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**EXPLORING AND ANALYSING THE DEMAND AND SUPPLY
CONDITIONS FOR THE INSTITUTIONALISATION OF
ISLAMIC BANKING AND FINANCE IN LIBYA**

by

Abdulwahab Salem Alhajam

**Thesis submitted in fulfilment of the requirements for the award of Degree of Doctor
of Philosophy at Durham University**

**Durham Doctoral Training Centre for Islamic Finance
School of Government and International Affairs & Durham University Business School
Durham University
United Kingdom**

August 2013

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah, the Most Compassionate and the Most Merciful

Exploring and Analysing the Demand and Supply Conditions for the Institutionalisation of Islamic Banking and Finance in Libya

Abdulwahab Alhajam

Abstract

Islamic banking and finance has made important inroads into the financial systems of many countries including the major industrialised countries. However, in some other countries, such as in Libya, where there has been political unwillingness towards Islamic banking and finance (due its connotation with Islam as a religion) either there had not been any developments or very sluggish developments took place. The change in the political regimes in some of the Arab countries, including in Libya, in recent years following the so-called Arab Spring, shifted the balance of powers resulting in a certain degree of Islamisation of their respective financial systems; the Libyan transitional government adopted full Islamisation of the banks in the country indicating a radical change in the strategy compared to the previous regime.

This study, hence, aims to explore and empirically examine the demand and supply conditions for Islamic banking and finance in Libya and also for the institutionalisation of Islamic finance through participants' perceptions, opinions and understanding. In doing so, a questionnaire survey aimed at collecting data from ordinary people, business circles as well as professional bankers and financiers was administered in the early months of 2012 shortly after the new political phase was initiated in the country. With the primary data collected, the aim has been to (1) gauge participants' perceptions and opinions on the past performance of the Libyan economy and financial system, (2) measure individual's awareness, understanding and expectations of Islamic finance and banking and (3) measure individuals' understanding and support for an alternative type of institutionalisation.

In addition, since this study aims to explore the supply side conditions as well, a number of individuals with various supply-related stakeholder groups were interviewed in early 2012 in relation to their understanding and expectations of Islamic banking and finance as well as its potential role in Libya alongside the potential obstacles perceived.

The results of the interviews and questionnaires have shown that the people of Libya support the implementation of the Islamic banking and finance system in the country, since most of the Libyan people prefer to avoid interest-based banking transactions. However, the majority of respondents believe that the former regime has been responsible for the underdevelopment of the Islamic banking and finance sector in Libya.

Although a number of studies have highlighted the social failure of Islamic banks, the results of this study on that matter can be described as inconclusive. Accordingly, some of the participants in the survey believe that Islamic banks in Libya will make a significant contribution towards social development as expressed through corporate social responsibility activities. Thus, some of the participants believe that the government should also regulate the Islamic banks in terms of their delivery on social programmes with the objective of ensuring that Islamic banking can contribute to the future socio-economic development in Libya.

As part of an alternative institutionalisation, therefore, this study explored the idea of institutionalisation of Islamic social banking in Libya to serve the socially and financially excluded groups in achieving developmental and social objectives. However, the results show that only a small fraction of the participants are familiar with the concept of social banking; the majority of respondents, nonetheless, would prefer Islamic social banking and commercial banking to remain separate entities, and believe that the former should receive funding from government, NGOs and commercial banks.

DECLARATION

I hereby testify that this work has been genuinely authored by me, and that no part of it has featured in any application for a PhD degree or any other qualifications at any other academic institution elsewhere in the world.

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Alhamdulillah, all praise is given to Allah (*swt*) who has given me the patience, courage and guidance to finish this work. Nonetheless, it would not have been possible for me to complete this doctoral thesis without the people around me who have always been cooperative and helpful in the development of this thesis.

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I must not forget my beloved parents who have always encouraged me by making *duaa* ' for me. Special thanks go to my beloved wife for her personal support, great patience and tolerance during this busy time. I am also heartily thankful to my dearest brothers, sisters and friends as well as all those who have provided the slightest help in bringing this thesis to fruition.

Finally, my thanks should also be extended to the government of Libya for its generous financial support, which has made it possible for me to pursue my studies.

Abdulwahab S. Alhajam
August 2013
Durham

DEDICATION

I dedicate this humble work to all Libyan martyrs (Arab and Amazigh) who sacrificed their lives for Libya to become a state of justice, equality, freedom, and democracy. Without any doubt and because of their sacrifices the Islamic banking industry finally saw light and became a reality in the new Libya.

&

To my beloved sons, Osman and Annai may Allah bless them to have a better future in Libya

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LIST OF ABBREVIATIONS

EU	The European Union
GDP	Gross Domestic Product
LD	Libyan Dinar - Currency of Libya
OIC	Organization of the Islamic Conference
SPSS	Statistical Package for Social Sciences
UN	United Nations
UK	United Kingdom
KMO	Kaiser-Meyer-Olkin Test
IBI	Islamic banking industry
CBL	Central Bank of Libya
PLS	Profit and Loss Sharing
CSR	Corporate Social Responsibility
EEAG	European Economic Advisory Group
CG	Corporate Governance
EEAG	European Economic Advisory Group
CPI	Corruption Perceptions Index
IFAC	International Federation of Accountants
CDFIs	Community Development Financial Institutions
PB	People's Bank
NCB	Nigerian Community Banking
CB	Community Banking
USA	United States of America
SRI	Socially Responsible Investment
SII	Social Impact Investment
SEI	Social Enterprise Investment
BGB	Bangladesh Grameen Bank
CRA	Community Re-investment Act
CRF	Community Re-investment Fund
GABV	Global Alliance for Banking on Values
INAISE	International Association of Investors in the Social Economy
NTC	National Transitional Council
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
OECD	Organisation for Economic Co-operation and Development
WBI	World Bank Institute
WB	World Bank
OIC	Organisation of Islamic Cooperation
GCC	Gulf Cooperation Council
IBF	Islamic Banking and Finance
IB	Islamic Bank
IBBL	Islamic Bank Bangladesh Limited
SIBL	Social Investment Bank Limited
FIBB	Faysal Islamic Bank of Bahrain
ATM	Automated Teller Machines
HIPC	Heavily Indebted Poor Countries
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries

Chapter 1

INTRODUCTION

1.1. THE STATEMENT OF THE PROBLEM: PROBLEMS OF ECONOMIC DEVELOPMENT IN THE MUSLIM WORLD

Although most of the Muslim countries received their political independence over the past half century they have not been able to sufficiently develop their economies. One of the reasons for this failure is that after their independence, many Muslim countries started to adopt Western policies regarding politics, economics, and intellectual thought (Najjar, 1983). Hence, Muslim countries have chosen to adopt either the capitalist or socialist economic systems of their ex-colonial rulers. (Ahmed, 2003) regardless of the indigenous value system, which is considered to be different than the Eurocentric value system. As the result of this post-colonial legacy, most of the Muslim countries, like the rest of the Third World countries, are in a state of economic turmoil (Shābrā, 2000).

This failure and hence underdevelopment in the Muslim world can be located in internal as well as external factors, which are discussed as follows:

One of the major external factors is that Muslim countries are divided states that draw on non-Muslim ex-colonial concepts of political and economic governance in the form of capitalism and socialism which has caused conflict between the different Muslim states. Furthermore, these countries have been subjected to military coups, which have caused weaknesses and the destruction of the economic, social and political system that broke the spirit of their peoples (Najjar, 1983).

As an additional external factor, the introduction of secularism on the Muslim world under the cover of 'progress and development' schemes remained unproductive, as secularism remained symbolic rather than conducive to economic development. Neither the nationalist and capitalist development models nor the socialist models have yielded reasonable economic development in the Muslim world. The colonial

legacies in the Muslim world meant the implementation of secularism in daily life including the legal system and laws (Ahmed, 2003). Due to such imposed structural weakness, though some economic growth was achieved by many Muslim countries, economic development remains to be an important challenge.

As regards to the internal factors, these can be classified into two: material and moral. Regarding the former, namely the physical reasons for the failure of contemporary Muslims, the rupture of Muslims to more than sixty countries led to dispersion of the physical infrastructure and human resources. The failure in economic development led to suffering from an ongoing deficit in the balance of payments and an abnormal rise in both the external and domestic public debt and the intensification of inflation (Ahmed, 2003). For instance, the report of the Islamic Development Bank in 1999 pointed out that the amount of foreign debt on the Islamic world was up to US\$632 billion which meant those countries were unable to pay even the interest on loans (Algahtani, 2002). Moreover, it should be noted that foreign debts, particularly, are a major contributor to the economic underdevelopment observed across these cases. As Table 1.1 shows, between 2006 and 2010, the external debt of the Organisation of Islamic Cooperation (OIC) countries demonstrated an increasing trend. The total external debt increased 8% from 2009 to 2010, exceeding US\$1 billion. This trend is further evidenced by the World Bank's (WB) classification of 22 OIC countries as 'Heavily Indebted Poor Countries' (HIPC), 18 of which were further classified as Least Developed Countries (LDCs).

Table 1.1. External Debts of the OIC Countries

Country	Total Value of Debt (US\$)	Percentage of the country's GDP (%)
Turkey	293.3 billion	40.4
Indonesia	179 billion	26.07
Kazakhstan	118.71 billion	94.29
Malaysia	81.4 billion	35.4
Pakistan	56.7 billion	31.2

Source: SESRIC (2012:60-61)

The failure in the development of education for the larger segments of society is another factor that plunged the Muslim world into debt. It is reported that the percentage of illiterate people over 15 years of age is 75% (Najjar 1983). Under such conditions of under-education and hence lack of social capital, it is difficult for such

societies to achieve any real progress. Indeed, there are many reasons for under-education, one of which is poverty. For instance, more than two-thirds of member states of the Organization of Islamic Conference are under the line of poverty level (Ali, 2001). That means they are among the poorest countries in the world, according to statistics on the average of GNP of member states of the Organization of the Islamic Conference (Ali, 2001). Muslim countries have suffered from unemployment which is estimated as 19.2% on the average; and this is only the recorded unemployment. The poverty, ignorance and diseases prevalent in Muslim countries led to social unrest, crime, and violence, and became obstacles to development (Awad, 2004).

It is also important to mention the lack of knowledge base in Muslim societies as another source of underdevelopment. The neglect of R&D activities in many Muslim countries has delayed the adoption of non-indigenous knowledge systems rather than developing their own knowledge base. This has particular consequences, as imported Western scientific thought may not necessarily be conducive to the development of Muslims. The lack of means of scientific research in many Muslim countries led to a 'brain drain' in Muslim countries since the intellectuals migrated to developed countries. The suffering of Muslim countries from economic backwardness also hindered development on the basis of the Islamic human values. This can be supported by the evidence from the ranking of the Human Development Index in 2007 for Muslim countries. For example, the index ranks Sudan 150, Mauritania 154, Yemen 140, Bangladesh 146, Pakistan 141, Tajikistan 127, and Morocco 130, which shows failures in these countries. As human beings are core of progress and successes, the system in place can also be behind their failures and collapses (Asutay, 2009).

In sum, the gap between Muslim countries and industrialized countries is widening every day, as the latter are developing rapidly. Moreover, there is no global Islamic institution that could lead towards economic cooperation, integration and unity of Muslim societies.

Another important contributory factor to the economic development failure in the Muslim world is the failure of morality in the contemporary Muslim countries. Knowing that there is a correlation between values (including religious values) and economic development, the erosion of Islamic values in Muslim societies resulted in

an adverse impact on economic development (Najjar,1983). The absence of an authentic application of Islam as a creed (*aqida*) and approach to the way of economic and social life might be a reason for the loss of the glory that the Islamic world enjoyed in all fields in the past. The failure of Islamic countries for the promotion of development is due primarily to the neglect of values laid down by Islamic law, such as equitable distribution of income, wealth and freedom of individuals (Najjar, 1983). For instance, the application of the principles of Islamic law in connection with the collection and distribution of *zakat* and the prohibition of *riba*, which are not seriously observed, could be the economic model of society.

Additionally, there is the absence of the real sense of Islamic solidarity and its duties. This has led to the emergence of regional and ethnic strife or conflicts, which broke the solidarity of the Muslim Nation (Bagmi, 2006), which in the end resulted in the inefficient and ineffective use of resources, while the objective of solidarity should be the utilization of human, spiritual and material capacity for the salvation of humanity.

It could be said therefore that there is an urgent need for the development of an authentic economic system, in this case Islamic moral economy, to respond to the needs of the modern world. Hence, it is important to identify the role that can be carried out by Islamic economics to solve the world's economic problems (Algahtani, 2002), and how to achieve prosperity for individuals, stability and efficiency without falling down the slippery slope of need and want.

1.2. SOLUTION TO THE FAILURE OF ECONOMIC DEVELOPMENT: ISLAMIC MORAL ECONOMY AND FINANCE

Islamic morals or the political economy is an attempt to create an authentic economic and financial mechanism based on Islamic teachings. Islamic economics and Islamic economy are nowadays promoted as a way out of the dark reality experienced by many Muslim countries and lead to the renaissance and a shiny future (Najjar, 1983). It could be said that the capitalist system has failed because of the current deep global financial crisis. The Vatican has suggested that Western banks should adopt Islamic *Shari'ah* law as (1) the Islamic finance system, as an alternative to capitalism, offers a good solution to the global economic crisis and (2) the adoption of the ethical rules of Islamic banking and finance offers the best chance of getting banks closer to their

clients through moral transactions (Massoud,2009) The prevalent situation thus calls for the establishment of an Islamic economic system that seeks to achieve common economic interests within the framework of a national independence, and at the same time maintain balanced relations with the outside world while seeking to achieve integration with the rest of the Islamic countries.

This development has caused criticism of economic systems and raised questions about the suitability and feasibility of its continuation in Muslim countries. Islamic-oriented intellectuals, politicians and social leaders are presenting the case for Islamic economics as comprehensive and consistent ideological and social frameworks, especially in the fields of Islamic banking and how to achieve economic stability, as well as cooperation and economic integration among Islamic countries (Ali, 2001). Moreover, Islamic economics has also experienced a big boost in the institutional development aspect in the last quarter-century on two major fronts: banking services and education and training. There is the fast growth of Islamic banks, and institutional development within the universities and higher education system in some Islamic countries. The trend is the establishment of Islamic banking as a progressive construct towards the best way of fulfilling the Islamic economic system.

The main institutional development in Islamic moral economy has been growing in importance through Islamic banking and its services in recent years. The 1960s witnessed Islamic banking experiences at the local level, and the 1970s witnessed the establishment of Islamic banks at international level (Asutay, 2007). In this emergent trend, Islamic banks tried to apply the principles of *Shari'ah* and address many problems, such as *riba* to make financing and economic transactions *Shari'ah*-compliant. Over the last thirty years, Islamic banks, hence, in turn have already become a reality and part of the banking system in many Muslim countries. With Islamic banks came new financial practices, which were not familiar to customers before, since it was providing useful but also value-oriented and engineered products to society. All of this led to the spread of Islamic banks, where the speediest development is in its direct investment oriented to *murabahah* and making clarity of liquidated cash flow and return (Ali, 2001).

The development of the Islamic banks, thus, attracted a great deal of hidden money into the banking system as, due to the secular nature of the banks, people were

financially excluded from participating in banking and finance. Also, Warde (2000) pointed out that Islamic banking has the ability to attract funds that are outside the conventional banking system. For example in Muslim countries, individuals have one main reason for refusing to save their own money in conventional banks, namely, religious factors linked to *riba*. Thus, such hidden money might come into the finance markets and social investments through Islamic banks, thus having a positive effect on socio-economic development. It could also be said that Islamic banking and finance (IBF) was successful in its task to fill the gap and building confidence and trust between Islamic banking (IB) and customers. As a result, Islamic banks have been expected to play an important role in the developments of the societies in which they operate (Hasham, 2008).

Islamic banks in their original construct and philosophy are considered to be part of the community and not something isolated from society (Khan, 2007) and are expected to develop responsibility to the community by the continuous mixing of people and creating jobs, and working to create a general climate of the Muslim community (Najjar, 1980). This is due to the fact that the ‘founding fathers’ of modern Islamic economics made a great deal of reference to economic development in their search for Islamic economics as an authentic way of developing Muslim societies. Thus, Islamic banking was expected to directly contribute to economic development in a compatible manner to Islam by providing an efficient use of the resources.

As a value proposition, Islamic banks are expected to take into account the social welfare of society as part of the foundational axioms, which indicates the close link between faith and values and economic regulation in Islam. It should be stated that one of the main foundational axioms of the Islamic moral economy is social justice (*adalah*), and hence economic and financial activity is expected to be conducted within the framework of social justice. Therefore, the banks and financial institutions have a duty to achieve social justice, which is one of the foundations of Islamic economy; and they are equipped to perform this role because of their ability to pool savings and utilization of the resources in a financially and socially optimal manner that aims to achieve social development and commitment for a comprehensive development in Muslim societies (Al-Shibi, 2007).

While profit-and-loss sharing (PLS)-oriented Islamic finance instruments, such as *mudarabah* and *musharakah*, are considered maximising social expectations from Islamic banks and complying with the social dynamics of *maqasid* expectations, the avoidance of IBs using such instruments are explained with the high risk investments with such instruments involve. In addition, usage of such instruments due to their socially acceptable nature may not fulfil the expectations of the shareholders in terms of returns. Consequently, it is not possible to expect IBs to use such instruments extensively; therefore this study also suggests the creation of Islamic social banks to overcome the social failure of Islamic commercial banking.

1.3. SOCIAL FAILURE OF ISLAMIC BANKING AND FINANCE

Islamic banks, as part of their Islamic construct being the Islamic moral economy, are supposed to contribute effectively to the achievement of material well-being through the achievement of socio-economic development. Therefore, Islamic banks are attributed to shoulder a great responsibility in achieving social development, as part of their objectives, alongside economic and financial development. This comes through equitable development based on the provision of basic needs of society (Najjar, 1980). Thus, Islamic banks are expected to seek financial resources available in the community to direct them for productive investments for benefit of the individual and social development as a result of the economic development process (Mashhower, 2001). It should be noted that the very first Islamic bank was formed on such aspirations as a social bank (Mith Ghamr) in Egypt in 1963 by activist and intellectual A. Najjar (Mayer, 1985).

Despite such aspirations and expectations, most Islamic banks have followed the commercial banking model and therefore have focused most of their attention on investment transactions and their profit, and neglected to focus on the needs of society and social development. In other words, they focused on economic and financial efficiency rather than social efficiency. In support of this position, El-Gamal (2006) and Warde (2000) argue that IBF has done little to contribute to social development. Instead of demonstrating their serious commitment to social development objectives, Islamic banks have opted for efficiency over equity.

The reality today and the available evidence clearly indicate that there are more than 500 Islamic banks and financial institutions in the entire world, but most Islamic societies are still under development. Socio-economic development was largely ignored by Islamic banks which limited such social needs to a small part of their operations. Hence, Islamic banks and financial institutions (IBFIs) have not played their proper or expected role in the development process in the community (Hasham, 2008). In addition to social failure, financial failures have been witnessed as well regardless of claiming the *Shari'ah* foundations; such as the case with the Turkish Islamic bank, Ihlas Bank, which failed in 2001 due to corporate management issues (Ali, 2006). For example, the actions of some fund companies, like Taatmer funds, which claimed its ability to work in harmony with the provisions of Islamic law, have led to the failure and loss of rights of depositors, which have impacted adversely on the Islamic banks.

Hence, the existing Islamic banks which adopted the commercial banking model are unable to fully play their role according to Islamic provisions. Although some basic principles and regulations are going through the development process, the correct implementation is beyond the control and capacity of Islamic banks, which are confined only to achieve financial efficiency (Ali, 2001).

The developments in IBF thus indicate that there is a need for a new paradigm and institutional development to overcome the social failure of Islamic finance. This could be in the form of Islamic social banking similar to the Mith Ghamr experience in Egypt in 1963. This study, hence, attempts to demonstrate that Islamic social banking could be the next institutional development in re-directing Islamic finance in the direction of Islamic moral economy, in which IBFIs will have the mission to promote the safety, soundness, solidarity, and stability of society. The goal of Islamic social banking operations will be to improve the quality of life for all overall; the ethic value system behind Islamic social banking is religious, namely Islam, which aims at a dynamic economic development process with human centric understanding based on social justice.

It should be noted that this study does not deny the resource-pooling impact of Islamic banks resulting in economic growth, as the many empirical studies on 'financial development and economic growth nexus' indicate. In line with this, Islamic

commercial banks have an important role to play to generate economic growth. However, this does not help with economic and social development. Therefore, Islamic social banks can be considered to supplement the activities and operations of Islamic commercial banks.

1.4 RESEARCH AIMS AND OBJECTIVES

This research aims at exploring the demand and supply conditions for Islamic banking and finance in Libya through the perceptions of various stakeholders including bank customers, business people, bankers and financiers, bureaucrats and *Shari'ah* scholars. In doing so, this study also aims to explore and analyse the expectations of various stakeholders from Islamic banking and finance in particular in relation to social and economic development objectives. This study, thus, explores the possibility of social banks within Islamic economics or the Islamic moral economy paradigm in search for the failure of Islamic banking and finance in economic development. In line with this, the study further aims at measuring the perceptions of the participants as to whether Islamic social banking can be an alternative institutionalisation (in the case of Libya) for contributing to the economic development process beyond the commercial nature of the observed Islamic banking.

To fulfil the defined aims, the following objectives are developed:

- (i) Developing a critical understanding of Islamic moral economy;
- (ii) Exploring the social failure of the IBFs against the moral economy nature of Islamic economics;
- (iii) Understanding the institutional nature and salient features of social banking to investigate its feasibility through IBF principles;
- (iv) Conducting a questionnaire survey to assemble data in relation to the demand and supply conditions for Islamic banking and finance;
- (v) exploring the demand conditions for Islamic banking and finance in Libya by analysing the various dimensions including expectations in relation to social and economic contributions from Islamic banking and finance, as well as the perceptions of the potential of Islamic social banking;

(vi) Conducting an interview survey to gauge the perceptions of other stakeholders in relations to the supply conditions of Islamic banking and finance.

In line with the aims and objectives, the following research questions are developed:

(i) What are the salient features of Islamic moral economy in relation to Islamic banking and finance?

(ii) Is there a divergence between the aspirations of Islamic moral economy and the realities of Islamic finance?

(iii) Can Islamic social banking be developed in response to the social failure of Islamic finance?

(vi) What are the demand and supply conditions for Islamic banking and finance in Libya?

(vii) What are the perceptions of various stakeholders on sustainable development, corporate social responsibility and social banking?

(viii) Can Islamic social banking be considered for the development needs of Libyan society?

1.5. RESEARCH RATIONALE AND MOTIVATION

This study starts from the recognition that development in the Muslim countries has been very slow despite the available resources in some countries such as Libya, which have not been utilized in a socially and economically optimum level. Most Muslim countries including Libya have failed following a moral economy strategy in developing their societies, as many attitudes, regulation and norms in most of the Muslim countries are in conflict with Islamic teaching. As mentioned, since there is a correlation between religious attitude and economics and finance, such conflict undermines the efforts for economic and social development.

Libya, hence, similar to any other developing country needs to act upon its Islamic teachings of economics and finance instead of its policy practices that led to political isolation for many years under the previous regime. Despite the economic resources,

the country needs economic development with social justice orientation as there are developmental issues including poverty and rural economy in the country.

Libya of course is a newcomer to Islamic finance and therefore it did not have standalone Islamic banking law or any authorized Islamic bank before the February 17 Revolution. Therefore, it could be regarded as regrettable that in recent years Libya has increased its attention towards facilitating the Western banks, and neglecting Islamic banking or social development.

Following the example of other Muslim countries, Libya has made significant reforms in the service sector over the past decades, including the banking and finance sector. Banking law 2005 is aimed at creating a new legal framework for the banking system in Libya. Thus, 2007 saw the start of a strategy announced by the central bank in 2004 to develop and modernize the banking system. Interestingly, in March 2005 a new law allowed the opening of branches of Western bank for the first time (Morgan, 2009).

It seems to be clear that Libyan laws made so far show hesitation concerning Islamic banking, which have directed most of their attention on investment transactions and focus only on profit. They have given little focus on the needs of society and social development, which is left to constitute a small part of the operations of the Libyan agenda. Thus, after years of isolation there is a continuation of the Libyan state opening up to the Western world. However, there is an urgent need to rethink social development. It is detrimental for Libya to run away from Islamic banking because socially oriented Islamic finance can improve the lives of the people. Therefore, this provides the motivation and rationale for this research.

Hence, this research will try to explore the viability of Islamic banking in general and focus on the Libyan perspective, and its impact on the social development of Libya, which has suffered through years of economic and political isolation. Literature reviews show that the previous studies made on Libya in this field are rare. This study will contribute to the scarce knowledge base in Islamic finance and moral economy and Libyan economy and economic development, which indicates the significance of the study, and will help researchers and specialists by giving clues to the future interesting research related to it.

1.6. OVERVIEW OF THE RESEARCH

The research consists of twelve chapters: chapters, 2, 3, and 4 relate to the theoretical foundations of the study chapters 6 to 10) are devoted to the empirical study. The overview of chapters 1 to 12 is as follows:

Chapter 1 starts with an introduction to the research. It provides a statement of the problem, aims and objectives of the research, a number of research questions, and research methodology as well as the outline of the research. It also discusses problems of economic development in the Muslim world and solutions to the failure of economic development: Islamic moral economy (system) and social failure of Islamic banking and finance.

Chapter 2 reviews Islamic economics and finance which form the background to the empirical study. Several issues are investigated in this chapter, namely: moral values and economic development; religion and economic development, expanding the contents of moral values; social justice and ethicality in economics, business and finance, Islamic moral economy; foundational issues, the moral and ethical potential of Islamic finance, considering the social failure of Islamic banking; testing the ethicality and alternative solutions. Finally, the chapter concluded that the social failure of IBFIs thus far suggests the need for a new model of social banking.

Chapter 3 explores social banking in relation to socio-economic development in general. It also presents conceptual definitions of social banking, its functions and working mechanisms that are applied for socio-economic development. It concludes by looking at certain cases of social banking within the EU as well as other countries whose experiences can be valuable for Libya.

Chapter 4 addresses the Libyan financial structure; it attempts to present the historical background of the development of the Libyan banking sector, its political economy and the financial sector. In particular, it touches upon financial structures and the emergence of private banking. It concludes with the most recent developments in Islamic finance that the Libyan government is trying to implement in the post-revolution period.

Chapter 5 discusses the research methodology by making reference to the research design, its strategy, and the research methods employed. Data analysis is also discussed in this chapter, as is limitation and difficulties associated with the fieldwork.

Chapter 6, being the first empirical chapter, presents the descriptive analysis of the questionnaire findings from the survey. This chapter consists of the demographic characteristics of the individuals and respondents' relationship with banks, financial and economic knowledge of participants and perceptions of service received from banks.

Chapter 7 is the second empirical chapter which presents results obtained by analysing participants' perception of the performance of the Libyan economy and banking, Islamic economics and finance, underdevelopment of Islamic finance in Libya and the future of Islamic finance in the post-revolutionary period. It also focuses on social expectations of Islamic banking. In addition, the chapter includes the testing on the Libyan economy by conducting non-parametric Kruksal-Wallis test. The analysis further examines the significance of the Libyan economy and banking as stated by the participants in response to questionnaire questions 14 and 15, as a part of the Factor Analysis.

Chapter 8 elaborates the participants' knowledge and awareness of the principles and procedures associated with Islamic banking. Simple statistical methods have been used such as percentages, means, and standards in addition to KMO, Bartlett's test, and total variance in order to analyse the participants' responses to the questions to discover whether there are any differences in opinion. The second part uses the Kruskal-Wallis test to establish differences in opinion within the control categories of age, education, monthly income, status, and type of bank account.

Chapter 9 examines the participants' awareness and knowledge of the corporate social responsibility concept (CSR) as well as the role of Islamic banks in this area. As in the previous chapter, in order to establish whether any differences in opinion exist among participants, simple percentages, means and standard deviations have been used in the first part of the questionnaire. In the second part of the questionnaire, however, more advanced methods have been used including the Kruskal-Wallis test,

KMO, Barlett's test, and total variance to determine the importance of CSR to Islamic banks as perceived by those who took part in the survey.

Chapter 10 is an analysis of the semi-structured interviews conducted with a number of banking and financial professionals in addition to academics, *Shari'ah* scholars and the general public. A focused coding technique is used to analyze and sort the findings. This chapter also presents the results of qualitative analysis.

Chapter 11 presents the overall discussion of the findings in all empirical chapters by responding to each research hypothesis. The chapter provides an in-depth discussion of each hypothesis, and also makes cross-reference to the theory in order to link it with findings in this study. Hence, the outcomes of this chapter serve to derive the overall conclusion of this research.

Chapter 12, the last chapter, presents a summary of the major findings, recommendations, limitations and it also offers suggestions for future researches.

Chapter 2

ISLAMIC ECONOMICS AND FINANCE: AN INTRODUCTION

2.1. INTRODUCTION

Neo-classical economics, as the main tradition shaping our understanding of economic reality, expresses itself as a rational framework which does not necessarily entrain values, cultural forms and religion in shaping its formulation of how to understand and analyse economic reality. However, since the 1960s, the generally perceived trust in the modernist approach based on rationality has been contested on the ground that neo-classical economics failed to provide a comprehensive and integrated understanding. Therefore, in particular, since the 1970s various approaches within neo-classical economics (such as institutional economics, public choice, new political economy, and others) and beyond have been developed to provide a better understanding of economics, economy and economic policy. This paved the way for the endogenising of religious belief in affecting economic and financial matters. Thus, Islamic economics or moral economy represents a deviation from mainstream economics in an attempt to construct an authentic understanding of economy and economic life with the norms, values and principles of Islam as a religion with the same objective of creating economics framework and tools to examine the social reality that is called Islamic moral economy.

Islamic moral economy or Islamic economics emerged within this search for a heterogeneous movement in the 1960s. In addition, Islamic moral economy is a product of searching an authentic identity based on Islamic norms in the post-colonial period by academics, intellectuals and businessmen. While this search for an Islamic system of economy continues, the institutionalisation of Islamic banking became reality in 1975 by the formation of Dubai Islamic Bank, as the first Islamic commercial bank, while Islamic social banking was established in 1963 in Egypt with the experiment of the Mith Ghamr bank. Thus, Islamic banking turned into commercial banking rather than a social or development bank as aspired by Islamic moral economy.

Since the formation of the first Islamic commercial bank in 1975, Islamic banking and finance has made important inroads into the mainstream banking and finance sector beyond the GCC and Malaysia.

This chapter, hence, being the initial foundation chapter, aims to discuss the aspects and constructs of Islamic moral economy and also aims to locate Islamic finance within this moral system of economics after identifying the emerging nature of research on the role of religion in economics and economic development. The chapter is completed with discussing the social failure of Islamic banking in relation to Islamic moral economy as well as discussing the potential alternative forms of new institutionalisation.

2.2. MORAL VALUES AND ECONOMIC DEVELOPMENT: RELIGION AND ECONOMIC DEVELOPMENT

The current financial crisis has brought back value and morality into economic issues, as recent criticism of the conventional system indicate. Such values are considered as the cornerstone of all life affairs including economic development (Sadeq, 2006; Khairi, 1991).

Religions, which are a source for morality for many people in the world, claim to perfect behaviour in all aspects of life, enabling a person to make a distinction between right and wrong, and provide the rules that govern economic practice, particularly in Islam and Judaism. From an economic perspective, therefore, religion is important for creating the right business environment for the individual to operate by generating trust between different business parties (Iyer, 2005). Therefore, it could be maintained that incorporating religious values into business practice is expected to definitely favour the process of economic development. For example, all major religions, including Christianity, Judaism and Islam, emphasise the responsibility of the rich to help the poor and the needy and alleviate poverty for the sake of social stability and social good, which is the very objective of economic development programmes (Wilson, 1997). Thus, the main idea is that the gap between the rich and the poor will disturb economic development; therefore closing this gap will rectify the balance. Each of the three religions has its own approach to deal with this observed

gap between rich and poor. However, from a religious point of view the fair distribution of wealth is a prerequisite for fair and effective economic development.

The active role of religion in economic planning and political decision-making has been the focus of attention of scholars in recent times (Iannaccone, 1998; Glaeser, 2005). However, it can be traced back to Weber and his seminal work on the impact of protestant Christian tradition in motivating capitalism. In this regard, recent studies have investigated the effects of religion on economic growth and economic development (Guio *et al.*, 2003; North and Gwin, 2004; Noland, 2005; Barro and McCleary, 2003; Glahe and Vorhies, 1989), particularly focusing on religious traditions such as Hinduism, Islam and Christianity. Consequently, several theories have established a link between religion and religious practice and economic development.

Generally speaking, since it is considered that religious beliefs will encourage good character traits such as hard work, honesty, wise spends *etc.* which will lead to the increase of individual savings and capital accumulation, thus favouring the process of economic development. Moreover, the positive impact of religious beliefs on the wellbeing of individuals has become evident. For instance, religious beliefs tend to lower the incidence of depression and work towards stable family and social relationships, which have a positive impact on economic development (McCleary, 2008).

For all of the above reasons, religion has always played an important role in the process of economic development since the early stages of human history. In this respect Adam Smith (1776), in his *Inquiry into the Nature and Causes of Wealth of Nations*, emphasises that the value of religion as a moral enforcement mechanism constitutes the most important contributions to the process of economic development. Therefore, in terms of religious values, work provides the most appropriate means of glorifying God, while idleness, lack of productivity and the wasting of time in unnecessary activities are most abhorrent to God (Khan and Bashir, 2008). Furthermore, Weber particularly stresses the Protestant work ethic for the role it plays in economic development. Therefore, it could be said that religiosity influences willingness to work and productivity (Barro and Mitchell, 2004). This where the

effect and impact of religion becomes important in economic and financial matters and therefore should not be ignored.

In short, religious values in this sense are those moral values that are assumed to have divine origins; it is therefore important to understand that these ethics have a major role to play in the process of economic development. Considering that the world is in dire need of alternatives to the present economic system due to the chronic crises (Reinhart and Rogoff, 2011), particularly in terms of ethical and moral practice, it is essential that religious ethics and morals should be brought back into economic systems.

2.3. ISLAMIC MORAL ECONOMY: FOUNDATIONAL ISSUES

The *Qur'an* and the traditions of Prophet Muhammad (peace be upon him) as documented in his daily discourse the *Hadith*, namely the ontology and epistemological sources of Islam, constitute the basis for moral economic practice in Islam. Indeed, Islamic morality for economic practice incorporates actual guidance from Allah through the *Qur'an* and the Prophet's tradition, the *Sunnah*. Thus, it should be understood that these two pillars provide the foundational axioms for the formation of Islamic economics (Asutay, 2007, Asutay, 2008, Chapra, 2000, Karim, 2010).

Islamic moral economy aims at preventing injustice or *zulm* through Islamic moral economic practice by seeking to realize and create the right environment of social justice for all with the objective of developing a human-centred economic system. Justice and fairness in all financial and economic activities is the core of the paradigm of Islamic moral economy, which institutes moral constraints on economic, financial and business dealings.

Islamic moral economy, apart from building on foundational axioms, also has to ensure that all economic and financial transactions are conducted in accordance with *Shari'ah* law, permissible or *halal*. Azid and Asutay (2007) point out that *Shari'ah* requires business and other human activities to be practised in a way that benefits the community, which is described as *halal*. Therefore, Islamic moral economy aims to

organize human activities in the areas of production, distribution and consumption, guided by norms of what is allowed (*halal*) and what is not allowed (*haram*).

Karim (2010: 1) argues that, as a morality-based practice, Islamic economic practice is seen as a “utopian model characterized by equitable distributions of wealth and systemic social structures that provide universal care for all individuals in need”. However, despite such claims it is still possible to form an Islamic moral economy paradigm, as argued by Wilson (1997: 116), who states that “the only fruitful way to study economics in this fuller perspective is to derive basic economic propositions from the first principles of religious ethics”. Hence, the morally-oriented Islamic economic practice is seen as a part of the faith as it is based on *Shari’ah* law and deals with all aspects of human economic activities such as production, consumption and distribution (Asutay, 2010).

Since this new paradigm is based on the ontology and epistemology of Islam, it is termed in various ways: Islamic economics, religious economics, ethical economics, moral economy or humanomics (El-Ghazali, 1994). However, according to Asutay (2010:3), the Islamic moral economic system can be defined as “an approach to, and process of, interpreting and solving the economic problems of human beings based on the value, norms, laws and institutions found in, and derived from, the sources of Islam”.

Within this comprehensive paradigm of moral economy, Islam constructs human sense featuring the following relationships:

- (i) Man’s relationship with God the creator, which features in the acts of belief (*aqeeda*) and worship practices (*ibadat*);
- (ii) The relationship between the individual and God, which relates to ethics;
- (iii) Man's relationship with other people, which features the socio-economic interactions between people, including economic and financial transactions, and every other behaviour that involves social or economic activity.

Thus, in Islam, ethics and values cannot be separated from socio-economic activities performed by individuals (Sbatin, 2006). It is obvious that Muslim society is much

more strongly regulated by its religious beliefs (*aqeeda*) than any other society (Naqvi, 1997). In order for a systemic understanding to develop an economic order, there are certain conditions to be fulfilled by any paradigm, one of which is the foundational principles and axioms. Thus, Islamic moral economy coined its conceptual foundations for its unique system based on ethical axioms as follows:

(i) *Tawhid* and *Uluhiyyah* (God's unity and sovereignty) which implies Oneness of God, including unification of self, the names and attributes of God. By resorting to Islamic theology, God can be expressed as a stark unity, a single divine entity who created everything in this world (Naqvi, 1994). *Tawhid* provides the rules that explain the relationships between God and human beings and between people themselves, in the sense that human beings must know that God is the provider of all material on the earth, in the sea or in the heavens to the effect that they must be equally distributed and shared so that all social groups will benefit from them. In this respect, *Tawhid* provides the framework and guidance for economic activity, as it is the main axiom around which the entire paradigm is constructed, and the core of this paradigm is justice. Thus, *Tawhid* refers to the vertical ethical aspect of this moral economy, implying that individuals are equal in the sight of God and in their distance to God as well as in their access to the resources created by God on earth. As an extension of this, *risalah* (prophethood) and *akhirah* (the Hereafter) extend the notion of justice. God sent prophets (*rusul*) to educate individuals, an act through which social accountability in the Hereafter or *akhirah* is introduced as an important part of the process in terms of the Hereafter being the place where justice is to be established (Asutay, 2007).

(ii) *Tawhid Rububiyyah*: this axiom in relation to Islamic moral economy implies "divine arrangements for nourishment, sustenance and directing things towards their perfection" (Ahmed, 1979: 12). Therefore, in terms of economic growth and economic development, all human efforts should be perceived as a blessing from God in helping to realize sustainable development goals. In addition, it implies that social and environmental harmony should be pursued and preserved. *Rububiyya* and *Uluhiyyah*, namely Lordship and Divinity imply an act of worship of God as long as that activity is not harmful to society. In other words, every constructive human activity is considered an act of worship of God (El- Ghazali, 1994), and should reflect

the ethical intention and consequences so that all the extensive stakeholders' interest in a sustainable manner should be actualised.

(iii) *Al adl wa al - ihsan*: (justice and beneficence): This is an important axiom in the Islamic moral economy because it encourages people to establish justice (*adl*) through equal and fair distribution of wealth among individuals (Asutay, 2010). As the horizontal ethicality, it implies that individuals are equal to one another without any discrimination. At this point, one should obey God's commands featured in the *Qur'an*, which tend to promote the performance of good deeds by encouraging people to care for one another (*Qur'an*, 16: 90). It should be noted that justice and performance of good deeds tend to strengthen the fabric of brotherhood and create social balance. Furthermore, Muslims have a duty and responsibility to their society to share resources, as *Tawhid* indicates, by giving *zakah* (a mandatory charity to be given by everyone who can afford to do so) and *sadaqah* (a voluntary charity). This system mainly targets the needy and the less fortunate in society, such as orphans and the disabled. In this way, this system tends to alleviate poverty and social misery. It becomes obvious that the equitable distribution of resources as instructed by God should have a positive impact on economic growth and social stability (Naqvi, 1981).

(iv) *Ikhtiyar* (free will): There is no doubt in the Muslim world that God has created human beings and given them the faculties to enable them to distinguish between good and bad practice, which means that humans are always capable of evaluating what is right and what is wrong (Samurai, 1991). Thus, according to Islamic belief, the destiny of individuals is decided by the freedom of choice between right and wrong. Accordingly, as far as the Islamic faith is concerned, individuals should bear full responsibility for their actions because, in the Hereafter, they will be called to account for these actions before God on the Day of Judgement. This implies that individuals are free to choose from among various economic and financial options. However, due to the importance of social justice, rationality is bounded; hence, morally-ordered freedom is one of the main axioms of Islamic moral economy. In other words, this should lead to the achievement of socio-economic development (Naqvi, 1994).

(v) *Fard* (mandatory actions): Islam affirms that Muslims have a responsibility (*fard*) to their society and especially to the needy, such as orphans and other less privileged

social groups. Indeed, Islam places special emphasis on avoiding social negligence, and many verses in the holy *Qur'an* urge Muslims to care for one another, particularly for those in need (Karim, 2010) (see: *Qur'an*, 70: 24-25). Muslims believe that all wealth and power on this earth belongs to God. In this regard the *Qur'an* tells us that wealthy individuals are in fact trustees of the wealth given to them and they should spend that wealth in accordance with God's advice. In other words, rich people should always return the right of society to society, as in their wealth there is a social claim. This can be done by caring for the needy and the dispossessed by giving mandatory charity (*zakah*) as well as voluntary charity (*sadaqah*) (Naqvi, 1994). Therefore, in Islam wealth has a social dimension, no matter whether it is owned by the state or by individuals. It is for this reason that Islamic moral economy is called a utopian model because it aims to distribute income and wealth in an equitable manner among people in society (Asutay, 2010).

(vi) *Tazkiyyah* (growth with purification): This axiom refers to the purification of one's soul by improving one's relationships with God, society, the environment and the state (Ahmad, 1994). This implies self-development as it involves promoting justice (*adl*) and good deeds (*ihsan*) and preventing injustice (*zulm*) among all the stakeholders in life including other individuals, the state, society, and biological environment. Thus, this axiom suggests that growth in the economy, society and at the individual level is acceptable but must be done with social and moral obligations in mind without harming any of the related stakeholders in a Pareto optimal manner. This should favour social and economic development, and should promote happiness both in this mundane life and in the Hereafter (Asutay, 2007).

(vii) *Khalifa* (vicegerent): This is an important and institutionally-related axiom of Islamic moral economy. The *khalifah* role necessitates that an individual should recognise that all wealth and natural resources on earth belong to God and are entrusted to human beings who should not use economic resources in a wasteful manner; should establish justice on earth, and not undermine social harmony and ecological balance. This implies that individuals are God's vicegerents (*khulafa*) on earth having responsibility to live their lives fulfilling the above-mentioned axioms. Thus, the *khulafa* have the responsibility to use these resources in a way that will benefit humanity at large without discrimination (Asutay, 2007). In other words,

through piety and righteousness the world's resources should be harnessed to serve all the living beings that God has created on earth.

(viii) *Maqasid al-Shari'ah*: (Higher Objective of *Shari'ah*): It is important to stress that the objectives of *Shari'ah* have been defined by Imam al-Ghazali (d.505/ 1111) as “to promote the well-being of the people, which lies in safeguarding their faith (*din*), their self (*nafs*), their intellect (*aql*), their posterity (*nasl*) and their wealth (*mal*)”. (Chapra, 2008:4). Thus, the five objectives of *maqasid al-Shar'iah* aim to improve the quality of life and motivate people to achieve their well-being. They also provide a framework for social and economic activities, and set them in the right direction to be consistent with Islamic teachings. Therefore, the five objectives of *Shari'ah* constitute the basis for social reform and socio-economic development towards a better future for individuals and for society at large (Asutay, 2007). By eliminating harmful and sinful practice from all aspects of life, it will become possible to ensure welfare and justice for all. The five objectives of *Shari'ah* can be described as the essence of the Islamic faith, and constitute the basis for social stability. However, failure to observe these five objectives of *Shari'ah* would mean that one would sustain suffering in life and face an uncertain destiny in the Hereafter (Chapra, 2008:6). This, *maqasid* approach provides the methodological base through which the objectives of economic and social activity is achieved.

Overall, it should be understood that these axioms play a major role in shaping and structuring Islamic moral economy as well as providing a clear path for human well-being. From an Islamic point of view, the mandatory charity (*zakah*) is considered an economic and social institution in the Muslim community, because it meets the needs of the poor and the needy (Haq, 1996). On the other hand, *rububiyyah* and *tazkiyyah* tend to motivate believers to act for the good and prevent evil with regard to social behaviour and economic activities in which they are involved. However, this implies that a true Muslim should earn his living through lawful or *halal* means and should avoid unlawful earnings, *i.e.* his earnings should always be within the bounds of *Shari'ah* law. In this respect, a devout Muslim should avoid malpractices that are socially offensive, such as the squandering of wealth (*tabdhir*). Furthermore, justice (*adl*) implies that equal opportunities should be available for all human beings to enjoy and benefit from the natural resources that have been endowed by their Creator.

Thus, no one has the right to prevent other members of society from benefiting from these resources as they belong to the whole of society (Asutay, 2007). It becomes clear from these examples that these axioms have implications for all aspects of life, and they should play a major role in socio-economic planning.

In conclusion, it is expected that all these axioms, as the foundational principles of Islamic moral economy, aim to enable individuals to achieve *falah* (salvation) in this world and the Hereafter. In this process, they are expected to enhance their level through beneficence (*ihsan*) and help others in society to enhance their beneficence. In the end, it is expected that *ihsani* (social capital) will be maximized in society.

2.4. ISLAMIC CONCEPT OF DEVELOPMENT

Islamic economics attempts to develop a comprehensive and independent economic theory that aims at endogenising social responsibility as one of the main axes of the theory based on the axioms of the emergent Islamic economic paradigm. Therefore, the Islamic vision for development differs from development economics, because it addresses the reform and uplifting of the human sector, which is necessary for sustained development and social justice (Gohari, 2000), while development economics mainly focuses on material development. This does not mean that Islamic economic development negates material development. Contrary to secular systems, which are now dominating the world, the Islamic system aims at establishing optimality between the material and spiritual aspects of human life and, hence, in economic development. In other words, while secular systems always focus on material aspects of human life, Islam takes other non-material aspects such as brotherhood, credibility, honesty *etc.* into account (Chapra, 1995), as indicated by the axioms of Islamic economics.

The Islamic concept of development can be identified by the following features (Sadeq, 1997):

(i) The Islamic concept of development has the characteristics of comprehensiveness and balance. Therefore, it features both material and spiritual aspects of human life. For this reason the Islamic concept has managed so far to satisfy human needs at both individual and group levels in a harmonious manner.

(ii) Islamic development efforts always target humans with the objective of improving human life economically, socially and culturally to enable humans to cope with the surrounding environment.

(iii) Islamic process of development can be described as multi-dimensional, as Islam seeks to strike the right balance between the different aspects of life in relation to human needs.

(iv) Islamic economics aims at achieving equitable distribution of resources between individual members of society from all the different social groups; in the meantime, it seeks to prevent the squandering of resources for the sake of future generations. By doing so, it aims at intra- and inter-generational social justice.

Consequently, according to Sadeq (1987: 35-36), economic development in Islam can be defined as a “balanced and sustained improvement in the material and non-material wellbeing of man, and development as a multi-dimensional process which involves improvement of human welfare through advancement, reorganisation and reorientation of entire economic and social system in accordance with the norms and values of Islam”.

It is important to note that Islamic economic development covers two dimensions of human life in the time horizon by contributing to human beings’ welfare in the present life and the hereafter together. Thus, the uniqueness of the economic development concept in Islam originates from its contribution to the welfare of human beings in both stages of life, which makes it different from conventional economic development.

It should be quite clear that the Islamic approach to economic development is unique and has nothing to do with either socialism or capitalism, as the *Qur’an* and the Prophet’s tradition constitute the main sources for the process of law-making in Islam. In this regard, neither capitalism nor socialism has a religious background. As Wilson (1997: 117) puts it, "Western neo-classical economics makes little or no reference to biblical teachings". However, in sharp contrast to that, in Islam every human activity is considered a form of worship of God as long that activity is not socially offensive.

Thus, the economic concept is considered part and parcel of the true Islamic faith (Naqvi, 1981).

2.4.1. The Philosophical Foundations of Economic Development in Islam

Islamic economic development theory benefits from the same philosophical sources and axioms of Islamic moral economic theory. These include *tawhid uluhiyyah*, *tawhid rububiyyah*, *khilafah* and *tazkiyyah*, which were explained earlier in this chapter. However, this section will focus on explaining the concept of *al-falah* as one of the main consequential axioms of Islamic economic development, and the aim of the Islamic economic development process (Ghazali, 1990; Ahmad, 1994; Ahmad, 2004; Asutay, 2010).

Al-falah, or salvation, is considered the essential goal of individuals in life; hence, economic development should focus on helping individuals to achieve *falah* in this world and the Hereafter (Chapra, 2008). As a concept, it refers to one's commitment to fulfilling God's commands, which will lead to the achievement of success in this mundane life and the Hereafter. It is noteworthy that God has mentioned the word *falah* in the Holy *Qur'an* 29 times and has also used the word *fawz* (success), which is synonymous with the word *falah*, 29 times. The strong emphasis on these words by God demonstrates the importance of the *falah* process, which implies development. From an Islamic point of view, economic development is an obligation (*fareda*) as well as worship (*ibada*), because God has not created human beings in this life in vain but to perform a mission (*risalah*), which is described as *khulafa* or vicegerents of God on earth. In this regard, *Qur'an* (11: 16) states that "it is He who hath produced you from the earth and settled you therein"; the *Qur'an* also states (62:10): "And when the Prayer is finished, then you may disperse through the land, and seek of the Bounty of God: and celebrate the Praises of God often (and without stint): that you may prosper". As can be seen, Islamic teachings encourage people to work and produce things. The *Qur'an* (9: 105) testifies to this fact by saying "And say: Work (righteousness), soon will God observe your work, and his Apostle, and the Believers". Thus, from an Islamic point of view, work and production is a form of worship (*ibada*) of God. Thus, the individual worker will be close to God as long as he perfects his work, and he will be rewarded for that in this world and in the Hereafter. It is therefore necessary to understand that economic development in Islam

is the best form of worship (Fangary, 1980). In other words, these acts lead to socio-economic development and to the establishing of justice (*adl*) and beneficence (*ihsan*), with the effect of providing a good standard of living for every member of society.

It is important to note that Islamic jurists argue that economic development is not a matter of production and other economic processes but, rather, a process that involves all aspects of human development, both physical and spiritual (Chapra, 2008). Hence, the Islamic perception of economic development is based on equilibrium between the spiritual and the material rather than material aspects alone. For instance, in Islam, mandatory charity (*zakah*) and other voluntary donations to be made by Muslims not only alleviate social misery for those in need but also add a spiritual dimension to the lives of such donors.. According to Islamic belief, the spiritual and material aspects of life are interrelated rather than discrete; therefore, for life to prosper, a balance should always exist between the material needs and the spiritual needs of an individual (El-Ghazali, 1994). In this regard, Azid and Asutay (2007: 163) argue that “economics is not value-free but contains hidden metaphysics”. In other words, in Islam both the spiritual and material aspects are indispensable for economic development.

To sum up, it should be maintained that, in Islam, the process of economic development is closely linked to the following:

- (i) In Islam, work is essential for building the earth. Thus, construction (*imarath al-ard*), becomes a main requirement in the process of economic development;
- (ii) Economic development is considered a religious obligation (*fard*);
- (iii) The government’s role in the development process is to provide building land (*imarath al-ard*) for the people’s livelihood because it is necessary to ensure development.
- (iv) The concept of development in Islam includes justice in the distribution of resources to bring about solidarity and cooperation among the people (Najjar, 1991).

The Islamic approach, hence, is focused on human beings because man is the centre of the development process and is the vehicle through which God's purpose will be fulfilled. Development, therefore, means development of human beings' physical capacities, attitudes, lifestyle, socio-economic environment, incentives, tastes and aspirations. Thus, development does not mean development of production, goods and services or increased wealth, *etc.* In fact, the Islamic approach to development deals with all aspects of human beings' lives, socially, economically and politically. Islamic economy places a high value on human dignity, as human beings are the most important in the development process (El-Ghazali, 1994) (see *Qur'an*, 17: 70; 13: 11). The human self, as mentioned earlier, is one of the five primary objectives of the *Shari'ah*, so humans should reform themselves at all levels.

Islamic development process argues that the achievement of economic and social development requires economic practice to be fair and just, and it should be free of any form of injustice (*zulm*). As these practices target human beings, who remain the main elements in the success or failure of these processes (Asutay, 2007), Islamic teaching instructs man to be productive, industrious and thrifty; as a result, this rational behaviour will lead to the realization of human wellbeing for all (Mehmet, 1990).

From the foregoing it could be inferred that, according to the Islamic concept, economic development should target humans as individuals and as communities, and should address all aspects of human development - physical, spiritual and moral - in order to maximize economic and social benefit (Bashir, 1999). Furthermore, Asutay (2009: 27), points out that the development process is "mobilised and activated through gratitude to God (*shukr*) and through promoting justice (*adl*), and would be disrupted and distorted by injustice (*zulm*)". Thus, it could be concluded that, compared to the existing system of economics and finance but also compared to the Jewish and Christian economic concepts, the Islamic economic concept is more advanced and seems to stand on higher moral ground (Wilson, 1997).

2.5. THE MORAL AND ETHICAL FOUNDATIONS OF ISLAMIC FINANCE

The Islamic finance (IF) system is based on the ethics of faith and the principles of *Shari'ah* with an attempt at developing an alternative system of financing. It is noteworthy that the phenomenal growth of the IF industry indicates the degree of success of the concept of IF and that the concept is economically functioning. The values and ethics associated with the IF concept make it attractive not only to Muslim countries but also to a wide spectrum of ethically conscious countries.

The Islamic banking (IB) industry, despite the fact that it is a relatively recent practice compared to conventional commercial banking, is destined to remain as an alternative to the present economic practice, especially in terms of ethical and moral standards. As the existing system has created many problems that are continuing unabated: the world today, particularly after the current global crisis, is in dire need of alternatives to the present economic system, particularly in terms of ethical and moral values (Muhammad, 2008); IF, with its core principles and values, should be considered as an alternative financing method.

It should be noted that Islamic economists, scholars and jurists have been analyzing and examining financial and banking systems that were established in Muslim countries in the 19th century in terms of their failure to achieve the anticipated socio-economic development. However, after prolonged diagnosis there was consensus among scholars that the failure of the financial and banking system in the Muslim world had been due to its inconsistency with authentic Muslim identity. Therefore, Islamic jurists, scholars and economists, inspired by models of Islamic financial and banking systems, started restructuring the socio-economic institutions to make them consistent with Islamic ethics and values. As a result, efforts have been made to create an alternative economic and financial system based on Islamic values, a main feature that distinguishes it from the conventional systems of capitalism and socialism.

IF institutions nonetheless provide services in a way that is consistent with *Shari'ah* law. In recent years, the Islamic financial system has expanded to include non-Muslim countries. To say the least, the system has become globally acceptable due to the inherent ethics and values that make it unique among economic systems. Over time, the Islamic financial system has received more attention for the success it has

achieved in certain Muslim countries, such as the Gulf Cooperation Council (GCC) and Malaysia.

Consequently, the IF system has received more attention as a viable alternative to the traditional banking system, particularly since it has proved to be less susceptible to periodic imbalances. Therefore, the spread of Islamic financial practice in the Western markets provides stark evidence of the fact that the financial supervisory authorities in the relevant countries find it an approach worth looking at and taking into account. Hence, many countries worldwide, such as the United States, Australia and Middle Eastern, Asian and European nations, have realized the importance of the Islamic financial system (Qntakji, 2008).

Islam emphasizes ethical values in all aspects of human life, especially in business practice. Therefore, Islamic teachings stress the observance of ethical and moral values and practices in business transactions. In substantiating these ethics, Islam prohibits certain kinds of economic transactions related to interest or *riba* or those dealing in commodities such as tobacco and alcohol, which are socially offensive, as Islam considers these commodities dangerous because they destroy the basic bonds in family and societies.

Good ethics that Muslims should practise during their lives include responsibility (*fard*), justice and fairness (*adl*), beneficence (*ihsan*), trust and honesty (*al-amanah wa al-ekhlahs*), giving charity (*sadaqah*), avoidance of usury (*riba*), caring for others (*takaful*), observing other people's rights (*huquq al-ebad*), cooperation (*al-taawun*) etc. These constitute the micro dynamics of the Islamic economic and financial system, as individuals, being the representative of God on earth – vicegerent – are expected to shape their behaviours according to the Islamic ethics, as summarised with the moral economy axioms and the micro dynamics in line with 'homoIslamicus' as opposed to 'homoeconomicus'.

2.5.1. Principles of Islamic Finance

In recent decades in the Muslim world, there has been an increasing interest in trying to restructure financial activities so that they become compatible with Islamic principles. Consequently, Muslim countries started to readjust their financial and

commercial transactions in accordance with the rules of Islamic law so that transactions could be constructed according to *fiqh al-muamalat*. However, in response to these rapid developments, Muslim jurists, economists and thinkers have explored ways and means by which Islamic financial and banking systems can conduct transactions on an interest-free basis. Thus, the IF system has successfully managed to offer services to its customers in accordance with the dictates of *Shari'ah*. Thus, it is obvious that Islam has its own financial philosophy (Usmani, 2002). Therefore, it becomes of paramount importance to discuss the basic principles of the Islamic financial system that tend to organize business activities in an Islamic context.

Islamic banking and finance (IBF), as part of the Islamic moral economy, in an operational sense is based on the prohibition of usury (*riba*), which implies that transactions should not be interest-based but based, instead, on profit-and-loss-sharing (PLS) or trade financing. Therefore, the IF system provides an alternative to the traditional banking system. In this regard, the IBF transactions are referred to by many terms such as partnership (*musharakah*), mark-up (*mudarabah*), profit-sharing (*murabahah*) etc. In fact, these modes of financial transactions had been practised in the Muslim world a long time ago in Muslim history (Iqbal and Molyneux, 2005). In addition to the prohibition of interest, the investment areas are also restricted with the ethical norms of Islam. In other words, the religious duty requires Muslim investors to ensure that their money is invested in a way consistent with the principles of *Shari'ah*. This implies that feasibility studies of investment projects should incorporate the moral and ethical dimension according to Islamic standards in terms of the social and environmental impacts of those projects. In other words, Muslims must not invest in projects that provide goods and services that are religiously tabooed, such as tobacco, alcohol, gambling, etc.

When mentioning IBF, the first reference is normally made to the prohibition of interest in Islam, which, as a normative proposition, is shared with other revealed religions in their most historical forms. While IBF benefits from the above-mentioned value system, there are certain features that define IBF operations. These are as follows (Asutay, 2010):

(i) Interest-based transactions (*riba*) has been clearly disallowed by *Shari'ah* law. According to Islamic doctrine the main purpose of disallowing such transactions is

that benefits are prioritised so that the social welfare should not be compromised for individual welfare (Chapa, 1992, 2000). Thus the prohibition of *riba* tends to create a stable socially oriented economy.

(ii) IME aims at real economic activities, where all parties involved should equally be sharing the profits as well as the possible losses. In other words any attempts to set fixed profits by banks should be an act of *riba* as such act tends to eliminate the element of risk sharing. This is where the idea of asset-based financing becomes important implying that all financial activities should be focussed on tangible assets (Iqbal and Mirakhor, 2006).

(iii) The principle of the prohibition of interest-based transactions (*riba*) plays in favour of the notion that money does not produce money and that money should only come through hard work rather than through credit systems.

(iv) The prohibition of interest-based transactions should make the message clear that any gains should be related to an effort, which makes the principle of profit-and-loss-sharing rather essential for any real economic activity (Ayub, 2007). By maintaining such a principle, economic justice will be served as the risk of loss will be shared by both the lender and the borrower (Siddiqi, 1985).

(v) The principle of risk sharing should imply that all the parties involved in the business deal, *i.e.* the Islamic financial instruments, the capital and labour should work in harmony for the economic welfare of the individual as well as the society at large. Such a method of business control could be one of the outcomes that pave the way for democratic political governance (Cizakca, 2007).

(vi) According to the asset-based principle, economic activities featuring excessive uncertainty or *gharar*, gambling and speculation is prohibited by *Shari'ah* (Iqbal and Mirakhor, 2006), and yet some scholars seem to be of the opinion that a certain level of uncertainty will be indispensable for boosting modern financial instruments.

2.5.2. Islamic Financial Instruments

Based on the above-mentioned principles, the IBF system provides a number of transactions based on profit-and-loss-sharing, and tends to harmonize the interests of

the bank and its clients to bring about economic stability. “Contemporary Islamic finance is the product of centuries of development of Islamic law. The contracts used today in the industry are based on the intellectual and juristic efforts of some of Islam’s greatest scholars and jurists. Taking the contracts those jurists devised as a foundation, industry practitioners construct contracts and instruments to meet the financial needs of Muslims seeking liquidity and financing, as well as enabling them to conform to the letter and spirit of their religious obligations” (Walker, 2009:6). It is on this basis that the Islamic financial system forbids the charging of usury and offers an alternative for the banks by allowing them to earn their profits through the provision of fee-based services. More importantly, the system of partnership between the bank and its clients implies profit-and-loss-sharing between them through pre-agreed conditions.

The real and ideal instruments of financing in *Shari’ah* are partnership (*musharakah* or *mudarabah*) and mark-up (*murabahah*) contracts. This implies that, in IBF, investment activities are based on the forms of partnership and mark-up, as an alternative to interest-based transactions. The following sections provide a general description of these products.

Mudarabah-type transactions involve two parties, with one party providing money to the other for purposes of investment or establishing a commercial venture. The creditor could be an individual or bank. The recipient, better known as a speculator (*mudarib*), tends to invest the borrowed capital in a commercial enterprise. In other words, the borrower has a duty to manage and invest the money in a way consistent with *Shari’ah* law. Furthermore, *mudarabah* is the essence of Islamic banking where profit and loss are shared between the parties involved in business transactions. It is noteworthy that profits can be shared in any ratio initially agreed upon by the parties at the outset of the contract. However, in the case of a loss, the creditor bears the risks of loss, as shown in the figures below, while the entrepreneur loses their time and effort (Usmani, 2002).

Musharakah (partnership) literally means sharing (full partnership) where two or more partners agree to establish a commercial project. The basic rule of partnership (*musharakah*) is that the different parties should contribute to the capital as well as take part in the different activities. By the same token, the different parties share the

profit and loss in accordance with an initially agreed contract (Iqbal and Molyneux, 2005). Finally, in cases of partnership, the contract can be terminated due to unforeseen circumstances such as death or insanity. In addition, Karim (2010) refers to types of partnership contracts, which are contractual partnership (*Shirkah al-uqood*) and non-contractual partnership (*Shirkah al-mulk*).

Shirkah al-mulk or non-contractual partnership: This is joint ownership where two or more persons acquire wealth without signing a formal partnership agreement because this wealth or asset comes through an inheritance or a gift of land or property that may or may not be divisible. Hence, in this case the parties have to share these assets and the profits generated in accordance with the ratio of sharing. However, should they decide to stay together, the profit will be distributed among them according to the agreed ratio. Karim (2010) defines contractual partnership (*Shirkah al-uqood*) as a partnership established through a contract between two parties involved in a commercial project.

The Islamic economic system provides a practical and more realistic alternative to the interest-based traditional system, as Ahmed (1992: 83) points out that “there is no denying the fact that banking on the basis of profit/loss sharing (PLS) entails greater supervision compared to interest-based banking”. Khan and Baatti (2008: 43), on the other hand, suggest that “Some Western economists have found a cure for growing economic problems such as unemployment, inflation and recession in reconfiguring the modern economy on a risk-sharing basis. The latest version of a risk-sharing economy – share economy – has been presented by Martin Weitzman, whose vision of share economy was hailed as the best idea since Keynes”.

Murabahah: This is a particular type of sale or type of trust trading featuring an ideal mode of financing consistent with *Shari'ah*. Thus, the term *murabahah* refers to a sale contract (*aqd*) between two parties. In this respect, Jonsson (2006:154) points out that “*murabaha* is a particular kind of sale in which the seller expressly mentions the cost of the sold commodity he has incurred and sells it to another person by adding some profit on to it”. Furthermore, Iqbal (2010:283) defines *murabahah* as “selling a commodity with cost plus a margin”. Thus, *murabahah* is used to facilitate the trade and finance activities of Islamic banks and financial institutions, which governs a contract between the bank and its customers, where the bank will purchase

commodities and then sell them to the customers at a cost that includes a profit margin. It should be noted that *murabahah* transactions are one of the most popular and widely used modes in Islamic banking and financial institutions to avoid dealing in usury (*riba*) and to promote fair and lawful (*halal*) transactions as prescribed by Islam. The contract requires specific payments by instalment to be paid to the relevant party in accordance with the terms of the contract. Nonetheless, failure by the buyer to pay on time should not give the seller an excuse to impose a penalty charge, as is the case in the conventional commercial banking system. As far as Islamic banking activities are concerned, *murabahah* replaces interest-based transactions involved in the conventional commercial banking system.

As for *ijarah*, in the Arabic language *ijarah* (leasing) means rent. In economic terms, “*Ijarah* as a contract refers to hiring or renting assets, commodity to benefit from its usufruct. It also encompasses the hiring of labour and any contract of work for anyone against a return wage” (Ayub, 2007:279). In Islamic doctrine, hence, *ijarah* means the transfer of usufruct of an asset or property to another party in return for a specific price. According to Muslim scholars, *ijarah* contracts are allowed by *Shari’ah* law as long as the parties involved sign the contract with their own consent and free will.

Bai al-salam or advance purchase, as another form of contract, involves future sales, and the item might not necessarily exist at the time of contract. In this regard, failure of the seller to deliver the item with the right specifications and at the right time gives the buyer the right to a refund. Most importantly, the contract should specify the time and place of delivery, and that the price should be paid in full prior to delivery. However, unspecified items such as precious stones are exempt from this type of contract.

2.6. CONSIDERING THE SOCIAL FAILURE OF ISLAMIC BANKING: TESTING THE ETHICALITY

IBF institutions prevail in most parts of the world with more than 500 institutions of different size and types with assets over US\$ 2 trillion (The Banker, 2012). However, since their inception questions have been raised about the social responsibility of Islamic banks. In other words, there has been a recent debate on the divergence

between Islamic moral economy's expectations and the realities of IBF. This raises further questions about the role of those banks with regard to socio-economic development plans such as alleviating poverty, unemployment and technological backwardness. This may imply that the role of IBF should go beyond collecting mandatory charity or *zakah* from depositors and shareholders to distribute it among those in need, rather, they should undertake the role of promoting socio-economic development in countries where they operate. The aim of IBF, as defined by the Islamic moral economy, apart from making profits, is to address the social dimension. For this reason, there are a number of indicators that could be used to establish whether those banks have achieved their social mission. Aliyyash (2010) states that banks achieve their social mission when they are able to:

- (i) Participate in development plans;
- (ii) Provide for the needs of society as arranged according to priority in Islam, which are necessities (*al-dharoriat*), needs (*al-hteajiat*) and improvements (*al-thasinyat*);
- (iii) Contribute to the increase in GDP of communities and improve the performance of balance of payments in that country;
- (iv) Contribute to solving the urgent problems of society such as housing, unemployment, food security, *etc*;
- (v) Work to move the wealth, circulating and distributing it among members of society;
- (vi) Develop new areas, fighting against pollution and contributing to health and social care.

Thus, within Islamic economy, social and economic developments are closely linked as both ultimately target human development. This determines the social responsibility of Islamic banks to feature the following aspects, as suggested by (Aliyyash, 2010):

- (i) Social responsibility of Islamic banks to shareholders by developing areas of investment and allowing shareholders to scrutinize the bank's activities and gain access to required data;

(ii) Social responsibility of Islamic banks to their workers, through activation of the system of participating in profits, giving interest in pension systems for employees, offering the possibility of ownership of shares in some banks, providing an appropriate environment in terms of training and development, and establishing fair systems for workers regardless of age or gender;

(iii) Social responsibility of Islamic banks to their clients by maintaining the legitimacy and integrity of transactions to the satisfaction of depositors and clients;

(iv) Social responsibility of Islamic banks to the communities in which they operate by contributing to the provision of basic needs of society, fighting poverty and unemployment through the financing of productive projects that create real jobs, promoting healthcare and social care, promoting education to eradicate illiteracy, and promoting banking awareness amongst members of society. In this regard, Rahman (2007: 109), points out that “most Islamic banks do not provide easy access to financing to the poor”.

Despite such expectations in terms of the development and social role, the social failure of Islamic banks could be due to many factors, and the way *Shari'ah* is operated is one of them. Those factors also include mismanagement and poor knowledge of the basic economic and business administration principles in Islam.

Malaysian IBF is a case in point, as the percentage share of *musharakah* financing (the most developmental product) dropped from 1.4% in 2002 to 0.2% in 2006. On the other hand, other transactions such as the sale of goods on the basis of deferred payment (*bai bithaman ajil*), and leasing and subsequent purchase (*ijara wa iqtina*) remained the dominant transactions in 2006 at 55.9% and 25.2%, respectively. However, during the period 1984-2006 *murabahah* constituted 88.1% and 67.3% of transactions in bank Islam Malaysia Berhad and Dubai Islamic bank respectively, compared to speculation (*mudarabah*), which constituted 1.7% and 9.3% of the transactions of the two banks, respectively. Interest-free loan (*al qard al-hassan*) is yet another transaction being neglected by the IBF system despite its social dimension. This indicates that the IBF system has deviated from its commitment of contributing to socio-economic development as a means of achieving its social objectives. This implies that the IBF system has failed, so far, to realize the

aspirations of the majority of the Muslim population worldwide to socio-economic development (Asutay, 2007).

Initially, one may not consider the link between the contractual stipulations of Islamic finance instruments and social responsibility. However, this can be achieved in two ways: one, the contracts can be constructed in such a way that social and economic development outcome can be achieved consequentially; secondly, using certain financial instruments in certain sectors can help to overcome financial exclusion. Such as in entrepreneurship- dominated societies, *mudarabah* and *musharakah* can be alternative financial instruments to achieve the developmental needs of such societies.

Furthermore, as part of the social failure of IBF, existing research has shown that most Islamic banks are concerned with financing short-term projects lasting for one year or less. In most cases, however, those projects feature the retail trade rather than other more economically sound sectors such as agriculture and manufacturing. For example, in Sudan, Islamic banks have refrained from their initial commitment to finance agricultural and industrial schemes. The fact that Islamic banks have a tendency to invest in non-Muslim rather than Muslim countries is another setback. As a result, the contribution of the IBF system to the local economies has been on the decline, thus making the process of socio-economic development a rather elusive target in Muslim countries (Asutay, 2007).

In fact, the IBF system is moving closer to conventional banking in terms of maximizing profit in the hope of achieving integration with the international financial and economic system (Warde, 2000). For instance, there are many Islamic banks operating in Bangladesh such as Islamic Bank Bangladesh Limited (IBBL), Al Baraka Bank Bangladesh Limited (Al-Baraka), Al-Arafah Islami Bank Limited (Al-Arafah), Social Investment Bank Limited (SIBL) and Faysal Islamic Bank of Bahrain (FIBB). Those banks have been operating in Bangladesh for about a decade and a half, and yet Bangladeshi society still suffers from poverty, unemployment, social injustice *etc* (Sarker, 1999). Given the profitable nature of debt-oriented transactions, some IBF institutions prefer to become involved in such transactions to increase their profit which is considered as a social and developmental failure.

In terms of economic activities, it becomes difficult to assume that IBF institutions have any real economy impact beyond retail markets. Hence, the involvement of IBF institutions in debt-financing could be damaging to the idea of productive economic activity associated with the Islamic economic theory. The economic incentives, which became a priority, forced IBF institutions to give up religious norms in favour of those incentives to become part of the international financial system. In view of this, the IBF system can no longer provide a moral alternative to capitalism. According to Asutay (2007), the IBF system seems to find religious justification for its financial practices, even though those practices appear not to be genuinely consistent with the principles of *Shari'ah* law.

The following sections, hence, discusses the sources of failures of IBF.

2.6.1. Removal of *Riba* is not ethical but rather a Legal Requirement

In recent times, many Muslim countries have revived Islamic religious practices in daily life, and interest-based transactions have been abolished from the financial transactions, particularly in countries such as Sudan, Pakistan, Iran (Iqbal and Llewellyn, 2002) and most recently, Libya, while most of the other countries in the Muslim world follow a dual banking system - IBF institutions alongside conventional ones. However, the successful experiment of IBF (removal of usury) in the above-mentioned countries and other countries such as Malaysia and Bahrain should testify to the fact that IBF could provide a future alternative for conventional commercial banks.

Islamic law prohibits transactions involving usury (*riba*) as well as financing businesses dealing in products or practices that are harmful to society such as alcohol, drugs, gambling *etc.* Therefore, jurists of *Shari'ah* assert the prohibition of *riba* which is based on the exploitation of one party by another, and which amounts to social corruption. Therefore, the main reason (*al maqsud*) for the prohibition of usury is to protect vulnerable individuals in society by facilitating fair business dealings between parties without one taking advantage of the other.

Thus, one segment that distinguishes the IBF system from other systems is the prohibition of interest-based transactions or usury *riba*. In this respect, it is worth

mentioning that the *Qur'an* categorically denounces dealing in *riba* in many verses due to its negative socio-economic effects on vulnerable people, and it urges Muslims to avoid dealing in usury. In other words, from an Islamic perspective, *riba* is considered an impediment to social justice as it involves unfair business dealings and tends to destroy the very fabric of social relations (Al-Fadhli, 2010).

It is very clear that *riba* is strictly forbidden. Therefore, the removal of interest (*faidah*) from loans is a prerequisite of financial practice in Islam. According to Iqbal and Llewellyn (2002: 155), the law fundamentally altered banking operations from interest-based to interest-free practices. It is noteworthy that *riba* is not only outlawed by Islam, but is also forbidden in all other revered doctrines such as Christianity and Judaism (Gait, and Worthington, 2007:7-8).

While prohibition of *riba* is based on *Shari'ah* with ethical implications, it is rather a legal requirement, as the end result of *riba* prohibition may not necessarily be ethical, and hence consequences of financing would provide the necessary answer for the ethicality of *riba*. However, the current practice in IBF world shows that the consequences are not ethical as such, as the ethical consequences are not endogenised in the financing process.

2.6.2. Failure to Achieve *Shari'ah* Objectives (*Maqasid*)

The main objective of *Shari'ah* is to organize the life of Muslims as individuals and as members of society within the context of Islamic ethics and values, taking into account the changing environments of human societies in terms of time and place. *Shari'ah* represents the holistic view of life as perceived by Islam, and that should encompass all aspects of life for the benefit and welfare of individuals and society at large. Therefore, according to *Shari'ah*, working for the public good should always lead to a better understanding of economics, science, technology, and the political and social environment. On the other hand, misunderstanding the concept of public good could lead to poor performance in all aspects of life. Thus, it follows that understanding the objectives of *Shari'ah* require one to be dynamic, resilient and creative (Dusuki and Abdullah, 2007).

The preservation of the public good is the main objective of *Shari'ah*, which is all about social justice, social wisdom and social unity. This also implies that Islamic law is based on wisdom, which guides people to ensure their welfare in this world and the Hereafter. Thus, *Shari'ah* helps Muslims to avoid prohibited (*haram*) transactions that are based on unlawful practices such as *riba* (Auda, 2008).

Many Islamic scholar-jurists focus on simple financial issues: they focus on adhering to religious/legal form rather than on promoting the substance of the *Shari'ah* in the spirit and content of the banking business. Therefore, the concept of Islamic finance and investment needs to be incorporated in a wider knowledge of Islamic economics in order to have financial impact. In other words, the rules that govern business contracts and other financial activities should become part and parcel of Islamic moral economy.

However, with regard to the banking business, *Shari'ah* scholars mainly focus on technical matters of the contracts rather than the substance-related issues in a consequential manner, such as spirit and content of the business, which requires the consideration of *al-maqasid al-Shari'ah*. Thus, the *Shari'ah* advisors tend to focus on the service provided as to whether or not that service complies with the spirit of *Shari'ah* law regardless whether the outcome of the contract can be acceptable by *maqasid al-Shari'ah*.

Despite the services of the advisors, some practices of Islamic banks have been subject to criticism: Dusuki and Abu Zaid (2007) called for a better understanding and implementation of *Shari'ah* objectives in order to improve IBF services. In this regard, Asutay (2007) suggests that the current malpractices of IBF systems, such as extensive debt financing, tend to provide financial incentives at the expense of social justice, which is the main objective of the IBF system. He further argues that Islamic banking and financial institutions opt for the more profitable services such as speculation (*mudarabah*), leaving behind the most socially sounding services such as partnership (*musharakah*). He goes on to conclude that IBF has lost its direction, as evidenced by its failure to meet the general purpose of the Islamic economic system. In his view, IBF should take into account the socio-economic needs of Muslim societies instead of focusing on contract mechanisms. Aggarwal and Yousef (2000)

stress the fact that, in terms of financial services, most Islamic banks consider debt-like transactions rather than profit-and-loss-sharing deals.

2.6.3. Corporate Social Responsibility (CSR) Failures

The past twenty years or so have witnessed corporate social responsibility (CSR) emerging as an idea but stopping short of practice. The principle of CSR constitutes the main framework of business practice in society. To be more precise, CSR sets standards for companies, and these standards must be met before the company can be considered socially productive. However, the main theme is that, for a company to be socially worthwhile, maximizing profits should not be its top priority. Furthermore, CSR features in government policies, in public opinion and in high-level academic debates, as it tends to eliminate careless corporate behaviour towards societies.

Dusuki and Abdullah (2007:27) defined CSR as “denoting corporate activities beyond making profits, such as protecting the environment, caring for employees, being ethical in trading, and getting involved in the local community”. Furthermore, Sun *et al.* (2010:5) argue that “CSR is more about caring for any possible negative impact of business on society, avoiding harm to other people and the public at large, meeting increasing and changing social and stakeholder expectations, contributing resources to communities and helping improve the quality of life in the society”. To support this, Davies (2003) defines CSR as a set of behavioural standards to be met by corporations in order for them to produce a positive social impact. Those standards include values such as promoting human rights, community involvement, human resource management, responsible social investment and social reporting. Thus, as Sun *et al.* (2010: 5) put it, “this is a real issue of CSR and a great concern to the public since the industrial revolution in the 19th century”.

Thus, in the context of CSR, business and society could be perceived as complementary to one another: the former needs the support of the latter, while the latter expects the former to operate in a socially responsible manner with regard to the huge economic resources it controls (Dusuki and Abdullah, 2007). This might imply that companies should not only focus on profit-making but should also take into account the social welfare of the societies in which they operate. Otherwise, socially irresponsible behaviour will intensify greed, and the final outcome will be social

disintegration, as in recent times some corporations have made relentless efforts in pursuit of profit and power.

Consequently, many believe that CRS is ineffective in influencing corporations to provide their services to the whole of society. As Sun *et al.* (2010: 17) stated, “since the beginning of the new century, CRS has increasingly become popular in developing countries. Hence, it is clear that, while the global model of CSR failed in developed countries, a simple transfer of the model to developing countries to ignite and active CRS could not work”. This implies that CSR should be remodelled in order to integrate business and society to achieve its prospective aims in relation to social wellbeing.

2.6.4. Corporate Governance Related Failures

Corporate governance (CG) has received increasing attention worldwide, whereby acceptable standards of corporate governance have been achieved by some international organizations such as the Organization for Economic Co-operation and Development (OECD). Furthermore, in countries such as the UK, major companies are working hard to raise the efficiency of their already sound systems of governance. To reach that end, better corporate governance should feature improvements in stakeholder relations, in better performances by the board of directors, and in auditing and accounting functions. In its simplest form, corporate governance is perceived as the organization of the relationship between the company and the stakeholders. However, corporate governance could go beyond that to include other groups involved such as employees, customers, suppliers *etc.*

Corporate governance may still be considered in a broader sense to allow social responsibility to become the focus of more attention. In this respect, Solomon (2007:14) defines corporate governance as “the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity”.

The system of corporate governance however, is subject to the influence of a number of factors including the legal system, cultural and religious traditions, the political

environment *etc.* Nevertheless, the corporate ownership structure may have the strongest influence of all. Although the Anglo-American model of corporate governance is the dominant one worldwide, other models exist based on different structures of ownership, religious background, legal framework and political regime. For example, the systems of corporate governance in Communist countries such as China are characteristically under the influence of the state ownership of companies as dictated by the prevailing political regime. In contrast, the corporate governance in South East Asian countries is largely influenced by cultural and legal factors. In South Korea, for instance, business is strongly influenced by Confucian ethics, which is the dominant faith in the country, whereas in the EU different systems of corporate governance exist, some of which are characterized by founding family ownership structures that are different to those in the UK. In countries such as Germany and Japan, corporate governance systems are influenced by traditional banking relationships as well as pyramidal ownership structures where complicated chains of company ownership also exist. In fact, the complicated system of ownership structure stems from the need for funding of business corporations. Thus, the sale of company shares in order to raise the required capital has proved to be vital for the process of economic development worldwide.

Some researchers, such as Al-Ajmi *et al.* (2009:1088), argue that “*Shari’ah* advisors do not have the time to study in detail the products that the management of Islamic banks offer, because many of them serve on a large number of advisory boards, and there is a lack of thorough investigation which may lead to approval of products that might not comply fully with the *Shari’ah* requirements”.

2.7. ALTERNATIVE SOLUTIONS

The failure of both the capitalist and the socialist systems to bring about social and economic development in Muslim countries has left the door open for the IBF system to initiate serious programmes to achieve the anticipated socio-economic development in Islamic countries. At last, these Islamic institutions now have the chance to capitalize on community resources to achieve that goal. However, like conventional banks, Islamic banks have missed the point by focusing on profit-making rather than having social and developmental focus. As discussed in the previous section, social failure of IBF is part of the current debate. Gamal (2006) and Warde (2000) argue

that IBF has been focusing on profit-making, thus making very little contribution to the process of socio-economic development in Muslim countries. This fact has been further confirmed by Husham (2008). Taking such a reality into account, it can be said that, despite the increasing assets and institutions in IBF, Muslim countries still remain underdeveloped as Islamic banks have paid very little attention to socio-economic development in those countries. , As a matter of fact it should be maintained that the Islamic banking and finance system has failed to live up to the ambitions and aspirations of the communities it is supposed to transform from a state of poverty and deprivation to a state of prosperity and self-sufficiency. Thus, despite the huge financial development associated with those institutions since the 1990s, one could argue that those institutions have been making very limited efforts in the area of social welfare. These efforts, indeed, could be described as modest and insignificant in promoting social and economic justice. Consequently, it could be maintained that Muslim societies have yet to benefit from IBF. In this regard, the prevailing idea among those institutions that they are set up for making profits rather than dispensing charity has to change (Warde, 2000).

Therefore, in order to change this situation, IBF must redefine its role to become socially oriented. To reach that end, however, the brand name of 'Islamic finance' should emphasize issues of community orientation such as community banking, microfinance, socially-orientated investment *etc.* (El-Gamal, 2006). This might imply the establishment of new banks and other financial institutions in order to meet the requirements of the above criteria. Therefore, the next stage should witness the creation of ethical IBF providing social banking with full social involvement, as defined by Sin (1999). This course of IBF development could make use of the Mith Ghamr experiment, which, being the first Islamic bank was a social bank. This should put the whole idea of IBF on the right track, favouring the poor and needy and maximizing social welfare by enabling the bulk of society to become dynamically involved in the economic process in the relevant countries.

Finally, in conclusion, the social failure of IBF thus far suggests the need for a new model of social banking that should follow the example of the Mith Ghamr experiment in Egypt in 1963. The formation of Islamic social banks can benefit from

joint partnership between Islamic commercial banks, the governments and other civil society organisations.

2.8. CONCLUSION

This chapter presented the case for Islamic moral economy as an emergent sub-discipline in the heterogeneity of economics as a science. It argues that IME emerged in the post-colonial period to develop an authentic construct of economics and financial matters according to the norms and principles of Islam. At the heart of this paradigm has been the developmental issue.

While the larger Islamic economic system could not be developed nor be implemented, IBF institutions, as part of this systemic understanding, came into existence to provide financing but also respond to the social and economic development needs of Muslim societies.

IBFIs have achieved unprecedented success in terms of pooling resources and directing to products. However, the practice since 1975 shows that the objectives of IME have not been fulfilled, which has opened a debate around the theme 'Islam-based finance vs. *Shari'ah*-compliant finance' indicating the growing gap between the aims and aspirations of IME and the realities of IBF.

Based on the debate in the last section of this chapter, the code of practice of Islamic banks needs to be reviewed to meet the objectives of Islamic economics to achieve robust social justice. The main focus in the future should be to address the need to revitalize Islamic banking and finance practices based on a proper understanding and implementation of the objectives of *Shari'ah*. Therefore, *Shari'ah* scholars should focus on the spirit and content of the banking business, which includes modifying the existing structure and framework to provide better products and higher-quality service within the ambit of *Shari'ah* in favour of social justice, social welfare, economic stability and economic growth. Finally, Dusuki and Abdullah (2007) state that the fixed principles of Islam - good faith (*aqidah*), worship (*ibadah*), good morality and ethics (*akhlaq*) - should have their manifestations in human activities such as economics and business with due flexibility depending on the time and place.

Hence, so-called Arab Spring in North Africa has moved into institutionalisation of IBFIs. However, considering that they will not be able to contribute to economic development, as the experience has shown, the people who have been demanding IBF might be terribly disappointed.

This study concerns Libya, which has gone through its own revolution through so-called Arab Spring, and the essential developmental need of society. Therefore, IBF should be redefined and re-institutionalised to be able to respond to the observed demand for development, both social and economic. The next chapter therefore discusses social banking as a model for IBF, as the Libyan version of Islamic banking should have social and developmental implications.

Chapter 3

SOCIAL BANKING FOR SOCIO-ECONOMIC DEVELOPMENT

3.1. SOCIAL BANKING: AN INTRODUCTION

In modern times, commercial banks have served to facilitate and provide various financial services to their clients. In their operations, they have mainly focused on maximizing profits for their clients and shareholders rather than serving the larger interests of society. Accordingly, the real-life activities of conventional commercial banks indicate that they are not concerned with social development. However, greed and relentless strategies for profit is considered leading to the financial crisis and economic collapse over the many centuries (Reinhart and Rogoff (2011) culminating in the subsequent global recession that began in 2008 (Benedikter, 2010). The financial crisis that gripped the US, Europe and other countries in the world has resulted in the loss of jobs; further poverty, and families losing their homes as well as their savings (Benedikter, 2011). Consequently, a search for a new, better economic and financial system in which ethics play a major role has set in. Indeed, the main benefit of the financial crisis is that it has made a significant contribution to financial awareness by promoting financial literacy among people worldwide resulting in people becoming increasingly critical of the conventional commercial banking and financial systems.

Therefore, various groups all over the world, such as politicians, academics and bankers, have called for reform of the banking sector and the economic system at large. Hence, since the crisis began in 2008, world leaders such as President Barak Obama, German Chancellor Angela Merkel, Nicolas Sarkozy of France, and Gordon Brown of Britain called for radical reforms to be made in the world financial system by taking the flaws of the mainstream system into account. In response to the search for alternative financial institutions, amongst others Benedikter (2010: 97) states “A third way is needed; and that the proposals of the social banking and social finance institutions may provide such a way”.

The financial crisis has provided the opportunity for unprecedented change in the wider structure of the banking industry. Its positive results had led to the re-engineering of products and processes or services in order to improve its social impact. Consequently, as a result of the financial crisis, another form of banking known as social banking has emerged. This type of banking mainly targets the poor and disadvantaged social groups, which tends to invest in society by creating the required economic sustainability and promoting social justice (Benedikter, 2010).

Social banking is expected to play an increasingly important role in helping the poor and in improving the standard of living for disadvantaged social groups. Hence, social banks not only respond to the needs of their clients but also fulfil the needs of society at large by prioritising social responsibility. In this regard, the name is indicative of the purpose, unlike the conventional commercial banks, these banks aim at promoting social cohesion and cooperative activity rather than maximizing profit.

Disadvantaged groups are less likely to avail themselves of banking facilities nowadays. However, social banking aims to cater for the development needs of the needy, poor and disadvantaged groups in society, in sharp contrast to conventional commercial banking. Therefore, social banks are also called non-profit banks. Social banks never aim for profit as an end in itself, but rather as a means of reaching an end, which is to serve society and realize social justice for all. To be more precise, social banks see profit as a means of extending social benefits and bringing about social solidarity and social cohesion. As a result, social banks tend to break down barriers to the financial system in order to remove the causes of financial exclusion through the specific re-orientation of financial services to customers.

In justifying the search for social banking, some reports point to the fact that as much as 35% and 73% of the low-income population in the US and South Africa, respectively have no bank accounts (Burgess *et al.*, 2005). Furthermore, in excess of 80% of Nigerians who are living in poor and rural areas have no access to banking facilities (Okoye and Okpala, 2001). . Most conventional banks in developing countries are still ignoring the poor classes as they fear that poor customers with little collateral will feel little obligation to repay loans or will perhaps not repay them at all (Feroz and Goud, 2008).. Consequently, the poor suffer financial exclusion as they cannot obtain loans or gain access to other financial services, which leads to

increasing destitution and social frustration. Access to banking and financial services is necessary for poor people to develop participatory and inclusive development.

This chapter, therefore, aims to discuss the aspects of social banking in an attempt to justify as to why Islamic social banking would be an important innovation within the Islamic moral economy paradigm.

3.2. DEFINING SOCIAL BANKING

Banking institutions that offer an alternative to commercial banking have been developing for many decades. These financial institutions take different forms and structures, which have been perceived as providing solutions to social and financial exclusion as they have been designed to suit the needs and interests of low-income people. However, it is noteworthy that the concept of social banking is closely linked to the development of micro-financial activities in society. The essence of social banking is that it aims to cater for the whole of society through good lending policies rather than making profits. In this regard social banking has provided a realistic alternative to conventional banking, as the latter provided benefits only to a few sector of society in the past decades. Hence, it can be suggested that the main aim of social banking is to provide funding for projects that benefit society at large (Benedikter, 2011).

According to Guene and Mayo (2001:1), social banking can be defined as a “process where suppliers of financial services take a positive interest in the social outcomes and effects of their activities”. An ethical bank, which is known as a social, civic or alternative bank, is also defined by Guene and Mayo (2001:156) as “one which favours the financing of activities which have a certain social interest or which refuses to finance activities considered harmful such as the production or the sale of arms or which refuses to collaborate with businesses known to exploit child labour in the Third World”. In addition, Joshi (2006: 126) describes social banking as “the reservation of entitlement for previously disadvantaged groups”. Thus, social banking can simply be described as “banks with a conscience” Benedikter (2011:1). As Benedikter (2011) also states, these banks focus on investing in the community, providing opportunities for the disadvantaged and supporting social, environmental, and ethical agendas.

Being a variant of social banking, the 'community bank' is defined as "a self-sustaining financial institution owned and operated by a community or a group of communities to provide financial services to members of the community" (Ayadi and Ogunsemore, 1995:110). Establishing such banking institutions will provide a good opportunity for residents in rural areas to benefit from banking facilities. Moreover, Community Development Financial Institutions (CDFIs) have the task of promoting socio-economic development, as they are defined as "sustainable independent financial institutions providing capital and support to individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets" (Sairally, 2007:24). It should be noted that there are many types of CDFIs, such as community development banks, community development credit unions, community development loan funds, community development venture capital funds, micro-enterprise development loan funds and community development corporation-based lenders and investors (Sairally, 2007).

These banks and financial social institutions seem to be consistent in their social aims as they tend to encourage investment in projects that will improve the standard of living for the communities involved. Therefore, a mutually beneficial relationship exists between society and its financial institutions, including banks. Thus, these banks are concerned with the entire social environment, which means that their social commitment should extend beyond their normal business practices. Consequently, these banks should affect the lives of millions of people in society. For instance, in Germany the commercial and savings banks have a set of social activities such as donations, educational support *etc* (Dusuki and Abdullah, 2007). They have shown social responsibility towards their society. Therefore, social responsibility is not solely a duty of government but rather a duty of all members of society including banks, particularly social banks. Thus, rich people and banks are encouraged to invest some of their wealth in the poor and needy in society. This sense of duty, responsibility and spirit of sacrifice tends to promote compassion, a sense of care, cooperation and harmony among people (Dusuki and Abdullah, 2007). Therefore, social banking does not cater to the needs of just a few people in society but, rather, enables the whole of society to benefit. It is noteworthy that social banking is described as a change from conventional banking for classes to banking for the masses (Joshi, 2006).

In short, social banking is concerned with promoting social values in favour of the poor and vulnerable groups rather than seeking to make profits.

3.3. AIMS AND FUNCTIONS OF SOCIAL BANKING

The elimination of poverty and the attaining of sustainable development have eluded planners in many countries for several decades. This can be traced back to the continued failure to integrate all segments of society in the development and production process. Hence, conventional commercial banks have not provided the poor with secure access to credit or loans for investment in economically productive ventures. It is well known that the services of conventional commercial banks are restricted to the more affluent members of their respective societies, who usually constitute a small percentage of the total population. Therefore, the majority of poor people are not positively affected by the activities of these banks, yet they have to face the negative consequences when it arises leading to sustained poverty (Yunusa, 1998).

Thus, conventional commercial banks are considered to have absented themselves from the process of community development. Social banks, however, lend money to support socially responsible initiatives at much lower interest rates than those required by conventional commercial banks, and they donate money to people and projects that promote good causes. In principle, social banks operate to highlight social causes and, in doing so, they add a social dimension to the banking process as a whole. Social banks, therefore, are seen by customers and broader society as having a social as well as an economic role. However, as far as social banks are concerned in practice, the social role dominates the economic role, which should result in more emphasis on social activities in the banking operations (Maali *et al.*, 2006).

By considering the developmental aims, as Mayer (1985: 40) puts it, “The [social] bank was conceived to serve a social aim to educate the poor in the benefits of saving and in the importance of accumulating capital for investment and to allow members of society not otherwise served by banking institutions to obtain credit for productive, income-producing investments or for social needs”.

Social banking always aims at helping low-income people, the dispossessed, disadvantaged and vulnerable groups, and at uplifting the poor in society. For instance, the People's Bank (PB), established in Nigeria in 1989, aimed to meet the credit needs of the poor and low-income groups such as artisans, farmers, petty traders, women *etc.* Hence, development could be promoted through the provision of finance and banking services in rural areas. The bank has been designed to meet the needs of small-scale entrepreneurs in society, thus helping them to carry out many small-scale economic activities, which have a positive impact on society at large (Yunusa, 1998). Furthermore, as Okoye and Okpala (2001: 74-76) put it, "The key aims of establishing the Nigerian Community Banking (NCB) are to promote rural development through the provision of finance and banking services, to enhance the rapid development of productive activities, and to improve the economic status of small-scale producers". They further suggest that "it has to be observed that, although the community banking (CB) programme started well and appears to be addressing many causes of failure of past rural credit initiatives in Nigeria, much still remains to be done". This implies that banks should lend money for social causes rather than for the maximization of their profits. Thus, social banks aim to make a positive impact on the lives of their customers by creating the appropriate social, economic and environmental change (Silva, 2007).

Socio-economic justice and equitable distribution of wealth and income are the key goals of social banks. They aim at bridging the gap between the rich and the poor to achieve social justice, as the wide social gap between the rich and the poor leads to the breakdown of social cohesion, while fair distribution of wealth and income will lead to greater social cohesion and economic stability (Kawachi and Kennedy, 1997). In this regard, the landmark practices and experiments of many social banks and organizations should reflect these ideas.

It should be noted that social banks mainly target small-scale entrepreneurs to promote sustainable economic growth and social justice. It could be maintained that these socio-economic objectives of social banking are as follows:

- (i) The improvement of economic wellbeing for all;

(ii) Eradication of hunger, fear and poverty in society by ensuring a fair distribution of wealth and income;

(iii) Fulfilment of basic human needs such as food, clothing and shelter;

(iv) The establishment of socio-economic justice, featuring the promotion of equal opportunity and cooperative principles in society;

(v) Raising the social status and developing the socio-economic life of the poor by dealing with the problems of poverty *etc*;

(vi) The use of bank funds to build and develop society in both rural and urban areas (Kawachi and Kennedy, 1997).

As an example of social banking, Janashakthi banking societies, which operate in southern Sri Lanka, have three fundamental goals (Tilakarantna, 1993:2):

(i) “Generating new incomes and employment opportunities through appropriate economic activities as decided by the families concerned;

(ii) Raising the capacity of families to achieve basic needs, in particular to a measure of stability in family consumption in times of distress (e.g. crop failures, family illness and dislocations).

(iii) Raising the social status and developing the power base to deal with problems of poverty. The members of the Janashakthi banking societies have many achievements towards their goals. A solid beginning has been made and they are marching forward on the right path”.

In sum, social banking provides financial services with the primary mission of promoting community development with the objective of promoting social justice through fair distribution of wealth.

3.4. WORKING MECHANISM OF SOCIAL BANKING

The basis of the operation of conventional commercial banks is focussed on profit with no other goals; in contrast, the working methods of social banks which are motivated by social responsibility mainly seek social development, with profit as the second priority. Benedikter (2011: 1) suggests that “Social banking implements the triple principle of profit-people-planet. Social banks care about making a profit, but equally for promoting human and environmental well-being. It is this triple principle that they follow when they decide to whom to lend money and for what purpose”. Therefore, social banks work towards strengthening and activating this principle through their active role in achieving social solidarity by providing interest-free loans, and through their contribution to solving various social problems. As a matter of fact, social banks see the real profit as saving people from poverty, hunger and disease and clearly establish a strategic intent centred on social welfare.

Social banks tend to create a broad customer base of individuals, businesses and organizations with a shared mission to make money available to fund positive social, cultural and environmental causes.. For this reason, social banks are constantly working to develop new products and services that support sustainable development with competitive prices that help to achieve rapid growth in socio-economic terms. Social banks do not invest in complex financial instruments; this approach enables them not only to remain solid and stable in times of global financial crisis but also to continue their rapid growth across the world. It is also worth mentioning that the size and flexibility of social banks tend to facilitate the process of prompt decision-making.

As can be seen in Table 3.1, social banking has an important role to play in the process of socio-economic development by providing loans to disadvantaged people such as low-income groups, individuals and families. It also provides finance to micro-enterprises to contribute to capacity building; and to third sector social entrepreneurs who mainly establish businesses (either through funding from voluntary, third sector institutions or directly) providing services and/or trade in the third sector. In other words, social banks have created access to the financial system for millions of clients who were previously excluded because they were poor or did not have physical collateral to guarantee the loans. Therefore, social banks provide

finance to those people, many of whom have used micro-finance to improve their standards of living.

Table 3.1: Social Banking Target Market

Market	Examples of need
Low-income consumers: consume credit	Saving mechanism, payment service
Small business finance	Development finance
Micro-enterprise for individuals and families	Start-up / working capital, business skills
Third system social enterprise	Project finance, working capital, facility finance
Ecological enterprise	Development finance

Source: Mayo and Guene (2001:4)

Social banks, hence, as new models are characterized by the following:

- (i) Try to find solutions rather than placing themselves in a new market sector;
- (ii) Often refer to factors such as social solidarity, democratic organizations or the primacy of the individual over capital;
- (iii) Are often the result of public-private partnership and have close relationship with their local communities;
- (iv) Not rely on the market as their sole source of income but instead secure public subsidies, donation or loans. They often have very mixed incomes;
- (v) Often give specific attention to disadvantaged people;
- (vi) They have “small-scale structures with large numbers of non-active associates of unpaid volunteers” (Mayo and Guene, 2001:5).

According to Benedikter (2011:1), social banks have three additional features that make them unique in the financial world. These features are as follows:

- (i) **Responsibility:** A social bank knows its clients well. Hence, a mutual responsibility exists for both sides, namely the bank expects its borrowers to use the loans responsibly to improve standards of living for themselves and society at large; to achieve that end borrowers must refrain from reckless speculation or other risky investments. In other words, a social bank expects its clients to spend the loans given to them on projects that are economically feasible and ethically acceptable.

(ii) Transparency: Unlike conventional commercial banks, social banks know where the money goes and are aware of the potential investment projects. They look at the social implications of investment projects funded by the money borrowed by their clients. This implies that the banks should ensure that the money to be borrowed by individuals or groups is used wisely for the benefit of society at large. Consequently, social banks are always keen to keep their depositors well informed and updated about their lending policies.

(iii) Sustainability: Unlike conventional commercial banks, which focus on maximizing profits in the short term, social banks mainly focus on the long-term positive effects of the money borrowed by individuals in terms of investment, as this investment targets the development of individuals, society and the environment. Hence, it could be maintained that social development constitutes the primary mission of social banking. In other words, a social bank prioritizes its operations and makes only what it considers to be socially sound investments.

In sum, “social banks aim to practice responsibility, transparency and sustainability. They consider the long-term effect of money on the environment and the community and about the ‘human outcome’ of the use of money in general: whether it helps or harms profit, people, and the planet” (Benedikter, 2011: 2). This is significant, as it identifies a differing priority framework for social banks when considered alongside commercial banks; social banks are in principle committed to development over profit. Thus, in their corporate governance structure, they have more shareholders than commercial banks; and this requires them to disclose more information in relation to each stakeholder whereby transparency is ensured.

3.5. HOW SOCIAL BANKING CAN CONTRIBUTE TO SOCIO-ECONOMIC DEVELOPMENT

Social banks will contribute to improving socio-economic development and the financial system by providing the best practices in serving society, as compared to their conventional peers. It is important to note that, during the latest global financial crisis of 2007-2010, social banks have been among the most successful financial institutions. For example, some of those banks have achieved an annual growth rate of up to 30% at a time when the reputation of conventional banks has been eroding.

A case in point is the European social banks, which have benefited from the recent financial crisis to achieve a growth rate of more than 20% per year (Benedikter, 2011). In this regard, Benedikter (2011: 2) argues that “in contemporary Europe, some of the important financial players are social banks. Their combined assets total about 10.5 billion Euros (\$14.5 billion), and continue to grow rapidly. It is expected that the overall growth rate of European social banks will remain stable at 13-15% per year in the coming years (as compared to the 1-3% forecast for mainstream banks”.

The recent performance of social banks resulted in increasing and attracting the interest not only of customers who are searching for safe and sensible ways to deposit their money but also of conventional banks, which are beginning to understand the potential of a more socially oriented approach to banking. Thus, many European savers have managed to transfer their assets from conventional commercial banks to social banks in the hope that the latter will handle their wealth in a realistic manner that is less egoistic and more socially oriented (Benedikter, 2011).

Indeed, in recent years it has become obvious that social banks have played an important role in establishing influential global networks such as the ‘Global Alliance of Banking on Values and the International Association of Investors in the Social Economy’, with a strategy to reach out to one billion people by 2020 (Benedikter, 2011). In other words, this vision has made social banking the best way to reach large numbers of poor and low-income people in society. The Allied Irish Bank is a case in point; in 1997, this bank donated £5 million in the UK and Ireland to help young people, combat poverty and support other environmental causes. Also, other banks attempted to replicate some of the activities of social banking with the CSR paradigm; for example, in 1990 donations of £26.5 million, £19.0 million and £15.9 million were given by Lloyds-TSB, Barclays and NatWest, respectively for causes ranging from education to community support (Giuseppi, 2001). Hence, social banks who help society through ethical practise and conventional banks who give to good causes from unethically derived profits do not have the same moral value.

Social banks have an important role to play in the process of socio-economic growth. Most social banks and social investment institutions consider environmental and social issues to be relevant to their operations. Therefore, these social institutions endeavour to invest in programmes to promote social justice, socio-economic

development and social wellbeing. This implies that financial decisions take into account sustainable socio-economic stability.

The best example is provided by ShoreBank, founded in 1973. It is the oldest and largest CDB in the USA with a mission to create economic equity and improve the economic situation of society. ShoreBank, since its foundation, has managed to increase economic opportunities in underserved communities in about 30 neighbourhoods in the United States through community development investments (Silva, 2007). It provides financial services that are not offered by the banking sector and provides non-traditional financial services which include more flexible loans for individuals and small local businesses, loans for the renovation or purchase of affordable housing, education, workforce development and employment services, and advisory services for businesses owned by individuals *etc.* One of the distinctive measures adopted by the bank for improving the socio-economic situation of society is its initiative in running many companies to support its task of building a sustainable society and helping its clients to build their wealth (Silva, 2007). Hence, it could be argued that all segments of society have benefited from the services of this bank. These facts point to the importance of social banking in terms of socio-economic development.

Social investment has now spread to many countries such as the USA, European countries and Third-world countries. The main forms of development have been in the fields of socially responsible investment (SRI), social impact investment (SII), and social enterprise investment (SEI). Recent years, however, have witnessed the appearance and rapid expansion of many development organizations, which have used group lending to deliver credit to poor individuals and families. For instance, CDFIs are financial service providers involved in the social banking sector with the core task of promoting social development. It should be noted that the purpose of establishing these CDFIs in the USA is to address poverty. Some reports estimate that between 300 and 1,000 CDFIs are operating in the USA including 500 community development funds, 80 venture capital funds, 275 community development credit unions, and 100 community development banks (Sairally, 2007). A survey in 2005 showed that CDFIs provided a total of US\$ 4.3 billion to finance housing, businesses and community servicing, creating jobs. Meanwhile, the community finance sector in

the UK had provided £450 million to finance businesses and individuals, favouring the disadvantaged communities (Sairally, 2007). In fact the advantages of CDFIs are myriad. To mention but a few, these include creating jobs, providing local help to both individuals and businesses, providing housing, providing help to vulnerable social groups such as women and ethnic minorities, *etc.* Most importantly, CDFIs tend to combat poverty by encouraging individuals and communities to work rather than depending on grants and charities. In other words, they try to motivate people to take the initiative in changing their economic and financial realities for the better (Sairally, 2007).

It should be noted that social banking is still nascent compared to conventional banking. Hence, new forms of financial institutions and intermediaries have emerged since the 1990s to provide financial services to socially vulnerable and disadvantaged groups and poor and low-income people to reinforce social cohesion. They principally cater for underserved groups, which have no access to the financial services provided by conventional commercial banks. These financial institutions have taken various forms and structures, and have spread around the world. It should be noted that these institutions have been classified under the label ‘social banking’. Hence, these institutions have taken a positive interest in the social outcomes and effects of their activities in society.

These financial institutions have followed the new thinking on development which is human wellbeing-centred. Thus, these institutions tend to focus on empowering the poor to obtain their basic needs and overcome financial and social exclusion. Therefore, these financial institutions aim at improving living standards for individuals by encouraging them to become more involved in the process of socio-economic development. Overall, these financial institutions are expected to deliver a high level of socio-economic service and also assist in alleviating poverty in society (Sairally, 2007).

In this connection, social banks promote social aspirations by emphasizing socio-economic values such as social justice, equity, alleviation of poverty *etc.* Indeed, given the unique goals involved in social development, social banking and its associated programmes tend to have a positive social impact. For instance, the effect of the Bangladesh Grameen Bank (BGB) in alleviating poverty is clear, and this has

made the bank popular among the masses and become well known for its work in microfinance. It is noteworthy that microfinance constitutes one of the most popular tools in the strategy to alleviate poverty. Thus, the Grameen Bank policy is to lend small amounts of money to poor borrowers without collateral (Feroz and Gould, 2008:2). The Grameen Bank loans had improved the lives of the poorest people by encouraging economic growth and development in poor areas; the impact was as great as had been initially envisaged.

While there are important criticisms raised against the Grameen Bank experiment, the bank provides a good example of the way social banks cater to the needs of poor societies. This successful experiment has paved the way for other banks to address issues of unemployment, poverty and social exclusion. The Grameen experience resembles the older experiments in the West such as the Co-operative Bank in the UK and SBN Bank in Denmark (Guene, and Mayo, 2001).

In sum, social banks can contribute to alleviating socio-economic problems of disadvantaged and underserved communities by providing financial help to individuals as well as groups and organizations from these communities. Successful examples include those in the US, the EU and Bangladesh. However, it should be noted that Grameen bank is a specialised microfinance-oriented institution, which is different than commercial and Islamic commercial banks as different objective functions are aimed at to be maximised. While it is not possible to expect Islamic commercial banks to act like Grameen bank, due to the existential and ontological nature of Islamic banks, they are expected to contribute to social and economic development. Therefore, developing microfinance and social banking subsidiaries through their commercial banking operations, they may be able to fulfil the existential expectations.

3.6. POLICIES IN THE EU AND OTHER COUNTRIES

In mainstream banking, poor and low-income people are viewed as a marginal class rather than as central clients of the banking and financial systems in many countries around the globe. In order to highlight this issue, in 2006 the World Bank published a report entitled '*Access for All: Building Inclusive Financial Systems*'; this called for the establishment of an inclusive financial sector in order to allow all members of

society, especially low-income groups, to gain access to financial services. Another report was issued in 2008 entitled '*Finance for All: Policies and Pitfalls in Expanding Access*', which emphasized issues concerning financing channels, measuring indicators and the analysis of the determinant factors of access to financial services. In addition, the report also focused on economic growth, equity, and the elimination of poverty. More importantly, the report highlighted the role of governments in promoting outreach of financial services.

Specific legislation has been drafted to facilitate access to financial services with the aim of eliminating poverty in some developed countries. In the EU countries, most banks are aware of the issue of access to financial services, but few of them have taken serious steps to implement that legislation. Some notable exceptions include Triodos Bank, which operates in many EU countries, and NatWest in the UK. Triodos Bank is involved in projects with social objectives, while NatWest has identified social inclusion as one of its top five priorities and has established a social inclusion unit aiming at improving access to financial and banking services for vulnerable and disadvantaged groups and low-income people in society (Giuseppi, 2001).

In the USA, efforts associated with community investment have led to the establishment of 310 community finance initiatives, with capital of over US\$ 6.5 billion. In recent years, some amendments have been made to the law in the form of the Community Re-investment Act (CRA), enabling institutions to be rewarded on performance and outcome rather than promise and process. The CRA places an affirmative obligation on banks to meet the credit needs of the community. Furthermore, the Community Re-investment Fund (CRF) has given loans, creating more than 35,000 jobs. It has also provided finance to almost 600 women and minority citizens to establish their own businesses. Over 1,600 housing units have been built as a result of this scheme (Benedikter, 2011).

Based on the new policy, social banks have worked closely to improve the financial inclusion of the world's poor and vulnerable. In March 2009, twelve social banks founded the Global Alliance for Banking on Values (GABV) in London. A declaration at the meeting stated that (Benedikter, 2011:2):

This Alliance is created in the belief that trends can be set to change the boundaries of mainstream finance, and contributions can be made to the growth and development of social innovation in the financial sector. The Alliance is a global alliance of innovative banking institutions, focused on delivering social finance products and basic financial services, while financing community-based development initiatives and social entrepreneurs, thereby fostering sustainable and environmentally sound enterprises, and fulfilling human development potential including poverty alleviation, while generating according to a triple principle: for People, Profit and the Planet.

Furthermore, Feroz and Gould (2008) suggest that microfinance is one of the most popular tools to employ as part of a poverty reduction strategy. This has occurred through informal governmental and multi-lateral support, direct support, and the encouragement of non-profit organizations to begin offering microfinance. This growth began in the 1990s, when organizations such as UNICEF began to expand their support of MFIs.

Social banking has therefore made unprecedented progress over recent years in many countries of the world (Khan and Bhatti, 2008), which are flourishing in Asia, USA, the EU and India, and are emerging as the hub of community banking. Therefore, Western conventional regulators, investors and other agents are now showing greater interest in social banks. Thus, social banking and social finance have become important trends among bank customers in Europe. In fact, European social banks have emerged as the big winners from the latest financial crisis. For this reason governmental policy began to focus on expanding access to financial services and banking facilities for low-income families.

Many countries have taken great strides in reaching people who are unbanked. In Nigeria, for instance, the government adopted a more serious policy on rural banking by launching the Rural Banking Programme in 1977. This programme made it possible for every local government to have one branch of rural banking so that a branch would be available for around 30,000 persons as compared to 170,000 persons at the beginning of the programme (Okoye and Okpala, 2001). In South Africa, the banks have taken advantage of modern technology to reach people who do not have bank accounts (Burgess and Pande, 2005). So far, one of the largest banks in South Africa has opened fifty branches providing savings accounts with ATM cards.

In some countries, banks are put under pressure to open branches in poor areas, with the aim of alleviating poverty in rural communities. India is a case in point; in 1969, following the nationalization of the banks, an ambitious programme for social banking was launched. By the time the programme ended in 1990, over 30,000 branches had been opened in poor areas. In addition to that, the Indian Central Bank launched a new policy in 1977 on licensing new branches. This policy meant that, to obtain a license for a new branch, at least four branches had to be opened in four less financially favourable areas. This policy led to significant alleviation of rural poverty in India (Burgess and Pande, 2005)

3.7. CASES IN SOCIAL BANKING

Within the last ten years attention has been given to some forms of social investment, which have grown rapidly around the world. For instance, the biggest social banks in Europe today include the German Gemeinschaft für Leihen und Schenken (GLS) Bank, its name meaning literally ‘Community for Lending and Donating’ (with assets of US\$2.2 billion), the Dutch Triodos Bank (\$6.7 billion), the Italian Banca Etica (\$0.8 billion), the Swiss ABS bank (\$0.7 billion) and the Danish Merkur Bank (\$0.2 billion). These banks were founded throughout the 1970s, 1980s (Triodos) and 1990s (Banca Etica). In addition to social banks, there are more than 600 ethical investment funds worldwide, including about 500 in Europe, and their numbers are constantly on the increase (Benedikter, 2011:2). These financial institutions have focused on socio-economic objectives. For instance, in the UK the Social Investment Bank supports charities with up to £60 million a year, and yet the bank expects to earn a return of around 3% a year on its investments (Prosser, 2007).

There are 52 Janashakthi banking societies operating in southern Sri Lankan rural communities, with nearly 20,000 poor women as members (Tilakarantna, 1993). Over time, these banks have succeeded in creating an innovative alternative banking practice. In this regard, social banking in Sri Lanka caters for the development of vulnerable disadvantaged communities, in sharp contrast to its peers in conventional banking (Tilakarantna, 1993). In other words, the existing conventional banking products and services are often not well designed to meet the needs of the poor, needy and disadvantaged groups in society (Barr, 2003). Therefore, Janashakthi banking societies have taken great steps by challenging the mainstream to extend credit

facilities to the needy. As can be seen from the basic statistics of the Janashakthi banking societies in Sri Lanka in the past three years, these banks have given over 24,000 small loans (at an average of Rs 1,600 per loan) to poor women for self-employment, handicrafts and other activities such as farming (Tilakarantna, 1993).. Interestingly, there has been a significant positive response by customers regarding the repayment of these loans, ranging between 93% and 100%. It is important to note that these statistics reveal an impressive achievement by Janashakthi banking societies, which are only about three years old (Tilakarantna, 1993). The experiment has been impressive in terms of the performance and social impact of the programme. It should also be noted that this experiment has provided qualitative achievements that cannot be reduced to numbers. Therefore, it is considered one of the most successful development processes with regard to its human dimension by enabling marginalized poor people to enhance their dignity, self-respect and social recognition. Furthermore, over time those people will become increasingly self-confident and sufficiently self-reliant to make significant contributions to the process of socio-economic development (Tilakarantna, 1993).

In the past two decades, the USA has witnessed a new wave of ethnic banks such as African American banks and Chinese banks in Los Angeles. Chinese banks have had remarkable economic impact in society. Hence, the Los Angeles Chinese banks have a potent impact on individuals, disadvantaged groups and the economic prosperity of the community as a whole (Li *et al.*, 2001). On the one hand, they have provided appropriate financial services to meet the needs of disadvantaged groups and poor people in this society. On the other hand, this bank has the power to generate capital from rich people in the Chinese American community to fund its programmes. Thus, its rapid growth has marked a new phase in the evolution of ethnic banking, in that the Asian banks constitute 70% of the post-1980 ethnic banks. It should also be noted that the Chinese banking sector in Los Angeles is believed to be the largest ethnic banking sector in the USA and the world. This kind of social banking has played a pivotal role in the economic success of the Chinese American community in Los Angeles (Li *et al.*, 2001). In fact, social banks respond to the specific needs of their customers from socially marginalized segments in terms of the products and services they provide. In the US there are currently 20 to 30 social banks and other social organizations, and the number is growing rapidly.

Hence, there are cases of successful social banking in both highly developed and underdeveloped countries. In this regard, the US and Sri Lanka provide vital examples featuring the Chinese American community in the former and the poor rural dwellers in the latter; in both cases social banking has done a lot in terms of poverty alleviation and social cohesion. Importantly, the EU examples in developing capacities through social banking are important to mention.

3.8. CONCLUSION

Social banking, which emerged as part of the efforts to reform the conventional banking system and put an end to human greed and selfishness, comprises financial institutions that provide financial help to suit the needs of low-income groups. In other words, the idea of social banking is closely linked to the idea of contributing to small business poverty alleviation, promoting sustainable development and helping the poor communities to become economically active. Thus, since reaching that end social banks focus on promoting social justice rather than profit-making, as social banks care for the disadvantaged to overcome financial exclusion.

Social banks across the world are joining efforts to improve the financial status for the poor and the vulnerable as can be understood from the London declaration issued in March 2009. In recent years, therefore, the idea of social banking has flourished in many parts of the world particularly in European countries including Germany, Holland, Switzerland and Denmark. Thus, it could be maintained that the idea of social banking is gaining ground in the war against poverty and destitution in many parts across the world.

Considering that the initial experience with Islamic banking in Egypt with Mith Ghamr bank in 1963 was social banking directly contributing to social capacity and economic development as explained by Mayer (1985), perhaps the commercial nature of Islamic banking as observed all over the world should be adjusted for the development needs of the underdeveloped societies and communities. Thus, Islamic social banking can be considered as part of the new institutional development trajectory in line with demand for development as has been expressed through the Arab Spring since 2011.

Chapter 4

AN INTRODUCTION TO LIBYAN ECONOMIC DEVELOPMENT AND THE LIBYAN FINANCIAL SYSTEM

4.1. INTRODUCTION

In this chapter, an attempt is given to provide an introduction to the general political and economic developments during the forty-two years of Qaddafi's rule in Libya, before addressing the development of the banking system in the country from the early days of Ottoman rule until the fall of the Qaddafi regime on October 20th 2011. In doing so, a full account of the efforts made to establish an Islamic banking and finance system in Libya and the persistent attempts by the former regime to frustrate those efforts until its fall is discussed. Following the new Revolution, the new regime has assumed the responsibility to put serious efforts to introduce and implement Islamic banking and finance in Libya.

4.2. LIBYAN POLITICAL ECONOMY: AN OVERVIEW

The *coup d'état* led by Colonel Muammar Qaddafi on September 1st 1969 was a watershed in terms of economic and political developments in Libya. From the first day of his ascent to power until his fall on October 20th 2011, Qaddafi ruled the country single-handedly; in this, he was inspired by his Green Book featuring his third universal theory, deemed by Qaddafi to be a challenge to both capitalism and socialism. Nonetheless, the theory was in essence a hybrid of capitalism and socialism as it later incorporated the principles of privatization in a socialist-orientated economy mainly dependent on oil revenues as the only source of income (Hong, 2005).

As an initial step to reforming the economy, the so-called Revolutionary Command Council presided over by Colonel Qaddafi introduced Law No. 153 of 1970 on the nationalization and reorganization of foreign banks in the country (Syndicate of Banking, 1990). However, Qaddafi viewed socialism as the only way of dealing with

mankind's economic problems. Consequently, the regime in Libya could be described as a socialist nationalistic regime in a region where the mutual accommodation of nationalism and socialism was a common phenomenon during the 1960s.

At the height of the socialist measures during the Qaddafi regime, the public sector dominated economic life, and individual rights to private ownership were abolished in 1978. In the years to come, private sector activities were completely abolished, apart from small businesses owned by self-employed individuals who were not perceived by the legislators as being inherently exploitive of others.

However, as directed by the Green Book, containing discourses of Gaddafi on every aspect of life, the new economic policy in Libya severely restricted private ownership on the basis of the argument that unrestricted ownership would result in the exploitation of others through wage underpayment, unfair rent prices and high profits which would cause social disparity and inequality among individuals in society (Abdulsalam, 1985). Accordingly, people were not allowed to own more than one house (*i.e.* the one in which they lived), while renting houses to others was made unlawful (Meliha, 1996). However, this did not prevent people from establishing small businesses as long as those businesses constituted self-employment of the owners and their family members (Abdulsalam, 1985).

In this process, private ownership and investment were encouraged in the agricultural sector, even though the policies of the Central Bank of Libya were in favour of the government-owned public sector. However, the adoption of many liberal policies in more recent decades turned the economy into a mixed socialist-capitalist economy. This situation caused a state of confusion meaning that, under Qaddafi's rule, there were no clear or sensible implementation of a particular economic system and its policies (Alafi and Bruijn, 2010).

The inconsistency in economic planning and policy-making during Qaddafi's regime led to economic chaos bringing the whole economic and social development programme to a standstill; this programme was therefore unable to provide an alternative to oil as the only source of income. With the fall in international oil prices in the 1980s, the situation started to deteriorate in Libya and was made even worse by

the economic sanctions imposed by the UN in the 1990s. The lifting of the sanctions in 2003-2004 paved the way for comprehensive structural economic reforms that would speed up the transformation to a market economy. However, despite all the efforts that had been made, overcoming the long legacy of a centrally-controlled economy, excessive reliance on the public sector and absolute dependence on oil revenues as the only income of the state constituted a formidable challenge to the Qaddafi regime. Thus, in Libya the economic resources have remained under tight state control and the bulk of the labour force is employed by the government (Alafi and Bruijn, 2010).

During the last 20 years of his regime, Qaddafi made some attempts to move closer to the West. To reach that goal, the state had to relax its control over the economy in order to adopt free-market and neoliberal policies but, again, such a move was frustrated by lack of political will. Consequently, life became difficult for the public, while the elite, particularly the Qaddafi family, took advantage of the new economic policies to increase their wealth. Thus, public discontent started to grow as a result of increasing poverty levels and economic hardship resulting from the new economic policies (Wood, 2011). So, despite the limited privatization of public firms in 1987 and trade in 1992, the economy remained under tight state control. The course of events during the 1980s and 1990s had proved beyond doubt that the Qaddafi regime was not genuine or credible in its attempts to bring about fundamental reforms to boost the economy. In fact the regime was suffering from many problems, mainly the weak economic institutions coupled with the incompetent system of governance where power was concentrated in the hands of one person who controlled the country as though it were his private property.

4.2.1 The New Regime of the February 17 Revolution

As part of the so-called Arab Spring, Libyans took to the streets from February 2011 demanding change in the politics and political economy of the country. This uprising was successful in bringing down the Qaddafi regime and establishment of a transitory regime in July 2011.

Initially, after restoring law and order and sorting out security issues, the new regime managed to open channels of communication with the outside world. The main aim

was to make use of globalization in order to liberalize the economy in favour of free-market policies. As an initial step, the new government had to refurbish the damaged oil installations to restore oil production to its normal, pre-conflict levels. In addition, the Libyan National Transitional Council (NTC) had to deal with issues of mismanagement and abuse of the oil sector by the previous regime so that huge amounts of funding could be channelled to those most affected by the conflict.

Despite the oil wealth which should have been accumulated over many years, Libya has high levels of poverty, youth unemployment and social inequality (African Development Bank, 2011) due to poor governance and financial and administrative corruption. So, to deal with these problems, the NTC (and the interim government) had to bring about political stability as a precondition for economic reform, as economic development will remain a major challenge for the new government.

In order to put the economy on the right track, the new government has attempted to encourage self-employment (African Development Bank, 2011). This has been hampered by the difficult business climate created by the previous regime. Generally speaking, the success of the government's economic policies will be key to political and social stability, enabling the country to make important strides towards progress. So, for the new Libya to make progress it has to avoid the patterns of the past and ensure that the rule of law prevails; this implies the need for effective political institutions, democratic elections and an independent judicial system. In addition, given the tribal nature of Libyan society, the promotion of trust and cooperation between individuals and social groups has become an important requirement to mitigate potential social conflicts. However, at the economic level, the new Libya needs to diversify its economy in order to be less reliant on the depletive oil resources. Economic diversification, hence, will be the key to economic and social development, and will effectively pave the way for employment for a large number of people, thus bringing about social stability. Importantly, sensible management of the oil revenues will be crucial for Libya's economic reforms (African Development Bank, 2011).

Although the February 17th Revolution per se was a great achievement, it had numerous economic implications; most importantly, oil exports, the country's major source of foreign currency, were temporarily suspended. In the meantime, the freezing of Libya's assets by the international community to punish the Qaddafi

regime has become problematic for the new regime. Therefore, the Libyan economy was paralyzed during the months of the conflict, when the real GDP contracted by an estimated 41.8% during 2011. However, with the political situation improving, the return of foreign oil companies and the strong international support for the new regime, the economy is expected to recover quickly, with economic growth projected at 9.5% and 20% in 2012 and 2013, respectively. In other words, the country is expected to achieve considerable economic progress as the interim government restores political stability. In this regard, the interim government is making great efforts to create suitable conditions to integrate the Libyan economy into the global economy. (African Development Bank, 2011).

As an initial step, the NTC took a decision to reinstate the Ministry of Oil, which was scrapped by the Qaddafi regime in 2006 and replaced with the National Oil Corporation. As a sign of good intentions, the two institutions agreed to cooperate, making a joint announcement that all previous oil contracts would be respected, while suspicious deals in the oil sector would be subject to investigation. Thus, in order to improve performance in the oil industry, the NTC established a committee to investigate corrupt practices in the sector.

Finally, despite all the challenges ahead, the government has been keen to address the problem of youth unemployment in Libya. Although the oil sector is making a speedy recovery from the chaotic situation resulting from the recent conflict, the economy will not be in a position to create jobs in the near future. In this respect, the interim government has realized the importance of diversifying economic resources in order to create jobs. But that goal will nevertheless remain a distant one until full political stability has been achieved.

4.3. LIBYAN ECONOMIC DEVELOPMENT

Following independence in 1950, Libya was one of the poorest countries in the world (John, 2008). The country was mainly dependent on agriculture and livestock products. However, given the fact that Libya was mainly desert with meagre rainfall, no streams and insufficient ground water resources, agriculture was not always reliable as an economic resource. Hence, the agricultural sector employed around 70% of the total workforce in the country and contributed 30% of the GDP. However,

since its discovery in the 1960s, oil has become the country's only economic resource. The revenues from oil exports grew rapidly from US\$40 million in 1962 to US\$625 million in 1967 (John, 2008). Thus, within eight years of the first shipment of its crude oil, Libya became the fourth largest oil producer in the world, a development unprecedented in the history of the oil industry. This transformed Libya from a capital deficit aid-recipient state into a capital surplus aid-provider state (John, 2008).

The current data in 2012 shows that the oil revenues constitute 95% of total exports and 75% of the government total budget is funded from the oil revenues. The total oil revenues increased from Libyan Dinar (LYD) 6,489.2 million in 1980 to LYD40, 972.05 million in 2007, LYD64, 417.0 million in 2008, LYD35, 347.0 million in 2009, LYD55, 713.0 million in 2010, LYD15, 830.1 million in 2011 and LYD66, 932.3 million in 2012. Thus, dependence on oil revenues made the progress of the Libyan economy largely a function of the performance of the petrochemical industry. However, it is the oil revenues which have greatly contributed to economic growth in Libya with the per capita income estimated at US\$6,800 in 2005. In other words, the economy of Libya depends on the oil-based foreign earnings, which accounts for about 95% of Libya's export earnings (Elbeydi *et al.*, 2010).

However, as a result of the increasing oil prices in recent years, Libya had accumulated foreign revenues totalling US\$33 billion by the end of 2004 and US\$45 billion in 2008; hence, these revenues were expected to increase in the years to come, making Libya the wealthiest state in North Africa. Given the huge potential of the oil and gas sector in Libya, the country will continue to play a major role in economic and social development through increasing revenues (Porter and Yergin, 2006).

Earlier, when oil prices were falling, the contribution of the oil sector to the GDP had declined to 41.4% in 1995 and to 23% by the end of 1989. But from 1991 onwards the situation has improved, with a contribution of 30% each year. However, in 2009, oil proceeds provided added momentum for economic growth efforts in Libya. This came after a long period of relatively lower oil prices in particular in the 1980s, which adversely affected Libyan economic growth. For instance, in 2010, the country recorded a 10.6% growth rate. Hence, GDP in Libya increased to LYD39, 922.70 million in 2012 from LYD20, 146.30 million in 2010. Oil revenues and low

population in the country have contributed to Libya becoming one of the highest per capita GDP in Africa.

However, despite the huge oil bonanza Libya failed to achieve real human development and remained far behind in this area. For that reason the non-oil sectors, such as the manufacturing and agricultural sectors, contributed less than 40% of the GDP. Nonetheless, due to major foreign investment in the oil and gas sector Libya managed to achieve a growth rate higher than many countries in the region (Porter and Yergin, 2006).

Following the suspension of the UN sanctions at a time of increasing demand for oil worldwide, oil prices went up, leading to huge increases in oil revenues during the period 1999-2003; thus, the economy remained heavily dependent on the oil sector. In other words, the economy remained largely state-controlled and, according to IMF estimations in March 2005, 75% of the workforce in Libya was employed by the public sector, with the private sector contributing as little as 2% of the GDP. Moreover, the high rate of population growth coupled with the low rate of job creation really compounded Libya's economic problems (Porter and Yergin, 2006)

As for today, with the hydrocarbon sector still dominating the economy, Libya remains the least economically diversified country in the world. Thus, the main challenge for Libya is to activate economic diversity by boosting its non-hydrocarbon sectors. To reach that goal, most experts believe that the country has to increase investment in the oil sector, which will remain the engine of economic growth in the foreseeable future; in the meantime it should prioritize the development of other economic sectors to achieve economic diversity (Porter and Yergin, 2006). However, this can only be achieved through basic economic reforms that will incorporate the private sector into the economy to lead the process of economic development in the country. In this regard, the agriculture, construction, energy and tourism sectors appear to have huge economic potential for initiating the process of economic development in the country (Porter and Yergin, 2006).

Before discussing the economic development-related issues, Table 4.1 provides GDP growth figures indicating economic growth over the years in Libya.

Table 4.1. GDP and GDP Precipitate Growth in Libya

Year	GDP	GDP Growth (%)	GDP Per Capita
2005	44.0	9.9	7.86
2006	56.4	5.9	9.93
2007	71.8	6.0	12.41
2008	93.1	3.8	15.83
2009	62.3	2.1	10.45
2010	80.9	2.9	12.3
2011	37.4	-60.0	5.8
2012	77.7	69.7	11.8

Source: (Central Bank of Libya, 2012).

As for economic development, it is a more complicated issue for countries such as Libya, as it requires mobilisation of resources at all levels. The best measure available is the Human Development Index (HDI), which provides a comparative measure for the level of economic development in countries in terms of life expectancy, literacy, standard of living and quality of life. While the GDP growth in Libya evidences economic growth, the same is not the case for economic development.

Table 4.2. HDI Ranking of Libya as Compared to GDP

Year	GDP	HDI Ranking
2005	44,087.2	58
2006	46,583.6	64
2007	48,898.0	55
2008	50,228.7	56
2009	49,854.3	55
2010	52,009.9	53
2011	20,146.3	64

Source: Human Development Report, UNDP (various issues)

A brief glance at Table 4.2 shows that Libya has performed very poorly in terms of human development despite the large oil revenues. Apart from 2011, which is the year of the troubles, the GDP has been continuously on the increase while HDI values show low rankings, indicating the inconsistency between human development and economic development in Libya.

During Qaddafi's regime the government had almost abolished the private sector, confining it to small businesses, a policy that caused significant damage to the economy. On the other hand, this policy prevented the accumulation of wealth in the hands of a small group of the population. Unfortunately, due to corrupt government policies, a new class emerged comprising the ruling elite (politicians, civil servants,

military officers, *etc.*) led by the Qaddafi family (John, 2008). This new class had all the economic privileges and enhanced their social status compared to the average Libyan, and this is where things have gone terribly wrong as this situation increased poverty, social frustration and economic desperation among the people of Libya. Thus, due to the unfair government policies illiteracy, unemployment and poverty have become widespread in Libya, and iron shackles have become a common sight in many urban centres. For example, a survey conducted during the Qaddafi era concluded that at least 150,000 families lacked decent shelter (John, 2008). Also, a shortfall in new construction had raised the prospects of overcrowding and the creation of new shantytowns as the country's uncontrolled population growth threatened to overwhelm the supply of housing.

Other public services in Libya have not performed better, either. The educational system has been lagging behind, failing to train enough professionals to meet the country's need for teachers, doctors and scientists to put an end to dependence on foreign labour (John, 2008). The same could be said about healthcare and other basic public services. Thus, after four decades of dictatorship, the Qaddafi regime has failed to produce the technically skilled labour that would enable Libya to become less dependent on foreign labour.

Despite the remarkable improvements in GDP and per capita income, in terms of HDI Libya remains a poor country. However, the main problem is that policy-makers have so far failed to achieve a fair and just distribution of resources in favour of socio-economic and human development. For that reason, all economic development plans in Libya have been doomed to failure, as those plans have lacked the vision and political will to include the human element as an important factor in any economic development programme (Sadeg 2006; Asutay, 2009).

4.4. LIBYAN FINANCIAL STRUCTURE

The historic development of the banking system in Libya featured a number of phases of political development including the Ottoman Empire era, the Italian occupation period, the British administration period, the pre-Libyanization period, the Libyanization period, the nationalization stage and, finally, the emergence of private

commercial institutions. These phases are discussed in more detail in the following sections.

4.4.1. The Ottoman Empire Era

This refers to the rule of the Ottoman Empire in the Middle East and North Africa. In the latter stages of the Ottoman era a number of Turkish and Italian banks were politically orientated to achieve the goals of the colonial powers at the time. The city of Benghazi witnessed the first agricultural bank to be established by the Ottoman authorities in Libya in 1858. Then, in 1901, another agricultural bank was established in Tripoli followed by a branch of the same bank established in the city in 1906 (Alhassih, 1995; Central Bank of Libya, 2006). During the same period a number of Italian banks existed, initiated by the establishment of the Bank of Rome (Banco di Rome) in 1907 with two branches, one in Benghazi and the other in Tripoli. In addition, the bank established a number of financial agencies in major cities in Libya, setting the stage for the Italian occupation of the country (the Central Bank of Libya 2006; Syndicate of Banking, 1990).

4.4.2. The Italian Occupation Period

Following the Italian occupation in 1911, the Libyan economy came under full control of the Italian banks, leading to the liquidation of Ottoman agricultural banks in 1912. Besides the Bank of Rome, other Italian banks were opened including the Bank of Italy 1912, Sicily Bank 1912, and the Bank of Naples 1913 (Syndicate of Banking, 1990). Although Italian banks had tight control over the Libyan economy, that did not prevent the establishment of local banks such as Tripoli Savings Fund, Burka Savings Fund, and Tripoli Bank in 1923, 1925 and 1929, respectively. Then, finally, the Libya Savings Fund came into existence in 1935 following the merger of the Tripoli Savings Fund and the Burka Savings Fund (Alarbah, 1985).

4.4.3. The British Administration Period

This marks the beginning of the Allied Forces' control of Libya in 1943 following the defeat of Italy in World War Two. In accordance with the Tripoli and Burka mandates, British troops took control of Libya, and the Italians started to lose economic control following the establishment of two branches of Barclays Bank in

Tripoli and Benghazi in 1943 (Alarbah 1985). However, besides the European Banks, an Arab bank was established in 1950, even though economic activities were dominated by Barclays Bank. In fact, in addition to its banking activities Barclays Bank was entrusted with administrative responsibilities by the British authorities including issuing the local currency and maintaining the role of under-secretary of the British Ministry of Finance in Libya. Eventually, the Italian Lira was replaced by the British Pound (The Central Bank of Libya, 2006).

4.4.4. The Pre-Libyanization Period

Following independence in 1950, a number of foreign banks were established in 1952 including the Tunisian-Algerian Bank, the Bank of Egypt, the British Bank of the Middle East, Bank of America and the Morgan Guaranty Bank. Nonetheless, there were no local banks in Libya, even after the establishment of the Libyan National Bank in 1956 (World Bank, 1960). However, the establishment of local commercial banks remained an essential requirement for Libya (The Central Bank of Libya, 2006). According to Alarbah (1985), the National Bank of Libya was established in response to Law No. 30 of 1955, and in 1956 the Bank was opened as the Central Bank of Libya in Tripoli, with a branch opening in Benghazi in 1957 (World Bank, 1960). The main task of the bank was to issue the national currency banknotes and coins (Alarbah 1985; the Central Bank of Libya, 2006). Unfortunately, despite the presence of numerous foreign and local banks, the country remained in complete economic chaos. This was due to the failure of the Central Bank of Libya to fulfil its responsibilities to control economic activities in the country.

4.4.5. The Libyanization Period

The domination of foreign banks and the introduction of Law No. 4 of 1963 changing the name of the National Bank of Libya to the Central Bank of Libya were the main features of this period. By the power of that Law, the Central Bank of Libya was given full authority to control, monitor and inspect banks operating in Libya, both foreign and local. However, most importantly, according to Law No. 4, the local component in foreign banks had to be 51% or more of the capital, which would give the national administration the upper hand in the decision-making process. Then, following a decree issued by the so-called Revolutionary Command Council on

November 13th 1969, all foreign banks in Libya were transformed into stock companies. This implied that more than 51% of the capital was held by Libyan nationals who would dominate and chair the Boards of Directors of those companies (The Central Bank of Libya, 2006).

4.4.6. The Nationalization Stage

In a move to improve the performance of the banking sector, the government of Libya issued Law No. 153 of 1970 providing for the nationalization and reorganization of foreign banks operating in Libya (Syndicate of Banking, 1990). Eventually, that law implied that all companies and banks operating in Libya had to become state-owned. Accordingly the government of Libya took full control of all banking activities in the country through five state-owned banks: Sahara Bank, Umma Bank, Al-Gumhuria Bank, the National Commercial Bank, and Al-Wahda Bank (the Central Bank of Libya, 2006; Syndicate of Banking, 1990).

4.4.7. The Emergence of Private Banks

In order to give the private sector more scope to contribute to national economic activities, and to expand the base of private ownership, Law No. 1 of 1993 was issued by the government of Libya, allowing private banks to be established. Consequently, a number of private banks were opened in Libya including the Commercial and Development Bank (1996), the Regional (Ahliyah) Banks (1996) which would serve surrounding areas, Al-Ijmaa Al-Arabi Bank (2003), and Al-Aman Bank for Investment and Trade (2003).

The establishment of these banks came at the height of the UN economic sanctions imposed on Libya, which multiplied the country's economic problems (Griswold, 1998). As has already been mentioned, Law No. 1 of 1993 authorized the Central Bank of Libya to take appropriate steps to reform the monetary system in the country. At this stage, however, foreign banks were allowed to open branches in Libya to operate alongside the local private banks. In addition, in order improve the economic situation banks were allowed to offer loans and other credit facilities to boost productivity in the country, and interest rates were cut for industrial and agricultural loans (the Central Bank of Libya, 2006). Nonetheless, despite all the efforts made by

the government, including the establishment of foreign banks and the decision to allow foreign banks to be stakeholders of local banks, the performance of the banking sector fell far below international standards.

To sum up, the main problem lay with the Central Bank of Libya and the incompetent way of monitoring the country's financial system, including the activities of the commercial banks and the services they provided to the public. In this situation, the only hope was that the anticipated establishment of Islamic banks would improve the economic position.

4.5. ISLAMIC FINANCE IN LIBYA

Over the last few years there has been a significant increase in Islamic banking and financial activities around the world, particularly in Muslim and Arab countries. However, the Islamic banking and finance system failed to make any progress in Libya as the Qaddafi regime stood against the idea by frustrating the establishment of Islamic banks in the country. Although the Central Bank of Libya took serious steps to open the door for Islamic banks, the regime showed no political will to implement the Islamic finance system in Libya.

“While there are many Muslim and non-Muslim countries that have been practising the Islamic methods of finance in their financial institutions, Libya ha[d] not introduced these methods of finance on a formal basis, such as Islamic banks. This could be seen as unusual because most, if not all, Libyan people are Muslims” (Gait, 2009:2). Hence, it should be noted that the reason for the lack of growth of Islamic finance in Libya was the unwillingness of the former regime to support and encourage its establishment, 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”. In general, Gait (2009) illustrates that the respondents have a certain degree of satisfaction with Islamic banking, very much as one might expect.

As Muslims, the people of Libya would like their economic activities to be controlled by *Shari'ah* law, which would necessitate the establishment of Islamic banks, as

evidenced also by this study. However, the authoritarian Qaddafi regime refrained to provide them with such services as well as giving them the chance to express their ambitions and aspirations. For that reason, the people of Libya blamed the Qaddafi regime for failing to live up to their expectations by blocking the progress of the Islamic banking system in the country. In so doing, the Qaddafi regime had deprived the economy of the benefits of the Islamic banking system, and the people were prevented from practising their religious beliefs, at least at the economic level. In addition to the other political and economic failures of the Qaddafi regime, including the unfair distribution of wealth and the suppression of personal freedoms, this matter was one of the causes of the people's rebellion, culminating on February 17th 2011 in the final overthrow of the Qaddafi regime.

Thus, 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 confirmed 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 of 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 Islamic banking law to add a special chapter on Islamic banking to Law No. 1 of 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 the 26th 2012 at the end of its first meeting appealing for decision-makers to stop *ribavi* transactions in banks, 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 of 2013 to abolish all interest-based transactions in the country. In fact, the move towards the establishment of the Islamic banking system in Libya has gone far beyond rhetoric to include the following practical measures:

(i) The Central Bank of Libya has received applications from local and foreign investors to be licensed to provide Islamic banking services within the Libyan financial market. All applications are currently being examined by the Central Bank's Islamic Banking Committee, and successful bidders will be announced within the next few weeks. It should be noted that so far four applications from Libyan commercial banks have been accepted to convert their operations completely to Islamic banks.

(ii) According to a government official, as an initial step in the establishment of Islamic banks, a number of measures have been taken including the drafting of appropriate laws that will organize Islamic banking activities. In addition, the Central Bank of Libya is considering applications from some of the conventional banks to be transformed into Islamic banks.

(iii) In an unprecedented move, the Central Bank of Libya has initiated plans to train banking sector staff to familiarize them with *Shari'ah*-based transactions, as well as considering whether to approve some of those transactions, most importantly *qard-al-hassan* transactions, as services to be provided by the banks of Libya. In this regard, a study has revealed that 49% of the people of Libya would prefer to stay away from conventional banks in order to avoid interest-based transactions Almher (2012).

Indeed, financial and banking experts believe that Libya will provide a suitable environment for the development of Islamic banking despite the fact that its banking system did not make any significant progress during the Qaddafi era. Around 17 banks currently operate in Libya, but just four of them dominate the financial market, and they are government-controlled. However, very few branches of foreign banks existed in Libya until 40 years after the first bank was established in the country (Al Manara, 2013).

For the first time ever in Libya, Law No. 1 of 2005 allowed foreign investment in the banking sector. Accordingly, foreign banks have been allowed to buy shares in local banks as well as establish their own branches provided that the capital to be invested is US\$50,000 or more, as stipulated by Article 27 of the Law. However, records show that 95% of the capital circulating in Libya does not pass through the banks (Alfergani, 2010:217). This might be explained by the fact that, due to the religious nature of the Libyan people, most of them try to avoid transactions involving conventional banks whose financial practices are incompatible with *Shari'ah* law. According to Almher (2012), 49% of the Libyan people refuse to deal with conventional banks because of the interest system. This should indicate the marginal role to be played by conventional banks in the economy (as they do not live up to the aspirations of Libyan society), and the urgent need for Islamic banks in response to the ambitions and aspirations of a predominantly Muslim society which would like every activity to be inspired by Islamic principles. Thus, promoting the idea of Islamic banking should favour the process of socio-economic development. In this respect, taking into account other models of Islamic banking such as the cases of Malaysia and the Arab Gulf, Libya should be able to develop its own model of Islamic banking so that the country can address the problems of poverty and economic disparity that are widespread in Libyan society. Otherwise, Islamic finance, as in Malaysia and the Gulf, will not solve the difficulties of the Libyan people and will result in disappointment.

4.6. CONCLUSION

For more than forty years under Qaddafi, Libya remained politically and economically unstable. Despite the oil resources, the Qaddafi regime wreaked havoc in a country marred by a state of economic confusion and political uncertainty dictated by the Green Book. In this regard, the Qaddafi regime failed to promote social justice and a fair distribution of wealth among the people of Libya. Instead political corruption was the dominant feature of Qaddafi's rule, where a small group of people, particularly regime supporters, enjoyed all the economic and political privileges, while the overwhelming majority of the population had to live in a state of social desperation and economic hardship.

However, following the revolution on February 17th 2011 (culminating in the overthrow of the Qaddafi regime on October 20th, 2011) in the same year, the new government has given fresh hope to the people of Libya. In this respect, the new government, after restoring law and order in the country, has given priority to political and economic reforms. However, as an initial step to reforming the economy, the new government considered the establishment of Islamic banking and finance in the country. Thus, apart from the fact that the establishment of such a system was one of the motivations for the revolution, such a decision would favour the process of economic development in the country. In other words, the majority of the people of Libya would prefer to stay away from conventional banks to avoid *riba* in transactions, but they would be happy to do business with Islamic banks, which comply with *Shari'ah* law. This would definitely place those banks at the heart of the economy by making a significant contribution to the process of socio-economic development in the country.

This background, hence, has motivated the research in this study, which should be considered as a timely research considering the recent political move towards Islamic finance and banking in Libya. After the next chapter (Research Methodology), primary data analyses is provided with an objective of providing evidence for the demand for and supply conditions of Islamic finance in Libya.

Chapter 5

RESEARCH METHODOLOGY

5.1. INTRODUCTION

The term 'research' has been defined in a number of ways. For example, Sekaran (1984:3) defines research as "an organized systematic data-based, critical, scientific inquiry or investigation into a specific problem undertaken with the objective of finding a solution to it". Clardy (1997: 3), on the other hand, defines research as "the systematic and controlled process of collecting and analyzing information necessary or useful to the efficient and effective provision of human resources development programmes". Furthermore, according to Marczyk *et al.* (2005: 46), research is "an examination of the relationship between one or more independent variables and one or more dependent variables". Since the subject matter in this study is to explore and examine demand and supply conditions for Islamic finance in Libya, a systematic research is essential.

Research is deemed one of the strongest tools for solving problems for both individuals and organizations alike. For research to be operational, a particular research methodology must be adopted. It should be noted that a combination of techniques and methods to be used for collecting data for research is called research methodology. However, methods of research differ depending on the subject of research involved. This implies that a researcher should always choose the right methods in order to fulfil research aims and objectives. It is therefore of paramount importance that, for a research study to be successful, great attention be focused on the methods of research. The main objective of this research is to explore opinions and perceptions relating to social banking in Libya in light of the fact that, despite being oil-rich, the country is classified as underdeveloped.

This chapter aims to discuss the research methods to be used as well as the analysis of the data acquired by those methods. As has already been mentioned in Chapter 1, both qualitative and quantitative methods have been used in this research. This chapter is

subdivided into six sections as follows: The first section presents an introduction, and the next section presents the research methodology; the third section covers the research design, while the fourth section discusses the research strategy; the fifth part sets out the research methods, and the final part explains the research limitations.

5.2. RESEARCH METHODOLOGY

Scientific research is a complex activity mainly aiming at augmenting scientific knowledge besides finding solutions to outstanding problems. However, scientific research requires the researcher to select the appropriate tools to conduct his/her studies in a process known as research methodology. For this reason, research methodology has become the focus of attention in recent years due to its importance to scientific research (Gerring, 2001). Thus, choosing the right methodology has the advantage of assisting the researcher to produce successful research in terms of meeting the research objectives and goals. In this regard, according to Payne and Payne (2004), research methodology can be defined as a set of tools that assist a researcher to collect and analyze the appropriate data, eventually enabling him/her to answer the research questions. In highlighting such nature of research methodology, Kerlinger (1973:703) defines it as “a controlled investigation of theoretical and applied aspects of measurement mathematics and statistics, and ways of obtaining and analyzing data”. In addition, Murray and Lawrence (2000: 218) define research methodology as “techniques that are an abstraction of reality and which are used in an orderly manner to reveal the dimensions of reality. The term methodology may be taken to be inclusive of research design, theoretical frameworks, the selection and analysis of literature relevant to the nominated topic, and justified preferences for particular types of data gathering activities”.

It could be concluded that research methodology constitutes the cornerstone of any research study with regard to the major role it plays in the process of data acquisition and data analysis to achieve the research objectives. Therefore, it can be suggested that research methodology tends to provide the researcher with the framework for acquisition, analysis and interpretation of data. Thus, according to Collins and Hassey (2003) research methodology is a means of providing the researcher with adequate information on the subject under investigation.

Depending on the subject matter of the research, research methodology can be qualitative or quantitative.

Bryman (1988:2) defines quantitative research as a “genre which uses a special language which appears to exhibit some similarity to the ways in which scientists talk about how they investigate the natural order, variables, control, measurement and experiment”. In substantiating this, Burns and Grove (2005) view quantitative research as a formal, systematic and objective process involving numerical data to establish facts on a specific subject. Quantitative research, therefore, is mainly designed to draw conclusions on a specific subject based on numerical information. According to Muijs (2011:11), two types of quantitative research design exist: experimental and non-experimental. Experimental designs usually dominate scientific research, whereas non-experimental designs are popular among social scientists.

Qualitative research methods tend to use information provided by others to draw conclusions on the research subject (Bryman, 2001). Qualitative research, thus, aims at exploring and evaluating opinions and behaviours in relation to a specific phenomenon as a means of understanding perceptions and behaviours. In other words, according to Bryman (1988) qualitative research methods provide an approach for studying social phenomena by analyzing the human behaviour of the individuals or groups of people being studied. But Lehmann (2009) nonetheless points out that qualitative research usually focuses on small groups of respondents to obtain the required information. Thus, it becomes obvious that the main distinction between qualitative and quantitative research is that the former is based on verbal or written data, while the latter uses numerical data to draw conclusions.

Since this research aims to explore the perceptions and opinions of individuals in relation to demand and supply conditions of Islamic finance in Libya, it is constructed as an explorative study, which necessitates constructing this study within qualitative research methodology. The perceptions and opinions of the participants are measured with questionnaire and interview surveys.

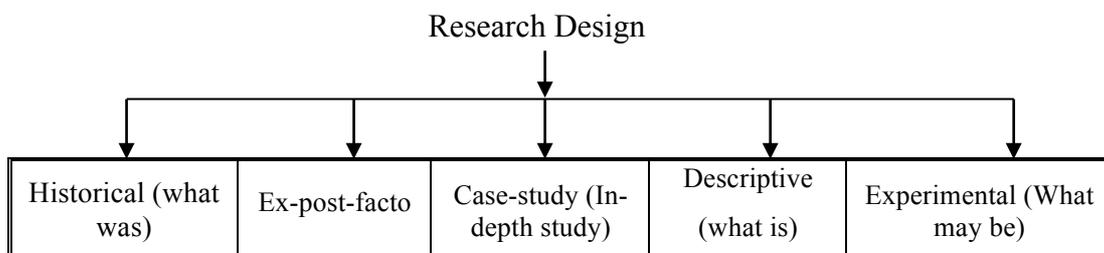
5.3. RESEARCH DESIGN

According to Bryman (2008), the research design provides the framework for collecting and analyzing data. This implies that any research, social or otherwise, requires the researcher to suggest a specific design prior to data collection and data analysis. In this regard, Vaus (2001) states that the main function of the research design is to enable the researcher to eliminate any ambiguities about the proposed research questions. Yin (2003: 20) refers to research design in a functional manner as “the logical sequence that connects the empirical data to the study’s initial research questions, and ultimately to its conclusions”.

With regard to social research, different opinions exist as to its proposed research design. For example, according to Robson (1993) research design could be based on experiment, survey or case study. However, others (Saunders *et al.*, 2009; Kothari, 2004; Kumar, 2008) suggest that any research should necessarily fall into one of three categories: exploratory research, descriptive research or explanatory research.

The literature indicates the following designs that are most often cited in the literature:

Figure 5.1. Research Design



Source: Kumar (2002:31)

(i) *Historical research*: This type of research provides a historian with a tool to verify the facts reported by others. This implies that the main purpose of historical research is to verify or otherwise justify events that have happened in the past. Thus, whenever the data feature past events, a historical approach should be used. Historical research is used not only by historians but also by psychiatrists and social scientists as a tool to monitor and investigate social change. This is particularly true for social scientists, who are mainly concerned with social changes featuring social groups and social institutions (Kumar, 2002).

(ii) *Ex-post-facto research design*: This type of research approach mainly focuses on testing facts associated with variables, be they dependent or otherwise. It could be suggested that this type of research is concerned with relationships between the dependent and independent variables in terms of their effects on one another. In this respect, extra caution should be exercised with regard to data interpretation and drawing conclusions as this kind of approach does not require the researcher to make predictions or initial hypotheses (Kumar 2002).

(iii) *Case-study*: This approach usually includes an in-depth investigation of an individual, an institution or even the community at large in order to establish the facts about a specific aspect. The case-study approach can be described as a sort of qualitative analytical approach based on careful observation of the subject under investigation, be it individual, community or institution. This approach does not usually require the researcher to hypothesize; rather, he/she should depend on the facts associated with the subject of investigation with a view to establishing facts for further research. The main advantage of this approach is its resilience and flexibility, as it tends to provide freedom of choice to researchers rather than restricting their views on the subject under investigation.

(iv) *Descriptive research*: This kind of research mainly provides descriptions of objects, individuals or groups of people, organizations and environments. In this approach the main task of the researcher is to gather information relevant to a specific event or phenomenon. However, in order to provide an accurate description of the phenomenon under investigation, descriptive research uses appropriate methods such as observation, interviews, questionnaires or referenda.

(v) *Experimental research*: This type of research is mainly applied in social sciences to investigate the effects of a given variable on the development of other variables regarding a specific subject, which tends to provide more accurate and precise results in the area of social science. The main idea of experimental research is to establish solutions to problems identified through empirical research (Almtoray, 2006).

(vi) *Explorative study*: An exploratory study is research conducted to investigate a topic for which relatively little is known (Saunders *et al.*, 2009; Sekaran, 2000). Churchill (1983) describes it as a process aiming to discover ideas and insights. Most

of the case studies are explorative in nature as usually there is not much known about the subject matter in a particular case context.

(vii) *Survey study*: Survey design is based on a particular survey method to collect primary data with the objective of developing descriptive and inferential statistics (Saunders *et al.*, 2009).

Overall, this study can be described as an exploratory case study based on survey research, as it explores the attitudes, perceptions and opinions of individuals in relation to demand and supply conditions of Islamic banking in Libya, for which data is collected through questionnaire and interviews. Thus, the research adopts an explorative approach to develop a knowledge base featuring Islamic moral economy and finance systems. In exploring this subject, the questionnaire is administered to the respondents concurrently. This is to ensure the accuracy and precision of the responses. In addition, interviews are conducted with *Shari'ah* scholars in order to explore the legitimacy and acceptability of the current Islamic banking system, as well as potential institutions such as Islamic social banks. In addition, this research also benefits from a case-study design, as it aims to explore the perceptions on Islamic finance and its impact on economic development through Islamic social banking in the case of Libya, a country that is aiming to diversify its economy.

5.4. RESEARCH STRATEGY

Research strategy is related to the mechanism through which we can make a connection between theory and everyday life, *i.e.* data. In other words, research methodology is related to as to how the research question is responded to in relation to theory and real-life observation. As far as social research is concerned, two types of research strategies exist: deductive and inductive reasoning methods.

In the case of deductive strategy the researcher needs to generate hypotheses from the available theories and then test these hypotheses through experimental methods to draw conclusions. Hence, since empirical data are needed to verify the hypotheses, this implies that deductive strategies always work with quantitative research methods.

In the case of the inductive approach, the research initially starts with a set of observations or arguments which lead to developing hypotheses and ends with testing

the developed hypothesis with the data collected from the field to reach a general theory, as stated by Bryan (2004).

The current study entails an inductive strategy as it explores the perceptions, attitudes and opinions of individuals in relation to demand and supply conditions and also their opinions in terms of developing an Islamic social banking system as an alternative method of development through the perceptions of the participants and other stakeholders. Therefore, this research reports the perceptions of the participants on the issues identified in the sense as to how they see and perceive the social reality, which, in this case, is Islamic banking. In other words, this research is commenced with collecting data from the field and developing the hypothesis accordingly and then testing the hypotheses to make some generalisations through the pattern established.

For brevity, the key hypotheses (which are developed in greater detail in chapter 11) informing this investigation is listed here:

Hypothesis 1: The majority of respondents maintain that they have never borrowed money from banks

Hypothesis 2: Most of those who have borrowed money from banks have stated that they have used that money for home financing.

Hypothesis 3: The majority of respondents describe the service provided by the banks as poor.

Hypothesis 4: The majority of respondents believe that the service provided by banks has been unsatisfactory due to the inadequate use of modern technology

Hypothesis 5: The majority of respondents rate themselves as having very good economic and financial knowledge.

Hypothesis 6: The majority of respondents believe that the Libyan economy has not been performing well over the years.

Hypothesis 7: The majority of respondents are of the opinion that banking services in Libya are not available for everyone.

Hypothesis 8: With regard to the progress made by Islamic moral economy in Libya, the majority of respondents believe no significant progress has been made so far.

Hypothesis 9: Regarding the poor performance of the Islamic finance system and its future development in Libya, the majority of respondents believe that the former regime did not promote Islamic finance in Libya.

Hypothesis 10: The majority of respondents do have a reasonable level of awareness that Islamic banking is available as Islamic windows mainly for car purchase.

Hypothesis 11: The majority of respondents feel comfortable doing business with Islamic banks and other Islamic financial institutions in Libya.

Hypothesis 12: The majority of respondents believe that the entire banking system in Libya should be fully Islamised.

Hypothesis 13: The majority of respondents would prefer to open a bank account with an Islamic bank, should one be available in Libya.

Hypothesis 14: When it comes to opening an account with an Islamic bank, the fact that the deposits are interest-free is equally as important as other criteria for the selection of the appropriate bank.

Hypothesis 15: The majority of respondents agree that Islamic banks will effectively contribute to the process of socio-economic development in Libya.

Hypothesis 16: The majority of respondents agree that Islamic banks in Libya, as a genuine component of the Islamic moral economy, can play a major role in the process of socio-economic development through social projects.

*Hypothesis 17: The majority of respondents have a fair level of familiarity with the term *riba* (usury).*

*Hypothesis 18: The majority of respondents who are familiar with the term *riba* do have a fair level of knowledge about the subject matter.*

*Hypothesis 19: The majority of respondents have a fair degree of familiarity with the terms *murabahah*, *musharakah* and *mudarabah*.*

Hypothesis 20: The majority of respondents who said they were aware of the principles of Islamic finance stated that they had acquired their knowledge from reading newspapers and bank brochures and from the Internet.

Hypothesis 21: Most of the respondents are not aware of the principles of Islamic finance indicating that they do not know where to get the information from.

Hypothesis 22: Most of the respondents stated that Islamic banks should not become involved in interest-based transactions.

Hypothesis 23: The majority of the respondents have a good understanding of the objectives of Islamic banking.

Hypothesis 24: The majority of respondents have a fair degree of familiarity with regard to the concept of corporate social responsibility (CSR).

Hypothesis 25: With regard to the principle of CSR, the majority of respondents have the same understanding.

Hypothesis 26: The majority of respondents perceive that CSR is an essential part of the Islamic economy

Hypothesis 27: The majority of respondents support various dimensions of CSR activities that Islamic banks are normally expected to practise.

Hypothesis 28: The majority of respondents have a fair degree of familiarity with regard to the concept of sustainable development.

Hypothesis 29: The respondents have similar understandings regarding sustainable development

Hypothesis 30: The majority of the respondents are of the opinion that Islamic banks have potential roles to play in contributing to sustainable development.

Hypothesis 31: The majority of respondents do not have a fair degree of familiarity with regard to the concept of social banking

Hypothesis 32: The majority of respondents perceive that Islamic banks should practise social banking.

Hypothesis 33: The majority of respondents have a fair degree of understanding of the objectives of social banking.

Hypothesis 34: With regard to methods of financing Islamic social banks, the respondents have the same opinion.

5.5. RESEARCH METHODS

Jankowicz (2005: 220) describes research methods as “a systematic and orderly approach taken towards the collection and analysis of data so that information can be obtained from those data”. In a more simple sense, for Bryman (2001: 27), a research method is “simply a technique for collecting data. It can include instruments such as questionnaire, or structured interview or participant observation in which a researcher listens and watches others”. Payne and Payne (2004:149), by taking a functional definition, define research method as “the technical practices used to identify research questions, collect and analyse data and present findings”. Thus, ‘research methods’ refers to “the various means by which data can be collected and/or analysed” (Collis and Hussey, 2003: 5).

Similar to research methodology, research methods are either qualitative or quantitative depending on the nature of the research and the data to be gathered. Accordingly, techniques such as interviews, observation and focus groups can be described as qualitative techniques, whereas questionnaire and secondary data-based research is considered part of quantitative methods. Thus, methods directly referring to people’s articulation in everyday life through various discourses can be considered qualitative methods, while methods, which can generate knowledge of everyday life, are considered quantitative methods, as the latter refer to a fixed type of information through classification.

The study utilizes interviews and questionnaires to collect primary data, as these are the most commonly used methods for gathering information to explore case studies in terms of assembling data on a subject for which there is no available material. In

addition, secondary data in the form of statistical data are also utilized, particularly to assess Libya's economic development.

This study, therefore, used a quantitative method in gathering primary data through a self-administered questionnaire. In addition, interviews as a qualitative method are conducted with various stakeholders to collect qualitative data. Furthermore, a descriptive method is also adopted in utilizing statistical or secondary data. Overall, therefore, this research should be considered as having adopted a triangulation approach.

A single method of data collection may not be adequate or sufficiently reliable to provide accurate research results. For this reason, methodological triangulation has been suggested in the literature, which involves a combination of qualitative and quantitative methods for the collection of data. However, Denzin (1978) points out that this kind of approach tends to add a new dimension to research design, and could provide adequate results in cases where single methods might possibly fail to do so. It should be noted that triangulation is always worthwhile, as a method, for the validation and verification of research findings by each method cross-checking the results. Thus, triangulation is used in this research to ensure the reliability and validity of the findings in terms of having quantitative and qualitative data collection and analysis methods.

However, triangulation can be done in a number of ways. For example, a researcher might use a combination of different qualitative methods or combine qualitative and quantitative methods, a strategy that will be discussed in the next section. There are four types of triangulation, which eventually contribute to the verification and validation of research analysis (Denzin 1978; Patton 1999):

- (i) Methods triangulation for checking the consistency of different data collection methods;
- (ii) Triangulation of sources, for examining the consistency of relevant data sources;
- (iii) Analysis triangulation, used to review findings through multiple analysis;

(iv) Theory or perspective triangulation, which combines theories or models for purposes of data interpretation, which help to overcome the shortcomings of using a single theory or model.

This study benefits from method and analysis triangulation, as questionnaires, being a quantitative method, and interviews, a qualitative method, are used as part of the method triangulation in data collection. In addition, using statistical methods to analyze the questionnaire-originated data and the use of discursive and thematic analysis in the analysis of interview data provide the rationale for analysis triangulation.

5.5.1. Research Method: Data Collection

In a research, acquired data can be either primary data or secondary data. Secondary data are usually obtained from already existing literature sources as well as reports, published or unpublished (Saunders *et al.*, 2009).

In the current study, primary data have been collected using questionnaires and interviews, the questions mainly focused on people's perceptions of the performance of the Libyan economy, their awareness and knowledge of Islamic banking and finance, the social failure of Islamic banking and the search for potential ways of developing alternative institutions such as Islamic social banks.

Secondary data, on the other hand, were acquired from sources such as academic journals, books and reports, magazines, the Internet *etc.*, along with published and unpublished material such as statistical reports.

Since the acquisition of primary data involves a variety of techniques, the choice of the appropriate techniques depends on the nature of the research subject, given that each technique has its own advantages and disadvantages. In fact, a researcher should always choose the appropriate technique to maximize the amount of data to be obtained in the most reliable and credible manner possible. In this regard, the researcher should always be aware of the limitations and challenges arising from his/her preferred techniques. The following sections discuss the details of the data collection process.

5.5.1.1. Primary data collection method: Questionnaire

Questionnaires are used to collect data directly from human sources and are therefore important for the study of social phenomena. Thus, the main purpose in conducting a questionnaire is to gather information particularly in cases where a large number of respondents are involved (Forcese and Richer, 1973). In this respect, questionnaires constitute an important tool for gathering quantitative data and are indispensable in cases where secondary data from the literature is meagre.

A questionnaire can be described as “a list of carefully structured questions chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do think or feel”(Collis and Hussey, 2003: 173). In explaining this, Rugg and Petre (2007: 142) further describe the questionnaire as “a list of questions which you have prepared beforehand; respondents can answer these questions either in their own words, or by choosing from a set of responses that you have prepared beforehand”.

5.5.1.1.1. Advantages and disadvantages of questionnaires

As a main survey method, questionnaires enable a large and specific amount of data to be collected from the sampled population and are therefore considered useful. The following are the main reasons for using questionnaires as a method of data collection (Levin, 1989; Gillham, 2000):

- (i) Cost-effective in terms of time and money;
- (ii) Makes it easier to acquire information;
- (iii) Respondents can answer the question sheet at their convenience;
- (iv) Easily analyzed, particularly when the questions are closed-ended;
- (v) With questionnaire method, respondents are not put under pressure;
- (vi) Confidentiality preserved;
- (vii) Answers are less biased compared to interviews;

(viii) Provide reliable data for testing hypotheses;

(ix) Given their anonymous nature, questionnaires tend to encourage respondents to answer the questions provided in the most honest and candid manner possible.

The questionnaire method has some disadvantages, which have to be taken into consideration, some of which are listed below (Gillham, 2000:8):

(i) Quality of data cannot be controlled;

(ii) Persuading respondents to take part could be a problem;

(iii) Response rates are usually low;

(iv) Questions are brief and simple;

(v) Some questions might be misunderstood, which would be difficult to correct;

(vi) Questionnaire development is often poor;

(vii) Amount of information restricted by questions;

(viii) Not all respondents provide answers in as organized a manner as expected from them;

(ix) No control over the way respondents provide their answers to the questions in terms of content and order;

(x) Cannot be administered among societies where illiteracy prevails;

(xi) Providing written answers is more demanding than oral answers;

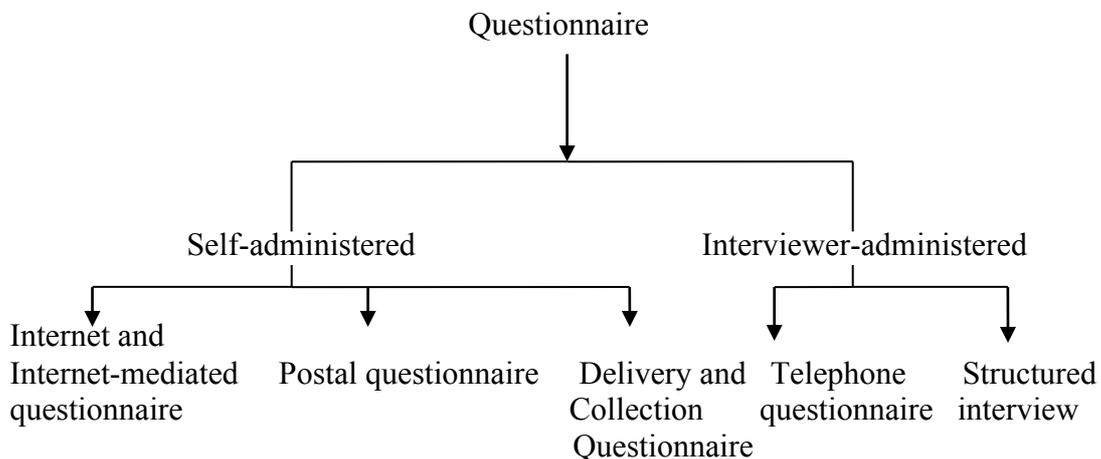
(xii) Credibility of answers cannot be verified.

Weighing up the benefits and the disadvantages of the questionnaire as a method, the questionnaire was chosen as one of the main data collection methods as it facilitates data collection on a large scale with relatively less effort. This is considered a great benefit for this study.

5.5.1.1.2. Types of questionnaires

Questionnaires are available in several forms and types, each of which is designed to generate specific responses from those among whom the questionnaire has been distributed. According to Sekaran (2003), questionnaires can be personally administered or sent by mail. The main advantage of personally administered questionnaires is that, like surveys, they allow the researcher to monitor the questionnaire in a direct manner. In other words, the researcher will have direct control over the participants in terms of time and space. Thus, questionnaires can be subdivided into a number of categories as shown in Figure 5.2:

Figure 5.2. Types of Questionnaire



Source: Saunders et al. (2009:363)

The questions and statements in the questionnaire can be open-ended or closed-ended questions (Gillham 2000; Pallant 2005; David and Sutton 2004). Open-ended questions usually allow respondents to express their ideas in their own words, whereas closed-ended questions tend to restrict respondents to specific answers, such as using multiple-choice questions.

In the questionnaire used for this study, both open-ended and closed-ended questions and statements were utilized. However, the majority of the questions are closed-ended, the format of which is based on Likert-scale categories from which the respondent has to choose. Those categories are ‘strongly disagree’, ‘disagree’, ‘neutral’, ‘agree’ or ‘strongly agree’.

This research heavily relied on self-administered questionnaires as they were distributed to the respondents, and after a couple of days were collected back.

5.5.1.1.3. Questionnaire design

To fulfil the identified aims of this research, the questionnaire has been designed based on an understanding generated from the review of literature relevant to the subject. The questionnaire consisted of eight sections.

The questions in sections one, two and three feature personal information, banking experience and issues in relation to social and personal development, respectively. Section four on the other hand, features questions relevant to the participants' knowledge of Islamic banking, whereas the questions in section five deal with the idea of Islamic moral economy. Section six attempts to explore the participants' interest in Islamic banking, while section seven includes questions and statements related to social banking. Finally, the questions in section eight aim to gauge the participants' knowledge and preference on Islamic moral economy and finance in Libya.

It is important to note that the original questionnaire was written in English before being translated into Arabic, which helped for a more efficient data collection process.

Payne and Payne (2004) suggest that questionnaire design should take into account a number of factors directly linked to the questions. For example, they suggest that the questions should always be linked to the research problem, and they must be short, clear and simple. They also suggest that all respondents be requested to answer the same questions which should be clear beyond any ambiguity. Most importantly, in their view, questions should be designed in such a way that an average participant can answer them with ease. It should be noted that, in the design of the questionnaire, all these pieces of advice were implemented. In addition, as mentioned before, in the design of the questionnaire a Likert-scale design was utilized

5.5.1.1.4. Sampling

The sampling process constitutes a very important element in survey-based studies. Bryan (2004:83) defines a sample as “a segment of population that is selected to be

investigated”. This implies that a sample should be selected in such a way that it represents the whole target population in terms of opinion and thinking with regard to the subject of study. This will allow the researcher to make inferences without bias regardless of whether the target population is a group of people, a group of institutions or the whole society.

For the purpose of this research, bankers, financiers, academics, bank customers and the general public constituted the target population.

Literature indicates that many types of sampling exist. Generally, however, sampling takes the form of either ‘probability’ or ‘non-probability sampling’. Probability sampling includes ‘simple random sampling’, ‘systematic sampling’, ‘cluster sampling’ or ‘stratified sampling’. Non-probability sampling, on the other hand, includes ‘quota sampling’, ‘purposive sampling’, ‘convenience sampling’ and ‘snowball sampling’ (Bulberg *et al.*, 2005; May, 2004; Bryman, 2004; Al-batsh and Abu Zainah, 2007).

In the case of probability sampling, the selection of samples takes place at random whereby each member of the target population has an equal chance of being chosen to become part of the sample under investigation. By contrast, in non-probability sampling, the sample selection is based on specific measures, and those measures could be subjective or arbitrary. In other words, in contrast to probability sampling, in non-probability sampling units of the target population do not all have the same chance of selection, as some are more likely to be chosen than others. However, whatever the case, the choice of a specific method of sampling is subject to several conditions. To mention but a few, these conditions include cost-effectiveness, degree of accuracy, time limit and availability of the target population.

As for the types of probability sampling, the following sampling methods can be listed:

(i) Simple random sampling (SRS): This is the most common method of sampling where each member of the target population has an equal chance of being selected (Bryman 2004).

(ii) Systematic sampling: In reality, this is a systematic form of random sampling. To be more precise, it is systematic in the sense that the n^{th} number of every group is selected where n could be any number greater than one; in the meantime the target population is grouped randomly. This method makes the process of sampling easier and more direct with due simplicity and flexibility. Systematic sampling appears to be more practical in the field in terms of saving time and money.

(iii) Cluster sampling: This method of sampling mainly implies breaking up the target population into smaller groups or subunits, which is particularly useful in areas where records of population and other elements are meagre. Nonetheless, even when records are available cluster sampling could be more economical in terms of material cost and time. Cluster sampling is useful in cases where the costs of random sampling might be prohibitive or in cases where a sampling framework is non-existent. Nonetheless, statistically, cluster sampling could be less efficient than random sampling as the former usually includes homogenous elements featuring the same family, ethnic group, social class *etc.* (Blumbery *et al.*, 2005).

(iv) Stratified random sampling: In this type of sampling the target population is subdivided into subunits called strata based on common features that define each stratum. Then each stratum is sampled separately by using the most appropriate method. For example, if the strata are sampled by simple random sampling, then the sampling procedure could be described as stratified random sampling. The main advantage of using stratified sampling is that one would ensure that smaller strata are not being missed out for the purpose of making a fair comparison (May 2004).

As for the non-probability sampling methods, the following can be mentioned:

(i) Quota sampling: As is the case with stratified sampling, in quota sampling the target population is subdivided into subgroups. Then individual elements of the sample are chosen through interviews provided they satisfy certain conditions.

(ii) Purposive sampling: Usually this method is used in cases where the sample is chosen on the basis of the purpose of the study. In some cases purposive sampling could require the study of the entire target population. This is particularly so in cases where organizations, community groups or any other defined groups are involved.

(iii) Convenience sampling: This method becomes important depending on the availability and accessibility of the target population. Thus, the researcher selects the samples at his/her convenience regardless of the fact that the sample so selected may or may not be representative of the target population. For this reason this method is particularly worthwhile in cases where a limited population is involved or in cases of exploratory research sampling. A classic example includes surveys involving customers at a shopping mall. This type of sampling is one of the fastest methods of gathering data. Nonetheless, the disadvantage of this method is the fact that the sample so acquired may not represent the target population as it could be biased by the presence of volunteers.

(iv) Snowball sampling: This method involves the identification of one person from the target population. The person so selected can lead to others who will help in the selection of other participants, and so the process goes on. This method of sampling becomes useful in cases where the target population is widely dispersed to the extent of being difficult to locate. It should be noted that, Bryman (2004) argues that targeting a few individuals may not always indicate trends in the original population.

C This study uses ‘purposive’ and ‘convenience sampling’ as it aims to measure the opinions and the perceptions of participants working in banking and financial institutions, as well as individuals and entrepreneurs through a questionnaire schedule. This implies that non-probability sampling was chosen, as only those individual bankers and financiers as well as such entrepreneurs and individuals with the knowledge and capacity to respond to the questionnaires were selected. It should, however, be noted that the snowball method was also helpful to reach out to other participants through the help of the participants who have already taken part in the study.

It should be noted that the sampling method in this study not being random sampling, as mentioned above, is biased towards the highly educated section of Libyan society. This may create response biases. However, due to the circumstances the country was going through during the period this study was conducted, the researcher did not have much opportunity to diversify the sampling.

5.5.1.1.5. Pilot testing

It is common practice to test questionnaire questions before distributing to the sampled population, which is a process called pilot testing and usually targets a small sample of the sampled population to be selected in such a way that it represents the real target population of potential respondents. By doing so the researcher is able to predict any potential problems or obstacles that could affect the progress of the questionnaire. In other words, pilot testing enables the researcher to identify areas of weakness and introduce the necessary amendments before it is too late.

Zikmund (2003) identifies two potential groups of respondents recommended for inclusion in the process of pilot testing: the first group should involve professionals with expertise relevant to the subject of study, while the second group should be chosen from the real target population. Given its expertise and professionalism, the first group tends to provide feedback on the questionnaire's design in terms of content, wording, sequence and layout of questions. In the meantime the second group will provide feedback on the suitability and clarity of the questions and the amount of time required to answer them. Hence, it could be suggested that the main purpose of the pilot testing plan is to determine any difficulties or confusion associated with the questionnaire and try to deal with the matter before distributing the question sheets or conducting interviews among the target population.

As far as the current research study is concerned, the researcher managed to conduct pilot testing on a small sample of selected participants. The sample featured people with different qualifications and from different backgrounds, including friends and colleagues. In addition, Libyan PhD students in the UK who were lecturers at Libyan universities and a small group of bankers from the Libyan banking sector were involved. The researcher then introduced the necessary corrections and adjustments to the questions based on the comments and suggestions made by the participants. The pilot testing marked the final step in the questionnaire preparation before the question sheets were distributed among the real target population.

It should also be noted that the researcher sought help from friends and relatives who have links with banks and financial institutions in the process of sheet distribution and collection.

5.5.1.1.6. Administration of the questionnaire

In the current research, the questionnaire was administered by the researcher, who distributed to and gathered the questionnaires from the respondents. In addition, a mail questionnaire was chosen as a means of increasing the return of the questionnaire. This helped to overcome the constraints imposed by vast geographic area to be covered.

The questionnaire was mainly administrated in the capital city, Tripoli, and other major cities from 4th January 2012 to 14th March 2012. It should be noted that the questionnaire was initially considered to be conducted in Libya in 2011. However, political upheaval in the country did not make it possible.

As part of administering the questionnaire, 410 questionnaires were distributed in the major Libyan cities of Tripoli, Benghazi, Musrata, Gharyan, Nalut, Zawara, and Zawiya. This selection of cities took into account the vast demographic distribution of Libya. At the end of the field research, 204 complete questionnaires were returned, of which 194 were suitable for analysis. Therefore, the response rate was 46.34%. This should be considered rather successful, as in societies such as Libya it can be very difficult to collect data through questionnaires.

5.5.1.1.7. Validity and reliability

In accomplishing a survey research, it is vital to ensure the validity and the reliability of the data collected from the questionnaires distributed. Reliability is an important process in research design. Hence, for any interview or questionnaire it becomes of paramount importance that the questions should be valid and reliable. In other words, that should imply the reliability and consistency of the questions. However, in order to make sure of that pilot tests and Cronbach's Alpha reliability tests were to be applied by using the Statistical Package for Social Sciences (SPSS) software.

The formula for the standardised Cronbach's Alpha can be shown as:

$$\alpha = \frac{\bar{N} \cdot c}{\bar{v} + (N - 1) c}$$

Where N is equal to the number of variables, $C\text{-bar}$ is the average inter-item covariance among the variables, and $v\text{-bar}$ equals the average variance. A computed alpha coefficient will vary between 1 (perfect internal reliability) and 0 (no internal reliability).

Table 5.1: Reliability Statistics

Cronbach's Alpha Result	Number of Items
.838	90

In investigating the reliability of the primary data collected through questionnaires, Cronbach's Alpha test was applied. In doing so, only the statements and questions with Likert scale were selected. The result is presented in Table 5.1. As can be seen Cronbach's Alpha result is 0.838, which is higher than the benchmark level of 0.6. It can therefore be stated that the reliability of the data is achieved and it can be concluded that the responses to the questions bear a considerable degree of reliability and consistency.

5.5.1.2. Interviews: Data collection method

In addition to collection large data from a relatively large sample through questionnaire, a number of stakeholders from the supply side were interviewed since this research aims to develop an understanding in relation to the supply side of the issues in relation to Islamic finance. In qualitative research, interviews are widely used for primary data acquisition. According to Babbie (2010), interviews are most suitable for collecting data as they enable researchers to acquire data that cannot be acquired by observation or any other methods.

Trull and Phares (2001) define the interview method as involving an interaction between two persons in such a way that each plays his/her part in the process. Busha and Harter (1980: 78) refer to an interview as "a method in which information is gathered from persons who are able to provide research data on the basis of their background. The information may be concerned with their experiences, opinions, attitudes, reaction to services *etc*". Shea (1988: 6-7), on the other hand, suggests that "an interview represents a verbal and non-verbal dialogue between two participants, whose behaviours affect each other's style of communication resulting in specific patterns of interaction. In the interview one participant who labels himself or herself

as an interviewer attempts to achieve specific goals, while the other participant generally assumes the role of answering questions”.

As regards to types of interviews, according to Bryman (2004), ‘interviews’ are either ‘structured’ or ‘unstructured’, although some believe that interviews can also be ‘semi-structured’ (Straits, 2005; Rug and Petre, 2007; May, 2004). Moreover, some authors identify a fourth type of interview, which they refer to as ‘group interviews’ (May 2004; Collins and Hassey 2003).

In the case of structured interviews, all participants have to answer the same questions prepared by the interviewer beforehand, in which case the interview could be conducted either face-to-face or over the telephone (Sekaran, 1984). In contrast, semi-structured interviews involve a dialogue between the interviewer and the interviewee without the questions being predetermined, depending on the knowledge and expertise of the interviewer. However, semi-structured interviews could be a combination of structured and unstructured interviews. In other words, in semi-structured interviews some questions are predetermined while others could be casual depending on the circumstances of individual interviewees. Semi-structured interviews could be conducted face-to-face or over the telephone. As the name suggests, group interviews involve a group of persons to be interviewed simultaneously. Stewart and Shamdasani (1990) argue that, in group interviews, the group could comprise 8 to 12 persons. In practice all the other methods, *i.e.* structured, unstructured and semi-structured, could be used to a greater or lesser extent.

As far as the current research is concerned, the semi-structured interview method was chosen to provide some flexibility in conducting the interviews, as the interviewees were selected from different backgrounds; and each one of them, hence, offered different aspects. Therefore, asking the same questions would mean imposing constraint and inefficiency on the exercise. The semi-structured method allows the interviewee to express his/her views in a more explicit manner to the effect that they will make their own suggestions.

The interviews were conducted face-to-face and by telephone. It should be noted that face-to-face interviews makes it possible for the interviewer to persuade the

participants to clarify specific points in favour of the research outcome. However, given the massive geographical area to be covered, conducting telephone interviews becomes an inevitable requirement for this research study. This is not to mention the fact that some of the participants have opted for telephone interviews which give them more freedom in answering the questions.

Further information about interviewees, their names and affiliation are detailed in Chapter 10, where an analysis of the interviews is presented.

5.5.2. Research Method: Data Analysis

After data collection, a careful consideration is necessary for data analysis. However, choosing the appropriate technique of data analysis will definitely produce meaningful results leading to reliable conclusions. As Kumar (2002) suggests, inappropriate data analysis will lead to inclusive results or, in the worst scenario, to an erroneous outcome. Thus, the researcher should always take into account the most suitable techniques that are consistent with the objective of his/her research.

5.5.2.1. Analysing questionnaire data

Following data collection, the process of data analysis begins by encoding the data to facilitate their computer processing. According to Sekaran (2003), the data to be gathered using questionnaires are labelled as raw data. Thus, in order to produce results the raw data need to be computer-processed. In this regard, the main task of the researcher is to interpret these data into useful information relevant to the subject of study. Therefore, the more data acquired, the more complex the process of data analysis, and great attention must be paid to the methodology to be used for data analysis. The most commonly used methods for data analysis are statistical methods. According to Bryman (2001), the Statistical Package for Social Sciences (SPSS) refers to computer software widely used in qualitative research data analysis, particularly in dealing with data acquired through questionnaires. One of the main advantages of SPSS is the fact that it enables the researcher to process the data by using charts and tables, which facilitate the process of data interpretation. Thus, SPSS is considered the most popular among researchers in various disciplines.

The questionnaire data were processed using SPSS (version 21) for data analysis. After the codification of the data, the following statistical methods were used to analyse the data:

(i) *Descriptive analysis*: This type of analysis is used for the organization and description of data. This approach tends to transform raw data into a form that facilitates their interpretation (Zikmund, 2003). This approach in essence features the transformation of answers into frequencies and percentages to make them statistically meaningful.

(ii) *Non-Parametric Statistical Test - Mann-Whitney U-Test*: The main idea of this test is to identify differences between two independent samples of the same population in the non-parametric data set. This test is used in this study to measure the differences in the answers given in relation to certain control variables such as demographic variables.

(iii) *Non Parametric Statistical Test of Kruskal-Wallis T test*: This is similar to the above test with the difference that it tends to identify the differences between independent elements featuring three or more groups (Pallant, 2005).

(iv) *Factor analysis*: Factor analysis becomes important where a huge amount of raw data is involved. In this case factor analysis tends to reduce the number of variables to facilitate data processing (Pallant 2005). This technique tends to reduce the amount of raw data to a more manageable size prior to being processed for analysis and interpretation. In other words, the technique tends to eliminate any duplication in the acquired information to facilitate statistical processes.

In order to distinguishing between the data which can be subjected to factor analysis and conducting factor analysis on the data which have been collected, the Kaiser-Meyer-Olkin (KMO) and Bartlett's test need to be conducted. Accordingly, whenever a result of the KMO and Bartlett's tests is high, the possibility of conducting the factor analysis is also high. On the other hand, it has been determined that the KMO and Bartlett's test values should be equal to or more than 60% (Coakes and Steed, 2001).

5.5.2.2. Analysing interview data

Interviews involve a direct conversation between the interviewer and the interviewee, where the latter speaks his mind in responses to questions from the former about a particular issue. Thus, by tape-recording the interview, the interviewer will be able to highlight every word uttered by the interviewee to be investigated later. However, the length of time taken to transcribe a recorded interview is always a function of the clarity of the records as well as the writing or typing skill of the interviewer. For example, as for this research it took the interviewer between six to eight hours to transcribe each interview. Also, to avoid bias the answers were cross-checked.

Interview analysis, on the other hand, could either be coded, descriptive, or otherwise interpretative analysis (Konold and Well, 1981: 5-6). For the purpose of this research coded analysis has been used to analyze the data. Thus thematic coding of the questions was made, and then the answers to the questions were analysed to outline the opinion of the relevant interviewee in response to the specific question.

In addition, the interpretative method is utilized. Bryman (2004: 13) defines the technique involving the interpretation of interviews as “a strategy that respects the differences between people and the objects of the natural sciences, and therefore requires the social scientist to grasp the subjective meaning of social action”. Thus, such approach implies summarizing the important ideas of the interviewees on the issues in question. Then by carefully reading the answers for a number of times the exact opinion of the interviewees about the subject in question were explored and interpreted. Thus, the ideas and opinions are codified to define categories, which in turn reassembled to highlight the different opinions. It is worth mentioning that the main differences in opinion featuring individual responses became clear after successive readings of the relevant responses. The results are presented in tables.

5.6. LIMITATIONS AND DIFFICULTIES

Each research study has its own difficulties and setbacks. This research is no exception, and the researcher had to cope with a number of challenges. The main challenge is the fact that most people in Libya have very little idea, if any, about what is going on in the banking and financial sector. Therefore, in order to overcome this

problem, the researcher had to give briefings about the subject, which was time-consuming. Another problem is the vast geographic extent of the study, which makes it logistically demanding. Due to the revolution in Libya and the ensuing UN resolutions Nos. 1970 and 1973 imposing flight restrictions over the country, the researcher had to access Libya through Egypt and Tunisia, which increased the costs in terms of time and money.

It is also important to note that the sampled people in Libya are not used to questionnaires which they have difficulty in responding to. Perhaps with the development of civil society in the future this problem might be overcome.

5.7. CONCLUSION

This chapter presented the details of the research methodology and research methods. While this study is framed with qualitative research methodology, both qualitative and quantitative research methods were utilized in the form of questionnaires and interviews to collect data.

It should be noted that in terms of the operation of the research, a number of hypotheses were developed. However, due to space problems, the hypotheses were not listed in this chapter, as they are presented in the discussion chapter alongside the discussion.

Chapter 6

LOCATING THE DEMOGRAPHICS OF THE RESPONDENTS

6.1. INTRODUCTION

Being the first empirical chapter, this chapter presents descriptive and inferential analysis of the primary data assembled for this study through a survey, which therefore relates to the participants' responses to the self-administered questionnaire as explained in Chapter 5, Research Methodology.

In analysing the data, frequency distribution-related statistics were utilized to identify the centrality of the data to establish some patterns governing the trend. It should be noted that, even without statistics, through close examination of the participants' responses it is possible to spot statistically significant differences between the various groups of respondents as identified by group profiling based on factors such as age, educational level, monthly income, type of bank account, and social status.

This chapter aims to present the results of the descriptive analysis featuring the general characteristics or the demographics of the respondents. However, an initial attempt is also made to analyze the perceptions of the participants on their satisfaction of the bank services and their knowledge on economic and financial matters in relation to their demographics characteristics, for which non-parametric test of Kruskal-Wallis Test is utilized (KWT). It should be noted that the results of the analysis are discussed in more detail in Chapter 11 in the context of the literature, with the findings featuring in the later empirical chapters.

Most of the statistical results for this section are depicted in a number of tables, some of which are presented in the Appendix to this chapter.

6.2. DEMOGRAPHIC PROFILE OF THE RESPONDENTS

In this initial section, the demographic profiles of the respondents including age, gender, education, monthly income and social status are presented to develop a better understanding of the characteristics of participants in an attempt to better understand the responses provided to other questions and statements in the following empirical chapters.

Table 6.1: Profiles of the Respondents

Response Categories			
		Frequency	Percent
Valid	Academic	68	35.1
	Bankers	59	30.4
	Bank customer	21	10.8
	General public	46	23.7
	Total	194	100
(Q.1) Gender			
Valid	Male	172	88.7
	Female	22	11.3
	Total	194	100
(Q.2) Age			
Valid	20 -30	18	9.3
	31 - 40	71	36.6
	41 - 50	60	30.9
	Above 50	45	23.2
	Total	194	100
(Q.3) Highest Education Attainment			
Valid	High school and below	13	6.7
	Undergraduate only	79	40.7
	MA	71	36.6
	PhD	31	16.0
	Total	194	100
(Q.4) Monthly Income			
Valid	LYD 500 and below	6	3.1
	LYD 500 - 1000	66	34.0
	LYD 1001 - 2000	92	47.4
	LYD2001 - 3000	9	4.6
	LYD 3001 - 4000	11	5.7
	More than 4000	10	5.2
	Total	194	100
(Q.5) Status			
Valid	Academician	67	34.5
	Bankers	37	19.1
	Merchants	33	17.0
	General Public	14	7.2
	Bureaucrat/manager	43	22.2
	Total	194	100

As can be seen in Table 6.1, in terms of response categories 35.1% of respondents are academics, 30.4% are bankers, 23.7% are members of the general public and 10.8% are bank customers.

As regards the gender distribution, 88.7% of the selected samples are males, thus reflecting the reality of everyday life in Libya, which is heavily dominated by males. In other words, the poor participation of females as compared to males could be explained by the fact that the conservative nature of Libyan society restricts the participation of women in any activity without the permission of their families as Libya is dominated by patriarchal family structure.

As the results in Table 6.1 depicts, in terms of age distribution, 36.6% of the respondents belong to the age group of 31- 40, while the age groups of 41-50 and over 50 constitute 30.9% and 23.2% of the respondents, respectively. Hence, the age group 20-30 is the least represented group among the participants with only 9.3%. The meager presence of young people in the sample could be explained by the fact that engaging with banks is generally something that is associated with older people, who would be considered settled individuals with higher than average levels of income and wealth. This should be considered within the context of Libyan society where the banking system and inclusion has been very limited; consequently, people in general prefer cash over other means.

With regard to the educational level of respondents, as can be seen in Table 6.1, those who have qualifications with college or university level represent 40.7% of the respondents, while 36.6% have Master's degrees and 16.0% have PhD degrees. The remaining participants, namely 6.7%, have qualifications not exceeding high school at best. Thus, as can be seen, the majority of the respondents have higher education at different levels.

Table 6.1 also depicts the income distribution of the respondents. Accordingly, 34% of respondents earn in the range LYD 500-1,000¹, 47.4% in the range LYD 1,001-2,000, 4.6% in the range LYD 2,001-3,000, 5.7% in the range LYD 3,001- 4,000, 5.2% in excess of LYD 4,000, while only 3.1% of respondents earn less than LYD

¹ The exchange rate for Libyan Dinar in pound sterling is: £1 = LYD

500 per month. The majority of the respondents, hence, come from lower-income groups.

As regards the occupational distribution of the respondents, while only 7.2% of respondents have no specific occupation, 34.5% of the respondents are academics, 22.2% of them are bureaucrats or managers, 19.1% are bankers and 17% of them are merchants.

From the foregoing, the sample could be described as predominantly male and mainly from the age group of 31-40. In addition, the majority of the respondents have academic qualifications up to college or university level with monthly earnings mostly in the range LYD 1001-2000. In terms of occupation, the majority of participants are academics, government employees or bankers.

6.3. RESPONDENTS' RELATIONSHIPS WITH BANKS

This section aims to locate the respondents' relationships with banks, the results of which are shown in Table 6.2. The main aim is to gauge the experience of respondents in terms of the banking products and services they dealt with.

As the results in Table 6.2 demonstrate, all the participants have bank accounts and more than 77.3% of them have been bank customers for more than 6 years. The results also indicate that 9.8% have held bank accounts for 1 to 3 years, 8.2% have had accounts for 4 to 6 years, and 4.6% have been bank customers for less than a year. It should be noted that, since all the banks in Libya are state-owned, this tends to reduce the likelihood of people having opened bank accounts.

In terms of account type, the majority of respondents, namely 97.4%, have current accounts, while only a small minority (2.6%) of respondents has savings accounts. Therefore, other bank services such as investment accounts seem to be less popular among respondents, as the majority are not aware of such services; furthermore the nature of Libyan society has not until now facilitated the use of banks for investment purposes due to mistrust of the regime. In addition, the traditional and dual economy nature of society is another factor to consider. This is evidenced by the extent to which banks have been used as sources of loans, as the majority of respondents (83%) have not taken out bank loans, while only 17% have obtained such loans. This could

be explained by the fact that the religious nature of the Libyan people prevents them from seeking bank loans from conventional banks as they believe that such loans will not be compatible with *Shari'ah* law and could amount to practising usury (*riba*). Among those who took out bank loans, 8.2% stated that they used the money for building or refurbishing homes, 7.2% used the money for car maintenance, while only 1.5% of respondents used the money for other purposes. However, it seems that respondents were mostly unaware of other types of financing, such as health and educational financing as such services are less commonly provided by conventional banks in Libya.

Table 6.2: Respondents' Relationships with the Bank

(Q.6) Do you hold a bank account					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Yes	194	100	1.00	.000
	Total	194	100		
(Q.7) How long have you been a customer of this bank					
Valid	Less than 1 year	9	4.6	3.58	.849
	1 to 3 years	19	9.8		
	4 - 6 years	16	8.2		
	more than 6 years	150	77.3		
	Total	194	99.9		
(Q.8) What type of account do you have					
Valid	Current account	189	97.4	1.02	.158
	Saving account	5	2.6		
	Total	194	100		
(Q.9) Have you ever borrowed from your bank					
Valid	Yes	33	17.0	1.82	.367
	No	161	83.0		
	Total	194	100		
(Q.10) what was the purpose of the loan					
Valid	Home financing	16	8.2	1.60	.658
	Vehicle financing	14	7.2		
	Personal financing	3	1.5		
	Education financing	--	--		
	Health financing	--	--		
	Credit card/charge card	--	--		
	Total	33	16.9		
	Missing system	161	83.0		
Total	194	100			
(Q.11) How would you describe the service provided by your bank					
Valid	Excellent	2	1.0	3.94	.812
	Good	10	5.2		
	Neutral	27	13.9		
	Poor	112	57.7		
	Very poor	43	22.2		
	Total	194	100		

(Q.12) In what way is the service unsatisfactory					
Valid	Unfriendly service	27	13.9	3.96	1.382
	Unaffordable charges	6	3.1		
	Uncomfortable location	8	4.1		
	Unnecessarily long time for transactions	59	30.4		
	No modern technology	94	48.5		
	Unfriendly service	27	13.9		
	Total	194	100		

Table 6.2 also provides results with regard to the perceptions of the participants on the quality of service provided by banks. As can be seen, the majority of respondents describe the service as poor 57.7% or very poor 22.2%, while only a few describe the service provided by their banks as average 13.9%, good 5.2% or excellent 1%. Thus, in general the participants are not happy with the bank services they receive. As to the sources of the dissatisfaction, lack of efficient technology is perceived by 48.5% of the sample as the main reason, lengthy transaction time was identified by 30.4%, and 13.9% recorded the unfriendly services they received as the source of their dissatisfaction; 4.1% of the respondents believe that their banks are improperly located, and 3.1 % believe that their banks impose unaffordable charges.

Therefore, based on the above statistics, this section can be concluded by stating that the majority of respondents seem to be unhappy with the service provided by their banks.

After descriptively analyzing the responses regarding the description of services provided by the respective banks and the reasons for dissatisfaction with the services, this section aims to determine whether any statistically significant differences exist among the established categories with respect to control variables. For this, KWT is used, and the results are presented in Table 6.3(see Appendix to this chapter)

From the results in Table 6.3, it can be concluded that, there are no statistically significant differences among the various groups in terms of age group, educational level, monthly income and account type categories, whereas in the status category the results suggest otherwise. The results can be summarized as follows: As regards ‘status’, the results of the KWT show that significant differences in opinion exist among five different status groups about the services provided by banks, as the *p*-value of 0.00, which is lower than 0.05, would suggest. In this context, those with better education, particularly those employed by banks, are most likely to give an

accurate evaluation of the services they receive, as indicated by the relatively high mean values compared to other status groups. Thus, bankers and academics, with mean values of 75.14 and 95.49 respectively, are more likely to give reliable judgements on the services provided by banks by virtue of their formal education. Moreover, bankers have better knowledge and awareness of the subject, which renders them eminently qualified to give reliable judgements about the service provided by banks. In other words, bankers have good experience and better understanding of the service.

As for the sources of dissatisfaction with the services, the KWT results indicate that there are no significant differences among the various groups in terms of age, monthly income, status and type of bank account. However, the results based on the educational level category suggest otherwise, and can be summarized as follows:

As for education, given the low p -value of 0.00 as compared to the critical p value of 0.05, the KWT would suggest that significant differences in opinion exist among the education categories: highly-educated individuals have better understanding of the banking service compared to others who are less educated, as indicated by the mean ranking. Those who are highly educated are likely to describe the banking service as unsatisfactory as long as it fails to respond to their needs.

6.4. GAUGING FINANCIAL AND ECONOMIC KNOWLEDGE OF THE PARTICIPANTS

In order to understand the issues identified by the research questions, it is important to gauge the financial and economic knowledge of the participants. To this end, the results are presented in Table 6.4.

Table 6.4: Financial and Economic Knowledge

	Frequency	Percent	Mean Value	Standard Deviation	
(Q.13) How would you rate your financial awareness and knowledge					
Valid	Excellent	12	6.2	2.40	.662
	Very good	98	50.5		
	Not good nor poor	79	40.7		
	Poor	4	2.1		
	Very poor	1	.5		
	Total	194	100		
(Q.14) How do you rate your economic awareness and knowledge					
Valid	Excellent	14	7.2	2.52	.728
	Good	76	39.2		
	Fairly good	93	47.9		
	Poor	10	5.2		
	Very poor	1	.5		
	Total	194	100		

As can be seen in Table 6.4, just over half the respondents, 50.5% expressed having very good financial awareness and knowledge, while a considerable number of respondents, 40.7%, have average knowledge in such matters. On the other hand, 6.2% of the respondents are in command of excellent knowledge, while only 2.6 % of the respondents can be described as having poor or very poor knowledge with regard to financial matters. These results seem to be quite compatible with the respondents' profiles, as the majority of respondents are either academics or professional bankers, and are thus expected to be knowledgeable in economic and financial matters. It is also worth mentioning that the majority of respondents have academic qualifications above college level, including MSc and PhD degrees. As the results in Table 6.4 show, similar results are also obtained for economic knowledge and awareness.

While Table 6.4 presents the descriptive results on the financial and economic knowledge of the participants, this section expands the analysis by applying KWT to the same statements in relation to a number of control variables to investigate if there is any significant differences between the participants in terms of their demographic categories; and the findings are presented in Table 6.5 (see appendix to this chapter).

The analysis in Table 6.5 aims to determine whether there are any significant differences, in terms of economic and financial knowledge, among the various category groups of age group, education level, monthly income, status, and type of bank account. As the results show, respondents of lower to middle age groups have better knowledge and awareness of economic and financial matters, as people of that age are more likely to be proactive in business. Likewise, financial and economic

knowledge tends to improve with higher educational levels. In addition, those who work for banks or otherwise have good relationships with banks are likely to have good financial knowledge compared to those who have very little or no experience relevant to the banking business.

It should also be noted that the results suggest that there are statistically significant differences among the various groups featuring age, level of education, and status with regard to knowledge and awareness of economic and financial matters. However, in terms of monthly income and type of bank account categories the results suggest otherwise, and can be summarized as follows:

In terms of monthly income the results of the KWT suggest that there is no significant difference among the six category groups with regard to financial knowledge, as indicated by the p -value of 0.07, which is higher than the critical value of 0.05.

In relation to type of bank account, the KWT results suggest no significant differences in opinion exist in relation to the control variables in terms of financial knowledge, as indicated by a relatively high p -value of 0.88 compared to the critical value of 0.05.

With regard to age, the KWT results suggest that significant differences exist in terms of economic and financial knowledge among the five relevant age groups, as the p -value of 0.04, which is less than the critical value of 0.05, would indicate. The results also suggest that middle and lower age groups with mean ranks of 83.63 and 99.92, respectively have a better understanding of financial and economic matters as compared to other age groups.

The KWT results indicate that there is a significant difference in terms of economic and financial knowledge among education groups as shown by the p -value of 0.00. The results also indicate that those with higher qualifications such as PhDs, with a mean value of 122.10, and MAs, with a mean value of 102.61, have better knowledge of economic and financial matters compared to those with fewer academic qualifications.

As for status, the KWT results reveal significant differences in economic and financial knowledge among the five different status groups, as indicated by the p -value of 0.00, which is lower than 0.05. In this context, those with high levels of education and

good academic qualifications are highly likely to have good economic and financial knowledge, as the means of 140.04 for academics and 112.35 for bankers would suggest, compared to lower status groups. In fact, those groups have a better chance of acquiring financial and economic knowledge by virtue of their culture and professions. This is particularly so for bankers, who are professionally and culturally oriented and hence have a better understanding of economic and financial matters

6.5. CONCLUSION

This chapter is the first empirical analysis chapter to examine the quantitative data assembled through the survey questionnaire, in which mainly descriptive statistics, KWT and factor analysis were applied to the primary data. The findings in relation to demographics, relationship with bank, financial and economic knowledge and perceptions of service quality are presented. In addition, further tests in the form of Kruksal-Wallis tests are run to identify the sources of dissatisfaction and the perceptions of the quality of the services.

After this initial result, the following chapter focuses on perceptions and opinions of the participants on the trajectories of the Libyan economy and also the perceived demand conditions for Islamic finance in Libya.

APPENDIX FOR CHAPTER 6

Table 6.3: Kruskal-Wallis Tests: Economic and Financial knowledge

Question	Categories	Q.13: How do you rate your economic and financial knowledge	
		Mean rank	Asymp. Sig.
Q.1 Age	Below 20	--	0.047
	20 – 30	116.69	
	31 – 40	99.92	
	41 – 50	83.63	
	Above 50	104.51	
Q.2 Education	No education	--	0.003
	High school and below	73.90	
	Undergraduate only	91.27	
	MA	102.61	
	PhD	122.10	
Q.3 Monthly Income	LD 500 and below	131.50	0.070
	LD 501 – 1000	108.70	
	LD1001 – 2000	89.54	
	LD 2001 – 3000	100.17	
	LD 3001 – 4000	75.05	
	More than 4000	98.70	
Q.4 Status	Academic	140.04	0.001
	Bankers	112.35	
	Merchants /Business	95.35	
	General public	82.04	
	Bureaucrat/manager	96.95	
Q.8 What type of account do you have	Current account	97.59	0.884
	Saving account	94.20	
	General investment account	--	
	Others (please specify)....	--	
	Current account	97.59	

Table 6.5: Kruskal-Wallis Tests: Bank Service

Question	Categories	Q.11: How would you describe the service provided by your bank		Q.12: In what way is the service unsatisfactory	
		Mean rank	Asymp. Sig	Mean rank	Asymp. Sig
Q.1 Age	Below 20	--	0.047	--	0.223
	20 – 30	101.03		80.94	
	31 – 40	101.65		97.70	
	41 – 50	94.83		93.60	
	Above 50	93.11		109.01	
Q.2 Education	No education	--	0.003	--	0.007
	High school and below	102.08		110.22	
	Undergraduate only	97.67		99.87	
	MA	88.55		81.23	
	PhD	114.60		118.13	
Q.3 Monthly Income	LD 500 and below	111.83	0.070	90.25	0.910
	LD 501 – 1000	93.73		97.42	
	LD1001 – 2000	96.49		97.62	
	LD 2001 – 3000	96.06		86.00	
	LD 3001 – 4000	99.23		112.73	
	More than 4000	122.45		94.90	
Q.4 Status	Academic	95.49	0.001	90.61	0.183
	Bankers	75.14		91.30	
	Merchants /Business	118.02		110.65	
	General public	101.57		85.11	
	Bureaucrat/manager	102.80		107.51	
Q.8 What type of account do you have	Current account	97.91	0.884	97.78	0.641
	Saving account	82.10		86.80	
	General investment account	--		--	
	Others (please specify)....	--		--	
	Current account	97.91		97.78	

Chapter 7

SEARCHING FOR THE PERCEPTIONS ON THE PERFORMANCE OF THE LIBYAN ECONOMY AND THE DEMAND FOR ISLAMIC BANKING AND FINANCE

7.1 INTRODUCTION

The previous chapter presented the initial findings related to the demographic nature of the participants. This chapter builds on the previous chapter and presents an empirical analysis of the performance of the Libyan economy and demand for Islamic banks in Libya through the perceptions of the participants, which they had expressed through a questionnaire survey. For this, after presenting the descriptive results, the opinions and perceptions of the respondents are tested through several identified groups. In other words, the set of questions is tested against a number of control variables that are identified from the profile section respondent category: age, education, monthly income, status, and account type. With the use of control variables, the objective is to search for the statistical significance in terms of the differences of opinion related to the statement categories. However, the test is not restricted to the use of control variables and also utilized other variables considered important and appropriate for analysis.

In order to measure the significant difference between groups in terms of their responses to the given questions, the analyses presented in this chapter employ several inferential statistical tools under non-parametric techniques such as descriptive, Kruskal-Wallis test and factor analysis. The results are presented in the following sections.

7.2. PERCEPTIONS ON THE LIBYAN ECONOMY

The main aim of this section is to explore the respondents' perceptions on the performance of the Libyan economy. It should be noted that understanding the perceptions on the Libyan economy is important, particularly in the post-revolution

period when opinions can be more freely expressed. Importantly, this can help to establish the ground for the furtherance of Islamic finance developments in Libya.

7.2.1. Perceptions on the Libyan Economy and Banking

The initial findings from the analysis of the responses given on the performance of the Libyan economy and banking are presented in Table 7.1.

Table 7.1: Perceptions on the Libyan Economy and Banking

(Q.14-1) Libyan economy has performed very well over the years					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	55	28.4	1.91	.786
	Disagree	113	58.2		
	Do not know	16	8.2		
	Agree	8	4.1		
	Strongly agree	2	1.0		
	Total	194	100		
(Q.14-2)The economic development in Libya can be described as reasonable and satisfactory					
Valid	Strongly disagree	56	28.9	1.90	.772
	Disagree	113	58.2		
	Do not know	13	6.7		
	Agree	12	6.2		
	Strongly agree	--	--		
	Total	194	100		
(Q.14-3)Economic development in Libya has achieved its aims					
Valid	Strongly disagree	68	35.1	1.74	.640
	Disagree	111	57.2		
	Do not know	12	6.2		
	Agree	3	1.5		
	Strongly agree	--	--		
	Total	194	100		
(Q.14-4) The Libyan economy has been successful in terms of human development and welfare					
Valid	Strongly disagree	70	36.1	1.73	.659
	Disagree	111	57.2		
	Do not know	8	4.1		
	Agree	5	2.6		
	Strongly agree	--	--		
	Total	194	100		
(Q.14-5) Libyan economic development managed to alleviate poverty					
Valid	Strongly disagree	54	27.8	1.92	.804
	Disagree	115	59.3		
	Do not know	11	5.7		
	Agree	13	6.7		
	Strongly agree	1	.5		
	Total	194	100		

As can be seen from Table 7.1, only 5.1% of the respondents agree and strongly agree that the Libyan economy has been performing well over the years, while 86.6% of the participants disagreed with this statement. This result is further confirmed by answers given to Q.14-2, which reveal that only 6.2% of the respondents believe that economic development in Libya has been reasonable so far. From these responses it becomes obvious that the respondents are satisfied neither with the performance of the economy nor with the economic development taking place in Libya. Consequently, as can be understood from answers to Q.14-3, only 1.5% of the respondents would agree that economic development in Libya has achieved its aims, while only 2.6% of the respondents, in responding to Q.14-4, would agree that the Libyan economy had been successful in terms of human development and social welfare. Finally, only 7.2% of the respondents agree and strongly agree that poverty in Libya has been alleviated by economic development (Q.14-5). Thus, from responses to Q.14 as depicted in Table 7.1, it could be generally concluded that the economic development programme in Libya has failed to achieve its aims so far in terms of human development and alleviation of poverty.

In furthering the analysis on the past economic and financial performance of Libya, the following section aims to analyze the perceptions of the participants on Libyan banking; and the results are presented in Table 7.2.

Answers to question Q.15 as shown in Table 7.2 indicate that 50% of the respondents agreed that bank services are available for anyone and accessible by everyone, as opposed to 35.6% who strongly disagree and disagree with the statement. The fact that banks in Libya are state-owned implies that they are required to provide their services to everyone who seeks those services (Q.15-1). However, a large majority of respondents (72.6%) believe that banks in Libya have not been successful in attracting customers (Q.15-2). Such a result is consistent with the fact that due to the religious nature and the religious sensitivities of the Libyan people, they have reservations about conventional banking institutions, which have very limited options for customers.

Furthermore, as the results in Table 7.2 shows, only 4.6% of the respondents believe that banks in Libya provide a wide range of offers to customers, indicating that very limited products are being offered by the banks operating in Libya, as Q.15-3 would

indicate. Such a result inevitably raises the question of efficiency and competence; as only 5.7% of respondents believe that banks in Libya are efficient, as indicated by responses to Q.15-4.

Table 7.2: Perceptions on Libyan Banking

(Q.15-1) Libyan banks are available for everyone					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Strongly disagree	14	7.2	3.13	1.122
	Disagree	55	28.4		
	Do not know	28	14.4		
	Agree	84	43.3		
	Strongly agree	13	6.7		
	Total	194	100		
(Q.15-2) Libyan banks are successful in attracting customers					
Valid	Strongly disagree	29	14.9	2.22	.839
	Disagree	112	57.7		
	Do not know	35	18.0		
	Agree	16	8.2		
	Strongly agree	2	1.0		
	Total	194	100		
(Q.15-3) Libyan banks have various product offerings					
Valid	Strong disagree	46	23.7	1.93	.709
	Disagree	123	63.4		
	Do not know	16	8.2		
	Agree	9	4.6		
	Strongly agree	--	--		
	Total	194	100		
(Q.15-4) Libyan banks are efficient					
Valid	Strong disagree	41	21.1	1.98	.723
	Disagree	126	64.9		
	Do not know	16	8.2		
	Agree	11	5.7		
	Strongly agree	--	--		
	Total	194	100		
(Q.15-5) Libyan banking sector does not need any other alternative banking including Islamic banking					
Valid	Strongly disagree	92	47.4	1.65	.787
	Disagree	86	44.3		
	Do not know	8	4.1		
	Agree	6	3.1		
	Strongly agree	2	1.0		
	Total	194	100		

As the results in Table 7.2 show, responses to question Q.15-5 show that the great majority (91.7%) of respondents agree with the idea that some reforms need to be introduced to the banking system in Libya, and that Islamic banking also needs to be incorporated into the system. In fact, the responses strongly favour the idea of Islamic banking. Again, these results are strongly consistent with the previous results, which highlight the religious nature of the Libyan people.

7.2.2. 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 7.3: 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		

As can be seen in Table 7.3, 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 7.4. This shows the factors that impacted the underdevelopment of Islamic finance in Libya.

As depicted in Table 7.4, 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.17-2), 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.

Table 7.4: 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	4.5		
	Agree	82	42.3		
	Strongly agree	94	48.5		
	Total	194	100		
(Q.17-2) People could not express demand for Islamic finance under the former regime					
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		
(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	6.1		
	Total	194	100		
(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		
(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		
(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		

(Q.17-7) The new constitution must state that the economy should be based on Islamic moral economy					
		Frequency	Percent	Mean Value	Standard Deviation
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		

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 7.4 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 7.4, 91.8% of the respondents agree with the statement that '(Q.17-5) After February 17th Revolution, Libyan people are ready to accept Islamic banking and finance system'. 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 were sought 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. Table 7.4 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 based on 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 have such strong opinions on Islamic moral economy. It is important to note that the percentage of individuals in favour of 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 is in the form of development.

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 7.4 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 7.4a 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 7.4a 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 7.4a: Mean Ranking: Expectations of the Future

Question	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

7.2.3. 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 7.5: 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		
(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		
(Q.20) Would you agree that the entire banking system should be Islamized 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		
(Q.21) If there was an Islamic bank, would you open an account with an Islamic bank?					
Valid	Yes	184	94.8	1.05	.221
	No	10	5.2		
	Total	194	100		

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 7.5.

Table 7.5 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 (as in the last years of the former regime some Islamic windows were opened within commercial banks), 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 agree that the entire banking system should be Islamized in Libya?) more than half of the respondents (57.2%) expressed their support for the idea of full Islamization of the banking system in Libya. Despite the lower support for full Islamization of the financial system in the country, the majority of respondents (94.8%) expressed their readiness to open an account with an Islamic bank in responding to Q.21 (If there was an Islamic bank, would you open an account with an Islamic bank?).

After presenting the results on the participants' perceptions of the current and future developments related to Islamic banking, this section focuses on individual motives in terms of expectations from Islamic banking. As the results in Table 7.6 demonstrate, 76.8% 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 important 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 7.6: Expectations of the Participants of Islamic Banks for Bank Patronage

(Q.22-1) Religious obligation/ requirement					
		Frequency	Percent	Mean Value	Standard Deviation
Valid	Not important at all	3	1.5	4.13	.939
	Not important	7	3.6		
	Neutral	35	18.1		
	Important	65	33.5		
	Very important	84	43.3		
	Total	194	100		
(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		
(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		
(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		
(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		
(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		

(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		
(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		

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 financial 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. 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.

7.2.4. Socio-Economic Expectations of Islamic Banks in Libya

This part of the questionnaire featuring Q.23 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 7.7.

Table 7.7: Perceptions on Whether Islamic Banks in Libya Will Effectively Contribute to Socio-Economic Development

(Q.23) 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		

As can be seen in Table 7.7, 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, Q.24 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 7.8.

The results in the previous section are further confirmed by responses to Q.24 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 (Q.24-1), while 73.7% of respondents agree that Islamic banks will positively be concerned with the 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.

Table7.8: Perceptions on Islamic Banks Playing Role in Socio-Economic Development in Libya (Q.24)

(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		
(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		
(Q.24-3) Supporting small business enterprises					
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		
(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		

(Q.24-5) Improving community development through social projects					
		Frequency	Percent	Mean Value	Standard Deviation
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		
(Q.24-6) Increases job opportunities					
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		
(Q.24-7) Increases women's participation in the economy					
Valid	Strongly disagree	2	1.0	3.96	.935
	Disagree	14	7.2		
	Do not know	34	17.5		
	Agree	83	42.8		
	Strongly agree	61	31.4		
	Total	194	100		
(Q.24-8) Providing social loans for education, housing, health and wedding					
Valid	Strongly disagree	3	1.5	4.34	.754
	Disagree	3	1.5		
	Do not know	6	3.1		
	Agree	94	48.5		
	Strongly agree	88	45.4		
	Total	194	100		

As can be seen in Table 7.8, 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 7.8, 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 developmental expectation of Islamic banks.

7.3. INFERENCE STATISTICAL ANALYSIS

After presenting the initial descriptive analysis, the following section presents further analysis based on inferential statistics through the use of the Kruskal-Wallis (KW), non-parametric, test with the objective of determining whether statistically significant differences exist among the various groups in their responses to the identified statements.

7.3.1. Testing the Perceptions on the Libyan Economy: Kruskal-Wallis Test Results

In developing the initial descriptive findings in the previous section, KW test is used in this section to test the significant differences on the statements related to Libya's economy through the identified control variables, for which the results are presented in Table 7.9.

It should be noted that the statistical results for this section are depicted in a number of tables, which are presented in the chapter appendix.

As for the statement Q.14-1 that 'Libyan economy has performed very well over the years', The results in Table 7.9 show that there is no statistically significant difference in the position taken for this statement by the following control variables: age, education, monthly income, and account type, as the p -value for each of these control variables is higher than the critical value of 0.05. The only statistically significant result is produced by status group, as its p -value is only 0.04, lower than the critical p -value of 0.05. Looking further at the mean ranking produced by this control variable, the bankers' group has the highest mean ranking perhaps due to their everyday involvement in the running of the economy; the second highest mean ranking is for the 'academicians', who by definition acquire a good knowledge by following the developments in the economy. The statistical differences in the answers given to this statement are also verified by the spread of mean ranking, as the lowest is 75 while the highest is 107.

The results for the statement in Q.14-2 (The economic development in Libya can be described as reasonable and satisfactory) show that the only statistically significant difference is produced by type of bank account, with p -value 0.01. Otherwise no other statistically significant differences exist in the answers given to this question by other control variables, such as age, education, monthly income, and status, as the p -values for each of these control variables are higher than the critical level. Examining further the mean ranking produced by this control variable, the current account has the highest mean ranking due to the fact that the type of account offered by conventional banks in Libya is limited to this kind only. It seems that many ordinary depositors prefer to have current accounts, while the employees prefer savings accounts.

With regards to the statement 'Economic development in Libya has achieved its aims' in Q.14-3, the KW test results suggest that there is no statistically significant differences in the answers given to this statement in relation to control variables of age, education, monthly income, and status, as the p -value for each of these control variables is higher than the critical value. The only statistically significant result is again produced by the account type group, as its p -value is only 0.03. The mean ranking produced by this control variable, the savings account group, has the highest mean ranking, perhaps due to these people's good understanding of the banking business.

For the statement 'Libyan economy has been successful in terms of human development and welfare' in Q.14-4, the observations of the KW test reveal that there is no significant difference in the answers given to this question by the control variables as the p -values for each of these control variables are higher than the critical value. It can be concluded that the respondents are not happy with the progress of human development in Libya.

The results in Table 7.9 for the statement 'Libyan economic development managed to alleviate poverty' in Q.14-5 indicate that there are no statistically significant differences among the control groups in the responses provided by the participants, while the only significant differences exist within the education category, with a p -value of 0.02. Looking further at the mean ranking produced by this control variable,

the PhD group has the highest mean ranking followed by MA and high school and below. Thus, the results show that those with higher academic qualifications have a better understanding of economic and financial matters.

As regards to the statement ‘Libyan banks are available for everyone’ in Question 15-1, the result from the KW test in Table 7.10 indicates that there is no statistically significant difference in the answers given to this question by the control variables of education, monthly income, status and account type group, as the p -value for each of these control variables is higher than the critical p -value of 0.05. The only statistically significant result is produced by age group, as its p -value is only 0.02 which is lower than the critical p -value. Looking further at the mean ranking produced by this control variable, the younger to middle-aged groups from 20-30 have the lowest mean ranking, perhaps due to unemployment among this group, which means they might not be able to open bank accounts and thus have poor knowledge of the banking sector. The highest mean ranking is achieved by people aged over 50 who probably have jobs and will be able to open bank accounts; they will therefore be well aware of banking activities. The statistically significant differences in the answers given to this question are also verified by the spread of mean value rankings, as the lowest is 66.33 while the highest is 110.68.

It should be noted that the KW test results suggest that no statistically significant differences exist across the relevant groups for responses to the statement on the success of the banks’ offers in attracting customers (Q.15-2), products offerings (Q. 15-3), and Libyan banks being efficient (Q.15-4).

With regards to the statement ‘Libyan banking sector does not need any other alternative banking including Islamic banking’ (Q.15-5), test results indicate that statistically significant differences only exist within the type of account category. However, for other variables no statistically significant differences are found.

Participants were further probed as to their opinion on the statement (Q.16) that ‘The idea of Islamic moral economy and finance has not made any progress in Libya’. The results in Table 7.11 depicts that statistically significant differences exist within the categories of status and type of bank account as evidenced by the respective p -values of 0.04 and 0.01, which are obviously less than the critical p -value of 0.05. As for the

other categories, no statistically significant differences could be found. However, the fact that merchants and businessmen within the status category and those with current bank accounts have the highest mean value ranking would suggest that those groups are more concerned about the progress of the Islamic moral economy than others.

In this section, the perspectives of the participants on the underdevelopment of Islamic finance in Libya and its futures were drawn. From Table 7.12, it can be seen that the only statistically significant result can be found for the statement 'People could not express demand for Islamic finance under the former regime' (Q.17-2) within the status and education categories, as indicated by respective p -values of 0.01 and 0.03, which are less than the critical p -value of 0.05. However, within the two categories, the high mean rankings shown by the merchants and bankers for the status category as well as the highly qualified persons (PhD and MA) for the education category would suggest that these groups are well informed about the reasons for the slow progress of the idea of Islamic banking in Libya under the former regime.

In the next section, participants' awareness of the existence of Islamic banking in Libya and their support was examined. As can be seen in Table 7.13, responses to Q. 18 (Do you know that Islamic banking is available as Islamic windows in Libya for mainly car purchase?) suggest that statistically significant differences exist within the category of monthly income, with a p -value of 0.02 which is less than the critical p -value of 0.05

These differences are also shown by the high mean rankings, which are spread between 85 and 123. In addition, no statistically significant differences exist within the different categories of age, education, monthly income, status, and type of bank account regarding responses given to Q.19 on supporting and using the existent Islamic banks in Libya, as suggested by the p -values which are more than the critical p -value of 0.05.

In furthering the discussion on participants' perspectives, they were propped on the Islamisation of the banking system in Libya and their expressed patronage for Islamic banks in the country. It is clear from Table 7.14 that no statistically significant differences exist within the identified control variables for the question looking into their perceptions on the Islamisation of the banking system in Libya (Q. 20).

As for Q. 21, (If there were an Islamic bank, would you open an account with an Islamic bank?), statistically significant differences exist within the category of monthly income, as suggested by the relatively low p -value of 0.01 which is obviously less than the critical p -value. The statistically significant difference within this category is also indicated by the high mean ranking spread between 92 and 118.

The analysis is furthered to examine the potential sources of patronage for Islamic banks in the form of opening an account. Table 7.15 shows that no statistically significant differences exist within the identified control variables for the motivational factors expressed in Q.22-1 (Religious obligation/requirement), Q. 22-2 (The account is free from any interest), Q.22-7 (Opportunity to get other financing facilities such as house or car financing) and Q.22-8 (Sound financial reputation of the bank), as the estimated p -values are higher than the critical p -value of 0.05. On the other hand, there are statistically significant differences within the age category for 'brand name of the Islamic bank (Islamic reputation and image) as expressed in Q.22-3; the type of bank account category for 'the Islamic Bank will pay out higher return on deposits' in Q.22-4, and the status category in the case of motivational factor of 'encouragement from friends and family' and for 'Islamic banks will provide attractive product package and services (such as free *takaful* coverage, attractive competition prize)', respectively in Q.22-5 and Q. 22-6, as indicated by the respective p -values which are lower than the critical p -values of 0.05. Thus, it seems that there is an overall agreement on the religious aspects of Islamic banking as well as it being a robust financial alternative, which would motivate the participants to open an account in Islamic banks. However, there is no overall agreement on the other motivational factors.

Since Libya is a developing country, there are expectations that Islamic banks will provide further impetus for this. Therefore, this section aims to discuss the perceptions of the participants in relation to the perceived socio-economic role of Islamic banks. Table 7.18 reveals that no statistically significant differences exist within the categories of age, education, monthly income, status and type of bank account. Furthermore, wide-ranging means rankings tend to confirm that result. Hence, the respondents' expectations of Islamic finance are more oriented towards socio-economic development in the sense that there is an overall agreement.

The discussion on the socio-economic role of Islamic banks in Libya continued with the assessment of the perceptions on the way such a role can be played; the results are presented in Table 7.17.

The results from Table 7.17 show that there are statistically significant differences in relation to education control variable exist for the potential socio-economic areas in which Islamic banking can be instrumental such as: ‘alleviation of poverty’ in Q.24-1; ‘environmental friendly economy’ in Q.24-2; ‘supporting small business enterprises’ in Q.24-3; ‘supporting individuals’ business initiatives’ in Q.24-4; ‘Improving community development through social projects’ in Q.24-5; ‘Increases job opportunities’ in Q.24-6; and ‘Increases women’s participation in economy’ in Q.24-7. It should be noted that ‘status’ as a control variable is a significant variable for all the instrumental ways Islamic banks are considered to contribute to social-economic development except in the case of Q.24-3 and Q.24-8. The other control variables do not show any impact on the answers given by the participants indicating that in the case of those control variables differences are non-existent.

It should be noted that participants with high academic qualifications as well as reasonable experience in financial and economic matters are of the belief that the Islamic banking system is indispensable for the socio-economic development of Libyan society. In their view, promoting such a system in Libya will boost social justice in order to alleviate poverty.

In the next section further analysis is carried out using factor analysis to analyse the information given by participants in response to statements offered in Q.14 and Q.15.

7.4. FACTOR ANALYSIS ON THE PERCEPTIONS ON THE LIBYAN ECONOMY AND BANKING

The analysis in this section aims to further examine the perceptions on the Libyan economy and banking as expressed by the participants in response to the statements listed in Q.14 and Q.15 in a combined manner as they are on the same subject area.

As part of the factor analysis, first the factorability of the data is tested through KMO and Bartlett’s test, the result of which is depicted in Table 7.18.

Table 7.18: KMO and Bartlett’s Test Results for the Significance of the Libyan Economy and Banking

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.868
Bartlett's Test of Sphericity	Approx. Chi Square	585.990
	df	45
	Sig.	.000

As is evident from Table 7.18, the outcome of the KMO measure for all 10 items combined relating to the Libyan economy and banking shows a value of 0.868, which is regarded as a high partial correlation indicating the suitability of sample size to conduct factor analysis. In addition, the result obtained from the Bartlett’s Test of Sphericity also indicates that it is statistically significant: the result of 0.00 being lower than the critical p-value of 0.05 as presented in the table indicates that sufficient correlation exists among the variables. Thus, factor analysis is considered applicable to the data, the results of which are presented as follows:

The initial task of the Factor Analysis is to find the loadings for each factor, for which Principle Component Analysis is utilized; the results are presented in Table 7.19.

Table 7.19: Total Variance Explained for the Significance of the Libyan Economy and Banking

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.119	41.190	41.190	4.119	41.190	41.190	3.268	32.680	32.680
2	1.295	12.950	54.139	1.295	12.950	54.139	2.146	21.459	54.139
3	.906	9.057	63.196						
4	.729	7.293	70.489						
5	.630	6.298	76.787						
6	.563	5.628	82.415						
7	.512	5.124	87.539						
8	.479	4.794	92.333						
9	.407	4.071	96.404						
10	.360	3.596	100.000						

Extraction Method: Principal Component Analysis.

The results in Table 7.19 contain the factor analysis-related results on ten variables and their relative explanatory power as expressed by their eigenvalues. From the outcomes, as can be seen, the factors can be reduced to two components only, each of which explains 32.6% and 21.4% of the total variations. Thus, both factors together

explain 53.10% of the variation. The process continues with the rotated component matrix, which distributes the factors under the two main factors established above, as depicted in Table 7.20.

Table 7.20: Clustering Factors Related to the Perceptions on the Libyan Economy and Banking System

Variables/Statements Q14	Component	
	1: Libyan Economy	2: Libyan Banking Sector
The Libyan economy has performed very well over the years	.692	.170
The economic development in Libya can be described as reasonable and satisfactory	.749	.189
Economic development in Libya has achieved its aims	.744	.180
The Libyan economy has been successful in terms of human development and welfare	.696	.312
The Libyan economic development managed to alleviate poverty	.763	.135
Libyan banks are available for everyone	-.095	.764
Libyan banks are successful in attracting customers	.298	.730
Libyan banks have various product offerings	.359	.584
Libyan banks are efficient	.274	.685
Libyan banking sector does not need any other alternative banking including Islamic banking	.551	.070

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 3 iterations.

Principal Component Analysis (PCA) is used to cluster the variables into established components as identified in Table 7.20. As can be seen, the ten variables have a significant loading above 0.5. The results indicate that the individual variables fit into one of the two components established above, as produced by the system in relation to their values. After the distribution is completed, each of the factors is allocated to one of the components, and the components are named according to the common pattern. These are: Component 1: Libyan Economy; and Component 2: Libyan Banking Sector.

The ‘Libyan Economy’ component includes the following factors from the list: ‘the Libyan economy has performed very well over the years’; ‘economic development in Libya can be described as reasonable and satisfactory’; ‘economic development in Libya has achieved its aims’; ‘the Libyan economy has been successful in terms of human development and welfare’; and ‘Libyan economic development has managed to alleviate poverty’. The ‘Libyan Banking Sector’ component includes the following factors: ‘the Libyan banking sector does not need any other alternative banking, including Islamic banking’; ‘Libyan banks are available for everyone’; ‘Libyan banks are successful in attracting customers’; ‘Libyan banks have various product offerings’; and lastly ‘Libyan banks are efficient’.

The factor analysis in this section did not produce any different result in comparison to the initial layout of the statement; indicating that the distribution of the statements initially are well constructed. After clustering the Libyan economy and finance-related factors, this section will present the results of factor analysis on the underdevelopment of Islamic finance in Libya and the future of Islamic finance with the statements expressed under Q.17. For these statements, the factorability test is applied through KMO test, the results of which depicted in Table 7.21.

Table 7.21: KMO and Bartlett’s Test Results for the Perception on the Underdevelopment of Islamic Finance in Libya and the Future of Libyan Islamic Banking

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.716
Bartlett's Test of Sphericity	Approx. Chi Square	206.233
	df	21
	Sig.	.000

The results in Table 7.21 show a high partial correlation with KMO test of 0.716, which indicates an excellent outcome for further analysis with factor analysis implying that the statements can be subjected to factor analysis. The result also shows that there is a statistically significant result for Bartlett’s Test of Sphericity, since the associated probability is less than 0.05. This overall implies that the factors in this section are adequate for factor analysis.

Table 7.22: Total Variance Explained for the Significance of Underdevelopment of Islamic Finance in Libya and the Future of the Libyan Islamic Banking.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.398	34.252	34.252	2.398	34.252	34.252	2.330	33.291	33.291
2	1.234	17.623	51.876	1.234	17.623	51.876	1.301	18.584	51.876
3	.915	13.078	64.953						
4	.807	11.522	76.475						
5	.703	10.048	86.523						
6	.525	7.496	94.020						
7	.419	5.980	100.000						

Extraction Method: Principal Component Analysis.

The results of the Principle Component Analysis in Table 7.22 suggest a two-component solution, as the factorable rotation method reduced all the factors to two components only. The first factor accounts for 33.3% of the total variation, while the second factor accounts for 18.6%, accounting for about 51.9% of the total variation.

In looking for distribution of loaded components, Rotated Component Matrix is conducted, as depicted in Table 7.23, which distributes the statements or factors under the established two components.

Table 7.23: Rotated Component Matrix^a on the Significance of Underdevelopment of Islamic Finance in Libya and the Future of Libyan Islamic Banking.

Variables Q.17	Components	
	1: Political Process-Related Issues	2: Public and Scholar-Related Issues
The former regime did not promote Islamic finance	.438	.022
People could not express demand for Islamic finance under the former regime	.050	.802
There were not enough Shari'ah scholars	-.094	.724
The new regime should promote Islamic finance	.777	.073
After February 17th Revolution, Libyan people are ready to accept Islamic banking and finance system	.798	-.075
The transitory government and the following governments must work for establishing an Islamic moral economy based on social justice	.751	-.075
The new constitution must state that the economy should be based on Islamic moral economy	.569	-.341

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

By using the Varimax Method, the orthogonal rotation technique reduces the 7 factors to two components and distributes the factors according to their loading level to the identified components. The present results show a suitable loading value of 0.5 and above for each factor. Component 1 group is named ‘Political Process-Related Issues’ due to such relevant factors being distributed under this component, while Component 2 group is named ‘Public and Scholar-Related Issues’. The factors under Component 1 indicate that the ousted Libyan regime did not promote Islamic finance. However, since the February 17th Revolution the future of Libyan Islamic Banking appears promising as the transitory government has already started work on establishing the ground for Islamic banking. On the other hand, the factors under Component 2 refer to ‘Public and Scholar-Related Issues’ such as the fact that the Libyan people could not express their demand for Islamic finance under the former regime. In addition, there were and are not enough *Shari’ah* scholars in Libya, which is considered one of the main factors that will affect the process of development of Islamic banks in Libya.

The factor analysis in this section identifies the importance of political factors by distributing them under one cluster. The following section, building on these results, aims to conduct a factor analysis of on the motivational factor in motivating the participants to consider opening bank accounts with Islamic banks. In other words, this section aims to categorize the factors that influence the participants’ decision to open Islamic bank accounts. A list of factors is provided under Q.22 to gather the respondents’ views on the importance of these factors and their influence on their decision to open Islamic bank accounts. Factor analysis is used to summarize the information into a set of meaningful factors.

Table 7.24: KMO and Bartlett’s Test Results for the Significance of Factors in Influencing the Participants Opening an Islamic Banking Account

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.647
Bartlett's Test of Sphericity	Approx. Chi-Square	237.946
	Df	28
	Sig.	.000

Initially factorability of these variables is tested through KMO test, the results of which are presented in Table 7.24. As can be seen, the KMO result of 0.647 is partially highly correlated, which indicates that the sample size is adequate to perform factor analysis. Furthermore, the result of Bartlett’s Test of Sphericity also shows a

significant value of 0.000, which is a positive indication to proceed with factor analysis, which substantiates the KMO result.

Table 7.25: Total Variance Explained for the Significance Factors Influencing the Participants Opening an Islamic Bank Account

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.382	29.774	29.774	2.382	29.774	29.774	1.819	22.736	22.736
2	1.323	16.537	46.311	1.323	16.537	46.311	1.740	21.755	44.491
3	1.093	13.659	59.970	1.093	13.659	59.970	1.238	15.478	59.970
4	.953	11.911	71.881						
5	.807	10.082	81.963						
6	.565	7.067	89.030						
7	.485	6.063	95.093						
8	.393	4.907	100.000						

Extraction Method: Principal Component Analysis.

Based on Principle Component Analysis, the factors given in Table 7.25 are reduced to 3 components. Each of the three factors has an eigenvalue of more than 1. However, the three-component solution indicates 59.8% of the total variation featuring 29.7 %, 16.5 % and 13.6 % for components 1, 2 and 3, respectively.

Table 7.26: Rotated Component Matrix^a on the Significance of Factors Which Influence the Participant to Open an Islamic Bank Account.

Variables Q. 22	Component		
	1: Financial Motivation	2: Religious Motives	3: Financial Rational and Social Motivations
Religious obligation/ requirement	.121	.510	.023
The account is free from any interest.	.008	.796	-.064
The brand name of the Islamic bank (Islamic reputation and image)	.057	.745	.201
Islamic bank will pay out higher return on deposits	-.029	-.094	.815
Encouragement from friends and family	.187	.203	.635
Islamic banks will provide attractive product package and services (such as free takaful coverage, attractive competition prize)	.756	.077	.336
Opportunity to get other financing facilities such as house or car financing	.884	-.006	.009
Sound financial reputation of the bank	.643	.486	-.112

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 5 iterations

The Varimax technique used to rotate the three factor extracts as shown in Table 7.25. The 8 factors are loaded onto or distributed into 3 factors with loading values of 0.5 or above, as can be seen in Table 7.26. In other words, motivational factors for considering opening a bank account can be classified under 3 components. The outcome is as follows:

(i) Component 1: The motivational factors relate to financial motive indicating that an attractive package will be provided by Islamic banks with regard to financial services including home and car financing.

(ii) Component 2: The factors under this component relate to the religious motive, taking into account the religious nature of the people of Libya who prefer interest-free bank accounts in response to *Shari'ah* principles.

(iii) Component 3: These factors relate to the financial and social motive. As has been mentioned above, the religious nature of the Libyan people motivates them to avoid conventional banks where transactions will not be compatible with *Shari'ah* law. In this regard, seeking advice from family members and friends plays a major role in the decision-making process.

The results indicate that religious factors remain as important as financial motivations for considering opening an Islamic bank account. The perceptions as codified in the data set further examined for the potential socio-economic role of Islamic banks in Libya through factor analysis, the results of which are provided in Table 7.29. Subjected to factor analysis, however, statements under Q.24 tend to indicate a number of ways in which Islamic banks could assist the process of socio-economic development in Libya.

Table 7.27: KMO and Bartlett’s Test Results for the Significance of Islamic Banks and their Role in Socio-Economic Development in Libya

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.806
Bartlett's Test of Sphericity	Approx. Chi-Square	479.576
	df	28
	Sig.	.000

The KMO test show a value of 0.806 for the results in Table 7.27, which means that the questions and the associated factors indicate that the sample will be appropriate for factor analysis. Bartlett’s Test of Sphericity also suggests the possibility of factor analysis, as the *p*-value of 0.00 indicates the statistical significance of the results.

Table 7.28: Total Variance Explained for the Significance of Islamic banks and Their Role in Socio-Economic Development in Libya

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.550	44.373	44.373	3.550	44.373	44.373	2.438	30.474	30.474
2	1.036	12.952	57.325	1.036	12.952	57.325	2.148	26.851	57.325
3	.891	11.142	68.467						
4	.804	10.047	78.515						
5	.594	7.422	85.937						
6	.445	5.556	91.493						
7	.377	4.712	96.205						
8	.304	3.795	100.000						

Extraction Method: Principal Component Analysis.

The Principle Component Analysis suggests that the factors could be reduced from 8 to 2 components, as in Table 7.28. Those two components account for 44.4% and 12.9%, accounting for a total variation of 57.3%. The other factors have been loaded onto those two components through a rotated component matrix as shown in Table 7.29.

Table 7.29: Rotated Component Matrix^a on the Significance of Islamic Banks and Their Role in Socio-Economic Development in Libya

Variables Q.24	Component	
	1: Social Responsibility	2: Socially oriented financial responsibility
Alleviation of poverty	.860	.075
Environmentally friendly economy	.767	.165
Supporting small business enterprises	.279	.776
Supporting individuals' business initiatives	.157	.874
Improving community development through social projects	.637	.413
Increases job opportunities	.597	.465
Increases women's participation in economy	.143	.578
Providing social loans for education, housing, health and weddings	.473	.169

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 3 iterations.

The rotation results are shown in Table 7.29, where the factors are reduced in accordance with the highest loading value. The factor loading process, however, shows a loading value of 0.5 or more, which fits well into one of the two established components. Accordingly, the factors are distributed to Component 1 and Component 2, which, by examining each factor listed under, could be identified as 'Social Responsibility' and 'Socially oriented Financial Responsibility', respectively. The factors that make it possible for Islamic banks to play a role in the process of socio-economic development are featured under Component 1. Those factors include 'promoting community development', 'establishing social projects', and 'providing social loans for housing', 'education', 'healthcare', 'weddings', *etc.* Islamic banks could also play a role in boosting environmentally friendly projects such as 'establishing renewable power projects'.

As for Component 2, it targets socially oriented financial responsibility such as 'encouraging small businesses' as well as 'encouraging women to be economically active' in favour of socio-economic development.

This section examines the participants' opinions on Islamic banking in the light of the statements listed in Table 7.29, and whether Islamic banking could provide a reliable future alternative to conventional banking. The results indicate solid expectations by the participants for the contribution of Islamic banking to their lives.

7.5. CONCLUSION

The findings from the analysis suggest that certain groups of respondents who are well exposed 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'ah muamalat* matters related to Islamic banks.

Despite the fact that differences in opinions existed within the various control categories with regard to the participants' responses to the questions, generally speaking it could be maintained that, as the results show, 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 former 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 *Shari'ah* principles of Islamic banks. 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, as the results show, 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.

Table 7.9: Kruskal-Wallis Tests: Libyan Economy

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.14-1 Libyan economy has performed very well over the years	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 52.33 43.14 -- --	0.144	No education High school and below Undergraduate only MA PhD	-- 102.64 95.32 97.77 98.50	0.933	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	132.25 105.29 90.61 102.67 94.95 86.80	0.224	Academician Bankers Merchant General public Bureaucrat/ manager	105.11 107.58 75.18 97.89 93.97	0.040	Current account Saving account General investment account Others (please specify).	97.32 104.20 -- -- --	0.759
Q.14-2 The economic development in Libya can be described as reasonable and satisfactory	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 49.92 43.75 -- --	0.314	No education High school and below Undergraduate only MA PhD	-- 101.64 93.96 100.90 95.92	0.824	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	130.42 101.40 94.03 103.61 89.95 86.75	0.496	Academician Bankers Merchant General public Bureaucrat/ manager	101.14 107.08 83.91 97.86 93.90	0.347	Current account Saving account General investment account Others (please specify).	98.88 45.40 -- -- --	0.017
Q.14-3 Economic development in Libya has achieved its aims	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 46.61 44.59 -- --	0.741	No education High school and below Undergraduate only MA PhD	-- 91.78 90.34 106.20 103.35	0.224	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	119.33 96.96 96.88 104.11 97.05 88.20	0.886	Academician Bankers Merchant General public Bureaucrat/ manager	106.07 91.95 90.21 102.82 92.78	0.436	Current account Saving account General investment account Others (please specify).	96.91 119.90 -- -- --	0.0303
Q.14-4 -Libyan economy has been successful in terms of human development and welfare	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 43.83 45.30 -- --	0.0808	No education High school and below Undergraduate only MA PhD	-- 105.42 92.04 102.29 94.67	0.509	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	130.75 95.99 96.24 105.89 93.09 96.40	0.665	Academician Bankers Merchant General public Bureaucrat /manager	103.35 93.36 87.53 102.18 98.07	0.609	Current account Saving account General investment account Others (please specify).	98.18 71.70 -- -- --	0.234
Q.14-5 Libyan economic development managed to alleviate poverty	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 46.56 44.61 -- --	0.749	No education High school and below Undergraduate only MA PhD	-- 92.62 86.25 106.44 114.37	0.023	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	118.92 94.13 98.04 83.83 92.73 119.50	0.515	Academician Bankers Merchant General public Bureaucrat /manager	107.16 96.11 95.62 101.54 83.77	0.192	Current account Saving account General investment account Others (please specify).	98.02 77.70 -- -- --	0.362

Table 7.10: Assessing Perspectives on the Libyan Banking System: Kruskal-Wallis Tests

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.15-1 Libyan banks are available for everyone	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 66.33 94.75 100.22 110.68	0.025	No education High school and below Undergraduate only MA PhD	-- 86.50 89.59 108.89 104.06	0.103	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	76.58 90.64 104.18 121.61 100.23 69.20	0.144	Academician Bankers Merchant General public Bureaucrat/ manager	109.83 92.03 78.29 87.21 101.09	0.059	Current account Saving account General investment account Others (please specify).	97.86 83.80 -- --	0.558
Q.15-2 Libyan banks are successful in attracting customers	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 98.75 99.34 97.23 94.47	0.965	No education High school and below Undergraduate only MA PhD	-- 99.78 93.19 108.47 81.40	0.095	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	97.75 97.70 96.99 104.67 111.55 78.75	0.783	Academician Bankers Merchant General public Bureaucrat/ manager	104.96 102.57 89.05 70.82 96.70	0.149	Current account Saving account General investment account Others (please specify).	98.19 71.40 -- --	0.238
Q.15-3 Libyan banks have various product offerings	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 87.42 98.47 99.63 97.17	0.815	No education High school and below Undergraduate only MA PhD	-- 111.46 95.19 101.20 82.00	0.146	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	119.58 98.99 93.92 130.89 84.95 91.10	0.211	Academician Bankers Merchant General public Bureaucrat/ manager	96.72 99.80 89.47 99.64 102.21	0.832	Current account Saving account General investment account Others (please specify).	96.93 118.90 -- --	0.313
Q.15-4 Libyan banks are efficient	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 98.58 94.43 100.97 97.29	0.890	No education High school and below Undergraduate only MA PhD	-- 108.48 91.37 105.63 85.23	0.096	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	128.17 99.66 95.42 103.22 81.73 96.15	0.526	Academician Bankers Merchant General public Bureaucrat/ manager	100.78 103.57 93.68 84.82 94.23	0.674	Current account Saving account General investment account Others (please specify).	98.26 68.60 -- --	0.168
Q.15-5 Libyan banking sector does not need any other alternative banking including Islamic banking	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 94.28 90.20 99.08 108.19	0.303	No education High school and below Undergraduate only MA PhD	-- 113.38 92.51 93.14 108.12	0.180	LD 500 and below LD 501 – 1000 LD1001– 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	128.50 93.06 96.40 111.06 95.05 108.80	0.549	Academician Bankers Merchant General public Bureaucrat/ manager	96.11 114.93 99.65 97.71 82.94	0.087	Current account Saving account General investment account Others (please specify).	96.00 154.30 -- --	0.011

Table 7.11: Assessing Perspectives on the Progress of Islamic Moral Economy and Finance in Libya: Kruskal-Wallis Tests

Question	Category	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	
		Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.423
	20 – 30	85.81	
	31 – 40	101.88	
	41 – 50	91.23	
	Above 50	103.63	
Q.2 Education	No education	--	0.732
	High school and below	93.90	
	Undergraduate only	93.89	
	MA	99.91	
	PhD	106.02	
Q.3 Monthly Income	LD 500 and below	96.92	0.353
	LD 501 – 1000	101.78	
	LD1001 – 2000	94.10	
	LD 2001 – 3000	87.22	
	LD 3001 – 4000	81.14	
	More than 4000	128.15	
Q.4 Status	Academic	98.37	0.049
	Bankers	74.72	
	Merchants /Business	108.30	
	General public	100.25	
	Bureaucrat/Manager	106.57	
Q.8 What type of account do you have	Current account	98.95	0.019
	Savings account	42.80	
	General investment account	--	
	Others (please specify)....	--	

Table 7.12: Assessing Perspectives on Underdevelopment of Islamic Finance in Libya and Its Future: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.17-1 The former regime did not promote Islamic finance	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.81 91.04 103.99 102.52	0.372	No education High school and below Undergraduate only MA PhD	-- 96.12 102.90 90.36 100.00	0.520	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	110.58 86.80 97.59 127.94 99.50 129.90	0.057	Academician Bankers Merchant General public Bureaucrat /manager	94.55 91.09 104.82 109.79 97.99	0.673	Current account Saving account General investment account Others (please specify).	97.41 100.9 -- --	0.879
Q.17-2 People could not express demand for Islamic finance under the former regime	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 99.97 88.85 96.16 111.96	0.152	No education High school and below Undergraduate only MA PhD	-- 71.48 95.07 106.68 107.31	0.030	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	56.58 94.34 103.75 91.56 100.36 87.60	0.352	Academician Bankers Merchant General public Bureaucrat /manager	108.98 108.03 77.95 75.82 92.62	0.019	Current account Saving account General investment account Others (please specify).	97.32 104.20 -- --	0.775
Q.17-3 There were not enough <i>Shari'ah</i> scholars	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 89.92 107.35 91.33 93.22	0.287	No education High school and below Undergraduate only MA PhD	-- 77.28 95.09 101.41 114.63	0.086	LD 500 and below LD 501 – 1000 LD1001 –2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	97.33 95.67 95.01 122.61 110.77 95.45	0.617	Academician Bankers Merchant General public Bureaucrat /manager	102.86 94.09 99.15 92.68 92.38	0.856	Current account Saving account General investment account Others (please specify).	97.78 86.80 -- --	0.654
Q.17-4 The new regime should promote Islamic finance	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 92.78 100.61 97.22 94.87	0.902	No education High school and below Undergraduate only MA PhD	-- 105.52 97.37 98.00 88.96	0.694	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	82.33 94.44 98.48 124.11 93.73 98.00	0.616	Academician Bankers Merchant General public Bureaucrat /manager	100.10 84.03 107.97 77.64 103.47	0.119	Current account Saving account General investment account Others (please specify).	97.74 88.60 -- --	0.682
Q.17-5 After February 17th Revolution, Libyan people are ready to accept Islamic banking and finance system	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 96.56 99.18 99.40 92.70	0.901	No education High school and below Undergraduate only MA PhD	-- 105.38 102.22 93.23 86.08	0.375	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	79.00 97.68 100.01 97.06 81.77 102.00	0.821	Academician Bankers Merchant General public Bureaucrat /manager	91.63 86.96 107.26 95.00 109.03	0.194	Current account Saving account General investment account Others (please specify).	97.62 93.10 -- --	0.843

Table 7.12: (cont.): Assessing Perspectives on Underdevelopment of Islamic Finance in Libya and its Future: Kruskal-Wallis Test

Q.17-6 The transitory government and the following governments must work for establishing an Islamic moral economy based on social justice	Below 20	--	0.789	No education	--	0.417	LD 500 and below	90.00	0.571	Academician	91.54	0.330	Current account	97.44	0.921
	20 – 30	95.33		High school and below	98.00		LD 501 – 1000	98.12						Bankers	
	31 – 40	101.49		Undergraduate only	102.76		LD1001 – 2000	102.48		Merchant	103.09		General investment account	--	
	41 – 50	97.32		MA	96.00		LD 2001 – 3000	95.33		General public	94.00		Others (please specify).	--	
	Above 50	92.31		PhD	84.73		LD 3001 – 4000	73.18		Bureaucrat /manager	108.98				
							More than 4000	90.00							
Q.17-7 The new constitution must state that the economy should be based on Islamic moral economy	Below 20	--	0.934	No education	--	0.53	LD 500 and below	108.75	0.929	Academician	88.05	0.91	Current account	98.42	0.126
	20 – 30	90.64		High school and below	105.40		LD 501 – 1000	101.30						Bankers	
	31 – 40	99.43		Undergraduate only	107.49		LD1001 – 2000	95.23		Merchant	113.05		General investment account	--	
	41 – 50	96.98		MA	86.58		LD 2001 – 3000	95.28		General public	87.86		Others (please specify).	--	
	Above 50	97.89		PhD	86.42		LD 3001 – 4000	86.73		Bureaucrat /manager	108.09				
							More than 4000	100.40							

Table 7.13: Assessing Perceptions on the Presence of and Patronage for Islamic banks and finance in Libya: Kruskal-Wallis Test

Question	Category	Q.18: Do you know that Islamic banking is available as Islamic windows in Libya for mainly car purchase?		Q.19: Would you support and feel more comfortable using an Islamic bank and financial institution in Libya?	
		Mean rank	Asymp.sig	Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.627	--	0.613
	20 – 30	104.47		88.14	
	31 – 40	93.37		103.39	
	41 – 50	95.23		95.18	
	Above 50	104.26		95.04	
Q.2 Education	No education	--	0.487	--	0.295
	High school and below	94.64		87.10	
	Undergraduate only	97.28		97.97	
	MA	93.32		105.28	
	PhD	111.19		86.92	
Q.3 Monthly Income	LD 500 and below	122.75	0.027	106.00	0.533
	LD 501 – 1000	105.70		98.70	
	LD1001 – 2000	85.17		95.33	
	LD 2001 – 3000	123.83		120.67	
	LD 3001 – 4000	98.73		78.00	
	More than 4000	116.60		105.10	
Q.4 Status	Academic	93.31	0.315	99.54	0.091
	Bankers	87.76		95.47	
	Merchants /Business	111.68		116.26	
	General public	104.11		80.86	
	Bureaucrat/Manager	99.37		87.09	
Q.8 What type of account do you have	Current account	96.87	0.287	98.23	0.217
	Savings account	121.20		69.90	
	General investment account	--		--	
	Others (please specify)....	--		--	

Table 7.14: Assessing the perceptions on the Islamisation of the Banking System and Patronising Islamic Banks in Libya

Question	Category	Q.20: Do you agree that the entire banking system should be Islamised in Libya		Q.21: If there were an Islamic bank, would you open an account with Islamic bank?	
		Mean rank	Asymp .sig	Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.818	--	0.498
	20 – 30	93.72		92.50	
	31 – 40	95.62		96.60	
	41 – 50	96.42		97.35	
	Above 50	103.42		101.12	
Q.2 Education	No education	--	0.427	--	0.334
	High school and below	83.16		100.26	
	Undergraduate only	97.75		96.18	
	MA	101.47		95.53	
	PhD	100.77		103.69	
Q.3 Monthly Income	LD 500 and below	72.17	0.276	92.50	0.015
	LD 501 – 1000	89.80		93.97	
	LD1001 – 2000	105.55		97.77	
	LD 2001 – 3000	88.33		92.50	
	LD 3001 – 4000	100.09		118.95	
	More than 4000	94.80		102.20	
Q.4 Status	Academic	103.78	0.576	99.74	0.691
	Bankers	95.32		97.74	
	Merchants /Business	88.33		98.38	
	General public	104.50		92.50	
	Bureaucrat/Manager	94.35		94.76	
Q.8 What type of account do you have	Current account	97.06	0.432	97.12	0.129
	Savings account	114.20		111.90	
	General investment account	--		--	
	Others (please specify)....	--		--	

Table 7.15: Assessing the Potential Sources of Patronage of Islamic Banks in Libya: Kruskal-Wallis Tests

Question	Age	Mean rank	Asymp.sig	Education	Mean rank	Asymp.sig	Monthly Income	Mean rank	Asymp.sig	Status	Mean rank	Asymp.sig	What type of account do you have	Mean rank	Asymp.sig
Q.22-1 Religious obligation/ requirement	Below 20 20 – 30 31 – 40 41 – 50 Above 50	88.03 100.15 96.88 97.93	0.856	No education High school and below Undergraduate only MA PhD	91.34 94.39 103.92 97.08	0.666	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	78.17 97.39 98.08 85.50 94.14 119.05	0.699	Academician Bankers Merchant General public Bureaucrat/manager	99.34 89.03 110.08 89.11 95.01	0.497	Current account Saving account General investment account Others (please specify).	98.50 59.70	0.104
Q.22-2 The account is free from any interest	Below 20 20 – 30 31 – 40 41 – 50 Above 50	98.64 103.27 97.83 87.50	0.414	No education High school and below Undergraduate only MA PhD	86.92 95.91 106.37 90.69	0.281	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	83.92 102.30 96.67 105.06 76.45 97.90	0.647	Academician Bankers Merchant General public Bureaucrat/manager	106.94 85.11 91.68 89.32 100.58	0.211	Current account Saving account General investment account Others (please specify).	98.03 77.30	0.352
Q.22-3 The brand name of the Islamic bank (Islamic reputation and image)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 76.08 106.96 86.88 105.29	0.040	No education High school and below Undergraduate only MA PhD	106.02 92.56 99.94 98.33	0.699	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	106.75 99.70 93.33 126.22 84.00 104.80	0.511	Academician Bankers Merchant General public Bureaucrat/manager	105.18 86.91 102.91 105.18 88.00	0.314	Current account Saving account General investment account Others (please specify).	96.97 117.60	0.398
Q.22-4 Islamic Bank will pay out higher return on deposits	Below 20 20 – 30 31 – 40 41 – 50 Above 50	81.39 98.34 97.58 102.51	0.568	No education High school and below Undergraduate only MA PhD	87.72 97.63 102.82 93.42	0.659	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	78.50 89.70 99.39 113.50 109.50 115.40	0.453	Academician Bankers Merchant General public Bureaucrat/manager	103.09 90.65 98.56 86.54 97.44	0.751	Current account Saving account General investment account Others (please specify).	98.87 45.70	0.029
Q.22-5 Encouragement from friends and family	Below 20 20 – 30 31 – 40 41 – 50 Above 50	90.08 92.63 92.99 114.16	0.141	No education High school and below Undergraduate only MA PhD	116.18 104.82 83.49 91.79	0.32	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	133.25 103.86 85.73 95.56 103.14 137.90	0.21	Academician Bankers Merchant General public Bureaucrat/manager	87.31 89.78 125.79 90.64 100.55	0.016	Current account Saving account General investment account Others (please specify).	97.00 116.30	0.437

Table 7.15 (cont.): Assessing the Potential Sources of Patronage of Islamic Banks in Libya: Kruskal-Wallis Tests

Q. 22-6 Islamic banks will provide attractive product package and services (such as free <i>takaful</i> coverage, attractive competition prize)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 84.61 87.82 106.26 106.24	0.105	No education High school and below Undergraduate only MA PhD	-- 95.40 97.28 90.96 116.27	0.243	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	127.42 91.98 97.48 96.33 92.95 122.15	0.446	Academician Bankers Merchant General public Bureaucrat /manager	99.06 83.80 122.65 103.86 85.49	0.017	Current account Saving account General investment account Others (please specify).	98.12 74.00 -- -- --	0.321
Q.22-7 Opportunity to get other financing facilities such as house or car financing	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 101.56 93.24 100.28 98.90	0.848	No education High school and below Undergraduate only MA PhD	-- 107.54 99.24 93.25 93.02	0.643	LD 500 and below LD 501 – 1000 LD1001 –2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	84.33 97.49 100.73 75.17 90.00 104.05	0.724	Academician Bankers Merchant General public Bureaucrat /manager	95.96 104.03 99.76 101.64 91.21	0.835	Current account Saving account General investment account Others (please specify).	98.30 67.10 -- --	0.181
Q.22-8 Sound financial reputation of the bank	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 105.28 96.96 97.24 95.59	0.917	No education High school and below Undergraduate only MA PhD	-- 90.04 98.32 94.36 109.90	0.490	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	64.75 102.97 97.50 74.06 105.00 93.90	0.346	Academician Bankers Merchant General public Bureaucrat /manager	102.72 98.70 109.61 78.04 85.38	0.121	Current account Saving account General investment account Others (please specify).	97.25 106.90 -- --	0.671

Table 7.16: Assessing the Perception on the Potential Role of Islamic Banking on Socio-Economic Impact: Kruskal-Wallis Tests

Question	Category	Q.23: Do you think Islamic banks in Libya will effectively contribute to socio-economic development?	
		Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.832
	20 – 30	89.89	
	31 – 40	98.18	
	41 – 50	101.10	
	Above 50	94.67	
Q.2 Education	No education	--	0.551
	High school and below	91.16	
	Undergraduate only	100.74	
	MA	100.34	
	PhD	86.75	
Q.3 Monthly Income	LD 500 and below	124.00	0.731
	LD 501 – 1000	98.31	
	LD1001 – 2000	95.50	
	LD 2001 – 3000	88.50	
	LD 3001 – 4000	91.59	
	More than 4000	109.25	
Q.4 Statue	Academic	97.59	0.561
	Bankers	98.64	
	Merchants /Business	108.95	
	General public	88.89	
	Bureaucrat/Manager	90.40	
Q.8 What type of account do you have	Current account	98.03	0.364
	Savings account	77.30	
	General investment account	--	
	Others (please specify)....	--	

Table 7.17: Assessing the Potential Socio-Economic Role of Islamic Banks in Libya: Kruskal-Wallis Tests

Question	Age	Mean rank	Asymp .sig	Education	Mean rank	Asym p.sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.24-1 Alleviation of poverty	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 97.97 89.23 100.73 106.04	0.324	No education High school and below Undergraduate only MA PhD	-- 113.94 97.65 89.26 101.52	0.206	LD 500 and below LD 500 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	97.50 95.08 97.40 89.33 88.86 131.25	0.388	Academician Bankers Merchant General public Bureaucrat /manager	123.00 94.42 96.27 99.50 82.06	0.011	Current account Saving account General investment account Others (please specify).	98.30 67.40 -- --	0.175
Q.24-2 Environmental friendly economy	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 102.64 88.01 98.62 108.92	0.190	No education High school and below Undergraduate only MA PhD	-- 103.54 93.14 98.13 103.38	0.743	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	99.83 100.57 94.11 76.56 110.23 111.90	0.618	Academician Bankers Merchant General public Bureaucrat /manager	121.34 78.85 101.47 115.11 83.44	0.002	Current account Saving account General investment account Others (please specify).	97.80 86.00 -- --	0.616
Q.24-3 Supporting small business enterprises	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 78.92 94.01 101.88 104.61	0.206	No education High school and below Undergraduate only MA PhD	-- 94.90 92.94 102.71 101.02	0.641	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	74.00 94.07 99.40 99.83 96.95 115.25	0.652	Academician Bankers Merchant General public Bureaucrat /manager	103.90 85.51 110.06 86.11 91.91	0.129	Current account Saving account General investment account Others (please specify).	98.61 55.40 -- --	0.047
Q.24-4 Supporting individuals' business initiatives	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.64 92.96 100.11 104.73	0.498	No education High school and below Undergraduate only MA PhD	-- 101.16 91.64 105.89 91.13	0.305	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	93.58 94.66 98.11 86.39 93.00 127.90	0.450	Academician Bankers Merchant General public Bureaucrat /manager	112.31 86.41 98.59 85.79 89.58	0.010	Current account Saving account General investment account Others (please specify).	98.35 65.40 -- --	0.136

Table 7.17 (cont.): Assessing the Potential Socio-Economic Role of Islamic Banks in Libya: Kruskal-Wallis Tests

Q.24-5 Improving community development through social projects	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 82.53 93.20 102.98 102.98	0.329	No education High school and below Undergraduate only MA PhD	-- 99.56 92.30 100.87 103.02	0.678	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	98.08 99.67 94.32 92.00 98.09 116.40	0.841	Academician Bankers Merchant General public Bureaucrat /manager	110.46 84.74 99.83 92.86 84.35	0.009	Current account Saving account General investment account Others (please specify).	97.78 87.10 -- --	0.636
Q.24-6 Increases job opportunities	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 106.92 88.41 106.12 96.59	0.189	No education High school and below Undergraduate only MA PhD	-- 103.10 93.12 102.72 92.58	0.601	LD 500 and below LD 501 – 1000 LD1001 –2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	117.25 97.61 96.90 90.78 83.45 112.00	0.728	Academician Bankers Merchant General public Bureaucrat /manager	110.33 82.08 119.86 80.61 90.02	0.009	Current account Saving account General investment account Others (please specify).	97.82 85.30 -- --	0.581
Q.24-7 Increases women’s participation in the economy	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 96.75 90.45 100.06 105.51	0.487	No education High school and below Undergraduate only MA PhD	-- 121.74 96.23 97.97 76.90	0.026	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	101.75 106.94 92.12 105.11 79.09 95.55	0.464	Academician Bankers Merchant General public Bureaucrat /manager	100.80 96.92 119.94 106.64 88.24	0.068	Current account Saving account General investment account Others (please specify).	98.06 76.40 -- --	0.366
Q.24-8 Providing social loans for education, housing, health and weddings	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 104.08 96.31 98.97 94.79	0.911	No education High school and below Undergraduate only MA PhD	-- 91.60 95.77 103.94 92.58	0.625	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	95.42 95.61 101.59 110.06 76.05 85.90	0.571	Academician Bankers Merchant General public Bureaucrat /manager	109.76 91.93 101.47 94.61 88.92	0.501	Current account Saving account General investment account Others (please specify).	97.81 85.90 -- --	0.599

Chapter 8

MEASURING THE KNOWLEDGE OF PARTICIPANTS OF THE PRINCIPLES AND WORKING MECHANISM OF ISLAMIC BANKING AND FINANCE

8.1. INTRODUCTION

Continuing from and building upon the analyses presented in the previous chapters, in the first part of Chapter 8, the participants' knowledge and awareness of the principles and procedures associated with Islamic banking are explored. In this part of the study, statistical methods such as percentages, means, and standard deviations as well as other methods such as KMO, Bartlett's test, and total variance are used to analyse the participants' responses to the questions to discover whether there are any differences in opinion. The second part, on the other hand, uses the Kruskal-Wallis test to establish differences in opinions within the control variables of age, education, monthly income, status, and type of bank account.

8.2. ASSESSING PARTICIPANTS' KNOWLEDGE OF 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. Thus, the main aim of this part is to ascertain whether the respondents are able to distinguish between the Islamic and the conventional banking systems in terms of financial transactions. The results are depicted in Table 7.12.

A review of Table 8.1 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.

Table 8.1: 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		
(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		
(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		
(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		

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 attempt to refrain from practices which are religiously taboo, such as *riba*.

Table 8.2: 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		
(Q.27-2) Musharakah					
Valid	Yes	149	76.8	1.30	.608
	No	30	15.5		
	Not sure	15	7.7		
	Total	194	100		
(Q.27-3) Mudarabah					
Valid	Yes	108	55.7	1.61	.767
	No	52	26.8		
	Not sure	34	17.5		
	Total	194	100		

Table 8.2 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 level 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 8.3.

As can be seen in Table 8.3, total responses (194) are higher than the responses given to each Islamic financial instrument in Table 8.2. This is due to the fact that the responses in Table 8.3 provides overall evaluation of the awareness level expressed in Table 8.2 rather than referring to the individual financial instrument categories.

Table 8.3: 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		
(Q.29) If your answer is 'no' in questions 27 and 29, why do you not know about the underlying principles of Islamic finance?					
Valid	Difficult to understand	7	3.6	2.98	.955
	Bank's staff do 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		

It is clear from responses to Q.28 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 (Q.28), while 13.4% of respondents expressed a lack of interest in the subject (Q.29). 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 8.4.

Table 8.4: 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		
(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		
(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		
(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		
(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		
(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		

(Q.30-7) Promoting social welfare					
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		
(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		
(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		
(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		

Table 8.4 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 Muslims 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 8.5.

Table 8.5: Perceptions on the Objectives of Islamic Banks

(Q. 31-1) Prohibition of <i>riba</i>					
		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		
(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		
(Q. 31-3) Non-debt-based financing					
Valid	Not important at all	1	.5	4.02 (7)	.774
	Not important	4	2.1		
	Do not know	38	19.6		
	Important	98	50.5		
	Very important	53	27.3		
	Total	194	100		
(Q. 31-4) Contributing to social welfare					
Valid	Not important at all	4	2.1	4.20 (6)	.687
	Not important	--	--		
	Do not know	18	9.3		
	Important	107	55.2		
	Very important	65	33.5		
	Total	194	100		
(Q. 31-5) Promoting sustainable development					
Valid	Not important at all	--	--	4.28 (5)	.668
	Not important	1	.5		
	Do not know	20	10.3		
	Important	96	49.5		
	Very important	77	39.7		
	Total	194	100		

(Q. 31-6) Alleviating poverty					
Valid	Not important at all	--	--	4.32(4)	.629
	Not important	2	1.0		
	Do not know	11	5.7		
	Important	103	53.1		
	Very important	78	40.2		
	Total	194	100		
(Q. 31-7) Maximizing profits					
Valid	Not important at all	5	2.6	3.60 (8)	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		
(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		

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

As the findings in Table 8.5 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 indicate 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.

8.3. ANALYZING THE DIFFERENCES OF OPINIONS IN RELATION TO THE OBJECTIVES AND FEATURES OF ISLAMIC BANKING

After providing the general results through descriptive statistics on the features and objectives of Islamic finance as well as awareness on the Islamic banking products, this section aims to identify if there is any difference between the participants in relations to these statements within the identified control variables, which are mostly demographic variables. For this, Kruskal-Wallis (KW) test is used and the findings are presented in the following section.

It should be noted that the statistical results for this section are depicted in a number of tables, which are presented in the chapter appendix.

In the first section, participants' opinions on the various aspects and definition of *riba* are considered to identify any significant differences, if there are any. The results are depicted in Table 8.6.

As can be seen in Table 8.6, the results show no statistically significant differences within the categories of age, education, status, and type of bank account regarding the participants' responses to the statement 'Are you familiar with the term *riba*' under Q.25. As for the monthly income category, statistically significant differences exist for the same statement, with those earning LD 500-1000 per month having the highest mean ranking score of 107.6. From the results it could be concluded that most of the respondents are probably long-term customers of conventional banks who have a better understanding of the banking terminology as compared to others.

Table 8.6 also indicates that no statistically significant differences exist within the categories of age, education, monthly income, status, and type of bank account with respect to the participants' responses to the statement '*riba* is the same as interest' under Q.26-1, as the relatively high *p*-value exceeding the critical *p*-value of 0.05 indicates. This result implies that the majority of participants have similar views on this statement, and as discussed above the majority of the participants reject the connotation identified in this statement.

As regards to the statement ‘Interest on deposit paid by conventional bank is the same as the profit on deposit paid by Islamic bank’ under Q.26-2, the results indicate that statistically significant differences in opinion exist within the status category. Thus, given the variation of knowledge within the status category as evidenced with the range of mean rank values, strong disagreement exists with regard to the statement in Q.26-2.

The results in Table 8.6 show that no statistically significant differences exist within the various categories of age, education, monthly income, status, and type of bank account for the statement ‘It is sinful to take conventional bank deposit interest’ (Q. 26-3), as the estimated p -values are higher than the critical p -value of 0.05. Thus, it could be concluded that the majority of respondents agree with labelling the process of interest-based deposits practised by conventional banks as a sinful act, which is consistent with the religious nature of the people of Libya.

Further analysis was conducted on the awareness of Islamic banking instruments (Q.27), mainly knowledge on *murabahah*, *mudarabah* and *musharakah* to see if there are any significant differences in the answers given in relation to the identified control variables. A brief review of Table 8.7 shows that no statistically significant differences exist within the various categories featuring age, education, monthly income, status, and type of bank account in relation to the knowledge and awareness of the Islamic banking instruments. This implies that all participants have similar levels of familiarity with the terminology associated with Islamic banking. This result is further confirmed by the close mean values within each category.

In the following section, an attempt was made to see if there are any differences in the opinions expressed for the sources of the expressed knowledge on the Islamic financial instruments as well as the reasons of not having an understanding of this was the case.

The results are depicted in Table 8.8, which reveals that no statistically significant differences exist within the various categories featuring age, education, monthly income, status, and type of bank account for either of the statements. This implies that all participants have similar sources of knowledge and also reasons of not knowing such principles.

Analysis is taken a step further by analyzing the differences in the expressed opinions in relation to understanding of Islamic banking and its features, for which the results are presented in Table 8.9. As can be seen from the results, there are no statistically significant differences within the categories of age, education, monthly income, status, and type of bank account for the statement 'Banking without interest' in Q.30-1, as the estimated p -values exceed the critical p -value of 0.05. This should literally mean that all participants hold a position closer to this statement.

With regard to participants' responses to the statement 'Discouraging debt-based finance' in Q.30-2, statistically significant differences exist within the monthly income and status categories, each having a p -value of 0.04, which is lower than the critical p -value of 0.05. As for the other categories of age, education, and type of bank account, no significant differences exist within those categories. However, the high mean rankings for those who earn more than LD 4000 per month as well as for the bankers' group would suggest a better awareness of the objectives of Islamic banking among those two groups as compared to other groups.

From Table 8.9 it becomes obvious that statistically significant differences exist within the age category with respect to the participants' responses to the statement 'Being an alternative to capitalism and socialism' in Q.30-3. In particular, the high mean ranking score of the age group 40-50 suggests that this age group has clearer views on the matter than other age groups.

From Table 8.9, it can be seen that no statistically significant differences exist within the five control variables, as suggested by the high respective p -values which exceed the critical p -value of 0.05. Thus, it could be inferred that participants within each of the five categories have similar views in terms of their responses to the statement that 'Having *Shari'ah*-compliant products' in Q.30-4.

With regard to the participants' responses to the statement that 'Banking for Muslims only' in Q.30-5, statistically significant differences exist within the status category, as one can tell from the p -value of 0.00, which is less than the critical p -value of 0.05. On the other hand, the high spread values of the mean ranking suggest that a general understanding exists within the status category that Islamic banks should be available for everyone regardless of their religious beliefs.

The participants' responses to the statement that Islamic banking is 'An ethical banking', Q.30-6 in Table 8.9 indicate that no statistically significant differences exist within the five control variable categories, which suggests that similar views are held within the various categories with respect to the relationship between ethical banking and Islamic banking.

The analysis of the participants' responses to statement that Islamic banking is also defined as 'promoting social welfare' in Q.30-7 suggest that no statistically sound differences in opinion exist within the control variable such as age, education, monthly income, and status. However, for the bank account category the p -value of 0.02, which is less than the critical p -value, suggests statistically significant differences in the case of this statement. It could be concluded that opinions differ among those holding bank accounts with regard to the welfare mission of Islamic banks as compared to commercial banks. Hence, statistically significant differences in opinion exist within the education and monthly income categories, for the statement in Q.30-8 on the charitable nature of Islamic banks. The varying mean ranking values among the education category suggests the strong opinion about the charitable mission of Islamic banks among this group.

In terms of responses to statement Q.30-9 on the role of Islamic banking in helping the poor, statistically significant differences in opinion exists within the education and status categories. Therefore, it could be maintained that the mission of Islamic banking to help the poor and the needy has strong consideration among the educated and the status groups, but otherwise in other control variables there is close proximity in the responses provided.

Participants' responses to statement in Q.30-10 indicate that statistically significant differences in opinion exist within the age category with regard to similarity between

Islamic banks and conventional banks. In this regard, as can be seen from Table 8.9, the highest mean ranking of 120.61 is shown for the age group above 50, indicating that this age group has a better understanding of the banking business as compared to other age groups, as they have a distinct view on this issue.

Similar analysis was carried out in the following section for the objectives of Islamic banking to see if there is any difference in opinions in relation to control variables.

From Table 8.10 provides the results for the analysis for Islamic banking objectives. As the results show, for the various categories there is no significant differences in opinion existing within those categories regarding participants' responses to the statement 'Prohibition of *riba*' in Q.31-1. This indicates that participants have similar opinions with regard to the idea of prohibition of *riba* as being an important objective of Islamic banking.

As can be seen from the high *p*-values for the participants' responses to Q.31-2, which are higher than the critical *p*-value of 0.05, no statistically significant differences in opinion exist within the five categories on the statement that providing products consistent with *Shari'ah* law is one of the objectives of Islamic banks.

As for participants' responses to Q.31-3, that Islamic banking is 'Non-debt-based financing'; it can be seen that statistically significant differences exist within the status category. However, a wide range of mean value rankings within the academic category suggests that strong views about the non-debt-financing mission of Islamic banks exist within this category.

Furthermore, as can be seen from Table 8.10, statistically sound differences exist within the monthly income and status categories with respective *p*-values of 0.02 and 0.00 regarding participants' responses to Q.31-4, stating that Islamic banking implies 'Contributing to social welfare'. As can be seen the highest income group and the highest status group (bureaucrats and managers) scored the highest mean value indicating their strong position for this statement.

Finally, the results in Table 8.10 suggest no statistically significant differences in opinion exist within the various categories of age, education, monthly income, status, and type of bank account with regard to the participants' responses to Q.31-5, Q.31-7 and Q.31-8. This means there is general agreement among participants that matters such as 'promoting sustainable development' and 'encouraging Islamic values', as well as 'maximizing profits', should constitute an important part of Islamic banking.

However, for Q.31-6 or Islamic banking 'alleviating poverty' as an objective, statistically significant differences were found within the monthly income category, as suggested by the low p -value of 0.01, which is lower than the critical p -value. Thus, although strong differences in opinion exist among the monthly income category regarding the role of Islamic banks in alleviating poverty, the general trend among participants is that Islamic banks should undertake that task.

8.4. ISLAMIC BANKING FEATURES AND FACTOR ANALYSIS FOR GROUPING THE DATA

In this part, factor analysis is employed to analyze some of the questions or items in the questionnaire, which were designed as list of variables. As explained in the previous chapter, KMO tests were run to investigate their factorability or the appropriateness of factor analysis for these questions or the entries. In the case of significance, then the full factor analysis was run to re-group the statements or factors under each of those questions.

The statements under Q.30 are considered for factor analysis; for which initially KMO tests were run and results are reported in Table 8.11.

Table 8.11: KMO and Bartlett’s Test Results for the Significance of Islamic Banking Features

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.712
Bartlett's Test of Sphericity	Approx. Chi-Square	296.377
	df	45
	Sig.	.000

As can be seen from Table 8.11, KMO tests show that it is statistically feasible to proceed to factor analysis based on the high partial correlation of 0.712 coupled with the highly significant value of Bartlett’s test of Sphericity of zero, suggesting the factorability of the listed elements.

Table 8.12: Total Variance Explained for the Significance of Islamic banking and its association.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.627	26.273	26.273	2.627	26.273	26.273	2.173	21.735	21.735
2	1.691	16.914	43.187	1.691	16.914	43.187	1.711	17.113	38.848
3	1.049	10.489	53.676	1.049	10.489	53.676	1.483	14.828	53.676
4	.881	8.810	62.486						
5	.837	8.370	70.855						
6	.803	8.033	78.889						
7	.605	6.052	84.941						
8	.544	5.439	90.380						
9	.529	5.295	95.675						
10	.433	4.325	100.000						

Extraction Method: Principal Component Analysis.

The ten factors in Table 8.12 have been reduced to three factors or components as implied by the Principle Component Analysis, each with an eigenvalue exceeding 1. The three factors claim a total variation of 53.6%, with 26.3%, 16.9% and 10.4% for each of the three respective factors.

As indicated in Table 8.13, the Varimax technique was used to rotate the three factor extracts implying to distribute the factor for each of the components. Then, after loading the ten factors onto the three main factors, the components are identified and named as follows: Component 1: ‘Nature and Functions’; Component 2: ‘Institutional Identity’; and Component 3: ‘Financial Nature’.

Table 8.13: Rotated Component Matrix on the Significance of Islamic banking Features

Variables Q.31	Component		
	1: Nature and Functions	2: Institutional Identity	3: Financial Nature
Banking without interest	.398	-.189	.630
Discouraging debt-based finance	.060	.126	.762
Being an alternative to capitalism and socialism	.525	-.021	.166
Having <i>Shari'ah</i> -compliant products	.556	-.108	.460
Banking for Muslims only	-.266	.612	-.186
An ethical banking	.745	-.095	.129
Promoting social welfare	.786	.041	-.037
Being a charitable entity	.375	.575	-.421
Banking for the poor	.136	.672	.192
Similar to other commercial banks	-.151	.693	.003

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization
 Rotation converged in 5 iterations

It should be noted that an acceptable loading value of 0.5 or more has been identified for each of the above three components. However, based on the factors loaded onto component one, Islamic banks should promote social welfare through investing in projects provided those projects are compatible with *Shari'ah* principles. Thus, Component 1 implies that the focus should be on ethical and moral banking, which should provide a third option other than capitalist and socialist banking. Component 2, on the other hand, implies that Islamic banks should always identify with the cause of the poor, such as promoting charitable organizations that target the needy in both Muslim and non-Muslim communities. Such activities could make a clear distinction between Islamic banks and conventional banks. As for component 3, it is associated with the unique financial transactions of Islamic banks featuring interest-free loans and the overcoming of debt-based financing.

8.5. CONCLUSION

As the results so far indicate, the majority of those who took part in the survey appear to be well aware of the terminology associated with Islamic banking such as *musharakah*, *murabahah*, *mudarabah* etc. In this context most of the participants stated that they have gained their knowledge about Islamic banking through reading. In addition, about half of those who took part in the survey stated that their poor knowledge of Islamic banking is due to the fact that the system was non-existent in

the country. However, as far as Islamic banking is concerned most participants are of the view that interest-based loans provided by conventional banks should be considered sinful and an act of usury (*riba*) which is prohibited by *Shari'ah* law. For that reason, they believe that Islamic banks should provide their services to everyone regardless of their religious links. They also believe that the Islamic banking system should be established in Libya as a religious obligation in order to promote Islamic values, which reflects the religious nature of the people of Libya. Finally, most of the participants believe that Islamic banks should focus on alleviating poverty through charitable work and the provision of interest-free loans. Such an orientation necessitates exploring social and development aspects of Islamic banking and financing further, as is shown in the following chapters.

APPENDIX FOR CHAPTER 8

Table 8.6: Respondents' Familiarity with *Riba* and its Aspects: Kruskal-Wallis Test

Question	Age	Mean rank	Asym p.sig	Education	Mean rank	Asym p.sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.25 Are you familiar with the term ' <i>riba</i> '	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 87.72 103.54 102.55 85.14	0.161	No education High school and below Undergraduate only MA PhD	-- 93.72 97.45 94.20 109.42	0.587	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	67.58 106.76 98.85 67.33 69.55 99.80	0.044	Academician Bankers Merchant General public Bureaucrat /manager	100.76 86.18 106.44 72.43 103.47	0.113	Current account Saving account General investment account Others (please specify).	97.47 98.60 -- --	0.960
Q.26-1 <i>Riba</i> is the same as interest	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 96.17 104.58 95.47 89.57	0.447	No education High school and below Undergraduate only MA PhD	-- 97.38 97.05 100.20 92.33	0.925	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	92.00 99.52 97.32 98.83 109.55 74.70	0.716	Academician Bankers Merchant General public Bureaucrat /manager	104.90 83.62 101.64 74.71 102.15	0.099	Current account Saving account General investment account Others (please specify).	98.56 57.60 -- --	0.071
Q.26-2 Interest on deposit paid by conventional bank is the same as the profit on deposit paid by Islamic bank	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 90.47 91.14 105.45 99.74	0.404	No education High school and below Undergraduate only MA PhD	-- 116.48 100.61 88.00 93.19	0.111	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	102.00 89.36 99.52 119.17 101.14 106.50	0.583	Academician Bankers Merchant General public Bureaucrat /manager	93.42 85.51 97.26 132.46 102.98	0.054	Current account Saving account General investment account Others (please specify).	96.65 129.80 -- --	0.156
Q.26-3 It is sinful to take conventional bank deposit interest.	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 84.92 104.98 97.34 90.94	0.365	No education High school and below Undergraduate only MA PhD	-- 96.40 93.82 98.48 107.31	0.722	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	81.58 97.82 95.77 99.44 119.82 94.60	0.748	Academician Bankers Merchant General public Bureaucrat /manager	107.45 86.50 99.91 71.32 98.14	0.108	Current account Saving account General investment account Others (please specify).	98.11 74.40 -- --	0.319

Table 8.7: Assessing Awareness with the Islamic Banking Instruments: Kruskal-Wallis Test

Q.27: Are you familiar with the following terms :	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Statue	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
<i>Murabahah</i>	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 90.25 94.77 95.29 107.64	0.338	No education High school and below Undergraduate only MA PhD	-- 104.72 99.65 93.80 93.13	0.660	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	85.92 98.37 94.64 90.72 97.45 131.20	0.217	Academician Bankers Merchant General public Bureaucrat /manager	96.94 96.05 102.70 104.25 93.43	0.873	Current account Saving account General investment account Others (please specify).	97.27 106.10 -- --	0.655
<i>Musharakah</i>	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 113.56 97.07 91.04 100.37	0.222	No education High school and below Undergraduate only MA PhD	-- 100.96 104.47 90.04 91.37	0.167	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	119.75 102.81 90.58 104.83 91.27 113.05	0.196	Academician Bankers Merchant General public Bureaucrat /manager	94.38 93.15 106.20 87.79 102.59	0.452	Current account Saving account General investment account Others (please specify).	97.15 110.80 -- --	0.466
<i>Mudarabah</i>	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 106.44 95.57 97.05 97.57	0.878	No education High school and below Undergraduate only MA PhD	-- 114.30 95.93 96.98 87.38	0.270	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	115.00 106.61 91.61 94.83 76.32 106.80	0.263	Academician Bankers Merchant General public Bureaucrat /manager	92.69 96.07 115.83 97.57 92.13	0.238	Current account Saving account General investment account Others (please specify).	97.14 111.10 -- --	0.540

Table 8.8: Assessing the Difference Source of Knowledge on Islamic Financial Products: Kruskal–Wallis Test

Question	Category	Q.29: If you responded positively to the above questions (26 and 28), how did you get to know about the principles of Islamic finance		Q.28: If your answer is 'no' in question 26 and 27, why do not you know about the underlying principles of Islamic finance?	
		Mean rank	Asymp .sig	Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.165	--	0.909
	20 – 30	119.28		46.64	
	31 – 40	98.03		47.16	
	41 – 50	93.17		45.41	
	Above 50	93.73		50.56	
Q.2 Education	No education	--	0.236	--	0.080
	High school and below	103.80		54.42	
	Undergraduate only	103.54		41.88	
	MA	91.48		46.20	
	PhD	87.88		61.65	
Q.3 Monthly Income	LD 500 and below	114.42	0.867	59.00	0.112
	LD 501 – 1000	98.27		41.29	
	LD1001 – 2000	95.77		49.31	
	LD 2001 –3000	90.72		78.50	
	LD 3001 – 4000	93.77		40.90	
	More than 4000	108.40		57.42	
Q.4 Status	Academic	89.84	0.406	59.70	0.630
	Bankers	100.82		49.74	
	Merchants /Business	105.71		47.67	
	General public	107.93		40.97	
	Bureaucrat/Manager	96.88		46.54	
Q.8 What type of account do you have	Current account	96.53	0.066	47.49	0.989
	Savings account	134.00		47.75	
	General investment account	--		--	
	Others (please specify)....	--		--	

Table 8.9: Assessing the Differences on Respondents' Understanding of Islamic Banking: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Statue	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.30-1 Banking without interest	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 85.56 99.32 104.82 89.64	0.339	No education High school and below Undergraduate only MA PhD	-- 97.32 93.54 102.12 98.33	0.801	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	97.83 94.48 96.54 90.50 103.59 125.65	0.605	Academician Bankers Merchant General public Bureaucrat /manager	99.96 98.64 107.59 63.57 96.00	0.105	Current account Saving account General investment account Others (please specify).	97.89 82.60 -- --	0.509
Q.30-2 Discouraging debt-based finance	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.06 95.39 98.58 103.16	0.738	No education High school and below Undergraduate only MA PhD	-- 106.90 97.30 91.52 103.81	0.564	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	119.33 97.67 88.47 106.11 115.55 138.75	0.040	Academician Bankers Merchant General public Bureaucrat /manager	98.03 80.09 117.05 84.29 100.95	0.043	Current account Saving account General investment account Others (please specify).	96.82 123.20 -- --	0.264
Q.30-3 Being an alternative to capitalism and socialism	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 94.11 97.43 112.68 78.73	0.012	No education High school and below Undergraduate only MA PhD	-- 103.48 88.61 108.17 92.50	0.137	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	113.25 100.89 93.11 117.06 90.36 96.30	0.709	Academician Bankers Merchant General public Bureaucrat /manager	101.87 89.82 102.41 96.75 93.77	0.776	Current account Saving account General investment account Others (please specify).	98.26 68.90 -- --	0.215
Q.30- 4 Having <i>Shari'ah</i> -compliant products	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 80.42 100.12 102.78 93.17	0.347	No education High school and below Undergraduate only MA PhD	-- 96.54 94.96 103.14 92.25	0.725	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	82.00 96.30 97.18 95.11 112.27 103.50	0.883	Academician Bankers Merchant General public Bureaucrat /manager	96.83 93.47 103.05 90.43 100.06	0.902	Current account Saving account General investment account Others (please specify).	98.32 66.40 -- --	0.158
Q.30-5 Banking for Muslims only	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 102.81 93.80 91.80 108.81	0.297	No education High school and below Undergraduate only MA PhD	-- 113.38 97.63 89.26 102.13	0.212	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	107.42 103.64 95.17 107.50 93.95 67.35	0.357	Academician Bankers Merchant General public Bureaucrat /manager	95.19 97.81 72.91 130.64 108.92	0.002	Current account Saving account General investment account Others (please specify).	96.43 137.90 -- --	0.067

Table 8.9: (cont): Assessing the Differences on Respondents' Understanding of Islamic Banking: Kruskal-Wallis Test

Q.30-6 An ethical banking	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 99.72 96.48 101.71 92.61	0.818	No education High school and below Undergraduate only MA PhD	-- 102.48 97.64 98.30 90.31	0.846	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	103.58 100.28 97.89 72.17 103.91 87.65	0.666	Academician Bankers Merchant General public Bureaucrat /manager	96.81 90.41 106.38 84.75 102.02	0.541	Current account Saving account General investment account Others (please specify).	97.69 90.40 -- --	0.746
Q.30-7 Promoting social welfare	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 94.44 88.95 107.98 98.23	0.177	No education High school and below Undergraduate only MA PhD	-- 103.50 98.25 93.33 99.73	0.825	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	120.33 105.32 92.71 94.06 99.77 76.90	0.344	Academician Bankers Merchant General public Bureaucrat /manager	100.14 85.47 103.47 76.64 105.94	0.156	Current account Saving account General investment account Others (please specify).	98.88 45.30 -- --	0.016
Q.30-8 Being a charitable entity	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 121.81 96.75 89.60 99.49	0.176	No education High school and below Undergraduate only MA PhD	-- 106.28 105.15 95.58 70.54	0.034	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	134.75 112.83 90.61 99.33 46.59 91.75	0.002	Academician Bankers Merchant General public Bureaucrat /manager	85.01 103.66 98.11 100.64 110.16	0.171	Current account Saving account General investment account Others (please specify).	97.51 97.10 -- --	0.987
Q.30-9 Banking for the poor	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 121.06 99.04 85.23 102.01	0.69	No education High school and below Undergraduate only MA PhD	-- 118.02 107.47 83.40 82.19	0.004	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	133.92 102.61 94.00 88.06 63.55 120.00	0.651	Academician Bankers Merchant General public Bureaucrat /manager	79.65 99.39 103.74 118.21 112.15	0.009	Current account Saving account General investment account Others (please specify).	96.84 122.40 -- --	0.289
Q.30-10 Similar to other commercial banks	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 110.64 94.08 84.77 120.61	0.016	No education High school and below Undergraduate only MA PhD	-- 106.16 98.89 94.95 91.25	0.732	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	111.50 106.58 93.46 99.83 66.18 98.75	0.216	Academician Bankers Merchant General public Bureaucrat /manager	92.79 103.04 85.03 109.75 105.65	0.316	Current account Saving account General investment account Others (please specify).	97.30 105.20 -- --	0.737

Table 8.10: Assessing the Significance of the Differences on the Importance of Islamic Banks' Objectives: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Statue	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.31-1 Prohibition of <i>riba</i>	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 86.25 99.54 101.23 93.80	0.548	No education High school and below Undergraduate only MA PhD	-- 96.82 93.73 100.86 101.33	0.759	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	88.67 102.98 95.23 113.61 70.41 102.80	0.209	Academician Bankers Merchant General public Bureaucrat /manager	96.69 92.91 107.00 80.11 101.09	0.340	Current account Saving account General investment account Others (please specify).	98.28 67.90 -- --	0.124
Q.31-2 Providing <i>Shari'ah</i> -compliant products	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.39 99.24 100.18 94.82	0.790	No education High school and below Undergraduate only MA PhD	-- 99.54 94.36 100.59 97.46	0.889	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	125.92 97.46 92.70 120.56 89.36 113.05	0.277	Academician Bankers Merchant General public Bureaucrat /manager	98.13 95.05 103.98 86.86 97.12	0.850	Current account Saving account General investment account Others (please specify).	98.37 64.80 -- --	0.127
Q.31-3 Non-debt-based financing	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 94.58 98.39 96.42 98.70	0.988	No education High school and below Undergraduate only MA PhD	-- 110.14 88.29 103.02 99.75	0.187	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	82.42 100.97 92.36 110.94 114.45 100.20	0.615	Academician Bankers Merchant General public Bureaucrat /manager	110.70 85.84 105.59 63.36 95.83	0.018	Current account Saving account General investment account Others (please specify).	97.59 94.00 -- --	0.878
Q.31-4 Contributing to social welfare	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 97.11 92.99 102.79 97.72	0.741	No education High school and below Undergraduate only MA PhD	-- 113.22 94.39 97.26 92.42	0.385	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	57.25 106.45 91.15 108.67 80.27 129.95	0.020	Academician Bankers Merchant General public Bureaucrat /manager	99.22 86.15 115.00 58.25 103.93	0.004	Current account Saving account General investment account Others (please specify).	97.88 83.20 -- --	0.517

Table 8.10: (cont) Assessing the Significance of the Differences on the Importance of Islamic Banks' Objectives: Kruskal-Wallis Test

Q.31-5 Promoting sustainable development	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 111.11 88.54 101.50 100.87	0.252	No education High school and below Undergraduate only MA PhD	104.44 91.95 94.70 114.96	0.213	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	117.50 102.67 89.10 120.72 90.41 115.60	0.184	Academician Bankers Merchant General public Bureaucrat /manager	99.45 91.28 109.65 79.75 96.27	0.368	Current account Saving account General investment account Others (please specify).	98.09 75.20 -- --	0.319
Q.31-6 Alleviating poverty	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 98.89 97.06 99.30 95.24	0.979	No education High school and below Undergraduate only MA PhD	109.52 102.21 87.84 95.42	0.201	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	95.17 105.78 86.21 135.39 89.68 122.65	0.012	Academician Bankers Merchant General public Bureaucrat /manager	94.77 90.64 115.38 86.32 97.58	0.209	Current account Saving account General investment account Others (please specify).	97.88 83.10 -- --	0.512
Q.31-7 Maximizing profits	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 102.14 101.36 98.78 87.86	0.575	No education High school and below Undergraduate only MA PhD	118.00 94.81 100.19 79.35	0.072	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	65.17 95.30 95.42 120.11 107.36 119.40	0.300	Academician Bankers Merchant General public Bureaucrat /manager	96.01 92.00 112.83 89.18 95.50	0.473	Current account Saving account General investment account Others (please specify).	96.95 118.30 -- --	0.380
Q.31-8 Encouraging Islamic values at all levels	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 101.56 99.02 93.18 99.23	0.879	No education High school and below Undergraduate only MA PhD	110.88 102.73 91.77 82.85	0.130	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	99.83 98.32 91.03 142.50 91.00 116.85	0.065	Academician Bankers Merchant General public Bureaucrat /manager	95.11 99.77 104.30 78.43 100.26	0.563	Current account Saving account General investment account Others (please specify).	96.99 116.90 -- --	0.383

Chapter 9

SEARCHING FOR THE PERCEPTIONS OF THE PARTICIPANTS ON CORPORATE SOCIAL RESPONSIBILITY, SUSTAINABLE DEVELOPMENT AND SOCIAL BANKING

9.1 INTRODUCTION

The previous chapters presented empirical results for aspects of the Libyan economy and financial environment in relation to the past and also on participants' understanding of Islamic banking and finance and its aspects. This chapter takes the discussion a step further by examining the participants' awareness and knowledge of the corporate social responsibility (CSR) concept as well as the role of Islamic banks in this area with the assumption that by definition, IBF should deliver CSR and contribute to development as informed through its ontological and epistemological sources, as discussed in the foundational chapters. As a matter of fact, in the post-capitalist period, every organization should bear some responsibility for social development in the society in which it is operating. This is exactly what is meant by CSR, which implies that organizations have to provide the necessary help and assistance to promote social development and social welfare due to working and existing in the society. Thus, IBF institutions are no exception and should take into account the social development and social welfare of the societies in which they operate.

CSR activities of corporations and financial institutions are particularly important for Libya, which is a developing country currently experiencing a post-conflict rebuilding period - a developmental stage requiring direct involvement of Islamic finance, which should be geared towards development.

This chapter, as in the previous empirical chapters, initially presents descriptive statistics before delving into inferential statistical analysis including more advanced methods such as Kruskal-Wallis test for measuring the significance of the differences

between the participants in relation to the given statements, KMO, Barlett's test for factor analysis to determine the importance of CSR to Islamic banks as perceived by those who took part in the survey

9.2. KNOWLEDGE AND AWARENESS OF CRS AND CRS EXPECTATIONS FROM ISLAMIC BANKING AND FINANCE

In this initial section, an attempt is given to measure the awareness and familiarity of respondents with issues associated with CSR in relation to the Islamic banking and finance system.

Table 9.1: Perceptions on Corporate Social Responsibility (CSR)

		Frequency	Percent	Mean Value	Standard Deviation
(Q.32) Are you familiar with the concept of 'Corporate Social Responsibility' (CSR)?					
Valid	Yes, I am very familiar	36	18.6	1.82	.719
	I am not that familiar	88	45.4		
	No, I am not familiar at all	70	36.0		
	Total	194	100		
(Q.33) Please choose ONE of the following keywords that you think best describes the meaning of CSR					
Valid	Giving back to society	72	37.1	3.04	1.77
	Charity and/ or philanthropy	4	2.1		
	People, planet and profit	19	9.8		
	Business and society	58	29.9		
	Business ethics	30	15.5		
	Corporate sustainability	5	2.6		
	Responsible business	6	3.1		
	Total	194	100		

The findings in Table 9.1 indicates that 81.5% of the respondents either have poor knowledge or are completely unaware of the idea of CSR, as indicated by responses to Q.32. This fact is further confirmed by responses to Q.33, where just over a third of respondents are able to give an accurate definition of CSR. These results appear to suggest that the banking system in Libya, whether conventional or otherwise, is not concerned with social development. Thus, it should be oriented towards further social concerns by providing services that support social welfare and social development while also increasing social awareness and knowledge on the benefits of social banking.

Further to the above, in the following section, participants' opinions and understanding of various aspects of CSR delivery are explored, through which an

attempt is also made to understand the participants' opinions on CSR in relation to the IBF. The results are presented in Table 9.2.

Table 9.2: Perceptions on Corporate Social Responsibility (CSR) in Islamic banking

		Frequency	Percent	Mean Value	Standard Deviation
(Q.34-1) CSR upholds the social justice dimension of Islamic economics					
Valid	Strongly disagree	5	2.6	3.62	.850
	Disagree	7	3.6		
	Do not know	69	35.6		
	Agree	88	45.4		
	Strongly agree	25	12.9		
	Total	194	100		
(Q.34-2) Islamic banks are obliged to practise CSR					
Valid	Strongly disagree	1	.5	3.69	.793
	Disagree	12	6.2		
	Do not know	58	29.9		
	Agree	98	50.5		
	Strongly agree	25	12.9		
	Total	194	100		
(Q.34-3) CSR is relevant to Islamic banking concept					
Valid	Strongly disagree	1	.5	3.55	.857
	Disagree	21	10.8		
	Do not know	64	33.0		
	Agree	85	43.8		
	Strongly agree	23	11.9		
	Total	194	100		
(Q.34-4) CSR should be embedded in Islamic banks' policies					
Valid	Strongly disagree	--	--	3.92	.689
	Disagree	6	3.1		
	Do not know	36	18.6		
	Agree	119	61.3		
	Strongly agree	33	17.0		
	Total	194	100		
(Q.34-5) The government should legally enforce CSR through regulation as one of the requirements for operating an Islamic bank					
Valid	Strongly disagree	--	--	3.98	.701
	Disagree	4	2.1		
	Do not know	37	19.1		
	Agree	111	57.2		
	Strongly agree	42	21.6		
	Total	194	100		
(Q.34-6) Social responsibility should remain a government concern					
Valid	Strongly disagree	6	3.1	3.31	1.058
	Disagree	44	22.7		
	Do not know	51	26.3		
	Agree	68	35.1		
	Strongly agree	25	12.9		
	Total	194	100		

		Frequency	Percent	Mean Value	Standard Deviation
(Q.34-7) Social responsibility should remain the concern of NGOs					
Valid	Strongly disagree	12	6.2	3.17	1.061
	Disagree	45	23.2		
	Do not know	49	25.3		
	Agree	74	38.1		
	Strongly agree	14	7.2		
	Total	194	100		

As the results in Table 9.2 shows, despite 64% of the participants expressing a certain level of awareness on the CSR concept, CSR and Islamic banking relationship. This created response bias in the analysis only for this section, as awareness should have been considered as a filter in answering Q-24.

Table 9.2 also shows that more than half of the respondents, 58.3% believe that the idea of CSR should reflect social justice as a feature of the Islamic economic system, as responses to Q.34-1 suggest. For this reason, as the responses to Q34-2 indicate, 63.4% of the respondents believe that it is an obligation of Islamic banks to practice CSR. In support of the findings so far, 78.3% of the participants believe that formal policies of Islamic banks need to incorporate the idea of CSR, while almost the same number 78.8% of respondents believe that CSR should be enforced as part of Islamic banking outcome by government laws, as demonstrated by responses to Q.34-4 and Q.34-5, respectively. However, despite the fact that more than 55% of the respondents believe that CSR is relevant to the principles of Islamic banking (Q.34-3), almost half of the respondents consider the CSR practice is a matter for either the government or NGOs, as indicated by responses to Q.34-6 and Q.35-7, respectively.

It should be noted that the inconsistency in the answers given by respondents in relation to CSR could be explained by the fact that the Libyan people are under-informed about the banking business in general and Islamic banking in particular. In addition, as knowledge of CSR is nearly non-existent in Libyan society, the people could not consider such a sophisticated matter as part of their lives. Furthermore, the Libyan people also tend to confuse Islamic banks with charity organizations. This inference is further confirmed by responses to Q.35 in Table 9.3.

The results in Table 9.3 show that 41.8% of the participants believe that it is an obligation for Islamic banks to donate to the community to improve the standard of living, as the responses to Q.35-1 would indicate. This fact is further confirmed by

responses to Q.35-2 ranking seventh with a mean value of 3.93, where 80.4% of the participants believe that Islamic banks should work side-by-side with charity organizations to help orphanages and poor people in society. On the other hand, 78.9% of the respondents to Q.35-3 agree that Islamic banks should be actively targeting social groups and communities that require assistance. Hence, 94.3% are of the opinion that Islamic banks should provide benevolence loans (*qard al-hasan*) to provide social assistance, as responses to Q.35-4 indicate, ranking second with mean value of 4.26. Furthermore, as indicated by responses to Q.35-5, 77.8% of the respondents believe that Islamic banks should provide educational sponsorship to contribute to socio-economic development. Nonetheless, as responses to Q.35-6 with mean value of 4.31 indicate, 92.8% of the respondents believe that Islamic banks have an obligation to promote ethical values and moral behavior in their transactions. Thus, it becomes obvious from responses to Q.35-7, ranking eighth with a mean value of 3.92, that Islamic banks should have a major role to play in assisting with *zakah* collection and/or distribution. In other words, a reasonable majority of respondents, 72.2%, believe that Islamic banks should play such a socio-economic role. In the meantime responses to Q.35-8, ranking highest with a mean value of 4.31, indicate that 93.3% of the participants agree with the notion that Islamic banks should ensure investment in ethical and *Shari'ah*-compliant products. In other words, Islamic banks must not invest in products that are religiously unlawful. However, as for Q.35-9, ranking the third among others with a mean value of 4.20, responses indicate that 89% of the respondents believe that Islamic banks should invest in pro-environment projects to alleviate human suffering, and so are the responses to Q.35-10, ranking sixth with mean value of 4.03, where the majority of respondents, 82.5%, agree that Islamic banks should be environmentally proactive.

In addition, it can be seen from the responses to Q.35-11, ranking fourth with a mean value of 4.11, the majority of respondents, 89.2%, agree that Islamic banks should adopt the best practices in human resource management to enable them to compete with conventional banks.

As the findings in Table 9.3 suggest, responses to Q.35-12 show that the majority of the respondents, 87.1%, agree with the statement that Islamic banks have an obligation in promoting the idea of health and safety in the workplace, with a mean value of 4.07 ranking fifth.

Finally, as shown on Table 9.3, responses to Q.35-13 indicate that the majority of respondents, 74.8%, disagree with the statement that Islamic banks and other financial institutions have a major role to play in promoting social development programmes, and yet only 9.3% of the respondents could clearly distinguish between Islamic banks and charity organizations in terms of social responsibility.

Table 9.3: Libyan Perceptions on the Expected CSR in Islamic Banks

		Frequency	Percent	Mean Value	Standard Deviation
(Q.35-1) Charity /donation to the community					
Valid	Strongly disagree	16	8.2	3.02	1.098
	Disagree	55	28.4		
	Do not know	42	21.6		
	Agree	70	36.1		
	Strongly agree	11	5.7		
	Total	194	100		
(Q.35-2) Alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc)					
Valid	Strongly disagree	1	.5	3.93	.724
	Disagree	7	3.6		
	Do not know	30	15.5		
	Agree	121	62.4		
	Strongly Agree	35	18.0		
	Total	194	100		
(Q.35-3) Actively targeting groups, communities or institutions that require assistance					
Valid	Strongly disagree	1	.5	3.87	.679
	Disagree	6	3.1		
	Do not know	34	17.5		
	Agree	128	66.0		
	Strongly agree	25	12.9		
	Total	194	100		
(Q.35-4) Providing benevolence loans (qard al-hasan)					
Valid	Strongly disagree	--	--	4.26	.591
	Disagree	2	1.0		
	Do not know	9	4.6		
	Agree	119	61.3		
	Strongly Agree	64	33.0		
	Total	194	100		
(Q.35-5) Providing educational sponsorship					
Valid	Strongly Disagree	1	.5	3.90	.802
	Disagree	12	6.2		
	Do not know	30	15.5		
	Agree	112	57.7		
	Strongly Agree	39	20.1		
	Total	194	100		
Q35-6) Emphasizing ethical values and moral behavior (e.g. honesty, respect, punctuality, justice, etc)					
Valid	Strongly Disagree	--	--	4.31	.652
	Disagree	3	1.5		
	Do not know	11	5.7		
	Agree	101	52.1		
	Strongly Agree	79	40.7		
	Total	194	100.0		

(Q35-7) Assisting with zakah collection and/or distribution					
Valid	Strongly Disagree	1	.5	3.92	.949
	Disagree	18	9.3		
	Do not know	35	18.0		
	Agree	81	41.8		
	Strongly Agree	59	30.4		
	Total	194	100.0		
(Q35-8) Ensuring investment in ethical and <i>Shari'ah</i>-compliant products					
Valid	Strongly Disagree	--	--	4.31	.592
	Disagree	--	--		
	Do not know	13	6.7		
	Agree	107	55.2		
	Strongly Agree	74	38.1		
	Total	194	100.0		
(Q35-9) Guaranteeing investment will not harm the environment					
Valid	Strongly Disagree	--	--	4.20	66.4
	Disagree	3	1.5		
	Do not know	18	9.3		
	Agree	110	56.7		
	Strongly Agree	63	32.5		
	Total	194	100.0		
(Q35-10) Being pro-active in environment conservation					
Valid	Strongly Disagree	--	--	4.03	.700
	Disagree	5	2.6		
	Do not know	29	14.9		
	Agree	114	58.8		
	Strongly Agree	46	23.7		
	Total	194	100.0		
(Q35-11) Adopting best practices in human resource management					
Valid	Strongly Disagree	--	--	4.11	.652
	Disagree	5	2.6		
	Do not know	16	8.2		
	Agree	124	63.9		
	Strongly Agree	49	25.3		
	Total	194	100.0		
(Q35-12) Promoting health and safety in the workplace					
Valid	Strongly Disagree	2	1.0	4.07	.730
	Disagree	5	2.6		
	Do not know	18	9.3		
	Agree	121	62.4		
	Strongly Agree	48	24.7		
	Total	194	100.0		
(Q35-13) None of the above, as bank is a financial institution not a social institution					
Valid	Strongly Disagree	64	33.0	2.04	.996
	Disagree	81	41.8		
	Do not know	31	16.0		
	Agree	13	6.7		
	Strongly Disagree	5	2.6		
	Total	194	100.0		

9.3 KNOWLEDGE ON SUSTAINABLE DEVELOPMENT AND SOCIAL BANKING AND EXPECTATIONS FROM ISLAMIC BANKING AND FINANCE

Sustainable development is a major concern in every country, particularly in third-world countries: banks and other financial institutions, including Islamic financial institutions, have a major role to play in any development programme. This section investigates the general knowledge of respondents regarding the concept of sustainable development in general, and in relation to Islamic banking and finance and their expectations from the system. The results are reported in Table 9.4.

Table 9.4: Perceptions on Sustainable Development

		Frequency	Percent	Mean Value	Standard Deviation
(Q. 36) Are you familiar with the concept of ‘Sustainable Development’?					
Valid	Yes	115	59.3	1.40	.492
	No	79	40.7		
	Total	194	100		
(Q.37) Please choose ONE of the following statements that you think best describes ‘Sustainable Development’					
Valid	Satisfying present need without compromising the future generation	56	28.9	2.87	1.464
	Providing minimum essential needs (<i>e.g.</i> food, shelter, medicine, <i>etc.</i>)	20	10.3		
	Integration of economic, social & environmental responsibilities in order to improve quality of life	44	22.7		
	Establishing social justice to improve quality of growth and development	41	21.1		
	Conducting economic and social activity with justice, equity and redistribution	33	17.0		
	Total	194	100		

The results in Table 9.4 indicate that a considerable number of respondents. 59.3% stated that they are aware of the term sustainable development, as responses to Q. 36 suggest. However, opinion differs as to the accurate definition of the term: 28.9% of the participants stated that the term means satisfying the needs of the present generation while preserving the rights of the future generation, as indicated by responses to Q.37. This definition received the highest score among the given optional definitions. The second most opted definition with 22.7% of the participants is

‘integration of economic, social & environmental responsibilities in order to improve quality of life’.

Table 9.5: Perceptions on the Role of Islamic Banks on Sustainable Development

		Frequency	Percent	Mean Value	Standard Deviation
(Q.38-1) It is the banks' obligation to alleviate poverty?					
Valid	Strongly disagree	--	--	3.92	.726
	Disagree	10	5.2		
	Do not know	29	14.9		
	Agree	121	62.4		
	Strongly agree	34	17.5		
	Total	194	100		
(Q.38-2) Islamic banks should promote good governance (e.g. transparency, no corruption, etc)					
Valid	Strongly disagree	--	--	4.26	.673
	Disagree	5	2.6		
	Do not know	10	5.2		
	Agree	108	55.7		
	Strongly agree	71	36.6		
	Total	194	100		
(Q.38-3) Islamic banks should promote microfinance (banking for the poor)					
Valid	Strongly disagree	1	.5	4.19	.682
	Disagree	4	2.1		
	Do not know	12	6.2		
	Agree	117	60.3		
	Strongly agree	60	30.9		
	Total	194	100		
(Q.38-4) Islamic banks should follow ethical strategy, from providing service to customers to employees' rights					
Valid	Strongly disagree	--	--	4.27	.513
	Disagree	1	.5		
	Do not know	3	1.5		
	Agree	131	67.5		
	Strongly agree	59	30.4		
	Total	194	100		
(Q.38-5) Islamic banks should invest in human capital development for employees (e.g. training, research, furthering education, etc)					
Valid	Strongly disagree	--	--	4.28	.649
	Disagree	4	2.1		
	Do not know	9	4.6		
	Agree	109	56.2		
	strongly agree	72	37.1		
	Total	194	100		
(Q.38-6) Islamic banks' investment strategy should not undermine the environment					
Valid	Strongly disagree	2	1.0	4.18	.750
	Disagree	5	2.6		
	Do not know	13	6.7		
	Agree	110	56.7		
	strongly agree	64	33.0		
	Total	194	100		
	Strongly disagree	2	1.0		
	Disagree	5	2.6		

(Q.38-7) Islamic banks should directly contribute to community development projects					
Valid	Strongly disagree	1	.5	4.24	.650
	Disagree	3	1.5		
	Do not know	8	4.1		
	Agree	118	60.8		
	Strongly agree	64	33.0		
	Total	194	100		

As can be seen from Table 9.5 the responses to Q.38-1 indicate that 79.9% of respondents believe that Islamic banks and other financial institutions have a social, economic and even political obligation for promoting sustainable development to alleviate poverty. Hence, 92.3% of the respondents argue that Islamic banks should promote transparency in order to prevent economic malpractice, as indicated by responses to Q.38-2, which ranked third among others with 4.26. On the other hand, responses to Q.38-3 indicate that the majority of the respondents, 91.2%, are of the opinion that Islamic banks should promote and support small projects or microfinance to help the poor and contribute to economic development in general.

Furthermore responses to Q.38-4 indicate that the great majority of the respondents, 97.9%, agree with the idea that Islamic banks should follow ethical strategies, featuring customer service and employees' rights. Similarly, responses to Q.38-5 with a mean rank of 4.28 indicate that the majority of respondents, 93.3%, are in favour of the idea that Islamic banks should invest in human capital development for employees (*e.g.* training, research, furthering education, *etc.*) to enable them to compete with commercial banks.

Moreover, the findings in Table 9.5 show for Q.38-6 that 89.7% of respondents agree with the statement that Islamic banks' investment strategy should not undermine the environment. Finally, the overwhelming majority of respondents, 93.8%, expressed agreement with the idea that Islamic banks should directly contribute to community development projects, as responses to Q.39-7, which ranks fourth with a mean of 4.24, suggest.

Table 9.6: Perceptions on Social Banking

		Frequency	Percent	Mean Value	Standard Deviation
(Q.39) Are you familiar with the concept of Social Banking?					
Valid	Yes	43	22.2	1.510	.501
	No	151	77.8		
	Total	194	100		
(Q.40) Please state your opinion on the following statement: “Islamic banking should be social banking?”					
Valid	Strongly disagree	6	3.1	3.53	.911
	Disagree	24	12.4		
	No opinion	39	20.1		
	Agree	111	57.2		
	Strongly agree	14	7.2		
	Total	194	100		
(Q.42) How should Islamic social banking be financed?					
Valid	Islamic commercial banks should provide the initial funding as a parent bank to its subsidiary	18	9.3	3.07	1.212
	Government should provide the initial funding	64	33.0		
	NGOs should provide the initial funding	14	7.2		
	Government, NGOs and Islamic commercial banks together should provide the initial funding	81	41.8		
	Islamic social banking should be provided and sustained through zakah, waqf and infaq funding	17	8.8		
	Total	194	100		

However, Table 9.6 shows that 77.8 % of the respondents seem to be unaware of the concept of social banking, as can be understood from responses to Q.39. However, similar response biases can be observed here as well, as it seems that all the participants responded to Q-40 despite the fact that the majority expressed that they were not aware of the concept of social banking; Q.39 should have been considered as a filter question. Consequently, 64.4% of the respondents are of the opinion that the principles of Islamic banking and finance should incorporate the idea of social banking, as responses to Q.40 would suggest. In the meantime, as indicated by responses to Q.42, 74.2% of the respondents believe that both the government and the NGOs should be involved in the process of funding Islamic social banks.

Table 9.7: Expectations from Islamic Social Banking in Libya

		Frequency	Percent	Mean Value	Standard Deviation
(Q.41-1) Low-income consumers					
Valid	Strongly disagree	3	1.5	3.52	.956
	Disagree	32	16.5		
	Do not know	43	22.2		
	Agree	93	47.9		
	Strongly agree	23	11.9		
	Total	194	100		
(Q.41-2) supporting individual and group activities for economic environment					
Valid	Strongly disagree	--	--	4.02	.639
	Disagree	6	3.1		
	Do not know	19	9.8		
	Agree	133	68.6		
	Strong agree	36	18.6		
	Total	194	100		
(Q.41-3) Financing environmental project					
Valid	Strongly disagree	--	--	4.17	.529
	Disagree	1	.5		
	Do not know	10	5.2		
	Agree	137	70.6		
	Strongly agree	46	23.7		
	Total	194	100		
(Q.41-4) Micro-enterprise financing					
Valid	Strongly disagree	1	.5	4.13	.721
	Disagree	6	3.1		
	Do not know	15	7.7		
	Agree	116	59.8		
	Strongly agree	56	28.9		
	Total	194	100		
(Q.41-5) Providing financial assistance for community development (e.g. education, medical services, discouraging social ills, etc)					
Valid	Strongly disagree	1	.5	4.13	.680
	Disagree	4	2.1		
	Do not know	15	7.7		
	Agree	121	62.4		
	Strongly agree	53	27.3		
	Total	194	100		
(Q.41-6) Encouraging social savings for marriages, children's education, community-based programmes and other social welfare programmes					
Valid	Strongly disagree	1	.5	4.14	.733
	Disagree	2	1.0		
	Do not know	28	14.4		
	Agree	100	51.5		
	Strongly agree	63	32.5		
	Total	194	100		

As can be seen from the descriptive results in Table 9.7, for each category the respondents demonstrated a high level of ‘agreement’ with the objectives of social banking, with the highest mean value of more than 4 for all of them except Q.41-1 which scored 3.52. Hence, responses to Q.41 (1-6) indicate that the majority of respondents have high expectations with regard to the objectives of social banking. As

the findings show, those expectations range from helping low-income individuals, to encouraging savings for marriages, encouraging children's education *etc.* Therefore, it could be concluded that Libyans have relatively high expectations from Islamic social banking. Such expectation is more oriented towards economic development indicating that Islamic social banks should focus on alleviating the difficulties and hardships of the people or otherwise the outcome will be disappointing to the majority of the people.

9.4. TESTING THE SIGNIFICANCE OF THE DIFFERENCES: NON-PARAMETRIC TESTING

Further to the above analysis, the Kruskal-Wallis Test will be used in the next section to examine the survey participants' familiarity, awareness and understanding in relation to CSR, sustainable development and social banking in Islamic banking and what it means to them. In doing so, the aim is to see whether there are any significant differences in the answers given to the statements in relation to the defined control variables, namely demographic variables.

The first section in this part aims to test whether there are any significant differences between the participants in their answers to their awareness and their definition of CSR.

It should be noted that the statistical results for this section are depicted in a number of tables, which are presented in the chapter appendix.

A brief review of the findings in Table 9.8 shows that statistically significant differences exist within the categories of age, education, monthly income and status, as can be understood from their respective p -values of 0.01, 0.00, 0.05 and 0.05 in response to Q.32, which are less than or equal to the critical p -value of 0.05. In the meantime the relatively high mean rankings of the age group 30-40 (111.58), the PhD group with 118.23 and the MA group with 105.36 within the age and education categories imply that those groups have a better understanding of the CRS concept compared to other groups.

As regards to the definition of the CSR, the low p -value of 0.01, which is less than the critical p -value, indicates that statistically significant differences exist within the

education category regarding the participants' responses to Q.33. In this respect, the high mean rankings shown by the PhD group 114.63 and the MA group 108.49 in the education category show that those groups have a better understanding of the definitions of CSR.

In this section, the significance of the differences in participant's opinions in relation to delivery of CSR including through Islamic banking is tested by using KW test. As the results in Table 9.9 show, the significance of CSR in the practice of Islamic banks as viewed by the participants in response to statements featured in Q.34-1, Q. 34-3, and Q.34-7. However, there are no statistically significant differences existing within the various categories, as indicated by the p -values, which are higher than the critical p -value of 0.05. Therefore, it could be concluded from the participants' responses within the various categories of age, education, monthly income, status, and type of bank account that all participants who took part in the survey have similar opinions regarding the statements featured in Q.34-1, Q.34-3, and Q.34-7. On the other hand, for statement in Q.34-2, there are statistically significant differences for age group, with a p -value of 0.05, and 41-50 age groups, ranked the highest with 106.68 mean ranking. These results suggest that Islamic banks should be obliged to practise CSR.

Referring to Q.34-4 (CSR should be embedded in Islamic banks' policy) and Q.34-5 (The government should legally enforce CSR through regulation as one of the requirements to operate an Islamic bank), the results in Table 9.9 depict that statistically significant differences in opinion exist within the monthly income category regarding the former and the type of bank account category regarding the latter statement, as indicated by the respective p -values of 0.00 and 0.04. This implies that strong opinions about CSR with regard to the relevant statements are held by participants within the above two categories. The same could be said about the statement in Q.34-6 (Social responsibility should remain a government concern) where statistically significant differences in opinion exist within education, monthly income and status categories. The high mean ranking of 118.89 in relation to the income group LD 2001-3000 Q.34-4 should indicate that participants of this group strongly support the idea of incorporating CSR in the policies of Islamic banks. The same could be said about the academics group within the status category Q.34-5 where the high mean ranking of 111.21 for the group suggests strong support for

government intervention through appropriate legislation to incorporate CSR into the policies of Islamic banks. To sum up, the results of the analysis show that the participants are in full agreement with the statements featured in the questions in Table 9.9 with regard to the importance of CSR to Islamic banking.

In this section, an attempt is made to test the significance of the differences in the opinions expressed for the statements related to the aspects of CSR and Islamic banking in relation to various control variables. The results are reported in Table 9.10, which shows that statistically significant differences exist within the monthly income category regarding the participants' responses to the statement: 'Charity/donation to the community' in Q.35-1. This implies that, within the monthly income category, opinions differ as to the charitable mission of Islamic banks. However, within that category those whose income is in excess of LD 4000 appear to be strongly in favour of the idea, as suggested by the high mean ranking score of 136.5. As for other categories, even though no significant differences in opinions exist, high mean rankings of the age group 31-40 with the mean ranking of 99.44; PhD holders with mean ranking value of 99.00, academics with mean ranking value of 107.36, and those who have current accounts with mean value ranking of 98.4 show that those groups are strongly in favour of the statement.

As for the statement 'Alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc.)' in Q.35-2, the participants' responses indicate that no significant differences in opinion exist within the categories of age, education, monthly income, and status, as the *p*-value is higher than the critical *p*-value of 0.05 in each case. However, for the type of bank account category, the low *p*-value of 0.04, indicate statistically significant differences in opinion. Therefore, it can be concluded that those who took part in the survey are of the opinion that coordination should take place between Islamic banks and other charity organizations.

Participants' responses to statement in Q.35-3 (Actively targeting groups, communities or institutions that require assistance) in Table 9.10 indicate that no significant differences in opinion exist regarding the idea that Islamic banks should target specific groups and organizations. Therefore, this implies that Islamic banks have to play their role in the process of socio-economic development by targeting specific groups and organizations that require assistance.

As for participants' responses to Q.35-4 (Providing benevolence loans (*qard al-hasan*)), the high *p*-values in excess of the critical *p*-value of 0.05 for the categories of education, monthly income, status and type of bank account suggest significant differences in opinion with regard to the idea of benevolence loans (*qard-al-hassan*) to be provided by Islamic banks. It could be inferred that the participants have similar views for the benevolence loans, and yet the high mean rankings for the age group 20-30 with mean value of 111.67 suggests that people in this age group are most likely to be unemployed and thus in need of such services to be provided by Islamic banks; and hence, their support for the statement.

However, the idea that sponsorship should be provided by Islamic banks for education, as featured in Q.35-5 in Table 9.10, seems to be highly controversial among participants within the categories of education, status and type of bank account, as significant differences exist for this categories as indicated by the respective low *p*-values of 0.04, 0.01 and 0.01, which are obviously less than the critical *p*-value of 0.05. However, the high mean rankings for some groups within those categories, including high-school and below group with mean ranking of 107.82, the merchant group with mean ranking of 120.36, and those with current bank accounts with mean ranking of 98.95, indicate that those groups have high expectations that Islamic banks will provide the service. As for the other two categories of age and monthly income, the high *p*-values, which are higher than the *p*-critical value, suggest that there are no significant differences in opinion within those categories on this matter.

As for the statements in Q.35-6, Q.35-7 and Q.35-8, participants' responses to the relevant statements would indicate that no statistically significant differences in opinion exist within the categories of age, education, monthly income, status and type of bank account. Thus, it could infer from the results for these statements that all the participants have similar opinions that Islamic banks should promote moral values, assist in the collection and the distribution of *zakah*, and provide products in accordance with *Shari'ah* principles.

The idea of ‘environmental protection in relation to Islamic banks’ featured in Q.35-9 in Table 9.10 seems to generate significant differences in opinions, as the estimated p -value of 0.04 is lower than the critical p -value of 0.05. However, within this category the high mean rankings of 107.40 for academics and 106.23 for managers would indicate that these two groups are highly aware of environmental matters compared to others. Thus, generally speaking all participants would agree that any investment activities involving Islamic banks should take into account environmental protection.

Furthermore, the estimated p -values in excess of the critical p -value of 0.05 produced by participants’ responses within the various categories to the statement Q.35-10 (Being pro-active in environment conservation) should indicate that no significant differences in opinion exist regarding environmental activities involving Islamic banks. In other words, all respondents have similar views for Islamic banks to be environmentally pro-active.

Regarding statement ‘Adopting best practices in human resource management’ in Q.35-11 in Table 9.10, statistically significant differences exist within the status category. Otherwise no differences in opinion exist within the other categories of age, education, monthly income, and type of bank account. However, the high mean rankings for the academics’ group with 100.17 and the bankers’ group with 99.94 are indicative of the fact that those two groups are highly aware of the importance of human resource management for Islamic banks in order to cope with the ever-developing financial business.

Responses to questions Q.35-12 (Promoting health and safety in the workplace) and Q.35-13 (None of the above, as bank is a financial institution not a social institution) in Table 9.10 show that no differences in opinion of statistical significance exist within the various categories of age, education, monthly income, status and type of bank account. Thus, for the statement in Q.35-12 all participants have similar views regarding the promotion of health and safety at the workplace to be a genuine part of the duties of Islamic banks. In addition, from responses to the statement in Q.35-13 participants believe that, even though Islamic banks can be involved in a number of socially orientated activities, the priority should be financial business, which should be the main occupation of any bank, Islamic or otherwise.

In the following section, similar exercises were conducted for sustainable development-related issues, as participants' opinions on various aspect of sustainable development were tested to locate if any significant differences exist among the various demographic categories and whether these differences have any implications for the answers provided. The analysis and the results are provided in the Table 9.11

From Table 9.11, participants' responses to Q.36, namely the participants' awareness of sustainable development, indicate that differences of statistical significance exist among the education category. As for other categories, no differences in opinion exist. Thus, it can be concluded from the results that all participants have similar opinions with the idea of sustainable development. Hence, the high mean rankings of the MA group with 99.31 and PhD group with 123.85 indicate that the concept of sustainable development gains special consideration by those who are highly educated. On the other hand, the low p -values of 0.05 and 0.00, which are lower than the critical p -value, should indicate that statistically significant differences exist within the age and education categories in terms of the participants' responses to Q.37, namely the definition of sustainable development. In this respect, the high mean rankings shown by those over 50 years old, with a mean score of 115.52, and those with PhDs, with a mean score of 128.37, indicate that these groups have a better understanding of the keywords that describe sustainable development, possibly because of their work experience. After these initial results, the participants' opinions on various aspects of sustainable development in relation to Islamic banking are further explored, which are reported in Table 9.12.

As can be seen from the results reported in Table 9.12, there are no differences in opinion of statistical significance existing within the categories of age, education, monthly income, status and type of bank account regarding the participants' responses to the statements in Q.38-1 (It is the banks' obligation to alleviate poverty), Q.38-2, (Islamic banks should promote good governance (*e.g.* transparency, no corruption, *etc.*)), Q.38-3 (Islamic banks should promote microfinance (banking for the poor)), and Q.38-4 (Islamic banks should follow ethical strategy from providing service to customers to employees' rights). Thus, it could be concluded that all participants have similar opinions that Islamic banks have a duty to alleviate poverty, promote effective governance and microfinance and provide ethical services. .

As can be seen in Table 9.12, statistically significant differences in opinion exist within the status category with regard to the participants' responses to question 38-5 (Islamic banks should invest in human capital development for employees (*e.g.* training, research, furthering education, *etc.*), as can be understood from the low p -value of 0.03 which is less than the critical p -value of 0.05. As for other categories, the high p -values in excess of the critical value should indicate that no differences in opinion exist. On the other hand, the high mean rankings shown by the academics with 119.56 and the bankers with 99.05 indicate that those two groups have a better understanding of the importance of human capital development for Islamic banks.

As for participants' responses to the statement that 'Islamic banks investment strategy should not undermine the environment' in Q.38-6, the results indicate that significant differences in opinion exist within the monthly income category. Otherwise the high p -values for other categories, which are higher than the critical p -value, should suggest that no differences in opinion exist within those categories. Thus, it becomes obvious from the above results that Islamic banks' investment activities should take environmental issues into account.

Furthermore, no significant differences in opinion exist within the various categories regarding participants' responses to Q.38-7 (Islamic banks should directly contribute to community development projects), as indicated by the high p -values which are higher than the critical p -value of 0.05. Consequently, it could be maintained that participants from the various categories are of the opinion that Islamic banks should contribute to the process of community development.

After examining the answers given and opinions conveyed on sustainable development issues, this section aims to examine the opinions given on social banking in relation to Islamic banking by testing the significance difference in relation to control variables with the objective of seeing whether these variables has any impact on the answers given.

The initial section conducts such an examination for the answers given on the knowledge and awareness on social banking and the results are presented in Table 9.13.

With regard to participants' responses to Q.39 on the familiarity with social banking, the results in Table 9.13 show that significant differences in opinion exist within age, education and status categories. However, the high mean rankings for PhDs group with mean rank value of 111.58, MAs with 105.41, academics with 112.85 and bankers with 110.92 indicates that these groups are more familiar with the concept of social banking as compared to other groups.

As for responses to statement in Q.40 (Islamic banks should provide social banking), the results in Table 9.13 indicate that no statistically significant differences in opinion exist within the various categories of age, education, monthly income, status and type of bank account. Thus, it could be concluded that the majority of respondents have similar views on this statement.

However, for Q.42 (How should Islamic social banking be financed?), the results indicate significant differences in opinions within the status category, with a p -value of 0.04, which is less than the critical p -value of 0.05. In this regard, the high mean rankings for academics, bankers, merchants and managers suggest that those groups are particularly aware of the methods through which social banks should be financed.

In the following section, participants' opinions on the aspects of social banking are tested through Kruskal-Wallis non-parametric test, and the results are presented in Table 9.14.

As can be seen from Table 9.14, participants' responses to one of the objectives of social banking being 'the low-income consumers' (Q.41-1) indicate that differences in opinion are statistically significant within the education and type of account categories. However, having those who are poorly educated scoring the highest mean ranking could be explained by the fact that those groups constitute one of the potential target groups.

As for the participants' responses to the statement that 'Supporting individual and group activities for economic environment' in Q.41-2, the results in Table 9.14 show that no significant differences in opinion exist in relation to all control variables, within the various categories. Thus, it could be maintained that all participants have similar views with the idea that Islamic banks as social banks should provide support to individuals as well as groups involved in business activities.

With regard to Q.41-3 'Financing environmental projects' being one of the objectives of social banking, the results in Table 9.14 show that there are statistically significant differences in opinion existing within the status category. As for other categories, the high *p*-values suggest no significant differences in opinion. Nonetheless, the high mean ranking of the academic group with 115.72 should indicate that this group is highly concerned about environmental issues.

Finally, responses to statements in Q.41-4 (Micro-enterprise financing), Q.41-5 (Providing financial assistance for community development (*e.g.* education, medical services, discouraging social ills, *etc.*)) and Q.41-6 (Encouraging social savings for weddings, children's education, community-based programmes and other social welfare programmes) in Table 9.14 show that there is no statistical significance differences existing within the categories of age, education, monthly income, status and type of bank account. It follows that participants are generally in agreement with the statements featured in the above questions.

In sum, there is a certain degree of understanding regarding social banks among the participants and also there is a varying degree of opinions in relation to the objectives of social banking, while there are agreements on certain other objectives

The next section extends the analysis by using factor analysis with the objective of identifying the factor listing determined by the responses of the participants.

9.5. USING FACTOR ANALYSIS FOR PRODUCING NEW CLASSIFICATIONS ON FACTORS

In this section, factor analysis is utilized to examine certain sections of responses given to the questions with the objective of gathering further meaning. In the initial section, an attempt is made to examine the CSR-related statements, which were expressed as factors determining the opinions on CSR by using various analytical methods, namely KMO and Bartlett's Test, Total Variance, and Rotated Component Matrix.

In Q.34, the respondents were provided seven statements on which to express their opinions. These opinions are related to the CSR practices that they might like to see practiced by their Islamic banks. The factorability of the data is tested by KMO and Bartlett's test as implied by the process of factor analysis, and the results are depicted in Table 9.15.

Table 9.15: KMO and Bartlett's Test Results for the Significance of CSR for Islamic Banking

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.708
Bartlett's Test of Sphericity	Approx. Chi-Square	233.667
	df	21
	Sig.	.000

As depicted in Table 9.15, the KMO value of 0.708 suggests that the sample size is suitable for conducting factor analysis. Furthermore, Bartlett's Test of Sphericity suggests a value of less than 0.05, indicating that sufficient correlation exists among the variables involved. Thus, factor analysis could be applied to the data. In developing the analysis, the results of initial loading of factors from Principal Analysis are shown in Table 9.16.

The seven variables and their relative explanatory powers as expressed by their eigenvalues are shown in Table 9.16. As the results suggest, the factors could be reduced from seven to three featuring 35.5%, 17.4% and 14.5% for a total variation of 67.4 %. Table 9.17 depicts the rotated component matrix for the three factors shown below.

Table 9.16: Total Variance Explained for the Significance of CSR for Islamic Banking

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.485	35.499	35.499	2.485	35.499	35.499	2.481	35.440	35.440
2	1.216	17.375	52.874	1.216	17.375	52.874	1.140	16.281	51.721
3	1.017	14.534	67.408	1.017	14.534	67.408	1.098	15.687	67.408
4	.717	10.236	77.643						
5	.646	9.234	86.878						
6	.536	7.656	94.534						
7	.383	5.466	100.000						

Extraction Method: Principal Component Analysis.

Table 9.17: Rotated Component Matrix on the Significance of CSR for Islamic Banking

Variables Q. 34	Component		
	1:CSR Nature of Islamic Banks	2:Social Responsibility Should be Government's Concern	3:Social Responsibility Should be the Concern of Civil Society
CSR upholds the social justice dimension of Islamic economics	.462	-.343	-.590
Islamic banks are obliged to practise CSR	.712	-.228	.191
CSR is relevant to Islamic banking concept	.728	.262	.235
CSR should be embedded in Islamic banks' policy	.816	-.070	-.093
The government should legally enforce CSR through regulation as one of the requirements to operate an Islamic bank	.721	.135	-.158
Social responsibility should be the government's concern	.076	.899	-.108
Social responsibility should be NGOs' concern	.198	-.264	.783

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations

The results in Table 9.17 suggest that the seven variables are successfully loaded with eigenvalues above 0.5. In other words, the results imply that one or more of the variables fits well into one of the newly classified and termed three components: Component 1 is named as 'CSR Nature of Islamic Banks', as it incorporated the factors related to CSR. In this regard, Islamic banks are expected to practise CSR as a genuine component of its policies due to the close relevance of CSR to the concept of Islamic banking. In other words, CSR should be a mandatory policy for Islamic banks and a condition for license-to-operate which should contribute to socio-economic development. That makes practising

CSR a main requirement for Islamic banks thus becoming part and parcel of practising Islamic values. Component 2 includes the statement that CSR is the government's duty. Component 3: given the voluntary nature of CSR, includes the statement that civil organizations should bear basic responsibilities as referred to by Component 3.

In the following section, focus shifts to some general CSR practices and whether the participants like to see these conducted by Islamic banks in Libya (see Q.35). These statements are subjected to factor analysis to see how respondents would have classified them.

Table 9.18: KMO and Bartlett's Test Results on the Expected CSR Contributions in Islamic Banks

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.829
Bartlett's Test of Sphericity	Approx. Chi-Square	589.782
	df	78
	Sig.	.000

As can be seen from Table 9.18, the KMO value of 0.829 indicates a high partial correlation between variables, suggesting that the sample size would be suitable for conducting factor analysis. Likewise, the low value of less than 0.05 obtained from Bartlett's Test of Sphericity indicates that the variables can be adequately correlated, thus suggesting the applicability of factor analysis.

Table 9.19: Total Variance Explained for the Expected CSR Contributions by Islamic Banks.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.056	31.199	31.199	4.056	31.199	31.199	3.204	24.645	24.645
2	1.410	10.844	42.043	1.410	10.844	42.042	2.081	16.007	40.652
3	1.144	8.804	50.846	1.144	8.804	50.846	1.325	10.194	50.846
4	.969	7.454	58.300						
5	.882	6.782	65.081						
6	.781	6.011	71.093						
7	.725	5.579	76.671						
8	.652	5.016	81.688						
9	.640	4.920	86.608						
10	.508	3.911	90.518						
11	.480	3.690	94.208						
12	.462	3.557	97.766						
13	.290	2.234	100.000						

Extraction Method: Principal Component Analysis.

According to Principal Component Analysis the original 13 factors identified in Table 9.19 are reduced to 3 components accounting for a total variation of 50.8% featuring 31.2%, 10.8% and 8.8% for each of the three factors respectively. However, other factors are to be loaded onto the three main factors through the rotated component matrix, as shown in Table 9.20.

By using the Varimax technique, all the factors are rotated, as indicated in Table 9.20. The 13 factors are loaded into the three components, which are re-named: ‘ethical and social concern’, ‘socially oriented financial solutions’, and ‘charitable nature of IBF’, respectively. The factors loaded to Component 1 (ethical and social concern) tend to identify the Islamic banking system’s contribution to CSR in response to the ethical and social concerns. Accordingly, morally oriented activities should be associated with investment without damaging the environment. Those activities, however, should focus on supporting community development and environmental protection. Component 2 (socially oriented financial solutions, respectively), on the other hand, features factors in relation to socially oriented financial solutions associated with Islamic banks, such as establishing charity organizations to provide help to the most vulnerable groups in the community. This help could be made by providing benevolent loans, sponsoring education schemes, collection and distribution of *zakah etc.* In the end, these activities will favour community development. Finally, Component 3 (charitable nature of IBF) tends to make a distinction between the social activities associated with Islamic banks and other activities. Although Islamic banks could not be classified as charity organizations, they are ontologically expected to make contributions to charitable organizations as well as other social institutions to help the needy.

Table 9.20: Rotated Component Matrix^a on CSR Contributions in Islamic Banks

Variables Q.35	Component		
	1: Ethical and Social Concern	2: Socially Oriented Financial Solution	3: Charitable Nature of IBF
Charity /donation to the community	.067	.024	.763
Alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc.)	.203	.404	.681
Actively targeting groups, communities or institutions that require assistance	.049	.603	.096
Providing benevolent loans (<i>qard al-hasan</i>)	.190	.555	-.208
Providing educational sponsorship	.130	.547	.219
Emphasizing ethical values and moral behaviour (e.g. honesty, respect, punctuality, justice, etc.)	.511	.433	.002
Assisting with <i>zakah</i> collection and/or distribution	.041	.650	.143
Ensuring investing in ethical and <i>Shari'ah</i> -compliant products	.676	.368	.092
Guaranteeing investment will not harm the environment	.750	.298	-.136
Being pro-active in environment conservation	.738	.247	-.019
Adopting best practices in human resource management	.671	.036	.292
Promoting health and safety in the workplace	.710	.050	.094
None of the above, as bank is a financial institution not a social institution	-.568	.218	-.193

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 4 iterations.

This section discusses the results of the factor analysis in relation to the objectives of social banking in the light of the contributions made by Islamic banks to CSR through the statements or factors provided to the respondents in Q.41. Thus, it implies that the respondents' initial understanding of the main objectives of social banking has become a matter of paramount importance.

Table 9.21: KMO and Bartlett's Test Results for the Significance of Objective of Social Banking

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.701
Bartlett's Test of Sphericity	Approx. Chi-Square	231.402
	df	15
	Sig.	.000

As the results in Table 9.21 depict, the KMO value of the six items combined in relation to social banking is 0.701, indicating that the sample has been suitable for factor analysis in terms of size. Bartlett's Test of Sphericity also favours factor analysis. Based on these results, factor analysis can be carried out with reasonable confidence.

Table 9.22: Total Variance Explained for the Significance of Objectives of Social Banking.

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.454	40.904	40.904	2.454	40.904	40.904	1.980	32.995	32.995
2	1.135	18.918	59.822	1.135	18.918	59.821	1.610	26.826	59.821
3	.873	14.544	74.365						
4	.697	11.619	85.984						
5	.466	7.760	93.744						
6	.375	6.256	100.000						

Extraction Method: Principal Component Analysis.

The original six factors in Table 9.22 are reduced to two factors solution as can be seen in Table 9.22. Thus, the two components contribute 40.9% and 18.9% to the total variance, given that the higher the variance the better the solution. The two factors are then rotated using the Varimax technique, and the results are shown in Table 9.23.

Table 9.23: Rotated Component Matrix on the Significance of Objectives of Social Banking.

Variables Q.41	Component	
	1: Social Target Groups	2: Socially Oriented Financial Nature
Low-income consumers	.551	.049
Supporting individual and group activities for economic environment	.841	.033
Financing environmental projects	.726	.209
Micro-enterprise financing	.435	.648
Providing financial assistance for community development (e.g. education, medical services, discouraging social ills, etc.)	.449	.715
Encouraging social savings for weddings, children's education, community-based programmes and other social welfare programmes	-.223	.794

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.
 a. Rotation converged in 3 iterations.

Table 9.23 shows the results of rotating the two factors using the Varimax technique. The six factors were successfully loaded onto the two main components, which are renamed. Component 1 features vulnerable social groups and environmental issues, and therefore is named as 'Social Target Group'. In other words, Islamic banks should target the

vulnerable social groups such as low-income sectors to improve living standards for those sectors. Component 2 is named as ‘Socially Oriented Financial Nature’, as it gathered the factors related to micro-enterprise financing, financial assistance to community development and social savings. In this regard, Islamic banks should provide an alternative to conventional social institutions by providing financial assistance to promote community development, and by improving social services (education, healthcare, housing *etc*). Furthermore, Islamic banks are expected to encourage welfare programmes through micro-financing.

9.6. CONCLUSION

As the analyses show in this chapter, respondents are of the general view that the principle of CSR should be incorporated in the policies of both Islamic and conventional banks. However, despite some confusion among participants about Islamic banks and charity organizations in terms of their social role, the majority of participants believe that Islamic banks should work in coordination with charity organizations as part of their obligations towards the process of sustainable development. In this respect most of the respondents appear to have great expectations that Islamic banks will become socially active by helping low-income individuals, encouraging marriage among young people, promoting children’s education among others. Finally, some view Islamic banks as a potential substitute for conventional social institutions in terms of promoting community development by improving social services and providing microfinance. However, as the findings indicate, some believe CSR activities should be left to and financed by the government in order to fulfil their social responsibilities rather than by conventional/Islamic banks.

Together with this chapter, the last four empirical chapters discussed the issues and presented analyses through the perspectives of the participants as the demand side of Islamic banking. However, there are other stakeholders including the professional bankers and financiers, government bureaucracy and also the *Shari’ah* scholars who all represent the supply side of the new Islamic banking in Libya; therefore it is essential to understand their evaluation of the past and present and their projections of the future. The following chapter, hence, being a qualitative analysis chapter, aims to present the opinions and perceptions of such stakeholders on the aspects of Islamic banking and finance in Libya

APPENDIX FOR CHAPTER 9

Table 9.8: Testing the Differences in Respondents' Familiarity with CSR in Islamic Banking and its Meaning: Kruskal-Wallis Test

Question	Category	Q.32: Are you familiar with the concept of 'Corporate Social Responsibility' (CSR)?		Q.33: Please choose ONE of the following keywords that you think best describes the meaning of CSR	
		Mean rank	Asymp .sig	Mean rank	Asymp .sig
Q.1 Age	Below 20	--	0.010	--	0.818
	20 – 30	110.67		101.11	
	31 – 40	111.58		101.65	
	41 – 50	82.80		94.07	
	Above 50	90.79		94.09	
Q.2 Education	No education	--	0.001	--	0.018
	High school and below	65.54		80.68	
	Undergraduate only	92.63		88.28	
	MA	105.36		108.49	
	PhD	118.23		114.63	
Q.3 Monthly Income	LD 500 and below	135.17	0.053	68.67	0.410
	LD 501 – 1000	109.18		91.64	
	LD1001 – 2000	92.16		100.98	
	LD 2001 – 3000	77.50		122.78	
	LD 3001 – 4000	77.05		93.50	
	More than 4000	87.40		103.05	
Q.4 Status	Academic	119.10	0.055	113.09	0.061
	Bankers	107.01		91.80	
	Merchants /Business	87.98		86.21	
	General public	75.71		95.46	
	Bureaucrat/manager	93.36		87.44	
Q.8 What type of account do you have	Current account	96.81	0.256	97.69	0.762
	Saving account	123.50		90.30	
	General investment account	--		--	
	Others (please specify)....	--		--	

Table 9.9: Testing the Differences in the Opinions in Relation to the CSR Practises in Islamic Banking: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig.	Education	Mean rank	Asymp. sig.	Monthly Income	Mean rank	Asymp. sig.	Status	Mean rank	Asymp. sig.	What type of account do you have	Mean rank	Asymp. sig.
Q.34-1 CSR upholds the social justice dimension of Islamic economics	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 76.31 92.72 104.96 103.58	0.143	No education High school and below Undergraduate only MA PhD	-- 101.88 89.75 98.45 114.48	0.194	LD 500 and below LD 501– 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	52.75 95.95 100.43 101.39 91.50 110.70	0.344	Academician Bankers Merchant General public Bureaucrat /manager	107.21 85.00 86.94 81.54 106.43	0.078	Current account Saving account General investment account Others (please specify).	98.42 62.70 -- --	0.130
Q.34-2 Islamic banks are obliged to practise CSR	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 69.97 94.18 106.68 101.51	0.055	No education High school and below Undergraduate only MA PhD	-- 103.32 91.61 98.77 106.65	0.530	LD 500 and below LD 501 – 1000 LD1001–2000 LD 2001–3000 LD 3001–4000 More than 4000	102.00 91.03 98.33 118.67 100.14 107.90	0.690	Academician Bankers Merchant General public Bureaucrat /manager	102.22 82.59 104.73 85.89 101.20	0.263	Current account Saving account General investment account Others (please specify).	98.54 58.10 -- --	0.083
Q.34-3 CSR is relevant to Islamic banking concept	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 100.67 101.21 96.35 91.91	0.812	No education High school and below Undergraduate only MA PhD	-- 113.80 101.34 91.69 84.46	0.157	LD 500 and below LD 501 – 1000 LD1001 –2000 LD 2001–3000 LD 3001 – 4000 More than 4000	66.92 105.10 93.11 124.44 86.41 94.05	0.225	Academician Bankers Merchant General public Bureaucrat /manager	94.61 89.35 115.35 75.04 102.63	0.097	Current account Saving account General investment account Others (please specify).	97.56 95.10 -- --	0.918
Q.34-4 CSR should be embedded in Islamic banks' policy	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 79.22 97.06 108.70 90.57	0.087	No education High school and below Undergraduate only MA PhD	-- 100.86 93.70 94.73 112.65	0.347	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 –4000 More than 4000	33.92 104.91 90.99 118.89 115.68 107.35	0.005	Academician Bankers Merchant General public Bureaucrat /manager	107.16 80.93 101.00 82.18 99.01	0.076	Current account Saving account General investment account Others (please specify).	97.39 101.70 -- --	0.846

Table 9.9: (cont.): Testing the Differences in the Opinions in Relation to the CSR Practises in Islamic Banking: Kruskal-Wallis Test

Q.34-5 The government should legally enforce CSR through regulation as one of the requirements to operate an Islamic bank	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 71.47 98.32 106.89 94.10	0.066	No education High school and below Undergraduate only MA PhD	-- 100.56 91.59 101.53 102.58	0.599	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	85.50 102.63 92.39 114.28 95.59 104.90	0.663	Academician Bankers Merchant General public Bureaucrat /Manager	111.21 83.41 98.85 74.75 104.41	0.057	Current account Saving account General investment account Others (please specify).	98.69 52.60 -- -- --	0.042
Q.34-6 Social responsibility should remain a government concern	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 98.36 95.51 92.83 106.52	0.614	No education High school and below Undergraduate only MA PhD	-- 116.64 104.47 88.02 81.27	0.032	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	129.00 112.58 85.12 98.39 72.50 119.70	0.007	Academician Bankers Merchant General public Bureaucrat /Manager	84.22 116.58 102.12 76.71 103.19	0.017	Current account Saving account General investment account Others (please specify).	97.75 87.90 -- --	0.687
Q.34-7 Social responsibility should remain the NGOs' concern	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 102.17 97.35 97.25 96.20	0.983	No education High school and below Undergraduate only MA PhD	-- 109.28 86.52 95.99 123.25	0.151	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	102.00 98.03 91.26 127.56 120.86 95.95	0.288	Academician Bankers Merchant General public Bureaucrat /Manager	104.10 90.46 97.59 116.93 86.88	0.272	Current account Saving account General investment account Others (please specify).	97.83 84.90 -- --	0.595

Table 9.10: Testing the Differences in the Opinions in Relation to the Respondents' Awareness and Expectation of CSR Practised in Islamic Banks: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.35-1 Charity /donation to the community	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 114.50 99.44 98.18 86.73	0.296	No education High school and below Undergraduate only MA PhD	-- 94.16 97.09 98.70 99.00	0.985	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	134.00 105.52 80.19 109.72 128.82 136.50	0.000	Academician Bankers Merchant General public Bureaucrat /manager	107.36 94.93 102.97 67.32 93.93	0.167	Current account Saving account General investment account Others (please specify).	98.04 77.20 -- --	0.393
Q.35-2 Alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc.)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 107.94 96.29 96.18 97.00	0.819	No education High school and below Undergraduate only MA PhD	-- 94.84 95.98 98.60 101.96	0.939	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	112.42 97.75 93.38 116.61 91.14 114.60	0.542	Academician Bankers Merchant General public Bureaucrat /manager	99.86 83.74 105.42 94.14 100.67	0.372	Current account Saving account General investment account Others (please specify).	98.66 53.70 -- --	0.041
Q.35-3 Actively targeting groups, communities or institutions that require assistance	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 91.50 95.88 109.20 86.86	0.095	No education High school and below Undergraduate only MA PhD	-- 113.34 91.98 101.21 89.90	0.174	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	91.25 96.24 100.03 105.50 88.23 89.30	0.924	Academician Bankers Merchant General public Bureaucrat /manager	100.46 90.68 96.58 88.14 102.52	0.719	Current account Saving account General investment account Others (please specify).	98.15 73.10 -- --	0.241
Q.35-4 Providing benevolence loans (<i>qard al-hasan</i>)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 111.67 101.80 101.63 79.54	0.031	No education High school and below Undergraduate only MA PhD	-- 98.82 89.93 104.23 102.67	0.317	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	90.83 98.92 99.29 91.33 104.27 73.75	0.683	Academician Bankers Merchant General public Bureaucrat /manager	100.42 101.42 97.62 60.82 101.43	0.631	Current account Saving account General investment account Others (please specify).	98.06 76.50 -- --	0.322
Q.35-5 Providing educational sponsorship	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 108.39 101.05 94.70 91.28	0.554	No education High school and below Undergraduate only MA PhD	-- 107.82 106.72 86.74 86.04	0.045	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	137.25 102.98 95.67 74.00 95.00 78.20	0.146	Academician Bankers Merchant General public Bureaucrat /manager	82.81 97.81 120.36 95.39 103.26	0.010	Current account Saving account General investment account Others (please specify).	98.95 42.70 -- --	0.013

Table 9.10: (cont.): Testing the Differences in the Opinions in Relation to the Respondents' Awareness and Expectation of CSR Practised in Islamic Banks: Kruskal-Wallis Test

Q.35-6 Emphasizing ethical values and moral behaviour (e.g. honesty, respect, punctuality, justice, etc.)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 80.28 97.41 97.63 104.36	0.393	No education High school and below Undergraduate only MA PhD	-- 98.76 101.22 92.44 97.46	0.774	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	100.67 101.45 96.20 88.78 114.09 71.10	0.443	Academician Bankers Merchant General public Bureaucrat /manager	93.90 100.89 94.94 84.64 106.35	0.577	Current account Saving account General investment account Others (please specify).	98.66 53.80 -- -- --	0.047
Q.35-7 Assisting with <i>zakah</i> collection and/or distribution	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 75.00 105.66 94.38 97.78	0.163	No education High school and below Undergraduate only MA PhD	-- 90.16 95.75 102.57 97.40	0.765	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	108.67 95.02 96.88 86.94 108.59 110.20	0.872	Academician Bankers Merchant General public Bureaucrat /manager	102.41 94.85 109.77 87.39 86.00	0.291	Current account Saving account General investment account Others (please specify).	98.26 68.90 -- --	0.222
Q.35-8 Ensuring investing in ethical and <i>Shari'ah</i> compliance products	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 97.22 101.01 97.18 92.49	0.844	No education High school and below Undergraduate only MA PhD	-- 99.58 101.77 89.20 102.98	0.431	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	72.08 98.11 96.53 97.17 116.36 97.20	0.665	Academician Bankers Merchant General public Bureaucrat /manager	96.29 90.69 116.36 75.64 97.88	0.082	Current account Saving account General investment account Others (please specify).	97.35 103.20 -- --	0.794
Q.35-9 Guaranteeing investment will not harm the environment	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.61 94.94 105.91 93.88	0.436	No education High school and below Undergraduate only MA PhD	-- 95.60 96.60 96.02 105.71	0.842	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	94.67 102.61 89.79 107.83 131.55 89.65	0.120	Academician Bankers Merchant General public Bureaucrat /manager	107.44 87.49 103.39 64.39 106.23	0.041	Current account Saving account General investment account Others (please specify).	97.48 98.30 -- --	0.971
Q.35-10 Being pro-active in environment conservation	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.47 97.20 100.21 97.97	0.854	No education High school and below Undergraduate only MA PhD	-- 102.12 97.53 90.46 110.29	0.357	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	119.58 97.51 92.52 101.33 135.14 85.20	0.104	Academician Bankers Merchant General public Bureaucrat /manager	101.43 82.30 106.56 77.39 104.05	0.090	Current account Saving account General investment account Others (please specify).	98.42 62.90 -- --	0.114

Table 9.10: (cont.): Testing the Differences in the Opinions in Relation to the Respondents' Awareness and Expectation of CSR Practised in Islamic Banks: Kruskal-Wallis Test

Q.35-11 Adopting best practices in human resource management	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 100.67 99.98 90.22 102.03	0.557	No education High school and below Undergraduate only MA PhD	-- 100.80 101.46 89.48 102.04	0.439	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	100.67 96.23 94.65 103.39 108.59 112.75	0.827	Academician Bankers Merchant General public Bureaucrat /manager	100.17 94.64 83.50 87.04 87.05	0.012	Current account Saving account General investment account Others (please specify).	97.78 86.80 -- --	0.611
Q.35-12 Promoting health and safety in the workplace	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 97.89 89.50 104.81 100.22	0.326	No education High school and below Undergraduate only MA PhD	-- 107.62 98.64 88.19 107.23	0.206	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 –4000 More than 4000	88.50 100.82 89.95 104.78 125.77 112.85	0.171	Academician Bankers Merchant General public Bureaucrat /manager	101.74 88.53 105.39 94.18 93.64	0.556	Current account Saving account General investment account Others (please specify).	97.72 89.00 -- --	0.690
Q.35-13 None of the above, as bank is a financial institution not a social institution	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 81.19 95.68 99.00 104.90	0.436	No education High school and below Undergraduate only MA PhD	-- 116.96 93.59 102.13 79.27	0.060	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 –3000 LD 3001 – 4000 More than 4000	116.17 106.45 94.14 90.11 83.73 79.95	0.411	Academician Bankers Merchant General public Bureaucrat /manager	96.72 107.08 90.36 102.25 94.40	0.719	Current account Saving account General investment account Others (please specify).	96.30 143.00 -- --	0.051

Table 9.11: Kruskal-Wallis Tests: Respondents' Familiarity with Sustainable Development

Question	Category	Q.36: Are you familiar with the concept of 'Sustainable Development'?		Q.37: Please choose ONE of the following statements that you think best describes 'Sustainable Development'.	
		Mean rank	Asymp .sig	Mean rank	Asymp.sig
Q.1 Age	Below 20	--	0.63	--	0.051
	20 – 30	106.50		82.53	
	31 – 40	104.45		89.44	
	41 – 50	83.87		98.02	
	Above 50	101.11		115.52	
Q.2 Education	No education	--	0.010	--	0.007
	High school and below	77.96		80.28	
	Undergraduate only	89.75		95.82	
	MA	99.31		105.70	
	PhD	123.85		128.37	
Q.3 Monthly Income	LD 500 and below	122.67	0.774	83.83	0.865
	LD 501 – 1000	99.15		94.10	
	LD1001 – 2000	97.01		101.65	
	LD 2001 – 3000	90.33		107.06	
	LD 3001 – 4000	93.27		92.00	
	More than 4000	87.10		87.45	
Q.4 Status	Academic	86.96	0.108	92.28	0.427
	Bankers	110.43		88.84	
	Merchants /Business	99.15		99.47	
	General public	113.43		103.68	
	Bureaucrat/Manager	96.35		109.56	
Q.8 What type of account do you have	Current account	97.01	0.375	97.34	0.797
	Savings account	116.20		103.70	
	General investment account	--		--	
	Others (please specify)....	--		--	

Table 9.12: Testing the Significance of the Differences in Respondents' Opinions on the Aspects of Sustainable Development: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig.	Education	Mean rank	Asymp. sig.	Monthly Income	Mean rank	Asymp. sig.	Status	Mean rank	Asymp. sig.	What type of account do you have	Mean rank	Asymp. sig.
Q.38-1 It is the banks' obligation to alleviate poverty	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 98.39 96.15 101.10 94.47	0.904	No education High school and below Undergraduate only MA PhD	-- 105.72 100.01 89.98 100.46	0.465	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	100.42 101.00 95.11 100.00 83.05 108.25	0.839	Academician Bankers Merchant General public Bureaucrat /Manager	97.76 89.22 112.05 78.75 99.16	0.187	Current account Savings account General investment account Others (please specify).	98.33 66.10 -- --	0.143
Q.38-2 Islamic banks should promote good governance (e.g. transparency, no corruption, etc)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 84.42 96.86 100.01 100.40	0.665	No education High school and below Undergraduate only MA PhD	-- 103.86 95.22 93.82 107.37	0.580	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	89.50 93.28 99.62 75.44 104.14 123.20	0.360	Academician Bankers Merchant General public Bureaucrat /Manager	96.40 96.93 105.68 70.75 102.14	0.249	Current account Savings account General investment account Others (please specify).	98.55 57.70 -- --	0.069
Q.38-3 Islamic banks should promote microfinance (banking for the poor)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 94.17 94.00 98.12 103.53	0.764	No education High school and below Undergraduate only MA PhD	-- 99.16 97.17 92.16 110.04	0.470	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	120.25 87.04 99.69 105.50 110.36 111.40	0.271	Academician Bankers Merchant General public Bureaucrat /Manager	94.12 92.95 110.53 96.11 97.14	0.553	Current account Savings account General investment account Others (please specify).	98.38 64.20 -- --	0.121
Q.38-4 Islamic banks should follow ethical strategy from providing service to customers to employees' rights	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 96.39 95.79 104.18 91.73	0.551	No education High school and below Undergraduate only MA PhD	-- 104.20 100.77 88.25 103.88	0.255	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	117.50 97.77 94.34 80.56 121.82 101.30	0.306	Academician Bankers Merchant General public Bureaucrat /Manager	94.91 93.86 108.27 97.14 96.51	0.681	Current account Savings account General investment account Others (please specify).	98.23 70.00 -- --	0.173
Q.38-5 Islamic banks should invest in human capital development for employees (e.g. training, research, furthering education, etc)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 118.28 93.33 101.25 90.77	0.180	No education High school and below Undergraduate only MA PhD	-- 93.24 102.70 87.76 109.77	0.160	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	113.25 92.70 97.11 64.22 117.36 131.35	0.037	Academician Bankers Merchant General public Bureaucrat /Manager	119.56 99.05 98.32 78.04 84.87	0.027	Current account Savings account General investment account Others (please specify).	98.02 78.00 -- --	0.370

Table 9.12: (cont): Testing the Significance of the Differences in Respondents' Opinions on the Aspects of Sustainable Development: Kruskal-Wallis Test

Q.38-6 Islamic banks investment strategy should not undermine the environment	Below 20	--	0.062	No education	--	0.562	LD 500 and below	67.42	0.038	Academician Bankers Merchant General public Bureaucrat /Manager	96.37 83.03 106.77 85.64 108.47	0.124	Current account	97.53	0.953
	20 – 30	75.83		High school and below	89.68		LD 501 – 1000	103.52					Savings account	96.20	
	31 – 40	99.58		Undergraduate only	96.33		LD1001 – 2000	92.50					General investment account	--	
	41 – 50	107.72		MA	97.34		LD 2001 – 3000	69.50					Others (please specify).	--	
	Above 50	89.26		PhD	108.96		LD 3001 – 4000	122.95							
						More than 4000	119.00								
Q.38-7 Islamic banks should directly contribute to community development projects	Below 20	--	0.310	No education	--	0.465	LD 500 and below	68.17	0.702	Academician Bankers Merchant General public Bureaucrat /Manager	101.11 82.85 110.73 96.61 94.62	0.170	Current account	97.22	0.625
	20 – 30	77.00		High school and below	105.38		LD 501 – 1000	94.75					Savings account	107.90	
	31 – 40	99.44		Undergraduate only	92.76		LD1001 – 2000	99.97					General investment account	--	
	41 – 50	100.73		MA	96.27		LD 2001 –3000	101.83					Others (please specify).	--	
	Above 50	99.66		PhD	107.37		LD 3001 – 4000	104.59							
						More than 4000	98.80								

Table 9.13: Testing the Significance of the Differences in Respondents’ Familiarity with and Knowledge of Social Banking: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.39 Are you familiar with the concept of Social Banking?	Below 20	--	0.012	No education	--	0.014	LD 500 and below	128.83	0.373	Academician	112.85	0.007	Current account	97.78	0.618
	20 – 30	100.28		High school and below	81.96		LD 501 – 1000	103.85		Bankers	110.92		Savings account	86.80	
	31 – 40	106.01		Undergraduate only	87.71		LD1001 – 2000	91.23		Merchant	106.79		General investment account	--	
	41 – 50	80.33		MA	105.41		LD 2001 – 3000	101.89		General public	79.36		Others (please specify).	--	
	Above 50	107.20		PhD	111.58		LD 3001 – 4000	92.09		Bureaucrat /Manager	90.14				
Q.40 “Islamic banks should provide social banking?”	Below 20	--	0.253	No education	--	0.497	LD 500 and below	110.42	0.105	Academician	89.41	0.339	Current account	97.17	0.573
	20 – 30	103.47		High school and below	108.24		LD 501 – 1000	110.36		Bankers	101.03		Savings account	110.00	
	31 – 40	104.96		Undergraduate only	100.16		LD1001 – 2000	91.76		Merchant	105.59		General investment account	--	
	41 – 50	87.78		MA	91.80		LD 2001 – 3000	76.33		General public	85.21		Others (please specify).	--	
	Above 50	96.30		PhD	93.10		LD 3001 – 4000	78.32		Bureaucrat /Manager	97.85				
Q.42 How should Islamic social banking be financed?	Below 20	--	0.983	No education	--	0.167	LD 500 and below	58.08	0.390	Academician	102.17	0.038	Current account	97.11	0.529
	20 – 30	94.44		High school and below	83.88		LD 501 – 1000	97.43		Bankers	106.72		Savings account	112.20	
	31 – 40	99.32		Undergraduate only	97.84		LD1001 – 2000	97.40		Merchant	100.70		General investment account	--	
	41 – 50	97.04		MA	94.80		LD 2001 –3000	102.89		General public	57.32		Others (please specify).	--	
	Above 50	96.47		PhD	116.21		LD 3001 – 4000	95.55		Bureaucrat /Manager	119.85				

Table 9.14: Testing the Significance of the Differences in Respondents' Opinions on the Objectives of Social Banking: Kruskal-Wallis Test

Question	Age	Mean rank	Asymp. sig	Education	Mean rank	Asymp. sig	Monthly Income	Mean rank	Asymp. sig	Status	Mean rank	Asymp. sig	What type of account do you have	Mean rank	Asymp. sig
Q.41-1 Low-income consumers	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 91.17 99.54 102.16 90.60	0.654	No education High school and below Undergraduate only MA PhD	-- 122.32 102.28 81.47 98.56	0.007	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	112.00 104.05 96.13 70.56 78.86 102.90	0.367	Academician Bankers Merchant General public Bureaucrat /Manager	89.86 101.57 118.45 90.50 92.10	0.107	Current account Savings account General investment account Others (please specify).	98.81 48.10 -- --	0.033
Q.41-2 Supporting individual and group activities for economic environment	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 80.28 92.91 106.23 99.99	0.137	No education High school and below Undergraduate only MA PhD	-- 112.12 94.80 89.30 111.83	0.061	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	94.83 95.09 95.73 92.00 114.68 117.35	0.569	Academician Bankers Merchant General public Bureaucrat /Manager	96.74 81.41 113.14 92.32 102.22	0.061	Current account Savings account General investment account Others (please specify).	97.22 108.10 -- --	0.601
Q.41-3 Financing environmental projects	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 88.08 95.37 106.53 92.60	0.268	No education High school and below Undergraduate only MA PhD	-- 101.96 98.28 92.84 102.29	0.737	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	70.75 94.68 98.02 80.00 121.59 116.60	0.117	Academician Bankers Merchant General public Bureaucrat /Manager	115.72 85.92 92.36 93.07 99.57	0.023	Current account Savings account General investment account Others (please specify).	97.48 98.30 -- --	0.968
Q.41-4 Micro-enterprise financing	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 101.89 100.39 95.43 93.93	0.864	No education High school and below Undergraduate only MA PhD	-- 106.22 102.95 88.10 95.69	0.245	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	98.25 107.27 92.63 65.89 103.95 98.70	0.188	Academician Bankers Merchant General public Bureaucrat / Manager	94.54 87.92 118.53 94.71 95.12	0.096	Current account Savings account General investment account Others (please specify).	96.93 119.00 -- --	0.320
Q.41-5 Providing financial assistance for community development (e.g. education, medical services, discouraging social ills, etc)	Below 20 20 – 30 31 – 40 41 – 50 Above 50	-- 87.94 101.68 93.37 100.24	0.609	No education High school and below Undergraduate only MA PhD	-- 102.64 104.44 85.18 101.81	0.097	LD 500 and below LD 501 – 1000 LD1001 – 2000 LD 2001 – 3000 LD 3001 – 4000 More than 4000	87.33 103.24 93.44 64.83 112.64 115.80	0.130	Academician Bankers Merchant General public Bureaucrat /Manager	96.42 83.82 116.71 90.43 98.51	0.072	Current account Savings account General investment account Others (please specify).	97.38 102.20 -- --	0.825

Table 9.14: (cont.): Testing the Significance of the Differences in Respondents' Opinion on the Objectives of Social Banking: Kruskal-Wallis Test

Q.41-6 Encouraging social savings for marriages, children's education, community-based programmes and other social welfare programmes	Below 20	--	0.955	No education	--	0.154	LD 500 and below	122.25	0.398	Academician Bankers Merchant General public Bureaucrat /manager	100.88 101.49 99.85 91.07 89.09	0.740	Current account	98.17	0.261
	20 – 30	100.58		High school and below	107.12		LD 501 – 1000	94.88					Saving account	72.20	
	31 – 40	98.94		Undergraduate only	98.65		LD1001 – 2000	99.57					General investment account	--	
	41 – 50	97.46		MA	87.09		LD 2001 – 3000	112.73					Others (please specify).	--	
	Above 50	94.06		PhD	110.38		LD 3001 – 4000	75.10							

Chapter 10

LOCATING THE PERCEPTIONS OF SUPPLY-SIDE STAKEHOLDERS: INTERVIEW ANALYSIS

10.1 INTRODUCTION

The previous four empirical chapters are based on the analyses of the data collected through the questionnaire regarding what individuals demand from bank services. This chapter, however, presents the analysis of the data gathered through interviews with regard to the issues related through Islamic banking from stakeholders other than the customers, which include the *Shari'ah* scholars, bankers and financiers, academics, politicians as well as bureaucrats and technocrats. This is expected to provide perspective on the issues from their positions and hence will help to develop a better understanding and a full picture of the reality of Islamic banking in Libya.

10.2 INTERVIEW PROCESS AND QUESTIONS

It should be noted that the interviews were mainly semi-structured face-to-face interviews. However, telephone interviews have also been used. As mentioned in Chapter 5, in the analysis of the interviews coding techniques within content analysis are utilized; and the coded interview statements are listed in the tables to develop a general theme for each issue. The results of the analysis presented in this section help also to develop an interpretative discussion together with other findings from the previous chapter.

The interview process is discussed in detail in the methodology chapter. To re-iterate, it is worth mentioning that all interviews were videotape-recorded with the prior consent of the interviewees. A list of questions was drafted prior to conducting the interviews in relation to the topic to be discussed. In order to have the flexibility according to the position and orientation of the interviewees, semi-structured interviews were used. Consequently, the sequence of questions was under continuous review depending on the course of the interview. The interviews featured 25

questions covering the research topics to be discussed. Each interview lasted just over half an hour. It should be noted that before conducting the actual interviews mock interviews were conducted to check the suitability of the questions.

After completing the interviews, each interview was transcribed for analysis. Before starting the actual analysis, the interviewees' responses to the questions were reviewed several times in relation to the objectives of focus coding. Then these responses were reduced to segments featuring complete ideas. For further analysis the word processing format was replaced by the spreadsheet format. It should be noted that the original interviews were conducted in the Arabic language and later translated into the English language during the transcription process.

To fill the information gap noticed in the post-interview period, during the analysis other sources have been used including newsletters, periodicals and other documents related to the topic of research.

10.3 PROFILING THE PARTICIPANTS

This part of the interview analysis provides the details of the interviews including the names and affiliations of interviewees. This information aims to provide a brief on the participants in terms of careers, positions and qualifications, which is depicted in Table 10.1.

As can be seen in Table 10.1, this research successfully managed to get a variety of specialists and scholars who are related with the process of Islamic banking as a means of achieving economic development in Libya. Hence, the list of interviewees included four senior politicians and two senior *Shari'ah* scholars. Senior officials in the financial and banking sectors were also interviewed. In addition, a number of academics specializing in economics, banking and finance and working for different educational institutions and the public sector in Libya were also included. Having all these very different stakeholders gives an opportunity to understand the issues from a large range of perspectives.

Table 10.1: Profiles of the Interviewees

Interviewee No.	Name	Position	Institution
1	Mustafa Abdul Jalil	President of National Transitional Council or Head of state	National Transitional Council
2	Dr. Mahmoud Jibril	Wartime Prime Minister	Head of the National Forces Alliance
3	Dr. Sadeq Al-Ghariani	Chairman of Supreme Council of Fatwa in Libya. <i>Shari'ah</i> scholar	Supreme Council of Fatwa
4	Dr. Hamza Abu Faris	Minister of Awqaf and Islamic Affairs. Lecturer at the Faculty of Law and <i>Shari'ah</i> -Tripoli University / scholar of Islamic jurisprudence	Ministry of Awqaf and Islamic Affairs. Tripoli University
5	Mustafa Rugibani	Minister of Labour	Ministry of Labour
6	Tahir Essa Hessen	Economic Affairs Manager	Chamber of commerce and industry -Tripoli
7	Abdul Hamid Azazy	Assistant General Manager	North Africa Bank
8	Ali Saleh Ali	Director of Islamic banking	North Africa bank
9	Khaled Al Hashimi Zarrouk	Chairman of the Advisory Committee of Islamic banks	Central Bank of Libya
10	Juma Yaklef	Director of Treasury and Investment department	North Africa Bank
11	Dr. Bashir Ashour	General Manager of the National Investment Company	National Investment Company Tripoli University
12	Dr Mahmoud Maghbul	Head of Graduate Studies	Tripoli University
13	Dr. Juma Rguibi	Head of department of Banking and Finance	Academy of Graduate Studies Tripoli

10.4 REFLECTIONS ON THE ECONOMY AND THE PROCESS OF ECONOMIC DEVELOPMENT DURING THE FORMER REGIME

This section aims to explore views of participants on the economic policies and development in Libya, and to examine the performance of the financial and banking sector during the former regime. This part of the interview features questions 2 to 7 of the interview schedule.

Question 2 explores the interviewees' opinions about policies related to economic development under the former regime in Libya, and whether those policies had

achieved the desired goals. The coded responses developed from the responses to this question are presented in Table 10.2.

Table 10.2: Focused Coding for Question 2 (Opinion on Economic Development under the Defunct Regime in Libya)

Question 2: Please evaluate the economic development and progress achieved during the previous regime?	
Focused Coding	Remarks
1	There had been attempts to achieve economic development. However, those attempts were failed due to financial and administrative mismanagement and corruption.
2	The former regime was either unwilling or lacked the resolve to achieve economic development in the country.
Theme	Mismanagement, financial and political corruption, and lack of determination and political will during the defunct regime have delayed the process of economic development in Libya.

As can be seen from Table 10.2, the participants' views about economic development in Libya during the previous regime can be classified under two major themes: (i) Some projects and development programmes had been executed by the former regime; however, due to widespread financial corruption and mismanagement, the development plans have not achieved their desired goals; (ii) the disappointing results of the development plans had called the credibility and seriousness of the former regime into question. Thus, the general theme which can be developed from these two focus codings is that the programmes of economic development undertaken by the previous regime have been frustrated by mismanagement, financial corruption and lack of political will. Such an inference questions the willingness and credibility of decision-makers in the former regime to deal with issues related to economic development in Libya.

In further developing the analysis, identified focused coding was further analyzed through the specific responses provided by the participants and the results of the focused coding analysis are summarized in Table 10.2.1.

Table 10.2.1 shows that eight interviewees believed that some attempts were made by the former regime to execute projects to achieve economic development. However, for one reason or another, those projects failed to achieve the desired results.

Table 10.2.1: Focused Coding Number 1 for Question 2 (Economic Development)

Interviewee No.	Focused Coding 1: There had been attempts to achieve economic development. However, those attempts failed due to financial and administrative mismanagement and corruption.
1	Signing contracts for development, failure to control spending on projects i.e. poor budgeting.
2	Attempts of the former regime to achieve economic development lacked clear vision and solid strategy. The competent institutions for planning have been missing as well.
7	Some attempts to establish development projects in the 1970s and also in recent years featured contracts for development projects.
8, 10 and 11	Due to mismanagement and financial corruption huge sums of money have been wasted on development projects.
9	Attempts at economic development have been frustrated by poor implementation of socialist creed, and the complete marginalization of the private sector, not to mention the widespread financial corruption.
13	Huge amounts of money have been spent on development programmes featuring mismanagement and poor planning.

Interviewee 1, for example, stated that the former regime in recent years signed many contracts to establish development projects across the country. However, due to lack of transparency in the process of signing these contracts and widespread corruption in state institutions, those programmes had been poorly managed. Consequently, the development projects had not been executed to the required standards and had not achieved the desired goals.

Interviewee 2 indicated that the full economic development should have a clear vision to achieve specific goals, which can be measured on a regular basis. The presence of what is known as the Council of General Planning, Ministry of Planning, and the Planning Institute in Libya was of no help to the government. He explained that there are 22 regional administrations in Libya and that each one has its own council of planning, and yet those institutions have failed to achieve successful economic development. In the same context, interviewee 7 stressed that there is no development in Libya. Some development occurred in the early years of the former regime, and some minor projects were achieved, but then the process of development stopped across the country. However, in recent years due to the pressure on the regime from within and from outside the country, the development process started to pick up, albeit very slowly, considering the huge economic resources of the country. Similarly, interviewees 8, 10 and 11 believe that the former regime could not achieve economic development because of inconsistent planning involving several schemes

such as the five-year plan and others. However, while all of those plans ended in failure, other attempts at development had been made by the former government, which spent large sums of money without achieving any significant results in terms of infrastructure and urban development or in finding an economic alternative to oil. Thus, all the economic development plans turned to be merely ‘projects’ on paper and, because of corruption, they achieved nothing. The interviewees also indicated that the whole development process was a waste of time and money, and therefore failed to make a significant step forward. In other words, development has not been achieved despite the large resources allocated and time spent on the process; instead, the country has lagged behind.

Interviewee 9 stated that development had been very slow under the previous regime. He pointed out that Qaddafi implemented the theory of socialism to starve the people so that they would not stand against him. Libya is an oil-rich country but the former government spent no more than 20-25% of the oil revenues on economic development. He also indicated that the state controlled all the economic resources, operating in a socialist manner by adopting a comprehensive central planning approach, while the private sector only participated in a few small and medium-sized projects.

Interviewee 13, on the other hand, stressed the fact that the former government did not spend the financial resources wisely, perfectly or scientifically. Libya’s income was very high but unfortunately the government did not use that income to establish development projects or encourage investment to develop an economic alternative to oil. Thus, there was no real development in Libya.

It can be concluded that most of the interviewees believe that the former regime was not serious about development, which failed to put real efforts and paid little attention to the process of economic development.

As for the second coding for Question 2 on the past economic progress in relation to lack of political will, the analysis of the interviews positions are depicted in Table 10.2.2.

Table 10.2.2: Coding Number 2 for Question 2 (Economic Development)

Interviewee No.	Focused Coding 2: The former regime was either unwilling or insufficiently resolute to achieve economic development in the country.
3	There was no development, due to political, financial, and administrative corruption. Also decision-makers in the former regime were either unwilling or not serious about developing the country.
4 and 6	There was no development due to poor planning, and lack of determination and political will.
5	Development was not achieved due to mismanagement, financial and political corruption, and the exclusion of the private sector.
12	The former regime did not achieve any positive results; there were soaring rates of unemployment, poor educational and healthcare services, financial and administrative corruption, unwillingness and lack of seriousness about development

As can be seen in Table 10.2.2, five participants expressed that economic development in Libya under the previous regime was not achieved for several reasons, including financial and administrative corruption, unwillingness of the regime, lack of planning, indecision, and political instability.

Interviewee 3 stated that under the former regime the country was ruled as if it were the private property of Qaddafi and his family, so most development projects were doomed to failure. He also indicated that Qaddafi, his family members and their supporters were the only beneficiaries of the development projects. In further substantiating such arguments, interviewee 5 argued that the former regime did not achieve economic development because the Qaddafi regime squandered the money on promoting its political agenda rather than paying attention to the process of economic development in Libya. He also accused Qaddafi's regime of alienating the public from practising business. In the same line, interviewee 12 indicated that the government's only concern was to protect the political regime. In his view, this was reflected in the poor educational and healthcare services, and the increasing rates of unemployment among the youth, estimated at 30%. He also stressed the fact that, despite the large oil revenues and the small population, the average per capita income in Libya was very low compared to other oil-producing countries.

After exploring the views of the interviewees about economic development in Libya under the former regime, it is important to investigate the main reasons for the failure of economic development in the country. The third question of the interview schedule,

therefore, aimed at exploring the views of participants on the most important factors that have prevented economic development despite the wealth created from oil revenues. The analysis is based on the answers to this question as presented in Table 10.3.

Table 10.3: Focused Coding for Question 3 (Opinion on Economic Development During the Former Regime in Libya)

Question 3: Why do you think economic development could not be achieved during the previous regime despite the richness of the country?	
Focused Coding	Remarks
1	Lack of proper planning, mismanagement and widespread corruption in government departments were the core reasons behind the failure of economic development in Libya.
2	Huge financial resources have been wasted due to bureaucracy and political corruption. The government's main concern was to promote its political agenda rather than promoting economic and social development.
Theme	Mismanagement, poor planning, financial and political corruption were the main reasons behind the failure of economic development. Many believe that bureaucracy and indecision were to blame for underdevelopment. Resources were squandered to promote the political agenda.

Table 10.3 shows the participants' views about the sources of failure to achieve economic development in Libya despite the enormous wealth of the country; the responses can be classified under two major themes: (i) Bureaucracy and political corruption under the former regime as the wealth was wasted on promoting the political agenda and security of the regime; and (ii) poor planning, mismanagement, and rampant financial and political corruption were to blame for underdevelopment in Libya.

Hence, these themes should lead to a general understanding that economic development was not achieved in Libya under the former regime for many reasons, most importantly the inefficient use of resources due to focusing on security and political matters. On the other hand, Libya under the dictatorship suffered from political instability, which affected the solidity and clarity of the economic regime. The outcome was mismanagement, poor planning, and financial and administrative corruption running out of control. Thus, bureaucracy in decision-making and lack of real political will in the implementation of development programmes left Libya lagging behind in terms of economic development.

After establishing the general theme, in the following sections, responses to these two established focused coding is further analyzed. The responses to the first focused coding are presented in Table 10.3.1.

Table 10.3.1: Focused Coding Number 1 for Question 3 (Opinion on Economic Development during the Former Regime in Libya)

Interviewee No.	Focused Coding 1: Lack of proper planning and mismanagement, widespread corruption in government departments were the core reasons behind the failure to achieve economic development
3 and 11	Financial and administrative corruption, the problem of instability in the administrative structures of the State.
4	Poor planning.
6	Mismanagement of financial resources.
10	Mismanagement of financial resources, poor planning, and exclusion of specialists from the decision-making process.

As can be seen from Table 10.3.1, the interviewees identified a number of factors that led the former regime to fail in the economic development of Libya. Information collected from the interviews provides important clues about the real causes of the failure of economic development programmes in Libya. Interviewees 3 and 11, for example, stated that the economic system in Libya had undergone many changes in terms of its aims and objectives, and that most of those changes had no scientific basis according to research studies. This situation resulted in a state of confusion and uncertainty among policy-makers. Thus, under the Qaddafi regime the government's administrative system was continuously changing year after year, which led to the process of economic development running out of control, not to mention the financial and administrative corruption. They also argued that the former regime was not serious about economic development. The interviewees pointed out that nepotism was widespread in government departments; thus, relationships with government officials, rather than qualifications, would determine who secured jobs, and this eventually had a negative impact on economic development programmes. Moreover, cronies and government loyalists probably had very little or no experience of project management. For that reason, most development projects ended in failure.

According to interviewee 4, poor planning made the failure of the development process in Libya inevitable. Thus, due to improper planning under the previous regime, the economic system was unstable. Other causes included continuous changes

in the objectives of the former regime, incompatible legislation, and the continuous changes in government policies and the process of decision-making. In this context, interviewee 6 stressed the fact that economic development had not been achieved under the former regime. In his view, despite the wealth of the country, the former regime did not allocate funds properly in favour of the process of economic development in the country. He also indicated that feasibility studies were inadequate with regard to economic development projects in Libya.

In providing further insight, interviewee 10 argued that the main cause of failure to achieve economic development was the fact that the economic policies were indecisive and lacked clear strategies and a clear vision, which had a negative impact on the process of economic development.

In furthering the analysis, the following section presents analysis of the responses for the second coding for Question 2 on the sources of economic development failure in Libya.

Table 10.3.2: Focused Coding Number 2 for Question 3 (Opinion on Economic Development during the Former Regime in Libya)

Interviewee No.	Focused Coding 2: Huge financial resources have been wasted due to bureaucracy and political corruption. The government’s main concern was to promote its political agenda rather than promoting economic and social development.
1 and 9	Financial corruption, unwillingness of the competent authorities to undertake real reform and development, draining the wealth on political issues outside the country.
2, 8 and 12	Lack of real political will, dictatorship in process of decision-making including the economic decisions, inability to follow up the development plans, financial and administrative corruption.
5, 7 and 13	Draining the wealth of the country on political issues inside and outside the country instead of focusing on development.

As depicted in Table 10.3.2, the participants believe that economic development in Libya under the previous regime was not achieved mainly due to financial corruption and bureaucracy in decision-making. Interviewees 1 and 9, however, argued that the previous regime wasted the wealth of the country on wars outside Libya and by providing support to terrorist organizations. Thus, the previous regime was unwilling to undertake serious development programmes. They pointed out that the previous regime had been involved in some development projects, but unfortunately most of

those projects were doomed to failure. They agreed that the only concern of the regime was to remain in power through the domination by its loyalists of the government offices and any other projects, including development projects. In the same context, interviewees 2, 8 and 12 indicated that there was no genuine political will to achieve development, as the whole country was controlled by one person, who had made the process of economic development a difficult, if not impossible, task in terms of planning and follow-up. In addition to using the resources of the country for his own personal interests, maintaining the political system became the top priority for Qaddafi, while the process of economic development languished at the bottom of the list of priorities.

In supporting this, as the analysis in Table 10.3.2 shows, interviewees 5, 7 and 13 indicated that most of Libya’s income had been squandered by Qaddafi to promote his political agenda rather than developing society. It was mentioned that Qaddafi furthered his regime’s political agenda by generously giving Libyan money to support terrorist organizations, the Arab Maghreb Union, the African Union, and promoting Arab nationalism *etc.*

In further exploring the past performance of Libyan economy and business environment, Question 4 investigates their opinion regarding the role of the banking system and the infringement of that role by the former regime. Analysis of the answers is shown in Table 10.4

Table 10.4: Focused Coding for Question 4 (The Role of the Banking System Under the Former Regime in Libya).

Question 4: Would you please comment on the role of the banking system during the previous regime in Libya?	
Focus coding	Remarks
1	Under the former regime the banking system was incompetent and did not play any significant role in the process of economic development.
Theme	The incapacity of the banking system under the former regime was one of the reasons behind the failure of the economic development programmes in Libya. The impotence of the banking sector could be due to a number of reasons including the financial and administrative corruption, mismanagement, and state hegemony over the sector, unstable monetary policies and others.

Table 10.4 features the opinions of participants regarding the performance of the banking sector, and the role it played in the process of economic development in Libya under the former regime. It can be understood from the theme that the banking system was incompetent and ineffective, and failed to cope with the process of economic development. That failure was due to a number of factors and obstacles involving the corrupt and incompetent political regime, as explored in the focused coding 1.

Table 10.4.1: Focused Coding 1 for Question 4

Interviewee No.	Focused coding 1: Under the former regime the banking system was incompetent and did not play any significant role in the process of economic development.
1 and 3	The banking sector was incompetent due to the widespread financial and administrative corruption, particularly among the top officials in the sector.
2, 4 and 11	The government interference has paralyzed the banking sector, not to mention the state of uncertainty regarding the monetary policies, and the abuse of banks by corrupt senior government officials.
5	The domination of the central bank of Libya over the commercial banks, lack of clear monetary policy, and inadequate training of staff have all contributed to rendering the banking sector incapable of performing.
6, 10 and 12	The banking sector is very incompetent due to abuse of the banking system by senior government officials; unfair distribution of loans and facilities are corrupt practices associated with the banking sector.
7 and 13	In the last two decades banks have become places for hoarding money without effective investment policies.
8	The banking sector is impotent due to lack of highly qualified staff and the problem of financial and administrative corruption.
9	Underperformance has been the main problem in the banking sector since the 1980s, due to the policies of nationalization and the poor implementation of the socialist ideology in Libya.

As can be seen in Table 10.4.1, the interviewees are of the view that, under the former regime, the banking system had been underperforming and failing to make an impact on the process of economic development in Libya. In this regard, interviewees 1 and 3 tend to believe that the widespread financial and administrative corruption may have been behind the poor performance of the banking sector in the previous regime. They also put the blame on the widespread anarchy and mismanagement in government offices. Furthermore, participants 2, 4 and 11 stress the point that, during the previous regime, the banking system was so weak that it was unable to play its anticipated positive role in the process of economic development. In their view that failure had many causes, most importantly political involvement in the banking sector, confusion

and uncertainty of the financial policies and, above all, the abuse of the banking sector by corrupt state officials. Similarly, interviewee 5 attributed the underperformance of the banking sector to the hegemony of the Central Bank of Libya over commercial banks, and the vague financial policies, not to mention the failure to upgrade the methods used by the banking system, including lack of staff training. In addition, according to interviewees 6, 10 and 12 those banks have so far failed to play a positive role in the process of economic development due to widespread corruption and nepotism involving senior state officials as well as the management of those banks, particularly with respect to the unfair distribution of loans and other banking services. This conclusion has also been confirmed by interviewees 7 and 13, who argue that the banking sector in Libya has been weak, particularly during the last two decades. In the absence of effective policies for investment, they describe banks as being similar to big safes for hoarding money rather than effectively and efficiently utilizing those funds. Finally, according to interviewee 8, the performance of the banking sector has been unsatisfactory due to administrative corruption and the poor qualifications of the staff. In the meantime interviewee 9 identified socialist policies and the subsequent nationalization of the sector during the 1980s as the main reason for the deteriorating performance of the banking sector.

As part of the analysis, question 5 aims at exploring the interviewees' opinions on the management of the banks with respect to the services they should provide to the customers for the benefit of all social groups in Libya. Table 10.5 presents the results of the analysis based on responses to question 5.

Table 10.5: Focused Coding for Question 5 (The Quality of Services Provided by the Banking Sector in Libya)

Question 5: Do you think banks and financial institutions managed to penetrate the larger segments of Libyan society?	
Focused Coding	Remarks
1	Under the previous regime banks and other financial institutions have been poorly managed in a way that has led to unfair distribution of services, to the dissatisfaction of all social groups.
Theme	Due to government's continuous intervention in the service sectors including the banking sector, only pro-government groups have benefited from the services provided by the banking sector. This indicates the level of political and administrative corruption of the former regime.

Table 10.5 above summarizes the views of participants on the performance of the banking sector in Libya with regard to the services it provided to its clients from the different social groups. However, all responses to the question indicate that the banking system in Libya under the former regime was poorly managed in a way that has prevented the fair distribution of services to include all social groups. According to participants' responses, mismanagement and injustice have been very obvious, bearing in mind the fact that only pro-government groups have benefited from the services at the expense of society at large, which has led to poverty and high unemployment rates in society. After identifying such a general theme, Table 10.5.1 provides detailed statements from the interviewees.

Table 10.5.1: Focused Coding Number 1 for Question 5

Interviewee No.	Focused Coding 1: Under the previous regime banks and other financial institutions have been poorly managed in a way that has led to unfair distribution of services to the satisfaction of all social groups.
1,2 and 3	The administrative and financial corruption in the banking sector has led to unfair distribution of services.
4, 8, 9,10 and 11	Only pro-government groups have benefited from the services provided by the banking sector, which is unfair.
5 and 7	The banks have become treasuries for paying wages to government staff, instead of contributing to the process of economic development in the country.
6, 12 and 13	The banks have failed to provide a fair distribution of services to provide funding to small and medium-sized projects which favour the poor and the unemployed.

As can be understood from the responses shown in Table 10.5.1, the interviewees identified mismanagement as the main feature of the financial institutions, including banks, under the former regime. For that reason those institutions failed to provide their services in a way that included all social groups in Libya.

For example, according to interviewees 1, 2 and 3, the failure of banks in Libya to provide fair distribution of services was due to corruption which has been widespread in the banking sector. Interviewees 4, 8, 9, 10 and 11 highlight the fact that the failure of banks to provide services has been due to the domination of pro-government groups who have managed to take advantage of the services provided by banks at the expense of other social groups. However, interviewees 5 and 7 point out that most people consider banks as places for hoarding money and paying wages to government

staff rather than providing other services such as loans and other financial facilities in a way that favours social and economic development. Finally, interviewees 6, 12 and 13 stated that, in fact, the banks have excluded the poor sectors of society by failing to fund small and medium-sized projects. Thus, it is perhaps fair to say that banks in Libya have contributed to the prolonged unemployment and social deprivation in Libya.

The next sections aim to find out the opinions of the participants on the reasons of the prevailing traditional financial attitudes in Libya instead of the financial nature of the business sector. Question 6, hence, is designed to explore the views of interviewees on the reasons why most people avoid engaging with and seeking financial assistance from banks. The analysis of the answers to question 6 is shown in Table 10.6.

Table.10.6: Focused Coding for Question 6 (Avoiding Seeking Financial Assistance from the Banking Sector in Libya).

Question 6: Why do you think people still prefer to do their financing in the traditional way in terms of raising financing within the family, and from friends and colleagues rather than directly engaging with banks?	
Focused Coding	Remarks
1	Given the religious nature of the people of Libya they tend to avoid taking interest-based (<i>Riba</i>) loans from banks. Instead they prefer to seek financial assistance from family and friends.
2	Apart from the religious element the long and complex procedures make most people avoid seeking financial help from banks.
Theme	Avoiding dealing in usury (<i>Riba</i>) has been the main reason why most people in Libya prefer not to seek financial assistance from conventional banks which provide interest-based services. However, mismanagement, bureaucracy and the complex procedures involved in those banks provide another reason for people to shun them and seek other ways to obtain financial assistance.

It can be concluded from Table 10.6 that there are two main themes emerging from the answers given by the interviewees to question 6: (i) For religious reasons the people of Libya prefer to rely on family and friends instead of seeking financial assistance from conventional banks; (ii) apart from the religious factor, the complex and lengthy procedures have made many people turn their backs on conventional banks, not to mention the administrative and financial corruption involved in the management of those banks. Thus, for the above reasons the banking sector has made no impact on the process of social and economic development in Libya. These two focused codings are explored further in Table 10.6.1 and 10.6.2, respectively.

Table 10.6.1: Focused Coding Number 1 for Question 6

Interviewee No.	Focused Coding 1: Given the religious nature of the people of Libya they tend to avoid taking interest-based (<i>Riba</i>) loans from banks. Instead they prefer to seek financial assistance from family and friends.
1, 4, 5, 7 and 9	The religious nature of the people of Libya makes them avoid doing business with conventional banks due to the interest-based transaction involved in those banks which amounts to usury (<i>Riba</i>) tabooed by <i>Shari'ah</i> law.

According to Table 10.6.1 for the focused coding 1, all the participants agree that Libyan people do not engage with conventional banks because of their religious beliefs in avoiding interest-based transactions that amount to usury, which is tabooed by Islamic law, as evident by the statements given by interviewees 1, 4, 5, 7, and 9.

Table 10.6.2: Focused Coding 2 for Question 6

Interviewee No.	Focused Coding 2: Apart from the religious element the long and complex procedures make most people avoid seeking financial help from banks.
2 and 3	Lack of transparent policies featuring conventional banks in Libya leading to mistrust by citizens who fear dealing in usury (<i>Riba</i>).
6	Mismanagement and the poor services provided to clients including dealing in usury (<i>Riba</i>)
8,10,11 and 13	The limited services provided by banks despite the complex procedures involved.

Focus coding is explored in Table 10.6.2, according to which besides the religious element and avoiding dealing in usury (*riba*), participants stress other reasons for shunning conventional banks, including lack of trust, mismanagement, complexity of procedures and the inadequate services provided by those banks. For instance, according to interviewees 2 and 3, fear of practising usury (*riba*) could be the main reason for many people's unwillingness to do business with commercial banks in Libya. In their view, the unstable and uncertain policies of the banking sector could be the main reason for that unwillingness. They also argue that the uncertainty and vagueness of policies have led to mistrust between the banks and their potential customers, which has had a negative impact on the relationship between them. Likewise, interviewee 6 highlights mismanagement and the poor customer service as the main reasons for the unwillingness of people to do business with commercial banks in Libya. In the same context, however, interviewees 8, 10, 11 and 13 add that,

apart from usury, the limited services provided coupled with the complex administrative procedures have been the main reasons for the failure of commercial banks to attract customers to the business.

The views of participants regarding the role of the banking sector under the former regime are already explored. The participants highlighted the most urgent problems featuring the banking sector and the reasons behind the mistrust between the sector and the public in Libya in terms of business transactions. Thus, it becomes an urgent matter to explore the economic and financial problems that are currently facing the country and the potential problems in the near future. This will eventually lead to proposing some solutions to help the banking sector to cope with these problems.

Question 7, thus, seeks to investigate the opinions of participants regarding the most urgent economic and financial problems facing Libya in terms of both the macro and micro economy, including inadequate planning of small projects and the poor development of manpower that would otherwise enable individuals and social groups to integrate in the economic process by becoming engaged in various economic activities. The analysis of responses given by participants to question 7 is shown in Table 10.7.

Table 10.7: Focused Coding for Question 7 (Current Economic and Financial Problems in Libya)

Question 7: What are the main economic and financial problems faced by Libya now and in the coming years? Are they all macro-economic problems, or do we face micro economy-related problems in terms of small business, human development, empowerment of society and individuals through economic means?	
Focused Coding	Remarks
1	A number of economic problems are involved regarding the economic situation in Libya. Most important are the country's insecurity and lack of economic stability, not to mention inadequate funding with regard to medium-sized projects.
Theme	Many problems lie ahead of Libya in both the macro and micro economy. However, despite the country's economic resources Libya is still suffering from economic instability and insecurity in trying to create a suitable habitat for production. Yet at the micro economic level more attention needs to be given to allocation of funds and the establishment of small and medium-sized projects through suitable funding organizations. The government also needs to develop the human resources to cope with those projects in terms of good management.

As can be seen from Table 10.7, it is obvious that all participants are in agreement that Libya's problems exist at both the macro and micro economic levels. In their view, however, the main problems are associated with political and economic stability, in addition to the security matters. In the meantime, the participants point out that the main economic problems involve the inappropriate allocation of state funds with regard to small and medium-sized economic projects that might help to solve major economic and social problems in Libya.

Table 10.7.1: Focused Coding Number 1 for Question 7

Interviewee No.	Focused Coding 1: A number of economic problems are involved regarding the economic situation in Libya. Most important are the country's insecurity and lack of economic stability, and inadequate funding with regard to medium-sized projects.
2	Lack of economic stability due to lack of coordination between the financial and monetary policies with regard to government organizations.
3	The state administrative structure is unstable.
5 and 8	Instability and insecurity of the state.
6, 7,10 and 12	Abuse and mismanagement of funds which are inadequate for small and medium-sized economic projects, and the poor development of human resources.
9,11 and 13	Despite the huge wealth the country remains unstable in terms of governance particularly the prevailing insecurity. That makes the general environment unsuitable for investment in the establishment of small and medium-sized economic projects which favour the poor sectors of society.

In the detailed analysis of the responses categorised under focused coding 1 in Table 10.7.1, the participants are of the opinion that, apart from its macroeconomic problems such as lack of economic stability and insecurity, and the unfavourable environment for investment, Libya still suffers numerous problems at the microeconomic level, particularly funding and establishing small and medium-sized economic projects as well as the appropriate development of its manpower to run those projects.

In this respect, interviewee 2 summarizes the most important problems currently facing Libya, including instability of economic policies and uncertainty and lack of coordination with regard to monetary policies. Likewise, interviewees 3, 5 and 8 make the point that the unstable administrative structure and the general instability of the state, including the security situation, are the main problems the government of Libya will have to cope with to set the stage right for an efficient banking sector. However, interviewees 6, 7, 10 and 12 argue that mismanagement and abuse of funds

and failure to establish medium-sized and small projects that would contribute to solving many social and economic problems could be the main issues the government of Libya will have to deal with. They also point out that failure to develop human resources in Libya is one of the problems the government of Libya must address. Furthermore, interviewees 9, 11 and 13 refer to the fact that, despite the huge income from oil revenues, the security situation remains a difficult issue, frustrating the government's efforts to create a suitable environment for investment. They argue that, to promote economic development, the government has to focus on small and medium-sized projects by providing the necessary funds; such projects would help to bring about the anticipated social and economic stability in the country.

After analysing the responses to the past economic progress, the following section focuses on the responses of the participants on Islamic banking and finance-related issues in Libya, as this sector was not allowed to develop under the former regime.

10.5 THE ESTABLISHMENT OF THE ISLAMIC BANKING AND FINANCE SECTOR IN LIBYA

In the previous section the opinion of participants were explored with regard to the Libyan economy under the former regime, in an attempt to understand the problems involved with the conventional banking system in Libya, as well as the problems of the economic system as a whole at both the macro and micro economic levels. This current section featuring questions 8, 9, 10, 11 and 12 focuses on the Islamic banking and finance sector and explores whether the participants consider that such a system could make a contribution to solving the economic and financial problems of Libya.

In the first section in this part, question 8 examines the interviewees' opinions on the motives behind the idea of establishing an Islamic banking and finance system in Libya. The participants' responses to question 8 constitute the basis for the analysis shown in Table 10.8.

Table 10.8 indicates the views of participants about the most important motives behind calls for the transitional government in Libya to establish Islamic financial institutions and a banking system that provides services on the basis of *Shari'ah* principles. The participants' responses, however, feature the following two themes: (i) the people's wish to do business with Islamic banks as dictated by their religious

nature; (ii) the successful experiments involving Islamic banks in many countries around the world and the recent financial crisis involving conventional banks. These two items constitute the general theme which is considered as the main reasons for the public calls in Libya that have persuaded decision-makers to establish Islamic banks in Libya. These two focused coding are explored further in the following section

Table 10.8: Focused Coding for Question 8: Views on The Most Important Motives Behind Calls for Establishing of Islamic Financial System in Libya.

Question 8: What do you think has motivated the transitional government to call for the Islamisation of banking in Libya?	
Focused Coding	Remarks
1	Public pressure featuring people’s desire to get their banking loans in a way consistent with <i>Shari’ah</i> law has been the main motive behind calls for the transitional government to establish an Islamic banking system in Libya.
2	Apart from public desire, the fact that the Islamic banking system has been a successful experiment in many countries, and the recent problems and the financial crisis associated with the conventional banking system have provided extra motivation for the establishment of an Islamic banking system in Libya.
Theme	Given the fact that the people of Libya are religious by nature, there have been sustained demands for the establishment of financial institutions that provide their services based on the principles of <i>Shari’ah</i> . Also, the fact that the people of Libya tend to avoid interest-based transactions with conventional banks has put pressure on the transitional government to consider the idea of Islamic banking. That is not to mention the successful experiments of Islamic banking in many countries. By contrast conventional banks have been the main cause of the current worldwide financial crisis. For all the above reasons the transitional government has to listen to voices calling for the establishment of an Islamic banking system in Libya.

Table 10.8.1: Focused Coding Number 1 for Question 8

Interview No.	Focused Coding 1: The public pressure featuring people’s desire to get their banking loans in a way consistent with <i>Shari’ah</i> law has been the main motive behind calls for the transitional government to establish an Islamic banking system in Libya.
1, 2, 3, 4, and 11	Persistent calls and public pressure for the establishment of an Islamic banking system.
5, 8, 9, 12, and 13	Uncertainty about dealing in usury triggered public demand for an Islamic banking system in Libya.

The detailed analysis of focused coding 1 focusing on the demand for *Shari'ah* compliant finances by the public, Table 10.8.1 shows that participants unanimously agree that the persistent calls coupled with public pressure and their avoidance of doing business with conventional banks which deal in *riba* have all motivated demands for the establishment of an Islamic banking system in Libya.

In this regard interviewees 1, 2, 3, 4 and 11 highlight the increasing public pressure for the establishment of Islamic banks as being the main motivation for the government to consider the establishment of an Islamic banking system in Libya. Likewise, interviewees 5, 8, 9, 12 and 13 point to the religious nature of the people of Libya and their real wish to stay away from transactions involving *riba* as the main factor pressurizing the government to consider the establishment of the Islamic banking system in Libya.

Table 10.8.2: Focused Coding Number 2 for Question 8

Interviewee No.	Focused Coding 2: Apart from public desire, the fact that the Islamic banking system has been a successful experiment in many countries, and the recent problems and the financial crisis associated with the conventional banking system have provided extra motivation for the establishment of an Islamic banking system in Libya.
6 and 10	The current worldwide financial crisis, the wish of the Libyan people to do business in accordance with <i>Shari'ah</i> principles, and the successful experiment of Islamic banking in many countries around the world.
7	The need for competent financial institutions to boost the Libyan economy, the wish of the people, and the success of Islamic banking in many countries.

Table 10.8.2 shows the detailed analysis of the responses of focused coding 2 that the need to establish an Islamic financial system in Libya is motivated by many factors, most importantly the incompetence of conventional banks as compared to the success of Islamic banking in many countries and, above all, the wish of the Libyan people to do business in accordance with *Shari'ah* principles. For example, according to interviewees 6 and 10, even though the people's wish may be behind the government decision to establish Islamic banks, the successful experiment with the Islamic banking system in a number of countries, particularly in the light of the recent turbulent conditions involving the conventional financial institutions including banks, could be the real reason behind the choice of Islamic banks as one of the solutions to the problem of providing an alternative to conventional banks. In the same context, interviewee 7 argues that the successful experiments involving Islamic finance

institutions offers proof that Islamic banks could provide efficient tools for financing, thus making a significant contribution to the process of economic growth in Libya. He also draws attention to the fact that the above argument could be the main motivation for the government's decision to establish Islamic banks in Libya.

After identifying the main motivation for bringing Islamic banking to Libya, responses to question 9 indicate the opinions and understandings of participants regarding the main objective of the Islamic banking system. Table 10.9 shows the analysis of the participants' responses.

Table 10.9: Focused Coding for Question 9 (Views on the Objectives of Islamic Banking)

Question 9: What are the main objectives of Islamic banking and finance in your view?	
Focused Coding	Remarks
1	The main aim of establishing the Islamic banking system in Libya is to please God by avoiding usury-based (<i>Riba</i>) transactions.
2	In addition to the religious factor, the Islamic banking system tends to contribute to economic and social development by introducing new methods of financing into the Libyan market.
Theme	It could be inferred that Islamic banks have dual goals: first, the methods of funding are based on <i>Shari'ah</i> principles to the satisfaction of the Muslim community in Libya; and second, Islamic banks are capable of introducing new methods of funding that contribute to social and economic development by providing funds to sponsor small and medium-sized projects as well as other business activities to boost the economy.

From Table 10.9, it becomes evident that all participants agree that pleasing God is the main aim of Islamic banks, which they will achieve as long as they do not deal in *riba*. The participants also highlight the fact that Islamic banks have a number of social and economic objectives. These two factors are considered constituting the general theme in this section, and these two focused codings are analyzed further in detail as follows:

Table 10.9.1: Focused Coding 1 for Question 9

Interviewee No.	Focused Coding 1: The main aim of establishing the Islamic banking system in Libya is to please God by avoiding usury-based (<i>Riba</i>) transactions.
3 and 8	Pleasing God by avoiding <i>Riba</i> transactions.
7	Avoiding <i>Riba</i> , and also achieving social justice,

Responses given by participants to focused coding 1 confirm that the aims of Islamic banks are mainly religious. For example, interviewees 3 and 8 stated that Islamic banks in essence provide *riba*-free funding, while interviewee 3 states that dealing in *riba* is against the wish of God and the Prophet (*pbuh*), so Muslims automatically avoid interest-based transactions. However, interviewee 7 stresses the fact that Islamic banks aim at protecting their clients from exploitation by avoiding *riba* transactions, and in the meantime try to introduce new methods of funding in order to achieve social justice and social development.

Table 10.9.2: Focused Coding 2 for Question 9

Interviewee No.	Focused Coding 2: In addition to the religious factor, the Islamic banking system tends to contribute to economic and social development through introducing new methods of financing into the Libyan market.
1	Financing small projects favouring the poor and the unemployed including housing projects.
2, 4, and 6	Financing small projects.
5, 9, 11, and 12	Financing small and medium-sized projects and introducing new methods of financing in the Libyan market, such as <i>Mudarabah</i> , <i>Musharakah</i> , <i>Murabaha</i> and many others.

As for focused coding 2, as can be seen in Table 10.9.2, participants believe that the main aim of Islamic banks is to achieve economic and social development by providing appropriate methods of funding provided those methods are consistent with *Shari'ah* principles. Interviewee 1, for instance, argues that Islamic banks have a duty to provide appropriate methods for financing small and medium-sized development projects as well as making a contribution to establishing housing projects favouring the poor and unemployed in Libyan society. This viewpoint is further confirmed by interviewees 2, 4 and 6 who argue that small and medium-sized projects should be the main focus of Islamic banks to boost the Libyan economy. Interviewees 5, 9, 11 and 12, on the other hand, point out that the new methods of financing provided by Islamic banks such as *musharakah*, *murabahah* etc. should play a major role in promoting competition in the Libyan market. They also describe those methods as an important element for achieving social and economic development by providing funding for individuals and the private sector in Libya.

Since the participants consider Islamic banking also as a means of contributing socio-economic development, in question 10 they were probed on their views with whether Islamic banks contribute to solving problems with regard to financing and re-

establishing trust with individuals. Hence, the answers to question 10 constitute the basis for the analysis in Table 10.10.

Table 10.10: Focused Coding for Question 10 (Views of Participants on the Prospective Role of Islamic Banks in Libya)

Question 10: Would you consider Islamic banking and finance as a potential alternative to overcome financial exclusion and encourage people to engage with banks in Libya?	
Focused Coding	Remarks
1	Given the increasing public demand for Islamic banks, they are expected to play a major role in the Libyan economy.
2	The success of Islamic banks remains a function of the success of its management to introduce policies so that those banks can compete in the Libyan market.
Theme	Islamic banks are expected to play a pivotal role in the next stage particularly with regard to the increasing public demand for those banks to provide financing in accordance with <i>Shari'ah</i> principles. But nonetheless, for those banks to succeed, they need competent and qualified management to raise their efficiency to compete with conventional banks locally and abroad.

As the analysis depicted in Table 10.10 shows, the participants are of the opinion that Islamic banks could provide an alternative to overcome the problems of economic exclusion of some social groups; those groups could then be integrated and could contribute to the process of economic development in the country. However, given the recent political change in Libya, the market could become open for all economic sectors including the banking sector. For this reason the success and sustainability of Islamic banks and their ability to compete in the Libyan market could, to a great extent, depend on the success of those banks in choosing the right policies to cope with the situation.

Based on the identified general theme, the focused coding is analysed in detail in Tables 10.10.1 and 10.10.2.

Table 10.10.1: Focused Coding 1 for Question 10

Interviewee No.	Focused Coding 1: Given the increasing public demand for Islamic banks, they are expected to play a major role in the Libyan economy
1, 3, 4, 6, 7, 10 and 11	Islamic banks will contribute to solving chronic economic problems, particularly those associated with social and economic development in order to establish trust between the banking system and its clients.
9 and 12	The recent success of the Islamic banking system in a number of countries across the world is an encouraging indication that those banks could provide an appropriate alternative to conventional banks in winning the trust of the public in Libya which favours the process of economic and social development.

It can be seen from Table 10.10.1 that the interviewees are confident that with good management, Islamic banks will provide a suitable alternative to conventional banks in providing funding for individuals in Libya. Furthermore, the participants, most importantly, believe that those banks motivate the religious people in Libya to do business within the banking system by building public trust in the banking system. To attain that objective, Islamic banks need to make a vital contribution in providing the necessary financing to small and medium-sized projects, which will definitely assist the state to overcome the chronic social and economic problems in Libya. For example, interviewees 9 and 12 argue that the Islamic banking experiment has been a success so far, in many countries around the world, by building the required trust in the banking system, and thus helping to bring about the anticipated economic growth in those countries.

Table 10.10.2: Focused Coding 2 for Question 10

Interviewee No.	Focused Coding 2: The success of Islamic banks remains a function of the success of its management to introduce policies so that those banks can compete in the Libyan market.
2 and 8	There has been increasing demand for the establishment of Islamic banks in Libya. Good management so as to introduce suitable strategies to ensure that those banks survive in the highly competitive financial market in Libya remains a basic requirement for those banks.
5	Apart from the continuous public calls for Islamic banks to be established in Libya, those banks have to consider suitable and realistic strategies in order to cope with a highly competitive financial market in Libya.

As for the second focused coding on developing the functioning of Islamic banks, according to Table 10.10.2, the interviewees unanimously expect the Islamic banks to

play a positive role in the Libyan financial market provided they have good management that will introduce suitable strategies to cope with the highly competitive financial market in Libya. For instance, interviewees 2 and 8 refer to the increasing public demand for the establishment of Islamic banks in Libya as soon as possible. In their view the Islamic banks tend to rebuild the bridges of trust between the religious public and the banking system in Libya. Hence, the continuity and sustainability of Islamic banks will remain in doubt without good management and realistic strategies to cope with the demanding and highly competitive financial market in Libya. In addition, in this regard interviewee 5 is of the view that, following the recent political change in Libya, more policies favouring economic liberation will be introduced to boost competition in the market, including in the banking sector. For that reason the survival of Islamic banks will depend on their ability to compete with conventional banks, both foreign and local.

Hence, focus in the interviewees shifted to the policies of the current government in developing Islamic banking and finance in Libya. Question 11 was designed to investigate the participants' opinions on whether the transitional government was giving enough consideration to the experiments taking place in other countries with regard to Islamic banking. The analysis displayed in Table 10.11 is based on the interviewees' responses to question 11.

As can be understood from the responses given in Table 10.11, the participants are of the opinion that the government has formed a committee to study the issue of Islamic banking by considering the experiments in other countries, despite the huge commitments of the government to other urgent matters, particularly restoring security and stability in the country. The analysis of the focused coding within the established theme is provided in Table 10.11.1 and Table 10.11.2.

Table 10.11: Focused Coding for Question 11

Question 11: Do you think the transitional government has studied the experience of other countries in proposing the Islamisation of the banking system?	
Focused Coding	Remarks
1	The transitional government has a number of duties to undertake including restoring stability in the country following the end of the February 17 th revolution. Nonetheless, the government may not have time for future planning, as that matter should be the duty of the next elected government.
2	Despite the fact that the transitional government is mainly focused on urgent matters such as security and restoration of stability in the country, a committee has been formed by the Central Bank of Libya to study the experiments in other countries in relation to Islamic banking.
Theme	Despite its huge commitments to restoring peace and security to the country, the transitional government is paying attention to the issue of Islamic banking. In this regard, a committee has been formed to explore experiments in Islamic banking in other countries in the region so that the government will be able to introduce the necessary reforms to the laws of the banking system in order to accommodate Islamic banking.

Table 10.11.1: Focused Coding 1 for Question 11

Interviewee No.	Focused Coding 1: The transitional government has a number of duties to undertake including restoring stability in the country following the end of the February 17 th revolution. Nonetheless, that government may not have time for future planning, as that matter should be the duty of the next elected government.
2	The transitional government is a temporary short-term government, so it probably won't have time for strategic planning.
3, 4, 12 and 13	The main duty of the transitional government is restoring security and stability in the country.

According to Table 10.11.1, the participants agree that economic planning is not one of the top priorities of the transitional government, as it is mainly focused on other urgent matters in relation to security. Thus, studying the experiments in other countries may not be one of the priorities of the government given its short duration, not exceeding 8 months (during the time of the interviews). In this regard, according to interviewee 2, the government might be called a crisis government charged with providing solutions to a number of urgent matters. In other words, as the government is a caretaker government long-term strategic planning is not one of its duties. In a similar manner, interviewees 3, 4, 12 and 13 stress that matters of security and stability are the main duties of the interim government, so it will not have time for matters of long-term planning including Islamic banking, which should be one of the priorities of the next elected government.

Table 10.11.2: Focused Coding 2 for Question 11

Interviewee No.	Focused Coding 2: Despite the fact that the transitional government is mainly focused on urgent matters such as security and restoration of stability in the country, a committee has been formed by the central Bank of Libya to study the experiments in other countries in relation to Islamic banking.
1, 5, 6, 8, 9 and 11	The formation of a committee of experts to look into the experiments in other countries, and the development of the already existing Islamic financial institution provide evidence that the interim government is paying attention to the issue of Islamic banking.

The analysis of the second coding of question 11 is depicted in Table 10.11.2, which indicates that all the interviewees are of the opinion that, following the February 17th revolution, the new interim government had to focus on sensitive issues of principal concern to the public, such as security. Nonetheless, it is argued that the government did not ignore other matters such as the issue of Islamic banking. Thus, the government established a committee of specialists to look into experiments in other countries where the issue of Islamic banking has been explored. In supporting this, interviewees 1, 5, 6, 8, 9 and 11 confirmed that the committee had started its duties in earnest by examining the experiments in other countries in the region and beyond. Moreover, interviewee 9, who is the head of the Islamic Banking Committee at the Central Bank of Libya, has confirmed that the committee has already started to make contact with scholars and specialists in the area of Islamic banking and Islamic moral economy for advice. He also informed that the committee is considering the experiments in other countries, taking into account the particularities of Libyan society.

After discussing the views and strategies of government on the issue, question 12 is designed to explore the awareness and expectations of the Libyan people of Islamic banks through the perceptions of the participants. Table 10.12 provides a summary of the analysis of the responses to question 12.

Table 10.12: Focused Coding for Question 12 (the Ambitions and Awareness of the Participants Regarding the Process of Islamic Banking in Libya)

Question: Do you think Libyan people have any expectations of Islamic banking and finance? If you think they have, what kind of expectations do they have? Also do you think people know about Islamic banking and finance?	
Focused Coding	Remarks
1	Given the strong religious background of the people of Libya they look forward to financial institutions in the country, including the banking sector, providing their services in accordance with <i>Shari'ah</i> principles. But nonetheless, for a variety of reasons, the majority of the Libyan people have very little knowledge about the process of Islamic banking and the activities involved.
Theme	For religious reasons, the people of Libya are in favour of the Islamic banking system, so that they can avoid dealing in usury (<i>Riba</i>), which is the main feature of conventional banks. The people of Libya expect Islamic banks to provide their services in accordance with Islamic <i>Shari'ah</i> by avoiding usury (<i>Riba</i>) and other non-religious practices to please God and avoid His curse. In this regard, the defunct regime was adamant in not responding to the people's demands to promote the Islamic banking industry in the country. For that reason the people of Libya in general, and particularly those working in the banking sector, have become negatively affected in terms of their knowledge and awareness of the process of Islamic banking.

A quick review of Table 10.12 indicates that the participants are in the opinion that the Libyan people are strongly in favour of the Islamic banking system and look forward to seeing such a system established in Libya, as the people of Libya prefer to practise their religion in every aspect of life, including banking transactions. However, by excluding the experiment in Islamic banking from its agenda by focusing on conventional banking, the previous regime has deprived the people of the necessary knowledge and information to promote the success of the Islamic banking industry in Libya. After establishing the general theme and the coded focus, Table 10.12.1 provides further analysis on the views of participants on the nature of demand for Islamic banking in Libya.

Table 10.12.1: Focused Coding 1 for Question 12

Interviewee No.	Focused Coding 1: Given the strong religious background of the people of Libya, they look forward to financial institutions in the country, including the banking sector, providing their services in accordance with <i>Shari'ah</i> principles. But nonetheless, for a variety of reasons, the majority of the Libyan people have very little knowledge about the process of Islamic banking and the activities involved.
2	Yes they have expectations with regard to good management in the banking sector so as to get rid of bureaucratic procedures found in conventional banks
3, 4 and 13	Islamic banks tend to provide <i>Shari'ah</i> -based services, so as to avoid usury (<i>Riba</i>) and other malpractices associated with conventional banking. But the government needs to promote awareness and knowledge of Islamic banking among the people to improve the chances of success.
5 and 6	The people of Libya are not well informed on the process of Islamic banking. That knowledge could be raised through media campaigns, public symposiums, conferences, and training sessions.
7, 9, 10 and 11	The people of Libya are not fully informed on the process of Islamic banking. The defunct regime should take the blame for that, as they tended to discourage the Islamic banking industry in the country.
8 and 12	The people of Libya seem to have great interest in raising their knowledge of Islamic banking. Hence, given the fact that the people of Libya are very good at learning, they will gain that knowledge in a very short time provided they are given the right assistance.

As Table 10.12.1 shows, as identified by the participants, the people of Libya look forward to a highly efficient banking service consistent with *Shari'ah* principles through the establishment of Islamic banks. Nonetheless, for one reason or another, the people of Libya have remained under-informed about the process of Islamic banking. In this respect interviewee 2, for example, points out that the people of Libya are expecting good service from those banks that are compatible with *Shari'ah* law. He goes on to say that the new management should work hard to get rid of the bureaucratic practices associated with conventional banks. However, interviewees 3, 4 and 13, stress the fact that getting rid of usury-based transactions is the main concern of the Libyan people, so that those transactions become consistent with the principles of *Shari'ah*. Nonetheless, the participants argue that the people of Libya need to increase their knowledge of the banking industry. In the same context, interviewees 5 and 6 argue that people's awareness of the Islamic banking industry could be raised through organized media campaigns, conferences and symposiums, as well as through organized training sessions for those who are interested, particular the staff. Moreover, interviewees 7, 9, 10 and 11 stress that the people of Libya have great expectations of obtaining funding through new methods consistent with *Shari'ah*

and point out that the previous regime should take full responsibility for the slowing down of the procedures, which has had a negative impact on the knowledge and awareness of the people with regard to the Islamic banking industry. Likewise, interviewees 8 and 12 are of the opinion that the real interest of the people of Libya in Islamic banking will motivate them to gain the necessary knowledge in a very short time to produce a successful experiment in Libya.

10.6 PERCEPTIONS ON THE CRITICAL PERSPECTIVES ON ISLAMIC BANKS IN LIBYA NAND ALTERNATIVE INSTITUTIONALISATION FOR ISLAMIC FINANCE

After exploring the views of participants on the aims and objectives of Islamic banks, and the contributions that might be made by those banks in regard to the financial and economic problems faced by the Libyan economy, this section aims to investigate the views of the participants in regard to the critical approaches to Islamic banking in general and alternative Islamic finance institutionalisation in relation to the realities of Libya.

The participants were asked to answer question 13 in order to explain their views on the anticipated role of the Islamic banking sector in relation to the growth and development need of the Libyan economy. Table 10.13 below displays a summary of the analysis of the answers to question 13.

Table 10.13: Focused Coding for Question 13 (Views on the Anticipated Role of Islamic Banking in Growth and Development of the Libyan Economy)

Question 13: Do you think the Islamic banking and finance sector can help Libya's economic growth and development?	
Focused Coding	Remarks
1	Islamic banks could be a great help to the process of economic development and economic growth in Libya.
Theme	It is expected that the Islamic banking system will play a major role in the process of economic development in Libya. That could be done by providing the right products and options to promote investment in accordance with <i>Shari'ah</i> principles. In order to do that the experiments in other countries in the area of Islamic banking should be taken into account and there should also be a focus on the requirements of the Libyan economy by providing funding to small and medium-sized projects to alleviate the problems of poverty and unemployment.

From Table 10.13 it can be understood that all those who have been interviewed have a strong belief that Islamic banks will promote the process of economic growth and development in Libya. Nonetheless, some of the interviewees stress the importance of taking into account the experiments in other countries in the sector in order to achieve the anticipated goals of the Islamic banking process. Furthermore, some of the participants argue that focusing on the requirements of the Libyan economy, mainly the financing of small and medium-sized projects, is key to the success of Islamic banks in the Libyan financial market. After establishing the focus coding, Table 10.13.1 provides more detailed information on the responses of the interviewees.

Table 10.13.1: Focused Coding 1 for Question 13

Interviewee No.	Focused Coding 1: Islamic banks could be a great help to the process of economic development and economic growth in Libya.
1, 3, 4, 5 and 8	Islamic banks are capable of assisting the development and growth of the Libyan economy.
6, 7, 10 and 11	Islamic banks provide alternatives and options for economic development compatible with <i>Shari'ah</i> principles.
9 and 13	For the Islamic banking system to become successful in Libya, experiments of other countries should be taken into account.
2 and 12	In order to assist the process of economic development in Libya, focus should be made on small and medium-sized projects.

A coding of participants' responses on question 13 on the role of Islamic banks in the process of economic growth in Libya is given in Table 10.13.1. As can be seen, interviewees 1, 3, 4, 5 and 8 assert that Islamic banks are capable of providing the required assistance for the promotion of economic growth in the Libyan economy to compensate for the obvious failure of the private and public conventional banks in this area. Moreover, participants 6,7,10 and 11 point out that Islamic bank is expected to play a pivotal role in the process of economic development in Libya by providing the necessary funds for investment projects through methods consistent with *Shari'ah* principles. Interviewees 9 and 13, on the other hand, highlight the fact that the success of the experiment of Islamic banking in many countries around the world should provide a strong indication that those banks are capable of playing a significant role in the development of the Libyan economy. But in their view Libya needs to study those experiments closely to avoid any potential setbacks associated with them. In this regard, interviewees 2 and 12 add that the Islamic banking sector will tend to promote the process of economic growth in Libya by focusing on small and medium-sized

economic development projects during the current and next stages, favouring the poor and unemployed.

After getting an informed understanding of the role Islamic banks can play in the economic growth and development of Libya, question 14 is aimed at exploring the opinions of participants on the criticism raised against Islamic banks that they are the same as conventional banks in terms of content, the only difference being that the former are decorated with Islamic slogans. A summary of the analysis of the interviewees' responses to this statement is depicted in Table 10.14, with two coded results.

Table 10.14: Focused Coding for Question 14 (Opinions on Criticisms of Islamic Banks)

Question 14: There are criticisms that Islamic banking and finance is nothing more than capitalism in Islamic dress. Please share your opinion on this.	
Focused Coding	Remarks
1	Islamic banks are completely different from conventional banks in terms of form and content. However, most critics of the idea of Islamic banking seem not to be quite aware of the nature of those banks and the way they operate.
2	Islamic banks could resemble conventional banks in one way or another, particularly in the absence of <i>Shari'ah</i> -based control in some transactions.
Theme	Islamic banking and conventional banking are two discrete systems in terms of principles and methods. For example, Islamic banks operate according to the principles of profit and loss, while conventional banks work in accordance with interest-based transactions, a matter rejected in Islam as usury or <i>Riba</i> . But under lax measures of control many Islamic banks try to play with the rules and become involved in corrupt dealings which trigger a wave of criticism of the Islamic banking system as a whole.

From Table 10.14, the views of the participants on the criticism raised against the Islamic banks can be summarized in the following two focused codings: (1) Islamic banks are completely different from conventional banks; (2) There is a lack of tight controls based on *Shari'ah* principles, which sometimes encourages some of the Islamic banks to play with the rules, veering from the main aims. Thus, these two focused coding constitute the contents of the main theme for this statement. According to the views expressed, these two themes constitute the basis of a general understanding that the Islamic banking system has nothing to do with the conventional banking system in terms of aims and the way it operates. Nonetheless,

as indicated by the participants, some malpractices in the former in order to evade the rules of *Shari'ah* have led to critics unfairly describing them as being similar to the latter.

Further analysis on the focused coding is presented in Table 10.14.1 and 10.14.2.

Table 10.14.1: Focused Coding 1 for Question 14

Interviewee No.	Focused coding 1: Islamic banks are completely different from conventional banks in terms of form and content. However, most critics of the idea of Islamic banking seem not to be quite aware of the nature of those banks and the way they operate.
1 and 10	The Islamic banking system is basically different from the conventional banking system. Islamic banks operate on the principle of profit and loss to be shared by the parties involved in transactions, while in conventional banks transactions are based on interest, which amounts to usury or “ <i>Riba</i> ”.
4, 5, 6, 8, and 9	Islamic banks and conventional banks are two discrete systems, but poor knowledge of the former could lead to confusion between the two systems. So, in order to avoid such confusion, promotion of Islamic banks becomes a necessity.
7	The critical views with regard to Islamic banks are inaccurate. The fact that Islamic banks exist even in non-Muslim countries should prove that these banks are becoming popular and gaining ground at the expense of conventional banks.
11 and 12	The main difference between the Islamic banking system and the conventional banking system is that the former tends to boost social justice while the latter encourages monopoly, favouring capitalism.

As can be seen in Table 10.14.1, the majority of participants believe that Islamic banks are different from conventional banks. For instance, interviewees 1 and 10 point out that the principle of sharing profit or loss between the parties involved constitutes a basic difference between Islamic banks and conventional banks, as the latter use interest-based transactions amounting to usury or ‘*riba*’, a practice prohibited by Islamic *Shari'ah*. Interviewees 4, 5, 6, 8 and 9, on the other hand, stress the fact that Islamic banks are completely different from conventional banks in terms of functions, objectives and the way they operate. They further point out that most critics of the Islamic banking system lack knowledge of that system; therefore promotion and publicity for the Islamic system should become an important matter for the success of Islamic banks in the Libyan market. In a similar manner, interviewee 7 points out that the criticism of Islamic banking may be inaccurate, and that the rapid expansion of Islamic banks in reaching non-Muslim countries could provide

undisputable evidence favouring Islamic banks in terms of efficiency and products. Furthermore, interviewees 11 and 12 argue that Islamic banks favour social justice by providing their services to all social groups, using fair and just methods such as *murabahah* and *musharakah* and others to avoid exploitation of customers. By contrast, conventional banks always favour particular social groups; this means that many social groups are excluded from the service, resulting in more poverty and unemployment.

Table 10.14.2: Focused Coding 2 for Question 14

Interviewee No.	Focused coding 2: Islamic banks could resemble conventional banks in one way or another, particularly, in the absence of <i>Shari'ah</i> -based control in some transactions.
2	Islamic banks are very similar to conventional banks, particularly in terms of lack of credibility.
3 and 13	Islamic banks could apparently resemble conventional banks, but that could be due to lack of tight control in accordance with <i>Shari'ah</i> law, which encourages some of the Islamic banks to play with the rules, and become engaged in malpractice.

As regards to the second focused coding, three interviewees featuring in Table 10.14.2 are of the view that some similarities exist between Islamic banks and conventional banks. In this regard, interviewee 2 believes that a number of transactions involving Islamic banks lack credibility, which might question the legality of those transactions. By the same token interviewees 3 and 13 believe that, given the possible devious ways of playing with the rules, Islamic banks could be described as being similar to conventional banks. But this could be due to ineffective *Shari'ah*-based control systems operating in some Islamic banks, which might encourage them to evade the rules.

Question 15 aimed at furthering the discussion on the criticism raised against Islamic finance and banking in terms of socio-economic development. In other words, it seeks to investigate the views of participants on the role of Islamic banks and other financial institutions in the process of social development in a number of countries, including the prospective role to be played by those institutions in Libya. The analysis of the responses of participants to question 15 is shown in Table 10.15.

Table 10.15: Focused Coding for Question 15 (Views on the Prospective Role of Islamic Banks in the Social Development Process)

Question 15: A number of studies show that Islamic banks and financial institutions failed to contribute to the development of their societies and even failed to comply with corporate social responsibility in terms of giving back to society. If this is the case, do you think that commercial Islamic banks, as they are today, will help to overcome Libya's economic problems?	
Focused Coding	Remarks
1	So far, Islamic banks have responded positively to the requirement for social development in a number of countries in which they operate.
2	Islamic banks should work within a specific framework and a proper environment, which will certainly enable those financial institutions to deliver their services to boost investment in favour of social and economic development.
Theme	Islamic banks and other financial institutions have certainly made significant contributions in achieving various social objectives in a number of countries around the world. Nonetheless, providing a clear strategy and a suitable environment besides tight controls would inevitably assist those institutions or organizations to achieve positive results in the process of social development.

From the views of participants shown in Table 10.15 with regard to the social and developmental role undertaken by Islamic financial institutions, including banks, it could be concluded that most responses feature the following two themes: (i) In terms of social responsibility, the experiment with Islamic financial organizations has been successful in a number of countries across the world; (ii) in order to achieve their goals, Islamic financial institutions need to work within the right framework. Thus, a more apologetic response was provided by the participants.

The above two focused groups constituting the theme for this statement might indicate a general understanding that Islamic banks could play an effective role in achieving social development provided the required environment is available for those institutions to operate in, including the proper legal framework based on the principles of *Shari'ah*. More detailed analysis on the established focused coding is provided in Tables 10.15.1 and 10.15.2.

Table 10.15.1: Focused Coding 1 for Question 15

Interviewee No.	Focused Coding 1: So far, Islamic banks have responded positively to the requirement for social development in a number of countries in which they operate.
1	Given the fact that Islamic banks have been successful with regard to the process of social development, a number of Western countries are now trying to copy the experiment associated with Islamic banking.
10 and 11	Islamic banks have worked towards achieving a number of goals in the area of social development, particularly in the Gulf region. Thus, some of the criticism of Islamic banks may be unwarranted.

According to the analysis presented in Table 10.15.1, the participants agree that the experiment with Islamic banks in the area of social development has been a success. In this respect interviewee1, for example, refers to the significant role Islamic banks have been playing in a number of Muslim countries in relation to the process of social development. However, interviewees 10 and 11 also suggest that Islamic banks have been successful in achieving some social development goals in Gulf countries in particular. They also cast doubts on the credibility of studies that have been critical of Islamic banks in terms of the social role they have been playing so far.

Table 10.15.2: Focused Coding 2 for Question 15

Interviewee No.	Focused Coding 2: Islamic banks should work within a specific framework and a proper environment, which will certainly enable those financial organizations to deliver their services to boost investment in favour of social and economic development.
2 and 5	It becomes necessary for a strategy for development and a mechanism for operation of banks, including Islamic banks, to be in place.
3, 6 and 7	Islamic banks should be under tight control based on the principles of <i>Shari'ah</i> , and should also be encouraged to make more contribution to the process of social development.
8, 9, 12 and 13	Islamic banks should operate in the right environment with the elimination of all organizational and legal obstacles, so that they can play a more positive prospective role in the process of social development.

As for the second coding, Table 10.15.2 shows that the participants perceive the prospective role of Islamic banks in the area of social development provided those banks operate within the right conditions. Interviewees 2 and 5, for instance, stress the necessity of suggesting the right strategies and plans for social development in addition to defining the roles designated for the different financial organizations involved in the process of social development, including Islamic banks. In addition, interviewees 3, 6 and 7 make the point that putting Islamic banks under tight control

based on *Shari'ah* principles as well as activating their social role will undoubtedly enable those banks to play their positive anticipated role in the process of social development. Furthermore, interviewees 8, 9, 12 and 13 argue that Islamic banks will play their prospective roles in promoting social development in Libya provided that they operate in the right environment, including the elimination of the legal and organizational obstacles.

In further probing the participants in relation to socio-development failures of commercial Islamic banks, they were asked to express their views on Islamic social banking by referring to the initial experience of Mith Ghamr bank in Egypt in the 1960s. Question 16, therefore, seeks to explore the participants' opinions on the idea of establishing an Islamic social bank as a model that would be different from the Islamic commercial banks currently existing in some countries around the world. Responses to question 16 constitute the basis of the analysis shown in Table 10.16.

Table 10.16: Focused Coding for Question 16 (Investigating the Possibility of Establishing an Islamic Social Bank in Libya)

Question 16: You may know that the initial Islamic bank was a social Islamic bank called Mith Ghamr in Egypt in 1963, which aimed at contributing to the development of small business. It was an Islamic social bank. Considering that Libya needs community development and empowerment of individuals and society, do you think Libya should go for commercial Islamic banking like anywhere else, or should Libya make a difference by re-creating Islamic social banking?	
Focused Coding	Remarks
1	The conventional Islamic banks could be capable of achieving the social goals provided that conditions are right for that purpose.
2	The uniqueness of the Libyan economy and the social requirements in Libya could make the establishment of an Islamic social bank an urgent necessity to deal with poverty, financial exclusion and housing problems.
Theme	The conventional Islamic commercial banks could possibly achieve a number of social goals provided that a number of conditions are met, such as having a clear-cut plan for funding or financing, taking the experiments of other countries into account, and trying to avoid failures, particularly with regard to social aspects. Nonetheless, the unique nature of the Libyan economy coupled with the requirements of the people should imply the establishment of a social Islamic bank as a new model focusing on social matters in Libya.

Table 10.16 summarizes the participants' views on the possibility of establishing an Islamic social bank different from the commercial Islamic banks operating in other countries in terms of objectives and functions as an urgent social requirement in

Libya. The respondents agree that, provided the right environment and requirements are available for those banks to operate in, they may be capable of achieving a number of social objectives. Nonetheless, a number of participants argue that the urgent need to tackle social and developmental problems in Libya such as poverty, unemployment, housing *etc.* should imply the establishment of a new model of Islamic banks, different from those in other countries, and that model could be a new generation of Islamic social banks.

After identifying the main theme in this section, more detailed analysis on the two focused codings are presented in Tables 10.16.1 and 10.16.2.

Table 10.16.1: Focused Coding 1 for Question 16

Interviewee No.	Focused Coding 1: The conventional Islamic banks could be capable of achieving the social goals provided that conditions are right for that purpose.
1	There is nothing wrong with the conventional Islamic banks as they may still be able to achieve the anticipated social goals.
2	The conventional Islamic banks could possibly achieve the social goals provided certain conditions are met, such as a clear funding policy and an accurate definition of the functions and duties designated for those banks.
3 and 11	The conventional Islamic banks could be capable of achieving the anticipated social aims provided they operate under tight control based on <i>Shari'ah</i> principles.
9 and 10	The conventional Islamic banks are bound to achieve the social goals by making use of the experiments in other countries to avoid potential obstacles in this area. Thus the possibility exists that the duties of Islamic banks could be extended to include social matters.

As the analysis in Table 10.16.1 shows, the participants are of the opinion that Islamic banks could be capable of promoting their services and products to achieve the social goals provided that specific conditions and requirements are met. In this regard, interviewee 1 points out that he finds no difference between the new generation of social banks and the conventional Islamic banks as long as the latter remain on course to achieve the anticipated social goals. In addition, interviewee 2 seems to be confident that conventional Islamic banks are capable of achieving social goals provided clear funding is considered and the functions and duties are defined in relation to the banking sector, including Islamic banks. Moreover, according to interviewees 3 and 11, abiding by the rules of transactions under tight control based on *Shari'ah* principles should assist Islamic banks to achieve the anticipated social goals. Finally, interviewees 9 and 10 also refer to the fact that conventional Islamic

banks could possibly assist the achievement of social goals in Libya provided they take the experiments of other countries into account to avoid the difficulties and obstacles encountered by those countries. They go further to confirm that studies such as the current study will definitely help to promote the experiment in Islamic banks in order to expand the duties and functions associated with conventional Islamic banks.

Table 10.16.2: Focused Coding 2 for Question 16

Interviewee No.	Focus coding 2: The uniqueness of the Libyan economy and the social requirements in Libya could make the establishment of an Islamic social bank an urgent necessity to deal with poverty, financial exclusion and housing problems.
4, 5, 6, 7, 8 and 13	It is necessary to take into account the unique nature of the Libyan economy, and the focus should be on the urgent requirements of Libyan society, such as dealing with poverty, unemployment and housing problems. Establishing an Islamic social bank could be the most suitable approach to such a job.

As the analysis for focused coding 2 in Table 10.16.2 indicates, the participants agree that the establishment of an Islamic social bank should become a necessity. For example, interviewee 4 suggested the introduction of a new model of Islamic bank to promote the social aims in order for Islamic banks to tackle the numerous social problems in Libya. Similarly, interviewees 5, 6 and 7 confirm the unique nature of the Libyan economy and its associated social problems of poverty, unemployment and housing. For that reason they recommend that attention be paid to those problems, which implies the establishment of an Islamic social bank to deal with those social problems. interviewee13, on the other hand, argues that it is necessary for policy-makers to make use of scientific research in all areas. Thus, the failure of Islamic banks to achieve a number of social goals in other countries should render the idea of establishing a new model of Islamic social banking in Libya essential. Such a model should be different from conventional Islamic banks to respond to the urgent needs of Libyan society and avoid the setbacks encountered by the experiments in other countries.

Question 18, therefore, seeks to investigate the interviewees' opinions on whether, taking the current realities and circumstances of Libya into account, the idea of Islamic social banking provides the best strategy for the socio-economic development

of the country. A summary of the analysis of the interviewees' responses to question 18 is shown in Table 10.17.

Table 10.17: Focused Coding for Question 18

Question 18: Do you think that introducing Islamic social banks to contribute to the development of Libyan economy and society is a better strategy considering the realities of the economy?	
Focused Coding	Remarks
1	Given the current circumstances and requirements of the Libyan economy, the idea of Islamic social banking should provide the best strategy so far for economic and social development in Libya.
2	A number of conditions and requirements need to be fulfilled to ensure the effectiveness of Islamic social banks in Libya. Most importantly, those banks should operate within a comprehensive economic vision, by taking the experiments in other countries into account.
Theme	The idea of Islamic social banking could contribute to the solution of some of the socio-economic problems in Libya. Nonetheless, their success should be a function of a comprehensive plan for economic reform. Also, policy-makers need to study closely the latest developments with regard to the experiments in other countries in the area of Islamic banking. Also, they need to promote awareness among Libyan society in general and banking staff in particular in order to achieve the anticipated goals.

From Table 10.17 it becomes obvious that the interviewees' responses can be summarized in two focused codings. Focus coding 1 relates to responses of interviewees 1, 3, 4, 6, 7 and 10, who perceive Islamic banks as the best strategy for socio-economic development in Libya, as those banks provide a suitable tool for sorting out many social problems in the country, particularly in the current circumstances. Interviewees 2, 5, 8, 9, 11 and 13, on the other hand, argue that Islamic social banks could probably provide solutions to some economic problems in Libya provided certain conditions and requirements had been met. In this regard, interviewees 2, 5 and 8 points out that those banks should undertake their role and duties within a comprehensive economic plan in the next stage. Furthermore, according to interviewee 9, the success of those banks should largely be a function of the process of reviewing the experiments in other countries as well as seeking the opinions of scholars in the area of Islamic banking, so that policy-makers will be able to avoid problems associated with Islamic banks, particularly social problems. Finally, interviewees 11 and 13 stress that the anticipated role of banks, be they

conventional banks or Islamic social banks, should mainly depend on the level of awareness and knowledge of the society involved as well as the efficiency of the staff working in the banking sector.

To understand participants' views on the larger issues, question 19 aims to probe the views of the participants on the idea of Islamising the whole economy to make the process of Islamic banking a successful experiment that will achieve its anticipated goals in Libya. The responses to question 19 are analyzed in Table 10.18.

Table 10.18: Focused Coding for Question 19

Question 19: Do you think that, rather than only Islamising the financial system, the whole economic system should be Islamised to provide the necessary Islamic operational framework for Islamic banks and financial institutions, since Islamic finance without Islamic moral economy seems to fail to deliver its main objectives, such as those associated with the process of sustainable development and social responsibility?	
Focused Coding	Remarks
1	The Islamisation of the economy constitutes the cornerstone of the success of the process of Islamic banking and finance in order to achieve sustainable development and social responsibility.
2	Although establishing the right environment remains a basic requirement for the operation of Islamic banks, the full Islamisation of the economy in one step could produce negative effects, particularly with regard to transactions involving foreign countries.
Theme	The Islamic moral economy is an important requirement for achieving the main objectives of Islamic finance. To reach that goal the establishment of the infrastructure for Islamic banks remains an urgent need. That infrastructure should feature the essential legislation and the economic plans and strategies in support of the banking system. Nonetheless, at this stage the establishment of Islamic banks could be the first step in the full Islamisation of the economy that may be possible in later stages provided the conditions are right, both internally and externally, for such a transformation.

A brief review of Table 10.18 indicates that the bulk of the interviewees' responses can be summarized in two major themes, which lead to a general understanding that the Islamisation of the Libyan economy will be indispensable for the creation of a suitable environment essential for the success of Islamic banks. Nonetheless, some of the interviewees are of the opinion that, as far as the current stage is involved, the idea of establishing Islamic banks is most suitable as an initial step for the full Islamisation of the economy, provided basic legal and organizational requirements are in place for those banks. Within the established general theme, the detailed analyses for the focused codings are presented in Tables 10.18.1 and 10.18.2.

Table 10.18.1: Focused Coding 1 for Question 19

Interviewee No.	Focused Coding 1: The Islamisation of the economy constitutes the cornerstone of the success of the process of Islamic banking and funding in order to achieve sustainable development and social responsibility.
1, 2, 3, 4	The Islamisation of the Libyan economy is a basic requirement for economic development.
7, 10, 11, 12, 13	The Islamisation of the Libyan economy remains an important need as long as the right infrastructure for Islamic banks to operate has been put in place, most importantly setting the right stage for legislation and organization for Islamic banks.

In detailing the analysis for focused coding 1, Table 10.18.1 sets out the opinions of nine of the interviewees, who believe that the full Islamisation of the Libyan economy will become essential for the process of Islamic banking and financing to succeed and achieve sustainable development and social responsibility in Libya. Furthermore, interviewees 1, 2, 3 and 4 argue that the financial system should remain part and parcel of the economic system so that it would be affected by any economic changes. Consequently, they are in no doubt that the Islamisation of the Libyan economy should favour Islamic financial institutions, including Islamic banks, in order to achieve their anticipated goals. In the same context, interviewees 7, 10, 11, 12 and 13 believe that the Islamisation of the Libyan economy is essential to provide the right environment including the right infrastructure and, most importantly, the introduction of the right institutional and legislative framework for Islamic banks and other financial institutions to achieve their objectives.

Table 10.18.2: Focused Coding 2 for Question 19

Interviewee No.	Focused Coding 2: Although creating the right environment remains a basic requirement for the operation of Islamic banks, the full Islamisation of the economy in one step could produce negative effects particularly with regard to transactions involving foreign countries.
5, 6	The Islamisation of the Libyan economy should be a gradual process.
8, 9	The Islamisation of the Libyan economy should proceed step by step, and should begin with the creation of the right environment by issuing and amending some of the important legislations governing the banking sector in Libya.

As for the second focused coding, a close examination of Table 10.18.2 reveals the opinions of participants, who believe that successful Islamic banking should in essence become a function of a suitable infrastructure including the right legislation and organizational framework. Hence, they believe that, as far as the Libyan economy is concerned, the process of Islamisation should be gradual and involve a number of

stages in order to avoid any setbacks in terms of transactions with foreign countries. For instance, interviewees 5 and 6 highlight the fact that the Islamisation of the Libyan economy should be a major and gradual process, with the establishment of Islamic banks as a first step, which might be the most suitable step at this stage. Similarly, interviewees 8 and 9 confirm that the creation of the right environment, including the right institutional and legislative framework, should be a basic requirement for the success of Islamic banks in Libya, but they also warn that, at this stage, decision-makers should not hurry to bring about the full Islamisation of the economy, as this might have unfavourable consequences. They justify their views by pointing to the strong commercial links between Libya and many other countries around the world, suggesting that any sudden change might have direct effect on economic, commercial and financial relationships with other countries around the world.

In furthering the discussion on the same areas, question 21 aims to explore the views of the interviewees on the ability of Islamic banks to provide new, high-quality services to meet the expectations and ambitions of the Libyan people in the light of the fact that those banks have so far failed to respond to the urgent public requests for them to become socially involved, a failure already experienced in some other countries. Table 10.19 features the analysis of the participants' responses to question 21.

Table 10.19: Focused Coding for Question 21

Question 21: The international evidence demonstrates that Islamic finance has failed to communicate with ordinary people and has failed to offer community banking. Do you think Libyan Islamic banking can make a difference in terms of fulfilling the social and economic expectations of the people?	
Focused Coding	Remarks
1	There is general public optimism that Islamic banks will successfully deliver on their declared aim of providing high-quality services favouring the people of Libya.
Theme	The Islamic banks in Libya will respond to the public needs by providing banking services to international standards. It is expected that those banks will provide solutions to many social problems in Libya. Therefore, the success of those banks is subject to a number of conditions including the real political will, the availability of the right infrastructure for the banking sector to operate, conducting the necessary research studies, and taking the experiments in other countries into account.

As depicted in Table 10.19, the majority of participants agree that Islamic banks would make significant contributions by responding to the urgent needs of Libyan society and providing the required financing. Interviewees 5, 6, 7, 8 and 10, for example, point out that the Libyan people would be strongly in favour of the idea of Islamic banking in order to avoid interest-based transactions, which would amount to usury (*riba*). In this regard, the Libyan people would be confident that Islamic banks would meet their financing needs, and that confidence would provide a strong base for those banks in Libya. In addition, interviewees 3, 4, 9 and 13 are of the opinion that, for Islamic banking to succeed in Libya, the experiments in other countries must not be ignored; this would help to avoid setbacks, particularly in the area of social responsibility of those institutions. Furthermore, interviewee 11 argues that Islamic banks might succeed in providing high-quality banking services for the people of Libya provided that the government had the political will to establish those banks, and that suitable infrastructure was available for those banks to operate, particularly legislation and organizational arrangements suitable for this purpose. He goes on to attribute the failure of the experiment in some countries to inadequate arrangements at the legal and organizational levels for those banks to operate properly, resulting in many of them failing to meet the urgent funding needs of the people in the countries involved. In the same context, interviewee 12 points out that the Islamic banking experiment would probably succeed in Libya provided that it operated in the right competitive environment, taking into account the principles of *Shari'ah* and social responsibility. In order to achieve their anticipated goals Islamic banks, as argued, should be operating under tight control measures.

In fact, for the experiment of Islamic banking to succeed in Libya, those banks must, in one way or another, avoid a number of setbacks and failures that have been associated with the experiments in other countries, including using *murabahah* as a major method of financing, and not paying attention to other methods of Islamic finance such as *mudarabah* and *musharakah* involving *qard al-hassan*. As part of the social and economic development roles assigned to Islamic banks, this issue is believed to be important. The participants' responses to question 22, hence, indicate their opinions on this matter, and the analysis of those responses is depicted in Table 10.20.

Table 10.20: Focused Coding for Question 22

<p>Question 22: The Islamic banking and finance industry is getting closer to a debt-based system and diverging from the principles of Islamic moral economy, meaning that <i>murabahah</i> has become the major method of financing in Islamic banks all over the world. However, in order to avoid that setback in Libya, other methods of Islamic funding such as <i>musharakah</i>, <i>mudarabah</i> and <i>Qard al-hasan</i> need to be considered. However, Islamic banks in Libya, like their counterparts in other countries across the world, may decline if they practise <i>musharakah</i> and <i>mudarabah</i> financing. How do you think this problem can be solved in Libya?</p>	
Focused Coding	Remarks
1	It is expected that Islamic banks in Libya will provide their services by using all methods of Islamic funding such as <i>Mudarabah</i> , <i>Musharakah</i> , <i>Mudarabah</i> and <i>Qard al-hassan</i> .
Theme	The Islamic banking system is a great prospect in Libya, and is expected to give a great boost to the process of economic development, provided that the suitable environment is available for the system to operate properly, including the right infrastructure and the relevant legislative and organizational provisions in order to provide the appropriate funding products to the customers.

As can be seen in Table 10.20, the majority of participants are in agreement that the Islamic banking system in Libya should make significant contributions to the process of social and economic development in the country by providing the appropriate solutions to a number of economic problems to alleviate the people’s suffering. To reach that end, however, a number of Islamic methods of financing could be used by Islamic banks for different purposes, including *musharakah*, *mudarabah* and *qard al-hassan*. In this context, interviewees 1, 4, 5, 6, 7, 8 and 10 argue that the current situation in Libya coupled with the requirements of Libyan society should require Islamic banks to focus some of their activities on financing projects to boost the process of economic development in the country. In their view, Islamic banks should introduce various methods of financing as mentioned above in order to achieve the anticipated economic and social development. Furthermore, interviewees 9, 11, 12 and 13 make the point that providing the required infrastructure for those banks as well as encouraging competition among them would have a significant impact on the Libyan financial markets in terms of the products they provide. interviewees 12 and 13, on the other hand, make the point that Islamic banks usually rely on *murabahah*, where the risks involved are minimal, and yet the high demand for financing for small and large projects tends to boost competition among Islamic banks, encouraging them

to provide the most appropriate methods of financing in response to the people's needs.

In terms of responding to the development needs of Libyan society, the participants were probed whether Islamic microfinance should constitute an essential part of Islamic banking in Libya. The results of the analysis of the responses for question 23 are shown in Table 10.21.

Table 10.21: Focused Coding for Question 23 (Opinion on the Potential Role of Islamic Banks in Financing Small Projects in Libya)

Question 23: Do you think microfinance will be considered an important part of Libyan Islamic banking?	
Focused Coding	Remarks
1	Definitely, the process of microfinancing will constitute a major part of the activities of Islamic banks in Libya in the next stage.
Theme	The nature of the next stage, and need for Libyan society to find solutions to a number of social and economic problems such as unemployment and poverty, will require reliable methods of financing to be introduced for financing small and medium-sized projects. In this regard, Islamic banks are expected to play a major role in providing such methods of funding.

As can be seen in Table 10.21, the majority of the participants are of the view that the requirements of the current stage, including the need for financing small projects, will provide a strong indicator that the process of microfinance will constitute the main function of Islamic banks in Libya. In this regard, participants 3, 4, 5, 6, 7, 8 and 10 argue that the engagement of Islamic banks in microfinance as their principal function is a basic condition for the success of those banks. They justify their views by stating that the requirements of this stage and the need in Libyan society for the financing of small and medium-sized projects should determine the financing to be provided by those banks in terms of size and quality. Moreover, interviewees 12 and 13 add that financing small projects would contribute to solving the problems of unemployment and poverty, which are the main source of misery in Libyan society. They argue that, for that reason, Islamic banks will be in great demand in the next stage. Similarly, interviewees 1 and 2 express their confidence in the Islamic banking system, and believe that Islamic banks will develop their financial products as required by the Libyan economy. Consequently, their expectation, regarding the next stage, is that those banks will focus their financing activities on small and medium-sized projects as well as real estate investment.

10.7 PERSPECTIVES ON LIBYAN POLICIES TOWARDS SOCIAL AND ISLAMIC BANKING

This section aims to explore perspectives and opinions of the participants on Libyan polices towards institutionalisation of Islamic banking and Islamic social banking. This section includes questions 17, 20, 24, 25 and 26 of the interview schedule.

Being the first question in this section, Question 17 investigates the participants' opinions on the level of awareness and knowledge among politicians and bureaucrats in Libya on matters of social banking. The results of the analysis of the participants' responses to question 17 are shown in Table 10.22.

Table 10.22: Focused Coding for Question 17

Question 17: Do you think Libyan politicians and technocrats are generally aware of social banking and its operational areas?	
Focused Coding	Remarks
1	Libyan politicians and technocrats have insufficient knowledge about the process of Islamic social banking.
Theme	Due to the fact that the experiment in Islamic banking in Libya is relatively new, the level of awareness of the experiment among politicians and technocrats as well as the general public is low. Thus, in the next stage the media and the press, as well as government training organizations, should play a major role to promote the idea of Islamic social banking in terms of aims and functions among the Libyan public.

The single focus coding in the above table is an obvious indicator of participants' unanimous agreement that the experiment in Islamic banking is still in its early stages in Libya. For that reason the bulk of the Libyan people including politicians and technocrats are not fully aware of the nature and formations of Islamic banks in terms of functions, objectives and the way they operate. Thus, all participants would suggest that, at the current stage, the press and the media have a duty to promote the idea of Islamic banking among the people of Libya and try to clarify matters in relation to the Islamic banking industry. Moreover, the majority of participants have stressed that, for the experiment to be successful in Libya, training programmes should accompany the media campaign to prepare well-trained staff in the area of Islamic banking.

In furthering the discussion, question 20 investigates the opinions of participants on the understanding and awareness of the transitional government in Libya about Islamic moral economy in the sense of an Islamic economic system rather than only

the institutionalisation of Islamic finance. Table 10.23 summarizes the results of the analysis of the participants' responses to question 20.

Table 10.23: Focused Coding for Question 20

Question 20: Do you think the transitional government has any understanding of Islamic moral economy (not Islamic finance) as the foundational base of Islamic banking and finance?	
Focused Coding	Remarks
1	It is unlikely that the transitional government has a clear understanding of the moral dimension of the Islamic economic system.
Theme	Given the current circumstances of the country, the government is a caretaker government. Thus the government's main concern at this stage is finding solutions to the most urgent problems, mainly security matters. For that reason the transitional government does not have enough time to deal with a number of issues including issues relating to the implementation of the Islamic economic system in the country.

As can be seen in Table 10.23, the majority of respondents believe that the transitional government has no clear vision in regard to the idea of the Islamic moral economy, despite the increasing public calls for the implementation of that system in Libya. In this respect, interviewees 3, 4, 8, 9, 10, 11 and 13 argue that the transitional government has yet to demonstrate a clear understanding of the matter. At the current critical stage, they believe that the government has to focus more on other priorities such as security matters. On the other hand, interviewees 1, 5, 6, 7 and 12 point out that some cabinet members, particularly the Minister of Economics and Finance and the governor of the Central Bank of Libya, must have some constructive understanding of the matter, but the urgent concerns of the current transitional government could cause them to stop short of explaining their views on the matter or presenting a comprehensive plan for the implementation of the Islamic moral economy in Libya.

In delving into further discussion, participants were asked to answer question 24 in order to express their opinions about the interim government's vision on matters related to sustainable development and the potential role of the Islamic finance institutions, including Islamic banks, towards sustainable development. The responses of interviewees to question 24 are summarized in Table 10.24.

Table 10.24: Focused Coding for Question 24

Question 24: Do you think the transitional government considers sustainable development as a strategy for economic and social development? If yes, do you think they consider a role for this in Islamic banking and finance?	
Focused Coding	Remarks
1	As a caretaker government, the transitional government should be concerned with strategic planning for the development of the country, and Islamic banks are highly likely to play a major role in the process of social and economic development in Libya in the next stage.
Theme	The transitional government is mainly concerned with matters of security and restoring stability as well as running day-to-day matters in the country. In other words, the government does not have enough time for long-term economic planning. Nonetheless, the persistent calls of the Libyan people coupled with statements from government officials would indicate that Islamic banks and other Islamic finance institutions are expected to play a significant role in the process of economic and social development in Libya in the next stage.

As can be seen in Table 10.24, the participants' responses feature a single theme. In other words, the participants' responses could be summarized as stating that there are high expectations of the role to be played by Islamic banks and other financial institutions in the next stage in terms of the financing and execution of development projects. These expectations exist despite the fact that the transitional government has no plans for sustainable development at the present time due to its limited duties. In this respect, interviewees 1, 3, 5, 6, 7 and 10 argue that, in the next stage, Islamic banking institutions will be expected to play a wider role in the process of economic development in Libya. Furthermore, interviewees 8 and 9 agree that speeding up the process of decision-making and introducing the appropriate laws would be a clear indication that Islamic banking institutions will play a significant role in the process of economic development in Libya. On the other hand, 4, 11, 12 and 13 make the point that, despite the clear support given to Islamic banks by the government, strategic planning for development is not one of the duties of that government. Thus, the role to be played by Islamic banks in the process of economic development remains uncertain at this stage. Moreover, it could be said that most participants therefore believe that Islamic banks will support social economic development and bring out the money stored in homes and the excess liquidity of corporations, which is believed to contribute to economic growth of the country.

In examining the realities of Libya in terms of its preparedness for Islamic banking, Question 25 seeks the opinions of participants on the availability of the appropriate

infrastructure necessary for the Islamic banking system to operate properly in Libya. The analysis of the participants' responses to question 25 is summarized in Table 10.25.

Table 10.25: Focused Coding for Question 25 (Opinions on Infrastructure for Islamic Banking in Libya)

Question 25: Do you think Libya has the necessary infrastructure to start Islamic banking and finance including human resources, <i>Shari'ah</i> scholars well versed in Islamic finance, necessary capital, and the necessary knowledge to develop the legal and regulative change?	
Focused Coding	Remarks
1	Libya has yet to establish a suitable infrastructure for Islamic finance institutions to operate in the country.
Theme	Despite its huge resources from oil, Libya remains deficient in the basic infrastructure needed for the operation of the Islamic financial institutions, including the human resources such as trained scholars in the area of Islamic finance and banking. Moreover, decision-makers need to be fully informed about the elements of Islamic financing so that they are able to develop the necessary legal and organizational framework in this area.

A brief review of Table 10.25 indicates that the majority of participants believe that Libya has yet to establish the basic components for the operation of Islamic banking in the country. For example, interviewees 1, 5, and 6 point out that Libya has the necessary financial base to establish the Islamic banking system, but remains short of the trained cadre and the necessary knowledge for the industry to operate properly. Similarly, interviewees 3, 4, 7, 8, 9, 10, 12 and 13 argue that Libya lacks the basic ingredients of the industry such as trained *Shari'ah* scholars and a trained cadre. Nevertheless, they believe that, at this stage, the government still has the chance to seek international expertise in this area to provide the necessary training and set the stage for the operation of the Islamic banking system in the country.

In considering that Libya does not have the necessary infrastructure for the institutionalisation of Islamic banking; Question 26 explores the participants' opinions on whether the calls by the transitional government for the implementation of the Islamic banking system in Libya have been emotionally motivated. Table 10.26 features a summary of the analysis of the responses to question 26.

Table 10.26: Focused Coding for Question 26

Question 26: If Libya does not have such infrastructural strength, do you think the Libyan transitional government acted emotionally in calling for Islamic banking and finance?	
Focused Coding	Remarks
1	From the beginning the transitional government has encouraged the establishment of Islamic banks in the country, responding to the wishes of the people. In the meantime the government has managed to provide some of the basic requirements such as the appropriate legislation for the industry to operate.
Theme	The government has not been emotionally motivated, but has acted in response to the sustained public pressure demanding the establishment of Islamic banking. However, the infrastructure could be provided stage by stage, starting with the training of the human cadre in the next stage. Also, Islamic banks should be able to make use of the technology and telecommunication facilities in order to seek the advice of <i>Shari'ah</i> scholars from all over the world.

As the coded responses can be seen in Table 10.26, the participants are in agreement that the government's decision to pursue the idea of Islamic banking has not been emotionally motivated, despite sustained pressure from the public for the establishment of those banks. In this context, interviewees 3, 4, 5, 8, 9, 11 and 12 confirm that public pressure has definitely had an impact and, with the government's conviction, the establishment of those banks has become possible in Libya. In other words, the steps taken by the government so far have nothing to do with emotions. Likewise, interviewees 6, 7 and 10 argue that the government has practically managed to provide some of the basic elements for those banks to operate by introducing the necessary legislation and by amending the laws to accommodate the Islamic banking system. They go further to suggest that the government should be able to take measures to provide the necessary training in the area of Islamic banking and should be able to make contact with specialists and experts as well as *Shari'ah* scholars across the world to boost the process of Islamic banking in the country.

10.8. CONCLUSION

In this chapter, the participants' views in relation to the economic policies in general and the establishment of Islamic banks in particular are examined and analyzed. In other words, issues pertaining to the establishment of the Islamic banking system in Libya as well as the performance of the Libyan economy and financial sector is discussed taking into account the social and political realities of Libya. In this regard the participants' opinion and expectations featuring policies associated with the idea

of Islamic banking, particularly social banking, were the main focus of the interview questions.

It could be concluded from the participants' responses that the majority of participants believe that Islamic banking will succeed in Libya; and they should become fully engaged in socio-economic development of the country. This is related to the economic development needs of Libya, as there is an urgent need for funding small and medium projects to develop economic capacity of the country

Furthermore, the majority of the interviewees are of the opinion that Islamic banking, both social and commercial, should be established to work side by side with conventional commercial banking in order to create a competitive environment.

Finally, it is worth mentioning that both the questionnaire and interview results favour the idea of establishing Islamic banks in Libya. It should be noted that the interviewees support the establishment of Islamic banks and Islamic social banks to be competitive with the commercial ones to develop the best institutional architecture for the country.

Chapter 11

AN INTERPRETATIVE DISCUSSION: HYPOTHESES TESTING

11.1. INTRODUCTION

This chapter attempts to contextualize the findings of the study in the light of the previous four empirical chapters by providing conclusions for the identified hypotheses. The findings are also contextualized within the literature review chapters, as these chapters provided the theoretical foundations for the study.

This research study employed quantitative and qualitative methods of data collection and data analysis as described in Research Methodology chapter (Chapter 5). The results of the empirical findings are presented in Chapters 6, 7, 8, 9 and 10 in an attempt to describe and identify the respondents' knowledge and awareness of Islamic banking and finance, attitudes and opinions towards CSR, sustainable development, and social banking through descriptive and inferential statistical analyses. Further investigation is undertaken to substantiate the findings established in the questionnaire survey by interviewing *Shari'ah* scholars, academics, managers and employees of commercial banks and other participants.

The following sections, hence, aim to give further meaning to the results by testing the hypothesis and bringing them to a conclusion through the findings established in the earlier chapters.

11.2. REFLECTING ON THE FINANCIAL PROFILE OF THE RESPONDENTS: HYPOTHESIS TESTING

This section aims to test the identified hypotheses in relation to the financial profile of the respondents in the light of the empirical results provided in the earlier chapters.

Hypothesis 1: The majority of respondents have never borrowed money from banks

The following sub-hypotheses help to provide answers to the main hypothesis related to question 9.

H_{1-1} : There is no statistically significant difference across various age groups in relation to borrowing money from banks.

The descriptive results in Table 6.2 show that there is no statistically significant difference in opinion between participants with regard to the idea of borrowing money from banks; hence, the null hypothesis is accepted since the majority of respondents (83%) stated that they did not take bank loans.

H_{1-2} : There is no statistically significant difference in opinion among the various educational groups in relation to borrowing money from banks.

The results in Table 6.2 (Chapter 6) show that the null hypothesis is accepted, since the majority of the participants 83% have not borrowed any money from banks.

H_{1-3} : There is no statistically significant difference in opinion among the various groups featuring monthly income in relation to borrowing money from banks.

H_0 is accepted since there is no statistically significant difference regarding the borrowing of money from banks among monthly income groups, as depicted in Table 6.2.

H_{1-4} : There is no statistically significant difference in opinion among the various groups featuring social status in relation to borrowing money from banks.

As depicted in Table 6.2, there is no statistically significant difference between status groups regarding borrowing money from banks; hence, the null hypothesis is accepted.

H_{1-5} : There is no statistically significant difference across various types of account groups in relation to borrowing money from banks.

The results in Table 6.2 indicated that there is no statistically significant difference in opinion among types of account groups; hence, the null hypothesis is accepted.

Hypothesis 2: Most of those who have borrowed money from banks have stated that they have used that money for home financing.

This hypothesis has a number of subcategories articulating different aspects of loan usage as follows: (i) Home financing; (ii) Vehicle financing; (iii) Personal financing; (iv) Education financing; (v) Health financing; (vi) Credit card/charge card

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The descriptive results in Table 6.2 show that 83% of the respondents did not take bank loans compared to only 17% who have received such loans. The respondents fully agree that this kind of loan would not be compatible with *Shari'ah* law. It implies that there is not much difference in opinion among participants, thus suggesting the possible acceptance of the null hypothesis. The impact of control variables for each category is examined below:

H₂₋₁: There is no statistically significant difference in opinion among the various age groups regarding borrowing of money for home financing.

The results in Table 6.2 show that there is no statistically significant difference in opinion among the various ages regarding borrowing of money for home financing; therefore, the null hypothesis is accepted.

H₂₋₂: There is no statistically significant difference in opinion among the various educational groups regarding borrowing of money for home financing.

Once again the null hypothesis is accepted since there is no statistically significant difference between different educational background groups with regard to taking bank loans (refer to Table 6.2).

H₂₋₃: There is no statistically significant difference among the various income groups regarding borrowing money for home financing.

Similarly, the results in Table 6.2 show that there is no statistically significant difference between different income groups with regard to taking bank loans. Since the *p*-value is higher than 0.05, the null hypothesis is accepted.

H_{2-4} : There is no statistically significant difference in opinion among the various groups featuring social status regarding the borrowing of money for home financing.

In responding to the hypothesis, the results in Table 6.2 (Chapter 6) show that there is a statistically significant difference between status groups in regard to taking bank loans from conventional banks. Hence, the alternative hypothesis is accepted.

H_{2-5} : There is no statistically significant difference among the various groups featuring type of bank account regarding borrowing money for home financing.

The results in Table 6.2 show that there is no statistically significant difference in opinion among the different groups featuring types of bank account with regard to taking bank loans. Therefore, the null hypothesis is accepted.

Hypothesis 3: The majority of respondents describe the service provided by the banks as poor.

The descriptive results in Table 6.2 show that the majority of respondents describe the service as either poor (57.7%) or very poor (22.2%), while only a few describe the service provided by their banks as average (13.9%), good (5.2%) or excellent (1%). That means the participants are not happy with the bank services they receive. This implies that no significant difference in opinion exists among participants, which favours the null hypothesis. Thus, the following sub-hypotheses were formulated:

H_{3-1} : There is no statistically significant difference in opinion among various age groups with regard to the poor nature of the banking services.

The results of the KW test in Table 6.4 show that there is no statistically significant difference in opinion among different age groups with regard to the poor banking services, which favours the null hypothesis.

H_{3-2} : There is no statistically significant difference in opinion among groups featuring educational background with regard to the poor nature of the banking services.

The results in Table 6.4 (Chapter 6) show that there is no statistically significant difference between different educational groups with regard to the poor banking services. Hence, the null hypothesis is accepted.

H₃₋₃: There is no statistically significant difference in opinion among groups featuring monthly income with regard to poor banking services.

The result in Table 6.4 shows that there is no statistically significant difference between different income groups with regard to the poor nature of the banking services. Since the *p*-value is higher than 0.05, the null hypothesis is accepted.

H₃₋₄: There is no statistically significant difference in opinion among various groups featuring social status with regard to poor banking services.

In responding to the hypothesis, the results in Table 6.4 (Chapter 6) show that there is a statistically significant difference between status groups with regard to the poor nature of the banking services. The results indicate that, in terms of mean ranking, the Merchants/Business group has the highest mean, 118.02, indicating their strong position on this issue. This is perhaps due to the fact that, as customers who frequently deal with their banks, they know more than others and thus have a better view of the services provided. In addition, due to the nature of their work, they have a demand for various different services. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted.

H₃₋₅: There is no statistically significant difference in opinion among groups featuring type of bank account with regard to poor banking services.

The results in Table 6.4 show that there is no statistically significant difference in opinion among the different groups featuring types of bank account with regard to the poor banking services. Hence, the null hypothesis is accepted.

Hypothesis 4: The majority of respondents believe that the service provided by banks has been unsatisfactory due to the inadequate use of modern technology.

This hypothesis has a number of subcategories articulating different aspects of the participants' satisfaction or dissatisfaction with the services provided by conventional banks, such as: (i) Unfriendly staff; (ii) Unaffordable charges; (iii) Inconvenient

location; (iv) Unnecessarily long time for transactions; (v) Lack of modern technology. Thus, each of the hypotheses in this section is formulated in response to these categories.

Descriptive analysis is employed in response to Hypothesis 4. The respondents in this section include the customers, staff and general public of conventional banks as this set of questionnaires is directed to these categories. The conclusive results and a detailed discussion of the descriptive analysis are available in Table 6.2 (Chapter 6). The results of the analysis show the frequency and percentage distribution of awareness and knowledge of services of conventional banks. The results show that the respondents believe that the service of conventional banks is unsatisfactory. The results show that almost half of the respondents (48.5%) blame their banks for failure to use modern technology, while a considerable percentage of respondents (30.4%) complain about the slow banking service featuring long queues of customers. However, other complaints include unfriendly bank staff (13.9%), inappropriate geographical location of bank (4.1%), and unaffordable charges imposed by banks (3.1%). This suggests the acceptance of the null hypothesis that the majority of respondents believe that the service provided by banks has been unsatisfactory due to the inadequate use of modern technology.

H₄₋₁: There is no statistically significant difference in opinion across various age groups that the inadequate use of modern technology has resulted in unsatisfactory banking services.

The findings of the study (see Table 6.4 in Chapter 6) suggest that no statistically significant differences exist among the different age groups regarding the level of dissatisfaction with the services provided by conventional banks. Thus, the null hypothesis is accepted.

H₄₋₂: There is no statistically significant difference in opinion across various education groups that the inadequate use of modern technology has resulted in unsatisfactory banking services.

The findings shown in Table 6.4 indicate that respondents with the highest education level, *i.e.* PhDs, scored the highest mean value of 118.13, indicating their absolute dissatisfaction with the services offered by conventional banks. In other words, there

is a statistically significant difference across various educational groups in the level of dissatisfaction with the services provided by conventional banks. Consequently, the null hypothesis is rejected in favour of the alternative hypothesis.

H₄₋₃: There is no statistically significant difference in opinion across various monthly income groups that the inadequate use of modern technology has resulted in unsatisfactory banking service.

As can be seen in Table 6.4, the results show that there is no statistically significant difference among various groups featuring monthly income regarding the level of dissatisfaction with the services provided by conventional banks. The findings revealed that the respondents who earned LD 3001–4000 per month, with a mean value of 112.73, are the least satisfied with the services offered by those banks. Hence, the null hypothesis is accepted.

H₄₋₄: There is no statistically significant difference in opinion across various status groups that the inadequate use of modern technology has resulted in unsatisfactory banking services.

Similarly, the findings depicted in Table 6.4 demonstrate that no statistically significant difference exists among various status groups regarding the level of dissatisfaction with services provided by conventional banks. Hence, the null hypothesis is accepted since the *p*-value is higher than 0.05.

H₄₋₅: There is no statistically significant difference in opinion across various types of account groups that the inadequate use of modern technology has resulted in unsatisfactory banking services.

The results in Table 6.4 also show that no statistically significant differences exist among various groups featuring type of bank account regarding the level of dissatisfaction with the services provided by conventional banks. Hence, the null hypothesis is accepted.

In summary, the results indicate that the respondents aged between 20-30 years and 31-40 years, earning LYD 3001–4000 per month are the least satisfied with the

services provided by their banks. However, respondents with a higher level of education (PhD) are less satisfied compared to others.

Hypothesis 5: The majority of respondents rate themselves as having very good economic and financial knowledge.

It is crucial to know the extent to which Libyans understand economic and financial matters in general, for which Hypothesis 3 is constructed.

The results of the survey (see Table 6.3) indicate that about 39.2% of the respondents have good economic and financial knowledge. Meanwhile, knowledge of economic and financial issues of a further 47.9% is fairly good, which is consistent with the above hypothesis. Therefore, it could be concluded that Libyans have a relatively fair level of understanding of economic and financial matters, which favours the null hypothesis.

H₅₋₁: There is no statistically significant difference across various age groups regarding the level of economic and financial knowledge.

The result shows that the null hypothesis is rejected since the p -value is 0.04, which is lower than the critical value of 0.05 (refer to Table 6.5). This indicates that statistically significant differences in opinion exist among various age groups regarding the level of economic and financial knowledge. The results indicate that, in terms of mean ranking, the age group 20-30 is the highest with a mean value of 116.69; thus, they have a relatively fair level of understanding of economic and financial matters, perhaps because they are still in college or other educational institutions or are probably proactive in business. This was followed by the over-50 age group, with a mean ranking of 104.51. The latter group is expected to have a good understanding of economic and financial matters by virtue of their work experience.

H₅₋₂: There is no statistically significant difference among various education groups regarding the level of economic and financial knowledge.

Table 6.5 suggests that statistically significant differences in opinion exist among the various educational groups regarding the level of economic and financial knowledge, as the p -value = 0.00 which is less than the critical value of 0.05. Based on the results

obtained, the respondents who hold PhDs and MAs are ranked highest with mean values of 122.10 and 102.61, respectively. These two groups of respondents obviously have better education; hence, they have better knowledge and awareness of economic and financial matters than others. Once again, the null hypothesis is rejected and the alternative hypothesis is accepted.

H₅₋₃: There is no statistically significant difference among various groups featuring monthly income regarding the level of economic and financial knowledge.

The result shows that the null hypothesis is accepted, since the *p*-value is 0.07, which is higher than the critical *p*-value of 0.05 (refer to Table 6.5). This indicates that there are no statistically significant differences among the various groups featuring monthly income regarding economic and financial knowledge. The results indicate that those who earn LYD 500 and below are ranked highest with a mean rank of 131.50. This group of people could be categorized as low-income earners. Based on their social background, it is suggested that these groups of people probably have no or very little knowledge and awareness of economic and financial matters compared to highly educated groups such as the PhD and MA groups.

H₅₋₄: There is no statistically significant difference across various status groups regarding the level of economic and financial knowledge.

Statistically significant differences in opinion exist among the various groups featuring social status regarding the level of economic and financial knowledge. Based on the results obtained, respondents such as academics and bankers are ranked the highest with mean values of 140.04 and 112.35, respectively (refer to Table 6.5). It becomes obvious that those who work for the banking sector have good knowledge of economic and financial matters by virtue of their educational background or their experience as compared to others. Hence, the null hypothesis is rejected in favour of the alternative hypothesis.

H₅₋₅: There is no statistically significant difference across various types of account groups regarding the level of economic and financial knowledge.

For this hypothesis, the null hypothesis is accepted, since the *p*-value is 0.884 (refer to Table 6.5), which is greater than the critical *p*-value of 0.05. Thus, no statistically

significant differences in opinion exist among the various groups featuring type of bank account regarding the level of economic and financial knowledge.

11.3. TESTING HYPOTHESIS ON THE LIBYAN ECONOMY AND BANKING

This section tests the pre-established hypothesis under the light of the empirical evidence provided in the earlier chapters.

Hypothesis 6: The majority of respondents believe that the Libyan economy has not been performing well over the years.

This hypothesis has a number of subcategories articulating different aspects of the Libyan economy as listed below: (i) The Libyan economy has performed very well over the years; (ii) Economic development in Libya can be described as reasonable and satisfactory; (iii) Economic development in Libya has achieved its aims; (iv) The Libyan economy has been successful in terms of human development and social welfare; (v) The Libyan economic development has managed to alleviate poverty.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

As can be seen from the descriptive results in Table 7.1, for each category the respondents demonstrated a high level of ‘disagreement’ implying that significant differences in opinion exist among participant groups. However, the impact of control variables for each category is examined below:

H₆₋₁: There is no statistically significant difference across various age groups regarding the view that the Libyan economy has not been performing well over the years.

Table 7.9 shows that no statistically significant differences in opinion exist among the various age groups regarding the performance of the Libyan economy. Given that the *p*-value is higher than critical *p*-value of 0.05, the null hypothesis is accepted. The results suggest that the previous regime has weakened and nearly destroyed the economic, social and political system in Libya. In addition, little attention has been given to economic development.

H₆₋₂: There are no statistically significant differences in opinion among the various educational groups regarding the idea that the Libyan economy has not been performing well over the years.

The results suggest that the null hypothesis is rejected and the alternative hypothesis is to be accepted, as the results suggest that significant differences in opinion exist among various educational groups with regard to the notion that the ‘Libyan economic development managed to alleviate poverty’, which provides a good indicator of the economic performance. The results show that the PhD group ranked the highest with a mean value of 114.37, which implies that Libya did not advance in terms of economic development due to the negligent attitude to equitable distribution of income and wealth.

H₆₋₃: There is no statistically significant difference across various income groups regarding the view that the Libyan economy has not been performing well over the years.

The null hypothesis is accepted for the category of monthly income groups, since no significant differences in opinion exist among those groups regarding the performance of the Libyan economy over the years. It can be concluded that the respondents are not happy with the progress of economic development in Libya.

H₆₋₄: There is no statistically significant difference across various status groups regarding the view that the Libyan economy has not been performing well over the years.

The KW Test results in Table 7.9 indicate that significant differences in opinion exist among the various groups featuring social status regarding the notion that the ‘Libyan economy has performed very well over the years’. The results show that bankers rank highest with a mean value of 107.58. However, the *p*-value of 0.04, which is lower than the critical value of 0.05, suggesting that the null hypothesis is rejected and the alternative hypothesis, is to be accepted.

H₆₋₅: There are no statistically significant differences across various types of account groups regarding the view that the Libyan economy has not been performing well over the years.

As can be seen from Table 7.12, the groups featuring type of bank account seem to show statistically significant differences in opinion with regard to the statement that ‘the economic development in Libya can be described as reasonable and satisfactory’. The results show that those who hold current accounts were ranked the highest with a mean value of 98.88. Perhaps this group has a better understanding of economic matters. However, in the case of the proposal that ‘economic development in Libya has achieved its aims’, the groups featuring type of bank account rank highest, with a mean value of 119.90. Hence, the null hypothesis is rejected and the alternative hypothesis is to be accepted since the p -value is lower than the critical value of 0.05.

Hypothesis 7: The majority of respondents are of the opinion that banking services in Libya are not available for everyone.

This hypothesis has a number of subcategories articulating different aspects of the banking sector in Libya as listed below: (i) Libyan banks are available for everyone; (ii) Libyan banks are successful in attracting customers; (iii) Libyan banks have various product offerings; (iv) Libyan banks are efficient; (v) The Libyan banking sector does not need any alternative types of banking, including Islamic banking.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The descriptive results in Table 7.2 show that, for each category, the respondents demonstrated a high level of ‘disagreement’, which implies that no significant differences in opinion exist among participants with regard to the above categories apart from category (i) the availability of Libyan banks for everyone. However, the impact of the control variables for each category is examined below:

H₇₋₁: There are no statistically significant differences across various age groups regarding the view that banking services in Libya are not available for everyone.

The age groups seem to show statistically significant differences regarding the notion that ‘Libyan banks are available for everyone’ as indicated by the p -value of 0.02, which is lower than the critical value of 0.05. Therefore, it could be concluded that there is a statistically significant difference between age groups regarding the banking service in Libya. The results show that, in terms of mean ranking, those aged 41–50

and those over 50 ranked the highest with mean values of 100.22 and 110.68, respectively. They believe that conventional banks in Libya, being state-owned, are offering their service to everyone in society. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted (refer to Table 7.10).

H₇₋₂: There are no statistically significant differences across various educational background groups regarding the view that banking services in Libya are not available for everyone.

The results suggest that the null hypothesis is rejected and the alternative hypothesis is to be accepted. It follows that significant differences in opinion exist among the various educational groups regarding the notion that 'Libyan banks are successful in attracting customers'. The results show that the MA group ranks highest with a mean value of 108.47, suggesting that the people of Libya have no choice but to do business with state-owned banks, which makes them attractive to customers.

H₇₋₃: There are no statistically significant differences across various income groups regarding the view that banking services in Libya are not available for everyone.

For this hypothesis, the results indicate that there is no statistically significant difference in opinion among various groups featuring monthly income regarding the banking services in Libya. The *p*-value obtained is higher than the critical value of 0.05, suggesting that the null hypothesis will be accepted.

H₇₋₄: There are no statistically significant differences across various status groups regarding the notion that banking services in Libya are available for everyone.

The status groups seem to show statistically significant differences in opinion regarding the view that 'Libyan banks are available for everyone'. However, since the *p*-value of 0.05 is equal to the critical value it could be concluded that there are statistically significant differences among the various groups featuring social status regarding banking services in Libya. The results suggest that the Libyan people were not happy with the service provided by conventional banks, although they have no alternative. The null hypothesis is rejected and the alternative hypothesis is accepted.

H₇₋₅: There are no statistically significant differences across various types of account groups regarding the view that banking services in Libya are not available for everyone.

As can be seen from Table 7.10, the groups featuring type of bank account seem to show statistically significant differences in opinion regarding the view that the ‘Libyan banking sector does not need any other alternative banking, including Islamic banking’. The results show that those who have savings accounts ranked the highest with a mean value of 154.30. Hence, the null hypothesis is rejected and the alternative hypothesis is to be accepted.

11.4. HYPOTHESIS TESTING FOR DEMAND FOR ISLAMIC BANKING IN LIBYA

As a matter of fact the previous regime in Libya made no effort to promote Islamic finance system in the country. This section aims to explore the potential of an Islamic finance system and gauge the effort required to make it possible.

Hypothesis 8: With regard to the progress made by Islamic moral economy in Libya, the majority of respondents believe no significant progress has been made so far.

The results in Table 7.3 show that the majority of the respondents (68.5%) believe that Islamic moral economy has made no progress in Libya. However, the respondents demonstrate a high level of ‘agreement’, which implies that no significant differences in opinion exist among participants, thus favouring the null hypothesis.

H₈₋₁: There is no statistically significant difference across various age groups regarding the progress made by Islamic moral economy in Libya.

Table 7.11, showing the KW Test results, indicates that no statistically significant differences exist among the various age groups regarding the progress of Islamic moral economy in Libya. The results suggest that those aged 31-40, with a mean value of 101.88, believe that Libya has made no advances in terms of Islamic moral economy. Hence, the null hypothesis is accepted.

H₈₋₂: There is no statistically significant difference across various educational background groups regarding the progress made by Islamic moral economy in Libya.

As can be seen from Table 7.11, the null hypothesis is accepted since the p -value is higher than the critical value of 0.05. Therefore, there is a statistically significant difference in opinion among educational groups regarding the progress of Islamic moral economy in Libya. The results show that the group of PhD holders is ranked highest with a mean value of 106.02. They believe that Libya is lagging behind in terms of Islamic moral economy and Islamic finance.

H₈₋₃: There is no statistically significant difference across various income groups regarding the progress made by Islamic moral economy in Libya.

The null hypothesis is accepted for this hypothesis for groups featuring monthly income, since no significant differences in opinion exist among those groups regarding the progress of the idea of Islamic moral economy in Libya. However, the results show that those who earn more than LD 4000 per month, with a mean value of 128.15, rank highest among the groups. The results of the analysis suggest that the former regime had made no efforts to promote Islamic moral economy in the country. On the contrary, it was trying to create barriers to prevent the progress of this industry in Libya.

H₈₋₄: There is no statistically significant difference in opinion among the various groups featuring social status regarding the progress made by Islamic moral economy in Libya.

Social status seems to show statistically significant differences in opinion since the p -value of 0.04 is lower than the critical value of 0.05. Therefore, it could be concluded that statistically significant differences in opinion exist among the various groups featuring social status with regard to the progress of Islamic moral economy in Libya. The results show that, in terms of mean ranking, Merchants/Businessmen group ranked the highest with a mean value of 108.30. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted.

H₈₋₅: There is no statistically significant difference in opinion among the various groups featuring type of bank account regarding the progress of Islamic moral economy in Libya.

The results in Table 7.11 show that there is a statistically significant difference in opinion among the various groups featuring type of bank account regarding the progress of Islamic moral economy in Libya. Hence, the results indicate that those who have current accounts rank highest with a mean value of 98.95. However, the null hypothesis is rejected since the p -value is less than the critical value of 0.05.

Hypothesis 9: Regarding the poor performance of the Islamic finance system and its future development in Libya, the majority of respondents believe that the former regime did not promote Islamic finance in Libya.

This hypothesis is tested through a number of subcategories: (i) The former regime did not promote Islamic finance; (ii) People could not express demand for Islamic finance under the former regime; (iii) There were not enough *Shari'ah* scholars; (iv) The new regime should promote Islamic finance; (v) Following the February 17th Revolution, the Libyan people are ready to accept the Islamic banking and finance system; (vi) The transitional government and its successors must work to establish an Islamic moral economy based on social justice; (vii) The new Constitution must state that the economy should be based on Islamic moral economy.

Thus, each of the hypotheses in this section is formulated in response to the above subcategories.

As can be seen from Table 7.4, the descriptive results show that, for each category, the respondents demonstrate a high level of 'agreement', which implies that no significant differences in opinion exist among participants apart from category (iii) above. However, the impact of control variables for each category is examined below:

H₉₋₁: There are no statistically significant differences in opinion among the various age groups regarding the poor performance of the Islamic finance system in Libya.

From Table 7.12, the KW Test results show that no statistically significant differences in opinion exist among the various age groups regarding the performance of the Islamic finance system in Libya, which implies that those groups believe that Libya has made no advances in establishing a reliable Islamic finance system. Hence, the null hypothesis is accepted since the p -value is higher than the critical p -value of 0.05.

H₉₋₂: There are no statistically significant differences in opinion among the various educational groups regarding the poor performance of the Islamic finance system in Libya.

As can be seen from Table 7.12, statistically significant differences in opinion exist among the various educational groups with regard to the idea that ‘people could not express demand for Islamic finance under the former regime’. The results show that, in terms of mean ranking, MA and PhD degree holders tend to blame the former regime for blocking the progress of the Islamic financial system in the country.

H₉₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding the poor performance of the Islamic finance system in Libya.

The null hypothesis is rejected for the above-mentioned groups since there is a significant difference in opinion among the various age groups regarding the poor performance of the Islamic finance system in Libya. The results, hence, show that those who earn more than LYD 4000, with a mean value of 129.90, rank highest among the groups. They believe that the former regime tried to create barriers to stop the progress of the Islamic financial industry in the country.

H₉₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding the poor performance of the Islamic finance system in Libya.

The results in Table 7.12 show that there is a statistically significant difference in opinion with regard to the view that ‘people could not express demand for Islamic finance under the former regime’. Hence, the null hypothesis is rejected since the p-value is 0.01, which is less than the critical value of 0.05. In addition, the results show that the groups of academics and bankers believe that the outgoing regime gave individuals no freedom to express their demand for Islamic finance, with mean values of 108.98 and 108.03, respectively.

H₉₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the poor performance of the Islamic finance system in Libya.

For this hypothesis, the results indicated that the null hypothesis is accepted since the p -value obtained is higher than the critical value of 0.05. This implies that there are no statistically significant differences in opinion across the various groups featuring type of bank account regarding the poor performance of the Islamic finance system in Libya.

Hypothesis 10: The majority of respondents do have a reasonable level of awareness that Islamic banking is available as Islamic windows mainly for car purchase.

The results in Table 7.5 indicate that the majority of the respondents (52.6%) know that Islamic banking is available as Islamic windows in Libya. This suggests that the null hypothesis above can be accepted.

H_{10-1} : There is no statistically significant difference in opinion among the various age groups with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase.

The KW Test results in Table 7.13 show that there are no statistically significant differences in opinion among the various age groups with regard to awareness that Islamic banking is available as Islamic windows in Libya. The results show that those aged 20-30 and those above 50 ranked highest, with mean values of 104.47 and 104.26, respectively. The result indicates that these groups have a better level of knowledge that Islamic banking is available as Islamic windows in Libya. Hence, the null hypothesis is accepted.

H_{10-2} : There are no statistically significant differences in opinion among the various education groups with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase.

For this hypothesis, the results indicate that the null hypothesis is accepted since the p -value obtained is higher than the critical value of 0.05. This implies that no statistically significant differences in opinion exist among the various education groups. The results in Table 7.13 show that the group of PhD holders ranks highest, with a mean value of 111.19. Thus, those who have higher levels of education are more aware that Islamic windows are available in Libya for car purchase.

H₁₀₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase.

As can be seen in Table 7.13, the KW Test results suggest that the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, it can be concluded that, statistically speaking, significant differences exist regarding awareness that Islamic banking is available as Islamic windows in Libya. The result shows that those who earn LYD 2001–3000, with a mean value of 123.83, are more aware than others of the fact that financing facilities such as car financing are provided by Islamic windows in Libya.

H₁₀₋₄: There are no statistically significant differences in opinion among the various groups featuring social status with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase.

Based on the results in Table 7.13, the null hypothesis is accepted since the *p*-value obtained is higher than the critical value of 0.05. Therefore, it can be concluded that, statistically speaking, no significant differences in opinion exist in the level of awareness among the various groups featuring social status regarding the idea that Islamic banking is available as Islamic windows in Libya. The results show that Merchants/Businessmen, whose activities are associated with the banking sector, seem to be more aware of the idea than others, as suggested by the mean value of 111.68.

H₁₀₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase.

In this case, the null hypothesis is accepted since there is no statistically significant difference among groups featuring type of bank account with regard to awareness that Islamic banking is available as Islamic windows in Libya for car purchase. The results in Table 7.13 show that those with savings accounts claimed that they have information about Islamic windows in Libya for car purchase; the mean value for this group is 121.20.

Hypothesis 11: The majority of respondents feel comfortable doing business with Islamic banks and other Islamic financial institutions in Libya.

Despite the fact that no Islamic banks were operating in Libya at the time the interviews were conducted and questionnaires were distributed for this study, the majority of participants (90.7%) expressed their delight at doing business with Islamic financial institutions in Libya (refer to Table 7.5). This suggests that the null hypothesis shown above can be accepted.

H₁₁₋₁: There is no statistically significant difference among the various age groups with regard to doing business with Islamic banks and other Islamic financial institutions in Libya.

The results in Table 7.14 show that no statistically significant differences exist among the various age groups with regard to doing business with Islamic financial institutions in Libya. The results indicate that those aged 31–40 rank highest among the groups, with a mean value of 103.39. It seems that the majority of respondents prefer to do business with Islamic financial institutions rather than conventional banks because of their religious obligation. Therefore, the null hypothesis is accepted.

H₁₁₋₂: There is no statistically significant difference in opinion among the various education groups with regard to doing business with Islamic banks and other Islamic financial institutions in Libya.

As can be seen from Table 7.14, there are no statistically significant differences in opinion among the various education groups since the *p*-value is higher than the critical value of 0.05. Hence, the null hypothesis is accepted. The results indicate that those who have higher-level qualifications (MAs) prefer doing business with Islamic finance institutions; this group ranks highest with a mean ranking of 105.28.

H₁₁₋₃: There are no statistically significant differences among the various groups featuring monthly income with regard to doing business with Islamic banks and other Islamic financial institutions in Libya.

The overall results in Table 7.14 indicate that there are no significant differences in opinion among participants with regard to doing business with Islamic banks and

other Islamic financial institutions in Libya. This indicates that the null hypothesis is accepted. The result shows that those who earn LYD 2001–3000, with a mean value of 120.67, are happy and feel comfortable doing business with Islamic financial institutions.

H₁₁₋₄: There are no statistically significant differences in opinion among the various groups featuring social status with regard to doing business with Islamic banks and other Islamic financial institutions in Libya.

As can be seen in Table 7.14, the null hypothesis is accepted for this hypothesis regarding the groups featuring social status since no significant differences in opinion exist among those groups with regard to doing business with Islamic banks and other Islamic financial institutions. The results show that Merchants/Businessmen as proactive business groups are happy to do business with those institutions as long as they offer *Shari'ah*-compliant products.

H₁₁₋₅: There are no statistically significant differences among the various groups featuring type of bank account with regard to doing business with Islamic banks and other Islamic financial institutions in Libya.

In this case, the null hypothesis is accepted since there is no statistically significant difference with regard to using Islamic banks and other Islamic financial institutions. In this regard the group featuring savings account ranks highest, with a mean value of 121.20. The results suggest that the Libyan people are not happy with the service provided by conventional banks. They believe that promoting Islamic financial institutions in Libya will be the best way to improve the banking service in the country (refer to Table 7.14).

Hypothesis 12: The majority of respondents believe that the entire banking system in Libya should be fully Islamized.

This hypothesis has two subcategories: (i) Yes, the system should be fully Islamized; (ii) No, conventional and Islamic banks should operate together.

The results in Table 7.5 show that the majority of the participants (57.2%) are in favour of the full Islamization of the banking system in Libya, while 42.8% believe

that the conventional banks and Islamic banks should operate together. Hence, the following sub-hypotheses have been formulated.

H₁₂₋₁: There are no statistically significant differences in opinion among the various age groups regarding the full Islamization of the banking system in Libya.

As can be seen from Table 7.14, the results indicate that there are no statistically significant differences among the various age groups regarding the full Islamization of the banking system in Libya. The results show that those aged over 50 rank highest among the groups, with a mean value of 103.42, which can be explained through their attachment with traditional values. As Muslims, the respondents who have been surveyed suggest that the banking system in Libya should be fully Islamized. Hence, the null hypothesis is accepted.

H₁₂₋₂: There are no statistically significant differences in opinion among the various educational groups regarding the full Islamization of the banking system in Libya.

Based on the results in Table 7.14, the null hypothesis is accepted once again, since there are no statistically significant differences among educational groups regarding the full Islamization of the banking system in Libya. The results show that the MA and PhD groups rank the highest, with mean values of 101.47 and 100.77, respectively. However, as expected, those groups are strongly in favour of the idea.

H₁₂₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding the full Islamization of the banking system in Libya.

As can be seen in Table 7.14, the null hypothesis is accepted, since the *p*-value is higher than the critical value of 0.05. Hence, it can be acknowledged that there are no statistically significant differences in opinion among the groups featuring monthly incomes regarding the full Islamization of the banking system in Libya. The result shows that those who earn LYD 1001–2000 rank highest, with a mean value of 105.55.

H_{12-4} : There are no statistically significant differences in opinion among the various groups featuring social status regarding the full Islamization of the banking system in Libya.

As for this statement, the results also suggest that the null hypothesis is accepted, as becomes evident from the p -value of 0.576, which is higher than the critical p -value of 0.05. Therefore, it can be concluded that no statistically significant differences exist among groups featuring social status with regard to the full Islamization of the banking system in Libya. The results show that the general public rank highest with a mean value of 104.50. This result seems to be consistent with Resolution number one of the year 2013, which prevents dealing in *riba*, passed by the Libyan General National Congress. It should be noted that the Resolution came as a result of the popular pressure from the people on the new regime in Libya.

H_{12-5} : There are no statistically significant differences in opinion among the various groups featuring types of bank account regarding the full Islamization of the banking system in Libya.

As for this category, the results in Table 7.14 in Chapter 7 also indicate no statistically significant differences in opinion among groups featuring type of bank account regarding the full Islamization of the banking system in Libya, which indicates that those who hold savings accounts are in favour of the idea as they rank the highest among the groups, with a mean value of 114.20. Hence, the null hypothesis is accepted.

Hypothesis 13: The majority of respondents would prefer to open a bank account with an Islamic bank, should one be available in Libya.

The results in Table 7.5 show that 94.8% of the respondents stated that they would not hesitate to open an account with an Islamic bank in Libya. This suggests that the null hypothesis above can be accepted.

H_{13-1} : There are no statistically significant differences in opinion among the various age groups with regard to the idea of opening a bank account with an Islamic bank should there be one in Libya.

The KW Test results in Table 7.14 show no statistically significant differences in opinion exist among participants since the p -value obtained is higher than the critical value of 0.05. The results show that the age group of 50 plus, with a mean value of 101.12, ranks highest among the groups. This group believes that Islamic banks are different to conventional banks; which makes the former a necessity for Libya. As they are an old group, the religious obligation factor does affect their decision with regard to opening a bank account. Hence, the null hypothesis is accepted.

H_{13-2} : There are no statistically significant differences in opinion among the various education groups with regard to the idea of opening a bank account with an Islamic bank should there be one in Libya.

The results in Table 7.14 show that the null hypothesis is accepted since there is no statistically significant difference among the different education groups with regard to the idea of opening a bank account with an Islamic bank in Libya. It suggests that the group of PhD holders ranks highest among the groups, with a mean value of 103.69. This group is expected to be strongly in favour of the idea given the better knowledge they have in terms of religious doctrine though their formal and daily experience.

H_{13-3} : There are no statistically significant differences in opinion among the various groups featuring monthly income with regard to the idea of opening a bank account with an Islamic bank should there be one in Libya.

The null hypothesis is accepted as there is no statistically significant difference among the different groups featuring monthly income with regard to deciding to open an account with an Islamic bank. This inference is based on the findings shown in Table 7.14 in Chapter 7, which indicate that no significant differences in opinion exist in terms of the mean scores for the different income groups, since the p -value is higher than the critical p -value of 0.05. The results show that those who earn LYD 3001–4000 ranked the highest among the groups with a mean value of 118.95.

H_{13-4} : There are no statistically significant differences in opinion among the various groups featuring social status with regard to the idea of opening a bank account with an Islamic bank should there be one in Libya.

Similarly, there are no statistically significant differences in opinion across the various groups featuring social status regarding the decision to open a bank account with an Islamic bank, since the p -value is higher than the critical p -value of 0.05. The result once again shows that the group of academics ranks highest with a mean value of 99.74, favouring the null hypothesis.

H_{13-5} : There are no statistically significant differences in opinion across the various groups featuring type of bank account with regard to the idea of opening a bank account with an Islamic bank should there be one in Libya.

As can be seen from Table 7.14, there are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the decision to open an account with an Islamic bank. The results indicate that those who hold savings accounts rank highest, with a mean value of 111.90. This group may have better knowledge of banking products and services to be provided in accordance with *Shari'ah* law; this motivates them to open interest-free savings accounts with Islamic banks.

As a matter of fact, the religious nature of the Libyan people makes them avoid conventional banks and other financial institutions as they believe that transactions associated with those banks are not compatible with *Shari'ah* law. Thus, the idea of Islamic banking and finance has substantial support and potential demand in Libyan society.

Hypothesis 14: When it comes to opening an account with an Islamic bank, the fact that the deposits are interest-free is equally as important as other criteria for the selection of the appropriate bank.

This hypothesis has a number of subcategories:

(i) Religious obligation/requirement; (ii) The account is free of any interest;(iii) The brand name of the Islamic bank (Islamic reputation and image); (iv) Islamic Banks will pay out higher returns on deposits; (v) Encouragement from friends and family; (vi) Islamic banks will provide attractive product packages and services (such as free *takaful* coverage, attractive competition prizes); (vii) Opportunity to obtain other

financing facilities such as house or car financing; (viii) Sound financial reputation of the bank.

Thus, each of the hypotheses in this section is formulated in relation to these categories.

However, Hypothesis 14 implies the use of a descriptive test. The final results and a detailed analysis are available in Table 7.6 (Chapter 7). The results show that the mean score of the interviewee's responses regarding the patronage factor 'the account is free of any interest' is higher than the other patronage factors, with a mean value of 4.39 and a standard deviation of 0.882. This suggests that the null hypothesis can be accepted with respect to the idea of interest-free transactions associated with Islamic banks as they are crucial to the selection process.

Further analysis is conducted in relation to Hypothesis 14 with the objective of determining statistically significant differences in opinion that might have existed among the various groups of participants who focus on interest-free transactions as a main selection criterion with regard to opening an account with an Islamic bank. Hence, the following sub-hypotheses were formulated.

H₁₄₋₁: There are no statistically significant differences across various age groups' preferences when considering the 'accounts are interest-free' factor as an important patronage criterion for opening Islamic banking accounts.

As can be seen from Table 7.15, the various age groups seem to show statistically significant differences in opinion regarding 'the brand name of the Islamic bank (Islamic reputation and image)'. The results show that, in terms of mean ranking, the age group 31–40 ranks highest, with a mean value of 106.96, in relation to the idea of interest-free accounts as a criterion for selecting an Islamic bank. Hence, this group gives greater consideration to this issue. Consequently, the null hypothesis is accepted for all categories except the age control variable, for which the alternative hypothesis is accepted.

H₁₄₋₂: There are no statistically significant differences across various educational backgrounds when considering the 'accounts are interest-free' factor as an important patronage criterion for opening Islamic banking accounts.

The findings of this study in Table 7.15 indicate that there are no statistically significant differences in opinion among the various educational groups regarding the idea of interest-free transactions as an important selection criterion for Islamic banks. There are no statistically significant differences in opinion with respect to this factor as an important patronage criterion in relation to the decision to open an account with an Islamic bank, which favours the null hypothesis.

H_{14-3} : There are no statistically significant differences in term of preference across various income-level groups when considering the ‘accounts are interest-free’ factor as an important patronage criterion for opening Islamic banking accounts.

As for this category, the results in Table 7.15 also indicate that there was no significant difference in opinion among the various groups featuring monthly income with regard to the idea of interest-free transactions as an important criterion for selection of an Islamic bank account. Consequently, the null hypothesis is accepted and it can be concluded that there have been no significant differences among the various groups featuring monthly income with regard to the idea of interest-free transactions as an important patronage criterion for selection.

H_{14-4} : There are no statistically significant differences in terms of preference across status groups when considering the ‘accounts are interest-free’ factor as an important patronage criterion for deciding to open an Islamic banking account.

As can be seen from Table 7.15, the groups featuring social status seem to show statistically significant differences in opinion with regard to the statement ‘Encouragement from friends and family’. The results show that, in terms of mean ranking, the Merchant group ranks highest, with a mean value of 125.79, with regard to the idea of interest-free transactions being an important criterion for opening an account with an Islamic bank. On the other hand, in the case of ‘Islamic banks will provide attractive product packages and services’ such as free *takaful* coverage, attractive competition prize, the results show that, in terms of mean ranking, the Merchant group again ranks highest with a mean value of 122.65. The same could be inferred with regard to category that ‘the account is free of any interest’ as an important patronage criterion for opening an account with an Islamic bank.

Consequently, the null hypothesis is accepted for all categories except the social status control variable, for which the alternative hypothesis is accepted.

H₁₄₋₅: There are no statistically significant differences in terms of preference across type of account groups when considering the ‘accounts are interest-free’ factor as an important patronage criterion for opening Islamic banking accounts.

Similarly, the findings shown in Table 7.15 suggest that the groups featuring type of bank account seem to show statistically significant differences in opinion with respect to category ‘Islamic bank will pay out higher return on deposits’. The results show that, in terms of mean ranking, the current account group ranks highest, with a mean value of 98.87, regarding the use of category ‘the account is free from any interest’, as an important patronage criterion for opening an account with an Islamic bank. Consequently, the null hypothesis is accepted for all categories except the type of account control variable, for which the alternative hypothesis is accepted.

In conclusion, statistically significant differences in opinion exist among the various groups featuring social status as well as type of bank account with regard to the idea of interest-free transactions as an important criterion for opening an account with an Islamic bank. In this respect, customers’ decision-making will be affected by the idea of interest-free transactions in relation to their choice of Islamic banks with which to do business.

Hypothesis 15: The majority of respondents agree that Islamic banks will effectively contribute to the process of socio-economic development in Libya.

Table 7.7 shows that descriptive analysis has been employed in response to Hypothesis 15. The results show that the majority (91.3%) of participants strongly agree with the statement that ‘Islamic banks will effectively contribute to socio-economic development in Libya’, thus indicating that no significant differences in opinion exist among participants. Hence, the following sub-hypotheses have been formulated.

H₁₅₋₁: There are no statistically significant differences in opinion among the various age groups regarding the contribution of Islamic banks to the process of socio-economic development in Libya.

The KW Test results in Table 7.16 show that there are no statistically significant differences among the various age groups regarding the contribution of Islamic banks to the process of socio-economic development in Libya, since the p -value obtained is higher than the critical value of 0.05. The results also show that participants in the age group of 41–50 are of the opinion that the activities of their respective Islamic banks tend to contribute to the process of socio-economic development; this group has a mean value of 101.10. Hence, the null hypothesis is accepted.

H_{15-2} : There are no statistically significant differences in opinion among the various educational groups regarding the contribution of Islamic banks to the process of socio-economic development in Libya.

As can be seen from Table 7.16, the null hypothesis is accepted since the p -value is 0.551, which is higher than the critical p -value of 0.05. Therefore, there are no statistically significant differences in opinion between educational groups regarding the issue of the contribution of Islamic banks to the process of socio-economic development in Libya. The result shows that, in terms of mean ranking, the groups of undergraduates and MA holders are the only groups strongly in favour of the notion that Islamic banks will effectively contribute to socio-economic development; these groups have mean values of 100.74 and 100.34, respectively.

H_{15-3} : There are no statistically significant differences in opinion among the various groups featuring monthly income with regard to the contribution of Islamic banks to the process of socio-economic development in Libya.

The findings in Table 7.16 have revealed that respondents who earn LYD 500 per month or less have greater expectations of Islamic banks' contribution to the process of socio-economic development in Libya; this group has a mean value of 124.00. Hence, the null hypothesis is accepted since there are no statistically significant differences in opinion among various groups featuring monthly income.

H_{15-4} : There are no statistically significant differences in opinion among various groups featuring social status regarding the issue of the contribution of Islamic banks to the process of socio-economic development in Libya.

In Table 7.16 the null hypothesis is accepted since there are no statistically significant differences in opinion among the various groups featuring social status. The result shows that Merchants/Businessmen rank highest with a mean value of 108.95. The participants believe that Islamic banking should focus on promoting the idea of community development, which has been ignored for many years in Libya.

H₁₅₋₅: There are no statistically significant differences in opinion among various groups featuring type of bank account regarding the contribution of Islamic banks to the process of socio-economic development in Libya.

Similarly, the findings shown in Table 7.16 (Chapter 7) suggest that the group of respondents with current accounts ranks highest with a mean value of 98.03. In other words, there is no statistically significant difference in opinion among the various groups featuring type of bank account. Consequently, the null hypothesis is accepted. Based on those results, the respondents believe that Islamic banks in Libya should become involved in the process of social development by providing opportunities to low-income people to start their businesses, a policy that will eventually contribute to the process of socio-economic development.

Hypothesis 16: The majority of respondents agree that Islamic banks in Libya, as a genuine component of the Islamic moral economy, can play a major role in the process of socio-economic development through social projects.

This hypothesis has a number of subcategories articulating different aspects of socio-economic impact expected from Islamic banking and finance. These areas are as follows:

(i) Alleviation of poverty; (ii) Environmentally friendly economy; (iii) Supporting small business enterprises; (iv) Supporting individuals' business initiatives; (v) Improving community development through social projects; (vi) Increasing job opportunities; (vii) Increasing women's participation in the economy; (viii) Providing social loans for education, housing, healthcare and weddings;

Thus, each of the hypotheses in this section is related to these categories in evaluating the findings of this research.

The descriptive results in Table 7.8 show that, for each category, the respondents demonstrate a high level of ‘agreement’, which implies that there is not much difference in the opinions of the participants. However, the impact of control variables for each category is examined below:

H₁₆₋₁: There is no statistically significant difference in opinion among the various age groups regarding the role to be played by Islamic banks in the process of socio-economic development in Libya.

The descriptive results in Table 7.8 indicate that the results in Table 7.17 show that, for the subcategories of the socio-economic development impact of Islamic banks, there is no statistically significant difference. Hence, the null hypothesis is accepted for all the subcategories.

H₁₆₋₂: There is no statistically significant difference in opinion across various education groups regarding the role to be played by Islamic banks in the process of socio-economic development in Libya.

As can be seen from Table 7.17, in the case of the education variable differences in opinion exist only with regard to the statement ‘Increases women’s participation in the economy’. The results show that, in terms of mean ranking, the high school group is more in favour of the expectations that IBF will increase women’s participation in the economy; this group has a mean value of 121.74, which is higher than even the postgraduate (PhD and MA) degree holder groups, while it was expected that the latter groups would have given more consideration to this issue. Consequently, the null hypothesis is accepted for all categories except for the education control variable, for which the alternative hypothesis is accepted.

H₁₆₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding the role to be played by Islamic banks in the process of socio-economic development in Libya.

The results in Table 7.17 show that no statistically significant differences in opinion exist, since the *p*-value obtained is higher than critical value of 0.05; thus null hypothesis is accepted.

H₁₆₋₄: There are no statistically significant differences in opinion across the various groups featuring social status regarding the role to be played by Islamic banks in the process of socio-economic development in Libya.

Based on the results in Table 7.17, statistically significant differences in opinion exist in relation to the identified four categories featuring the statements ‘alleviation of poverty’, ‘environmental friendly economy’, ‘supporting individual business initiatives’ and ‘Improving community development through social projects’. The results show that the academics group ranks highest with a mean value of 123.00. As an educated group, academics believe that Islamic banks can play a major role in socio-economic development in Libya through the alleviation of poverty and securing investment that will not harm the environment. In other words, by supporting small projects to be run by poor unemployed male or female individuals, Islamic banks would benefit society at large. Hence, Islamic banks, by contributing to socio-economic development in one way or another, can be described as making social contributions. However, with regard to the last category featuring the statement ‘increases job opportunities’, the results show that the group of Merchants rank highest with a mean value of 119.86. Hence, those groups believe that Islamic banks must improve community development by supporting individuals and business enterprises, which will lead to a better standard of living in the future.

On the other hand, there are no statistically significant differences in opinion with regard to categories featuring the statements ‘supporting small business enterprises’; ‘increases women’s participation in the economy’ and ‘providing social loans for education, housing, health and weddings’, as suggested by the *p*-value, which is higher than the critical *p*-value of 0.05. Consequently, the null hypothesis is rejected in favour of the alternative hypothesis.

H₁₆₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the role to be played by Islamic banks in the process of socio-economic development in Libya.

In Table 7.17, the types of bank account groups seem to show statistically significant differences only in one category, the one featuring the statement ‘supporting small business enterprises’. The results show that, in terms of mean ranking, the group of

current account holders, with a mean value of 98.61, strongly favours the expectation that Islamic banks can play a role in socio-economic development in Libya by financing small projects. Thus, the null hypothesis is rejected in favour of the alternative hypothesis.

It could be concluded from the findings in this section that Islamic banks, particularly in Libya, should take into account the process of socio-economic development as one of their objectives. In other words, the process of sustainable development should always constitute a genuine component of the activities of those banks. The results of the analysis suggest that the Libyan people were not happy with the service provided by conventional banks. They believe that promoting an Islamic banking system will favour the process of economic development and social justice. Thus, the people's expectations of Islamic banks are more oriented towards economic development, so that failure of Islamic banks to respond to the requirements and needs of the people of Libya will end in disappointment and despair among the latter.

11.5. HYPOTHESIS TESTING FOR KNOWLEDGE ON ISLAMIC FINANCE PRINCIPLES

After identifying the demand and supply conditions for Islamic finance in the previous section, this section aims to test the hypotheses in relation to the knowledge of the participants on Islamic finance principles.

*Hypothesis 17: The majority of respondents have a fair level of familiarity with the term *riba* (usury).*

The frequency analysis results shown in Table 8.1 (Chapter 8) indicate that 87.1% of the respondents are familiar with the terms associated with the subject matter. Thus, according to the null hypothesis the view that the majority of respondents have a fair level of familiarity with the *riba* (usury) terminology can be accepted.

Hence, the following sub-hypotheses have been developed to determine whether any significant differences in opinion exist regarding familiarity with the term '*riba*'.

H₁₇₋₁: There are no statistically significant differences in opinion regarding familiarity with *riba* terminology among the various age groups (table 8.6).

The null hypothesis is accepted and the alternative hypothesis is rejected, since the estimated p -value is 0.16, which is higher than the critical value of 0.05. In other words, the results should mean that no statistically significant differences in opinion exist as to the familiarity of respondents with *riba* terminology among the various age groups.

H_{17-2} : There are no statistically significant differences in opinion regarding the level of familiarity with *riba* terminology among the various educational groups.

The results in Table 8.6 show that there are no statistically significant differences in opinion regarding familiarity with *riba* terminology among the various educational groups. Hence, the null hypothesis is accepted since the estimated p -value is higher than the critical value of 0.05.

H_{17-3} : There are no statistically significant differences in opinion regarding familiarity with *riba* terminology across various groups featuring monthly income.

As can be seen from Table 8.6, the null hypothesis is rejected in favour of the alternative hypothesis since the tested p -value is 0.04, which is lower than the critical value of 0.05. Therefore, the results suggest that, statistically speaking, differences in opinion exist among the various groups featuring monthly income regarding familiarity with *riba* terminology. The results demonstrate that, in terms of mean value, those who earn LYD 500–1000 rank highest, as suggested by a mean value of 106.76. This group may be obtaining loans from conventional banks or having frequent contacts with banks that have a better understanding of practices associated with *riba*.

H_{17-4} : There are no statistically significant differences in opinion regarding familiarity with *riba* terminology among various groups featuring social status.

As can be seen in table 8.6, the null hypothesis is accepted since the p -value is 0.11 which is greater than the critical value of 0.05. This implies that no statistically significant differences in opinion exist among various groups featuring social status regarding familiarity with *riba* terminology.

H₁₇₋₅: There are no statistically significant differences in opinion among various groups featuring type of bank account with regard to familiarity with *riba* terminology.

In Table 8.6, the null hypothesis is accepted since the *p*-value stands at 0.96 which is obviously higher than the critical *p*-value of 0.05. Therefore it can be concluded that, statistically speaking, no significant differences in opinion exist regarding familiarity with *riba* terminology among groups featuring type of bank account.

Hypothesis 18: The majority of respondents who are familiar with the term “riba” do have a fair level of knowledge about the subject matter.

This hypothesis has a number of subcategories articulating different aspects related to *riba* as follows:

(i) *Riba* is the same as interest; (ii) Interest on deposits paid by conventional bank is the same as profits on deposits paid by Islamic banks; (iii) It is sinful to take conventional bank deposit interest.

Thus, each of the hypotheses in this section is tested in relation to these categories.

The descriptive results in Table 8.1 show that, for the category featuring the statement ‘*riba* is the same as interest’, the respondents have demonstrated a high level of ‘agreement’ (88.2%) while, for the category featuring the assumption that ‘interest on deposits paid by conventional banks is the same as the profit on deposits paid by Islamic banks’, the respondents demonstrated a high level of ‘disagreement’ (84.6%). As for the last category, the respondents have demonstrated a high level of ‘agreement’ (76.2%), implying that the differences in opinion among participants are insignificant. Hence, it could be concluded that the majority of the respondents are familiar with and understand *riba* terminology. However, the impact of the control variables for each category is examined below:

H₁₈₋₁: There is no statistically significant difference in opinion among the various age groups with regard to familiarity with *riba*-related issues.

The results in Table 8.6 show that no statistically significant differences exist regarding familiarity with *riba*-related issues among the various age groups.

Therefore, the null hypothesis is accepted since the tested p -value exceeds the critical value of 0.05.

H_{18-2} : There is no statistically significant difference in opinion among the various educational groups with regard to familiarity with *riba*-related issues.

Similarly, for the educational qualifications, the null hypothesis is accepted since the p -value is higher than the critical p -value of 0.05. Therefore, the result confirms that no significant differences among the various educational groups exist with regard to familiarity with *riba*-related issues.

H_{18-3} : There are no statistically significant differences in opinion among the various groups featuring monthly income with regard to familiarity with *riba*-related issues.

The null hypothesis is accepted in favour of the alternative hypothesis since the tested p -value is greater than the critical value of 0.05. In other words, the results should mean that no statistically significant differences in opinion exist among the various groups featuring monthly income with regard to familiarity with *riba*-related issues.

H_{18-4} : There is no statistically significant difference in opinion among the various groups featuring social status with regard to familiarity with *riba*-related issues.

As can be seen from Table 8.6, the groups featuring social status seem to show statistically significant differences in opinion only in the case of the assumption that 'Interest on deposits paid by conventional banks is similar to the profit on deposits paid by Islamic banks'. The results show that, in terms of mean ranking, the general public has a mean value of 0.05, which means that differences in opinion exist in terms of familiarity with *riba*-related issues, while it is thought that this group is perhaps less aware of *riba*-related matters. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted since the estimated p -value is lower than the critical p -value of 0.05.

H_{18-5} : There is no statistically significant difference in opinion among the various groups featuring type of bank account with regard to familiarity with *riba*-related matters.

For this hypothesis, the results in Table 8.6 show that there are no statistically significant differences in opinion among the various groups featuring type of bank account with regard to familiarity with *riba*-related issues. Hence, the null hypothesis is accepted, since the *p*-value is greater than the critical value of 0.05.

Hypothesis 19: The majority of respondents have a fair degree of familiarity with the terms murabahah, musharakah and mudarabah.

This hypothesis has three subcategories as follows: (i) *Murabahah*; (ii) *Musharakah*; (iii) *Mudarabah*.

These categories are used as a reference point to test the hypothesis in this section.

The frequency analysis results shown in Table 8.2 in Chapter 8 indicate that, for the term *murabahah*, the respondents demonstrated a high level of familiarity (73.2 %) while, for the term *musharakah*, the respondents also stated that they were familiar with the term (76.8%). Similarly, in the case of the term *mudarabah*, the respondents showed a high level of familiarity (55.7%). It could be concluded that, despite the absence of inadequacy of Islamic financial institutions in Libya, a considerable number of respondents are familiar with these terms. That inference should suggest that the null hypothesis is accepted regarding familiarity with the aforementioned terminology. However, the impact of control variables for each category is examined below:

H₁₉₋₁: There are no statistically significant differences in opinion regarding the level of familiarity with the *murabahah*, *musharakah* and *mudarabah* terms among the various age groups.

Table 8.7 shows that the null hypothesis is accepted since the estimated *p*-value is higher than the critical *p*-value of 0.05. Therefore, the results suggest that there are no statistically significant differences in opinion regarding the level of familiarity with *murabahah*, *musharakah* and *mudarabah* terms among the various age groups.

H₁₉₋₂: There is no statistically significant difference regarding the level of familiarity with the terms *murabahah*, *musharakah* and *mudarabah* among the various educational groups.

Once again, the null hypothesis is accepted as the results in Table 8.7 show that no statistically significant differences in opinion exist regarding the level of familiarity with the terms *murabahah*, *musharakah* and *mudarabah* among the various educational groups. The result also indicates that the estimated p -value was higher than the critical value of 0.05.

H_{19-3} : There are no statistically significant differences in opinion regarding the level of familiarity with the *murabahah*, *musharakah* and *mudarabah* terms among the various groups featuring monthly income.

As can be seen from Table 8.7, the results show that no statistically significant differences exist regarding familiarity with the above terms among the various groups featuring monthly income. Therefore, the null hypothesis is accepted since the estimated p -value is higher than the critical value of 0.05.

H_{19-4} : There is no statistically significant difference regarding the level of familiarity with the terms *murabahah*, *musharakah* and *mudarabah* among the various groups featuring social status.

Similar results can also be found in relation to groups featuring social status where the null hypothesis is accepted since the p -value exceeds the critical p -value of 0.05. Therefore it can be concluded that statistically there no significant differences exist with regard to familiarity with the terms *murabahah*, *musharakah* and *mudarabah* among groups featuring social status.

H_{19-5} : There are no statistically significant differences in opinion regarding the level of familiarity with *murabahah*, *musharakah* and *mudarabah* terms among the various groups featuring type of bank account.

The results in Table 8.7 show that there are no statistically significant differences in the level of familiarity with the terms *murabahah*, *musharakah* and *mudarabah* among the various groups featuring type of bank account. Hence, the null hypothesis is accepted once again since the estimated p -value exceeds the critical value of 0.05 (Table 8.7).

Hypothesis 20: The majority of respondents who said they were aware of the principles of Islamic finance stated that they had acquired their knowledge from reading newspapers and bank brochures and from the Internet.

The above hypothesis has a number of subcategories as follows:

(i) Prior knowledge from reading (newspaper, internet, bank brochures); (ii) Education (Learnt at university or college); (iii) Explanation by the banks' staff during the opening of the account; (iv) Explanation from friends and family.

These categories help to test the hypotheses in this section.

The results in Table 8.3 (Chapter 8) show that the majority of participants (69.6%) state that they have obtained their knowledge about the principles of Islamic finance through reading, while 16.5% of those who have an account with Islamic banks have claimed that conventional banks that have Islamic windows and Islamic banks' employees make no effort to brief depositors on the unique nature of *Shari'ah*-compliant contracts that govern their services and products and the principles of Islamic finance in general.

After this initial result, further analysis was carried out to determine whether any significant differences in opinion existed regarding the knowledge and awareness of the participants in relation to the various categories. Accordingly, the following hypotheses have been formulated.

H₂₀₋₁: There are no statistically significant differences in opinion among the various age groups regarding the level of awareness or understanding of the principles of Islamic finance to be acquired from reading newspapers and bank brochures and from the Internet.

The results in Table 8.8 (Chapter 8) show that the null hypothesis is accepted; thus it can be concluded that, statistically there no significant differences of opinion exist among the various age groups regarding the level of awareness or understanding of the principles of Islamic finance to be acquired from reading newspapers and bank brochures and from the Internet. However, the age group of 20-30 ranks highest with

a mean value of 50.56. They probably have a good educational level and some interest in financial matters.

H₂₀₋₂: There are no statistically significant differences among the various education groups regarding the level of awareness or understanding of the principles of Islamic finance to be acquired through reading newspapers and bank brochures and from the Internet.

As can be seen from Table 8.8, no statistically significant differences exist among the various education groups regarding the level of awareness or understanding of the principles of Islamic finance. The results suggest that the null hypothesis is to be accepted, as it is evident from the estimated *p*-value, which is higher than the critical *p*-value of 0.05. The results show that those with PhDs are expected to have a high level of knowledge and awareness of those principles; this group has a mean value of 61.65.

H₂₀₋₃: There are no statistically significant differences among the various groups featuring monthly income regarding the level of awareness or understanding of the principles of Islamic finance to be acquired from reading newspapers and bank brochures and from the Internet.

In response to the above hypothesis (Table 8.8), again the null hypothesis is accepted as the results suggest that no statistically significant differences in opinion exist among the various groups featuring monthly income with regard to the level of awareness or understanding of the principles of Islamic finance. Thus, the results show that those who earn LYD2001– 3000 have more knowledge and higher awareness of the products and services to be offered by Islamic banks.

H₂₀₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding the level of awareness or understanding of the principles of Islamic finance to be acquired from reading newspapers and bank brochures and from the Internet.

The results in Table 8.8 show that there are no statistically significant differences among the various groups featuring social status regarding the level of awareness or understanding of the principles of Islamic finance. Hence, the null hypothesis is

accepted since the estimated p -value is higher than the critical p -value of 0.05. The findings indicate that academics rank highest in terms of knowledge, understanding and awareness of the principles of Islamic finance, which is exactly as expected. This result seems to be in line with the previous result in relation to the educational groups, where the group of PhD holders also ranks highest.

H₂₀₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account with regard to the level of awareness or understanding of the principles of Islamic finance to be acquired through reading newspapers and bank brochures and from the Internet.

Similar results can also be concluded for groups featuring type of bank account where the null hypothesis is accepted since the p -value is higher than the critical p -value of 0.05. Therefore, it can be concluded that there no statistically significant differences exist among the various groups featuring type of bank account with regard to the level of awareness or understanding of the principles of Islamic finance. Hence, the results show that those who hold savings accounts or current accounts are more aware of the principles of Islamic finance, as suggested by the respective mean values of 47.49 and 47.75.

Hypothesis 21: Most of the respondents are not aware of the principles of Islamic finance indicating that they do not know where to get the information from.

This hypothesis has a number of subcategories as follows:

(i) Difficult to understand; (ii) Banks' staff do not explain the matter; (iii) Do not know where to get the information about the underlying contract; (iv) Not interested; (v) Assuming it is the same as conventional banks.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The descriptive results in Table 8.3 show that 20.1% of the participants claim to have no idea where to get the information from. Therefore, the Libyan people as Muslims have the desire to increase their knowledge of the principles of Islamic finance, and some of them have managed to do that through reading, as postulated by Hypothesis

21. However, the results indicate that immediate steps need to be taken to bridge the gap in the customers' knowledge about the products and services to be offered by Islamic banks. Therefore, it is high time that the Central Bank of Libya (CBL) should consider improving the quality of service by briefing customers on the most important features of the products and services to be provided by Islamic banks. In other words, the Libyan government has a religious obligation to promote the Islamic financial system to raise the awareness of the people with regard to the principles of Islamic finance. Accordingly, the following hypotheses have been formulated.

H₂₁₋₁: There is no statistically significant difference in opinion among the various age groups regarding their lack of awareness of the principles of Islamic finance as they remain uncertain about the source of information.

The result in Table 8.8 evidences that the null hypothesis is accepted, suggesting that no statistically significant differences exist among the various age groups regarding lack of awareness of the principles of Islamic finance. The results show that those aged 20–30, with a mean value of 119.28, rank highest among the groups. The findings seem to indicate a state of confusion among participants as to where to get the information from.

H₂₁₋₂: There are no statistically significant differences in opinion among the various education groups regarding their lack of awareness of the principles of Islamic finance as they remain uncertain about the source of information.

As can be seen from Table 8.8, the results show that there are no statistically significant differences in opinion among the various education groups regarding lack of awareness of the principles of Islamic finance, as suggested by the estimated *p*-value of 0.23 which is higher than the critical *p*-value of 0.05. The results indicate that those with high-school qualifications and below and undergraduates rank highest with mean values of 103.80 and 103.54, respectively. Hence, it could be postulated that the level of understanding and awareness of the subject matter is a direct function of the level of academic qualifications.

H₂₁₋₃: There is no statistically significant difference in opinion among the various groups featuring monthly income regarding their lack of awareness of the principles of Islamic finance, as they remain uncertain about the source of information.

Similarly in (Table 8.8), for this category the results also suggest that the null hypothesis is to be accepted. It can be concluded that there are no statistically significant differences among the various groups featuring monthly income regarding lack of awareness of the principles of Islamic finance. The results show that those who earn LYD 500 or less, with a mean value of 114.42, have poor knowledge and awareness of Islamic banking products and services.

H₂₁₋₄: There is no statistically significant difference in opinion among the various groups featuring social status regarding their lack of awareness of the principles of Islamic finance as they remain uncertain about the source of information.

Table 8.8 in Chapter 8 also shows that there are no statistically significant differences among the various groups featuring social status regarding lack of awareness of the principles of Islamic finance. Based on the mean value scores, the general public has a low level of knowledge and awareness of the principles of Islamic finance; this group has a mean value of 107.93, favouring the null hypothesis.

H₂₁₋₅: There is no statistically significant difference in opinion among the various groups featuring type of bank account regarding their lack of awareness of the principles of Islamic finance as they remain uncertain about the source of information.

For this last category, the results confirmed that the null hypothesis is accepted, which means that there is no statistically significant difference among the various groups featuring type of bank account regarding their lack of awareness of the principles of Islamic finance. However, the results show that those who have savings accounts rank highest, with a mean value of 134.00, as they remain uncertain about the sources of information.

11.6. TESTING HYPOTHESIS FOR KNOWLEDGE OF ISLAMIC BANKING AND FINANCE

The previous section focused on the awareness and knowledge of Islamic finance principles, while this section aims to test hypotheses for knowledge of Islamic banking and finance.

Hypothesis 22: Most of the respondents stated that Islamic banks should not become involved in interest-based transactions.

This hypothesis has a number of subcategories articulating different aspects of Islamic banks as listed below:

(i) Banking without interest; (ii) Discouraging debt-based finance; (iii) Being an alternative to capitalism and socialism; (iv) Having *Shari'ah*-compliant products; (v) Banking for Muslims only; (vi) Ethical banking; (vii) Promoting social welfare; (viii) Being a charitable entity; (ix) Banking for the poor; (x) Similar to other commercial banks.

Thus, each of the hypotheses in this section is tested in relation to these categories.

The descriptive results in Table 7.8 show that, for each category, the respondents demonstrate a high level of 'agreement', which implies that no significant differences in opinion exist among participants. However, the impact of control variables for each category is examined below:

H₂₂₋₁: There are no statistically significant differences in opinion among the various age groups with regard to the belief that Islamic banks should not become involved in interest-based transactions.

As can be seen from Table 8.9, the various age groups seem to show statistically significant differences only in two cases. The first one is in regard to the statement 'being an alternative to capitalism and socialism'. The results show that, in terms of mean ranking, the age group of 41–50 tends to make it clear that Islamic banking and finance could provide an alternative to both capitalist and socialist systems; this group has a mean value of 112.68, which is the highest among the groups. On the other hand, with regard to the statement that Islamic bank is 'Similar to other commercial

banks', the results show that the over-50 age group ranks highest among groups, with a mean value of 120.61. The members of this group are probably not aware of the specific Islamic financial products and services that distinguish them from conventional banks. Consequently, the null hypothesis is rejected in favour of the alternative hypothesis since statistically significant differences in opinion exist among the various age groups.

H₂₂₋₂: There are no statistically significant differences in opinion among the various education groups with regard to the belief that Islamic banks should not become involved in interest-based transactions.

For this category the various educational groups also seem to show statistically significant differences only in two cases. The first one describes an Islamic bank as 'being a charitable entity'. The results indicate that, in terms of mean ranking, the group of undergraduates are of the opinion that Islamic banking is mostly associated with the idea of 'being a charitable entity'; this group has a mean value of 105.15 which is the highest. However, in the case of the statement describing Islamic banking as 'banking for the poor', the results show that, in terms of mean ranking, the group featuring high-school level and below is of the opinion that Islamic banking is mostly associated with 'banking for the poor'; this group has a mean value of 118.02, which is the highest among the groups. Consequently, the null hypothesis is rejected in favour of the alternative since there are statistically significant differences in opinion among the groups.

H₂₂₋₃: There are no statistically significant differences in opinion across various income groups with regard to the belief that Islamic banks should not become involved in interest-based transactions.

Table 8.9 shows that there are statistically significant differences in opinion among the various groups featuring monthly income in relation to the statement 'discouraging debt-based finance'. In terms of mean value, those who earn more than LYD 4000 per month rank highest, with a mean value of 138.75. This group is of the opinion that Islamic banks can be described as 'discouraging debt-based finance'. This description should distinguish Islamic banks from conventional banks. Nevertheless, regarding the idea that depicts an Islamic bank as 'being a charitable

entity', the results show that those who earn LYD 500 and below or are of the opinion that Islamic banks are mostly associated with charitable activities; this group has a mean value of 134.75. Thus, the null hypothesis is rejected in favour of the alternative hypothesis.

H₂₂₋₄: There are no statistically significant differences in opinion among the various groups featuring social status with regard to the belief that Islamic banks should not become involved in interest-based transactions.

Similarly, the results in Table 8.9 in Chapter 8 indicate that there are statistically significant differences among the various groups featuring social status groups in three cases. The first case is the statement 'discouraging debt-based finance'. The results indicate that the group of Merchants, who are aware of Islamic financial products and services by virtue of their business involvements, are of the opinion that Islamic banks are mostly associated with 'discouraging debt-based finance'; this group has a mean value of 117.05, which ranks highest among the groups. In the case of the statement depicting Islamic banking as 'banking for Muslims only', the results show that the general public believe that Islamic banks should serve everyone in society regardless of their religious links; this group has a mean value of 130.64. As for the last statement which describes Islamic banking as 'banking for the poor', the results show once again that the general public is of the opinion that Islamic banks should focus on helping the poor and low-income groups in the community; this group has a mean value of 118.21 which is highest among the groups. Thus, the null hypothesis is rejected in favour of the alternative hypothesis.

H₂₂₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account groups with regard to the belief that Islamic banks should not become involved in interest-based transactions.

The results in Table 8.9 show that there are statistically significant differences with regard to the statement depicting Islamic banking as 'promoting social welfare'. The results show that the current account group, by virtue of their long-standing relationship with conventional banks, believes that Islamic banks should promote social welfare; this group has a mean score of 98.88. For this reason, the null hypothesis is rejected in favour of the alternative hypothesis.

Hypothesis 23: The majority of the respondents have a good understanding of the objectives of Islamic banking.

This hypothesis has a number of subcategories articulating different aspects of objectives of Islamic banks in the following areas:

(i) Prohibition of *riba*; (ii) Providing *Shari'ah*-compliant products; (iii) Non-debt-based financing; (iv) Contributing to social welfare; (v) Promoting sustainable development; (vi) Alleviating poverty; (vii) Maximizing profits; (viii) Encouraging Islamic values at all levels.

These categories constitute the sources of test in this section.

According to the result in Table 8.5, participants greatly appreciate the 'prohibition of *riba*' as the most important objective of Islamic banking, with a mean score of 4.67. The other objectives are listed according to priority as follows: 'providing *Shari'ah*-compliant products', 'encouraging Islamic values at all levels', 'alleviating poverty', 'promoting sustainable developments', 'contributing to social welfare', 'non-debt-based financing', and 'maximizing profits'.

The following sub-hypotheses have been developed to investigate whether significant differences in opinion exist with regard to the respondents' knowledge in relation to the various categories as indicated by the control variables. The results of the discussion are fully analysed in Table 8.10.

H₂₃₋₁: There are no statistically significant differences among the various age groups with regard to understanding the objectives of Islamic banking.

The results in Table 8.10 indicate that no statistically significant differences in opinion exist among participants with regard to the objectives of Islamic banks; thus, the null hypothesis is accepted.

H₂₃₋₂: There are no statistically significant differences among the various educational groups regarding the understanding of the objectives of Islamic banking

As can be seen from Table 8.1, the results show that there is no statistically significant difference in opinion among the various educational groups regarding the

understanding of the objectives of Islamic banking; thus, the null hypothesis is accepted.

H₂₃₋₃: There are no statistically significant differences among the various groups featuring monthly income regarding the understanding of the objectives of Islamic banking.

The level of understanding of the objectives of Islamic banking by the group of participants featuring monthly income has been tested by the above hypothesis. The null hypothesis is rejected since statistically significant differences exist with regard to two of the objectives: ‘contributing to social welfare’ and ‘alleviating poverty’. On the other hand the null hypothesis is accepted for the rest of the objectives, indicating that no significant differences exist among the various groups with regard to those objectives, as indicated in Table 8.10.

However, it is noteworthy that those who earn LYD 2001-3000 and those who earn more than LYD 4000 rank highest among the groups, with mean values of 122.65 and 129.95, respectively. Generalizing from the results obtained in Table 8.5, social objectives are given more attention than commercial objectives, as the latter come at the bottom of the list of rankings. This suggests that the respondents have a high level of understanding and awareness with regard to the importance of Islamic banks being socially orientated in terms of their objectives to realize the ambitions and aspirations of Muslim communities. This line of thought complements the idea of establishing Islamic social banks to promote the process of social development in Libya.

H₂₃₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding the understanding of the objectives of Islamic banking.

The overall results in Table 8.10 suggest that there are no significant differences among the participants regarding the objectives featuring the statements ‘prohibition of *riba*’, ‘providing *Shari’ah*-compliant products’, ‘promoting sustainable development’, ‘alleviating poverty’, maximizing profits’ and ‘encouraging Islamic values’. This indicates that the null hypothesis is accepted for these objectives. However, significant differences in opinion exist regarding the remaining objectives

i.e. ‘non-debt-based financing’ and ‘contributing to social welfare’; for these objectives, the null hypothesis is rejected.

As can be seen, opinion varies among respondents with regard to the above objectives: the social objectives are given more attention than commercial objectives, as the latter rank at the bottom on the list of priorities, as suggested by the participants in Table 8.5.

H₂₃₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the understanding of the objectives of Islamic banking.

The results in Table 8.10 show that there are no statistically significant differences in opinion regarding the understanding of the objectives of Islamic banking among the various groups featuring type of bank account, thus favouring the null hypothesis.

11.7. HYPOTHESIS TESTING FOR KNOWLEDGE OF CORPORATE SOCIAL RESPONSIBILITY (CSR).

While previous sections focused on the internal aspects and principles of Islamic finance and institutional aspects and strategies of Islamic banking and finance, this section investigates the respondents’ understanding of the principle of CSR as a basis for Islamic moral economy and Islamic social banking.

CSR-related research is meagre in Libya and very rare in general; CSR studies in relation to Islamic finance institutions are also still limited and have not been extensively studied. In this section the significance of the concept of CSR to Islamic banking is examined. Thus, the following hypothesis has been formulated on the importance of CSR for Islamic banking or to discuss the knowledge, awareness and practices of CSR in Islamic banks.

Hypothesis 24: The majority of respondents have a fair degree of familiarity with regard to the concept of corporate social responsibility (CSR).

As shown in Table 9.1, 18.6% of the respondents are very familiar with the concept of CSR, while 81.5% of the respondents are not particularly familiar with CSR. This indicates that the majority of the participants have poor knowledge of the idea of

corporate social responsibility. Hence, the levels of awareness of CSR among the participants are low, as the former regime has provided no support and encouragement to incorporate the principle of CSR into industrial practice. Indeed, corporations in Libya, including commercial banks, scaled down socially orientated activities. This implies that the transitional government and the succeeding governments in Libya should be committed to promoting Islamic moral economy as an important development objective.

To sum up, the results suggest that the null hypothesis should be rejected since the majority of participants have a poor understanding of the concept of CSR. However, further investigation of the familiarity with the principle of CRS can be undertaken by the formulation of the following sub-hypotheses:

H₂₄₋₁: There are no statistically significant differences in opinion among the various age groups regarding familiarity with the concept of CSR.

As the results in Table 9.8 indicate, the null hypothesis is rejected since there is a statistically significant difference with regard to the familiarity with the concept of CSR across various age groups. The results show that those aged 31–40 have a better level of knowledge and awareness of the concept of CSR; this group has a mean value of 111.58.

H₂₄₋₂: There are no statistically significant differences in opinion among the various educational groups regarding familiarity with the concept of CSR.

As the results in Table 9.8 show, the null hypothesis is rejected since the *p*-value is lower than the critical value of 0.05, which implies that there is a statistically significant difference in opinion regarding familiarity with the concept of CSR among the various educational groups. The results show that, as expected, the group of PhD holders are more familiar with the concept of CSR, with a mean ranking of 118.23.

H₂₄₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding familiarity with the concept of CSR.

The results in Table 9.8 show that there is a statistically significant difference with regard to the familiarity with the concept of CSR among the various groups featuring

monthly income, which suggests the rejection of the null hypothesis. The results indicate that those who earn LYD 500 or less are more familiar with the concept of CSR perhaps due to their business engagement.

H₂₄₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding familiarity with the concept of CSR.

As can be seen from Table 9.8, there are statistically significant differences with regard to the familiarity with the concept of CSR across the various status groups, suggesting the rejection of the null hypothesis. In this case, the academic group ranked highest with a mean value of 119.10, suggesting that educated people have good knowledge about Islamic finance.

H₂₄₋₅: There is no statistically significant difference in opinion among the various groups featuring type of bank account regarding familiarity with the concept of CSR.

The results in Table 9.8 evidences that the null hypothesis is accepted, since there are no statistically significant differences regarding familiarity with the concept of CSR among the various groups featuring type of bank account. The results show that those who hold savings accounts are more familiar with the concept, with a mean rank of 123.50

Hypothesis 25: With regard to the principle of CSR, the majority of respondents have the same understanding.

This hypothesis has a number of subcategories articulating different aspects of corporate social responsibility (CSR), as follows:

(i) Giving back to society; (ii) Charity and/or philanthropy; (iii) People, planet and profit; (iv) Business and society; (v) Business ethics; (vi) Corporate sustainability; (vii) Responsible business.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The results in Table 9.1 in Chapter 9 show that a reasonable percentage of the participants (37.1%) define CSR as ‘Giving back to society’, while 29.9% define the

concept as ‘business and society’. However, 15.5% of the participants define CSR as ‘business ethics’. Indeed, the result suggests that the participants are aware of the nature of the principle of CSR, which is to care for society and the environment, which makes it consistent with the objectives of Islamic banking.

It could be argued that the result suggests that the participants’ understanding of CSR goes beyond the idea of helping others to include instilling Islamic ethical principles as anticipated by Libyans in order to bring peace and spiritual satisfaction to society.

Thus, the following sub-hypotheses have been formulated for further investigation of the participants’ opinions in relation to the concept of CSR.

H₂₅₋₁: There is no statistically significant difference in opinion among the various age groups regarding the meaning of CSR.

In this case, the null hypothesis is accepted since there is no statistically significant difference among various age groups regarding the meaning of CSR, as evidenced from the results in Table 9.8. The results show that those aged 20–30 and 31–40 have a good understanding of the meaning of CSR, with mean values of 101.11 and 101.65, respectively.

H₂₅₋₂: There is no statistically significant difference in opinion among various educational groups regarding the meaning of CSR.

In this case Table 9.8 shows that the null hypothesis is rejected since there is a statistically significant difference among the various educational groups regarding the meaning of CSR. The results show that, in terms of mean ranking, those who have high levels of education such as PhD and MA holders rank highest among the groups, with mean values of 114.63 and 108.49, respectively. Hence, those groups appear to have a good idea of CSR in terms of general knowledge as compared to other groups. In other words, those groups seem to have a relatively broader knowledge of CSR by virtue of their profession as university lecturers.

H₂₅₋₃: There is no statistically significant difference in opinion among the various groups featuring monthly income regarding the meaning of CSR.

As the results in Table 9.8 show, the null hypothesis is accepted since there are no statistically significant differences among the various income groups featuring monthly income regarding the meaning of CSR. This inference is confirmed by a p -value of 0.41, which is greater than the critical value of 0.05. The results indicate that those who earn LYD 2001-3000 have a better understanding of the concept of CSR than others, as suggested by the mean value of 122.78.

H₂₅₋₄: There is no statistically significant difference in opinion among the various groups featuring social status regarding the meaning of CSR.

With regard to the above hypothesis, the null hypothesis is accepted once again since there are no statistically significant differences in opinion among the various groups featuring social status with regard to the meaning of CSR, as evidenced from the results in Table 9.8. The results show that the academics who have a high level of qualifications, have more knowledge and awareness of the meaning of CSR, as indicated by the mean value of 113.09.

H₂₅₋₅: There is no statistically significant difference in opinion among the various groups featuring type of bank account with regard to the meaning of CSR.

As can be seen from Table 9.8, there are no statistically significant differences in opinion regarding the meaning of CSR among the various groups featuring type of bank account. Hence, the null hypothesis is accepted since the estimated p -value is 0.762, which is greater than the critical value of 0.05. The results show that those with current accounts are more aware of the meaning of CSR than others; this group has a mean value of 97.69.

Hypothesis 26: The majority of respondents perceive that CSR is an essential part of the Islamic economy

This hypothesis has a number of subcategories articulating different aspects of corporate social responsibility (CSR) as follows:

- (i) CSR upholds the social justice dimension of Islamic economics; (ii) Islamic banks are obliged to practice CSR; (iii) CSR is relevant to the Islamic concept of banking; (iv) CSR should be embedded in Islamic banks' policies; (v) The government should

enforce CSR through regulations as one of the requirements for operating an Islamic bank; (vi) Social responsibility should be a matter for the government; (vii) Social responsibility should be a matter for the NGOs.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The results in Table 9.2 in Chapter 9 show that, for each category, the respondents demonstrated a high level of ‘agreement’, which implies that no significant differences in opinion exist among participants. Indeed, 78.3% of the participants made positive remarks or proposals on CRS by demanding that the principle of CSR be embedded in Islamic banks’ policies and regulations, while 63.4% stated that Islamic banks are obliged to practise CRS. Hence, the results suggest that the participants are aware of the benefit of performing CRS and would be very happy if Islamic banks and finance institutions in Libya could ensure and practise CRS. The impact of the control variables for each category is examined below.

H₂₆₋₁: There is no statistically significant difference across various age groups regarding the essentiality of CSR for Islamic economics.

As can be seen from Table 9.9, the age groups seem to show statistically significant differences in opinion only in the case of the statement ‘Islamic banks are obliged to practice CSR’. The results show that, in terms of mean rankings, those aged 41–50 are firmly of the opinion that Islamic banks should practise CSR; this group has a mean value of 106.68, which is even higher than the older age groups. Consequently, the null hypothesis is rejected in favour of the alternative hypothesis.

H₂₆₋₂: There is no statistically significant difference across various educational background groups regarding the essentiality of CSR for Islamic economics.

The KW Test results in Table 9.9 show that the education groups seem to show statistically significant differences in opinion for the statement ‘Social responsibility should be a matter for the government’. The results show that, in terms of mean ranking, the group of high school and below are in favour of the above statement, as a mean value of 116.64 would suggest. Since the *p*-value is lower than the critical *p*-value of 0.05, the null hypothesis is rejected in favour of the alternative hypothesis.

H_{26-3} : There is no statistically significant difference across various income groups regarding the essentiality of CSR for Islamic economics.

The results in Table 9.9 indicate that the groups featuring monthly income seem to show statistically significant differences in regard to two of the statements. For the statement ‘CSR should be embedded in Islamic banks’ policies’, the results show that those who earn LYD 2000–3000 strongly believe that CRS should inculcate Islamic ethics to bring harmony to society and the environment, as suggested by a mean value of 118.89. On the other hand, in the case of ‘social responsibility should be a matter for the government’ the results show that those who earn LYD 500 or less are concerned that the banks will not be forced to practise CRS, so it should therefore be a matter for the government; this group has a mean value of 129.00. Thus, the null hypothesis is rejected in favour of the alternative hypothesis.

H_{26-4} : There is no statistically significant difference across various status groups regarding the essentiality of CSR for Islamic economics.

In this case (Table 9.9), the null hypothesis is rejected since there are statistically significant differences in opinion in relation to the statement ‘the government should enforce CSR through regulations as one of the requirements for operating an Islamic bank’ among the various groups featuring social status. The results show that the academics group rank highest, as indicated by the mean value of 111.21. Hence, this group is highly supportive of the idea. However, for the statement ‘social responsibility should be a matter for the government’, the results show that the bankers, who undoubtedly have greater experience in dealing with banking matters, strongly believe that CSR should be a matter for the government, as indicated by the mean ranking of 116.58.

H_{26-5} : There is no statistically significant difference across various types of account groups regarding the essentiality of CSR for Islamic economics.

Table 9.9 shows that the null hypothesis is rejected, since there are statistically significant differences among the various groups featuring type of bank account in relation to the statement ‘the government should enforce CSR through regulations as one of the requirements for operating an Islamic bank’. However, the results show that those who hold current accounts rank highest, as a mean value of 98.69 would

indicate. The result suggests that, in Libya, CSR is probably considered a voluntary practice by conventional banks, and might feature in the annual report as an insignificant activity or might not feature at all. So it follows that CSR might not be practised by banks voluntarily.

Hypothesis 27: The majority of respondents support various dimensions of CSR activities that Islamic banks are normally expected to practise.

This hypothesis has a number of subcategories articulating different aspects of CSR activities that Islamic banks are expected to practise:

(i) Charity /donations to the community; (ii) Alliance with charitable organizations (*activities* with orphanages, helping the poor, *etc.*) ;(iii) Actively targeting groups, communities or institutions that require assistance; (iv) Providing benevolence loans (*qard al-hasan*); (v) Providing educational sponsorship; (vi) Emphasizing ethical values and moral behaviour (*e.g.* honesty, respect, punctuality, justice, *etc.*); (vii) Assisting with *zakah* collection and/or distribution; (viii) Ensuring investments in ethical and *Shari'ah*-compliant products; (ix) Guaranteeing investments will not harm the environment; (x) Being pro-active in environment conservation; (xi) Adopting best practices in human resource management; (xii) Promoting health and safety in the workplace; (xiii) None of the above, as a bank is a financial institution not a social institution.

These categories help to test the identified tests in this section.

The following are the results obtained from this study presented in the order of significance, as reported in Table 9.3. In other words, the variables are arranged in descending order of rank, as shown in Table 9.3 in Chapter 9. Hence, the majority of the participants expect various elements of CSR activities to be practised by Islamic banks such as: (i) 'emphasizing ethical values and moral behaviour (*e.g.* honesty, respect, punctuality, justice, *etc.*)' and 'ensuring investments in ethical and *Shari'ah*-compliant products' - it should be noted that both of them have the same mean value of 4.13; (ii) 'providing benevolence loans (*qard al-hasan*)'; (iii) 'guaranteeing investments will not harm the environment'; (iv) 'Adopting best practices in human resource management'; (v) 'promoting health and safety in the workplace'; (vi) 'being pro-active in environmental conservation'; (vii) 'establishing alliances with charitable

organizations’; (viii) ‘assisting with *zakah* collection and/or distribution’; (x) ‘providing educational sponsorships’; (xi) ‘actively targeting groups, communities or institutions that require assistance’; (xi) ‘giving charity donations to the community’; and (xii) ‘none of the above, as a bank is a financial institution not a social institution’.

In order to examine the differences in opinion among the participants, the following hypotheses are formulated.

H₂₇₋₁: There are no statistically significant differences in opinion among the various age groups in the support for various dimensions of CSR activities that are supposed to be practised in Islamic banks.

According to Table 9.10, there are statistically significant differences in opinion among the various age groups in support of the various dimensions of CSR activities that are supposed to be practised by Islamic banks only in regard to the statement ‘providing benevolence loans (*qard al-hasan*)’, since the estimated *p*-value is 0.03 which is less than the critical *p*-value of 0.05. Hence, the null hypothesis is rejected. Based on the results in Table 9.10, those aged 20–30 rank highest with a mean value of 111.67. However, it is noteworthy that this activity ranks second in the list, as the mean value of 4.26 would indicate. The result suggests that this group is aware of the benefit of practising CSR and would be very happy if Islamic banks could ensure that CSR is practised by providing *qard al-hasan* to young people who are seeking a better life. This attitude should be realized by providing help to the poor and the needy through community development, which is consistent with *maqсад shari’ah*.

H₂₇₋₂: There are no statistically significant differences in opinion among the various educational groups in support for various dimensions of CSR activities that are supposed to be practised in Islamic banks.

As can be seen from Table 9.10, in terms of education no statistically significant differences in opinion exist except in one statement, ‘providing educational sponsorship’. The results show that, in terms of mean value, the age group 20-30 ranks highest. This group has greater expectations that IB will provide educational sponsorship for young people; this group has a mean value of 108.39 which is even higher than the highly educated groups. Consequently, the null hypothesis is rejected.

H₂₇₋₃: There are no statistically significant differences among the various groups featuring monthly income in the support of various dimensions of CSR activities that are supposed to be practised in Islamic banks.

As regards this control variable (Table 9.10), the monthly income group, the findings favour the rejection of the null hypothesis with regard to the statement ‘charity /donations to the community’. The monthly income group earning more than LYD 4000 per month is of the view that CSR can play a role in developing the community by making donations. Thus, the results suggest that socio-economic justice can be facilitated by establishing CSR activities.

H₂₇₋₄: There are no statistically significant differences among the various groups featuring social status in the support of the various dimensions of CSR activities that are supposed to be practised in Islamic banks.

The results in Table 9.10 show that, for this hypothesis, the null hypothesis is neither fully accepted nor fully rejected, as suggested by the control variables in relation to groups featuring social status. In other words opinion is divided on this statement. Thus, statistically significant differences in opinion on this statement exist among the groups featuring social status, while the groups agree on the remaining statements. Thus, the null hypothesis is rejected in the case of the following: (i) ‘providing educational sponsorship’; (ii) ‘guaranteeing investments will not harm the environment’; (iii) ‘adopting best practices in human resource management’. Hence, all three identified CSR advantages have support from the participants who have the same educational background; they are all academics or merchants who probably hold economic or finance degrees. In this respect, participants believe that CSR not only favours banks but also favours the community at large by promoting social justice.

However, the null hypothesis is accepted, since the estimated *p*-value is higher than the critical *p*-value of 0.05, in the case of the following statements: ‘charity /donations to the community’; ‘alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc.)’; ‘actively targeting groups, communities or institutions that require assistance’; ‘providing benevolence loans (*qard al-hasan*)’; ‘emphasizing ethical values and moral behaviour (e.g. honesty, respect, punctuality, justice, etc.)’; ‘assisting with *zakah* collection and/or distribution’; ‘ensuring

investments in ethical and *Shari'ah*-compliant products'; 'being pro-active in environment conservation'; 'promoting health and safety in the workplace'; and 'none of the above, as a bank is a financial institution not a social institution'.

H_{27-5} : There are no statistically significant differences among the various groups featuring type of bank account in support for the various dimensions of CSR activities that are supposed to be practised in Islamic banks.

Based on the results depicted in Table 9.10, it can be concluded that the null hypothesis is rejected for four statements as follows: 'alliance with charitable organizations (e.g. activities with orphanages, helping the poor, etc.)'; 'providing educational sponsorship'; 'emphasizing ethical values and moral behaviour (e.g. honesty, respect, punctuality, justice, etc.)'; and 'none of the above, as a bank is a financial institution, not a social institution'. In this regard the various participants believe that CSR activities should benefit the community at large as well as the environment. However, incorporating the principles of CRS will make Islamic banking more capable of realizing its social goals. Moreover, the principle of CRS will make banks put community interests before economic interests in relation to maximizing profits.

On the other hand, the null hypothesis is accepted, as suggested by the p -value which is higher than the critical value of 0.05, in relation to the following statements: 'charity/donations to the community'; 'actively targeting groups, communities or institutions that require assistance'; 'providing benevolence loans (*qard al-hasan*)'; 'assisting with *zakah* collection and/or distribution'; 'ensuring investments in ethical and *Shari'ah*-compliant products'; 'guaranteeing investments will not harm the environment'; 'being pro-active in environment conservation'; 'adopting best practices in human resource management'; and 'promoting health and safety in the workplace'.

11.8. HYPOTHESIS TESTING FOR KNOWLEDGE ON SUSTAINABLE DEVELOPMENT AND SOCIAL BANKING

The previous section focused on CSR and how it is perceived by the participants and the connection they make with Islamic banking, while this section features the analysis of the opinions and perceptions of the participants on sustainable development and social banking, both of which are relatively new fields of exploration in terms of Islamic moral economy and Islamic banking. The result from this research aims to empirically contribute to the discussion in relation to CSR and sustainable development in Islamic banking.

Social banking is also considered a new area in terms of banking activities in Libya. Nonetheless, the idea of social banking has yet to gain momentum in Libya to catch up with other pioneering countries in this area such as Bangladesh, India, the UK and Germany. An initial assessment needs to be made of the general understanding of the Libyan people regarding the idea of sustainable development. For this, the following hypotheses are introduced.

Hypothesis 28: The majority of respondents have a fair degree of familiarity with regard to the concept of sustainable development.

The results of the survey in Table 9.4 show that about 59.3% of the respondents said they were very familiar with the concept of sustainable development, which was consistent with the above hypothesis. On the other hand only 40.7% of the respondents said they were not familiar with the concept.

H₂₈₋₁: There are no statistically significant differences in opinion among the various age groups regarding familiarity with the concept of sustainable development.

Sustainable development is considered a new concept, but the idea is making progress in Libyan society. Hence, the results in Table 9.11 show that the null hypothesis is accepted, as suggested by the *p*-value of 0.63. This indicates that there are no statistical significant differences in opinion among the various age groups regarding familiarity with the concept of sustainable development.

H_{28-2} : There are no statistically significant differences in opinion among the various educational groups regarding familiarity with the concept of sustainable development.

The KW Test results in Table 9.11 show that only the education groups seem to show statistically significant differences in opinion regarding the familiarity with sustainable development. The results show that, in terms of mean ranking, the group of PhD holders seems to be more familiar with the concept than others, as indicated by the mean value of 123.85. Consequently, the null hypothesis is accepted for all categories except for education control variable, in which case the alternative hypothesis is accepted.

H_{28-3} : There are no statistically significant differences in opinion among the various groups featuring monthly income regarding familiarity with the concept of sustainable development.

The result depicted in Table 9.11 shows that the null hypothesis is accepted once again, as suggested by the p -value of 0.774. This indicates that there are no statistically significant differences in opinion regarding familiarity with the concept of sustainable development among groups featuring monthly income. Those who earn LYD 500–1000 are ranked highest among their respective groups. It is suggested that low-income groups are greatly concerned about the process of sustainable development compared to higher-income groups who seem to be indifferent to the issue of sustainable development.

H_{28-4} : There are no statistically significant differences in opinion among the various groups featuring social status regarding familiarity with the concept of sustainable development.

The results in Table 9.11 show that there are no statistically significant differences among groups featuring social status regarding familiarity with the concept of sustainable development. Hence, the null hypothesis is accepted, as indicated by the p -value of 0.108, which is higher than the critical value of 0.05.

H_{28-5} : There are no statistically significant differences in opinion among the various groups featuring types of bank account regarding familiarity with the concept of sustainable development.

As evidenced from Table 9.11, the null hypothesis is accepted since the estimated p -value is 0.375, indicating that there are no statistically significant differences in opinion among groups featuring type of bank account regarding familiarity with the concept of sustainable development.

Hypothesis 29: The respondents have similar understandings regarding sustainable development

This hypothesis has a number of subcategories articulating different aspects of sustainable development as follows:

(i) Satisfying present needs without compromising the needs of future generations ;
(ii) Providing minimum essential needs (*e.g.* food, shelter, medicine, *etc.*); (iii) Integration of economic, social and environmental responsibilities in order to improve quality of life; (iv) Establishing social justice to improve quality of growth and development; (v) Conducting economic and social activities with justice, equity and redistribution.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The descriptive analysis in Table 9.4 (Chapter 9) shows that opinion differs as to the accurate description of the concept of sustainable development; however, the largest group of participants (28.9%) perceive sustainable development as being relevant to the idea of ‘satisfying present needs without compromising the future generations’ needs’; followed by the 22.7% who describe sustainable development as being relevant to ‘integration of economic, social and environmental responsibilities in order to improve quality of life’; while 21.1% of the respondents describe it as ‘establishing social justice to improve quality of growth and development’, and 17.0% describe it as ‘conducting economic and social activity with justice, equity and redistribution’. In addition, the last group (10.3%) of participants described sustainable development as relevant to ‘providing minimum essential needs (*e.g.* food, shelter, medicine, *etc.*)’.

In order to examine the differences in opinion among the participants with regard to the above statements the following hypotheses are tested:

H₂₉₋₁: There are no statistically significant differences in opinion among the various age groups regarding their understanding of sustainable development.

The results in Table 9.11 show that there is a statistically significant difference in opinion among the various age groups regarding their understanding of sustainable development. Hence, the null hypothesis is rejected since the estimated *p*-value is 0.05. The results show that those aged over 50 ranked highest with a mean value of 115.52. It is thought that this group of respondents has knowledge on sustainable development-related matters, thus enabling them to give an accurate definition of the concept.

H₂₉₋₂: There are no statistically significant differences in opinion among the various education groups regarding their understanding of sustainable development.

As can be seen from Table 9.11, once again the null hypothesis is rejected and the alternative hypothesis is accepted since the estimated *p*-value is 0.00, which is less than the critical *p*-value of 0.05. Therefore, it is concluded that, statistically speaking, there is no significant difference in the level of understanding of sustainable development among the various education groups. Hence, in terms of mean ranking PhD holders scored higher mean rank values of 128.37. Clearly, those with higher levels of educational qualifications have a better level of understanding compared to the other groups.

H₂₉₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding their understanding of sustainable development.

The results of the KW test suggest that the null hypothesis is to be accepted, as suggested by the estimated *p*-value of 0.865 which is higher than the critical *p*-value of 0.05. The results show that those earning LYD 2001–3000 per month rank highest with the mean value of 107.06. Therefore, it can be concluded that, statistically speaking, there are significant differences in opinion among the various groups featuring monthly income regarding their understanding of sustainable development.

H₂₉₋₄: There are no statistically significant differences among the various groups featuring social status regarding their understanding of sustainable development.

For this category, the statistical analysis outcomes indicate that there is no statistically significant difference in opinion among the various groups featuring social status regarding their understanding of sustainable development, which suggests that the null hypothesis is to be accepted, as indicated by the estimated p -value of 0.42 which is higher than the critical p -value of 0.05. The results show that Bureaucrats/Managers rank highest with a mean value of 109.56. Those with long work experience have a better understanding of the idea of sustainable development.

H₂₉₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding their understanding of sustainable development.

Similar conclusions can be derived from this category analysis, where the statistical result does not support the alternative hypothesis. It is concluded that there are no significant differences in opinion among the various groups featuring type of bank account with regard to their understanding of sustainable development. The results in Table 9.11 show that those who hold savings accounts rank highest, with a mean value of 103.70. This group appear to have a better understanding of the idea of sustainable development by virtue of their long relationships with banks.

Hypothesis 30: The majority of the respondents are of the opinion that Islamic banks have potential roles to play in contributing to sustainable development.

The following subcategories, related to the articulation of the expected roles for Islamic banking in promoting sustainable development, are used to test the identified hypotheses:

(i) It is the banks' obligations to alleviate poverty; (ii) Islamic banks should promote good governance (*e.g.* transparency, no corruption, *etc.*) ; (iii) Islamic banks should promote microfinance (banking for the poor); (iv) Islamic banks should follow ethical strategies, from providing services to customers to employee's rights; (v) Islamic banks should invest in human capital development for employees (*e.g.* training, research, further education, *etc.*); (vi) Islamic banks' investment strategy should not undermine the environment; (vii) Islamic banks should directly contribute to community development projects.

The descriptive results in Table 9.5 show that, for each category, the respondents demonstrated high levels of ‘agreement’, which implies that there are not many differences in opinion among participants. However, the impact of control variables for each category is examined below:

H₃₀₋₁: There is no statistically significant difference in opinion among the various age groups in perceiving that Islamic banks have a potential role to play in providing sustainable development.

With regard to the various age groups, the results shown in Table 9.12 suggest that no statistically significant differences exist among age groups with regard to the perception that Islamic banks can potentially play important roles to promote sustainable development. Hence, the null hypothesis is accepted since the *p*-value is higher than the critical *p*-value of 0.05

H₃₀₋₂: There is no statistically significant difference across the various educational background groups in perceiving that Islamic banks have a potential role to play in providing sustainable development.

The results in Table 9.12 show that there are no significant differences among the various educational groups regarding the perception that Islamic banks can potentially play important roles to promote sustainable development. . Hence, the null hypothesis is accepted.

H₃₀₋₃: There is no statistically significant difference across the various monthly income groups in perceiving that Islamic banks have a potential role to play in providing sustainable development.

As can be seen from Table 9.12, the monthly income groups seem to show statistically significant differences in regard to two statements: ‘Islamic banks should invest in human capital development for employees (*e.g.* training, research, further education, *etc.*)’ and ‘Islamic banks’ investment strategy should not undermine the environment’.

The results show that, in terms of mean rankings, those who earn more than LYD 4000, with a mean value of 0.037, generally have a good understanding, experience

and knowledge of sustainable development compared to others. They believe that Islamic banks should pay more attention to investing in human capital issues as a contribution to sustainable development. Meanwhile those who earn LYD 3001–4000, with a mean value of 122.95, suggest that Islamic banks should be environmentally friendly.

These respondents have an expectation that Islamic banks will be keen on the issue of environmental preservation. Consequently, the null hypothesis is accepted for all categories except for the monthly income control variable, for which the alternative hypothesis is accepted.

H_{30-4} : There is no statistically significant difference across the various status groups in perceiving that Islamic banks have a potential role to play in providing sustainable development.

Table 9.12 suggests that there are statistically significant differences in opinion among the various groups featuring social status regarding the perception that Islamic banks can potentially play important roles to promote sustainable development only in relation to the statement ‘Islamic banks should invest in human capital development for employees (*e.g.* training, research, further education, *etc.*)’. The results show that, in terms of mean ranking, the academics have greater expectations that IBF will invest in human capital; this group has a mean value of 119.56, which is higher than the others. Their knowledge is mostly acquired from textbooks and the news and they have experience in the industrial framework, suggesting that Islamic banks should invest in human capital to compete with the rest of the banks. Consequently, the null hypothesis is accepted for all categories except for the status control variable, for which the alternative hypothesis is accepted.

H_{30-5} : There is no statistically significant difference across the various types of account type groups in perceiving that Islamic banks have a potential role to play in providing sustainable development.

The result in Table 9.12 shows that the null hypothesis is accepted since the estimated p -value is higher than the critical p -value of 0.05. This indicates that no statistically significant differences in opinion exist among groups featuring type of bank account

with regard to the perception that Islamic banks can potentially play important roles to promote sustainable development in Libya.

After exploring the validity of the identified hypotheses on sustainable development issues according to the opinions of the participants, in order to explore social banking-related issues as articulated in this study, the following hypotheses are formulated to gauge the understanding and familiarity of Libyans with regard to social banking.

Hypothesis 31: The majority of respondents do not have a fair degree of familiarity with regard to the concept of social banking

As mentioned earlier, the idea of social banking, particularly in Libya, is considered new. This is supported by the findings obtained from the descriptive results in this study; as can be seen in Table 9.6 only 22.2% of the respondents are familiar with this particular concept, while the majority of the respondents (77.8%) are not familiar with the concept of social banking

Thus, the following hypotheses test the knowledge and understanding of the Libyan participants in relation to the concept of social banking, and will also investigate the possibility of initiating Islamic social banking in Libya in order to fulfil the social objectives of Islamic banks.

H₃₁₋₁: There are no statistically significant differences among the various age groups regarding familiarity with the concept of social banking.

The results in Table 9.13 suggest that the null hypothesis is rejected, since there are no statistically significant differences in opinion regarding familiarity with the concept of social banking among various age groups. The results show that, in terms of mean ranking, those aged over 50 probably became familiar with the concept of social banking through experience, much more so than others; this group has a mean value of 107.20.

H₃₁₋₂: There are no statistically significant differences among the various educational groups regarding familiarity with the concept of social banking.

Table 9.13 shows that the null hypothesis in the case of education groups is rejected since the estimated *p*-value of 0.01 is lower than the critical *p*-value of 0.05. Hence,

significant differences in opinion exist among the various education groups regarding familiarity with the concept of social banking. The results shows that the group of PhD holders ranks highest, as suggested by the mean value of 111.58, indicating their familiarity with the concept of social banking, which probably comes from reading.

H₃₁₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding familiarity with the concept of social banking.

Based on the results depicted in Table 9.13, the null hypothesis is accepted, as no significant differences regarding familiarity with the concept of social banking exist among the various education groups. The null hypothesis is rejected since the estimated *p*-value of 0.37 is higher than the critical *p*-value of 0.05. In fact, lower-income groups with a mean value of 128.83 are highly supportive of this concept. The result suggests that lower-income groups may have more interest in this area; hence, their familiarity with the concept of social banking has probably been gained through experience.

H₃₁₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding familiarity with the concept of social banking.

Table 9.13 shows that the null hypothesis in Table 9.13 is rejected since the estimated *p*-value of 0.00 is lower than the critical *p*-value of 0.05. Hence, the participants show significant differences regarding familiarity with the concept of social banking. The results show that, in terms of mean ranking, the group of academics are probably more interested in the subject, as indicated by the mean value of 112.85.

H₃₁₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding familiarity with the concept of social banking.

The results in Table 9.13 show that no significant differences in opinion exist among groups featuring type of bank account regarding familiarity with social banking. Thus, the null hypothesis is accepted.

Hypothesis 32: The majority of respondents perceive that Islamic banks should practise social banking.

Since this study proposed that Islamic banks should be institutionalized as social banks to make a difference, this hypothesis aims to gauge Libyans' perceptions of such a potential development.

The findings show that the Libyan people support the idea that Islamic banks should practise social banking. That view becomes evident from Table 9.6, which shows that 64.4% of the respondents agree with the statement that Islamic banks should become socially involved.

H₃₂₋₁: There are no statistically significant differences in opinion among the various age groups regarding the perception that Islamic banks should practise social banking.

As the results in Table 9.13 show, the null hypothesis is accepted since the estimated *p*-value (0.25) is higher than the critical value of 0.05. Therefore, there are no statistically significant differences among various age groups regarding the perception that Islamic banks should become socially involved.

H₃₂₋₂: There are no statistically significant differences in opinion among the various educational groups regarding the perception that Islamic banks should practise social banking.

As can be seen from Table 9.13, the results show that there is no statistically significant difference in opinion among the various education groups in relation to the idea that Islamic banks should practise social banking. The estimated *p*-value obtained is 0.49 which is higher than the critical value of 0.05, and is thus in favour of the null hypothesis.

H₃₂₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding the perception that Islamic banks should practise social banking.

The results in Table 9.13, evidence that the estimated *p*-value for monthly income groups 0.105 which is higher than the critical *p*-value of 0.05. Therefore, the hypothesis is accepted since there is no statistically significant difference in opinion

among the groups featuring monthly income with regard to the idea that Islamic banks should become socially involved.

H₃₂₋₄: There are no statistically significant differences among the various groups featuring social status with regard to the perception that Islamic banks should practise social banking.

Based on the results shown in Table 9.13, the null hypothesis is accepted, since there are no statistically significant differences in opinion among groups featuring social status in relation to the idea that Islamic banks should practise social banking.

H₃₂₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the perception that Islamic banks should practise social banking.

The results in Table 9.13 show that there are no statistically significant differences among various groups featuring type of bank account in relation to the idea that Islamic banks should become socially involved. Therefore, the null hypothesis is accepted since the estimated *p*-value of 0.573 is higher than the critical value of 0.05.

Hypothesis 33: The majority of respondents have a fair degree of understanding of the objectives of social banking.

As mentioned earlier, the respondents' level of familiarity with the concept of social banking in Libya is quite low; hence, this would suggest that the participants' level of understanding of the objective of social banking is quite similar.

This hypothesis has a number of subcategories in terms of the objectives of social banking, which helps to test the defined hypotheses as follows:

(i) Low-income consumers; (ii) Supporting individual and group activities for economic environment; (iii) Financing environmental projects; (iv) Micro-enterprise financing; (v) Providing financial assistance for community development (*e.g.* education, medical services, discouraging social ills, *etc.*); (vi) Encouraging social savings for weddings, children's education, community-based programmes, and other social welfare programmes.

Thus, each of the hypotheses in this section is formulated in response to the above categories.

The descriptive analysis results in Table 9.7 show that, for each of the above categories, the respondents demonstrated a high level of ‘agreement’, which implies that few differences in opinion exist among participants.

Among a list of possible objectives of social banking given to the respondents to choose from, the participants are of the opinion that social banking should be committed to ‘financing environmental projects’ which ranks at the top of the given list (Table 9.7). However, the list of objectives in descending order is as follows: ‘encouraging social savings for weddings, children’s education, community-based programmes and other social welfare programmes’; ‘micro-enterprise financing’; ‘providing financial assistance for community development (*e.g.* education, medical services, discouraging social ills, *etc.*)’; ‘supporting individual and group activities for economic environment’; and ‘low-income consumers’.

Thus, the following sub-hypotheses aim to further investigate the opinions of participants in relation to the objectives of social banking. However, the impact of control variables for each category is examined below:

H₃₃₋₁: There are no statistically significant differences in opinion among the various age groups regarding the understanding of the objectives of social banking.

The results in Table 9.14 show that there is no statistically significant difference among the various age groups regarding the understanding of the objectives of social banking, since the estimated *p*-value is higher than the critical value of 0.05. Thus, the null hypothesis is accepted.

H₃₃₋₂: There are no statistically significant differences in opinion among the various educational groups regarding the understanding of the objectives of social banking.

As can be seen from Table 9.14, the results show that there is a statistically significant difference only in the case of ‘low-income consumers’. The results demonstrate that, in terms of mean ranking, the high-school and below high-school group’s rank highest with a mean value of 122.32. Those groups believe that social banking should have

different objectives from commercial banking in terms of promoting community projects at the expense of profit-making.

H₃₃₋₃: There are no statistically significant differences among the various groups featuring monthly income regarding the understanding of the objectives of social banking.

Table 9.14 shows that there are no statistically significant differences among the various groups featuring monthly income regarding the understanding of the objectives of social banking, as indicated by estimated *p*-value which is higher than the critical *p*-value of 0.05, which implies that the null hypothesis is accepted. Hence, the result suggests that high-income participants are particularly in favour of the idea that those objectives should be associated with social banks. The results show that higher-income groups may have more interest in this area; their familiarity with the objectives of social banking has probably been gained through experience.

H₃₃₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding the understanding of the objectives of social banking.

In Table 9.14 the social status groups seem to show statistically significant differences in opinion only in relation to the statement 'financing environmental project'. The results shows that, in terms of mean ranking, the group of academics strongly expect Islamic social banks to provide finance for environmental projects, as suggested by the mean value of 115.72. It is thought that this group gives more consideration to this issue of social banking. Consequently, the null hypothesis is rejected in favour of the alternative hypothesis.

H₃₃₋₅: There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the understanding of the objectives of social banking.

The same scenario applies to this hypothesis. Table 9.14 shows that the null hypothesis is rejected in favour of the alternative hypothesis. The results show that statistically significant differences in opinion exist only in relation to the statement 'low-income consumers'. The results show that, in terms of mean ranking, those who

hold current accounts rank highest with a mean value of 98.81. Based on this result, the respondents perceive social banking as a means of realizing social aspirations by creating business opportunities for low-income earners.

Hypothesis 34: With regard to methods of financing Islamic social banks, the respondents have the same opinion.

This hypothesis has a number of subcategories regarding how social banks should be financed, as follows:

(i) Islamic commercial banks should provide the initial funding as parent banks to their subsidiaries; (ii) The government should provide the initial funding; (iii) Non-Government Organizations (NGOs) should provide the initial funding; (iv) Government, NGOs and Islamic commercial banks together should provide the initial funding; (v) Islamic social banking should be provided and sustained through *zakah*, *waqf* and *infaq* funding.

These categories help to test the formulated hypotheses as below:

The descriptive analysis results in Table 9.6 show that the majority of the respondents believe that the government, non-government organizations (NGOs) and Islamic commercial banks together should provide the initial funding for Islamic social banks. On the other hand, only 9.3% indicated that Islamic commercial banks should provide the initial funding as parent banks to their subsidiaries. On the other hand, 8.8% of the respondents think that Islamic social banking should be sponsored through *zakah*, *waqf* and *infaq* funding, while others are of the opinion that NGOs should provide the initial funding. However, it could be concluded that, to establish the so-called 'Islamic social banks', 41.8% of the participants indicate that government, NGOs and Islamic commercial banks should work together to provide the financial sponsorship for those banks.

In order to explore the methods of financing social banking and related projects, the following hypotheses are formulated to gauge the understanding of Libyans with regard to the methods of funding social banks.

H₃₄₋₁: There are no statistically significant differences in opinion among the various age groups regarding the methods of financing Islamic social banks.

The results in Table 9.13 show that there are no statistically significant differences in opinion among the various age groups regarding the financing of Islamic social banks. The results indicate that, in terms of mean ranking, those aged 31–40 rank highest with a mean value of 99.32. Thus, the null hypothesis is accepted. This group seems to be well aware of the methods through which social banks should be financed.

H₃₄₋₂: There are no statistically significant differences in opinion among the various education groups in regard to the methods of financing Islamic social banks.

The results in Table 9.13 show that the null hypothesis is accepted since there is no statistically significant difference in opinion among the various educational groups regarding the financing of Islamic social banks. However, the estimated *p*-value obtained is slightly greater than the critical *p*-value of 0.05. The results indicate that those who have a high level of qualifications, such as PhDs, rank highest with a mean value of 116.21. It is strongly believed that this group has more knowledge and understanding of the methods.

H₃₄₋₃: There are no statistically significant differences in opinion among the various groups featuring monthly income regarding the methods of financing Islamic social banks.

In this case, Table 9.13 shows that the null hypothesis is accepted, as no significant differences in opinion exist among the various groups featuring monthly income with regard to the methods of financing Islamic social banks. The result suggests that the income groups may have gained their knowledge regarding the methods of financing social banks through experience.

H₃₄₋₄: There are no statistically significant differences in opinion among the various groups featuring social status regarding the methods of financing Islamic social banks.

As the finding in Table 9.13 indicates, the estimated *p*-value for the groups featuring social status is 0.03, which is smaller than the critical *p*-value of 0.05. Therefore, the null hypothesis is rejected since statistically significant differences exist among the

groups regarding the financing of Islamic social banks. The results show that the group of bankers ranks highest with a mean value of 106.72. The results suggest that those who have long work experience within the banking sector may be well informed about the methods of financing.

H_{34-5} : There are no statistically significant differences in opinion among the various groups featuring type of bank account regarding the methods of financing Islamic social banks.

As the findings in Table 9.13 evidence the null hypothesis is accepted since the estimated p -value of 0.52 is higher than the critical p -value of 0.05. Therefore, there are no statistically significant differences in opinion among groups featuring type of bank account regarding the financing of Islamic social banks. The results show that those who hold savings accounts were ranked highest with a mean value of 112.20. Thus, the results suggest that this group seem to have a relatively fair understanding of the methods of financing Islamic social banks by virtue of their relationship with the banking sector.

11.9. SUMMARY AND CONCLUSION

This chapter presents the results of the analysis from chapters 6 - 10 in an attempt to test the identified hypotheses developed earlier. The following main conclusions can be derived from the discussion:

- (i) The majority of the participants have a good level of awareness about the fundamental principles of Islamic finance, which includes the *riba* prohibitions. In addition, those who are familiar with the *riba* prohibition have shown an acceptable level of understanding.
- (ii) The religious nature of the Libyan people is the main reason why they are expressing their interest in using Islamic financial institutions in Libya.
- (iii) The results indicate that significant differences in opinion exist among participants regarding their expectations in relation to the financial and banking system in Libya. However, the results show that the banking service in Libya has a long way to go to match international standards.

(iv) The majority of conventional banks' customers are not happy with the services and products offered by their banks.

(v) The results of the study show that there is a strong demand for Islamic finance in Libya, especially since the February 17th Revolution which has given people renewed hope for development.

(vi) People's expectations of Islamic finance are more oriented towards economic development; therefore, if Islamic finance does not address the difficulties of the Libyan people, great disappointment will ensue.

(vii) The results of the study show that the majority of the participants stated that CSR should be embedded in Islamic banks' policy and Islamic banks should practise it.

(viii) The results of the study show that the majority of the participants stated that Islamic banks should contribute to sustainable development.

(ix) Libya was lagging behind in terms of economic development. Moreover, the majority of participants believe that the outgoing regime made no effort to promote an Islamic finance system in Libya and beyond. It is also important to mention that the former regime was trying to create barriers to halt the expansion of the Islamic financial industry

The summary of the discussion in this chapter in the form of hypotheses testing is summarised in Table 11.1, which also provides the decisions made regarding the hypotheses.

Table 11.1: Summary of the Hypothesis-testing Decisions

Hypothesis		Decision
Hypothesis 1	The majority of respondents maintain that they have never borrowed money from banks.	Null Hypothesis accepted
Hypothesis 2	Most of those who have borrowed money from banks stated that they have used that money for home financing.	Null Hypothesis accepted
Hypothesis 3	The majority of respondents describe the service provided by the banks as poor.	H ₃₋₁ : accepted H ₃₋₂ : accepted H ₃₋₃ : accepted H ₃₋₄ : rejected H ₃₋₅ : accepted
Hypothesis 4	The majority of respondents believe that the services provided by banks have been unsatisfactory due to the inadequate use of modern technology.	H ₄₋₁ : accepted H ₄₋₂ : rejected H ₄₋₃ : accepted H ₄₋₄ : accepted H ₄₋₅ : accepted
Hypothesis 5	The majority of respondents rate themselves as having very good economic and financial knowledge.	H ₅₋₁ : rejected H ₅₋₂ : accepted H ₅₋₃ : accepted H ₅₋₄ : rejected H ₅₋₅ : accepted
Hypothesis 6	The majority of respondents believe that the Libyan economy has not been performing well over the years.	H ₆₋₁ : accepted H ₆₋₂ : rejected H ₆₋₃ : accepted H ₆₋₄ : rejected H ₆₋₅ : rejected
Hypothesis 7	The majority of respondents are of the opinion that bank services in Libya are not available for everyone.	H ₇₋₁ : rejected H ₇₋₂ : rejected H ₇₋₃ : accepted H ₇₋₄ : rejected H ₇₋₅ : rejected
Hypothesis 8	With regard to the progress made by Islamic moral economy in Libya, the majority of respondents believe no significant progress has been made so far.	H ₈₋₁ : accepted H ₈₋₂ : accepted H ₈₋₃ : accepted H ₈₋₄ : rejected H ₈₋₅ : rejected
Hypothesis 9	Regarding the poor performance of the Islamic finance system and its future development in Libya, the majority of respondents believe that the former regime did not promote Islamic finance in Libya.	H ₉₋₁ : accepted H ₉₋₂ : rejected H ₉₋₃ : rejected H ₉₋₄ : rejected H ₉₋₅ : accepted
Hypothesis 10	The majority of respondents do have a reasonable level of awareness that Islamic banking is available as Islamic windows mainly for car purchase.	H ₁₀₋₁ : accepted H ₁₀₋₂ : accepted H ₁₀₋₃ : rejected H ₁₀₋₄ : accepted H ₁₀₋₅ : accepted

Hypothesis		Decision
Hypothesis 11	The majority of respondents feel comfortable doing business with Islamic banks and other Islamic financial institutions in Libya.	Null Hypothesis Accepted
Hypothesis 12	The majority of respondents believe that the entire banking system in Libya should be fully Islamized.	Null Hypothesis Accepted
Hypothesis 13	The majority of respondents would prefer to open a bank account with an Islamic bank, should they become available in Libya.	Null Hypothesis Accepted
Hypothesis 14	When it comes to opening an account with an Islamic bank, it is equally important that the deposits are interest-free as well as other criteria for the selection of the appropriate bank.	H ₁₄₋₁ : rejected H ₁₄₋₂ : accepted H ₁₄₋₃ : accepted H ₁₄₋₄ : rejected H ₁₄₋₅ : rejected
Hypothesis 15	The majority of respondents agree that Islamic banks will effectively contribute to the process of socio-economic development in Libya.	Null Hypothesis Accepted
Hypothesis 16	The majority of respondents agree that Islamic banks in Libya, as a genuine component of the Islamic moral economy, can play a major role in the process of socio-economic development through social projects.	H ₁₆₋₁ : accepted H ₁₆₋₂ : rejected H ₁₆₋₃ : accepted H ₁₆₋₄ : rejected H ₁₆₋₅ : rejected
Hypothesis 17	The majority of respondents have a fair level of familiarity with the term <i>riba</i> (usury).	H ₁₇₋₁ : accepted H ₁₇₋₂ : accepted H ₁₇₋₃ : rejected H ₁₇₋₄ : accepted H ₁₇₋₅ : accepted
Hypothesis 18	The majority of respondents who are familiar with the term <i>riba</i> do have a fair level of knowledge about the subject matter.	H ₁₈₋₁ : accepted H ₁₈₋₂ : accepted H ₁₈₋₃ : accepted H ₁₈₋₄ : rejected H ₁₈₋₅ : accepted
Hypothesis 19	The majority of respondents have a fair degree of familiarity with the terms <i>murabahah</i> , <i>musharakah</i> and <i>mudarabah</i> .	Null Hypothesis Accepted
Hypothesis 20	The majority of respondents who say they are aware of the principles of Islamic finance stated that they have acquired their knowledge from reading newspapers and bank brochures and from the Internet.	Null Hypothesis Accepted
Hypothesis 21	Most of the respondents are not aware of the principles of Islamic finance, indicating that they do not know where to get the information from.	Null Hypothesis Accepted
Hypothesis 22	Most of the respondents stated that Islamic banks should not become involved in interest-based transactions.	Null Hypothesis Rejected
Hypothesis 23	The majority of the respondents have a good understanding of the objectives of Islamic banking.	H ₂₃₋₁ : accepted H ₂₃₋₂ : accepted H ₂₃₋₃ : rejected H ₂₃₋₄ : rejected H ₂₃₋₅ : accepted

Hypothesis		Decision
Hypothesis 24	The majority of respondents have a fair degree of familiarity with regard to the concept of Corporate Social Responsibility (CSR).	H ₂₄₋₁ : rejected H ₂₄₋₂ : rejected H ₂₄₋₃ : rejected H ₂₄₋₄ : rejected H ₂₄₋₅ : accepted
Hypothesis 25	With regard to the principle of Corporate Social Responsibility (CSR), the majority of respondents have the same understanding.	H ₂₅₋₁ : accepted H ₂₅₋₂ : rejected H ₂₅₋₃ : accepted H ₂₅₋₄ : rejected H ₂₅₋₅ : rejected
Hypothesis 26	The majority of respondents perceive that CSR is an essential part of Islamic economics.	Null Hypothesis Rejected
Hypothesis 27	The majority of respondents support various dimensions of CSR activities which Islamic banks are normally expected to practise.	Null Hypothesis Rejected
Hypothesis 28	The majority of respondents have a fair degree of familiarity with regard to the concept of sustainable development.	H ₂₈₋₁ : accepted H ₂₈₋₂ : rejected H ₂₈₋₃ : accepted H ₂₈₋₄ : accepted H ₂₈₋₅ : accepted
Hypothesis 29	Regarding sustainable development, the respondents have similar understandings.	H ₂₉₋₁ : rejected H ₂₉₋₂ : accepted H ₂₉₋₃ : accepted H ₂₉₋₄ : accepted H ₂₉₋₅ : accepted
Hypothesis 30	A majority of the respondents are of the opinion that Islamic banks have potential roles to play in contributing to sustainable development.	H ₃₀₋₁ : accepted H ₃₀₋₂ : accepted H ₃₀₋₃ : accepted H ₃₀₋₄ : rejected H ₃₀₋₅ : rejected
Hypothesis 31	The majority of respondents do not have a fair degree of familiarity with regard to the concept of social banking.	H ₃₁₋₁ : rejected H ₃₁₋₂ : rejected H ₃₁₋₃ : accepted H ₃₁₋₄ : rejected H ₃₁₋₅ : rejected
Hypothesis 32	The majority of respondents perceive that Islamic banks should practise social banking.	Null Hypothesis accepted
Hypothesis 33	The majority of respondents have a fair degree of understanding of the objectives of social banking.	H ₃₃₋₁ : accepted H ₃₃₋₂ : rejected H ₃₃₋₃ : accepted H ₃₃₋₄ : rejected H ₃₃₋₅ : rejected
Hypothesis 34	With regard to methods of financing Islamic social banks, the respondents have the same opinion.	H ₃₄₋₁ : accepted H ₃₄₋₂ : accepted H ₃₄₋₃ : accepted H ₃₄₋₄ : rejected H ₃₄₋₅ : accepted

Chapter 12

CONCLUSION AND RESEARCH RECOMMENDATIONS

12.1. INTRODUCTION

The aim of this chapter is to summarize the entire research by bringing together the discussion of the results featured in empirical chapters 6, 7, 8, 9 and 10, highlighting the main points in the discussion chapter (Chapter 11) and establishing the research implications of the study. In addition, this chapter offers some recommendations and suggestions for future study.

12.2. SUMMARY OF THE RESEARCH

The current study aimed at explaining and exploring the need for Islamic finance in Libya through exploring the opinions and perceptions of the main stakeholders on the demand and supply side. The study further aimed at investigating whether Islamic social banks, rather than Islamic commercial banks, could be a suitable formation and institutionalisation method for Islamic banking in the case of Libya for leading the process of social development, again through the perceptions and opinions of stakeholders on the concept of Islamic social banking and its relevance to Libya. To fulfil the identified research aims and objectives as explained in Chapter 1, a questionnaire and an interview schedule was designed to survey the opinions of the identified Libyan stakeholders. The results so obtained have been analyzed using a variety of methods.

Libya has undergone a long period of economic isolation as a result of more than forty years of dictatorship. However, given its strategic location in North Africa with its long Mediterranean coastline not far from Europe coupled with strong links with West Africa, Libya has good prospects of making a rapid economic recovery to the effect of linking Africa with the Arab world and Europe in economic terms. However, as also evidenced by this study, Libya has been lagging behind in terms of socio-economic development particularly in the areas of human development and poverty alleviation in the country.

However, the commercial banks in Libya, which are supposed to lead the process of socio-economic development, seem to have been underperforming. This has become obvious from

the results of the survey, which indicate that the majority of respondents have been unhappy with the services provided by those banks. In this respect, banks in Libya need to provide services to match international standards.

One of the most significant findings of this research is that most of the Libyan people prefer not to become involved in interest-based banking transactions. However, the main problem is that customers have had very limited options available to them, as the six major banks in Libya are government-owned and the financial market has been under the control of the government during the former regime. Consequently, the former regime had endeavoured to prevent the promotion of Islamic banking in the country. This is evidenced by the results of the survey analysis in this study, as the majority of respondents (90.8%) believe that the former regime under Qaddafi has been responsible for the blocking and underdevelopment of the Islamic banking and finance sector in Libya. Nonetheless, following the collapse of the Qaddafi regime, the Islamic banking and finance system has entered a new phase as the February 17th revolution has given fresh hope for socio-economic development in the country. The results of the survey analysis in this research also show that the chances of success for Islamic banking and finance in Libya are very good provided that the public in general and customers in particular develop a good knowledge of the new system. This will tend to promote trust in and reduce uncertainty about the new system.

The results of the interviews and questionnaires show that the people of Libya support the implementation of the Islamic banking and finance system in the country, even though such a move may be at the expense of the conventional banking sector. In other words, Islamic banks will be the main competitors of the conventional commercial banks in terms of customer attraction. This is supported by the evidence produced by this study that most of the respondents prefer to do business with banks where transactions are interest-free and compatible with the principles of *Shari'ah*. Therefore, given the religious nature of Libyan society, the choice of Islamic banking and finance becomes a religious obligation, and the idea of conventional banking could only work in the absence of Islamic banking. This may justify the very high expectations of the Libyan people from the Islamic banking and finance sector in terms of economic but also social development, and the services and products provided by the sector should match international standards. However, to reach that end, a proper understanding and knowledge of the Islamic banking system should be promoted, besides the provision of state-of-the-art training for the banks' staff. This is where *Shari'ah*

scholars become important in educating the people to raise their awareness of the Islamic banking and financial transactions. However, it is worth mentioning that interviewees and other participants in the survey stressed the need for improving the regulative and legal environment as well as developing the human resources as a prerequisite for the promotion of the Islamic banking and finance sector in Libya.

The failure of economic development in the Muslim world motivated the Islamic economists to promote social justice as part of the economic development process, which resulted in the idea of Islamic banking becoming part and parcel of the concept of Islamic moral economy to boost the process of socio-economic development in Muslim communities. However, even though Islamic banks have so far managed to survive the economic crisis of 2008, social responsibility remains a major challenge. It should be noted that fulfilling social responsibility is not a voluntary matter for the Islamic banks, but rather it is a religious obligation having to do with piety (*taqwa*) leading to success in this world and the Hereafter. In fact, Islamic banking and finance is closely associated with the concept of Corporate Social Responsibility (CSR). In this regard, the fact that most of the respondents seem to be unfamiliar with the idea of CSR tends to make its implementation a difficult task for Islamic banks in particular considering that socio-economic development objectives are essential for Libya in the post-conflict reconstruction period. The main challenges, however, include lack of information about and commitment to the idea of CSR, the time limit, and the prioritization of the commercial objectives, as well as the social and ethical issues in relation to Islamic principles.

Another subject of interest is the concept of sustainable development, which is also closely linked to the idea of CSR. Therefore, ontologically, the establishment of Islamic banks should favour the idea of sustainable development; otherwise, their activities might be considered questionable. In this respect, CSR tends to promote the idea of sustainable development and will, in effect, ensure the social responsibility of Islamic banks. Thus, it could be maintained that, by implementing CSR, Islamic banks will improve their chances of success in an otherwise highly competitive market. In other words, CSR tends to benefit Islamic banks in many ways. To say the least, CSR helps to build stakeholders' confidence as well as improve the image of banks among potential customers.

However, the main idea of establishing Islamic banks in Libya is to promote social welfare and developmental objectives as one of the main objectives (*maqasid*) of *Shari'ah*, given that

the idea of social banking is rather new in Libya, with only 22.2 % of the respondents in this study seemingly familiar with the idea of social banking. The majority of respondents in this study, nonetheless, would prefer Islamic social banking and commercial banking to remain separate entities, and believe that the former should receive funding from government, NGOs and commercial banks.

The establishment of Islamic social banks tends to promote the idea of social welfare and development-oriented objectives in order to provide help to socially and financially excluded groups, improving the social status and the standard of living of those groups. However, besides serving urban centres in Libya, Islamic social banks can boost the process of economic development by becoming involved in projects to accommodate low-income groups including the financing of small and medium enterprises. Such activities should be part of the religious obligation of Islamic banks, which may not be attractive for conventional banks.

12.3. RESEARCH IMPLICATIONS

It is hoped that the current study will add a new dimension to the concept of Islamic banking by enhancing the already-existing knowledge in many aspects; as discussed below.

12.3.1. Enhancing Knowledge

The findings of this research are expected to enhance knowledge and understanding of and promote the concept of Islamic banking and Islamic moral economy among scholars and the public in general and in relation to Libya. In fact, this study might be considered unique by virtue of its numerous surveys featuring professional interviews and public questionnaires to clarify opinions on the concepts of CSR, sustainable development and Islamic social banking through a case study in Libya.

12.3.2. Implications for the Islamic Banking and Finance Industry

Although a number of studies have highlighted the social failure of Islamic banks, the results of this study on the subject matter can be described as inconclusive. Accordingly, some of the participants in the survey believe that Islamic banks in Libya will make a significant contribution to society through CSR, and also believe that their contribution has been restricted by the government's less-than-dedicated attitude towards CSR. Thus, some of the

participants believe that the government should become fully involved in the social plans for Islamic banks in Libya. This should highlight the importance of the social aspect of Islamic banking as an indicator of future socio-economic development in Libya.

12.3.3. Implications for Professional Bankers and Financiers

Improving quality of service will give Islamic banks a further edge over conventional banks. Thus, by improving the quality of service Islamic banks will achieve greater customer satisfaction and customer loyalty to the effect of improving their public image in order to increase profits. This should come about through word-of-mouth advertising to attract potential customers.

However, Islamic banks can make use of the findings of this study as a basis for understanding customer demand. Moreover, by making a close examination of customers' expectations and perceptions, Islamic banks and conventional banks alike can develop new strategies to appeal to potential customers. Thus, understanding customers' needs and expectations is a crucial matter for improving the quality of service provided by the banking sector in Libya. Most importantly, however, they must identify their goals and provide state-of-the-art training to their staff in pursuit of responding to the particulars of the demand. Those who become involved in the service have a duty to raise awareness among potential customers about the different aspects of the service. In this respect, this study has revealed that most of those surveyed are less aware of and less knowledgeable about the service and products provided by Islamic banks. Thus, the public media and other facilities, including TV, radio, the internet *etc*, can be of great use in promoting knowledge and awareness among potential customers.

12.3.4. Implication for the Policymakers (Government)

The government should also benefit from the findings of this research. In this regard, the findings of this research will provide guidance for decision makers in government in the area of socio-economic planning by informing them within the case study of the demand and supply conditions for Islamic banking and finance. For instance, the policy makers in their design of Islamic banking and finance infrastructure should consider the importance of socio-economic development as well as the findings that this study indicates.

12.4 RECOMMENDATIONS

Since it is now time to establish a modern constitutional state in Libya in order to realize the aspirations and wishes of the people who initiated the February 17th Revolution, this should imply major economic reforms including in the banking sector, bearing in mind the following recommendations in relation to the formation and operation of Islamic banking and finance, particularly in Libya:

12.4.1. Recommendations Regarding the Commercial Banking Sector in Libya

In the aftermath of the February 17th Revolution, the banking sector has to cope with a number of challenges to pave the way for foreign banks to operate in the country. Eventually, this will make business more competitive in favour of better banking products and services. Therefore, planners and policymakers should take the following points into account:

- (i) A market policy needs to be considered in order to create a more competitive environment to improve products and services to the customers' satisfaction. This should pave the way for the privatisation of state-owned banks and the licensing of new commercial and social banks;
- (ii) Banks must have their own marketing departments with the purpose of conducting feasibility studies to promote new products and services;
- (iii) In the aftermath of the February 17th Revolution, commercial banks have suffered from what has been known as the liquidity crisis. This crisis has caused great damage to conventional banks in terms of reputation and trust. Thus, in order to prevent this from happening again, the Central Bank of Libya should attempt to restore confidence in conventional banks. This implies the need for effective management and control of the banking system in the country in order to provide state-of-the-art service and products to clients;
- (iv) Banks should also try to raise public awareness of the services they provide by joining forces with other government institutions such as the Ministry of Education and the media to counteract the negative public attitude towards the banking activities;

(iv) Banks should always employ highly competent managers regardless of their nationalities. By doing so, banks will be able to improve their performance in favour of the state economy and individual clients;

(v) Banks should update their services to cope with modern technology, particularly the ATM service, which encourages the use of cards instead of cash. Moreover, cash machines tend to encourage clients to save money by rationalizing expenditure;

(vi) Promoting the idea of community banking by introducing new legislation that gives more freedom to branch managers in the decision-making process.

12.4.2. Recommendations in Relation to Islamic Banking Implementation

(i) The geographic location of Libya is an economic advantage in terms of its proximity to EU countries. Thus, compared to other North African countries, Libya has great potential to become Africa's financial and banking centre as well as the gateway to Africa for Islamic banking;

(ii) Islamic banking has the potential to compensate for the failure of the public sector in areas of housing, infrastructure, agriculture and tourism. Islamic banking can also make significant contributions to the process of financing projects by providing massive amounts of capital, as is the case in countries such as the UAE;

(iii) By focusing on ethical, social and moral issues, Islamic banks could manage to prevent fraud and corruption in order to promote transparency and credibility. This might imply the establishment of a fair regulatory framework for Islamic banking in Libya;

(iv) The Islamic banking sector in Libya should seek integration with the international financial markets to improve performance to match international standards;

(v) Given the religious nature of the people of Libya, the establishment of an Islamic banking system becomes a religious obligation. To say the least, Islamic banks will encourage interest-free transactions that do not go against *Shari'ah* law.

(vi) Libya should endeavour to establish an Islamic banking system to provide services similar to Saudi Arabia (Takaful Awuni) and Bahrain (Solidarity Takaful Company) to contribute to social development as well;

(vii) Libya's future Islamic banks should be developed on a new industrial paradigm of combining commercial and social outcomes in an optimal manner rather than merely focusing on profit maximization, as the expectations of people in the post-Revolution period relate to jobs and economic betterment and freedoms.

12.5. LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

This research is considered one of the a few studies available to assess the potential of Islamic banking in Libya, and is the first research in the post-Revolution period. It should, however, be noted that the scarcity of previous studies addressing the subject has been one of the main problems. However, despite all the difficulties, the researcher has endeavoured to answer the main research questions. Hence, other limitations include the following:

(i) The scarcity of information in relation to CSR, Islamic social banking and sustainable development from an Islamic perspective, as this constitutes an essential aspect of the subject of this study.

(ii) The February 17th Revolution has caused some interruption and delays in data collection given the limited time available for that purpose. However, due to time and budget constraints, only six cities including the capital Tripoli have been used as target locations for the surveys.

(iii) Since no Islamic banking exists in Libya, the responses of those who have been surveyed are based on their aspirations and expectations rather than their practical experience, so these responses might be considered somewhat biased.

Despite such limitations, this study has made additional contribution towards exploring the social realities related to the banking sector in Libya by encouraging the introduction of the Islamic banking system. To reach this end, the researcher hopes that the following areas can be explored in the future based on the research presented in this study:

(i) The current research findings will provide a guide to promoting the idea of Islamic banking in other Muslim countries such as Oman and Morocco;

(ii) Encouraging future cooperation between Libya and other Islamic countries to carry out research in the area of Islamic banking and finance. Further research is also needed to

improve many aspects of conventional banking in Libya to improve the performance in the sector, as below:

(iii) The status of foreign banks in Libya in terms of conditions and requirements in relation to foreign investment policies should be considered as an important research area;

(iv) The development of Libya's banking infrastructure to match international standards can constitute an interesting research outcome;

(v) The role of the Central Bank of Libya needs to be redefined and reassessed in the light of the changes and introduction of Islamic banking and finance;

(vi) Exploring how Islamic finance can relate to private sector development;

(vii) Utilizing further surveys featuring both the staff and the customers to understand performance of Islamic banks, as such surveys tend to provide an inside view of the system as guidelines for policymakers to undertake proper action;

(viii) Conducting the survey in this study in a longitudinal manner to gauge the change in the perceptions of the people in relation to Islamic banking;

(ix) Conducting research into regulative and legal issues of Islamic banking in Libya to explore how Islamic banking and finance is accommodated within the Libyan legal and regulative environment;

(x) Conducting research into political economy of Islamic finance in Libya to locate the reasons for formation of Islamic banking and finance, and importantly the relationship between the new political and banking elites and bureaucracy in the formation of Islamic banks and financial institutions in Libya.

12.6. EPILOGUE

The main aim of this research study was to address the social aspects of Islamic banking with special emphasis on the concepts of CSR, sustainable development and social banking besides measuring the demand and supply conditions for Islamic banking and finance in Libya. In addition, this study also attempted to explore the possibility of institutionalizing Islamic social banking as an alternative institution to overcome the observed social failure of Islamic banking.

As evidenced by the foundational chapters (Chapters 2-4) and the empirical chapters (6-11), this research achieved its aims and objectives identified in Chapter 1. Answering the research questions and testing the hypotheses through a comprehensive analysis with primary data collected through questionnaire and surveys helped to achieve the identified aims and objectives in Chapter 1. Hence, the research has analysed the perceptions and knowledge of participants on the demand and supply conditions and also on CSR and sustainable development of Islamic banking in Libya with the hope that an institutional solution can be developed from the results to the current unsystematic social-developmental practices by proposing Islamic social banking.

APPENDICES

- (i) Questionnaire
- (ii) Interview Questions



DCIEF
Durham Centre for Islamic Economics and Finance
School of Government and International Affairs
Durham University, UK

**A SURVEY ON
SEARCHING FOR A PLACE FOR ISLAMIC BANKING AND FINANCE IN
NEW LIBYA**

I am a Ph.D. researcher at Durham Centre for Islamic Economics and Finance, at the School of Government and International Affairs, Durham University, UK under the supervision of Dr Mehmet Asutay (Director of the Durham Centre for Islamic Economics and Finance).

I am conducting a research entitled '*Assessing the Potentiality of Islamic Social Banking in Libya*' by exploring the opinions and preferences of many stakeholders. The objective of the study is to identify the 'demand for Islamic finance in general in Libya' and also to 'determine the institutional nature of the demand' in terms of whether it should be a 'commercial Islamic bank' or a 'social Islamic bank', as under the new political developments this should also be considered.

Therefore, I am appealing for your assistance, to allocate some of your time for the interview questions which have been prepared to fulfil the aim of the study.

The main aim of this interview survey is to assess the potentiality Libyan business, economic and social environment in terms of Islamic banking and finance. Being an important stakeholder, your valuable opinions are important to reach the aim of this study.

All data and information you provide will be analyzed for academic purposes and treated as highly confidential.

Thank you very much in advance for your co-operation
Yours sincerely,

Abdulwahab Alhajam
Email: abdalwhab.alhajam@durham.ac.uk

INTERVIEW QUESTIONS

- 1) Please evaluate the economic development and progress achieved in the previous regime.
- 2) Why do you think economic development could not be achieved during the previous regime despite the richness of the country?
- 3) Please comment on the role of the banking system during the previous regime in Libya?
- 4) Do you think banks and financial institutions managed to penetrate the larger segments of Libyan society?
- 5) Why do you think people still prefer to raise financing the traditional way through friends and colleagues rather than directly engaging with banks?
- 6) What are the main economic and financial problems faced by Libya now and in the coming year? Are they all macro-economic problems, or do we face micro-economy related problems in terms of small business, human development, empowerment of society and individuals through economic means?
- 7) What do you think has motivated the transitory government to call for the Islamisation of banking in Libya?
- 8) What are the main objectives of Islamic banking and finance in your view?
- 9) Would you consider Islamic banking and finance as a potential alternative to overcome financial exclusion and encourage people to engage with banks in Libya?
- 10) Do you think that the transitional government has studied the experience of other countries in proposing the Islamisation of the banking system?
- 11) Do you think Libyan people have an expectation for Islamic banking and finance? If you think they have, what kind of expectations do they have? Also do you think people know about Islamic banking and finance?

12) Do you think Islamic banking and finance can help Libya's economic growth and development?

13) There are criticisms that Islamic banking and finance is nothing different than capitalism with Islamic dress. Please share your opinion on this.

14) A number of studies show that Islamic banks and financial institutions failed to contribute to the development of their societies and even failed to comply with corporate social responsibility in terms of giving back to society. If this is the case, do you think having commercial Islamic banks, as it is today; will help to overcome Libya's economic problems?

15) You may know that the initial Islamic bank was a social Islamic bank called Mith Ghamr in Egypt in 1963 which aimed at contributing to the development of small business. It was an Islamic social bank. Considering that Libya needs community development and empowerment of individuals and society, do you think Libya should go for commercial Islamic banking like elsewhere, or should Libya make a difference in re-creating Islamic social banking?

16) Do you think Libyan politicians and bureaucrats are generally aware of social banking and its operational areas?

17) Do you think that introducing Islamic social banks to contribute to the development of Libyan economy and society is a better strategy considering the realities of the economy?

18) Do you think that rather than only Islamizing the financial system, the economic system should also be Islamized to provide the necessary Islamic operational framework for Islamic banks and financial institutions(as Islamic finance, without Islamic moral economy, seems to be failing to deliver its main objectives such as developmental, sustainable development and social responsibility)?

19) Do you think the transitory government has any understanding of Islamic moral economy (not Islamic finance) as the foundational base of Islamic banking and finance?

20) The international evidence demonstrates that Islamic finance failed to connect with ordinary people and has failed to be community banking. Do you think Libyan Islamic banking can make a difference in terms of fulfilling the social and economic expectations of the people?

21) The Islamic banking and finance industry is moving towards a debt-based system and diverging from the aspirations of Islamic moral economy (such as: *murabahah*) which is heavily dominating the financing of Islamic banks all over the world. Considering that Libyan society needs development, *musharakah*, *mudarabah* and *qard al-hasan* types of Islamic products are essential. However, Libyan Islamic banks will probably be commercial banks; and therefore like other Islamic banks in the world, they may not provide *musharakah* and *mudarabah* financing. How do you think this problem can be solved in Libya?

22) Do you think microfinance will be considered as an important part of Libyan Islamic banking?

23) Do you think the transitional government considers sustainable development as a strategy for economic and social development? If yes, do you think they consider a role for this in Islamic banking and finance?

24) Do you think Libya has the necessary infrastructure to start Islamic banking and finance including human resources, *Shari'ah* scholars well-versed in Islamic finance, necessary capital, and the necessary knowledge to develop the legal and regulative change?

25) If Libya does not have such infrastructural strengths, do you think the Libyan transitional government acted emotionally in calling for Islamic banking and finance?

A SURVEY ON

ISLAMIC BANKS AND RESPONDING TO THE DEVELOPMENTAL NEEDS OF LIBYAN SOCIETY

I am a Ph.D. researcher at Durham Centre for Islamic Economics and Finance, at the School of Government and International Affairs, Durham University, UK under the supervision of Dr Mehmet Asutay (Director of the Durham Centre for Islamic Economics and Finance).

I am conducting a research entitled ‘Assessing *the Potentiality of Islamic Social Banking in Libya*’ by exploring the opinions and preferences of many stakeholders. The objective of the study is to identify the ‘demand for Islamic finance in general in Libya’ and also to ‘determine the institutional nature of the demand’ in terms of whether it should be a ‘commercial Islamic bank’ or a ‘social Islamic bank’, as under the new political developments this should also be considered.

Therefore, I am appealing for your assistance, as a selected respondent, in providing data or information on accounting practices in your institution as requested in the questionnaire.

The main aim of this questionnaire is to measure opinions and perceptions of the participants regarding accounting practices in your institution and the issue of harmonization as a result of the application of IFRS in Islamic Financial Institutions. The questionnaire also aims to investigate the perceptions of the participants on the nature of Islamic Accounting in general. Due to your background, experience, and training, your perceptions will be of particular value. Your response to the questions, hence, contained in the associated survey instrument will contribute to possible improvement in the accounting practices in Islamic Financial Institutions.

All data and information you provide will be analyzed for academic purposes and treated as highly confidential. Therefore, it is highly appreciated if you could spend a few minutes of your valuable time to respond to this questionnaire as soon as possible, which is essential for the successful completion of the research. Finally, a summary of my research results will be made available upon request.

Thank you very much in advance for your co-operation
Yours sincerely,

Abdulwahab Alhajam

Email: abdalwhab.alhajam@durham.ac.uk

For Office Use Only:

Date: ___/___/2012

Serial Number:

SECTION A: Respondent's details

(Please tick (√) in an appropriate box)

1. Gender:

- Male
- Female

2. Age:

- Below 20
- 20 – 30
- 31 – 40
- 41 – 50
- Above 50

3. Highest Education Attainment:

- No education
- High school and below
- Undergraduate only
- MA
- PhD

4. Monthly Income:

- LYD 500 and below
- LYD 501 – 1000
- LYD1001 – 2000
- LYD 2001 – 3000
- LYD 3001 – 4000
- More than 4000

5. Status:

- Academician
- Bankers
- Merchant
- General public (farmer, unemployed, retired, student, housewife)
- Bureaucrat/Manager

6. Do you hold a bank account?

- Yes
- No

7. How long have you been a customer of this bank?

- Less than 1 year
- 1 to 3 years
- 4 to 6 years
- More than 6 years

8. What type of account do you have?

- Current account
- Saving account
- General investment account
- Others (please specify).....

9. Have you ever borrowed from your bank?

- a. Yes
- b. No

10. If yes, what was the purpose of loan?

- c. Home financing
- d. Vehicle financing
- e. Personal financing
- f. Education financing
- g. Health financing
- h. Credit card/Charge card
- i. Others (please specify).....

11. How would you describe the service provided by your bank?

- a. Excellent
- b. Good
- c. Neutral
- d. Poor
- e. Very poor

12. In what way is the service unsatisfactory?

- f. Unfriendly service
- g. Unaffordable charges
- h. Uncomfortable location
- i. Unnecessarily long time for transactions
- j. No modern technology

13. How do you rate your economic and financial knowledge?

- Excellent
- Very good
- Not good nor poor
- Poor
- Very poor

SECTION B: Opinions on the Libyan Economy and Banking

14. Please state your opinion on the following statement on the Libyan economy and banking

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) The Libyan economy has performed very well over the years					
b) Economic development in Libya can be described as reasonable and satisfactory					
c) Economic development in Libya has achieved its aims					
d) The Libyan economy has been successful in terms of human development and welfare					
e) Libyan economic development managed to alleviate poverty					

15. Please state your opinion on the following statement on the Libyan economy and banking *(Please answer ALL of the questions in this section)*

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) Libyan banks are available for everyone					
b) Libyan banks are successful in attracting customers					
c) Libyan banks have various product offerings					
d) Libyan banks are efficient					
e) The Libyan banking sector does not need any other alternative banking including Islamic banking					

SECTION C: Demand for Islamic Banking in Libya

16. Please state your opinion on the statement that “The idea of Islamic moral economy and finance has not made any progress in Libya”:

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

17. Please state your opinion on the following statements regarding the underdevelopment of Islamic finance in Libya and future of Islamic finance

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) The former regime did not promote Islamic finance					
b) People could not express demand for Islamic finance under the former regime					
c) There were not enough <i>Shari'ah</i> scholars					
d) The new regime should promote Islamic finance					
e) After February 17 th Revolution, Libyan people are ready to accept Islamic banking and finance system					
f) The transitory government and the following governments must work for establishing an Islamic moral economy based on social justice					
g) The new constitution must state that the economy should base on Islamic moral economy					

18. Do you know that Islamic banking is available as Islamic windows in Libya for mainly car purchase?

- Yes
 No
 I am not interested

19. Would you support and feel more comfortable using an Islamic bank and financial institution in Libya?

- Strongly Disagree
 Disagree
 Neutral
 Agree
 Strongly Agree

20. Would you support that the entire banking system be Islamized in Libya?

- Yes, should be fully Islamized
 No, as conventional and Islamic banks should operate together

21. If there was an Islamic bank, would you open an account with an Islamic bank?

- Yes
 No

22. How important are the following factors in influencing your judgement to decide to open an Islamic banking account? (Please select (√) one from each statement)

	Not Important At All	Not Important	Neutral	Important	Very Important
a) Religious obligation/ requirement					
b) The account is free from any interest.					
c) The brand name of the Islamic bank (Islamic reputation and image)					
d) Islamic Bank will pay out higher return on deposits					
e) Encouragement from friends and family					
f) Islamic banks will provide attractive product package and services (such as free <i>takaful</i> coverage, attractive competition prize)					
g) Opportunity to get other financing facilities such as house or car financing					
h) Sound financial reputation of the bank					
i) Others (Please specify): _____					

23. Do you think Islamic banks in Libya will effectively contribute to socio-economic development?

- Strongly Disagree
 Disagree
 No Opinion
 Agree
 Strongly Agree

24. Please state the extent of your agreement or disagreement with the following statement: “In what way can Islamic banks as part of Islamic moral economy play a role in socio-economic development in Libya through the following ways?”

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
(a) Alleviation of poverty					
(b) Environmental friendly economy					
(c) Supporting small business enterprises					
(c) Supporting individuals’ business initiatives					
(e) Improving community development through social projects					
(f) Increases job opportunities					
(g) Increases women’s participation in the economy					
(h) Providing social loans for education, housing, health and weddings					

SECTION D: Knowledge in Islamic Finance Principles

25. Are you familiar with the term *riba*?

- Very familiar
- Familiar
- Not sure
- Not familiar
- Not familiar at all

26. If you answer either ‘very familiar’ or ‘familiar’ in Question 26 what are your opinions on the following statements about *riba*?

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) <i>Riba</i> is the same as interest					
b) Interest on deposits paid by conventional bank is the same as the profit on deposits paid by Islamic bank					
c) It is sinful to take conventional bank deposit interest.					

27. Are you familiar with the terms Murabaha, Musharakah and Mudarabah?

Murabahah

- Yes
- No
- Not sure

Musharakah

- Yes
- No
- Not sure

Mudarabah

- Yes
- No
- Not sure

28. If you stated positively to the above questions (26 and 28), how did you get to know about the principles of Islamic finance?

(You may select more than one)

- Prior knowledge from reading (newspaper, internet, banks’ brochure)
- Education (Learn in University or college)
- Explanation by the banks’ staff during the opening of the account
- Explanation from friends and family

29. If your answer is ‘no’ to questions 26 and 28, why do you not know about the underlying principles of Islamic finance?

(Please select (✓) one statement only)

- Difficult to understand
- Banks’ staff does not explain it
- Do not know where to get the information about the underlying contract
- Not interested
- Assume it is the same as conventional banks

SECTION E: Knowledge on Islamic Banking and Finance

30. Islamic banking is mostly associated with...

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) Banking without interest					
b) Discouraging debt-based finance					
c) Being an alternative to capitalism and socialism					
d) Having <i>Shariah</i> -compliant products					
e) Banking for Muslims only					
f) Ethical banking					
g) Promoting social welfare					
h) Being a charitable entity					
i) Banking for the poor					
j) Similar as other commercial banks					

31. How important are the following objectives to Islamic banks?

	Not Important at all	Not Important	Do not know	Important	Very Important
a) Prohibition of <i>riba</i>					
b) Providing <i>Shari'ah</i> -compliant products					
c) Non-debt-based financing					
d) Contributing to social welfare					
e) Promoting sustainable development					
f) Alleviating poverty					
g) Maximizing profits					
h) Encouraging Islamic values at all levels					

SECTION F: Knowledge on Corporate Social Responsibility

32. Are you familiar with the concept of ‘Corporate Social Responsibility’ (CSR)?

- Yes, I am very familiar
- I am not that familiar
- No, I am not familiar at all

33. Please choose ONE of the following keywords that you think best describes the meaning of CSR.

- Giving back to society
- Charity and/or philanthropy
- People, planet and profit
- Business and society
- Business ethics
- Corporate sustainability
- Responsible business

34. Please state the extent by which you agree or disagree with the following statements?

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) CSR upholds the social justice dimension of Islamic economics					
b) Islamic banks are obliged to practice CSR					
c) CSR is relevant to Islamic banking concept					
d) CSR should be embedded in Islamic banks’ policy					
e) The government should enforce to legalise CSR through regulation as one of the requirements to operate an Islamic bank					
f) Social responsibility should be left to government to concern					
g) Social responsibility should be left to NGOs to concern					

35. What form of CSR contributions would you like to see practiced in potential Islamic banks in Libya?

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) Charity/donation to the community					
b) Alliance with charitable organisations (e.g. activities with orphanage, helping the poor, etc.)					
c) Actively targeting groups, communities or institutions that require assistance					
d) Providing benevolence loans (<i>qard al-hasan</i>)					
e) Providing educational sponsorship					
f) Emphasizing ethical values and moral behaviour (e.g. honesty, respect, punctuality, justice, etc.)					
g) Assisting <i>zakah</i> collection and/or distribution					
h) Ensuring investing in ethical and <i>Shari'ah</i> compliance products					
i) Guaranteeing investment will not harm the environment					
j) Being pro-active in environment conservation					
k) Adopting best practices in human resource management					
l) Promoting health and safety in the workplace					
m) None of the above, as bank is a financial institution not a social institution					

SECTION G: Knowledge on Sustainable Development

36. Are you familiar with the concept of 'Sustainable Development'?

- Yes
 No

37. Please choose ONE of the following statements that you think best describes 'Sustainable Development'.

- Satisfying present need without compromising future generations' needs
 Providing minimum essential needs (e.g. food, shelter, medicine, etc.)
 Integration of economic, social and environmental responsibilities in order to improve quality of life
 Establishing social justice to improve quality of growth and development
 Conducting economic and social activity with justice, equity and redistribution

38. How much do you agree with the following statements related to the potential roles for Islamic banks in providing sustainable development?

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) It is the banks obligation to alleviate poverty					
b) Islamic banks should promote good governance (<i>e.g.</i> transparency, no corruption, <i>etc.</i>)					
c) Islamic banks should promote microfinance (banking for the poor)					
d) Islamic banks should follow ethical strategy from providing service to customers to employees rights					
e) Islamic banks should invest in human capital development for employees (<i>e.g.</i> training, research, furthering education, <i>etc.</i>)					
f) Islamic bank's investment strategy should not undermine the environment					
g) Islamic banks should directly contribute to community development projects					

SECTION H: Knowledge on Social Banking

39. Are you familiar with the concept of Social Banking?

- Yes
 No

40. Please state your opinion on the following statement: "Islamic banking should be social banking?"

- Strongly Disagree
 Disagree
 No opinion
 Agree
 Strongly Agree

41. Please state the extent of your agreement or disagreement with the following statements describing the objective of social banking? (Please answer ALL of the questions in this section)

	Strongly Disagree	Disagree	Do not know	Agree	Strongly Agree
a) Low-income consumers					
b) Supporting individual and group activities for economic environment					
c) Financing environmental projects					
d) Micro-enterprise financing					
e) Providing financial assistance for community development (e.g. education, medical services, discourages social ills, etc.)					
f) Encouraging social savings for weddings, children's education, community based programmes and other social welfare programmes					

42. How should an Islamic social bank be financed?

(Please choose only **ONE** which represents your best judgement)

- Islamic commercial banks should provide the initial funding as a parent bank to its subsidiary
- Government should provide the initial funding
- NGOs should provide the initial funding
- Government, NGOs and Islamic commercial banks together should provide the initial funding
- Islamic social banking should be provided and sustained through *zakah*, *waqf* and *infaq* funding

Thank you very much for your time

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