

**CHALLENGES AND OPPORTUNITIES OF INTEREST FREE
BANKING (IN CASE STUDY OF CBE NOOR SERVICES IN
WOLKITE TOWN IMAMU AL BUKHARI BRANCH)**



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Declaration

Statement of certification we declare that the senior essay title the challenges and opportunities interest free bank is our original work and is being submitted for accounting and finance department for the partial fulfillment of the BA degree in account and finance

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ABSTRACT

The general objective of this study is to show the possible opportunities of Interest free banking in CBE NOOR Service and to assess and find out the probable potential challenges and obstacles that hinder the successful establishment and operation of IFB in cases of CBE NOOR service. The study has been conducted only based on the processes and methodologies used. The researcher were assess the rationales behind the prohibition of interest, the need for Interest free banking, and some of many opportunity of interest free banking in Ethiopia. It also addressed the probable potential operational challenges of this bank in cases of CBE NOOR service only. Research design is the method and procedures for collecting and analyzing required data. The choice of research design depends on objectives of the researcher want to achieve or the research questions the researcher wants to answer. Descriptive research includes surveys and fact-finding enquiries of different kinds.

ACRONYMS

CBE-----Commercial Bank of Ethiopia

IFB----- Interest Free Bank

NBE----- National bank of Ethiopia

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banks operates by charging interest as well as operates without interests. Interest has become part of financial institutions. Interest is fee a paid for use party money, to the borrower it is the cost of renting money to the lender it is income for lending the money Or the fee charged by a lender to the borrower for the use of borrowed money. Interest free banking derived from Islamic word, operates according to the tenets or teachings of the Islamic faith. So in this case acceptance of interest (Riba) is Haraam. Haraam means forbidden or offense.

Many countries across the world are providing banking services based on the principles of Islamic Law (Sharia). Some 500 financial institutions in more than 80 countries in Europe, Asia, Africa and the US have been rendering interest free banking services. Sharia-compliant finance or interest Free Banking Service is an alternative banking system that operates based on the principles of Sharia which prohibits at the core the receipt and payment of interest as well as working in areas forbidden by the religion of Islam. Nowadays Commercial Bank of Ethiopia is pleased to notify its customers that the introduction of the new brand name “CBE NOOR” for its Interest free banking service and will continue using the brand hereafter. As the commercial Bank of Ethiopia (CBE) is licensed by the National Bank of Ethiopia to give these services, it would provide the services all CBE branches of specified windows and CBE NOOR dedicated branches of Wolkite town. CBE NOOR is available to all customers who want to make use of the alternative banking service. CBE has implemented a separate and dedicated software that segregate the transactions of accounts in those windows with that of the conventional ones.

1.2 Statement of the Problem

The economic reason derived from avers of principles providing inspiration to device an interest free financial system has been substantiated in the way that interest concentrates wealth in the hands of few. Thus interest free banking emergence will predict positive contribution to both religious as well as economic factors (Mohammed Taqiusmani Karachi, 1996). This study attempts to use the

recent data, increase the number of variables and people from various segments of the society in order to access the need of interest free banking establishment in Ethiopia particularly in wolkite town. Many international as well as local institutions have stepped into this multi-billion dollars booming industry. Interestingly Muslim and non-Muslim countries such as U.K, USA, Japan, China, Sweden, Denmark and other European countries have been accepted and implemented the Islamic banking system. Unlike the above mentioned countries, Ethiopia has only the conventional banking system. Conventional banks intermediate funds from the depositors to entrepreneurs on the basis of interest. Only these banks have dominated the Ethiopian finance sector almost for centuries.

Interest free banking on the other hand, is in a rapidly growing stage as a feasible alternative to conventional banking in many countries. Nevertheless, the opportunities and viability of interest-free banking is proven in other countries yet have not started in Ethiopia. There might be various reasons for this. Thus the study was designed to assess the potential challenge and obstacles and opportunity of interest free banking in the case of CBE NOOR service on Imamu al bukari branch in wolkite town.

1.3 Research Questions

1. Can interest free banking service have impact on economy and social relation of the society in Wolkite Town?
2. Does Interest free Banking have an opportunity for society after established and starting to work?
3. Is there any challenge and obstacle that can obstruct the establishment and operation of IFB CBE NOOR service on Imamu al bukari branch of wolkite town.
4. Does interest free banking supplement the investment opportunity in CBE NOOR services on Imamu al bukari branch of Wolkite town?
5. Is CBE Full-informative to its IFB Users or customers?

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study is to assess the challenges and opportunities of interest free banking on CBE NOOR service Imamu al bukari branch in wolkite town.

1.4.2 Specific objectives

1. To determine IFB opportunities of CBE NOOR service on Imamu al bukari branch in wolkite town.
2. To assess the challenge that affects the growth and development of IFB in wolkite town.
3. To assess whether commercial bank is full informative to its Interest free banking service for its customers in CBE NOOR Imamu al bukari branch of wolkite town.
4. To find out potential obstacle/challenges for Interest free banking upon establishment and operation in Wolkite town.
5. To assess the effect of IFB service on economy and social relation in wolkite town society.

1.5 Significance of the study

The establishment of Interest free banking will have too advantage for Ethiopia. To establish and obtain the maximum benefit from the new banking system, it is important to make the environment clear from obstacles and challenges. So that this study have taken into account the following benefit and beneficiaries. Firstly, to bankers and finance institutions, it will provide another window to expand their profit and service. Secondly, it will show benefit and opportunity of interest free banking to individual and institutional investors of Ethiopia who wants to invest in these sectors; finally, it gives highlights to the government office who has related to banking activities. In general the research paper would play a significant role for the development of and betterment of the Ethiopian finance sectors as well as to avoid misconception from Interest free banking system. Sophia how we come to know the world and the latter involves the practice.

1.6 Scope of the study

The study has been conducted only based on the processes and methodologies used. The researcher were assess the rationales behind the prohibition of interest, the need for Interest free banking and some of many opportunity of interest free banking in wolkite town. It also addressed the probable potential operational challenges of this bank in cases of commercial Bank only.

1.7 Limitation of the Study

Obviously, there is no research activity which is perfect or undertaken without any limitation. Likewise, in the study the researcher had faced obstacles and problems that have limited of the study. Among others, lack of sufficient time and information were the core ones. In addition the following problem had taken as limitation for this study. The majority of respondents lack of knowledge about Interest free banking. Unavailability for the secondary data and well-organized research center relating to these studies.

1.8. Organizations of the Paper

This research paper is organized into five chapters. The first chapter deals with the introduction of the study that is, background, statement of the problem, research questions and objective, significance, limitation and scope of the study. The second chapter discusses the theoretical and empirical literatures that relates with my study. The third chapter is about the methodology of the research that is the research design, sampling technique, method of data collection, data collection instruments and method of data analysis. The fourth chapter of the paper presents the findings as well as the quantitative and qualitative data analysis. Finally the fifth chapter deals with the conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

This literature review illustrates the concept, scope and principles of Interest free banking around the world in general and specifically in Ethiopia.

2.1 Introduction to Islamic Banking

Islamic banking appeared on world as a prominent player was in the early 1970's. But rules and regulations governing Islamic banking system has been present in the world for many centuries (www.islacmicbanking.com). Islamic financial system is existed in Muslim community in different shapes according to situation of time. Actually Islamic financial system has a capability to fulfill the society requirements in respectable way. Islamic finance has become a global system spreading as far as Asia the Middle East, and the western world. Islamic banking is not limited only to the Muslim nation in the Middle East but also exists in the developed economies such as USA, Europe, and the Far East. Today more than four hundred fifty (450) Islamic banks are operating from China to USA having assets in excess of one trillion us dollars.

Islamic banking (interest free banking) is a growing sector with its diversity in different segments and spectrum. It caters to religious Muslims in Muslim's societies as well as in countries where Muslims are in minority. In addition, it is a broad standard non-Muslim individual and communities that seek ethical financial solutions have also been attracted to Islamic banking. It is clear from banking practice that Islamic banking is equally popular in all communities (www.hsbcamanah.com).

It is clear from above statements that Islamic banking is not only specific to Muslims but actually is a system which provides financial services which includes the non-Muslim society with more options other than the conventional banking services.

2.2 Over view of interest free banking

Over the last forty years, there has been a rapid expansion of financial institution that can be characterized as interest free banking in that they do not deal in reset transaction. Interest free banking, the more general terms, is expected not to avoid transaction based on interest but also to

participate in activity achieving the goals and objectives of financial system. (Rodney brown, 2005). Financial dealing in compliance with Shari a law date back the early century of Islam, but this traditional money lending and money changing rather than commercial banking as practiced today. Modern commercial banking introduced in the majority of Muslim country with the spread of European trade during the 19th century (<http://www.finance in islam.com>).

It was only in the 1960 that series consideration given to how modern commercial banking could be adopted so that interest could be avoided. When enlarger an Egyptian doctoral student was at university in Germany, he was impressed by the operation of mutual saving and loan association. He thought that local saving bank could be organized, in Egypt in similar fashion with saving being pooled and distributed to members in need of funds if a group of Muslims saver could follow this practice there could be need for interest. While him return to country Egypt, he opened and managed as well as a small saving bank in 1963 in the town of mitrghams a town 18 km Cairo in the Nile delta. The venture was very successful in harnessing funds from land owners and small traders who had still know not used banks as they were devote Muslims who were concerned about any dealing involving interest.

The present book is revised collection of different articles that aimed at providing basic about the principles and percepts of Islamic finance with special reference to the mode of financing used by the Islamic banks and non-banking financial institutions. The study tried to explain basic concept underlining this instruments the necessary requirement for their acceptability from the Shari a stand point and the correct method of their application. study also deals with the practical issues involved this humble effort, expect to facilitate and understands difference the basic principles of Islamic finance and the main points of difference between interest charged banking and interest free banking.

2.2.1 Principles of Islamic banking

The principles of Islamic banking are based on Islamic law, known as sharia, which mean: interest cannot paid or received on transactions in any case where money is exchange for money because the money is not actually any value accordance to Islam if it's not employed in business, transactions must avoid uncertainty (Gharr) speculation (Maysir) or anything that could lead to the unjust enrichment or unfair exploitation of one of the parties to a contract. In case of speculation the big

investors and industrialists turn the economic financial system toward their own and personal benefits. Transaction cannot be made that involve prohibited products or activities such as alcohol illicit drugs and tobacco because Islam wants to develop an ethical and friendly environment in the society.

2.2.2 Prohibition of Interest

Although the fact of prohibition against interest in Islamic banking is axiomatic, a variety of arguments have been provided by Islamic scholars to explain and justify its application. One argument which has not received any attention in the literature on Islamic banking, and which goes a long way in justifying the prohibition, is based on Islam's position on property rights and obligations and its conception of economic justice.

Money represents the monetized claim of its owner to property rights created by assets that were obtained through work or transfer. Lending money, in effect, is a transfer of this right, and all that can be claimed in return is its equivalent and no more. Thus, interest on money is regarded as representing unjustified creation of instantaneous property rights: unjustified, because interest is a property rights claimed outside the legitimate framework of recognized property rights; instantaneous, because as soon as the contract for lending upon interest is concluded, a right to the borrower's property is created for the lender. On the other hand, when the financial capital of the lender is used in partnership with the human capital and labor of the entrepreneur, the lender's rights to his property is no transferred and he shares, as co-owner, the final product his money has helped to create. He will be remunerated in proportion to his financial investment in the ensuring incremental wealth. This emphasis on profit sharing provides the basis for the development of an Islamic financial system.

In broad terms, the transformation of banking from an interest based system to one that relies on profit and loss sharing makes an Islamic banking system essentially an equity based system. In such a system depositors are treated as if they were the shareholder of the bank, and consequently are not guaranteed nominal values, or a pre-determined rate of return, on their deposits. If the bank makes a profit, the shareholder (depositor) is entitled to receive a certain share of it; on the other hand, if the bank incurs a loss, the depositor is expected to share in it and thus receive a negative rate of return. From the depositor's perspective, then, an Islamic bank is in most respects identical to a mutual fund

or an investment trust. Furthermore, to remain consistent with religious strictures, banks cannot charge interest on their lending operations, but have to use special modes of investment and financing that are also based on profit and loss sharing.

2.3 Fundamental of Islamic banking

Islamic banking has the same purpose as convention banking to make money for the banking institute up lending out capital. But that is not the sole purpose either. Adherence to Islamic law and ensuring fair play is also at the core of Islamic banking. Because Islam forbids simply lending out money at interest, Islamic rules on transactions (known as Fqgh al-Muamalt) have been created to prevent it. The basic principle of Islamic banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in conventional banking. Islamic banking introduces concepts such as profit sharing (Mudarabah), safe keeping (Wadiah), joint venture or partnership finance (Musharakah), cost plus (Murabahah/Murabaha) and leasing (Ijarah) (en.wikipedia.org).

According to Ahmed, 2008 study classification the fundamentals of Islamic principles are as follow.

1. Musharakah (partnership finance)

Musharakah is a contract in which the bank and the industrialist contribute jointly to the capital of a company or project to make a profit, profit and losses are shared between the parties on agreed term and condition of the contract.

2. Mudarabah (Trust financing)

Mudarabah is a contract. In this contract the responsibility of bank provides all the capital while the partner contributes commercial efforts, professional skills and experiences. Finally, the bank receives a pre-determined proportion of the profits. In the case of aloes, the bank bears all the financial loss whilst the manufacturer goes unrewarded. It is concluded that this system encourage the individual to participate in financial activity and prove himself as an active part of society.

3. The third principles and the free charges among the principles within the fixed charges category are:

- I. **Murabaha (cost-put financing)** a good and negotiates with him the profit margin. It is one of the most popular modes used in Islamic banking system in different countries to promote interest-free transactions.
- II. **Ijarah (leasing)** The Ijarah is a rent contract by which the owner of the good rents it another party beading it. After that the latter can purchase it and rent is reduced until the good become the possession of the client. Nowadays the Home finance and Islamic mortgage and based on the concept of Ijarah and it is very successful tool in Islamic financial system.
- III. **Quard Hassan** in Islamic financial system the customers who are facing financial crises or unpredicted expenditure banks provide welfare loan without paying any fees or interest.

2.4 Challenges of Islamic banking

Islamic banking is doing well in the world economy but some of the potential opportunities and challenges should be taken up to make Islamic banking more user friendly in every segment of economy and society. There is needed to make a clear and transparent system of general. Islamic banking which concerned to all sectors of society and economy in order to address the challenges and threats of the future needs of the financial sector).

Despite the growth of Islamic banking over the last 30 years one of the main challenges facing Islamic banking is the poor understanding about its operating in the Muslim and non-Muslim world . 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 challenges in consumer preference. For example, Islamic banks, without have and interest free money and capital market will not have adequate instruments to meet the pre-condition for liquidity management and effective maturity transformation.

Whatever the goal and functions are, Islamic banks come into existence in an environment where the laws, institutions training and attitude are set to serve and economy based on the principles of interest. In non-Muslim countries (i.e. countries with less than 50% Muslim population), central banks are very stringent in granting licenses for Islamic banks additional requirements if mother government and non-government authorities. So, apart from legal constraints, there are economic

measures that result operations of Islamic banks in non-Muslim world difficult. Many Islamic banks lack liquidity instruments such as treasury bills and other marketable securities which could be utilized either to cover liquidity shortages or to manage excess liquidity. This problem is aggravated since many Islamic banks work under operational procedures different from those of the central banks; the resulting non-compatibility prevents the central banks from controlling or giving support to Islamic banks if a liquidity gap should occur. Despite there are high demand opportunities that make to launch and precede Islamic banking there are a lot of challenges that could hinder the growth and development of the system which I have come to understand

2.5 Recent trends of interest free banking

In countries where interest free banking operating, its coverage and extent vary significantly from situation where the sector is entirely Islamic (Iran and Sudan), to others where interest charged and interest free system co-existed (Indonesia, Malaysia, Pakistan and United Arab Emirates), to countries where one or two interest free banks. The current trends seem to be toward separation between interest free and with interest banks,

While others have allowed interest charged bank setup in windows open the way for some of the largest multinational banks to participate. Even large interest charged banks in United States and Europe have opened interest free banks as its operations. Been undertaken to liberalize the financial sector. This marked the beginning of a new financial sector in the nation. A year later the first private bank Awash International Bank went operational in February 1995 (TnHajela 2010) In Ethiopia, regards to interest free bank; the current government is cautiously promoting the establishment of a home-grown interest free banking industry. The idea is to authorize the first local interest free banking on the basis of only Ethiopia.

2.6 Function of interest free bank

An interest free banking is a financial institution with the function to implement and materialized the economic and financial principles in the banking arena. The function of interest free bank is not only to earn profit. But to do well and bring welfare to people up holds the concept that money, income and property belongs to wealth is to be used for the good of the society. Interest free bank operate principle of profit and loss sharing and approved modes of investment. It strictly avoid

interest which is the root all exploitation and these responsible for large scale inflation and unemployment; some functions are:

- ❖ It promote risk share between providers of capital and the user of fund.
- ❖ It also aims as maximizing profit but subject interest free modes
- ❖ In modern interest free bank to be tax collection and they also payout their tax.
- ❖ Since the share of profit and loss, the interest free bank pays greater attention to developing project appraisal and evaluations.

Generally the function of the interest free banking is committed to do away with disparity and establish justices in the economy, trade, commerce, industry and also build socio economic infrastructure and create employment opportunities (<http://www.finance.slam.com>)

2.7 Practical Experience of Some Countries

2.7.1. Pakistan

Pakistan adopted a policy of gradual transformation of its banking system from February 1979, after several years of study and preparation by the government appointed council of ideology. The process started when the president of Pakistan announced that interest was to be removed from the economy with in period of 3 years. Three of specialized credit institutions are the house building corporations, national investment trust and mutual trust funds of Investment Corporation of Pakistan where to remove interest from their financing operation immediately.

In June 1984 the government announced discontinuation of dual window of operation on the banking and financial system, except the foreign currency deposit which continuo to earn fixed interest, where brought under non interest based modes of financing.

Interest free banking in Pakistan appears to be cross road and if there to be further progress the regulatory and legal condition must be such that system will have a fair chance to perform as expected(<http://www.financeinislam.com>).

2.7.2 Iran

The processes of transformation of interest free banking in Iran have proceeded in the three distinct phase. Nationalization restructuring and re -organization of entire banking system characterized phase one taking place between 1979 and 1982.External and internal developments did not allow the policy makers to develop coherent plan for interest free banking system although various piecemeal attempts were made towards this objectives.

The second phase began in 1986,it was a phase primary characterized by adoption of legislative and administrative steps in order to implement a clear articulated model of interest free banking The third phase which continue until now, began in 1996.This phase define the roll of interest free banking system differently from the earlier phases .The banking sector has been used an instrument to restrict Iranian economy the restriction was essentially direct the shifting financial resources from services and consumption to the production sector in four ways.

First credit to the service sector second, it creates incentive for the development of cooperative sector planning agriculture industry and trade. Third the banking system in partnership with the government under takes to finance large industrial project and investment in social overhead capital. Fourth using all available model of finance to help farmers to improve and expand production encourage growth of agriculture sector

2.7.3 South Africa

The Muslim population in South Africa is relatively small but both affluent and influential. Interest free bank was introduced in South Africa in 1989 by Alabama Antioch bank operating with a .limited branch foot print. This only interest free offering until 2002 when first national bank in the country launched an interest free finance product followed by an interest free cheque account most recently interest free banking started offering its service compliant products through its branch in Botswana in 2006,Absa the largest retail bank including group in south Africa launched, the first comprehensive interest free offering this d cheque account vehicle finance ,transactional saving account and interest free wills. This offering was supported by the full range access support from the ATM and branch network in the country, as well as sale phones and internet banking

2.7.4. Nigeria

Nigeria with population of 140,000,000 people is not only the most populous country in Africa but it is also the largest economy in west Africa.60 percent of Nigerian Muslims and in response to their demands to have a bank that meets their religious moral and ethical aspirations the efforts are in progress by a number o f corporate bodies, individuals and Islamic organization to achieve these goal and with their regulatory frame work of interest free banking by the central bank of Nigeria in feb.2009,all is now set for jazz, the first interest free bank in Nigeria to commence full commercial operation

2.8 Empirical literature review

As interest free banking is the recent phenomena different researchers internationally try to see this topic in different ways. Rodney Wilson, (2010) indicated that interest free banking finance has become increasingly significant in financial centers in the West, notably London, despite the regulatory hurdles presented by operating in a non-Muslim financial environment. At the same time interest free financing methods are viewed as a challenge and opportunity by Western bankers, many of whom have sought to get involved in this growing industry. In client driven societies there is willingness by those in financial services to listen and learn from the experiences of interest free banks, which in the longer run may bring a major breakthrough for interest free banking at the retail level in the West (Rodney Wilson, (2010). Hanudin Amin, (2013) in his article of some view points of interest free banking retail deposit products in Malaysia indicated that those products were centered on the current accounts, saving accounts and investment accounts. The purpose of such exposition was to provide to novice readers a basic but profound explanation concerning the difference between the two categories of deposit facilities. The above researchers didn't to emphasis deeply in challenges and opportunities of interest free banking service, therefore the researcher try fill this gap by addressing the challenges and opportunities of interest free banking service in CBE NOOR Imamu al bukari branch in wolkite town.

CHAPTER THREE

THE RESEARCH METHODOLOGY

3.1 Research Approach

According to Kothari, research design is what constitutes the blue print for collection, measurement and analysis of data. According to Creswell, there are three type of research approach, these are – Qualitative, Quantitative and Mixed Approach. The researcher was preferred to use both qualitative and quantitative study approach.

3.2. Research Design

Research design is the method and procedures for collecting and analyzing required data. The choice of research design depends on objectives of the researcher want to achieve or the research questions the researcher wants to answer. According to Kothari (2004), Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. This study use descriptive research design in regarding to the researcher objective which is describing the views of the respondents with regard to the challenges and opportunity of interest free banking.

3.3 Population, Sampling Techniques and Sample Size

3.3.1 Target population

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study (Kothari, 2004). The researcher used IFB service employees of 25 and customers of 1100, the CBE NOOR Imamu al bukari branch in wolkite town.

3.3.2 Sampling techniques and sampling size

The researcher used the non-probability sampling method and from the non-probability sampling we have used judgmental sampling methods. This is because of it is important to select the right

person who have a strong relation with the issue involved. So, the researchers were focused on those 20 employees working in the area of direct job relationship with the interest free banking service of the bank and 92 customers and also some other management positions.

3.4 Data Collection, Techniques and Procedures

3.4.1 Source of data

Basically there are two source of information used for research purpose – primary and secondary source. Primary source are those in which require to conduct a new survey for gathering information at different levels with regard to inquiry. Secondary source are those which are made available or have been collected for other research purpose (Adams, Khan, Raeside, and white, 2007).

For this study, the primary data was collected by interviewing the assigned line managers and department head and questionnaire also distributed for customer service officer of interest free banking of branches and customers of the bank. A questionnaire is a list of carefully structured questions with a view to exploring a reliable response from a chosen sample (Hussey and Hussey 1997). A questionnaire consists of a number of questions printed or typed in a definite order on a form of close-ended questions were used to collect the primary data for the study from selected samples in order to take the opinions of employees and customers on challenges and of interest free banking. Structured interview also prepared to interviewee of interest free banking head department official and for line managers

In order to achieve the objective of the research , the researcher also used various secondary data in a bid to understand the challenges and opportunity including, journal articles, various post graduate studies, banks report and internal document, and web particularly Google scholar.

3.4.2 Data collection instruments

The researcher adopts and modifying questionnaires used by Mohammed (2012). The questionnaire contained structured questions using a method To improve the responder was a cover letter explaining the reasons for the research, why the research is important, why the subjects was selected and a guarantee of the respondents' confidentiality provided.

The questionnaire has four parts, part one is about respondents' personal information. Moreover, part two is intended to measure opportunity of Islamic banking. Part, the researcher used close ended questioner by considering demand of interest free banking service to customers or employees and part four assessed the challenges of IFB. To collect the data the researcher involve in the collection of the questionnaire in order to make the respondents feel comfortable about their response they gave and give support to rater while they are filling the questionnaire. Before distributing the questionnaire permission was obtain from branch manager and every respondent.

The other instrument used to collect primary data from the bank's IFB management team is interview. Interview method of data collection gives an opportunity to clarify any issues raised by the respondent or ask probing or follow-up questions. However, interviews are time consuming and resource-intensive. The researcher has conducted interview through a face to face contact with the respective bank officials to obtain data. The secondary data have been collected by extracting relevant and supportive data from the bank's report.

3.4.3 Data Analysis Techniques

The researcher has performed quantitative and qualitative analysis from responses collected on the research questions. The data that is collected by using structured questionnaire (quantitative data) are coded and analyzed using quantitative analysis. Descriptive statistics/analysis are used to analyze the data and the result that are presented using tables, and graphs that show the frequencies, percentages and median values which facilitate the analysis and to make it easily understandable for readers. The qualitative data which is interview have been collected by taking written notes during the interview and tape recordings of what is said provide the raw materials for the report. The analysis is smoother hand, qualitative analysis also uses to triangulate some of the response obtained through close ended questions of respondents-customer and staff.

CHAPTER FOUR DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and analysis of data that were gathered from primary and secondary sources through questionnaire and interview. The collected data have been analyzed, and interpreted accordingly. For the sampling 92 questionnaires were distributed to IFB customers and 20 employees of the bank. 100% of respondents are responded and returns the questionnaires. In addition to the questionnaire data was collected through interview and response obtained are summarized and presented accordingly

Table 4.1: Questionnaire Response Rate

Sample	Distributed		Collected		Uncollected	
	Percentage	Number	Percentage	number	percentage	Number
Customer	100%	92	100%	92	-	-
Staff	100%	20	100%	20	-	-

Source: Own Computation from responded questionnaire, 2023

4.2 Background Characteristics of Respondents

In this section personal profile of respondents which are collected through questionnaire have been summarized that include their qualification, Job position, religion, year of banking

experience/relationship as the IFB product and/or IFB staff/customer as the case may be. Descriptive statistics has been used to analyze the demographic items as a means of describing the respondents

The study has two types of sample which is bank’s employee and customer. The employee sample constitutes employee of customer service officer, branch manager and IFB department head.

4.2.1. Background Characteristics of Customers

Table 4.2 Religion of customer

Religion	Frequency	Percent	Valid percent	Cumulative percent
Muslim	92	100%	100%	100%

Source: own computation from primary data source, 2023

From the total valid customer response, 92(100%) of the respondents are Muslims. This shows the banks all in IFB customers are Muslim.

4.2.4 Exposure to Interest-free Banking

Table 4.3 shows that 20% of IFB staff has less than one year IFB experience and 30% have work experience 1-2year experience on IFB has but 50% of the respondent have above 2 year experience. This shows that most of the staff has exposure to the system with respect to the bank launch the service. Thus, data obtained from them would be fair enough to draw reasonable conclusion.

Table 4.3 staff exposure to IFB

Exposure to interest free banking	Frequency	Percent
Up to one year	4	20%
1-2 year	6	30%
Above 2	10	50%
Total	20	100%

Source: own computation from primary data source, 2023

4.3 Opportunity of IFB System

This section the analysis, the staff and customer response were used to assess the prospect of interest free banking in CBE NOOR service wolkite town. Median score were applied to analyze the data. The data obtained via interview, close ended question; open ended questions and assessing secondary data. Close ended and open ended questioner were prepared for with the customer and line staff. Interview was applied for manager and customer service manager of the branch and the interview was analyzed by using narrative approach.

Table 4.4 Median score range

Median value	Extent of the response
0.5-1.49	Strongly disagree
1.5-2.49	Disagree
2.5-3.49	Neutral
3.5-4.5	Agree
Up to five	Strongly agree

Source: own computation from primary data source, 2023.

4.3.3 Demand for IFB products

One of the research questions raised by the researcher is about the level of demand for IFB products other than the currently provided one. The purpose of asking this question is to get answer for the asses the demand of customer for the other type’s products/services as prospect for the development of IFB in the bank.

1. Customers and Staff Response

Accordingly, the data found from customer response the majority of the respondents are satisfied with the existed IFB products of the bank and the demand for more IFB products is low.

Table 4.5 Customer response for demand of IFB products

Statement	Response	Response categories			Median value
		disagree	neutral	agree	
Quard Mudarabah or Wadiah is your only priority	Frequency	22	30	40	4
	Percentage	24%	33%	43%	
CBE NOOR service customer demand more IFB product	Frequency	35	20	37	2
	Percentage	38%	22%	40%	
CBE NOOR IFB service address the Muslim communities need for IFB service	Frequency	28	13	51	3
	Percentage	30%	14%	56%	

Source: Own Computation from Primary Data Source, 2023

As depicted from the above table 4.5, the agree of the respondents 43% of the customer are satisfied by the existing products and 33 % and 24% of the respondent are disagree and neutral

For question two 40% of respondents have said they don't want more IFB products and the other 38% of the respondents agree and, 22% were neutral. As question 3 response shows majority of the respondents 56% agreed that CBE NOOR service address the Muslim community's need for IFB services, 30% of disagree and 14% were neutral

As presented on table 4.5 the median value of the three items 4, 2 and 3 respectively show that customers are satisfied with the existed products and they are not demanding more IFB products. Moreover, the median value 4 for item 1, median value 2 for item 2 and median value 3 for item 3 and also shows the service which is delivered by the bank address the Muslim community need for IFB services.

Table 4.6 Staffs response about demand

Statements	Response	Response Categories			Median value
		disagree	neutral	Agree	
Quard ,Mudarabah Wadiah is your only priority	Frequency	4	2	14	3
	Percentage	20%	10%	70%	
CBE NOOR service customer demanding more IFB product	Frequency	6	4	10	3
	Percentage	30%	20%	50%	
CBE NOOR IFB service address the Muslim community need for IFB service	Frequency	4	4	12	3
	Percentage	20%	20%	60%	

Source: Own Computation from Primary Data Source, 2023

Table 4.6 shows, that from IFB deposit staffs sample, 70% of respondents have agreed that the existed products of IFB within the bank existing are there only priority and 20% disagreed, 10% neutral. That there is no demand for the other types of IFB deposit products. From the sample staff respondent 60%of respondents agreed that CBE NOOR service address the Muslim community need for IFB service. In addition the median value 3 for both item 1 and 3 CBE NOOR service address the need of Muslim community the existed IFB products and also the median value 3 for question 2 show customers is demanding more IFB products. These indicate CBE NOOR service address the Muslim community need within the existed product and customer also demanding more IFB products. Moreover, response obtained through open ended question further confirms the above situation, that is majority of respondents said that there is demand/ request for additional IFB deposit products from customers.

4.4 Challenges of IFB products/Services

The other objective of this research was to identify the challenges that CBE NOOR service has faced while providing IFB products and also the challenges that customer has faced to utilize IFB products. Thus, this was set as one of the research questions to sought answer for. Both customers and staffs- line and management- of the bank have been requested about the challenges of IFB products/services that they have faced.

4.4.1 General awareness of IFB
The study tries to find out how respondents perceived Islamic banking (interest free banking).

Table 4.7 customer Response regarding awareness of the people towards IFB

Items	Statements	Response	Response categories			Median value
			Disagree	Natural	Agree	
1	Muslim community has awareness about	Frequency	23	14	55	3
		Percent	25%	15%	60%	

	IFB system					
2	Non Muslim cannot use the product of IFB	Frequency	–	–	–	–
		Percent	–	–	–	

Source; own computation from primary data source, 2023

The output result the awareness of people towards IFB of the respondent showed that, 60% of the respondent believed that Muslim community has awareness about IFB system by agree respectively. In addition to this 25% of the respondents disagree and 15% are neutral on the issue raised. More over the median distribution of the response was found 3 which show the value of “disagree” for item (1) respectively. Accordingly it can be concluded that the Muslim community has not awareness on IFB system. As shown in item (2) of the table 4.7 about of the respondents agree, neutral and disagree has no , this means CBE NOOR service is not provide interest service that the non-Muslims cannot use the product of IFB . These show that customer believe that non-Muslim community cannot use IFB products the bank should make different awareness creation methods for the customer.

Table 4.8 Staff Response regarding awareness of the people towards IFB

Item	Statements	Response	Response categories			Median value
			Disagree	Neutral	Agree	
1	Muslim community has awareness about IFB banking system	Frequency	2	6	12	3
		Percentage	10%	30%	60%	

2	People believe non Muslim cannot use the product of IFB by wrong association with religion	Frequency	–	–	–	–
		Percentage	–	–	–	
3	Customer have awareness about the major types of IFB product	Frequency	2	6	12	3
		Percentage	10%	30%	60%	
4	Customer known the IFB product that currently provide by the bank	Frequency	2	2	16	3
		Percentage	10%	10%	80%	

Respondent of staff also show in the above table that, 70% of sample staff agree that Muslim community has awareness about IFB system. 20% of respondent disagree having awareness of Muslim community on IFB. The median value 3 also shows the value “strongly disagree”. People agree with non-Muslim community cannot use the product of IFB. Item two shows that, has no sample of staff are agree with customer believe only Muslim can use IFB by wrong association with religion. In addition to this the median value also shows “agree” by the value has no.

In regarding to item 3 and 4, most of sample staff disagree with awareness of customer on the major types of interest free banking products by 10% respectively but 80% respondent agree with customers knows the Interest free banking products that currently provided by the bank. Behind this, 20% of the respondent are disagree and 10% being neutral within item (3). 10% and 10% are disagree and neutral within item (4). Moreover, the median value (3 and 4) for the last two questions respectively also confirmed that customers have not awareness about the major types of

interest free banking products but they know that the products are provided by the bank. These show respondent are agreed with Muslim community awareness about IFB and people believe that the products are delivered only Muslim customer

4.5 Analysis of data from both qualitative and quantitative interview

The qualitative interview on the challenges and Opportunity of IFB is analyzed by using narrative approach and presented below.

4.5.1 Opportunity of IFB

- I. One of the most important Opportunity 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.
- II. 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. Introduction of Sharia-compliant banking will bring more Arab petrodollars into the country.

4.5. 2 Challenges IFB Products

The main objective of this research was to identify the challenges and Opportunity that CBE NOOR service has faced while providing IFB products and also the challenges that customer has faced to utilize IFB products. The challenges to utilized IFB by customers are identified by the customers by using distributing questioners to sampled customer. But the challenges which hindered IFB products from being delivered are identified by using structured interview to the line manager of the bank and IFB department manager. Both IFB department manager and branch manager of the bank have been requested about the challenges of IFB products/services that they have faced. The researcher has summarized the identified challenges as follows.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study objective was to assess the Challenges and Opportunity of interest free banking. Based on the basic research question, the study findings result is summarized as follows:

- From the Religion perspective 100% Muslim respondents;
- The majority of respondents with banking experience was in between 2-5years;
- The majority of respondents with educational qualification was (50.0%) were those with a Master's;
- The majority of respondents with IFB experience was in between 2-3 years;
- Most of the respondents was uses all types of IFB service but majority of respondents was prefer Wadiah saving service above all other types of IFB services;
- Almost (97 %) respondent's was uses the service usually.

5.2 Conclusion

The objective is the study was to assess the challenges and Opportunity of interest free banking to utilize and delivers. Accordingly the study assessed the types of interest free banking products are used by CBE NOOR service. Moreover, the demand levels for IFB products other than those currently provided by the bank are assessed.

The finding of the study particularly showed that the Current financial service trends in Ethiopian and large marketing opportunity of interest free banking have positive signs on the future of IFB service Islamic banking in Ethiopia. Even if there is potential customer Customers are satisfied with the existed Interest free banking products and there is no demand/ request for additional IFB deposit products from customers. In the utilization of IFB products, double taxation, non-provision of IFB products/services in all branches, the IFB being delivered in a Window model, lack of trust and confidence qualified human resource in Islamic banking are the major challenges.

According to the respondents even though long process approval of Shariah board for innovation of IFB products cannot be challenge for IFB development, there is lack of suitable banking policies and comprehensive legal framework, lack of awareness, lack of equity market, lack qualified human resource in Islamic banking, lack of trust by the customer, unavailability of IFB products in all branches and Unequal Treatment of Debt and Equity and Double taxation are some major obstacles that to deliver and utilize the service.

The current study examines the challenges and Opportunity of IFB in CBE NOOR service wolkite town. It gives hindsight for the staff and management of CBE NOOR service towards Interest free banking challenges and Opportunity. The contribution of this study is vital as it has identified the major opportunity for the development of IFB system and challenges deliver and customers to deliver and utilize IFB products. However, the study is bounded by both area coverage and problem addressed. Therefore, future studies can be conducted with wider scope and the effects of these challenges on the success of IFB.

5.3 Recommendation

Based on the research finding the following recommendation are provided in order to enhance Opportunity, the delivery and use of IFB products in Ethiopian banking market .

- ❖ Currently the Islamic banks are regulated by the same framework as that of conventional banks. Since the two banking systems work differently, many issues of Islamic banking cannot be settled by the existing policy. A compatible regulatory framework will create a path for Islamic banks to compete freely with conventional institutions. NBE also should

consider giving IFB products in separate facility, at least in dedicated branches of the conventional bank, in order to improve attitude and increase IFB adoption.

- ❖ Most of the training given to the staff of banks is 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.
- ❖ The bank should have aggressive promotion and marketing campaign about IFB products to create awareness on IFB products by particularly towards the target market (the Muslim community) must be done consistently by using several promotional campaigns should be planned like poster, banner, media, and etc.
- ❖ Alongside awareness creation, bank has to build the trust and confidence of its customer by being transparent/disclose all its products, transaction and its IFB business activity to the public and confirm they are in line with Shariah. To support this action further the bank immediately has Shariah advisors. According to Pasha (2014) perception of Muslims that is the trust and confidence about the existing practice of IFB is truly of Shariah compliant and not a copy of the conventional banking with a banner of Shariah compliant is very important issue for IFB existence and success.
- ❖ The Bank has to increase the accessibility of IFB products through increasing IFB at customers' convenience and avail its products/services in all branches with the necessary facility that will increase the marketability of IFB products/services.
- ❖ The bank 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

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APPENDIX A

WOLKITE UNIVERSITY

DEPARTMENT OF DEGREE OF ACCOUNTING AND FINANCE

A. Customer questioner in English

School of Graduate Studies

Dear Respondents, I conducting research on “challenges and opportunities of interest free banking with particular reference to CBE NOOR service wolkite town” as a partial fulfillment of BA study at school of graduate studies, WOLKITE UNIVERSITY. The main objective of this research is to investigate what the challenges of interest free banking are in

relation to the delivery and use of its products and its prospect. For the successful accomplishment of the study, your response will have pivotal role by providing valuable input for the study. Thus, your genuine and honest response crucial for attaining the aim of the research and the researcher would like to thank you for your cooperation in advance.

Attention

- No need to write your name
- Instruction for each part of the questionnaire is given at the beginning of the questions
- Kindly respond to all questions

Part one: Background Information

Dear respondents, please label a characteristic that Correspondent to you back ground disabusing“√”marks

1.1 religion of customer:

Muslim

Non-Muslim

1.3 relations with the product:

Mudarabah fixed account

Quard Mudarabah saving account

1 Wadiah saving account

1. Prospect of IFB

Items	Agree	Disagree	I do not know
Currently Ethiopian trends in financial service have positive signs on the future of IFB Service in CBE NOOR			
Dou you believe there is potential customer in IFB			

2. Demand for IFB product

Item	Agree	Disagree	I do not known
Quard is your only priority choice			
Wadiah is your only priority choice			
Mudarabah saving account is your only priority choice			
CBE NOOR service IFB address the you need for IFB service			
You demanding more IFB products			

3. Challenge of IFB

Items	Agree	Disagree	I do not know
Muslim community has awareness about IFB system			
Non Muslims cannot use the product IFB			
CBE NOOR service have enough qualified human resource in Islamic banking to ensure that Islamic banking services are up to date and fully comply with Shariah law			

APPENDIX B
WOLKITE UNIVERSITY

DEPARTMENT OF DEGREE OF ACCOUNTING & FINANCE

Questionnaire for Bank Employees

Dear Respondents, I conducting research on “challenges and opportunities of interest free banking with particular reference to CBE NOOR service wolkite town ” as a partial fulfillment of BA study at school of graduate studies, WOLKITE UNIVERSITY. The main objective of this research is to investigate what are the challenges of IFB in relation to the delivery and use of its products and its opportunities. For the successful accomplishment of the study, your response will have pivotal role by providing valuable input for the study. Thus, your genuine and honest responses very crucial for attaining the aim of the research and the researcher would like to thank you for your cooperation in advance.

Attention

No need to write your name

Instruction for each of the questionnaires given at the beginning of the questions

Kindly respond to all questions

Part one: Background Information Dear respondents, please label a characteristic that correspondent to your back ground disabusing“√”mark.

1.2 Educational qualification:

Diploma BA/BSC Master's Degree PHD

1.2 Current Job Position in the bank: _____

1.3 Banking Experience in number of years:

Up to 5years 6-10years 11-15years above

16year

1.4 Exposure to Interest-free banking:

Up to 1 1-2year 2-3year 3-above

1. Opportunities of IFB

Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Current Ethiopia trends financial services have positive sign on the future of IFB service in CBE NOOR					
There is potential customer in IFB					

2. Demand for IFB product

Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Quard, Mudarabah or Wadiah saving					
CBE NOOR IFB service address Muslim community need for IFB service					
CBE NOOR service customers demanding more IFB product					

3. Challenges of IFB

Item	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Muslim community has awareness about IFB system					
People believe non Muslims cannot use the product of IFB by wrong association with religion					
Customer knows the IFB products that currently provided by the bank					
CBE NOOR service have enough qualified human resource in Islamic banking to ensure that Islamic banking service are up to date and fully comply with Shariah					

Part three: Open ended question

1. What do you think are the challenges that interest free banking products user face?

2. What do you think the challenges that the bank has faced to deliver Interest free Products?
3. If you have any opinion, comment regarding on the delivery and use of IFB.

