

A REVIEW PAPER ON THE PERFORMANCE OF ISLAMIC & CONVENTIONAL BANKING IN AFGHANISTAN WITH A FOCUS ON PRODUCTS AND SERVICES

INAMULLAH FROTAN

Faculty of Business and Management Kabul, Ministry of Higher Education, Bakhtar University, Afghanistan.

MOH. SHAKER EBRAHIMI

Faculty of Business and Management Kabul, Ministry of Higher Education, Bakhtar University, Afghanistan.

Abstract

The aim of this study is to compare the performance of Islamic and Conventional Banking in Afghanistan with a focus on products and services. For the aforesaid purpose I have reviewed more than 25 related articles and the finding revealed that Islamic banking is in a good position rather than conventional banking in the market and consumers, especially in Islamic countries, prefers to use Islamic banking products than conventional banking because of the profitability, interest-free, and quality. They are considering Islamic banking as the only alternative to conventional banking. And the undertaken investigation shows that Islamic banking is more profitable, more liquid, and less risky than conventional banking and shows a significant difference in profitability ratios, liquidity ratios, and risk and solvency ratios between Islamic and conventional banks. Likewise, the study shows that Islamic banking is not only used by Muslims in Islamic countries it has a good demand and accountable share in the non-Muslim countries and most of the non-Muslims are using it as products and services.

Keywords: Islamic Banking, Conventional Banking, Products, and services comparative study.

INTRODUCTION

In this review paper, I have tried to compare Islamic & Conventional Banking Products and Services in Afghanistan by focusing on products and services by reviewing related articles which have been written on the concept of the different Islamic countries. The reason for selecting this topic is that the financial sector plays a significant role in any economy. The most important sector of the financial sector is the banking sector which works for financial resource management globally. Banks always play a crucial role in the betterment of the country's economy. In the beginning, because of the instability of the political situation banking sectors faced a difficult time. The concept of banking is established during Roman Empire to lend money and accept deposits for the purpose of exchange of money. At the end of the 16th century and during the 17th the new practices promoted the growth of industry and the commercial sector by providing convent loans and discount debt. The banking sector grows rapidly during this period due to an increase in international trade and the industrial revolution. New in the modern era, the banking system is divided into two, conventional banking and Islamic banking. The key difference between both systems is that conventional banking is based on the "Riba" system and Islamic banking is free from "Riba" and compliance with the Shariah rules and regulations. The source of income for Islamic banking is always the remaining variable depending upon the ratio of profit or loss but conventional banks guaranteed the fixed interest

on investment. Therefore, Islamic banking is considered an alternative to conventional banking and the finding shows it has had significant growth in the recent decades in the world, especially in Muslim countries. The main reason for the growth the Islamic banking is its high profitability, less risk interest-free, and efficiency.

LITERATURE REVIEW

Table 1: Sample literature review matrix for some of the selected, exclusively relevant papers on the Performance of Islamic & Conventional Banking in Afghanistan with a focus on products and services

No	Author/s (Year)	Topic/ Title of the paper	Type of Research	Source of Data/ Intervention area	Research Tools	Research Methodology
1	ARSLAN, BORA, AMANAT (2020)	Comparative Analysis of Conventional and Islamic Banking: The Case of Bakhtar Bank Transforming into Islamic Bank of Afghanistan	Both the quantitative (secondary) data from financial statements and qualitative (primary) data from interviews	Afghanistan	- Interview - Website - Financial statements - financial ratio analysis method for the period of 2009 to 2019	Interview Website financial statements
2	Ghonyiah, Hartono (2020)	How Islamic and Conventional Banks in Indonesia Contribute to sustainable development goals achievement	Quantitative	Indonesia	-Balance sheet -Income statement	-Balance sheet -Income statement
3	NEIFAR, Malika and Gharbi, Leila (2020)	Islamic vs Conventional banks: what differences? Tunisian case	Quantitative	Tunisian	-Income statement -Balance sheet	-Balance sheet -Income statement
4	W. Jubilee, Kamarudin, Iqbal Hussain, Tan (2017)	Do Islamic versus conventional banks progress or regress in productivity level?	Quantitative	Middle East (ME), Southeast Asia (SEA), and South Asia (SA) countries between the period 2008 and 2017.	-Interview -Website -Income statement	Interview Website Income statement
5	Usai (2016/2017)	Islamic banking as an alternative to conventional banking	Qualitative	-Germany	-Interview -Balance sheet	-Interview -Balance sheet

6	Khalil (2007-2017)	Comparative Analysis of Financial Performance of Islamic and Conventional Banks: Evidence from Pakistan	Quantitative	Pakistan	- Financial statement of Islamic Banking and Conventional Banking 2007-2017	Financial Statement of Islamic Banking and Conventional Banking 2007-2017
7	Alghfais, 2017	A Comparative Study between Islamic and Conventional Banks-The Case of Saudi Arabia: A Binary Logistic Regression Approach	Quantitative	Saudi Arabia	- Data analysis	
8	Usman (2015)	Comparison of the Importance of Banks' Attributes between Islamic and Conventional Banks' Customers	Qualitative Quantitative	Indonesia	Questioners Interview	Questioners Interview
9	Hanif (2014)	Differences and Similarities in Islamic and Conventional Banking	Pakistan	Quantitative	Questioners Interview	Questioners Interview
10	Ayman and Al-smadi (2013)	Islamic Banking Vs Conventional Banking, During the Global Financial Crisis: Malaysia as a Case Study	- Qualitative	Malaysia	-Balance sheet -Income statement	Balance sheet income statement
11	Siraj and Pillai (2012)	Comparative Study on Performance of Islamic Banks and Conventional Banks in GCC Region	- Quantitative		-Balance sheet -Income statement	Balance sheet Income statement
12	Huzaiifa Sultan (2010)	Comparative Analysis of Islamic and conventional banking performance	- Quantitative	Pakistan	- Income statement - Balance sheet	Income statement Balance sheet
13	Awan (2009)	Comparison of Islamic and Conventional Banking in Pakistan	- Primary Data - Secondary Data	Pakistan	Primary Data	Primary Data
14	Johnes, Izzeldin and Pappas (2004-2009)	A comparison of performance of Islamic and conventional banks	Quantitative	18 Countries	- Balance Sheet - Income Statement	Balance Sheet Income Statement

15	Moin (2008)	Performance of Islamic Banking and Conventional Banking in Pakistan: A Comparative Study	Quantitative	Pakistan, Meezan Bank Limited (Islamic bank) and a group of 5 conventional banks performances each year in 2003-2007.	-Income statements - Balance sheets	-Income statements - Balance sheets
16	Tlemsani and Al Suwaidi (2007-2008)	Comparative Analysis of Islamic and Conventional Banks in the UAE during the Financial Crisis	Quantitative	United Arab Emirate (UAE)	-Balance Sheet -Income Statement	Balance Sheet Income Statement
17	Mariani, David and Giuliana (2008)	Efficiency in Islamic and Conventional Banking: an international Comparison	Quantitative	International comparison of the 10 Countries	- Income statement - Balance sheet	Income statement Balance sheet
18	Ibrahim (2002-2006)	A Comparative Study of Financial Performance between Conventional and Islamic Banking in United Arab Emirates	Quantitative	United Arab Emirates (UAE)	- -Secondary data	financial statements 2002-2006
19	Samad (1991-2001)	Performance of Interest- Free Islamic Banks VIS-À-VIS Interest Based Conventional Banks of Bahrain	Quantitative	Bahrain	- Ration Measures	Ration Measures
20	Viverita (1999)	Performance Analysis of Indonesian Islamic and Conventional Banks	Indonesian	Qualitative	- Annual financial reports (2004-2008)	Annual financial reports (2004-2008)
21	Cevik and Charap (	The Behavior of Conventional and Islamic Bank Deposit Returns in Malaysia and Turkey	Quantitative	Malaysia and Turkey	Income statement Balance sheet	Income statement Balance sheet
22	Askarzada (	Islamic vs Conventional Banking in Afghanistan	- Quantitative	- Afghanistan	- Questioners - Interview	Questioners Interview

23	Pavelka, Bánkúti and Varga (2008)	The Comparative Analysis of the Islamic and Conventional Bank System in Turkey	Quantitative	Turkey	Questioners Interview	Questioners Interview
24	Huzaifa Sultan and Zahid Siddique (	Comparative Analysis of Islamic and Conventional Banking Performance	- Quantitative	- Pakistan	- Strategy - Sample selection	Strategy Sample selection

CONCLUSION

The paper examines the performance of Islamic and Conventional Banks in Afghanistan focusing on products and services. The finding shows that in the less developed Islamic countries, Islamic Banking has better financial performance than Conventional Banks in terms of high profitability, high liquidity, less risk, and high quality.

The investigation which already took place in less developed countries revealed that Islamic banks are more liquid than Conventional banks. These ratios are lower for Islamic banks which mean that Islamic banks do not rely more on borrowed funds and their percentage of assets tied up in loan is lower than Conventional banks. These findings support the hypothesis that Islamic banks are less risky than Conventional banks. Efficiency ratio measures do not support the hypothesis that Islamic banks are well capitalized than conventional banks. Operational efficiency measures of both Islamic and conventional banks do not show (statistically) significant differences between the performances of both banks. Moreover, the comparison of the growth of Islamic banks with conventional banks in less developed countries shows that Islamic banks have recorded consistent growth right from the beginning. And the study emphasized that all earning indicators of Islamic banks are positive and prove the fact that equity-based Islamic banking is a profitable institution. Placing deposits with Islamic banks without pre-determining the rate of profit does not mean that Islamic banks collect deposits on a Mudarabah basis and profit earned on it is distributed based on pre-agreed ratios among the depositors with is a healthy practice. Likewise, the performance of Islamic banks is encouraging if we analyze them from the perspective of the recent global financial meltdown that has caused the collapse of many strong and established banks like Northern Rock, Royal Bank of Scotland of the United Kingdom, and Lehman Brothers, Goldman Sachs, Merrill Lynch and Washington Mutual of the United States. But, surprisingly, Islamic banks have proved their inherent strength to grow in adverse macroeconomic conditions. It indicates that Islamic banks have the capability to cope with sudden economic and market shocks due to their real business activity and refrain from speculative business activities.

Furthermore, the challenges of the Islamic banking which have been found through the study are as below:

- Human resources development is the main challenge being faced by the Islamic banking industry. As the industry is expanding all over the Muslim world including Pakistan it needs Islamic scholars having vast knowledge of Islamic finance to help the bank in the

development of new financial products and ensure the operation of the bank in accordance with the Shariah compliance. It also needs trained staff having experience and knowledge of Islamic banking for introducing Islamic financial products. Presently, this shortage of skilled Islamic bankers is being met through short courses and training of new staff or hiring staff from conventional banks at higher financial packages. This is not a permanent solution. Islamic banks must chalk out a long-term human resource development strategy to meet the future demand for skilled human capital.

- The absence of an inter-bank money market for Islamic banks is another serious problem. Islamic banks cannot use interest-based money markets and their instruments to manage their liquidity and hence the development of a separate market mechanism for Islamic banks is necessary so that they may be able to use their excessive funds.
- lack of awareness and a lot of people do not know about Islamic banking they cannot decide whether to use it or not.

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