

CHAPTER II

THE BACKGROUND OF THE LIBYAN BANKING INDUSTRY

2.1 INTRODUCTION

Libya is a developing Arab state. It is located in the Maghreb region of North Africa, between Egypt in the east, Tunisia and Algeria in the west, Sudan to the southeast, Chad and Niger in the south, and the Mediterranean Sea in the north. Libya is the 17th largest country in the world in terms of area and the fourth largest country in Africa, with an area of almost 1.8 million square kilometers. Most, if not all, of the 6.4 million people in the Libyan population are Muslims, and the largest city in Libya is its capital city, Tripoli, which is home to 1.7 million people. Libya has the 10th largest proven oil reserves of any country in the world and the 17th-highest petroleum production. Arabic is its native language, whereas English and Italian are also used in business and trade (General Information Authority, 2006). Thus, the Libyan economy primarily depends upon revenues from the oil sector, which accounts for 80% of GDP and 97% of exports. The Libyan government has gradually been moving toward the reform of the country's financial system in accordance with Law No. 5 of 1997 regarding the encouragement of foreign capital investment such as foreign banks to enter and work in Libya (Central Bank of Libya, 2013). However, the World Bank defines Libya as an "upper-middle income economy" along with only seven other African countries. Given its substantial revenues

from the energy sector and a small population, Libya has one of the highest per capita GDPs in Africa (General Information Authority, 2006).

This section aims to explain briefly about the components of the Libyan financial system and provide an overview of the Libyan banking system, with brief overviews for each bank working in Libya.

2.2 STRUCTURE OF THE LIBYAN FINANCIAL SYSTEM

Libya is similar to other developing countries because it lacks active and efficient money and capital markets. The public tends to move money into real assets rather than financial assets because of the absence of investment opportunities that enhance the establishment of financial markets for various types of securities. However, Libya has witnessed noticeable development in the establishment of numerous financial institutions that represent the entire Libyan financial system. The Libyan financial system consists of three types of institutions, namely, banking institutions, other financial institutions such as the Libyan foreign investment companies, and non-banking institutions such as insurance companies, as shown in Figure 2.1 below.



Figure 2.1.The Libyan Financial System

2.3 STRUCTURE OF THE LIBYAN BANKING SECTOR

The Libyan banking system became independent in 1970 when the government nationalised all foreign banks and created a complete banking system that was public and fully owned by the Libyan government (Lenaghan, 1987). Nonetheless, the Libyan banking system was still controlled by the public sector until 1993 when a new law allowed the establishment of private banks (Central Bank of Libya, 2013). However, the Libyan banking system is still based on the aspects of commercial banks, as shown in Figure 2.2.



Figure 2.2 Libyan Banking Systems

2.4 REVIEW OF THE BANKING SYSTEM IN LIBYA

2.4.1 Central Bank of Libya

The Central Bank of Libya is the monetary authority in Libya and is an independent financial institution wholly owned by the state. The establishment of the Central Bank and the subsequent laws determines the latest objectives of the Central Bank (Act No. 1 of 2005). This approach was undertaken to maintain monetary stability and work toward growth in the national economy within the framework of the general policy of the state. The board of directors of the Central Bank of Libya deals with the administration of regulations that relate to its operations and internal financial and administrative affairs. The Governing Council consists of the governor as the chairman, the deputy governor as the vice-chairman, and six other members. The governor is the chief executive of the bank, and the bank is managed by regular conduct of affairs under the supervision of the Board of Directors. The Central Bank of Libya started its operations on April 1, 1956, supported by the Libyan Monetary Committee (LMC), which was established in 1951. Therefore, the function of the LMC was to maintain the cover of the exporting currency by sterling assets; initially, the LMC did not have any role in controlling money supply and credit banking, or in the managing of banks. Through time, the power of the Central Bank of Libya has been expanded to acquire the purposes and functions indicated as follows:

- 1- To organize and issue notes and coins currency;
- 2- To maintain the stability of the Libyan currency domestically and overseas;

- 3- To manage the state reserves of gold and foreign currency;
- 4- To organize credit banking in terms of size, type, and price to ensure that it addresses the real needs of economic growth and monetary stability;
- 5- To undertake the necessary measures to address the economic or financial disturbances, whether domestically or internationally;
- 6- To work as a bank for commercial banks;
- 7- To control commercial banks and ensure the reliability of their financial performance and efficiency of control, as well as ensure customer rights;
- 8- To work as a bank and as the principal for the state and its public institutions;
- 9- To provide advice to the state in terms of planning and evaluation of economic and fiscal policy;
- 10- To oversee foreign exchange control;
- 11- To perform the tasks or processes typically carried out by any central bank, and execute other functions that may be assigned under the Banking Act or any international agreements of which the state is a partner; and
- 12- To oversee the issuance and management of loans set by the state.

The following evolution clarifies the total assets of the Central Bank of Libya and the official reserves of the foreign currency (in million Libyan dinars).

Table 2.1: Total Assets of the Central Bank and the Official Reserves of Foreign
Currency (in million dinars)

Year	Total assets	Official reserves of foreign currencies
2004	36216.7	131336.1
2005	58416.9	52711.3
2006	83682.1	75480.5
2007	106409.9	97270.1

Source: The Central Bank of Libya 2013

Main functions of the Libyan Central Bank:

1. Issuance and organization of currency

The national currency unit is the Libyan dinar, which is divided by a thousand dirhams. The bank announces the Libyan dinar exchange rate against foreign currencies in accordance with the change of such currencies against the special withdrawal rights (SWR).

The Central Bank of Libya is authorized to issue the national currency (in notes and coins) that typically covers the exporting currency for trading by gold and foreign currency, which can be changed.

Table 2.2: Development of Export Currency (in million dinars)

Year	2004	2005	2006	2007
Currency Issued	2794.7	3482.1	4134.5	4952.4

Source: The Central Bank of Libya 2013

2. Managing of reserves and controlling foreign exchange

The Central Bank of Libya manages the reserves of gold and foreign exchange and chooses the appropriate tools for investment and the value being invested from all its work, taking into account the developments in exchange rate and in financial markets, thereby guaranteeing the safety and profitability of these investments. The Central Bank allows the commercial banks to maintain the foreign assets in accordance with instructions that are occasionally issued. Furthermore, the Central Bank of Libya has made a light monitoring toward the foreign exchange and liberalization of the account to strengthen the stability of the economy and the overall price levels.

3. State bank

The Central Bank of Libya becomes a fiscal agent of the state, which can maintain the accounts, income, and expenses of the general secretariats and it can also pay the collecting and transferring of funds domestically and externally. It can also manage the operations of a letter of confirmation on behalf of its clients and provide banking services to public institutions.

4. Bank of banks

The Central Bank of Libya maintains the compulsory money reserve requested from commercial banks as the deposit proportions of their customers. The Central Bank also accepts a deposit instance from these banks in return as benefits. The Central Bank of Libya is the last alternative for commercial banks that can grant unusual loans toward facing any exceptional circumstances that threaten monetary and banking stability in Libya.

5. Monitoring and regulating banking activity

The Central Bank of Libya examines and analyzes the financial positions of commercial banks to ensure that they maintain the required reserve ratios of cash and liquidity of compulsory processes. The bank also monitors the commercial bank in implementing the credit and banking policy set by the Central Bank; the staff of the Central Bank inspects the different branches of commercial banks, examining their books and records to ensure the accuracy of their financial statements and the adequacy of their banking services. The Central Bank, likewise, provides its services to commercial banks in the form of clearance instruments and in the field of credit risk.

6. Role of the Central Bank in economic development

The direct role of the Central Bank of Libya in the economic development should be clear through the assistance of financial institutions in attracting and directing savings toward the financing of projects and production units and public and private services, and in strengthening the financial position of the state through the management of its reserves of

gold and foreign currency. In addition, the bank plays an indirect role in economic development through the impact embodied in the activity of commercial banks, in particular through the control of the monetary mass and through the adoption of a monetary policy that could promote domestic and foreign confidence in the strength and stability of the currency in the Libyan economy. The Central Bank likewise promotes the domestic savings of individuals and obsequious corporations in directing the investments in the production and service sectors (The Central Bank of Libya 2013).

2.4.2 Libyan Foreign Bank

The Libyan external bank has established a “Libyan assembly company” under Act No. 18 of 1972. The rule specifies that 10 million Libyan dinars can be fully subscribed by the Central Bank of Libya, and the bank is authorized to work in various banking and financial businesses abroad and perform banking at its abode. The establishment of the law was amended under Act No. 16 of 1972, which increased the capital of the bank to 20 million Libyan dinars. The General People’s Committee (GPC) No. 887 in 1988 increased the capital of the bank to 300 million Libyan dinars. At the beginning of year 2006, the rest of the enlarged planning was paid, which increased the capital to billions of U.S. dollars. The capital of the bank has currently reached US\$10 billion which is wholly owned by the Central Bank of Libya (The Libyan Foreign Bank 2010).

Products and services offered by the bank:

1. Banking operations

- i. Opening of accounts in foreign currency and acceptance of deposits from abroad
- ii. Collection of orders and bills of exchange and other valuable papers
- iii. Issuance of instruments, bonds, and warrants and other business documents

2. International investment

- i. Establishment of banks, institutions, and companies and the contribution to these institutions
- ii. Purchase, sale, and ownership of bonds and permits issued or guaranteed by foreign governments, entities, or international financial institutions
- iii. Dealing with market institutions with monetary and capital market instruments of sale and purchase
- iv. Performing the work of the agent in terms of the settlement of international transactions
- v. Investment portfolio management and advisory services

3. International funding

- i. Granting of all types of loans and other credit facilities
- ii. Department releases of international loans and participates
- iii. Financing of foreign trade
- iv. Financing of investment projects
- v. Carrying out financial leasing

4. Documentary credits

- i. Issuance of letters of guarantee
- ii. Ensuring the availability of documentary credits; promotion and circulation of documents; and making a collection

2.4.3 State-Owned Banks and Specializations Aimed at Social Developers

2.4.3.1 Bank Savings and Investment Real Estate

The bank is created under the provisions of Law No. 2 of 1981, as a contribution to Libya in the name of “bank savings and investment real estate,” has a legal personality, and the savings bank has 28 branches (The Savings and Investment Real Estate Bank. 2010). The bank provides the following services:

- i. Encouraging citizens to save up for housing
- ii. Promoting cooperative housing
- iii. Warranting mortgage loans
- iv. Issuing bonds and investment certificates
- v. Accepting deposits and real estate activity as determined by the bank statute
- vi. Implementing and managing real estate projects
- vii. Establishing property ownership and disposition
- viii. Establishing facilities or participating in real estate

2.4.3.2 Agricultural Bank

The Agricultural Bank, established in 1955, began its operations in 1957 as an agricultural bank, the only financial institution specializing in agricultural credit for nearly half a century. The bank is a developmental financial institution that serves the local agricultural and animal sectors in Libya and presently has no branches of foreign bank activities and exercises (45) (The Agricultural Bank 2010).

Objectives of the Agricultural Bank:

1. Provide various types of cash advances and in-kind contributions to entities/projects engaged in agricultural, animal, complementary activities, and more specifically:
 - i. Associations of agricultural cooperatives and breeders
 - ii. Enterprises engaged in agricultural activity and livestock
 - iii. Facilities and public companies engaged in the activity for agriculture and livestock
 - iv. Projects in the area of agricultural production and livestock
2. Implement plans to support agricultural production and livestock
3. Establish companies and enterprises related to the purposes and participation of the bank
4. Import necessary actions to achieve the targeted objectives in the field of agricultural and animal production

5. Conduct necessary procedures for the purposes of the bank, including the sale and purchase of buildings and facilities and the acquisition of agricultural land, all in accordance with the law
6. Provide other services related to agricultural and livestock production in accordance with the agreements made with the competent authorities

2.4.3.3 Rural Bank

The Rural Bank is a pillar of the national economy. It is also an important addition to other Libyan financial institutions that aim to further develop national production in all areas of productivity, professionalism, and service by stimulating low-income individuals, who constitute the largest segment of the society, and establishing banks to lend to the low-income group for investment and the improvement of their living conditions. Accordingly, the GPC has issued its decision to establish a public financial institution under the name, "Rural Bank." Under the supervision of the secretariat of the GPC for finance, the Rural Bank manages the activities and exercises of the commission. It had a capital of 100 million Libyan dinars and could establish branches and offices throughout Libya (The Rural Bank 2010).

Objectives of the bank:

- i. Grant loans in cash and in kind to low-income individuals and participants in the areas of agricultural, animal, marine, industrial, and craft production in the service area
- ii. Provide assistance and technical advice for production projects along with professional service and help to achieve their purposes
- iii. Declare investment opportunities; this objective can increase the standard of living for people with limited income and expand the base of the economic activity of the society
- iv. Encourage low-income people to create projects in various areas of productivity and service
- v. Attract foreign investments and partnerships to finance capital projects in villages and rural areas
- vi. Open deposit accounts of the beneficiary's bank loans and provide them with banking services

2.4.3.4 Development Bank

Although there is an abundance of financial state tended to think the end of the sixties to establish a banking financial institution shall be referred to the development of all

productive sectors and the allocation of the budgets of the transition service to ensure the flow of financial accumulation to be able to finance investment projects of the economic feasibility of loans payable in installments are recycled in the financing of new projects have been developed and develop the idea to found the establishment of the development bank which has been the adoption of the law of slavery 8 m of the p- 1981 to finance investment projects of economic feasibility in the areas of industry, agricultural, tourism and service projects with a capital of ((100)) million and set the law and financial resources that including the amount allocated the annual budgets of the transition.

Additionally, the value of loans granted by the bank currently exceeds one billion Libyan dinars (The Development Bank, 2010).

The Tables below illustrate the activities which have been financed by the Bank:-

Table 2.3: Activities Which Have Been Financed by the Development Bank

A	Mineral Industries
1	Smelting and the formation of minerals
2	Turnery public workshops
3	Workshop lathe motor vehicles
4	Black-smiting Workshop
5	Empty boxes
6	Corrugated tin
7	The withdrawal of wire

8	Key and locks
9	Barbed wire
10	Nails and screws
11	Metal hinges
12	Silencers
13	Manufacturing aluminum doors and windows
14	Poles welding
B	Food industry
1	Olive presses
2	Bakeries
3	Biscuit makes
4	Mills
5	Pastry industry
6	Canning honey
7	Conservation and cooling of meat and fruit
8	Fresh fruit
9	Desserts of all kinds
10	Canning fruits and vegetables
11	Milk and dairy products
12	Canning tomatoes
13	Fish canning
14	Canning beans

8	Key and locks
9	Barbed wire
10	Nails and screws
11	Metal hinges
12	Silencers
13	Manufacturing aluminum doors and windows
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8	Fresh fruit
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11	Milk and dairy products
12	Canning tomatoes
13	Fish canning
14	Canning beans

C	Timber industry
1	Carpentry workshop
2	Office furniture industry
3	Home and school furniture
D	Plastic and chemical industry
1	Paint industry
2	Medical plastic injection
3	Plastic bags
4	Of all kinds pipes
5	Different kinds of soap industry
6	Mattress land
7	Vacuum cleaners and context
8	Recycling of waste
9	Plastic boxes
10	Cover for greenhouses
11	Plastic portfolio
12	Plastic mats
13	Chairs and tables plastic
14	Mobilize and keeping bags of vegetables
E	Textile industry
1	Wash and squeeze the wool
2	Al-argent

3	Women's cotton
4	Ready-made clothes
5	Towels
6	Children's pamper
F	Quarrying
1	Concrete mixers
2	Asphalt mixers
3	Quarries
4	Cut marble petrification
5	Cut and clear marble
6	Explain the masses of stone and marble
7	Brick industry
8	Concrete castings
9	Tiles land
10	Concrete blocks
11	Industry of bishop railway
G	Leather and paper industries
1	Sports footwear industry
2	Paper bags
3	Eggs dishes industry
4	Leather tanning
5	Napkin paper

6	Leather footwear industry
7	Cardboard and packaging industry in Keaton
8	Envelopes of paper industry
9	Industry of school exercises books
H	Different kinds of transportation
1	General vehicles
2	Water transfer
3	Heavy transportation
4	Fuel transportation
5	Ambulances
6	Light transportation
7	Transfer of waste
8	Refrigeration transportation
I	General Contracting
1	Construction and paving of roads
2	Heavy machinery
3	Drilling machines and the settlements of the soil
4	Mobile concrete mixers
5	Mechanical jacks and scaffolding
J	Services
1	Treatment clinics
2	Sports lounges

3	Car washing and lubricating stations
4	Central irrigation
5	Galleries for social events
6	Photography, darkroom and printing lab
7	Engineering offices
8	Maintenance of tires
9	Language labs
10	Medical imaging laboratories
11	Cafes and restaurants
12	Advertising and propaganda
13	Sinks of clothes and carpets
14	Maintenance of diesel pumps
15	Communications
16	Training services
17	Printing presses and binding
18	Fuel Stations
19	Medical laboratories
20	Maintenance workshop
21	Public service
22	Accounting offices
23	Free education
24	Drilling wells

25	Computer and the Internet
26	Tourist hotels

Source: The Development Bank 2010

2.4.4 State-owned Banks and Commercial Banks

2.4.4.1 Jamahiriya Bank

Jamahiriya Bank is based on the integration of two banks, namely Jamahiriya and Unna. The integration involved unified budget of over eight billion Libyan dinars and a network of 146 branches. The Jamahiriya Bank is one of the largest banks in Libya. According to the size of its assets in 2006, it was within the top 10 banks in the region of the Maghreb and North Africa. The size and development of the bank will provide a new movement in the banking business (The Jamahiriya Bank, 2010). Services provided by the bank are as follows:

Table 2.4: Services Offers by the Jamahiriya Bank

A	Types of Banking Services Offered by Jamahiriya Bank for Retail Banking Services
1	Opening a saving account
2	Transferring within the Libyan state
3	Credit facilities
4	Foreign remittances

5	Letters of guarantee
6	The acceptance of graduate students and research projects (field training)
7	Visa card issuance
8	Islamic Banking
9	Opening a current account
10	Social finances
11	Loans
12	Issuance of certified writing
13	Documentary credit
14	Foreign documents
15	Access to the library
B	Corporate Banking Services Offered by Jamahiriya Bank
1	Transfers within the Libyan state
2	Issuance of certified writing
3	Documentary credits
4	Foreign documents
5	Opening a current account
6	Credit facility
7	Letters of guarantee
8	Foreign remittances
9	Visa card issuance

Source: The Jamahiriya Bank 2010

2.4.4.2 Wahda Bank

Wahda Bank is a bank of the Libyan joint-stock company established under Law No. 153 of 1970 and issued on December 22, 1970. The bank capital paid 108 million Libyan dinars. Libyans have a socioeconomic development fund of 54.1% of the shares, the private sector has 26.90%, and the Arab bank has 19% as a strategic partner. The bank provides banking services of all kinds through the branches and agencies of a number of (74). The integration of five banks into one occurred with the issuance of Law No. 153 of 1970. The following banks were already in collaboration with this bank by then:

- African, Arab Banking Company
- Bank of North Africa
- The National Bank of the Convoy
- Commercial Bank

The magazine chose Pennekras Global, which is based in London, as well as the World Bank as the first unit of Libya in 2008. The Bank of Libya sold its stake in the unit of trade amounting to 19%, compared to 210 million Euros, the second largest privatization amount collected by commercial banks in the country. The Unity Bank and its assets were estimated at 1 billion and 700 million Euros (Al Wahda Bank Report, 2001 and The Al-Wahda Bank, 2010). The following services have been provided by the bank:

- i. Accepting demand deposits and opening current accounts
- ii. Granting loans based on different deadlines and other credit facilities
- iii. Providing discount and rediscount of commercial papers and circulation

- iv. Providing payment instruments and other orders and bills of exchange, drawn and collected from the clients
- v. Offering services for documentary credits and collecting documents and letters of guarantee
- vi. Issuing and managing various modes of payment, including cash, financial transfers, payment and credit cards, and instruments of tourism
- vii. Handling money market instruments, tools and capital market, and both selling and buying accounts on behalf of clients
- viii. Overseeing the purchase and sales of debt, whether with or without recourse
- ix. Managing finance leasing operations
- x. Dealing in the foreign currency exchange markets in the immediate future
- xi. Managing security issues and meeting its commitment to coverage, distribution, and handling
- xii. Providing advisory services and other portfolios and investment services, including fund management and investment to the detriment of others
- xiii. Carrying out the management and conservation of the secretary of securities and valuables
- xiv. Acting as secretary to provide services, or acting as a financial advisor
- xv. Overseeing real estate ownership and sale

- xvi. Performing any other work related to the banking activity approved by the Central Bank of Libya

2.4.4.3 Sahara Bank

Created in 1964 and organized as the second largest public bank in Libya, Sahara Bank is one of the largest banks in Libya. Sahara Bank became the first financial institution in Libya in 2007 that entered into a strategic partnership. With a network of 48 branches covering all the main regions in the country, the Sahara Bank is one of the leading banks in Libya that have developed a large portfolio in both corporate and retail banking. As a Libyan bank with an international profile, the Sahara Bank is integrated as a member of the BNP Paribas Group and will benefit from its worldwide network, ninety dedicated trade centers, and expertise in innovative products (The Sahara Bank 2010).

Sahara Bank is committed to meeting its customers' expectations through a modern setup of three core business lines, namely:

- i. Institutional banking offering a close relationship to state unity, development funds, banks, and insurance companies
- ii. Corporate banking through specialized organizations and dedicated services
- iii. Retail banking with new product offers and more sales-oriented branch layouts

Sahara Bank, with the BNP Paribas as a strategic partner, will bring a new vision of the banking activity to the Libyan market, to serve local and international clients more effectively.

Table 2.5: Services provided by Sahara Bank

1	Current Account
2	Money Transfer
3	Savings Account
4	Swift Services
5	Loans
6	Other products and Services
7	Islamic Banking

Source: The Sahara Bank 2010

2.4.4.4 National Commercial Bank

The establishment of the National Commercial Bank contributed to the Libyan establishment of Act No. 153 in 1970 to nationalize the foreign shares in banks, and to re-organize and identify the contributions of Libyans. The purpose of the bank is to reassign all of the work of the bank to commercial banks in Libya and abroad. The services provided by the bank are as follows.

- i. Accepting demand deposits or the opening of current accounts, contracts, and term loans of various credit facilities and other grants

- ii. Collecting and paying orders and bills of exchange and other valuable papers
- iii. Overseeing instruments and the issuance of bonds and treasury bills and other commercial papers, whether payable in Libya or abroad, except paying bills negotiable to the bearer on demand
- iv. Overseeing the discount, rediscount, and circulation of commercial papers of any kind that are paid in Libya or aboard
- v. Issuing letters of guarantee and opening documentary credits, either in Libya or abroad
- vi. Providing foreign exchange controls
- vii. Issuing bonds within the financial limits set by law and in the system
- viii. Buying and selling securities; providing authorizations issued or guaranteed by the government or public institutions and bodies, or as issued or guaranteed by foreign governments or international financial institutions and all the limits and conditions prescribed by the law
- ix. Buying and selling stocks and contributing to the institutions in Libya or outside the limits and conditions prescribed by the law
- x. Organizing and directing public offerings and all acts relating to security
- xi. Acting as representatives of various bank facilities at home and aboard

- xii. Maintaining securities and other things of value as ammonia in bank vaults and safes; overseeing the rental of special funds
- xiii. Providing all the usual banking facilities and other processes directly involved in the banking business in general; achieving the purpose of the bank to be involved in any manner with other enterprises engaged in similar work or work to aid in the achievement of that purpose inside or outside Libya, or to be merged, bought, or involved in it

2.4.4.5 Bank North Africa (National Institution Bank)

This banking institution was established in accordance with the eligibility provisions of the Commercial Code and Law No. 9 of 1992 and Law No. 1 of 1993 on the banks. Cash and credit have been the purpose of this establishment. The establishment also supervises and controls the eligibility of banks and follow-up of all activities. It coordinates among themselves, the commercial banks, and the Central Bank of Libya, and provides technical advice to specialized banks, including advice on the capacity to deal with banks and overseas financial institutions and the management of funds and financial resources allocated from the assumed and community banks in accordance with the eligibility rules and conditions specified by the Central Bank of Libya. The authorized capital of the institution has been identified at its founding by totaling 31 million Libyan dinars. However, by the implementation of the Governing Council of the Central Bank of Libya with Decision No. 1 of 2006, the institution turned to the civil institution of banking from the banks operating in Libya. In accordance with the provisions of Law No. 1 of 2005, the

banks have been incorporated, resulting in 42 banks. These banks have payments at frequent intervals so that all branches of the civil merged institution can exercise all types of commercial banking business and provide all services provided by other commercial banks. This strategy has increased the capital of the mergers to the amount of 108 million Libyan dinars and brought the total amount of assets to 1 billion and 304 million Libyan dinars. The institution provides the following services:

1. Current accounts
2. Writing purchases

The institution currently hopes to initiate the following services:

- Fast money transfer service through the Western Union Company
- Self-service withdrawal to the immediate product of the discount savings accounts and current account
- Issuance of Visa cards
- Borrowing services

2.4.5 Private Banks

This section has limited information on private banks because these banks are small and also, they only have a main building or one branch; occasionally, these banks have two branches.

2.4.5.1 Mediterranean Bank

The average bank was founded in 1997 under the name Benghazi National Bank and began to submit work to the public on March 24, 1997. The commencement of its work through the provision of the capital city of Benghazi of 900,000 Libyan dinars, represents three-tenths of its subscribed capital of only three million Libyan dinars, according to a contract founded and the rules of procedure. The bank has the distribution of profits to shareholders since the first budget, which was dated December 31, 1998. With the issuance of Law No. 1 of 2005 and to meet the requirements of the terms of this law, the name of the bank was changed and the average authorized capital was raised to 33,333,000 Libyan dinars; these revisions contributed to the opening of the door in the capital of the bank and caused a good turnout of citizens, earning head money in the amount of 3 million Libyan dinars on December 31, 2005; 8,381,386 Libyan dinars on December 31, 2006; and 12,058,976 Libyan dinars on December 31, 2007. These amounts confirmed the good standing of the bank in the Libyan market at the end of 2006, specifically on December 3, 2006, when it had four branches (The Mediterranean Bank 2010). The following services are provided by the bank:

- i. Accepting demand deposits and opening current accounts
- ii. Granting loans on different deadlines and other credit facilities
- iii. Providing discount and rediscount of commercial papers and circulation
- iv. Providing payment instruments and other orders and bills of exchange, drawn and collected from the clients or themselves

- v. Providing services for documentary credits, and collecting documents and letters of guarantee
- vi. Overseeing the issuance and management of payment instruments, including cash, financial transfers, payment and credit cards, and instruments of tourism
- vii. Handling money market instruments, with the tools of the capital market, sale and purchase, whether or not they are performed on behalf of the client
- viii. Purchasing and selling debt, with or without recourse
- ix. Offering financial leases
- x. Dealing in foreign currency exchange markets, both in the present and in the future
- xi. Managing security issues and being committed to coverage, distribution, and handling
- xii. Providing advisory services and other portfolio and investment services, including fund management and investment to the detriment of others
- xiii. Overseeing the management and conservation of the secretary of securities and valuables
- xiv. Acting as secretary to provide services, or acting as financial advisor
- xv. Overseeing real estate ownership, sale, and lease
- xvi. Performing any other businesses related to banking activity approved by the Central Bank of Libya

2.4.5.2 United Bank for Trade and Investment

The United Bank for Trade and Investment was established for trade and investment through a decision made by the Central Bank of Libya No. 58 for 1375 and R. (2007) P. The outcome is the merging of three banks, namely, Sahal Al-Jafara National Bank, Five Points National Bank, and Al-Ajeelat National Bank.

The capital of the United Bank authorized 33.3 million Libyan dinars and subscribed to be paid in full. The amount of the rights of shareholders was 740,000 LD at the end of fiscal year 2008. Conversely, the consolidated budget (comprising assets and liabilities) amounted to 186,000,000 Libyan dinars.

Table 2.6: Services provided by the United Bank for Trade and Investment

1	Current account
2	The letters of guarantee
3	Credit
4	Certificates of deposit
5	Savings accounts
6	Direct financial transfer
7	The Self withdrawal
8	Documentary credits
9	Time deposits
10	SWIFT services
11	Lease sale

12	The sale of borrowing
13	Development of investment management

Source: The United Bank for Trade and Investment 2010

2.4.5.3 Bank of the Arab Consensus

The contribution of the Arab Unanimity Bank to the Libyan Bank was founded based on a decision made by the secretary-general people’s committee of finance No. 50 of 2003. The department opened the bank based on the Act on August 3, 2003, and a building was attached to it from the main branch of Benghazi to provide the fundamental section of young, trained employees. Furthermore, after almost a year of foundation activity, the bank expanded by opening branches in Tripoli and Missrata to provide services to the largest segment of customers.

Table 2.7: Services provided by the Bank of the Arab Consensus

1	Current deposits and time
2	Personal safes
3	Linking the appropriations
4	Exchange of foreign currency
5	Credit facilities
6	Letters of guarantee

Source: The Bank of the Arab Consensus 2010

2.5 OVERVIEW OF ISLAMIC-WINDOW OPERATIONS IN LIBYAN BANKS

Islamic windows have been described as the departments within the conventional banking establishment. The operation and maintenance of Islamic banking operations involve profit and loss sharing entities separate from their conventional banking operations (Kamaruddin et al., 2008). In a broader sense, this aspect implies that the Islamic window is a facility in a conventional bank through which customers can conduct banking and additional financial transactions using only instruments that are compatible with Shariah. Moreover, the concept of Islamic window products beyond the primitive stage of banking transactions accurately covers a wide range of financial services, especially in the areas of investment, securitization and insurance. Major international companies in the field of banking and other financial services, such as HSBC, currently have subsidiaries or windows to provide Islamic financial services (The Islamic finance, banking and takaful industry, 2009). In Libya, numerous banks have followed suit. Examples of these banks are Jamahiriya Bank, Wahda Bank, and Sahara Bank.

The emergence of the Islamic windows and subsidiaries of conventional financial institutions is attributed to a single factor: the resolve of a large number of Muslims around the world to avoid usurious transactions. A growing conviction among Muslims is that usury or interest is unlawful. This conviction has caused an unprecedented increase in the demand for Islamic products in the areas of banking and financial services all over the Muslim world and beyond. Conventional banks began to open Islamic windows for customers who do not intend to indulge in *riba*-based transactions to accommodate the increased demand for religious law in the social and economic life of Muslims. The role

of motives has emerged. As for the conventional banks and other financial institutions in several Muslim countries where the directors and shareholders are similarly convinced of the ban and non-acceptability of *riba*, the driving force behind the establishment of Islamic windows was simply the desire to facilitate the gradual transformation of the institutions from *riba*-based to Sharia-compatible institutions.

2.6 ISLAMIC MODES OF FINANCE

Islamic finance is a financial scheme that is practiced in Islamic countries. This system has been principally implemented to comply with the major tenets of Shariah. Based on the majority of Islamic jurists and scholars, the major sources of Islamic Shariah are the Holy Quran, Hadith, Sunna, Ijma, Qiyas, and Ijtihad. The Holy Quran is the book of revelation made to the Prophet Mohammed, the Hadith is the narrative relating to the deeds and sayings of Mohammed, and Sunna refers to the habitual practice and behavior of Mohammed during his life. However, Ijma is a consensus among religious scholars about specific issues that are not envisaged in the Holy Quran and the Sunna. Thus, Islamic finance is designed to keep up with the fundamental principles that comply with Islamic Shariah. The most important of these principles is the ban of Riba and Gharar, the profit/loss sharing between people and firms or people as a financial equity method. The prevention and avoidance of Riba and Gharar constitute the cornerstone of Islamic finance techniques. Theoretically, several kinds of Islamic methods of finance can link industrial, trade, and agricultural activities. However, in this study, we focus on the common Islamic methods of business transactions that are known and practiced by

Islamic banking and that, based on previous studies, comply with Shariah. These Islamic services and products adopt the following forms: Murabahah, Mudarabah, Musharakah, and Ijarah. The definitions and mechanisms surrounding each form are discussed in the following sub-sections.

2.6.1 Murabaha

Murabaha is an Islamic instrument and a contractual transaction operated by Islamic banks; it is also a substitute for the loans of conventional banks. According to a definition written by (Ibn Rushd, 2001) *“the seller tells the buyer the price at which he bought the goods on sale and stipulates on him a profit margin in dinar or Dirham”*. Several basic principles are attached to Murabaha, which can be summarized as follows: goods must be classified and clearly identified according to commonly accepted standards; the goods must exist at the time of sale; the goods for the sale must be owned by the bank at the time of sale; the price of the purchase must be known at the time of sale and the client should be informed about it, especially when the bank succeeds in obtaining a discount; thus, the profit margin is calculated on the net purchase price, which means that the discount represents a benefit for the client; and finally, the time of the delivery of goods and the time of the payment must be specified.

In fact, the bank offers the Murabaha service to the clients who should pay the price of the goods, along with the profit margin to the bank immediately after receiving the purchases. Moreover, the client could pay the value of goods and the profit of the bank by

deferring installments or through the method of deferred lump sum without any increase over the original value.

2.6.2 Mudarabah

Mudarabah is a convention between two parties that requires 100% capital from the financier and 100% work from a businessman. The businessman can mobilize the fund for business activities and use his expertise to manage it well, in the hope of reaching a profitable income. In case of loss, the financier (the bank or others) will exclusively lose or deduct from his capital, except in the case of negligence. More often than not, the businessman (entrepreneur) will lose his work and skills. However, neither will the financier lose more than his capital nor will the businessman (entrepreneur) lose more than his work. The businessman will not share the loss of money as he does not contribute to the capital of the project. In this business contract, the profits are divided between the two parties according to a predetermined ratio that is not fixed.

The businessman (entrepreneur) has a twin character; he is a manager in the sense that he engages in the venture, and he is also a partner in the sense that he will share the profit together with his bank (financier) (Mohammad A., 2007; Salahuddin A., 2009; M.I. Navaid, 2010; Aljazairi A. J., 2007). Two types of Mudarabah are illustrated in Figures 2.3 and 2.4.

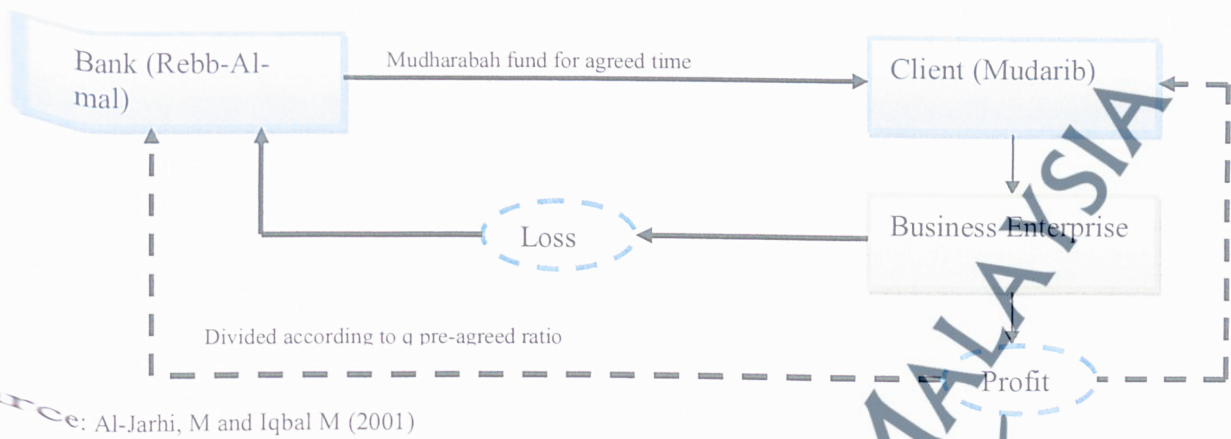


Figure 2.3 Bank Finances Mudharabah for Client

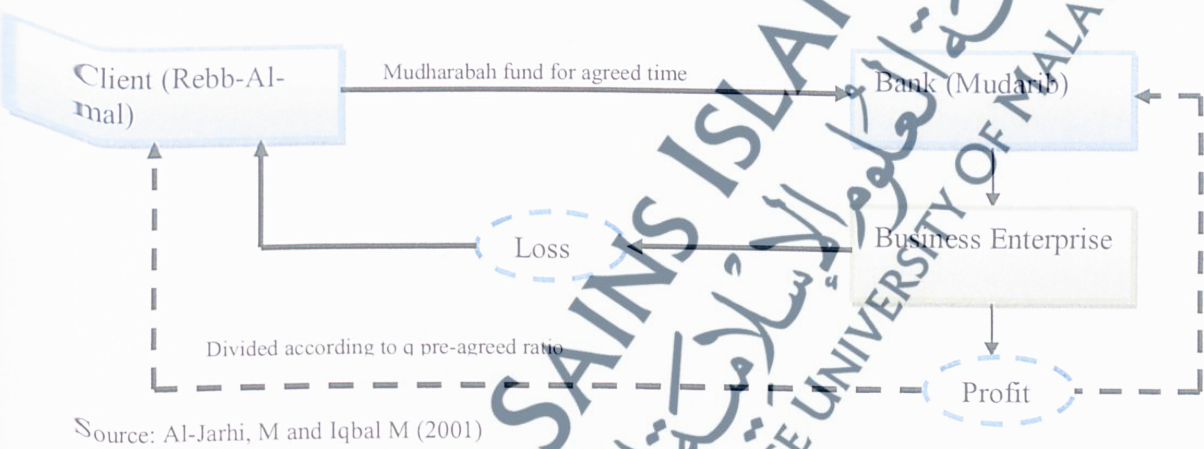


Figure 2.4 Client Finances Mudharabah for Bank

2.6.3 Musharakah

Musharakah (full partnership) is an agreement between two or more parties to establish a joint commercial enterprise, and as a general rule, equally contribute to labor and management (Iqbal & Molyneux, 2005). Accordingly, profits and losses that proceed from Musharakah are shared among its parties as per a pre-agreed ratio.

Lewis and Algaoud (2001) suggested that Musharakah contracts may be established in two ways. The first one is a lasting contract that ensures for its parties (bank, investor, and entrepreneur) an equitable annual sharing in profit/loss as per a pre-agreed ratio. The lasting contract is constant for an unlimited time based on their agreement, as shown in Figure 2.5.

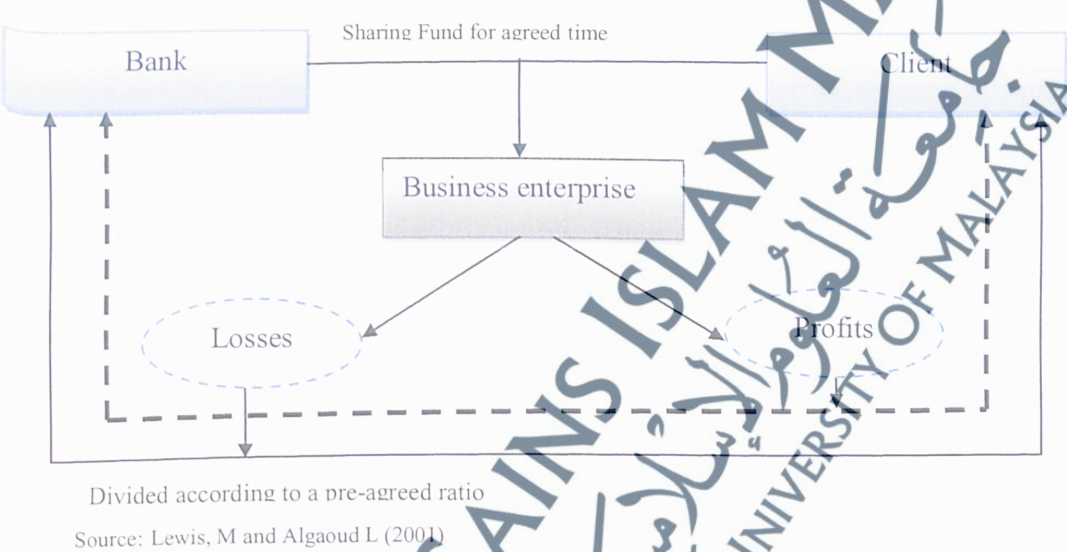


Figure .2.5 Musharakah between the Bank and Client

The second type of Musharakah is a diminishing contract that is more favored by bankers, as it allows the bank to reduce the quality share equity each year and receive periodic profits based on its reduced equity. The customer share in the share capital increases through time until the customer becomes the full owner of the project; this is as shown in Figure 2.6.

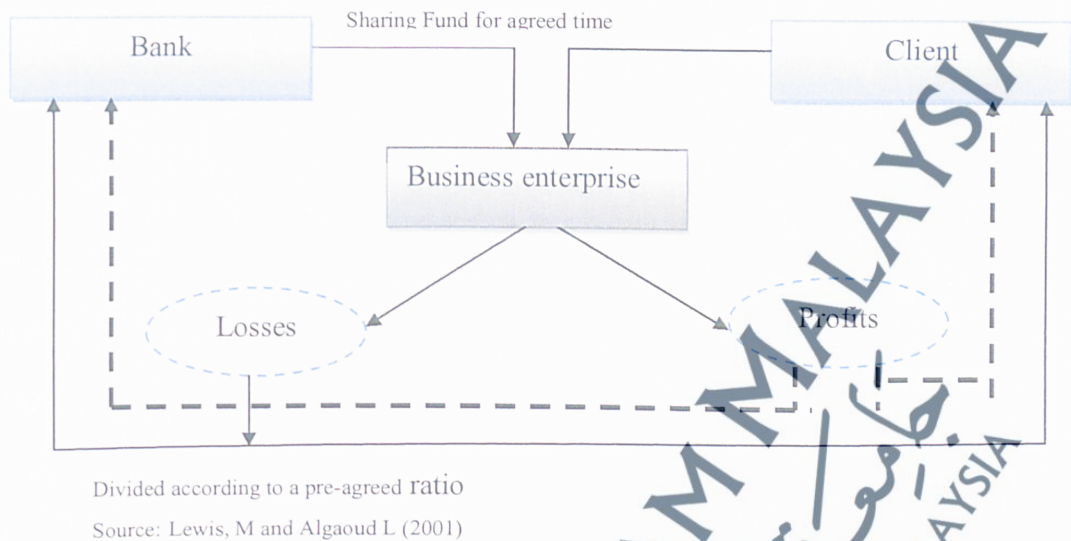


Figure 2.6 Declining Musharakah between the Bank and Client

2.6.4 Ijarah (Lease Financing)

Ijarah, as contained in Minhaj al-muslim is defined as “a contract granting use of property during a specified period in exchange for a specified rent, based on the following Hadith narrated by Ahmad Abu Dawud and Al- Nasai.” The farmers during the time of the Prophet used to pay rent for land in water and seeds. He forbade them from doing that and ordered them to use gold and silver (money) to pay the rent (El-Gamal, 2000).

Thus, two types of leases exist in the Islamic finance: firstly, the direct leasing finance (Ijarah), whereby a lessor (organizations or individuals) allows a lessee to use capital assets owned by the lessor for a specified period of time ranging from a few days to a few years depending on the kind of asset involved. In return, the lessee pays a monthly or

annual rental fee according to the agreed upon contract. Moreover, the ownership of the capital assets cannot be transferred to the lessee in this type of lease, and the insurance on the capital assets is the responsibility of the lessor (Zaher & Hassan, 2001).

The second type of lease is the rental-purchase (Ijarah), whereby an organization or individual customer requests the bank to purchase tools and equipment with the intention of leasing them to the customers. The Islamic Bank hires an asset for the client who pays fixed rent and promises to buy assets during a specific time period for the transfer of ownership of the bank to the customer (Al jarhi & Iqbal, 2001). Moreover, this mode of leasing could be transformed as a decreased leasing method that allows the customer to pay every specific period an installment of the value of the asset, plus its rent to reduce this value until he/she becomes the owner of the asset (Metwally, 2006).

2.7 ISLAMISATION OF BANKING SERVICE IN LIBYA

Libya had not had any significant presence of Islamic banking and finance before the period of Libya's revolution in 2011. The Central Bank of Libya started the initiatives to develop Islamic banking practices in Libya with the publication of its guideline numbered A. R. N. M. No. (9) in 2009 that granted approval for commercial banks to start the development and delivery of Islamic banking products.

Many commercial banks such as the Jamahiriya Bank as the biggest bank in Libya, the Wahda Bank, the North African Bank and Sahara Bank, established their Islamic-banking facilities. To guide the operations of the banks issuing Islamic banking products, the

Central Bank of Libya issued the publication of. A. R. N. M. No. (9/2010) explaining about the controls and foundations of Islamic banking operations in 2010. After the revolution, the new political elite decided to Islamize the financial system. Thus, at the end of 2012, the General National Congress of Libya passed a law to stop the citizens of Libya from dealing with *riba* immediately. The government is planning to abolish *riba*-related transactions between institutions and the banks starting in 2014. With these developments, this study, thus, aims to measure customer satisfaction through perceived service quality in Libyan Islamic windows. While it is true that Libya has recently opened its doors for Islamic finance, there are a growing number of institutions converting their operations to Islamic banking, altogether requiring studies on customer satisfaction for further service improvements.

2.8 CHAPTER SUMMARY

This chapter has discussed the structure of the Libyan financial system and the role of the Central Bank of Libya. In addition, the chapter presents an overview of Islamic window banks in general and the modes of Islamic financing offered in the window Islamic banks, namely *Murabaha*, *Mudarabah*, *Musharakah*, *Ijarah* (Lease Financing). The chapter also highlights the current initiative of the Libyan government towards the Islamization of the banking system.