

INTERNATIONAL JOURNAL
OF ISLAMIC ECONOMICS
AND FINANCE STUDIES



*Uluslararası İslam Ekonomisi ve
Finansı Araştırmaları Dergisi*

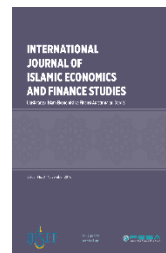
July 2017,
Vol:3, Issue:2

Temmuz 2017,
Cilt:3, Sayı: 2

e-ISSN: 2149-8407

p-ISSN: 2149-8407

journal homepage: <http://ijsef.org/>



**Demand And Supply Conditions For Islamic Banking And Finance In
Libya**

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Doi: 10.25272/j.2149-8407.2017.3.2.09

ABSTRACT

Keywords:
*Islamic
banking, Libya,
demand
conditions,
awareness,
motivation,
expectations*

This paper aims to explore the demand conditions for Islamic banking in Libya by referring to awareness, motivations, and expectations of the participants in relation to Islamic banking. In fulfilling the aims of this study, primary data were gathered through questionnaire (quantitative) method in the early months of 2012. The analysis of questionnaire data indicates that majority of the respondents had high hopes from Islamic finance as there is an overwhelming potential demand expressed by the respondents. There is a support for a banking reform in Libya by incorporating Islamic banking into the system. In addition, the results suggest that the Libyan people believe that promoting Islamic banking system will favour the process of economic development and social justice and in effect will alleviate poverty in the country. It is important to note that particularly participants' socio-economic development related expectations from Islamic banking and finance are rather high. Therefore, study also found positive and strong support for non-banking Islamic financial institutions among the participants in Libya. The findings also depict that participants' understanding and knowledge of Islamic finance principles and instruments is rather limited which requires proper training. As regards to the supply conditions, participants at the interviews particularly highlighted lack of proper regulative and legal environment and also of the shortcomings in human resources to develop Islamic banking and finance system.

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1. Introduction

Libya did not advance in terms of economic development due to negligence of equitable distribution of income, wealth and freedom of individuals. Hence, this failure led to the (February 17th Revolution 2011). It is also important to mention that the defunct regime was trying to create barriers so as to stop the expansion of the Islamic financial industry. Thus, the country was lagging in terms of economic development. Therefore, Libyan people tend to put the blame on the defunct regime as being responsible of blocking the progress of the Islamic financial system in Libya. Moreover, they believe that the outgoing regime did not make any effort to promote the Islamic finance system in Libya and beyond. Therefore, the Islamic banking and finance system failed to make any progress in Libya as the defunct Qaddafi regime stood against the idea by frustrating the establishment of Islamic banks in the country. Despite the public demand over many years for the establishment of Islamic banking in Libya. For instance, Gait (2009:1) studied the attitudes of Libyans towards the potential use of Islamic methods of finance, and he reported that “The results indicate that most respondents (85.9%) are potential users of Islamic methods of finance”.

Following the collapse of the regime, the idea of establishing an Islamic banking system in Libya has gained momentum, as the new regime has spared no efforts to promote Islamic banking and finance in the country (Salisbury, 2011). That was obvious from the appeal made by Mustafa Abdul Galil, the head of the National Transitional Council (NTC), in his first address to the nation on October 23rd 2011, in which he called for the immediate implementation of Islamic banking and finance in the country in order to meet the people’s aspirations. In this regard, the NTC would confirm that it had a duty to establish a strong base for Islamic moral economy in Libya (Aljazeera.net, 2011). Accordingly, the governor of the Central Bank of Libya issued Resolution No. 3 for 2012 on the formation of the Advisory Committee for Islamic banking. The main task of the committee would be to focus on investigating the feasibility of establishing Islamic banking and finance in the country within the framework of the rules and regulations of the Central Bank of Libya. It is worth mentioning that the Central Bank of Libya managed to organize a workshop on the Islamic banking law to add a special chapter on Islamic banking to Law no (1) for the year 2005 (Almher, 2012). Eventually, the workshop organized on March 7th 2012 was attended by the president and members of the NTC, the Mufti of Libya, the chair and members of the Advisory Committee on Islamic banking and the governor of the Central Bank of Libya. Moreover, the council of Fatwa in Libya issued a statement on May 26 2012 at the end of its first meeting appealing for decision-makers to stop interest-based transactions in banks (*riba*), in the meantime requesting

them to speed up the process of transformation from conventional banking to Islamic banking as a commitment to *Shari'ah* principles. In addition, the Libyan General National Congress issued Resolution No. 1 for 2013 to abolish all interest-based transactions in the country.

This paper, hence, aims to explore and examine the demand conditions for Islamic banking in Libya in the post-conflict period, as the new political order has particularly made clear for the transformation of the banking system into an Islamic one. In doing so, this study explores and empirically examines the awareness of the participants of Islamic banking and also of Islamic financial products, their motivations for considering to custom with Islamic banks; and also the expectations they have from Islamic banks.

1.2. Data Collection

In fulfilling the aims and objectives, a questionnaire survey was administered by the researcher in Libya from January 2012 to March 2012. In the administration of the questionnaire, 410 questionnaires were distributed in the major Libyan cities of Tripoli, Benghazi, Musrata, Garyan, Nalut, Zawara, and Zawiya. In the selection of cities, the vast demographic distribution of the country is considered. In the end, 204 complete questionnaires were returned, of which 194 were suitable for analysis. Therefore, the response rate was 46.34%.

Considering that this study aims to measure the opinions and the perceptions of participants having bank accounts as business circles and ordinary individuals, it used 'purposive' and 'convenience sampling'; hence, random distribution is ruled out. It should, however, be noted that the snowball method was useful in reaching out to other participants through the help of the participants who have already taken part in the study.

The following section presents the empirical findings of the study through statistical methods.

1.3. Assessing The Perceptions On Islamic Moral Economy And Finance In Libya

This section of the study investigates the respondents' views on the progress of the Islamic finance system in Libya.

Table 6: Perceptions that Islamic Moral Economy and Finance Has Not Made any Progress in Libya

(Q.16) Please state your opinion on the statement that "The idea of Islamic moral economy and finance has not made any progress in Libya"					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	7	3.6	3.71	1.080
	Disagree	26	13.4		
	Neutral	28	14.4		
	Agree	87	44.8		
	Strongly agree	46	23.7		
	Total	194	100.0		

As can be seen in Table 1, 68.5% of the respondents would agree with the statement that Islamic moral economy has made no significant progress in Libya so far. This is also verified by the mean value of 3.71, which suggests that respondents have a high tendency to give positive responses to the statement. Considering that only 17% were opposed to this statement, it can be concluded that the former regime was not in favour of the idea of Islamic moral economy and finance. The reasons for such a strong response can be found in the analysis presented in Table 2. In other words, the analysis presented in Table 2 shows the factors that impacted the underdevelopment of Islamic finance in Libya.

As depicted in Table 2, the great majority (90.8%) of respondents attributes the underdevelopment of Islamic finance in Libya to the previous regime, which failed to promote the Islamic finance system in Libya. This is substantiated by the answers to the second question in the section (Q.18-2), as 77.3% of the respondents stated that the public had not been allowed by the former regime to express their demand for Islamic finance in Libya, while only 13.4% of the respondents disagreed with this statement.

Table7:Perceptions on Underdevelopment of Islamic Finance in Libya and the Future of Islamic Finance

(Q.17-1) The former regime did not promote Islamic finance					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	4	2.1	4.32	.847
	Disagree	5	2.6		
	Do not know	9	4.6		
	Agree	82	42.3		
	Strongly agree	94	48.5		
	Total	194	100.0		

(Q.17-2) People could not express demand for Islamic finance under the former regime					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	10	5.2	3.92	1.108
	Disagree	16	8.2		
	Do not know	18	9.3		
	Agree	84	43.3		
	Strongly agree	66	34.0		
	Total	194	100.0		
(Q.17-3) There were not enough <i>Shari'ah</i> scholars					
Valid	Strongly disagree	23	11.9	2.82	1.154
	Disagree	67	34.5		
	Do not know	36	18.6		
	Agree	56	28.9		
	Strongly agree	12	6.2		
	Total	194	100.0		
(Q.17-4) The new regime should promote Islamic finance					
Valid	Strongly disagree	1	.5	4.46	.603
	Disagree	--	--		
	Do not know	5	2.6		
	Agree	89	45.9		
	Strongly agree	99	51.0		
	Total	194	100.0		
(Q.17-5) After February 17th Revolution, Libyan people are ready to accept Islamic banking and finance system					
Valid	Strongly disagree	--	--	4.41	.639
	Disagree	--	--		
	Do not know	16	8.2		
	Agree	82	42.3		
	Strongly agree	96	49.5		
	Total	194	100.0		
(Q.17-6) The transitory government and the following governments must work for establishing an Islamic moral economy based on social justice					
Valid	Strongly disagree	--	--	4.56	.536
	Disagree	1	.5		
	Do not know	1	.5		
	Agree	79	40.7		
	Strongly agree	113	58.3		
	Total	194	100.0		

(Q.17-7) The new constitution must state that the economy should be based on Islamic moral economy					
Valid	Strongly disagree	2	1.0	4.23	.900
	Disagree	12	6.2		
	Do not know	13	6.7		
	Agree	79	40.7		
	Strongly agree	88	45.4		
	Total	194	100.0		

In addition to political economy-related factors accounting for the underdevelopment of Islamic finance in Libya, other functional factors are also considered, such as a shortage of *Shari'ah* scholars who are considered able to facilitate Islamic finance through their injunctions; however, 46.4% of the respondents did not consider this a major issue, while 35.1% thought that the shortage of *Shari'ah* scholars was indeed an issue. This statement has political economy implications, and was therefore included immediately after the most obvious political economy statements, as the former regime did not facilitate religious demand in society, including the development of Islamic scholarship that could lead the way forward for the institutionalization of Islamic finance. It should be noted that just over 35% of the respondents agreed with this statement, while 46.4% did not consider it a problem.

Considering that Libya's political economy has gone through major change in a recent revolution, this study also aimed at measuring the participants' perceptions and expectations of the new regime. Therefore, they were asked to express their opinion on the statement that 'the new regime should promote Islamic banks'. As the results depicted in Table 2 show, a great majority of respondents (96%) considers this an important duty of the new regime in Libya in the sense that it is expected to make more efforts to promote the idea of Islamic finance.

The formation of an Islamic finance industry requires demand as well as supplying institutions. Since there are expectations from the supply side, this study also aimed to explore the conditions for the demand side. As can be seen in Table 2, 91.8% of the respondents agree with the statement that 'following the February 17th Revolution, the people of Libya are ready to accept reforms in the financial system favouring the Islamic system of finance'. This result, as can be seen, corresponds to the supply side-related findings presented above.

Since it is expressed that there is a demand for Islamic finance in post-revolution Libya, respondents' opinions on the potential role of the new regime and its governments in relation to establishing Islamic moral economy based on the principle of social justice were sought. Table 2 depicts that 99%

of the participants are in support of the statement. As can be seen, this statement goes beyond Islamic finance, asking participants for their opinions on the moral economy by essentialising social justice. The result is overwhelmingly in favour of Islamic moral economy, which should be considered meaningful, as one of the reasons for the Arab Spring has been the socio-economic failures of the Arab regimes in North Africa. Thus, it is entirely understandable that respondents to have such strong opinions on Islamic moral economy. It is important to note that the percentage of individuals essentialising Islamic moral economy (99%) is larger than the percentage agreeing with the previous statement that the Libyans are ready to embrace Islamic finance (91.8%), which indicates attachment for Islamic moral economy in the form of developmentalism.

In support of the findings from the answers to these questions in this section, the respondents were also asked their opinions on whether the new Constitution of the country should be based on Islamic moral economy principles in identifying the economic system of the country. As the results in Table 2 suggest, 86.1% of the respondents are of the opinion that the idea of Islamic moral economy and finance should be incorporated in the new Constitution. Compared to the support for the previous statements, this is a lower level of support, but it is still an overwhelming position representing a very large majority.

As the results and analysis in this section show, there is a consistency between the findings established in this section: there is a very strong tendency, occasionally an absolute tendency, in favour of Islamic finance in Libya and, hence, a very strong expectation of the new regime and its government to facilitate the provision of Islamic finance in the country. Importantly, respondents are clear on the political economy implications and their demand for Islamic moral economy with its larger socio-economic implications.

Table 3 summarizes the results in the preceding discussion through mean ranking, by ranking the most preferred statement at the top.

As the mean ranking in Table 3 depicts, the highest mean value is attributed to the formation of Islamic moral economy as an expectation of the new regime and its governments, which carries important messages related to the political economy of Islamic moral economy. As can be seen, lack of *Shari'ah* scholars was considered as a least important issue.

Table 3: Mean Ranking: Expectations from Future

Statement	Mean Ranking
(Q.17-6) The transitory government and the following governments must work for establishing an Islamic moral economy based on social justice	4.56
(Q.17-4) The new regime should promote Islamic finance	4.46
(Q.17-5) After February 17th Revolution, Libyan people are ready to accept Islamic banking and finance system	4.41
(Q.17-1) The former regime did not promote Islamic finance	4.32
(Q.17-7) The new constitution must state that the economy should be based on Islamic moral economy	4.23
(Q.17-2) People could not express demand for Islamic finance under the former regime	3.92
(Q.17-3) There were not enough <i>Shari'ah</i> scholars	2.82

1.4. Exploring Demand Conditions For Islamic Banking And Finance In Libya

The main purpose of this section is to explore the opinion of participants regarding the demand conditions for Islamic banking regardless of whether they will be potential users of the service or not.

Table 4: Perceptions on Islamic Banking and Finance in Libya

(Q.18) Do you know that Islamic banking is available as Islamic windows in Libya for mainly car purchase?					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Yes	102	52.6	1.59	.693
	No	69	35.6		
	I am not interested	23	11.9		
	Total	194	100.0		
(Q.19) Would you support and feel more comfortable using an Islamic bank and financial institution in Libya?					
Valid	Strongly disagree	3	1.5	4.30	.812
	Disagree	5	2.6		
	Neutral	10	5.2		
	Agree	87	44.8		
	Strongly agree	89	45.9		
	Total	194	100.0		

(Q.20) Would you agree that the entire banking system should be Islamised in Libya?					
Valid	Yes, should be fully Islamized	111	57.2	1.42	.496
	No, as conventional and Islamic banks should operate together	83	42.8		
	Total	194	100.0		
(Q.21) If there was an Islamic bank, would you open an account with Islamic bank?					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Yes	184	94.8	1.05	.221
	No	10	5.2		
	Total	194	100.0		

The initial section analyzes the primary data on participants' perceptions regarding the present and future situation of Islamic banks in Libya. The findings of the analysis are depicted in Table 4.

Table 4 reveals important findings on the Islamic banking system in Libya as suggested by the responses of participants. Responses to Q.18 on whether the participants know that Islamic banking is available as Islamic windows in Libya mainly for car purchase indicate that 35.6% of the respondents had no idea that Islamic banks existed in Libya, while 11.9% of respondents seemed to be indifferent as they were not interested in knowing about the service. Despite not knowing about the existing operations of Islamic banks in Libya, 90.7% of the respondents stated that they were happy with the idea of Islamic banks and would feel comfortable using the service, as indicated by responses given to Q.19 (Would you support and feel more comfortable using an Islamic bank and financial institution in Libya?). As the findings in Table 7.5 show, in responding to Q.20 (Would you support and feel more comfortable using an Islamic bank and financial institution in Libya?) more than half of the respondents (57.2%) expressed their support for the idea of full Islamisation of the banking system in Libya. For this reason, the majority of respondents (94.8%) expressed their readiness to open an account with an Islamic bank, as responses to Q.21 (If there was an Islamic bank, would you open an account with an Islamic bank?) indicate.

1.5. Measuring The Knowledge On Islamic Banking And Finance

In this part of the questionnaire, the knowledge and awareness of respondents in the area of Islamic banking and finance is assessed. In other words, the main aim of this part is to find out whether the respondents are able to

distinguish between the Islamic banking system and the conventional banking system in terms of financial transactions. The results are depicted in Table 5.

Table 5: Perceptions on Riba

(Q.25) Are you familiar with the term riba'?					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Not familiar at all	9	4.6	4.29	1.087
	Not familiar	12	6.2		
	Not sure	4	2.1		
	Familiar	57	29.4		
	Very familiar	112	57.7		
	Total	194	100.0		
(Q.26-1) Riba is the same as interest					
Valid	Strongly disagree	6	3.1	4.34	.948
	Disagree	6	3.1		
	Do not know	11	5.7		
	Agree	64	33.0		
	Strongly agree	107	55.2		
	Total	194	100.0		
(Q.26-2) Interest on deposit paid by conventional bank is the same as the profit on deposit paid by Islamic bank					
Valid	Strongly disagree	89	45.9	1.85	1.088
	Disagree	75	38.7		
	Do not know	12	6.2		
	Agree	6	3.1		
	Strongly agree	12	6.2		
	Total	194	100.0		
(Q.26-3) It is sinful to take conventional bank deposit interest.					
Valid	Strongly disagree	6	3.1	4.11	1.016
	Disagree	7	3.6		
	Do not know	33	17.0		
	Agree	61	31.4		
	Strongly agree	87	44.8		
	Total	194	100.0		

Table 5 indicates that most of the respondents (87.1%) are familiar with the term usury or riba (Q.25). This result is confirmed by the high mean value of 4.29. In verifying this, almost the same majority of respondents (88.2%) believe that an interest-based transaction is an act of riba and that the term

interest is synonymous with *riba* (Q.26-1). In this respect a large majority of respondents (84.6%) seem to disagree with the idea that interest paid by conventional banks is the same as profits given by Islamic banks, as the responses to Q.26-2 would suggest. Thus, for this reason, as can be understood from responses to Q. 26-3, the majority of respondents (76.2%) believe that accepting interest from conventional banks is religiously sinful. This result seems to be consistent with previous results, thus reflecting the religious nature of the Libyan people who attempts to refrain from practices which are religiously taboo, such as *riba*.

Table 6: Awareness on Islamic Financial Contracts

(Q.27-1) Murabaha					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Yes	142	73.2	1.37	.673
	No	31	16.0		
	Not sure	21	10.8		
	Total	194	100.0		
(Q.27-2) Musharakah					
Valid	Yes	149	76.8	1.30	.608
	No	30	15.5		
	Not sure	15	7.7		
	Total	194	100.0		
(Q.27-3) Mudarabah					
Valid	Yes	108	55.7	1.61	.767
	No	52	26.8		
	Not sure	34	17.5		
	Total	194	100.0		

Table 6 shows the participants' awareness related to transactions associated with Islamic banks such as *murabahah*, *musharakah* and *mudarabah*. It seems that the majority of respondents are more or less aware of the terminology. In this regard, 73.2% of the respondents are aware of the term *murabahah*, while 76.8% are aware of the term *musharakah*, and the term *mudarabah* is only known to 55.7% of the respondents, as indicated by responses to Q.27. Thus, a considerable number of respondents remain unaware of the terminology associated with Islamic banks, particularly the term *mudarabah*, with just under half of the respondents stating that they had never heard of the practice. Hence, the above results appear to be compatible with the religious nature of the people of Libya, although it seems that the absence of inadequacy of Islamic financial institutions in Libya might be the reason for the poor

knowledge of some sectors in the community regarding transactions associated with Islamic banking.

After establishing the nature of the awareness among the participants of the Islamic financial contracts, this sections aims to analyze the sources of the perceived knowledge as raised by Q.28 and Q.29; the results are featured in Table 7.

Table 7: Sources of Awareness

(Q. 28) If you replied positively to the above questions (26 and 28), how did you get to know about the principles of Islamic finance?					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Prior knowledge from reading(newspaper, internet, bank's brochure)	137	69.6	1.57	.962
	Education(learn in university or college)	14	7.2		
	Explanation by the bank's staff during the opening of the account	32	16.5		
	Explanation from friends and family	11	5.7		
	Total	194	100.0		
(Q.29) If your answer is 'no' in question 27 and 29, why do not you know about the underlying principles of Islamic finance?					
Valid	Difficult to understand	7	3.6	2.98	.955
	Bank's staff does not explain it	19	9.8		
	Do not know where to get the information about the underlying contract	39	20.1		
	Not interested	26	13.4		
	Assume it is the same as conventional banks	3	1.5		
	Total	94	48.5		
	Missing System	100	51.5		
	Total	194	100.0		

It is clear from responses to Q28 that a considerable percentage of respondents (69.6%) have obtained their knowledge about the Islamic financial system through reading, while just over half of the respondents (51.5%) explain their ignorance about the system by the fact that it is non-existent, as indicated by responses to Q.29. Interestingly, only 16.5% of the respondents stated they

have obtained their knowledge from the staff working in the banks (Q₂₈), while 13.4% of respondents expressed a lack of interest in the subject (Q₂₉). Therefore, the Libyan people, as Muslims, have the desire to increase their knowledge of the Islamic financial system, and the majority of them have managed to do so through reading. Therefore, the state has a duty to promote the idea of the Islamic financial system in order to raise the awareness of the people about the principles of Islamic finance as a religious obligation, in particular under the free and democratic political setting.

The following section aims to gather the opinions of the participants on a number of statements aiming to define and express the features of Islamic banking. The analysis is presented in Table 8.

Table 8: Defining Islamic Banking

(Q. 30-1) Banking without interest					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly Disagree	--	--	4.13	.752
	Disagree	6	3.1		
	Do not know	25	12.9		
	Agree	99	51.0		
	Strongly agree	64	33.0		
	Total	194	100.0		
(Q. 30-2) Discouraging debt-based finance					
Valid	Strongly disagree	2	1.0	3.78	.866
	Disagree	13	6.7		
	Do not know	47	24.2		
	Agree	95	49.0		
	Strongly agree	37	19.1		
	Total	194	100.0		

(Q.30-3) Being an alternative to capitalism and socialism					
Valid	Strongly disagree	3	1.5	3.89	.865
	Disagree	7	3.6		
	Do not know	45	23.2		
	Agree	92	47.4		
	Strongly agree	47	24.2		
	Total	194	100.0		
(Q.30-4) Having <i>Shari'ah</i>-compliant products					
Valid	Strongly disagree	--	--	4.22	.717
	Disagree	7	3.6		
	Do not know	12	6.2		
	Agree	106	54.6		
	Strongly agree	69	35.6		
	Total	194	100.0		
(Q.30-5) Banking for Muslims only					
Valid	Strongly disagree	55	28.4	1.96	.898
	Disagree	111	57.2		
	Do not know	12	6.2		
	Agree	11	5.7		
	Strongly agree	5	2.6		
	Total	194	100.0		
(Q.30-6) An ethical banking					
Valid	Strongly disagree	--	--	4.07	.701
	Disagree	5	2.6		
	Do not know	26	13.4		
	Agree	113	58.2		
	Strongly agree	50	25.8		
	Total	194	100.0		

(Q.30-7) Promoting social welfare					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	--	--	4.03	.682
	Disagree	4	2.1		
	Do not know	30	15.5		
	Agree	116	59.8		
	Strongly agree	44	22.7		
	Total	194	100.0		

(Q.30-8) Being a charitable entity					
Valid	Strongly disagree	13	6.7	3.19	1.133
	Disagree	46	23.7		
	Do not know	50	25.8		
	Agree	61	31.4		
	Strongly agree	24	12.4		
	Total	194	100.0		
(Q.30-9) Banking for the poor					
Valid	Strongly disagree	44	22.7	2.34	1.132
	Disagree	85	43.8		
	Do not know	33	17.0		
	Agree	19	9.8		
	Strongly agree	13	6.7		
	Total	194	100.0		
(Q.30-10) Similar to other commercial banks					
Valid	Strongly disagree	64	33.0	1.98	.984
	Disagree	93	47.9		
	Do not know	20	10.3		
	Agree	10	5.2		
	Strongly agree	7	3.6		
	Total	194	100.0		

Table 8 indicates the various perceptions of respondents of the idea of Islamic banking. In this respect the majority of the respondents agree with the description of Islamic banking as being interest-free, discouraging debt based financing, being *Shari'ah*-compliant, and providing a third option other than capitalism and socialism, as can be understood from responses to the statements under Q.30-1, Q. 30-2, Q. 30-3 and Q.30-4, respectively. As a matter of fact, the great majority of respondents (85%) would also agree with the idea that Islamic banking services should be available for everyone irrespective of their religious background Q.30-5. Hence, the majority of respondents would also approve of the description of Islamic banking as being

ethically oriented, as responses to Q.30-6 indicate. Furthermore, most of the respondents would agree with the idea that Islamic banking should promote activities associated with social welfare and charity work and should favour the poor, as indicated by responses to Q.30-7, Q.30-8 and Q.30-9 respectively. Finally, the vast majority of respondents (80.9%) expressed disagreement with the idea that Islamic banks could be described as being similar to commercial banks. This should confirm the fact that the great majority of the Muslim people in Libya consider the practices of the commercial banks as being incompatible with *Shari'ah* principles, and that it becomes a religious obligation not to do business with those banks.

After identifying the perceptions and opinions on the definition of Islamic banks, the following section aims to measure the perceptions and opinions on the objectives of Islamic banks. The results of the analysis are depicted in Table 9.

Table 9: Perceptions on the Objectives of Islamic Banks

(Q. 31-1) Prohibition of riba'					
		Frequency	Percent	Mean Value and Rank	Standard Deviation
Valid	Not important at all	3	1.5	4.67 (1)	.595
	Not important	--	--		
	Do not know	4	2.1		
	Important	46	23.7		
	Very important	141	72.7		
	Total	194	100.0		
(Q. 31-2) Providing <i>Shari'ah</i>- compliant products					
Valid	Not important at all	--	--	4.53 (2)	.510
	Not important	--	--		
	Do not know	1	.5		
	Important	88	45.4		
	Very important	105	54.1		
	Total	194	100.0		
(Q. 31-3) Non-debt-based financing					
Valid	Not important at all	1	.5	4.02 (6)	.774
	Not important	4	2.1		
	Do not know	38	19.6		
	Important	98	50.5		
	Very important	53	27.3		
	Total	194	100.0		

(Q. 31-4) Contributing to social welfare					
Valid	Not important at all	4	2.1	4.20 (5)	.687
	Not important	--	--		
	Do not know	18	9.3		
	Important	107	55.2		
	Very important	65	33.5		
	Total	194	100.0		
(Q. 31-5) Promoting sustainable development					
Valid	Not important at all	--	--	4.28 (4)	.668
	Not important	1	.5		
	Do not know	20	10.3		
	Important	96	49.5		
	Very important	77	39.7		
	Total	194	100.0		
(Q. 31-6) Alleviating poverty					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Not important at all	--	--	4.32	.629
	Not important	2	1.0		
	Do not know	11	5.7		
	Important	103	53.1		
	Very important	78	40.2		
	Total	194	100.0		
(Q. 31-7) Maximising profits					
Valid	Not important at all	5	2.6	3.60 (7)	1.129
	Not important	40	20.6		
	Do not know	27	13.9		
	Important	77	39.7		
	Very important	45	23.2		
	Total	194	100.0		

(Q. 31-8) Encouraging Islamic values at all levels					
Valid	Not important at all	1	.5	4.38 (3)	.781
	Not important	4	2.1		
	Do not know	18	9.3		
	Important	67	34.5		
	Very important	104	53.6		
	Total	194	100.0		

Note: The figures in parentheses indicate the mean ranking for each of the statement.

As the findings in Table 9 show, responses to statement under Q.31-2 indicate that almost all respondents (99.5%) would agree with the statement that the main objective of Islamic banks is to provide *Shari'ah*-compliant products and services. Most importantly, those services should feature interest-free transactions in order to avoid *riba* and debt-based financing, as responses to Q.31-1 and Q.31-2 indicates with 96.4% agreement and 77.8% agreement, respectively. Other important objectives of Islamic banks perceived by the majority of respondents include 'promoting social welfare and sustainable development' as well as 'alleviation of poverty', as suggested by responses to Q.31-4 with 88.7%, Q.31-5 with 90.2% and Q.31-6 with 93.3%. Hence, the economic aspect seems to be an important objective to most of the respondents, albeit to a lesser extent compared to the above objectives, as only 62.9% of the respondents agree with the statement that the main objective of Islamic banks is profit maximization Q.31-7. Furthermore, 88.1% of the respondents believe that encouraging Islamic values should be an important objective of Islamic banks with 88.3% Q.31-8. However, in terms of the mean ranking, with the mean value of 3.60, maximizing profit is located at the bottom of ranking among the objectives of Islamic banking. This seems to be in conformity with the general inference that, for the Libyan people as Muslims, the religious obligations come top of the list of priorities, as the mean ranking indicate.

1.6. Gauging Motivation For Consideration To Bank With Islamic Banks

After presenting the results on the participants' perceptions of the current and future developments related to Islamic banking, this section focuses on individual motives for dealing with an Islamic bank. As the results in Table 10 demonstrate, 86.8% of the respondents consider Islamic banking important as a religious obligation in their response to the statement proposed in Q.22-1 on religious obligation/requirement. In describing the nature of Islamic banking accounts, in responding to Q.22-2, 84% believe that the idea of interest-free accounts is the most important criterion of Islamic banks, while

59.8% of them stated in response to Q.22-3 that the brand or name of the bank would be of little concern to them. In considering whether to choose an Islamic bank account, the responses to Q.22-4 show that the economic factor remains an important factor in motivating individuals to open accounts with an Islamic bank, as 62.4% of the respondents stated that Islamic banks would pay higher returns on deposits. In addition, 46.4% of the respondents stated in responses to Q.22-5 that they have opened accounts with Islamic banks due to encouragement from friends, while 63.9% of the respondents deem it important that Islamic banks provide alternative packages of services and products (Q.22-6). Furthermore, other criteria such as provision of other financial facilities and sound reputation of the bank could provide important incentives for opening accounts with Islamic banks, as could be inferred from responses to Q.22-7 (opportunity to obtain other financing facilities such as house or car financing) and Q.22-8 (sound financial reputation of the bank) where 85% and 86.6% of the participants are in favour of the statements, respectively.

Table 10: Perceptions on Factors to Open an Islamic Banking Account

(Q.22-1) Religious obligation/ requirement					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	3	1.5	4.13	.939
	Disagree	7	3.6		
	No opinion	35	18.1		
	Agree	65	33.5		
	Strongly agree	84	43.3		
	Total	194	100.0		
(Q.22-2) The account is free from any interest					
Valid	Not important at all	1	.5	4.39	.882
	Not important	8	4.1		
	Neutral	22	11.3		
	Important	46	23.7		
	Very important	117	60.3		
	Total	194	100.0		

(Q.22-3) The brand name of the Islamic bank (Islamic reputation and image)					
Valid	Not important at all	3	1.5	3.79	1.042
	Not important	18	9.3		
	Neutral	57	29.4		
	Important	54	27.8		
	Very important	62	32.0		
	Total	194	100.0		
(Q.22-4) Islamic Bank will pay out higher return on deposits					
Valid	Not important at all	22	11.3	3.48	1.284
	Not important	26	13.4		
	Neutral	25	12.9		
	Important	78	40.2		
	Very important	43	22.2		
	Total	194	100.0		
(Q.22-5) Encouragement from friends and family					
Valid	Not important at all	19	9.8	3.27	1.268
	Not important	38	19.6		
	Neutral	49	25.3		
	Important	47	24.2		
	Very important	41	21.2		
	Total	194	100.0		
(Q.22-6) Islamic banks will provide attractive product package and services (such as free takaful coverage, attractive competition prize)					
Valid	Not important at all	5	2.6	3.77	1.018
	Not important	16	8.2		
	Neutral	49	25.3		
	Important	72	37.1		
	Very important	52	26.8		
	Total	194	100.0		

(Q.22-7) Opportunity to get other financing facilities such as house or car financing					
Valid	Not important at all	3	1.5	4.15	.869
	Not important	8	4.1		
	Neutral	18	9.3		
	Important	91	46.9		
	Very important	74	38.1		
	Total	194	100.0		
(Q.22-8) Sound financial reputation of the bank					
Valid	Not important at all	3	1.5	4.37	.861
	Not important	4	2.1		
	Neutral	19	9.8		
	Important	60	30.9		
	Very important	108	55.7		
	Total	194	100.0		

However, in terms of mean value (MV) scoring, the top factor that encourages respondents to patronage Islamic banks is the fact that accounts are interest-free, with MV of 4.39. The bank's reputation comes second in the list of factors with MV of 4.37, reflecting respondents' concern about their deposits and encouraging them to go to the most secure bank with the soundest financial reputation. In third place comes the economic factor, indicating that respondents will take advantage of the economic offers provided by the bank, with MV of 4.15. The religious obligation comes in fourth place with a MV of 4.12, reflecting the religious nature of the Libyan people. The bank name or brand ranks fifth in the list of factors with MV of 3.79, indicating that this factor remains insignificant as long as the bank is reliable and trustworthy in terms of service and products. In this regard, the factor featuring attractive packages and products comes third from bottom with MV of 3.77. Although this factor could be considered important in terms of its economic value, it seems that the respondents assigned it less significance compared to the previous factors. The statement associating Islamic banks with high returns produced an MV of 3.48, as an economic incentive for customers to open accounts with Islamic banks. As before, despite being an economic factor, it appears near the bottom of the rankings. At the bottom of the list is the factor featuring encouragement from friends, with an MV of 3.27 indicating that, compared to other factors, encouragement from friends had a less significant influence on respondents.

1.7. Socio-Economic Expectations Of Islamic Banks In Libya

This part of the questionnaire featuring Q₂₃ aims at gauging the effectiveness of Islamic banks in contributing to socio-economic development in Libya. The result of the analysis for this is depicted in Table 11.

Table 11: Perceptions on Whether Islamic Banks in Libya Will Effectively Contribute to Socio-Economic Development

(Q₂₃) Do you think Islamic banks in Libya will effectively contribute to socio-economic development?					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	2	1.0	4.30	.730
	Disagree	2	1.0		
	No opinion	13	6.7		
	Agree	95	49.0		
	Strongly agree	82	42.3		
	Total	194	100.0		

As can be seen in Table 11, 91.3% of the participants agree and strongly agree with the statement that Islamic banks will effectively contribute to socio-economic development, with a mean value of 4.30. This is a very high expectation, as there is a conviction that, because it is 'Islamic', it will be the solution to all the economic and financial problems. The problem is that a very large percentage of these participants may eventually be disappointed considering the 'commercial nature' of Islamic banking and finance. Nonetheless, this result indicates that Islamic banks in Libya would be expected to play an ever-increasing role in the economy in favour of the process of socio-economic development in the country.

In continuation of this result, Q₂₄ aims at measuring the perceptions of the participants on the identified and articulated outcomes of the socio-economic development role of Islamic banks in Libya. These outcomes are as follows: 'alleviation of poverty', 'environmentally friendly economy', 'supporting small business enterprises', 'supporting individual business initiatives', 'improving community development through social projects', 'job opportunities', 'women's participation in economy', and 'provision of social lending'. The results are presented in Table 12.

The results in the previous section are further confirmed by responses to Q₂₄ in that the majority of respondents tend to believe that people would be better off with Islamic banks. In this respect, 86.3% of respondents believe that Islamic banks will contribute to the alleviation of poverty (Q₂₄₋₁), while

73.7% of respondents agree that Islamic banks will positively concerned with environment (Q.24-2). In addition, with regard to supporting small businesses (Q.24-3), a great majority of respondents (95.3%) considers that Islamic banks will provide support to small business enterprises, while 91.8% of the participants 'agreed' and 'strongly agreed' with the statement that Islamic banks will support individuals in their business initiatives.

Table 12: Perceptions on Islamic Banks Playing Role in Socio-Economic Development in Libya (Q24)

(Q.24-1) Alleviation of poverty					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	1	.5	4.13	.752
	Disagree	6	3.1		
	Do not know	19	9.8		
	Agree	107	55.2		
	Strongly agree	61	31.4		
	Total	194	100.0		
(Q.24-2) Environmental friendly economy					
Valid	Strongly disagree	1	.5	3.93	.808
	Disagree	7	3.6		
	Do not know	43	22.2		
	Agree	96	49.5		
	Strongly agree	47	24.2		
	Total	194	100.0		
(Q.24-3) Supporting small business enterprises					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	1	.5	4.27	.621
	Disagree	2	1.0		
	Do not know	6	3.1		
	Agree	119	61.3		
	Strongly agree	66	34.0		
	Total	194	100.0		

(Q.24-4) Supporting individuals' business initiatives					
Valid	Strongly disagree	1	.5	4.20	.681
	Disagree	4	2.1		
	Do not know	11	5.7		
	Agree	116	59.8		
	Strongly agree	62	32.0		
	Total	194	100.0		
(Q.24-5) Improving community development through social projects					
Valid	Strongly disagree	--	--	4.36	.606
	Disagree	1	.5		
	Do not know	10	5.2		
	Agree	100	51.5		
	Strongly agree	83	42.8		
	Total	194	100.0		
(Q.24-6) Increases job opportunities					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	--	--	4.29	.660
	Disagree	3	1.5		
	Do not know	13	6.7		
	Agree	102	52.6		
	Strongly agree	76	39.2		
	Total	194	100.0		
(Q.24-7) Increases women's participation in economy					
Valid	Strong disagree	2	1.0	3.96	.935
	Disagree	14	7.2		
	Do not know	34	17.5		
	Agree	83	42.8		
	Strong agree	61	31.4		
	Total	194	100.0		
(Q.24-8) Providing social loans for education, housing, health and wedding					
Valid	Strong disagree	3	1.5	4.34	.754
	Disagree	3	1.5		
	Do not know	6	3.1		
	Agree	94	48.5		
	Strong agree	88	45.4		
	Total	194	100.0		

As can be seen in Table 12, with regard to community development, 94.3% of the respondents are of the opinion that Islamic banks will finance social

projects for community development. Furthermore, 91.8% of respondents stated that Islamic banks have the potential to create jobs (Q.24-6) in the economy, while 74.2% of the respondents expect Islamic banks to play a role in increasing women's employment opportunities (Q.24-7).

Finally, as can be seen in Table 12, the majority of the respondents (93.9%) have the expectation that Islamic banks will contribute to social welfare in the form of education, health, housing and weddings through social loans (Q.24-8).

It could be concluded from the results presented in this section that the majority of respondents have positive and high expectations with respect to the potential economic role of Islamic banks. These results seem to be consistent with the religious nature of the Libyan people who put their trust in Islamic banks rather than conventional banks. However, Islamic banking is not only a religious proposal but also a commercial business; therefore it seems that people may have an unrealistically high level of trust in and developmentalist expectation of Islamic banks.

1.8. Conclusion

The findings from the analysis suggest that certain groups of respondents who are wellexposed to Islamic banking operations, including employees of Islamic banks, those with higher levels of education, and those with a longer duration of banking relationships, have better awareness and knowledge of *Shari'ahmuamalath* matters related to Islamic banks.

Despite the fact that differences in opinion existed within the various control categories with regard to the participants' responses to the questions, generally speaking it could be maintained that the respondents were of the opinion that the Islamic banking system should be established in Libya in response to the people's demands. In other words, basic reforms need to be introduced to the banking policies in Libya by incorporating Islamic banking into the system. In this respect the defunct Gaddafi regime was either unwilling or not sufficiently serious about implementing the idea of Islamic moral economy in Libya, whereas the majority of respondents believe that such an idea should feature in the new Constitution of the country. In this regard, most of those who took part in the survey would prefer to do business with Islamic banks and are motivated by the high returns that may be provided by those banks; more importantly, they are motivated by their compliance with *shari'ah* principles. For that reason, the majority of respondents would consider Islamic banking in Libya as economically viable. However, it is worth mentioning that most of the respondents have a better understanding of the Islamic banking system, particularly those employed by banks or in possession of high academic qualifications. Finally, there is a consensus

among participants that, besides their banking duties, Islamic banks should undertake other economic and social responsibilities in order to contribute to the process of socio-economic development in Libya.

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