مجلة التربوي

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العدد السادس

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المجلة ترحب بما يرد عليها من أبحاث وعلى استعداد لنشرها بعد التحكيم .
المجلة تحترم كل الاحترام آراء المحكمين وتعمل بمقتضاها .
كافة الآراء والأفكار المنشورة تعبر عن آراء أصحابها ولا تتحمل المجلة تبعاتها .
يتحمل الباحث مسؤولية الأمانة العلمية وهو المسؤول عما ينشر له .
البحوث المقدمة للنشر لا ترد لأصحابها نشرت أو لم تنشر .

بحوث العدد

- الأعذار الشرعية للمرأة وأثرها في تطبيق الحدود "بحث فقهي مقارن".
- اللوحات التشبيهية التمثيلية الممتدة في الشعر الجاهلي "لوحة الحيوان عند امرئ القيس بن جبلة السكوني أنموذجا".
- الأساس الإيقاعي لعروض الخليل بن أحمد الفراهيدي.

- Libyan Bank Perceeptions towards Islamic Finance .
- Lack of Experience in Teaching English For Specific Purposes(ESP) in Some Vocational Training Centres 3rd Year Classes in Misurata .

الافتتاحية

إن الثقافة المجتمعية رافد من روافد بناء الأمة ورقيها الاجتماعي والحضاري، والأمم لا تقاس بمدى جبروتها وتكبرها وإنما تقاس بمدى ثقافة أبنائها، فالثقافة وكما يعرفها بعض أهل الاختصاص" هي الحصيلة الفكرية من أدب وعلم وفن وفلسفة وغير ذلك مما يعبر عن إنجاز الإنسان في مراحل تطورية، يتداولها أو يتعلمها الأفراد بشتّى الوسائل المختلفة للاتصال، فتزداد بالتجارب الجديدة وتنحسر في فترات التدهور والانحطاط" .

والثقافة نتاج عقول الأمة وهي أعظم راسم لهويتها، ومحدد لبناء مستقبلها، وتتمايز الأمم بتمايز الثقافات بينها، وينعكس تغاير ثقافتها عن غيرها على تمايز وجودها بين الأمم، والثقافة ليست سلعة تباع وإنما قيم وأخلاق ومبادئ يعيشها أفراد المجتمع وتنعكس على أبنائه، ومن هذا المنطلق نقول: إن الثقافة التزام، فالفرد يتحرك من مبادئ ثابتة، ويستند دائماً على إطار مرجعية ثابتة، فيُرجع جميع القضايا والمشاكل التي تعترضه، ومن خلالها تتميز لديه المتشابهات، ويعرف الصواب من الخطأ.

ولكي يصبح أبناء الأمة على درجة من الثقافة فلا بد أن تكون قراءاتهم منذ البداية موجهة بما يتناسب مع تكوينهم الفكري الأساسي المتوافق مع التكوين الفكري الاجتماعي، حتى يستشعر معنى وأهمية كونه مسلماً، وكونه عربيًا، فلا يتأثر بالثقافات الوافدة الغريبة على المجتمع الإسلامي .

هيئة التحرير

Alsadek Hesain. Gait

This paper examines the perceptions of Libyan banks towards Islamic methods of finance and the likelihood of adoption of these non conventional products and services. A questionnaire is administered to 134 bank directors and managers using phone interviews. The results indicate that 98.5% of banks have knowledge about Islamic banking in general while specific Islamic finance products, including *Musharakah*, *Bai muajjall* and *Quard Hassan*, are known by 79.6% of respondents. Moreover, *Quard Hassan* has been practiced by 88.1% of respondents. However, most respondents are relatively uninformed regarding most other Islamic financing methods. Factor analysis is used to reduce the large number of explanatory variables used to determine attitudes towards Islamic finance to just three factors: namely, growth in the demand for funds, effective management for loans, and profitability. Discriminant analysis shows that potential growth in demand for funds is the primary motivation for the potential adoption of Islamic finance among Libyan banks.

Keywords: Islamic finance; banks' perceptions; Libya; Islamic banking.

1. Introduction

Islamic finance – financial institutions, products and services designed to comply with the central tenets of *Sharia* (Islamic law) – is one of the most rapidly growing segments of the global finance industry. Starting with the Dubai Islamic Bank in 1975 (and operations in the United Arab Emirates, Egypt, the Cayman Islands, Sudan, Lebanon, the Bahamas, Bosnia, Bahrain and Pakistan), the number of Islamic financial institutions worldwide now exceeds three hundred, with operations in seventy-five countries and assets in excess of US$400 billion (El-Qorchi, 2005).

Though initially concentrated in the Middle East (especially Bahrain) and South East Asia (particularly Malaysia), Islamic finance principles are now increasingly found elsewhere. This includes developing economies where the financial sector is almost entirely Islamic (Iran and Sudan) or where Islamic and ‘conventional’ financial systems coexist (Indonesia, Malaysia, Pakistan and the United Arab Emirates) (El-Qorchi, 2005). It also includes developed economies where a small number of Islamic financial institutions have been established and where large conventional providers have opened Islamic financing windows (as in Europe and the United States).

Importantly, while Islamic finance has been practiced for many centuries, it is only in the last thirty years that Islamic financial institutions (including banks) offering *Sharia*-compliant products and services have become more widespread and substantial. Indeed, even in Muslim countries it is only very recently that a full range of analogous Islamic finance products and services have been offered in direct competition to conventional banks and other financial institutions. These products and services include, amongst others: *Mudarabah*, the provision of capital in partial equity partnerships; *Musharakah*, full equity partnerships, *Murabaha*, an instrument used for financing the purchase of goods; *Bai muajjall*, deferred payments on products; *Bai Salam*, advance sale contracts; *Istisna*, or manufacturing contracts; *Ijarah*, lease financing; and *Quard Hassan*, a system of benevolent loans.

Clearly, for Islamic products and services to enter new markets, one (but not the only) consideration is the attitudes, perceptions and knowledge of existing financial institutions, their management and staff, towards these new methods of finance. For conventional financial institutions the presence of other operations offering Islamic financial products and services may affect their competitive position and how they construct new marketing strategies. It may also influence their decision to introduce *Sharia*-compliant products and services themselves. Similarly, for new Islamic financial institutions the attitudes and knowledge of the existing workforce can play an important role in the success of these institutions as they seek to enter the local labour market and interact and compete with other financial institutions in a dual banking system encompassing both conventional and Islamic financial institutions.

Libya provides an interesting context to examine these issues. First, while the majority of the population are Muslims, there are presently no Islamic financial institutions operating in Libya. Second, the Libyan government is increasingly moving towards the liberalisation and reform of the country's financial system and part of this process foresees the contribution of Islamic financial institutions, products and services. Finally, there is no published work on the attitudes, perceptions and knowledge of existing Libyan financial institutions, particularly banks, towards Islamic methods of finance. This is important because experience elsewhere has shown that Islamic financial institutions can arise either as dedicated stand-alone operations or as departments, products and services operating within conventional banks. The purpose of this paper is then to provide the results of a survey of Libyan banks on their attitudes, perceptions and motivations towards Islamic finance and the likelihood of the adoption of Islamic financing principles. The paper is structured as follows. Section 2 provides a brief review of Islamic finance, including its sources, principles and products. Section 3 discusses the literature on the attitudes of financial institutions towards Islamic finance. Section 4 presents the empirical methodology. Section 5 provides some descriptive statistics and Section 6 the empirical results. The final section concludes the paper.

2. Islamic finance

Islamic finance is defined as a financial service or product principally implemented to comply with the main tenets of *Sharia* (or Islamic law). In turn, the main sources of *Sharia* are the *Holy Quran, Hadith, Sunna, Ijma, Qiyas* and *Ijtihad*. The *Holy Quran* is the book of revelation given to the Prophet Muhammad; *Hadith* is the narrative relating the deeds and utterances of Muhammad; *Sunna* refers to the habitual practice and behaviour of Muhammad during his lifetime; *Ijma* is the consensus among religion scholars about specific issues not envisaged in either the *Holy Quran* or the *Sunna*;

Qiyas is the use of deduction by analogy to provide an opinion on a case not referred to in the *Quran* or the Sunna in comparison with another case referred to in the *Quran* and the *Sunna*; and *Ijtihad* represents a jurists' independent reasoning relating to the applicability of certain *Sharia* rules on cases not included in either the *Quran* or the *Sunna*.

In brief, the principles of Islamic finance are as follows: (i) the prohibition of *Riba* (usually interpreted as interest) and the removal of debt-based financing; (ii) the prohibition of *Gharar*, encompassing the full disclosure of information, removal of asymmetric information in contracts and the avoidance of risk-taking; (iii) the exclusion of financing and dealing in activities and commodities regarded as sinful or socially irresponsible (such as gambling, alcohol and pork); (iv) an emphasis on risk-sharing, where the provider of financial funds and the entrepreneur share business risk in return for a pre-determined share of profits and losses; (v) the desirability of materiality, a financial transaction needs to have 'material finality', that is a direct or indirect link to a real economic transaction; and (vi) consideration of justice, a financial transaction should not lead to the exploitation of any party to the transaction [see El-Gamal (2000), Warde (2000), Lewis and Algaoud (2001), Iqbal and Llewellyn (2002), Abdul-Gafoor (2003), Obaidullah (2005) and Iqbal and Molyneux (2005) for suitable introductions to Islamic finance]

In practical terms, these prohibitions and recommendations manifest themselves as the following commercial products and services: (i) *Mudarabah*, the provision of capital to a partial-equity partnership in return for a share of profits, but where the losses on funds lent are borne by the lender; (ii) *Musharakah*, full-equity partnerships where the provider of funds and the entrepreneur directly and wholly share in the business, (iii) *Murabaha*, an instrument used for financing the purchase of goods and services where the financial institution purchases these on behalf of the customer; (iv) *Bai muajjall*, deferred payments on products encompassed under *Murabaha*; (v) *Bai Salam*, advance or pre-paid sale contracts of goods and services; (vi) *Istisna*, or manufacturing contracts to cover work in progress and paid by the financial institution on behalf of the customer; (vii) *Ijarah*, lease financing in the form of operating leases only; (viii) *Takaful* or Islamic insurance in the form of cooperative self-help schemes, and (ix) *Quard Hassan*, benevolent loans offered interest free.

Islamic products and services also increasingly manifest themselves as mutual funds underpinned by investments in *Sharia*-compliant equity or property, *Sukuk* (Islamic bonds), *Takaful* (Islamic insurance) and *Ijarah* (Islamic leasing) constructed with Islamic principles in mind. For example, a *Sharia*-compliant equity mutual fund would, through a process of sector screening and dividend 'purification', normally exclude: banking, insurance or any other interest-related activity; alcohol, tobacco, gambling, armaments; any activity related to pork; other activities deemed offensive to Islam; and any sectors or companies significantly affected by any of the above.

3. Literature review

While the attitudes of retail consumers towards Islamic financial institutions and products have been studied by researchers in Muslim and non-Muslim countries alike—including Erol and El-Bdour (1989), Erol, Kaynak and El-Bdour (1990), Omer (1992), Haron, Ahmad and Planisek (1994), Metwally (1996), Gerrard and Cunningham (1997), Al-Sultan (1999), Hamid and Nordin (2001), Zainuddin, Jahyd and Ramayah (2004), Okumkus (2005), and Dusuki and Abdullah (2007)—and an emerging literature on the attitudes of commercial customers—Edris (1997), Jalaluddin and Metwally (1999) and Ahamad and Haron (2002)—relatively little inquiry has been made into the attitudes of financial institutions. In fact, only three studies comprise the extant literature.

First, Jalaluddin and Metwally (1999) surveyed 80 Sydney financial institutions on their attitudes towards the profit/loss sharing method of business finance found in Islamic finance and questioned whether they would agree to lend funds in accordance with these methods. Some 41.2% of financial institutions responded that they were prepared to lend funds on this basis, with their primary motivations being the provision of better business support, growth in the demand for funds, possible avoidance of the risk of default found with conventional lending and a potentially higher return to lenders. However, the financial institutions also suggested that management complications, unfamiliarity with the principles of Islamic finance and the basic principle of risk sharing with borrowers represented a barrier to business lending on a profit/loss sharing basis, at least in Australia.

Second, Karbhari, Nasser and Shahin (2004) used focused interviews of financial institutions in London to investigate the problems, challenges and opportunities facing Islamic banks in the UK. The major finding was that most if not all respondents were convinced that including Islamic methods of finance in conventional bank operations would promote the establishment of Islamic banks in the UK. In turn, this would increase the understanding of Islamic methods of finance by retail customers. In addition, most respondents held the opinion that the government did not support the establishment of Islamic banks which partly accounted for the low level of awareness among both financial institutions and potential retail and commercial customers.

Finally, Abdullah and Abdul Rahman (2007) examined the level of awareness, knowledge and understanding of Islamic banking and finance of 79 Malaysian bank managers. The results indicated that bank managers possessed good knowledge of the general principles of Islamic banking and finance and were generally aware of some specific methods of finance, including *Morabahah*, *Qurad Hassan* and *Ijarah*. However, they only had a moderate level of awareness of other methods of finance like *Musharakah* and *Mudarabah* and a poor understanding of complex Islamic principles, especially *gharar*. Attendance at training programmes was found to be the most significant factor in improving management’s knowledge of Islamic banking and finance while managers with longer working experience and a higher level of education were generally less informed.

4. Sample methodology

A questionnaire was designed to collect data from a sample of Libyan banks during three months from 12/2008 to 2/2009. To ensure speedy data collection, control of the sample, good flexibility, and reasonable cost, data was collected by filling the questionnaires through telephone interviews. As Libya has a relatively small number of individual financial institutions, all Libyan banks were surveyed, comprising five state banks (National Commercial Bank, Umma Bank, Gumhouria Bank, Sahara Bank and Wahada Bank), four private banks (Bank of Commerce & Development, Aman Bank for Commerce & Investment, Alijmae Alarabi Bank and Wafa Bank) and four specialised banks (Agricultural Bank, Saving & Investment Real Estate Bank, Development Bank and Rural Bank). The general director, director of credit and investment, and director of marketing of each bank were surveyed, as well as the manager, acting manager and head of the credit and investment department in each of the biggest branches in Libya's four largest cities (Tripoli, Benghazi, Misratah and Al Murgub). In total, 210 Libyan bank employees were regarded as the population of interest. A focus group of 20 (pre-screened) respondents representing about 5% of the sample was first interviewed to ensure the effectiveness of the questionnaire before the full survey was undertaken.

The survey was administered on working days from 7:30 am to 2:30 pm. As these interviews involved directors or senior bank management, the researcher faced some difficulty in fully completing all of the questionnaires. Unfortunately, despite best efforts only 134 complete questionnaires were obtained. In nearly all cases, the incomplete questionaries arose from the subject refusing to respond or being on leave. Incomplete questionnaires were removed from the sample. The respondents were asked in the first part of the questionnaire some questions relating to their knowledge of Islamic banking and Islamic methods of finance. The second part of the questionnaire was used to elicit the respondents' attitudes towards Islamic methods of finance. A seven-point scale from 1 to 7 was used where 1 is not important at all and 7 is very important for 14 statements that represent perceptions of Islamic methods of finance.

The questionnaire also collected information on the type of bank and the details of the respondent, including location and the number of years of banking experience. Descriptive analysis is used to examine the degree of awareness of Libyan banks about Islamic methods of finance; factor analysis is used to identify the main factors that motivate them to adopt Islamic finance and discriminant analysis is used to determine which of these factors account for the most impact on attitudes towards Islamic methods of finance.

5. Descriptive statistics

The main characteristics of the sample are shown in Table 1. This Table indicates at first potential use of Islamic methods of finance, 66.4% of respondents are potential users; however, 33.6% of them are not potential users. 43.3% of the respondents are private banks and 35.8% state banks. More than one-fifth (55.2%) of the respondents are branches whereas only 21.7% represent general headquarters. Approximately, 50% of the respondents have been working in banking transactions during a period of less than 10 years. On the other hand, 30.6% of respondents have banking experience of more than 20 years.

Libyan banks' respondents are asked to indicate their intention to use Islamic methods of finance. In particular, Table 1 gives characteristics of Libyan banks' potential use of Islamic methods of finance, motivating beliefs and outcomes. About two-third of Libyan banks (66.4 %) are potential users of Islamic methods of finance. In other words, most of Libyan banks are prepared to open specific windows to apply Islamic methods of finance. Therefore, most Libyan banks are willing to lend and invest funds using Islamic methods of finance. In details, more than 60% of these potential users are private banks and more than three-fourth of them are branches. The majority of these potential users also have banking experience less than 10 years.

Table 1: The main characteristics of the sample

Variables	Frequency	%	Potential user	%	Not apotential user	%
Potential use of Islamic methods of finance						
Potential user	89	66.4				
Not a potential user	45	33.6				
Type of bank						
State bank	48	35.8	17	19.1	31	68.9
Specialised bank	13	9.7	6	6.7	7	15.6

Regional bank	15	11.2	11	12.4	4	8.9
Private bank	58	43.3	55	61.8	3	6.6
Bank categorization						
General headquarter	29	21.7	2	2.2	27	60
Main branch	31	23.1	19	21.4	12	26.7
Branch	74	55.2	68	76.4	6	13.3
Banking experience						
Less than 10 years	65	48.5	65	73	00	00
10 to 20 years	28	20.9	21	23.6	7	15.5
More than 20 years	41	30.6	3	3.4	38	84.5

However, over one-third of respondents are not potential users of Islamic methods of finance and the majority of them are state banks. Also, and noticeably 60% of these not potential users are general headquarters. Most of these potential users (84.5%) have working banking period more than 20 years.

Table 2 illustrates the respondents of Libyan banks' awareness of Islamic methods of finance aspects statistically. Collected data indicates some significant information regarding respondents' level of awareness about Islamic banking and their Islamic methods of finance. 98.5% of all respondents have knowledge about the existence of Islamic banks and *Musharakah*, *Bai muajjall* and *Quard Hassan* are clearly known by 79.6 of all respondents. Also, *Quard Hassan* has been practiced by 88.1% of all respondents. This is due to the fact that most of their banks offer interest-free loans for people who are employees at banks. However, most respondents are uninformed regarding other Islamic financing method such as *Mudarabah*, *Morabahah*, and *Istisna*.

Table 2: Libyan banks' respondents' awareness of Islamic methods of finance

Variables	Frequency	%	Potential user	%	Not apotential user	%
Potential use of Islamic methods of finance						
Potential user	89	66.4	89			
Not a potential user	45	33.6				
Knowledge about the existence of Islamic banks					45	
Knowledgeable respondents	132	98.5	89	67.4	43	32.6
Unknowledgeable respondents	2	1.5	00	00	2	100
Knowledge of Islamic methods of finance						
Knowledgeable respondents in *Musharakah*, *Bai muajjall* and *Quard Hassan* only.	107	79.6	71	66.3	36	33.7
Unknowledgeable respondents	00	00	00	00	00	00
Practice of Islamic methods of finance						
Respondents practiced *Quard Hassan* only.	118	88.1	74	62.7	44	37.3
Respondents do not practice any method.	3	2.2	2	66.6	1	33.4
Respondents who are unaware of all previous awareness aspects.	00	00	00	00	00	00

Regarding the awareness effect on potential use of Islamic methods of finance, clearly Table 2 indicates that majority of respondents who are aware of Islamic methods of finance represent potential users. More particularly, 67.4% of 132 knowledgeable respondents about the existence of Islamic banks, 66.3% of 107 knowledgeable respondents in *Musharakah*, *Bai muajjall* and *Quard Hassan* only and 62.7 of 118 respondents who practiced *Quard Hassan* only are potential users. Therefore, this discussion indicates that Libyan banks' respondents' awareness of Islamic methods of finance has a positive effect on their potential use of Islamic methods of finance. Accordingly, respondents in Libyan banks are aware about the existence of Islamic banking, which has a positive effect on their attitudes towards Islamic methods of finance but are unaware of specific Islamic methods of finance.

6. Empirical Results

6.1. Motivating factors for potential use of Islamic finance

Respondents of Libyan banks are requested to indicate their degree of importance for 14 statements that represent beliefs and evaluated outcomes for potential use of Islamic methods of finance on a seven-point Likret scale. Table 3 details the means and standard deviations of the variable scores. The data in column two of Table 3 suggests that the primary motivations towards potential use of Islamic methods of finance are applying Islamic methods of finance may contribute in Libyan economic development and Islamic methods of finance allow bank to use unique financing methods such as lease financing. In contrast, Islamic methods of finance are interest-free and Islamic methods of finance may result in a more effective monitoring of loan financed are considered to be at the end of motivations' list.

Factor analysis (principal component analysis) is performed on the 14 explanatory variables with the primary goal of data reduction. The data in the correlation matrix (not shown) illustrated that there are high correlations among the explanatory variables that are significant at the 0.0 level. This justifies the appropriateness of factor analysis to reduce these highly correlated variables to a small manageable number of factors. An investigation of the statistical results suggests that the coefficients on the diagonals of the anti-image correlation matrix are greater than 0.5 for each variable. Therefore, there is no need to eliminate any of the variables. Also, all variables have a large correlation with more than one of the other variables. This also suggests the adequacy of the factor model (Malhotra 2006; Metwally 2000).

Table 3: Descriptive statistics

Variables	Mean	Std. Devi
Islamic methods of finance are interest-free.	3.2836	1.62041
Islamic methods of finance are in accordance with *Sharia.*	3.6866	1.66980
Applying Islamic methods of finance may increase deposits of bank.	3.5299	1.28432
Islamic methods of finance may expand the market for loans.	3.7687	1.51640
Islamic methods of finance allow bank to use unique financing methods such as lease financing.	3.8433	1.56010
Return to banks under Islamic methods of finance could be higher than under traditional methods of finance.	3.7015	1.26865
Islamic methods of finance may result in a more effective monitoring of loan financed.	3.4776	1.19344
Islamic methods of finance may encourage starting businesses with small equity to borrow funds.	3.8209	1.40274
Profit/loss sharing method may promote the relationship between bank and customers.	3.5000	1.75040

Profit/loss sharing method allows bank to share risk of investment with borrower.	3.7313	1.14488
Sharing the profits could help the borrower to reduce the risk of default.	3.5000	1.22474
Repayment of debt could be easily controlled under Islamic methods of finance.	3.5149	1.40747
Applying Islamic methods of finance would increase profit of the bank.	3.5821	1.28202
Applying Islamic methods of finance may contribute in Libyan economic development.	3.8507	1.23549

As shown in Table 4, Bartlett's test of sphericity is used to test the null hypothesis that the variables are uncorrelated in the population. The test gives a value of 1658.071 which is highly significant favouring a rejection of the null hypothesis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is calculated. A value of 0.915 is obtained, this means that all of the partial correlation coefficients are small compared to the ordinary correlation coefficients. Therefore, this indicates that it's reasonable to go ahead with a factor analysis (Norusis 2006). Table 4 also indicates relevant information after the desired number of factors has been extracted. The Table shows the commonalties for the variables, along with the variance accounted for by each factor that is retained. It can be seen that 14 explanatory variables can be reduced to just three factors with an eigenvalue grater than 1. These three factors account for approximately 78.44% of the total variance.

In addition, reproduced correlations matrix (not shown) indicates that the magnitudes of residuals are computed between observed and reproduced correlations; only 19% of the residuals are greater than 0.05 (in absolute value). Accordingly, this also suggests the goodness fit for factor analysis model (Malhotra and Birks 2003).

Table 4: Total variance explained

No	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	8.240	58.860	58.860	8.240	58.860	58.860	4.158	29.701	29.701
2	1.527	10.910	69.770	1.527	10.910	69.770	3.657	26.118	55.819
3	1.215	8.675	78.445	1.215	8.675	78.445	3.168	22.626	78.445
4	.608	4.346	82.791	-	-	-	-	-	-
5	.438	3.125	85.916	-	-	-	-	-	-
6	.381	2.724	88.640	-	-	-	-	-	-
7	.320	2.286	90.926	-	-	-	-	-	-
8	.276	1.968	92.894	-	-	-	-	-	-
9	.249	1.777	94.670	-	-	-	-	-	-
10	.199	1.421	96.092	-	-	-	-	-	-
11	.176	1.254	97.345	-	-	-	-	-	-
12	.131	.934	98.279	-	-	-	-	-	-
13	.126	.899	99.178	-	-	-	-	-	-
14	.115	.822	100.000	-	-	-	-	-	-
Notes: (a) Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.915									
(b)Bartlett's Test of Sphericity is 1658.071									
(C) Significance is .000									

Table 5 shows the rotated factor matrix obtained by the varimax procedure and indicates the factors and their coefficients used to interpret the factors in terms of the variables. Factor 1 has high coefficients (more than 0.5) on five variables which are shown with the shading in column 2. These are representing (i) Islamic methods of finance are interest-free, (ii) Islamic methods of finance may expand the market for loans, (iii) Islamic methods of finance allow bank to use unique financing methods such as lease financing Religious motivation for depositing with Islamic bank, (iv) Islamic methods of finance may encourage starting businesses with small equity to borrow funds, and (v) Profit/loss sharing method may promote the relationship between bank and customers. Clearly, most of these variables help to expand market for loans and religious variables has lowest coefficient among them. Hence, this factor can be labelled as “Growth in demand for funds”.

Factor 2 has high coefficients (more than 0.5) on five variables which are shown with the shading in column 3. These are (i) Islamic methods of finance are in accordance with *Sharia*, (ii) Islamic methods of finance may result in a more effective monitoring of loan financed, (iii) profit/loss sharing method allows bank to share risk of investment with borrower, (iv) sharing the profits could help the borrower to reduce the risk of default, and (v) repayment of debt could be easily controlled under Islamic methods of finance. Even though religious factor has highest coefficient among these variable, most of them aim to promote management effectiveness for loans. Therefore, this factor can be labelled as “effective management for loans”.

Table 5: Rotated component matrix

	Component		
Variables	1	2	3
Islamic methods of finance are interest-free.	.675	.451	.279
Islamic methods of finance are in accordance with *Sharia.*	.157	.826	.345
Applying Islamic methods of finance may increase deposits of bank.	.321	.244	.817
Islamic methods of finance may expand the market for loans.	.841	.131	.184

Islamic methods of finance allow bank to use unique financing methods such as lease financing.	.815	.160	.342
Return to banks under Islamic methods of finance could be higher than under traditional methods of finance.	.315	.246	.717
Islamic methods of finance may result in a more effective monitoring of loan financed.	.035	.781	.486
Islamic methods of finance may encourage starting businesses with small equity to borrow funds.	.792	.327	.341
Profit/loss sharing method may promote the relationship between bank and customers.	.776	.208	.370
Profit/loss sharing method allows bank to share risk of investment with borrower.	.178	.737	.431
Sharing the profits could help the borrower to reduce the risk of default.	.517	.747	.037
Repayment of debt could be easily controlled under Islamic methods of finance.	.484	.803	.011
Applying Islamic methods of finance would increase profit of the bank.	.308	.217	.832
Applying Islamic methods of finance may contribute in Libyan economic development.	.495	.234	.519

Finally, factor 3 has high coefficients (more than 0.5) on four variables which are shown with the shading in column 4. These are namely; (i) applying Islamic methods of finance may increase deposits of bank, (ii) return to banks under Islamic methods of finance could be higher than under traditional methods of finance, (iii) applying Islamic methods of finance would increase profit of the bank; and (iv) applying Islamic methods of finance may contribute in Libyan economic development. These motivations related to the bank's objective to increase profits. This factor therefore, can be labelled as "profitability". To conclude this section, it is noticeable that Libyan banks are motivated to use Islamic methods of finance by several potentially highly correlated variables that can be reduced to a smaller number of common factors. In particular, 14 explanatory variables listed in Table VI.3 are reduced to (Growth in demand for funds, effective management for loans; and Profitability).

6.2. Important factors for the potential use of Islamic finance

According to Hair, Anderson, Tatham and Black (1995) and Curhan and Kopp (1988), factor scores are suitable for use in subsequent multivariate analysis, including Discriminant analysis and logistic regression, especially if the data is used for the original sample. Discriminant analysis is performed on the four factors' scores (Growth in demand for funds, effective management for loans and Profitability) as explanatory variables with the primary goal of determining which of these factors represents the most impact on the Libyan banks' attitudes towards the use of Islamic methods of finance. The respondents' intention to use Islamic methods of finance is used as the dependent variable (Potential use of Islamic methods of Finance). Thus, banks are divided into two groups; namely, those who are potential users of Islamic methods of finance and those who are not potential users of Islamic methods of finance.

Table 6 illustrates information between the mean and standard deviation for the two groups. The group means suggest that the two groups are widely separated in terms of the value of factor scores 1 (Growth in demand for funds) and factor scores 3 (Profitability). Differences between the two groups are smallest for factor scores 2 (Effective management for loans). The Wilks' is the proportion of the variance is not explained by differences between the groups. Because all the Willks' lambda values are smaller than 1, the most of the observed variability can be attributed to differences between groups (Norusis 2006). Moreover, the significance of the univariate ratios shows that when the predictors are considered individually, all predictors significantly differentiate between the two groups (Metwally 2000). The polled within-groups correlation matrix at the end of Table 6 indicates remarkable low correlations between the factor scores. Therefore, multicollinearity is not a serious problem (Norusis 2006).

Table 6: Group statistics, tests of equality of group means and pooled within-groups matrices

Groups		Mean	Std. Deviation	Valid N (listwise)	
		Unweighted	Weighted	Unweighted	Weighted
Not potential user	Factor score 1 (Growth in demand for funds)	-1.013	.638	45	45
	Factor score 2 (Effective management for loans)	-.497	.406	45	45
	Factor score 3 (Profitability)	-.514	.935	45	45
Potential user	Factor score 1 (Growth in demand for funds)	.512	.719	89	89
	Factor score 2 (Effective management for loans)	.251	1.112	89	89
	Factor score 3 (Profitability)	.259	.9326	89	89
Total	Factor score 1 (Growth in demand for funds)	.000	1.000	134	134
	Factor score 2 (Effective management for loans)	.000	1.000	134	134
	Factor score 3 (Profitability)	.000	1.000	134	134

	Wilks' Lambda	F	df1	df2	Sig.
Factor score 1 (Growth in demand for funds)	.477	144.628	1	132	.000
Factor score 2 (Effective management for loans)	.874	19.045	1	132	.000
Factor score 3 (Profitability)	.865	20.545	1	132	.000
Correlation			Factor score 1 (Growth in demand for funds)	Factor score 2 (Effective management for loans)	Factor score 3 (Profitability)
Factor score 1 (Growth in demand for funds)			1.000	-.398	-.413
Factor score 2 (Effective management for loans)			-.398	1.000	-.150
Factor score 3 (Profitability)			-.413	-.150	1.000

Table 7: Test results and log determinants

Box's M		47.197
F	Approx.	7.639
	df1	6
	df2	51500.829
	Sig.	.000
Groups	Rank	Log Determinant
Not potential user	3	-3.407
Potential user	3	-1.095
Pooled within-groups	3	-1.508

Table 7 presents the level of significant of *Box's M* which suggests we should reject the null hypothesis that the covariance matrices are equal. This is also confirmed by the logs of the determinants of the variance-covariance matrices shown in Table 7. Clearly, the logs of the determinants are quite different in value between the two groups.

The eigenvalue in Table 8 is quite large (3.621) and it accounts for 100% of the explained variance. The canonical correlation is another measure of the degree of association between the discriminant scores and the groups. The canonical correlation of the discriminant function is about 0.885. The square of this coefficient shows that 78.3% of the variance of the dependent variable is explained or accounted for by this model (Norusis 2006; Metwally 2003).

Table 8: Eigenvalues and Wilks' Lambda

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	3.621(a)	100.0	100.0	.885
Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.216	199.745	3	.000

The Wilks' lambda associated with the discrimunant function in Table 8 is 0.216. This is the ratio of the within-groups sum of squares to the total sum of squares. This can be transformed to a chi-square value of 199.745, which is statistically significant at the 0.0 level with degrees of freedom equal to the factor scores. Therefore, it is acceptable to reject the null hypothesis that respondents who are potential users have the same average discriminant function score in the population (Norusis 2006, and Malhotra and Birks 2003).

The absolute magnitude of the standardized canonical discriminant function coefficients in Table 9, suggests that growth in demand for funds (1.213), profitability (0.829) are the most important factors in discriminating between the two groups of Libyan banks. More particularly, growth in demand for funds is the primary motivation for the use of Islamic methods of finance among Libyan banks. Structure matrix in Table 9 also indicates that growth in demand for funds (0.550) is the most important factor for the potential use of Islamic methods of finance by Libyan banks. The classification matrix in Table 9 based on the sample analysis gives hit ratio of 95.5% indicating highly significant classification for most cases included in the sample. In other words there are only six cases that are misclassified.

Table 9: Standardized canonical discriminant function coefficients, structure matrix and classification results

Standardized canonical discriminant function coefficients					Function
					1
Factor score 2 (Effective management for loans)					.806
Factor score 3 (Profitability)					.829
Structure matrix					Function
					1
Factor score 1 (Growth in demand for funds)					.550
Factor score 3 (Profitability)					.207
Factor score 2 (Effective management for loans)					.200
		Groups	Predicted Group Membership		Total
			Not potential user	Potential user	Not potential user
Original	Count	Not potential user	43	2	45
		Potential user	4	85	89
	%	Not potential user	95.6	4.4	100.0
		Potential user	4.5	95.5	100.0
A 95.5% of original grouped cases correctly classified.					

7. Concluding Remarks

This paper investigates 134 Libyan banks' attitudes towards Islamic methods of finance. The results show that approximately two-third of Libyan banks is potentially prepared to apply Islamic methods of finance. More particularly, this study find out that growth in demand for funds has a significant influence on Libyan banks' attitudes towards potential applying of Islamic methods of finance and this factor also is a function of the future probability of the use of Islamic methods of finance by Libyan banks instead of religious factors. According to the results, even though most of Libyan banks (66.4%) are potential users of Islamic methods of finance and 33.6% of them are not potential users, especially if most of these not potential users are general headquarter of banks, there is a lot of work should be done by these financial institutions. In particular, conventional banks to effectively obtain benefits of Islamic methods of finance, they need to address and enhance discussion among all levels of their management regard to applying these Islamic methods of finance. This require is arising due to the fact that Libya is now seeking to turn itself into a Market Free country to encourage investments, especially foreign investment. This means opening the door for Islamic banks worked worldwide especially in closed countries to come for establishing new branches in Libya.

While most of past studies and this study indicate that most of respondents of banks have knowledge about the existence of Islamic banking and aware regarding some Islamic methods of finance, most of these studies confirmed that the majority if not all are unaware regard to specific methods of finance such as *Mudarabah*, *Morabahah*, and *Istisna*. This requires educational programmes to assist improving the knowledge and skills related to these methods of finance. Finally, in the Libyan context, financial literacy and productive methods of finance are important policy areas authorized by the Libyan government. Findings of this research can inform and assist the central bank of Libya in the development of the policy document for applying Islamic methods of finance in formal basis. Critical issues to be addressed in the policy document related to establishing Islamic banks and to ensuring conventional banks are involved to open specific windows offering Islamic methods of finance. Also, focusing on educational and training programmes to promote all who are interested to apply Islamic methods of finance.

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الفهرس

يشترط في البحوث العلمية المقدمة للنشر أن يراعى فيها ما يأتي :

- أصول البحث العلمي وقواعده .
- ألا تكون المادة العلمية قد سبق نشرها أو كانت جزءا من رسالة علمية .
- يرفق بالبحث المكتوب باللغة العربية بملخص باللغة الإنجليزية ، والبحث المكتوب بلغة أجنبية مرخصا باللغة العربية .
- يرفق بالبحث تزكية لغوية وفق أنموذج معد .
- تعدل البحوث المقبولة وتصحح وفق ما يراه المحكمون .
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