

## ATTITUDES OF LIBYAN BANKS TOWARDS ISLAMIC METHODS OF FINANCE\*

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### ABSTRACT

This chapter examines the likelihood of Libyan banks engaging in Islamic methods of finance through Islamic banking products and services. We administered a questionnaire to 134 bank directors and senior bank managers to gather information on their vocational profiles and their attitudes towards Islamic methods of finance. We then used descriptive statistics to identify the main characteristics of the sample and the potential use of Islamic methods of finance. The results indicate that about two-thirds of Libyan banks are potential users of Islamic methods of finance. We then used factor analysis to reduce the large number of explanatory variables used to determine the attitudes towards Islamic methods of finance to just three factors: namely, growth in the demand for funds, effective management for loans, and profitability. We employed a binary logistic regression model using these factor scores as explanatory variables to determine the impact of these as predictors on the future probability of Libyan banks applying Islamic methods of finance. The results indicate that bank type and banking experience represent the primary factors influencing the potential use of Islamic methods of finance. Further,

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growth in the demand for funds represents the primary predictor of the increasing likelihood of Libyan banks engaging in Islamic finance.

**Keywords:** Islamic methods of finance, Islamic banking, bank attitudes, Libya

## INTRODUCTION

While Islamic finance has been practiced for many centuries, it is only in the last few decades that Islamic financial institutions (including banks) offering Sharia-compliant products and services have become more widespread and important. Indeed, even in Muslim countries it is only very recently that a full range of analogous Islamic finance products and services has evolved in direct competition to conventional banks and other financial institutions. These products and services include, among others, Mudarabah, Musharakah, Murabaha, Bai muajjal, Bai Salam, Istisna, Ijarah, and Quard Hassan (El-Gamal 2000; Gait and Worthington 2014b).

Clearly, for Islamic products and services to enter and evolve in new markets, some key considerations are the attitudes, perceptions, and knowledge of existing financial institutions and their management and staff towards these new methods of finance, the demographic impact on these attitudes towards Islamic financing methods and the likelihood of engaging in Islamic finance. For conventional financial institutions, the presence of other operations offering Islamic financial products and services may also affect their competitive position and 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 new Libyan government has continued the move towards the liberalization 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 influence of demographic factors on Libyan bank attitudes towards Islamic methods of finance and the probability of applying Islamic methods of finance by Libyan banks. The purpose of this chapter is then to survey the attitudes of banking staff in Libya, as reflective of the attitudes of Libyan banks as a whole, on the potential use of Islamic methods of finance and the likelihood of adopting Islamic financing practices.

Certainly, progress toward the development of Islamic banking in Libya has intensified in recent years, especially since 2011 with the ousting and death of the country's former leader, Muammar Gaddafi, and the collapse of his 42-year "First of September 'Al Fateh' Revolution" and the 34-year-old Jamahiriya state. For example, in 2008, 2010 and 2012, the Academy of Postgraduate Studies in Tripoli organized a series of conferences on 'Islamic Monetary Services' that served to increase the general level of awareness of Islamic banking in the country. During this time, the Libyan Central Bank and the Jomhouria Bank also investigated the potential for Islamic financial products and services in Libya (Baej and Worthington 2014).

As for the legal system, even though Libyan Civil Law No. 74 prohibited Riba (interest) as did Civil Law No. 86 for Al-Gharar (contracts of uncertainty) in the early 1970s, few legal mechanisms existed in Libya facilitating the introduction of Islamic banking. However, Banking Law No. 1 in 2005 technically eased the granting of licenses for commercial, specialized, financing, investment and other banks, and a subsequent amendment by the National Transitional Council (NTC) as Law No. 46 of 2012 provides a detailed section on Islamic banking. This includes the definitions of an Islamic Bank, Islamic Banking, the Central Shariah Advisory Board in the Central Bank, the Shariah Advisory Board(s) for Islamic Bank(s), Shariah Auditing administration, Islamic banking branches, and Islamic banking windows. With power transferred from the NTC to the newly elected General National Congress on 8 August 2012, the future of Islamic banking in Libya now appears promising as the central monetary authority is now directly involved. The prospect now exists for new or existing banks in Libya to implement Islamic banking practices in line with a formal legislative regulatory framework (Baej and Worthington 2014).

The remainder of the chapter is structured as follows. The second section discusses the literature on the attitudes of financial institutions towards Islamic

finance. The third section presents the empirical methodology. The fourth section provides some descriptive statistics and the fifth section includes the empirical results. The final section concludes the chapter.

## **LITERATURE REVIEW**

A number of studies have examined the attitudes of retail consumers towards Islamic financial institutions and products in Muslim and non-Muslim countries alike [Erol and El-Bdour (1989), Erol, Kaynak, and El-Bdour (1990), Haron, Ahmad and Planisek (1994), Metwally (1996), Gerrard and Cunningham (1997), Hamid and Nordin (2001), Bley and Kuehn (2004), Dusuki and Abdullah (2007), Rammal and Zurbruegg (2007) and Gait and Worthington (2014a)]. There is also now an emerging literature on the attitudes of business firms [Edris (1997), Jalaluddin and Metwally (1999), Ahamad and Haron (2002) and Gait and Worthington (2014c)]. However, relatively little inquiry has been made into the attitudes of financial institutions, as reflected by the attitudes of their principal staff. In fact, just 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 found 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*. Abdullah and Abdul Rahman (2007) also found that attendance at training programmes was 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.

## SAMPLE METHODOLOGY

We designed a questionnaire to collect data from a sample of Libyan banks. To ensure speedy data collection, control of the sample, good flexibility, and reasonable cost, we administered the survey through telephone interviews. We surveyed all Libyan banks, 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 formed the population of interest. We first interviewed a focus group of 20 (pre-screened) respondents

representing about 5% of the sample to ensure the effectiveness of the questionnaire before the full survey was undertaken.

We administered the survey on working days from 7:30 am to 2:30 pm during December and January. As these interviews involved directors or senior bank management, the research team faced some difficulty in fully completing all of the questionnaires. Unfortunately, despite best efforts we obtained only 134 complete questionnaires. In nearly all cases, the incomplete questionnaires arose from the subject refusing to respond or being on leave. We removed incomplete questionnaires from the sample. In the first part of the questionnaire, we asked the respondents some questions relating to their knowledge of Islamic banking and Islamic methods of finance. We used the second part of the questionnaire 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 employing the respondent and some details of the respondent, including the number of years of banking experience. We used descriptive analysis to indicate the main characteristics of the sample and the potential use of Islamic methods of finance by Libyan banks. We then used factor analysis to identify the main factors that motivate Libyan banks as represented by their key personnel to engage in Islamic methods of finance. Finally, we employed a binary logistic regression to determine which demographic profiles accounted for the most impact on the potential use of Islamic methods of finance and examined the likelihood of engaging in Islamic methods of finance by Libyan banks (Metwally 2002).

## DESCRIPTIVE STATISTICS

Table 1 details the main characteristics of the sample respondents. As shown, 43.3% of the respondents are from private banks and 35.8% from state banks. More than half (55.2%) of the respondents are branches whereas only 21.7% represent general headquarters. As also shown, 50% of the respondents have been working in banking for less than 10 years and 30.6% for more than 20 years.

**Table 1. Respondent characteristics**

Variable	No.	%
Type of bank		
State bank	48	35.8
Specialised bank	13	9.7
Regional bank	15	11.2
Private bank	58	43.3
Bank location		
General headquarters	29	21.7
Main branch	31	23.1
Branch	74	55.2
Banking experience		
Less than 10 years	65	48.5
10 to 20 years	28	20.9
More than 20 years	41	30.6

**Table 2. Potential use of Islamic methods of finance**

Variable	Total	%	Yes	%	No	%
Use of Islamic 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 location						
General headquarters	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

Table 2 details characteristics concerning the potential use of Islamic methods of finance motivating beliefs and outcomes. Based on the attitudes of

their top management, about 66.4% Libyan banks are potential users of Islamic methods of finance. In other words, most Libyan banks are prepared to open specific windows to apply Islamic methods of finance.

More than 60% of these potential users are private banks and more than 75% are branches. The majority of these potential users also have banking experience less than 10 years, with 84.5% have working banking experience more than 20 years. However, more than a third of respondents are not potential users of Islamic methods of finance, mostly those working in state banks. Some 60% of the respondents that are not indicated as potential users are in the bank's general headquarters

## EMPIRICAL RESULTS

We specify the potential use of Islamic methods of finance by Libyan banks as indicated by individual banking staff as the dependent variable in a binary logit regression to predict the presence of an outcome (in the case, the potential use of Islamic methods of finance) based on the set of predictor variables. We divide the responses are divided into two groups; namely, respondents in banks who are potential users of Islamic methods of finance in their bank, and those who are not.

We employ a forward-stepwise selection method with maximum-likelihood computation of the parameter estimates to obtain the results for the binary logistic regression (Norusis 2005). Table 3 provides the estimated coefficients, standard errors, Wald statistics, and significant values of the parameters for the binary logistic regression. Table 3 also includes the ratio-change in the odds  $\text{Exp}(B)$ , the Nagelkerke  $R^2$  as an analogue for that used in the linear regression model, and the Hosmer–Lemeshow test for model misspecification. In addition, Table 3 includes the Bayesian information correction (BIC), defined as the Wald statistic minus the logarithm of the sample size (the logarithm of 134 is 5.35). Given the sample is relatively large, the strength of association is further evaluated using the BIC. In general, a BIC from 1 to 2 is indicative of a weak association, from 2 to 6 is a moderate association, from 6 to 10 is a strong association, and greater than 10 is a very strong association. Finally, Table 3 includes the classification information that shows the practical results of using the logistic regression model.



**Table 3. Factors affecting the potential use of Islamic methods of finance**

Factor	Logit	Standard error	Wald statistic	Sig.	BIC	Exp (B)
Type of bank	1.858*	0.747	6.195	0.013	0.845	6.414
Bank location	4.365*	1.381	9.990	0.002	4.640	78.682
Banking experience	-3.449*	1.006	11.762	0.001	6.412	0.032
Constant	-5.766	4.139	1.941	0.164		
Nagelkerke R <sup>2</sup>	0.910					
Hosmer–Lemeshow	0.818					
Groups	Predicted					
	Not potential users		Potential users		% correct	
Not potential users	44		1		89.8	
Potential users	2		87		97.8	
Overall percentage	34.3		65.7		97.8	

\* denotes significance at the 5% level.

As shown in Table 3, the Hosmer–Lemeshow statistic is .818, which is greater than 0.05 and this indicates that the model adequately fits the data. In other words, the Hosmer–Lemeshow tests fail to reject the null hypotheses of no functional misspecification. Therefore, this model is appropriate for modelling the potential use of Islamic methods of finance based on the available set of predictor variables. The Nagelkerke R<sup>2</sup> value of 0.910 is also adequate, and illustrates that the model explains about 92% of the variation in the response variable. The estimated coefficients indicate that the factors representing bank location (4.365), banking experience (-3.449), and the type of bank (1.858) are all statistically significant. Overall, respondents in private banks with less banking experience are more likely to be potential users of Islamic methods of finance. Using the BIC, we can see that banking experience and bank location has a strong association with the potential use of Islamic methods of finance. Table 3 ends with the prediction success information and shows that the model

successfully classified the use of Islamic methods of finance for 97.8% of the bank respondents.

**Table 4. Knowledge of Islamic methods of finance**

Item	Mean	Std.dev.
Islamic methods of finance are interest-free.	3.283	1.620
Islamic methods of finance are in accordance with <i>Sharia</i> .	3.686	1.669
Applying Islamic methods of finance may increase deposits of bank.	3.529	1.284
Islamic methods of finance may expand the market for loans.	3.768	1.516
Islamic methods of finance allow bank to use unique financing methods such as lease financing.	3.843	1.560
Return to banks under Islamic methods of finance could be higher than under traditional methods of finance.	3.701	1.268
Islamic methods of finance may result in a more effective monitoring of loan financed.	3.477	1.193
Islamic methods of finance may encourage starting businesses with small equity to borrow funds.	3.820	1.402
Profit/loss sharing method may promote the relationship between bank and customers.	3.500	1.750
Profit/loss sharing method allows bank to share risk of investment with borrower.	3.731	1.144
Sharing the profits could help the borrower to reduce the risk of default.	3.500	1.224
Repayment of debt could be easily controlled under Islamic methods of finance.	3.514	1.407
Applying Islamic methods of finance would increase profit of the bank.	3.582	1.282
Applying Islamic methods of finance may contribute in Libyan economic development.	3.850	1.235

We also asked respondents to indicate the degree of importance for 14 statements that represent the beliefs and purported outcomes of Islamic methods of finance on a seven-point Likert scale. Table 4 details the means and standard deviations of the scores. The data in column two of Table 4 suggest that the primary motivations towards the potential use of Islamic methods of finance by bank staff are that applying Islamic methods of finance may contribute in

Libyan economic development and Islamic methods of finance allow the bank to use unique financing methods, such as lease financing. In contrast, that Islamic methods of finance were interest-free and could result in the more effective monitoring of loans were considered less important.

**Table 5. Eigenvalues and total variance explained**

No.	Initial Eigenvalues		
	Total	% of variance	Cumulative %
1	8.240	58.860	58.860
2	1.527	10.910	69.770
3	1.215	8.675	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: Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.915. Bartlett's Test of Sphericity is 1658.071. Significance is < 0.001.

We performed factor analysis (principal component analysis) on the fourteen explanatory variables with the primary goal of data reduction. A correlation matrix (not shown) evidences the high correlations between the explanatory variables at the 0.01 level. This justifies the appropriateness of factor analysis to reduce these highly correlated variables to a smaller more 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. In addition, all variables have a large correlation

with more than one of the other variables. This also suggests the adequacy of the factor model (Metwally 2000).

**Table 6. Rotated factor matrix**

Items	Factors		
	1	2	3
Islamic methods of finance are interest-free.	.675	.451	.279
Islamic methods of finance are in accordance with <i>Sharia</i> .	.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 borrowers.	.178	.737	.431
Sharing the profits could help the borrowers 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

As shown in Table 5, we use Bartlett's test of sphericity 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 and favours the rejection of the null hypothesis. The Kaiser-Meyer-Olkin (KMO) measure of sampling

adequacy is also calculated. We obtain a value of 0.915, signifying that all of the partial correlation coefficients are small relative to the ordinary correlation coefficients. Therefore, factor analysis is a reasonable way forward (Norusis 2006).

Table 5 details the relevant information after extracting the desired number of factors. These show the degree of commonness the variables, along with the variance accounted for by each retained factor. As shown, we reduce the 14 explanatory variables to just three factors with eigenvalues greater than one. Together, these three factors account for approximately 78.44% of the total variance. Table 6 provides 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. As shown, factor 1 has high coefficients (more than 0.5) on five variables (shown shaded in column 2). These are (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 banks to use unique financing methods, (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 reflect a desire by banks and their staff to expand their business through the adoption of Islamic products and services, which we denote as “growth in the demand for funds.”

Factor 2 has high coefficients (more than 0.5) on five variables (shown shaded in column 3). These are (i) Islamic methods of finance are in accordance with *Sharia*, (ii) Islamic methods of finance may result in the more effective monitoring of loans, (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 the highest coefficient among these variable, most of these aim to promote management effectiveness for loans using Islamic products and services. For this reason, we refer to the factor as the “effective management for loans”. Finally, Factor 3 has high coefficients (more than 0.5) on four variables shown shaded in column 4. These are; (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 to Libyan economic development. These motivations clearly most relate to the bank's objective of increasing profits. We label this factor as "profitability."

**Table 7. Prediction of the potential use of Islamic methods of finance**

Factor	Logit	Standard error	Wald statistic	Sig.	BIC	Exp (B)
Growth in demand for funds	2.625*	0.470	31.178	0.000	25.828	13.809
Effective management of loans	1.691*	0.613	7.612	0.006	2.262	5.425
Profitability	1.416*	0.411	11.883	0.001	6.533	4.119
Constant	1.874	0.604	9.639	0.002	4.289	6.514
Nagelkerke R <sup>2</sup>	0.852					
Hosmer–Lemeshow	0.876					
Groups	Predicted					
	Not potential users	Potential users	% correct			
Not potential users	43	2	95.6			
Potential users	4	85	95.5			
Overall percentage	35.1	64.9	95.5			

\* denotes significance at the 5% level.

We now specify a binary logistic regression where the combined factor scores (growth in demand for funds, effective management of loans, and profitability) serve as explanatory variables with to explain the probability of Libyan banks applying Islamic methods of finance. Once again, we use a forward-stepwise selection method with maximum-likelihood to obtain the estimates for the binary logistic regression (Norusis 2005).

As shown in Table 7, the Hosmer–Lemeshow statistic is 0.876, which is greater than 0.05 and this indicates that the model adequately fits the data. In other words, the Hosmer–Lemeshow tests fail to reject the null hypotheses of no functional misspecification. Therefore, it indicates that this model is appropriate for modelling the potential use of Islamic methods of finance by banks in Libya. The Nagelkerke R<sup>2</sup> value is 0.852 is adequate and illustrates that

the logistic regression model explains about 85% of the variation in the dependent variable. The estimated coefficients indicate that the factors representing growth in the demand for funds, effective management for loans, and profitability are statistically significant and have a positive sign. Put differently, the desire for growth in the demand for funds increases the likelihood of the use of Islamic methods of finance by 2.625 times, effective management for loans by 1.691, and profitability by 1.416 times. In addition, they have large values for Exp(B) comprising 13.809, 5.425, and 4.119, respectively.

Using the BIC, we find that the desired growth in demand for funds has a very strong association with the potential use of Islamic methods of finance by Libyan banks and that the effective management of loans and profitability has only a weaker association. Clearly, Libyan banks are of the opinion that offering Islamic banking products and services will increase their fund sources, but that the positive impact on profitability and the effectiveness of loan portfolio management is somewhat less. To finish, we provide with the prediction success information, which shows that the model successfully classifies the motivators for the potential use of Islamic methods of finance for 95.5% of bank respondents.

## CONCLUSION

In this study, we used a survey of individual bank staff in Libya to gauge the attitudes of Libyan banks toward Islamic methods of finance and the potential factors determining these attitudes. The results showed that about 66.4% of Libyan banks are potential users of Islamic methods of finance on this basis, with more than 60% of these potential users being private banks. The majority of potential users also have banking experience of less than 10 years. In contrast, nearly a third of bank respondents are not potential users of Islamic methods of finance with most working in state banks. Overall, the findings illustrated that banking experience and bank location exerts a significant impact on the potential use of Islamic methods of finance by Libyan banks as reflected in the attitudes of their staff. It would also appear that private banks favorably view Islamic banking, especially at the branch level, usually by more recent entrants to the banking industry. Factor analysis revealed that the most

important motivations for introducing Islamic banking were the positive impact on the growth in the demand for loanable funds, the more effective management of loans, and profitability, of which the first of these was deemed the most important.

Of course, positive and supportive attitudes to Islamic methods do not necessarily imply Libyan banks will automatically adopt these practises following the removal of any remaining legal and regulatory barriers, not least because of the still parlous civil and economic situation in the country. This naturally focuses attention on the economic, social, and legal barriers to Islamic banking and the role of policymakers and regulators can assist in the development of this industry. It also directs attention to the work and training skills needed in Islamic banks, how existing bank management practices may change to suit, and the optimal route for implementing Islamic banking, whether as a new banking institution or as an Islamic banking window in an existing bank. These all suggest fruitful areas of future research.

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