015; Onuoha et al., 2013). Onuoha et al. (2013) In Australia, Rammal and Zurbruegg (2007) found that the majority of the respondents were interested in purchasing IB products, but lacked understanding of the principles of Islamic finance and how they function; this was a major challenge to consumer adoption of IBF in Australia.

*Third, potential consumers, especially non-Muslims are like to develop some negative attitude towards IB.* While Muslims are likely to have favourable attitude towards IBF due to their religious affiliation, non-Muslims are likely to have negative attitude towards IBF for the same reason. Yunusa and Nordin (2015) reported that, Christians showed negative attitude towards the introduction of IB in many Nigerian states because they perceived IBF as exclusively for Muslims. Attitude towards IB is dynamic and can gradually change with more consumer education, information and experience with IBF services in Ghana.

*Fourth is consumer perception of the innovativeness of IBF products.* The innovativeness of IB is seen in its basic differences from typical conventional banking and finance, which have been widely discussed in the literature (e.g., Beck et al., 2013; Hanif, 2014; Hassan and Lewis, 2014). The relevance of the innovative aspects of IB is expected to influence consumers' adoption of IB in developing countries like Ghana. There consumers would need to appreciate and have high perception for innovativeness of IB products and operations.

*Fifth, some potential consumers, especially non-Muslims may have a challenge of adopting IBF because they may think that IBF is a way of promoting Islamic religion in Ghana, converting bank customers to Islam, or Islamizing non-Islamic countries like Ghana.* Of course, IBF will not necessarily Islamized consumers. In European countries where IBF has been introduced, the introduction of Islamic banks has not converted the Christians to Muslims.

*Sixth, consumer may have a challenge with their readiness to comply with Sharia law:* A typical Islamic consumer should have no problems complying with the Sharia law (Amin et al., 2014) since forms the foundation of Islam and they are used to it Muslims. For the reluctance of non-Muslims to comply with Sharia law, two reasons may explain this results.

First, most of the non-Muslim in Ghana are Christians, so they may find it difficult complying with the Sharia due to religious sentiments. The “Islamic” religious tag on IBF might put non-Muslims off from accepting and adopting IBF in Ghana. Second, some non-Muslims may feel that complying with the Sharia law will eventually mean they are being Islamized. These two reasons were similarly reported among non-Muslims for IBF in Nigeria (Yunusa and Nordin, 2015). Of course, a deep understanding and knowledge of IBF by these customers could help correct these misconceptions in order to facilitate the adoption of IB among non-Muslim consumers in Ghana.

*Seventh, consumer may perceive threat of violence resulting from IBF operations:* In the wake of Islamic terrorist groups such as the Jihadists or ISIS in Egypt, Syria, Pakistan and Iraq, Boko Haram in Nigeria, Islamic militant groups in Burkina Faso, Mali and Sierra Leone, Ghana’s neighbouring countries, have cast fear for and negative image on Islam and Muslims in general (Alvi, 2014; Davidson, 2013; Onuoha, 2014). These could have negative effect on investment in Muslim business ventures, particularly IBF in non-Islamized developing countries. These mixed feelings could negatively affect consumer perception and adoption of IBF in Ghana.

To overcome these consumer behaviour challenges, there is the need for effective consumer education to increase consumer knowledge about IBF, especially in areas such as Sharia law as basis of IBF, IBF promoting consumer welfare, IBF being different from conventional banking, IBF promoting fair distribution of resources, and IBF prohibiting unfair advantage of consumers. Consumer education would have to focus on correcting many misconceptions about IBF such as perception that IBF is for only Muslims and it is meant to promote Islam and the islamization of non-Islamic countries.

### 4.3 Human resource requirement challenges

A potential challenge for the introduction of IBF in Ghana is the need to develop competent human resource with good knowledge and experience in IBF to meet the human resource needs of IBF institutions. This requires effective Islamic education and training in both conventional and Islamic higher education institutions in Ghana.

### 4.4 Banking performance challenges

In the IBF literature, there have been inconsistent findings on the performance of IBF institutions in terms of financial outcomes (profitability) and service quality delivery (Iqbal and Molyneux, 2006; Rashid and Nishat, 2009; Zeitun, 2012; Majid et al., 2010; Beck et al., 2013). There is a great challenge for IBF institutions to be able to operate effectively by delivery high service quality that will translate into profitability of IBF in order to survive and grow in the GBI. Therefore, IBF institutions would need to overcome the challenges of delivery high service quality, developing innovative IBF products, developing clear market segmentation and targeting strategies, implementing effective promotional and brand management strategies for IBF products.

## 5. Proposed Strategies for enhancing IB in Ghana

Based on the above reviewed prospects and challenges that IBF is likely to face in Ghana, the following strategies are proposed for stakeholders’ consideration in order to achieve effective introduction of IBF in Ghana.

- i. IBF regulations should be developed and massively disseminated to stakeholders through all possible media.
- ii. The BoG and IBF institutions should adopt effective corporate governance structure and IBF models to achieve effective management of IBF institutions. Sharia boards should be carefully established and Sharia counsellors trained.
- iii. There should be IB education, training, and development programmes to develop the human resource to meet the needs and demands of IB institutions in Ghana. Such training should include Islamic finance and banking principles, Islamic accounting standards, Islamic information systems,
- iv. Islamic accounting standards should be developed for practitioners and students
- v. There should be public education on basic knowledge of IBF, its operations, benefits, and challenges.
- vi. There should new national security strategies for combating terrorist groups that may use investment in IBF as an opportunity to gain entry into Ghana to perpetrate violence in the country.
- vii. There should be education on the basic democratic principles of Ghana, notably, freedom of religion, as well as civic responsibility of religious tolerance for both IBF customers and non-IBF customers in the country



- viii. The BoG should develop strategies to encouraging healthy competition, especially between IBF firms and non-IB firms in the banking
- ix. The government and all stakeholders, especially higher education institutions should promote continuous research into Islamic banking to generate sound academic debate and new empirical knowledge in IBF in Ghana.
- x. Finally, in order to achieve successful Islamic banking window, conventional banks wishing to adopt IBF should consider the following factors suggested by Abdalla, Aziz and Johari (2015):
  - a. There should be top management support and willingness to adopt IBF.
  - b. There should be availability of the human resources who are qualified for working in Islamic banks can be considered as the most important factor affecting the success of the experience in converting into Islamic banks.
  - c. There should be availability of the Islamic capital market in the Ghanaian business environment.
  - d. Ability to generate large savings and profits will contribute to the success of the experience in converting into Islamic banks.

## 6. Practical and Research contribution

Managerially, this paper puts together a rich blend of objective appraisal of IBF from many perspectives. It identifies key potential opportunities IBF has in promoting the socio-economic development of Ghana. It also brings to stakeholders understanding of critical potential challenges IBF introduction in Ghana is likely to face. Finally, it provides policy makers and other stakeholders some strategies to put in place for the effective introduction and adoption of IBF in Ghana. This paper serves as an important source of information on IBF in Ghana for stakeholders, especially the Bank of Ghana, policy makers, and IBF practitioners. To scholars and researchers, this paper is a rich source of literature for academics and practitioners interested in IBF research in Ghana Banking Industry.

## 7. Conclusions and limitations

This study sought to provide a general review of IBF in Ghana. Drawing from empirical literature, this paper concludes that the economic, legal, political, and business environment characteristics of GBI and the economy of Ghana present great prospects for the introduction and adoption of IBF in Ghana. These include opportunity for employment, democratic political system of governance, flexible industry regulatory framework, existing Agrarian productive sectors, high demand for banking products, high interest rate, Muslim population, and quest for socially responsible business practices. On the other hand, IBF is likely to face a number of challenges in areas such as compliance to Sharia law and governance, consumer behaviour factors and performance of IBF institutions. IBF has enormous opportunities in Ghana for its survival and growth. Nonetheless, if IBF institutions are to live to their dreams they have to overcome a number of potentially teething challenges. This study provides a general review and is limited to Ghana. Research that is more empirical is required to explore empirical analysis of readiness of stakeholders for full-fledged IBF in Ghana to increase our understanding of IBF adoption in developing countries in Sub-Saharan Africa like Ghana.

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