



Potential for Islamic Banking in Macedonia: An Empirical Evidence

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ABSTRACT

The purpose of this research paper is to investigate the potential for introduction of Islamic banking services in Macedonia. Furthermore, it examines the level of knowledge and awareness on Islamic banking principles and instruments, and the demand and support for Islamic banking services among various banks' stakeholders in Macedonia. The study adopted a combination of quantitative and qualitative methods. 500 respondents participated in the survey of questionnaires and 16 experts including regulators, bankers, religious scholars and academician were interviewed. Descriptive statistics was used to analyze the questionnaires. Hence, the interpretative method was used to analyze the interviews. The findings indicate solid level of knowledge and awareness on Islamic banking principles and instruments among various banks' stakeholders. Also, there is a strong demand and support for Islamic banking services among various banks' stakeholders. Considering the gap found in literature, the need to conduct a research to investigate the need for Islamic banking service in Macedonia is highlighted. In the case of Macedonia, the study could be beneficial for investors and regulators who might think of introducing Islamic banking services in the country.

Keywords: Islamic Banking, Knowledge and Awareness, Demand and Support for Islamic Banking Services, Macedonia

JEL Classification: G2

1. INTRODUCTION

Many Organization of Islamic Cooperation countries such as Malaysia, Gulf Cooperation Countries (GCC), Pakistan, Iran and Sudan have long experience and well established Islamic banking institutions. Some European countries are trying to introduce and develop Islamic banking instruments such as France and Italy. Some other European Union countries such as the Great Britain, Luxemburg and Germany already have introduced and implemented Islamic banking instruments. Macedonia has to explore the potential of introducing Islamic banking services based on the best practices in the World such as Malaysia, GCC or European countries. An Islamic banking system, like any other system, has to be seen as an evolving reality. Islamic banking principles need to be continuously tested in different environment and the concepts has to be addressed for the specific country without undermining the fundamentals of *Shariah* (Islamic law).

Nowadays, the Islamic banking industry has developed into a significant sector well integrated into the global economy.

From its first setting up four decades ago, globally, there are 249 standalone Islamic banks, and 114 Islamic banking windows. One third of Islamic banking institutions are Islamic banking windows, which shows that even this form of business model is acceptable to the customers. Predictions are that trend for establishing new full-fledged banks and Islamic banking windows will grow (ICD Thomson Reuters, 2013).

The development of Islamic banking as a business model that happened beginning in the 1970s and continued throughout the 1990s significantly changed the way banking was done in many Muslim countries and gained credibility and respect at both theoretical and practical levels. Given the rapid expansion of Islamic banking industry, the present research investigates the likelihood of introduction of Islamic banking services in Macedonia. Since independence in 1991, the banking system of Macedonia has experienced a considerable development in terms of the number of banks, size of financial assets/deposits, and banking services. 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. Around half of Macedonia's two million people are Muslims. They consist of different ethnicities of Albanians, Turks, Bosnians, Roma, and Torbesh (SSO, 2012). The introduction of Islamic banking services is believed to have a positive impact on the development of the banking sector of Macedonia. The majority of interviewees emphasized that establishing Islamic banks in Macedonia is essential for the large Muslim community. The intention behind the establishment of Islamic banks was to provide an alternative financing model for Muslim customers to engage in banking and financial transactions, whereby financial exclusion could also be prevented. Before the introduction of Islamic banks, religiously-oriented Muslim customers avoided to keep their deposits in conventional banks neither they used any kind of conventional financing only to be prevented from any interest earning or paying (Wilson, 1984).

2. LITERATURE REVIEW: CUSTOMERS' MOTIVATION ON SELECTING ISLAMIC BANKS

Islamic banking and finance is no longer an experimental paradigm; it is a well-established reality that is growing and expanding even outside the borders of Muslim countries into the western economies in which mainstream banking is followed (Errico and Farahbaksh, 1998). The decision of whether to completely transform a country's banking and finance system into a fully Islamic based is a choice that is ultimately based primarily on political, socio-economical, demographical composition and religious reasons (Solé, 2007). The concerns that arise as Islamic banking emerges within a conventional system, is how to set in Islamic banking and finance instruments into the existing juridical and supervisory frameworks. To think about this issue, it is useful to deal with the legal aspects of Islamic banking products and services, and the regulatory aspects of Islamic financial transactions (Hesse et al., 2008).

Many studies concluded that Islamic banking is different from its conventional banking as it is governed by *Shariah* (Islamic law) principles. Hence, it is believed that Muslims choose to bank with Islamic banks because of religious motivations (Omer, 1993; Kader, 1993, 1995; taken from Gait and Worthington 2008; Bley and Kuehn, 2004). Islamic banking and finance played a great role in providing Muslims an alternative banking model to conventional banking without involving interest (*riba*) and ambiguity (*gharar*) in its own financial instruments and operations, thus serving the real economy, production, trade and redistribution of wealth (Siddiqi, 2004). Considering the profit and loss sharing principle of *mudaraba* contract, the early contemporary Muslim economists recommended the Islamic banking structure and operations to be based on *mudaraba* concept (Shaharuddin, 2010). The Islamic banks or interest-free banks have the same role as conventional banks or interest-based banks with the main differences between conventional banking instruments which are interest-based, and banking instruments of the Islamic banks which are profit and loss based, thus sharing the benefits and losses of invested assets between creditor and borrower according to a predetermined ratio (Mirakhor and Zaidi, 2007).

From an economic perspective, Islamic banks are financial intermediary institutions as their counterpart conventional banks. Instead of the loan contract which is the backbone of mainstream banking, Islamic banks rely on diverse portfolios based on three business principles: Sharing, leasing and sale contracts (Kahf, 2005). According to the Islamic economics literature, the central bank will perform nearly the same functions and fulfill the same objectives as conventional central banks (Kahf, 2000). The crucial difference between both systems is that in the Islamic economy, monetary policy excludes interest (*riba*) from its own financial instruments and structure (Khan and Mirakhor, 1989). The central bank should implement the monetary policy by executing various financial instruments which are not confronting the Islamic law (Chapra, 1985).

3. RESEARCH METHODOLOGY

The study adopted a quantitative method in the form of questionnaires survey and a qualitative method in the form of semi-structured interviews. The approach is thought to be the most appropriate because it will allow the researcher to use questionnaires and interviews together to observe the behavioral aspect of customers of the banks and other stakeholders such as regulators, bankers, *Shariah* scholars and academicians. Descriptive statistics were used to analyze the questionnaires. Hence, the interpretative method was used to analyze the interviews. In the Table 1 shown below, based on the purposive sampling method a total of 6 commercial banks out of 16 commercial banks were selected in the city of Tetovë.

The process of data collection took place during October 2014. The research adopted two main approaches in the data collection process: Face-to-face questionnaires for walk-in customers and drop-off questionnaires for bank employees (including the bank managers) considering them as a customer. In the Table 2 shown below, the response rates for this category were 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.

The semi-structured face-to-face interview was selected initially as the main technique for conducting interviews. In the Table 3 shown below, the researcher interviewed 16 interviewees.

4. DATA ANALYSIS AND FINDINGS

4.1. Demographic Information: Respondents

The objective of this research is to discover the perceptions of the citizens of Macedonia towards the introduction of Islamic banking services in the country. Therefore, the questionnaire is designed to accomplish the research objectives. It is important to note that the pilot test has been used before finalizing the questionnaire to ensure that the questions are in line with the objectives of the research. In the Table 4, demographic information of the respondents has been shown.

4.1.1. Respondents' attitudes towards paying interest (*riba*)

In the question asked regarding the respondents' attitudes towards paying interest, only (25.6%) of the respondents declared that it was normal to pay interest on borrowed money. 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, (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 high level of awareness on concept of *riba* in Macedonia may be due to religious education within Muslim families. 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 5 shows the results.

4.1.2. Respondents' attitudes towards earning interest (*riba*)

In the question asked if there is any special reasons that make them deal with interest-bearing banks, (88.2%) of the respondents answered that there were no alternatives, such as interest-free

banks or Islamic banks, (11.8%) of the respondents declared that they were earning interest. Initially, from the results it can be concluded that conventional banking system is the only choice for the customers of Macedonia. Furthermore, the results show that more than a third of respondents revealed that they do not have Islamic banking services available, thus, they are forced to deal mainstream banks. In addition, the results suggest that the respondents had a high level of awareness and understanding on the dynamics of *riba*. This could be due to religious enlightenment or partially due to the effect of Global financial crisis of 2007/2008. However, an insignificant number of respondents (11.8%) declared that they were earning interest from their banks.

Moreover, the results indicate that (78.9%) of the respondents have high level of awareness and knowledge on the concept of *riba*. On the other hand, although (35.8%) of the respondents were holding saving and fixed deposit accounts, a small portion of the respondents (12.6%) declared that they earned interest from their banks, which suggests that the majority of the respondents never collected accumulated interest on their saving deposits. The researcher arrived at the conclusion that the majority of the respondents, most of whom were Muslim, were familiar with the concept of *riba*. This may be due to the effectiveness of awareness and knowledge created within Muslims families based on the religious knowledge that usury or interest (*riba*) is prohibited according to the teachings of Islam. The results show that majority of the respondents were not involve in interest-based earnings which suggest that there is a need for alternative and inclusive financial services which will allow the respondents to earn income in *halal* (permitted) way. Therefore, the need for introduction of Islamic banking services into the existing banking system of Macedonia is mandatory. The results are shown in the Table 6.

4.1.3. Respondents' understanding the concept of Islamic banking

In the question asked on having knowledge about Islamic banking, (50.6%) of the respondents declared that they do 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 of Islamic banking services 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 know 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. The solid level of familiarity with the Islamic banking terminology which is in line with the awareness and knowledge on *riba*, might be due to

the internet, mass media, books, journals, information friends. However, the other half of the respondents that declared that they don't know have information about Islamic banking and finance doesn't mean that they are opposing introduction of Islamic banks, but with a good information campaigns and adequate marketing policy from Islamic banks once introduced, this portion of the respondents might be aware and informed about Islamic banking services as well.

In the question asking what Islamic banking or interest-free banking means to the respondents, (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. The Table 7 shows the results.

4.1.4. Respondents' utilization of Islamic banking services

In the question asked respondents would use Islamic banking services if the banks provided an Islamic banking window, (92.8%) of the respondents would utilize Islamic banking services if provided by their banks, which significantly confirms the existence of demand for Islamic banking services.

In the survey question asked that if respondents agreed to use the products and services of Islamic banking window, would they transfer their deposits to this window, around (70%) of the respondents would transfer all or most of their deposits to Islamic banking window, which indicates the high level of utilization of Islamic banking deposit products.

In the question asked that what would be the reasons which would motivate respondents to deposit their money with Islamic bank, (41.6%) of the respondents answered that the religious reason would motivate them to deposit their money with Islamic bank which indicates that Muslim faith-consciousness dominates in demand for Islamic banking services. The result is in line with the result of previous questions. In addition, the result suggest that majority of the respondents have high level of awareness and knowledge on the religious principles regarding the financial transactions. Hence, once Islamic banking services are introduced, the Islamic banks should expect the high level of demand and utilization of services. The Table 8 shows the results.

Table 1: Sampled commercial banks

Name of the bank	Size of the bank
"NLB Tutunska Banka" AD Skopje	Large bank
"Stopanska Banka" AD Skopje	Large bank
"Halk Banka" AD Skopje	Medium bank
"ProCredit Banka" AD Skopje	Medium bank
"Sparkasse Bank Makedonia" AD Skopje	Medium bank
"Ohridska Banka" AD Ohrid	Medium bank

Source: NBRM, 2012

Table 2: Respondents, response rate and data collection method

Respondents	Distributed questionnaires	Completed and usable questionnaires	Response rate in %	Data collection methods
Customers	525	500	95.2	Face-to-face and drop-off

Source: Primary Data, 2014

4.1.5. Respondents' support for Islamic banking services

In the next survey question asked that if the respondents had transferred their deposits to an Islamic bank, and it announced that it had no profits to distribute on saving and investment accounts for 1 year, what they would do, (46.8%) of the respondents would keep their deposits at an Islamic bank because they don't take interest. This indicates that the level of faith-consciousness is high among respondents. In addition, (20.2%) of the respondents declared that they would keep the deposits with the same bank because it could distribute high profits in subsequent years, suggesting that (67%) of the respondents would support and utilize Islamic banking services once introduced. In contrast, an insignificant portion of the respondents (8.2%) would withdraw all deposits at once and switch to another bank that guarantees a profit, which indicates that their consumer behavior is profit-based oriented.

When the respondents were asked if they would close their saving and investment accounts at an Islamic bank if the rate of profit was lower than the interest rate of a conventional bank for the same accounts, (33.8%) of the respondents answered that they would not close their accounts even if the rate of profit of the Islamic bank was lower than the interest rate of a conventional bank for the same accounts, which indicates that consumer behavior of these respondents is not profit-based oriented, but for religious reason solely they would support Islamic banks.

In the last survey question asked, do the respondents agree that if Islamic banks opened up throughout the country, will they utilize the services provided by these banks. The result shows that (74.4%) of the respondents strongly agreed or agreed that should Islamic banks be introduced in the country, people will utilize their services. This indicates a high level of support from the respondents of this survey. Hence, the statistical result from this survey question encourages the authorities of Macedonia to act accordingly. Only (7.2%) of the respondents disagreed or strongly disagreed with the statement which is an insignificant result. In the Table 9 results are shown.

4.2. Demographic Information: Interviewees

The semi-structured interviews were developed with the objective to strengthen and enhance the answers of the survey questions of this study. It is worth mentioning that most of the interviewees were interviewed on the condition of anonymity, therefore the names of all interviewees will not be disclosed. The Table 10 shows the symbols of the interviewees, their institutions and positions.

The sample size of the face-to-face semi-structured interviews consisted of 16 individuals from four different categories of groupings. Included in these groups were bankers, regulators, academicians and *Shariah*/Islamic scholars. The Table 11 shows the demographic profile of interviewees.

Table 3: Interviewees groupings, sampling method and sample size

Population	Sampling method	Sample size
Commercial banks representatives	Purposive sampling	4
National bank of Macedonia representatives	Purposive sampling	4
Academicians representatives	Snowball sampling	4
<i>Shariah</i> /Islamic scholars representatives	Snowball sampling	4
Total interviewees		16

Source: Primary Data, 2014

Table 4: Demographic information of respondents

Information	Variables	Frequency (%)
Gender	Male	252 (50.4)
	Female	248 (49.6)
Age	21-30	195 (39.0)
	31-40	134 (26.8)
	41-50	89 (17.8)
	Above 50	64 (12.8)
	Below 20	18 (3.6)
Marital status	Married	308 (61.6)
	Single	192 (38.4)
Ethnicity	Albanian	466 (93.2)
	Macedonian	30 (6.0)
	Other	4 (0.8)
Religion	Islam	470 (94.0)
	Christian	30 (6.0)
Education	Bachelor	272 (54.4)
	Secondary school	124 (24.8)
	Post graduate	73 (16.6)
	Primary school	31 (6.2)
Working experience (years)	1-5	152 (30.4)
	More than 10	149 (29.8)
	<1	113 (22.6)
	6-10	86 (17.2)
Income (in Euro)	301-500	184 (36.8)
	Below 200	148 (29.6)
	201-300	120 (24.0)
	501-1000	40 (8.0)
	1001-2000	5 (1.0)
	More than 2000	3 (0.6)
Occupation	Professional	142 (28.4)
	Student	83 (16.6)
	Academics	72 (14.4)
	Businessman	53 (10.6)
	Manager	50 (10.0)
	Other	37 (7.4)
	Retired	19 (3.8)
	Housewife	16 (3.2)
	Unemployed	16 (3.2)
	Farmer	12 (2.4)

Source: Primary Data, 2014

4.2.1. Analysis of the interviews on demand for Islamic banking services in Macedonia

During the interview session, experts considered the likelihood of high level of demand for Islamic banking services.

1. Do you think that society in Macedonia is ready to accept and utilize interest-free banking instruments or Islamic banking instruments if they are promoted?

Three out of four interviewees from the group of bankers declared that society of Macedonia is ready to accept and utilize Islamic banking instruments if they would be introduced. The interviewee A said “that Islamic banking services have to be promoted from the banking industry because customers might be interested on them.” Moreover, the interviewee B revealed that “Islamic banking instruments once promoted they would be utilized mostly by large Muslim population of Macedonia.” The interview C expressed that “society of Macedonia is ready to accept and utilize Islamic banking services once they are promoted.” In contrast, the interviewee D said that “for time being the Islamic banking instruments cannot be introduced.” Moreover, the regulators revealed that society will accept and utilize Islamic banking services if they would be offered. The interviewee E revealed that “a large portion of people of Macedonia are Muslims, thus they might be interested to utilize Islamic banking instruments, but to be introduced, need time and serious institutional reforms.” The interviewee F declared that “before promotion of Islamic banking instruments there has to be proper procedure, knowledgeable and professional banking staff, transparency in banking sector, good policy in profit sharing with costumers.” The interviewee G said that “society will accept and utilize Islamic banking services if they would be offered into the banking system of Macedonia.” However, the interviewee H stressed that “without establishing and functioning of Islamic banks into the banking system of Macedonia, we cannot be confident how Islamic banking instruments would be accepted and utilized by the costumers.”

Academicians agreed that that society in Macedonia is ready to accept and utilize Islamic banking instruments. The interviewee I said that “society is ready but the state institutions are not.” The interviewee J declared that “society is ready for such banking instruments although there might be prejudice by majority of Christian population on the services offered with ‘Islam’ as prefix.” The interviewee K stressed that “for now society is not ready to accept Islamic banking instruments, but maybe in the future they would be opportunity for Islamic banks.” The interviewee L revealed that “Macedonia is not ready to accept Islamic banking concept, there are many bias opinions, especially now, linking Islamic with terrorism.” Additionally, he added that “embedding Islamic law or *Shariah* into the banking sector of Macedonia for the majority of the Christians would be considered like an assault on Christianity.” The interviewees from the group of *Shariah* scholars or Islamic scholars were united in their answers that society if ready to accept and utilize Islamic banking instruments if they were promoted into the banking system of Macedonia, but at this time the institutions are not ready to embed this model into the financial system of Macedonia. The interviewees M and P directly emphasized the statement that “the state institutions are not ready to embed this Islamic bating model into the financial system of Macedonia.” Additionally, the interviewees N and O declared that based on their contacts they had, “Muslim entrepreneurs would be interested in Islamic banking services rather than their conventional banking services and they would trust more Islamic banks.” The result from the interviews shows that majority if not all do agree that if Islamic banking services would be introduced into the banking system of Macedonia, majority of customers, especially Muslim customers would utilize those services.

Table 5: Distribution of respondents by paying interest (*riba*)

Questions	Variables	Frequency (%)
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)
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)
Do you think bank interest is the same as interest mentioned in Holy book of Quran and other holy books?	Yes	182 (36.4)
	Don't know	168 (33.6)
	No	150 (30)

Source: Primary Data, 2014

Table 6: Distribution of respondents by earning interest (*riba*)

Questions	Variables	Frequency (%)
Are there any special reasons that make you deal with interest bearing banks?	No, as there is no alternative such as interest free banks	441 (88.2)
	Yes, I'm earning interest	59 (11.8)
Have you ever earned interest from bank?	No	393 (78.6)
	Yes	63 (12.6)
	Undecided	44 (8.8)

Source: Primary Data, 2014

Table 7: Distribution of respondents by understanding the concept of Islamic banking

Questions	Variables	Frequency (%)
Do you know about interest-free banking (Islamic Banking)?	Yes	253 (50.6)
	No	247 (49.4)
Do you know the difference between interest-free banking (Islamic banking) and conventional banking?	Yes	250 (50)
	No	250 (50)
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)

Source: Primary Data, 2014

4.2.2. Analysis of the interviews on potential for Islamic banking services in Macedonia

During the interview session, experts considered the high level of support for Islamic banking services in Macedonia.

1. Can Islamic banking system work and succeed in Macedonia if it will be introduced?

All but one from the group of bankers agreed that if Islamic banking system would be introduced into the banking system of Macedonia would successfully operate. Interviewee A stressed that “for the moment Islamic banks cannot operate in Macedonia.” On the other hand, Interviewees B, C and D declared that “Islamic banks can operate and succeed into the banking system of Macedonia if will be introduced.” In addition, interviewee B emphasized that, “personally he would request that Islamic banking services to be introduced because bank’s customers showed interest on Islamic

banking services.” Moreover, Interviewee C stressed that “success of Islamic banking services will depend on their performances and marketing strategy.” As noted above, the bankers are very optimistic about progress and profitability of Islamic banks, once they introduced.

Moreover, Muslims will be the main customers who will utilize Islamic banking services. According to the regulators, Islamic banking system can work and succeed once legislation and regulation for Islamic banking services will be introduced. Additionally, Interviewee F revealed that “economic concepts in Islam differ from the conventional economic thinking, thus, Islamic financial instruments can contribute for social and economic justice.” Academicians differed on this question. Interviewee I said that “for the moment it is not possible to establish Islamic banks in Macedonia.” Interviewees K and L revealed that “Islamic banking model can function and succeed in Macedonia, especially when

Table 8: Distribution of respondents by utilization of Islamic banking services

Questions	Variables	Frequency (%)
If your bank was to provide a window for interest-free banking (Islamic banking Window), would you use this service?	Very likely	244 (48.8)
	Possibly	220 (44)
	Unlikely	16 (3.2)
	Not interested	20 (4)
If you were to agree to use the products and services of interest-free banking window (Islamic banking Window), would you transfer your banking account to this window?	All of deposits	221 (44.2)
	Most of deposits	128 (25.6)
	Undecided	96 (19.2)
	A minor portion of deposits	55 (11)
If you decided to transfer your deposits, what would be the reasons which would motivate you to deposit your money at an interest-free bank (Islamic bank)?	Religious reason solely	208 (41.6)
	Combination of the above options	178 (35.6)
	Social reason solely	73 (14.6)
	Ethical reason solely	32 (6.4)
	Other	9 (1.8)

Source: Primary Data, 2014

Table 9: Distribution of respondents by support for Islamic banking services

Questions	Variables	Frequency (%)
If you had transferred your deposits to an interest-free bank (Islamic bank), and it announced that it had no profits to distribute on saving and investment accounts for 1 year, which of the following would you do?	Keep the deposits with the same interest-free bank (Islamic Bank) because I don't take interest	234 (46.8)
	Don't know	124 (24.8)
	Retain the deposits at an interest-free bank (Islamic Bank) because it could distribute high profits in subsequent years	101 (20.2)
	Withdraw all deposits at once and switch them to another bank which guarantee a profit	41 (8.2)
	Undecided	200 (40)
Would you close your saving and investment accounts at an interest-free bank (Islamic bank) if the rate of profit was lower than the interest rate of conventional banks for the same accounts?	No	169 (33.8)
	Yes	131 (26.2)
Total Do you agree that if interest-free banks (Islamic banks) opened up throughout country, will people utilize the services provided by these banks?	Strongly agree	500 (100)
	Agree	206 (41.2)
	Undecided	166 (33.2)
	Disagree	92 (18.4)
	Strongly disagree	19 (3.8)

Source: Primary Data, 2014

will operate in full capacity.” The interviewees from the group of *Shariah* scholars agreed that if Islamic banks would be established in Macedonia they would successfully operate.

Interviewee M emphasized that “for now the legislation in Macedonia doesn't allow Islamic banking system to operate.” Interviewees N and O stressed they do believe that “if Islamic banks would be introduced into banking system of Macedonia successfully will operate because large number of Muslims would be their customers that will utilize their services.” Interviewee P revealed that “if Islamic banks would be prepared and planed their operations seriously, certainly they would have great success in

Macedonia.” Interviewee N said that “in the beginning stage Islamic banks might face problems and stagnation but once people would be familiar with Islamic banking services they would prosper, especially right now when the norms of interest on credits are high and credit policy is contracting.” Interviewee O emphasized that:

“...The legislation is not the major challenge, but the fear of competition by mainstream banks would be the major obstacle for Islamic banks. Moreover, he added that many customers (individual or company) would choose Islamic banking services because of logical structure of the services and benefit embedded with.”

The last statement made by Interviewee O stressed that that existing commercial banks might be threatened if Islamic banks will be introduced, and that the commercial bankers emphasized indirectly that they might be interested to offer Islamic banking services because their customers demanding them. However, majority of interviewees agreed that if Islamic banks will be introduced in Macedonia, they would smoothly operate, be profitable and prosper.

Table 10: The interviewees' positions

Interviewees	Institution	Job title
A	Stopanska Banka	Senior Manager
B	Tutunska Banka	Senior Manager
C	Halk Banka	Senior Manager
D	Sparkase Bank	Senior Manager
E	Central Bank of Macedonia	Senior Officer
F	Central Bank of Macedonia	Senior Officer
G	Central Bank of Macedonia	Senior Officer
H	Central Bank of Macedonia	Senior Officer
I	South East European University	Professor
J	South East European University	Professor
K	South East European University	Professor
L	South East European University	Professor
M	Islamic Community of Macedonia	Imam
N	Islamic Community of Macedonia	Imam
O	Islamic Community of Macedonia	Imam
P	Islamic Community of Macedonia	Mualima

Source: Primary Data, 2014

Table 11: The interviewees' profile

Profile	Variables	Bankers	Regulators	Professors	Shariah scholars
		Frequency (%)	Frequency (%)	Frequency (%)	Frequency (%)
Gender	Male	4 (100)	1 (25)	4 (100)	3 (75)
	Female		3 (75)		1 (25)
Age	Below 20		1 (25)		
	21-30		3 (75)		
	31-40	2 (50)			
	41-50	1 (25)		1 (25)	1 (25)
Ethnicity	Above 50	1 (25)		3 (75)	3 (75)
	Albanian	4 (100)	3 (75)	3 (75)	3 (750)
	Macedonian		1 (25)	1 (25)	
Religion	Other				1 (25)
	Islam	4 (100)	3 (75)	3 (75)	4 (100)
Education	Christian		1 (25)	1 (25)	
	Primary school				
Working experience (years)	Secondary school				
	Bachelor	4 (100)	1 (25)		3 (75)
	Post graduate		3 (75)	4 (100)	1 (25)
Income (in Euro)	1-5		1 (25)		
	6-10	2 (50)	3 (75)		
	More than 10	2 (50)		4 (100)	4 (100)
Income (in Euro)	301-500				1 (25)
	501-1000		4 (100)		3 (75)
	1001-2000	4 (100)		2 (50)	
	More than 2000			2 (50)	

Source: Primary Data, 2014

5. CONCLUSION

The study examines the potential for introducing of Islamic banking services into the existing banking system of Macedonia. A survey of questionnaire was conducted to over 500 banking customers in the city of Tetovë. The survey results suggested that (68.4%) of the respondents agree with the statement that bank interest is an ill-gotten gain which clearly indicates that the majority of respondents were fully aware of, and understood the reasons for the prohibition of interest (*riba*). Moreover, the survey results revealed that (92.8%) of the respondents would utilize Islamic banking services if provided by their banks through an Islamic banking window, which significantly confirms the existence of demand for Islamic banking services. Also, the results showed that (74.4%) of the respondents agreed that if Islamic banks opened up throughout country people will utilize the services provided by these banks, which indicates high level of support for Islamic banks. It was also found that religion was the main reason people would switch banking services to those that are *halal*. Additionally, majority of interviewees agreed that if Islamic banks will be introduced in Macedonia, they would smoothly operate, be profitable and prosper.

The likelihood of introducing Islamic banking services in Macedonia will encourage Muslims to utilize the *Shariah*-compliant financial instruments, as they believe in religion concept that all financial transactions either as depositors or as users of fund has to be in line with the principles of Islamic commercial law. 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.

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