

Islamic Banking Tools can influence the development of the Financing System in Libya

■ Ali khalifa ali stela *

Abstract

Islamic banking and finance is considered a novel way of conducting financial transactions for growth and social justice. It has expanded in an unprecedented manner since its initial appearance in the mid-1970s. Since then, Islamic banking has earned recognition worldwide which paved the way for a rapid growth in the Islamic banking services industry in the future. Based on the above background, this study focuses on the potential of introducing a full fledged Islamic banking system in Libya, and the feasibility of introducing Qard Al- Hassan Banking system as the purest form of Social Islamic banking system in Libya .

Since the 1970s the Libyan banking sector has witnessed remarkable changes especially after the state introduced the nationalisation programs and the socialist system. Under public ownership, the banking industry, however, has underperformed due to various problems such as the high level of non-performing loans. Therefore, the state has recently initiated a reform and deregulate the industry to enhance the performance of the sector. This study aims to explore the potential demand for Islamic financial services in Libya by addressing the relevant issues. The methodology of the study was through data collection, analysis of available banking system statistics and semi structured interviews with experienced bankers in Libya. The empirical research in this study were conducted in the city of Tripoli, one of the largest financial centers in the country. For hundreds of years Islam has been the official religion. Soon after taking office, the revolutionary government

* Staff member Banking and Finance Department Al Rajban accounting College Aljabal Algharbi University

expressed a clear desire to exalt Islam and restore it to its proper central place. Several steps have been taken by the government to show itself as a devout Islamic government. Hence this study attempts to explore this possibility of Islamic banking and finance in Libya by contextualizing it within the larger body of Libyan commercial banking and the transformation it has taken. The original conceptual model attempts to predict the possible success of the introduction of Qard Al Hassan Bank in Libya. In this study the diagram illustrates five variables taken as the possible independent variables that will indicate the success of the introduction.

Keywords: Qard Al Hassan, Social Islamic banking, potential, Banking System

1. Introduction

Islamic banking system cannot be considered as a beginning move in a process adopted by a specific organization rather it has a historical background dating back to the early days of Islam. Islamic banking system was established by Legislative rules originated from Islamic laws, which form the implementation of banking in Islam. The focus of this banking system was declaration that prevented Muslims from trading with Riba (usury). Moreover to these disclosures, the Prophet (peace be upon him) denounced the ‘taker and giver’ of Riba (usury) on many occasions [Haron, 1997]. In following studies, it was revealed that the public in Islamic world, more specifically those with low income and the younger generation, and those of marriageable age that applied to own houses were frustrated in doing so because of the usurious loans that were offered. In this condition, the urgent desire for the Islamic banks emerged and other investment instruments tried to launch private, interest-free loans (Qard AL-Hasan). Every Muslim tends to have interest-free loans pursuing the precious verse as follows:

“those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for God (to judge); but those who repeat (the offence) are companions of the fire: they will abide therein forever” al Bagara (275)

{فمن جاءه موعظة من ربه فانتهى فله ما سلف وأمره إلى الله ومن عاد فأولئك أصحاب النار هم

فيها خالدون} سورة البقرة 275

Islamic government implemented AL-Qard Al Hassan loan for all citizens that wish to take advantage from facilities of Qard Al Hassan. Moreover, researchers agree that most of Muslim people have been familiar with Qard Al Hassan. In regard to this, the new government of Libya, after the revolution of February 17th, declared that the Islamic approach will be introduced and it will cope with Islamic banks depending on the granting of interest-free loans (Qard AL Hassan). This fact also indicates that Libyan people are aware of the concept of a good loan (Qard AL Hassan) which respectively could develop the concept of a good loan to be used as a criterion and powerful tool that its strength originates from the verses in the Qur'an. Anyway, it is whether banking customers acknowledge the regulation of the Qard Al Hassan deposit system as a substitute to the interest earning deposit system used in conventional banks. In addition, the public banking system in Muslim countries has become adapted to interest (Riba) and it has become a part of financial activities in the society. The practice of interest-based principle has created a considerable gap between the Islamic financial principles and its implementation. The gap has now appointed the Muslims, as the majority of the Islamic society, at the intersection of the present financial system. To state the matter differently, the citizens now do not have any alternatives that can assist them appropriately in establishing the favorite change of tools, with the purpose of making behavioral changes which would finally lead to the implementation of a powerful Islamic financial system. The holy Quran refers to « Qard Al Hassan” has alongside prayer and zakat, however the country does not care about this very crucial criterion in its present financing system. Thus, this issue must be according to greater attention since it is an essential instrument in the Islamic financial system. The practice of this new financing system is with the purpose of providing an Islamic financial instrument, including al Qard al Hassan for the Islamic societies. However, this practice goes beyond this crucial issue with many other useful dimensions for Muslims, non-Muslims and generally for the whole society. Thus, the issue of practicing an appropriate Islamic financing tool requires to be prioritized in the government's financial schedule. Essentially, the study attempts to recognize the real and genuine banking customers. The Muslim people are very acquainted with the regulations of accepting loans in terms of Qard Al Hassan and they

are in fond of them, nevertheless it is not obvious whether they will have an organized perception and appreciation for the regulations of the Qard Al Hassan deposit system. If the researcher could establish this perception, then it can be concluded that the banking customers in Libya are fully prepared for the introduction of the full-fledged Qard Al Hassan banking system.

2. Research Objectives

The purpose of this research is to focus on several investigative research questions in regard to all questions that were previously asked by Libyan researchers in this field. To fulfill the aim of the study, this paper attempts to find an answer for the following research question:

To what extent can Al Qard Al Hassan principle influence the development of Libya's financing system?

3. Review of Related Literature

It is a fact that the Islamic banking and financial intuitions can be found in many Muslims countries. This Islamic style of banking and financial intuitions has been absorbed into the non-Islamic countries as well (Iqbal, Ahmad and Khan, 1998). At the same time, the European banks have recognized it as a profitable opportunity for the expansion of the banking business. In this regard, European banks in Gulf countries are facing demands for Islamic finance. About 80 years ago, in 1920s, the Eastern Bank, the predecessor of the Standard Chartered Bank sent proposed to set up a branch in Bahrain. The Ruler of Bahrain accepted this proposal so as to avoid all interest based transitions. At the same time, the National Handel bank of Netherlands, the predecessor of ABN-Amro Bank received an acceptance to establish a branch in Jeddah, Saudi Arabia. The main job was to provide the currency exchange service for Dutch Indonesian pilgrims. Similarly this bank was requested to avoid all transactions that charged an interest (Wilson, 1983).

According to Iqbal and Mirakhor (2007), for almost half a decade, most European banks in the world conducted business using interest, but in the late 1970s, this practice changed because of the establishment of the Islamic banks such as the Dubai Islamic bank (1974), the Kuwait Finance House (1977) and the Bahrain Islamic Bank (1978). The mentioned banks adhered to the Islamic banking rules based on the Shariah (Islamic laws).

As payments by the Islamic banks would be made to the European exporter's bank, it is only pertinent that these European Banks learn more about Islamic finance so as to foster better ties via better cooperation. In order to guarantee payment, the exporter's bank usually requests for a letter of credit from the importer's bank. In Murabaha, the Islamic bank is responsible for the payment, therefore, the mentioned credit letter is not needed (Shapiro, 1999). In this regard, the cost of trade financing then decreases. These differences in the banking system cause the European banks to study in-depth about the Islamic banking system. From 1980, several banks in London provided the Shariah compliant liquidity management services to the various Islamic banks from the Gulf and Jeddah, based on the principles of the Islamic Development Bank. Immediate deposit facilities were provided for the newly established Islamic banks in the Gulf. The major institutions involved the joint venture Arab banks based in London, such as the Saudi International Bank and the United bank of Kuwait. These banks accepted deposits only on a Murabaha basis, with the associated short term trading transaction being conducted in the London Metal Exchange (Shaheed Maroun in Archer and Abdel Karim, 2002).

It has been reported that Islamic banks operate in over 60 countries, a majority of which are located in the Middle East and in Asia. Iran, Pakistan and Sudan have already converted the existing banking system there to the Islamic banking system, while the banking systems of the other countries are under control of the conventional banking institutions operating alongside the Islamic banks. Lately, the desire to set up the Islamic banking system has increased in various parts of the world, rather than Middle East and Asia only (Ray, 1995).

In Malaysia, the Islamic banking system existed as far back as 1983. Bank Islam Malaysia Berhad (BIMB) was the first Islamic bank established in Malaysia. The establishment of this bank was through the introduction of the interest-free banking system into the conventional banks, in 1993. By that time, conventional banks provided the banking system along with the previous system. Bank Muamalat joined the list of Islamic banks in Malaysia in 1999. "To date, there are 12 full-fledged Islamic Banks, including 2 foreign banks, Al Rajhi Banking & Investment Corporation (Malaysia) Berhad and Kuwait Finance House (Malaysia) Berhad operating in Malaysia. To strengthen the

industry, Bank Negara Malaysia has inserted a 10 year strategic plan into its Financial Sector Master Plan to achieve the goal of capturing 20% of the banking assets to be held in the Islamic banking system by the year 2010. By the end of 2006, the Islamic banking sector only held 12.2% of banking assets, which promised a greater potential for exploitation” (Zainol, et al, 2009).

Khan (2001), with reference to banking regulations and Islamic banks in India, suggested that the Islamic banks in India should expand the instruments of investments and set up training institutes based on Islamic banking that could provide training for the public which would then add on to the number customers for the Islamic banks. Khan (2001) had another suggestion for the poor in which Islamic banks could provide money for job training, which in turn would create employment. It is not surprising therefore that Islamic banking, because of its services, has established itself as an emerging alternative to conventional interest-based banking and has been expanding rapidly over the past 20 years in both the Muslim and non-Muslim countries. Although there are no precise number of Islamic investment markets, according to Citibank, Bahrain, funds under the management of the Islamic financial institutions have seen an increase from 15 to 20 percent per annum. A number of Islamic banking sources suggest that the total value of the Islamic funds management may well be over \$200 billion. It has been recorded that the Islamic banks have undergone development in size and numbers in the entire world in last 20 years. With reference to changes in the Islamic banks, the policy of senior managers has resulted in dramatic changes of approach during last five years. Previously, Islamic institutions were only a place for those with strong Islamic beliefs to save their money, but lately, senior managers of Islamic banks believe that the creation of competition on commercial grounds can be achieved by offering a more cost-effective financial package to the non-Islamic customers in addition to the Islamic customers. An increasing number of Muslims in the world as well as non-Muslims have expressed the desire to participate in Islamic banking as it is considered to be commercially sound (Zaher, 2001).

Specialized Islamic banks have been well positioned to attract deposits from Muslims and non-Muslims, but due to the lack of technical support,

investments have been hampered. This gap has been bridged by the services of Western banks that have swiftly and professionally positioned funds into acceptable channels. This affects the returns of Islamic investors because of the second layer of inter-mediation. Fortunately the problem has been solved as these Islamic banks are becoming more resourceful and are going global, partially as a result of increased integration with international markets. Simultaneously the Western banks are reaching out to investors directly and eliminating the middleman as the Islamic banks or Islamic windows of banks in the Muslim countries are becoming aware of the potential of the Islamic markets.

The activities of these Islamic banks tend to reflect the local conditions of the said country. There are strong retail operations in Iran although these are comparatively small in the international markets, such as in Saudi Arabia. In the more secular societies of northern Africa, Islamic banks compete for establishing the quality of the products, and not based on religious acceptability. In Kuwait, well-established Islamic financial institutions have been involved in the substantial financing of the petroleum sector and real estate investments. The UAE places emphasis on trade finance. In Iran, Islamic banks invest in entrepreneurial projects in the economic sectors that are typically viewed as growth oriented, such as agriculture (Kazarian 1993 & Saffari 1995).

4. Method

The present study explains the instruments used to choose pertinent and the latest information, containing executing testing techniques to preserve the instrument's validity and reliability. Besides, the section explains the methods employed for collection and analysis of the data. For guaranteeing accuracy of the data, the present researcher explains the quantitative method employed in this study that was a questionnaire given to a selected sample.

4.1 Population and Sampling

Kumar (2005) states that population is the entire members of the sample group of researcher. Besides, sampling is the procedure of choosing a group out of the population to have a basis for guesstimating, analyzing and forecasting actualities, thoughts or results concerning the population on the whole. The

sample is typically selected to comprise and embody the entire population, to get the aim of the research (Burgess, 2001). According to Lee (2005), before being a technical issue sampling is constantly a hypothetical issue. For data collection from the applicants, a stratified random sampling method is used in this research. The questionnaires that are structured on connected affective aspects of attitudinal dissimilarities of Libyan consumers were distributed among a sample of 500 applicants to respond.

4.3 Research Instrument

According to Creswell (2009), the current study is quantitative and it tries to derive the connection between the variables of the research. Quantitative study through testing the connection among variables examines objective theories. These variables are usually evaluated by instruments, and the collected data can be studied by means of statistical processes.

Furthermore, For easing the estimation of the research variables, and preparing a confirmation instrument for the research hypotheses, the quantitative data is used. According to the quantitative data outcomes, a group of novel hypotheses is obtained from the data collection outcomes on diverse variables.

Consequently, a questionnaire has been used and fairly adjusted to deal with this study investigations and the Libyan society. Questionnaires are mostly used for data collection in the research (Stone, 1978). Principally, a questionnaire is a tool for the data gathering, which is typically in written form, including questions which are open and/or closed and other surveys needing a respond from the samples (Nunan, 1992). The questionnaires employed in the present research have been chosen owing to their objective character, usage simplicity, high constancy and sincerity, and proper potentiality to the theme of the current research. According to Creswell (2002), the questionnaire supplies consistent evaluations among the entire applicants, which can guarantee that the comparability of the gathered data from the applicants. Moreover, questionnaires allow the researcher to collect data from the sample of the research.

In the present research reliability of the test-retest was applied to create reliability of the questionnaire. An overall figure of 20–30 applicants chosen

for the pilot research participated in the pilot test and retest. Test-retest reliability method was employed to set up the constancy of the instrument: when the scores are more alike during the time, the test scores are more stable or constant (Gay and Airasian, 2003). The outcomes of the tests showed that the reliability of the instrument because it gets the accepted level of reliability.

5. Results and Discussion

The present research chief purpose was surveying the amount of citizens' approval and satisfaction of the Islamic economical system instruments particularly the present study engaged in Qard AL-Hasan as the instrument of research. Furthermore, this study tries to increase the extent of the Islamic economical system and permitting professionals to reach to this significant instrument that could encourage the Islamic economy; it could efficiently help the Islamic economical system in substituting conventional forms. Besides, this chapter explains and discusses the results gained from applicants answers to the given questionnaires. The findings indicated in this section have been previously studied and analyzed, the results demonstrates the possibility of combining theory and practice as well. On the whole, descriptive statistical analysis was employed to recognize frequencies and percentages of the responses of the entire questionnaire questions in and to verify or reject its hypothesis. The correlation among chosen variables was with the significance of 0.05.

5.1 Major Findings

The major findings from the questionnaire and the interviews

The result of test on hypothesis 4 test showed that *Al-Qard Al-Hassan can be expected to have a strong influence on the development of the Libyan financing system*" – This hypothesis is also **accepted**.

5.1.1 Qard al Hassan

"Who will lend to Allah a goodly loan so that He may multiply it to him many times? And it is Allah that decreases or increases (your provisions), and unto Him you shall return." (Surah Albaqarah: 245).

The above verse postulates the borrowing contract in Islam. That is, borrowing and lending in the Islamic view is justified. The problem is 'what kind of loan'?

In the above verse are the words "Qard AL Hassan" or more commonly

known as the Qard AL Hassan contract. What is Qard AL Hassan? Qard AL Hassan is ‘borrowing and lending without interest’. If the borrower is unable to repay it, then it gives spare time for payment. However, if the borrower really cannot return it, then the lender must take it as charity. Qard AL Hassan contract can only occur for emergency loans, for example subsistence, not for consumer loans or worse still for gambling. Therefore, in performing the contract, preference should be given to persons who are in real need.

Table 1 Knowledge Of Respondents About the Qard al Hassan Service

Knowledge Of Respondents About the Qard al Hassan Service					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Friends/family	203	40,6	40,6	40,6
	TV advertisement	124	24,8	24,8	65,4
	Never heard before	104	20,8	20,8	86,2
	Newspaper	7	1,4	1,4	87,6
	I don't remember	17	3,4	3,4	91,0
	Radio advertisement	3	,6	,6	91,6
	everybody knows	42	8,4	8,4	100,0
	Total	500	100,0	100,0	

Source: Data Processed, 2012

Table 5.1 indicates that out of the 500 respondents, only 104 respondents had never heard of Qard al Hassan and the rest of the sample (396 respondents) had heard of Qard al Hassan. They got the information either from friends/family (40.6%) as much as 203 respondents, newspaper (1.4%) or 7 respondents, radio advertisement (0.6%) and from TV advertisement (24.8%) as much as 124 respondents. The remaining 42 respondents said that everyone knows and 17 respondents forget where they got information about Qard al Hassan. Media is the strongest worldwide tool for gaining knowledge about worldwide issues in which literate people adhere to this significant role that media plays. The findings of the study give the impression that the majority of Libyan society lacks knowledge of the role that media plays in our modern world as a high percentage of the respondents 203 (40.6%) heard about Qard AL-Hassan from their friends and family and they never heard from the different media tools. This may be because the government controls what people see and hear in the country and Qard AL-Hassan was not a priority of

the government advertising agenda.

5.2 Islamic Banks in Libya

The results shown in the subsequent sections reveal that the respondents perceived that they appreciated the legislation on the work of Islamic banks in Libya, which allows for the increased application of Islamic banks.

Table 2. Respondents Perceptions Of Islamic Banks in Libya

Respondents Perceptions Of Islamic Banks in Libya

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	81	16,2	16,2	16,2
No	85	17,0	17,0	33,2
Not Sure	334	66,8	66,8	100,0
Total	500	100,0	100,0	

the authenticity and legitimacy of Islamic banking products in Libya. A total of 81 respondents perceived that Islamic banks in Libya are really Islamic (16.2%), while 85 respondents perceived that Islamic banks in Libya are only Islamic by name (17%) and 334 respondents were not sure whether Islamic banks in Libyan are really Islamic or not .

5.3 Sticking with the Islamic Bank

Table 3. Sticking with the Islamic bank

Sticking with the Islamic bank

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Stick with the Islamic bank	416	83,2	83,2	83,2
Shift money to the conventional bank	6	1,2	1,2	84,4
Not Sure	78	15,6	15,6	100,0
Total	500	100,0	100,0	

Table 3 above describes respondent’s responses if they knew that conventional banks provide a higher return than Islamic banks. Among the 500 respondents, only 6 respondents expressed that they would move their money to a conventional bank. Only 78 respondents were not sure of their future action (15.6%), while the majority of respondents (83.2%) or 416

affirmed that they would stick with the Islamic bank regardless of what the competitors offer in terms of products and interest rates. This high percentage indicates that most of Libyan citizens are aware of the punishment of God if people do not avoid interest or unlawful gain, called Riba. This is expressed in the Holy Qur'an when Allah said:

“O you who believe! Be afraid of Allâh and give up what remains (due to you) from Riba usury) (from now onward), if you are (really) believers.. And if you do not do it, then take a notice of war from Allâh and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums). (Al-Baqarah: 278-279).

5.4 Respondents transfer their accounts to Islamic bank accounts

Table 4 below explains that out of the 500 respondents, a total number of 440 respondents would transfer their accounts to Islamic bank accounts if they exist in their areas. 60 respondents expressed that they would not move their accounts to Islamic banks even if the banks are available in their areas. This indicates that there is a lack of media support for Islamic banks and that they are not presented in the country in full form. Hence, conventional banks still maintain one player status in the country.

Table 4 Respondents transfer their accounts to Islamic bank accounts

Respondents transfer their accounts to Islamic bank accounts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	440	88,0	88,0	88,0
No	60	12,0	12,0	100,0
Total	500	100,0	100,0	

5.5 Reasons Respondents Choose Islamic Banks

Table 5 below explains the motives that push the selected samples towards depositing their money into an interest-free bank if they had the opportunity and/or if it exists in their living area. Collectively, the data obtained from the respondents indicates that the main reasons and obviously the dominate reason to move will be the religion which account by a high percentage rate (57.2%) that constitutes 286 respondents. Another 3 were motivated as a

Islamic Banking Tools can influence the development of the Financing System in Libya reaction towards the society view (0.6%).

Table 5 Reasons Respondents Choose Islamic Banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Religious reason solely	286	57,2	57,2	57,2
	Social reason solely	3	,6	,6	57,8
	Combination of the above	211	42,2	42,2	100,0
	Total	500	100,0	100,0	

Source: Data Processed, 2012

5.6 Respondents deposit their money in the Qard al Hassan account

Table 6 describes the respondent's intention to deposit their money in the Qard al Hassan account of an Islamic bank if the facilities are available. The data indicates that a total number of 437 respondents would do so if Qard al Hassan in Islamic banks is available ,a high rate of 87.4%. The remaining 12.6% or 63 respondents were not interested to deposit money in Qard al Hassan in Islamic banks.

Table 6 Respondents deposit their money in the Qard al Hassan account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	437	87,4	87,4	87,4
	No	63	12,6	12,6	100,0
	Total	500	100,0	100,0	

5.7 The Service of Qard AL Hassan

Overall, Table 7 illustrate the respondent's intention to take Qard al Hassan facilities from an Islamic bank in the future if the service is available. Out of the 500 respondents, a total number of 348 respondents (69.6%) expressed their willingness to take Qard al Hassan facilities provided by Islamic banks and another 152 or 30.4% of the respondents expressed their reluctance to take Qard al Hassan facilities from an Islamic bank in the future. even if they

are available.

Table 7. Respondents Who Chose the Service Qard AL Hassan

Respondents Who Chose the Service Qard AL Hassan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	348	69,6	69,6	69,6
	No	152	30,4	30,4	100,0
	Total	500	100,0	100,0	

The interviews were conducted with 15 people from the bank employees in Libya. The result of interviews for question number five concerning the groups' perception follows:

Question 1: *Do you think that Citizens have adequate knowledge about the Qard al Hassan principle? Why?*

A concept or principle may not be thoroughly understood by many people but it does not mean that these principles cannot be applied since there is continuous effort of making it publicly known to the people. The respondents said that *“maybe there is a shortage in effort by the government to spread banking awareness.”*

Overall, the sample interviewees' responses indicated that,

“most citizens adhere that they should bank their money in Islamic banks. On the other hand, they do not have sufficient knowledge about the functions and facilities of Islamic banks.” The results of interviews for question number six concerning the groups' perception follows:

Question 2: *Do you think that that Libyan economy is ready to support the establishment of a full-fledged Qard al Hassan banking system as the first Social Islamic Banking system? Why?*

Whenever there is a new perspective on the development of the Islamic banking system, it is a duty of the people and the whole nation to make it happen for the betterment of the Islamic social economic system already designed for people's wealth management.

“Even though the respondents were certain in any circumstances that the new Libyan government will perform full support for this principle to

be applied, still many are worried about the economy of the country as the government is new and has just recovered from civil war. Overall, the responses indicate that, the current government may put other priorities like the reconstruction of the country as there was a lot of destruction due to the war and in a later stage, the government will give due attention to the full-fledged Islamic bank's facilities employment in the country."

This indicates that even though the system got acceptance and support from the government, the current economy is not yet ready to support full-fledged Islamic banks financially. The results of interviews for question number seven revealed the groups' perception as follows:

Question 3: *Do you think that Qard al Hassan principle will be an effective solution to social problems such as poverty, marriage and disease treatment in Libya? Why?*

A rule set by an Islamic source will be of great advantage to many living things. This rule is made to be practiced by all followers. There are no other rules better than this since it is a fixed price. Muslims believe that Islamic law is applied to all. It is really a solution for life. God sent down the holy Qur'an, from which Qard al Hassan principle is generated, to be guidance to all mankind. The selected sample respondents agreed, "employing an Islamic-based banking system will certainly guarantee each and every individual's interest". In addition, respondents stressed "the importance of Qard al Hassan as it will assist all individuals to fulfill their needs such as marriage, education. etc."

They also *"highlighted the importance of Islamic microfinance that gives the investor a chance to get involved in worthwhile projects, which could essentially play a significant role to enhance the economy and eliminating poverty levels in the country"*.

The findings also revealed that Qard al Hassan principle combines the social Islamic principles such as caring for the less fortunate people via microfinance's ability and providing financial access for the poor. Utilizing Islamic financial instruments such as Murabaha and Musharaka to help to facilitate Islamic microfinance will not only spur the Islamic micro financial sector but can also increase the options of Islamic finance and make it more accessible to poverty-stricken communities. The responses emphasized the

“important influence of Qard al Hassan principle on the development of the Libyan financing system”. The results of interviews for question number eight revealed the groups’ perception as follows:

Question 4: *Do you think that citizens should clearly adhere to Islamic banking regulations concerning Qard al Hassan? Why?*

The selected sample affirmed that: “the Qard al Hassan principle is inspired by holy Qur’an and all Muslims and mankind alike should adhered to it. Islamic banking regulations explain certain provisions concerning all parties involved”. On top of that, they argued that “this Islamic principle should cover all people’s interest. Therefore, these principles should be well maintained by all people.”

The concept of Islamic microfinance adheres to the principles of Islam and is a form of socially responsible investing. Investors who use their wealth for Islamic microfinance projects only involve themselves in Halal projects, which is largely beneficial for the community. Such projects include zakat, which is charity based or trade and industrial projects to develop the economy of the country. In a clear picture, the holy Qur’an encourages Muslims to provide AL- Qard al-Hassan in case of need: “Who is he that will give Allah Qard al-Hassan? For Allah will increase it manifold to his credit.” (Al-Hadid,11).

{ مَنْ ذَا الَّذِي يُقرضُ اللَّهَ قَرْضًا حَسَنًا فَيضاعفهُ لَهُ وَلَهُ أَجرٌ كَرِيمٌ } سورة الحديد الاية 11

6. Reliability & Validity

The present study used Cronbach alpha to assess the inner reliability of the present research instrument before its implementation on the research sample. An evaluation instrument is deemed reliable once the calculated Cronbach alpha is upper than Cronbach alpha table (0.6). Reliability evaluations from 500 applicants for the computations of variables were calculated via the software package SPSS version 16. Table 8 below highlights the Reliability of the employed Instrument.

Table 8 Reliability of the Instrument

Variable	Crombach Alpha Counted	Crombach Alpha Table	Status*
Principle of Al-Qard Al-Hassan	0.768	0.6	Reliable

* if Crombach Alpha Counted > Crombach Alpha Table the instrument

Islamic Banking Tools can influence the development of the Financing System in Libya will be reliable, if Crombach Alpha Counted < Crombach Alpha Table the instrument will not be reliable, Source : Data Processed, 2012

Table 8 indicates that the value of counted Crombach alpha achieves the reliability rate for all of the variables as the counted Crombach alpha coefficients ranged between 0.604 - 0.768 and were above 0.60 indicating that the scales used to measure study variables were consistent and therefore, reliable. A validity test was undertaken to check the extent to which the test measures that which, it claims to measure. The significance test is carried out by comparing the value of r-counted with r table with degree of freedom (df) = n - 1. In this research df = 499, because n = 500. With an alpha of 0.05 and a df = 499, then the r table is used as the standard comparison to r -counted is 0.120 (the one-sided test). The conclusion is if r-counted is higher than the value of r table, it means that this instrument is valid which indicates that the results could be accurately applied and interpreted. This indicates that the items stated in the questionnaire represent the entire range of possible items the questionnaire intends to cover.

Table 9 Validity Instrument of the Principle of Al-Qard Al-Hassan

Indicator	Corrected Item- Total Correlation (r-counted)	Correlation Table (r-table)	Status*
p44	0.341	0.088	Valid
p45	0.196	0.088	Valid
p46	0.300	0.088	Valid
p47	0.445	0.088	Valid
p48	0.704	0.088	Valid
p49	0.681	0.088	Valid
p50	0.542	0.088	Valid
p51	0.710	0.088	Valid
p52	0.358	0.088	Valid

*if r-counted > r-table the instrument will be valid, if r-counted < r-table the instrument will not be valid. Source: Data Processed, 2012

For the most part, the validity of the responses obtained from the 500 respondents towards the items of the questionnaire in terms of the principle of Al-Qard Al-Hassan questions (p44-p52) as shown in table 6.2 indicates

that all r-counted are between 0.196 – 0.710 or higher than r-table (0.088). Therefore, all questions (p44-p52) with relation to the development of the principle of Al-Qard Al-Hassan are considered to be valid.

7. Recommendation

Results of the research suggested several recommendations that are important to educators and legislators, in addition to investigators.

According to the results, recommendations and suggestions are as follows:

Employ strategies to assist banks to preserve competent managers, despite their nationality and education, who can organize and promote training courses, prepare standards for offering services and set staff and directors self-improvement arrangements.

Improve their services by introducing new services and using new technologies in delivering their services.

Since banking expanding is a vital aim for its financial progress, the country requires to operate right now.

Citizens' negative thoughts towards fiscal traditions ought to be lessen by these Islamic banks as they are in a good situation to inform and persuade public since people have faith in Islamic organizations.

Islamic banks can found business corporations which could sponsor the credit trade of possessions.

8. Discussion

In this chapter, the research outlined how the hypotheses were tested in order to compare that expected with that discovered in the actual research. The result of hypotheses testing indicates that all hypotheses were empirically acceptable. The results of the current study support the research hypothesis that customers of the banking system do not realize that all banks in Libya are still practicing the conventional financial system and this is consistent with the findings of other related studies. It is evident from the findings of this study that high levels of the Libyan population lack adequate knowledge concerning Islamic banks and cannot differentiate between Islamic banks and conventional banks. Almost all customers of the banking system do not realize that all banks in Libya are still practicing a conventional financial system. This makes it important in the improvement process to provide a

good understanding of the conventional and Islamic banking systems among customers in Libya. Many researchers argued that, Islamic banking and finance became one of the most controversial issues around the world. The Islamic banking system is an important component with unique features because its foundation were laid on the principles and rules of Islamic law (sharia), which states that everything is owned by Allah and man has only been permitted to use it. Overall, the majority of the selected samples have accounts with conventional banks.

From the results obtained, Libyan people are actually forced to open accounts with conventional banks rather than Islamic banks even if they do not like the interest rate and that AL-Quran also forbids it. However, one of the main obstacles that exists in the country is that the Islamic banks are not adequately introduced in the country. The successful employment of Al Qard Al Hassan requires strong support from relevant stakeholders to create a more supportive environment to enhance the profitability of the banking sector. Researchers had argued that, the introduction of a new banking industry cannot succeed unless its construction is combined with sufficient support from the customers and the surrounding environment, which in turn, requires new strategies to be created in order to enhance customer's support and to develop a conducive environment (Bikker and Bos, 2005).

This result is supported by the previous research done by Hasan (2009) who found that there was no effective Islamic banking system and it was fragmented in a considerable segment of Libyans who led an Islamic life, which resulted in financial exclusion. The reviewed literature indicated that citizens were dissatisfied with conventional banking services, thus seeking a banking system that is in accordance with Islamic doctrines and moral principles as a part of their search for a new Islamic identity.

This result also supported previous research done by Erol and El-Bdour (1989), conducted in Jordan. It was aimed at establishing the attitude of local people towards Islamic banking. The results suggested that religious motivation did not appear to play a primary role in bank selection. The opening of new branches was not an important factor in increasing the utilization of financial services provided by Islamic banks. 39.4 percent of respondents would

withdraw their deposits if an Islamic bank did not generate sufficient profit to make a distribution in any one year and 30.4 percent would retain their deposits because the Islamic bank could distribute a higher dividend the in following year.

This result also supports previous research done by Ebrahim. M (1999) who stated that the methods of financing should not only avoid riba, gharar and mays, but should also be economically efficient. Upon researching the economy, Islamic banks now finance from simple Sharia-compliant retail products to very complex structured finance and loans for major projects. Muslims (and non-Muslims) can now obtain credit cards. They can follow online Islamic funds invested in their Islamic investment and perhaps even get a mortgage through a Sharia compliant American company. Islamic banks are now positioned better than ever to participate in not only the financing of large companies, but also more complex operations such as syndication and securitization.

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