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Challenges of Islamic Banking in Least Developed Countries: The Case of Afghanistan *

Az Gelişmiş Ülkelerde İslami Bankacılığın Zorlukları: Afganistan Örneği

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ÖZ

Bu çalışma, Afganistan İslam Bankası örneği ile Afganistan'a odaklanarak az gelişmiş ülkelerde İslami bankacılığın zorluklarını araştırmaktadır. Çalışmada ele alınan örneklem, 1) İslami bankacılığın gelişmekte olan ve az gelişmiş ülkelerdeki etkilerini, 2) dinin ve İslami kavramın müşteri çekmekteki rolü ve 3) İslami bankacılık yoluyla müşteri kitlesini genişletme stratejileri hakkında bilgi edinme hedefleri takip edilerek incelenmektedir. Özel tam teşekküllü Afganistan İslam Bankası'nın 24 çalışanı ve yöneticilerinden oluşan bir örneklemeden kendi geliştirdiği bir anket aracılığıyla veri toplanmıştır. İslami bankacılığın örnek olay incelemeleri ve başarı öyküleri incelendiğinde, İslami bankacılıkla ilgili yenilikçi pazarlama ve bilinçlendirme kampanyalarının daha fazla müşteri çekmede büyük önem taşıdığı tespit edilmiştir. Pazarlama stratejilerinin rafine edilmesi anket aracılığıyla doğrulanmıştır. İslami bankalar geleneksel bankacılıktan pazar payı elde etmek için din ve güven kavramları pazarlama argümanları olarak yeterli görünmediği için daha yenilikçi ürünlerle kendilerini farklılaştırabilirler. Bu çalışma, az ve fazla gelişmiş ülkelerdeki İslami bankalara, belirlenen zorluklarla başa çıkmak ve geleneksel bankalardan pazar payı kazanmak için çözümler getirebilir.

ABSTRACT

This paper explores the challenges of Islamic banking in least developed countries, focusing on Afghanistan with the example of the Islamic Bank of Afghanistan, while pursuing the objectives of finding out about 1) the effects of Islamic banking in emerging and least developed countries, 2) the role of religion and Islamic concept to attract customers, and 3) the strategies to expand clientele through Islamic banking. A self-developed questionnaire was collected from a sample of 24 employees and managers of the exclusive fully-fledged Islamic Bank of Afghanistan. Examining case studies and success stories of Islamic banking, it has been found that innovative marketing and awareness campaigns about Islamic banking had significant importance in attracting more customers. Refining marketing strategies has been substantiated through the survey. In order to gain market share from conventional banking, Islamic banks could differentiate themselves with more innovative products because the concepts of religion and trust do not appear to be sufficient as marketing arguments. The paper may bring solutions to Islamic banks in least and more developed countries to deal with identified challenges and to gain market share from conventional banks.

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1. Introduction

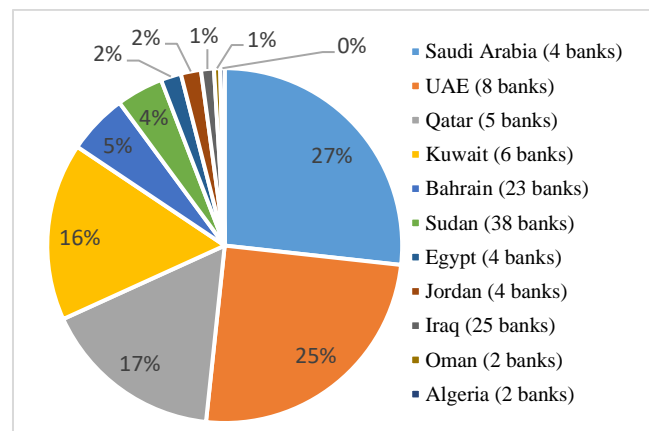
This paper explores the challenges of Islamic banking in least developed countries focusing on Afghanistan with the example of the Islamic Bank of Afghanistan (IBA). According to the United Nations (UN) definition, least developed countries exhibit the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world. According to the Committee for Development Policy of the UN (2020) the list of Least Developed Countries as of December 2020 counted in 42 countries including Afghanistan. Many Least Developed countries are African countries and it has been mentioned earlier that the share of the African region in the global worth of Islamic banking remained marginal at 1.6%. Among 42 least developed countries, only 5 countries had an Islamic Banking Share in Total Banking Assets based on the third quarter of 2019 (IFSB, 2020): Sudan, Bangladesh, Djibouti, Afghanistan and Senegal.

The paper identifies solutions to increase market share in a challenging banking sector where conventional banking is predominant. For this purpose, the research objectives focus on analyzing and identifying the effects of Islamic banking in emerging and least developed countries, finding out how the concept of Islamic banking affects the number of customers referring to banks and identifying and recommending methods used to attract customers and build trust. Focusing on Afghanistan, the research questions of the paper are: 1) What are the challenges of Islamic Banking in Afghanistan? 2) What are the ways to increase the number of Islamic Banking users?

The banking sector plays a major role as intermediary between suppliers and demanders of funds; it helps smoothening the circulation of capital across businesses and other desired channels and thus helps in the growth process of an economy. Erdoğan et al. (2020) illustrated the fact that uninterrupted growth performance of banks may be only possible by sustainable development strategies that are consistent with market dynamics. From a customer perspective in the Kocaeli province of Turkey, the 5 main factors that are important for working with banks are religious factors, service quality variables, social environment effect, financial variables, and marketing mix variables. Islamic finance is positively associated with the economic growth of countries and proved to have a positive impact in terms of GDP per-capita growth rate. For example, Yıldırım et al. (2020) showed that, focusing on nine countries (Brunei, Indonesia, Jordan, Kuwait, Malaysia, Nigeria, Saudi Arabia, Pakistan and Turkey) for the period between 2014Q1 and 2017Q4, there was a long-term cointegrated relationship between sukuk market development (sukuk being Islamic bonds) and economic growth. Sukuk volume and sukuk density had a positive effect on growth in the long run. Compliance with the

Sharia-law makes it easier for citizens of Muslim and some of non-Muslim countries to approach banks and deposit their money, trusting banks for investment, credit and services. The last four decades have witnessed an exceptional growth in Islamic financial institutions. The number of Islamic financial institutions has increased worldwide from 85 in 1996 to 200 in 2000, 300 in 2008 (Boukhtem and Moussa, 2018, p. 231-247) and to 428 in 2019 (Statista, 2021). Being a newly functioning industry, Islamic finance was estimated to be a \$2.2 trillion industry around the world in 2018 scattered over more than 60 countries (Domat, 2018). Figure 1 illustrates the top 11 countries offering Islamic banking services ranked by total assets.

Figure 1. Top 11 Islamic Banking Countries by Assets in Billions USD in 2018



Source: Domat, 2018

From Figure 1, except Sudan, Egypt, Jordan, Iraq and Algeria that do not belong to the Gulf Cooperation Council (GCC) region, the remaining six GCC countries including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates were all included in the top 11 Islamic Banking countries and were representing 532 Billions USD in 2018 out of 588 Billions USD in Assets for the the top 11 Islamic Banking countries or 90%. The GCC region was still representing the bulk of the global Islamic banking assets in Q3 2019, with 45.4% share of the total assets (Islamic Financial Services Board, IFSB, 2020). It was followed by the Middle East and South Asia (MESA) region and the South-East Asian region, with shares of global Islamic Financial Services Industry assets of 25.9% and 23.5%, respectively. The share of the African region in the global worth of Islamic banking remained marginal at 1.6%. The global Islamic banking segment in 2019 experienced an improvement of year-to-year assets growth by 12.7% (2018: 0.9%), with total assets as at 3Q19 amounting to \$1.77 trillion (2Q18: USD 1.57 trillion). The growth recorded was due to an improvement in the Islamic banking assets in some countries, especially the GCC region which saw significant mergers of Islamic banks to strengthen competitiveness, attract stable deposits and enhance efficiency (IFSB, 2020).

Table 1 gathers comparative figures of the 5 Least Developed Countries that had an Islamic Banking Share in Total Banking Assets based on the third quarter of 2019 (IFSB, 2020), by order of importance: Sudan (100% of Islamic Banking Share), Bangladesh (20%), Djibouti (18%), Afghanistan (10%) and Senegal (5%). The 2019 Total Islamic Bank Assets estimate in Billions (USD) of these 5 countries is equal to \$39.02B, which represented the Islamic banking market share of the Least developed countries or about 2% of the global Islamic banking segment which amounted to \$1.77 trillion in 2019. These 5 countries are all Muslim countries, the Muslim population representing 89% in Bangladesh, 94% in Djibouti, 95.9% in Senegal, 99% in Sudan and 99.7% in Afghanistan (CIA World Factbook, 2021). Based on Nominal GDP in billion USD, Bangladesh

and Sudan are larger economies compare to the other three (respectively \$302.571B and \$30.5135B). Their Islamic Bank Assets in Billions (USD) are also far larger than in the other three countries, \$34.717B in Bangladesh and \$3.6189B in Sudan. The Islamic Bank Assets in Billions (USD) of Afghanistan represents a very small amount (\$0.06617B) even compare to the remaining countries, Djibouti (\$0.19204B) and Senegal (\$0.4283B). In terms of percentage of banks users, Afghanistan compares to Sudan (16% in 2018 in Afghanistan versus 15% in 2014 in Sudan) which has a comparable GDP per capita (\$507.10 in Afghanistan versus \$441.5 in Sudan). In terms of development of ATM machines, Afghanistan is also lagging behind the 4 countries (1.61 ATMs per 100,000 adults).

Table 1. Benchmarking the development of conventional and Islamic banking sectors of Afghanistan compare to Sudan, Bangladesh, Djibouti and Senegal

Country	2019 Islamic Bank Assets estimate in Billions (\$)	Percent of Islamic Banking Share 3Q2019 (IFSB)	Bank Assets estimate in Billions (\$)	Bank assets, percent of GDP 2017 (theglobal economy.com)	People with bank accounts, percent of the population over 14 years of age in 2018 (the global economy.com)	ATMs per 100,000 adults in 2018 (World Bank)	Nominal GDP 2019 estimate in billion \$ (World Bank)	GDP per capita 2019 in Current \$ (World Bank)
Sudan	3.6189	100%	3.6189	12%	15% (2014)	6.42	30.5135	441.5
Bangladesh	34.717	20%	173.585	57%	41%	8.86	302.571	1855.7
Djibouti	0.19204	18%	1.06687	32%	12%	12.33	3.32463	3414.9
Afghanistan	0.06617	10%	0.66168	3%	16%	1.61	19.2911	507.1
Senegal	0.4283	5%	8.56592	36%	20%	6.1	23.5781	1446.8

Sources: <https://www.theglobaleconomy.com>; 3Q2019, IFSB, 2020; World Bank (2021).

In conclusion, Afghanistan is a weak economy with one tiny GDP per capita, ranked 207th out of 213 countries in 2019, Sudan being ranked 210th. This sluggish state of the economy may explain the underdeveloped banking sector. However, Sudan has a more developed banking sector with about 4 times more ATM machines (6.42 versus 1.61) and 55 times more Islamic bank assets than Afghanistan (\$3.6189B versus \$0.06617B). The explanation lays in the lack of trust of the Afghan population towards banks, point developed further in this section.

In comparison to the top Islamic Banking Countries, Afghanistan's banking sector is small where, out of 12 banks in total, six are Islamic windows in conventional banks and one is a full-fledged Islamic bank (i.e., the Islamic Bank of Afghanistan, IBA). According to Vizcaino (2018a), the bulk of Islamic financing in Afghanistan is offered via only two types of sharia-compliant structures, Murabaha (a cost-plus-profit arrangement) and Ijarah (a leasing-based contract). At the end of Q2 2018, IBA and the six Islamic windows held a combined 27.8 billion afghani (\$365.5 million), versus to 9.7 billion afghani (\$127.5 million) at the end of 2014, data being compiled by the IFSB (Vizcaino, 2018a). Out of \$365.5 million, about 60% of the Islamic assets were held

by the six Islamic windows and 40% by IBA. Comparing \$365.5 million to \$2.4 billion, which was the size of the Islamic banking assets of Algeria in 2018, the 10th largest Islamic banking country, confirms the very small size of Islamic banking assets in Afghanistan. However, Islamic finance has still the potential to attract more people to the formal economy in Afghanistan where only 15 percent of adults had a bank account in 2018 (both conventional and Islamic). The lack of participation and interest towards banks may be explained by the fact that banks in Afghanistan offers mostly conventional banking. Citizens of Islamic countries tend to respond better to a Sharia-compliant banking system as they feel more protected and trust Sharia-compliant rules and regulations. Da Afghanistan Bank, the Central Bank of Afghanistan, granted the first Islamic Banking License to the Islamic Bank of Afghanistan (IBA) in April 2018 being the only bank solely abiding by the rules of Sharia and providing interest-free services. Its 6 competitors offer dual banking, both Islamic and conventional. If new entrants could emerge in the full-fledged Islamic banking business in Afghanistan, the culture and awareness of Islamic banking could spread out quickly in the country.

Afghanistan, being a least developed country, has a fledgling economy as mentioned earlier (ranked 207th out of 213 countries in 2019 with a GDP per capita of \$507.1) and needs to exploit every opportunity to contribute to its economic growth, especially looking at the expansion of the banking sector. In addition, for the last two decades, Afghanistan has experienced a permanent state of war with a country plagued by almost daily terrorist attacks that have a negative impact on economic growth. Looking at a positive aspect, a 2020 report by the World Bank (2020) stated that Afghanistan's economy grew by an estimate of 2.9 percent in 2019. The growth was mainly driven by strong agricultural growth following recovery from drought. Therefore, utilizing the banking sector to the fullest, along with other economic growth factors, may be a way to provide a much-needed boost to Afghanistan's economy. Mary Hall (2019) views the banking sector as the section of an economy working to hold financial assets for others and invest those financial assets as leverage to create more wealth.

One event has negatively impacted the Afghan banking sector, the Kabul Bank scandal in 2011 where nearly \$1bn disappeared in mysterious insider loans. This event is still in people's mind and has helped giving rise to Islamic banking in Afghanistan since 2018. At that time only 5.7 percent of the population had dealings with the banking sector (Vizcaino, 2018b). Islamic finance is believed to be a factor that could help attract more people into the financial system but has it been true for Afghanistan? According to Bernardo Vizcaino (2018b), IBA's managers had at this time expected that they would double their balance sheet over the next two years. IBA's managers have successfully met their expectations by doubling IBA's assets in Q3 2020 (22.27B AFN) versus Q3 2018 (11.19B AFN).

2. The Islamic Bank of Afghanistan

IBA was previously known as Bakhtar Bank and has operated under a conventional banking license since Azizi Bank acquired Bakhtar Bank in 2009. Da Afghanistan Bank awarded the license to IBA as a first full-fledged Islamic bank in 2018 after IBA completed the conversion of its balance sheet. IBA agreed to adhere to religious principles that include bans on gambling, alcohol, and interest-bearing debt, among others, as part of its transition. It delivers services across a network of 62 branches – reportedly the second largest branch network in Afghanistan – inherited from the Bakhtar Bank. IBA's website offers a variety of Shariah-compliant products such as Mudaraba savings account, a form of investment management partnership, Murabaha, a cost-plus-profit arrangement (with different types such as Purchase Order, Spot, Deferred payment, Letter of Credit), as well as financing products based on Ijarah, an installment-based leasing contract, Musharakah,

joint partnership arrangement, Istisna, contract to construct, build or manufacture an asset and Salam, advance payment for deferred delivery. What is the reality of the use of these products by IBA? Referring to the IBA's Financial Statements for the first 9 months of 2020, the revenue from the Bank share as Mudarib was representing 14% (AFN 113,635,000 = USD 1,463,290) of the Total Bank Revenue/Operating Income (AFN 836,787,000 = USD 10,775,400), the Net fee and commission income 9% (AFN 72,643,000 = USD 935,434), the Foreign Exchange gain 49% (AFN 411,378,000 = USD 5,297,370), Capital gain 16% (AFN 130,926,000 = USD 1,685,950) and Other non-operating income 13% (AFN 108,205,000 = USD 1,393,370). Under the item Bank share as Mudarib, the bank acts as the agent (Mudarib) on behalf of depositors who invested in a partnership equity-based trust financing (Mudaraba) with the bank. IBA offers two types of Mudaraba accounts to its clients, Saving account and Fixed Term account. Under the bank share as Mudarib, the bank invested in two main Islamic products during the first 9 months of 2020, Murabaha who represented 10% (AFN 80,008,000 = USD 1,030,270) of the Total Bank Revenue and Diminishing Musharakah 0.4% (AFN 3,504,000 = USD 45,121). In addition, the bank invested in Corporate and Sovereign Islamic bonds (Sukuk) under the Bank share as Mudarib.

This research will identify the challenges faced by IBA, discuss the comparative advantage of IBA over non-Islamic banks and recommend, based on the findings, solutions to attract more bank users and expand the clientele. The literature is reviewed in the next section. The methodology is explained in Section 3. Section 4 presents the results. Section 5 presents the conclusion.

3. Literature Review

This chapter discusses solutions found in the literature to increase the number of Islamic bank users by reviewing three themes: 1) the effects and impacts of Islamic banking in other Islamic countries; 2) the rise of Islamic Banking and the attraction of customers; and 3) the strategies and methods to attract customers and building trust through Islamic banking. This literature review will help answer the research questions: 1) What are the challenges of Islamic Banking in Afghanistan? 2) What are the ways to increase the number of Islamic Banking users?

3.1. Effects and impacts of Islamic banking

People's interest in Islamic finance is the main driver for the expansion of the industry, which in turn helps fostering the economy of countries. Islamic banking principles and services include the prohibition of Riba (interest), the prohibition of Gharar (deceitful transactions) and Maysir

(the acquisition of wealth through chance), insistence on funds that are backed by tangible assets, limitation of investment to halal activities, and sharing of profits and losses. Islamic finance provides an immense potential to promote inclusive progress, finance infrastructure and ensure economic growth. Considering the MENA (the Middle East and North Africa region) countries, Islamic institutions are important elements of the development of the region. They play an important role in addressing the individuals' needs by respecting their social and religious values (Boukhtem and Moussa, 2018). In Indonesia, Malaysia, and Bahrain, the effect of Islamic banking is said to be "bidirectional", meaning that both the industry and the economy are codependent to each other. Growth in the economy encourages the Islamic institutions to develop further, become innovative and stay updated, which in turn stimulates the economic development (Boukhtem and Moussa, 2018, as cited in Abduh and Omar, 2012).

The basic principles of Islamic institutions worldwide are ethic, transparency and interest-free products which have attracted an enormous number of entrepreneurs and SMEs. This is the reason why several conventional banks have started to offer Islamic finance. According to Murray Hunter (2014), the baseline in evolving the newly established businesses and entrepreneurship is to use Tawhid values - the indivisible oneness of God in Islam- because it achieves equality among individuals regardless of their religious beliefs. Mudharabah is the concept of "profit/loss sharing" which is said to be the main and fundamental aspect in Islamic and entrepreneurship culture (Tawfiqi and Hamdan, 2018, as cited in Hunter, 2014). To avoid exposure to risks, Islamic banks ensure that entrepreneurs have all the support that they need to succeed in their business. This type of association between Islamic banks and newly established businesses leads to prosperity at the economic level since a successful business creates more opportunity, creates jobs, generates additional income and adds up to the value of products and services in the market. For instance, the government of Bahrain alongside Al Baraka Islamic Bank are engaged in such activities where they support and encourage the startups and SMEs to develop their business and to increase their performance and financial status in the market (Tawfiqi and Hamdan, 2018). Similarly, the Islamic Development Bank (IDB) has established institutions in its member countries to foster technical cooperation. For example, two institutions are the Islamic Chamber of Commerce and the Islamic Foundation for Science, Technology and Development (Ben et Al. 2016). Furthermore, IDB offers scholarships for Muslim students living in places with minority Muslim populations and for the purpose of filling its objectives, IDB has created the Islamic Research and Training Institute (IRTI).

When it comes to Afghanistan, the banking sector, in general, is very small; however, Islamic finance is an important feature of banking in Afghanistan as it attracts and drives more individuals into the financial segment. With the emergence of Islamic windows in conventional banks and a full-fledged Islamic bank, more people are now interested in saving their money through banks because of religious reasons. Thus, Afghanistan is witnessing strong economic growth and development in the banking sector compare to the last two decades. The increase in national income and most economic indicators including inflation, government revenues, investments, access to international trade, the balance of payments, and industrial production have recently improved in Afghanistan (Huwaida, 2018). However, the impact of the COVID-19 pandemic has significantly hurt the economy of Afghanistan. According to the United Nations Development Program (UNDP, 2020) the decline in GDP from global and regional economic effects on Afghanistan may reach 17% by 2023 compared to its end-2019 level. This is a very bearish outlook.

3.2. The rise of Islamic Banking and the attraction of customers

Sharing the same religion has shaped nearly identical social, cultural and economic features and values in the majority of Islamic countries that make them different from those of non-Islamic countries. Saving and investing money in accordance with Islamic rules and regulations is one of their shared values. The emergence of Islamic banking has fulfilled this specific demand by providing interest-free investment to customers in most of the Islamic countries. Schottmann's research finding (2014) showed that the first impulse of initiating Islamic banking operations in most Islamic countries including Malaysia was the interest-free feature of Islamic banking. In addition, Schottmann (2014) asserted that the majority of the Muslim respondents who were surveyed expressed the main reason that they have switched from conventional banking to Islamic banking was their desire to 'purify' their property and saving. Moreover, some of the reasons why Islamic banking has risen are significant demands of the Muslim population, the attractiveness of Islamic banking products and the fact that Islamic banking has never had any serious financial crisis (Bellalah and Masood, 2013).

Furthermore, public perception of believing that Islamic banking provides better, more ethical and profitable financial services compared to conventional banking is crucial in attracting customers, as it has also helped Malaysia's Islamic banking to grow tremendously and retain more customers over past years. As Schottmann (2014) mentioned, the major reason to explain the development of Malaysia's Islamic banking sector in the past three decades

has been the public desire for “halal or religiously permissible saving and investment opportunities for Muslims.” Marketing Islamic Banking by using words such as “better”, “ethical” and “profitable” in advertisement can greatly help the Islamic financial institutions to reach their goal which is enticing new customers and retaining current customers. In addition, Afzal (1993) described, “an Islamic financial system has a stable public demand for financial assets,” because Islamic banking is alleged to provide the opportunity for both Muslim and non-Muslim customers to save and invest their wealth more ethically. It clearly indicates that the morally principled method and interest-free image of Islamic banking operations have a direct relation with the number of Islamic banking users.

Likewise, a study done by Ahmad and Bashir (2014) on an Islamic Bank in Pakistan demonstrated that awareness campaign is a key factor in the development of Islamic financial institutions. They stated that in order to attract new customers and retain present customers, Islamic banking institutions need to increase public awareness campaigns in Pakistan. Also, Ahmad and Bashir (2014) asserted that raising awareness among people regarding Islamic banking has become even more crucial with the fast growth of conventional banking in Pakistan. This competitive environment requires Islamic banking to take even more drastic measures to identify customers’ expectations and needs. As Ahmad and Bashir (2014) emphasized that Islamic banking needs to investigate awareness level and customer service utilization decisions among customers in order to prevent confronting problems with customers’ demographics especially in terms of service utilization decisions. However, Ahmad and Bashir also illustrated that the awareness level differs from place to place. Therefore, Islamic banking should focus more on regions where people have less information about Islamic banking in order to draw new customers’ attention towards themselves.

Another study on customers’ awareness of Islamic banking products and services in Nigeria (Kewuyemi, n.d.) showed a high willingness of customers including Muslims and a great number of non-Muslims to use Islamic banking products and services. Nigeria is a poor country and most people are unable to take conventional banks’ loans with high interest. That is why the concept of a free-interest financial system attracted more customers to Islamic banking. And with the initiation of Islamic banks in Nigeria, the poor got another chance to access the free-interest funds and investment. Islamic banking enabled poor people to do businesses inexpensively and to improve their living standards. Awareness regarding the Islamic banking features such as “loans without interest, collateral security, agency, partnership based on sharing of profits and losses” has hugely influenced the customers to patronize Islamic banks.

Alike conventional banking, the feasibility, viability, and profitability of Islamic banking are closely related to the number of customers (Muslims and non-Muslims) they can attract. By marketing Islamic banks as a religious institution, non-Muslims might feel discriminated which will result in the reduction of non-Muslims customers. As the research stated that a few non-Muslims expressed that they will not patronize Islamic banking offers even if they are profitable. Hence, in order to attract non-Muslims, Islamic banks need to promote the bank’s products and services, good customer relations, and effective and efficient services as keys mean for the attraction of non-Muslim customers. According to the Kewuyemi (2015), this is the strategy that countries such as Kuwait, Sudan, and Pakistan are also following. By studying the success stories of Islamic banking in three different countries such as Malaysia, Pakistan, and Nigeria, it can be concluded that marketing and awareness campaign about Islamic banking had significant importance in attracting more customers for Islamic banks.

3.3. Strategies and methods to attract customers and building trust through Islamic banking

The Islamic Banking adoption phenomenon is gradually evolving around the world. When Islamic banks’ wider practice slowly shot up in the 1980s, the primary strategy to attract customers used to be an emphasis on the religious obligations of Muslims to save and invest with Sharia-compliant financial products and services. However, with the passage of time and increased competition, in the present time Islamic banks are required to update their strategies and conventional marketing methods. To attract potential customers, they need to tell them that Islamic finance is an economically safer alternative than the crisis-prone conventional finance.

A research study conducted in Malaysia (Hoque et al., 2019) examined how communication and financial determinants affect customers’ behavioral intention to purchase Islamic banks’ products. The study found that in order to formulate a unique strategy to attract all groups of customers, properly understanding the behavior and intention of customers is key for Islamic bank managers. As the research mainly focuses on determining the factors affecting customers’ behavioral intention to prefer Islamic banking, Hoque et al. (2019) concluded that “we find customer–bank relationship, advertising, perceived financial risk, perceived potential benefits, and profit-and-loss sharing [as] antecedents of customer intention to use Islamic banks’ products and services”. For identifying and recommending methods to understand customers’ behavior and then patronize them, Hoque et al. (2019) suggested that a unique customer-bank relationship and advertising strategy should be crafted. Hoque et al. (2019) argued that this strategy would, in turn, increase the number of customers who purchase Islamic

banking products. The findings of this study are useful in recognizing the pitfalls that IBA might be facing in Afghanistan. They help finding the gaps and providing recommendations that have managerial implications to improve Islamic Banking in Afghanistan.

Another research study (Butt et al., 2018) into the determinants of low adoption of Islamic banking in the neighboring country Pakistan –which is similar to Afghanistan in many ways as an Islamic nation– provides an expert opinion on what strategies should be followed to address the situation of the same low penetration of Islamic Banking in Afghanistan. The research, using a mixed-method approach, formulated and tested three hypotheses. The first empirically proven hypothesis said that Islamic Banks could not differentiate themselves from conventional banks; the second hypothesis propounded that religion was not a sole factor in consumer's decision to opt for Islamic banking; and the third hypothesis put forth the idea that consumers did not have a positive image of Islamic Banks. In Butt et al. research (2018), the similar theme of improving the marketing or advertising strategy – mentioned above in previous research studies – is recommended in order to attract a large number of potential users. For that potential clientele who deem religion and differentiation are key drivers, according to Butt et al. (2018) “Islamic Banks need to improve their marketing strategy by encouraging collaboration between media and Shariah advisors in creating awareness amongst the masses about Islamic banking”. As part of their recommendations, Islamic Banks should highlight and make it known how they are different from conventional banks. Butt et al. (2018) further added concerning a conventional bank user, who is not driven by religious beliefs, in order to convert him/her to Islamic banking, “he/she must be informed that Islamic Banks are at par or better than conventional banks in offering banking products and services”. From the experience of neighboring Pakistan, these approaches and findings could also be applied in Afghanistan for the same purpose.

Moreover, based on previous research, one of the most important factors for retaining customers and ensuring their commitment to Islamic banking is the presence of trust between users and banks. However, in the Islamic banking context, according to Amin et al. (2013), the only thing trust refers to is the customer's perception that Islamic banking is functioning in compliance with Shariah rules and regulations (as cited in Tabrani et al., 2018). Therefore, trust plays a key role in customer-Islamic bank relationships. The research results of the Indonesia-based team indicated that “customer builds commitment and customer intimacy with Islamic banking because customers trust that Islamic banking is Shariah-compliant” (Tabrani et al., 2018, para. 23). They argued that increased customers' trust coupled with commitment and customer intimacy directly translate

into customer loyalty and retention. For the purpose of boosting trust in customer-Islamic bank relationships, Tabrani et al. (2018) recommended that Islamic banks should properly dispense knowledge to potential customers that Islamic banking operations are fully Shariah-compliant and that they can rest assured there would not be any unscrupulousness in this regard.

Another study (Bellalah and Masood, 2013: 101) measured the growth of conventional banking and Islamic banking in Gulf countries and forecasted that half of the Muslim population savings will be held by Islamic banks in the future. This study further indicated that in order to be competitive with the conventional way of banking, Islamic banks need to consider the following options: first, to use more advanced technology, and ought to use automatic systems of measurement, monitoring and credit controlling, and operational risks. Second, “in order to improve their technical efficiency, Islamic banks also have to extend their size via mergers and acquisitions with other Islamic financial institutions, create and design new Islamic products and services, and rationalize their operating costs”.

3.4. Conclusion of the literature review

Based on the literature review, the theme of improving marketing policies is commonly and equally shared and agreed upon among all these studies. Also, using technology will help Islamic banks to improve even more and compete with conventional banking.

The number of bank users overall is not sufficient in Afghanistan because of the presence of many conventional banks and the lack of confidence of the majority Muslim population with conventional banks. However, different aspects and drivers are affecting the lack of participation of people in the banking sector, especially Islamic banking in Afghanistan. Some of the main reasons that make the disinterest evident towards Islamic banking are uncreative marketing strategies and lack of public awareness and education about the benefits of Islamic banking. Financial institutions should not only consider and target the Muslim community, but they should also showcase their products and come up with innovative ways of marketing to attract non-Muslim customers as well. This literature review brings practical answers to the research questions: 1) What are the challenges of Islamic Banking in Afghanistan? 2) What are the ways to increase the number of Islamic Banking users?

4. Methodology

This section outlines the methodology used by the researchers to achieve the research objectives, as well as answer research questions regarding the performance of Islamic banking in Afghanistan.

4.1. Research methodology

For the purpose of producing well-rounded research, both the primary and secondary research methods were used. The secondary data was collected through desk research and literature review. The secondary data collection was aimed at providing a full insight into Islamic banking and services around the world and applying the lessons learned into the context of Afghanistan’s IBA. Moreover, the primary data technique was used to collect data and gather facts directly from the respondents (IBA’s employees) to come up with useful findings and recommendations to the bank.

4.2. Primary Data

This type of data is usually collected from first-hand sources, data in this paper are collected from employees of IBA who were surveyed online. Therefore, our research only consisted of a qualitative survey. A self-developed questionnaire was put together to collect the data from the participants. A variety of response formats were used for the questions of the survey which were inspired by the literature review. The surveying of a limited sample of 24 IBA’s employees and managers as primary data was selected in light of the constraints posed by the COVID-19 virus pandemic that disrupted our research methodology and progress. Based on initial methodology and original decisions, the research was meant to utilize both probability sampling (from the populations of households and customers of banks in Afghanistan) and non-probability sampling (IBA’s employees and managers). But later on, there was no choice but to opt for a purposive and convenience sampling and thus, the findings are most likely prone to bias.

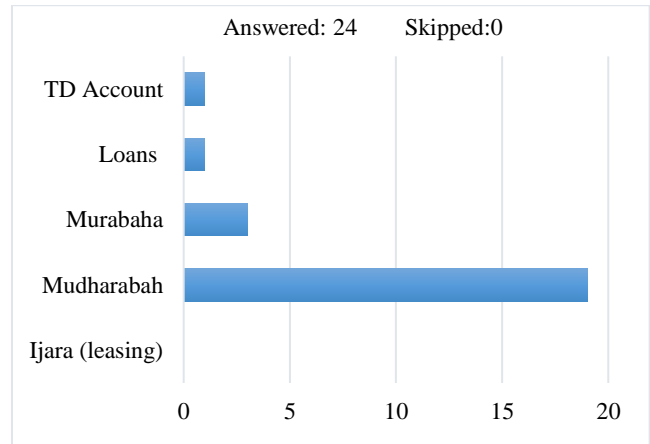
4.3. Secondary data

As the secondary data refers to second-hand data available in books, research articles, and the internet, this research also utilized these sources to compile a literature review relevant to Islamic banking. When it comes to reliability and validity, the secondary data are more appropriate because they are already published and approved by experts. For the same purpose, the methods used by Islamic banks and the services offered across many countries were analyzed in order to benchmark IBA’s strategy. This was done by using and accessing seminal and recent articles and books related to this industry.

5. Results

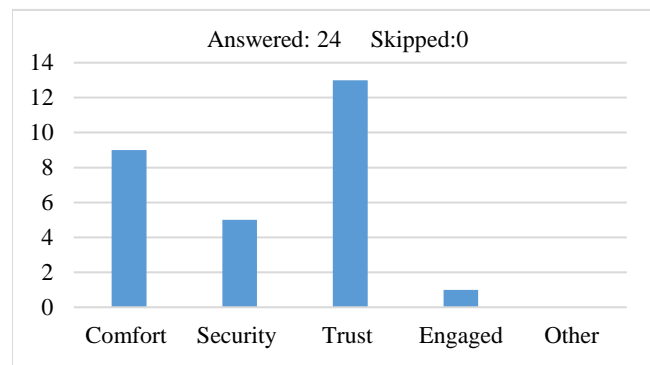
5.1. Data Analysis

Figure 2. Which Islamic products of the bank are mostly used?



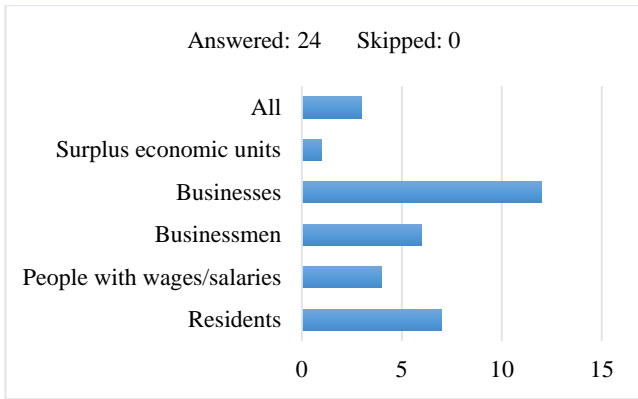
The results show that, in the opinion of the employees, IBA uses Mudharabah almost 80% of the time. Other types of Islamic banking products are also used to a very small extent. It has been mentioned in the introduction section that under the item Bank share as Mudarib of IBA’s 3Q2020 income statement, the bank acts as the agent (Mudarib) on behalf of depositors who invested in a partnership equity-based trust financing (Mudharabah) with the bank. IBA offers two types of Mudharabah account to its clients, Saving account and Fixed Term account. IBA invested in two main Islamic products during the first 9 months of 2020, Murabaha who represented 10% (AFN 80,008,000) of the Total Bank Revenue and Diminishing Musharakah 0.4% (AFN 3,504,000). In addition, the bank invested in Corporate and Sovereign Islamic bonds (Sukuk).

Figure 3. What emotions do you want to associate with your product?



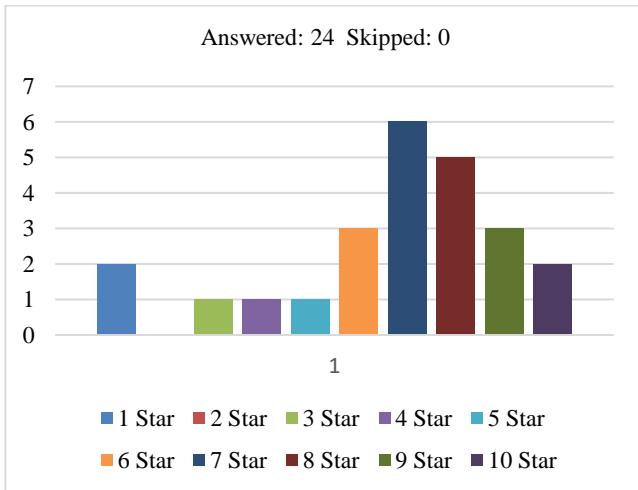
According to IBA’s employees, the emotions that they want to associate to their products are for 52.7% of the employees’ trust, 37.5% comfort and 20% security.

Figure 4: Who are most likely your target audience?



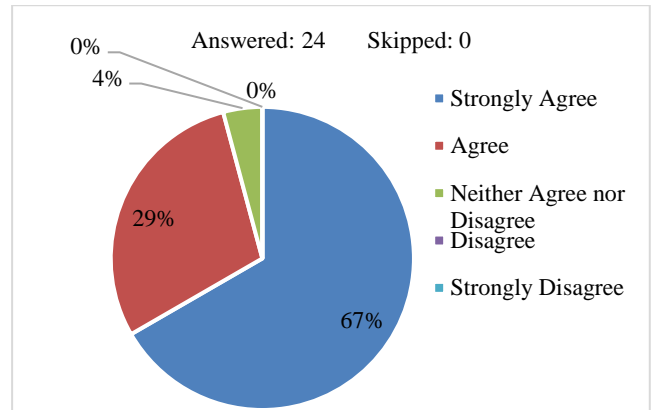
As the results suggest around half of the target audience of IBA are businesses, around 30 percent are residents and around 25 percent are businessmen.

Figure 5: How do you rate the current incentives IBA uses to attract customers?



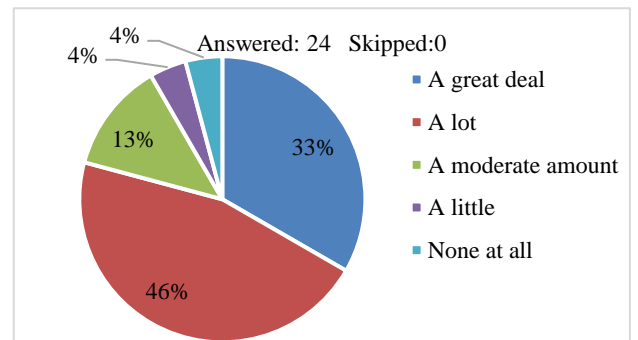
Almost 80 percent of the employees rated 6 or above the incentives that IBA uses to attract customers. And only around 20 percent of the employees rated 5 or less.

Figure 6. To what extent do you agree with the statement that IBA’s users have increased after evolving into an Islamic institution from the conventional Bakhtar Bank?



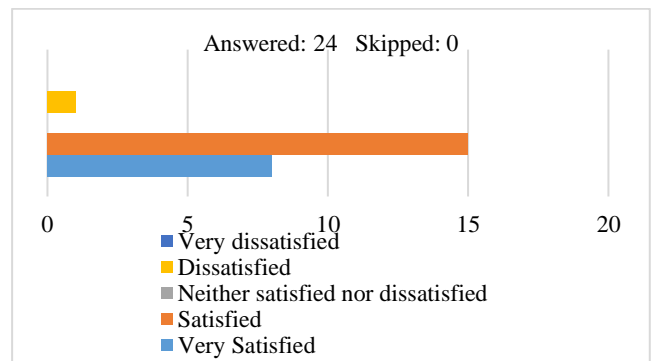
None of the respondents disagreed with the statement that the number of IBA’s users has increased after evolving into the Islamic Bank of Afghanistan. More than half of the participants strongly agreed that there has been an increase in the number of users after evolving into the Islamic Bank of Afghanistan from the conventional Bakhtar Bank.

Figure 7. To what extent has IBA been able to spread awareness about the Sharia-compliant products it offers?



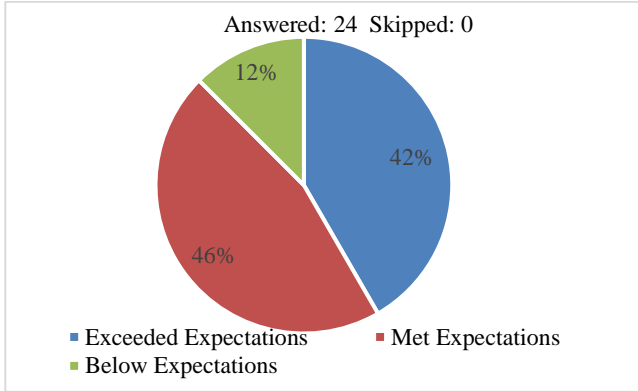
Most respondents felt that IBA has been able to spread awareness about sharia-compliant products to the public. Few of the participants felt the opposite.

Figure 8. How satisfied are you with the current marketing strategy of the Islamic Bank of Afghanistan to target the customers?



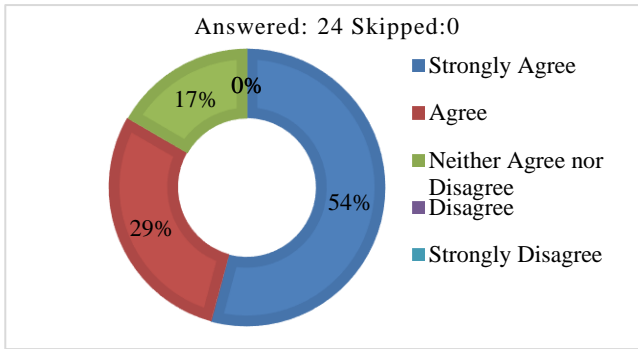
Almost all of the employees were satisfied with the marketing strategies of IBA for targeting customers.

Figure 9. How do you evaluate the level of success in IBA’s marketing?



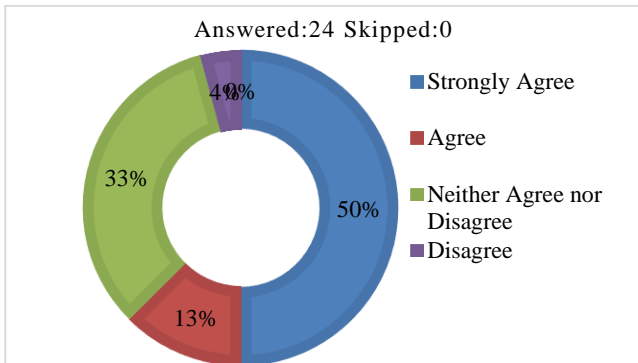
More than 40 percent of the respondents believed that IBA’s marketing was highly successful, around 45 percent believed it was average and 13 percent mentioned that it was below average.

Figure 10. IBA employees are helpful with customers



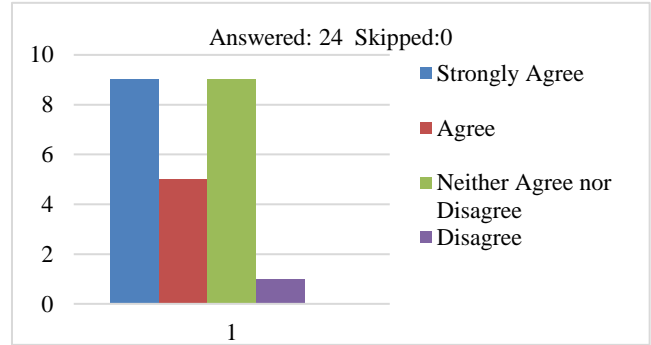
The majority of the respondents agreed that their colleagues were helpful to the customers. None of them believed that their colleagues were not helpful.

Figure 11. They are friendly with customers



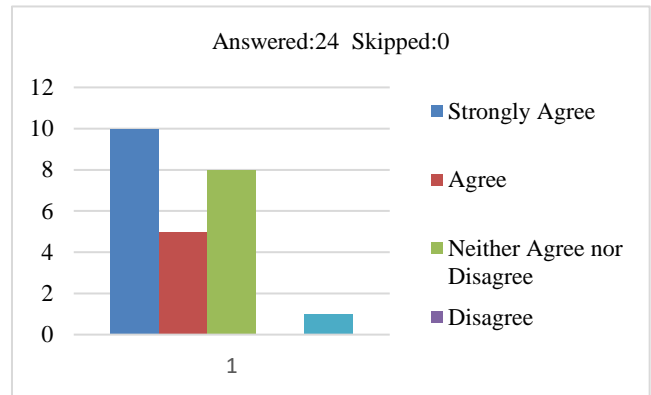
It can be seen from the survey that most of the participants agreed that their colleagues are friendly with the customers.

Figure 12. They have the required knowledge of a banker



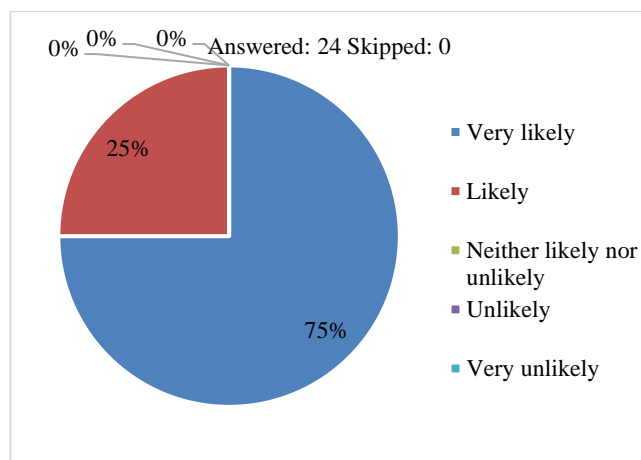
From the survey, it was found that 58 percent of the respondents believed that their colleagues had the required knowledge of a banker.

Figure 13. They act professionally with customers



Findings from the survey show that around 60 percent of the respondents believed that their colleagues were acting professionally with the customers.

Figure 14. How likely is it that you will recommend IBA for your family, friends, or colleagues?



When IBA's employees were asked how likely is it to recommend IBA for their families and friends, overwhelmingly all of the responded very likely or likely.

5.2. Discussion

This research analyzes the issues and challenges faced by Islamic banks in least developed countries focusing on Afghanistan with the example of the Islamic Bank of Afghanistan. It also seeks to examine the current trends.

Islamic banks play a vital role when it comes to the economic wellbeing of the majority of Muslim countries like Afghanistan. According to Global Finance, the Islamic finance industry is growing 10%- 12% annually which is expanding quicker than conventional finance (Domat, 2018). The Islamic financial industry, specifically Islamic banking which represents 73% of the industry's share, does not only fuel the economic activities of the particular countries but also contributes to the world's overall economy. Although Islamic Finance and Banking account for less than two percent of the world's finance, it is on its way to globalization (Islamic Finance Foundation, 2017). Taking advantage of the new techniques of banking, providing a variety of services for the customers, as well as exploiting opportunities of the new technology, this industry is growing moderately, contributing to the economic activities of many countries across the world.

The biggest problem faced by the banking industry in least developed countries such as Afghanistan is the lack of participation and interest of the population in the banking sector. Comparing for instance Afghanistan to its neighbors Iran which is considered a semi-developed economy, and Pakistan a developing economy, the number of Islamic banking users in Afghanistan (16.48% of the population over 14 years of age in 2017, The Global Economy.com, 2021) are fewer compared to those of Iran (93.36%) or Pakistan (18.05%). ATMs per 100,000 adults was equal to 1.61 in 2018 in Afghanistan compare to Iran (88.65) and

Pakistan (10.84). In terms of Islamic banking share versus conventional share, based on Q3 2019 (IFSB, 2020), the Islamic banking share of the Afghan banking sector represented about 10% of the Total Assets, 90% of the assets belonging to conventional banking. The Afghan Islamic banking share may be compared to the ones of Iran (100% of Bank assets are Islamic assets) or Pakistan (15%). These figures suggest that the least developed the economy (like the one of Afghanistan), the greater the lack of participation and interest of the population in the banking sector and the smaller the Islamic banking share of the banking sector. Regarding the lack of interest of the population in the banking sector in Afghanistan, one of the main reasons is the lack of trust in conventional banks, the population having still in mind the financial scandal that broke Afghanistan's Kabul Bank when nearly \$1b disappeared from Kabul Bank in mysterious insider loans (Boone, 2011). However, Muslim population have a natural tendency towards Sharia-compliant financial services. IBA holds the advantage of being the first fully fledged Islamic bank in Afghanistan and has successfully attracted customers and businesses, one indicator being the fact IBA's assets doubled in two years from 11.19B AFN in Q3 2018 to 22.27B AFN in Q3 2020, although confronted to a harsh competition with Islamic windows of 6 conventional banks.

The findings of the survey among employees suggest that IBA has increased its popularity and trust as shown in figure 6, as well as increased its number of customers after evolving to fully-fledged Islamic bank from the conventional Bakhtar Bank. However, getting to this conclusion was not unforeseen. The upsurge in the number of customers mostly in Islamic countries has a direct correlation with the usage of Islamic products. The rise in confidence and trust of customers towards banks leads to an increase of customers of Islamic with a snowball effect on new customers. For example, this mechanism was observed in the GCC countries between the years 2000 and 2010 with a swelling demand for Islamic financial products. Well-functioning and profitable banks contribute to economic activities through the vast circulation of capital and the funding of SMEs and businesses. This, in turn, increases the GDP, and finally the economic well-being. Taking these aspects and benefits of Islamic banking into consideration, five out of eleven conventional banks in Afghanistan have decided to add Islamic services to their products.

In addition, Figure 2 of the findings confirms that only a few instruments of Islamic banking are used to a large degree and the remaining products are not used widely. IBA bank acts as the agent (Mudharib) on behalf of depositors who invested in a partnership equity-based trust financing (Mudharaba) with the bank. IBA offers two types of Mudharaba accounts to its clients, Saving account and Fixed Term account. IBA invested in two main Islamic products

during the first 9 months of 2020, Murabaha (cost-plus financing mostly used by businesses and residents) who represented 10% of the Total Bank Revenue and Diminishing Musharakah whose usage has been marginal (0.4% of the Total Bank Revenue). Referring to Figure 4, the bank's targeted audience and most customers are businesses and entrepreneurs. This is good news for the Afghan economy as it reflects the health of the economy when money flows across the businesses and organizations. One of the factors contributing to the rise of Islamic banking is the attractiveness of its products. Raising proper awareness to enhance and bring out that attractiveness to customers is a priority for IBA. IBA relies at the moment on 3 main products, Mudaraba, Murabaha and marginally Diminishing Musharakah and Sukuk as a vehicle of investment but should extend its marketing effort on products that are neglected by its customers such as Musharakah, Ijarah, Istisna and Salam products.

Three important features of Islamic finance are ethics, fairness and transparency that drive the business and attract Muslims and non-Muslim customers to Islamic finance. Referring to Figure 3, most of the targeted audience stated that they associate trust and comfort with their products. According to the data from a study by Schottmann (2014), most of the participants in the survey mentioned that they started using Islamic banking rather than conventional banking as a way of purifying their assets and properties. Since people and organizations trust Islamic banks, they use Islamic products rather than conventional ones as means of purifying assets. IBA aims to gain customer's trust and confidence.

Finally, providing a professional environment is one of the basic necessities of any organization. The case of IBA is not different. The quality of the business relationship with IBA in which customers engage and the first impression they get from IBA's employees affects customer loyalty, and overall, the bank's reputation. Nevertheless, when employees were asked about their colleagues' friendliness, helpfulness, professionalism, and banking knowledge, most of the respondents were highly positive about their colleagues. These results tend to show that IBA has been able to develop a professional, friendly, teamwork environment which fosters friendship between employees and loyalty from customers.

5.3. Implications

The above interpretations provide new insights into the relationship between Islamic banks and economies. The Afghan economy is predicted to be witnessing moderate growth in terms of economy and GDP per capita since the establishment of IBA and other conventional banks offering Islamic products. Currently, more and more entrepreneurs and businesses are supported and backed by IBA thanks to

the increase of economic activities measured by the increase of economic indicators such as employment rates, trades, the emergence of manufacturing firms and more. There is a positive and significant relationship between the emergence of IBA and Islamic products and the prosperity of business and economic well-being. The data also provide a clearer understanding of why in countries such as Afghanistan, people do not trust banks. However, it is safe to say that the emergence of IBA and Islamic windows of conventional banks can offer transparent services which help overcoming economic challenges in Afghanistan.

5.4. Limitations

Understandably, even the best projects have their limitations such as the unexpected COVID-19 pandemic, from which the whole world has suffered, occurred during the time of research.

A prominent limitation of this research was the lack of relevant financial institutions. There is only one full-fledged Islamic bank in Afghanistan which is IBA. However, choosing IBA had its recompenses as well: as IBA was a conventional bank before turning into a full-fledged Islamic bank, it was possible to analyze the impacts the Islamic bank had over its customers. For instance, IBA's assets doubled in two years from 11.19B AFN in Q3 2018 to 22.27B AFN in Q3 2020, although confronted to a harsh competition with Islamic windows of 6 conventional banks. Moreover, in terms of context and broadness of the research, the survey was conducted only in the capital, Kabul. Most of the participants who took the surveys were residents of Kabul and employees of various branches of IBA in Kabul. In addition, obtaining secondary data containing credible statistics and data about Afghanistan, especially the financial sector is a hustle. Finally, the COVID-19 pandemic has impacted this research paper in many ways. It limited the methodology from the beginning. The initial methodology consisting of both probability and non-probability sampling. It was challenging to reach and survey a broader sample as well as impossible to conduct in-person interviews with the top management of IBA because of the strict quarantine rules across the city and the closure of financial institutions. Nonetheless, an admissible number of participants were surveyed online.

6. Conclusion

This paper explores the challenges of Islamic banking in least developed countries focusing on Afghanistan with the example of the Islamic Bank of Afghanistan (IBA). In least developed countries in general, the identified challenges are the disinterest towards Islamic banking due to uncreative marketing strategies and lack of public awareness and education about the benefits of Islamic banking. Regarding solutions to increase the number of Islamic banking users,

financial institutions should not only consider and target the Muslim communities, but they should also showcase their products and come up with innovative ways for marketing to attract non-Muslim customers as well.

Focusing on Afghanistan, the main challenge of Islamic Banking in Afghanistan is that the number of bank users overall is not sufficient where only 15 percent of adults had a bank account in 2018 (both conventional and Islamic). A weak economy (Afghanistan being ranked 207th out of 213 countries in 2019 in terms of GDP per capita), a permanent state of war with a country plagued by almost daily terrorist attacks that have a negative impact on economic growth, the dominance of conventional banks for which the majority of the population lack confidence are the main reasons of the reduced number of users. Moreover, the Kabul bank fraud that occurred in 2011 (Boone, 2011), where nearly \$1bn disappeared in mysterious insider loans and that pushed Afghanistan's tiny economy to the brink of ruin, is still very present in the collective memory of the population. Regarding Islamic banking users, its proportion is about 10% of the total number of bank users (extrapolation based on the shares of the assets of conventional versus Islamic banking). In order to increase the number of its customers, IBA should improve marketing policies as this solution is commonly and equally shared and agreed upon among all authors looking at promoting Islamic finance. IBA is required to take on two drastic measures to increase the number of its customers. First, raising awareness among the customers to attract and enhance their knowledge about Islamic products. Second, focusing on expanding the products that are not widely used and making more options available by using the experience of some successful Islamic banks in the world. As the findings show, the product that is widely used by IBA is Mudaraba saving account, the use of Murabaha contract being marginal. However, other types of Islamic banking products exist. In order to attract more customers, IBA must refocus its marketing strategy, promote and advertise the full Islamic product line including Musharakah, Ijarah, Istisna and Salam products. This finding contradicts the fact that nearly all employees were satisfied with IBA's marketing strategy: 42% of the IBA's employees responded that the bank has been highly successful in terms of marketing the products and 46% agreed that IBA's marketing strategy met expectations. It shows that IBA's employees are not fully aware of the extended range of Islamic banking products available on the market. In addition, the findings revealed that nearly half of the respondents mentioned that businesses are the main target audience of IBA, ordinary people and residents are marginalized. Therefore, IBA should focus more on ordinary people with salaries, who represent a significant proportion of the population. In addition, IBA is recommended to develop innovative and cheaper products, as well as to rely on state-of-the-art technologies to

differentiate themselves from their competitors in a significant way.

This paper contributes to the literature review in several ways. Examining case studies and success stories of Islamic banking, this paper confirms that innovative marketing and awareness campaigns about Islamic banking had significant importance in attracting more customers. Refining marketing strategies has been substantiated through the survey. In order to gain market share from conventional banking, Islamic banks could differentiate themselves with more innovative products because the concepts of religion and trust do not appear to be sufficient as marketing arguments. In addition, this paper brings new light on Islamic banking in least developed countries. The number of least developed countries offering a significant Islamic banking activity is limited to 5 countries including Afghanistan, representing about 2% of the global Islamic banking segment in 2019. The paper focuses on the challenges of Islamic banking in least developed countries and may bring solutions to Islamic banks in least and more developed countries to deal with identified challenges and to gain market share from conventional banks.

Finally, the COVID-19 pandemic has seriously wounded the world economy. Afghanistan and least developed countries have not been spared. Having coped with many political and economic crises in the last two decades, Afghanistan may hopefully deal with this calamity in a more resilient manner than more developed countries. The pandemic has brought a structural change in the global economic activity. It may be the opportunity for Islamic banks to promote to potential customers the values of faith, solidarity, trust, ethics and religion that humans are seeking in time of great ordeals. This may mean the optimal time for Islamic banks to position themselves in a bolder way.

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Appendix:

Appendix A (Questionnaire)

1. Which Islamic products of the bank are mostly used?
 - a. Ijara
 - b. Mudharabah account
 - c. Murabaha
 - d. Other
If other, please specify _____
2. What emotions do you want to associate with your product? (Please circle all the true options)
 - a. Comfort
 - b. Security
 - c. Trust
 - d. Engaged
 - e. Other
If other, please specify _____
3. Who are your target customers? (Please circle all the true options)
 - a. Residents
 - b. Salaried persons
 - c. Businessmen
 - d. Businesses
 - e. Other
If other, please specify _____
4. How do you rate the current incentives IBA uses to attract customers?
1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10
5. To what extent do you agree with the statement that IBA's users have increased after evolving into an Islamic institution from Bakhtar Bank?
 - a. Strongly agree
 - b. Agree
 - c. Neither agree nor disagree
 - d. Disagree
 - e. Strongly disagree
6. To what extent has IBA been able to spread awareness about the Sharia-compliant products it offers?
 - a. Excellent
 - b. Very good
 - c. Satisfactory
 - d. Not good
 - e. I don't know
7. How satisfied are you with the current marketing strategy of the Islamic Bank of Afghanistan to target the customers?
 - a. Very satisfied
 - b. Satisfied
 - c. Neither satisfied nor unsatisfied
 - d. Unsatisfied
 - e. Very unsatisfied
8. What is your level of success in the marketing?
 - a. Excellent
 - b. Very good
 - c. Satisfactory
 - d. Not good
 - e. I don't know
9. How much of your budget do you allocate to marketing?
 - a. 5-10%
 - b. 10-20%
 - c. More than 20%
 - d. Other
If other, please specify _____
10. What is your objective behind the marketing of your business?
 - a. Get recognized
 - b. Build standard
 - c. Get new clients
 - d. Promote Islamic banking
 - e. Other
If other, please specify _____
11. Please rate your staffs' behavior with customer on the following terms:
 - a. Friendly _____ Hostile
 - b. Helpful _____ Useless

- c. Knowledgeable _____
Inexperienced
- d. Professional _____
Inappropriate

12. How likely are you to recommend IBA to your family, friends, or colleagues?
- a. Extremely unlikely
 - b. Somewhat unlikely
 - c. Neutral
 - d. Somewhat likely
 - e. Extremely likely

Appendix B (SWOT Analysis)

Strengths	Weaknesses
1. IBA is the first bank throughout Afghanistan that took the initiative of Islamic Banking and has proved to occur beneficially. IBA is the first bank	1. Mostly, the conventional method of finance, money, and banking is taught in educational institutions. This means there is a lack of understanding, awareness and a decreased number of professionals when it comes to Islamic banking. This applies to IBA
2. Use of Islamic regulations considering the latest global trends, standards, and benchmarks.	2. Use of Islamic regulations compared to conventional banking. This applies to IBA
3. Ethics, justice, fairness, and transparency in banking and transactions are some of the many characteristics of IBA.	3. Lack of proper Islamic banking education and professional experience could be considered a weakness.
4. IBA provides a variety of options and unique services to businesses and households.	
Opportunities	Threats
1. There are high demand and a market available for Islamic banking in a Muslim country like Afghanistan.	4. Increased competition with the existing and inveterate conventional banks.
2. IBA being the first-ever Islamic bank in Afghanistan adds up to the value of the bank as well as attracts an exceeding number of customers.	5. Economic, political and social uncertainty and tension, as well as war, are proven to be downward for the banking sector in general and it could delay the growth process of the Islamic banking system.
3. By broadening the Islamic banking practices, IBA can play an active role in the economic development of Afghanistan.	