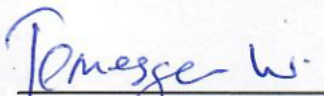


**AN ASSESSMENT OF CREDIT MONITORING ACTIVITIES ON
INTEREST FREE BANKING: A CASE STUDY ON CBE NOOR**

BY
TEMKINA TEMAM

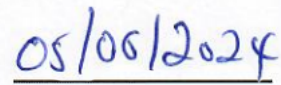
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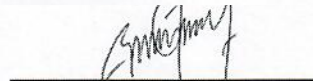
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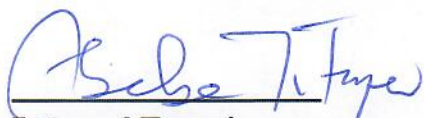
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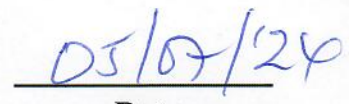
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AN ASSESSMENT OF CREDIT MONITORING ACTIVITIES ON INTEREST FREE BANKING: A CASE STUDY ON CBE NOOR

BY

**TEMKINA TEMAM
ID GSR/7981/13**

MAY 30,2024

ADDIS ABABA, ETHIOPIA

**AN ASSESSMENT OF CREDIT MONITORING ACTIVITIES ON
INTEREST FREE BANKING: A CASE STUDY ON CBE NOOR**

**BY
TEMKINA TEMAM**

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY, FACULTY OF
BUSINESS AND ECONOMICS FOR PARTIAL FULFILMENT MASTER
OF ARTS IN BUSINESS ADMINISTRATION - FINANCE**

SUBMITTED TO: TEMESGEN WORKU (PhD)

MAY 30,2024

ADDIS ABABA, ETHIOPIA

CANDIDATE'S DECLARATION

I hereby declare to the senate of the Addis Ababa University Faculty of Business and Economics that the work presented in this thesis, titled "*An Assessment of Credit Monitoring Activities on Interest Free Banking: A Case Study on CBE Noor,*" is my own original work, has not been presented for a degree at any other university, and that all sources of material used for the thesis have been duly acknowledged.



Temkina Temam

(Candidate)

31/05/2024

Date

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ACRONYM

AQ	Asset Quality
BNM	Bank Negara Malaysia
CBE	Commercial Banks of Ethiopia
CBs	Conventional Banks
CEMC	Consumer Empowerment and Market Conduct
CRM	Credit Risk Management
IBA	Islamic Banking Act
IBs	Islamic Banks
IFB	Interest Free Banking
IFBW	Interest Free Banking Window
LQ	Loan Quality
MIBs	IBs in Malaysia
NBE	National Bank of Ethiopia
PLS	Profit and Loss Sharing
SD	Standard Deviation

ABSTRACT

In the banking sector, effective risk management systems and monitoring procedures play a pivotal role in assessing progress towards predefined objectives. This study evaluates the credit monitoring practices at CBE Noor in Addis Ababa, Ethiopia, focusing on interest-free banking. Data was gathered from 153 respondents across four selected branches of CBE, out of a sample of 177 respondents who completed self-administered questionnaires. A descriptive research design was used for data analysis, which examine main aspects of the study such as client investment monitoring, stakeholder engagement, supervisory infrastructure, and adequacy of professional training in credit monitoring for interest-free banking. The findings indicate a strong positive perception of customer investment monitoring within interest-free banking. Investors show significant interest in the establishment and growth of interest-free banking services. The study highlights the robust supervisory infrastructure of the Commercial Bank of Ethiopia (CBE) in the context of interest-free banking, noting its effective oversight and supportive role in credit facilities. Additionally, the study identifies sufficient qualified personnel dedicated to monitoring interest-free banking activities, despite lower utilization of desktop and online tracking tools. Overall, the study underscores investor confidence and support for interest-free banking initiatives at CBE Noor. It recommends collaborative efforts between CBE and regulatory bodies to enhance regulatory frameworks in specific markets.

Keywords: Credit, Interest Free Banking, Monitoring, Islamic Banking

CHAPTER ONE

INTRODUCTION

1.1 Chapter Overview

The study's background, problem statement, purpose or overall objectives, study objectives, research questions, importance, justification, and operational definitions of terminology and concepts are all included in this part.

1.2 Background of the Study

Interest-free banking, also known as Islamic banking, has witnessed substantial global growth, encompassing both Muslim-majority and non-Muslim countries (Muhammad et al., 2020). The rise of Islamic banking institutions signifies its increasing popularity and acceptance worldwide. Institutions like the Islamic Rating Agency and the Islamic Financial Services Supervisory Board have emerged alongside this growth, underscoring its institutionalization and regulatory framework (Muhammad et al., 2020).

Globally, over 800 institutions across 109 countries offer Islamic financial services, managing assets exceeding \$2.5 trillion USD (Muhammad et al., 2020). This growth reflects the broader appeal of Islamic finance, particularly following the global financial crisis of the early 21st century, as an ethical and sustainable alternative to conventional banking practices (Eid & Asutay, 2019). Islamic banking operates under Shariah principles, which prohibit the charging of interest (riba) and involvement in transactions deemed speculative or unethical (gharar and maysir). Instead, it emphasizes equity-based financing and asset-backed transactions (Abdel, 2017).

The growth of Islamic banking globally has been accompanied by advancements in monitoring practices tailored to its unique operational principles. Islamic financial institutions emphasize transparency and compliance with Shariah law, which necessitates robust monitoring frameworks. These frameworks include Shariah compliance boards and rigorous audit mechanisms to ensure that financial transactions adhere to ethical standards and avoid interest-based dealings (Muhammad et al., 2020). Such monitoring practices not only foster trust among stakeholders but also enhance the resilience of Islamic banks in managing financial risks within their operations (Eid & Asutay, 2019).

In Ethiopia, the National Bank of Ethiopia (NBE) introduced its initial policy in 2011 (Directive No. SBB/51/2011) to integrate interest-free banking alongside conventional banking practices, catering to both Islamic and non-Islamic financial preferences (Senait, 2016). This initiative included the establishment of a Shariah-compliant mechanism to ensure compliance and enhance service offerings in accordance with Islamic principles, featuring Shariah Boards, advisors, and audit frameworks.

CBE Noor, a branch of the Commercial Bank of Ethiopia (CBE), commenced full-scale Islamic banking operations in Ethiopia in October 2011, alongside other banks like United Bank and Oromia Bank (Endris, 2022). These banks offer a range of Shariah-compliant financial services, including commercial operations, foreign currency exchange, deposits, investments, and money transfers (hawallah).

Islamic banking's growth in Ethiopia has been supported by regulatory frameworks aimed at fostering financial inclusion and catering to diverse customer needs. The introduction of Shariah-compliant banking options by major institutions like CBE Noor has expanded access to banking services for individuals and businesses adhering to Islamic principles. This initiative aligns with Ethiopia's broader economic goals of enhancing financial accessibility and promoting ethical financial practices (Senait, 2016). Moreover, the performance and expansion of interest-free banking in Ethiopia are indicative of its resilience and adaptability within a competitive financial landscape. As evidenced by the significant growth in assets reported in CBE's annual reports, interest-free banking is not only meeting the needs of a niche market but also attracting mainstream interest due to its ethical foundations and sustainable business practices (CBE Annual Report, 2022).

As evidenced by CBE's 2022 Annual Report, the institution's assets have grown significantly, reflecting the expanding footprint of interest-free banking in Ethiopia. However, Islamic banks face distinct challenges, including competition with conventional banks and unique risk management requirements (Endris, 2022; Abdel, 2017). Effective credit risk management is crucial for the sustainable growth and profitability of Islamic banks, necessitating rigorous monitoring and regulatory oversight (Lassoued, 2018). In conclusion, while interest-free banking in Ethiopia continues to grow within a supportive legal framework, ongoing challenges underscore the importance of robust risk management practices and regulatory collaboration to ensure its continued success and stability in the financial sector.

1.3 Background of CBE

1.3.1 CBE NOOR

CBE Noor is an interest-free banking service offered by the Commercial Bank of Ethiopia for customers who cannot access conventional financial services due to religious reasons. The service follows Islamic law, which prohibits interest payments and certain activities. The bank has introduced a new brand name, CBE NOOR, for this service and will provide it through specified branches. The bank has also established a Profit Equalization Reserve to ensure consistent profit payments to depositors. Certain activities, such as pig farming and alcohol trading, are not allowed under this service. Customers must maintain a minimum balance in their accounts and report any errors or unauthorized transactions. Withdrawals require identification and passbook verification (CBE, 2022).

1.3.2 Credit Facilities at CBE

CBE follows regulations set by the National Bank of Ethiopia regarding risk management, liquidity, and capitalization. It assesses the credit quality of financial assets and categorizes customers based on their contributions to profitability. The bank uses a credit risk grading system for certain types of customers and has procedures in place to monitor portfolio performance and anticipate potential issues. Additionally, CBE offers various Islamic finance services for different purposes such as working capital, asset purchase, and trade financing (CBE Annual Report, 2022).

1.3.3 Murabahah (Cost plus profit) Mode of Financing

A murabahah is a sales agreement between a bank and a client wherein the bank buys the goods the client needs and sells them to the client on a cost-plus basis. An initial contract specifies the profit (mark-up) as well as the payment schedule (often in instalments). Before selling the items to the consumer, the bank is the owner of the goods. Customers may be asked to provide collateral to the bank in order to get financing. The following services are included in murabahah: Murabahah Term Financing: For financing projects, business real estate, vehicles, warehouses, and machinery purchases; Murabahah LC Financing - For the acquisition of inputs, vehicles, and machinery from overseas; Murabahah Revolving Financing Facility for the purchase of inputs and Purchasable merchandise from Murabahah.

1.3.3.1 Interest Free Pre-shipment Export Financing Facility

It is an interest free benevolent short-term export loan facility availed for financing the purchase of domestic inputs to facilitate the production of goods by the customer or financing of purchase of domestic intermediate final products for export;

1.3.3.2 Selam (Advance Payment) Mode of Financing

This is a financing service that would be made available in cash for working capital purposes for customers engaged in agricultural sector as per the contract between the Bank and the Customer. It is a sales arrangement whereby the customer shall deliver the type of product she/he produces in accordance with the type, quality, quantity, and given period to the bank / agent/third party. The bank may require collateral from the customers to secure the finance.

1.3.3.3 Istisna' (Work-in-progress) Mode of Financing

Istisna' financing is a mode of sale, at an agreed price, whereby the bank places an order to a manufacturer or a contractor to manufacture, assemble or construct a specific commodity for a purchaser/customer of the bank to be delivered at a future date. Istisna contract shall be entered between the Bank and the customer, on the other hand the Bank enters into a Parallel Istisna' contract with the third-party manufacturer/Contractor. The bank may ask for collateral/guarantee from the customer/contractor, as the case may be.

1.3.3.4 Ijarah (Leasing) mode of Financing in Ijarah

The bank purchases a real asset (the bank may even purchase the asset as per the specifications provided by the prospective client) and leases it to the customer. In the period of lease, the asset remains in the ownership of the bank but the physical possession of the asset and its right of use is transferred to the lessee. Depending on the promise of the bank given initially to the customer, the bank can sell or transfer freely the leased asset to the customer. The bank may require collateral from the customers to secure the finance.

1.3.3.5 Export Financing Facility for Pre-shipment Without Interest

It is a charitable short-term export lending facility with no interest that can be used to finance the acquisition of domestic intermediate final products for export or domestic inputs to help the customer produce items; The Selam (Advance Payment) financing option it is a financial

service that in accordance with the terms of the customer-bank contract, would be made available in cash to clients in the agricultural sector for working capital needs. It's a sales agreement wherein the client delivers the kind of goods she/he makes to the bank, agency, or third party in accordance with the kind, quality, quantity, and time specified. Customers' collateral may be needed by the bank to secure the finance.

1.3.3.6 Istisna's Work-in-Progress Financing Method

Istisna' finance is a method of selling whereby the bank orders a manufacturer or contractor to produce, assemble, or build a certain commodity for a buyer or customer of the bank to be delivered at a later date, at a predetermined price. The Bank will engage into an Istisna contract with the customer; but, it also enters into a Parallel Istisna contract with the third-party contractor or manufacturer. Depending on the situation, the bank may want collateral or a guarantee from the client or contractor.

1.3.3.7 The Ijarah (Leasing) Financing Mode

The bank buys an actual asset and leases it to the customer; the bank may even buy the asset in accordance with the specifications supplied by the potential client. Although the lessee gains physical possession of the item and the right to use it, the asset is nonetheless owned by the bank for the duration of the lease. The bank may freely sell or transfer the leased asset to the client, subject to the bank's initial commitment to that customer. Customers may be asked to provide collateral to the bank in order to get financing.

1.4 Statement of the Problem

Interest-free banking is rapidly expanding globally and has become integral to the financial systems of many nations (Endris, 2022). In Ethiopia, it is offered through both Interest-free Banking Windows within conventional banks and fully-fledged Islamic banks that operate under Shariah principles (Senait, 2016). The Commercial Bank of Ethiopia (CBE), a state-owned institution, is considering establishing a subsidiary dedicated to Shariah-compliant banking, reflecting strategic reforms aimed at addressing operational gaps and enhancing service offerings (CBE, 2022).

Despite the growth and potential benefits of interest-free banking, challenges persist in its operational framework, particularly in credit and risk management. The hybrid nature of

operations combining conventional banking practices with Shariah-compliant principles requires effective monitoring systems to ensure compliance and mitigate financial risks (Fortune, 2022). Furthermore, as a relatively new player in the market, CBE Noor faces the dual challenge of meeting customer demands while maintaining financial stability through innovative credit investment strategies (Fortune, 2022).

Academically and policy-wise, interest-free banking has garnered increasing attention, leading to numerous studies on its operational mechanisms and impacts. However, specific research on the monitoring practices and systems within interest-free banking, especially in the context of Ethiopia, remains limited (Senait, 2016; Endris, 2022). The unique characteristics of Islamic finance, such as the Profit and Loss Sharing (PLS) principle, present distinct challenges in credit risk management compared to conventional banking (Lassoued, 2018).

Therefore, this research aims to address these gaps by investigating the monitoring activities and systems in interest-free banking, contributing to the development of effective monitoring frameworks essential for the sustainable growth and performance of Islamic financial institutions in practice.

1.5 Objectives of the Study

1.5.1 General Objective

The general objective of the study was to assess the monitoring practices of Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia.

1.5.2 Specific Objectives

To achieve the overall objective, this study aimed to address the following specific objectives:

1. To assess the practices of monitoring clients' investments in various businesses within Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia.
2. To understand stakeholder engagement in monitoring credit activities within Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia.
3. To explore the provision of supervisory infrastructure supporting Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia.

4. To examine the provision of training programs for staff involved in Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia.
5. To assess the availability of sufficient experts and trained personnel in Interest-free banking at CBE Noor in Addis Ababa City, Ethiopia.

1.6 Research Questions

Based on the stated objectives, the study formulated the following research questions:

1. What practices does CBE Noor employ to ensure effective monitoring of clients' investments in Interest Free Banking?
2. How engaged are stakeholders in monitoring credit activities within Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia?
3. What is the state of supervisory infrastructure supporting Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia?
4. What training programs are available for staff involved in Interest Free Banking at CBE Noor in Addis Ababa City, Ethiopia?
5. To what extent are sufficient experts and trained personnel available in Interest-free banking at CBE Noor in Addis Ababa City, Ethiopia?

1.7 Significant of the Study

The purpose of this research is to determine the extent and strength of monitoring practices of Interest Free Banking in CBE Noor in Addis Ababa City, Ethiopia. Accordingly, it raises awareness of credit monitoring in Interest Free Banking practices. It also aims to assess the credit monitoring practices of Interest Free Banking in CBE Noor in Addis Ababa City. This study contributes to the Islamic banking and finance industry literature in three ways. Firstly, it examines the credit risk monitoring practices of newly established Interest Free mechanisms. Perceived level data will be applied rather than secondary bank and an aggregate level data, capturing different characteristics amongst banks (IBs). It also addresses monitoring clients' investments, stakeholders' engagement, supervisory infrastructure, training and experts and trained personnel in credit monitoring in Interest Free Banking. This is significant as it can be utilized by policy makers in the process of structuring a better credit risk management framework.

To the management of CBE or CBE Noor, the study generates empirical evidences and information on credit monitoring in Interest Free Banking which may be used to reinforce Islamic Banking evaluation and financial performance policy in banks. It is trusted that the study proposes professional actions that could improve the utilization of credit monitoring to improve healthier performance of Interest Free Banking in Addis Ababa, Ethiopia.

The findings are also hoped to improve and create a fundamental financial system change in as far as the use of monitoring practices of banks in banking system deployments. To CBE, the study may help policy makers to create better strategies through the use of monitoring credit practices to advance banking financial performance in Addis Ababa as well as in the country. By so undertaking, the study helps to connect monitoring theory to practice in banking sector.

The body of knowledge, the study helps cover literature gaps on the extent to which monitoring credit practices influences Interest Free Banking in banking sector of a developing country like Ethiopia. To the researcher, the study enhances his knowledge in understanding monitoring credit and Interest Free Banking practices and performance and also be a partial fulfilment of the award of a Master in Business Management - Finance.

1.8 Scope of the Study

The scope of the study included content, geographical and time scope. This study attempted to assess the practice of credit monitoring in Interest Free Banking in Addis Ababa. The study focuses only on the credit monitoring practices in terms of monitoring clients' investments, stakeholders' engagement, supervisory infrastructure, training and experts and trained personnel in Interest Free Banking. The assessment also relies on the Islamic teachings, in particular concerning the prohibition of interest. Islam forbids the charging of interest but encourage the earnings of profits. In this system investors were not guaranteed any prefixed amount of profit from the bank. Neither any predetermined income or interest, nor are repayments of the principal deposit amount guaranteed to those who invest within the Islamic system.

In order to achieve the objective of this study, descriptive research design approach was used. Descriptive survey helps to have general understanding of the credit monitoring practices by studying the status of the problem. To answer these research questions, the data was collected through questionnaire and unstructured interview. The data found through these tools were

organized and analysed using quantitative, percentage and mean, and qualitative, narrative, techniques. The study focused on the period from 2019 - 2022. This was the period between the awards of contracts to the expected completion time of the major Interest Free Banking investments under CBE Noor in Addis Ababa. The study was conducted at CBE, Interest Free Banking in Ethiopia.

1.9 Organization of the Study

This study has five major sectors divided by chapter. The first chapter introduces the topic, study area and gives out the outline of the study, it also described the aim of the study, the objectives and gives insight on the questions the researcher is researching. Following, this study gives empathises on literature review which gives general background information on monitoring credit activities and looks at what other scholars have done in Interest Free Banking and since the study in specifically in Ethiopian context. The, chapter three is followed and it looks at methods of data presentation and analysis and Chapter four deals with the analysis of the data collected and linked to the theoretical framework. Finally, chapter five make conclusions from the analysis and gives recommendations and finally suggestions of further areas of study in this field.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1 Introduction

A review of the literature on study topics and research aims is presented in this section of the study. In order to complete the literature evaluation for this study, a thorough analysis of previous research on the factors under investigation—monitoring, credit risk, and interest-free banking practices of Islamic banking institutions—was conducted. The study aims to address the fundamental gaps in the literature, which are listed in this chapter.

2.2 Theoretical Literature Review

2.2.1 Concepts and Definition

2.2.1.1 Historical Evolution of Interest-Free Banking

In the Caliphate, early market economies and early forms of mercantilism were created between the eighth and the twelfth centuries. This period, known by some as "Islamic capitalism" during the Islamic Golden Age, saw the emergence of early versions of both proto-capitalist and free markets. The earliest forms of capital (al-mal), capital accumulation (nama al-mal), checks, promissory notes, trusts (waqf), transactional accounts, ledgers, assignments, and the first forms of partnerships (Mufawada, Mudaraba), among other economic concepts and techniques, were applied in the early stages of Islamic banking. In the Islamic world of the Middle Ages, private businesses operated independently of the government and the concept of "agency" was also established. Numerous of these pioneering ideas of capitalism were taken up and developed in the medieval Europe from the 13th century onwards (Saad, 2015).

Conversely, modern Islamic finance was actually established in the 1960s and has taken two significant strides toward evolving the goals and character of Islamic finance. The concept of interest-free banking is relatively new. Research conducted in the 1940s and 1950s contains the earliest mentions of reorganizing banks based on profit sharing as opposed to interest. In actuality, modern Islamic finance emerged in the 1960s. The notion of a few academics and Muslim scientists who, since the 1950s, have dreamed of the prospect of developing a finance system that is both consistent with "Sharia" and an alternative to the established financial system is what gave rise to Islamic banking. Without a doubt, the first two tests will be

completed by the development of 'Travellers' Administration and fund "(Tabung Haji) in Malaysia (1956) and the involvement is " Mit Ghamr" in Egypt (1963).

Establishing financial networks that respect Sharia law and lessen banking exclusion while advancing the development of marginalized communities is the necessary goal of these two experiences. The two encounters took very different shapes. The "Tabung Haji" was unquestionably promoted and backed by Malaysian government authorities. It was suggested that the funds gathered from numerous small investors be used for significant industrial, agricultural, and building projects. Small savings or investment cooperatives functioning in the agricultural areas of northern Egypt made up the entirely private Mit Ghamr venture. Their founder, Ahmed al-Najjar, wanted to make sure that savers and small local investors could exchange financial resources (Eid and Asutay, 2016).

The early 1970s saw institutional participation. Such involvement produced the Egyptian study in 1972, the First International Conference on Islamic Economics in Mecca in 1976, the International Economic Conference in London in 1977, and the Conference of the Finance Ministers of the Islamic Countries held in Karachi in 1970. The first interest-free banks were established as a consequence of the governments' and institutions' contributions, which brought theory to reality. This procedure gave rise to the Islamic Development Bank, an intergovernmental bank founded in 1975 (Saad, 2015).

Islamic banking is expanding rapidly in a number of global locations. Islamic banking is not a new concept; in fact, its tenets date back to the religion itself. The Quran, composed 1400 years ago, is the source of these ideas. Islamic Shariah establishes the laws and guidelines that govern Islamic banking. In Islamic banking, effective outcomes are achieved by the implementation and management of risk and return rules. The global financial sector is seeing an increase in the amount of Islamic finance. Everywhere there is a sizable Muslim community, Ummah, it is spreading. The rapid advancement of financial markets and the globalization of financial flows have altered the landscape of conventional banking, in specific afterward the contemporary financial catastrophe (Omar and Kiran, 2018).

2.2.1.2 Definition and Concepts of Interest Free Banking

"Islamic banking" refers to the practice of conducting banking business in accordance with Islamic law. The Islamic bank functions as a financial middleman, accepting deposits from surplus individuals on the liabilities side and providing financing to deficit individuals on the assets side. Islamic banking depends on profit/loss sharing in order to accomplish financial

intermediation, whereas conventional banking uses the interest rate mechanism (Muhammad et al., 2020). Ben and Elmelki (2008) asserted with confidence that the foundation of Islamic banking is the prohibition against receiving and paying interest. This position is bolstered by other Islamic tenets, including encouraging risk-sharing, fostering entrepreneurship, discouraging speculative behavior, and stating that no financial transaction should not direct to the mistreatment of any party to the transaction, preservation of property rights, transparency and the blessedness of contractual obligations.

One kind of financial innovation is Islamic financing. Most notably, it demonstrates that corporate interests and Islamic legal requirements do not conflict. As a result, an Islamic bank rewards capital with a variable rate of return based on the profit or loss incurred from the use of the funds over a specific time period rather than charging interest. A fixed ratio determines how much of the bank's profits are distributed to the depositors. There is a corporation between the Islamic bank and its clients who make investments as well as between the bank and its deposits. This is not the case with a traditional bank, which primarily lends money and charges interest on the borrowing side of the balance sheet (Muhammad et al., 2020).

Islamic banking is based on the teachings of Islam, particularly with regard to the absence of interest. Islam forbids the charging of interest yet encourages and motivates profit-making. Investors are not assured a certain amount of profit from the bank under this arrangement. Those who invest in the Islamic system are neither guaranteed any specific income or interest, nor are they guaranteed to receive their main deposit back (Omar and Kiran, 2018). The following are the main characteristics that set Islamic banking apart from traditional banking: Interest Contracts and transactions of any kind must be interest-free. Any compensation for the use of money is commonly understood to be interest. The fundamental rule is that in Islamic banking, it is not permitted to demand payment in exchange for the simple usage of money (Saif-Alyousf et al., 2017).

Since money is only seen as a middleman between things, charging interest on loans is deemed unfair. Interest-based transactions and sale/trade transactions are not the same. While the second group of transactions is not, the first is naturally exposed to risk and uncertainty in regard to time. While capital in interest-based transactions always grows over time, capital in trade may grow or decrease over time. Islamic financial institutions are required to deal in actual goods or services, as opposed to traditional financial institutions, which "trade" in money by purchasing it later from depositors and selling it in the form of loans (Saad, 2015).

There are a number of reasons why usury has been forbidden, but the belief that capital shouldn't turn a profit unless it is combined with human labor or involves risk may be the most important. As a result, interest on loans is an unfair charge because no borrower can ensure that they would make enough money to cover the interest during an uncertain period. It is unfair to guarantee return on capital or loan when no human effort has been made because of future uncertainties (Endris, 2022).

According to Islamic law, money has no intrinsic worth and is only meant to be used as a tool for trade—effectively shaping demand for other goods rather than for money itself. Money is not a renewable resource. When invested in a concrete economic endeavor, it grows. In addition, money is a tool for measurement and for determining an object's value. Gharar, or uncertainty, refers to actions and terms in exchange contracts that the parties are not quite aware of their full significance. This and "asymmetric information" are extremely related concepts. The concept of Gharar typically alludes to ambiguity (a lack of knowledge) and also suggests dishonesty. Any commercial dealings that harm any of the parties to a contract, in any way, are prohibited. It could take the shape of danger, a risk that makes any enterprise unpredictable, or dishonesty or fraud. Maisar Pure Games of Chance: defined as a competitive game between two players with the exclusive objective of outwitting the other player (Muhammad et al., 2020).

Both the winnings from this kind of game and playing it itself are illegal since they take focus away from moral behavior and gainful employment. In Islamic banking, transactions made only for speculative reasons are prohibited. This definition of speculating excludes legitimate trade or investment activities that carry a risk of losing money in addition to making it. Prohibited commodities or activities: Certain commodities or activities are forbidden by Islamic law from being used or dealt in. According to Saif-Alyousf et al. (2017), Islamic financing is consequently improper for any business that engages in the following activities or commodities: pork, conventional finance at interest, tobacco, gambling, alcoholic beverages, etc. In general, the Islamic banking system is predicated on the abolition of interest, necessitating the substitution of new financial strategies for interest-based financing methods. However, under an Islamic society, capital is not free because it is forbidden to tread on interest rates. Islam acknowledges capital as a factor of production, but it forbids any kind of interest payment for it. Regardless of where the bank allocates its capital, deposits are

recognized as shares in Islamic banking, and depositors acquire equity positions (Endris, 2022).

2.2.1.3 Credit Risk Management in Interest-Free Banking

2.2.1.3.1 Overview of Financial Concepts in Interest-Free Banking

Financial innovations include the use of assets like auto loans, mortgages, and export credits as collateral for marketable securities; this process is called securitization and results in a greater inclination toward the market (Endris, 2022). A bank's profitability comes primarily from new information-based activities such as trading in financial markets and generating revenue through fees. The rapid advancements in traditional banking have also had an impact on the restructuring of Islamic financial organizations and banks. The work of Hennie and Zamir (Hennie van Greuning, Amir Iqbal, in Risk analysis for Islamic banks, World Bank document) is widely used in this general introduction and the first chapter. In a contemporary economy, financial systems are essential to the effective distribution of resources. Common characteristics that set financial intermediation apart from other economic activities include the gathering and processing of data on economic entities and activities, the packaging and repackaging of financial claims, and financial contracting. In financial contracts and financial markets, information is crucial. A financial intermediary's primary responsibilities include risk transformation, asset transformation, brokerage, and the smooth execution of payments. Asset transformation involves changing the maturity, scale, and location of the financial assets and liabilities of the ultimate borrowers and lenders. It also involves matching the supply and demand of financial assets and liabilities (such as deposits, equity, credit, loans, and insurance) (Omar and Kiran, 2018).

The Shariah provides a set of intermediation contracts that facilitate an efficient and transparent execution and financing of economic activities. Islamic finance was practised in the Muslim world throughout the Middle Ages, fostering trade and business activities with the development of credit. Islamic merchants in Spain, the Mediterranean, and the Baltic states became indispensable middlemen for trading activities. Several techniques and instruments of Islamic finance were later adopted by European financiers (Muhammad et al., 2020). Financial intermediation in Islamic history has an established historical record and has made significant contributions to economic development over time. Financiers in the early days of Islam— known as sarrafs “moneychangers”—undertook many of the traditional, basic functions of a conventional financial institution, such as intermediation between

borrowers and lenders, operation of a protected and dependable national as well as cross-border disbursement system, and establishment of services such as the issuance of promissory notes and letters of credit. Historians of commerce have compared sarrafs' role to that of banks. According to historians like as Udovitch, they were essentially "bankers without banks." The reader may consult Hennie and Zamir (Hennie van Greuning, Amir Iqbal, in Risk analysis for Islamic banks, World Bank document) for further information. With the means and technology available to them at the time, sarrafs, or "moneychangers," were able to establish themselves as sophisticated intermediaries through their well-organized network and efficient markets (Omar and Kiran, 2018). On the basis of mutual aid agreements, it is asked that financial intermediaries in the early Islamic era also assisted one another in overcoming liquidity constraints. Optimizing a bank's worth based on its profitability and degree of risk is the aim of financial management. Internal controls, accounting, financial planning and budgeting, treasury, information systems, and risk management are all included in financial management. Risk management is the most important component of financial management. This includes managing the bank's financial risks, asset-liability management, and strategy planning (Muhammad et al., 2020).

2.2.1.3.2 Overview of Credit or Counterparty Risk

The risk that a debtor (or issuer) of a financial instrument will not repay principal and other investment-related cash flows in accordance with the terms stated in a credit agreement is one type of risk known as credit or counterparty risk. It implies that payments can be made slowly or not at all, which could have an impact on the liquidity of a bank. The treasury role has grown more difficult as financial instruments and markets have grown more intricate and as processing has gotten more automated. The overall policy framework, which includes general policy guidance and directions, ALM (asset-liability management), strategic asset allocation, benchmark approval, and the use of external portfolio managers are examples of typical treasury functions. Other typical ones include risk management implementation and solutions for Islamic banking and finance, risk measurement for liquidity, investment and cash flow management, (asset management), risk analysis including model validation, performance measurement, settlements, counterparty or credit, market, commodity, and currency risk, analysis, and reporting, compliance with broad investment guidelines, and quantitative strategies and risk research (model development, benchmark construction) and treasury operations including correspondent bank accounts (banking relations), accounting, and information systems and services. Similar conventional banks, Islamic banks are likewise

showing to some procedures of asset-liability mismatch risk. Furthermore, characteristic treasury risks for Islamic banks are liquidity, equity-investment, market, rate-of-return, and hedging risks (Omar and Kiran, 2018). When the counterparty neglects to fulfil its responsibilities in a timely manner and in full compliance with the parameters set forth, credit risk arises. It is the chance of suffering a loss as a result of the other party breaking agreements or commitments. This may result in a deterioration in the quality of bank assets as well as an increase in liquidity issues. This issue might affect Islamic banks, particularly in cases where there is an information asymmetry issue. Banks may experience difficulties as a result of the entrepreneur's shady financial practices and unclear honesty. Interest-bearing Islamic banks are not allowed to defer payments based on a renegotiated higher mark-up rate. This may encourage their dishonest clients to miss payments, exposing these banks to additional credit risk (Saif-Alyousf et al. 2017).

2.2.1.3.3 Credit Risk in Different Islamic Financial Contracts

During the course of a Murabaha contract, a scenario can occur in which an Islamic bank gives the client the asset on a prearranged date. However, the client neglects to supply the funds in line with the previously agreed terms. Therefore, the Islamic Banking Institution (IBI) may be exposed to credit risk in the event that a client defaults on his financial responsibilities in line with the terms of the Murabaha contract. These conditions could expose the Islamic banking institution to liquidity risk, which is another important component of financial instability. In this case, liquidity risk could appear if the bank depends on the anticipated amount to pay other debts (Ahroum, et al., 2017). This specific situation can occur if the client doesn't follow through on his promise to buy the agreed-upon share on the agreed-upon terms and conditions. If the IBI needs to use these proceeds to meet other financial obligations, these circumstances can put it at risk for liquidity issues (Muhammad et al., 2020).

Investment agreements like Salam & Parallel If the contractor is unable to deliver the contracted item on schedule and in accordance with the terms specified, Salam may potentially expose an IBI to credit risk. The IBI could lose the investment totally or in part in this case. Similar to this, if the client defaults on his financial obligations, Istisna and parallel Istisna contracts could also put an IBI at risk for credit. In addition, these conditions can expose the IBI to market risk, which is another significant contributor to financial instability. In this case, market risk could appear if the customer's failure to pay forces an IBI to look for

another buyer of the asset on the market. Due to this circumstance, the asset is sold for a significantly lower price (Ahroum, et al., 2017). If the lessee fails to fulfill his obligation to pay lease rentals in accordance with the established Ijarah provisions, an IBI may be exposed to credit risk with regard to the Ijarah contract. Market risk could also result from this situation. There are two possible outcomes if the consumer fails to provide lease rentals. For a new Ijarah contract, the IBI must either locate another client or sell the asset on the open market for the going rate. There's a good likelihood that IBI will receive a reduced rent in both cases (Omar and Kiran, 2018).

2.2.2 Theoretical Framework

2.2.2.1 System Thinking Approach

According to the system thinking approach, one should examine the underlying structures that underlie these events and patterns by looking at data or events and recognizing how behaviours change over time. By making more rewarding alternatives available, the system thinking approach also aids in understanding the problematic evolving structures and their remedies. Overall, this method fosters curiosity and clarity. The system thinking method embodies the courage and compassion to observe a situation. This method seeks to analyse the event or data in detail, spot relationships between them, discover various approaches to an issue, and pinpoint the most important interventions (Muhammad et al., 2020). This theory is crucial to the study since it allows for the theoretical integration of many viewpoints through the use of system thinking. This method might also reveal the links inside and between certain behaviours. The application of system thinking can help comprehend the intricate behaviour of the system by identifying different operational features of the structure. It might even function well in a situation where the problem is completely unrelated. Furthermore, this method is also trustworthy for predicting how the modification would affect the system's structure.

2.2.2.2 Stakeholder Theory

The roots of the stakeholder idea can be traced to Adam Smith's theory of moral feelings, which is written about in business science literature. Stakeholder theory is a helpful tool in the field of social concerns in management because of its emphasis on the subject of social responsibility. The notion is starting to be applied to the field of sustainable development. It can be defined as the company's exclusive goal and the process it uses to carry out operations. Regarding the literature on corporate social responsibility and corporate social

responsiveness, the stakeholder theory has shown to be quite valuable in more recent times. This development has aided in the comprehension of ethical perspectives and the connection between Islamic finance and ethics (Fahad et al., 2013).

In Islamic banks, stakeholder management has become a regular issue of discussion in both literature and practice. Nevertheless, it is imperative that the topic be re-examined and improved. The study's goal is to examine ideas that are currently being debated in the banking industry and develop a stakeholder relations framework that is more appropriate for Islamic banking environments. Stakeholder theory in Islamic banks employs critical analysis, creative thinking, and observation of created words from many perspectives—more especially, from an Islamic banking stance—to emphasize the salient points of the theory.

2.2.3 Monitoring Credit Practices in Interest Free Banking

The IBIs must develop a financing plan that complies with Shariah for the purpose of identifying maximum exposures to credit risk, which can arise at various financing contract levels. The entire risk appetite, asset allocation, and risk divergence of their banking organization may be deemed the responsibility of the Board of Directors. There must to have this tactic available for all Islamic financial instruments (Fahad et al., 2013). The catalog of all pertinent and approved funding activities may also fall under this category in order to prevent any deals that violate Shariah. Developing a Shariah-compliant strategy for any inherited credit risk in various contracts should be the responsibility of IBIs. Prior to entering into an agreement, IBIs must verify the potential clients' creditworthiness, ability to repay, and financial stability. In Mudarabah finance, evaluation and assessment of the counterparties is also required in order to evaluate the following: predicted cash flow activities, legal issues, business operations, economic conditions, and project purpose. Additionally, it is advanced by obtaining expert evaluation for contract extensions and snagging impending funding initiatives. These specialists are needed to guarantee Shariah-compliant evaluation all the way through the project. In order to measure and report the credit risk exposures resulting from various Islamic financial contracts, the IBIs are also required. These exposures to credit risk could involve the danger of counter-party in "Istisna" and "Salam." Furthermore, a non-obligatory plan of action is necessary in the event that the counter-party violates the purchase order (Ahroum et al., 2017).

The IBIs may implement Shariah-compliant practices for every financial deal in order to reduce risk. In order to estimate the return rate and set price, the banks must also develop a system that accounts for all potential risks. To handle defaulting consumers, a suitable

administration system ought to exist. It is recommended that banks create these kinds of policies since they can be useful in debt recovery and loan management. These steps could include aggressive client bargaining, giving consumers extra time to make payments, allowing them to reschedule or reorganize their debt payments, implementing a debt collection mechanism, and enforcing penalties and fines. According to a provision of Shariah regulations, money collected in penalties or fines may be donated to charitable organizations in order to enforce guarantees or collateral. When it becomes necessary, the IBIs are required to offer Shariah-based, skillful coverage against the product's worth (Muhammad et al., 2020).

Among the primary components of the risk management process are the identification, measurement, management, and monitoring of diverse risk exposures. The Islamic bank must create an appropriate risk management environment as well as reliable policies and procedures to handle these risks in order to do that (Ben and Elmelki, 2008). Only monitoring is the focus of this investigation. A clear definition of monitoring is the ongoing activity of keeping track of how the project is being carried out and whether the intended results are being achieved. It assists in giving current information on how the project is doing in terms of finishing its tasks and producing its intended results, both in terms of quality and timeliness. Therefore, monitoring is the process of determining whether a project is moving forward as planned. In order to give managers, funders, and participants up-to-date information on the status of implementation and the attainment of targeted results, it entails a methodical data collection approach (Callistus, et al., 2021).

2.2.4 Monitoring Clients' Investments

In order to fulfil the customary duties of financial intermediation, the Islamic bank will examine financially advantageous projects and keep an eye on their progress on behalf of the investors who place their money with the bank. As long as there is no debtor-creditor relationship involved in the transaction, Islamic banks are able to provide a wide range of services that are provided by conventional banks without requiring any changes to the nature of the product. Other financial services are offered on a commission or fee basis and include bill collection, money transfers, and foreign exchange trading at spot rate—all without involving the bank's own funds (Muhammad et al., 2020). When it comes to the maturity structure of their assets, Islamic banks must exercise even greater caution (Ben and Elmelki, 2008).

Conventional banks have a number of options to maintain liquidity, including government securities, short-term loans, money at call, short notice notices, bonds from leasing businesses, and shares. Interest-bearing institutions are prohibited from offering any kind of incentive. As a result, they created a brand-new type of liquidity known as Sukuk (Islamic Bonds). Alternative banks begin issuing Sukuk (Bonds) to investors in equal value of assets in order to meet liquidity requirements. Sukuk-holders then become the owners of the assets. There are far too many different kinds of sukuk, including those issued by Murabaha, Ijara, and Musharaka (Saad, 2015). According to Sharia law, any Muslim must handle anything that are deemed unlawful or haram. Financially speaking, all contracts should have Sharia compliant underlying clauses. Generally, a number of industries whose operations are regarded as illegal are to be removed from the investment universe in the context of a shareholding in the form of shares (Saad, 2015).

2.2.5 Stakeholders' Engagement

Like conventional banks, Islamic banks typically have significant influence on depositors and are crucial to the stability of the financial system. Thus, it is essential to defend depositors' and investors' interests from potential power abuse, fraud, poor management, and excessive risk (Ben and Elmelki, 2008). In order to ensure that the tool being applied is effective, stakeholder involvement must be ingrained from the beginning of M&E and incorporate important stakeholders as well as other interested parties (Callistus, et al., 2021). The outcome will be much improved if the appropriate people are involved throughout the entire process, the recommendations will be well-received, corrective actions will be taken, and implemented on time (Peninah, 2018).

Due to these stakeholder views in Islamic banking, it is preferable that a more sensible method be used, where conflicts of interest can be modified into advantageous circumstances that, in part, create a more suitable and gratifying scenario for everyone. Specifically, the bank's pursuit of profits and its clients' adherence to Shariah law, both of which satisfy the bank and its stakeholders (Fahad et al., 2013). In order to generate ideas, win over the public, and make sure that policy is well-targeted to stated requirements, stakeholder engagement is linked to design. By including stakeholders in the tool design process from the outset, the project is more likely to incorporate their demands and meet their expectations (Callistus, et al., 2021). Additionally, stakeholder project ownership is created and encouraged by the participatory approaches. The utilization of participatory methods yields valuable insights

into the necessary instruments for monitoring and evaluation, hence serving as a means of enhancing capacity (Lukasiewicz and Baldwin, 2017).

2.2.6 Supervisory Infrastructure

"Sharia" is Arabic for "The way forward," denoting an Islamic ethically grounded judicial system. This system serves as a legal guide and prescribes how Muslims should live their life in all respects, including the economic one. According to examination of particular and changing conditions, sharia includes variants that Muslim jurists are able to enact as well as invariant aspects, which are unchanging canonical norms in time and space (Peninah, 2018). The Quran, the holy book of Islam, is the principal source of law and represents the message of God as revealed to Prophet Muhammad (SAWS). These are the two basic sources of Sharia. Everything that is obtained from other legal sources needs to be in complete accordance with what God has said in the Qur'an. Sunna, on the other hand, includes all of the teachings that the Prophet Muhammad (SAWS) conveyed by his actions, words, expressions, and tacit acceptance (Saad, 2015). These two sources serve as the fundamental foundations for assessing whether a given activity complies with the laws and objectives of Sharia. Sharia law is still amenable to future change and interpretation, nevertheless. Thus, we can include two more Sharia sources: The Ijmaa: Ijmaa refers, in its technical sense, to the agreement of Muslim jurists about a legal issue. In actuality, the Ijmaa is used as proof in cases where a provision of the Sunnah or the Koran is conclusive. The Qiyass (reasoning by analogy) technique is based on assigning the legal rule to an existing case contained in the texts of the Qur'an, the Sunnah, and/or the Ijmaa based on a shared underlying characteristic to a new case whose legal rule could not be clearly determined. All the while adhering to the essence of the conventional sources of Islamic law (Saad, 2015). Like conventional banks, Islamic banks typically have significant influence on depositors and are crucial to the stability of the financial system. Thus, it is essential to defend depositors' and investors' interests from any potential misuse of authority, fraud, poor management, and excessive risk. As a result, the importance of creating a suitable regulatory framework contributes to guaranteeing the interests of various stakeholders as well as the effective development and operation of the capital market. Commercial banks' global surveillance systems typically oversee Islamic banks (Muhammad et al., 2020).

2.2.7 Training in Interest Free Banking

Beyond the financial services industry, other business communities such as the legal community, government officials, and IT solution providers may benefit from talent

development initiatives. These elements of the public and private sectors are also necessary for the growth of the Islamic financial industry. To help them comprehend the nuances of Islamic finance and its value propositions, their training needs must also be satisfied through organized training programs (Shamsalden and Yousif, 2019). One of the most essential ways to lessen the harmful effects of skills gaps is to establish centers and institutions that will produce skilled Islamic financial skills. According to Ahroum et al. (2017), there exist multiple global hubs that can assist Islamic financial institutions in developing fresh and proficient workforce talent.

Furthermore, Islamic financial organizations might offer their current employees some specialized training. However, banks have been reluctant to take on this task thus far due to the associated expenses and time commitment (Peninah, 2018). Rather, companies often steal talented employees from competitors, which are a quicker and less expensive way to acquire the necessary talent (Lukasiewicz and Baldwin, 2017). The truth is that present Islamic financial institution employees are ignorant about Islamic financial instruments. As a result, they must keep up with the latest information and understanding on Islamic financial services and goods. It is essential to start monthly or quarterly training programs for the current employees (Omar and Kiran, 2018).

2.2.8 Sufficient Interest-Free Banking Experts and Trained Personnel

Strong communication skills are essential for resolving issues and transforming difficult situations into fruitful group initiatives, particularly when competing stakeholder interests are causing a crisis for the bank (Saad, 2015). This demonstrates how crucial it is for the Islamic banking sector to prioritize communication since these connections are so important. Managers from Islamic banks that were interviewed said that as more and more banks adopt cooperative and group initiatives, they are placing a greater emphasis on communication (Naseem et al., 2019). The Islamic finance industry faces a talent deficit, with a significant lack of workers with the necessary skills. Finance institutions are impacted by this scarcity. For the industry to grow there should be a variety of skills that need to be trained and educated about Islamic finance. The qualifications should be provided so that it is apparent what kind of talents is required for Islamic financial organizations in general (Uddin, 2015). The primary areas of technical and Shariah expertise, together with more general abilities like product creation and strategic planning, are where Islamic finance is lacking in people. It is evident that practitioners in the field believe that creating training programs in Islamic finance can help Islamic financial institutions meet their needs to some extent (Ahroum, et

al., 2017). Furthermore, it's critical for Islamic financial institutions to build solid links with schools and universities that generate the kind of expertise these institutions need. Given that, it is evident that a few major global banks have also forged strong alliances with eminent academic institutions in order to advance detailed banking courses considered to offer learners with an thoughtful of practical banking operations (Shamsalden and Yousif, 2019).

2.3 Empirical Literature Review

2.3.1 Studies across the Globe

A system dynamic mechanism was created by Muhammad et al. (2020) to examine the Credit Risk Management (CRM) system of Pakistani Islamic banking institutions (IBIs). Understanding the relationships between the different credit risk characteristics has been made easier by this model. This research has been done in three steps in order to build the System Dynamic Model (SDM). The system dynamic model demonstrates how an increase in credit risk prompts IBIs to proactively establish a mechanism for credit risk management in accordance with State Bank of Pakistan (SBP) recommendations. As a result, the IBIs in Pakistan manage credit risk by performing credit risk analyses both prior to and during the course of commercial relationships with clients. This analysis includes determining a customer's credit history, assessing their financial needs and ability to repay them, evaluating their business acumen, and determining the suitability, appropriateness, and sufficiency of the collateral and guarantees they have provided. The model also indicates that in order to prevent unnecessary counterparty risk, IBIs must fulfil their contractual duties. Furthermore, it is imperative that IBIs adhere to efficient financial and administrative CRM practices in order to mitigate the credit risk.

Recent advancements in risk management in Islamic banking and finance literature were examined by Naseem et al. in 2019. To find out how much Islamic banks (IBs) effectively mitigate risk, the study compared the basic characteristics of risks connected with IBs to those associated with conventional banks (CBs). Consideration of the key studies that analyze the key aspects of risk management in Islamic banks and finance (IBF) in contrast to conventional banks (CBs) is included in the study. In particular, the sorts of risks encountered, their characteristics, and the degree and kind of exposure to such risks are compared between these two types of banks. For the analysis, a comparative literature review strategy is combined with a tabular methodology approach. The findings indicate that a lack

of risk mitigation experience among IBs contributes to the low level of support for Shariah-based product creation. The conclusion drawn is that because of the nature of their products, contract structure, legal costing, governance procedures, and liquidity infrastructure, IBs are more risk-sensitive than CBs. In general, the credit risk level of Islamic banks in Malaysia is significantly impacted negatively by bank capital and financing expansion.

Safiullah and Shamsuddin (2018) found that operational and insolvency risks in Islamic banks decrease with an increase in SSB size and the proportion of SSB members with higher academic qualifications, but increase when the proportion of SSB members with reputation is higher. Their study examined the impact of the SSB on risk using a sample of 102 Islamic banks in 28 countries. IBs in Malaysia (MIBs) were originally governed under the Islamic Banking Act (IBA) of 1983 and supervised by Bank Negara Malaysia (BNM) to guarantee that they functioned in accordance with Shariah. On the other hand, the BNM implemented the Islamic 2013's Financial Services Act (IFSA). In addition, the BNM established the IFSA with the intention of fostering both adherence to Shariah law and financial stability. Both statutes mandate that all IBs have a Shariah Supervisory Board (SSB), which is primarily responsible for providing management with advice on matters pertaining to Shariah. Actually, the SSB must authorize all goods and services.

According to the study by Abdul et al. (2015), the liquidity ratio played a crucial role in assessing credit risk both before and after the element of earnings management was taken into consideration. It was also relevant to observe that, in contrast to the model that took earnings management into account, the productivity ratio was crucial in the model that did not compensate for it. Uddin (2015) studied the risk management practices of Islami Bank Bangladesh Limited (IBBL), a leading Islamic bank in Bangladesh. The study used data from IBBL's annual reports, as well as information from other Islamic banks, Bangladesh Bank, and published papers to analyse the bank's risk management framework. The research found that IBBL has a comprehensive risk management process and tends to take moderate to low risks in its investments. The bank generates sustainable earnings from deposits but has lower returns on shareholders' funds due to a lack of Sharia-compliant financial instruments in Bangladesh. While the bank operates on profit and loss sharing principles, it bears all risks, such as financing impairment, unlike conventional banks. The bank's balance sheet is mainly made up of physical assets funded by shareholders. IBBL does not use derivative instruments due to market limitations. The bank's income analysis shows that its rate-sensitive assets

exceed rate-sensitive liabilities, impacting profitability. Despite this, the bank's spread between funding costs and financing income remains above 5%. The study highlights that IBBL's focus on murabaha financing and its low risk exposures are strengths, but commercial and liquidity risks can affect the bank's efficiency and profitability. In order to determine the factors that influence credit risk, Abdul et al. (2015) examined the impact of earnings management on credit risk prediction. Within the context of generally accepted accounting principles, manipulation of accounting figures is referred to as earnings management.

2.3.2 Studies from Ethiopia

According to Muhammad's (2022) assessment of Ethiopian interest-free banking practices, most respondents concur that the Sharia Board "regularly monitors the functions and operations of the IFB windows." These suggest that, even in cases where the majority of respondents concur, gaps exist and should be filled by employing sharia advisers on a full-time basis. In addition, there was a gap in the application of the risk and return sharing concept, one of the main IFB tenets, and a lack of funding, which rendered overall financing below average and prevented IFB customers' financial demands from being met. Also, the study's findings showed that giving IFB through a special window allowed the banks to seize several chances. Furthermore, the outcome shows that banks have encountered numerous obstacles in their efforts to successfully provide IFB, including a lack of qualified Sharia advisory scholars, a shortage of experienced and well-trained IFB personnel, a lack of IFB-specific curriculums for education and training, a lack of capital and resource limitations, a lack of awareness among the general public regarding IFB products and services, and a lack of appropriate banking policies for IFB.

Neima (2019) investigated the obstacles to interest-free banking growth in Ethiopia's west Addis district's commercial banks. Both primary and secondary sources provided the necessary information to achieve the study's key goals. The study found that the main obstacles to the growth of interest-free banking services and products in Ethiopian commercial banks were a lack of regulatory framework and government support, a lack of trained personnel and Sheriah scholars, a lack of market-based intermediation and products, and a lack of sufficient knowledge and opposition to interest-free banking services and products. Nonetheless, the majority of respondents acknowledged that interest-free banking has a lower economic footprint than conventional banking, insufficient typical IFB instruments, and a sufficient demand from customers.

Yihnalem (2015) conducted an assessment and evaluation of Dashen Bank's asset quality and credit monitoring operations. The relationship between credit monitoring activity and asset quality, factors influencing credit monitoring activity and/or asset quality, and the relationship between the factors and areas of improving credit monitoring activity progress of asset quality were the main findings and results identified in the study. The results were presented as a stylized version of the truth, as seen from the perspective of a survey that was conducted using a structured questionnaire. Additionally, this study discovered a strong and relevant association between asset quality and credit monitoring activities. Consequently, factors like as credit governance, borrower collateral positions, credit culture, market and economic conditions, and borrower behaviour all have an impact on credit monitoring activities and asset quality.

Senait (2016) evaluated the interest-free banking industry's operational problems in Ethiopia. It was also meant to offer answers for these problems. In order to achieve this goal, standardized questionnaires and interviews were used to gather a sample of respondents, which included managers and employees. From this sample, cross-sectional data was generated. According to this report, interest-free banking is still in its infancy as an industry, and the majority of managers and employees are not well-versed with IFB's offerings. It also suggests that there is a lack of appropriate legal framework, competent labour, accounting standards, auditing, and insurance companies.

2.4 Research Gap

The literature review highlights several critical gaps that warrant attention in the study of monitoring credit activities within Interest-Free Banking and Islamic Banking programs. It underscores the increasing recognition of monitoring credit activities as essential for effective Islamic Banking management and the enhancement of financial performance and developmental fund allocation. Moreover, there is a notable gap in the literature concerning the capacity to monitor credit activities in Islamic Banking, stakeholder participation facilitated by new technological applications, and the integration of skills, training, and system improvements throughout the project lifecycle—from inputs to outcomes—as crucial factors for achieving success (Naseem et al., 2019).

Previous studies predominantly focus on routine monitoring practices at Islamic Banking institutions, overlooking deeper issues such as the strategic use of credit activity monitoring

as a tool for performance management (Muhammad, 2022). Credit management in banking spans from initial borrower inquiries to loan recovery, emphasizing the importance of effective risk management to mitigate financial distress and bankruptcy risks associated with interest and principal repayment (Yihnalem, 2015).

Effective credit management aims to maximize performing assets, minimize non-performing assets, and optimize loan and advance management through robust credit policies, portfolio management, monitoring, supervision, and follow-up (Saad, 2015). Despite valuable insights into risk management solutions in Islamic banking and finance (Omar and Kiran, 2018), there remains a notable scarcity of studies specifically examining credit activity monitoring within Interest-Free Banking (Ahroum et al., 2017; Endris, 2022).

While some research has explored the efficiency, stability, and comparative advantages of Islamic banks over conventional banks in achieving intermediate monetary targets, there is a need for more focused studies on credit monitoring within the interest-free banking system itself. Given its potential superiority in achieving monetary targets, this study seeks to fill this gap by assessing credit monitoring practices in Interest-Free Banking.

2.5 Conceptual Framework

Overall, the monitoring of credit and risk management systems within the banking sector encompasses various approaches. The proposed monitoring system in this study is crucial for achieving comprehensive risk management planning and specific objectives. According to Neima (2019), effective Profit and Loss Sharing (PLS) monitoring mechanisms, especially in Mudaraba contracts where Islamic banks lack control rights, remain underdeveloped. The fiqh literature on this topic is outdated and requires careful re-examination. Saleh (1986) delineates three obligations and one right for the financier in a Mudaraba contract, emphasizing limited liability, profit-sharing, and ensuring adherence to contractual terms by the borrowing business. Conversely, earlier studies focused broadly on the challenges and procedures of risk management in Islamic banking. This study uniquely emphasizes investment monitoring, supervision, stakeholder engagement, skill development, and training to comprehensively manage banking operations towards achieving overarching goals (Senait, 2016). It identifies five key functions essential for effective monitoring and risk management systems.

Adapted from Neima (2019)

The conceptual framework adapted by Neima (2019) illustrates the key components and relationships emphasized in the study, particularly focusing on monitoring and risk management in Islamic banking. The framework integrates:

1. **Profit and Loss Sharing (PLS) Mechanisms:** Addressing the effectiveness and development needs in PLS, especially in Mudaraba contracts.
2. **Financial Obligations and Rights:** Detailing the obligations and rights of financiers and borrowers under Islamic banking contracts.
3. **Monitoring Functions:** Including investment monitoring, supervision, stakeholder engagement, skill development, and training.
4. **Risk Management Strategies:** Strategies employed to manage risks effectively within Islamic banking operations.
5. **Achievement of Goals:** Ensuring alignment with overarching goals of Islamic banking institutions.

In this conceptual framework, each component is interconnected to illustrate how effective monitoring and risk management contribute to achieving the goals of Islamic banking, as discussed in Neima (2019) and aligned with the study's objectives.

3.3 Research Approach

Both qualitative and quantitative research methodologies were used in this study. In order to describe phenomena across a large number of participants, the researcher initially used a quantitative approach to data collection. This allowed for the possibility of summarizing characteristics across groups or relationships by using statistical techniques to identify overall patterns in the relationships between processes. The use of a qualitative research approach was then employed to collect data that detailed credit monitoring practices and utilization in a thorough and in-depth manner without being subjected to a rigorous examination or measurement in terms of quantity, amount, intensity, or frequency. Quantitative research, on the other hand, focuses on measuring the scale, range, frequency, etc. of events while emphasizing the collection and analysis of numerical data. Additionally, mixed methods combine the gathering and analysis of quantitative and qualitative data in a study (Creswell, 2014).

This study assessed the extent, rigor, and volume of branch-level credit activities monitoring in interest-free banking. The study is better organized, and gathering the results is simple. However, the validity of the monitoring procedures used in interest-free banking and the related problems with credit activities monitoring were carefully defined for this study. The research problem required to be thoroughly analysed using the qualitative research method. With this design, the researcher gathers both types of data simultaneously and then combines the data to interpret the overall findings.

3.4 Research Design

This study employed a cross-sectional research methodology. Cross-sectional survey research is well-suited for collecting data to assess the current state of affairs in a given area. It describes the data collection techniques, participant selection methods, and the process of drawing conclusions. The focus of this study was on evaluating branch-level credit monitoring practices within Interest Free Banking in Addis Ababa, Ethiopia. Specifically, it aimed to provide a comprehensive overview of credit monitoring practices in Islamic banking.

The study offered a detailed examination of interest-free banking activities at the branch level in Ethiopia, emphasizing the monitoring of credit practices within Interest Free Banking. The findings are expected to benefit individuals involved in banking operations, enhance

monitoring capabilities, and contribute to the skill development of relevant stakeholders in the country, thereby supporting economic development initiatives. Therefore, a descriptive study research design was deemed appropriate for this investigation.

3.5 Data Sources and Type

The majority of the data included in the study came from primary sources. The majority of the study's data were primary. Questionnaires and structured interviews were used to gather primary data. While the secondary data was gathered from project manuals, online resources, public yearly reports from CBE, and other internal CBE documents in the Interest Free Banking Authority, reference books were also used.

3.6 Population and Sampling

The entire set of components from which the researcher draws conclusions is referred to as the population. A population is made up of all potential observations of a particular feature of interest, whereas a sample is made up of observations that only represent a subset of the population (Kothari, 2014).

3.6.1 Target Population

The survey targeted a accessible population of 319 individuals comprising employees of CBE Noor, including managers, directors, project engineers, station engineers, M&E officers, support staff, and top clients. These groups were selected based on their substantial influence on interest-free banking performance within Ethiopia, particularly in the realm of credit risk management monitored by the banking industry.

3.6.2 Sample Frame

The list of components from which a proportionate sample size is chosen is known as the sample frame. Lists of persons from four CBE Noor branches that were chosen for the study, along with top clients and employees who were discovered and registered in April to May 2023 for salary payroll and branch-level customer profiles, were appropriately obtained.

3.6.3 Sample Size Determination

The researcher used specific results from the various demographic segments, but did not employ a comprehensive enumeration of all thoughts in the population or Census inquiries.

As a result, CBE Noor sample representatives picked 319 individuals, whose personnel and customers were drawn from various branches within the chosen sectors. The following sample size calculation formula, created by Yamane Taro in 1967, was used by the researcher. The other P = 0.5 is assumed, and the formula was used to generate the sample sizes at a 95% confidence level.

$$\frac{319}{1+319 (0.05)^2} = 177$$

Where: n: sample size required N: number of people on the population= 319 e: precision desired (estimated error) =5%

Table 1 Sample Distribution

Branches	Population in each position	Proportion 177/319	Sample engaged in the study N/1+N(e)
Hassen Hussen Mesjid	86	0.555	48
Amanah Branch	78	0.555	43
Selam Mesjid Branch	64	0.555	36
Mecca	91	0.555	50
Total	319		177

Source: CBE Noor Branches, 2023

3.6.4 Sampling Procedure

In this study, stratified random sampling was used, and the Probability Proportional to Size (PPS) sampling method was used to choose study participants. This sampling method made use of surveys or mini-surveys, where the likelihood of choosing a sample unit is correlated with the population size. According to Senait (2016) and Kothari (2014), it provided a probability sample, which is random and representative. In other words, the number of employees and top clients in the chosen branches determined how many responders were chosen from each customer and management group. The branches were chosen on the basis

of their competent staff, annual transaction volume, number of clients, and successful implementation of Islamic banking. Because it assumes that people in bigger categories have an equal chance of being included in the sample as those in smaller ones, and vice versa, this method is particularly useful when sampling units differ significantly in size. For the purpose of interviews, CBE's Human Resource Establishment 2023, client profiles, and CBE Noor Branches provided information on the number of employees in each management and client category.

3.7 Data Collection Methods

Given the goals of the study, a survey approach was used to gather data from a variety of sources, including executives, directors, branch managers, M&E officers, project engineers, station engineers, and supportive staff. Triangulation was facilitated by the application of questionnaire surveys and key informant interviews review techniques (Creswell, 2014). Every technique was used and is covered below:-

3.7.1 Questionnaire Survey

The primary instrument used for data collection in this study was a questionnaire. The questionnaire incorporated both open-ended and closed-ended questions to gather raw data and information from the respondents. This approach proved effective in obtaining insights from a substantial sample of participants.

Drawing from the works of Senait (2016), Niema (2019), and Alum (2017), a self-report questionnaire was administered to capture data on the variables pertinent to the study's objectives. The questionnaire was tailored to address the specific research questions and challenges outlined in the study. It was self-administered, conducted through in-person interactions, and designed in two sections.

The first section of the questionnaire focused on collecting demographic information about the respondents, while the second section centered on addressing the primary research questions related to monitoring credit activities, usage patterns, and policies within interest-free banking.

3.7.2 Key Informant Interview

Creswell (2014) defines key informant interviews as qualitative, in-depth conversations with individuals who are knowledgeable with interest-free banking. Key informant interviews

were conducted with twelve (12) individuals with first-hand knowledge of interest-free banking from public institutions like the National Banks of Ethiopia and banking associations. The interviewees included branch level leaders, clients, professionals, and experts. Thanks to their specialized expertise and comprehension, these Interest Free Banking professionals can offer valuable insights into the nature of issues and suggest potential solutions.

3.8 Data Quality Control

The investigation confirmed the ability to produce consistent data and the relevance of the items in the data collection devices in order to certify and ensure data quality. This section provides an explanation of the procedures used to guarantee the instruments' validity and reliability.

3.8.1 Validity

The degree to which the instruments and data collection procedures measure what they are intended to measure is known as validity. Assessing whether an instrument measures what it is intended to measure is another way to determine validity. In quantitative research, validity pertains to the accuracy of the measurement tools and their ability to capture the intended data (Muhammad, 2022). It is referred to as the last phase in enhancing survey findings. Five (5) experts were used by the researcher to assess the suitability of the questionnaires, and respondents who were not involved in the study took part in a pre-test.

3.8.2 Pretesting Test

Before the questionnaire was distributed to the chosen sample size, 10 respondents participated in a pretesting survey. In order to make sure that the respondents could easily answer the questions, the questionnaire's clarity, ease of understanding, and straightforwardness were examined in the pilot survey, which had ten respondents. Before distributing the questionnaire to the chosen sample size, the appropriate modifications were made in response to input from the pilot survey. For example in monitoring questions, the main target was analysis of the overall impact and success of a project or program rather than tracking progress and pinpointing areas that want improvement. The process of continuously monitoring and assessing an investment portfolio's performance to make sure it stays in line

with an investor's financial objectives and risk tolerance was included to the amended questions.

3.8.3 Reliability

Reliability is a measure of the questionnaire's consistency, in other words its precision of measurement (Muinde, 2015).

Table 2 Reliability Test Results

Variables	Reliability Statistics	
	Cronbach's Alpha	N of Items
Monitoring Clients' Investments	0.742	10
Engagement of Stockholders	0.811	7
Supervisory Infrastructure	0.752	5
Provision of Training	0.847	10
Availability of sufficient Interest-free banking experts and trained personnel	0.824	6

Source: Survey Outcome, 2023

The reliability of the questionnaire was assessed by measuring its internal consistency using the Cronbach's Alpha coefficient. Each questionnaire item's coefficient value was calculated using the STATA 15 software, which takes into account a computer program, to determine the coefficient value. High values that are near to one indicate better inter-item consistency or reliability. According to Senait (2016), all items had a score of at least .70; hence, results ranging from 0.7 to 0.8 indicate a satisfactory level of reliability. Elevated Cronbach's alpha coefficients indicate that every respondent's response values remain consistent throughout an array of inquiries.

3.9 Data Collection Procedure

After receiving an introductory letter and the University's approval of the research project, the researcher proceeded to obtain information from the line heads of several Islamic or interest-free banking departments in order to conduct the research. Furthermore, in order to prevent misunderstandings and obtain the respondents' consent to participate in the study, the researcher made sure to make explicit the goal of the study to them. This helped to ensure that the research study would not be misconstrued as a non-academic endeavour. The greatest confidentiality was maintained in the handling of all the collected data.

3.10 Data Processing and Analysis

The study's data came from qualitative and quantitative data collection. Consequently, the analysis of the various data sets is presented in this section.

3.10.1 Qualitative Data Analysis

To make sure that every question is addressed, the data was analysed daily while in the field by removing any gaps and cleaning it up. Errors and queries that remained unanswered were pointed out and clarified by the individual responses. Twelve people participated in the interviews, and the data were transcribed verbatim into written form so they could be analysed. For the sake of data display and analysis, all data was coded by grouping it into comprehensive, informative, and representative categories. The respondents' responses were coded as Experts (E), Managers (M), and Customers (C).

3.10.2 Quantitative Data Analysis

STATA software was utilized in this study for data entry and analysis purposes. The software facilitated the calculation of descriptive statistics including mean, standard deviation, frequency distributions, and percentages. Additionally, STATA was instrumental in generating frequency tables, graphs, and other visual aids, enhancing the clarity and comprehensibility of the quantitative findings.

3.11 Ethical Consideration

After receiving a letter from the Thesis Defence Committee, the researcher applied for approval from the university administration. After that, CBE and its chosen branches (CBE Noor) gave the study permission to begin data collection. Respondents were also notified that the information requested is just for academic purposes and that they should answer the questionnaires anonymously. A consent form was also provided to them. The permission form included information about the kind of study being done, why it is being done, and the rights of each and every participant, with a focus on participant confidentiality and the ability to withdraw from the study if needed.

3.12 Operational Definitions - Stakeholders in Interest-Free Banking

In interest-free banking, stakeholders typically include various parties who have a vested interest in the operations and outcomes of the bank. While specific terminology and roles can vary, here are some common stakeholders in interest-free banking (CBE, 2023):

1. **Depositors:** Individuals or entities who deposit funds into interest-free bank accounts.
2. **Investors:** Those who provide capital to the bank with the expectation of profit-sharing instead of interest.
3. **Customers:** Individuals or businesses who utilize banking services provided by the interest-free bank.
4. **Shariah Supervisory Board:** Experts in Islamic law (Shariah) who oversee and ensure that banking operations comply with Islamic principles.
5. **Management and Employees:** Staff and executives responsible for the day-to-day operations and strategic direction of the bank.
6. **Regulatory Authorities:** Government bodies or agencies responsible for overseeing and regulating banking activities to ensure compliance with legal and regulatory requirements.
7. **Community and Society:** The general public and broader society that may be affected by the bank's activities and outcomes.
8. **Shareholders:** Owners of shares in the bank who have a financial stake and voting rights in the institution.

These stakeholders collectively influence the policies, practices, and performance of interest-free banks, aiming to align operations with ethical and legal standards while fostering financial inclusion and stability within Islamic finance principles.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION AND DISCUSSION

4.1 Introduction

As the evaluation results of the CBE Noor monitoring activities in this study show, one of the main elements of the risk management process is the identification, measurement, management, and monitoring of diverse risk exposures. This section presents the profile of the respondents, which includes their age, gender, marital status, education level, participation in the study area, and other pertinent aspects. The results are shown in this chapter as the preliminary and condensed analysis of the survey findings by the respondents.

4.2 Response Rate

Table 3 Branch-Based Response

Staffs	Distributed	Return	Response rate
Hassen Hussen Mesjid	48	40	83%
Amanah Branch	43	39	91%
Selam Mesjid Branch	36	31	86%
Mecca	50	43	86%
Total	177	153	86%

Source: Survey Results from CBE Noor Branches, 2023

Based on the response rates provided in Table 3 for each branch participating in the study, it is evident that there was a strong overall response rate of 86%. Specifically, the branches showed varying levels of respondent engagement. Amanah Branch exhibited the highest response rate at 91%, indicating a robust participation from the distributed questionnaires. Hassen Hussen Mesjid followed closely behind at 83%, with Selam Mesjid Branch and Mecca both achieving an 86% response rate.

These response rates are crucial indicators of the survey's effectiveness in gathering data from the targeted population within CBE Noor branches in Addis Ababa, Ethiopia. The high response rates suggest a good level of interest and cooperation among the staff members and top clients surveyed. This level of participation enhances the reliability and validity of the study's findings, ensuring that the insights gathered from the respondents adequately represent the perspectives and experiences related to monitoring credit activities in interest-free banking.

Furthermore, the uniformity in response rates across most branches reflects consistency in the survey administration and data collection process. However, it is important to note that variations in response rates could influence the generalizability of findings across different branches. Nonetheless, with an overall response rate of 86%, the study can confidently proceed with analysing the collected data to address its research objectives and contribute meaningful insights to the field of interest-free banking and credit monitoring practices. Peninah (2018) states that for a study, a response rate of 50% is sufficient, 60% is good, and 70% or higher is noteworthy. Based on the aforementioned data, an 86% response rate was deemed suitable and consistent for the study. It follows that the study was positively received.

4.3 Respondents' Demographic Characteristics

Respondents' demographic characteristics refer to the profile of participants in a research study, reflecting their background in terms of various demographic variables. These variables typically include age, gender, marital status, educational attainment, occupation, income level, and geographic location (Kothari, 2019). This section presents an overview of the demographic profile of the respondents involved in the study on monitoring credit activities in interest-free banking. The demographic characteristics of the respondents were collected to provide a comprehensive understanding of the sample involved in the study. Key demographic variables analyzed include age distribution, gender distribution, marital status, educational background, and their involvement in credit activities within CBE Noor branches in Addis Ababa, Ethiopia.

Table 4 Respondents Demographic Characteristics (N = 153)

Variable		Count	%
Age	18 – 35	35	22.9
	36 - 45	62	40.5
	46 -55	29	19.0
	Above 56	27	17.6
Gender	Male	72	47.1
	Female	81	52.9
Education	Diploma	6	3.9
	First Degree	83	54.2
	Master’s Degree & above	64	41.8
Income	Below 5000	2	1.3
	5001 – 10000	17	11.1
	10001 – 15000	35	22.9
	Above 15001	99	64.7

Survey Outcome, 2023

The characteristics of the respondents as study participants were considered in this investigation. Regarding the respondents' gender characteristics, this study discovered that 72 (47.1 %) of the sampled male respondents and 81 (52.9 %) of the female respondents who participated in the CBE Noor monitoring activities were included in the male sample, as shown in the above table. The study's conclusions show that the two genders were fairly represented because no gender made up more than two thirds of the sample. As such, the figures indicate a rise in the proportion of males participating in CBE Noor monitoring activities (See Table 4).

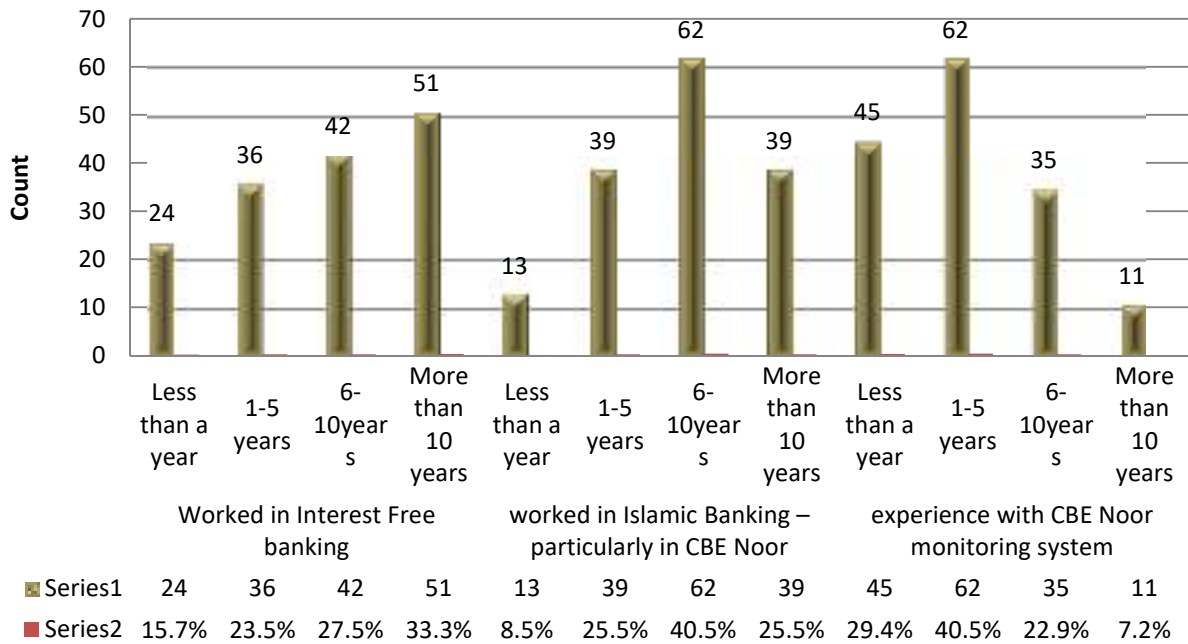
In this assessment, the replies ranged in age from 25 to 55, with 25 being the lowest age. 35 respondents, or 22.9% of the 153 respondents polled for this study on CBE Noor monitoring activities, were between the ages of 18 and 35. It demonstrates that CBE Noor monitoring activities have included young people. Furthermore, it was observed that 40.5 percent (62 respondents) belonged to the 36–45 age group, 19.0 percent (29) to the 46–55 age group, and

17.6 percent (27 persons) of the respondents who fell beyond the age of 56 were included in the study. The results indicate that after turning 18, a greater proportion of adults and youth participate in CBE Noor monitoring activities (See Table 4).

The above table portrays none of the respondents completed high school and below and 3.9 % (6 individuals) of them graduated diploma, 54.2 % (83 individuals) of them completed first degree and 41.8 % (64 individuals) of them completed master's degree & above. The high number of university graduates (more than 95 %) engaging in CBE Noor monitoring activities can be supported by CBE human resource strategy on education training and research. This designates how high level of education is positively contributed for the success of banking activities (Saif et al., 2017) (See Table 4).

Furthermore, as can be seen from the above table, 1.3 % of respondents said that their income was less than Birr 5,000. This indicates that respondents with lower incomes also tend to have less education and participate in CBE Noor monitoring, 22.9 percent of respondents said their income level was between 10,001 and 15,000 Birr, while 11.5% of respondents said their income level was between 5001 and 10,000 Birr. The results indicate that after individuals reach the upper income category, their monthly income increases when they participate in interest free banking activities. This shows that the bulk of survey participants (64.7 %) had monthly salaries above Birr 15,000 (See Table 4).

Overall, assessing respondent profiles is a crucial part of research and monitoring procedures because it offers insightful information about data analysis, evaluation criteria, and the durability of linkages. The study valued the large percentage of responses provided by participants with advanced education.



Survey Outcome, 2023

Figure 2 Working Experience of Respondents

In this assessment, more over half of them have experience working in CBE Noor monitoring, as the accompanying figure (Figure 3) demonstrates. According to this study, 51 respondents, or 33.3%, had worked in interest-free banking for more than ten years; 62 respondents, or 40.5%, had worked in Islamic banking, specifically at CBE Noor, for six to ten years; 40.5% of them had experience with the CBE Noor monitoring system. This suggests that the responders have a good education, a lot of experience working in CBE Noor monitoring, and a thorough understanding of the CBE interest-free banking system (See Figure 23). The study's participant demographic contributed to a varied staff perspective on M&E practice and related challenges. As said by Peninah (2018), the respondents' capacity to understand the survey questions is determined by their working background and length of job experience.

4.4 Response Analysis

This credit monitoring evaluation study presents respondents' opinions about how much they agreed with four different monitoring actions and metrics, as well as several questions. The range or intervals of the measuring scale are used to analyze the data (Senait, 2016). The

following categories applied to the results: 2.51-3.50 average or moderate, 1.51-2.50 fair, 4.51-2.50 exceptional or very good, and 1.0-1.50 poor are the ratings.

4.4.1 Monitoring Clients' Investments

The process of continuously assessing an investment portfolio's performance to make sure it stays in line with an investor's risk tolerance and financial objectives is known as investment monitoring. Among other things, this process involves evaluating asset allocation, risks, and investment returns (Shamsalden et al., 2019). The detailed replies from the questionnaire and interviewees are situated below.

Table 5 Respondents Responses on Monitoring Clients' Investment

Variable		Obs	Mean	Std. Dev.	Min	Max
Item 1	Online Tracking Services	153	2.27451	.9264767	1	4
Item 2	Desktop Apps	153	2.058824	1.059017	1	4
Item 3	Tracks clients' Investment	153	3.96732	1.160866	1	5
Item 4	A detailed standard to	153	3.921569	1.183935	1	5
Item 5	Clear performance measurement	153	3.980392	1.178037	1	5
Item 6	Develops KPI	153	4.137255	1.124247	1	5
Item 7	Output KPIs.	153	4.313725	.7734967	1	5
Item 8	Identifies benefits	153	4.359477	.9148941	1	5
Item 9	Public Awareness	153	4.431373	.6955186	1	5
Item 10	Having Investment Account (IA)	153	4.418301	.7997893	1	5
Overall (aggregate) mean 3.78						

Source; Survey Outcome, STATA, 2023

The grand mean score for the level of client investment monitoring for interest free banking, which was 3.78 and deemed very good, served as the basis for the data analysis (See Table 5). Additionally, displayed in this table is a sample test result for latent variables that showed a greater-than-0.05 result. Thus, it may be said that there is a significant difference in the mean scores of all the hidden variables. It indicates that staff members have a modicum of faith in CBE Noor to periodically rebalance its interest-free investment portfolio, which is significant because it can realign its asset allocation. Asset allocation is subject to change

over time based on the performance of its investments. One of the banking specialists designated that (E1, April 2023)

Our bank uses transaction monitoring to keep an eye on its clients' financial activities for indications of financial crimes such as money laundering and financing of sabotage. But the main obstacles touching the availability of market-based intermediation and products, lack of trained employees and Sheriah scholars, lack of regulatory framework and government support, and inadequate knowledge of and aversion to interest-free banking services and products.

It means this bank would typically seek financial statements to keep tabs on a small private firm; occasionally, it will also request tax returns or other documentation proving the company's trustworthiness. However, the bank frequently only needs confidence and collateral—no financial reporting is necessary. Muhammad (2022) outlines the course of action that Pakistani IBIs take to control the risk associated with counterparties, which eventually lowers the risk associated with credit. To avoid any avoidable counterparty risk, efficient and effective monitoring and fulfilment of these contracts are essential.

Item 1 says CBE Noor use online tracking services like online or email advisors and Brokerages. It has 2.27 mean and it is rated as good and it means online tracking services, such as email advisors and brokerages, are somewhat used by CBE Noor. As stated in item 2, it indicated that CBE uses Desktop Apps for Investment Tracking. It has 2.05 mean and it is rated as good and it means CBE weak on tracking investments via desktop applications (See Table 5). The majority of interview responses indicated that the major online monitoring challenges included high rates of illiteracy, high costs associated with using the Internet, a lack of financial networks connecting various banks, an unreliable power supply, inadequately developed telecommunications infrastructure, low levels of internet penetration, and cybercrime

As mentioned in item 3, CBE uses personal finance apps to track its clients' investments. With a 3.96 mean and a very good rating, it indicates that CBE effectively tracks its clients' investments using personal finance applications. As revealed in item 4, it articulates there is a detailed standard to measure clients' investment in CBE Noor. With a 3.92 mean and a very

good rating, it indicates that client investment in CBE Noor is properly measured according to comprehensive criteria. It is stated in item 5 that CBE Noor has a defined performance measurement system. It is clear from the 3.98 mean and extremely good grade that CBE Noor measures performance quite explicitly (See Table 5). Demez, Ustaoglu, and İncekara (2018) further noted that performance assessment is a difficult task, especially in the banking industry, because of the complexity of the process and the requirement to take a wide variety of factors and variables into consideration.

As shown in item 6, CBE creates KPI systems to track the progress of clients' investments in terms of inputs, activities, outputs, and results. The 4.13 mean makes it evident that CBE develops KPI systems to monitor the progress of its clients' investments in terms of inputs, activities, outputs, and outcomes (See Table 5). As mentioned in item 7, to manage overall policy effects, outputs of Islamic Banking policies will be measured by output KPIs. The 4.31 mean makes it evident that the outputs of Islamic Banking policies are properly measured by output KPIs in order to manage the overall effects of the policies. As revealed in item 8, it articulates CBE identifies the benefits of policies for users and the community. The 4.35 mean makes it evident that the advantages of policies for users and the community are properly identified by CBE (See Table 5).

As item 9 demonstrates, CBE raises public knowledge of Islamic banking monitoring initiatives. The 4.43 mean clearly shows that CBE improves public awareness of Islamic banking monitoring initiatives. Last but not least, as item 10 illustrates, CBE offers Investment Accounts (IAs) that let clients to participate in and split the gains from Shariah-compliant investment operations. The grand mean of 4.418 indicates that CBE's investing accounts (IAs) allow clients to participate in and divide the profits from Shariah-compliant investing activities.

4.4.2 Engagement of Stockholders

A shareholder's primary concern is the project's or company's profitability. The goal of a public corporation's shareholders is for the company to generate large revenues in order to increase dividends and share prices (Neima, 2019). Below are the comprehensive responses to the questionnaire provided by the interviewers.

Table 6 Respondents Responses on Engagement of Stockholders

Variable		Obs	Mean	Std. Dev.	Min	Max
Item 1	The stakeholders are actively involved in credit monitoring in CBE.	153	4.339869	.9470411	1	5
Item 2	CBE's audit committee discusses the listed <i>company's</i> major financial risk exposures.	153	3.764706	1.440782	1	5
Item 3	Stakeholders use technology to review credit monitoring reports in CBE.	153	4.03268	1.035033	1	5
Item 4	Stakeholders' participation helps companies preempt investors initiatives.	153	4.078431	1.315542	1	5
Item 5	Stakeholder's feedback is well captured and analyzed for implementation of Interest Free Banking credit facility of CBE.	153	4.24183	1.070085	1	5
Item 6	Stakeholders' strategy is well developed in Interest Free Banking credit facility system.	153	4.431373	.8252966	2	5
Item 7	Monitoring credits help investors in convincing CBE to support its director nominees by including them in the slate supported by management.	153	4.398693	.6819078	2	5
Grand Mean 4.18						

Source; Survey Outcome, STATA, 2023

The basis for the data analysis was the grand mean score of 4.18, which was considered extremely good, for the level of stockholder participation with interest-free banking (See Table 6). This table also includes an example test result for latent variables that revealed a value that was more than 0.05. The mean scores of all the hidden variables so differ significantly, it can be concluded. It suggests that while the formation of interest-free banking in the nation is a shareholder's top priority, they also closely watch loan activities to ensure profitability. The shareholders of a banking business want high revenue growth so that they can raise dividends and share prices.

The parties who actively participate in credit monitoring in CBE are outlined in item 1. It was as good as its mean of 4.33. It suggests that stakeholders actively participate in CBE credit monitoring. However, Tsion (2017) revealed a number of institutional and operational issues that may be resolved by multiple parties. These issues included a lack of regulatory directives that support the industry, a lack of Shariah advisors, a lack of knowledge, institutional obstacles, and insufficient marketing and promotion.

The listed company's primary financial risk exposures are discussed by the CBE audit committee, according to item number two (Item 2). It was as good as its mean of 3.76. It shows that the CBE audit committee discusses the listed company's primary financial risk exposures. Adherence to the Accord entails the capacity to identify, produce, monitor, and communicate risk-related data in a unified fashion with complete auditability and openness, hence offering the chance to improve banks' risk management procedures. According to Haimanot (2021), banks are required under the New Basel Capital Accord to implement good internal credit risk management procedures in order to evaluate their capital adequacy needs. As per CBE's internal audit protocol, all CBE branches are mandated to submit a report copy and notify the central auditing committee at CBE in advance about the appointed agency responsible for conducting evaluations. According to a CBE representative interviewed for this research (E2, May 2023),

"CBE will receive a copy of the final evaluation report along with a comprehensive plan for corrective actions. The report assesses the conformity of internal audit systems with international standards and evaluates their effectiveness in achieving the bank's objectives."

Furthermore, a recent report published by CBE Annual Report for the year 2022/23 highlighted the importance of robust internal audit frameworks in financial institutions. The report underscored that effective internal audit practices not only ensure compliance with regulatory standards but also enhance operational efficiency and risk management capabilities within banking organizations. This collaborative approach between CBE's internal auditing procedures and external reports supports the findings regarding the rigorous evaluation and corrective measures implemented across CBE branches.

Item 3 indicates that stakeholders at CBE utilize technology to review credit monitoring reports, with a mean score of 4.03, reflecting a positive adoption of technological tools for this purpose. Further analysis reveals that stakeholders at CBE demonstrate a robust utilization of technology for reviewing credit monitoring reports, as evidenced by a mean score of 4.03. This high rating underscores a positive adoption trend among stakeholders towards leveraging technological tools for efficient monitoring and management of credit activities within the organization. This finding aligns with contemporary research emphasizing the transformative impact of technology in enhancing operational transparency, efficiency, and decision-making processes in financial institutions (Senait, 2016). Moreover,

it highlights CBE's proactive approach in integrating digital solutions to streamline credit monitoring practices, thereby optimizing overall performance and regulatory compliance in the banking sector. Previous research has consistently highlighted the significance of raising awareness, particularly in the adoption of self-service technologies, online banking, and internet banking, as crucial factors influencing stakeholders' attitudes (Senait, 2016).

Stakeholders' participation helps companies pre-empt investors' initiatives in CBE are drew in item 4. It was as very good as its mean of 4.07. It suggests that participation from stakeholders enables businesses to anticipate investor efforts. Further analysis reveals that stakeholders' active participation in CBE facilitates the anticipation of investor initiatives, as indicated by a high mean score of 4.07. This finding underscores the significant role played by stakeholders in influencing strategic decisions and preempting investor actions within the organization. Research consistently emphasizes that robust stakeholder engagement fosters transparency, builds trust, and aligns organizational objectives with investor expectations (Senait, 2016). The positive rating of item 4 reflects stakeholders' effective contributions in enhancing CBE's responsiveness to market dynamics and investor sentiments. This proactive engagement not only strengthens stakeholder relationships but also enhances CBE's ability to anticipate and effectively address investor interests and concerns, thereby contributing to sustainable growth and stakeholder value creation. Abu (2023) stated that profit-and-loss sharing is emphasized in Islamic finance as an alternative to interest-based lending. This implies that rather than getting a set rate of return on their investment, lenders and investors participate in the risks and rewards of a business venture.

Further analysis of Item 5 indicates that stakeholders' feedback is meticulously recorded and reviewed to facilitate the implementation of CBE's Interest Free Banking credit facility, achieving a commendable grand mean of 4.07. This high rating underscores the critical importance placed on stakeholder input in shaping and refining the operational framework of the Interest Free Banking initiative at CBE. Effective stakeholder engagement is pivotal in ensuring alignment with market needs, regulatory requirements, and customer expectations (Omar and Kiran, 2018). By systematically gathering and analysing stakeholder feedback, CBE enhances its capacity to tailor its offerings and strategies, thereby optimizing the adoption and success of its Interest Free Banking services. This proactive approach not only strengthens stakeholder relationships but also enhances organizational agility and responsiveness in the dynamic banking landscape of Ethiopia.

Stakeholders' strategy is well developed in Interest Free Banking credit facility system is outlined in item 6. It was as very good as its mean of 4.43. With a mean rating of 4.43, it was considered extremely well (very good). It means the Interest Free Banking credit facility system has a well-developed stakeholder strategy. Finally, item 7 says monitoring credits help investors in convincing CBE to support its director nominees by including them in the slate supported by management. With a mean score of 4.39, it was evaluated as very good. It means investors are more likely to persuade CBE to endorse its director selections by adding monitoring credits to the management-backed slate.

In examining these average figures, the stockholders' strategy item (the majority of people adopt interest-free banking if it is taught as a subject at the college level), the three with the highest mean scores are found as offer Interest-free bank with a return and well perception that interest-free banking. Islamic banking is now viewed as an innovation in the banking industry, one that should be just as competitive as traditional banking, rather than a service only focused on helping the Muslim community achieve its religious obligations (Muhammad et al., 2020). This entails Islamic banks being aware of the actual Islamic Banking Services needs of its stakeholders. The way that customers view Islamic banking matters a great deal more in certain (Naseem et al., 2019). Oleksii et al., (2020) explained that part of the process for figuring out the interaction strategies for businesses and this particular stakeholder type involved testing the bank selection process. The developed ratings of the examined banks show their benefits and drawbacks in accordance with the factors taken into consideration, and they provide Ukrainian businesses with a foundation upon which to build and maintain relationships with certain financial partners.

4.4.3 Supervisory Infrastructure

The banking system that does not employ interest and under this arrangement, banks don't charge interest on loans and don't give a set rate of return on deposits (Peninah, 2018). The thorough answers to the questionnaire that the interviewees supplied are listed below.

Table 7 Respondents Responses on Supervisory Infrastructure

Variable		Obs	Mean	Std. Dev.	Min	Max
Item 1	There is a good supervisor's role and leadership concepts in Interest Free Banking credit facility system of CBE.	153	4.254902	.8470491	1	5
Item 2	CBE understands motivation and supervision in Interest Free Banking credit facility system.	153	4.30719	.8451179	1	5
Item 3	CBE holds better Interest Free Banking service standards.	153	4.248366	.947858	1	5
Item 4	CBE implements Supervisory technology or SupTech that is the use of technology by supervisors to deliver innovative supervisory solutions.	153	4.071895	1.308397	1	5
Item 5	CBE supports clients' via a more effective, flexible and responsive supervisory system.	153	4.287582	1.206742	1	5
Grand Mean 4.23						

Source; Survey Outcome, STATA, 2023

The above table portrays the grand mean for supervisory infrastructure (4.23) was rated as high (See Table 7). This table also shows that one sample test result of latent variables; which exhibited greater than 0.05. So, it can be concluded that the mean scores for all latent variables are significantly different. It means that the respondents hoped that by introducing the theoretical aspects of Islamic banking and placing a strong emphasis on the regulatory and supervisory framework of Ethiopia's interest-free banking industry, they would improve the industry's meager knowledge among its stakeholders, which primarily consisted of government policymakers, regulatory authorities, and the general public. They also hoped to create a favorable environment for future literature exposition and the advancement of Ethiopia's interest-free banking regulatory and supervisory practices.

In this study there is a good supervisor's role and leadership concepts in Interest Free Banking credit facility system of CBE are drawn in item 1. It was as good as its mean of 4.25. It suggests that the Interest Free Banking credit facility system of CBE incorporates strong leadership characteristics and a supervisory role. Certain free interest banking system have

been made available by recently established, Islamic organizations and peer-to-peer networks, which have produced products that straddle the boundary between many regulatory sectors and operate outside of established legal frameworks. This may result in the accumulation of stability, integrity, and consumer protection risks outside the purview of the regulated system. Moreover, regulatory arbitrage can produce an unfair playing field that stifles creativity and competitiveness (Ahroum et al., 2017).

In this study, item number two (Item 2) states that CBE understands motivation and supervision in Interest Free Banking credit facility system. It met or above its 4.30 mean and it was rated as very good. It directs that CBE is aware of the oversight and incentive structures in the context of interest-free banking credit facilities. In banking system, cash bonuses and restricted stock plans are examples of long-term incentive compensation that employees receive upon reaching long-term targets or sticking with the company for a predetermined period of time (Callistus, et al, 2021).

Item 4 articulates CBE implements supervisory technology or Sup Tech that is the use of technology by supervisors to deliver innovative supervisory solutions. It was as good as its mean of 4.07. It shows that CBE uses supervisory technology (Sup Tech), which is the term for supervisors using technology to provide creative supervisory solutions. In this study, item number five (Item 5) states that CBE supports clients via a more effective. The fifth grand mean was 4.28 and it was rated as very good. It advises that CBE provides clients with a supervisory system that is more responsive, adaptable, and efficient (See Table 7).

Further analysis of Item 4 reveals that CBE effectively implements supervisory technology (SupTech), achieving a commendable mean score of 4.07. This indicates that CBE utilizes innovative technological solutions to enhance its supervisory processes, aligning with the global trend of using SupTech to deliver efficient and effective regulatory oversight. The adoption of SupTech enables CBE to leverage advanced tools and platforms for monitoring, analysing, and regulating financial activities, thereby improving compliance and risk management practices.

Moving to Item 5, the analysis shows that CBE provides clients with a highly responsive, adaptable, and efficient supervisory system, as indicated by a notable grand mean of 4.28, rated as very good. This underscores CBE's commitment to enhancing client support through robust supervisory mechanisms that cater to their evolving needs and regulatory

requirements. By offering a proactive and client-centric approach to supervision, CBE not only strengthens client relationships but also enhances operational transparency and regulatory compliance within its Interest Free Banking framework. These findings underscore CBE's strategic emphasis on leveraging technology-driven solutions for effective supervision and client support, aligning with contemporary trends in financial services aimed at enhancing efficiency and stakeholder satisfaction. One of the experts (E1, May 2023) indicted that

Ethiopia has recently started taking action to mandate that non-financial sector companies providing mobile money services establish a separate, specifically regulated company to provide e-money services. CBE facilitates the role in carefully striking a balance between the need to provide proper monitoring the market. The successful development of this bank in the nation was further aided by the existence of a robust and fiercely competitive mobile telecommunications industry, as well as substantial early expenditures in consumer awareness and agent networks.

The study by Callistus et al. (2021) identifies two significant regulatory risks in the financial sector:

Firstly, regulators may lack the authority to fully supervise and regulate institutions that do not possess a license under their jurisdiction. Secondly, in the event of business failures or disorderly market exits by unlicensed institutions, regulators may be unable to provide a safety net to protect customers.

4.4.4 Trailing Provisions

4.4.4.1 Training for Investors and Contents

Training has specific goals of improving one's capability, capacity, productivity and performance (Neima, 2019). The following is a list of the interviewees' comprehensive questionnaire responses.

Table 8 Respondents Responses on Training

Variable		Obs	Mean	Std. Dev.	Min	Max
Item 1	CBE considers credit monitoring characteristics during training.	153	4.326797	1.111128	1	5
Item 2	CBE is frequently organized training beyond induction and orientation.	153	4.320261	1.14509	1	5
Item 3	The training topics covered are relevant to Interest Free Banking Customers	153	4.30719	.7370018	2	5
Item 4	Training programs are designed at level of abilities and education of employees.	153	4.418301	.6550852	2	5
Item 5	Customers always receive updated training which is required for credit monitoring scheme.	153	4.124183	1.071891	1	5
Item 6	The trainers always provide clear instructions for credit monitoring scheme.	153	4.300654	.7529326	2	5
Item 7	CBE always provides sufficient information on credit monitoring training course.	153	4.359477	.6940952	2	5
Item 8	Training evaluation is always conducted to identify potential candidate (Staffs and clients) for current credit monitoring training & future development in CBE.	153	4.352941	.8149151	2	5
Item 9	Credit Monitoring Training evaluation assesses the gap before and after delivery of the training in CBE.	153	4.150327	1.228881	1	5
Item 10	CBE's managers make feedback to improve the effectiveness of the training& development.	153	4.300654	1.130236	1	5
Grand Mean 4.29						

Source; Survey Outcome, STATA, 2023

The purpose of this study was to find out how respondents felt about institutional capacity building for efficient monitoring in interest-free banking. The above table's results demonstrate that all of the mean values were less than or equal to 4.00, indicating that the respondents agreed with the numerous assertions regarding institutional training and its ability to evaluate monitoring in interest-free banking effectively. Similar to this, the standard deviation values were less than two, indicating that respondents' opinions were likely to be similar. This is a tiny standard deviation. The mean score of 4.29 was classified as very nice or agreeable. It meant that the interest-free banking, knowledge acquisition, and explanation

of its operations provided are founded on the most recent trainings. According to one manager, (M1, May 2023)

In order to provide Islamic window services, CBE must establish a consulting council of specialists that will oversee and plan the bank's operations in accordance with the best practices and guiding principles of Islamic finance. From a human resources standpoint, traditional banks that wish to create an interest-free counter must hire knowledgeable staff members and provide on-going training to current staff members on interest-free banking procedures.

As a result, this study found that the Federal Government can simply extend the Sharia courts' authority to cover interest-free banking transactions. Of course, before and after the court's authority is expanded, consideration must also be given to the judges of the Sharia court receiving both short-term and on-going training as well as experience-sharing forums. But according to one customer, (C1, May 2023)

CBE's practice in this regard is that the unique risks of window operation that could be addressed by standard supervisory precedents might not be avoided until the necessary standard supervisory arrangements are made because the inspection, whether it be on-site or off-site, is being carried out by the same supervising department whose examiners have no special training or experience in the standards of supervision of interest-free banking.

In order for the current banking supervision department of the NBE to meet the specific supervisory requirements of the industry, Alyu (2016) stated that banks must regularly attend trainings and workshops regarding the international supervisory standards of interest-free banking. This applies to both conventional and interest-free banking. On other hand, Item 1 stated about CBE considers credit monitoring characteristics during training; item two (2) stated as CBE is frequently organized training beyond induction and orientation and Finally item 3 said stated that the training topics covered are relevant to Interest Free Banking Customers. The three means indicated above 4.30 and they showed that they were rated as very good. During training, CBE takes credit monitoring features into account. CBE is frequently organized training beyond induction and orientation. Customers of Interest-Free Banking can benefit from the training subjects presented.

Item 4 is the largest mean of all the ten items. It was questioned as training programs are designed at level of abilities and education of employees with mean score of 4.418. The lowest mean was scored as 4.12 of the values of Item 5. It means training plans are created with employees' skill levels and educational backgrounds in mind. This item contained the question as customers always receive updated training which is required for credit monitoring scheme. It means customers always receive updated training which is essential for credit monitoring plan.

In this study, from Item 6 to 10 five questions are indicated. There area: the trainers always provide clear instructions for credit monitoring scheme as Item 6 with mean 4.30. It means CBE regularly provides sufficient information on credit monitoring training courses. Item 7 (mean =4.35) indicated CBE always provides sufficient information on credit monitoring training course. It shows every training evaluation is conducted to identify potential candidates (employees and clients) for on-going credit monitoring instruction and future CBE development.

Training evaluation is always conducted to identify potential candidate (Staffs and clients) for current credit monitoring training & future development in CBE is outlined in Item 8 with mean 4.35. Item 9 (mean =4.15) also stated that credit Monitoring Training evaluation assesses the gap before and after delivery of the training in CBE. It shows the duration between the training's delivery and CBE completion is measured in the credit monitoring training evaluation. Finally, CBE's managers make feedback to improve the effectiveness of the training& development (mean =4.30). The mean scores for the five items were rated as very good. It means thee managers at CBE offer feedback to improve the effectiveness of the program for training and development.

These mean for the credit monitoring program; the trainers constantly give precise instructions. CBE consistently offers adequate details about credit monitoring training programs. Training evaluation is always undertaken to discover possible candidate (Staffs and clients) for current credit monitoring training & future development in CBE. The evaluation of Credit Monitoring Training measures the time interval between the training's delivery and completion in CBE. The managers at CBE provide comments to enhance the training and development program's efficacy.

4.4.4.2 Training Availability for experts and trained personnel

Training is the process of imparting knowledge, skills, and fitness related to particular practical competencies to oneself or others. (Neima, 2019). The complete questionnaire answers from the interviewees are listed below.

Table 9 Respondents Responses on Provision of Training Availability of sufficient Interest-free banking experts and trained personnel

Variable		Obs	Mean	Std. Dev.	Min	Max
Item 1	CBE has sufficient experts to hand credit monitoring at headquarter level.	153	4.27451	.9544583	1	5
Item 2	CBE has trained adequate experts for Interest Free banking Monitoring scheme at headquarter.	153	3.751634	1.456749	1	5
Item 3	There are sufficient Interest-free banking experts at branch level.	153	4.078431	1.029368	1	5
Item 4	CBE has trained adequate experts for Interest Free banking Monitoring scheme at branch level.	153	4.24183	1.224885	1	5
Item 5	CBE has sufficient credit monitoring advisors at headquarter level.	153	4.254902	1.126998	1	5
Item 6	CBE has sufficient credit monitoring advisors at branch level.	153	4.48366	.8515047	2	5
Grand Mean 4.18						

Source; Survey Outcome, STATA, 2023

The grand mean for training availability of enough interest-free banking specialists and trained individuals (4.18) was assessed as high in the above table. Additionally, displayed in this table is a sample test result for latent variables that showed a greater-than-0.05 result. Thus, it may be said that there is a significant difference in the mean scores of all the hidden variables. It indicates that enough people who are actively participating in credit monitoring have access to training. It shows how it improves efficiency in terms of money, time, and the sustainability of interest-free banking.

In detail, item one (1) says CBE has sufficient experts to hand credit monitoring at headquarter level with 4.27 mean score. It shows there are enough experts at CBE to handle credit monitoring at the corporate level. Item two (2) explains CBE has trained adequate experts for Interest Free banking Monitoring scheme at headquarter with 3.75. It means CBE has sufficient experts trained for the Interest-Free Banking Monitoring Scheme at its headquarters. On other hand, Item 3 explains there are sufficient Interest-free banking experts at branch level with mean 4.07. It shows there is enough expertise in interest-free banking at the branch level. Additionally, a manager (M3, May 2023) said that

The CBE Noor, along with locally strong technology and finance skills, readily available venture funding, and an environment ripe for disruption due to lack of access to finance and slow and burdensome traditional financial service providers, have all contributed to the recent proliferation of CBE start-ups in Ethiopia

Item 4 clarifies CBE has trained adequate experts for Interest Free banking Monitoring scheme at branch level. Its mean 4.24 was rated as very good. It shows CBE has provided sufficient expert training for the branch-level Interest Free Banking Monitoring program. Item five (5) says CBE has sufficient credit monitoring advisors at headquarter level. It shows CBE has an adequate number of credit monitoring advisors at the head office level. Additionally, a manager (M3) said that

CBE has sufficient credit monitoring advisors at branch level. It shows CBE has enough credit monitoring advisors at the branch level. A few of these businesses have grown quickly and are now market leaders in their respective industries. Applications including as insurance, alternative lending, and mobile wallets are prominent.

Furthermore, a manager (M3, May 2023) mentioned that

It has been almost five years since Ethiopian banks were granted permission to offer interest-free banking services by creating special windows within their traditional branches. Since then, a few banks have started offering the service, and others have plans to start doing so.

In this short time, the public's acceptance of the service is positive. Therefore, it is the duty of all pertinent banking industry stakeholders to increase services in response to public demand

(Senait, 2016). The development of knowledge capacity is crucial to the successful implementation of IFB.

4.5 Discussion

Monitoring Clients' Investments Activities

This study discovered that the level of monitoring of client investments in interest-free banking was considered very well. This monitoring allows for periodic adjustments to the investment portfolio, which is significant in managing risk. The study found that online tracking services were rated positively, with a mean score of 2.27. The use of desktop apps for investment tracking received a lower rating, indicating that CBE is not strong in this area (Mean = 2.05). However, the identification of benefits for users and the community received a very good rating (mean = 4.35). The highest rating (mean = 4.43) shows that CBE effectively increases public knowledge of Islamic banking monitoring efforts. Muhammad (2022) explains the actions taken by Pakistani interest-free banking institutions to control counterparty risk and reduce credit risk. Consumer Empowerment and Market Conduct (CEMC) (2017) stated that we are witnessing the rise of inclusive finance as a result of the quick development of digital financial services (DFS) worldwide. As seen by one manager (M2, May 2024),

Policymakers and regulators are realizing the significance of digital financial services for financial inclusion. Digital financial services, along with effective supervision (which may be digitally enabled), are essential to close the remaining gaps in financial inclusion, even though tremendous gains in financial inclusion have already been achieved.

Sophisticated oversight of digital credit models and loan portfolios will be important to prevent prudential hazards and market saturation. Haimanot (2021) revealed that only in cases where a regulated institution is a part of the business model do regulators obtain and track levels of indebtedness.

Engagement of Stockholders

The data analysis was based on the average score of 4.18, which was considered highly favourable, for stockholders' involvement in interest-free banking. This suggests that stockholders prioritize the establishment of interest-free banking but also pay close attention to loan activities to ensure profitability. The audit committee of the listed company

extensively discusses its primary financial risks, as indicated by its high score. The strategy for the Interest Free Banking credit facility system is well developed and highly rated at 4.43. This study also found that monitoring credits greatly benefits investors in gaining support from the management for their director nominees. According to Haimanot (2021), banks are required to implement effective internal credit risk management procedures to assess their capital adequacy effectively.

Supervisory Infrastructure

The study found that the overall rating for supervisory infrastructure in the interest-free banking industry in Ethiopia was high. The study also found that the Commercial Bank of Ethiopia (CBE) understands motivation and supervision in the interest-free banking credit facility system, with a high rating of 4.30. This indicates that CBE is aware of oversight and incentive structures in this context. Islamic banking is prohibited from handling transactions involving interest or *riba* (an increase specified or requested over the principal of a loan or debt) under Islamic Shariah. Additionally, they are unable to deal with any deals involving *Maiser* or *Gharar* (Alyu, 2016). In general, "Islamic economics" refers to a comprehensive framework that mandates particular social and economic conduct patterns for every person. Property rights, the incentive system, resource distribution, forms of economic freedom, the framework for making economic decisions, and the appropriate role of the government are just a few of the many topics it addresses (Senait, 2016).

Additionally, the study found that CBE provides strong support to clients, with a rating of 4.28. This suggests that CBE offers clients a supervisory system that is responsive, adaptable, and efficient. This suggests that respondents believed that by introducing theoretical aspects of Islamic banking and focusing on regulatory and supervisory frameworks, they could improve the industry's knowledge among stakeholders such as government policymakers, regulatory authorities, and the general public (Muhammad, 2022). The primary goal of banking supervision is to protect the stability of the financial system to avoid major shocks or even the collapse of the banking sector, which plays a crucial role in the economy (Abu, 2023). The cycle has the benefit of integrating the management, support, development, and mediation aspects of supervision. The cycle encourages cooperation between the supervisee and the supervisor during the following four phases (Rizwana et al., 2023).

Trailing Provisions

Training for Investors and Contents

This study aimed to determine people's opinions on the effectiveness of capacity building in interest-free banking. The average score of 4.29 was considered to be very positive; indicating that the training provided for interest-free banking is up-to-date. The highest mean score of 4.418 indicated that training programs are tailored to employees' abilities and education. The lowest mean score of 4.12 suggested that training plans consider employees' skill levels and educational backgrounds. This question also indicated that customers always receive updated training for credit monitoring, which is important for the credit monitoring plan (Abdel, 2017). Another study suggests that banks should establish a council of specialists to ensure that their operations align with Islamic finance principles (Abu, 2023).

Training Availability for experts and trained personnel

The study shows that there is a high availability of trained individuals for interest-free banking monitoring. The study found that the CBE has highly trained experts for this scheme at their headquarters. They also have enough credit monitoring advisors at both the headquarters and branch levels. This shows that the banks have efficient in terms of time and money and ensures the sustainability of interest-free banking (Muhammad, 2022). Overall, the banks have enough trained experts for monitoring at their headquarter (Haimanot, 2021).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of the study was to evaluate the interest-free banking credit monitoring activities at CBE Noor in Ethiopia. This chapter provides a succinct overview of the study's main conclusions, suggestions, and findings. The recommendations came from a discussion of the study's findings and conclusion, which is closely related to the research objectives. The chapter also includes directed studies that will be funded in the future to expand the amount of data in this specific area.

5.2 Summary of Key Findings

The act of viewing something, sometimes with the intention of recording it, is known as monitoring. As an example, "the monitoring of enemy communications plays an important role in war times." The study's main goal was to assess CBE Noor in Ethiopia's interest-free banking credit monitoring program. Both descriptive research designs were applied in this study. Those that answered the questionnaire on behalf of their organization made up the sample. This investigation discovered that

Monitoring clients' investments in various businesses of Interest Free Banking in case of CBE Noor

- According to this study, there is excellent client investment monitoring in interest-free banking. While PC software for tracking investments received lower scores, online tracking services were rated favourably. On the other hand, the identification of community and user advantages was highly rated. The study also discovered that CBE successfully raises public awareness of initiatives to monitor Islamic banks.

Stakeholders' engagement in monitoring credit activities of Interest Free Banking in case of CBE Noor

- The study discovered that investors prioritize the development of interest-free banking and have a positive opinion of it. To maintain profitability, they also keep an eye on loan activities. Financial hazards are a topic that the listed company's audit committee addresses in great detail. The Interest Free Banking credit facility system has a highly

regarded and well-developed approach. Furthermore, keeping an eye on credits aids investors in getting management to endorse their director nominees.

Supervisory Infrastructure in Interest Free Banking in case of CBE Noor

- A study conducted in Ethiopia found that the supervisory infrastructure in the interest-free banking industry is highly rated. Specifically, the Commercial Bank of Ethiopia (CBE) has a strong understanding of motivation and supervision in the interest-free banking credit facility system, with a high rating. Furthermore, CBE is known for providing strong support to clients.

Trailing Provisions in Interest Free Banking in case of CBE Noor

- The overall average score of 4.29 indicated a highly positive opinion, suggesting that the training provided in this area is current. The highest mean score of 4.418 indicated that training programs are customized according to employees' capabilities and education. On the other hand, the lowest mean score of 4.12 suggested that training plans consider employees' skill levels and educational backgrounds. The study found that there are plenty of well-trained individuals available to monitor interest-free banking.

5.3 Conclusions

This study provides a contextualization of interest-free banking monitoring as a performance management and measuring tool for CBE Noor. It examined how monitoring could be used to facilitate policy, increase stakeholder involvement once policies were adopted and integrated to improve the efficiency of the banking process through monitoring. The level of client investment monitoring in interest-free banking was found to be highly regarded in this study's conclusion, although there was a lesser inclination for desktop apps and internet tracking services.

It is well established that policymaking benefits from monitoring and evaluation, and that stakeholders must be led by professionalism and ethics when conducting monitoring and evaluation of the construction process and related industry operations. Monitoring facilities are efficiently managed by organizations. The study's conclusion is that investors prioritize the implementation of interest-free banking in CBE Noor and have a positive opinion of it.

Increased monitoring and assessment is used in all credit and banking activities as a performance management tool. The supervisory framework in the interest-free banking sector

is therefore highly evaluated, according to the study's findings. In particular, the highly rated Commercial Bank of Ethiopia (CBE) possesses a solid grasp of oversight and incentive within the context of interest-free banking credit facilities. Moreover, CBE is renowned for offering its clients robust assistance.

In the end, it was decided that a provider of capacity building may help the overall development of the banking activities by conducting activities (such training or mentorship). This study concluded that, in the case of CBE Noor, trailing provisions in interest-free banking showed a very favorable opinion.

5.4 Recommendations

In general, the increasing diversity of financial services providers' business strategies necessitates deeper and closer coordination and collaboration between the various market authorities. To reduce the growing risks in the field of digital finance, interagency collaboration is crucial for the behavior of business supervisors, prudential supervisors, payment systems regulators, and other pertinent bodies both domestically and internationally. This study generally study suggests that CBE must collaborate with central banking regulators in certain markets.

- The study suggests that monitoring is often tied to nominal compliance with reporting clients' investment requirements, rather than responding to the underlying performance revealed by monitoring. CBE should not link monitoring to nominal compliance but should broadly support evidence-based decision-making and monitoring data should be used to inform choices in the different stages of planning and public service delivery.
- The study findings revealed that for monitoring processes to function properly clients' investment and it requires government or policy makers and management support as a mediating factor for an interest free banking activities to succeed. The study recommends government or policy makers and management should give their support to all levels of regulatory and beneficiaries for free banking activities to succeed.
- CBE's interest free banking should ensure that monitoring is well located in the participation of stockholders. Monitoring should mediate banking policy process by producing valid evidence for policy decisions, thereby ensuring greater objectivity

and transparency. There is need for stronger coordination to ensure that monitoring helps to guide CBE's actions toward greater effectiveness.

- This study suggests that CBE should use online or digital or desktop management technologies that are facilitating monitoring in any interest free banking activities or environments are the use of digital information system, business information systems and financial artificial intelligence. Resources used for activities monitoring should always be directed toward the appropriate goal. A reasonable estimate should always be used for monitoring operations.
- This study suggests that CBE should ensure that there is proper source of funding for monitoring outcomes. In order to build an adequate supply of human resource capacity; proper training to motivate and enhance staff commitment, technical capacity, and experience for monitoring staff should never be compromised.
- The study endorses that governmental and private financial agencies should invest more in training of their staffs to empower them to be efficient in monitoring processes. The study commends that monitoring should be a non-stop undertaking that uses methodical gathering of information to give administration and the fundamental partners of a continuous improvement intercession.

5.5 Implications of Stakeholders

It became clear that effective stakeholder coordination, the supply of leadership abilities, participant monitoring and feedback, and improved decision-making were necessary for the implementation of interest-free banking activities. Employees and other relevant parties should be inspired to have a positive mindset so they can handle the difficulties that come with implementing interest-free banking practices. Three essential performance factors must be met for an interest-free banking operation to be considered successful. Monitoring is a popular technique in community development projects and financial sector management since it enables the community to determine whether or not the appropriate actions are being taken towards the achievement of their goals and objectives. In monitoring, participants in a program or intervention jointly define the evaluation topics, gather and analyze data, and take appropriate action based on their leanings. Monitoring is a process of self-evaluation, knowledge development, and collective action. Efficient integration monitoring techniques are essential given the substantial resources donated by donor agencies.

5.6 Future Studies

Future research can concentrate on variables influencing the adoption of interest-free banking in other financial products. Further researches may focus on the effects of capital resources on credit management, investment funds, corruption, and training, as well as how these factors affect the successful and efficient implementation of interest-free banking in different places or regions, is also crucial. In order to adopt Interest Free Banking in Ethiopia, future research is needed to build a technique for an extensive risk assessment for Islamic banks.

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ANNEX

Appendix I - Questionnaire

Addis Ababa University
School of Postgraduate Studies
To be filled by Employees and Top Clients

Dear Sir/Madam

Greetings, welcome!

I am Temkina Temam, a graduate student in the Master of Business Administrations in Finance program at Addis Ababa University. I am presently working on my thesis, which is titled "An Assessment of Credit Monitoring Activities on Interest Free Banking: A Case Study on CBE Noor." Thus, your assistance is what enables me to meet the goals of the research.

As a result, I kindly ask that you share your expertise and experience. It will take you about twenty minutes to finish this questionnaire. During our conversation, I want to reassure you that whatever information you choose to provide will remain private and used solely for educational purposes. Additionally, if the questions make you uncomfortable, you have the choice to refuse to answer and to end the conversation.

Here, I respectfully ask that you respond to every question in an honest and sincere manner, as doing so will ensure the success of the research. The project management department at St. Mary's University will receive a presentation and report on the study's findings.

Thank You in advance for your cooperation!

Temkina Temam

Phone Number: +251911157929

Email: temku.15@gmail.com

(If you inquire any clarification and/or support please use this contact detail).

Part 1: General information

Direction: Please put (x) in the box for your appropriate answer.

1. Age

	18 – 35	<input type="radio"/>	36 - 45	<input type="radio"/>	46 -55	<input type="radio"/>	Above 56	<input type="radio"/>
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2. Gender

	Male	<input type="radio"/>	Female	<input type="radio"/>				
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3. Education Level

	High School and below	<input type="radio"/>	Diploma	<input type="radio"/>	First Degree	<input type="radio"/>	Master's Degree & above	<input type="radio"/>
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4. Monthly Income

	Below 5,000	<input type="radio"/>	5,001 – 10,000	<input type="radio"/>	10,001 – 15,000	<input type="radio"/>	Above 15,001	<input type="radio"/>
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5. How long have you worked in Interest Free banking?

	Less than a year	<input type="radio"/>	1-5 years	<input type="radio"/>	6- 10years	<input type="radio"/>	More than 10 years	<input type="radio"/>
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6. How long have you worked in Islamic Banking – particularly in CBE Noor?

	Less than a year	<input type="radio"/>	1-5 years	<input type="radio"/>	6- 10years	<input type="radio"/>	More than 10 years	<input type="radio"/>
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7. What is your experience with CBE Noor monitoring system?

	Less than a year	<input type="radio"/>	1-5 years	<input type="radio"/>	6- 10years	<input type="radio"/>	More than 10 years	<input type="radio"/>
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Part 2: Monitoring Practices of Credit Activities

Instructions: - Read each sentence and indicate your degree of agreement by selecting \surd next to each one, with 1 denoting strongly disagree (SD), 2 disagree (D), 3 neutral (N), 4 agree (A), and 5 strongly agree (SA).

Code	Items	Measurement				
		1	2	3	4	5
Monitoring Clients' Investments						
MCI1	CBE Noor utilizes online tracking services such as online or email advisors and brokerages for managing investments.					
MCI2	CBE Noor employ desktop applications for tracking investments					
MCI3	CBE Noor utilize personal finance apps to monitor clients' investments					
MCI4	There is a detailed standard in place at CBE Noor to measure clients' investments effectively.					
MCI5	There is a clear performance measurement at CBE Noor.					
MCI6	CBE develops KPI system to monitor the clients' investment progress with respect to inputs, activities, outputs, and outcomes.					
MCI7	To manage overall policy effects, outputs of Islamic Banking policies will be measured by output KPIs.					
MCI8	CBE identifies the benefits of policies for users and the community.					
MCI9	CBE improves public awareness about monitoring activities in Islamic Banking.					
MCI10	CBE has Investment Account (IA) that provides clients' the opportunity to invest in and share the profits from Shariah-compliant investment activities.					
Engagement of Stakeholders (stockholders include depositors, investors, customers, sharia supervisory board, management and employees, regulatory authorities, community and society and shareholders:						
ES1	The stakeholders are actively involved in credit monitoring in CBE.					
ES2	CBE's audit committee discusses the listed <i>company's</i> major financial					

	risk exposures.					
ES3	Stakeholders use technology to review credit monitoring reports in CBE.					
ES4	Stakeholders' participation helps companies preempt investors initiatives.					
ES5	Stakeholder's feedback is well captured and analyzed for implementation of Interest Free Banking credit facility of CBE.					
ES6	Stakeholders' strategy is well developed in Interest Free Banking credit facility system.					
ES7	Monitoring credits help investors in convincing CBE to support its director nominees by including them in the slate supported by management.					
Supervisory Infrastructure						
SI1	There is a good supervisor's role and leadership concepts in Interest Free Banking credit facility system of CBE.					
SI2	CBE understands motivation and supervision in Interest Free Banking credit facility system.					
SI3	CBE holds better Interest Free Banking service standards.					
SI4	CBE implements Supervisory technology or SupTech that is the use of technology by supervisors to deliver innovative supervisory solutions.					
SI5	CBE supports clients' via a more effective, flexible and responsive supervisory system.					
Provision of Training						
PT1	CBE considers credit monitoring characteristics during training.					
PT2	CBE is frequently organized training beyond induction and orientation.					
PT3	The training topics covered are relevant to Interest Free Banking Customers					
PT4	Training programs are designed at level of abilities and education of					

	employees.					
PT5	Customers always receive updated training which is required for credit monitoring scheme.					
PT6	The trainers always provide clear instructions for credit monitoring scheme.					
PT7	CBE always provides sufficient information on credit monitoring training course.					
PT8	Training evaluation is always conducted to identify potential candidate (Staffs and clients) for current credit monitoring training & future development in CBE.					
PT9	Credit Monitoring Training evaluation assesses the gap before and after delivery of the training in CBE.					
PT10	CBE's managers make feedback to improve the effectiveness of the training& development.					
Availability of sufficient Interest-free banking experts and trained personnel						
ASE1	CBE has sufficient experts to hand credit monitoring at headquarter level.					
ASE2	CBE has trained adequate experts for Interest Free banking Monitoring scheme at headquarter.					
ASE3	There are sufficient Interest-free banking experts at branch level.					
ASE4	CBE has trained adequate experts for Interest Free banking Monitoring scheme at branch level.					
ASE5	CBE has sufficient credit monitoring advisors at headquarter level.					
ASE6	CBE has sufficient credit monitoring advisors at branch level.					

- (i) Briefly share your experience on how monitoring credit activities was conducted in the Islamic Banking activities you have conducted. How did the credit monitoring stimulus the practices of credit risk management? Please give details?

(ii) Please identify stakeholders' engagement and availability of sufficient exports and trainings in CBE.

Thank You!

Appendix II Interview Check List

I am Temkina Temam, a student of Addis Ababa University. I am conducting an academic research on monitoring credit activities in Interest Free banking in CBE. I have few questions monitoring system in Interest Free banking.

Can I proceed? Thank you!

1. What is the level of the monitoring system in relation to credit risk management activities in *Interest Free banking*?

2. What is the role of monitoring system in *Interest Free banking credit* management of process in case of CBE Noor?

3. What are the power of training; skilled personnel and engaging stakeholders under credit monitoring activities *Interest Free banking* in Addis Ababa?

Thank You!