Challenges and Opportunities of Islamic Banking: The Case of Commercial Bank of Ethiopia – Betel Branch



DECLARATION

WOLKITE UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE

I, **Rebecca Meganu**, hereby declare that this research paper entitled **"Prospects and Challenges of Interest-Free Banking in Commercial Bank of Ethiopia: A Case Study of Betel Branch"** is my original work and has not been submitted to any other university or institution for academic credit.

This research has been prepared and submitted in partial fulfillment of the requirements of the Department of Accounting and Finance at **Wolkite University**. I confirm that all sources of information and data used in this paper have been appropriately acknowledged and cited. I further declare that this paper meets the ethical and academic standards required by the university and is free from plagiarism.

This study was conducted under the supervision of **Mr. Mitiku Melese**, to whom I express my sincere appreciation for his guidance and support.

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List of abbreviation

CBE	Commercial bank of Ethiopia
ECX	Ethiopian commodity exchange
SSB	Shariah supervisory board
IFB	Interest free bankin

ABSTRACT

To achieve objectives, this study was used descriptive research design with regard to the challenges and prospect of interest free banking in CBE at Betel Branch. The population of this study was employees of interest free banking in CBE at Betel Branch. It also consisted of 16 employees and uses the whole population. I used primary source of data to achieve the objectives. The

major finding of this study was that most employees aware about IFB in CBE at Betel Branch but still few employees lack awareness. Mostly Commercial Bank of Ethiopia had enough qualified scholars in Interest Free Banking to ensure that Interest free banking services are fully complies with Sharia Law. Therefore, I concluded that few IFB employees were not fully understand the interest free banking systems and products in CBE at Betel Branch.

And lack of understanding about concepts and practice of IFB of CBE at Betel branch was challenges to ensure that Interest free banking services are fully comply with Sharia Law. Finally, I recommended for CBE interest free banking to increases the awareness of employees regarding to IFB at Betel Branch as well as a whole country and Commercial Bank of Ethiopia should hired or employed qualified scholars in Interest Free Banking in CBE at Betel branch and/or other branches to overcome the challenges of ensuring that interest free banking services fully comply with Sharia Law.

Chapter One

1. Introduction

1.1. Background of the Study

Banks are the backbone of the economy of any country. They play a crucial role in the development of the nation by acting as a bridge between savings and investments. Banks are key financial intermediaries that facilitate the transfer of funds from savers to those investing in real assets such as houses, equipment, and factories. By performing these functions, financial intermediaries enhance the well-being of both savers and investors. They improve economic efficiency, which in turn raises the living standards of society.

The banking sector is considered one of the most important sources of financing for businesses. Commercial banks, in particular, serve as the backbone of the country's economy (Shankarami and Deva Mohan, 2010). In Ethiopia, the financial sector is one of the fastest-developing industries, with new commercial banks and microfinance institutions being established. However, this growth has not been horizontal in terms of the variety of services, but rather vertical in terms of the increase in the number of banks offering similar services. Additionally, the financial sector in Ethiopia is also adapting to recent developments in the global banking landscape. The introduction of ATMs, VISA Debit Cards, and Credit Cards in recent years highlights this ongoing progress.

The history of Islamic finance dates back to the era of Prophet Muhammad (Mohamad, et al., 2013). From the rise of Islam until the 12th century, there were different Sharia-compliant financial instruments utilized in the Muslim World. Among these financial instruments accepting deposit, Money transfer, bankers called sarrafeen or sayarifah, Promissory notes (reqaah al-sayarifah), bills of exchange (suftaja), cheque (sakk) and treasury (Baytal-Mal) were common (Chachi, 2005; Mohamad, et al., 2013; Alharbi, 2015). The decline of Muslims civilization, mainly due to gradual deviation from sharia, extravagance, lack of well- established organization, political breakdown, the rise of different Islamic sects and different wars shifted the balance of trade from Muslims to Europeans. Consequently, Muslims also lost their technological and economic advancement. Henceforth, the financial system of all Muslim countries went astray from Sharia-compliance resulting in the adaptation of the western-based conventional financial system (Chachi, 2005).

By the mid-19th Century, almost all Muslim countries adopted the interest-based western financial system (Chachi, 2005). On the subject of adapting conventional financial system Muslim scholars' opinion fall into

three groups. Scholars in the first group opined accessing conventional financial services is halal (permitted). Contrary to this, the second group of scholars argued accessing conventional finance is Haram (prohibited) but, it is also important. The third group argued that accessing conventional finance is necessary though riba (interest) is undoubtedly prohibited (haram). The advocator of the third argument suggested that Islamic sharia has several types of contracts that can be applied in banking business without interest and it is also possible to establish an interest-free banking system (Nasser 1996, as cited in Alharabi, 2015).

Finally, in the 1940s, the idea of establishing an interest-free banking system gained momentum in the theoretical arena, a milestone to modern Islamic finance (Alharabi, 2015). The first attempt to establish an interest-free bank was commenced in the rural area of Pakistan in the 1950s. On 25th July 1963, Mit- Ghamar Islamic saving Bank (MGISB) was established in Egypt by El-Naggar (Chachi, 2005). In addition to the establishment of Islamic banks, in the 1970s the modern practice of Islamic insurance (Takaful) as well emerged. The first Islamic insurance company was established in Sudan in 1979. Following the success of this company, the practice of Takaful expanded through Muslim and Non-Muslim countries (Hussain and Pasha, 2011). The Islamic model of microfinance project also started in Sudan in the late 1980s (Mollah and Uddin, 2013).

Islamic finance expanded throughout the Middle East aggressively, and currently, it is stretching out in all parts of the world. According to the Global Islamic Finance Report (GIFR, 2019), The total capital of Islamic finance has reached US$2.6 trillion at the end of 2018 with a 6.58% annual growth rate. Indonesia, Malaysia, Iran, Saudi Arabia, Sudan, Brunei Darussalam, UAE, Bangladesh, Kuwait and Pakistan are the top 10 leading countries in Islamic finance Industry. Based on the total share from the global Islamic finance asset, the leading sectors in 2018 are Islamic banking, Sukuk, Islamic funds and Takaful with 71.7%, 24.2%, 2.8% and 1.3% shares respectively (IFSB, 2019).

Ethiopia is a country with a substantial number of Muslim populations. According to the central statistic Authority of Ethiopia census 2007(CSA, 2007), Muslims account for 34% of the total population of Ethiopia. Unfortunately, Ethiopia is a country with very law bank service penetration. The Global Findex Database 2017 states that only 34.8% of adults aged more than 15 years have a bank account. This means 65.2% of adults are not accessing basic financial services in Ethiopia (Demirgüç-Kunt, et al., 2018). The unavailability of alternative sharia- compliant financial products and services in Ethiopia played a significant role in inducing financial exclusion which in turn resulted in law bank usage in Ethiopia (Hailu, Kapusuzoglu, & Ceylan, 2019).

There was no legal framework that permits the establishment of Islamic finance in Ethiopia before 2008. As a result, Ethiopian Muslims were demanding for years, the establishment of Interest free banking service. In 2007,

Ethiopian Muslims Diaspora community representatives presented different questions for the late Prime Minister Meles Zenawi. The request for permission to establish Islamic banking in Ethiopia was among these questions (Feyissa, 2012). Furthermore, in 2008, a group of entrepreneurs and community leaders with the aspiration to establish an Interest free bank named "Zem-zem bank" presented the benefit and importance of Islamic finance for the late Prime Minister Meles Zenawi. After the meeting, the prime minister directed the National Bank of Ethiopia (NBE) to issue a new proclamation that permitted the establishment of Interest-free finance in Ethiopia (Al-Hashimi, 2012). Consequently, NBE issued a Proclamation concerning Banking Business: Proclamation No: 592/2008. In this Proclamation, Article 22, Sub-article 2 states "The National Bank may issue a directive to regulate banking businesses related to non-interest-bearing deposit mobilization and fund utilization." This was the first practical measures taken by NBE to adopt the practice of Islamic finance in Ethiopia.

Based on Proclamation No: 592/2008: Article 22, Sub-article 2, all conventional banks in Ethiopia started to accept interest-free deposits from those customers who are interested in interest-free banking service. A substantial amount of money is deposited in all conventional banks, with depositor aiming no more than a safeguard. Currently from the 18 conventional banks, 10 of them are providing IFB service through window and On the other hand, Zamzam bank organizers started selling shares in December 2010 to establish a full-fledged Interest free bank. Though the minimum paid-up capital to establish a bank was 75 million Ethiopian Birr (2.7 Million USD), Zamzam bank was able to collect 137 million Birr (4.9 million USD), almost twice as much the minimum paid-up capital, within four months from more than 6800 subscribers (Zam-zam Bank Under formation, 2012). Nevertheless, a new directive was issued by NBE that undermined the hope of establishing full-fledged Islamic banking in Ethiopia. This directive is called "Directives to Authorize the Business of interest-Free Banking No. SBB/ 51/2011". According to this directive, only established conventional banks can offer interest- free banking merely on window modes. Article 2: sub-article 3 defines an interest-free banking window as a unit within a conventional bank exclusively offering interest-free banking services". No explanation was given from the government as to why this directive is decreed outlawing the former one. Following this directive, Commercial Bank of Ethiopia (CBE) and Oromia International Bank (OIB) got an endorsement from the NBE to offer interest-free banking window services in 2013. Currently, almost all conventional banks in Ethiopia are offering interest-free banking window.

Even though the NBE closed the door to establishing full-fledged Interest free bank in Ethiopia, Muslim communities did not give up from demanding it. After a 7 years exclusive interest-free banking window practice in Ethiopia, the NBE issued a new proclamation that permits the establishment of full-fledged interest-free

banking in Ethiopia in May 2019. The proclamation is known as proclamation No: 1159/2019 to approve for the amendment of banking business proclamation. In this proclamation article 59 devoted to "interest-free bank" and sub-article 1 states that: "Without prejudice to the requirements of specified under the provisions of the proclamation, the National Bank may issue a Directive to prescribe additional conditions of licensing, supervision and requirements to establish Interest-Free Bank. For this sub-article, Interest-Free Bank means a company licensed by National Bank to undertake only interest-free banking business".

Proclamation No: 1159/2019 made the dream of establishing a full-fledged interest-free bank in Ethiopia real. The proclamation was issued after the current Prime Minister Dr, Abiy Ahmed promised to permit the establishment of full-fledged interest-free banking on his speech during the Ramadan Iftar (fast-breaking) program organized by the Ethiopian Islamic Affairs Supreme Council (EIASC) at Millennium Hall on May 22, 2019 (Getachew & Kedir, 2019).

Following the prime ministers promise and the declaration of proclamation No: 1159/2019, several share companies queued requesting a license from NBE to provide full-fledged interest-free banking services in Ethiopia. According to Tadesse (2019), until July 2019, four banks named Zem-zem, Hijira, Nejashi and Zad were in the stage of establishment, while another four share companies are in process to get a license from NBE.

Even though the permission of establishing full-fledged interest-free banking in Ethiopia is a prodigious opportunity for those who were demanding for several years, challenges like the unavailability of a conducive legal framework, the shortage of skilled professionals, hostile attitudes towards Islamic bank …etc. may affect the performance of interest-free banking in Ethiopia.

The term "Interest-Free banking" refers to a system of banking that is consistent with Islamic law (Shariah) principles and guided by Islamic economics. In particular, Islamic law prohibits usury, the collection and payment of interest, also commonly called Reba in Islamic discourse. In addition, Islamic law prohibits investing in businesses that are consider unlawful, or haram (such as businesses that sell alcohol or pork, or businesses that produce media such as gossip columns or pornography, which are contrary to Islamic values).

IFB also engage in Islamic Insurance (takafu), Islamic Investment house, Mutual funds, Leasing companies, and commodity trading companies at the multilateral level.

As the Commercial Bank of Ethiopia (CBE) is license by the National Bank of Ethiopia to give these services, it would provide the services at specified windows of select branches of the bank. Interest-free banking is available to all customers who want to make use of alternative banking services. CBE has a separate and dedicate system that does not mix the movement of accounts in those windows with the regular ones. Banking in general has been considered an important financial intermediary and vital institution in the economic structure of any

country. For a long time by mobilizing savings and idle funds in an economy and making them available to those who can make a better and fuller utilization of the same (Uzair, 1976). Recently, Islamic banking has been seen as an alternative to conventional banking rather than one component of financial system. Since its 1960s beginning it has expanded worldwide with an excessive speed and its development has remained dynamic (Okumus & Genc, 2013). Operations in Islamic banking are governed by the Islamic principles known as Shariah. These principles come from the sources of the Holy Quran, Hadith, Sunna, Ijma, Qiyas and Ijtihad (Gait & Worthington, 2008).

Ethiopia has also taken a similar measure and it has introduced a directive in 2011, which is called the licensing and supervision of banking business (Directives to Authorize the Business of Interest Free Banking), which is briefly known as Directives Number SBB/51/2011 of the National Bank of Ethiopia (NBE, Directives Number SBB/51/2011). This directive asserts that there has been increasingly strong public demand for interest free banking products in Ethiopia; and it mandates banks operating in the country to introduce and deliver Islamic banking/interest free banking services. Ever since several banks in the country have been offering this service to their clients. Commercial bank of Ethiopia is one of the pioneers to introduce this service to its clients. However, not much is known about the ongoing Islamic banking practices in Ethiopia as the field is infant and young. Issues such as challenges and prospects of Islamic banking at business or sectoral level in Ethiopia is not well explored**.** So, this study aspires to look into this contemporary phenomenon. The purpose of my study is to investigate the challenges and prospects of Islamic banking practices of Commercial Bank of Ethiopia (CBE).

1.1 Statements of the problem

Just 40 years since its contemporary inception, Islamic banking is now a worldwide phenomenon, with Islamic banks in over 60 countries across the Globe (Akhtar 2007). The development of the Islamic banking industry is moving at a fast pace, and almost every country now has some form of Islamic financing (Ahmad, 2015: 12-25). According to A report by The Economist Intelligence Unit (2015), population growth, increased consumer spending power, and the dominant place of Islam in Africa's demographic makeup, mean that 'Islamic economy' is playing an important role in the economic trajectory of the continent. Africa's challenges, notably infrastructure financing and the need for wider access to financial services, also provide an opportunity for the Islamic finance industry to grow (Iqbal et al, 1998).

It is simply an accepted fact that there are sufficient Muslim investors and borrowers in both Islamic and non-Islamic countries to warrant the attention of traditional banks who seek to serve such clients are still relatively untapped market (Mohammed, 2012). Developing of Islamic financial institutions is advantageous to every economy because it enhances equitable distribute of income, operate interest free transactions and invest in only lawful investments and few studies were conducted on the attributes of IFB. Among these studies Mohammed (2012) studied the prospects, opportunities and challenges of

Islamic Banking in Ethiopia" and show the potential challenges to be lack of awareness, regulatory and supervisory challenges, institutional challenges, lack of support and link institutions, gap in research and development in Islamic studies, lack of qualified human resource as well as wrong association with specific religion and the global terrorism.

Recent study on challenges on interest free banking services in Commercial Bank of Ethiopia by Kerima, (2016) show that utilization of the existing IFB products have been challenge by lack of awareness of customer, inadequate marketing and promotion, double taxation, nature of IFB products, non-provision of IFB products/services in all branches, the IFB being deliver in a Window model and lack of trust and confidence. In general the studies which are done in Ethiopia and outside Ethiopia have the same result on the challenges and prospect interest free banking. But this study does not show the prospect of IFB system.

Interest free banking is a contemporary phenomenon in the Ethiopia banking sector. As 2017 the annual report of the CBE shows from mode of IFB products the bank make available to the customer is only SAFE KEEPING, QUARD and MUDARABA. These show that there is challenge in delivering or utilizing the other mode of product. There may be research conducted in IFB in CBE have been challenge by lack of awareness of customer in most branches, and customers of IFB being delivered in a Window model and lack of trust and confidence. There may be research conducted in IFB in CBE but no research was conducted in CBE in Betel branch and also no recent study was conducted in this area. There for I investigate the major problems and challenges in IFB system in CBE in Betel branch. So, this study filled practical gap for CBE as well as literature gap for those who want to conduct study in this subject area.

The best of my knowledge there is no study done on challenges and prospect of IFB after Abrehet Assefa, Addis Bayu, Aynet Lemma, bereket Alelign and Fikrte Hailemariyam (2022). This show not much is known about the prospects and challenges that it faces. There is a knowledge gap and there is no detailed historical background regarding the interest free banking practice in general and the major prospects and challenges behind the introduction of interest free banking service in the Ethiopian banking sector. So, this study fills this knowledge gap by assessing the interest free banking service of Commercial Bank of Ethiopia in Betel branch.

1.2 Objectives of the Study

1.2.1. General Objective of the Study

The general objective of this study is to assess the challenges and opportunities of Islamic banking in the Commercial Bank of Ethiopia, specifically at Betel Branch

1.2.1 Specific Objective of the Study

This study specifically strives to achieve the following specific objectives:

1. To examine the prospects and opportunities of IFB to potential customers in Betel Branch.

2. To examine deposit mobilization and profitability of IFB service.
3. To assess the knowledge of IFB customers towards the IFB products.
4. To examine the whether staff understanding, about interest free financial concept, affects the operation of IFB.
5. To investigate the challenges that the Commercial Bank of Ethiopia faces in rendering its Islamic banking services.

1.3 Basic Research Questions

The study attempts to answer the following research questions.

1. What are the prospects and challenges of IFB system to potential customers in CBE Betel Branch?
2. How deposit mobilization and profitability of IFB service helps the economy of Ethiopia?
3. Dose IFB customers have enough knowledge towards IFB products?
4. Are bankers understanding of Islamic financial concept affect Interest free banking service in Ethiopia?
5. What are the major challenges that have been experienced so far in rendering the Islamic banking service by the bank?

1.5. Scope of the study

The main focus of the study was to identify the challenges and opportunities of Interest free banking services in commercial bank of Ethiopian in betel branch. I select CBE because it is the first bank that starts IFB in Ethiopia and open the first IFB branch (Bilal branch) around Bole Michael on September 7, 2019. Therefore the scope of the study is limited to identifying the stated operational challenges and opportunity of Interest free banks on the selected commercial banks found in betel that have been operating in the industry. The study will have conduct only base on the processes and methodologies use. I assessed the rationales behind the prohibition of interest, the need for CBE NUR, and some of many opportunity of interest free banking in Ethiopia. It also addressee the probable potential operational challenges in cases of Commercial Bank only.

1.6. Significance of the study

The main purpose of this study is to fulfilling the academic requirement of the researcher. In addition to that, this research might have the following theoretical and practical contributions.

IFB have so, much significance for different stakeholders, like banks, Islamic Banking, groups and for future researchers (literature review).

- ✓ **For Banks**: IFB represents a growing market segment with significant potential for expanding customer bases, particularly in countries with large Muslim population.

- ✓ **For Islamic Banking**: IFB is a fundamental pillars of Islamic banking, ensuring adherence to sharia (Islamic law) by avoiding the charging of interest (riba).
- ✓ **For group**: IFB can promote financial inclusion by providing access to financial services for individuals and communities who may have been excluded by traditional banking systems.
- ✓ **For future literature review**: the growth of IFB presents a wealth of research opportunities for scholars, academics, and researchers interested Islamic finance, financial inclusion, and sustainable development.

1.7. Operational terms

Bank: is a financial institution that provides various financial services to individuals and businesses.

Loan: banks lend money to individuals and businesses and charging interests.

IFB: is a system of banking that operates according to Islamic principles, avoiding the charging of interest (riba).

Surah: Holy Quran chapters and there are 540 chapters in the Holy Quran.

Sha'riah: Islamic canon law based on the Holy Qur'an and the teachings of the Prophet Muhammad (PBUH).

Riba: In simple words, riba refers to any return of money on money, regardless of whether the interest is fixed or floating, simple or compounded, or at what rate. The legal idea goes beyond merely interest. Islamic Sharia forbids riba completely.

1.8. Organization of the Research

This proposal would be dividing into three chapters. The first chapter deals about the introduction of the study which is background, statement of the problem, objective, significance, research questions, operational terms scope and methodology. The second chapter discusses the literatures review about CBE NUR, Theoretical literatures review, Conceptual review Empirical review and re-searches GAP. The third chapter Methodology of the study .Re-search design & Approach, population sample size & sampling technique, Source of data, Method of data collection & analysis.

Chapter Two

2. Literature Review

2.1. Theoretical Literature Review

This section reviews the literature written by different authors and researches conducted by different scholars in relation to the study and present a summary of challenges and prospects of IFB such as definitions, principles and major concept regarding challenge and prospects and review of empirical works. Finally the synthesis review of the study is including by summarizing the literature results.

2.1.1Challenges of IFB

2.1.1.1. Lack of Awareness and understanding

Based on Many studies which are done in different part of the world to implement IFB religious and cultural difference which existed with in one country has influence. Audu Bello et al. (2014) one of the major challenges of Islamic banking in Nigeria has to do with the country's multiple cultural and religious belief. This issue is a serious one that needs to be effectively and efficiently resolved if Islamic banking in Nigeria must prosper. This is because of the fact that others with different cultural and religious belief will have a misperception of the institutions that may lead to not accepting the institution by the general public.

Obaidullah (2005), Brown, Hassan and Skully (2007), Louis S. Nkwatoh et al .(2014)and also others studies show that Non-Muslims see IFB as an Islamization process, while Muslims see it as an ethical act predicated on religious belief

2.1.1.2. Regulatory challenges

Islamic Banking is anchored on the principles of Shari'ah (operations of Islamic banks). Momoh et al (2011), the policy framework should provide the basis for competition of Islamic banks with conventional banks. However, this framework has been tailored in line with the conventional financial system which supports the existing conventional banking system and gives less credence to Islamic banking.

The relationship between Islamic banks and monetary authorities is a delicate one. Whatever the goals and functions are, Islamic banks came into existence in an environment where the laws, institutions training and attitude are set to serve an economy based on the principles of interest. For example, the operations of Islamic banks are on a profit and loss share basis (PLS), which actually does not come fully under the jurisdiction of the existing civil laws, (Mohammed, 2012).

2.1.1.3. Absence of Liquidity Instruments

Financial instrument will facilitate the business sector, the absence of this system on the Islamic

banking taken as challenges for its development. According to Louis S**.** et al (2014), the financial market in Nigeria facilitates the banking relationship existing among commercial banks through the provision of short-term tradable financial instruments: inter-bank transactions, overnight funds and borrowings that satisfy the temporary liquidity needs of commercial banks. This places Islamic banking at a distinct disadvantage compared to conventional banking, because, it operates under the norms of Shari'ah (non-interest banking). More so, there are no institutions that provide long-term finances such as bond, equity etc. on the basis of Shari'ah. There is limited knowledge of accounting and auditing standards that mirrors the specificities of Islamic products.

2.1.1.4. Inadequate Human Resource

Louis S**.** et al (2014), the sustainability of Islamic banking depends adequately on qualified human personnel, training, and above all research on Islamic finance. This is due to the increasing challenges that continuously rock the banking industry especially with the advent of technology.

They also have to understand the moral and religious implications of their investments with the business ventures. There is also a need for banking professionals to be properly trained in Islamic banking and finance. Most banks‟ professionals have been trained in conventional economics. They lack the requisite vision and conviction about the efficiency of the Islamic banking, (Mohammed, 2012).

2.1.1.5. Lack of Supportive Institutional and Market links

Islamic banking is at an early stage of learning and experience, lacking the flexibility to choose arrangements which best suits their need in reacting to structural shifts in the economic setting as well as changes in consumer preferences.

For example, Islamic banks, without having an interest-free money and capital market, will not have adequate instruments to meet the pre-condition for liquidity management and effective maturity transformation. So, adequate financial mechanism still has to be developed, without which financial intermediation, especially the risk and maturity transformation, will not be performed (Hassan and Skully, 2007).

2.1.1.6. Shari'ah Related Issues

Audu Bello et al. (2014), Due to the fact that Islamic banking has religious dimension, financial innovations in this institution needs to meet Shari'ah requirements. That is, any new financial products in Islamic banking cannot be adopted until it is approve by the Shari'ah advisory board and also followed by post Shari'ah auditing. However, this act delays Islamic banking ability to take advantage of changing financial environment due to the fact that time has to be wasted before it is finally approve by the Shari'ah board.

2.1.1.7. Lack of research and development

Many Islamic banks also lack the necessary expertise and institutional capacity for Research and

Development (R & D) that is not only necessary for the realization of their full potential, but also for its very survival in this age of fierce competition, sophisticated markets and an informed public. Islamic banking cannot but stagnate and wither without dynamic and ongoing programmers. In addition, Islamic banks have so far not used the media appropriately. For example, even Muslims are not very much aware that the Islamic banking is being practiced in the world. Islamic banks have not ever used an effective media to the public their activities (Mohammed, 2012).

2.1.2. Modes of Operation in Islamic Banking

In Islamic finance, the term "loan" refers only to a benevolent loan (*qard al hasan*), a form of financial assistance to the needy to be repaid free of charge. Other instruments of Islamic finance are not referred to as "loans' but rather as financing modes falling under one of the three categories: Profit-and-loss sharing (PLS), non-PLS contracts, and fee-based products Hussain, Shahmoradi, and Turk, (2015).

2.1.3. Real Islamic Banking Deposit Product

According to Kettell (2011), in the mobilization of funds, Islamic banks depend on three main sources that include shareholders‟ funds, current accounts, investment accounts and savings accounts. The bank and the investment deposit holders share the realized profit in accordance with the ratio agreed upon between the parties at the time of contracting. The deposit in the current account is treated as if they are loans from the clients to the bank and therefore, bear no yield to the account holders. However, being loans to the bank, their principal is guaranteed by 16 the bank. According to Ziauddin (1994), Hassen & Lewis (2007) and Kettll (2011) the source of deposit mobilization of IFB products are shown as follows.

2.1.3.1. Mudaraba

Unrestricted Investment Deposits (Unrestricted Mudaraba) This type of deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund without restriction and intervention of the capital provider in any Shariah compliant manner. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider).

Investment Deposit (Restricted Mudaraba) Such type of IFB deposit is an earning deposit which is mobilized with the knowledge that bank acts as the Mudarib (manager) and invests the fund in restricted investment based on active intervention of the capital provider complemented with professional advice from the bank side. The profit on the investment will be shared as per agreement and loss will be shared by the depositor (capital provider). (Kerima

Ali 2016)

2.1.3.2. Wadiah (Safe Keeping) Deposit

It is a peculiar non-earning type of IFB deposit that operates under the contract of WadiahYadDhamanah (guaranteed custody). The bank accepts deposits from its customers looking for safe custody and convenience and requests permission to make use of the customer funds for investment purposes promoting transparency. The customers may withdraw their balances at any time. Profit generated from the use of the customers‟ funds belongs to the bank. However, the bank may at its absolute discretion rewards the customers by declaring profits to them. Under the contract of Wadiah, the custodian i.e. the Bank is not allowed to mention or to promise any reward on the deposit received. The owner/depositors too cannot demand any rewards or return from their Bank on their savings. (Kerima Ali 2016)

2.1.3.3. Demand Deposit (Amana Current Accounts)

Amana Current accounts are non-earning deposits that operate based on the principle of alwadiah, whereby the depositors are guaranteed repayment or withdrawal of their funds on demand. At the same time, the depositor does not receive return for depositing funds in a current account, because the guaranteed funds will not be used for profit and loss ventures. (Kerima Ali 2016).

2.1.4. Islamic Banking Financing

2.1.4.1. QardHasan loans or Amanah (Benevolent loan)

It is a benevolent loan given to deserving customers by Islamic banks to alleviate poverty. The beneficiary is required by *Shari'ah* to pay back only the principal to the Islamic bank. However, the client may pay an addition to show appreciation to the Islamic bank but this intention should not be disclosed to the bank by the customer at the beginning of the transaction, Audu Bello et al.(2014). In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan. Some Muslims consider this to be the only type of loan that does not violate the prohibition on „*riba'*, since it is the one type of loan that truly does not compensate the creditor for the time value of money, (Mohammed, 2012).

2.1.4.2. Mudarabah(Silent Partnership)

A *mudarabah* contract is a financial transaction in which there are two partners in the contract. One of the partners will provide the need capital (*Rabb-ul-Maal*) and the other partner will go into the business as entrepreneur (*Mudarib*).Audu Bello et al.(2014) and Journal of Islamic Banking and Finance 2016report show Mudharabah is one of the most well-known Islamic investments and its principles are widely adopted by Islamic banks. As Journal of Islamic Banking and Finance 2016 report Mudharabah, partnership which one partner (investor) gives money for investing, while the other partner is responsible in providing labour and skill to manage the money; the profits generated out of the investment are shared in a predetermined ratio. The profit sharing ratio could be 50:50, 40:60, or 30:70, depending on the contracting parties

2.1.4.3. Musharaqa (Equity Partnership)

Based on Audu Bello et al.(2014) *Musharaqa* is a contract in which two or more persons contribute capital for the establishment of a particular business venture in such a way that each partner has right to either involve in the administration of the business or not. However, partners may decide to be active or sleeping partner at their own will. In this kind of transaction in Islamic banking, profits are shared based on agreed ratio which need not be equal to their individual capital contribution, but loss is shared strictly based on individual capital contribution. So, Islamic bank will act as a partner in this case in order to contribute in the capital formation as well as in sharing profits and loss. Based on Ahmed (2000), Musharakah or partnership is a type of investment whereby all partners (investors) share profits of a joint venture according to a mutually agreed ratio, while losses are shared exactly in proportion to capital invested by each partner; at the same time, all partners have the right whether or not to participate in the management of the business

2.1.4.4. Ijarah (leasing)

Under this type of investment, the owner or lessor of an asset (a motor vehicle or house) will lease out his assets to a user or lessee for a certain amount of money or rentals; and at the same time, the ownership of the asset remains with the lessor. The aim of this kind of investment is for the investor or owner of the asset to recover the capital cost of purchasing the asset, plus a profit margin, which are obtained out of the rental payments, Ahmed (2000). As Hussain et al. (2015)

a variety of *ijārah*takes a hire-purchase form, whereby there is a promise by the leaser to sell the asset to the lessee at the end of the lease agreement, with the price of the residual asset being predetermined.

2.1.4.5. Bai-salam or Salam

Mohammed, (2012) '*Bai-salam'* means a contract in which advance payment is made for goods to be delivered later. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract.

2.1.4.6. Istisna'

Istisna' is a contract in which a commodity can be transacted before it comes into existence.

The unique feature of *istisna'* (or manufacturing) is that nothing is exchanged on the spot or at the time of contracting. It is perhaps the only forward contract where the obligations of both parties are in the future. In theory, the *istisna'* contract could be directly between the end user and the manufacturer, but it is typically a three-party contract, with the bank acting as intermediary Hussain et al. (2015).

As Hussain et al (2015) explanations there are four main differences between *istisna'* and *salam*contracts.

(i) *istisna'* involves the sale of unique manufactured goods as opposed to *salam*that can be used in standardized goods; (ii) unlike *salam*which requires the payment of full price up front, *istisna'* allows for spot, deferred, or even installment payments;

(iii) an *istisna'* contract can be cancelled unilaterally until the date that the manufacturer starts working on the goods, while the *salam*contract can be cancelled only before the contract signature; and

(iv) The time of delivery is fixed in *salam*, whereas *istisna'* can specify a maximum time for delivery after which the purchaser is no longer bound to accept the goods.

2.1.4.7. Murabaḥah (Cost-Plus Sales Contract)

According to *Journal of Islamic Banking and Finance 2016* Just like Musharakah, Mudharabah is also a partnership, but the difference is that in Mudharabah, one partner (investor) gives money for investing, while the other partner is responsible in providing labor and skill to manage

the money; the profits generated out of the investment are shared in a predetermined ratio. This type of contract is mostly used in the procurement of equipment. It is a sales contract between Islamic bank and its client at a fixed profit called mark-up. In this contract, the client will provide all the specifications of the commodity and the Islamic bank will take the risk of purchasing it for the client at a cost plus mark-up which the client can either pay in installment or sum at a spot or at a stated period. .

2.1.5. Retail Islamic Banking Products

It is division of a bank that deals directly with retail customers. In Islamic banking retail product are the following:-

Current Account (Alwadiah): -The current account is basically safekeeping or Al-wadiah' account and used for day to day cash management. In 'Al-Wadiah', a bank is deemed as a keeper and trustee of the funds, Mohammed (2012). Current accounts are demand deposit accounts kept with the bank on custodial arrangements and are repayable in full on demand. Current accounts are based on the principle of wadia (trust or safe keeping) or amanah (trust), creating an agency contract for the purpose of protecting and safekeeping the depositor's assets. (Iqbal and Mirkahor, 2011:154).

Savings Account: -Islamic banks practice the principle of wadia in operating customer saving account. The bank may request permission to use customer funds deposited in these accounts as long as these funds remain within the banks discretion. The bank does not share with the customer profit earned from the use of customer funds deposited in these accounts funds but

Investment Account: -According to Tabir, (2007:81) Investment deposits represent the case when owners of the fund seek a return on their funds and are willing to spare these funds for an agreed period. These accounts also operate on the principle of mudarabah, but the modes of investment of the funds and distribution of the profits are customized to suit the needs of the clients.

2.1.6. Conceptual literature

According to the study made by Ibrahim (2012), the concept of Islamic Banking and Interest-Free Banking is synonymously used in Islamic Economics literature as an alternative banking framework to the interest-based conventional banking practice. However, there is a difference

between an interest-free bank and an Islamic bank but they are sometimes used interchangeably. Islamic banking not only avoids interest in all its ramifications but also it avoids all other Islamically prohibited activities. Interest-free banking system on the other hand, does not engage in interest but there is no reason to suppose that all its other activities will be done strictly according to Islamic law "Shariah".

2.1.6.1. Principles of IFB

As Iqbal and Molyneux (2005), Banks which participate in the Islamic banking system should follow the shariah (Islamic law) principle. This principle deals with the moral and ethical values which should be considered in dealing with business transaction. The main principles are riba (usury), Gharar (risk and uncertainty), profit or loss sharing and prohibited transaction.

2.1.6.1.1. RIba (USURY)

Based on the doctrine of Holy Quran which is pointed out in (2:275-280, 3: 130-132, 4:161-etc) and Hadith as riba (interest) is prohibited. Ali and Sarkar (1995), Islam prohibits its followers to receive or provide usury even for the purpose of getting a loan or the charged interest rate is low. In Islam, only a number of loans are allowed, such as Qard al-Hasan(benevolent loan), where the borrower is not charged any interest or additional incrimination on the borrowed sum.

2.1.6.1.2. Risk and uncertainty (GHARAR)

"Ghararm eans risk, uncertainty, and legal ambiguity or uncertainty that any one of the parties to a contract can exploit at the expense of the others as Khalifa M. (2016). Activities or transactions like (sale of unborn-she-camel or sheep, conditional sale, sale with loan, selling of agricultural produce before mature, selling the fish in the water etc.) are not permissible/permissive Ajagbe T. S. et al (2013)**.** Though business transactions are generally plagued by a certain level of uncertainty, the excessive one is not welcome under Islamic finance. Hence, contracts forming the basis of business transactions and Islamic banking services should be known to a large extent about their consequence, Latifa and Mervyn (2007).

2.1.6.1.4. Profit and loss sharing (PLS)

Based on Dusuki and Abdullah (2007) study, since interest is prohibited in Islam, the providers of funds and the entrepreneur in an Islamic banking settings share the business risk and profits based on mutual

agreement. This act will equitably distribute income, enhance social justice, and alleviate poverty etc. Chong and Liu (2009) also identify that a unique feature of Islamic banking is its profit-and-loss sharing (PLS) paradigm, which is predominantly based on the mudaraba(profit-sharing) and musharaka(joint venture) concepts of Islamic contracting in which the assets and liabilities of Islamic banks are integrated in the sense that borrowers share profit and losses with the banks.

2.1.6.1.4. Prohibited transactions

Islamic banking system is known as a system free of business activities that violate Sharia regulations such as investment in business related to liquor and gambling. Therefore Islamic banks in Malaysia in particular have established their own Syariah Advisory Council, which comprises Sharia experts who act as auditors and advisors to the bank. They are wholly responsible in ensuring that operations and activities of the bank do not breach the values of Islamic ethics as Mohammad Taqiuddin et al. (2013)

2.2. Empirical Literature Review

2.2.1. Global Study

Early Muslims were not familiar with banking operations, and the concept of a bank as a modern institution is new to Islamic societies. Initially, many Muslims did not even understand the extent and importance of banks in their everyday lives, even if living in non-Islamic countries. However, once they realized that interest payments from conventional banking were at odds with the prohibited riba, they naturally looked for alternative modes of financing. Large segments of the Muslim population are underserviced by conventional finance—only 24 percent of adults have a bank account and 7 percent have access to formal financing, compared with 44 percent and 9 percent, respectively, for non-Muslim populations (Demirgüç-Kunt, Klapper, and Randall 2013).

Early initiatives in the 1960s led to the establishment of Islamic financial institutions in Egypt, India, Malaysia, Pakistan, Saudi Arabia, and later in Iran and Sudan, where Islamic finance was adopted as the only financial system countrywide Nasser, (2005). It is, thus, not surprising to see that Muslims continue to look for Shari'ah-compliant financial institutions around the world, as these become more mature and integrated in conventional financial systems, while offering a

wider range of services. The Economist Intelligence Unit report 2015 show 67% of Muslims in Sub-Saharan Africa and Ethiopia also has more than 30 million Muslims population, this looks very bright prospect of Islamic Banking. The region's Muslim population represents a potential customer base that no one can afford to ignore.

Islamic banks seem to be better placed than classical banks to absorb external shocks (Hassan & Zaher, 2001) and generate financial stability (Cihak & Hesse, 2008). The PLS system reduces the financial leverage and accordingly the risk level borne by an Islamic Bank (in the case of a financial crisis, the lower the leverage, the more likely it is that the Bank will not be able to cope In a study conducted by Audu Bello et al.(2014), as Challenges and Solutions to Islamic Banking System in a Pluralistic–Secular Country like Nigeria, challenges that the Islamic banks face in Nigeria are identified and solution for this challenges are provided. The result shows that the challenges are divided in two which are institutional and operational challenges. The institutional challenges are inappropriate institutional framework, inadequate legal framework, lack of equity institutions, poor supervisory framework, disparity in accounting standard, lack of secondary financial markets and lack of short-term financial instruments and institutions. The operational challenges are religious and cultural differences, lack of innovations in financial products, lack of profit sharing finance, shari'ah related issues, inadequate manpower with the requisite knowledge, lack of awareness and competition. Study on the challenges facing Islamic financial industry by Iqbal (2001) show that limited set of short terms financial instrument and inadequate medium – to long – term financial instruments, limited coverage of Islamic finance, concentration of Islamic banking, poor risk management and governance framework, and difference between Islamic finance in theory and in practice are the main challenges which Islamic banks face.

Shaukat et al. (2011) study also show lack of ultimate authority that governs Islamic financial industry, inadequate qualified human resource in both conventional banking and Islamic laws, illiquidity of Islamic long - term assets with short - term liabilities, lack of Shari'ahauditing standard personnel, and shortage of short – term investment products are the challenges of Islamic banking system. They further state that the other challenges facing Islamic banking system are lack of innovation, lack of adherence to local regulatory reporting and operational Requirements, lack of transparency and accountability, operating manually, and lack of high quality services.

Study conducted by Louis S. Nkwatoh et al. (2014) examines the operational challenges of Islamic banks in Nigeria with particular reference to JAIZ International Bank Plc. the study used both descriptive and inferential methods of analysis and adopted the non-probability sampling technique. The major findings of this study are: 1) the legal framework makes very limited provision for the operation of Islamic banking in Nigeria; 2) religion, manpower and moral hazards significantly lagged the operations of Islamic banks; and 3) competition with conventional banks is a major setback to Islamic banking in Nigeria. the study concluded that operational challenges are a major setback to the performance of Islamic banks in Nigeria.

2.2.2. Empirical Literature Review-Ethiopian Context

There are numerous studies carried out regarding the challenges and opportunities of interest free banking. The Islamic finance and banking literature shows that many scholars have put their interest in the subject matter of Islamic finance and banking challenges and opportunities.

A questionnaire was developed to investigate the challenges facing the development of Islamic banking in Kenya by Nur Aqilah Zainordin (2016). His findings consider the Legal Support as most challenge as Islamic law offers its own framework for execution of commercial and financial contracts and transactions. Iqbal, Aḥmad and Khan (2009) supported that legal challenges affected the development of Islamic banking and financial institutions as Islamic banking is lack of effective supervisory framework. It caused the prevailing system inefficiency and hence it deserves a serious attention. Legal challenges also exist when Ahmad Ibrahim (2004) found that commercial banking and company laws do not appropriate for the implementation of Islamic banking and financial contracts.

Haidi and Malik (2006) supported the statement of "Misunderstanding of Islamic financial concept." They stated that the first impression of Islamic banking is the fixed rate concept of a "halal" loan serves as the substitution for conventional loan. Karbhari, Naser, and Shahin (2004) claimed that the difference Islamic cultures and societies within different country causing the interpretation of Shariah principles goes inconsistent among each of the Muslim schools. The inconformity towards the Shariah views and different methodologies make the concept of Islamic financial institutions become unclear.

The study of John Wiley and Sons (2011) proved this challenge. He found that Islamic financial intermediaries expose themselves to liquidity problem due to the lack of developed money

market and the shortage of short term investment securities such as treasury bills and marketable securities which offer limited capital risk with optimum returns.

Not only this, Archer and Karim (2006) also proved that the development of Islamic financial institutions is challenging due to the incompleteness of traditional financial instruments which applied to the Shariah Law. Unlike conventional banks, Islamic banks are prohibited to issue treasury securities to maintain liquidity. There are still no other corresponded alternatives to substitute treasury securities to carry out the liquidity function.

The discussion of Islamic banking and finance has a long history in the world but it is not the same in Ethiopia because the phenomenon of Islamic banking and finance is a new concept. And there have been very few studies conducted regarding challenges of interest free banking and its opportunities.

Akmel (2015) study examine the challenges and prospects of Islamic banking service for resource mobilization in Ethiopian commercial banks through conducting questionnaire and Semi-structured interview for the selected three banks staff using stratified sampling. The result show that awareness, manpower, legal framework, societal belief, resource requirements as some of the challenges while economic growth, attraction of investors, and fostering investment are the likely prospects of the banks. I recommended that banks need to create awareness for public acceptance and training of staffs, employ good marketing techniques, governing body need to establish clear set of legal framework, and compliance with sharia issues should be adhered.

Debebe (2015) study asses the willingness of the Ethiopian customers to use interest free banking and the factors that may influence their decision and the results showed that perceived relative advantage, perceived compatibility, customers' level of awareness and subjective norm have a significant positive impact on the attitude towards interest free banking in commercial bank of Ethiopia.

Kerima (2016) conduct study in challenges on Interest free banking services in Ethiopia with particular reference to the commercial bank of Ethiopia and this research has found out that the challenges to IFB services as: lack of commitment of the bank, lack of Shariah advisor, lack of supportive regulatory directives, Problem related to Ethiopian Commodity Exchange (ECX)
law, lack of capacity to deliver IFB product at full rage, lack of awareness of customer about IFB products, lack of trust and confidence of customers, inadequate marketing and promotion, double

taxation, nature of IFB products, unavailability of IFB products in all of its branches and the IFB being delivered in a Window model.

The recent study by Abraham (2017) on determinants of customers' intention to use interest free banking products and factors affecting employees' product knowledge in the context of commercial bank of Ethiopia and the result show that except knowledge, all the other variables: attitude, social influence, perceived financial cost and religious belief have significant effect on IFB use intention.

Chapter Three

3. Research Design and Methodology

This section contains the research methodology employed in order to address the research objective. The chapter covers the research design, methods of data collection and procedures, data analysis techniques, data sources and instruments, target population, sampling procedure, and variable definition and model specification with the highlights of the data analysis and presentation methods.

3.1. Research Design

Research design is a plan or a blueprint of how to conduct the research (Babbie & Mounton, 2001). The research was conducted to assess the prospect and challenges of IFB system in case of commercial bank of Ethiopia in Betel branch. Approach The major purpose of descriptive research is description of the state of affair as it exists at present. This study was used descriptive research design in regarding to the researcher objective which is describing the view of the respondent with regard to the prospect and challenges of IFB.

3.2. Research Approach

Mixed methods research Approach combines elements of quantitative research and qualitative research in order to answer your research question. Mixed methods can help to gain a more complete picture than a standalone quantitative or qualitative study, as it integrates benefits of both methods. By integrating data from both quantitative and qualitative sources, researchers can gain valuable insights into their research topic. The study will be focuses on the Prospect (opportunity) and challenges of interest free Banking in Ethiopia in case of commercial bank of Ethiopia .The study is use both qualitative and quantitative research approaches (mixed approach) in order to achieve the research objective. I employed a mixed-methods approach; I chose approach to provide a balanced perspective, enhance validity and reliability, increases richness of data for understanding of the challenges and opportunities faced by IFB.

3.3. Target Population and sample

The total population for this study included all 30 employees working in the Interest-Free Banking department at the Commercial Bank of Ethiopia, Betel Branch. Since the number was manageable, I used a census method, collecting data from the entire group to avoid sampling bias and obtain accurate information.

For customers, since there was no complete list available, I used a non-probability convenience sampling technique and collected data from 16 available customers who were willing to participate during the data collection period.

3.4. Source of data

"According to "(Creswell & Creswell, 2017) there are three type of research approach, these are - Qualitative, Quantitative and Mixed Approach. Qualitative research explores attitudes, behavior and experience through such methods as interview or focus groups but quantitative research generates statistics through the use of large scale survey research, by methods such as questioners or structured interviews and mixed approach research is an approach to inquiry that combines or associates both qualitative and quantitative forms." To conduct and realize the objectives of the study descriptive research design of survey method used due to its appropriateness. The reason behind this is that descriptive research describes particular phenomena, focusing up on the issue of what is happening, or how much of it has happened, rather than why it is happening. And also the nature of the research title which forces in describing the existing situation under the study. Both My qualitative and quantitative data collected from respondents and also bank reports used for the intended purpose. In order to conduct the research primary data is used. The sources of my primary data are from customers, employees of interest free banking department, managers and supervisors of the banks.

3.5. Data Analysis & Presentation

Primary data collected using structural interview from credit managers because, to get relevant data and by using questioners from customers and employees. In the questioners, I used both close- end and open- end questions in such a way that they shall generate important information on CBE IFB Banking in Ethiopia in case of commercial bank.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1. Analysis of Employees respondents

Employee's respondent was analyzed based on the categorical data as follows.

Based on this study 62.5% of employees were male and the rest 37.5% of employees were female in CBE Interest Free Banking Service at Betel branch as illustrated in table 4.1 below.

Table 4.1: Sex of employee's respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	10	62.5	62.5	62.5
	Female	6	37.5	37.5	100
	Total	16	100	100	

Source: primary data, 2024

Based on this study the 50% of employees were found between ages of 18-30 years old, 37.5% of employees were found between ages of 31-40 years old and 12.5% of employees were found between ages 41-50 in CBE Interest Free Banking Service at Betel Branch as illustrated in table 4.2 below. Therefore, most employees in CBE Interest Free Banking were youngsters.

Table 4.2: Age of employee's respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
	18-30 years	8	50	50	50

Valid	31-40 years	6	37.5	37.5	87.5
	41-50 years	2	12.5	12.5	100
	Total	16	100	100	

Source: primary data, 2024

In this study the 68.75% of employees were B.A degree holder and the rest 31.25% of employees were M.A degree holders and above on their academic status in CBE Interest Free Banking Service at Betel Branch as illustrated in table 4.3 below. Therefore, most employees were Bachelor of degree holders in CBE Interest Free Banking Service at Betel Branch.

Table 4.3: Educational Status of employee's respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA Degree	11	68.75	68.75	68.75
	MA degree and above	5	31.25	31.25	100
	Total	16	100	100	

Source: primary data, 2024

Based on this study 56.25% of employees were married and the rest 43.75% of employees were single in CBE Interest Free Banking Service at Betel Branch as illustrated in table 4.4 below.

Table 4.4: Marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	4	21.1	21.1	21.1
	Married	15	78.9	78.9	100.0
	Total	19	100.0	100.0	

Source: primary data, 2024

In this study the 31.25% of employees were Muslims and the rest 68.75% of employees were non- Muslims in CBE Interest Free Banking Service at Betel Branch as illustrated in table 4.5 below. Therefore, most employees were Non-Muslims in CBE Interest Free Banking Service at Betel Branch

Table 4.5: Religion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Muslim	5	31.25	31.25	31.25
	Non-Muslim	11	68.75	68.75	100
	Total	16	100	100	

Source: primary data, 2024

Based on this study 50% of employees were found between 6-12 years of experience, 25% of employees were found between 1-5 years of experience, 18.75% of employees were above 15 years of experience and 6.25% employees were less than one years of experience in CBE Interest Free Banking Service at Betel Branch as illustrated in table 4.6 below. Therefore, most employees in CBE Interest Free Banking are well experienced.

Table 4.6 Experience of employee's respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than a year	1	6.25	6.25	6.25
	1-5 years	4	25	25	31.25
	6-12 years	8	50	50	81.25
	Above 15 years	3	18.75	18.75	100
	Total	16	100	100	

Source: primary data, 2024

In this study 75% of employees were strongly agreed that there is potential customer in interest free banking service, 18.75% of employees were agreed that there is potential customer in interest free banking service and the rest 6.25% of employees were strongly disagreed that there is potential customer in interest free banking service at CBE Interest Free Banking Service at Betel Branch as shown in table 4.7 below. This result showed that most employees have enough understanding about there is large numbers of potential customer in interest free banking service of CBE at Betel Branch.

Table 4.7: Interest free banking customers have enough understanding about free interest banking.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	12	75	75	75
	Strongly disagree	1	6.25	6.25	81.25
	Agree	3	18.75	18.75	100.0
	Total	16	100.0	100.0	

Source: primary data, 2024

In this study 50% of employees were strongly agreed 43.75% of employees were agreed and 6.25% of employees were disagreed that IFB banking helps to attract new customers from the existing bank, as illustrated in table 4.8 below.

Table 4.8: IFB banking helps to attract new customers from the existing bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	8	50	50	50
	Agree	7	43.75	43.75	93.75
	disagree	1	6.25	6.25	100
	Total	16	100	100	

Source: primary data, 2024

About 56.25% of employees were strongly agreed that there is IFB banking service needs in Ethiopia, so it will alleviate the financial service deprivation of the Muslim community and those who need interest free banking service 31.25% of employees were agreed and 12.5% of employees were disagreed that there is IFB banking service needs in Ethiopia, so it will alleviate the financial service deprivation of the Muslim community and those who need interest free banking service in CBE at Betel Branch as, illustrated in table 4.9 below. So, interest free banking is needs in Ethiopia to alleviate the financial service deprivation of the Muslim community.

Table 4.9: There is IFB banking service needs in Ethiopia so it will alleviate the financial service deprivation of the Muslim community and those who need interest free banking service

		Frequency	Percent	Valid Percent	Cumulative Percent
	strongly agree	9	56.25	56.25	56.25
	agree	5	31.25	31.25	87.5

Valid	disagree	2	12.5	12.5	100.0
	Total	16	100.0	100.0	

Source: primary data, 2024

About 43.75% of employees strongly agreed that IFB banking will enhance banks brand image as ethical 43.75% of employees were agreed, 6.25% of employees were strongly disagreed and the rest 6.25 % of them are neutral that IFB banking will enhance banks brand image as ethical in CBE at Betel Branch, as illustrated in table 4.10. based on the result IFB will enhances the banks growth and improve competitiveness to the market.

Table 4.10: IFB banking will enhance banks brand image as ethical

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	7	43.75	43.75	43.75
	neutral	1	6.25	6.25	50
	Agree	7	43.75	43.75	93.75
	strongly disagree	1	6.25	6.25	100.0
	Total	16	100.0	100.0	

Source: primary data, 2024

In this study about 75% of employees were strongly agreed that IFB banking service is one means of resource mobilization in the banking industry, 6.25% employees were agreed that IFB banking service is one means of resource mobilization in the banking industry, 6.25% of employees were disagreed that IFB banking service is one means of resource mobilization in the banking industry and the rest 12.5% of employees neutral that IFB banking service is one means of resource mobilization in the banking industry in CBE at Betel branch. So most of respondents

strongly that IFB banking service is one means of resource mobilization in the banking industry in case of CBE at betel branch as illustrated in table 4.11 below.

Table 4.11: IFB banking service is one means of resource mobilization in the banking industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	12	75	75	75
	Agree	1	6.25	6.25	81.25
	Disagree	1	6.25	6.25	87.5
	Neutral	2	12.5	12.5	100
	Total	19	100.0	100.0	

Source: primary data, 2024

In this study about 68.75% of employees were strongly agreed that IFB banking system is helpful for the growth of Ethiopian economy, 18.75% and agreed that Interest Free Banking system of employees were strongly agreed that IFB banking system is helpful for the growth of Ethiopian economy, 6.25% of employees were neutral and the rest 6.25%of the employees disagree that IFB banking system is helpful for the growth of Ethiopian economy as shown in table 4.12 below.

Table 4.12: IFB banking system is helpful for the growth of Ethiopian economy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	11	68.75	68.75	68.75
	Agree	3	18.75	18.75	87.5
	Neutral	1	6.25	6.25	83.75
	Disagree	1	6.25	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024

Based on this study 50% of employees were agreed that IFB banking has a good system to maintain the risk well, 31.25% of employees were strongly agreed that IFB banking has a good system to maintain the risk well, 12.5% of employees were disagreed that IFB banking has a good system to maintain the risk well, and the remaining 6.25% of the employees were neutral about IFB banking has a good system to maintain the risk well, so half of the employees agreed that IFB banking has a good system to maintain the risk well in CBE at Betel Branch as shown in table 4.13 below.

Table 4.13: IFB banking has a good system to maintain the risk well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	5	31.25	31.25	31.25
	Agree	8	50	50	81.25
	Disagree	2	12.5	12.5	93.75
	Neutral	1	6.25	6.25	100
	Total	19	100.0	100.0	

Source: primary data, 2024

About 68.75% of employees were strongly agreed that the bank offer certain IFB banking product (saving and loan service) that access to IFB banking will improve the tendency for business expansion and investment activity, 25% of employees were agreed and the rest 6.25% of employees were strongly disagreed that the bank offer certain IFB banking product (saving and loan service) that access to IFB banking will improve the tendency for business expansion and investment activity in CBE at Betel Branch as illustrated table 4.14 below. So most of the employees strongly agreed that bank offer certain IFB banking product (saving and loan service) the access to IFB banking will improve the tendency for business expansion and investment activity will increase.

Table 4.14 the bank offer certain IFB banking product (saving and loan service) the access to IFB banking will improve the tendency for business expansion and investment activity will increase.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	11	68.75	68.75	68.75
	Agree	4	25	25	93.75
	Strongly disagree	1	6.25	6.25	100.0
	Total	16	100.0	100.0	

Source: Primary Data, 2024

In this study 62.5% of employees were little awareness about customers knowledge towards one of IFB products Murabaha (markup-principle), 25% of employees were fully awareness about knowledge's of customer towards Murabaha which is among the product of IFB in CBE at Betel Branch, and the rest 12.5% of employees were fully unawareness about their customers knowledge towards murabaha in CBE at betel branch. So most of the employees had a little awareness about customer's knowledge towards murahaba which is among the products of IFB in CBE at betel branch as shown illustration in table 4.15

Table 4.15: Knowledge of IFB customers towards the interest free banking products for Murabaha (mark-up principle)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	10	62.5	62.5	62.5
	Fully awareness	4	25	25	87.5
	Fully unawareness	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: Primary Data, 2024

In this study 43.75% of employees were little awareness about customers knowledge towards one of IFB products Musharaka 37.5% of employees were fully awareness about knowledge's of customer towards musharaka which is among the product of IFB in CBE at Betel Branch, and the rest 18.75% of employees were fully unawareness about their customers knowledge towards Musharaka in CBE at betel branch. So most of the employees had a little awareness about customer's knowledge towards Musharaka which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.16

Table 4.16: Knowledge of IFB customers towards the interest free banking products for Musharaka

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	7	43.75	43.75	43.75
	Fully awareness	6	37.5	37.5	81.25
	Fully unawareness	3	18.75	18.75	100
	Total	16	100.0	100.0	

Source: primary data, 2024

In this study 31.25% of employees were little awareness about customers knowledge towards one of IFB products Mudharaba, 56.25% of employees were fully awareness about knowledge's of customer towards Mudharaba which is among the product of IFB in CBE at Betel Branch, and the rest 12.5% of employees were fully unawareness about their customers knowledge towards Mudharaba in CBE at betel branch. So most of the employees had a fully awareness about customer's knowledge towards Mudharaba which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.17

Table 4.17: Knowledge of IFB customers towards the interest free banking products for Mudharaba

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	5	31.25	31.25	31.25
	Fully awareness	9	56.25	56.25	87.5
	Fully unawareness	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study 50% of employees were little awareness about customers knowledge towards one of IFB products Ijarah, 43.75% of employees were fully awareness about knowledge's of customer towards Ijarah which is among the product of IFB in CBE at Betel Branch, and the rest 6.25% of employees were fully unawareness about their customers knowledge towards Ijarah in CBE at betel branch. So most of the employees had a little awareness about customer's knowledge towards Ijarah which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.18

Table 4.18: Knowledge of IFB customers towards the interest free banking products for Ijarah

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	8	50	50	50
	Fully awareness	7	43.75	43.75	83.75
	Fully unawareness	1	6.25	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study 56.25% of employees were little awareness about customers knowledge towards one of IFB products Salam 37.5% of employees were fully awareness about knowledge's of customer towards Salam which is among the product of IFB in CBE at Betel Branch, and the rest 6.25% of employees were fully unawareness about their customers knowledge towards Salam in CBE at betel branch. So most of the employees had a little awareness about customer's knowledge towards Salam which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.19 below.

Table 4.19: Knowledge of IFB customers towards the interest free banking products for Salam

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	9	56.25	56.25	56.25
	Fully awareness	6	37.5	37.5	93.75
	Fully unawareness	1	6.25	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study 43.75% of employees were little awareness about customers knowledge towards one of IFB products Istisnaa 37.5% of employees were fully awareness about knowledge's of customer towards Istisnaa which is among the product of IFB in CBE at Betel Branch, and the rest 18.75% of employees were fully unawareness about their customers knowledge towards Istisnaa in CBE at betel branch. So most of the

employees had a little awareness about customer's knowledge towards Istisnaa which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.20 below.

Table 4.20: Knowledge of IFB customers towards the interest free banking products for Istisnaa.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	7	43.75	43.75	43.75
	Fully awareness	6	37.5	37.5	81.25
	Fully unawareness	3	18.75	18.75	100
	Total	16	100.0	100.0	

Source: primary data, 2024

In this study 43.75% of employees were little awareness about customers knowledge towards one of IFB products Wadiah, 50% of employees were fully awareness about knowledge's of customer towards Wadiah which is among the product of IFB in CBE at Betel Branch, and the rest 6.25% of employees were fully unawareness about their customers knowledge towards Wadiah in CBE at betel branch. So most of the employees had a little awareness about customer's knowledge towards Wadiah which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.21below

Table 4.21: Knowledge of IFB customers towards the interest free banking products for Wadiah.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	7	43.75	43.75	43.75
	Fully awareness	8	50	50	93.75
	Fully unawareness	1	6.25	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study 62.5% of employees were little awareness about customers knowledge towards one of IFB products Wakalah, 25% of employees were fully awareness about knowledge's of customer towards Wakalah which is among the product of IFB in CBE at Betel Branch, and the rest 12.5% of employees were fully unawareness about their customers knowledge towards Wakalah in CBE at betel branch. So most of the

employees had a little awareness about customer's knowledge towards Wakalah which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.15 below.

Table 4.22: Knowledge of IFB customers towards the interest free banking products for Wakalah

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little awareness	10	62.5	62.5	62.5
	Fully awareness	4	25	25	87.5
	Fully unawareness	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study 43.75% of employees were little awareness and fully awareness about customers knowledge towards one of IFB products Quard Hassan in CBE at Betel branch the rest 12.5% of employees were fully unawareness about knowledge's of customer towards Quard Hassan which is among the product of IFB in CBE at Betel Branch. So most of the employees had a little awareness and fully awarwness about customer's knowledge towards Quard Hassan which is among the products of IFB in CBE at betel branch as shown illustrated in table 4.23 below.

Table 4.23: Knowledge of IFB customers towards the interest free banking products for Quard Hassan.

		Frequency	Percent	Valid Percent	Cumulative Percent
	Little awareness	7	43.75	43.75	43.75
	Fully awareness	7	43.75	43.75	87.5
	Fully unawareness	2	12.5	12.5	100

Valid	Total	16	100.0	100.0	

Source: primary data, 2024.

About 75% of employees were strongly agreed that they have a clear idea on what Interest free banking services differ from conventional banking service, 12.5% of employees were agreed that they have a clear idea on what Interest free banking services differ from conventional banking service,and the rest 6.25% of employees were strongly disagreed and disagreed that they have a clear understanding on what Interest free banking services differ from conventional banking service in CBE at Betel Branch as illustrated table 4.24 below. So most of the employees strongly agreed that they have a clear understanding on what Interest free banking services differ from conventional banking service, it indicates that customers of IFB service in CBE at Betel Branch are mostly trusted by the employees of the bank.

Table 4.24 Understanding of Islamic Financial Concept that the employee have a clearly idea on what Interest free banking differ from conventional banking service.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	12	75	75	75
	Disagree	1	6.25	6.25	81.25
	Strongly disagree	1	6.25	6.25	87.5
	Agreed	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 62.5% of employees were strongly agreed that they have a clear understanding of the reason why interest is prohibited in Interest free banking and what are its effects on society and economy 31.25% of employees were agreed that they have a clear understanding the reason why interest is prohibited in Interest free banking and what are its effects on society and economy and the rest 6.25% of employees were strongly disagreed that they have a clear understanding of the reason why interest is prohibited in Interest free banking and what are its effects on society and economy in CBE at betel branch as illustrated in table 4.25 below. So most of the employees were strongly agreed and agreed that they have a clear understanding about reason why interest is prohibited in Interest free banking and what are its effects on society and economy.

Table 4.25 Employees understanding the reason why interest is prohibited in Interest free banking and what are its effects on society and economy.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	12	75	75	75
	Disagree	1	6.25	6.25	81.25
	Strongly disagree	1	6.25	6.25	87.5
	Agreed	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 37.5% of employees were strongly agreed that they have a clear understanding about the products of IFB "musharakah" concept and practice 31.25% of employees were agreed that they have a clear understanding about the products of IFB "musharakah" concept and practice, 25% of the employees were no idea about the concepts and practice of Musharaka and the rest 6.25% of the employees were disagreed that they have a clear understanding about the concept and practice of "musharakah in CBE at betel branch as illustrated in table 4.26 below. So most of the employees were strongly agreed that they have a clear understanding about the concept and practice of Musharakah.

Table 4.26 I have a clear understanding about the concept and practice of "musharakah".

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	6	37.5	37.5	37.5
	Neutral	4	25	25	62.5
	Strongly disagree	1	6.25	6.25	68.75
	Agreed	5	31.25	31.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 75% of employees were strongly agreed that they have a clear understanding about the products of IFB "mudarabah"concept and practice 12.5% of employees were agreed that they have a clear understanding about the products of IFB "mudarabah" concept and practice, 6.25% of the employees were no idea about the concepts and practice of mudarabah and the rest 6.25% of the employees were strongly disagreed that they have a clear understanding about the concept and practice of "mudarabah in CBE at betel branch as illustrated in table 4.27 below. So most of the employees were strongly agreed that they

have a clear understanding about the concept and practice of mudarabah.

Table 4.27 I have a clear understanding about the concept and practice of "mudarabah".

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	12	75	75	75
	Neutral	1	6.25	6.25	81.25
	Strongly disagree	1	6.25	6.25	87.5
	Agreed	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 50% of employees were strongly agreed that they have a clear understanding about the products of IFB "Ijara" concept and practice the rest 12.5% of employees were agreed, strongly disagreed, disagreed and neutral that they have a clear understanding about the products of IFB "Ijara" concepts and practice, in CBE at betel branch as illustrated in table 4.28 below. So most of the employees were strongly agreed that they have a clear understanding about the concept and practice of IFB product Ijara.

Table 4.28 I have a clear understanding about the concept and practice of "ijara".

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	8	50	50	50
	Neutral	2	12.5	12.5	62.5
	Strongly disagree	2	12.5	12.5	75
	Agreed	2	12.5	12.5	87.5
	Disagree	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 31.25% of employees were strongly agreed that The Muslim and non- Muslim Community is aware of Interest free banking system, 18.75% of the employees were agreed that The Muslim and non- Muslim Community is aware of Interest free banking system, 12.5% of the employees were disagreed that the Muslim and non- Muslim Community is aware of Interest free banking system and the rest 37.5% of the employees are no ideas about the Muslim and non-Muslim Community is aware of Interest free banking system in CBE at betel Branch as illustrated in table 4.29 shown below. So it indicates that the majority of employees of CBE in Betel branch have no idea about the Muslim and non-Muslim communities were aware of IFB services of CBE

at betel branch.

Table 4.29 Challenges related items: The Muslim and non- Muslim Community is aware of Interest free banking system.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	5	31.25	31.25	31.25
	Neutral	6	37.5	37.5	68.75
	Agreed	3	18.75	18.75	87.5
	Disagree	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 62.5% of employees were strongly agreed that there is a gap in qualified human resource for Interest free banking, 31.25% of the employees doesn't have any ideas about there is a gap in qualified human resource for Interest free banking, and the rest 6.25% of the employees were disagreed that there is a gap in qualified human resource for Interest free banking at CBE in betel branch as illustrated in table 4.30 shown below. So most of the branch employees strongly agreed that there is a challenge in qualified human resource for interest free banking in CBE at betel branch.

Table 4.30 Challengesrelated items: There is a gap in qualified human resource for Interest free banking.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	10	62.5	62.5	62.5
	Neutral	5	31.25	31.25	93.75
	Strongly disagree	1	6.26	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 31.25% of employees were strongly agreed that Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic banking services are fully comply with sharia law, 37.5% of employees were agreed that Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic banking services are fully comply with sharia law, 6.25% of employees were strongly disagreed and disagreed that Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to

ensure that Islamic banking services are fully comply with sharia law, and the rest 18.75%of employees are neutral that means they have no ideas about that Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic banking services are fully comply with sharia law as illustrated in table 4.31 shown below. So most of the branches employees agreed that Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic banking services are fully comply with sharia law in CBE at betel branch.

Table 4.31 Challengesrelated items: Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic banking services are fully comply with sharia law.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	10	62.5	62.5	62.5
	Neutral	5	31.25	31.25	93.75
	Strongly disagree	1	6.26	6.25	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

In this study about 62.5% of employees were agreed that the current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides in betel branch, 18.75% 0f employees were disagreed that the current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides, 12.5% of employees were strongly disagreed that the current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides at betel branch, and the rest 6.25% of employees have no idea about that the current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides in CBE at betel branch as illustrated in table 4.32 shown below. So most of the branches employees agreed that the current customers are fully satisfied with services that Interest free banking of Commercial Bank of Ethiopia provides at betel branch.

Table 4.32 Challenges related items: The current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Agree	10	62.5	62.5	62.5
	Neutral	1	6.25	6.25	68.75
	Disagree	3	18.75	18.75	87.5
	Strongly disagree	2	12.5	12.5	100
	Total	16	100.0	100.0	

Source: primary data, 2024.

Based on the data I collected from banks management through interview, currently the status of IFB in CBE was growing but there was lack of leverage of employees about IFB product and service. The major types of interest free banking products that CBE provided were Wadia, Mudaraba and Amana. When the CBE operates IFB it faced various Challenge such as lack of awareness about IFB products was the first and most challenges like understanding gap in employees of the bank. Some customer was lacking awareness in relation to IFB that means some customers believes that only Muslims use IFB, but there was a number of customer in our branch that were non-Muslims.

4.2. Analysis of Interview for Bank managers in challenges and prospect of IFB is analyzed by using narrative approach and presented below

The bank managers think about the current status of interest free banking in Commercial bank of Ethiopia was growing, but there was lack of leverage of employees about IFB product and service. Based on the analysis of bank managers Wadia, Mudaharaba, and Amana were the major type of interest free banking products that the bank currently made available to its customers. Customers and employees lack of awareness about IFB products was the challenges to deliver interest free banking products. Most customers think that IFB products provided to Muslims only. The managers did not believe that non-Muslim accept sharia law and adopt these services because some customer is a lack of awareness's in relation to IFB. There were non-Muslim customers in bank those used IFB services and there is a number of customer in Betel branch that were non-Muslims.

4.2.1. Challenges to Deliver IFB products

The main objective of this research was to identify the prospect and challenges that commercial bank of Ethiopia has faced while providing IFB products and also the challenges

that customer has faced to utilize IFB products. The research questions to seek answer for staffs. But the challenges IFB products from being delivered are identified by using structured interview to the manager and IFB department managers the two branches of the CBE NUR bank have been requested about the challenges of IFB products/services that they have faced. I summarized the identified challenges as follows.

I Lack of commitment of the bank

As a new business IFB should be given the necessary attention and support from all stakeholders to stand and succeed in the business. However, according to response obtained from staffs of IFB is not being supported and given the necessary attention as it demanded from the bank as a service provider.

II Lack of Shariah advisor

There is problem of getting well educated and qualified person in Shariah as well as business knowledge, so Shariah advisor/board is mandatory requirement to undertake IFB business. According to Pasha (2014) IFB shall comply with Shariah law, which means bank's products and services and even its transaction and business activity has to be in line with the principles and law stipulated in Shariah. But as the response of the bank officials there is no well-educated and business knowledge Shariah advisor board. .

III Lack of supportive supervisory directive

In delivery of IFB products supportive supervisory directive is taken as challenges. For instance, one of the directives is in direct conflict with prospective IFB product offering and does not consider the nature and requirements of IFB operation. The Islamic banks are regulated by the same framework as that of conventional banks except related to interest rate.

IV Lack of trust and confidence

According to the responses Iobtained from the sample, customers lack trust and confidence as to the bank"s capacity and commitment to deliver Shariah compliant IFB product and services. Per the response customers believed that there is mixing of IFB and conventional banking transaction.

V Lack of awareness and understanding

Availability of less number of customers is one of the obstacles and limits the bank to be the existed one. As the respondent of the officials show that some banks may not deliver the service even for one customer with in the whole day because of unavailability of customer .The

response of the bank officials, customers did not have trust if the product is delivered by non-Muslim staff and customer also believed that the service which it is delivered by the bank based Shariah compliant IFB product and services. As the response of bank officials, customers believed that there is mixing of IFB and conventional banking transaction and the bank is not even committed to give truly IFB services this has eroded the customers‟ trust.

VI Ethiopian Commodity Exchange (ECX) law Problems

Commodities purchased from ECX floor cannot be sold locally. Which means the bank cannot buy and sale commodities for its export customer by providing Mudrabaha financing. This is also the major problem for the underutilization of the existing Murabaha financing.

4.2.2. Prospect of IFB

- One of the most important prospects of Islamic Banking is the existence of potential customer of IFB financial service of the bank in Ethiopian, Muslims community. As Mohammed (2012) study show the non-availability of interest-free banking products results, many Ethiopians, including those in the economically disadvantaged strata of society, to be excluded from financial services due to reasons of their faith.
- Ethiopia is a developing country and needs huge investments. Investment framework is favorable in Ethiopia. Ethiopia's legal framework, which is the best and it protects foreign investors. Also, the economies of neighboring Islamic countries have limited opportunities to invest their country. Ethiopia has abundant human resource and labor force too.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

Based on the data analysis and presentation the researchers summarized the findings of the study by analysis of employee's response on questionnaires as follows:

Based on the analysis of employee's responses the following summaries were made:

- According to employees response, most customers were had no enough understanding about interest free banking service in CBE at Betel Branch.
- Most employees also agreed that interest free banking products (Saving and Loan services) of Commercial Bank of Ethiopia are improving investment opportunities.
- On the analysis of opportunities of IFB at CBE, most employees agreed that Interest Free Banking system suggests strong alternative systems which are profitable and well controlled institutions.
- Most employees agreed that many Muslims were not using banking services due to savings and loan services involve interest in CBE at Betel Branch.
- Most of the employees were strongly agreed and agreed that they have a clear understanding about reason why interest is prohibited in Interest free banking and what are its effects on society and economy.
- Based on the response of most employees the current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides.
- Most employees were agreed that there was a gap in qualified human resource for Interest free banking taken as the challenge for IFB in CBE at Betel Branch.
- Also most employees were agreed that Commercial Bank of Ethiopia have enough qualified scholars in interest free banking to ensure that Islamic banking services are fully comply with sharia law in CBE interest free banking at Betel Branch.

5.2. Conclusions

I drawn the following conclusion based on the data analysis and presentation, and summary of findings as follows.

- Based on employee's response few IFB customers were not fully understand the interest

free banking system in CBE at Betel Branch.

- Most IFB customer's needs financial institution in Ethiopia that currently provides financial products (Saving and loan services) that are in accordance with non interest banking.
- Most customers' business expansion or new investment opportunity was limited due to lack of interest-free banking system before Islamic banking launched in Ethiopia and was not got these opportunities.
- Interest free banking service is helpful for the growth Ethiopian economy.
- Still few customers were not satisfied with the range of services that interest free banking in Commercial Bank of Ethiopia provides in Betel branch.
- Most employees of CBE at Betel branch have no idea about awareness of Muslim and non-Muslim community towards IFB.
- There was a gap in qualified human resource for Interest free banking taken as the challenge for IFB in CBE at Betel Branch.

5.3. Recommendations

I made the following recommendation based on summary of findings and conclusions as follows.

- National Bank of Ethiopia and the Shariah Supervisory Board in Ethiopia has to provide more training and create awareness to the staff and public in order to get more opportunities and minimize the equipped challenges by providing the training center.
- Commercial Bank of Ethiopia should increases the awareness of customers and employees regarding to IFB at betel branch as well as a whole country.
- Commercial Bank of Ethiopia should hired or employed qualified scholars in Interest Free Banking in CBE at Betel branch and/or other branches to overcome the challenges of ensuring that interest free banking services fully comply with Sharia Law.
- Commercial Bank of Ethiopia should give training to the staff of banks in line with the conventional banking system. Compared to conventional banking concepts, Islamic banking is a very new discipline and has distinct rules and principles. This implies for, a need of training in the procedures and principles of Islamic banking which would further accelerate the growth of the sector. The bank needs to adopt comprehensive and regular training on the IFB products and service for those staff who are engaged in providing the service.

- Commercial Bank of Ethiopia should work with sharia advisory board to come up with relevant regulations governing the operation of Islamic banking (interest free banking) that conforms to the principles
- Commercial Bank of Ethiopia should make assessment or research how to satisfy IFB customers that CBE presented.

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Appendix

Questionnaire filled by

employee & bank manager

Dear Respondents:

This questionnaire is designed to collect information from employees of CBE for the preparation of research entitled assessment of challenges and prospects of IFB in CBE betel branch. The research is conducted in a partial fulfillment of BA degree in accounting and finance. Any information gathered will be only for academic purpose. Therefore, you are kindly requested to give an accurate and honest response, so that I can produce quality paper which enables me to acquire BA degree in accounting and finance.

Instruction:

I would like to inform you that writing your name is not necessary please put a right sign the answer that you think it is appropriate like this (√), multiple answers are possible and write down the answers in the space provided. Thank you in advance for your cooperation

I kindly request you to make the answer of your choice.

Demographic characteristics of Respondents

1. Gender: Male 2, Female
2. Age:

   18-30years

   31-40years

   41-50years

   51 and above
3. Educational Status:

Diploma BA Degree MA Degree and above

4. Experience in the bank

   Less than a year ☐ 1-5 years 6-12 year above 15 years

5. Marital Status:

Single ☐ 2,married ☐ divorced ☐ widow ☐

6. Religion Muslim ☐ Non-Muslim ☐

Please indicate your agreement or disagreement with the following statements about Islamic (Interest-Free) banking by making (√) on one of the boxes for each statement.

Prospects and Opportunities of IFB banking

Existence of potential customers						
No	Statement	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Stronglyagree 5
1	There is potential customer in IFB banking service					

2	IFB banking helps to attract new customers from the existing bank					
3	There is IFB banking service needs in Ethiopia so it will alleviate the financial service deprivation of the Muslim community and those who need interest free banking service					
4	IFB banking will enhance banks brand image as ethical					
Deposit mobilization and profitability of IFB service						
No	Statement	Strongly disagree 1	Disagree 2	Neutral3	Agree4	Stronglyagree 5
1	IFB banking service is one means of resource mobilization in the banking industry					
2	IFB banking system is helpful for the growth of Ethiopian economy					
3	IFB banking has a good system to maintain the risk well					
4	If the bank offer certain IFB banking product (saving and loan service) the access to IFB banking will improve the tendency for business expansion and investment activity will increase					

Knowledge of IFB customers towards the interest free banking products

To what extent are you aware of the following Interest free banking products?

No	IFB products	Fully Aware	Little Awareness	Fully unaware
1	Murabaha (mark-up principle)			
2	*Musharaka* (joint venture)			
3	*Mudharabah* (trust financing)			
4	*Ijarah* (leasing)			
5	Salam (purchase order) financing			
6	Istisnaa (pre-paid purchase)			
7	*Wadi'ah* (safe-keeping contracts for current deposit)			
8	*Wakalah* (safe-keeping contracts for agency contracts)			
9	Quard Hassan			

No	**Understanding of Islamic Financial Concept**	**1**	**2**	**3**	**4**	**5**
1	I have a clearly idea on what Interest free banking differ from conventional banking service.					
2	I understand the reason why interest is prohibited in Interest free banking and what are its effects on society and economy.					
3	I have a clear understanding about the concept and practice of "musharakah".					
4	I have a clear understanding about the concept and practice of "mudarabah".					
5	I have a clear understanding about the concept and practice of "ijara".					

	Challenges related items					
1	The Muslim and non- Muslim Community is aware of Interest free banking system.					
2	There is a gap in qualified human resource for Interest free banking.					

3	Commercial Bank of Ethiopia have enough qualified scholars in Interest free banking to ensure that Islamic bnking services are fully comply with sharia law.					
4	The current customers are fully satisfied with the range of services that Interest free banking of Commercial Bank of Ethiopia provides.					

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Interview for Bank Management

1. What do you think about the current status of interest free banking in Commercial bank of Ethiopia?

_____

_____

_____

2. What type of interest free banking products does the banking currently made available to its customers? Does customer request/demand for other IFB product that the bank currently not providing?

_____

_____

_____

3. Does the bank face any challenges to deliver interest free banking products?

_____

_____

_____

4. What do you think about support from government body on initiation, government regulation, policy and procedures needed on IFB provision and expansion?

5. As the IFB is in accordance of sharia law do you believe non-Muslim accept sharia law and adopt these services? Is there non-Muslim customers in your bank those used these services?