

KNOWLEDGE AND AWARENESS OF ISLAMIC BANKING AND FINANCE IN MACEDONIA: AN EMPIRICAL EVIDENCE

Sherif Abdullahi¹
Amir Shaharuddin²

Abstract

Since independence in 1991, the banking and financial system of Macedonia has experienced a considerable development in terms of the number of institutions, size of financial assets and deposits, and banking products and services. The article investigates the potential of introducing an Islamic bank in the country. It examines the level of knowledge and awareness on Islamic banking services among various banks' stakeholders in Macedonian. The study adopted a combination of qualitative method in the form of semi-structured interviews and quantitative method in the form of questionnaires. 500 respondents participated in the survey of questionnaires in the city of Tetovë and 16 experts including regulators, bankers, religious scholars and academician were interviewed. The findings indicate that majority of Muslims in Macedonia are aware on the prohibition of riba (interest) and avoid dealing with conventional banks. Also, they have moderate level of understanding on Islamic banking concepts and services.

Keywords: *Islamic banking and Finance, Knowledge and Awareness, Macedonia*

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Introduction

Southeastern Europe or the Balkan Peninsula has multiple Muslim communities of different ethnic backgrounds. Approximately 50% of Macedonia's population is Muslim, although the government statistical data shows smaller number. (SSO, 2012) Ethnic Albanians make up the majority of Muslims in Macedonia. Other areas with large ethnic Albanian populations include Kosovo and Albania itself.

Since independence in 1991, Macedonia experienced political and economic changes. The social life of people transformed significantly from state-dominated politics and economy to free market and liberal socio-economic life. Engaging intensively in economic and financial reforms has fundamentally changed the banking system of Macedonia, transforming it from mono-bank model or state own banks to multi-bank model or private own banks. The banking system has experienced considerable development in the last two decades in terms of the number of institutions, size of financial assets and deposits, and banking products and services. The current commercial banking system of Macedonia comprises of 16 banks and 7 saving houses. Most of the total assets of the banking system are concentrated in three large

¹ A PhD candidate at Faculty of Economics and Muamalat, USIM, Nilai, E-mail: sherifabdullahi@yahoo.com

² Associate Professor at Faculty of Economics and Muamalat, USIM, Nilai, E-mail: amir@usim.edu.my

banks such as “Komerčijalna Banka” AD Skopje, “NLB Tutunska Banka” AD Skopje and “Stopanska Banka” AD Skopje with 63.1%, indicating a high concentration in the banking system (NBRM, 2015)

After over two decades of reforming and liberalizing the banking and finance system of Macedonia, services and products are still very limited. The limitation or not opening up towards new alternatives such as Islamic banking and finance has marginalized a large number of Macedonian Muslim citizens who believe in Islamic values. This has resulted in their financial exclusion. They are dissatisfied by existing conventional banking products and services and they would prefer new alternative banking system in accordance with Islamic principles and values. Their saving and financing customs are influenced by what they believe that taking and giving interest is unlawful. Therefore, as a consequence of financial exclusion, they are losing opportunities to use their savings in productive and profitable ways and to get financed in proper way.

Thus, the present article attempts to investigate the potential of introducing Islamic banking products and services into the existing banking system of Macedonia. It investigates the level of awareness and knowledge of bank’s stakeholder on prohibition of *riba* (interest). The level of knowledge and understanding of financial instruments by the banks’ customer it has significant impact on the decision to utilize any of these financial instruments, particularly the most advanced and complicated ones. (Howcroft, Hewer, and Hamilton, 2003a) Therefore, it is crucial to investigate this issue before any decision is made to establish an Islamic bank in the country.

Literature Review

Studies examining the level of awareness and knowledge on Islamic banking has continued to attract many researchers around the globe. In the past, these studies were conducted in countries such as in Bahrain (Metawa and Almosawi, 1998), UAE (Bley and Kuehn, 2004), Jordan (Naser *et al.*, 1999) and Malaysia (Haron *et al.*, 1994). During these days, Islamic finance industry was relative new and researchers were interested to know the reasons for strong support received from the general public. It is the growth of Islamic finance industry was driven by religious sentiment or because of the competitive advantage offered by Islamic financial institutions? The results of these studies suggests that most of the customers in these countries have a high level of awareness and knowledge on Islamic banking principles and services. As knowledge and awareness on prohibition of *riba* is associated with religious sentiment, the initial support for Islamic finance industry was then motivated by religious factor as compared the competitive advantage factor.

It is important to note, however, the use of Arabic terminologies such as *mudarabah*, *musharakah*, and *murabahah* has to certain extent confused customers (Bley and Kuehn, 2004; Gait and Worthington, 2009; Metawa and Almosawi, 1998; Naser *et al.*, 1999; Zaabi, 2007). Bley and Kuehn’s (2004) study found out that the non-Arabic speaking respondents had a significantly lower level of knowledge of the Islamic banking products and services as compared to the respondents that were fluent in Arabic. In fact, the concern on the overreliance on Arabic terminology in structuring Islamic banking instruments was raised and discussed extensively among the regulators, academics, and industry players in Malaysia. As a result, in 2002 the Islamic banking industry practitioners came to an agreement to make it compulsory for all the Islamic banks in Malaysia to use generic product names with the “i”

at the end of the product for example “house financing-*i*” or “current account-*i*” in all their publications, including the brochures, in order to minimize the confusion among the users of the products, when prior to this there were some instances where the product only used Arabic terminology. (BNM, 2002: 154-155)

Research Methodology

The study adopted triangulation method whereby qualitative method in the form of semi-structured interviews and quantitative method in the form of questionnaires survey were both conducted. The approach is thought to be the most appropriate because it will allow the researcher to use questionnaire and interview together to observe the behavioral aspect of customers of the banks and other stakeholder such as regulators, bankers, *Shariah* scholars and academicians.

Taking into the consideration the total deposit size and demographic information of the banks and branches, the researcher intentionally narrowed down the scope of the sample only to city of Tetovë since the majority of its inhabitants are Muslim. Based on the purposive sampling method a total of 6 commercial banks out of 16 commercial banks were selected.

Table 1: Sampled Commercial Banks

No	Name of the Bank	Size of the Bank
1	“NLB Tutunska Banka” AD Skopje	Large Bank
2	“Stopanska Banka” AD Skopje	Large Bank
3	“Halk Banka” AD Skopje	Medium Bank
4	“ProCredit Banka” AD Skopje	Medium Bank
5	“Sparkasse Bank Makedonia” AD Skopje	Medium Bank
6	“Ohridska Banka” AD Ohrid	Medium Bank

Source: NBRM, 2012

The process of data collection took place during October 2014. As discussed earlier, this research adopted two main approaches in the data collection process: face-to-face questionnaires for walk-in customers and drop-off questionnaire for bank employees (including the bank managers) considering them as a customers.

The response rates for this category was quite high: 500 out of 525 questionnaires completed were usable for analysis, which is an impressive 95.2% response rate. Only 25 questionnaire forms were with missing answers and contained errors which were discarded. This high response rate can be attributed to several reasons. First, appropriate mixed data collection methods of personal-administered questionnaire (face-to-face survey) and self-administered questionnaire (drop-off survey) were used in approaching the respondents at the various bank’s branches proved to be efficient tools in yielding a high response rate. Second, as the questionnaire forms adopted closed-ended or forced-choice type of questions; the respondents were motivated to answer all questions of the survey due to fact that they are taking less time

to complete and easier to understand, thus getting a high response rate. Third, the researcher was granted permission from the management of sampled banks to conduct three months survey inside banks' premises which increased the respondents' level of confidence that the survey was genuine. It is important to mention that the management of the sampled banks' branches took very seriously this research and was curious to know the perceptions and attitudes of their customers towards the potential of introduction of Islamic banking and finance into the banking and financial system of Macedonia as a new alternative.

Table 2: Respondents, Response Rate and Data Collection Method

No	Respondents	Distributed Questionnaires	Completed and Usable Questionnaires	Response Rate in %	Data Collection Methods
1	Customers	525	500	95.2	Face-to-Face and Drop-Off

Source: Primary Data, 2014

The semi-structured face-to-face interview was selected initially as the main technique for conducting interviews and to gather primary data. The semi-structured face-to-face interviews consisted of a list of questions that flowed in a justified sequence covering the commercial banking sector of Macedonia in general, issues with interest and profits, regulatory framework for new alternative models in banking system, attractiveness of Islamic banking system as new alternative in the world, religious requirements for establishing Islamic banking and finance system, customer interest and matters of interpretation and challenges that might occurred for establishing Islamic banking and finance. All interviews with respondents were conducted in Albanian and Macedonian because the interviewees felt more comfortable in their native languages. The researcher interviewed sixteen (16) respondents from the population as listed in the table below.

Table 3: Respondent Groupings, Sampling Method and Sample Size

No	Population	Sampling Method	Sample Size
1	Commercial Banks Representatives	Purposive sampling	4
2	National Bank of Macedonia Representatives	Purposive sampling	4
3	Academicians Representatives	Snowball sampling	4
4	Shariah/Islamic scholars Representatives	Snowball sampling	4
Total Respondents			16

Source: Primary Data, 2014

Result and Discussion

Respondents' Attitudes towards Acquiring and Borrowing Money

In the question asked regarding the respondents attitudes towards paying interest, (29.8%) of the respondents declared that they felt guilty due to religious reasons, (27.5%) of the respondents answered that they felt it was too much to pay interest on loan, (25.6%) of the respondents said that it was normal as they borrowed money thus should paid interest, (9.5%) of the respondents said that they felt exploited, and (7.6%) of the respondents were undecided. These results showed that only (25.6%) of the respondents declared that it was normal to pay interest on borrowed money. In addition, this result is in line with survey question 1 where (21.6%) revealed that they would deposit the money in a bank which guarantees interest-based return and invest in bonds respectively. On the other hand, the results show that (29.8%) of the respondents are aware and have knowledge on the concept of *riba* (interest) as they declared that when they paid interest they felt guilty due to religious reason, but in the absence of alternative such as Islamic banking instruments, interest-bearing loans were accepted out of necessity. Additionally, the results revealed that (27.5%) and (9.5%) of the respondents were not satisfied paying interest or they felt exploited. Therefore, combined together (66.8%) of the respondents are aware on the consequences of paying interest and they do not agree with this action, which significantly indicates the need for interest-free financial instruments.

Regarding the question asking if respondents considered bank interest an ill-gotten gain, (37.4%) of the respondents declared that they strongly agree, (31%) of the respondents agree, (15.2%) of the respondents are undecided on this question, (14%) of the respondents disagree, (2.4%) of the respondents strongly disagree. The result revealed that (68.4%) of the respondents agree with the statement that bank interest is an ill-gotten gain, result which correlated with the previous findings on paying interest to the banks. Moreover, the result clearly indicates that the majority of respondents were fully aware of, and understood the reasons for the prohibition of interest (*riba*). Hence, that Islamic banking products and services need to be introduced *as a necessity* for the citizens of Macedonia to bank according to their Muslim beliefs. In addition, (16.4%) of the respondents stated that they did not agree with the statement, which is an insignificant percentage compared to the (66.8%) of the respondents who did. The percentage of undecided respondents on this question stands at (15.2%).

In a study conducted by Mohd-Karim (2010) that investigated the level of familiarity with the *riba* terminology in Malaysia, a considerable portion of the respondents (41.1% and 44.4%) declared that they were “very familiar” or “familiar” with the terminology. This result concluded that the *riba* terminology was quite familiar to the majority of Islamic banks' customers. According to the author, the high level of familiarity with the *riba* terminology might be due to the effective creation of awareness via pamphlets provided by the Islamic banks, and also due to media campaigns carried out by other government agencies such as Central Bank of Malaysia and Securities Commission of Malaysia. Around (14.4%) of the respondents either answered “not sure”, “not familiar”, or “not familiar at all with the terminology”. Although the level of awareness on the concept of *riba* in Malaysia which stands at (85.5%) is higher than in Macedonia, still the results of (66.8%) are very high considering that there is no campaign to create awareness on *riba* from banks from government agencies. The high level of awareness on concept of *riba* in Macedonia may be due to religious education. From the results, it can be concluded the need for introduction of Islamic banking products and services into the existing banking system of Macedonia.

The following the survey question asked if respondents thought that bank interest was the same as interest mentioned in the *Quran* and other holy books. (36.4%) of the respondents declared yes, (33.6%) of the respondents answered ‘don’t know’, and (30%) of the respondents answered no. The findings show that in this question respondents are divided proportionally. However, (36.4%) of the respondents who declared that the bank interest is the same as interest mentioned in Holy book of *Quran* and other holy books indicates that among respondents there is a solid level of awareness and understating on the concept of *riba* (interest) and religious knowledge, compared to (30%) of the respondents that answered “no”, which doesn’t necessary indicate that they do not understand the concept of *riba*, but rather they don’t understand the issue of *riba* in its religious context. They may simply lack of religious knowledge. The opinions of this particular group of respondents revealed that they misunderstand the dynamics of *riba* (interest). As a result, they found it is difficult to arrive at the right judgment. This misunderstanding was due to a lack of understanding of key terms in Islamic commercial law (*Fiqh Muamalat*). However, the percentage of “don’t know” answers (33.6%) was very high. Again, this tells that these respondents might have very little or not at all knowledge of Islamic principles on the issue of *riba* (interest). The table below provides a summary of the statistical results.

Table 4: Distribution of Respondents by Paying Interest or *Riba*

Questions	Variables	Frequency	Percentage
1. How do you feel about paying interest?	I felt guilty due to religious reasons	63	29.8
	I felt it was too much to pay interest on loan	58	27.5
	It was normal, as I borrowed money	54	25.6
	I felt it was exploitation	20	9.5
	Other	16	7.6
Total		211	100
2. Do you consider bank interest an ill-gotten gain?	Strongly agree	187	37.4
	Agree	155	31
	Undecided	76	15.2
	Disagree	70	14
	Strongly disagree	12	2.4
Total		500	100
3. Do you think bank interest is the same as interest mentioned in Holy book of Quran and	Yes	182	36.4
	Don’t know	168	33.6

other Holy books?	No	150	30
Total		500	100

Source: Primary Data, 2014

Respondents' Understanding the Concept of Islamic Banking and Finance

In the question asked on having knowledge about Islamic banking, (50.6%) of the respondents declared that they did have knowledge on Islamic banking, and (49.4%) of the respondents answered that they don't know about Islamic banking. The results shows that half of the respondents have information on Islamic banking or *Shariah*-compliant financial instruments which is promising sign for introduction and implementation of Islamic banking and finance instruments into the banking system of Macedonia.

In this survey question, people were asked about the differences between Islamic and conventional banking. (50%) of the respondents declared that they knew the differences between Islamic banking and conventional banking, and (50%) of the respondents answered that they don't know the differences between Islamic banking and conventional banking. The statistical results are identical with the above question; half of the respondents were aware of and had enough information to distinguish concepts, instruments and operations of Islamic banking from conventional banks. This indicates that once Islamic banking services introduced into the banking system of Macedonia, the respondents might utilize them.

In the question asking what Islamic banking or interest-free banking means to the respondents, (26.8%) of the them answered that only prohibition of *riba* (interest) meant Islamic banking, (24%) of the respondents declared that jointly acceptable just financial system means Islamic banking, (22.2%) of the respondents declared that trade without *riba* (interest) means Islamic banking, (21.4%) of the respondents declared that all of the options for them means Islamic banking, and (5.6%) of the respondents declared that human-oriented and environmentally friendly system means Islamic banking. The result shows that (49%) of the respondents declared that Islamic banking means prohibition of *riba* (interest) or trade without *riba* (interest), which confirms that the majority of the respondents have a significant level of awareness and knowledge on the concept of *riba* which is the main condition to distinguish Islamic banking services from the conventional banking services.

As per the question of the source of information on Islamic banking or interest-free banking, (34.6%) of the respondents declared that internet, television and radio on Islamic banking was their source of information, (27.7%) of the respondents declared that friends and family members informed them about Islamic banking, (27.2%) of the respondents answered that books, newspapers and magazines on Islamic banking are their source of information, (5.6%) and (5.2%) of the respondents declared that other source of information and visiting abroad are main source of information on Islamic banking.

Table 5: Distribution of Respondents by Understanding the Concept of Islamic Banking and Finance

Questions	Variables	Frequency	Percentage
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1. Do you know about interest-free banking (Islamic Banking)?	Yes	253	50.6
	No	247	49.4
Total		500	100
2. Do you know the difference between interest-free banking (Islamic Banking) and conventional banking?	Yes	250	50
	No	250	50
Total		500	100
3. If you define what interest-free banking (Islamic Banking) means to you, which of the following statements would you chooses?	Only prohibition of interest (<i>riba</i>)	134	26.8
	Jointly acceptable just financial system	120	24
	Trade without interest (<i>riba</i>)	111	22.2
	All of the options	107	21.4
	Human-oriented and environmentally friendly system	28	5.6
Total		500	100
4. What is your source of information on interest-free banking (Islamic Banking)?	Internet, television and radio	173	34.6
	Friends and family members	137	27.4
	Books, newspapers and magazines	136	27.2
	Other	28	5.6
	Visit abroad	26	5.2
Total		500	100

Source: Primary Data, 2014

Analysis of the Interviewees' on Knowledge and Awareness of Islamic Banking and Finance

During the interview session, experts deliberated one of the issues pertaining to the principle of Islamic banking operation.

1. Some researchers say that the profit is just another form of interest. Your views on this controversy?

According to the interviewees from the group of academicians, two of them agreed that profit and interests is the same and two of them disagree on this statement. The interviewee I revealed that three large banks holding more than 70 % of the market share and with around 80 % of profitability in the banking sector through guaranteed high interest rates, made profits and interest all the same. Moreover, he stressed that risk is excluded from the banking sector. The interviewee J had similar view on this matter. He said that in essence there is no difference between profit, dividend, rent and interest, hence, all are added financial value for owners of capital and cost for borrowers. Difference between them consist only in the capital borrowed and as compensation such as profit, dividend, rent and interest which vary depend on the quality of the project, competition and the risk. In the other hand, the interviewee K declared that the profit substantially differ from the interests. Also, the interview L expressed that profits are the target of banking sector same as for the real sector. Interest is totally different from the profits. Interest is extra income, but profit comes from different outcomes and incomes. Profit and interest are incomparable.

The interviewees from the group of bankers agreed on this issue, all of them declared that the profit and interest are the same thing, just under different names. Interviewee A said that *“that profit or interest is the same just different wrapping”*. Interviewee B expressed the same view, but he added that *“both of them have their advantages and disadvantages”*. He also added that *“if we are to exclude the interest from the bank, then bankers has to think for other alternative profits”*. Interviewee C declared that *“the objective of the bank is to intermediate between the have and have not, thus, the bank has to be rewarded for this function”*. Interviewee D revealed that *“the interest is the bank’s profit taken from the customers, which is mandatory in banking business according to positive law of Macedonia”*. These result indicate that majority of interviewees did not such much of a difference between profit from interest. Interest is a form of profit that is categorically forbidden under Islamic commercial law. However, profit is not same as interest and is permissible.

According to the interviewees from the group of academicians, two of them agreed that profit and interests are the same, while two of them disagreed on this statement. Interviewee I confirmed that three large banks held more than (70%) of the market share and with around (80%) of profits in the banking sector of Macedonia. Based on guaranteed high interest rates, banks made profits, and according to him *“profit and interest is the same”*. Moreover, he stressed that risk is excluded from the banking sector of Macedonia, by that he meant that banks are secured before any loan given to their customers. Interviewee J had similar view on this matter. He said that *“in essence there is no difference between profit, dividend, rent and interest, hence, all are added financial value for owners of capital and cost for borrowers. Difference between them consist only in the capital borrowed and as compensation such as profit, dividend, rent and interest which depend on the quality of the project, competition and the risk”*.

On the other hand, Interviewee K declared that *“the profit substantially differ from the interests”*. Also, Interview L expressed that *“profits are the target of banking sector same as for the real sector. Interest is totally different from the profits. Interest is extra income, but profit comes from different outcomes and incomes. Profit and interest are incomparable”*. In this interview question, the academicians differed in their understanding on the theory and concept of interest. According to the literature on Islamic banking and finance, two of interviewees from academicians contravene the basic foundation of Islamic commercial law, that engaging in interest-bearing financial transaction is prohibited and violates the property rights of parties involved in that transaction.

However, majority of interviewees from the group of bankers and academicians demonstrated a low level of awareness of the concept of *riba* (interest). Most of them tried to justify banking interest. In addition, although this interview question was made to two groups of interviewees, it can be concluded that the respondents had higher level of awareness and knowledge on the concept of *riba* (interest) compare to the interviewees.

2. Nowadays the interest-free banking system or otherwise known as Islamic banking system seems extremely attractive worldwide, what are your views on this?

Although, the interviewees from the group of bankers were interested to know more about Islamic banking system, all of them admitted that they did not know how it actually functioned. Interviewee A said that it *“will take a long time for the Islamic banking model to be considered. It will take enormous time to prove the opposite of what the mainstream banking model is doing”*. What he meant to say was that conventional banking system was running normally and was not causing any financial distress. This seems to indicate that he did not consider the last global financial crisis that caused by existing mainstream banking system. Also, he added the international banking system is interest-based which world economy depend on. Interviewee B showed respect for the Islamic banking model, and said that *“it is interesting to have Islamic banking services into the banking system of Macedonia, because Muslims are present in the country and they comply with religious principles and values”*. In addition he revealed that he is not informed how Islamic banking system is functioning. Interviewee C declared that *“introduction of Islamic banking and finance into the banking system of Macedonia would be a positive challenge to the banking sector”*. Interviewee D expressed that he had no information about Islamic banking system, but he supposed that *“instead interest the Islamic bank is collecting profit”*. Moreover, he added that *“Islamic banking system should be introduced in Macedonia, but some amendments in Banking Law have to be made”*. These results confirmed the need for Islamic banking services. In addition, there is a support for introduction of Islamic banking and finance into the banking system of Macedonia. According to the interviewees from the group of academicians, Interviewee I stressed that *“in general Islamic banking system it is a game of words and technique of transactions rather functioning reality”*. Moreover, he added that *“the crucial point is socio-economical effect and impact given. Regardless, a just banking system could be the one that have socio-economic impact, no matter how we name it and define the form”*. Interviewee J declared that

“...in the first look Islamic banking system is interesting as it is trying to provide solution to the conflict between shareholders and management, and it is connecting the profits with the risk proportionally. However, Islamic banking system cannot provide a solution to the demand of economical volume to convince millions of depositors to be shareholders and to participate in profit and risk sharing from the investments”.

The last statement is true; Islamic banks more depend on the sale and rent financing contracts such as *murabaha* and *ijarah*, rather on partnership financial contracts or *mudarabah*, which in essence is profit and loss sharing. In addition he added that majority of bank depositors have small savings and are in need for cash at any time, thus, from their savings they make small amount of incomes from the interest of existing banking system, or higher incomes form distributed dividends by the banks at the end of the year. Also, he mentioned that *“Islamic banks are present in initial phase in EU and USA, but this system has to be based*

on different rules and regulations not that of the market economy". In the other words, he recognizes that Islamic banks are emerging even in EU and USA, however he doubts that Islamic banks can operate in the existing market economy because according to the mainstream economic theory, interest is embedded in any economic activity. Interviewee K revealed that *"Islamic banking system is not too attractive, because in the developed countries we don't see any kind of such movement"*. The interviewee L declared that *"interest-free banking system or Islamic banking system is closer to the logic of how the real economic sector is functioning"*. He added that *"for the both sectors the profits are main goal and their cooperation is win-win, thus, the risk must be present in the economy, without risk the economy start not functioning well"*. His point was that Islamic banks are linked to the real economy, and directly engaged into the projects by sharing the risk and profits.

According to the group of regulators, majority of them supported the introduction of Islamic banking and finance into the existing banking system of Macedonia as a positive challenge. Interviewee E revealed that *"Islamic banking is a new trend and beneficial"*. In addition, she added that, *"Islamic banks are offering products which by nature are different from the mainstream banking products, facilitating financing with fewer obligations, and sharing the profit and loss"*. Interviewee F revealed that she has a Diploma in Islamic Banking and by that she has knowledge on Islamic banking and finance. Therefore, as an employee of Central Bank she *"supports the introduction of Islamic banks into the existing banking system of Macedonia"*. Moreover, she stressed an important information that *"since in Macedonia a large percentage of people are Muslims, although they are depositing the money into the bank, they never take the interest on deposits, but leaving the interest gain to the bank"*. This fact that majority of Muslim depositors were not withdrawing the interest from their banks, is in line with the main survey questions on interest discussed in the questionnaire results. Finally, she added that *"Islamic banks are not dedicated only for Muslims, but non-Muslims will support and utilize their services"*. Interviewee G said that *"Islamic banks are interesting phenomena, when it comes to risk management compare to conventional banks"*. Interviewee H stressed that *"in Macedonia there are no interest-free banks or Islamic banks"* therefore she couldn't make any comments. According to the regulators, introduction of Islamic banking services would have positive impact for banking sector.

Conclusion

The study examines the level of knowledge and awareness on Islamic banking principles among stakeholders of banking institutions in Macedonia. A survey of questionnaire was conducted to over 500 banking customers in the city of Tetovë. They are asked about their knowledge on *riba*, their feeling in taking interest-based loan and their knowledge on the differences between Islamic and conventional bank. More than half of the respondents had never secured a loan from their banks. Also, more than three quarters of the respondents never earned interest from their banks. The results showed that respondents did possess a high level of awareness and knowledge on *riba* (interest). Religious affiliation was found to be the most critical factor influencing the respondents' perceptions and attitudes towards banking interest. Additionally, the findings suggest that there is moderate level of understanding on the said issues. Meanwhile, interview with the experts focuses on deliberating the different between profit charged by Islamic banks and interest charged by conventional banks. Interestingly to note that the experts were unclear about the distinction between the two principles. Perhaps, the study could add to the existing literatures on Islamic banking knowledge and awareness. In the case of Macedonia, the study could be beneficial

for investors and regulators who might think of introducing an Islamic bank in the country. Hence, there is a niche market to be captured by the local banking institutions.

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