



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**Challenges and Opportunities of Interest-Free Banking in Ethiopia: The
Case of ZamZam Bank S.C**

A research project submitted to department of accounting and finance for the fulfillment of the requirement of the degree of Master of Science in Accounting and Auditing

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DECLARATION

I, the undersigned, hereby declare that the research titled "Challenges and Opportunities of Interest-Free Banking: In Case of ZamZam Bank S.C." is original work, has not previously been submitted for a degree at any other university, and has properly cited all sources of information used in the research.

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STATEMENT OF CERTIFICATION

This is to certify that the research project prepared by Abdulsemed Berta, entitled "Challenges and Opportunities of Interest-Free Banking in the Case of ZamZam Bank S.C.," submitted in partial fulfillment of the requirements for the Degree of Master of Accounting and Auditing, complies with university standards for originality and quality.

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LIST OF ACRONYMS/ABBREVIATIONS

IFB: Interest Free Banking

NBE: National Bank of Ethiopia

ABSTRACT

A descriptive study was conducted on ZamZam Bank S.C. in order to analyze the challenges and opportunities related to operating fully interest-free banking in this situation, Directors, managers, officers, and other ZamZam Bank S.C, stakeholders made up the population of this study. Data were collected from a total of 38 respondents using structured questionnaires that were given to the Bank and completed by bank employees and stakeholders of ZamZam Bank who were aware of the interest-free banking operation. The findings showed that, lack of IFB operation specialists, lack of customer awareness of IFB services, and the necessity for special legislation were the primary problems facing IFB. On the other hand, IFB providers who would use customer satisfaction as their area of competence in providing IFB services were thought to still have a significant untapped market in Ethiopia. Other possible chances were global trends, Ethiopia's economic expansion, and investment opportunities. The findings suggest that the advantages of interest-free banking exceed the drawbacks both at ZamZam Bank specifically and throughout Ethiopia generally. Several recommendations were made in relation to the study's findings; Revenue authority should consider taxation issues regarding IFB financing products, adequate IFB products and services promotions to public, National Bank should take some special considerations in policy making regards to IFB operations and adequate training campaigns should undertake from the Bank.

Key word: Interest free banking, opportunities, challenges, Shariah compliance.

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

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

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

Interest Free Banking and finance in Africa

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

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

African governments are expected to conduct reviews of the insurance and capital markets, which is advantageous for Islamic financing. It is reassuring to see several African countries, such as South Africa and Nigeria, presenting themselves as the continent's hubs for Islamic banking. There are several options that may be utilized. However, there are a number of threats and challenges to the growth of Islamic finance in Africa, including the following: -

Banking and financial authorities are unable to get more familiar with the concepts, practices, and unique supervisory and regulatory needs of Islamic finance due to a lack of qualified/skilled personnel.

Lack of infrastructure, such as an Islamic money market to enable the Islamic banking system maintain liquidity, as well as takaful (Islamic insurance) to preserve Islamic Bank investments

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

Interest-free Banking in Ethiopia

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

Background of the Organization

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

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

1.2 Statement of the Problem

Despite the fact that there is many research on the important elements of Islamic banking (interest-free) in established and emerging market countries. Ethiopia is the only place where it exists; hence the concept has not yet been fully researched. Mohammed 2012 examined the Prospects, Opportunities, and Challenges of Islamic Banking in Ethiopia as one of this research. In his findings, he discusses possible challenges like a lack of information, regulatory, supervisory, and institutional challenges, an insufficient support, a gap in development and research in Islamic studies, a lack of qualified manpower, and inappropriate association with particular religious group and international terrorism, but this study was carried out before the study of Islamic banking got started. Debebe (2015) examined the variables affecting IFB users in Ethiopia and found that every IFB user there was a Muslim. It is clear that the absence of banks that can appropriately service Ethiopia's Muslim community hinders both the development of Muslim-populated areas specifically and the nation's economy generally.

The current problem is not immediately addressed by this study because it focuses on effect evaluation of IFB usage attitudes. Research by (Akmel, 2015) contrasts the "challenges and opportunities of Islamic Banking for resource mobilization in Ethiopian commercial Banks." Only the possibilities and difficulties connected to resource mobilization are sufficiently covered by the research, leaving out all other opportunities and challenges.

Because of this, a sizable number of potential Muslim customers refrain from using the nation's present conventional banks because they feel doing so would go against their

religious convictions. Since full-fledged Interest-free Banking is a novel idea for the economy, society, and even business experts, it's critical to take into account how people feel about the products and services it offers. Studies show that the conventional sector now in operation is not meeting the needs of the majority of people who are related to their interest in outlawing religion, which is why the issue is considered as being so crucial. By looking at the prospects and problems facing the Islamic Banking Establishment from the perspective of a full-fledged IFB service provider, this study aims to close the aforementioned research gap. Given that Islamic banking plays a role in the business world at large, my motive for conducting this study was a desire to determine whether so-called full-fledged interest-free banking is a realistic alternative package in Ethiopia for the banking industry given all potential challenges.

1.3 Research Questions

The following are the research's sub-questions:

What is the current status of full-fledged Islamic Banking services in Ethiopia?

What are the opportunities that ZamZam Bank S.C has as a full-fledged Interest-free Bank in Ethiopia?

What are the challenges that ZamZam Bank and its customers could face in delivering Banking services?

1.4. Objectives of the study

1.4.1. General Objective

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

1.4.2. Specific Objectives

The specific objectives of the project study are as follows:

To assess the current status of full-fledged Islamic Banking services in Ethiopia.

To evaluate the opportunities that ZamZam Bank has as a full-fledged interest-free Bank in Ethiopia.

To assess the challenges that ZamZam Bank and its customers could face in delivering Banking services.

1.5 Significance of the study

This study addressed the opportunities and challenges of a full-fledged IFB from perspective of the service providers. Therefore, it is anticipated that this study would close that informational gap by providing firsthand data on such a significant subject.

It is anticipated to provide a theoretical and practical contribution. The results of this study cover a significant gap in the literature, which should theoretically help other interested researchers and serve as reference material. The researcher, as well as bank stakeholders (both conventional and Islamic Banks), bank policy, and decision-makers, have the opportunity to learn about and gain practical experience through this study in

order to identify and comprehend the challenges and significance of Full-fledged interest-free banking services. Additionally, the study's findings would be helpful by presenting case-specific bits of information about the likely circumstances experienced by Ethiopian Islamic Banks that are providing full-fledged interest-free banking services.

1.6 Scope of the study

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

1.7. Limitation of the Study

This study focused on finding the existing situation of full-fledged interest-free Bank operating in Addis Ababa, Ethiopia. Information were collected from headquarter of ZamZam Bank S.C. The study conducted from the service provider's point of view its analysis is limited to describing the existing situation related to full-fledged IFB services and products.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

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

2.1. Banking History in Ethiopia

Emperor Minilik II and Mr. Gill signed an agreement in 1905 that allowed the introduction of modern Banking in Ethiopia. Following the agreement, the Emperor created the First Bank, the On February 16, 1906, The Bank was totally managed by the Egyptian National Bank, within the first fifteen years of its operation, the Bank of Abyssinia opened branches in different areas of the country. In 1906, a branch was established in Harar, in Eastern Ethiopia, at the same time as the Bank of Abyssinia was established in Addis Abeba. A second one was opened in Dire Dawa two years later, as well as at Gore in 1912, at Dessie, and in Djibouti in 1920. The Bank of Egypt's envoy and negotiator at the time, Mac Gillivray, was chosen to lead the new bank as its governor. From 1919 until the Bank's collapse in 1931, he was replaced as governor by H Goldie, Miles Backhouse, and CS Collier. (NBE, 2001).

In January 1964, the Ethiopian National Bank was established with more authority and responsibilities. The Commercial Bank of Ethiopia took over the commercial Banking activities of the old State Bank of Ethiopia after its merger as a share company on December 16, 1963, as per decree No.207/1955 of October 1963. With a capital of Eth. Birr 20 million, it began operations on January 1, 1964. Unlike the prior State Bank of Ethiopia, the new Commercial Bank of Ethiopia employed only Ethiopians (NBE, 2008).

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

The regulatory framework for banking investment was established by the Monetary and Banking Proclamation No. 83/1994 and the Licensing and Supervision of Banking Business No. 84/1994. As a consequence, 486 owners founded Awash International Bank, the country's first private bank, in 1994. By 1998, the bank's authorized capital had reached Birr 50.0 million. On September 20, 1995, Dashen Bank was established as a

share corporation with Birr 50.0 million in authorized and subscribed capital. Bank of Abyssinia, another private bank, was founded by 131 owners with subscribed and authorized capital of \$25,000,000 and \$50,000,000, respectively. In 1997, Wegagan Bank began operations with birr 60.0 million in authorized capital. The fifth private bank is United Bank.

2.2. Islamic Finance/Islamic Banking

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

Varied academics have different interpretations of the term "Islamic Banking." By advancing Islamic economics, it implies to a banking system that upholds the fundamentals of Islamic law (Sharia) and puts them into effect. This Islamic law (Sharia) prohibits paying interest for the rental of money (Riba, usury) for specific terms, as well as investing in businesses that provide goods or services that are believed to be contrary to its ideals. (Abdul-Rahman ,2010) claims that Islamic Banking is described as traditional Banking without the word "interest" and with a new contract that does not include the word "interest" and is structured in a complicated version of buy/sell, in which the seller transfers ownership to the Bank, which then sells it to the eventual buyer. According to (Rajan,2011), Islamic Banking entails mobilizing funds through noninterest-bearing deposits and investment deposits based on "profit-sharing and loss-bearing" contracts and then channeling these funds to finance permissible (under Shariah

law) investment activities through various types of Islamic finance contracts. According author, Islamic Banking is a type of Banking that is socially responsible and community-based in ethos.

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

2.3 Riba's description (Interest)

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

As a result, riba literally means to add, to grow, to rise. However, Islam does not forbid all increases or expansion. Riba is a Sharia term that refers to the premium that the borrower must pay to the lender along with the principal amount as a condition of the loan or a maturity extension. In this sense, riba is synonymous with interest if all lawyers

agree. As a result, the holy Qur'an and Hadith⁴ make no distinction between usury and interest. The Arabic word *riba* is used to describe both interest and usury (Harran, 1993).

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

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

2.4. Prohibition of Interest

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

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

2.5. Development of Interest-Free Banking

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

2.6. Interest-free Banking as a thought

Interest-free Banking appears to be a relatively new concept. Anwar Qureshi (1946) Siddiqi (1948), and Ahmad (1952) wrote in the late 1940s about the reform of Banking based on profit sharing rather than interest, and Muhammad Hamidullah's 1944, 1955, 1957, and 19629 articles should also be included in this group. They are all aware of the value of commercial banking as well as the unethical nature of interest and loss-sharing arrangements in that industry. Over the next two decades, interest-free banking will become more popular due to the rise of young Muslim economists as well as the political interest it has created in Pakistan. The first works dedicated to this subject began to appear within this time period Muhammad Uzair's work is the first of these. In the late

1960s and early 1970s, a new body of work arose. The key contributors were Nejatullah Siddiqi (1969), and others (Siddiqi,1980)

2.7. Prospects of Interest-Free Banks

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

2.8. Aims of Interest-free Banking System

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

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

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

Interest is forbidden in order to promote the creation of a society free from exploration. Undoubtedly, one of the most important and effective ways that the wealthy take advantage of the unfortunate is through the use of interest.

Interest payment or acceptance should be examined in the perspective of Islam's other immeasurable sanctions in order to help an economy achieve maximum growth. Avoiding paying or accepting interest is equally as important as paying Zakat if you want to enjoy pure earnings.

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

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

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

2.9. Major categories of Islamic Banking

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

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

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

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

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

2.10. Features of Islamic Banking

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

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

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

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

An important aspect of Islamic finance is the non-inflationary nature of the Islamic banking system. The link between financial expansion, the money supply, and the

physical expansion of the economy has been established by the current financial and banking dynamic; however, Islamic Banking and Finance restore the equilibrium between these three components. The basic goal of an Islamic economy is to preserve monetary stability (Khurshid, 2000).

2.11 Islamic Banking operations

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

2.11.1 Deposit Accounts

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

The following are the most important accounts (Zineldin, 1990) Demand Deposit Account (Current or Checking Accounts)

Saving Accounts

Investment Accounts

Special Accounts

2.11.2. Demand or Checking Deposit Accounts

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

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

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

They can be used to provide cash-strapped parties with incredibly short-term loans. The profit the Bank makes while using these funds, if it chooses to do so while they are still in its control, belongs to the Bank (Al-Omar et.al., 1996; Zineldin, 2002).

2.11.3 Savings Accounts

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

2.11.4. Investment Accounts- Mudarabah Accounts

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

2.11.5. Accounts for Special Investments

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

2.12 Islamist banks and their interest-free lending practices

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

2.12.1. Participating Financing/ Musharaka-Equity

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

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

2.12.2. Trust Financing (Mudarabah)

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

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

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

Other Mark-up Methods

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

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

Bai Al-Salam (Advance payment or Forward buying)

BaiIstisna(Commissioned manufacture) BaiMuajjal- Credit sale/ Sale on Differed Payment Basis

Baimuajjal

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

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

Advance payment/forward purchasing under Bai Al-Salam.

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

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

Bai-Istisna- Commissioned Manufacture

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

Ijarah-Lease Financing

An agreement to lease land or other property in exchange for a specified monthly cash payment is known as a lease, and Islamic banks employ leases as a form of financing. An agreement in which Islamic Banks rent out to customers' various assets, including

machinery and buildings, with the customer having the opportunity to buy the rented asset outright. Ijara is a contract in which a bank buys an item and then leases it to a client for a fee, much like a sale/leaseback. The lease duration and price are predetermined and, in many respects, resemble the conditions that would be used with a loan. (Silva, 2006)

Ijarah wallqitina: - Hire Purchase

In exchange for a leasing agreement, an Islamic Bank funds property, machinery, or other amenities for a client. At the end of the lease period, ownership of the asset will be given to the lessee, according to an independent commitment made by the Bank or the client. The commitment or promise need not be an integral component of the lease contract in order for it to be conditional. The purchase and rental prices are set in such a way that the Bank earns back its cost price plus a profit that is often predetermined in advance (Sarah, 1988). Istisna is a contract that allows for either a future payment and delivery or an advance cash payment with a defined date for future delivery of goods and commodities. A manufacturer or constructor commits to creating a product or structure at a certain price on a specified day in the future. Payment terms can be negotiated between the parties, even in installments. Construction of homes, plants, projects, and buildings for bridges, roads, and highways may be accomplished with istisna (Sarah, 1988).

Sukuks (Islamic Tradable Bonds)

Sukuk, is a "Bond" that complies with Shariah. Sukuk is the simplest way to represent asset ownership. Sukuk is a claim to ownership rather than just income. Sukuk differs

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

2.13. Funding Sources and its uses in Islamic Banking

2.13.1. Sources of Funds

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

guarantee their nominal value or give a set rate of return. On the other side, depositors would be treated like shareholders and get a share of the Bank's gains or losses. The sole contract between the depositor and the Bank specifies how earnings and losses are to be distributed. The Bank and the depositors must agree on the profit-or-loss-sharing ratio prior to the transaction, and it may only be changed with the consent of both parties. (Mohsin& Abbas, 1986).

2.13.2. Uses of Funds

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

Non-commodity trading is strongly prohibited by Shari'ah, which considers money to be a non-commodity item (Siddiqi, 1986), making it illegal to provide loans to consumers for profit. The cash will most likely be used through equity participation or a partnership. Islamic Banks frequently apply the principles of Mudarabah, Musharakah, and Murabahah to assist their commercial customers. Ijara and Ijara-Wa-Iktina principles apply to leasing, but BaiMua'ajal and Qard-e-Hassan principles apply to ordinary consumers who require financial assistance in purchasing homes, durable products, and other personal necessities. Other Banking services, such as letters of guarantee, letters of credit, remittance services, travelers' checks, and safe-deposit boxes, are fee-based services. Islamic Banks typically employ the Wakalah and Kafalah principles when providing these services (Sudini, 1996).

2.14. Interest-Free Banks and the Central Bank's Role

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

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

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

2.15. Some Unique Characteristics of Islamic Banking Relative to Conventional Banks

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

2.15.1. Risk sharing

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

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

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

Major deposit products are:

1. Wadiah deposit types

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

ZamZam Bank launched different types of Wadiah: -

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

2. QARD (CHEQUE) ACCOUNTS

Cheques has established a Qard account for an indefinite amount of time.

These types of account include: -

Regular Qard Accounts; and

Qard Diaspora Accounts

3. MUDARABAH DEPOSITS

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

These Mudarabah accounts include:

Regular Mudarabah Savings;	Mudarabah EID Savings;
Mudarabah Almerah Savings;	Diaspora Mudarabah Savings;
Mudarabah Atea'lim Savings;	Mudarabah Fixed Investment
Mudarabah Children Savings;	Deposits ranging from 3 Months up
Mudarabah Nikah Savings;	to 24 Months; and
	Negotiable Mudarabah Fixed
	Investment Accounts

FINANCING AND INVESTMENT PRODUCTS

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

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

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

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

1. MURABAHAH

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

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

Murabahah Term Financing; Murabahah Merchandise Facility; Murabahah Revolving Financing Facility; Murabahah L/C Financing; Murabahah pre-shipment; Murabahah Post-Shipment Financing; Commodity Murabahah	Motor Vehicle Murabahah Financing; Murabahah for purchase of building and Business Establishments; Murabahah Agricultural Input Financing; Murabahah Commercial Farming Term Financing; and Construction Machinery Murabahah Financing.
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2. IJARAH

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

3. ISTISNA'

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

4. BAI' SALAM

It is a type of financing based on the Shari'ah in which the Bank agrees to pay the full contract price for the goods or commodities up front at the time of the contract.

It is used to purchase items or commodities that the vendor will deliver at a future time or date that is specified.

Bai Salam funding is available to farmers, producers, manufacturers, and other producers of goods and commodities who make tradable goods for the market.

5. MUSHARAKAH

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

6. MUSHARAKAH LETTER OF CREDIT

The applicant needs discuss the terms of reference for musharakah financing and let the bank know what kind of letter of credit is needed. The customer receives the commodities, which are then disposed of in accordance with the conditions of the contract. Net income is distributed in accordance with a predetermined ratio among the partners, and losses are distributed in a manner consistent with their real capital contributions.

7. MUDARABAH

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

8. PERSONAL FINANCINGS

HOUSING FINANCING

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

VEHICLE FINANCING

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

INTERNATIONAL BANKING

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

The International Banking Services of the Bank includes:

Trade Services,

 Import and Export Letters of Credit (L/C)

 Import and Export Cash against Document (CAD)

 Import and Export Advance payment (TT)

Foreign Transfer Services,

Forex Services,

Remittance Services, and

Foreign currency account opening

OTHER BANKING SERVICES

ZamZam Bank currently provides most of banking services currently available in the market with its special focus for digitization while maintaining Shari'ah principles in all its operation. ZamZam Bank implements the following major digital channels on first years of its operation: -

 Automatic teller machine (ATM)

 Mobile banking (USSD based)

 Internet banking (on progress)

Financial performance of ZamZam Bank on its first year operations

The following table illustrates some financial performance of the Bank

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

Source: - Survey, 2022

2.17 Review of Empirical studies

2.17.1. Studies of empirical literature in established and emerging economies

Numerous researches have been conducted on the prospects and problems of Islamic banking. The literature on Islamic banking and finance demonstrates that a large number of academics have studied the prospects and problems of Islamic financing.

Wilson (2000) investigates the rise of Islamic financing in the UK. He proposed that Islamic finance represents demand for Shari'ah-compliant Islamic deposit facilities and investment management services from both Muslim residents and non-residents. SunGard (2008) analyzes the growth and challenges of Islamic Banking and Finance. It presents a broad range of obstacles, including competitiveness, the need for additional Islamic

finance expertise, the immediate demand for short-term money market investments and liquidity management tools, limited Islamic secondary markets, and differing Sharia'h interpretations. A small number of people took part, and The development of Islamic financial instruments is slow or static. Nur Aqilah Zainordin. (2016); undertakes a survey to learn about the obstacles to the establishment and development of Islamic Banking in Kenya. According to his conclusions, the most difficult obstacle is obtaining legal support, as Islamic law provides its own structure for the implementation of commercial and financial contracts and transactions.

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

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

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

According to Karbhari, Naser, and Shahin (2004), differences in Islamic cultures and communities within different countries cause Shariah principles to be interpreted

differently by each Muslim school. The concept of Islamic financial organizations is muddled due to noncompliance with Shariah views and differing approaches.

This problem was demonstrated in a study by John Wiley and Sons (2011). He discovered that Islamic financial intermediaries have liquidity issues as a result of the lack of a developed money market and a scarcity of short-term investment instruments such as Treasury bills and marketable securities, which offer low capital risk and high returns.

The debate over Islamic Banking and finance has a long history around the world, but it is different in Ethiopia since Islamic Banking and finance is a relatively new idea. There have also been few studies on the operational obstacles and opportunities of fully-fledged interest-free Banking. Haq (1997) produced the first empirical analysis of the main obstacles and potential in Islamic Banking, piloting his research on Pakistani enterprises. His research revealed that the goal was to adhere to Islamic Shariah principles.

In order to ascertain the economic advantages of Islamic banking, Ahmed (2010) conducted a study. He noted that Islamic banking's ability to expand credit is related to the expansion of the real economy since it enables credit to be utilized primarily for the purchase of actual products and services. According to Tukamu Habwa (2011), the best way to boost performance is to understand the opposing forces at play. For the purposes of this study, I identified the competitive challenges and possibilities for Islamic Banks to enhance their performance. The survey looked at the majority of empirical research that was published in high-impact journals, but it did not cover all empirical research in the subject. Previous survey studies have concentrated on specific Islamic banking and

finance issues, such as interest rate (Bellalah & Ellouz, 2004), bank growth nexus (Mahfooz & Ahmed 2014), selection criteria (Nawi, 2013), and its role in the new world order (Moisseron, 2015). Other studies have reviewed theory and practice (Ahmed 1989; Tahir 2007; Shaikh 1997; Siddiqi 2006; Siddiqi 1978; A (Aliyu,2016) However, not all of these studies were able to take into account thematic and sub-themes ranging from theoretical to practical difficulties with consideration of societal impact through masjid sharia, financial inclusion, and disclosure. This is despite the fact that they are significant to the Islamic financial system. Therefore, the current study tries to address this gap by relating recent studies to earlier ones in order to offer evaluations and suggestions for further research.

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

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

2.17.2. Empirical Literature in the Ethiopian Context

According to the Economist Intelligence entity study (2015), Africa is the world's largest untapped growth market for "Islamic" commerce (Banking, insurance, bonds, and 20 capital markets) and halal food (sharia-compliant goods and services). Islam, along with

Christianity, is the most popular religion in Sub-Saharan Africa, with 67 percent of Muslims. Ethiopia, a sub-Saharan country, is another potential customer for IFB

As a result, the nation has protected the expansion of Islamic banking. Along with meeting the needs of Ethiopian customers, Islamic Banking would give the Ethiopian government diplomatic advantages when dealing with nations with a majority of Muslims. Ethiopia is becoming more conscious of the need to draw in foreign investment. According to Mohammed (2012), the Ethiopian government's embrace of Islamic Banking will probably result in diplomatic advantages in its financial dealings with nations with a majority of Muslims, especially in enticing trillions of dollars in equity investments from the Gulf. Although the Special Non-Interest Savings Accounts (also known as Special Demand Deposits) were first made available by the Commercial Bank of Ethiopia (CBE) in 2008, Sharia-compliant transactions were not possible until 2013. Only a few commercial banks, such as Oromia International Bank S.C., Commercial Bank of Ethiopia, and United Bank S.C., implemented the system in 2013 despite the National Bank of Ethiopia (NBE) issuing a directive allowing banks to provide interest-free banking (Islamic banking) services through a separate window alongside their other banking services. In order to permit conventional banks to undertake interest-free banking, the NBE published "Directives to Authorize the Business of Interest-Free Banking No. 1" in 2011. According to the Directive, banks applying for a license to offer interest-free banking services must adhere to Islamic financial principles and standard operating procedures in addition to other formal criteria. IFB is still a relatively new phenomenon in Ethiopia. According to the researcher, there doesn't seem to be any research on the possibilities and difficulties of interest-free banking in Ethiopia.

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

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

Akmel (2015) used stratified sampling to interview workers from three banks in order to get information about the challenges and promise of Islamic banking for resource mobilization in Ethiopian commercial banks. The results point to knowledge, human resources, the legal system, public perception, and resource needs as some of the barriers, while economic expansion, investor recruitment, and investment facilitation are possible Bank opportunities. The researcher proposed that Banks raise public awareness and train officers, apply effective marketing strategies, provide a clear legal framework, and adhere to Sharia issues.

Debebe (2015) examined Ethiopian customers' willingness to use interest-free Banking and the factors that may influence their decision. The findings revealed that consumers' views about interest-free banking in Ethiopian commercial banks are significantly influenced by perceived relative benefit, perceived compatibility, customers' level of awareness, and subjective norm.

With a focus on the Commercial Bank of Ethiopia, Kerima (2016) conducted research on the challenges to interest-free banking services in Ethiopia. They found that these challenges include: a lack of bank commitment; a lack of Shariah advisors; an absence of supportive regulatory directives; a problem with the law governing the Ethiopian Commodity Exchange (ECX); a lack of capacity to deliver IFB products at full capacity; and a lack of customer understanding about IFB.

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

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

study's objective is to assess the opportunities, opportunities, and drawbacks that IFSIs encounter in the Ethiopian financial services sector.

According to Wondwosen (2018), the purpose of the study was to pinpoint the major challenges of interest-free banking and its prospects in the context of five Ethiopian commercial banks that were chosen and operated between 2013 and 2018. The results demonstrated how crucial supervision of Islamic banks is. One of the current flaws in Islamic institutions is the absence of adequate prudential control. As a result, the Shariah Supervisory Board must develop an efficient structure for managing all financial institutions in Ethiopia.

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

2.17.3. Summary and Gap in the Existing Literature

Analyzing the operational challenges and potential consequences of Islamic banking in Ethiopia is quite helpful given that varied outcomes are predicted in this sector. Even though there have been a number of survey studies undertaken to investigate the opportunities and challenges of Islamic banking, the most of them have focused on the overall opportunities and challenges as well as its ability to compete with conventional

banks. However, there is a lack of empirical research that examines the operational challenges and opportunities in Ethiopia, despite the fact that IFB seems to be well-known and in great demand. This study elaborates on the challenges and opportunities of fully-fledged Islamic banking in Ethiopia in an effort to close the gap.

Summary of Ethiopian empirical findings

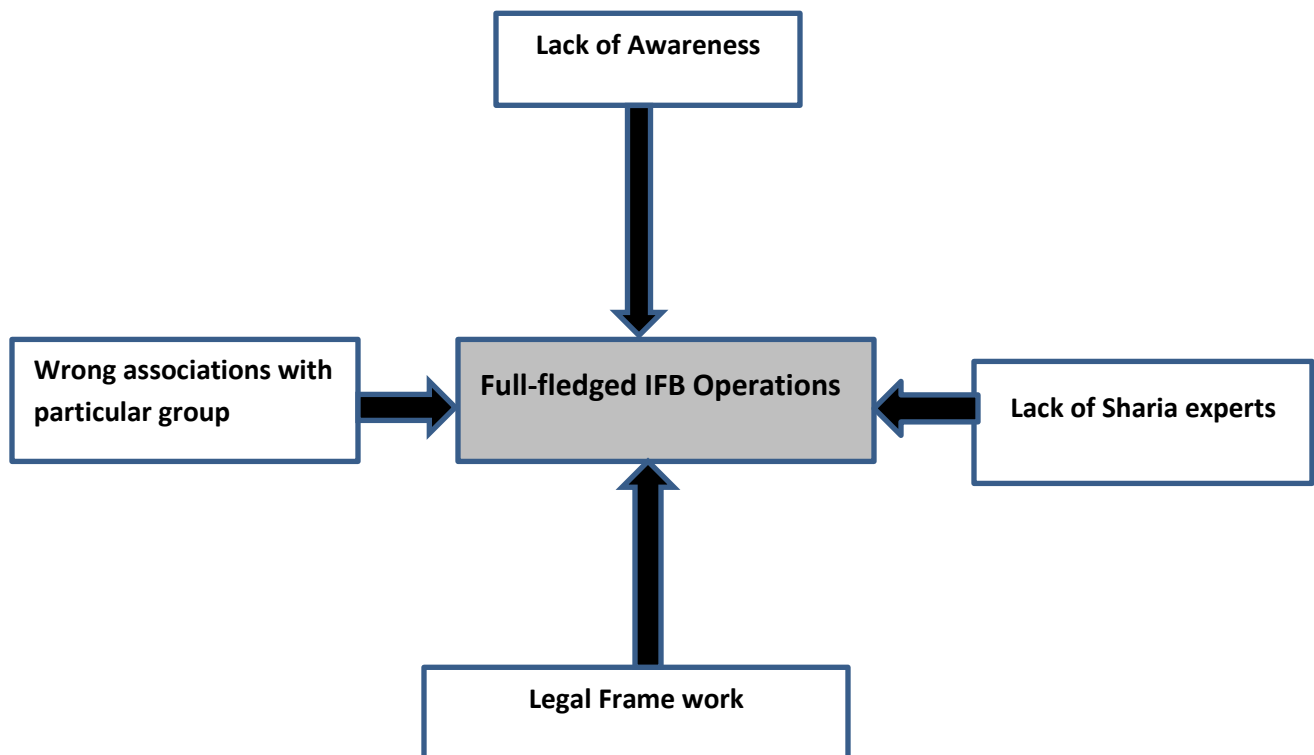
Mohammed (2012) used both qualitative and quantitative data to examine the prospects, opportunities, and challenges of Islamic banking in Ethiopia. Misunderstanding and lack of knowledge about Islamic financial services, and Wondwosen (2018) operational issues and opportunities of interest, involved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

Akimel (2015) Both qualitative and quantitative data analysis tools are employed to analyze the challenges and opportunities of Islamic Banking in Ethiopian commercial Banks for resource mobilization. Islamic banking chances for growth assessing the obstacles and potential of Islamic banking in Ethiopian Commercial Banks' resource mobilization initiatives.

Conclusion

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

Conceptual Frame work



CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The research design applied in this study was descriptive. This is so that both qualitative and quantitative survey aspects can be used in the research process. A research design, according to Kothari (2004), is the organization of variables for data collecting and analysis in a way that tries to combine relevance to the study objective with economy in technique. In actuality, the research design serves as the conceptual framework for the study and serves as the manual for data collecting, measurement, and analysis.

3.2. Research Approach

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

perceptions, views, and behavior; through focus group interviews, participant observation, and structured interviews; it produces results either in non-quantitative form or in the form which are not subject to thorough quantitative analysis.

3.3 Data Type and Source

Both primary and secondary data were used to conduct this study. The primary data were collected from managers, officers, and directors of ZamZam Bank included in collecting primary sources.

A questionnaire is a series of questions that have been thoughtfully constructed with the intention of obtaining a credible answer from a selected sample (Hussey and Hussey 1997). A questionnaire is used to gather the primary data for the study from selected samples in order to elicit perspectives on the challenges and opportunities of Islamic banking. It comprises of a number of questions in print or nature in a certain sequence on a form of closed-ended questions. In order to accomplish the goal of the research, structured interviews were performed with managers, officers, directors, and board members of ZamZam Bank S.C.

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

3.4. Collection method and Technique

The researcher used structured questionnaires used by Mohammed (2012). The survey asked structured questions that used five different evaluation techniques (Strongly disagree, Disagree, Neutral, Agree, and strongly agree). The officers, directors, founders, and managers of ZamZam Bank were the targeted groups for questionnaires and interviews that gathered the primary data. Both open-ended and closed-ended questions were asked during the interview and on the questionnaire. For the secondary data, the researcher used printed papers from the target Bank, NBE guidelines for IFB operation, and other people's studies. The first of the questionnaire's four sections deals with the demographics of the respondents. Part two, which was expected, assesses the challenges and opportunities of Islamic banking in Ethiopia, specifically in the case of ZamZam Bank S.C. In part three, the researcher applied a closed-ended questionnaire to investigate customers or employee need for interest-free Banking services, and in part four, the researcher assessed the challenges of Islamic Banking in case of ZamZam Bank S.C.

The researcher followed the necessary procedures to ensure that respondents are confident in the information they have provided and to seek their consent before distributing the questionnaire or conducting an interview. Another method for obtaining original data from these organizations is through interviews. The interview technique of data collection enables you to inquire more about any topics brought up by the responder. However, interviews demand time and resources. The researcher personally interviewed 2 executives and 2 experts from the Banks to gather supporting evidence.

3.5. Population

3.5.1. Target Population

The target population is the whole group in whom a researcher is interested. According to Zikmund (2003), the definition of the population was an identifiable full collection of components of interest being examined by a researcher. Managers, officers, and employees were on the one hand, and board members and other ZamZam Bank stakeholders were on the other.

3.5.2. Sampling Technique and Sample size

The board members and other Bank stakeholders were sampled using a stratified methodology. However, convenience sampling was used for managers, directors, and officers because they possess distinctive qualities that other people do not, and it is one of the non-probability sampling techniques that is immediate, cost effective, and quick. Instead of choosing from the entire population, researchers can use whoever is available and cooperative. This is not because such samples are inherently simpler to use.

A total of 40 questionnaires were developed and distributed among respondents in order to accomplish the research's objective. Managers, directors, staffs, shareholders, and Shari'ah consultants of the Bank made up the responses. In addition, the researcher conducted interviews with industry experts that have a direct involvement in Islamic banking in order to collect data.

3.6. Data Analysis

The collected data were sorted and examined for errors before being added to build tables for analysis. In addition, the research attempts to look at a range of issues, including

misunderstandings, awareness, the regulatory environment, and others, that pertain to Islamic Banking opportunities and challenges in Ethiopia (ZamZam Bank S.C). The primary data were assessed using the proper statistical techniques and corrected for any mistakes or omissions once all pertinent secondary and primary data had been gathered. The majority of the descriptive statistics were percentiles of the distributions of the participants' responses. The researcher analyzed the responses to the research questions quantitatively and qualitatively. The findings were presented using tabular and charted figures to describe the intended meaning and make it easier to grasp the research findings.

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

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The goal of this chapter is to present the findings of the research based on data gathered from the questionnaire, interviews, and secondary sources about the challenges and opportunities of interest-free banking in Ethiopia, specifically in the case of ZamZam Bank S.C. This chapter presents the findings of the data analysis in accordance with the research methodology covered in chapter three. The Bank's publications, another website, and pertinent NBE directives all provided the secondary data that was used. Additionally, information from ZamZam Bank's officers, managers, directors, key shareholders, and other stakeholders was used to compile the primary data. The study's sample size was 40, however only 38 questionnaires—or 95% of the sample—were judged to be valid for further statistical evaluation.

at large.

4.2 Analysis of Respondents' demographic profile

Some basic information about the sample's composition is provided by a description of the characteristics of the sample's target population. Among the demographic characteristics are gender, work experience, educational level, religion, and status. This section discusses the analysis of personal data. The tables below show details about the respondents' backgrounds.

Table 4.2.1 Gender Categories of the Respondents

Gender	Frequency	Percent (%)
Male	26	68.4
Female	12	31.6
Total	38	100

Source survey result and own computation

Male respondents made up 68.4% of the sample, while female respondents made up 31.6%, as seen in the above table. Despite the fact that the ratio of respondents was not proportional and fluctuated, both gender categories took part in the poll. This makes it possible for the researcher to ensure that there is no bias in the survey instrument connected to the respondents' gender.

Table 4.2.2 Industry Experiences of the Respondents

Years of experience	Frequency	Percent (%)
0-5 Years	5	13.2
5-10 Years	8	21
10-20 Years	20	52.6
>20 Years	5	13.2
Total	38	100

Source survey result and own computation

Experience is one of the abilities required to comprehend the banking industry. Experience is another term for professional ability. According to the research,

engagement on the part of staff members and other stakeholders to this skill is one factor in having a full understanding of both conventional and interest-free banking systems. Knowledge of the banking industry among employees, especially interest-free banking, 13.2 percent of respondents to the survey, as shown in table 4.1.2, declined to participate. There were 1.2 respondents who had less than five years of experience, 21% who had between five and ten years of experience, 52.6% who had between ten and twenty years of experience, and 13.2% who had more than twenty years of experience. This implies that individuals involved in the basic operations of the banks, such as employees and other stakeholders, have the requisite experience to both respond to the questionnaire and understand the fundamentals of the interest-free banking system, as well as its opportunities and challenges.

Table 4.2.3 Education Level of the Respondents

Educational level	Frequency	Percent (%)
Certificate	0	0
Diploma	0	0
Degree	20	52.6
Masters and above	18	47.4
Total	38	100

Source survey result and own computation

The respondents' level of education also has an impact on how well they can understand Islamic banking. This ability is referred to as academic competence. According to survey results, 52.6% of respondents had a degree, and the remaining 47.4% had a master's or higher. This shows that the respondents have the necessary education to comprehend the

idea of the Islamic financial system. In general, the profile of the respondents shows that they were competent enough to answer the questionnaire and that they had the knowledge and experience necessary to comprehend Islamic banking and the interrelated concepts that make it up.

4.2.4 Religions of Respondents

To determine if there was a person who understood the Sharia principles and would, thus, support the bank's IFB operations, the religion of the sample respondents was also one of the factors studied. The findings (See figure 4.1.4) showed that among the respondents, 74% (N=38) were Muslims, while 16% and 10%, respectively, identified as Orthodox Christians and protestants. This may signal that the Bank's operations are being carried out by individuals who understand what it stands for and that particular training has been given, both of which may have an impact on the Bank's operations.

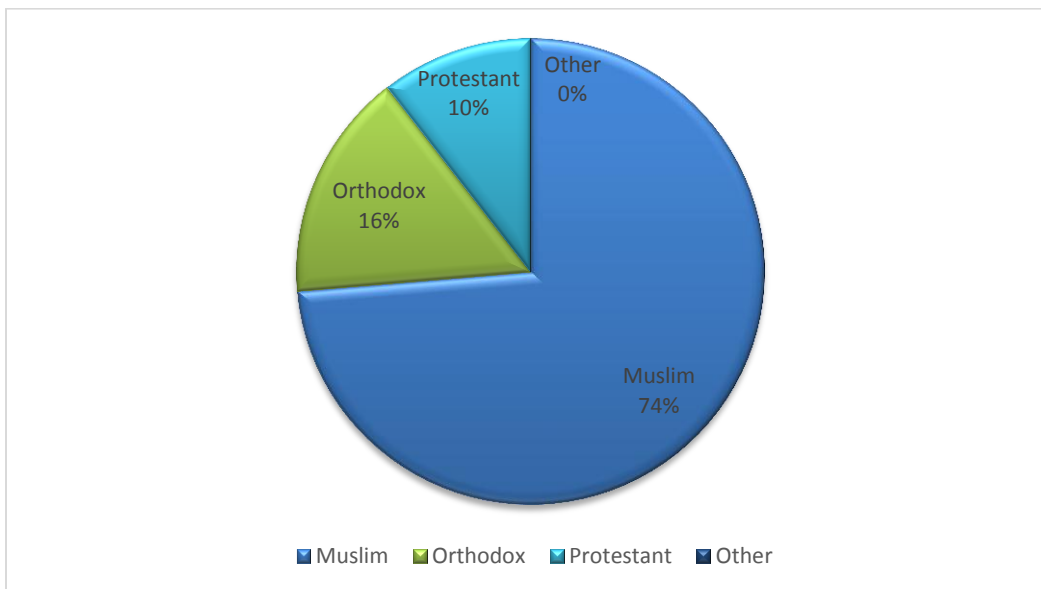


Figure 4.1.4 Religion of sample respondents

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

4.3.1 There is an inadequate regulatory and legal framework for IFB operation in Ethiopia

This question was put forth in an effort to elicit responses regarding the respondents' opinions of the regulatory and legal framework for an interest-free banking system in Ethiopia. According to the survey's findings, only 78.94% (N=38) and 10.53% of respondents strongly agreed and agreed with the statement, respectively. Additionally, it was discovered that 10.53 percent of respondents agreed with the statement. The average of the sample's replies was 4.7 (SD=0.7), which is a clear sign that they understood Ethiopia's regulatory and legal system has not clear guideline for IFB operations. The result also shows that ZamZam Bank is currently operating with regulatory and legal issues.

Table 4.3.1 inadequate regulatory and legal framework

There is an inadequate regulatory and legal framework for IFB operation in Ethiopia	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	0	0
Neutral	4	10.53
Agree	4	10.53
Strongly agree	30	78.94
Mean	4.7	
SD	0.7	

Survey result and own computation

4.3.2 There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.

Respondents were asked if there was a shortage of professionals with training in IFB operations in Ethiopia in general and at ZamZam Bank in particular. According to the findings, 73.7% and 13.2% of respondents strongly agree and agree with the statement, respectively, while the remaining 7.8% and 5.3 percent have opposite beliefs and disagree with the statement. Strong evidence suggests that there is a dearth of professionals with the necessary training for IFB operations in Ethiopia; as a result, ZamZam Bank is likely to experience problems with its experienced human resources.

Table 4.3.2 Shortage of expertise for IFB operations

There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	2	5.3
Neutral	3	7.8
Agree	5	13.2
Strongly agree	28	73.7
Mean	4.5	
SD	0.86	

Survey result and own computation

4.3.3 There is a misperception of IFB products and services from customers and others.

To determine whether respondents believed that consumers and other parties had a clear understanding of IFB products and services in relation to IFB operations, it was necessary to look into misperceptions of IFB products and services. More than half of the respondents (N=38) agreed that IFB products and services are misunderstood by customers and others. Among them, 28.9 percent strongly agreed and 39.5 percent agreed with the claim that IFB was improperly understood. The average for the entire group was 3.9 (SD=0.9). This result suggests that there is a knowledge gap between potential customers of ZamZam Bank and other parties, such as regulators and other conventional banking institutions, and According to a group of respondents, there exist misconceptions about Islamic financial services (IFB) among customers and others, including the incorrect link of IFB with religion and the misinterpretation of mark-up as interest on financing goods.

Table 4.3.3 Misperception of IFB products and services

There is a misperception of IFB products and services from customers and others.	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	2	5.3
Neutral	10	26.3
Agree	15	39.5
Strongly agree	11	28.9
Mean	3.9	
SD	0.9	

Survey result and own computation

4.3.4 There is a gap in the research and development of Islamic finance and economics.

Respondents were asked whether they believe there is a gap in research and developments of Islamic finance and economics. The results indicated that 21.07 % (N=38) and 60.53% strongly agreed and agreed respectively with the statement there is research on issues of Islamic finance and economics. On the other hand, 18.4% hold their opinion on the issue. However, the average of the sample which is 4.03(SD=0.64) revealed an increased tendency towards agreeing with the statement. The outcome makes it quite evident that ZamZam Bank lacks publications that evaluate its clients, goods, and markets for those goods using IFB activities.

Table 4.3.4 Research gap in research and development

There is a gap in the research and development of Islamic finance and economics.	Frequency	Percent(%)
Strongly disagree	0	0
Disagree	0	0
Neutral	7	18.4
Agree	23	60.53
Strongly agree	8	21.07
Mean	4.03	
SD	0.64	

Survey result and own computation

4.3.5 There are difficulties in adhering to sharia law

The basic principle of Islamic banking is adhering to sharia law, the respondents were asked whether they believe there are difficulties in adhering to sharia law in current IFB operations of Ethiopia, Survey result indicates that 10.53% and 78.94% of respondents strongly agreed and agreed respectively with the statement. The remaining 10.53% of respondents hold them on the statement. According to the findings, there are a number of challenges to following sharia law in the current banking system in Ethiopia. As a result, ZamZam Bank faces challenges in following sharia law because of several NBE directives and other banking regulations that restrict IFB's ability to operate.

Table 4.3.5 Difficulties in adhering to sharia law

There are difficulties in adhering to sharia law	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	0	0
Neutral	4	10.53
Agree	30	78.94
Strongly agree	4	10.53

Survey result and own computation

4.3.6 Most of the Muslim community has not aware of the Islamic Banking system.

Respondents have provided their opinions on whether Muslim populations are well aware of the Islamic Banking system, despite the fact that Islamic Banking operations are primarily focused on Muslims due to its sharia compliance character, more than 13.5%

and 44.7% of respondents strongly agreed and agreed respectively with the statement. Whereas 7.9% hold their opinions, and the remaining 33.9% of respondents disagreed with the statement. The findings imply that ZamZam Bank is having difficulties reaching most of its potential clients because most Muslim communities are not sufficiently informed about the Islamic banking system.

Table 4.3.6 Muslim awareness for IFB

Most of the Muslim community has not aware of the Islamic Banking system	Frequency	Percent(%)
Strongly disagree	0	0
Disagree	13	33.39
Neutral	3	7.9
Agree	17	44.7
Strongly agree	5	13.5
Mean	3.37	
SD	1.1	

Survey result and own computation

4.3.7 Taxation issues in relation to IFB products

Ethiopia's taxation system affects how effectively IFB operates, particularly with regard to financing goods like Murabahah finance products that are subject to double taxation.

Double taxation concept in relation to IFB operation

The term "double taxation" refers to the tax that Islamic banks would incur as a result of stamp duties that are owed upon the transfer of assets. Customers also pay stamp duties when ownership of identical products is transferred from the bank to them. IFB operations involve buying and selling assets, which require paying taxes (stamp duties and value added taxes). The bank must first own the asset, which it must then sell to the consumer. As a result, taxes will be paid by both the bank and the buyer when the asset is sold to the customer. This asset purchasing and selling results in double taxes. This makes using IFB one of the biggest hurdles.

4.4. Opportunities for full-fledged Islamic banking in Ethiopia

4.4.1 There is an untapped market for IFB products and services in Ethiopia

Additionally, respondents were questioned about whether they believed Ethiopia represented a sizable untapped market for IFB goods and services. The findings showed that at least 86.8% of respondents (N=38) concur with the assertion. 13.2 percent of respondents, a sizeable portion, chose not to express a position. 3.89 on average (SD=1.5) seems to concur with the claims. There may be an untapped market for IFB products and services in Ethiopia based on the perceptions of the vast majority of respondents.

Table 4.4.1 There is an untapped market for IFB products and services in Ethiopia

There is an untapped market for IFB products and services in Ethiopia (N=38)	Frequency	Percent (%)
Strongly disagree	2	5.3
Disagree	3	7.9
Neutral	0	0
Agree	25	65.8
Strongly agree	8	21
Mean	3.89	
SD	1.5	

Survey result and own computation

4.4.2 There is an increasing public interest in IFB products and services in the contemporary banking sector.

Statements regarding whether they believed there to be an increase in public interest in IFB products and services were asked of the respondents in order to gauge their opinions on the subject. According to the findings, more than 52.6% of respondents agreed with the statement, with only 26.4 and 21 percent of respondents strongly disagreeing. A tendency to agree with the sample responders may be seen in the group's average, which is 4.16 (SD=1.58). The fact that there is growing public interest in IFB products and services is supported by this survey.

Table 4.4.2 An increasing public interest in IFB products and services

There is an increasing public interest in IFB products and services in the contemporary banking sector.(N=38)	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	8	21
Neutral	0	0
Agree	20	52.6
Strongly agree	10	26.4
Mean	4.16	
SD	1.58	

4.4.3 Islamic banking is a straightforward and adaptable financial system

In addition, respondents were prompted to share their opinions about Ethiopia's banking sector's adoption of the IFB system. IFB was deemed to be flexible and simple to implement by 55.3 percent (N=38) and 23.7 percent, despite 21 percent having different viewpoints. The sample's inclination to agree with the statement is also demonstrated by the sample's average of 4.03 (SD=0.68)

Table 4.4.3 Islamic banking is a straightforward and adaptable financial system

Islamic banking is a straightforward and adaptable financial system.(N=38)	Frequency	Percent (%)
Strongly disagree	0	0
Disagree	0	0
Neutral	8	21
Agree	21	55.3
Strongly agree	9	23.7
Mean	4.03	
SD	0.68	

Survey result and own computation

4.4.4 The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment.

Respondents were asked if they believed that IFB supported the growth of business and investments. The majority of respondents—13.16 and 47.4 percent—agreed and strongly agreed with the statement, while 15.8 percent did not change their minds and the remainder 2.64 percent and 21 percent disagreed. The sample's average, which was 3.5 (SD=1.06), indicates that respondents have a propensity to agree with the statement. Islamic banking, by its very nature, focuses on financing and investment. It gives investors who have potential sharia-compliant businesses opportunities to expand or diversify their businesses by financing at reasonable cost of capital, and because it

complies with sharia, it encourages the majority of Muslim investors to invest more by obtaining various types of financing from Islamic banking.

Table 4.4.4 The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment

The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment. (N=38)	Frequency	Percent (%)
Strongly disagree	1	2.64
Disagree	8	21
Neutral	6	15.8
Agree	18	47.4
Strongly agree	5	13.16
Mean	3.5	
SD	1.06	

Survey result and own computation

4.4.5 The Islamic banking system has the potential to boost Ethiopia's economy.

Respondents were asked if they believed that Islamic banking helped the economy of Ethiopia. According to the survey results, 15.8% of respondents and 50% of respondents strongly agreed and agreed with the statement, respectively. The remaining 5.24 percent and 13.16 percent of respondents strongly disagreed and disagreed with the statement, respectively. The sample's average, which was 3.6 (SD=1.07), indicates that respondents have a propensity to concur with the statement. The outcome suggests that Islamic

banking has the capacity to strengthen a nation's economy. Due to IFB's inclusive nature, the majority of Muslim communities deposit their money there, increasing the quantity of money flowing through the economy and increasing banks' ability to lend money and stimulate the economy of the country. It opens up employment options for people who were previously shut out of the conventional banking system due to its interest-based business practices, which lowers the unemployment rate and boosts tax collections nationally.

Table 4.4.5 The Islamic banking system has the potential to boost Ethiopia's economy.

The Islamic banking system has the potential to boost Ethiopia's economy. (N=38)	Frequency	Percent(%)
Strongly disagree	2	5.24
Disagree	5	13.16
Neutral	6	15.8
Agree	19	50
Strongly agree	6	15.8
Mean	3.6	
SD	1.07	

Survey result and own computation

4.4.6 Other communities besides Muslims are also interested in interest-free banking.

With this statement, the respondents were asked if they believed that communities other than Muslims would be interested in interest-free banking. The results showed that 7.9% and 47.3 percent of respondents highly agreed and agreed with the statement,

respectively; 13.2% of respondents held their beliefs, and the remaining 13.2% and 18.4% of respondents strongly disagreed and disagreed with the statement. A tendency to agree with the statement that other communities are interested in interest-free banking was also shown by the sample's mean, which was 3.2 (SD=1.2). In reality, this increases the potential of IFB because both Muslims and non-Muslim customers can take advantage of this service, particularly in a nation like Ethiopia where Muslims and Christians coexist together.

Table 4.4.6 Other communities besides Muslims are also interested in interest-free banking.

Other communities besides Muslims are also interested in interest-free banking. (N=38)	Frequency	Percent(%)
Strongly disagree	5	13.2
Disagree	7	18.4
Neutral	5	13.2
Agree	18	47.3
Strongly agree	3	7.9
Mean	3.2	
SD	1.2	

Survey result and own computation

DISCUSSION

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

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

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS

5.1 Summary and conclusion

The aim of the current research was to analyze the benefits and drawbacks of interest-free banking in the context of ZamZam Bank S.C. The population of this study included directors, managers, officers, and other ZamZam Bank S.C., stakeholders. A descriptive study was done on respondents from ZamZam Bank.

By distributing structured questionnaires to the staff of ZamZam banks and other stakeholders who had knowledge of interest-free banking systems, information was gathered from a total of 38 respondents. The findings showed that lack of customer knowledge of IFB services, a desire for special restrictions, and a shortage of IFB operation professionals were the primary difficulties ZamZam Bank encountered when operating the IFB system. Other issues raised by respondents were the difficulties of implementing IFB in a way that complies with Sharia law, a lack of branches, and insufficient promotions. On the other hand, ZamZam Bank still has a sizable untapped market that may be taken advantage of by its products and services, which would specialize in providing IFB products and services using customer happiness as a specialism. Other opportunities that were mentioned included raising consumer demand for IFB goods and services outside of the Muslim community and growing public interest in IFB products and services.

Therefore, this analysis reveals that in ZamZam Bank specifically and in Ethiopia generally, the gains of fully-fledged interest-free banking are more substantial than its shortcomings. For the full adoption and operation of interest-free banking in Islamic banks, like ZamZam Bank in this instance, as well as in Ethiopia, there are a number of obstacles that must first be overcome.

5.2 Recommendations

The following recommendations are made in light of the study's findings:

- The National Bank of Ethiopia should take some special consideration for interest-free banking and financing while creating a banking policy.
- In order to avoid double taxation, the Ethiopian federal revenue authority should establish taxation regulations that take into account the taxation of profits from interest-free products and services from the perspectives of both customers and banks.
- For the Bank to successfully deliver its products and services to its target customers, proper training campaigns for manpower on IFB operations are essential.
- In order to address the problems, the interest-free banking system faces, responsible entities should do research on the installation and operation of full-fledged interest-free banking.
- In order to overcome challenges with adherence to sharia regulations on various financial activities, sharia consultants should provide clear counsel for interest-free banking operations.

- In order to combat misunderstandings and a lack of understanding about its products and services, ZamZam Bank should market its offerings to the general public through the best and most economical methods.
- In order to reach potential clients and improve public accessibility, ZamZam Bank should grow its branch and adopt various digital methods.

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Glossary of Interest Free Banking

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

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

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

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

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

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

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

sHalal: Anything that is permissible in Islam.

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

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

Maysir: gambling, chance wealth generation.

Bai-mua'jjalis a selling contract with a deferred payment that is exchanged without incurring additional charges.

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

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

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

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

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

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

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

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

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

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

APPENDICES
Addis Ababa University

College of Business and Economics
MSc. program in Accounting and Auditing

Researcher: - Abdulsemed Berta Oumer

Contact Address: - +251991108472

Email:-Abdulsemedberta88@gmail.com

Dear Respondents, the purpose of this questionnaire is to gather information in order to assess "The Challenges and Opportunities of Islamic Banking in Ethiopia, Case of ZamZam Bank S.C." This questionnaire is required in order to conduct research for the partial fulfillment of the MSc in accounting and auditing at Addis Ababa University. The findings of this study are solely for academic purposes. I'd like to remind you that an honest response is quite valuable and contributes significantly to the research's quality. Your response will be critical in giving useful information for the study.

Instruction

It is not necessary to write your name.

Put the "√" mark as per the questions required in the box or answer in the space provided.

Part One: Profile of respondents

Gender Male Female

Educational level Certificate Diploma Degree Masters

Industry experience 0-5 years 5-10 10-20 >20

Religion Muslim Orthodox Protestant Other, please specify _____

Current Position _____

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

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

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

No	Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	There is an untapped market for IFB products and services in Ethiopia.					
2	There is an increasing public interest in IFB products and services in the contemporary banking sector.					
3	Islamic banking is a straightforward and adaptable financial system.					
4	The availability of Islamic banking products (savings and loan services) will encourage business expansion and investment.					
5	The Islamic banking system has the potential to boost Ethiopia's economy.					
6	Other communities besides Muslims are also interested in interest-free banking.					

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

No	Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
7	There is an inadequate regulatory and legal framework for IFB operation in Ethiopia					
8	There is a shortage of expertise for IFB operations in the current Ethiopian banking sector.					
9	There is a misperception of IFB products & services from customers and others.					
10	There is a gap in the research and development of Islamic finance and economics					
11	There are difficulties in adhering to sharia law.					
12	Most of the Muslim community Have not aware of the Islamic banking system					
12	There is a misunderstanding between Islamic banks and their customers.					
14	There are higher tax burdens on the Interest-free banking products					

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

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

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Thank you for your cooperation!

Interview Questions

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