



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

**CHALLENGES AND OPPORTUNITIES
OF ISLAMIC BANKING IN ETHIOPIA: IN THE CASE OF ZAMZAM
BANK S.C**

**A REASERCH PAPER SUBMITTED TO ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES, IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

PREPARED BY: -SIRAJ NASIR

ADVISOR :ALAZAR AMARE (PHD)

June, 2024

Addis Ababa, Ethiopia

**CHALLENGES AND OPPORTUNITIES OF ISLAMIC BANKING IN
ETHIOPIA: IN THE CASE OF ZAMZAM BANK S.C**

PREPARED BY: -SIRAJ NASIR

ADVISOR :ALAZAR AMARE (PHD)

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES, IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION**

June, 2024

Addis Ababa, Ethiopia

**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

**CHALLENGES AND OPPORTUNITIES
OF ISLAMIC BANKING: In the Case of ZamZam Bank S.C**

BY: Siraj Nasir

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature

**Alazar Amare (PHD)
Advisor**



Signature

**Mulatu Takele_ (PHD)
External Examiner**

Signature

**Siraw Yenesew (PHD)
Internal Examiner**

Signature

ACKNOWLEDGMENTS

All praise is to the Almighty ALLAH, the Lord of the Universe and the Sustainer whom the completion of this work has not been possible without His assistance.

My sincere gratitude goes to my beloved family members specially I want to express my gratitude to my parents as well, especially to my Mother Zulfa Jemal , my father Nasir Ahmed ,my aunt Sadia Kemal for there genuine prayer for me, and friends who were principal source of substantial moral and financial support to realize my academic dreams. My advisor Alazar Amare (PHD) and, my two examiners Dr. Mulatu and Dr. Siraw .deserves countless and special appreciation for there support and constructive comments. They assisted me to take safer journey in the course of writing this thesis by his constructive comments and guidance.

Special thanks is extended to my instructor Tesfaye Tilahun (Asst. Prof). he helped me and giving advice friendly. He is flexible instructor. Moreover special thanks to my colleagues who assisted me during the data collection process who put their tireless efforts of making me possible to access accurate primary data. In addition to that I am very thankful to the employees of ZamZam Bank S.C. for their cooperation during the process of data collections.

Finally, I shall remember forever the esteemed officials, instructors and administrative staff members of the St. Mary University, School of Graduate Studies, particularly staff of MBA program. During my stay at the University, they have shown special care and assistance to me and enabled me to swim in the ocean of knowledge at postgraduate level. I do not hesitate to reserve a great and heartily gratitude to St. Mary's University and the Ethiopian People at large.

May Allah almighty bless you all!

LIST OF ABBREVIATIONS/ ACRONYMS

IFB:Islamic Banking

NBE:National Bank of Ethiopia

ZZB :Zamzam Bank

AAOIFI:..... Accounting and Auditing Organization for Islamic Financial Institutions.

ABSTRACT

This study was conducted at headquarter of ZamZam Bank S.C. to explore the challenges and opportunities associated with enforcing a completely interest-free banking system. The research design used was descriptive research design and the research approach employed was quantitative and triangulated as qualitative. Quantitative research approach was appropriately used in the study because; mainly primary data was used and collected through questionnaire from headquarter of zamzam bank. Data were collected from an aggregate of 190 repliers using structured questionnaires which were given to headquarter of ZamZam Bank employee and stakeholders who were apprehensive of the interest-free banking operation. The findings showed that, lack of IFB operation specialists, lack of client mindfulness of IFB services, and the necessity for special legislation were the primary problems facing IFB. On the other hand, IFB providers who would use customer awareness of IFB services and the necessity for special legislation were the primary problems facing IFB. Meanwhile, IFB providers who would use customer satisfaction as their area of competence in providing IFB services were thought to still have a significant untapped market in Ethiopia. Other possible chances were global trends, Ethiopia's economic expansion, and investment opportunities The findings suggest that the advantages of interest-free banking exceed the downsides both at ZamZam Bank specifically and throughout Ethiopia generally. Several recommendations were made in relation to the study's findings; including that the profit authority should consider taxation issues regarding IFB backing products, acceptable IFB products and services elevations to public, National Bank should take some special considerations in policy making in regards to IFB operations and adequate training campaigns should be undertaken by the Bank.

Key words: Islamic banking, Opportunity, Challenges, Sheria compliance

Table of Contents

ACKNOWLEDGMENTS.....	i
LIST OF ABBREVIATIONS/ ACRONYMS.....	ii
ABSTRACT.....	iii
List of table.....	vii
CHAPTER ONE 1. INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Background of the Organization.....	3
1.3 Statement of the Problem.....	4
1.4 Objectives of the Study.....	6
1.4.1 General Objective.....	6
1.4.2 Specific Objectives The specific objectives of this study are as follows:.....	6
1.5 Research Questions.....	6
1.6 Significance of the study.....	6
1.7 Scope of the study.....	7
1.8 Limitation of the Study.....	7
1.9 Organization of the study.....	7
1.10 Operational Definition of the Key Terms.....	8
CHAPTER TWO.....	9
2.REVIEW OF RELATED LITERATURE.....	9
2.1 Theoretical Review.....	9
2.1.1 Banking History in Ethiopia.....	9
2.1.2 Islamic Finance/Islamic banking.....	10
2.1.3 Riba's description (Interest).....	11
2.1.4 Prohibition of Interest.....	12

2.1.5 Development of Interest-Free Banking.....	13
2.1.6 Prospects of Interest-Free Banks	13
2.1.7 Aims of Interest-free Banking System.....	14
2.1.8 Major Categories of Islamic banking.....	15
2.1.9 Islamic banking Operations.....	16
2.1.9.1 <i>Deposit Accounts</i>	16
2.1.9.2 Demand or Checking Deposit Accounts.....	17
2.1.9.3 Savings Accounts.....	18
2.1.9.4 Investment Accounts- Mudarabah Accounts.....	18
2.1.9.5 Accounts for Special Investments.....	18
2.1.10 Islamic banks and their interest-free lending practices.....	19
2.1.10.1 Participating Financing/ Musharaka-Equity.....	19
2.1.10.2 Trust Financing (Mudarabah).....	19
2.1.11 Funding Sources and its uses in Islamic banking	22
2.1.11.1 Sources of Funds	22
2.1.11.2 Uses of Funds	23
2.1.12 Interest-Free Banks and the National Bank's Role.....	24
2.1.13 Some Unique Characteristics of Islamic banking Relative to Conventional Banks	25
2.1.13.1 Risk sharing	25
2.1.14 Products, services, and performance of ZamZam Bank S.C.....	25
2.2 Review of Empirical Studies	31
2.2.1 Studies of empirical literature in established and emerging economies.....	31
2.2.2 Empirical Literature in the Ethiopian Context.....	33
2.2.3 Summary and Gap in the Existing Literature	36
2.2.4 Summary of Ethiopian Empirical Findings	36
2.2.5 Conclusion.....	37
CHAPTER THREE	38
3.RESEARCH DESIGN AND METHODOLOGY	38
3.2 Research Approach	38
3.3 Data Type and Source	39
3.4 Sampling technique	39
3.5 Collection method and Technique.....	39

3.6 Population of study	40
3.6.1 Target Population.....	40
3.8 Validity and Reliability Test.....	41
3.8.1 Validity	41
3.8.2 Reliability.....	42
3.9 Ethical consideration	42
CHAPTER FOUR	44
4. Data Analysis and Interpretation	44
4.1 Response rate of respondents	44
4.2 Demographic characteristics of the respondent	45
4.3 Descriptive Analysis and interpretations	Error! Bookmark not defined.
4.3.1 Challenges of full-fledged Islamic banking operation for ZamZam Bank and its customers	48
4.3.2 Opportunities for full-fledged Islamic banking in Ethiopia.....	53
CHAPTER FIVE	58
5.FINDINGS, CONCLUSION AND RECOMMENDATIONS.....	58
5.1 Summary of Major Findings	58
5.2 Conclusion.....	59
5.3 Recommendations	59
5.4 Limitations of the study and Implications to Further Research.....	60
References	61
APPENDIX.....	66

List of table

Table 1 Financial performance of ZamZam Bank on its first year operations	31
Table 2 Response rate of respondents	4Error! Bookmark not defined.
Table 3 Demographic characteristics of the respondents.....	45
Table 4 Inadequate skilled staff	Error! Bookmark not defined.
Table 5 Lack of awarens in Society	Error! Bookmark not defined.
Table 6 Current potential Demand of Islamic Banking	Error! Bookmark not defined.
Table 7 Expansion to capital market.....	Error! Bookmark not defined.
Table 8 Government support	Error! Bookmark not defined.

CHAPTER ONE

1. INTRODUCTION

This Chapter presents the background of the research, the statement of the problem, objectives of the study, research questions and significance of the study. The chapter further presents scope of the research.

1.1 Background of the study

Zamzam bank is the pionerering Islamic financial institution, has charted a course from turbulent financial water to profitability ,marking a significant turnaround in its operations.

The impact of Islamic finance is growing, which may have several benefits.. For instance, it is sometimes said that Islamic banking is inherently less susceptible to crises since its risk-sharing component reduces leverage and encourages better risk management on the behalf of financial institutions and their customers. (i) Islamic finance is said to be more stable than conventional finance because it discourages speculation; (ii) financing in Islamic finance is asset-based and completely collateralized; and (iii) it is founded on morally upright values. Islamic financial institutions (IFIs) are seen as a great platform for promoting financial inclusion, facilitating SMEs' access to capital, and supporting growth and economic development (IMF, 2015).

Over the past 10 years, Islamic finance, often known as interest-free banking, has grown rapidly, and its banking industry has become systemically important in many countries across many different fields. According to IMF estimates from 2015, Islamic finance is anticipated to continue expanding in response to profitable development in countries with large Muslim populations that are mainly unbanked. Another driving factor is the substantial sums of money that numerous oil-exporting countries have saved up and already to invest in Sharia-compliant financial goods

Islamic Banking and Finance in Africa:

Given the increased demand for Sharia-compliant products and services, it is expected that more financial institutions will provide Islamic financing options to meet customers' expectations and needs. The development of Islamic finance in Africa will also be aided by favorable demographic trends and governments' continued efforts to implement regulations and put in place the infrastructure necessary for the sector's development and growth.

The only country in Africa that has changed its banking and economic system to adhere to Sharia is Sudan. Nevertheless, the continent is witnessing an encouraging rise in Islamic microfinance, which is fueled by a number of factors such as advancing trade ties with the Middle East, growing interest in the moral, risk-sharing approach provided by Islamic finance, and initiatives taken by some governments to rewrite their respective banking laws to facilitate the establishment and development of Islamic finance institutions. (IMF, 2015)

African governments are anticipated to conduct reviews of the insurance and capital requests, which is profitable for Islamic banking. It's cheering to see several African countries, similar as South Africa and Nigeria, presenting themselves as the mainland's capitals for Islamic banking. There are several options that may be employed. still, there are a number of pitfalls and challenges to the growth of Islamic finance in Africa, including the following Banking and fiscal authorities are unfit to get further familiar with the generalities, practices, and unique administrative and nonsupervisory requirements of Islamic finance due to lack of good/professed labor force. Lack of structure similar as an Islamic plutocrat request to enable the Islamic banking system so as to maintain liquidity, as well as Takaful(Islamic insurance) to save Islamic bank investments.

Political and economic instability in several African nations makes funding challenging, making it difficult for the expansion of small- and medium-sized company (SME) loans and financing.

Islamic Banking in Ethiopia:

It has been a few years since the Ethiopian government made the decision to introduce interest-free banking in to the nation's financial system. The policy was implemented by a directive issued by the National Bank of Ethiopia (NBE) allowing commercial banks to provide interest-free banking services. Several banks have begun providing an islamic window service after acquiring a license from the NBE. However, the NBE Directive does not address even the foundations of Islamic finance or the standards of conduct for the sector.

Islamic banking has seen significant growth and development in recent years, with a number of opportunities emerging in the sector. One key opportunity is the ability of Islamic banking to tap into a new segment of customers who are seeking ethical and interest-free financial products. This has allowed Islamic banks to attract customers who may have previously been underserved by conventional banking institutions. Additionally, Islamic banking has the potential to promote financial inclusion by providing access to banking services for populations that may have been excluded from the traditional banking system, particularly in Muslim-majority countries.

Despite the opportunities, Islamic banking also faces several challenges that need to be addressed for the sector to reach its full potential. One major challenge is the lack of standardization and harmonization of Sharia-compliant practices across different jurisdictions, leading to inconsistencies and confusion for customers. Additionally, Islamic banks often encounter regulatory and legal hurdles in non-Muslim majority countries, where the regulatory framework may not be conducive to Islamic banking principles.

Another challenge is the perception that Islamic banking products are more expensive than conventional banking products, due to the complex structuring of Islamic financial products. Addressing these challenges will be crucial for the continued growth and sustainability of Islamic banking in the global financial system.

1.2 Background of the Organization

ZamZam Bank has a significant amount of responsibility on its shoulders and is supported by its shareholders, board, management, and qualified employees, places a strong emphasis on Sharia compliance, cutting-edge technology, and first-rate customer service from the very beginning of operations. By deploying digital solutions that have a significant influence on its prospective customers, the Bank is now making headway in its request to concurrently grow its branch network in the nation's capital and other regions. Through its trained human resource and cutting-edge technology, ZamZam Bank will be able to provide an expanding range of Sharia compliant and all-inclusive goods and services in 2030GC. (<https://ZamZamBank.com/company-profile/>)

The National Bank of Ethiopia has granted ZamZam Bank S.C. the first license to operate as a full-fledged Interest-Free Bank in the nation. The Bank was formed to promote financial inclusion, with a focus on the group of people who are excluded from the financial system because of their religious convictions or other reasons. ZamZam Bank was able to raise Birr 1.683 billion in subscribed capital and Birr 872 million in paid-up capital from 11,200 shareholders at the time of its founding. Taking its name from the ZamZam Holy Water, which brought life to Makkah's desolate desert and sprung the hills of Safa and Marwa, the ZamZam Bank, strives to ensure steady economic progress.

1.3 Statement of the Problem

Despite the fact that there are many researches focusing on the important elements of Islamic banking (interest-free) in established and emerging market countries, Ethiopia is the few places where it doesn't exist to the desired level; hence the concept has not yet been fully researched.

To the best knowledge of the researcher, there is no research specifically focused on the IFB opportunities and challenges, and thus there is significant research gap that need to be filled gradually, and the current study may be considered as one effort among the very few so far. The other researchers who previously studied related topics include:

Mohammed (2012) examined the Prospects, Opportunities, and Challenges of Islamic banking in Ethiopia as one of this research. In his findings, he discusses possible challenges like lack of information, regulatory, supervisory, and institutional challenges, an insufficient support, a gap in development and research in Islamic studies, lack of qualified manpower, and inappropriate association with particular religious group and international terrorism, but this study was carried out before the study of Islamic banking got started.

Debebe (2015) examined the variables affecting IFB users in Ethiopia and found that every IFB user was a Muslim. It is clear that the absence of banks that can appropriately serve Ethiopia's Muslim community hinders both the development of Muslim-populated areas specifically and the nation's economy in general.

In addition to this, a sizable number of potential Muslim customers refrain from using the nation's present conventional banks because they feel doing so would go against their religious convictions. Since full-fledged Interest-free Banking is a noble idea for the economy, society, and even business experts, it's critical to take into account how people feel about the products and services it offers. Studies show that the conventional sector now in operation is not meeting the needs of the majority of people who are related to their interest in outlawing religion, which is why the issue is considered as being so crucial.

Research by Akmel, (2015) contrasts the "challenges and opportunities of Islamic banking for resource mobilization in Ethiopian commercial Banks." Only the possibilities and difficulties connected to resource mobilization are sufficiently covered by the research, leaving out all other opportunities and challenges.

The need for islamic bank services and the prohibitions of interest does not need any more justification as it just exists through the religious beliefs of Muslims. But it is worth looking at the reasons put forward by some for islamic bank to assist with understanding and innovation. For example, islamic bank will play a major role in the development of financial sector in a country like Ethiopia , where there is a significant Muslim population. Given that Islamic banking plays a role in the business world at large, the researcher believed that there is a debate

on the stakeholder's knowledge level on IFB, lack of governing principles and practices, and the level of understanding about its contributions to the economic development or resistant changes in Ethiopia context. Based on the above problems, the current study is an attempt to assess the challenges and opportunities of Zamzam Bank.

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study is to assess the opportunities and challenges of Islamic banking in Ethiopia, in the case of ZamZam Bank S.C.

1.4.2 Specific Objectives

The specific objectives of this study are as follows:

- To assess the current status of Islamic banking services in Ethiopia in the case of Zamzam Bank.
- To assess the opportunities that ZamZam Bank has as interest-free Bank in Ethiopia.
- To assess the challenges that ZamZam Bank and its customers could face in delivering Banking services.

1.5 Research Questions

The following are the research's sub-questions:

1. What is the current status of Islamic banking services in Ethiopia?
2. What are the opportunities that ZamZam Bank has as Interest-free Bank in Ethiopia?
3. What are the challenges that ZamZam Bank and its customers could face in delivering Banking services?

1.6 Significance of the study

As a Muslim community it's more important to know what the Islam itself prohibited in term of transactions. Therefore the importance of this study is to know what challenge islamic banking

system can face and what kind of opportunity might face. This study will be very useful for other researcher and it can predict Islamic banks from challenges Furthermore, Islamic bank doesn't include only the Muslim community it also include Non Muslims people because they can also invest in these area. The results of this study cover a significant gap in the literature, which should theoretically help other interested researchers and serve as reference material. The researcher, as well as bank stakeholders (both conventional and Islamic banks), bank policy, and decision-makers, have the opportunity to learn about and gain practical experience through this study in order to identify and comprehend the challenges and opportunities of islamic banking services. Additionally, the study's findings would be helpful by presenting case-specific bits of information about the likely circumstances experienced by Ethiopian Islamic banks that are providing full-fledged interest-free banking services.

1.7 Scope of the study

This study focused on all groups of people who work for ZamZam Bank S.C., a full-fledged interest -free bank, in order to perform the research thoroughly. Due of its status as the first bank in Ethiopia to launch a full-fledged IFB service delivery, the employees, managers, and supervisors of ZamZam Bank were contacted for the data collection.

1.8 Limitation of the Study

This study is focused on finding the existing situation of an interest-free Bank operating in the case of ZamZam Bank which is also pioneer Sharia-complaint Bank in the nation. Information was collected from headquarter of ZamZam Bank S.C, Addis Ababa, Ethiopia. The study was conducted from the service provider's point of view and hence its analysis is limited to describing the existing situation related to full-fledged IFB services and products, in particular the opportunities and challenges.

1.9 Organization of the study

This research paper consists five chapters. The first chapter includes background of the study, background of the organization, statement of the problem, research question, objective of the study, significance of the study, scope of the study, limitation of study and organization of the study. The second chapter covers the review of related literatures. The third chapter is all about

research design and methodology of the study. Whereas research results and discussion are dealt with under chapter four and the last chapter is about summary of major finding, conclusion and recommendation.

1.10 Operational Definition of the Key Terms

the researcher would like to introduce some important key terms and concepts used in the context of this study for ease of understanding of the research report.

Haram: haram is used to refer to any act that is forbidden by God (al-ahkam al-khamsah)

Shariah: Shariah literally means a well-worn path to a water source, and Islamically, it is a term that is used to describe Islam as a complete way of life (ibn Al-Qayyim).

Riba (usury):Riba include any unjustified increment in borrowing or lending money(Abdel Rahman Yousri Ahmad)

Mudaraba:Mudaraba is a basic principal of profit and loss, where instead of lending money, the banker forms a partnership with the borrower (Kettel 2006).

Musharaka: Musharaka mean partnership, whereby the Islamic institution provides capital needed by the customer with the understanding that they both share profit and loss (Farkhod2009).

Murabaha: Murabaha is a contract of sale because the financial institution act as a middle man and purchases the good requested by the customer (Haqqe 1993)

CHAPTER TWO

2.REVIEW OF RELATED LITERATURE

This chapter analyzes and discusses the relevant literature. It presents the body of research on the opportunities and challenges of establishing Islamic banking in Ethiopia and other nations. This chapter's subsequent sections analyze the pertinent literature in relation to the history of banking in Ethiopia, the definition and classification of riba(interest), the justification for the prohibition of interest, the literature and practice of Islamic banking, and empirical data regarding the establishment of Islamic banking in Ethiopia.

2.1 Theoretical Review

2.1.1 Banking History in Ethiopia

Emperor Minilik II and Mr. Gill signed an agreement in 1905 that allowed the introduction of modern Banking in Ethiopia. Following the agreement, the Emperor created the First Bank, the On February 16, 1906, The Bank was totally managed by the Egyptian National Bank, within the first fifteen years of its operation, the Bank of Abyssinia opened branches in different areas of the country. In 1906, a branch was established in Harar, in Eastern Ethiopia, at the same time as the Bank of Abyssinia was established in Addis Ababa. A second one was opened in Dire Dawa two years later, as well as at Gore in 1912, at Dessie, and in Djibouti in 1920. The Bank of Egypt's envoy and negotiator at the time, Mac Gillivray, was chosen to lead the new bank as its governor. From 1919 until the Bank's collapse in 1931, he was replaced as governor by H Goldie, Miles Backhouse, and CS Collier. (NBE, 2001). In January 1964, the Ethiopian National Bank was established with more authority and responsibilities. The Commercial Bank of Ethiopia took over the commercial Banking activities of the old State Bank of Ethiopia after its merger as a share company on December 16, 1963, as per decree No.207/1955 of October 1963. With a capital of Eth.

Birr 20 million, it began operations on January 1, 1964. Unlike the prior State Bank of Ethiopia, the new Commercial Bank of Ethiopia employed only Ethiopians (NBE, 2008).

Addis Ababa Bank, Banco di Roma, and Banco di Napoli are three privately held banks merged in 1976 to become Addis Bank, the second-largest bank in Ethiopia, with a capital of Eth. Birr 20 million, 480 employees, and 34 branches. Prior to the merger, these Banks' foreign ownership was initially nationalized in early 1975. By Proclamation No. 99 of 1976, the Agricultural and Industrial Bank, which had been founded in 1970 with 100 percent state ownership, came under the control of the National Bank of Ethiopia. The Agricultural and Industrial Development Bank was subsequently reestablished by proclamation No. 158 of 1979 as a public finance organization with legal personality. Its responsibility is to finance the growth of the agricultural, industrial, and other sectors of the national economy by providing medium- and long-term loans as well as short-term loans for agricultural output. (NBE, 2001).

The regulatory framework for banking investment was established by the Monetary and Banking Proclamation No. 83/1994 and the Licensing and Supervision of Banking Business No. 84/1994. As a consequence, 486 owners founded Awash International Bank, the country's first private bank, in 1994. By 1998, the bank's authorized capital had reached Birr 50.0 million. On September 20, 1995, Dashen Bank was established as a share corporation with Birr 50.0 million in authorized and subscribed capital. Bank of Abyssinia, another private bank, was founded by 131 owners with subscribed and authorized capital of \$25,000,000 and \$50,000,000, respectively. In 1997, Wegagan Bank began operations with birr60.0 million in authorized capital. The fifth private bank is United Bank.

2.1.2 Islamic Finance/Islamic banking

Islamic banking refers to financial activities that follow Shariah, also known as Islamic finance or Shariah-compliant finance (Islamic law). Sharing of profits and losses and the forbiddance of interest collection and payment by both investors and lenders are two foundational pillars of Islamic banking. Varied academics have different interpretations of the

term "Islamic banking." By advancing Islamic economics, it implies to a banking system that upholds the fundamentals of Islamic law (Sharia) and puts them into effect.

This Islamic law (Sharia) prohibits paying interest for the rental of money (Riba, usury) for specific terms, as well as investing in businesses that provide goods or services that are believed to be contrary to its ideals. (Abdul-Rahman ,2010) claims that Islamic banking is described as traditional Banking without the word "interest" and with a new contract that does not include the word "interest" and is structured in a complicated version of buy/sell, in which the seller transfers ownership to the Bank, which then sells it to the eventual buyer. According to (Rajan,2011), Islamic banking entails mobilizing funds through non-interest-bearing deposits and investment deposits based on "profit-sharing and loss bearing" contracts and then channeling these funds to finance permissible (under Shariah law) investment activities through various types of Islamic finance contracts. According author, Islamic banking is a type of Banking that is socially responsible and community based in ethos.

Furthermore, because discrimination in service, finance, and dealing with others is a grave sin in all of Abraham's faiths, Islamic banking does not discriminate. Islamic Banking is a financial system that mobilizes savings through profit and loss sharing, which is thought to be more equitable and conducive to measurement and progress. Because of the growing needs for Islamic financial services among Muslims in Western nations, as well as the growing desire of Islamic investors to diversify their portfolios globally, traditional Banks are more interested in entering the market. (Hassen and Lewis, 2007)

2.1.3 Riba's description (Interest)

According to Shariah terminology, the word "Riba" is properly defined as any additional remuneration without adequate consideration because it denotes "excess, increment, or addition" (consideration does not include time value of money). The term riba also appears several times in the Holy Qur'an. As a result, it is vital to understand what it implies or represents. Raba's Ribahas been removed. It implies adding or increasing (Maudoodi, 1987).

As a result, riba literally means to add, to grow, to rise. However, Islam does not forbid all increases or expansion. Riba is a Sharia term that refers to the premium that the borrower must

pay to the lender along with the principal amount as a condition of the loan or a maturity extension. In this sense, riba is synonymous with interest if all lawyers agree. As a result, the holy Qur'an and Hadith⁴ make no distinction between usury and interest. The Arabic word riba is used to describe both interest and usury (Harran, 1993).

Riba is divided into two sorts by Muslim lawyers: Riba al-nasi'ah and riba al-fadl are two types of riba. Al-nasi'ahriba. The period of time the borrower has to pay back in exchange for paying the premium is referred to as nasi'ah. As a result, it refers to loan interest. The ban of riba al nasi'ah means that the Shari'ah forbids the fixing in advance of a positive return on loans as a reward for waiting (Chapra, 1992).

Riba al-fadl is the term for the surplus over and above the loan that is repaid in kind. It entails the debtor giving the creditor an extra sum in exchange for similar goods. The following are examples of the Prophet Muhammad's tradition. According to Abu Said alKhurdi, the prophet Muhammad(PBUH) stated that only the same amount of gold, silver, wheat, and salt can be exchanged, and that it should be done hand to hand.” If someone offers more or receives more, he is engaging in riba and has thereby committed a sin”(Al- Harran, p.18).

2.1.4 Prohibition of Interest

Many Muslim academics and some Western thinkers feel that interest-free Banking is equivalent to Islamic banking. Actually, Islam forbids all forms of interest, as evidenced by the Qur'an and Sunnah. ". The amount of interest you pay to make more money for the people does not raise your position with God, but the amount of zakat you give to please God does make more money for the zakat payers. The aforementioned claims imply that curiosity has no place in Islam. Islam forbids all forms of interest. Depositors want to increase their interest earnings and increase their wealth in an interest-based economy.

Due to their lack of investment activity, there is a financial crisis and credit crunch. However, banks impose high interest rates on loans, making life difficult for the most vulnerable people while boosting the wealth of giants of industry, Shafi and USANI (2007).

2.1.5 Development of Interest-Free Banking

Islamic banks became significant financial participants around the beginning of the 1970s. The norms and guidelines governing the Islamic banking system, however, have been in place for decades. There appear to be two parts to the history of interest-free banking. First, when it was merely a notion; when it was implemented, either by private initiative in some countries or by legislation in others. Separate discussions of the two eras will follow (Siddiqi, 1980).

Interest-free Banking as a thought

Interest-free Banking appears to be a relatively new concept. Anwar Qureshi (1946) Siddiqi (1948), and Ahmad (1952) wrote in the late 1940s about the reform of Banking based on profit sharing rather than interest, and Muhammad Hamidullah's 1944, 1955, 1957, and 1962 articles should also be included in this group. They are all aware of the value of commercial banking as well as the unethical nature of interest and loss-sharing arrangements in that industry. Over the next two decades, interest-free banking will become more popular due to the rise of young Muslim economists as well as the political interest it has created in Pakistan. The first works dedicated to this subject began to appear within this time period Muhammad Uzair's work is the first of these. In the late 1960s and early 1970s, a new body of work arose. The key contributors were Nejatullah Siddiqi (1969), and others (Siddiqi, 1980).

2.1.6 Prospects of Interest-Free Banks

A group of Muslim businessmen from several countries formed the Dubai Islamic bank, the first private interest-free bank in the world, in 1975. In 1977, the Faisal Islamic bank founded two further private banks in Sudan and Egypt. The Kuwaiti government founded the Kuwait Finance House in the same year (Rad, 1991). More than 50 interest-free Banks have emerged in the ten years since Dubai's first private commercial Bank was established. Despite the fact that nearly all of them are in Muslim nations, there are a few in Western Europe, including Switzerland, Denmark, Luxembourg, and the United Kingdom. In 1983 and 1984, numerous Banks were created. In the years since, the numbers have dropped dramatically (Ausaf, 1994).

2.1.7 Aims of Interest-free Banking System

Ataul (1982) identified the following eight goals for Interest-free banking at the beginning of the 1980s.

Interest is prohibited in order to give investors and capital owners the opportunity to use their own physical and mental qualities to multiply their riches.

The Quran states that the poorer members of the community have a claim to the wealth of those who have more than they require. Therefore, it is not a matter of asking the poor borrower to pay more than what was borrowed rather than helping them in their suffering.

Interest is forbidden in order to promote the creation of a society free from exploitation. Undoubtedly, one of the most important and effective ways that the wealthy take advantage of the unfortunate is through the use of interest. Interest payment or acceptance should be examined in the perspective of Islam's other immeasurable sanctions in order to help an economy achieve maximum growth. Avoiding paying or accepting interest is equally as important as paying Zakat if you want to enjoy pure earnings.

The profit-sharing system, as opposed to fixed interest, is intended to reduce income concentration by discouraging its use. If a business partner understands that he will have to split any profit with his absentee partner 50/50, he will be less motivated to maximize his profit using unlawful or dangerous ways.

The Islamic economic system provides more distributive justice than any other extant economic system by removing interest. Under the current system, institutional sources of credit account for a significant portion of overall deposits, which come from the lower and middle-income strata. However, investors from these two income levels have limited access to and opportunities to supply the additional funds needed to launch a business. They are compelled to provide the needed collateral in order to obtain Bank loans.

Interest rates will be reduced, allowing an economy to avoid the most damaging effects of business fluctuations caused by either overproduction or underproduction (Ataul, 1982).

2.1.8 Major Categories of Islamic banking

Financial operations that follow Shariah are known as Islamic banking, also known as Islamic finance or Shariah-compliant finance (Islamic law). The sharing of gains and losses and the forbiddance of interest collection and payment by lenders and investors are two essential tenets of Islamic banking.

According to (Manzoor, 1999), the Islamic banking system can be divided into three groups, each of which represents a different model.

Banks, financial institutions, leasing companies, investment organizations, and mutual funds all make an effort to operate in the private sector without charging interest. The bulk of them are owned by business owners and private investors, however certain governments and international financial institutions offer financial support. Several nations have passed special legislation to help interest-free banks run more effectively.

At least three nations have made an effort to develop a government-sponsored strategy for getting rid of interest from the whole banking system. Iran, Pakistan, and Sudan all adopted banking systems that adhere to Shariah. In these nations, there are no interest bearing financial institutions at all. The strategy was to first build interest-free Banks in the private sector before creating interest-free Banks in the commercial sector. The first goal was to build "interest-free counters" for the system. Afterward, extend the islamic system across the whole banking sector, allowing novel ideas to operate while being protected by governmental regulations and central bank regulations. The aim is to change the whole financial and banking system not just one or two Islamic banks—and eventually the entire economy to follow Islamic principles.

Malaysia, for example, is a combination of the two. They have formed a completely interest-free Islamic bank with its own legislation and identity within the country's laws. They also have traditional Banks, which can operate on an interest-free basis. So far, 52 traditional Banks have signed up for the system (Manzoor, 1999).

Features of Islamic banking

Islamic banking is distinguished by its divine origin, devotion to the Shari'ah, diversification of financial ideas, absence of riba (interest), absence of garar (uncertainty), prohibition of injustice, and recognition of altruism in transactions. Five key components make up the Islamic banking system's primary feature.

A system of stock sharing and stake-taking is used in Islamic finance. It operates on the idea of a variable return based on actual productivity and project performance.

The overarching objective of an Islamic economy is an important component. A significant component of that concept, which is quite revolutionary in the way it views the economy, is Islamic banking (Chapra, 2000).

The Islamic way of life will place a high priority on ethics. There will be a framework of "Halal" (permissible) and "Haram" (prohibited), within which all commercial and public economic activity must take part. All economic activities will be guided by ethical and social elements. Entrepreneurship drives Islamic banking. It aims to increase economic production and services physically in addition to financially (Usmani, 2002).

An important aspect of Islamic finance is the non-inflationary nature of the Islamic banking system. The link between financial expansion, the money supply, and the physical expansion of the economy has been established by the current financial and banking dynamic; however, Islamic banking and Finance restore the equilibrium between these three components. The basic goal of an Islamic economy is to preserve monetary stability (Khurshid, 2000).

2.1.9 Islamic banking Operations

The Islamic banks have adapted the present banking instruments and procedures where those operations do not conflict with Islamic precepts. The Islamic banks have developed their own instruments and procedures to carry out their banking business in the event of a conflict. The following is a list of such methods and tools that have been developed thus far.

2.1.9.1 Deposit Accounts

There are three types of deposit accounts in Islamic banks: current, savings, and investment. The creation of an account in an Islamic bank is distinct from the traditional debtor-creditor

relationship in the Banking system. It is regarded as a partner relationship in Islamic banks. The whole system of Islamic banking is built on a partnership model where investors, borrowers, and depositors all have a part to play (Zineldin, 1990). The Bank's main source of funding comes from the accounts it offers to customers. The same three narratives are included in all the literature, but Al-Omar adds a fourth: accounts for special investments.

The following are the most important accounts (Zineldin, 1990): Demand Deposit Account (Current or Checking Accounts), Saving Accounts, Investment Accounts and Special Accounts.

2.1.9.2 Demand or Checking Deposit Accounts

Banking regulations should establish the core categories of each deposit and account type, enabling for innovation by allowing for the creation of new ones within the primary categories. Current accounts, savings accounts, and investment accounts are all part of any interest-free banking system. The idea of current accounts is safeguarded, but they are not permitted to produce any profits and are subject to strict reserve restrictions. A little return is received by savings accounts, but it is sufficient to cover their invested amounts. Due to the high cost of investing the fluctuating balances in these accounts from one month to the next, the low return is the result (Gafoor, 1995).

Both Zineldin (1990) and Wards (2000) demonstrate that deposits in a Demand deposit account can be withdrawn on demand with no restrictions. Customers open these accounts primarily to have excess liquidity on hand and not to profit or generate income. Of course, the Bank does not pay interest on these deposits.

Checkbooks and other common services associated with current accounts are provided by the Bank. Some Islamic banks charge a service fee for providing these services (Zineldin, 1996). Deposits would be completely secure financial instruments that would satisfy the demands of depositors who are risk averse since the nominal value of the deposits would be guaranteed. The monies may only be utilized in certain ways. It can't be used to finance risky endeavors, and it won't be utilized to buy assets or create loans. They can be used to provide cash-strapped parties with incredibly short-term loans. The profit the Bank makes while using these funds, if it

chooses to do so while they are still in its control, belongs to the Bank (Al-Omar et.al., 1996; Zineldin, 2002)

2.1.9.3 Savings Accounts

Depositors who wish to save money while also earning money typically use savings accounts. The motivation is to be safe. The money is frequently utilized in short-term investment projects and endeavors and can be withdrawn at any time. The nominal value of the deposits is guaranteed by the Bank or the government. The depositor is frequently paid a profit rate. Any positive rate of return, however, is not assured. If the Bank loses money on its investment ventures, the depositor will not be compensated (Zineldin, 1990). This type of account is classified by certain Banks as an investment account rather than a savings account (Al-Omar, 1996).

2.1.9.4 Investment Accounts- Mudarabah Accounts

Profit-and-Loss General investing accounts are sometimes known as sharing deposits. For Islamic banks, investment accounts are the most important source of cash and earning activity. Instead of holding onto money for transactional or preventive objectives, the goal is to make a profit. In exchange for a higher risk associated with engaging in investing activities, an investment account offers a bigger portion of the rate of return than a traditional bank account (Akacem, 2002). The profit and loss ratio, which determines how profits and losses are shared between the Bank and the depositor, is the only assurance provided to owners of investment accounts. Throughout the duration of the contract, this ratio is set and cannot be amended (Akacem, 2002).

2.1.9.5 Accounts for Special Investments

Besides standard investment accounts, banks may also provide specialized investment accounts. These are often only offered to rich or business clientele. These accounts also adhere to Mudaraba's principles. The distinction is that different approaches to fund investment and profit distribution might be proposed (Al-Omar, 1996).

2.1.10 Islamic banks and their interest-free lending practices

Egypt's MIT Ghamr Saving Banks were the first to completely use Islamic financing in 1963, earning money instead of interest through profit-sharing investments. Islamic financial institutions produced Shariah-compliant items with prices on par with those of conventional Bank products. The three most common Islamic financial instruments are leasing, cost plus mark-up, and profit-and-loss sharing (Mudaraba and Musharaka).

2.1.10.1 Participating Financing/ Musharaka-Equity

The actual meaning of the word "musharakah" is "to share." In Islam, a joint venture known as a musharakah is one in which two or more people pool their resources or labor to create a business in which everyone shares the profits in accordance with a set ratio and the losses are allocated in accordance with the contribution ratio (Usmani, 2002,). Its foundation in a mutual contract necessitates the following characteristics in order for it to be enforceable: The parties need to be able to come to an understanding (that is, they should be of legal age). The parties shall have the right to engage into the contract (without any force). Every Musharaka partner has the right to participate in and work for the management (Gafoor, 1996). Partners may, however, agree that one of them will run the Musharaka and that the other will not work for it.

The "sleeping" (silent) partner is only allowed to benefit to the extent of his investment, and the profit allocation ratio to him should not exceed his relative business investment size (Usmani, 2002).¹² If all of the partners agree to work for the joint venture, each of them will be treated as the other's agent in all business dealings, and any work done in the joint venture by any of them will be considered work done by the other, In the ordinary course of business, all partners are assumed to have granted their consent.

2.1.10.2 Trust Financing (Mudarabah)

Is it a deal where the Bank gives all the funding and the Investors offers their commercial efforts, expertise, and experiences? Finally, the Bank receives a predetermined portion of the earnings. In the case of a loss, the Bank is liable for the entire financial loss, but the manufacturer is not compensated (Rob, 1992) It is thought that this system motivates people to engage in economic activities and demonstrate that they are valuable members of society (Kettell, , 2011).

Commodity Murabahah is a form of a business deal. The transaction's main structure will be based on actual steel trading through a designated broker on the London Stock Exchange. The deal consists of a spot purchase of "Shariah-compliant" commodities for immediate delivery and a payment-deferred forward sale (cost-plus basis).

Options for Funding Murabahah, or markup purchase are a phrase for short-term finance. Murabah is a cost-plus transaction in which a Bank purchases an asset on behalf of a customer with the expectation that the consumer will purchase the asset from the Bank. The Bank charges the consumer a profit that both parties are aware of, and the payments are amortized over time, similar to a secured loan (Silva, 2006)

Other Mark-up Methods

The core concept of Murabaha has a lot of modifications. Wards (2000) lists them as follows:

BaiMuajjal(Credit sale or Sale on a deferred- payment basis)

Bai Al-Salam (Advance payment or forward buying)

BaiIstisna (Commissioned manufacture)

BaiMuajjal- Credit sale/ Sale on Differed Payment Basis

Baimuajjal

Literally means "credit selling." Murabahah Muajjal is a financing mechanism used by Islamic banks in the form of Murabahah Muajjal.

It is an agreement that permits the buyer to pay for the good in installments at a later time while giving the bank a profit margin on the purchase price. It must specify both the agreed-upon profit margin and the price of the Good. It is possible for the commodity price set in such a transaction to be either greater or lower than the current price. The Murabah financial strategy used by BaiMuajjal is based on a price markup. This is a sale rather than a loan. The amount must be agreed upon up front and must be paid in full at a later time. The price cannot be changed even if payment is not made by the deadline since it includes both the cost and a profit margin to compensate for overhead. The creditworthiness of the buyer is the only assurance of prompt payment (Al-Omar, 2000).

Advance payment/forward purchasing under Bai Al-Salam.

Bai Al Salam is a trading deal. The time and place of the agent's delivery as well as the financier's agreement to buy a commodity must be specified. The agreed-upon amount is paid in full at the time of the contract in cash.

The buyer will get the item at a later date. As a result, up to delivery, the seller normally bears the risk. The purchaser has the right to inspect the goods in a Salam sale. He has the right to reject the products straight away if they do not fit the description provided at the time of the transaction. Although it is not yet widely employed, Warde thinks this technique has a lot of potential for some industries, such agricultural products (Wards,2000).

Bai-Istisna- Commissioned Manufacture

A new idea in contemporary Islamic banking is the "bai- Istisna," which is a contract for processed goods and commodities. It provides a variety of potential future funding and trade structure options. This contract permits future payment and delivery as well as future payment in cash and future delivery. The lender has some flexibility because of these options. He may pre sell to his customer for cash-on-delivery and then haggle over the purchase (Al-Omar, 1996).

Ijarah-Lease Financing

An agreement to lease land or other property in exchange for a specified monthly cash payment is known as a lease, and Islamic banks employ leases as a form of financing. An agreement in which Islamic banks rent out to customers' various assets, including machinery and buildings, with the customer having the opportunity to buy the rented asset outright. Ijara is a contract in which a bank buys an item and then leases it to a client for a fee, much like a sale/leaseback. The lease duration and price are predetermined and, in many respects, resemble the conditions that would be used with a loan. (Silva, 2006)

Ijarahwal Iqtina:-Hire Purchase

In exchange for a leasing agreement, an Islamic bank funds property, machinery, or other amenities for a client. At the end of the lease period, ownership of the asset will be given to the lessee, according to an independent commitment made by the Bank or the client. The commitment or promise need not be an integral component of the lease contract in order for it to

be conditional. The purchase and rental prices are set in such a way that the Bank earns back its cost price plus a profit that is often predetermined in advance (Sarah, 1988). Istisna is a contract that allows for either a future payment and delivery or an advance cash payment with a defined date for future delivery of goods and commodities. A manufacturer or constructor commits to creating a product or structure at a certain price on a specified day in the future. Payment terms can be negotiated between the parties, even in installments. Construction of homes, plants, projects, and buildings for bridges, roads, and highways may be accomplished with istisna (Sarah, 1988).

Sukuks (Islamic Tradable Bonds)

Sukuk, is a "Bond" that complies with Shariah. Sukuk is the simplest way to represent asset ownership. Sukuk is a claim to ownership rather than just income. Sukuk differs from typical bonds in that it is essentially an investment certificate that represents ownership rights in a pool of assets as similar to traditional bonds, which involve interest bearing instruments. Muslims throughout the Middle Ages utilized a sort of paper called a sukuk (plural of sack) to represent monetary commitments resulting from trade or other forms of economic activity. However, the current structure of Sukuk is different from the original Sukuk and resembles the conventional idea of securitization, which is a procedure in which ownership of underlying assets is transferred to several investors through certificates representing the proportionate value of the relevant assets (Sharqi, 2007).

2.1.11 Funding Sources and its uses in Islamic banking

2.1.11.1 Sources of Funds

In addition to its shareholders' (own) capital and equity, Islamic banks' primary sources of funding would be two types of deposits: transaction deposits and investment deposits. Transaction deposits, according to Mohasin and Abbas (1986), are directly tied to transactions and payments and can be considered similar to demand deposits in a traditional Banking system. Even if a Bank provided a nominal value guarantee for the deposit, it would not offer a return on this type of loan. In general, banks are unable to employ funds collected through this strategy to create value of firms. As a result, in order to pay the costs of maintaining this kind of account, banks would almost probably have to charge depositors a service fee. Investment deposits, which

resemble shares of a corporation more closely than conventional time and savings accounts, are the main source of cash for banks. A bank would provide investment deposits, but would not guarantee their nominal value or give a set rate of return. On the other side, depositors would be treated like shareholders and get a share of the Bank's gains or losses. The sole contract between the depositor and the Bank specifies how earnings and losses are to be distributed. The Bank and the depositors must agree on the profit-or-loss-sharing ratio prior to the transaction, and it may only be changed with the consent of both parties.(Mohsin& Abbas, 1986).

2.1.11.2 Uses of Funds

Unlike conventional Banks, which have a relatively easy funding method, Islamic banks must allocate their resources in a complex manner. There are numerous differences between Islamic and regular Banks. To begin with, Islamic banks are not motivated by profit. Their primary goal is to improve the community as a whole, and their general business philosophy is founded on fairness and equity. Second, Islamic banks have a partner, investor, and trader connection with their customers, whereas traditional Banks have a creditor-debtor relationship. Third, many traditional Banks' lending policies typically require that a customer's loan be for extra capital rather than beginning capital (with the exception of venture capital institutions). Islamic banks, on the other hand, will invest in new or existing projects if the initiative is viable and profitable. Another feature that distinguishes Islamic banks from normal Banks is their lending requirements. In most cases, traditional Banks utilize the interest rate as a criterion for determining loan choices. If the rate of return on the borrower's business is less than the interest rate on the loan, the loan will be denied. In contrast to popular belief, Islamic banks will participate in a variety of projects as long as the chosen ones are viable (Sudin, 1996).

Non-commodity trading is strongly prohibited by Shari'ah, which considers money to be a non commodity item (Siddiqi, 1986), making it illegal to provide loans to consumers for profit. The cash will most likely be used through equity participation or a partnership. Islamic banks frequently apply the principles of Mudarabah, Musharakah, and Murabahah to assist their commercial customers. Ijara and Ijara-Wa-Iktina principles apply to leasing, but BaiMua'ajal and Qard-e-Hassan principles apply to ordinary consumers who require financial assistance in purchasing homes, durable products, and other personal necessities. Other Banking services, such as letters of guarantee, letters of credit, remittance services, travelers' checks, and safe

deposit boxes, are fee-based services. Islamic banks typically employ the Wakalah and Kafalah principles when providing these services (Sudini, 1996).

2.1.12 Interest-Free Banks and the National Bank's Role

Interest-free banking operations are undoubtedly more complex and diverse than conventional financial operations. The traditional banking system's borrower creditworthiness criterion has to be updated with regard to profit-sharing activities so that project feasibility and profitability are given more weight. In addition to evaluating the structure of returns from various economic activities, banks must also evaluate the term structure of returns. One of the new demands imposed on commercial banks is the inspection and evaluation of projects, the calculation of profit sharing ratios, and the creation of a procedural framework for the processing, monitoring, supervision, and auditing of diverse projects (Iran, 2002).

Financial and banking operations in the economy continue to be under the supervision of monetary authorities, who can also distribute resources in line with societal priorities and guide monetary policy in an Islamic framework toward specific objectives. The supply of "high-powered" money (currency plus central bank deposit liabilities to commercial Banks), reserve ratios on various forms of liabilities, and the maximum amount of assets that Banks can devote to profit-sharing activities are all under the supervision of the central bank. Through the acquisition of stock stakes in banks and other financial intermediaries, the central bank may exercise even greater influence. The central Bank can continue to exert significant influence on the financial system by performing its regulatory, supervisory, and control tasks, as well as its role as leader-of-last-resort. Furthermore, there may be prospects for profit-sharing direct investments in the real sector as well as equity holdings in joint ventures with other Banks. Open market activities, or the capacity to purchase and sell securities representing real assets in the financial market, would continue to be allowed as long as these securities did not include par value features or a non-zero coupon rate (Mohsin & Abbas,1986).

Additionally, it has been recommended that the central bank regulate the profit-sharing percentages between banks and depositors and banks and borrowers. These ratios might vary, changing the rates of return, and potentially having an impact on the total flow of financial resources similar to variations in interest rates (Iran, 2002).

2.1.13 Some Unique Characteristics of Islamic banking Relative to Conventional Banks

While Islamic banks fulfill many of the same functions as traditional Banks, they do have some unique characteristics. A few of them are listed below (Iqbal, 1998)

2.1.13.1 Risk sharing

The most essential characteristic of Islamic banking is that it encourages risk-sharing between the fund provider (investor) and the financial intermediary (Bank) as well as the fund user (enterprise). In traditional Banking, on the other hand, the investor is guaranteed a fixed rate of interest. Because the nature of the world is unclear, the outcomes of any undertaking cannot be predicted in advance, hence there is always some risk. In traditional Banking, the entrepreneur is responsible for all risks. The owner of capital gets a predetermined return whether the initiative succeeds and makes a profit or fails and loses money (Iqbal, 1998).

2.1.14 Products, services, and performance of ZamZam Bank S.C.

The deposit options offered by Islamic Banking are entirely governed by Shari'ah law. ZamZam introduced investment and deposit products, including investments, savings demand deposits, time deposits, and other Shari'ah-compliant products. Most of the investment deposits that ZamZam uses to share investment profits and losses with its consumers are fixed term Mudarabah deposits and savings Mudarabah accounts (investors). Along with Amanah demand deposits, the Bank also introduced a number of Wadiah types of savings deposit products.

Major deposit products are:

1. Wadiah deposit types

Depositors can place their money in safe custody without obtaining any benefits through this type of account, which is a trust arrangement, and the bank will keep it there. Customers use it as a safe deposit box by opening it for an arbitrary period of time.

ZamZam Bank launched different types of Wadiah: -

Regular Wadiah Saving Account	ZamZam Safe box Wadiah Saving
Wadiah Almerah Saving Account	Wadiah Labbaik Saving Account
Wadiah Atea‘lim Saving account	Wadiah Waqf Saving Account
Wadiah Mahr Saving Account	Wadiah Zakat Saving Account

2. QARD (CHEQUE) ACCOUNTS

Cheques have been established for Qard account for an indefinite amount of time.

These types of account include: -

Regular Qard Accounts and Qard Diaspora Accounts.

3. MUDARABAH DEPOSITS

Customers can deposit funds into this investment account for an indefinite period of time, and when the funds are used for any permitted purposes decided upon by the bank, they share profits and losses according to a previously established ratio.

These Mudarabah accounts include:

Regular Mudarabah Savings;	Mudarabah EID Savings;
Mudarabah Almerah Savings;	Diaspora Mudarabah Savings;
Mudarabah Atea‘lim Savings	Mudarabah Fixed Investment
Mudarabah Children Savings;	Deposits ranging from 2 Months upto 3 Months; and
Mudarabah Nikah Savings;	Negotiable Mudarabah Fixed Investment Accounts

FINANCING AND INVESTMENT PRODUCTS

ZamZam Bank planned to classify all kinds of interest-free financing broadly into the following three categories when they were gradually introduced.

Equity (direct ownership) such as Mudarabah, Musharakah and Sukuk.

Trading (buying & selling) such as Murabahah, Salam and Istisna,

Leasing (giving an asset or service out on rent) such as Ijarah.

1. MURABAHAH

This financing product is employed to provide financing to all industries in the following ways:

Working capital,	Purchase of Raw materials,
Purchase of goods/real assets,	Merchandise facility,
Export and Import trade,	Partial project financing

Types of Murabahah Financing include:

Murabahah Term Financing;	Motor Vehicle Murabahah Financing;
Murabahah Merchandise Facility;	Murabahah for purchase of building and Business Establishments;
Murabahah Revolving Financing Facility;	Murabahah Agricultural Input Financing;
Murabahah L/C Financing;	Murabahah Commercial Farming Term

<p>Murabahah pre-shipment;</p> <p>Murabahah Post-Shipment Financing;</p> <p>Commodity Murabahah</p>	<p>Financing; and</p> <p>Construction Machinery Murabahah Financing.</p>
---	--

2. IJARAH

It is a type of financing that complies with Shari'ah in which the Bank (lessor) leases the designated asset, such as vehicles, building, machinery, and equipment, to a customer (lessee), for an agreed-upon rental charge and lease period.

3. ISTISNA'

It is a contract for the sale of particular properties or assets that will be produced or constructed, and the bank or seller is required to deliver those properties or assets to the buyer, client, or purchaser as soon as they are completed, in accordance with the agreed upon complete specifications of the goods, assets, services, or manufactured items, sales price, date, and place of delivery.

4. BAI' SALAM

It is a type of financing based on the Shari'ah in which the Bank agrees to pay the full contract price for the goods or commodities up front at the time of the contract. It is used to purchase items or commodities that the vendor will deliver at a future time or date that is specified. Bai Salam funding is available to farmers, producers, manufacturers, and other producers of goods and commodities who make tradable goods for the market.

5. MUSHARAKAH

It's a special kind of financing arrangement where the Bank and the customer(s) agree in advance to share profits and losses.

6. MUSHARAKAH LETTER OF CREDIT

The applicant needs discuss the terms of reference for musharakah financing and let the bank know what kind of letter of credit is needed. The customer receives the commodities, which are

then disposed of in accordance with the conditions of the contract. Net income is distributed in accordance with a predetermined ratio among the partners, and losses are distributed in a manner consistent with their real capital contributions.

7. MUDARABAH

It is a kind of partnership when a Bank lends money to another (Mudarib) for investing in sharia compliant businesses. While the management bears the loss in terms of services provided and time invested and the investor in monetary terms, the profits are shared according to a predetermined ratio. Within the parameters of the mandate specified in the Mudarabah agreement, the client shall conduct all of Mudarabah's business activities.

8. PERSONAL FINANCINGS

HOUSING FINANCING

It is a type of finance that will be given to people who want to construct a fence against the property they are buying or building as well as people who want to build, buy, renovate, or expand an existing residential building

VEHICLE FINANCING

This financing is provided to customers for the purchase of either new or used automobiles. Automobile funding for employees of other institutions shall also fall under this category.

INTERNATIONAL BANKING

The bank also engages in international banking, which includes the mobilization of hard currency and subsequent use of that currency. The Bank has a strategy to establish equivalent banking relationships with the majority of well-known full-service Islamic banks operating in a worldwide setting. Dealing with foreign conventional banks with significant exposure to Ethiopia's exports is another option.

The International Banking Services of the Bank includes:

Trade Services,

Import and Export Letters of Credit (L/C)

Import and Export Cash against Document (CAD)

Import and Export Advance payment (TT)

Foreign Transfer Services,

ForEx Services,

Remittance Services, and

Foreign currency account opening

OTHER BANKING SERVICES

ZamZam Bank currently provides most of banking services currently available in the market with its special focus for digitization while maintaining Shari‘ah principles in all its operation.

ZamZam Bank implements the following major digital channels on first years of its operation: -

Automatic teller machine (ATM)

Mobile banking (USSD based)

Internet banking (on progress)

Financial performance of ZamZam Bank on its first year operations

The following table illustrates some financial performance of the Bank

Table 1 Financial performance of ZamZam Bank on its first year operations

No	Performance Parameter	Performance measurement
1	Numbers of branch opened	40 branches at Addis Ababa and outside Addis Ababa
2	Numbers of Customers	>500 corporate customers >90,000 individual customers
3	Total deposit of the period	billion ETB
4	Total disbursement of the period	>800 million ETB
5	Net profit/loss of the period	145.42 million loss

Source: - Survey, 2024

Zamzam bank which had weathered a loss of 145.42 million Br in its first year ,has reversed its fortunes ,posting a net profit of 24.1 million Br.the shift is primarily attribute to the banks strategies for boosting its income through financing and investment activities.

currently there are 86 branches across the country and A total deposit of birr 4.5 billion and total asset of birr 6.9 billion.

2.2 Review of Empirical Studies

2.2.1 Studies of empirical literature in established and emerging economies

Numerous researches have been conducted on the prospects and problems of Islamic banking. The literature on Islamic banking and finance demonstrates that a large number of academics have studied the prospects and problems of Islamic financing. Wilson (2000) investigates the rise of Islamic financing in the UK. He proposed that Islamic finance represents demand for Shari'ah compliant Islamic deposit facilities and investment management services from both Muslim residents and non-residents. SunGard (2008) analyzes the growth and challenges of Islamic banking and Finance. It presents a broad range of obstacles, including competitiveness, the need for additional Islamic finance expertise, the immediate demand for short-term money market investments and liquidity management tools, limited Islamic secondary markets, and differing Sharia'h interpretations.

A small number of people took part, and the development of Islamic financial instruments is slow or static. NurAqilah Zainordin (2016) undertakes a survey to learn about the obstacles to the establishment and development of Islamic banking in Kenya. According to his conclusions, the most difficult obstacle is obtaining legal support, as Islamic law provides its own structure for the implementation of commercial and financial contracts and transactions.

Legal issues hampered the establishment of Islamic banking and financial institutions, according to (Iqbal, Amad, and Khan, 2009), because Islamic banking lacks an efficient supervision framework. It is the cause of the current system's inefficiency and hence deserves careful consideration.

When Ibrahim (2004) discovered that commercial Banking and company regulations are incompatible with the execution of Islamic banking and financial contracts, he faced legal

hurdles. The remark "Misunderstanding of Islamic financial concept" was reinforced by Haidi and Malik (2006). They claim that the first impression of Islamic banking is that the fixed rate notion of a "halal" loan may be used to replace the conventional loan.

According to Karbhari, Naser, and Shahin (2004), differences in Islamic cultures and communities within different countries cause Shariah principles to be interpreted differently by each Muslim school. The concept of Islamic financial organizations is muddled due to noncompliance with Shariah views and differing approaches.

This problem was demonstrated in a study by John Wiley and Sons (2011). He discovered that Islamic financial intermediaries have liquidity issues as a result of the lack of a developed money market and a scarcity of short-term investment instruments such as Treasury bills and marketable securities, which offer low capital risk and high returns. The debate over Islamic banking and finance has a long history around the world, but it is different in Ethiopia since Islamic banking and finance is a relatively new idea. There have also been few studies on the operational obstacles and opportunities of fully-fledged interest-free Banking. Haq (1997) produced the first empirical analysis of the main obstacles and potential in Islamic banking, piloting his research on Pakistani enterprises. His research revealed that the goal was to adhere to Islamic Shariah principles.

In order to ascertain the economic advantages of Islamic banking, Ahmed (2010) conducted a study. He noted that Islamic banking's ability to expand credit is related to the expansion of the real economy since it enables credit to be utilized primarily for the purchase of actual products and services. According to Tukamu Habwa (2011), the best way to boost performance is to understand the opposing forces at play. For the purposes of this study, I identified the competitive challenges and possibilities for Islamic banks to enhance their performance. The survey looked at the majority of empirical research that was published in high-impact journals, but it did not cover all empirical research in the subject. Previous survey studies have concentrated on specific Islamic banking and finance issues, such as interest rate (Bellalah & Ellouz, 2004), bank growth nexus (Mahfooz & Ahmed 2014), selection criteria (Nawi, 2013), and its role in the new world order (Moisseron, 2015). Other studies have reviewed theory and practice (Ahmed 1989; Tahir 2007; Shaikh 1997; Siddiqi 2006; Siddiqi 1978; A (Aliyu, 2016). However, not all of these studies were able to take into account thematic and sub

themes ranging from theoretical to practical difficulties with consideration of societal impact through masjid sharia, financial inclusion, and disclosure. This is despite the fact that they are significant to the Islamic financial system. Therefore, the current study tries to address this gap by relating recent studies to earlier ones in order to offer evaluations and suggestions for further research.

In order to determine if the contextual findings are consistent or inconsistent, this research also aims to establish a relationship between previous and later empirical studies of Islamic financial literature. This has implications for theory, practice, and upcoming research.

The primary objective of this research is to build the system that supports not only the industrial sector but also societal well-being in general by helping to promote balanced thinking that will reveal the gap between theory and practice.

2.2.2 Empirical Literature in the Ethiopian Context

According to the Economist Intelligence entity study (2015), Africa is the world's largest untapped growth market for "Islamic" commerce (Banking, insurance, bonds, and 20 capital markets) and halal food (sharia-compliant goods and services). Islam, along with Christianity, is the most popular religion in Sub-Saharan Africa, with 67 percent of Muslims. Ethiopia, a sub-Saharan country, is another potential customer for IFB.

As a result, the nation has protected the expansion of Islamic banking. Along with meeting the needs of Ethiopian customers, Islamic banking would give the Ethiopian government diplomatic advantages when dealing with nations with a majority of Muslims. Ethiopia is becoming more conscious of the need to draw in foreign investment. According to Mohammed (2012), the Ethiopian government's embrace of Islamic banking will probably result in diplomatic advantages in its financial dealings with nations with a majority of Muslims, especially in enticing trillions of dollars in equity investments from the Gulf. Although the Special Non Interest Savings Accounts (also known as Special Demand Deposits) were first made available by the Commercial Bank of Ethiopia (CBE) in 2008, Sharia-compliant transactions were not possible until 2013. Only a few commercial banks, such as Oromia International Bank S.C.,

Commercial Bank of Ethiopia, and United Bank S.C., implemented the system in 2013 despite the National Bank of Ethiopia (NBE) issuing a directive allowing banks to provide interest-free banking (Islamic banking) services through a separate window alongside their other banking services.

In order to permit conventional banks to undertake interest-free banking, the NBE published "Directives to Authorize the Business of Interest-Free Banking No. 1" in 2011. According to the Directive, banks applying for a license to offer interest-free banking services must adhere to Islamic financial principles and standard operating procedures in addition to other formal criteria. IFB is still a relatively new phenomenon in Ethiopia. According to the researcher, there doesn't seem to be any research on the possibilities and difficulties of interest-free banking in Ethiopia.

(Kerima, 2016) is one of these studies. These studies looked at the issues of interest-free Banking services, with a particular focus on the Commercial Bank of Ethiopia, as well as the factors that influence consumers' propensity to use interest-free Banking products and factors that influence workers' product awareness. Mohammed undertook an investigation into "Islamic banking" in the year 2012.

Major issues in Ethiopia include a lack of awareness, issues with regulations and supervision, issues with institutions, a lack of support and institutions, a gap in research and development in Islamic studies, a shortage of qualified human resources, incorrect associations with a particular religion, and international terrorism.

Akmel(2015) used stratified sampling to interview workers from three banks in order to get information about the challenges and promise of Islamic banking for resource mobilization in Ethiopian commercial banks. The results point to knowledge, human resources, the legal system, public perception, and resource needs as some of the barriers, while economic expansion, investor recruitment, and investment facilitation are possible Bank opportunities.

The researcher proposed that Banks raise public awareness and train officers, apply effective marketing strategies, provide a clear legal framework, and adhere to Sharia issues. Debebe (2015) examined Ethiopian customers' willingness to use interest-free Banking and the factors that may influence their decision.

The findings revealed that consumers' views about interest-free banking in Ethiopian commercial banks are significantly influenced by perceived relative benefit, perceived compatibility, customers' level of awareness, and subjective norm. With a focus on the Commercial Bank of Ethiopia, Kerima (2016) conducted research on the challenges to interest-free banking services in Ethiopia. They found that these challenges include: a lack of bank commitment; a lack of Shariah advisors; an absence of supportive regulatory directives; a problem with the law governing the Ethiopian Commodity Exchange (ECX); a lack of capacity to deliver IFB products at full capacity; and a lack of customer understanding about IFB.

The results of a recent study by Abraham (2017) on the factors influencing employees' product knowledge and the factors determining customers' intention to use interest-free banking products in the context of commercial banks in Ethiopia show that, aside from knowledge, all other variables attitude, social influence, perceived financial cost, and religious belief have a significant impact on IFB use intention. Islam and Christianity are the two most common religions among Africans, with 67% of Muslims living in Sub-Saharan Africa.

Ethiopia's presence in the Sub-Saharan region presents a significant opportunity for the growth of interest-free banking. The primary difficulties and future prospects of Islamic banking have not yet been examined because it is a recent occurrence in the Ethiopian banking industry. This study's primary goal is to identify the major obstacles that Banks encounter in implementing interest-free banking, which will aid the banking industry in finding solutions to these problems. Nevertheless, there are several research mostly centered on the difficulties banks have with implementation. This study's main goal is to evaluate the opportunities of Islamic banking and its obstacles in Ethiopia's economy.

The study's objective is to assess the opportunities, and drawbacks that IFSIs encounter in the Ethiopian financial services sector. According to Wondwosen (2018), the purpose of the study was to pinpoint the major challenges of interest-free banking and its prospects in the context of five Ethiopian commercial banks that were chosen and operated between 2013 and 2018. The results demonstrated how crucial supervision of Islamic banks is. One of the current flaws in Islamic institutions is the absence of adequate prudential control.

As a result, the Shariah Supervisory Board must develop an efficient structure for managing all financial institutions in Ethiopia. A research on the challenges and opportunities of interest-free banking in Ethiopia was carried out by Tsion (2017) on the chosen five commercial banks. Interest-free Banking Law; the firm's system, service, and challenge and opportunity as the dependent variable are the three independent variables that the author has employed. The results revealed that the main challenges faced banks in implementing IFB system included lack of awareness by customers about IFB services, institutional challenges, desire for special regulations and lack of specialized human resource.

2.2.3 Summary and Gap in the Existing Literature

Analyzing the operational challenges and potential consequences of Islamic banking in Ethiopia is quite helpful given that varied outcomes are predicted in this sector. Even though there have been a number of survey studies undertaken to investigate the opportunities and challenges of Islamic banking, the most of them have focused on the overall opportunities and challenges as well as its ability to compete with conventional banks. However, there is a lack of empirical research that examines the operational challenges and opportunities in Ethiopia, despite the fact that IFB seems to be well known and in great demand. This study elaborates on the challenges and opportunities of fully-fledged Islamic banking in the case of ZamZam Bank, Addis Ababa, Ethiopia in an effort to close the aforementioned gap.

2.2.4 Summary of Ethiopian Empirical Findings

Mohammed (2012) used both qualitative and quantitative data to examine the prospects, opportunities, and challenges of Islamic banking in Ethiopia. Moreover the findings showed existence of misunderstanding and lack of knowledge about Islamic financial services, and operational issues and opportunities of interest. Wondwosen (2018), involved both qualitative and quantitative data. In addition to evaluating the operational challenges and opportunities of IFBs in selected conventional Banks that started IFBs on a window basis, the questionnaire can be used for a descriptive or explanatory study on the regulatory system on IFB operation, the limited market and product availability, the lack of Sharia experts and manpower, and other related subjects.

Akimel (2015) used both qualitative and quantitative data analysis tools that are employed to analyze the challenges and opportunities of Islamic banking in Ethiopian commercial Banks for

resource mobilization. Islamic banking chances for growth assessing the obstacles and potential of Islamic banking in Ethiopian Commercial Banks' resource mobilization initiatives.

2.2.5 Conclusion

Readers may infer from the often discussed literature study that national studies fail to achieve in addressing opportunities and potential drawbacks of full-fledged Islamic banking in Ethiopia. Therefore, additional study should be conducted so that the stakeholders in the sector will benefit from the findings and recommendations.

CHAPTER THREE

3.RESEARCH DESIGN AND METHODOLOGY

The aim of this chapter is to highlight the design and overall methodological considerations of the paper. It outlines the general research approach which the paper follows and encompasses a discussion of the actual design applied throughout the research. It consists the method of data collection and description of the data analysis method and ethical consideration of the research.

3.1 Research Design

The research design applied in this study was descriptive to show the challenges and opportunities of Islamic bank at ZamzamBank S.C. This is so that both qualitative and quantitative survey aspects can be used in the research process. A research design is the program that guides the researcher in the process of collecting, analyzing and interpreting the data. A research design, according to Kothari (2004), is the organization of variables for data collecting and analysis in a way that tries to combine relevance to the study objective with economy in technique. In actuality, the research design serves as the manual for data collecting, measurement, and analysis.

3.2 Research Approach

Three different types of research approaches qualitative, quantitative, and mixed are identified by Creswell (2009). In addition, Kothari (2004) stated that the quantitative method to research incorporates the age group of data in a quantitative form that may be divided into inferential, experimental, and simulation approaches to research. This often indicates that survey research uses a census of the respondents being investigated, from which it can be deduced that the population as a whole has the same traits. It also suggests that the study is built on a specific set of observations in order to draw a generalization. Predictions and generalizations in the research are based on the observations that have already been made. On the other hand, the qualitative approach to research is concerned with the subjective assessment of perceptions, views, and behavior; through focus group interviews, participant

observation, and structured interviews; it produces results either in non-quantitative form or in the form which are not subject to thorough quantitative analysis.

3.3 Data Type and Source

Both primary and secondary data would be used to conduct this study. The primary data will be collect from managers, officers, and directors of ZamZam Bank included in collecting primary sources. A questionnaire is a series of questions that have been thoughtfully constructed with the intention of obtaining a credible answer from a from the total respondents (Hussey and Hussey 1997). A questionnaire is use to gather the primary data for the study from the total respondents in order to elicit perspectives on the challenges and opportunities of Islamic banking. It comprises of a number of questions in print or nature in a certain sequence on a form of closed ended questions. In order to accomplish the goal of the research, structured interviews will be perform with managers, officers, directors, and board members of ZamZam Bank S.C.

Secondary information is those that have been prepared or made accessible for a particular research goal (Adams, Khan, Reside, and white, 2007). The secondary information will be gather to identify and comprehend the theoretical feature of challenges and opportunities of Islamic banking and their practicability through books, flyers, and magazines published by those financial institutions and other banks that are presently operating in IFB in windows and divisions levels for similar objectives. The NBE's guidelines for IFB will also take into account this sector's sizable contribution.

3.4 Sampling technique

For this study census sampling is used ,because of the total population of 190 respondents .sample size is not mandatory for this study .I used census sampling technique to get the detailed and truth informations.

3.5 Collection method and Technique

For accomplishing the research work and research objectives all of the data presented in this study was collected through primary sources via questionnaires from head office of ZamZam Bank. The researcher used structured questionnaires used by Mohammed (2012). The survey asked structured questions that used five different evaluation techniques (Strongly disagree, Disagree, Neutral, Agree, and strongly agree). The officers, directors, founders, and managers of ZamZam Bank will be the target groups for questionnaires and interviews that will gather the primary data. Both open-ended and closed-ended questions would be asked during the interview and on the questionnaire.

For the secondary data, the researcher would be use printed papers from the target Bank, NBE guidelines for IFB operation, and other people's studies. The first of the questionnaire's four sections deals with the demographics of the respondents. Part two, which was expected, assesses the challenges and opportunities of Islamic banking in Ethiopia, specifically in the case of ZamZam Bank S.C. In part three, the researcher applied a closed-ended questionnaire to investigate customers or employee need for interest-free Banking services, and in part four, the researcher assed the challenges of Islamic banking in case of ZamZam Bank S.C. The researcher followed the necessary procedures to ensure that respondents know the confidentiality of the information they have provided and to seek their consent before distributing the questionnaire or conducting an interview. Another method for obtaining original data from these organizations is through interviews. The interview technique of data collection enables the researcher to inquire more about any topics brought up by the respondent. However, interviews demand time and resources. The researcher personally interviewed 2 executives and 2 experts from the Bank to gather supporting evidence.

3.6 Population of study

3.6.1 Target Population

A total of 190 questionnaires were developed and distributed among respondents in order to accomplish the research's objective. Managers, directors, staffs, shareholders, and Shari'ah consultants of the Bank made up the responses. In

addition, the researcher conducted interviews with industry experts that have a direct involvement in Islamic banking in order to collect data.

3.7 Methods of Data Analysis

The data obtained from the questionnaire were analyzed through the mean and the standard deviation. The data from the questionnaires is used to determine the challenges and opportunities of IB and it consist of five responses on liker"s scale. These are 1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 Strongly Agree.

The collected data were sorted and examined for errors before being added to build tables for analysis. In addition, the research attempts to look at a range of issues, including misunderstandings, awareness, the regulatory environment, and others, that pertain to Islamic banking opportunities and challenges in Ethiopia (ZamZam Bank S.C).

The primary data were assessed using the proper statistical techniques and corrected for any mistakes or omissions once all pertinent secondary and primary data had been gathered .The majority of the descriptive statistics were percentiles of the distributions of the participants' responses. The researcher analyzed the responses to the research questions quantitatively and qualitatively. The findings were presented using tabular and charted figures to describe the intended meaning and make it easier to grasp the research findings.

Interview qualitative data obtained by taking written notes during the interview and providing raw materials for the report in the form of video and sound recordings of what is said. The analysis consolidated and conveyed the information provided by the informant by using a narrative technique to relate it to the study's major objectives. Qualitative analysis, on the other hand, will triangulate some of the replies collected through closed-ended questions.

3.8 Validity and Reliability Test

3.8.1 Validity

According to Amin (2004), Validity defined as the accuracy and meaningfulness of

the inferences by examining and questioning whether there are any other possible casual relationships and checked the unknown factors contributed to result and findings of the research. It is the ratio to which results obtained from the analysis of the data actually represents the phenomena under study. It contends that the validity of the questionnaire data depends on a crucial way the ability and willingness of the respondents to provide the information requested. The instruments selected can help to show the challenges and opportunities of ZamZam Bank S.C.

3.8.2 Reliability

The reliability of an instrument according to Saunders et al., (2009) is the degree of consistency which measures attribute, in particular, whether or not it will produce consistent findings at different times and under different conditions, such as with different samples. Internal consistency involves correlating the responses to each question in the questionnaire with those to other questions in the questionnaire. There are a variety of methods for calculating internal consistency, of which one of the most frequently used is Cronbach's alpha. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. Cronbach's alpha can be written as a function of the number of test items and the average inter-correlation among the items.

A commonly accepted rule of thumb according to Saleh (2009) for describing internal consistency using Cronbach's alpha is as follows.

0.9 -1.0 Excellent

0.8 -0.9 Good

0.7 -0.8 Acceptable

0.6 -0.7 Questionable

0.5 -0.6 Poor

0.0 -0.5 Unacceptable

Therefore, for this research the reliability is checked by the Cronbach's alpha reliability test it is found a Cronbach's alpha of 0.78, 0.728 for opportunities and challenges for this research respectively which indicates that there is high internal consistency. Therefore it can be said that the questionnaire is reliable and ready for distribution for population Census.

3.9 Ethical Considerations

All the research participants included in this study was appropriately informed about the purpose of the research and their willingness and permission was secured before the beginning of distributing questionnaire. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. A guarantee was given to the ZamZam Bank S.C respondents that their names should not be revealed in the questionnaire and research report. In order to ensure the success of the research, leaders were linked to subordinates in such a manner that each subordinate's response remains anonymous apart from being linked to a particular leader. Moreover, participants received a verbal and written description of the study, and informed consent was obtained before the survey. Participation in the study was voluntary, and all participant responses were confidential, all sources cited in this research were dully acknowledged.

CHAPTER FOUR

4. Data Analysis and Interpretation

The goal of this chapter is to present the findings of the research based on data gathered from the questionnaire, interviews, and secondary sources about the challenges and opportunities of interest-free banking in Ethiopia, specifically in the case of ZamZam Bank S.C. This chapter presents the findings of the data analysis in accordance with the research methodology covered in chapter three. The Bank's publications, another website, and pertinent NBE directives all provided the secondary data that was used. Additionally, information from ZamZam Bank's officers, managers, directors, key shareholders, and other stakeholders was used to compile the primary data.

This chapter deals with the collected data and interpretation. It has four parts, the first part is concerned with the questionnaire distributed and returned, the second part concerned with the background of the respondents, the third part concerned with challenges of IFB and the final part concerned with the opportunities of IFB in the case of ZamZam Bank S.C. Additionally, reliability analysis is conducted to ensure the validity of the findings, and the profile of the respondents is established. To effectively address the research questions, the collected data were subjected to analysis using the Statistical Package for the Social Sciences (SPSS) version 20.4.1

Response rate of respondents

Table 2 Reponse rate of respondents

Questionnaire Distributed	Questionnaire Returned	%
190	190	100

Source: - Survey, 2024 As shown in table 2 above regarding the response rate of respondents there was not unreturned questioners. The Statistical Package for the Social Scientists (SPSS) Version 20 Software was used to process & analysis the data that were collected from a total of 190 respondents of zamzam bank employee at heads office All the copies of the questionnaire were completed properly and returned. Accordingly, analysis and interpretation of data has been made in this part of the study based on 190 returned questionnaires.

4.2 Demographic characteristics of the respondent

Table 3 Demographic characteristics of the respondent

No	Factors	Catagories	frequency	percent
1	Gender	Male	124	65.3
		Female	66	34.7
		Total	190	100
2	Age	18-30	114	60
		31-40	42	22.1
		41-50	30	15.8
		51 and above	4	2.1
		Total	190	100
3	Edu. Level	Diploma	9	4.7
		Degree	131	68.9
		Masters	47	24.7
		PHD	3	1.6
		Total	190	100
4	Work experience of respondents	0-5	108	56.8
		6-10	48	25.3
		11-20	30	15.8
		21 and above	4	2.1
		Total	190	100

Source: - Survey, 2024

From the above table 3 shows respondents profile in this study. It depicts that Male respondents made up 65.3% of the respondents, while female respondents made up 34.7%, as seen in the above table. Despite the fact that the ratio of respondents was not proportional and fluctuated, both gender categories took part in the poll. This makes it possible for the researcher to ensure that there is no bias in the survey instrument connected to the respondents' gender. With regard with age, 114(60%) of the respondent age were 18-30 years, 42(22.1%) of the respondents were 31-40, 30(15.8%) were between the age of 41-50 and 4(2.1%) of the respondent were 51 year and above, Thus the majority of the respondents were aged between 18-30 years.meaning younger and have capacity improve there profession.with regard to The respondents' level of education also has an impact on how well they can understand Islamic banking. This ability is referred to as academic competence. According to survey Results4.7%(9) of respondents had a diploma,,68.9%(131)had a degree, 24.7%(47) had a master and the remaining 1.6% (3) had PHD .therefore the majority of the respondents were a Degree holders. This shows that the respondents have the necessary education to comprehend the idea of the Islamic financial system. In general, the profile of the respondents shows that they were competent enough to answer the questionnaire and that they had the knowledge and experience necessary to comprehend Islamic banking and the interrelated concepts that make it up.with regard to work experience,experience is one of the abilities required to comprehend the banking industry. Experience is another term for professional ability. According to the working experience . 108(56.8) of the respondents have a work experience of 0-5 years, 48(16.3%) of the respondents were categorized under work experience of 6-10, 30(15.8%) of the respondents were under a work experience of 11-20 and 4 (2.1%) were under 21 and above years of work experience, Thus the majority of the respondents work experience were between 0-5 years. This implies that individuals involved in the basic operations of the banks, such as employees and other stakeholders, have the requisite experience to both respond to the questionnaire and understand the fundamentals of the interest-free banking system, as well as its opportunities and challenges.

4.3 Descriptive Analysis and interpretations

In this research data were presented as below by using Mean, Standard Deviation, Frequency, and Percentage.

Data were analyzed using quantitative procedures combined with some qualitative procedures. For this study, Qualitative data from the interviews were analyzed, qualitatively. Quantitative data obtained from the questionnaires were analyzed descriptively in terms of mean, overall mean and standard deviation. All analyzes were performed using the Statistical Package for the Social Sciences (SPSS) software version 26. Interpretations were made for all dimensions on a 5-point Likert scale based on: Scale: 5 = Strongly agree; 4=Agree; 3=Neutral; 2= Disagree; 1 = Strongly disagree. Thus, the scales were averaged and neutral posture “3” was taken as the reference point. That is, the average you get the same score as above 3 (neutral) if the opinion favors the given view, and below 3 (Neutral) when opinions tend to be unfavorable to a particular point of view. Moidunny (2009) describe the interpretation of Likert scales, accordingly, in this study the essence of the interpreted data is as follows: 1.0–1.8 =strongly disagree, 1.81–2.6 = disagree, 2.61–3.20 =neutral, 3.21–4.20 = agree, 4.21–5.00 = strongly agree.

4.3.1 Challenges of full-fledged Islamic banking operation for ZamZam Bank and its customers

challenges of full-fledged Islamic banking operation for ZamZam Bank and Its customers.

Table 4 Inadequate Skilled Staff

No	Item	responses	frequency	percent	mean	Std deviation
1	There is an inadequate regulatory and legal framework for IFB operation in Ethiopia	Strongly disagree	6	3.2	3.68	1.084
		Disagree	11	5.8		
		Neutral	63	33.2		
		Agree	67	35.3		
		Strongly agree	43	22.6		
		Total	190	100.0		
2	There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.	Strongly disagree	1	5.0	3.86	0.846
		Disagree	18	9.5		
		Neutral	23	12.1		
		Agree	113	59.5		
		Strongly agree	35	18.4		
		Total	190	100.0		
3	There is a misperception of IFB products & services from customers and others.	Strongly disagree	3	1.6	3.85	0.904
		Disagree	14	7.4		
		Neutral	34	17.9		
		Agree	97	51.1		
		Strongly agree	42	22.1		
		Total	190	100.0		

Source: - Survey, 2024

From the above table 4 show that Having an inadequate skilled staff will reduce the productivity and profitability of your company. According to the table 2 the highest mean 3.86 is scored from the statement two “There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.” it’s followed by the statement three “There is a misperception of IFB products & services from customers and others.” have a score mean of 3.85 and the lowest mean return to the statement one “There is an inadequate regulatory and legal framework for IFB operation in Ethiopia” have a mean of 3.68. In general the grand mean of the inadequate skilled staff have a score of 3.86 therefore the researcher conclude that the majority of the respondents agree that There is a shortage of expertise for IFB operations in the current Ethiopian banking sector ,bankers are not well trained to know Islamic bank system and in that case this will restrain or be a challenge for IBS to growth but to be more precise supervisors or mangers are responsible of providing training to their employees in order to enhance their productivity so if managers are not aware of a lack of training inside employees this will reduce the bank’s profitability.

Table 5 Lack of Awareness in the Society

No	Item	responses	frequency	percent	mean	Std deviation
1	Most of the Muslim community Have not aware of the Islamic banking system	Strongly disagree	10	5.3	3.96	1.166
		Disagree	18	9.5		
		Neutral	18	9.5		
		Agree	67	35.3		
		Strongly agree	77	40.5		
		Total	190	100.0		
2	The profit and loss sharing is the only principle representing the true spirit of the Islamic banking system	Strongly disagree	20	10.5	3.87	0.895
		Disagree	51	26.8		
		Neutral	38	20.0		
		Agree	42	22.1		
		Strongly agree	39	20.5		
		Total	190	100.0		
3	There is a misunderstanding between Islamic banks and their customers.	Strongly disagree	11	5.8	3.54	1.064
		Disagree	24	12.6		
		Neutral	33	17.4		
		Agree	95	50.0		
		Strongly agree	27	14.2		
		Total	190	100.0		

Source: - Survey, 2024

From the above table 5 show that There is a lack of proper understanding of the true nature of Islamic banking among their depositors, client and even shareholders. The lack of education and unawareness creates ignorance and uncertainty in our choices. Islamic finance industry is facing the challenges of ignorance about the Islamic banking system. People have different point of view about Islamic banking, some says Islamic bank is just like the conventional bank, where as few do not agree with the concept of Islamic banking and finance system (Muhammad Ayyub 2018).

Therefore according to Table 3 the highest mean 3.96 return to the statement one “Most of the Muslim community Have not aware of the Islamic banking system” then it’s followed by the second statement “The profit and loss sharing is the only principle representing the true spirit of the Islamic banking system”, with a mean of 3.87 and the third statement “There is a misunderstanding between Islamic banks and their customers.” have mean of 3.54. In general the researcher concludes that the societies are not well aware of the Islamic banking system because the profit and loss sharing is not the only principles of Shariah concerning the Islamic bank and Most of the Muslim community Have not aware of the Islamic banking system The findings imply that ZamZam Bank is having difficulties reaching most of its potential clients because most Muslim communities are not sufficiently informed about the Islamic banking system. the results of the study focused on customers’ product knowledge and the factors determining customers' intention to use interest-free banking products in the context of ZamZam bank show that, aside from knowledge, all other variables attitude, social influence, perceived financial cost, and religious belief have a significant impact on IFB use intention. The findings revealed that consumers' views about interest-free banking in Ethiopian commercial banks are significantly influenced by perceived relative benefit, perceived compatibility, customers' level of awareness, and subjective norm.

4.3.2 Opportunities for full-fledged Islamic banking in Ethiopia.

Table 6 Current Potential Demand of Islamic Banking

No	Item	responses	Frequency	percent	mean	Std deviation
1	There is an untapped market for IFB products and services in Ethiopia.	Strongly disagree	2	1.1	4.26	0.752
		Disagree	1	.5		
		Neutral	20	10.5		
		Agree	89	46.8		
		Strongly agree	78	41.1		
		Total	190	100.0		
2	There is an increasing public interest in IFB products and services in the contemporary banking sector.	Strongly disagree	1	.5	4.35	0.710
		Disagree	0	0		
		Neutral	20	10.5		
		Agree	79	41.6		
		Strongly agree	90	47.4		
		Total	190	100.0		
3	Islamic banking is a straightforward and adaptable financial system.	Stronglydisagree	0	0	3.94	0.814
		Disagree	0	0		
		Neutral	69	36.3		
		Agree	64	33.7		
		Strongly agree	57	30.0		
		Total	190	100.0		

Source: - Survey, 2024

The modern Islamic banking is about only five decades old but has gained significant interest in almost all parts of the world. Today, Islamic banking has become one of the fastest growing segments of the international banking and capital markets. The spread has been more in the last ten years, especially after the global financial crisis of the previous decade, primarily because Islamic banks were found to be more stable and less susceptible to crisis (Jamia Hamdard 2016).

According to the Table 6 the highest score mean 4.35 return to the statement two “There is an increasing public interest in IFB products and services in the contemporary banking sector.

followed by the statement one “There is an untapped market for IFB products and services in Ethiopia.” score with a mean of 4.26 and the lowest score mean 3.94 return to the statement three “Islamic banking is a straightforward and adaptable financial system.”. Thus the researcher can conclude that most of the respondents agree that There is an increasing public interest in IFB products and services in the contemporary banking sector but that it’s not the case in term of a researcher conventional and Islamic bank cannot be mixed in order to promote Islamic it’s much better to open other Islamic banks rather than just maximizing Islamic windows.

Table 7 Expansion to Capital Market

No	Item	Responses	frequency	Percentage	mean	Std deviation
1	The availability of Islamic banking products (savings and loanservices) will encourage business expansion and investment.	Strongly disagree	0	0	4.21	0.782
		Disagree	0	0		
		Neutral	42	22.1		
		Agree	66	34.7		
		Strongly agree	82	43.2		
		Total	190	100.0		
2	The Islamic banking system has the potential to boost Ethiopia's economy	Strongly disagree	0	0	4.32	0.655
		Disagree	0	0		
		Neutral	20	10.5		
		Agree	90	47.4		
		Strongly agree	80	42.1		
		Total	190	100.0		
3	Other communities besides Muslims are also interested in interest-free banking.	Strongly disagree	10	5.3	4.05	1.161
		Disagree	19	10.0		
		Neutral	6	3.2		
		Agree	72	37.9		
		Strongly agree	83	43.7		
		Total	190	100.0		

Source: - Survey, 2024

According to online article “Reuters” Islamic banks have been tremendously successful in the five decades since the first Shariah-compliant lenders were launched and are growing at a faster rate than their conventional counterparts. Yet some in the industry question whether the non-bank Islamic finance sector is better suited to providing long-term, risk-based funding for infrastructure and real-economy projects that would fulfill the industry’s mandate to support the communities in which it operates. According to the Table 7 above the highest score mean that the respondents agree is the statement two “The Islamic banking system has the potential to boost Ethiopia's economy “with a mean of 4.32 followed by the first statement “The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment with a score mean of 4.21. and As a researcher, Zamzam bank as well as the other Islamic bank “The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment because they are not willing to diversify or make Islamic banking resources more flexible and suitable with their clients.

Table 8 Government Support

No	Item	Responses	Frequency	Percent	mean	Std deviation
1	the government give support to the Islamic banks	Strongly disagree	0	0	4.28	0.653
		Disagree	0	0		
		Neutral	21	11.1		
		Agree	94	49.5		
		Strongly agree	75	39.5		
		Total	190	100.0		
2	The government gives privilege to the Islamic banks rather than conventional banks.	Strongly disagree	0	0	4.35	0.687
		Disagree	0	0		
		Neutral	23	12.1		
		Agree	78	41.1		
		Strongly agree	89	46.8		
		Total	190	100.0		

Source: - Survey, 2024

From the above table 8 show that, The government support play a big important role for enhancing any business moreover Islamic bank must grant support from the government .Islamic banks must be more advanced compared to conventional because the community are Muslims and they must be aware of not using interest. According to Table the mean 4.35 return to the second statement “The government gives privilege to the Islamic banks rather than conventional banks.” followed by mean of 4.28 the first statement “The government give support to the Islamic banks rather than conventional banks.” As a researcher, Ethiopian government may support the Islamic bank but not enough; they even give more advantage to conventional bank that why people are mostly using conventional one rather than Islamic banks

DISCUSSION

The main conclusions of the study on the state of IFB operations showed that the main Challenges faced by ZamZam Bank included a lack of adequate regulatory and legal framework, a lack of expertise in its operations, misunderstandings of IFB products and services from prospective customers, a research gap on Islamic banking, challenges in adhering to sharia laws, lack of awareness from Muslim communities, and taxation are challenges that face Islamic bank. Despite the challenges mentioned above, ZamZam Bank has opportunities that it can take advantage of because there is an untapped market for IFB products and services, there is growing public interest in IFB products and services, the financial system is simple and flexible, and it has the potential to strengthen the nation's economy, and other communities besides Muslims are also interested in IFB products and services.

The results of earlier studies on interest-free banking corroborate the conclusions of this study. These studies include Tsion (2012), Akmel (2014), and Debebe (2015), which demonstrated that Islamic banking in Ethiopia had a significant untapped opportunity to serve millions of Ethiopian Muslims but still needed to address challenges related to a lack of awareness and understanding, legal, supervisory, regulatory, and/or institutional challenge, and a lack of well-trained experts and appropriate banking policies for islamic loans.

CHAPTER FIVE

5.FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Major Findings

Based on collected data analysis, the following major findings were presented:

Researcher found that the growth of the Islamic banking itself is restrained by the employees, because they do not have any background or are not well familiar with the Islamic banking Principles and procedure, moreover corporate governance are not willing of giving some training to their employees whom lack experience before even hiring them.

There is no negative attitude of customers regarding IFB (wrong association with the religion) because Islamic bank is drawn only from the Quran and the Sunna of the prophet (pbuh), Moreover the researcher have found that customer are not well aware or informed by Islamic banking because they are confused of making the difference of IFB and conventional bank and the ignore that the profit and loss sharing is the major principle but it's not the only principle representing the Islamic banking Researcher found that there are a well-qualified managers and Zamzam bank fulfill all the requirement of the Shariah and there is an effective supervisors so there is not negative attitude regarding the corporate governance of ZZB because they meeting activities with the Shariah.

There is no negative attitude regarding the AAOIFI because according to my findings there is an effective AAOIFI to check-on and monitor the activities. However, every Islamic banks analyze differently by their own the credit, therefore they do not have a uniform standard for credit analysis and it's due to the highest challenge who is the lack of expert that studies the financial feasibility, monitor the venture and evaluate the portfolio of Islamic banks.

There is no negative attitude regarding the expansion of IB to the capital market because they have a high potential demand in that case they just need to diversify their activities and make them more flexible and suitable to attract their clients and investors too. However the majority of the respondents agreed that there is a some level of government support but not the enough even if the community are all Muslims but otherwise they do get support.

5.2 Conclusion

Research conclusions are drawn based on the major findings that are derived from collected data analysis. The researcher concludes that an inadequate skilled staff can challenge the growth of the bank because if employees are not well familiar with the IB principles and procedures these can restrain the productivity and client might shift to conventional bank. The level of awareness in the society is very crucial for the growth of IFB therefore clients are not enough aware about the difference that exist between Islamic banking and conventional bank. The role of supervisory and regulatory is very important for the improvement of IFB system in that case the research conclude that there were well qualified managers at Zamzam bank S.C and the bank was fulfilling the requirement of Shariah.

The application of different methodology will lead to the inconsistent rulings. Addition to That Karbhari, Naser and Shahin (2004) claimed that the difference in Islamic cultures and societies within different country causing the interpretation of Shariah principles goes inconsistent among each of the Muslim schools; therefore the IFB didn't have the uniform standard. The inconformity towards the Shariah views and different methodologies make the concept of Islamic financial institutions become unclear.

The researcher conclude that in term of opportunity, ZZB was gaining more and more clients due to the providing services i.e Ijara (leasing), Moreover respondents were demanding the expansion of IFB to Ethiopian market.

5.3 Recommendations

This study examines the challenges and opportunities of IFB specially the case of Zamzam bank S.C. Based on the conclusion and the major findings the major challenges arises from the lack of experts and lack of awareness in the society, therefore these following recommendations forwarded focusing on the issues which may have managerial implications.

- Supervision of Islamic banks is equally important. At present, lack of effective prudential regulation is one of the weaknesses of the Islamic institutions. Hence, Shariah Supervisory Board has to making an effective supervision framework to manage all the financial institutions in Ethiopia and get more opportunities. The roles of both the Shariah

Advisory Boards and the Central banks need to be streamlined and strengthened. The regulatory bodies must oblige the banks to reveal crucial information to the investors and thereby increase the efficiency of financial markets.

- Special importance should be known to make sure that good training programs are Working by the Islamic banking Institutions. Islamic banks should be asked to give Proper training seminars to the team members so that they may work in a better way.

- It is necessary and very important for the growth of Islamic banking system to have a high number of users therefore having awareness inside the society is important, in that case Uluma must encourage people to use Islamic banking system in order to avoid unsury “Riba” by this it will increase the numbers of users.
- should be a promotion of cooperation between the bank and other institutions engaged in IFB business such as Islamic banks, therefore they must There promote their resources by making diversifications, and making cooperation between IFB and institutions engaged in IFB business such as the Insurance “Takalful” companies.
- Conventional and islamic banking system should be governed by a different set of regulations as they differ from one to another in many aspects such as risk structure, credit analysis.....etc.

5.4 Limitations of the study and Implications to Further

Research

It is quite known that any study is not absolutely free from limitations. As a result, this study was conducted with some sort of limitations. The researcher was faced with many problems which, in fact, may affect the quality of the study:

- Limited collaboration from different stakeholders to fully cooperate for the in depth interview.
- Lack of related literature in the Ethiopia context and reference book

References

- Adams, Khan, Reside, and white, 2007, Research methods for graduate business and social students
- AkmeHailu, (2015) Challenges and prospects of Islamic banking for resource mobilization in Ethiopian commercial Banks.
- Al-Harran (1993) Islamic Finance, partnership financing. Al-Omar, F., & Abdel-Haq, M. (1996). Islamic banking: theory and practice and challenges. New Jersey: Oxford University Press.
- Al Maraj, R. M. (2008). Islamic banks Must Diversify Activities, Islamic Finance Review, CBB Publishment.
- Archer, S.,&Karim, R. A. A. (2006).On the capital structure, risk-sharing, and capital adequacy in Islamic banks. International Journal of Theoretical and Applied Finance, 9(03), 269-280.
- Chapra, M. U. (1992). Islamic banking and finance: the dream and reality. Journal of Banking and Finance. Creswell, (2009), The application of mixed methods designs to trauma research Dar, A.H., and Presley, R.J. (2000) Lack of Profit Loss Sharing in Islamic banking: Management and Control Imbalances, Economic Research Paper No. 00/24
- Debebe, A. (2015), „Factors Affecting Customers to Use Islamic Banking in Ethiopia“, An MBA Thesis submitted to Addis Ababa University, Department of Accounting. Gafoor(1995).. ALM Abdul. "Islamic banking." Interest-free Commercial Banking
- Ika, S.R., & Abdullah, N (2011).A comparative study of financial performance of Islamic banks, and conventional Banks in Indonesia. International Journal of business and Social sciences
- Iqbal, M. (1998), Challenges Facing Islamic banks, Islamic Research and Training Institute, Occasional Paper -1
- IMF Staff Team, (2015) Islamic Finance: Opportunities, Challenges, and Policy Options, p.6Kahf, M., & Khan, T. (2007). Principles of Islamic Finance. Jeddah: Islamic Research and Training Institute- Islamic Development Bank Karbhari, Y., Naser, K. and Shahin, Z. (2004)

Problems and challenges facing the Islamic banking system in the west: The case of the UK. Thunderbird International Business Review, 46(5), pp. 521-543.

Kettell, (2011) Case Studies in Islamic banking and Finance

Kurshid Ahmad (2000), „Islamic finance and banking: the challenge and prospects“ Review of Islamic Economics, Vol. 9, pp. 57-82

Kothari, (2004) Research Methodology Methods and Techniques

Haron, Sudin (1996), “The Effects of Management Policy on the Performance of Islamic banks”, Asia Pacific Journal of Management

Hassan, M.K. (1999). Islamic banking in theory and practice: The experience of Bangladesh, Managerial Finance, 25(5), pp. 60.

Hassen and Lewis, 2007 Operational efficiency and performance of Islamic banks

(Hussey and Hussey 1997), Combining quantitative and qualitative methodologies in logistics research

Khalid, S., & Amjad, S. (2012) Risk management practices in Islamic banks of Pakistan. Journal of Risk Finance 13 (2), 148-159.

Kerima Ali (2016) Challenges on Islamic Banking Services: The Case of Commercial Bank of Ethiopia.

Mirakhor, A. (1986). Short-term asset concentration and Islamic banking.

In Mohsin S. Khan & Abbas Mirakhor (Eds.), Theoretical studies in Islamic banking and finance). Texas The Institute of Islamic Studies.

<https://ZamZam Bank.com/company-profile>

Martin C. HeikoHesse, 2008,. Islamic banks and Financial Stability

Mohammed Akacem(2002),Principles of Islamic banking:Debt Versus Equity financing.

Mohammed, M (2012), “Islamic banking: Prospects, opportunities and challenges in Ethiopia”, Challenges in Ethiopia.

NurAqilahZainordin, (2016) challenges and opportunities of Islamic banking and financial institutions in Malaysia.

Nejatulla, S.(2006) ,Islamic banking And Finance In Theory And Practice: A Survey Of State Of The Art, Islamic Economic Studies Vol. 13, No. 2, February 2006.

Shafi, M. TaqiUsmani, M. (1997) the Issue of Interest, Pakistan,DarulIshaatShaista, W.

Umadevi, N. G.(2013). Comparative study of the performance of Islamic and conventional banks: The case of Malaysia.

Tsion, (2017), Challenges and opportunities of islamic banking in Ethiopia, a thesis for Msc. Accounting and finance at Addis Ababa University.

Warde, I. (2000). Islamic finance in the global economy. Edinburgh University Press.WondwosenTeshome, (2018) Operational challenges and opportunities of islamic banking in Ethiopia”

Zainol, Z., &Kassim, S. H. (2012).critical review of the literature on the rate of return risk in Islamic banks. [Literature review]. Journal of Islamic Accounting and Business Research, 3(2),

Ziauddin A, (1994), „Islamic banking: State of The Art“, Islamic Research and Training Institute, Jeddah, 1994, p.13

Zineldin, M. (1990), The Economics of Money and Banking: A Theoretical and Empirical Study of Islamic banking, Almaqist and Wiksell International, Stockholm.

Glossary of Islamic Banking

Quran: The Muslim holy book that was given to Prophet Muhammad Mustafa (**PBUH**)

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

Islamic banking: Financial services that work in line with Islamic principles (Islamic law)

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.

Sha'riah Compliant: something that adheres with the guidelines of Shariah, or Islamic law.

Zakat: One of Islam's five pillars is zakat. When a Muslim's yearly wealth surpasses a certain threshold, they are required to donate some of their money to specific social groups.

Halal: Anything that is permissible in Islam.

Haram: Haram is the term for any action that violates Islamic law.

Amanah: oral Responsibility to carry out one's duties appropriately.

Maysir: gambling, chance wealth generation. Bai-mua'jjal is a selling contract with a deferred payment that is exchanged without incurring additional charges.

Gharar is a complex idea that addresses certain kinds of uncertainty or contingency in an agreement.

Ijara: is a specific type of lease that enables the bank to make money by charging the client rent on the assets that are leased to them.

Mudaraba: is a partnership in which one party (the Mudarib) receives funding from the other (the Rub ul Mal) in order to engage in investing activities.

Mudarib: Is the entrepreneur or investment manager in a mudarabah who invests the investors' funds in a project or portfolio in exchange for a share of the profits.

Murabaha: purchasing and selling. Instead of making a loan, the capital provider buys the desired good from a third party and then sells it to the capital user for a higher price that has been agreed upon.

Murabaha: purchasing and selling. Instead of making a loan, the capital provider buys the desired good from a third party and then sells it to the capital user for a higher price that has been agreed upon.

Musharaka: sharing of profit and loss. It is a partnership where the losses are shared in proportion to each partner's investment and the profits are allocated according to an established ratio.

QardI: is an interest-free loan. The bank uses this approach for holders of current accounts. In essence, it implies that the bank is receiving a loan from the current account, which the bank uses for investment and other uses.

Sukuk: Sukuk is a financial certificate known by its Arabic name, although it may also be thought of as the Islamic equivalent of a bond.

Takaful: a form of Islamic insurance scheme where funds are pooled and invested in accordance with the sharia principles.

Makkah: Islam honors Mecca as the birthplace of the prophet Muhammad.

APPENDIX

Questionnaire
St.Mary's University
School of Graduate Studies
MBA Program

Dear Respondents,

This questionnaire is designed to collect data's on "The Challenges and opportunities of Islamic banking" in the case of ZamzamBank S.C. This survey is conducted as a partial fulfillment of the award of a Master

on Business Administration at St. Mary's University.

I kindly request your participation in this survey by filling up this questionnaire. I would also like to inform you that any of your responses will be maintained confidentially and will never be used for any purpose other than the study.

Name: SirajNasir

Email: siraj092644@gmail.com

Contact address: +251911191857

Thank you in advance for your cooperation.

Instructions

- Do not write your name in any part of the questionnaire
- Your frank response is vital for the success of the study
- Please put a "✓" mark on your choices

Part One- General Information

1. Gender Male Female
2. Age : 18-30 31-40 41-50 51 and above
3. Educational level: Diploma Degree Master PHD
4. Work experience: 0-5 6-10 11-20 21 and above

5. Your current position.....

Part Two: Respondents’ opinion on challenges and opportunities of full-fledged Islamic banking operation.

Following that is a series of questions about respondents' perceptions of the challenge of fully-fledged interest-free banking operations. Respondents' "evaluation of challenges and opportunities facing full-fledged Interest-free banking" will be the focus of these questions. Please select the number that you believe is the most appropriate., using the scale from 1 to 5 (Where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree).

1. Opportunities for full-fledged Islamic banking in Ethiopia.

No	Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	There is an untapped market for IFB products and services in Ethiopia.					
2	There is an increasing public interest in IFB products and services in the contemporary banking sector.					

3	Islamic banking is a straightforward and adaptable financial system.					
4	The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment.					
5	The Islamic banking system has the potential to boost Ethiopia's economy.					
6	Other communities besides Muslims are also interested in interest-free banking.					

7	the government give support to the Islamic banks					
8	The government gives privilege to the Islamic banks rather than conventional banks.					

2. challenges of full-fledged Islamic banking operation for ZamZam Bank and Its customers.

No	Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
9	There is an inadequate regulatory and legal framework for IFB operation in Ethiopia					
10	There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.					
11	There is a misperception of					

	IFB products & services from customers and others.					
12	There is a gap in the research and development of Islamic finance and economics					
13	There are difficulties in adhering to sharia law.					
14	Most of the Muslim community Have not aware of the Islamic banking system					
15	There is a misunderstanding between Islamic banks and their customers.					
16	The profit and loss sharing is the only principle representing the true spirit of					

	the Islamic banking system					
17	There are higher tax burdens on the Interest-free banking products					

18, In your opinion, what are the primary problems that ZamZam Bank and its customers confront in delivering its products and services? _____

19, If you have any further opinions on the challenges and opportunities of IFB operations at ZamZam Bank, please share them in the comments section below: -

-

Thank you for your cooperation

- 1, What advantages does ZamZam Bank have over rivals as the first full-fledged Islamic bank in Ethiopia?
- 2, What future prospects do you anticipate for ZamZam Bank?
- 3, What potential challenges did ZamZam Bank face this year?
- 4, What probable challenges can ZamZam Bank encounter in the future?
- 5, Do the managers, directors, and shareholders of ZamZam Bank commit to publicizing the bank's products and services?
- 6, what factors affect the effectiveness of IFB operation at ZamZam Bank?