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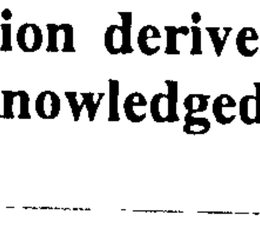
CLIENT AND EMPLOYEE PERCEPTIONS OF ISLAMIC BANKING IN SAUDI ARABIA

A thesis submitted in fulfillment of the requirements of the full-time degree of Doctor of Philosophy at the University of Durham, Durham, UK

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BY: SALIH RASHED AL-ASKAR

2 1 JUN 2005



2005


In the name of Allah, the Most Merciful, Most Benefice

ABSTRACT

The main objective of this study is to investigate the clients and employees perceptions of Islamic banks in Saudi Arabia, by undertaking a theoretical analysis as well as empirical research. The theoretical analysis deals with the theory of interest and its place in the economic environment, the opposing arguments for and against it, the principles on which the Islamic banking system is based, the characteristics of Islamic banks and their problems.

The empirical research and the practical side of the investigation is based on a field survey and an analysis of this data. The research was carried out in the spring of 2002 in Saudi Arabia. Questionnaires were distributed to employees and clients of Islamic banks.

One set of questions was directed to selected employees of the Islamic banks under consideration, seeking their opinions about the justification, acceptance and implementation of the Islamic banking concept and the possible contributions it makes to accounting standards and economic and social developments. Opinions were also sought regarding the role played in economic and social development by financial institutions in general and the employees' own respective banks in particular.

Another questionnaire sought the views and attitudes of clients, with particular regard to factors influencing their decision to deal with Islamic banks as opposed to conventional banks (CBs). The questionnaires explored whether the clients were satisfied with their dealings with the Islamic banks, the services they used, the bank's role in solving their financial problems, its contribution to economic and social development, and its role in informing customers about the Islamic economy in general and Islamic banking concepts in particular.

The research findings show that the Islamic religion in Saudi Arabia was the main factor influencing the decision of the clients and the employees to deal or work for the Islamic banks. Thus the clients dealt with the IB/IFIs for religious reasons. Islamic banks have convinced a number of clients to deposit their money with them, who in the past refrained from dealing with CBs because they operate on the basis of interest. The profit potential, competitive services, and better access to finance also helped to attract the clients in different degrees. Another finding was that *murabaha* is the preferred Islamic financing instrument among clients, although Islamic banks have introduced other instruments.

The survey of employees revealed that there were concerns with the lack of uniformity in accounting policies and auditing standards. Employees showed a lack of understanding of the new types of *Shariah* compliant transactions and there was some confusion over the documentation. The results of the study therefore confirm the importance of continuing to improve the consistency of accounting standards of Islamic banks.

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DECLARATION

I hereby declare that this thesis results entirely from my own efforts and confirm that none of the material in this study has previously been submitted by me for a degree in this or in any other University.

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DEDICATION

This Thesis Is Dedicated with All My Love and Respected to My Parents, My Brothers, My Sisters, My Wife, and My Beloved Children, Deena, Abdullah, Suliman, Jana, and Haya.

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LIST OF ABBREVIATIONS

AAOIFI	:The Accounting and Auditing Organization for Islamic Financial Institutions
ANOVA	:Analysis Of Variance
ASB	:Auditing Standard Board
ASIFI	:Auditing Standards for Islamic Financial Institutions
ATM	:Automated Teller Machine
ATMs	:Automated Teller Machines
CARE	:Control and Risk Evaluation
CB	:Conventional Bank
CBI	:Conventional Bank Institution
CBIs	:Conventional Bank Institutions
CBs	:Conventional Banks
CFI	:Conventional Financial Institution
CFIs	:Conventional Financial Institutions
DIB	:The Dubai Islamic Bank
DMI	:Dar Al-Maal Al-Islami
FAOIBFI	:The Financial Accounting Organization for Islamic Banks and Financial Institutions
FASB	:Financial Accounting Standards Board
FIB	:The Faisal Islamic Bank
GCC	:Gulf Co-operation Council
GNP	:Gross National Product
IAIB	:The International Association of Islamic Banks
IB	:Islamic Bank
IBP	:The Islamic Banks' Portfolio
IBs	:Islamic Banks
IDB	:Islamic Development Bank
IDBIC	:The Investment and Development Body of Islamic Countries
IDF	:The Industrial Development Fund
IFC	:The International Finance Corporation
IFI	:Islamic Financial Institution
IFIs	:Islamic Financial Institutions
IIBI	:Institute of Islamic Banking and Insurance

IOC	:The Islamic Organisation Conference
IPC	:An Islamic Private Sector Development Corporation
IRTI	:The Islamic Research and Training Institute
ISA	:Inferential Statistical Analysis
ITFO	:Import Trade Financing Operations HSBC
KFH	:The Kuwait Finance House
KSA	:The Kingdom of Saudi Arabia
KSU	:King Saud University
KWA	:The Kruskal-Wallis Analysis
L1TFS	:Longer-Term Trade Financing Schemes
NCB	:The National Commercial Bank
PFS	:Periodic Financial Statement
PFSs	:Periodic Financial Statements
PIF	:The Public Investment Fund
PLS	:The profit and loss sharing system
REDF	:The Real Estate Development Fund
SA	: Saudi Arabia
SAAB	:The Saudi Arabian Agricultural Bank
SAB	:Saudi Agricultural Bank
SABA	:The Saudi-American Bank
SAMA	:Saudi Arabian Monetary Agency
SBB	:The Saudi British Bank
SCB	:Saudi Credit Bank
SCI	:Sspecialized Credit Institutions
SIDF	:Saudi Industrial Development Fund
SLB	:The Saudi Loan Bank
SPAN	:The Saudi Payment Automatic Network
SPSS	:The Statistical Package for the Social Sciences
SR	:Saudi Riyal
SSB	:The *Shariah* Supervisory Board
SSBs	:Shariah Supervision Boards
UK	: United Kingdom
UNDCP	:The United Nations Drug Control Programme
US	:United State
USA	:The United State of America

CHAPTER ONE

INTRODUCTION AND OUTLINE OF THE STUDY

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1.1 INTRODUCTION

The Islamic banking system appeared on the international financial horizon three decades ago and is becoming increasingly accepted. There are over 150 Islamic financial institutions (IFIs) in the world. These institutions manage more than sixty billion dollars[1] and have proved to be capable of acting as financial mediators, which is the principal role of banks and financial institutions.

The concept of Islamic banking is founded on the notion of the prohibition in Islam of interest (*Riba*). Attempts to avoid dealing with interest led to the introduction of an interest-free banking system, commonly known as Islamic banking. Islam does not allow interest but calls for trade-based banking or a system of profit and loss sharing as the basis of investment.

Islamic banking is no longer a theoretical suggestion. Islamic banks (IBs) now operate in various parts of the Islamic world and also in some Western countries. Some Islamic countries (such as Iran and Pakistan) have reorganized their whole banking systems according to Islamic principles. In other Islamic countries, Islamic banks have been established and coexist side by side with conventional banks (CBs) (i.e. the Western type). A few IB/IFIs are found in non-Islamic countries, including the United Kingdom, the Bahamas, Cyprus, Denmark, and Switzerland.

The creation of an Islamic banking system may play an important role in setting accounting standards and economic and social development. This rapid expansion and increasing importance, as well as the introduction by these banks of new investment tools, which are different from those of CBs, make this a worthwhile area to study.

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[1] Wilson, R., *Almajallah Magazine*, Issue No. 1071 August 2000, p 18.

1.2 THE NEED FOR ISLAMIC BANKS

The economic environment was ready for IB/IFIs because of a number of factors which occurred during the last three decades. One factor was the existence of three main groups of people who were waiting for the establishment of IB/IFIs. These groups were:

1- people who were already but reluctantly dealing with the conventional banking system, because an Islamic alternative did not exist;

2- people who would not deal with the conventional banking system at all, for religious reasons; and

3- people who wished to be their own bosses but, due to a lack of financial credit worthiness, could not provide the necessary guarantee required by the CBs in order to obtain finance.

Another factor was the newly created wealth of some Muslim nations, i.e. petrodollars which were looking for a home. The third factor was the revival of Islamic ideas, which gathered support principally because other ideologies had failed to find much support in the Muslim world.

Consequently, a number of important points can be said to underlie the support of the people for the establishment of IB/IFIs:

1- in principle, IB/IFIs are welcome alternatives from a moral and religious point of view to many people, whereas the operations of CBs conflict with these morals and beliefs;

2- IB/IFIs offer a variety of financial and investment methods, which are suitable for different groups of investors. While other banks also provide finance in a variety of forms, they often do so in ways that are not acceptable to the ideology of Muslim investors; and

3- IB/IFIs -particularly if centrally administered at policy level- contribute to social development as well as economic development.

1.3 THE RESEARCH AIMS AND OBJECTIVES

The main objective of this study is to investigate the contribution of IB/IFIs to accounting standards and economic and social development, by undertaking a theoretical analysis as well as empirical research. The theoretical analysis deals with the theory of interest and its place in the economic environment, the opposing arguments for and against it, the principles on which the Islamic banking system is based, and the characteristics of IB/IFIs and their problems.

This investigation was motivated by the fact that the current conventional banking system poses a problem for many Muslims because it involves interest which is strictly prohibited in Islam, however they have increasingly found dealing with banks to be necessary. Until recently, the only alternative for those who preferred not to deal with CBs was to keep their wealth in a safe at home. This meant that most savings were hoarded, and this, too, is prohibited in Islam[2]. Hoarding is prevalent in the Arab Gulf; it is estimated by the International Association of Islamic Banking to be $12 billion in Saudi Arabia alone and $40 billion in the Middle East as a whole (Mohsin, 1987). These figures support David A. Suratgar's report that "in 1982 the Jeddah based Islamic Banking Association estimated that up to $40 billion was being hoarded outside the Western style banking system in Islamic countries"(Suratgar, 1984).

Other Muslims were depositing their money in current accounts to avoid interest. As with hoarded wealth, such money could not be invested properly in the economy.

At the same time, many developing countries, including Islamic ones, are suffering from economic difficulties, such as debt. Some countries are experiencing many economic difficulties, even though they have huge natural resources; this is partly due to economic mismanagement but also because of the inadequacy of their financial systems.

In a country like Saudi Arabia, characterised by its reliance on oil production as a main source of national income, the need for diversification of the production base has been recognized. Top priority is given to the growth of industry and agriculture, the

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[2] Allah prohibits hoarding in the Holy Quran: IX, 33-34.

development of manpower, and the upgrading of its efficiency to meet the requirements of the national economy. Implementation of successive development plans has boosted the production base of the non-oil sectors, increasing their growth rates. Saudi Arabia has become almost self-sufficient in many agricultural and some industrial commodities. Local investment in agricultural and industrial projects has increased.

These issues and events drove the researcher to investigate the contribution made by IB/IFIs to economic and social development, and to accounting systems.

Some researchers have already investigated whether an interest-free banking system can function as efficiently as the conventional system, and whether it can be a viable alternative. In this thesis, their findings will be summarized and analysed as the basis for pursuing the objectives of this research, which are:

1- to assess the contribution of IB/IFIs to accounting standards;

2- to assess how accounting standards can be modified to allow for the special characteristics of the IB/IFIs' assets and liabilities;

3- to appraise the contribution made by IB/IFIs to economic and social development; and

4- to explore the suitability of IB/IFIs to developing countries' circumstances, with the purpose of instituting a development push based on exploiting the productive capacity of citizens, whose contribution would otherwise be impeded by the lack of eligibility for credit.

1.4 THE RESEARCH METHODOLOGY

The methods used in this research are library research, a field survey, observations, and an analysis of this data. The empirical research was based on a field study carried out in Saudi Arabia. Data for the research was collected by the following means:

Questionnaires were distributed to various groups of people associated with the IB/IFIs.

A. One set of questions was directed to selected employees of the IB/IFIs under consideration, seeking their opinions about the justification,

acceptance and implementation of the Islamic banking concept, and the possible role in economic and social development played by IB/IFIs in general and their own respective banks in particular.

B. Another questionnaire sought the views and attitudes of clients, with particular regard to the factors influencing their decision to deal with IB/IFIs as opposed to CBs. The questionnaires explored whether or not these customers were satisfied with their dealings with the IB/IFI. This consisted of questions on the services used, the bank's role in solving their financial problems, its contribution to economic and social development, and its role in informing customers about the Islamic economy in general and Islamic banking concepts in particular.

1.5 THE ORGANIZATION OF THE STUDY

This study is divided into five parts and includes nine chapters; figure (1.1) shows the structure of the thesis. The first part includes the first and second chapters. The present chapter is an introductory one, in which the objective of the study is explained, the notion that there is a need for IB/IFIs is introduced, and the contents of the thesis are outlined.

In Chapter Two, the theoretical background is presented by means of a review of relevant literature. This chapter gives a brief idea about some principles of Islamic economics, the Islamic economic system compared with other economic systems, and the implications for economic and social development and accounting systems.

Chapter Three contains a comparative discussion of CBs and IB/IFIs, and the interface between them. This chapter also analyses the problems facing IB/IFIs.

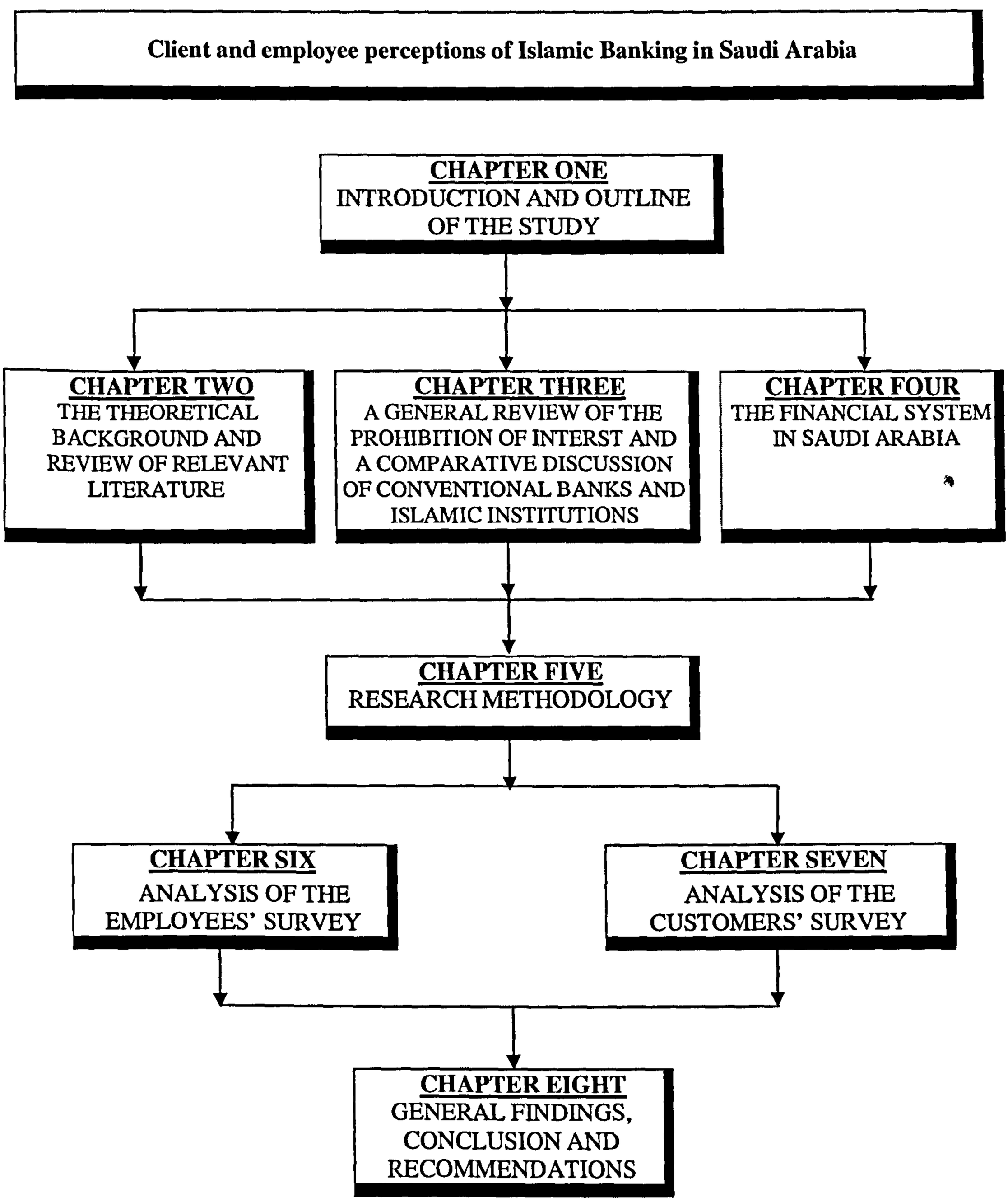
Chapter Four provides a more detailed description of the financial system of Saudi Arabia and the role of the Saudi Arabia Monetary Agency (SAMA).

Chapter Five outlines the aims and main objectives of the research, the research hypotheses, and the research methodology.

Chapter Six contains an analysis of the employees' survey, while Chapter Seven contains an analysis of the clients' survey and Chapter Eight presents the general

findings and highlights the main conclusions. It also contains a number of recommendations and suggestions for areas of further research.

Figure 1.1: The Structure of the Thesis



CHAPTER TWO

THE THEORETICAL BACKGROUND AND REVIEW OF RELEVANT LITERATURE

CHAPTER TWO
THE THEORETICAL BACKGROUND AND REVIEW OF RELEVANT LITERATURE

2.1 INTRODUCTION

This chapter is divided into two parts. The first part gives a brief idea about some principles of Islamic economics, while the second part deals with the implications of Islamic economics for economic and social development and accounting systems.

A distinctive characteristic of Islam is that it is an organized, disciplined, and complete way of life. It does not confine its scope simply to the individual's private life; rather, it covers all aspects of human existence. It provides guidance on all aspects of life, individual and social, material and moral, economic and political, legal and cultural, and national and international. This body of guidance is known as the Islamic *Shariah.* Dr. S.H. Amin explains the origins of Islamic law (*Shariah*) as follows: "To Muslims, Islamic law is originated from a divine revelation to the prophet Muhammad and it should thus govern the entire world and man. The name given by Muslims to these divinely inspired, objective, spiritual and worldly Commandments is *Shariah*" (Amin, 1985). It would be a mistake to assume that the *Shariah* is a purely religious law. The *Shariah* contains not only religious duties but also secular aspects of law (substantive and procedural) designed to regulate human acts. The first group of rules, called *'Ibadat'* i.e. rituals, deals with purely religious matters and the second group, called *'Mu'amalat'* (transactions) deals with matters which normally form the substance of legal systems such as common law.

Islamic law can be adapted to changing circumstances although the general principles are unchanging. In most cases the Islamic scheme of laws leave the details to human reason. Here it is the jurist's duty to form decisions according to the environment in the light of Islamic principles. With reference to this policy, the head of the Parisian lawyers' society says: "Islamic law is able to give an answer to all the emergencies and events of this age" (Mujtaba, 1977).

2.2 THE ISLAMIC ECONOMIC SYSTEM COMPARED WITH OTHER ECONOMIC SYSTEMS

This section will attempt to give a definition of the Islamic economy and compare it with the modern definition of economics. Before doing that, it is advisable to give an idea of some of the general principles of Islamic economics as represented by the notion of property rights.

Property Rights: the Islamic ideological view of property rights is unique and differs from all other ideologies. Property rights are determined and regulated by a few basic principles. The first and most important of these is that God is the ultimate owner of all property. The holy Quran makes it clear that everything in this universe has no owner but God (The Holy Quran, IV: 130). While the ultimate owner is God, man has been given the right of possession as a trust in order to become materially able to perform his duties. The role of humans on the earth derives from the concept of *Al-Istkhlaf*, "vicegerency" (The Holy Quran, XXVIII-5, 6). God orders mankind to act in accordance with his will. However, he creates everything in this universe to serve the interest and welfare of mankind. He made it clear that the delegation of these proprietary rights to mankind is under specified terms. Therefore, the nature of ownership in Islam is that of trusteeship and is subject to the terms of that trust. It is understood that the following are some of the terms and conditions by which humans are accorded the status of God's vicegerents:

a) property is only a means of achieving higher objectives and not an end in itself;

b) trusteeship belongs to all mankind, and not only to certain individuals or groups, and all members of society share the natural resources at man's disposal;

c) the concept of money: in brief, the view of Islam towards money is clearly revealed in the rules of the Islamic *Shariah* whereby it is not legitimate for money (coin) to generate profit, unless it is joined in a partnership with work (human effort), regardless of whether the result is profit or loss. Its role is as a medium of exchange, not as a commodity. Therefore, it can play the role of a unit of account and also, a store of value;

d) prohibition of interest: As a result of the above view towards money, Islam strictly prohibits the payment and acceptance of interest *(Riba)*. The term *Riba* refers to an

addition over and above the amount of the principal of a loan on the basis of the time for which it is loaned, or of the time for which the payment is deferred;

e) work: Islam stresses the principle that income is obtained as a result of work, hence Islam asks all persons to work in order to earn their living;

f) building the earth: It is incumbent upon mankind to build the earth and make the best use of its resources;

g) wealth: Wealth itself is considered to be important. Therefore the methods of earning, and disposition thereof are defined by the *Shariah.* Among the rules are those relating to extravagance in consumption, the obligation of sharing, and inheritance;

h) property cannot be left to the whim of irresponsible individuals, and society possesses the right to prevent them from bringing damage or destruction to property; and

i) role of the state: The state's role in the Islamic political and economic environment is to try to ensure equal distribution, provide equal opportunities of education and training, and provide for basic needs. It controls and supervises the market, designing economic policies to meet its objectives.

By virtue of the above mentioned conditions, it may be inferred that an institution or individual must operate with the aim of fulfilling these commandments. Institutions, including banks, should be compatible with these principles.

2.3 THE ECONOMIC AND SOCIAL DEVELOPMENT AND ACCOUNTING SYSTEMS

2.3.1 Economic and Social Development

Historically, the theory of economic development can be traced to Britain in the century and a half running from about 1650 to Adam Smith's "Wealth of Nations" in 1776 (Chenery and Srinivasan, 1988).

All nations attach importance to economic and social development, to the extent that it is common to classify nations according to the degree to which they have attached

importance to those objectives into two distinct groups: developed and underdeveloped nations.

The goals of the Islamic concept of economic development cannot be explained in terms of Gross National Product, and increase in per-capita income only. It must also be explained in terms of raising the absolute income levels of the poor to eradicte poverty, meeting material and non-material human needs and conservation of natural resources. In addition, the goals of the Islamic concept of development must be designed for the preservation of moral and spiritual values as reflected in the concept of *tazkiyah* (moral purification plus growth". Dispite the fact that the Islamic basis of development is multidimensional having its moral, social, political and economic dimensions, moral and spiritual development needs to be integrated into the very concept of economic development right from the beginning. This is what is called in Arabic *tazkiyah al-nafs* (Siddiqi, 1981).

Economic development of Islam is not simply materialistic development. The spiritual and moral phases are assigned special importance, and they were made explicit in *takaful* or *tadamun*, or the mutual social security of Islam. Ideal patterns of Islamic belief contain enough motivational properties to work which can influence actual patterns of Muslim behaviour. It is possible to motivate economic achievement, thereby accelerating economic development through a systematic programme of moral educational training. In Islam "work" for the purpose of efficient utilization of resources is also an act of worship. Besides payment of *Zakat*, benevolent loans and voluntary and obligatory intra-family and intra community obligations carry the double notion of benefits: they do not merely bring material benefits to the recipients, but also give benefits to the donors morally and socially (ICRIE, 1985).

Thus, economic development is not only concerned with economic growth, but is also concerned to affect the pattern of changes in that growth; in other words, development means growth plus change. From this perspective, the quantitative indicator of the growth of the gross national product (GNP) is no longer seen as the main objective or index of development. Importance is also attached to alternative, qualitative measures as indicators (Meier, 1984).

This is a distinction that gives rise to a number of questions.

First of all, in so far as economic growth is concerned only with GNP per capita, the issue is raised as to how that GNP is distributed among the population. For example, a country might achieve expansion of per capita GNP, yet its distribution may become more unequal, with the poorest groups experiencing a drop in income in real terms.

Hollis Chenery introduced the World Bank's influential study on redistribution with growth with the statement: "It is now clear that more than a decade of rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of their population. Although the average per capita income of the third world has increased by 50 per cent since 1960."(Chenery, et al., 1974).

The second issue regarding the distinction between growth and development relates to the questions of externality and non-marketability. GNP takes account only of those resources that happen to be transacted in the market, while others which do not have a price tag attached to them, are ignored.

Thirdly, even when markets do exist, there are problems in the valuation of commodities in the GNP, such as the problems in dealing with different relative prices in different parts of the world.

In view of these arguments, a need arises for identifying the meaning of the term "Economic Development". This is discussed in the following sections.

2.3.2 The Concept of Economic Development

Generally, the economics literature does not precisely define the concept of economic development. Some traditional economists have defined it as the process whereby the real per capita income of a country increases over a long period of time, with the provisos that the number below an absolute poverty line does not increase, and that there is no increase of inequality in the distribution of income (Todaro and Smith, 2003).

The traditional (Capitalist) view of economic problems is that the natural resources are inadequate for the growth of population and their developed wants and desires, while the Socialist view perceives them as a result of the unequal relations between the means of production and distribution (Sadr, 1982).

Muslim economists (Al-Khalaf, 1985, and Chapra, 1995), while accepting some of the aims of the Western definition of economic development, do so from a different perspective, that of the concept of trusteeship (Fanjari, 1983). As discussed above, Muslims believe that trusteeship has been granted by God to human beings, subject to certain conditions, including the obligation to develop the country so as to benefit everyone.

As a consequence, the Islamic definition differs from the conventional definitions (Capitalist and Socialist), since it does not restrict its focus to economic changes, but goes further to address moral and social concerns in accordance with Islamic philosophical principles (Fanjari, 1983).

Such different understandings of economic problems reflect the different philosophical backgrounds of each school of economics. From the Islamic perspective, the scarcity of resources and incongruity between the mode of production and distribution relations, that are invoked as ideological justifications of the Capitalist and Socialist systems respectively, are mankind's responsibility.

As a result, the concept of economic development has been re-defined by Muslim writers thus: "economic development is the best use and exploitation of natural resources in order to increase the production, and human and material wealth of society"[4]. The basic goal is to fulfil everyone's basic needs by eradicating poverty through the redistribution of income and achieving economic growth. This target is held to be achievable through compliance with Islamic principles and morals. Moreover, the task of promoting economic development is not assigned to only one sector, public (as in the Socialist system) or private (as in the Capitalist system) but is regarded as a co-operative venture involving all the productive elements of society.

2.3.3 Measuring Development

Traditionally, efforts to measure economic development have centred on GNP, either in total or capital, and its rate of growth. However, the use of GNP as an indicator of

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[4] Eid, M A., "*An illustration of the contemporary writings in the economic development from the Islamic point of view*" An article complied in the library of International Bank for Investment and Development, no date.

development is not without its difficulties. Pigou has pointed out that economic development does not consist only of national income per head, but also, of its distribution, and the degree of stability and fluctuation over time.

The emphasis on GNP as an indicator of development was based on the dubious assumption that, either economic growth automatically trickles down to the poor, or if the benefits from growth did not automatically spread to the poor, governments would take corrective action. The reality however, is somewhat different. As an official for the Pakistani government has said: "The problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We were taught to take care of our GNP because it would take care of poverty. Let us reverse this and take care of poverty because it will take care of the GNP. In other words, let us worry about the content of GNP even more than its rate of increase"(Meier, 1984).

An alternative approach, which more adequately reflects human, social, and economic development in areas and aspects that cannot be reflected in most income-based measures, is a focus on so called "social indicators". In this approach, the development of health, nutrition, housing, and income distribution, *inter alia*, are taken as measures of cultural and social development. The distinction between the two approaches is illustrated by Dr. S. H. Amin's findings, regarding economic development in the context of two of the poorest Third World countries (South and North Yemen)[5], that despite North Yemen's higher level of GNP and national income, the people of South Yemen are by far better provided for in terms of social, but not economic, development (Amin, 1987).

The aims of economic development can be generally classified as four objectives:

1- sustained increase in real income per capita (economic growth);

2- decrease in the proportion of population below a certain poverty line;

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[5] The former South and North Yemen became one country in 1990

3- greater equality in income distribution; and

4- provision for basic needs to assure people certain standards of nutrition, health, education, and housing.

These aims are fully accepted in Islamic economic theory, but Islam differs from conventional economics in the relative importance attached to each goal. For example, equal distribution of income is regarded as more important than economic growth. This preference is taken even to the extent to the point where the former may lead to the decrease of the latter.

Moreover, the most important target of Islamic economics, as in many welfare states, is the attempt to guarantee every human being the means of livelihood sufficient to survive with dignity.

In conclusion, some Muslim economists (for examples; Khorshid Ahmed) refuse to take per capital GNP per head as the sole measure of economic development. Khorshid Ahmed, a Muslim economist says: " We have to reject all approaches which measure the rate of growth as the only indicator for development"(Eid).

2.3.4 Accounting Concepts for Islamic Banks

This study is concerned with the basic concepts of accounting as applicable to IB/IFIs. Before going on to this subject, however it is pertinent to report that accounting is related to the social and economic values of a society. Present day accounting has evolved over centuries, along with the development of the Capitalist society. Since ancient times, people have been recording the events of business in a manner and style appropriate to their social and cultural needs, but most of this record keeping has been rudimentary and limited in scope (Khan, 1994). Accounting in its modern form evolved with the separation between the ownership and the day-to-day management of business. The managers started managing and controlling large scale business corporations, and accounting is a means of keeping track of these complex dealings, which not only aids management, but also has an accountability function for shareholders.

The objectives of accounting information for IB/IFIs are different from those for CBs for two main reasons:

1. IB/IFIs deal within a *Shariah* framework. As a result, the nature of their transactions is different from that of CBs; and
2. The users of the information generated by IB/IFIs have different needs from the users of the information published by CBs (Khan, 1994).

CBs have similar accounting standards across different countries. Central banks publish the aggregated balance sheets of the banks and supervise them regularly and without difficulty. In contrast, dissimilarity of accounting practices among IB/IFIs is such that any meaningful comparison between their balance sheets or profit and loss accounts is very difficult, if not altogether impossible. Furthermore, the concepts used in the balance sheets and profit and loss statements are not rigorously defined.

The differences between accounting concepts in a Capitalist society and in an Islamic society follow from the basic frameworks of the two societies. The Islamic society does not recognize certain types of business transactions or business organizations. At the same time, it suggests alternative arrangements. The needs of the users of the information in the two societies are also different. The IB/IFIs are the foremost practitioners of Islamic business principles. Therefore, the question arises as to whether a different accounting paradigm should be applied to them. The IB/IFIs are currently engaged in developing accounting standards for themselves.

During the last few years, some progress has been made in overcoming this problem. In order to introduce standardization in accounting practices the IB/IFIs, under the guidance of the Islamic Development Bank (IDB), have established the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This organization, now functional and based in Bahrain, is composed of a supervisory committee and a Financial Accounting Standards Board responsible for preparing, issuing, and amending the accounting standards of those IB/IFIs that have agreed to apply the standards set by the Board (Iqbal, et al.1998).

A beginning toward Islamic accounting has been made in the wake of the Islamic banking movement. During the last two decades, a number of IB/IFIs have sprung up. At present there are over 150 such institutions all over the world. They were set up without much prior research having been done, so far as accounting was concerned, but they soon came to realise that the conventional accounting concepts and practices needed to be redefined and standardized more precisely to suit their needs. The special

methods of collecting deposits and financing operations followed by IB/IFIs necessitated the development of specific accounting standards. Therefore, in 1987, seven IB/IFIs, led by the Islamic Development Bank Jeddah, combined to set up a Supervisory Committee and prepared a plan to develop accounting standards. It commissioned several studies from experts both in accounting and in the *Shariah*. This committee investigated the needs of users of the financial statements of IB/IFIs. It also aimed at studying and analysing the financial statements of various IB/IFIs to identify their shortcomings and determine what additional data and information needed to be disclosed. These experts prepared approximately 50 studies, which were compiled in five volumes and deposited in the library of the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank, Jeddah. These studies led to the formation of the Financial Accounting Organization for Islamic Banks and Financial Institutions. This Organization set up the Financial Accounting Standards Board for Islamic Banks and Financial Institutions which started functioning from 26th December 1990. It prepared a three-year plan which provided for the following:

a) preparation of the financial accounting objectives for IB/IFIs;

b) development of financial accounting concepts; and

c) preparation of three accounting standards.

By December 1992, the Board had prepared draft papers on the first two of these items and a paper on Presentation and Disclosure Standards for Financial Statements of Islamic Banks and Financial Institutions. It organized a seminar in December 1992 in Bahrain to discuss these papers and obtain feedback from experts in Islamic banking, accounting, auditing, and the *Shariah*. In the light of this seminar, the Board revised the Statements in April 1993, and the final Statements were approved in October. In May 1994, the Board was in the process of developing three accounting standards based on *Murabahah, Musharakah*, and *Mudarabah.*

2.4 THE CONTRIBUTION OF ISLAMIC BANKS AND FINANCIAL INSTITUTIONS TO ACCOUNTING STANDARDS

The principles of Islamic law (*Shariah*) are aimed at a compromise between the interests of the individual and the interests of society, taking into consideration the fact

that the basis of the economy in any society is the investment process. However, as not every individual has the financial capability to invest, the role of the banks has become that of a tool to gather the savings of individuals and to transfer such savings into investments that benefit both the society and the individual. Individuals need to have confidence in the capability of banks to realize their investment goals; otherwise, they may not invest their savings, as they are not sure that the banks are able to utilize the money efficiently and within the limits of the law. Accordingly, it is necessary for banks to provide information that encourages investors. The most important component of such information is the financial reports, which are prepared according to appropriate banking accounting standards.

IB/IFIs have been created to assist Muslim individuals and societies in utilizing their wealth in a way that benefits them, in accordance with the principles of Islamic law. Banks have become an important tool for attracting the savings of Muslims who wish to invest in an Islamic way.

Islamic financial tools have several features, the most important of which are an avoidance of the interest rate system, the utilization of *Musharakah* and other Islamic investment tools, and an avoidance of the investment and utilization of fortunes (savings) in forbidden matters. Banks are considered attractive to Muslims when they follow the laws of Islam in their transactions with participants, holders of investment accounts, holders of current accounts, or other categories and organizations through which the banks invest.

Accounting is, in fact, a secondary science. It provides data and information that helps in satisfying agreed-upon and planned economic objectives. Contemporary accounting concepts have developed progressively in the Capitalist system to support the needs of a profitability scale, through which the goal of maximizing profit is measured. In addition, clients need other information relating to maximizing profit which is also provided by accounting. This is the basis of the Capitalist system, and of the accounting standards that enable producers to measure the results of their operations and their financial situation. In short, the Capitalist theory limits the outcomes to a single goal – that of making a profit (Bahjat, 1994).

Financial accounting plays an important role in providing information upon which users of the financial statements of banks depend when evaluating a bank's performance and

its commitment to Islamic laws (*Shariah*). Financial accounting can accomplish this role through the accounting standards that are followed by the banks. Most current accounting studies have been developed in non-Islamic societies. It is therefore natural that the objects of financial accounting differ with respect to information requirements and the needs of users. However, this does not mean that all conventional accounting practices are inapplicable to IB/IFIs. It is not necessary to start from the very beginning. Instead, it is possible to benefit from past thinking in this field by comparing it with Islamic laws, and hence utilize it or introduce the necessary modifications, or, alternatively, exclude those aspects that conflict with Islamic laws. In addition, it is also possible to derive certain rules and principles from Islamic laws. This is an Islamic methodology based upon the fact that the believer is always seeking knowledge, as long as it does not contradict Islamic laws.

In addition to the possible differences in the objectives and requirements of the users of financial statements, there are other reasons why the formulation of specific objectives for financial accounting in IB/IFIs is necessary, such as:

a- the necessity for IB/IFIs to conform to Islamic laws in all their transactions and operations; and

b- the big difference in function between IB/IFIs, and the CBs.

The emergence of IB/IFIs as modern organizations, and the challenge they face in order to prove themselves and the services they provide to their societies, has led them to seek appropriate techniques for the preparation and application of accounting standards. Accountants, financial experts and scholars of Islamic law have contributed to such efforts. In general, standards developed in the West and applied in Western banks may not suit Islamic banks. However, as mentioned above, this does not mean that they cannot be used as a guide in developing financial standards and objectives of financial reporting for IB/IFIs, taking into account the fact that such objectives and concepts must comply with Islamic laws. This understanding has contributed towards the creation of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Given the rapid growth in the size and scope of Islamic financial services in many countries, this topic is attracting increasing interest on the part of many policy makers concerned with financial stability. The increasing global interest in Islamic banking is a

result of the exceptionally rapid growth of Islamic finance in the Islamic countries, as well as in other parts of the world, during the past three decades. Islamic banking has now established a presence in countries in Asia and Africa, as well as in many financial centres in Europe and North America, where even major international banks and specialized financial institutions offer Islamic products catering to the growing Muslim presence in these markets. The assets of IB/IFIs are currently estimated at US $250 billion. In addition, Islamic financial transactions worth billions of dollars are carried out by CBs and financial companies.

Policy makers in countries with IB/IFIs have recognized that ultimately it is their responsibility to promote the development of supervisory standards for these banks. This recognition has been translated into reality by the establishment of the Islamic Financial Services Board. The central banks of Saudi Arabia, Malaysia, and 6 other Islamic nations and the Islamic Development Bank have joined hands to become its founding members. A number of other central banks of Islamic countries have become members, while many international financial institutions have joined as associate members. The primary objective of this institution is 'to promote the development of a prudent and transparent Islamic financial services industry through introducing new or existing international standards consistent with *Shariah* principles (Al-Sayari.2004)[3].

2.4.1 The Accounting and Auditing Organization for Islamic Financial Institutions

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), formerly known as the Financial Accounting Organization for Islamic Banks and Financial Institutions, was established in accordance with an agreement signed by a number of IB/IFIs on February 26, 1990, in Algeria. The organization was then officially registered on March 27, 1991, in Bahrain, as a non-profit-making independent international organization. The idea first emerged when the Islamic Development Bank submitted a paper at the annual meeting of banks' governors, held in Istanbul in March

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[3] A speech by the Governor of SAMA, at the Standards for Regulations and Supervision – Soundness and Stability "Symposium on Risk Management in Islamic Banking Services" in Riyadh on 24th February 2004

1987, where several committees were formed to examine the best way of preparing accounting standards for IB/IFIs. Several studies were carried out and the results were compiled in five volumes, which are now available at the library of the Islamic Research and Training Institution of the Islamic Development Bank in Jeddah (Boshiry, 2001). The charter of the Organization was modified in 1998 to accommodate the objectives, which include developing and propagating the accounting and auditing concepts of IB/IFIs, organizing conferences, seminars and workshops, arranging training courses, issuing brochures, preparing research and studies, and developing and modifying the accounting standards of IB/IFIs in a manner that complies with Islamic laws and which suits the environment within which they are operating. The above objectives helped to increase the confidence of the users of financial statements in the information they contained, and encouraged them to invest and deposit their money in IB/IFIs.

2.4.2 Accounting Standards Prepared by the Organization

2.4.2.1 Standard of Objectives of Financial Accounting

For this standard, 42 paragraphs were prepared. The development of financial accounting standards without specifying their objectives has led to contradictory standards and inconsistencies between these standards and their environments, owing to the fact that most of the recent accounting studies have been conducted in non-Islamic societies. It is natural that accounting objectives will vary according to the objectives of the users and their information requirements. However, as stated earlier, this does not mean that all conventional accounting concepts and ways of thinking are unsuitable for IB/IFIs. Muslims and non-Muslims share a desire to increase their fortunes (savings) and to profit from their investments, an objective that is approved of under Islamic law (*Shariah*). There are, however, several reasons for formulating specific objectives for financial accounting in IB/IFIs, such as:

a- commitment of IB/IFIs to Islamic laws (*Shariah*) in all their transactions and operations;

b- differences in the functions of IB/IFIs with respect to the nature of transactions when compared with traditional banks which follow the Western model; and

c- differences in the relationships between the clients and each of the IB/IFIs, and their relationships with CBs. IB/IFIs do not follow the interest rate system with regard to borrowing, while interest on borrowing is the element that CBs depend upon.

2.4.2.2 Standard of Financial Accounting Concepts in Islamic Banks and Financial Institutions

For this standard, 135 paragraphs were written. It has been stated that the functions assigned to IB/IFIs differ in general from those assigned to CBs, which means that accounting concepts that are consistent with the nature of Islamic banks must be developed. This is because of the fact that the functions of IB/IFIs were not considered during the formulation and development of traditional concepts of financial accounting. In addition, the concept of Islamic banking has required IB/IFIs to introduce social services through providing loans, loan funds or *Zakat*, and charitable funds, and to develop human resources and environmental services, as well as other similar activities. Such standards express the essential rules of financial accounting in a manner consistent with Islamic principles and do not need to be derived from Islamic texts, as long as they do not conflict with general Islamic rules. In addition, the adoption of such concepts is based upon the understanding of benefit and of avoiding harmfulness, even if it is not mentioned in a text, in cases where there is conflict with an Islamic text or a general Islamic rule (*Shariah*).

2.4.2.3 Standard of General Presentation and Disclosure of Financial Statements of Islamic Banks and Financial Institutions

After carrying out a number of field studies, 85 paragraphs on this standard were developed in order to introduce the objectives and standards of financial accounting, and the role of governmental and private organizations in preparing such standards in those countries which have IB/IFIs. The studies included comparisons of exhibition, and degrees of revelation in the financial statements of several IB/IFIs, as well as examinations of different methods of exhibition and revelation. It was found that financial statements should reveal several important facts that affect the ability of the user to benefit from the financial statements when making investment decisions and when utilizing funds according to the principles of Islamic law (*Shariah*). The standard requires that financial statements should reveal details of the usage of *Zakat* and the charitable fund, and usage of the loan fund, as well as other essential information about

the bank, the standard currency of accounting, important accounting policies and accounting charges and their effects (AAOIFI, May 2001). The tables below are examples to illustrate the application of some of the provisions of the standard.

List of Resources and Usage of *Zakat* and the Charitable Fund Name of Bank or Institution

Statement of Sources and Uses of Funds in the *Zakat* and Charitable Funds For the Year Ended xxx (year) xxx (last year)

The statements	***(year) Monetary unit	***(last year) Monetary unit
Resources and usage of *Zakat* and Charitable Fund	xxx	xxx
Zakat due against the bank/establishment	xxx	xxx
Zakat due against account holders	xxx	xxx
Donations	xxx	xxx
Total resources	xxxx	xxxx
People to whom *Zakat* and charity is given:		
Poor people and the needy	xxx	xxx
Strangers who have no money (wayfarers)	xxx	xxx
People who are supposed to pay a fixed amount as punishment for killing someone, and who are heavily indebted, and the freedom of slaves	xxx	xxx
People who collect and distribute the *Zakat* and who are employed by the *Zakat* department (administrative and general expenses).	xxx	xxx
Total expenses	xxxx	xxxx
Increase (decrease) of resources, compared with expenses	xxx	xxx
Undistributed *Zakat* and charitable funds at the beginning of the year	xxx	xxx
Due undistributed *Zakat* and charitable funds at the end of the year	xxxx	xxxx

Source: (AAOIFI, May 2001, p.131)

List of Resources and Usage of *Qard*[4] Funds

Name of Bank or Institution

Statement of Sources and Uses of Qard Funds for the Year Ended xxx (year) xxx (last year)

The statements	***(year) Monetary unit	***(last year) Monetary unit
Opening balance (balances at the beginning of the period)		
Loans	xxx	xxx
Amounts available for lending	xxx	xxx
Sources of *Qard* Fund:		
Allocation from current accounts	xxx	xxx
Sources from outside the bank	xxx	xxx
Total resources during the year	xxxx	xxxx
Usage of money from the fund:		
Loans for students	xxx	xxx
Loans for craftsmen	xxx	xxx
Payment of current accounts	xxx	xxx
Total usage during the year	xxxx	xxxx
End of year balance (balances at the end of the period):		
Loans	xxx	xxx
Amounts available for lending	xxx	xxx

(AAOIFI, May 2001, p.132)

1. Clarifications

1. *Zakat* and Taxation Procedures

IB/IFIs are subject to the rules and regulations as prescribed by the State in matters of *Zakat* and taxation:

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[4] *Qard*: loan

2. *Zakat* Base

The *Zakat* base shall be determined using 2.5 per cent for a lunar calendar year and 2.5775 per cent for a solar calendar year, based on either of the following: net assets, or net invested funds. It should be noted that, provided items are classified and valued consistently with due consideration given to the different valuation bases used in the two methods, both methods are strictly equivalent by virtue of the statement of financial position identity.

The Basis of the *Zakat* of a Bank, as a Corporate Body, for the Fiscal Year Ended*(year) and***(last year), Consists of the Following:**

The statements	***(year) Monetary unit	***(last year) Monetary unit
Profits for the year	xxx	xxx
Capital	xxx	xxx
Working reserves (legal & carried forward)	xxx	xxx
Carried forward suggested dividend for distribution	xxx	xxx
Carried forward retained earnings	xxx	xxx
	xxxx	xxxx
LESS: THE FOLLOWING		
Total fixed assets	xxx	xxx
Real estate for rent	xxx	xxx
Investments dedicated for rent	xxx	xxx
Musharakah and participation	xxx	xxx
	xxx	xxx

(AAOIFI, May 2001, p. 138)

Zakat due from the bank totalled (state amount) and is considered one of the items of expenses charged on the income list. On other hand, the *Zakat* due against holders of investment accounts and other accounts should be disclosed. The bank must reveal whether it is handling the collection and delivery of *Zakat*, the accounting manner of *Zakat* calculations, and whether it is responsible for deducting the tax due against

holders of investment accounts, and its value. (Accounting, Auditing and Governance Standards for Islamic Financial Institutions, AAOIFI, May 2001, pp.138-139).

2.4.2.4 *Zakat* Standard

The standard of *Zakat*, consisting of 21 paragraphs, is aimed at setting accounting standards that control the process concerned with the determination of the *Zakat* base. In addition, it is concerned with measuring items that play a part in determining such a base, as well as revealing such processes in the financial statements of IB/IFIs. The Islamic *Fiqh*, upon which the accounting processes of the standards were based, has been specified in the standard.

The following tables show examples of elements that are instrumental in determining the *Zakat* base.

Net Assets Method

The statements	Basis of Valuation (*)
Assets: (base of assessment)	
Cash amounts: (expected cash amount)	Cash equivalent Value
Receivables	Cash equivalent Value
Mudarabah Funding/	Cash equivalent Value
Musharakah Financing	Cash equivalent Value
Salam	Cash equivalent Value
Istisna'a	Cash equivalent Value
Assets acquired for trading purposes:	
Inventory	Cash equivalent Value
Marketable securities	Cash equivalent Value
Real estate	Cash equivalent Value
Others	Cash equivalent Value
Liabilities:	
Current Accounts	Book Value
Payables due to be paid during the next financial period	Book Value
Other liabilities, due within the next fiscal period	Book Value
Equity of unrestricted investment account holders	Book Value
Equity owned by government, equity owned by endowment charity, non-profit organizations (if there is no specific owner).	Book Value
Rights of minorities	Book Value

Net Invested Funds Method

The statements	Basis of Valuation(*)
Assets not for trading:	
Rent on real estate	Book Value
Others	Book Value
Fixed assets (net)	Book Value
Provisions not deducted from assets	Book Value
Liabilities and payables not due to be paid during the next financial period	Book Value
Owner's equity	
Paid up capital	Book Value
Reserves	Book Value
Reserved profits	Book Value
Net income	Book Value

*These bases of valuation should be used whether the net asset method or the net invested funds method is adopted.
(Accounting, Auditing and Governance Standards for Islamic Financial Institutions, AAOIFI, May 2001, p. 348)

2.4.2.5 *Murabaha* Standard

This standard, consisting of 19 paragraphs, is applied to assets available for *Murabaha* sale or *Murabaha* purchase orders, the income, expenditure, profit, and loss of such assets, and *Murabaha* receivables. In addition, it is concerned with whether the bank purchases such assets using its own resources, resources combined with absolute investment accounts, or the resources of conditional investment accounts.

2.4.2.6 *Mudarabah* Financing Standard

This standard, consisting of 21 paragraphs, is aimed at setting accounting principles that control the proving, measuring, and revelation of the *Mudarabah* operations of IB/IFIs. In addition, the standard includes details of the *Fiqh* upon which suggested accounting treatments are based, as well as various accounting alternatives that have been taken

into consideration, and justifications for the chosen alternative of accounting elements of *Mudarabah* financing.

2.4.2.7 *Musharakah* Financing Standard

This standard, with 19 paragraphs, is aimed at setting accounting principles that control the proving, measuring, and revelation of the *Musharakah* operations of IB/IFIs. In addition, this standard also includes details of the *Fiqh* upon which suggested accounting treatments are based, as well as various accounting alternatives that have been taken into consideration, and justifications for the chosen alternative of accounting elements of *Musharakah* financing. The standard is applied to *Musharakah* operations performed by IB/IFIs, whether the *Musharakah* is constant (short- or long- term) or decreasing (ending with ownership), whether the capital of *Musharakah* is obtained from the IB/IFI's own resources, from its resources combined with absolute investment accounts, or from the resources of conditional investment accounts. The standard is also applied to operations related to the IB/IFI's share in the profits or losses of *Musharakah* operations.

2.4.2.8 Standard of Revelation of the Basis of Profit Distribution Among Shareholders and Holders of Investment Accounts

This standard, which consists of 17 paragraphs, is aimed at setting principles governing the revelation of profit distribution, so as to attain a unified basis of revelation in IB/IFIs.

2.4.2.9 Standard of Rights of Investment Account Holders

This standard, which consists of 19 paragraphs, is aimed at setting accounting principles that govern the proving, measuring, exhibition, and revelation of operations of investment account holders' rights which are processed by IB/IFIs, whether such rights are absolute or conditional.

2.4.2.10 Standard of *Salam* and Parallel *Salam*

Consisting of 21 paragraphs, this standard is aimed at setting accounting principles that govern the proving, measuring, exhibition, and revelation of *Salam* financing and the operations of Parallel *Salam* which are performed by IB/IFIs.

2.4.2.11 Standard of *Ijara* and *Ijara* Ending with Ownership (*Muntahia Bittamlik*)

This standard consists of 18 paragraphs and is aimed at setting accounting principles that govern the proving, measuring, exhibition, and revelation of operations of *Ijara* and *Ijara* ending with ownership which are performed by IB/IFIs.

2.4.2.12 Standard of *Istisna'a* and Parallel *Istisna'a*

This standard consists of 47 paragraphs, and is aimed at setting accounting principles that govern the proving, measuring, and exhibition of financial aspects of *Istisna'a* and Parallel *Istisna'a* which are performed by IB/IFIs, and the revelation of these in their financial statements. The standard deals with the accounting principles that must be followed in contracts of *Istisna'a* and Parallel *Istisna'a* in the financial statements of banks, to measure and prove the costs and revenues of *Istisna'a* and Parallel *Istisna'a*, and to measure and prove the profits and losses resulting from such operations, as well as methods of exhibition and revelation of such operations in the financial statements of IB/IFIs.

2.4.2.13 Standard of Provisions and Reserves

The standard of provisions and reserves contains 30 paragraphs, and is aimed at setting accounting principles that govern the proving, measuring, exhibiting, and revelation of allocations that IB/IFIs make for the assessment of assets of receivables, financing, and investment. In addition, the standard is aimed at setting accounting principles for reserves obtained by the banks either from *Mudarabah*, before deducting the share of the *Mudarabah* client, in order to maintain a specific level of investment revenue (profit rate reserve), or from the profits of holders of investment accounts after deducting the share of the *Mudarabah* client, so as to protect the holders of investment accounts from future losses (investment risks reserve). This standard is applied to provisions accumulated by the IB/IFI to assess the assets of receivables, financing, and investments. In the case of losses related to items other than those within the financial position, an allocation must be made for such losses. In addition, the standard includes reserves made by the bank or the institution either from the income of the *Mudarabah* fund before deducting the share of the *Mudarabah* client (profit rate reserve), or from the profits of holders of investment accounts after deducting the share of the *Mudarabah* client (investment risks reserve). The standard does not include ownership

rights which are obtained by the bank from its profits to meet legal needs such as the legal reserve.

2.4.2.14 General Standard of Presentation and Disclosure of the Financial Statements of Islamic Insurance Companies

With its 20 paragraphs, this standard concerns the revelation of the basis for determining and allocating any surplus or deficiency, in order to provide appropriate and accurate information that may help users of financial statements prepared by companies to make their economic decisions.

2.4.2.15 Standard of Allocations and Reserves in Islamic Insurance Companies

Consisting of 23 paragraphs, this standard is aimed at setting accounting standards that control the proving, measuring, exhibition, and revelation of the following:

a- the main technical provisions which are accumulated by the Islamic insurance company to cover claims related to non-acquired subscriptions, under-settlement claims, and unreported dangers;

b- the reserves which are taken by the company from the surplus before distribution to policy holders, such as the reserve accumulated by the company to cover any deficiency that may occur in future fiscal periods (deficiency cover reserve), and the reserve accumulated by the company to reduce the effect of unusual claims in insurance operations which have a high degree of fluctuation (claim fluctuation reduction reserve).

2.4.2.16 Standard of Foreign Currency Transactions and Foreign Currency Operations

Consisting of 29 paragraphs, this standard is concerned with foreign currency transactions. Foreign currencies are those which are different from the currency in which the financial statements of the IB/IFI are prepared, whether the transactions are related to assets, liabilities, off-balance sheet items, revenues, expenditure, payables, profits, or losses in the financial statements and operations in those operations related to the net investments of IB/IFIs which prepare their financial statements in currencies other than those used by, for instance, the branches or subsidiaries of the bank. The standard is

aimed at developing accounting principles that control the proving, measuring, exhibition, and revelation of transactions and operations in foreign currencies which are performed by IB/IFIs.

2.4.2.17 Standard of Investment Funds

This standard, consisting of 68 paragraphs, is aimed at specifying the format and content of the financial statements of investment tools (fund or funds) which are established and managed according to the regulations and rules of Islamic law (*Shariah*). In addition, the standard is aimed at developing accounting principles for proving, measuring, and exhibiting the assets, liabilities, revenue, and expenditure from such funds in the financial statements, and specifying the necessary revelation.

2.4.2.18 Standard of Auditing of Islamic Financial Institutions

Consisting of 14 paragraphs, the purpose of this standard is to develop the basis for instructions regarding the objectives and general principles that govern the auditing of financial statements prepared by IB/IFIs. This standard relates to the auditing of financial statements, with the aim of allowing the auditor to declare his opinion on whether or not the financial statements have been prepared according to the regulations and rules of Islamic *Shariah* and the accounting standards which have been issued by the Accounting and Auditing Authority of Islamic Financial Institutions, as well as the related local accounting standards and practices, and related laws and regulations that are applied in the country in which the financial institution is operating.

The sentence, "In our opinion, the financial statements truly reflect the financial position of the (name of bank or financial institution) at (the end of the fiscal period) and the results of operations and cash flows (also indicates the opinion regarding the other statements) for the same period according to the rules and regulations of the Islamic *Shariah*, as specified by the *Shariah* Committee of the banks or the institutions, and according to the accounting standards which are issued by the Accounting and Auditing Authority of Islamic Banks and Financial Institutions", is generally used to express the opinion of the external auditor regarding financial statements.

2.4.2.19 Standard of External Auditor's Report on Islamic Financial Institutions

The purpose of this standard, which consists of 47 paragraphs, is to develop the basis for

instructions regarding the format and content of the external auditor's report. These instructions are issued after an independent auditor has carried out the auditing process on the financial statements of the IB/IFI. The auditor may use and depend upon the instructions of this standard to prepare his reports concerning any financial information not included in the financial statements.

2.4.2.20 Standard of Connection Conditions of the Auditing Process

Consisting of 29 paragraphs, this standard is aimed at assisting the auditor in the preparation of engagement letters related to the processes of auditing the financial statements of IB/IFIs. This standard is also applied to related services. In addition, when it is necessary, with other services in the field of taxes, accounting, and administrative consultations, it is appropriate to prepare separate letters to distinguish between regular auditing and other services.

2.4.2.21 Standard of the External Auditors' Examination of the Commitment of the Islamic Bank or Financial Institution to Islamic Rules and Regulations (*Shariah*)

The purpose of this standard, which consists of 18 paragraphs, is to develop a basis for and introduce instructions regarding the commitment of the IB/IFI to the Islamic rules and regulations which are related to the auditing of their financial statements. The external auditor should obtain enough appropriate evidence to make him confident that the said IB/IFI is committed to those Islamic rules and regulations.

2.4.2.22 Standard of Appointment, Formation and Report of the *Shariah* Committee

Consisting of 27 paragraphs, this standard is used to develop principles and instructions regarding the defining and formation of the *Shariah* committee, including the appointment of its members and defining its report, in order to ensure the commitment of the IB/IFI to Islamic rules and regulations in all its transactions and operations.

2.4.2.23 *Shariah* Monitoring Standard

The purpose of this standard, which consists of 18 paragraphs, is to establish the rules and instructions relevant to assisting the *Shariah* monitoring committee of an IB/IFI to perform *Shariah* monitoring. This is in order to verify that the IB/IFI is committed to

Islamic principles and regulations, as stated in all advisory opinions (*Fatwas*) and decisions issued by the *Shariah* monitoring committee of the said IB/IFI. No records, transactions or operations from any source, including reference to relevant professional consultants or employees of the IB/IFI, may be restricted in any way.

2.4.2.24 Standard of Internal *Shariah* Monitoring

Consisting of 30 paragraphs, this standard is aimed at setting the principles and instructions for internal *Shariah* monitoring of the IB/IFI. The standard states that internal *Shariah* monitoring is an integral part of the system of monitoring tools in the IB/IFI, and operates according to the policies of the bank. Internal *Shariah* monitoring operates according to a manual explaining its purposes, authority, and responsibilities. The manual is prepared by the management according to the rules and regulations of Islamic *Shariah*, and should be approved by the *Shariah* monitoring authority of the IB/IFI. The manual must be edited periodically.

2.4.2.25 Standard of Auditing and Governance for the Committees of Islamic Financial Institutions

Consisting of 15 paragraphs, this standard is aimed at defining the role and responsibilities of the committee within the IB/IFI. In addition, the standard outlines the conditions for forming the committee and specifies the requirements necessary for the committee to be deemed effective.

2.4.2.26 Standard of Ethics of Accountants and External Auditors of Islamic Financial Institutions

Although accounting and auditing standards will logically lead to the realisation of the concept of fairness, professionals in the field of accounting must themselves be working from an ethical standpoint.

For the charter to be powerful and effective, there must be a source from which it derives its ethical foundations and principles, and accordingly its application will be obligatory. The present available codes of professional ethics for accountants are based purely on human thought, and derive their obligatory nature from professionalism, the requirements for success and gaining customer satisfaction, or from society in general, from man-made legislation, or from all of these. On the other hand, the Islamic

perspective depends upon the principles and rules of the religion. The rules and regulations of Islam add a power of obligation that is based upon permanent religious drives. In addition, deriving ethics from the Islamic *Shariah* makes them universal, constant and flexible. As accounting is a profession that is affected by the ethics of society, the effect must be derived from the values and ethics of Islamic society, and this must be shown in the personality, education, and practice of the accountant.

This charter applies to accountants and internal auditors of IB/IFIs, as well as to external auditors who audit the financial statements. The terms of the charter apply equally to both categories. The accountant is considered responsible for the commitment of his assistants and subordinates to the regulations contained in the charter.

2.5 THE ROLE OF ISLAMIC BANKS AND FINANCIAL INSTITUTIONS IN ECONOMIC AND SOCIAL DEVELOPMENT

Establishing IB/IFIs on the basis of the concept of the role of capital in society places a heavy burden on these institutions. IB/IFIs can play an important role in contributing to the welfare of society's members by means of their active participation in economic and social development, raising reserves awareness, and spreading Islamic knowledge in order to satisfy human needs.

The requirements of this role will be fulfilled through an active contribution to all fields of social and economic development and the introduction of savings consciousness, investment education, and the spreading of Islamic knowledge.

Economic development by definition implies a war against poverty and an attempt to satisfy the needs of all members of society, and this is considered to be a religious duty, and also a type of worship, that requires an effective putting into practice of religious teachings. It is an integral part of Islamic belief that man (human) is God's deputy on earth with the task of leading a constructive life upon it, which in turn necessitates good management of all the potential resources of the universe. The best way to play such a constructive role is to try to do so within the framework of Islamic development, which includes all economic and social factors, when trying to exploit and utilize potential economic and human resources.

This is very apparent in the way IB/IFIs go about choosing which projects to invest in, which projects to share in as partners, which projects to finance or manage, and which projects to assist with distribution. When making such choices, the banks have in mind the following considerations:

- giving priority to economic needs, which include an individual's products, and to strategic needs, which refers to all individual or group necessities or strategic and luxury products;
- taking into consideration environmental aspects and the protection of natural resources, which are God's gift to human beings to be utilized in a wise manner;
- expanding the producers' base by providing opportunities for clients to obtain easy financing according to Islamic regulations, such as *Musharakah* and *Murabaha*h;
- providing opportunities for craftsmen and small producers to purchase modern production equipment and providing them with the necessary funds to meet operating requirements; and
- creating new opportunities and jobs for the young through companies and projects that have been established by IB/IFIs in various economic and service sectors.

IB/IFIs are playing a prominent role in raising the awareness of reserves, because they have introduced an Islamic form of saving that Muslims have been seeking for a long time: to invest their savings, either in the form of free deposits or in deposits through which they may receive *Halal* commission, as a result of their partnership in one of the Islamic investment systems. In addition, IB/IFIs help those who have large amounts of savings to select the most suitable Islamic investment form, according to their preferences and capabilities. The role of the banks in this field may be summarized as follows:

- to encourage small savings by providing an Islamic framework for banking education in order to create Islamic banking practices which may contribute to the provision of the capital necessary for economic and social activities;
- to organize the utilization of large amounts of savings in fields that are economically and socially useful for Saudi Arabia;

- to encourage depositors whose account balances are small to open investment accounts (investment deposits); and
- to achieve the geographical spread of IB/IFIs by opening branches in all regions, in order to facilitate direct contact between the public and the bank, and to participate in solving any problems that may arise.

Regarding the field of social development, the human element is the target and basis of the Islamic economic system. The comprehensive development of society depends largely upon the development of human resources through better health, educational, and professional services. IB/IFIs can play an effective role in these fields in the following ways:

- by helping to provide food for needy people (orphans, the elderly, or the sick) through social welfare associations;
- by participating in improving standards of health and in the prevention of accidents, and the eradication of endemic and chronic diseases. This will increase the level of individual productivity and reduce the amount of working time lost due to illness or accident;
- by dealing with the physical, psychological, and emotional disabilities that some individuals have to cope with, and by according importance to the accidents that may happen to people which result in reducing their productivity;
- by contributing to raising the educational and cultural level of the human resources within an Islamic framework in a way that will benefit Saudi society;
- by contributing to raising the professional skills of workers in their present jobs in order to open new training horizons to suit modern technologies used in work and production;
- by establishing Islamic insurance companies that operate according to Islamic principles to cover the activities of the bank, and which in addition may work as an alternative to conventional insurance companies, with regard to individuals, agents, and re-insurance companies;
- by achieving local development, which means giving priority to individuals at branch level, each in his area;
- by giving priority to investing funds in those fields that may assist in solving the problems of the local society, even if this may need some abdication (surrender)

in order to obtain a minimum margin of profit, rather than investing in other fields which may have a high profitability and a high turnover of capital;

- by looking after the youth population and students at various levels of education and providing them with all possible assistance, either materially or financially; and
- by raising awareness among members of the public of Islamic banking transactions.

The IB/IFIS should carry out their business in the fields of social integration and encourage people to perform the *Zakat* (alms giving) obligation, encourage activities based on interest-free loans (*Qard hasan*), donations and charitable investments, according preference to social investment projects that could be beneficial to Saudi society and to the domestic economy, as well as raising awareness of the Islamic culture and of Islamic banking among members of the public.

CHAPTER THREE

A GENERAL REVIEW OF THE PROHIBITION OF INTEREST AND A COMPARATIVE DISCUSSION OF CONVENTIONAL BANKS AND ISLAMIC INSTITUTIONS

CHAPTER THREE

A GENERAL REVIEW OF THE PROHIBITION OF INTEREST AND A COMPARATIVE DISCUSSION OF CONVENTIONAL BANKS AND ISLAMIC INSTITUTIONS

3.1 THE MEANING OF *RIBA* IN ISLAM

The word *Riba* comes from *Raybah* which literally means doubt or suspicion and refers to any sort of income which has the semblance of *Riba* or which raises doubts in the mind about its rightfulness. It covers all income generated from injustice to, or exploitation of, others (Chapra, 1985).

Riba, in Arabic, literally means increase, growth, addition, rise, and hence is the excess of the fixed amount that is paid by the borrower to the lender over the principal amount in a lending transaction, against time allowances. The word *Riba* was used in the pre-Islamic period to identify a class of business transactions, the main feature of which was that a fixed amount was paid over the principal due (Al-Omar and Abdel-Haq, 1996).

Patinkin defined the meaning of interest as: a payment for a loan (in money or in kind) over a period of time, measured by the difference between the amount repaid by the borrower and the principal received by him (Patinkin, 1972).

Another form of *Riba* is where money is lent on the agreement that the borrower will repay an excess amount over the principal sum due after a specified period of time (Khan, 1985). These types of *Riba* are classified as *Riba al Nasi'ah* or *Riba al Duyun* which means clear usury.

However, there is also a class of non-financial transactions classified as *Riba* and prohibited by the Prophet Muhammad, peace be on him, which is encountered in the hand-to-hand purchase and sale of commodities. This kind of *Riba* is known as *Riba al Fadil* or *Riba al Buyu',* meaning unclear usury. This type of *Riba* refers to six commodities mentioned in an authentic *hadith* (Prophet's tradition); these commodities, it is said, may only be exchanged like for like, of the same quality and quantity:

1- from Abu Sa'id al Khudri: The Prophet, peace be on him, said: Do not sell gold for gold except when it is like for like, and do not increase one over the other; do not sell silver for silver except when it is like for like, and do not increase one over the other; and do not sell what is away [from among these] for what is ready."

2. from Ubada Ibn al-Samit: The Prophet, peace be on him, said: Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt - like for like, equal for equal, and hand to-hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand."

Arguments have been raised among Islamic jurists as to whether the prohibition of *Riba* in loans is limited only to those forms that existed in the pre-Islamic period. Another argument concerns whether or not *Riba* is applied to productive, commercial loans as well as to consumption loans. Finally, there is also debate as to whether the prohibition of *Riba* in trade is applied only to the six commodities mentioned in the above authentic *hadith,* or whether these should be treated as examples of a general principle.

In spite of those arguments, Islamic jurists, in general, hold that the prohibition of *Riba* extends to cover any form of fixed and pre-determined increase to be paid over the original amount of a loan, after a specified period, no matter what the rate of the increase or what the purpose of the loan. This general conclusion is according to the Holy Quran and *Sunnah,* whatever the differences on points of detail among some Islamic jurists. Since our concern is with Islamic banking, attention will be focused on the first kind of *Riba* or usury (Ba-Owaidan, 1994).

3.2 THE PROHIBITION OF *RIBA*

Riba is prohibited in Islam and this prohibition appears in the Holy Quran several times. The verses that prohibit the use of *Riba* in Chapter Two of the Holy Quran are:

"Those who swallow *Riba* can't rise up save as he ariseth whom the devil hath prostrated by [his] touch. That is because they say: trade is like *Riba,* whereas Allah hath permitted trade and forbidden *Riba.* He unto who an admonition from his Lord coineth and [he] desists [in obedience], he shall keep that which is past, and his affair henceforth is with Allah. As for him who returneth [to *Riba*] such are the rightful owners of the fire. They will abide therein" (II : 275).

"Allah hath blighted *Riba* and made *Sadaqat*[6] fruitful. Allah loveth not the impious and the guilty" (II: 276).

"O, you who believe, keep your duty with Allah and relinquish what remains of *Riba,* if you are believers" (II: 278).

"But if you do [it] not, then be apprised of war from Allah and his Messenger; and if you repent, then you shall have your capital. Wrong not, and you shall not be wronged" (II: 279).

"O, you who believe, devour not *Riba,* doubling and redoubling, and keep your duty with Allah, that you may be successful" (III: 129).

In all these verses the word *Riba* means the premium that is paid over the principal. One form of *Riba* is where a person sells a product to someone on the agreement that a specified price must be paid at some future date, if at the maturity date the buyer cannot pay, the seller will increase the price and extend the payment period (Ba-Owaidan, 1994).

The prohibition of *Riba* has been justified by Islamic jurists for different reasons. At the individual level, *Riba* creates selfishness, miserliness, greed, and malevolence. On the basis of *Riba* the money lender cares only for the principal and the *Riba* to be paid on it by the borrower, who may need the money to meet an unexpected accident or emergency. Moreover, at the social level, *Riba* tends to result in one class of people accumulating most of the society's wealth, leaving the rest of the society poor. This can lead to a highly unstable society.

The prohibition of *Riba* is intended to ensure justice and remove all forms of exploitation through unfair exchanges by requiring the absence of rigging, uncertainty or speculation, and monopoly or monopsony. Both buyer and seller should possess a fair knowledge of the prevailing prices before they enter into a transaction.

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[6] Charities.

Islam, by prohibiting *Riba,* intended to establish an economic framework where all forms of exploitation are eliminated, and particularly, the injustice perpetuated in situations where a financier is assured of a positive return without doing any work or sharing in the risk involved, while the entrepreneur, despite his management and hard work, is not assured of such a positive return (Ba-Owaidan, 1994).

3.3 THE RELATIONSHIP BETWEEN ISLAMIC AND CONVENTIONAL BANKS

Many IB/IFIs and individuals in the Islamic world wonder how their conventional counterparts structure their so-called Islamic transactions or Islamic investment units. Although CBs have been interested and active in Islamic banking since the early 1970s, such activities may give rise to doubts among many individuals and institutions in the Islamic world about the conformity of such transactions to *Shariah.* The *Shariah* law does not prohibit IB/IFIs from conducting transactions with CBs provided that the latter follow the rules of *Shariah* in the way they structure their instruments. Such endeavours are to be encouraged. The conventional institutions have the knowledge and experience to enrich Islamic banking. They can introduce viable investment opportunities due to their large market and accumulated expertise. The entrance of such institutions increases competition, provides broader diversification of markets and risks, and better liquidity arrangements. It also allows wider interaction between conventional and Islamic systems which will facilitate better understanding for both and lead to the globalisation of financial markets.

There is, on the other hand, an argument that the entrance of such banks, especially from the West, will attract funds at a cheap rate from developing countries and channel these into the developed world, later recirculating them at a higher rate. This will lower the flow of resources and increase the cost of essential resources to these countries and reduce the utilization of their indigenous means. This argument is not without foundation, but it is difficult to restrict the supply and movement of resources while their utilization is not improved. What is needed is a focus on how to improve the investment environment in Islamic countries in order to keep such resources in those countries. It can also be argued that IB/IFIs themselves invest their surplus or liquid funds with CBs and institutions in the West in investments which accord with *Shariah* principles.

IB/IFIs can play the role of financial intermediaries in attracting funds from the Western hemisphere. Because of the potential purity of their system, the reduced moral hazard and, it is hoped, their good investments, they can act as mediators of funds to Muslim countries.

The entrance of CBs into the Islamic banking business, assuming and provided their transactions conform to *Shariah* rules, should broaden the acceptability of Islamic transactions as well as their coverage and scope, and improve the efficiency of Islamic banking by increasing competition (Al-Omar and Abdel-Haq, 1996).

IB/IFIs represent a link in the chain of the banking system. It is inconceivable that they will operate in isolation, avoiding CBs. Khan's[7] experience has shown that the two systems can complement each other, and mutually beneficial relationships can be established in various fields of investment and exchange of know-how. IB/IFIs are more familiar with the traditions and conditions of the Muslim countries and are, therefore, in a position to assist the CBs as informed partners in these countries.

The IB/IFIs are also more familiar with investment opportunities in the Islamic countries. Meaningful relationships can be established and enhanced between Islamic and conventional banks which will be mutually beneficial, in many fields, such as:

a) Correspondence Services

Arrangements exist and can be further extended between IB/IFIs and CBs for them to act as correspondents and agents on a reciprocal basis. They can enter into arrangements under which drawings can be made on each other and cheques drawn on one bank by selected clients can be paid by another bank. Accounts operated under such correspondent relationships will be free of interest.

b) Opening of Documentary Credits

The operations conducted by IB/IFIs require the opening of letters of credit in connection with foreign trade operations. Since the foreign trade of most countries

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[7] Mr. Zafar Ahmad Khan is a veteran conventional as well as Islamic banker; he served as a senior executive vice-president with the Dar –al-Mal Al Islami (DMI) Group for fifteen years.

where IB/IFIs exist with the Western countries, the majority of the letters are, and can be, opened in the CBs of these countries.

c) Exchange of Funds between Islamic and Conventional Banks

There is room for exchange of funds between these two groups of banks on an Islamic basis. This can take the following shapes:

i) IB/IFIs can accept funds from CBs in the form of an investment account, with the return calculated according to the profit made by the investment pool, and *vice versa*.

ii) Financial co-operation can also be envisaged between Islamic and conventional banks in the areas of project financing and leasing. The IB/IFI can act as *Mudarib* for the CB. As a matter of fact, this is already happening, but on a small scale (Khan, 2000).

3.4 THE DIFFERENCES BETWEEN ISLAMIC AND CONVENTIONAL BANKS

The distinctive features of the IB/IFIs are as follows:

1- The relationship between IB/IFIs and their customers is not that of debtors and creditors, or *vice versa*, but one of participation in risks and rewards. This basic assumption leads to the following:

a) There is no previously fixed return on the funds invested with the bank.

Similarly, there is no previously fixed return on funds provided by the IB/IFIs. The return is decided, for both sides, in the light of the profit realised from the transactions in the ratio of capital participation or agreed ratio of profit-sharing.

b) There is no liability on the IB/IFI, who is the *Mudarib* (manager of funds), to owners of deposited funds (*Rab al-Maal*), except in the case of current accounts, to return their funds in full on demand, if the bank has been negligent in investing funds. These funds share the profit or loss resulting from the transactions they are invested in. This is the motivating force which impels the IB/IFI to exercise prudence and efficiency in the utilisation of its resources.

2- Unlike the CB, which pools its capital fund and investors' funds, an IB/IFI keeps the two distinct, in order to separate the profit earned on its own funds (capital) plus current account balances, repayment of which is guaranteed, from the profit earned on investors' funds, which are accepted on a profit-and-loss-sharing basis. This enables the bank to calculate correctly the profit due to investors.

3- IB/IFIs do not provide finance by offering cash loans, as do CBs, but through participation (*Musharakah*), or through some other form of Islamic instrument like *Murabaha, Ijara* etc. A significant portion of their activities is trading, i.e. they buy goods needed by their customers and sell them with an agreed mark-up against ready cash or on a deferred payment basis.

4- IB/IFIs serve multiple functions, as they play the role of commercial banks and investment banks, as well as development banks. They operate in the short-term like commercial banks, and in the medium- and long-term as investment development banks such as non-bank financial institutions (NBFIs), depending upon the structure of their resources.

5- While the role of the CBs is to attract financial resources and to lend them with interest, so as to make a profit, the emphasis of IB/IFIs is on using their financial resources to develop the society as a whole. Although they no doubt, keep profit in sight, that is not the focus of their activity. The main objective is to achieve socio--economic objectives while conforming to the injunctions of the *Shariah*.

6- Islamic banking is primarily equity-based.

7- Whereas the Islamic system is value-oriented, the conventional system is value-neutral.

8. While CBs are satisfied with traditional reviews by certified auditors, IB/IFIs are subjected to additional reviews by religious supervisory boards to ensure that funds are being raised and invested in ways that conform to Islamic principles (Khan, 2000).

Figure 3.1 shows the differences between Islamic and conventional banking.

Figure 3.1: Differences between Islamic & Conventional Banking*

Characteristics	Islamic Banking System	Conventional Banking System
Business Framework	Based on *Shariah* laws - *Shariah* scholars ensure adherence to Islamic laws and provide guidance.	Not based on religious laws or guidelines - only secular banking laws
Balance between moral and material requirement	The requirement to finance physical assets which banks usually take ownership of before resale reduces over extension of credit.	Excessive use of credit and debt financing can lead to financial problems.
Equity financing with risk to capital	Available. Enables several parties, including the IB/IFI to provide equity capital for a project or venture. Losses are shared on the basis of equity participation while profits are shared on a pre-agreed ratio. Management of the enterprise can be in one of several forms depending on whether the financing is through *Mudarabah*, *Musharakah*, etc.	Not generally available through commercial banks, but through venture capital companies and investment banks which typically take equity stakes in and management control of an enterprise when providing start-up finance.
Prohibition of *Gharar*	Transactions deemed *Gharar* are prohibited. *Gharar* denotes varying degrees of deception pertaining to the price and quality of goods received by a party at the expense of the other. Derivatives trading e.g. options are considered as having elements of *Gharar*.	Trading and dealing in derivatives of various forms is allowed.
Profit and Loss Sharing	All transactions are based on this principle. Returns are variable, dependent on bank performance and not guaranteed. But the risks are managed to ensure better returns than deposit accounts. Consumers can participate in the profit upside i.e. in a more equitable way than receiving a predetermined return.	This principle is not applied. Returns to depositors are irrespective of bank performance and profitability. The customer as depositor is like a lender and does not share in the success of the enterprise beyond receiving a fixed rate of predetermined interest. Unlike the Islamic system the depositor cannot theoretically gain subject to improved bank performance.

* Source: Abu Dhabi Islamic Bank.
http://www.adib.co.ae/Main_ENS/index.asp?g=3&i=2&dff=gniknaB+lanoitnevnoC+%26+gniknaB+cimalsI+neewteb+secnereffiD%2DgniknaB+cimalsI+tuobA [accessed 26th August 2004].

3.5 THE DIFFERENCES BETWEEN THE ACCOUNTING SYSTEMS OF ISLAMIC AND CONVENTIONAL BANKS.

The financial statement of any financial institution or bank represents in numerical form its assets and liabilities at a certain date. It also states, again in numerical form, the revenues and expenditures of the institution, that is, its balance of income. The financial statement is also an income statement. The IB/IFIs try to follow international accounting standards, but because of the distinctive characteristics of their business, the interpretation of their balance sheet differs from that of its counterpart in CBs, particularly in the area of revenue recognition and profit-sharing with depositors (Banaga et. al., 1994). This difference places added demands on the external auditors of IB/IFIs. The *Shariah* requirement (mainly prohibition of interest) and the lack of approved accounting standards for IB/IFIs are additional responsibilities for the auditors. External auditors need a wider remit to their audit functions, with more detailed notes and explanations in their report.

Due to the nature of the Islamic and conventional banks' operations, there are many differences between them. These are mainly in the *Shariah* requirement and the economic substance of the IB/IFIs' activities. In this section, a few specific features of the financial statements of IB/IFIs will be highlighted.

One difference that warrants consideration is that the IB/IFIs face a risk to which their conventional counterparts are not exposed. Though both have to take credit risks, capital adequacy, liabilities and asset-matching risks, currency-fluctuation and liquidity risks, the risk for the IB/IFIs is higher, due to their extensive trade and investment activities.

The maturity-mismatch and liquidity risks in IB/IFIs arise from the lack of sufficient *Shariah* -based liquidity instruments. The mismatch risk is increased due to the fact that IB/IFIs go for longer in their investments and operations without an adequate redemption facility. On the other hand, some risks to which CBs are subject do not exist in IB/IFIs.

Another difference lies in the focus of financial-accounting information. While in CBs the emphasis is on interest-rate spread, provision of loan portfolios and maturities of liabilities, in IB/IFIs it is on asset allocation, and return from investment and trade. (Both, however, emphasize liquidity, quality of assets, and transaction costs.)

A third distinctive difference is the under-capitalization of most IB/IFIs.

A fourth difference is the huge liquidity of the IB/IFIs. This is attributed to the lack of sufficient liquidity instruments, the absence of suitable investments and products with adequate redemption facilities. Such high liquidity is also attributed to the non-existence of a secondary market for Islamic instruments. IB/IFIs also maintain such high liquidity because they cannot use central banks as lenders of last resort, due to the incompatibility between the two institutions.

A final difference between conventional and Islamic banks is the *Shariah* requirement of the latter, they must comply with the principles and rules of the *Shariah* in all financial transactions and operations (Al-Omar and Abdel-Haq, 1996).

A comparative analysis of the financial statements of an IB/IFI and a CB reveals that there are similarities in some areas while in others there are differences. Both have an identical component of shareholders' equity. Both have cash and liquid assets; in IB/IFIs, however, these are mainly cash assets contrary to the practice of CBs which maintain such instruments as treasury bills. Both also have fixed assets and other liabilities, although their components differ.

The IB/IFIs are allowed to invest in trade transactions and real-estate operations while CBs are not. On the asset side of CBs, loans represent a substantial proportion, whereas in IB/IFIs, such a component rarely exists; if it does it will be marginal and free from interest. The major portion of the asset side of IB/IFIs is made up instead of receivables, such as *Murabahah* and leasing transactions.

In the income statements of CBs, one can find interest income/expenses which represent a substantial part of the statement. In IB/IFIs, again such components do not exist. They are replaced by income from *Mudarabah,* and trade and leasing operations. If there is a gain generated from operations prohibited by *Shariah,* such income will not be recognized in the statement as income. Furthermore, the profits of the CBs are declared after deducting the interest expenses payable to depositors, but in most IB/IFIs the profits declared will be the profits before deductions are made to pay the depositor's share of those profits. This results from the fact that depositors in IB/IFIs share the profit and loss of the bank which is not the case in CBs (Al-Omar and Abdel-Haq, 1996).

3.6 THE ISLAMIC ALTERNATIVES TO *RIBA*.

One set of alternatives to *Riba* consists of the utilization of ideal Islamic financial instruments, such as *Musharakah*, *Mudarabah*, *Murabahah*, etc., which have the ability to totally change the system of the interest-based economy, to curb the evils originating from it and to bring about a just and equitable system of distribution.

3.6.1 Participation Finance (*Musharakah*)

A *Musharakah* is essentially a general partnership, whereby two or more parties agree to exploit their labour or capital jointly and to share the profits and losses of the partnership. There are different types of *Musharakah* partnerships, each with different characteristics. For example the passive joint ownership of a home without its exploitation would be considered to be a *Musharakah.* More typically, however, *Musharakah* is the term used to describe partnerships that are formed for various commercial purposes. A *Musharakah* can take the form of a *mufawada,* meaning an unlimited, unrestricted, and equal partnership in which the partners enjoy complete equality in the areas of capital, management, and right of disposition. Each partner is both the agent and the guarantor of the other. A more limited investment partnership is known as a *'man.* This type of *Musharakah* occurs when two or more parties contribute to a capital fund either with money, contributions in kind, or labour. The partners share the profits in an agreed manner and bear the losses in proportion to their capital contributions. Each partner is only the agent and not the guarantor of his partner.

Although a *Musharakah* partnership structure can and is used for carrying on ordinary commercial activities, the basic concept of a *Musharakah* has also been used as a technique for IB/IFIs to provide finance to commercial enterprises. For example, the concept of *Musharakah* can be used to structure a working capital facility for a company, generally, however, only where that company has had a record of profitability. A *Musharakah* working capital facility operates much like a conventional working capital facility. The IB/IFI provides the funds to its customer, usually by depositing them in the customer's account with the financial institution. The customer then accesses those funds in the ordinary course of its business. The difference, however, is that instead of debiting the customer's account with a predetermined rate of interest, the IB/IFI periodically debits the customer's account for an amount equal to a

pre-determined rate of profit, subject to adjustment on a regular basis, usually quarterly (Buckmaster, 1996).

At the end of the financial year, the profits are calculated. If the amount due to the IB/IFI exceeds the provisional profit already debited from the account, the amount not paid to the IB/IFI will be credited to a special reserve account which the company creates in its books. Conversely, if the amount due to the IB/IFI is less than the provisional profit already collected by the IB/IFI, the special reserve account will be reduced by the amount of the excess payment to the IB/IFI. Upon the termination of the *Musharakah* financing, a final profit and loss account is prepared and at that time any balance in the special reserve account is shared by the IB/IFI and the customer in accordance with the ratio agreed upon in their contract.

If, during a financial year, the company generates losses, the special reserve account is reduced by the amount of those losses. If the balance of the special reserve account is insufficient to make good such losses, the customer may ask the IB/IFI for a refund (in whole or in part) of the provisional profits previously paid. The agreement between the IB/IFI and its customer lays down a time limit for this refund request; otherwise the claim will be time-barred (Buckmaster, 1996).

A critical aspect of *Musharakah* financing is the joint determination of the customer's investment in the business, which will in turn dictate the ratio used to allocate profits and losses between the customer and the IB/IFI. Generally, the customer's capital contribution or stated equity shown on the customer's financial statements will be ignored for this purpose. Instead, the parties will calculate the amount of the customer's capital based on a determination of average pre-tax profits during the preceding three years. That methodology is open to negotiation, however, if it would not produce a fair division of profits and losses.

An IB/IFI engaging in *Musharakah* financing has some of the same protections available to a conventional lender. Although the IB/IFI will share in the profits and losses of its customer's enterprise, if those losses are sustained because of the negligence or mismanagement of the customer or the customer's breach of agreed covenants, the entire loss sustained will have to be absorbed entirely by the customer. The IFI may then proceed against the customer not only to recover its funds but also the profits which it would otherwise have obtained. If the customer has complied with its

obligations, yet the profits available to the IB/IFI are consistently less than the agreed provisional rate of profit, the institution may convert not more than 20 per cent of its investment into ordinary shares based on the break-up value of the customer's company (Buckmaster, 1996).

A Model of *Musharakah* financing is given below:

ABC Islamic bank and a businessman decide to import 200 Mercedes cars at an estimated cost of £10 million. The bank contributes £8 million and the client puts up £2 million. It is also agreed that the client will be responsible for taking all necessary actions for importing the vehicles, their clearance from the port, storage, insurance, sales, accounting, etc, for which he will be paid as manager 10 per cent of the profit, if any, after all expenses related to this transaction are met (but not his own administrative expenses).

The vehicles arrive and are finally sold for £12.4 million. The expenses, including bank charges (which will be debited to the *Musharakah*), work out to £200,000. At the end of the transaction, the bank and client will receive the following amounts:

Sale proceeds	£ 12,400,000
Less expenses	£ 200,000
Funds available	£ 12,200,000
Funds invested	£ 10,000,000
Profit of transaction	£ 2,200,000
Less management fee	£ 220,000
Profit on *Musharakah*	£ 1,980,000
Add profit on *Musharakah* funds from bank before their utilisation	£ 400,000
Distributable profit	£ 2,380,000

The bank will receive 80 per cent of the profit, £1,904,000, plus its capital (8 million), i.e. a total of £9,904.000. The client will receive £220 000 as his management fee plus a 20 per cent share of the profit, £476000, plus his capital (£2 million), i.e. a total amount

of £2,696,000.

Now suppose the sale proceeds are £9,200,000 only, the exercise will be as below:

Capital loss	£ 800,000
Expenses	£ 200,000
Loss of transaction	£ 1,000,000
Profit on *Musharakah*	
Funds from bank	£ 400,000
Net loss	£ 600,000

Since there is no profit, the client will not receive the management fee. The net loss of £600,000 will be shared by the bank and the client in the ratio of capital, i.e. 80 : 20 (Khan 2000).

3.6.2 Commend (*Mudarabah*)

Mudarabah is a contract in profit-sharing, with one party providing funds and the other his management expertise. In other words, *Mudarabah* (or *Qared*) is a contract between the provider of funds (*Rab al-Maal*) and the managing trustee (*Mudarib*), who is provided with financial resources to run a particular project with the object of making a profit. Profits are shared between the *Rab al-Maal* and the *Mudarib* in a proportion agreed in advance. Losses, if any, are the liability of the *Rab al-Maal*, and the *Mudarib* loses the benefit from his efforts, i.e. his expected share in the profits. If, however, the *Mudarib* is guilty of wilful negligence, fraud or breach of trust in handling the funds, he is responsible for the losses. Funds are used for activities permitted by Islam and their use is subject to scrutiny by the *Rab al-Maal*.

Mudarabah is best suited for project and trade financing. For *Mudarabah* financing, an IB/IFI may use its own funds, or its clients' funds but not both together, as then it becomes a *Musharakah*. When the bank invests its own and/or clients' funds, it is acting as the *Rab al-Maal* and the entrepreneur is the *Mudarib*.

If the bank utilizes the client's funds without committing any of its own, it is acting as the *Mudarib* for the client until the conclusion of the business transaction for which the funds were invested. The bank gets an agreed share of the profit for services rendered.

The *Rab al-Maal* has the option to restrict the *Mudarib* to a specified purpose, period, level of risk etc., or to authorise him to use his full discretion in managing the affairs of the *Mudarabah* including the appointment of agents etc. The *Mudarib* can enter into a sub*Mudarabah* with the permission of the *Rab al Maal*. The *Mudarib* is not allowed to buy or sell *Mudarabah* assets against/for his own possessions. The profit can be re-invested in business but only after paying the share of the *Mudarib* in the profit.

There are two broad types of *Mudarabah* financing, namely multi-purpose and specific purpose. The nomenclature is self-explanatory. Since the capital is provided by the bank, which looks to the client for management of the project, the bank has to carefully scrutinise the feasibility report of the project before providing the finance. The *Mudarib* cannot be held responsible for genuine business losses. In cross-border financings, exchange risks, political risks, and the stability of the country concerned should also be studied before signing a financing contract. Also, after the disbursement of funds, the bank should closely monitor the performance of the *Mudarib* in order to ensure that there are no completion delays, cost-overruns, material pilferage, etc. If the financing contract permits, the *Rab al-Maal* (bank) may appoint a representative to the Board of the *Mudarib* institution (the client) (Khan, 2000).

A *Mudarabah* usually lasts for a specific duration. The accounts are periodically audited in order to determine the distributable profit, which is arrived at after taking into account all expenses. The *Mudarib's* management fee is expressed as a percentage of the profit, not a fixed amount. *Mudarabah* funds are used exclusively for the purposes defined in the *Mudarabah* contract, which also defines the powers of the bank and the *Mudarib*. The liability of the IB/IFI under the *Mudarabah* is limited to the amount of capital it has provided, and creditors of a *Mudarabah* have no recourse to the other assets of the bank.

If the *Mudarabah* contract permits, the client can repay the financing plus an agreed profit to the bank even before termination of the project.

I give here an example of *Mudarabah* financing between a bank and a client (*Mudarib*).

The bank provides the £10 million needed to run a project and the ratio of distribution of profit between the bank and the client is agreed as 80:20. On termination of the project, the audited accounts show a profit after tax of £150,000. The bank will get back its principal amount plus £120,000 as its share of profit. The client will get £30,000 as his share of the profit. If, however, there is a loss, it will be borne by the bank alone, and the client will get nothing for his services as the *Mudarib* (Khan, 2000).

3.6.3 Cost Plus Profit (*Murabahah*)

This is the most popular technique of financing among IB/IFIs. It has been estimated that 80 to 90 per cent of the financial operations of some IB/IFIs belong to this category. It works in the following way:

The client approaches the IB/IFI for finance to purchase a specified commodity. The bank, either itself or through an agent (who could be the client himself), collects all the required information about the nature and specification of the commodity, its price, names of dealers, etc. It then informs the client of these details as well as of the mark-up it would like to charge on the original price.

If these conditions are acceptable to the client, a *Murabaha* contract will be signed between the bank and the client. The bank will purchase the specified commodity from a seller of its choice, paying the price of the commodity in cash. If a sale deed is required (e.g., in the case of a car or a house), the registration is done in the name of the bank. Once the ownership of the commodity is transferred to the bank, it sells the commodity to the client on a deferred payment basis against an agreed price (Ahmed, 1995).

The new price at which the bank sells the commodity to the client is the original price (which is the cost to the bank) plus the mark-up the bank is charging (which is its profit margin). The client pays this price, either in instalments or in a lump sum, at an agreed later date.

It should be noted that there are certain requirements for the *Murabaha* contract to be valid. It is necessary for the profit margin (the mark-up) the bank is charging to be determined by mutual agreement between the parties concerned. Similarly, the goods in question should be in the physical possession of the bank before being sold to the client.

Thirdly, the transaction between the bank and the seller should be separate from the transaction between the bank and the purchaser. There should be two distinct transactions. That is why certain IB/IFIs effect a *Murabaha* transaction in two stages, using two separate contract forms. The first form is a request to the bank through which the client informs the bank of his intention to carry out the *Murabaha.* In this contract, the client promises to buy the goods from the bank. It should be noted that such a promise is not legally enforceable. Hence, the client can change his mind and the bank runs the risk of losing the money it has invested in this particular *Murabaha.* The second contract deals with the sale of the goods by the bank to the client on a deferred payment basis, the terms and conditions of which are clearly spelt out in the contract form (Ahmed, 1995).

The *Murabaha*h form of financing is being widely utilized by IB/IFIs to satisfy various kinds of financing requirements. It is used to provide finance in various and diverse sectors, e.g. in consumer finance for the purchase of consumer durables such as cars and household appliances, in real estate to provide housing finance, and in the production sector to finance the purchase of machinery, equipment, raw materials, etc. However, the most common use of the *Murabaha* technique is to finance short-term trade. *Murabaha* contracts are also used to issue letters of credit and to finance import trade (Ahmed, 1995).

3.6.4 Advance Payment Sale (*Bai'-al-Salam*)

Through this agreement the Islamic bank may enter into a contract with a client for the advance purchase of his products, specifying complete details of the commodity, its quality, its price and the place and time of delivery, and make the payment of the agreed amount at the time of entering into the agreement. When the commodity is produced and supplied to the bank on the specified date, the bank has the right to sell the commodity. *Bal '-a 1-Sa lam* is a special type of trading arrangement which is subject to strict conditions as laid down in the Holy Quran and *Sunnah* (Ba-Owaidan, 1994)

3.6.5 Deferred Payment Sale (*Bai MuaJJal*)

This is a trade deal in which the bank purchases the goods itself or through its agent, and sells them to the client at the cost plus profit, allowing him to pay the amount at a future date in a lump sum or in instalments. In order to conform to the *Shariah*, it is nec-

essary that the goods to be sold are owned by the bank before being sold to the client. The bank may take possession of the goods from the supplier or another person may do so on the bank's behalf. Sometimes the bank authorises the client himself to buy the goods on the bank's behalf. In this capacity the client is only a trustee, and the ownership and risk remain with the bank, but when the client purchases the goods from the bank, the ownership and risk pass to him.

The promise to buy may not be legally binding on the client as long as the goods are not delivered, but if the promise has caused the bank to incur some liabilities, the promise becomes binding in Islamic law. Islam strongly condemns non-fulfilment of a promise. Once the bank has purchased the goods, their physical possession by the bank is not always necessary since it is accepted that the Bill of Lading is the document of title in international trade. The transfer of title by the bank is effected by endorsing the Bill of Lading in favour of the client.

It is not uncommon for the bank to ask for a security deposit or some other collateral from the client to ensure payment on maturities of instalments (Khan, 2000).

3.6.6 Lease Purchase Financing

Under this arrangement the IB/IFI acquires equipment or buildings and rents them to the user against a fixed charge. It is a contract whereby the bank purchases an asset and leases it to a client. The lease contract specifies the leasing period, the amount and timing of lease payments and the responsibilities of both parties during the life of the lease (Ba-Owaidan, 1994).

3.6.7 Interest- free Loans (*Qared Hasan*)

A *Qared hasan* loan is one granted on compassionate grounds free of interest or service charge. It is repaid as and when the borrower is able. Banks often provide it for education or medical treatment.

Islam teaches that the rich should help the poor by lending them money when they are in need. Since these loans cannot carry interest and produce no profit, IB/IFIs cannot put a great deal of their funds into them, but they can afford to use a proportion of them

because they do not have to pay any return on current deposits. In Iran, banks are required to set aside some of their funds to give interest-free loans to:

a- small producers, entrepreneurs, and farmers who would otherwise be unable to find sources of working capital; and

b- needy consumers.

IB/IFIs are allowed to charge a fee for the administrative costs of such loans. The Council of Islamic Ideology in Pakistan decided that the *Shariah* required the fee to be the actual cost incurred but that since it would be impossible to decide the cost of each loan, an application fee should be charged which should be the same irrespective of the amount or duration of the loan.

The contracts listed above are not the only possibilities of instruments which can be used when a bank converts from the conventional to an interest-free system. For example, in Iran, some banks have used *ho'ala* contracts, under which one party agrees to pay a specified sum to another party in return for a specified service on mutually agreed terms. The creation of new types of contracts that conform to the *Shariah* continues, so that Islamic banking will be able to supply all the developing services which CBs now do (Abu Saud, 1980).

3.6.8 Manufacturing (*bai Istisna*)

Bai Salam is the deferred sale of a commodity which is not possessed by the seller and which he grows or procures for supply to the buyer on condition of prepayment, while *Bai Istisna* is a contract for the sale of goods which a skilled workman commits himself to manufacture for a buyer. Like *Salam*, this form of sale, too, defies the general Islamic law on sales of goods, but under the Islamic "law of necessity" approval has been given to it as a special case (Hasanuzzaman, 1995).

At the request of the client, the bank places an order for the manufacture of some equipment or the construction of a major item such as a road or water pipe line. Precise specifications of items to be manufactured, place and maximum time of delivery etc. are determined. When the item is ready, the bank buys it from the manufacturer and sells it to the client at whose behest the order was placed, at a profit, on a deferred payment basis. Thus, by contributing to the enhancement of the production capacity of the

country, *Istina* financing plays an important role in the country's development. Such contracts are typically between a combination of an IB/IFI, a government entity, and a technician. *Istisna* financing is ideal for infrastructure projects, which have a regular cash flow and cannot be easily financed as a *Murabahah* or an *Ijara*. The bank enters into one contract with the client, and another with the manufacturer. The contract with the manufacturer should include, *inter alia*, a risk allocation provision, a dispute resolution mechanism, and the operational obligations of the manufacturer in detail. As long as the item is manufactured according to the given specifications, it is binding on the bank to buy it from the manufacturer, and on the client to buy it from the bank at the agreed price. On the bank's instructions the manufacturer can deliver the project directly to the bank's client. The bank has to be very careful in choosing the manufacturer, as it can be held responsible if the project does not conform to the specifications.

It is not necessary for the bank to provide the services needed for the manufacture of the item; it may assign the relevant portion of the *Istisna* contract to an entity that will be able to provide the necessary services to the manufacturer.

It is prudent for the bank to provide, in the *Istisna* contract signed with the client, a clause entrusting to him the responsibility of supervision during the period of manufacturing, as well as of taking delivery of the item directly from the manufacturer in a satisfactory condition. This will safeguard against the risk of any claim against the bank by the client for any defect in the manufactured item (Khan, 2000).

3.6.9 Leasing (*Ijara*) - General Description

Under the terms of an *Ijara* contract, a business entity or individual may choose, and then request the bank to purchase, capital goods such as machinery or equipment and rent them to him. The rent is charged from the date the lessee has taken delivery of the equipment, and the duration of lease is determined. The *Ijara*-financing decision is based upon the financial position of the client and the expected cash flow from the leased asset, in the same manner as the CBs, but without involving interest. In case of non-payment of due instalment(s), the bank has recourse to the leased asset. The asset has, therefore, to be of high quality, and have a ready market. The lease instrument can be traded as it is backed by an asset.

If, on expiry of the lease period, the lessee neither pays the remaining rent nor gives back the asset to the lessor, he will be liable to pay the same rent as was fixed during the lease period, for the days he keeps the asset in his possession, on the basis of his continued possession but not for delaying the due rent.

Whereas *Murabahah* involves the purchase and sale of the commodity itself, *Ijara* involves the sale only of the use of the commodity (usufruct).

Since the *Ijara* is backed by an asset, it can be securitised by issuing *Ijara* certificates. The certificate (SUK) holder thus becomes a proportionate owner of the asset, with the attendant rights and obligations.

This instrument of financing has gained momentum in the banking system, owing partly to its tax advantages. In many countries the rental payments are tax deductible (Khan, 2000).

There are two forms of leasing:

3.6.9.1 Operating Leases

The operating lease is one whereby the IB/IFI allows the customer to use capital assets owned by the bank for a limited period of time ranging from a few days to a few months or years, depending on the type of asset in question. In return the lessee pays a periodical rental, which is normally in excess of the depreciation amount of the asset. It can be a fixed amount for the whole period of the lease or a variable amount, according to agreement with the client.

Unless the *Ijara* contract specifically provides for the maintenance and insurance of the asset to be arranged by the lessee, it is normally the responsibility of the lessor who assumes the financial risk as well as the risks associated with the ownership of the asset. Hence, the necessity of a thorough examination of the customer's credentials. It is not unusual for the bank to ask the lessee to give a security deposit, which can be used if the lessee defaults on payments. The leased asset remains under the bank's legal charge until all rentals are paid (Khan, 2000).

The risk of refusal by the client after the asset has been acquired by the bank can be minimised if the client signs an agreement with the bank to take the asset on lease,

before the bank acquires it. The bank can also avoid the maintenance risk by obtaining the client's agreement to maintain and operate the asset within defined guidelines.

The bank should obtain the client's acknowledgement that the asset has been delivered to him in a fully satisfactory condition, foregoing any claim against the bank for any defect in the asset.

Before granting the lease, the bank should investigate the laws relating to the ownership of the said asset, the creation of a charge on the asset, taxation, and the legal environment of the country etc.

A lease can be terminated before its expiry only by mutual consent of the parties, unless the lessee contravenes any term of the lease agreement. In the event of termination, the lessee is liable to pay the rent due up to the date of termination (Khan, 2000).

3.6.9.2 Finance Leases

The finance lease (*Ijara*-wa-*Iktlna*) is one whereby the IB/IFI finances the purchase of capital goods, or an entire project, and leases the asset to the client, who promises to purchase it at an agreed amount within a specified period. The lease rental may be a fixed amount or a percentage of the cash flow of the project. When the total lease rental paid equals the purchase price of the asset, the title is transferred to the client, either free of any charge or at a nominal price, if the lessor wants to give the asset to the lessee, for which the lessor gives an undertaking separate from the lease agreement.

The finance lease is also called a 'full payout lease'. The period of the lease is generally close to the estimated useful life of the asset. In an Islamic finance lease the lessor is usually responsible for the maintenance and insurance of the asset. *Ijara-wa-Iktina* is better than equity financing for both parties; the bank has a specific charge on the asset and the lessee can show the lease rental as an expense and enjoy a tax concession on the use of the asset without showing any addition to the value of his assets, so that repayment becomes easier for him.

Alternatively, the lessee may open an investment account under the bank's lien, which will be credited with each payment. The bank may invest funds in this account and the investment proceeds credited to the account. Once the total amount accumulated in the account equals the purchase price of the asset, the amount is used to acquire the asset. In

the event of the client's default in payment, the funds in this investment account may be used. The value of a capital asset usually depreciates faster in the early years, hence the earlier rentals are kept proportionately higher. The bank (lessor) is entitled to the lease rental only as long as the asset exists. If the asset becomes unusable or destroyed by no fault of the client (lessee), the lease rental ceases, unlike conventional leases. IB/IFIs can offer leasing certificates to their investors as a form of declining equity (Khan, 2000).

3.7 THE SHARIAH SUPERVISORY BOARD

The transactions of IB/IFIs should be conducted in accordance with the *Shariah* rules and principles. The management of IB/IFIs need to assure the shareholders investors, clients, and the public that they have observed the Islamic *Shariah* and that their business transactions have been executed in a totally pure way[5]. To meet this need, IB/IFIs have created a control process in the form of in-house religious advisers, commonly called *Shariah* Supervisory Boards (SSBs). "The primary objective of the *Shariah* Supervisory Board... is mainly to give credibility to operations of Islamic banks by authenticating their legitimacy from the *Shariah* point-of-view"(Mudawi, 1984) So, the SSB is the means through which Muslim clients and shareholders obtain assurance that their moral expectations are being fulfilled by IB/IFIs (Gambling et al, 1993).

According to the AAOIFI Standards (AAOIFI, 2001) the members of the SSB are to be appointed by the shareholders at their annual general meeting upon the recommendation of the board of directors, taking into consideration local legislation and regulations. Shareholders have the right to authorize the board of directors to fix the remuneration of the SSB (Bucheery, 2001).

Governance Standard #1 defines the SSB as an independent body of specialized jurists in *figh almua'malat* (Islamic commercial jurisprudence). However, the SSB may

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[5] Totally pure way means that the Islamic bank has obeyed and satisfied Allah in its financial and non-financial dealing and any profit from *haram* (unlawful) transactions is properly disclosed and donated to charity.

include a member other than those specialized in *figh'al-mau'malat*, but who should be an expert in the field of IFIs and have some knowledge of *figh al-maumalat*. The SSB should consist of at least three members. The SSB may seek the service of consultants who have expertise in business, economics, law, accounting, and/or others. It is the role of the SSB to direct, review, and supervise the activities of the IFI in order to ensure that they are in compliance with the *Shariah* rules and principles. The *fatwas*[6], and rulings of the SSB shall be binding on the IFI (Bucheery, 2001).

The Islamic credentials of the members of the SSB must be impeccable. The SSB specifies the precepts which must be followed by the bank in all its financial transactions (Karim, 1990a). Briston and El-Ashaker (1986) state that the functions of the SSB can be divided into three main categories: to provide advice (*ex ante* auditing), to check the actual religious performance (*ex post* auditing), and to report on the management of the *Zakat* fund. Provision of advice (in the form of *fatwa*s) represents the role of the SSB in advising the board of directors and the managing directors on the bank's operations, contracts, and procedures to ensure that all are in conformity with the Islamic *Shariah*. The monitoring of performance is the process of checking that the executive management has complied with the principles of the Islamic *Shariah* and the SSB's *fatwas*. The audit of the *Zakat* fund is the responsibility of the SSB to ensure that the *Zakat* on the net assets of the IB/IFI is properly calculated and administered.

Gambling et al (1993) note that the SSB performs all or part of the following duties:

1. setting the *Shariah* rules for the conduct of banking business. These should cover the drafting of the contracts governing the relationship between the bank and its clients;
2. examining all or part of the bank's transactions, to ascertain whether there have been breaches of the *Shariah* rules; and
3. issuing a statement, which is included in the annual report of the bank, stating whether or not the bank has conducted its business in compliance with the *Shariah*.

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[6] A religious opinion on a juristic matter expressed by a single jurist or a panel of jurists.

Karim (1994) classifies the functions and duties of the SSB into the following:

1. designing and improving the bank's contracts for its basic activities;
2. participating with the external auditors and management of the bank in setting the bank's accounting policies on issues which are not covered by the accounting standards enforced in the country in which the IB/IFI operates, or those whose treatment violates the *Shariah*;
3. vetting the doctrinal suitability of the bank's business transactions; and
4. issuing a report at the end of the financial year to assure consumers of the bank's services that it had access to all documents and records that it deemed necessary in carrying out its duties, and that the bank's financial dealings are in compliance with *Shariah* rules.

Furthermore, the SSB has the right to access any information inside the bank that they consider relevant to their work (Gambling et al, 1993). Mudawi (1984) claims that: "the bank's management has a duty to see that issues arising from economic and financial transactions in the present economic order [should be] clearly exposed to the *Shariah* Supervisory Board, to be aware of any conflict with the Islamic spirit" (Mudawi, 1984). However, there was an instance in which the SSB members of one of the Islamic banks "objected to the bank's initial treatment of recognizing all the profit when the contract is concluded between the bank and the client (up-front income recognition). However, despite the SSB's objection, the bank continued using the up-front recognition of profit approach. Therefore, it can be argued that (in some IB/IFIs) the *fatwas* issued by the SSB are not treated as binding. Indeed, it is worth noting that (in some IBIFIs) the bank's Articles of Association state that the SSB will play a 'consultative' role in such matters" (Al-Sadah, 1999). However, this seems to be the exception rather than the rule.

The functions and duties of the SSB have no true parallel in conventional banking. While some may compare SSB auditors to conventional system non-executive directors or to an investment committee of a US mutual fund, SSB auditors have more powers and rights. In most cases, the SSB's formal authority is at least equal to that of the external auditors (Karim, 1990a). For example, in the incorporation of the Faisal Islamic Bank of Egypt, the statutes of the bank stipulate that the SSB "shall follow in its business and relations with the management of the bank and its various components the

same means and shall exercise the same competence accorded to the auditors under these statutes" (quoted in Karim, 1990a).

3.8 CONCLUSION

The phenomenon of Islamic banking became institutionalised and evolved into a formal banking industry in the 1960's. This development was a result of the revival of the Islamic faith in almost all Muslim countries, which in turn resulted in efforts being made to extend the requirements of the *Shariah* to all business activity. The reassertion of the Islamic identity of the Arab peoples was also due in part to the economic independence from Western colonial powers because of the discovery of oil in the Gulf and the Arab states. Moreover, the oil revenues have brought substantial funds, which have been used to support the development of IB/IFIs.

IB/IFIs are governed by Islamic precepts. They trade in asset-based transactions rather than purely financial ones in order to avoid *Riba*. Their major financing instruments are *Murabaha*, *Musharkah*, *Murabaha, Salam*, *Istisna*, and *Ijarah*. Shareholders, investors, and clients of IB/IFIs expect to be assured that these banks have actually adhered to *Shariah*. To meet such a need, the banks have developed a control process in the form of in-house religious advisors who sit on the *Shariah* Supervisory Board. The functions and duties of the SSB have no true equivalent in the conventional system, but in most cases its formal authority is equal to those of conventional external auditors. Both SSBs and external auditors conduct the auditing of IB/IFIs.

CHAPTER FOUR

THE FINANCIAL SYSTEM IN SAUDI ARABIA

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4.1 THE EVOLUTION OF ISLAMIC BANKING AND FINANCIAL INSTITUTIONS IN SAUDI ARABIA

Modern banking first came to Saudi Arabia in 1925 when the National Handelsbank (eventually absorbed into the Algemene Bank Nederland) set up an office in Jeddah to serve Muslim pilgrims from Indonesia. Since its function was primarily to offer moneychanging facilities and it did not take deposits or grant loans *the question of interest did not arise.* Other European financial institutions were denied access to the new kingdom by King Saud, who mistrusted Western commercial banks, so traditional moneylenders and moneychangers served the needs of the local community. Even banks from other Arab states were not encouraged to enter Saudi Arabia (Wilson, 1984).

However, the following year the bin Mahfouz family, in association with two other moneychanging families from Jeddah, the Abdulaziz Al-Kakis and Musa Al-Kakis, were finally given permission to establish a bank, the National Commercial Bank (NCB), which opened for business in 1938. Following the oil boom in Saudi Arabia it became the second largest bank in the Middle East and the Arab world as a whole, but its beginnings in the largely feudal and backward Saudi economy of the 1940s were extremely modest. It catered largely for the financial needs of Jeddah's merchant community, providing deposit taking facilities and limited foreign exchange services, although the moneychangers of the souks continued to dominate in this field (Wilson, 1984).

Most depositors kept their funds in current accounts on which no interest was payable, and no attempts were made to introduce savings schemes. Overdraft facilities were available, but the amounts had to be agreed in advance. To that extent, the bank complied with the *Shariah.* A charge, sometimes referred to as a fee, and fixed at a percentage rate like interest, was levied on overdrafts. Whether this conformed to the *Shariah* is debatable, but as the sum charged was modest, given the bank's ability to

obtain funds cheaply, and as most borrowers were relatively wealthy in any case, these charges for credit aroused little concern (Wilson, 1984).

By arguing that the existence of the National Commercial Bank meant that the principle of allowing banking had already been conceded, the British Bank of the Middle East obtained permission to open offices in Jeddah and Al Khobar in 1950, and other foreign banks soon followed, including the French Banque de 1'Indochine et de Suez. Like the National Handelsbank, they largely catered for the needs of expatriates (Wilson, 1984).

Surprisingly, it was not until 1957 that a second local bank was founded to compete with the National Commercial Bank in the domestic market. This second institution, the Riyadh Bank, had severe problems in its early stages. It nearly went bankrupt in 1964, justifying some of the worst fears of Islamic critics of banking, and was only saved by the intervention of the Saudi Arabian Monetary Agency (SAMA) which reformed the management and took a 38 per cent stake in the bank's equity (Wilson, 1984).

Competition in retail banking in Saudi Arabia increased in 1983 when the Al Rajhi Company for Currency Exchange and Commerce, the largest moneychanging business in Saudi Arabia, was licensed to operate as the kingdom's first fully-fledged IB/IFI. With paid up capital of $180 million, Al Rajhi was the third largest commercial financial institution in Saudi Arabia after the National Commercial and Riyadh Banks. The Saudi Arabian authorities had been reluctant for a long time to authorise a specifically designated IB/IFI, as under Saudi law the paying or receiving of interest is prohibited. As all banks operating in Saudi Arabia to all appearances conformed to Islamic law, a special IB/IFI was not seen as necessary.

However, neither the National Commercial nor Riyadh Banks offered the types of account or lending facilities provided by the IB/IFIs in the neighbouring Gulf States. Although their fixed charges on loans were not designated as interest, many believers doubted whether the banks were really conforming to the spirit rather than just the letter of Islamic law. At the same time, SAMA was concerned with regulating the moneychangers and moneylenders such as the Al Rajhi, whose dominance in the souk economy constrained the agency's power to influence the financial system. The accounts of the moneychangers were not subject to the inspection by the agency, neither could the agency act as the lender of last resort if a moneychanging establishment found itself unable to meet withdrawals.

The Al Rajhi Company therefore decided that it would apply to become a bank. However, because its activities differed from those of the other banks, and many of its clients were devout Muslims, it felt that it would be more appropriate to be designated an Islamic rather than a conventional bank. Furthermore, whereas CBs are obliged to keep a proportion of their reserves in liquid assets, which may include interest bearing securities, the Al Rajhi Company maintained only a cash reserve for contingency purposes. It was able to do so, due to the lower volatility of its deposits than those of the CBs, and large quantities of domestic and foreign currencies were always held in any case, as much of the bank's business was in foreign exchange transactions (Wilson, 1984).

The operations of the IB/IFIs met with considerable suspicion from many of the more evangelical Muslims because of the similarity of their day to day operations to those of Western banks. For them, it was not enough to have facilities available to enable believers to conduct their financial affairs according to the spirit of Islam. In their view, everyone in a Muslim society should adhere to Islamic teaching, whether believers or not, and therefore institutions such as Westernised CBs should not be allowed to operate. Calls were made for the Islamicisation of all financial transactions, a necessary prerequisite for which was the Islamicisation of the commercial banking system (Wilson, 1984).

The National Commercial Bank, ever since the inception of IB/IFIs, has sought to provide Islamic banking products for its clients, and in 1990 established the first branch to provide Islamic banking products. The establishment of an independent Islamic Banking Services Division followed in 1992. The division was empowered to plan for and prepare the development and provision of Islamic banking products, to supervise the branches affiliated to it, and to follow up the market of the Islamic banking business. The Islamic Banking Services Division has its own independent budget in respect of deposits, financing, treasury, and other banking services.

The number of branches that have been converted to provide Islamic banking products has now reached 61 covering more than 32 cities. They offer products developed with the assistance of pioneering specialists in Islamic banking, and their activities are subject to the supervision of the *Shariah Fatwa* and the Control Committee which was set up for this purpose. A committee for expanding the Islamic banking business has

also been set up under the chairmanship of the director general of the bank and includes senior officials, with the aim of managing the process of expansion in providing banking services at bank level, in order to meet the growing desire of clients to obtain banking products that satisfy their needs and give them peace of mind (NCB web site).

4.2 THE BANKS AND BRANCHES IN SAUDI ARABIA

The number of banks in the year 2000 was eleven, including the Gulf International Bank, which is headquartered in Bahrain, with a branch opened in Riyadh in August 2000.

The number of operating branches up until the end of December 2000 was 1184, 427 in the Central Region, 332 in the Western Region, 219 in the Eastern Region, 136 in the Southern Region, and 70 in the Northern Region. (Table 5.1 below shows the distribution of branches according to region). With a banking licence issued to the Emirates International Bank of Dubai to open a branch in the Kingdom in 2002, the number of licensed banks in the Kingdom rose to 12. It is expected that the Emirates International Bank opened another branch in the last quarter of 2002. In addition, the government has announced its approval of the applications of the National Banks of Kuwait and Bahrain to open branches in the Kingdom.

Table 4.1: Distribution of Branches According to Region

Financial year	Regions West and South	Regions North and Central	Region East	Total
1996	473	507	228	1208
	(39 %)	(42 %)	(19 %)	
1997	466	509	226	1201
	(39 %)	(42 %)	(19 %)	
1998	474	518	237	1229
	(39 %)	(42 %)	(19 %)	
1999	467	507	222	1196
	(39 %)	(42 %)	(19 %)	
2000	468	497	219	1184
	(40 %)	(42 %)	(19 %)	
2001	467	497	220	1184
	(39 %)	(42 %)	(19 %)	

*Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report 2001, p99.

4.2.1 Bank Profits

In the year 2000, the net profits of the banks reached SR 8.9 billion, compared with SR 6.4 billion in 1999, that is an increase of SR 2.5 billion (39.1 per cent, compared with 1999). In the first half of 2002, the banking sector continued to record good growth rates. The total assets of the banking system increased by 6.6 per cent to reach SR 487 billion, while deposits of clients rose by 6.1 per cent to reach SR 349 billion. Loans to clients increased by 15 per cent as a result of the remarkable loan growth to companies, especially in the construction sector and the commercial and diversified sectors. Regarding the nature of assets, doubtful loans declined by 12 per cent, to represent 8.8 per cent of the total outstanding loans. Reserves dedicated to cover doubtful loans provided a cover of 110 per cent, and accordingly the investment portfolio rose by 12 per cent, to reach SR 227 billion. In addition, the net profits of the banking system rose by 8.4 per cent in the first half of 2002, which equals a capital investment return of 21.44 per cent, compared with 21.4 per cent in 2001, and an asset return of 2.29 per cent, compared with 2.25 per cent in 2001. The profitability of the banks could be attributed to the large difference between their costs and commitments, and their incomes from credit and investment. (Financial Report, 2001, General Department of Economic Research and Statistics, Saudi Arabian Monetary Agency, Najd Press, Riyadh, pp. 97-102).

4.2.2 Investment Funds

Investment funds in Saudi Arabia are considered among the most important investment products that Saudi banks provide. The National Commercial Bank launched the first Saudi investment fund, the Dollar Trading Fund, in 1979. During the last few years, Saudi banks have begun to improve their investment products in the market in a way that suits the development and progress of banking services in the Kingdom of Saudi Arabia, and have also gained an enormous amount of experience, in view of the high demand by clients and investors for such funds, and their increasing determination to find the best funds. The number of participants in investment funds increased from 33,162 in 1992 to 172,197 by the end of the year 2003 (an increase of 419.3 per cent). Total assets of funds increased to SR 53.87 billion by the end of 2003, compared with SR 12.40 billion in 1992 (334.4 per cent). In addition, the number of funds increased from 52 in 1992 to 170 by the end of 2003 (an increase of 226.9 per cent).

The systems and laws governing investment funds have not experienced modifications or changes, except those permitting non-Saudis, living in the Kingdom or abroad, to participate in the local investment funds by the end of 1999. Several initiatives have been taken to support the freedom of the local market so as to attract foreign investments and to introduce foreign investors to the environment and economic opportunities in Saudi Arabia. The first step was a closed investment fund, which was circulated on the London stock market. This step increased the depth of the local market and encouraged long-term investments in it. This is an extension of a long series of measures that have been carried out over many years to develop and enhance the level of economic activity and to improve the performance of the investment funds provided by the Saudi banks. Market indicators showed remarkable demand during 2003, when indicators of the local market rose, and the level of the economy improved. SAMA is directly monitoring the licensing and follow-up processes of Saudi banks on the basis of laws and systems that protect the rights of all involved parties and raise confidence in the performance of this sector.

The number of funds rose by 18.9 per cent, to reach 170 by the end of 2003, compared with 143 at the end of 2002. In addition, the total assets of funds rose by 43 per cent to reach SR 55.21 billion in March 2004, compared with SR 38.56 billion at the end of 1999. This could be attributed to the increasing number and diversity of the funds, which have caused the number of participants to rise from 165.044 in 2002 to 172.197 by the end of 2003 (an increase of 4.3 per cent).

Investments in the local market rose by 13.4 per cent, to reach SR 37.22 billion by the end of the year 2003, compared with SR 32.83 billion at the end of 2002, and their share in the total assets of funds also rose 69 per cent in 2003, compared with 67 per cent in 2002. In addition, fund investments in the international markets rose by 4.1 per cent to reach SR 16.65 billion by the end of 2003, compared with SR 15.99 billion at the end of 2002.

The investment of funds varies in the local and international markets according to the economic situation and the appeal of the markets to investors. The total investments of funds in the stock markets rose by 61 per cent, to reach SR 12.48 in the year 2003, SR 4.84 billion of which were in the local stock market, while SR 7.64 billion were in the international stock markets, compared with SR 7.77 billion at the end of 2002. On the

other hand, investments of funds in the local market declined by 2.4 per cent to SR 18.46 billion, SR 15.36 billion in the local market and SR 3.11 billion in the international markets, compared with SR 18.91 billions in 2002. While, investments of funds in bonds rose by 6.8 per cent to SR 141 million, SR 7 million of which were local bonds and SR 134 million international bonds, compared with SR 132 million in 2002, and other investments of funds rose by 3.5 per cent to SR 22.78 billion, 17.01 billion of which were local investments and 5.77 billion international investments, compared with SR 22.00 billion at the end of 2002. The high growth rate of investment funds could be attributed to the desire of Saudi banks to fulfil the demands and needs of their clients.

Table 4.2: Investment Funds

Year	Operating funds	Local investments	International investments	Total assets of Funds	Number of participants
1992	52	5.30	7.10	12.40	33.162
1993	60	7.40	8.40	15.80	34.170
1994	61	5.28	6.83	12.11	30.945
1995	71	5.77	7.19	12.96	33.051
1996	83	8.15	8.51	16.66	45.136
1997	104	11.22	10.22	21.43	63307
1998	121	12.00	13.01	25.01	69.543
1999	134	15.97	18.71	34.68	79.322
2000	138	16.58	21.97	38.56	95.800
2001	138	30.42	19.64	50.06	173.999
2002	143	32.83	15.99	48.82	165.044
2003	170	37.22	16.65	53.87	172.197

Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report.

The assets of operating investment funds in Saudi Arabia rose by 10 per cent by the end of the year 2003 to reach approximately SR 53 billion, compared with SR 48 billion at the end of 2002, diversifying into different forms of investment. Assets of local stock funds reached SR 4.8 billion, compared with SR 2.4 billion in 2002, and international stock investments reached SR 7.6 billion, compared with SR 5.3 billion in 2002. Local money markets investments reached SR 15.4 billion, compared with SR 15.5 billion in 2002, while international money market investments reached approximately SR 3.1 billion, compared with SR 3.4 million at the end of 2002. Other local investments reached SR 17 billion, compared with SR 14.9 billion at the end of 2002, and other international investments reached SR 5.8 billion, compared with SR 7.1 billion at the

end of 2002. In addition, total assets of local and international bonds funds reached approximately SR 7.0 billion and SR 134 million respectively. By the end of 2003, assets of investment funds abroad decreased by 10.5 per cent to SR 492 million, compared with SR 550 million at the end of 2002 (See Table 4.3).

Table 4.3: Assets of Investment Funds Incorporated inside and outside Saudi Arabia by Type (in Million Riyals)

Year	Domestic Shares	Foreign Shares	Domestic Bonds	Foreign Bonds	Domestic Mony Market Instruments	Foreign Mony Market Instruments	Other Domestic Assets	Other Foreign Assets	Total Assets
1996	463	2,926	1,280	863	3,858	2,970	1,536	2,762	16,657
1997	1,708	3,945	1,923	528	4,192	3,424	2,200	3,512	21,433
1998	1,207	4,452	2,495	533	4,119	4,358	2,659	5,188	25,009
1999	1,569	6,686	2,108	576	6,231	4,717	4,251	8,544	34,682
2000	1,360	7,697	7	193	7,849	2,064	7,367	12,019	38,556
2001	2,355	6,844	7	180	13,723	3,999	14,332	8,619	50,059
2002	2,437	5,339	10	122	15,516	3,398	14,864	7,140	48,827
2003	4,841	7,638	7	134	15,360	3,105	17,008	5,773	53,866

Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report.

The National Commercial Bank was the leader with respect to total assets of investment funds, with SR 21.1 billion, or 54.8 per cent of the total assets of the investment funds. The Al-Rajhi Banking and Investment Company ranked second, with SR 4.2 billion, or 11.0 per cent, the Saudi American Bank was in third position with SR 3.5 billion, or 9.2 per cent, while Bank Al Jazeera came last with only SR 0.2 billion, or 0.6 per cent of the total assets of investment funds.

The Saudi American Bank was ranked first with respect to the number of its investment funds with 25 open funds, then the National Commercial Bank with 23,the Saudi French Bank with 17, and finally Bank Al Jazeera, with 5 open funds. With respect to the number of participants, the National Commercial Bank came first with approximately 51,500 participants, then the Al Rajhi Banking and Investment Company with 11,000, the Saudi British Bank with 8,900, and finally Al Jazeera Bank with 200 participants (See Table 4.4).

The number of investment funds of Saudi banks rose in the first half of 2001 to reach 139 funds by the end of March, with total assets of approximately SR 40.0 billion, compared with SR 37.4 billion at the end of March 2000. Local investments reached SR 19.6 billion, i.e., 49 per cent of the total assets, while international investments were SR 20.4 billion, i.e., 51 per cent of the total assets. The number of participants increased by 15 per cent, to 99,300, by the end of March 2001, compared with 86,400 at the end of March 2000.

Table 4.4: Ranking of Banks According to Assets, Number of Funds and Participants in the Year 2000

Funds Assets		Number of Funds		Participants	
Bank	Billions of SR	Bank	Number of funds	Bank	Number of participants
NCB	21.1	The Saudi American Bank	25	NCB	51.5
Al Rajhi Banking	4.2	NCB	23	Al Rajhi Banking	11.0
The Saudi American Bank	3.5	The Saudi French Bank	17	The Saudi British Bank	8.9
Riyad Bank	3.5	Riyad Bank	16	Riyad Bank	6.8
The Saudi British Bank	2.4	The Saudi British Bank	16	The Saudi American Bank	5.9
The Arab National Bank	2.1	The Arab National Bank	16	The Saudi French Bank	4.4
The Saudi French Bank	0.9	The Saudi Holandi Bank	11	The Arab National Bank	4.6
The Saudi Holandi Bank	0.6	Al Rajhi Banking	9	The Saudi Holandi Bank	2.5
Bank Al Jazeera	0.2	Bank Al Jazeera	5	Bank Al Jazeera	0.2
Total	38.5	Total	138	Total	95.8

Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report 2001, p128.

The number of investment funds managed by banks in Saudi Arabia increased from 52 in 1992 to 138 in the year 2000, while the number of participants increased from 33,200 in 1992 to 95,800 in the year 2000. The total assets of funds increased from SR 12.4 billion in 1992 to SR 38.6 billion in the year 2000. Investments in local funds in Saudi Riyals reached SR 16.6 billion, i.e., 43 per cent of the total assets, while investments in foreign currencies reached approximately SR 22.0 billion, i.e., 57 per cent of the total

assets (Financial Report, 2001, General Department of Economic Research and Statistics, SAMA, Najd Press, Riyadh, pp. 123-132).

4.2.3 Automatic Teller Machines

Saudi Arabia has witnessed rapid progress in the field of banking technology over the last ten years. In addition to the automatic clearance system in the clearance houses in Riyadh, Jeddah, and Dammam, and the automatic system of stock circulation and settlements, known as the Automatic System of Saudi Stock, an efficient and advanced payment system has been introduced. This system, known as the Saudi Payment Automatic Network (SPAN), has been operating since April 1990, and connects all the automatic teller machines (ATMs) of the banks in Saudi Arabia. Holders of SPAN cards are able to use any ATM in the Kingdom, whether their cards are issued by their banks or by other banks. In addition, card holders are able to pay for their purchases at points of sale through terminals installed in shops and commercial markets all over the Kingdom, free of charge. SPAN is also linked to worldwide payment networks, such as the International Visa Network and Master Card. Accordingly, cards issued by those networks can be used through a large number of ATMs and point of sale terminals in Saudi Arabia. Simultaneously, payment facilities provided by the ATMs and the point of sale terminals of such networks abroad are also available for clients of Saudi banks, through Electron, Plus and Maestro cards.

The number of ATMs increased from 1,124 in 1995 to 2,768 by the end of June 2002. In addition, the number of issued cards increased from 1,972,759 in 1995 to 4,923,166 by the end of March 2001, and the volume of cash withdrawals through ATMs increased from SR 22.3 billion in 1995 to SR 121.3 billion in 2000. The number of point of sale terminals increased from 14,020 in 1995 to 22,738 by the end of June 2002. The volume of payments through points of sale increased from SR 2.0 billion in 1995 to SR 7.4 billion in 2000, (SAMA, Annual Report, 2001).

In 2000, the increasing growth in the number of dispatched transactions through a fast system continued, while the total amount of the dispatched transactions decreased. The total amount of money transferred through the system decreased from SR 5,630 billion in 1999 to SR 5,239 billion in the year 2000. This decline is attributed to the fact that all

banks had paid all their financial commitments due in the year 2000 by December 1999, as a result of fears regarding the Y2K problem (see Table 4.5).

Over the past few years, Saudi banks have introduced Internet banking services, telephone banking, and other electronic banking services. Looking to the future, it is obvious that there will be a great many opportunities for commercial banks and the money market in Saudi Arabia to play a prominent role in developing e-commerce. There are certain plans for projects based upon advanced technology for commercial transactions between business and business (B2B), and between business and client (B2C). As banks are the financial establishments that are able to reach payments and settlements systems directly, they will play a pivotal role in such initiatives. The role of SAMA will be limited to a support and supervision process.

Table 4.5: ATMs and Points of Sale from 1995 to 2001

Year	Number of machines	Automatic Teller Machine		Points of Sale		Fast system	
		Number of issued cards	Cash withdrawals (Millions of SR)	Number	Payments (Millions of Saudi Riyal)	Number of transactions	Amount (Millions of Saudi Riyal)
1995	1124	1,972,759	22,269	14020	2006	--	--
1996	1359	2,482,938	27,228	15679	3215	--	--
1997	1591	3,052,058	45,560	15881	4107	--	--
1998	1808	3,647,881	71,730	15891	5004	418623	5246430
1999	1997	4,696,342	103,942	16418	6278	503907	5630157
2000	2234	4,775,352	121,262	16982	7373	606183	5238581
2001	2309	4,923,166	30,347	18975	2076	163753	1790380

*Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report 2001, p105.

4.2.4 Combating Money Laundering and the Funding of Terrorism

The Kingdom of Saudi Arabia is committed to co-operating with international financial organizations, such as the Financial Work Team and the Financial Stability Forum and other concerned organizations, to prevent the use of its financial system to fund terrorism and money-laundering activities. The Kingdom is an active member of several organizations that are concerned with the prevention of such illegal activities. The Kingdom is committed to providing the following:

- appropriate monitoring systems and procedures;

- appropriate regulations for the licensing and establishment of financial institutions;
- appropriate procedures necessary for client identification;
- an efficient reporting system of suspected transactions;
- appropriate commercial systems for the registration of independent commercial and other organizations;
- identification of beneficial owners of legal business entities;
- international co-operation with concerned law and executive authorities; and
- the creation of a financial information unit or similar organization (SAMA, 2003).

A great deal of progress has been made in the last two decades. Systems, regulations, and procedures have been formulated. In the following paragraphs, some of the special procedures that have been adopted by the Kingdom to prevent money laundering and the funding of terrorism are highlighted.

4.2.5 Funding of Terrorism

A committee made up of the Minister of the Interior, the Minister for Foreign Affairs, SAMA, and the General Directorate of Intelligence was formed in 1998 for the following purposes:

- to follow up international developments regarding the prevention of terrorism funding;
- to receive and respond to requests from other countries and to respond in a combined effort to prevent the funding of terrorism; and
- to put forward recommendations to the government and to apply systems of danger monitoring, in order to prevent the funding of terrorism (SAMA, 2003).

The Kingdom of Saudi Arabia supports the various international efforts to prevent terrorism. For instance, in 1998 the Kingdom signed a collective agreement to prevent terrorism under the sponsorship of the Arab League, as well as entering several mutual agreements with non-Arab countries. In addition, the Kingdom is putting into practice the UN decisions regarding the prevention of terrorism, and is an active member of several international initiatives in this regard (SAMA, 2003).

4.2.6 Money Laundering

Legislation Framework: According to Decision 19, issued on 10th of February 1990[7], the Kingdom joined the UN agreement of 1988 (Vienna Agreement), which is aimed at resisting the illegal drug trade. This decision was followed by Decision 168, which was issued on 30th of November 1998 by the Council of Ministers, which sets out the procedures and steps for the application of the Vienna Agreement.

Accordingly, the Saudi Council of Ministers issued its Decision number 15 on 3rd of May 1999, approving the 40 recommendations of the financial team, against money laundering.

Money laundering is considered a criminal activity subject to specific punishments stated within the regulations regarding the prevention of drugs trafficking. The government recently created a committee from seven ministries and governmental authorities to control money laundering.

Saudi public officials from various governmental organizations periodically attend the meetings of the International Financial Team, which are held in several parts of the world. In addition, the Kingdom has hosted several conferences in the Saudi capital, Riyadh. These have included:

- a conference in co-operation with the International Financial Team, 1994;
- SAMA hosted a conference on money laundering, which was organized by concerned local Gulf authorities, 1996.
- SAMA hosted a conference in co-operation with the United Nations Drug Control Programme (UNDCP) and the Ministry of the Interior, October 2001 (SAMA, 2003).

Saudi Arabia co-operates and coordinates activities with concerned international organizations, and exchanges information and expertise associated with the prevention of money laundering. A committee was formed to evaluate the application of the 40

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[7] http://www.sama.gov.sa/en/news/undated/special_feature.htm Arabic.pdf [accessed 31st January 2004].

recommendations, as well as the additional 8 recommendations. A group from the International Financial Team visited Saudi Arabia in 2003 and evaluated the situation.

4.2.7 Monetary Agency's Perspective on Islamic Banking

The Kingdom of Saudi Arabia is witnessing a growing demand for banking products and services that conform to the principles of Islam. On the basis of such a demand, the Saudi Government is encouraging banks in Saudi Arabia to provide non-interest based systems for banking products and services. Now, all banks in Saudi Arabia are providing fast-growing Islamic banking services.

Banks in Saudi Arabia are not restricted to choosing any specific organizational system for such activity. Some banks provide their services on a fully Islamic basis, while others provide such services through certain branches, units, and departments, or through investment funds and mutual investment funds.

While SAMA is aware of the specific characteristics of Islamic banking activities, it is necessary to remark that the supervision and organization that it practises are comparable to those applied to traditional commercial banking activities. In addition, SAMA applies on and off-site supervisory and monitoring measures, and requires banks to submit reports about their operations. It is necessary for banks that provide such products to apply the strictest management standards, and to specify, manage, and report the risks related to Islamic banking activities (Al- Sayari, 2004).

4.3 SPECIALIZED CREDIT INSTITUTIONS

Establishing specialized credit institutions was one of the most important initiatives of the Saudi Government. This initiative was an economic and social accelerator during the first years of development, and it provided incentives and investment opportunities that assisted the economic development of the country. The specialized credit institutions in the Kingdom are the Industrial Development Fund, the Real Estate Development Fund, the Saudi Arabian Agricultural Bank, the Public Investment Fund, and the Saudi Loan Bank.

Important functions of the above institutions are participation in economic and social development through the provision of medium and long-term loans to individuals and

private sector organizations, as well as commercial establishments and companies. It is worth mentioning that specialized loan institutions have always been an important part of the international system, and that they have acquired their power from governmental support. The government has provided all the capital for such institutions and has supported them continuously from the government budget, which enables each institution to support projects in the fields of agriculture, industry, and employment, or in the field of residential or commercial investment in real estate.

Specialized credit Institutions continued to play an active role in the year 2000. They spent approximately SR 5.2 billion in loans, a decline of 9.5 per cent compared with 1999. Collected amounts reached SR 6.7 billion, an increase of 13.7 per cent compared with 1999. By the end of 2000, standing loans had reached SR 147.3 billion, a decline of 1.1 per cent compared with 1999. (See table 4.6).

Table 4.6: Activities of Specialized Credit Institutions

Specialized Credit Institutions	Real Expended			Amounts collected			Standing loans		
	1999	2000	(%) The difference	1999	2000	(%) The difference	1999	2000	(%) The difference
Saudi Industrial Development Fund (SIDF)	1245.5	1083.4	-13.0	1115.8	1176.5	5.4	10352.9	10260.1	- 0.9
Real Estate Development Fund (REDF)	2265.0	1880.5	17.8	2260.7	2241.8	- 0.8	69892.2	69531.4	- 0.5
Saudi Arabian Agricultural Bank (SAB)	691.4	790.0	14.3	520.5	852.8	63.8	8194.9	8074.3	- 1.5
Public Investment Fund (PIF)	1185.0	1077.5	- 9.1	1684.8	2124.2	26.1	21852.1	20805.4	- 4.8
Saudi Credit Bank (SCB)	303.8	321.4	5.8	312.3	306.7	- 1.8	762.3	776.8	1.9
Total	5690.7	5152.8	- 9.5	5894.1	6702.0	13.7	148939.4	147333.0	- 1.1

*Source: *Saudi Arabian Monetary Agency* (SAMA), Annual Report 2000, p110.

4.3.1 Saudi Industrial Development Fund

Established in Riyadh in 1394 H (1974 G), the Saudi Industrial Development Fund (SIDF) supports the industrial sector through the provision of long-term loans to industrial projects. The policy of the Fund is based upon providing loans with an allowance period of 12 to 18 months after the commencement of production. The total

amount of the loan shall be paid within a period of 5 or 10 years. The role of the SIDF is not limited to the provision of financial support to industrial projects, but also involves technical and marketing consultation through studies and research in various economic sectors, guaranteeing the success of projects and providing the appropriate environment to attract investors in the private industrial sector. Undoubtedly, the system used by the fund has assisted greatly in enhancing the quality of several national products, to the extent that they can compete with other brands in the local markets.

From the time of its establishment up until the end of the year 2000, the SIDF had provided approximately 2,320 loans, to a value of SR 27.8 billion, that assisted in the building of 1,736 industrial projects. Around SR 17.5 billion have been collected.

The Fund has played a remarkable role in the development of the small industrial sector, as well as in medium and large-sized industrial projects. In the period from 1996 to 2000, the Fund provided 205 loans, out of a total of 470 loans, to small projects. That is 43.6 per cent. The table above shows the loans provided to small projects in the period 1996-2000.

Table 4.7: Value of SIDF Loans by Minor Sector from 1996 to 2002 (SR millions)

Year	Loan Disburse-ments	Amounts Collected	Net Lending	Consumer Products		Chemical Products		Engineered Products		Building Materials		Cement		Other Products		Total	
				MSR	No.	MSR	No.	MSR	No.	MSR	No.	MSR	No.	MSR	No.	MSR	No
1996	2002	849	1153	589	28	1246	19	280	15	287	5	0	0	27	1	2429	68
1997	2012	1084	929	367	14	1124	23	586	18	76	2	5	1	25	5	2183	63
1998	1922	1000	922	517	17	1000	15	504	16	34	5	130	1	19	3	2204	57
1999	1246	1116	130	269	11	771	21	200	11	69	2	0	0	11	1	1320	46
2000	1083	1177	-93	377	14	1532	21	267	16	54	3	44	0	29	0	2303	54
2001	965	1617	-652	303	13	995	12	208	15	59	2	0	0	4	0	1569	42
2002	1220	1541	-321	838	7	330	17	408	13	216	2	11	1	12	0	1815	40

Source: *Saudi Industrial Development Fund and Saudi Arabian Monetary Agency.*

* Small loan = SR 5 million, or less ** Average 5 years

The future of small industries in Saudi Arabia depends largely upon government policies. The main difficulties that face small industries are the provision of credit and supporting services. Modifying the policies of industrial licensing and reducing the

number of required documents will certainly encourage the development of these industries. In addition, utilization of the production capabilities of several major industries in Saudi Arabia is relatively weak, and their products are unable to stand up to competition in the international markets. It is vitally important to enhance the production efficiency of small industrial projects and to remove economic barriers.

In the year 2000, the SIDF provided 83 loans, worth approximately SR 1.1 billion, compared with SR 1.2 billion in 1999. In the year 2000, loans were provided for projects involving chemical products (SR 1.5 billion), metal products (SR 185 million), food products (SR 140.1 million), paper (SR 116.4 million), textiles (SR 114.4 million), plastic (SR 71.1 million), building materials (SR 65.2 million), electrical materials (SR 40.9 million), transportation (SR 37.4 million), glass (SR 21.3 million), ceramics (SR 11.8 million), petroleum derivatives and products (SR 6.7 million), juices (SR 3.9 million), machinery (SR 28.9 million) and other products. The total outstanding loans by the end of 2000 were worth approximately (SR 10.3 billion).

4.3.2 Real Estate Development Fund

The Real Estate Development Fund (REDF) was established according to Royal decree # 23/9 on 11.6.1394H (1974 G), with its headquarters in Riyadh. The capital of the fund amounted to SR 250 million increasing to SR 73 billion. The REDF was established to support property development in the Kingdom (Annual report, 98/99, 17.1.1420 H, Ministry of Finance and National Economy, Riyadh, p. 5). The main purpose of the Fund was to participate in providing modern housing for the citizens of 3694 cities, towns, and villages through offering special long-term loans for individuals to build their own residential units, or investment loans for the construction of buildings and offices. The Fund offers certain facilitations and exemptions for those who pay their instalments regularly and within a certain indulgence period, or who pay the whole amount of the loan in advance. From the time of its establishment up until the end of the year 2000, the REDF had provided loans amounting to a total of approximately SR 121.8 billion. In the year 2000, the total amount of loans provided by the Fund declined to SR 1.9 billion, compared with SR 2.3 billion in 1999, while payment of due instalments also declined to SR 2.2 billion, compared with SR 2.3 billion in 1999. Outstanding loans declined to SR 69.5 billion compared with SR 69.9 billion in 1999. The table below shows residential loans in the period 1975 to 2000.

Table 4.8: Residential Loans from 1975 to 2000

Fiscal Year	Number of Loans	Number of Residential Units	Value of Loans in Millions of Saudi Riyals	Fiscal Year	Number of Loans	Number of Housing Units	Value of Loans in Millions of Saudi Riyals
1975	32705	39246	7827	1989	8174	9809	2243
1976	47063	56476	12694	1990	8121	9746	2224
1977	4196	5035	1068	1991	5476	6272	1565
1978	35394	42473	8913	1992	8867	10642	2276
1979	32727	39273	8060	1993	23340	28009	6432
1980	28742	34491	7058	1994	13595	16314	3754
1981	31684	38021	8185	1995	2294	2753	628
1982	35727	42873	9546	1996	6685	8919	1811
1983	29334	35201	7935	1997	6155	9073	2191
1984	26225	31470	7134	1998	5616	6739	1565
1985	18842	22611	5158	1999	6710	8052	1863
1986	11182	13419	3059	2000	7237	8684	2018
1987	11633	13960	3193	Total	105,571	128,664	29,390
1988	12279	14735	3377				

**(8926 loans are not included in the above figures, because the buildings had not been constructed and accordingly these loans had not been paid to the beneficiaries).

* Source: Annual report, /1999/2000, Real Estate Development Fund, Riyadh, pp. 46, 47.

4.3.3 Saudi Arabian Agricultural Bank

Established in 1963 by Royal decree # 58 on 3.12.1382H, the Saudi Arabian Agricultural Bank (SAB) is a governmental credit bank specializing in financing agricultural activities. Based in Riyadh, the Bank started its operations in 1384H (1965 G). The SAB provides its loans through 13 branches and 57 offices Kingdom-wide, and plays an important role in supporting the agricultural sector in Saudi Arabia through short-term agricultural loans (maximum one year) and medium-term loans (average ten years), as well as agricultural aids for the rental of machinery and equipment. The Bank has achieved outstanding results in the agricultural sector. During the years after its establishment, the SAB relied heavily upon governmental support to finance its operations and to pay for the loans provided to farmers. However, the situation changed after 1409/1410H (corresponding to Hegira Migration), when the Bank began to finance new loans from the payments of previous loans. The total of approved loans had increased to approximately SR 32.5 billion by the year 2000, while the actual expended loans, which had been offered to about 394, 3 thousand beneficiaries, reached SR 27.1 billions Aid provided by the Bank to the end of the year 2000 reached SR 11.6 billion.

The total amount collected by the Bank by the end of the year 2000 had reached SR 19.1 billion, while the due amounts were approximately SR 24.1 billion.

During the year 2000, the SAB was seeking to achieve its pre-planned goals, which were to raise the level of local agricultural production and to assist with the diversification of products in accordance with the natural and climatic conditions of the Kingdom, so as to support agricultural development. The total amount of approved agricultural loans in the year 2000 reached SR 1.1 billion, while the actual spent loans reached SR 803.9 million, through 6137 loans, compared with SR 691.0 million in 1999. Collection of due payments increased in the year 2000 to SR 853.0 million, compared with SR 521.0 in 1999, while total aid provided by the Bank in the year 2000 increased by 16 per cent to reach SR 229.0 million, compared with SR 197.4 million in 1999. Aid included machines and pumps (SR 145.4 million), agricultural equipment (SR 79.8 million), chicken-raising equipment (SR 0.9 million), milk production equipment (SR 0.2 million) and cow transportation equipment (SR 2.7 million).

The total outstanding loans by the end of the year 2000 had reached SR 8.1 billion, compared with approximately SR 8.2 billion by the end of 1999. The table below shows the loans and aid given by the Saudi Arabian Agricultural Bank in the period from 1996 to 2000.

Table 4.9: General Credit Movement and Subsidies of the Agricultural Bank from 1996 to 2001

Loans Years	Short- Term Loans		Medium- Term Loans		Total Loans		Subsidies
	No.	Amount in Millions of SR	No.	Amount in Millions of SR	No.	Amount in Millions of SR	Amount in Millions of SR
1996	394	18	2671	414	3065	432	297
1997	674	41	3268	586	3942	627	229
1998	2535	293	3072	605	5607	897	225
1999	2797	236	3831	667	6628	903	197
2000	1914	189	4233	923	6147	1112	229
2001	2377	212	5660	1233	8037	1445	250

* Source: Annual reports, Saudi Arabian Agricultural Bank.

4.3.4 Public Investment Fund

The Public Investment Fund (PIF) started its operations in Riyadh in the year 1391H (1971G) to provide medium-term easy loans to public organizations of a commercial

nature, such as Saudi Arabian Airlines, the Sabic Company, the Electricity Company, and Petromin. From the time of its establishment up until the end of the year 2000, the Fund had provided loans of SR 59.9 billion, not including the loans to the Electricity Company, which are supervised by the PIF and equal SR 37.9 billion.

Total loans provided by the Fund decreased in the year 2000 to SR 1.1 billion, compared with SR 1.2 billion in 1999, while collected loans reached SR 2.1 billion, compared with SR 1.7 billion in 1999. In addition, the total amount of outstanding loans declined to SR 20.8 billion in the year 2000, compared with SR 21.9 billion in 1999.

4.3.5 Saudi Credit Bank

The Saudi Credit Bank (SCB), which started its operations in the year 1391H (1971G), is considered one of the specialized loan providers, and has participated through its 24 Kingdom-wide branches in supporting the social dimension of development in Saudi Arabia. The Bank's operations are aimed at enhancing the quality of life of limited-income category Saudi citizens. Through easy medium-term loans, whether for social purposes (marriage, house maintenance, family loans), or for economic purposes (vocational and trade loans), the SCB has participated in enhancing the role of this category in the progress of the national economy and in reducing the negative effects that have emerged as a consequence of the process of accelerating economic development.

The number of loans provided by the Saudi Loan Bank from the time of its establishment up until the end of the first half of the fiscal year 2001 rose to 435,800 amounting to SR 6.8 billion, the distribution of which are shown in the table below.

From the time of the establishment of the SCB up until the end of the year 2000, repaid loans had reached approximately SR 6.0 billion. During the year 2000, the number of loans rose to 16,200 with a total value of SR 321.3 million, compared with SR 304.0 million in 1999. On other hand, the value of repaid loans in the year 2000 reached SR 306.8 million, compared with SR 312 million in 1999. The purposes of loans in the year 2000 may be divided as follows: 12,500 loans for marriage (SR 247.1 million), 3,600 loans for maintenance (SR 71.3 million), 105 family loans (SR 2.1 million), and 12 vocational loans (SR 0.9 million). In general, the total amount of outstanding loans by the end of the year 2000 was maintained at the same level as in 1999, which was SR 0.8

billion. The following table provides a summary of banking loans in the period from 1973 to 2000, distributed by year and purpose[8].

Table 4.10: Statement of Social Loans Expended Since the Beginning of the Bank Loan Activity Until the End of the Fiscal year 2000, Distributed According to the Years and the Purposes

Years	Marriage Loans in Million SR		Rebuilding in Million SR		Medical** in Million SR		Handicraft in Million SR		Familial in Million SR		Total in Million SR	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1973	1260	6	534	3	3	0.02	9	0.065	-	--	1815	9.193
1974	5437	27	1944	13	4	0.02	24	0.167	-	--	7409	39.703
1975	11183	55	3467	25	12	0.08	70	0.501	-	--	14732	81.057
1976	11512	57	13513	100	9	0.067	103	0.768	-	--	25137	158.073
1977	5744	29	9979	74	1	0.004	105	0.779	-	--	15829	103.249
1978	4366	21	4410	33	5	0.038	150	1.130	-	--	8931	55.147
1979	2803	15	2260	17	-	--	40	0.300	-	--	5103	32.242
1980	9953	141	11021	214	-	--	98	1.823	-	--	21072	356.868
1981	11180	167	8047	160	-	--	178	3.531	-	--	19405	330.304
1982	8900	133	5351	107	-	--	177	3.507	-	--	14428	242.689
1983	8231	123	5297	105	1	0.014	223	4.379	-	--	13752	232.519
1984	9015	134	5499	110	1	0.008	349	7.566	-	--	14864	251.175
1985	9285	138	6503	130	-	--	390	7.555	-	--	16178	275.304
1986	7815	116	5743	114	1	0.013	443	8.814	-	--	14002	239.584
1987	9022	134	6276	125	1	0.007	285	7.537	-	--	15684	267.029
1988	10271	152	6518	130	1	0.02	515	10.255	-	--	17305	293.036
1989	10740	160	7600	151	-	--	621	12.336	-	--	18961	308.731
1990	9051	134	7113	142	1	0.018	462	9.189	-	--	16627	285.587
1991	9773	146	6855	136	-	--	324	6.467	-	--	16952	288.578
1992	9732	145	6890	137	2	0.034	283	5.635	-	--	16907	287.859
1993	11716	175	8282	165	-	--	260	5.199	-	--	20258	344.972
1994	9577	143	7308	145	-	--	202	4.022	-	--	17087	292.227
1995	9548	142	7833	155	-	--	239	4.740	-	--	17620	302.322
1996	9253	148	7784	154	2	0.034	178	3.533	-	--	17217	305.828
1997	9227	181	7729	153	-	--	128	2.538	-	--	17084	337.298
1998	11031	218	6798	135	-	--	--	--	-	--	17829	352.574
1999	10809	214	4540	90	-	--	--	--	16	0.304	15365	302.665
2000	12488	247	3644	71	-	--	--	--	105	2.061	16237	320.393
Total	248922	3502	178746	3095	44	0.379	5956	112.335	121	2.365	433789	6711.697

** Medical loans were suspended many years ago, as medical services in Saudi Arabia are available in various specialities.

* Source: Annual reports, 2000, *Saudi Credit Bank*. p 18.

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[8] Financial Report, 2000, *Ministry of Finance and National Economy*, p. 18.

The Saudi Loan Bank was assigned to accomplish the loan programme to Saudi professionals. This programme is aimed at developing small establishments through non-interest loans, which can reach SR 200,000, to support those qualified Saudi technicians and professionals who are interested in starting their own businesses or in expanding and developing their existing establishments. Loans are repaid over a period of ten years with a maximum indulgence period of twenty months. Within this framework, the Bank recently started a new programme through which it finances Saudi citizens who are interested in working on limousine cars. The Bank buys the cars for the interested citizens who repay the whole value of the car in 48 monthly instalments.

4.4 AN ANALYTICAL VIEW OF THE BANKING SECTOR IN THE GULF, ARAB, AND ISLAMIC COUNTRIES

When one views the developments and changes that have occurred within the financial sector in Saudi Arabia and in other Gulf, Arab, and Islamic countries, it becomes obvious that banks are developing a distinguishable characteristic (a particular phenomenon is growing in an unusual way). IB/IFIs are starting to provide Islamic financial and banking services in a variety of ways such as opening new outlets within the traditional branches for Islamic financial transactions and completely transforming traditional branches into Islamic branches. In addition, there has been a total transformation of banks from traditional into Islamic banks (as, for example, the Al-Jazeera Bank in Saudi Arabia or the Sharja National Bank in the UAE), the growth of investment of funds of which there is a growing proportion that are compliant with Islamic laws (*Shariah*), and the establishment of new IB/IFIs. This is clearly shown in the weekly news of IB/IFIs and banking outlets, and other economics circulars and press releases.

Undoubtedly, such a trend is positive, as it reflects a strong desire and demand on the part of members of the public to utilize the inventions, tools, branches, and banks of an Islamic nature that are emerging from their environment. This is a result of the increasing awareness among members of the public regarding their religion and beliefs, and a desire to conduct their financial transactions in a way that corresponds with these religious principles. Accordingly, commercial banks began to react to such changes and developments in order to gain the maximum possible profits. From the Islamic point of view, such an attitude is not forbidden, even if the motivation were not religious.

However, there are certain suggestions that we need to think strategically and policy-makers in the banking industry should take this into account in order for banks to continue making a profit, and avoid focusing on short-term competition:

1. Banks must specify a specific acceptance level or limit for dealing with certain categories of financial innovation that are declared by the *Fatwa* committees to be compliant with *Shariah*, although any bank can argue, on the basis of its confidence in its own *Shariah* committee, that its level or limit of acceptance is adequate. However, it is undoubtedly the case that any *Shariah* committee can make mistakes in understanding a banking transaction, describing the transaction from the Islamic point of view, or it might be affected by the general attitude which could violate the simplest Islamic financial principles. Accordingly, setting such a level or limit will maintain the credibility of the bank among its clients, compared with other banks.

2. Banks seek to appoint famous Islamic scholars to their *Shariah* committees. This is justified by the fact that the banks expect them to have a deep understanding of Islamic principles and rules, and it also gives credibility to their attitude towards 'Islamization'. However, such famous scholars may not have enough time to provide the bank with practical solutions. We suggest that, in addition to the general *Shariah* committee (with famous members), a special *Shariah* committee should be formed within every bank, and that this committee should include practising and expert members who can dedicate more time to the bank.

3. A department for *Shariah* monitoring must be formed in addition to the *Shariah* committee, to ensure that executive bankers are actually applying the Islamic principles and rules in their banking transactions and operations.

4. The IB/IFI or branch must seek to develop its Islamic financial tools to be more responsive to the growing financial needs of clients, be more satisfactory in terms of the future religious demands of the clients, and be cost-effective for the bank and its clients. A research and development department could be the solution to such an endeavour for banks that are seeking to apply growth and expansion strategies in the future (Al Zamil, 2002).

4.5 CONCLUSION

At the time of SAMA's establishment, the Kingdom did not have a monetary system exclusively of its own. Foreign currencies circulated in the Kingdom as a medium of exchange, along with Saudi silver coins. Saudi bank notes had not been issued as yet. Major transactions had to be carried out with foreign gold coins or large quantities of silver Riyals and occasionally with foreign bank notes. With the expansion of oil production, income and payments, the demand for cash increased substantially and the handling of silver and gold coins in the quantities needed became almost impossible. Moreover, there was no fixed exchange rate between the Saudi silver coins and foreign gold coins, and the rates varied widely.

Immediately after its establishment, SAMA assumed the responsibility of maintaining the exchange rate of the Saudi Silver Riyal *vis-a-vis* the U.S. dollar, within a band set by the government. At the same time, it completed the country's indigenous monetary system by issuing the country's own gold coins and eliminating the circulation of foreign currencies. A year later, it began issuing "Pilgrims Receipts" for relieving pilgrims from the burden of carrying the heavy metallic currency. These receipts became generally accepted throughout the Kingdom and paved the way for the issue of Saudi bank notes as from 1st *Muharram* 1381 (14th June 1961). With effect from the same date, gold and silver coins, and pilgrims' receipts were demonetized. Thus, within eight and half years of SAMA's founding, the country's monetary system not only became completely indigenous but it also moved over smoothly from a silver standard and bimetallism to the paper currency standard.

Promoting the growth of a national banking system was another task to which SAMA paid immediate attention after its establishment. At that time, there existed no Saudi bank as known today. Since the foundation of SAMA and up until the mid 1970s, only two national banks, namely the National Commercial Bank and the Riyadh Bank, had been operating. With the expansion in economic activity, the need for banking facilities increased sharply and SAMA allowed more banks to be opened.

At the same time, in order to give the banking system a national character and also to strengthen its capital base, SAMA implemented during 1976-1982 a programme to Saudize foreign banks by requiring them to convert themselves into joint-venture entities, with major Saudi share holdings. Currently, there are 11 Saudi banks (including

the Gulf International Bank branch), of which 8 are joint-venture banks, having together 1201 branches spread throughout the Kingdom. Recently, three Gulf banks, namely the Emirates Bank International, the National Bank of Bahrain, and the National Bank of Kuwait, have been permitted to establish branches in the Kingdom. SAMA has ensured that banks conduct their business on sound principles. The Banking Control Law, enacted in 1386H (1966), has vested SAMA with broad supervisory powers. It has stringent provisions for capital adequacy, liquidity and reserve requirements, loan concentration etc. The law also provides for banks to submit regular financial and statistical statements to SAMA and for SAMA to carry out on and off-site banking supervision.

Over time SAMA has evolved into a fully-fledged central bank, with the additional roles of managing official foreign assets and government debt, acting as the financial sector supervisor, and of operating and supervising the payment systems. From 1973 to 1982, SAMA focused on containing inflationary pressures in the booming economy and overseeing the development of the banking sector. During the second half of the 1980s SAMA's priority was to address the deteriorating balance-of-payments position, introduce money market reforms and manage government debt. In addition, foreign exchange reserve management has been a key function entrusted to SAMA since its inception.

Since its creation in 1952, SAMA has played an important role in contributing to Saudi Arabia's economic progress through a sophisticated infrastructure, a strong regulatory system and well managed institutions that adhere to high standards of stability, discipline, and transparency.

SAMA is required by its charter to promote and maintain domestic price and exchange rate stability. In coordination with the government, SAMA has achieved both these objectives. The inflation rate has remained at less than 1% over the last 15 years and the exchange rate has been stable at SR3.75 to the US dollar since June 1986. The full convertibility of the riyal since 1961 and the lack of restrictions on capital flows have been conducive to creating a stable business environment for the private sector and attracting foreign direct investments.

SAMA's monetary policy has contributed significantly to the growth of the Saudi economy by providing an environment of monetary and financial stability to promote

and maintain both domestic price and exchange rate stability. To this end, SAMA has all along conducted its monetary policy in coordination with the fiscal policy. For promoting domestic price stability, SAMA takes measures to ensure that the growth in domestic liquidity is broadly in line with the growth of availability of goods and services in the economy. To maintain the exchange rate stability, SAMA monitors the Riyal market closely to ensure its smooth functioning and takes corrective measures if there are any disruptive activities.

In line with general trends in the Muslim world, there is a growing demand in Saudi Arabia for banking products and services that comply with Islamic *Shariah* principles. This is recognised by the SAMA authorities who have encouraged Saudi banks to offer non-interest based banking products and services. Currently, all banks in Saudi Arabia offer Islamic banking services and their business in this area has grown rapidly.

There are no restrictions on Saudi banks when choosing a viable organisational model for delivering such activities. These range from a bank that offers all its products and services on an Islamic basis to others which provide them through designated branches, units, departments, or through investment and mutual funds.

SAMA's emphasises that while it recognises the special characteristics of Islamic banking activities, the supervision and regulation it exercises is consistent with those for conventional commercial banking. Consequently, capital adequacy, liquidity and other supervisory requirements are applied. SAMA also practices both on and off-site supervision and requires banks to report their activities through special prudential returns. It is important that strong corporate governance standards are applied by all banks offering these products and that the risks related to Islamic banking are identified, reported and managed by the banks.

CHAPTER FIVE

RESEARCH METHODOLOGY

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RESEARCH METHODOLOGY

5.1 INTRODUCTION

The main objective of this study is to evaluate the contribution of Islamic banking to the accounting standards and economic and social development in Saudi Arabia.

A survey was carried out to obtain the views of both clients and employees regarding IB/IFIs, and the importance of Islamic banking in terms of its contribution to accounting standards and economic and social development.

This chapter focuses on a discussion of the methodology used to carry out this survey. In particular, this chapter has the following aims:

- To discuss the methods used in previous and similar studies.
- To justify the choice of method employed in this research.
- To explain the steps taken in designing the questionnaire.
- To describe the survey sample.
- To describe the procedure for distributing the questionnaires.

Explanations of the questionnaire design and the order and wording of the questions are also included in this chapter. In addition, the pilot study and sampling procedures are reviewed.

5.2 THE AIMS AND OBJECTIVES OF THE RESEARCH

The main objectives of the present study are to determine the extent to which IB/IFIs contribute to economic and social development, as well as to accounting standards, taking into account the fact that an IB/IFI generally aims to fulfil the economic and social needs in the field of banking services, financing, and investment activities, on a non-interest basis.

These objectives lead to the following recommendations:

a- expanding the range of the banking sector's dealings by providing more banking services on a non-interest basis, with the aim of introducing services that take into consideration organized social solidarity interactions on the basis of mutual benefits;

b- developing tools for attracting funds and savings, and investing them in non-interest banking activities (or non-usury activities);

c- providing the necessary financing to meet the needs of different sectors, particularly those sectors which do not benefit at all from interest-based credit facilities; and

d- expanding IB/IFIs in Arab and Islamic countries, as well as in Europe and the US. Owing to the differences between banking practices in the conventional banking system and those which operate in the Islamic banking system, resulting from Islamic economic philosophy, IB/IFIs need to have uniform accounting standards in order to deal with the ethical principles that govern both their operations and the professional attitudes of the people who work in them, in a way that differs from that of conventional financial bodies. IB/IFIs need a group of standards that deal with Islamic banking operations in both their social and economic aspects.

These operations are based on the principles of *Musharakah*, *Mudarabah*, *Murabahah*, and agricultural partnership, for which there are no corresponding principles in conventional banking operations, although there are some similarities in certain other operations, such as monetary transactions, money exchanges, investments in stock markets, and monetary instruments.

The IB/IFIs are developmental institutions: that is to say, their main objective is to contribute to the economic and social development of the societies in which they are operating. Their developmental character has a direct impact on their internal organization and investment strategies as well as on the standards they apply when evaluating and testing their investment projects and schemes.

The developmental principle of IB/IFIs originates from the Islamic principle of "the *Istikhlaf*", which is one of the principles on which the Islamic banking system was originally based. We therefore find that IB/IFIs are required to take into account economic and social development when carrying out their business, and should not see profitability as the sole target. IB/IFIs are thus obliged to contribute to the goals of

economic development in the societies in which they operate. The Kingdom of Saudi Arabia, and the other Islamic countries in which IB/IFIs operate, are a group of developing countries which are seen to share certain features in common. (Abuzaid, 1996).

According to the principles of *Shariah* law, it is their contribution to the capital required for development schemes, and their provision of non-interest loans to the institutions and productive projects within the state, which justify the existence of the banks. In addition, the banks provide financial help in different forms for various economic and social development activities, besides establishing special funds for specific purposes. However, this statement is not quite accurate as this type of funding is ultimately the responsibility of the IDB or the government.

IB/IFIs are considered first and foremost as developmental organizations, taking into consideration the fact that development is the main concern of the Islamic world. The majority of economists believe that development is the most effective and realistic solution for most problems facing the developing countries. Following on from this, they think that the only solution to most of these problems is to develop an economy in which IB/IFIs make a more significant contribution than other banks, as they are better equipped to find solutions to the problems than CBs, since the main goal of CBs is profit and self- development, in contrast to that of IB/IFIs, which seek to play a social role (Al-Zamil, 1996).

Official statistics in most European and developing countries indicate that small-sized projects absorb about 90 per cent of the total labour force (Mufti, 1999). This fact explains the increasing interest of governments in supporting small projects, since they help to reduce unemployment. Moreover, small projects also provide employment opportunities for those who are seeking to be independent, and reduce the stress associated with working in the government sector. In addition, these small businesses produce goods and services that large projects are unable to produce economically. This does not mean that it is more beneficial to support small projects rather than large ones, but it is important to stress the idea that projects of different sizes should be integrated with one another, and that the government should support all projects in order to achieve such integration, as this will lead ultimately to economic efficiency.

The nature of Islamic financing instruments helps the IBs/IFIs to provide the necessary funds to small projects in various fields of investment. The IBs/IFIs are distinguished from CBs by their ability to provide financing to small groups in society, such as artisans and families working in agriculture and industry, as well as technicians, labourers, and workshop owners. This financing includes such activities as the purchasing of machinery and welding equipment, and the provision of funds to finance working capital.

5.3 THE HYPOTHESES

In light of the previous discussion we are able to introduce the following hypotheses:

1- clients in Saudi Arabia deal with IB/IFIs for primarily religious reasons;

2- the contribution made by IB/IFIs in Saudi Arabia to helping clients purchase cars by instalment plans is excellent;

3- *Murabahah* is the preferred Islamic financing instrument among clients;

4- the risk of nominal loss does not affect clients' decisions regarding whether or not to invest in an IB/IFI;

5- clients prefer to obtain money from friends rather than from IB/IFIs or CBs;

6- IB/IFIs have introduced acceptable Islamic investment tools suitable for several groups of investors;

7- a lack of unified and obligatory accounting standards has led to variations in the disclosure of balance sheets and annual financial statements;

8- the emergence of IB/IFIs has contributed to setting new and unfamiliar accounting standards which are not used in CBs, to meet the need to comply with the *Shariah* precepts;

9- many clients were attracted to dealing with IB/IFIs after their establishment;

10- the financial conditions set are difficult, procedures lengthy, and many documents are required; and

11- the decision of an IB/IFI about whether or not to deal with a particular client depends upon the financial status of that client.

5.4 THE RESEARCH METHODOLOGY

The term methodology in its original and proper usage refers to 'the systematic and logical study of the principles guiding scientific and philosophical investigation' (Gould and Kolb, 1964). Roberts defines methodology as the study of the utility and validity of methods of investigation, in the context of a particular scientific discipline or area under consideration. It is also described as the selection of such methods, in advance of an investigation, that are considered likely to be appropriate and fruitful (Roberts, 1971).

Methodology is thus concerned with the various models, classifications, and conceptual schemes that exist, the techniques that are available for the purposes of investigation, research procedures used in the past, and their validity, etc., all for the purpose of discovering new knowledge and ordering it meaningfully, or in order to test existing propositions (Roberts, 1971).

Scruton argues that methodology is a word that should mean the study of methods, but is often used simply to mean 'method', as in "the methodology of the social sciences". If there is a subject, then there is a method of investigation determined by it. There may be more than one method used to investigate a particular matter, and in this case it is possible to speak of methodology as the discipline which attempts to describe the method which best achieves the required result (Scruton, 1982).

The main objective of this study is to examine and evaluate the contribution made by IB/IFIs to the economic and social development, and accounting standards in Saudi Arabia. This section discusses the research method that has been adopted in previous studies on the subject. The method under consideration is the one most commonly used in previous studies, namely the questionnaire technique.

5.5 THE QUESTIONNAIRE METHODOLOGY

The empirical method has been employed to test the hypotheses. Since questionnaires are commonly used in surveys, it is necessary to know how to design an effective questionnaire. A good questionnaire is designed specifically to suit the study's aims

and the nature of its respondents. It needs to have some of the same properties as a good law: to be clear, unambiguous, and uniformly workable. Its design must minimize the possibility for error from the respondents, and, since people's participation in a survey is voluntary, a questionnaire has to be able to engage their interest, encourage their co-operation, and elicit answers as close as possible to the truth (Hoinville et al., 1978)

The method used here was to analyse the responses to two different questionnaires especially developed for the purpose of this study. The questionnaire was deemed to be the most efficient and economical means of contacting a large number of customers and employees throughout the IB/IFIs in Saudi Arabia.

5.6 QUESTIONNAIRE DESIGN

There are two basic goals in questionnaire design: (1) to obtain information relevant to the purposes of the survey and (2) to collect information with maximal reliability and validity. These goals may be called "relevance" and "accuracy". To ensure relevance, the researcher must be clear about the exact kind of data required in the study. Accuracy is enhanced when the wording and sequence of the questions are designed to motivate the respondent and to facilitate recall (Warwick and Lininger, 1975).

In designing questions and questionnaire schedules, the first question that needs to be addressed concerns the objective of the study. What information is the questionnaire intended to elicit from the respondent? (Ackroyd and Hughes, 1992).

It is therefore necessary to design a questionnaire that will be effective given the conditions and environment in which the study is to be conducted. The questionnaire is considered to be effective if it suits the study's aims as well as the nature of the respondents. A good questionnaire has to be clear, unambiguous, and encourage the respondents' participation.

The foundation of all questionnaires is the question. The wording of a question is as important as its form. A question should be free of ambiguity, precise, and clear, and each question should express a single idea. The questionnaire must translate the research objectives into specific questions; answers to such questions will provide the data for hypothesis testing. The question must also motivate the respondent to provide the information being sought. The major considerations involved in formulating

questions are their content, structure, format, and sequence (Nachmias and Nachmias, 1992).

The questions, which are predetermined, may also be divided into those which are “open-ended" and those which are “closed”. In open-ended questions, respondents are free to reply to the questions in any way they wish. In "closed" questions, they must reply in one of a predetermined number of ways, such as "yes", “no”, or "don't know" (Stacey, 1970). The disadvantage of open-ended questions is that they produce a mass of different words meaning the same thing, or a number of similar words meaning different things. Open-ended questions are sometimes necessary, however, particularly in matters to do with beliefs and feelings (Stacey, 1970). Moreover, the open-ended question has many other advantages, stemming from the fact that the respondent is encouraged to structure his answer as he wishes. This provides a means for obtaining information which cannot be obtained adequately by the use of a closed question (Festinger and Katz, 1954). Another advantage of the open-ended question is the information which the respondents indicate with respect to their level of knowledge or degree of expertise (Festinger and Katz, 1954).

Careful attention to the order in which the questions are asked is important for three reasons (Kervin, 1992):

- A logical flow of questions helps guide respondents through the instrument with a minimum of confusion and frustration. Topics that are raised once should not be raised again later in the instrument.
- Asking the right question at the right time, especially with closed questions, can increase the respondents' commitment to the questionnaire.
- The influence of earlier questions on the answers to later ones, known as “order effect", can be reduced through attention to question sequence.

The general order of the questions in a questionnaire should be based on the principle of “funnelling" and the implicit logic of the variables. Bridges and filter questions should be included where necessary (Kervin, 1992).

The first stage in carrying out a survey is questionnaire construction, one of the most crucial elements of which is asking the right questions and constructing them in the right format.

The key word in questionnaire construction is relevance: relevance to the goals of the study and the relevance of the questions to the individual respondent. The relevance of the questionnaire to the goals of the study will be discussed here. The second point will be addressed in detail in section 6.8 when dealing with the development of the questionnaire which includes six aspects that render it relevant to the individual respondent.

5.7 THE RELEVANCE OF QUESTIONS TO THE STUDY

One of the most serious problems in questionnaire construction is the formulation of questions. In this instance, in order to ensure that all the questions were relevant to the stated goals of the study, the following decisions were made:

1. each item in the questionnaire should play a role in the study, i.e., the purpose of each question was clarified to ensure that it accomplished that purpose; and
2. before including an item in the questionnaire, the way it was to be analysed, the statistical software (SPSS) to be used, and the manner in which it was to be published or presented were decided.

5.8 THE DEVELOPMENT OF THE QUESTIONNAIRES

This part is concerned with the construction of the questionnaires used for the data collection. Two aspects must be emphasized:

1) the wording of the questions; and
2) the translation of the questionnaires and the pilot study.

5.8.1 Wording of the Questions

The question must be worded so that the respondent understands it (Nachmias and Nachmias, 1992). The principle of question wording is an essential factor affecting the design of an effective questionnaire. According to Kervin (1992), good question wording accomplishes the following objectives:

- It ensures measurement validity: the question must measure what you want it to measure.

- It minimizes measurement errors: bias and unreliability.
- It minimizes item non-response.

Proper attention should be paid to the design of questionnaires and the wording of questions. One major distinction is between questions which are "fixed-choice" (e.g., 'What is the size of your family?' 'Less than 3 / 3-5 / 6-8 / 9-11 / above 11') and those which are "open-ended" (e.g., 'Give your suggestions as to how Islamic banks could provide a better service.') (Rose, 1992).

Several factors had to be taken into consideration in the composition of the questionnaires, including:

a- deciding precisely what was required from each question or set of questions (sometimes a series of questions was needed to meet one objective);

b- avoiding bias; i.e., the questions should not be biased in any way;

c- avoiding ambiguous wording. Every effort was made to use simple rather than loaded words;

d- avoiding ambiguous, incomplete answers and indirect questions. For example, the respondent was asked to place in rank order from 1 to 5 important reasons for which he/she was attracted to dealing with an IB/ IFI, using 1 to indicate the most important and 5 to indicate the least important. This would eliminate any vague or irrelevant answers; and

e-making the questions as short and direct as possible, because longer questions take up more of the respondent's time and make him/her less willing to co-operate.

5.8.1.1 Design of the Questionnaire for Clients of Islamic Banks

After the questions had been devised, a few rules had to be taken into account before the completion of the final draft, including:

1- questions on similar topics should be grouped together; therefore the questionnaire was split into four parts;

2- a broad question should be accompanied by follow-up questions that are determined by the individual's initial response. If the subject answered "Yes" or "No", then a relevant follow-up question would be asked;

3- the way the questions are asked should put the respondent at ease and show that the researcher is interested in the subject's views, rather than testing his/her knowledge; for example, no definition was provided for any question;

4- the questionnaire is sequential to a certain extent: i.e., one question emerged from another where possible; and

5- the whole questionnaire should consist of a series of question sequences, with questions placed in a logical order.

The questionnaire for the customers contained two parts: the first part consisted of 35 questions which may be classified into five groups:

a- the first group of questions was directed at those customers who dealt with both Islamic and conventional banks;

b- the second group of questions was designed to measure the respondent's attitudes towards the IB/IFIs and their services;

c- the third group of questions was designed to examine the contribution of IB/IFIs to economic and social development in Saudi Arabia;

d- the fourth group of questions was designed to examine the contribution of IB/IFIs to accounting standards and accounting systems; and

e- the fifth group contained one open question; the purpose of this question was to collect the respondents' opinions and suggestions as to how IB/IFIs can provide a better service.

The second part of the customers' questionnaire aimed to study aspects of the respondents' backgrounds, such as their nationality, age, qualifications, religion, marital status, and family size.

5.8.1.2 Design of the Questionnaire for the Employees of Islamic Banks

The questionnaire for the employees contained two parts:

The first part consisted of 18 questions which may be classified into six groups:

a- the first group of questions, from Q1 – Q5, was directed at those employees who had worked for CBs before joining the IB/IFI;

b- the second group included Q6 and Q7; the purpose of these questions was to elicit information about the training employees had received and where it took place;

c- the third group contained four questions, Q8 to Q11, the purpose of which was to indicate the differences in accounting systems between IB/IFIs and CBs, and the contribution of the former to accounting standards;

d- the fourth group contained four questions, from Q12 to Q15, which were aimed at eliciting responses concerning the contribution of IB/IFIs to economic and social development in Saudi Arabia, and those factors which had the greatest influence on the bank's decision to offer finance to a customer;

e- the fifth group contained two questions, Q16 and Q17, which were designed to elicit responses on the relationship between IB/IFIs and CBs;

F- the last question in the first part was an open question, to give the respondents an opportunity to offer suggestions as to how the IB/IFIs can provide a better service; and

G- the second part of this questionnaire consisted of 6 questions, from Q19 – Q24, asking for personal information about the respondent: items such as the nationality (Saudi or non- Saudi), age, position at the IB/IFI, level of education, religion, and marital status.

The questionnaires went through a number of developmental stages before the final distribution. First, the drafts of the questionnaires were designed by writing and grouping all the questions and dealing with issues which resulted from a detailed literature review. The contents of this first draft were discussed with other PhD students. Then, sixteen copies (eight copies of the customers' questionnaire and eight copies of the employees' questionnaire) of the second draft were given to students at the

universities of Durham and Newcastle in the United Kingdom who had experience of questionnaires, in order to obtain their comments on the design and content. In this way, the first stage of the questionnaires was completed.

The second stage of the questionnaire development began after my return to the Kingdom of Saudi Arabia in August 2001. A discussion meeting at the Centre for Research in Islamic Economics at King Abdulaziz University was held with the head of the Centre and some of the staff members, in order to elicit their opinions about the questionnaires. The questionnaires were also forwarded to a number of the staff members of the Islamic Development Bank in Jeddah who had had experience of questionnaires, in order to obtain their comments on the design and content, with the aim of testing the validity and reliability of the questionnaires. This stage was concluded by completing the final draft and determining the subject groups of the survey.

5.8.2 Translation of the Questionnaires

The final issue that had to be dealt with regarding the questionnaire design was the translation. A multi-language (English and Arabic) questionnaire was used since the respondents might have been unable to answer, or might have some difficulties in answering English-language questions. A copy of the questionnaire is shown in Appendix (A).

Since the questionnaires were designed in English and then translated into Arabic, language problems inevitably arose.

Several studies and articles, such as those of Guthrie (1972) and Oliver (1974), have indicated the semantic problems which may arise in the areas of banking and finance. Gaertner and Rueschhoff (1980) and Hussein (1981) have discussed translation problems from English to other languages. As was pointed out above, the questionnaire was designed to suit the study objective and the nature of the respondents. The questionnaire was also designed to be easy to answer and to make it easy to analyse the data obtained, as a scaling system was used. Moreover, the questionnaire was designed around the issue of the contribution of IB/IFIs to economic and social development and accounting standards, as discussed earlier in this chapter, in order that it be effective. For example, with regard to question wording, it can be seen by looking at the

questionnaire in Appendix A that all questions are clear, precise, and free from ambiguity, and that each question expresses a single idea. Problems of translation arose for two reasons:

1- the many meanings that a word or a phrase can have might affect the intended meaning of the question; and

2- there are some difficulties when translating financial terms from English into Arabic. A problem one might encounter is that an English term can have more than one meaning in Arabic and this has to be resolved, or the overall meaning can be affected.

To ensure that there were no differences in the meanings of the banking and finance terms, it was decided to write both the Arabic and the English term in the Arabic version of the questionnaires.

With regard to the translation problem, several steps were taken:

1- the points of English-Arabic translation noted by Emery (1987) for good Arabic style, were considered: "As a general rule, Arabic tends to be more explicit than English: what is implicit in English often has to be spelled out in Arabic" (Emery, 1987);

2- the translation was discussed in detail, question-by-question, and statement-by-statement, with postgraduate colleagues while the pilot study was undertaken;

3- two interviewees in the pilot study agreed not only to review the translation, but also to translate the questionnaires from English into Arabic. This provided two further versions in Arabic in addition to the original;

4- grammatical errors were eliminated and the final copies of the Arabic questionnaires were prepared; and

5- finally, copies of both the Arabic and the English versions of the questionnaires were sent to two assessors: the first, an assistant professor of accounting at King Abdulaziz University who has a PhD from a British university, and the second, the credit manger in the Islamic Banking Division of the National Commercial Bank. This was to determine whether any differences existed between the content and format of the

English version and that of the Arabic version, which would be used to collect data. Both attested that the meaning was identical in both English and Arabic except for some minor details.

As a result, changes in the wording of certain questions were made in the Arabic version, and finally the questionnaires suitable for the Arabic reader were ready.

In addition to overcoming the translation problem, the above steps were directed towards:

1- testing the readability of the questionnaires by Arabic customers and employees;
2- ensuring that the questionnaires were in a reasonable format for the Arabic reader; and
3- ensuring that no differences in accounting terms arose between the Arabic and English versions.

5.8.3 Pilot Study

Before the final questionnaires were produced, a pilot study was carried out by selecting at random three branches of the Al Rajhi Banking and Investment Corporation in Riyadh, the capital of the Kingdom of Saudi Arabia, and the headquarters of the National Commercial Bank - Islamic Banking Division, and one branch in Jeddah and one in Riyadh. Thirty eight customers' questionnaires were distributed, eight questionnaires for the headquarters of the National Commercial Bank and six questionnaires for each branch, while thirty five employees' questionnaires were distributed, ten questionnaires for the headquarters of the National Commercial Bank and five questionnaires for each branch.

Table 5.1 shows the number of questionnaires distributed to each Islamic banking branch, the number of returned questionnaires, and the overall response rate.

The responses were good enough to measure the reliability and quality of the questionnaires. Among other purposes, the test was aimed at checking the following points, and subsequently, all necessary changes were made accordingly:

1- the question must be simple, precise, and understood in the correct manner;
2- to check for the reliability, validity, or redundancy of the questions posed;

3- to test the sensitivity of the respondents to certain personal questions such as income, savings, investments, current wealth, etc. It was obvious that the levels of measurement of these questions needed to be changed from interval to nominal and ordinal; and

4- finally, to check on the overall layout and ordering of the questions. With regard to this point, De Vaus (1993) suggests commencing with questions the respondent will find enjoyable to answer. Questions should be ordered from easy to more difficult, from concrete to abstract, moving from section to section in an organized and systematic manner. Oppenheim (1968) also emphasizes the fact that personal or demographic questions such as age, nationality, marital status, etc. should never be asked at the beginning, but instead should be placed at the end.

Table 5.1: Number of Questionnaires Distributed and Returned in Pilot Study

Islamic Banks / Islamic Financial Institutions	Distributed Customer's Questionnaire	Distributed Employee's Questionnaire	Total	Returned Customer's Questionnaire	Returned Employee's Questionnaire	Total
Al Rajhi Banking and Investment Corporation-Alolaya branch	6	5	11	6	5	11
Al Rajhi Banking and Investment Corporation-Altakhasosy branch	6	5	11	6	4	10
Al Rajhi Banking and Investment Corporation/Alsulimanyah branch	6	5	11	5	5	10
The National Commercial Bank – headquarters / Jeddah	8	10	18	6	9	15
The National Commercial Bank – Hail Street branch/ Jeddah	6	5	11	5	5	10
The National Commercial Bank – Alshemaicy branch/ Riyadh	6	5	11	6	5	11
Total and overall responses	38	35	73	34	33	67

5.9 THE SAMPLE AND DISTRIBUTION OF THE QUESTIONNAIRES

The ideal way to select a sample that is representative of the society under study is to select or draw the sample's members from that society. Selection of such a sample requires a sample frame (a list that includes all units or elements from which the sample

units can be selected). This will result in a sample inclusive of all categories of the targeted society. In our present study, clients and employees of IB/IFIs in Saudi Arabia were the targeted society.

Unfortunately, such lists of clients and employees of IB/IFIs are not available in Saudi Arabia due to laws regarding information privacy and competition. Hoinville et al., (1978) suggest an alternative method for sampling, which is based upon selecting a small professional group through the medium units. The medium units in this case were those organizations which generally have relationships with both clients and employees of IB/IFIs, such as the Al Rajhi Investment Company, the National Commercial Bank (Islamic Operations Branch), the Islamic Gulf Investment Company (one of the Islamic Treasury House groups), the Banking Institution of SAMA, the College of Economics at King Saud University – Riyadh, the College of Islamic Economics at the Islamic University of Imam Mohammed ben Saud – Riyadh, the Research Division of King Abdul Aziz City for Science and Technology – Riyadh, and the Department of Islamic Economics at King Abdul Aziz University – Jeddah. There are a total of sixty-two organizations in Riyadh and Jeddah that could act as medium units.

The purpose of using a large number of organizations was to obtain a sufficient number of clients and employees of IB/IFIs (the society under study) for the survey. Questionnaires were distributed to these organizations by one of the following two methods:

1st method: through managers of IB/IFIs; or

2nd method: through direct visits by the researcher, who visited several branches of IB/IFIs, as well as the above-mentioned organizations, where he met and encouraged employees and clients to complete the questionnaire by explaining its purpose. The researcher asked the clients and employees to respond directly, to submit the completed questionnaires to their IB/IFI, or to send them to the researcher by post. Prepaid envelopes were provided to encourage the respondents to do this.

For the procedure of completing the questionnaire, the following steps were taken:

- Preparing for appointments by telephone to make the necessary arrangements.

- Providing a covering letter of introduction issued by the Ministry of Higher Education, and another from the General Directorate requesting that the respondents facilitate the mission of the researcher and respond to the questionnaires distributed in the above- mentioned organizations and their branches.
- Respondents were supplied with prepaid envelopes, with the address printed on them, as mentioned above.

5.9.1 Employees' Population and Sample Design

The target population consisted of the employees of IB/IFIs. The total population was sampled so that the sampled population comprised IB/IFI employees in Riyadh and Jeddah.

The researcher used the following formula[1] to obtain the sample size:

$$S.E.(p) = \sqrt{\frac{\pi(1-\pi)}{n}}$$

And therefore

$$n = \frac{\pi(1-\pi)}{[S.E.(p)]^2}$$

where:

SE (p) = the margin of sampling error that is tolerated

π = the proportion with the particular attribute in the population. The SE can be estimated using a pilot study.

n = sample size.

IB/IFI employees in Riyadh and Jeddah represent the particular attribute in the population which was the basis for calculating the sample size. The researcher was unable to obtain certain figures concerning the number of employees in IB/IFIs. However,

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[1] C.A. Moser, and G. Kalton, (1971)

because of the relatively heavy concentration of Islamic banking activity in Riyadh and Jeddah, the 'sampled population' was expected to be large: as a proportion of 'total population', not less than 75 per cent; therefore the proportion was (using a pilot survey) around 80%.

The margin of SE tolerated was 3 per cent. Accordingly, the sample size was calculated as follows:

$$n = \frac{0.80(1-0.80)}{(0.03)^2} = 178$$

The total number of questionnaire forms distributed was 200. From the 200 employees chosen, the actual number of completed forms collected was 173. The method used in selecting the sample was simple random sampling, and the random sampling was stratified so that the sample is a stratified random sample.

5.9.2 Clients' Population and Sample Design

The above procedure was followed in the case of the client sample, so the target population consisted of the clients of IB/IFIs.

The standard of SE accepted was 2 per cent. Accordingly, the sample size was calculated as follows:

$$n = \frac{0.80(1-0.80)}{(0.02)^2} = 400$$

The total number of questionnaire forms distributed was 400. Of the 400 clients chosen, only 158 filled in the forms and returned them.

The method used in selecting the sample was simple random sampling, and the random sampling was stratified so that the sample is a stratified random sample.

A total of 400 questionnaires were distributed to clients of IB/IFIs, while 200 questionnaires were distributed to employees. Table 5.2 shows the number of distributed questionnaires. The percentage of responding clients compared favourably (it was disappointingly low, although it was reasonable when compared) with similar studies,

especially in developing countries. In the following chapter we will discuss the ratio of responses to the number of questionnaires distributed.

Table 5.2: Number of Questionnaires Distributed and Responses

Islamic Financial Institutions	Employees		Clients		Total	
	Distributed	Returned	Distributed	Returned	Distributed	Returned
Al-Rajhi Banking & Investments Corp.	125	118	170	74	295	192
The National Commercial Bank (NCB)	57	40	120	35	177	75
Islamic Investment Company	8	8	10	9	18	17
King Saud University	--	--	20	6	20	6
Immam Mohammad bin Saud University	--	--	30	12	30	12
King Abdulaziz University	--	--	35	16	35	16
King Abdulaziz City	--	--	15	6	15	6
The Institute of Banking (SAMA)	10	7	--	--	10	7
Total	200	173	400	158	600	331

5.10 CONCLUSION

In this chapter, we have presented the aims and main objectives of this research, the research hypotheses, and a detailed examination of the methodology used in this thesis. The questionnaire was selected as being the most effective tool for obtaining the required data. In the following three chapters, we shall examine the data obtained, first from the employees', and secondly from the customers' questionnaire, and provide an analysis of these results. The following chapter focuses on providing a discussion of the findings and analysis of the questionnaire survey.

CHAPTER SIX

ANALYSIS OF THE EMPLOYEES' SURVEY

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6.1 INTRODUCTION

The objective of this chapter is to present an analysis of the employees' survey. The method used in carrying out this survey was outlined in the previous chapter. The results of this analysis will also be discussed in this chapter.

6.2 THE DATA ANALYSIS TECHNIQUES

In order to achieve the research objectives, a number of statistical techniques were applied to the data. These techniques were taken from the Statistical Package for the Social Sciences (SPSS, version 10).

6.2.1 Descriptive Statistical Analysis

Frequency tables, measures of central tendency (e.g., mean), and measures of dispersion (e.g., standard deviation) have been used to describe the results for each part of the questionnaire. The measures of central tendency are concerned with the location of the area where most of the data points are concentrated. The measures of dispersion show how different data-points are spread in the possible range. In this research, the perception of the two groups regarding different statements concerning the message conveyed by the audit report can be determined by calculating the mean of the three groups. By calculating the standard deviation around the arithmetical mean, the degree of dispersion can be detected.

6.2.2 Inferential Statistical Analysis

The purpose of conducting an Inferential Statistical Analysis (ISA) is to explain the extent to which our data is able to reflect the characteristics of the population from which they are drawn. Thus, either parametric or non-parametric tests could be

conducted. In our research, the objective of the statistical analysis is to test whether statistically significant differences exist among the three groups. The selection of statistical tests to be applied to the data (parametric or non-parametric tests) depends on many conditions (see Bryman & Cramer, 2001; Dancey & Reidy, 2002; Pallant, 2001). According to Bryman (2001), some writers have argued that it is appropriate to use parametric tests only when the data fulfils the following three conditions:

1- the level of scale of measurement is an equal interval or ratio scaling, i.e., more than ordinal;

2- the distribution of the population is normal; and

3- the variance of both variables is equal or homogenous.

In this research, there were two groups of participants. The groups were independent of each other, and their perceptions were measured on an ordinal scale. Parametric tests are based on the assumption that we know certain characteristics of the population from which the sample is drawn, while non-parametric tests (or distribution-free tests) are based on the assumption that we do not (Bryman and Cramer, 2001). For this situation, since there were more than two independent groups in the research, the Kruskal-Wallis One-Way Analysis of Variance by Rank (KWA), commonly called the Kruskal-Wallis H test, was used. This statistical technique is designed to test whether the different independent samples under consideration come from the same or identical populations (Siegal and Castellan, 1988). The rejection of the null hypothesis means that there is a significant difference between at least one pair of the groups considered in the test. This test however, cannot determine which pair, or pair of groups, has contributed the significant differences. To do that, a post hoc analysis has to be performed on each pair of groups. One such post hoc analysis consists of the LSD, Tuky, and Scheffe tests. These tests distinguish multiple differences, comparing the differences in means between the groups, and produce the same type of pair-wise result as Chi-square T tests for significant differences between two groups (Zikmund, 1994). However, to do this (the chosen post hoc) test we should use an ANOVA, a multidimensional statistical tool that enables a comparative analysis to be conducted between more than two groups. According to Bryman and Cramer (2001), some people have argued that the parametric tests should only be used on interval/ratio data. Others have reasoned that such a restriction is unnecessary and suggested that parametric tests can also be used with

ordinal variables, since tests apply to numbers and not to what those numbers signify (Lord, 1953, quoted in Bryman and Cramer, 2001). In view of this controversy, it may be interesting to see whether the use of the parametric ANOVA test on ordinal data gives very dissimilar results to that of the Kruskal-Wallis test. Identical results from the two statistical tests would indicate that the data collected by this study are normally distributed. This will give us the right to use the parametric ANOVA, instead of the non-parametric, Kruskal-Wallis test. This is because, as suggested by Siegel and Castellan (1988), the non-parametric test is about 95 per cent as powerful as the parametric test. This means that the ANOVA test requires 5 per cent fewer subjects than the Kruskal-Wallis test to reject the null hypothesis when it is false (Bryman and Cramer, 2001).

6.3 THE EMPLOYEES' QUESTIONNAIRE

This chapter analyses the responses of employees of IB/IFIs operating in Saudi Arabia to a questionnaire administered in the spring of 2002 in Riyadh and Jeddah.

In order to carry out the data analysis, descriptive statistics were employed. The questionnaire included a section on employees' profiles, as demographic factors were likely to influence their opinions regarding accounting standards and economic and social development in Saudi Arabia. A total of 200 questionnaires were randomly distributed to the employees. This procedure resulted in a sample of 173 completed questionnaires (an 86.5 per cent useable response rate).

The analysis is presented in the sections below.

6.3.1 Respondents' Profile

This section provides information on the respondents' (the Islamic bank employees) personal characteristics, including nationality, age, level of education, religion, and marital status. Table 6.1 provides frequencies and percentages for these employees. The following should be noted regarding each characteristic:

- **Nationality.** One can observe that the distribution of Saudis and non-Saudis is uneven. The representation of those with Saudi nationality is 68 per cent of the total sample, while only 32 per cent are non-Saudis.

- **Age.** The majority of the respondents, 70 per cent, were between 25 and 40 years old. Almost 92 per cent of them were in the age range of 25 to 50.
- **Educational level.** The respondents as a whole were well educated. Almost 50 per cent were university graduates and 33 per cent had already finished secondary school. The high level of education found in this sample is indicative of the high degree to which IB/IFI employees are educated generally, and supports Wilson's statement that Saudi Arabia has the second largest number of university students in the Arab world after Egypt, which is three times more populous (Wilson, 2004).
- **Religion.** The vast majority of the respondents, 99 per cent, were Muslims.
- **Marital status.** The majority of the respondents were married (85 per cent), reflecting the Saudi culture, which has a tendency towards early marriages. This may be attributed to the importance of marriage in Islam (the religion of Saudi Arabia).

Table 6.1: Profile of IB/IFI Employees

Variable		Freq.	%
Nationality	Saudis	118	68
	Non-Saudis	55	32
	Total	173	100
Age	Less than 25	9	5
	25-32 years	67	39
	33-40 years	53	31
	41-50 years	39	22
	More than 50	5	3
	Total	173	100
Education	Secondary School	56	33
	University	85	50
	Postgraduate	18	11
	Other qualification	11	6
	Total	170	100
Religion	Muslim	172	99
	Non-Muslim	1	1
	Total	173	100
Marital status	Single	23	13
	Married	147	85
	Other	3	2
	Total	173	100

6.3.2 Those Who Worked for a Conventional Bank before Joining the Islamic Bank/Financial Institution

Table 6.2 below shows that 33 per cent of the total sample had worked for CBs, which means that they had had prior banking experience. 67 per cent, which constitutes two thirds of the sample, had never worked for a CB, which means that they had no prior banking experience, and that they were given their initial training within or by the Islamic banking system.

Table 6.2: Worked for a CB before Joining the IB/IFI

Statement	Yes		No		Total	
	No.	%	No.	%	No.	%
Worked for a conventional bank before joining the Islamic Bank	57	33	116	67	173	100

6.3.3 Reasons for Joining the Islamic Bank/Financial Institution

Table 6.3 shows that 79 per cent of the employees stated that they joined the bank for religious reasons, which means that the majority of the employees were looking for a permissible (*Halal*) source of income. 35 per cent and 33 per cent ranked 'job opportunity' second and third respectively; 32 per cent and 45 per cent put 'moral satisfaction' into the second and third ranks respectively, which showed consistency with the first reason. 56 per cent and 8 per cent ranked high salaries fourth and fifth respectively, which indicated that the majority of the employees had not joined the IB/IFI principally for this reason.

Table 6.3: Ranking of Reasons for Joining the IB/IFI

S.	Reasons Group	First rank		Second		Third		Fourth		Fifth		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1	Religious reasons	130	79	20	12	6	4	6	4	2	1	164	100
2	Job opportunity	27	18	54	35	50	33	18	12	4	3	153	100
3	Moral satisfaction	7	5	48	32	3	45	4	18	-	-	152	100
4	Higher salary	8	6	23	17	18	13	78	56	11	8	138	100
5	Other	4	10	4	10	10	24	21	50	-	-	40	100

6.3.4 Differences between Employees who had worked for a Conventional Bank and those who had not

A number of chosen possibilities regarding religion, job opportunity, moral satisfaction, and higher salary were proposed as possible reasons for opting to work for the IB/IFI. The employees could also give their own reasons. These are classified as 'Other'. For each reason, a 1 to 5 scale was used to describe the strength of the suggested reason, 1 being the strongest. Since the mean is the most commonly used statistical measure and is most useful in depicting what is typical for a group of values, it thus gives an idea of the general tendency. Table 6.4 shows that for all categories of employees, the factor of religion is very important. Then follows job opportunity and moral satisfaction, which rank above average in importance. However, a higher salary is shown not to be a popular reason for joining an IB/IFI. Also, the 'Other' reasons seem not to be important.

Table 6.4: Differences between Employees who had Worked for a CB and those who had not

Reason	Answer	Mean	Std. Deviation	t	df	Sig.
Religious reasons	Yes	1.48	1.02	1.404	162	0.162
	No	1.29	0.7	1.236	77.809	0.220
Job opportunity	Yes	2.79	1.07	2.800	151	0.006
	No	2.31	0.93	2.660	80.902	0.009
Moral satisfaction	Yes	2.57	0.83	-2.310	150	0.022
	No	2.88	0.77	-2.248	93.454	0.027
Higher salary	Yes	3.17	1.20	-2.156	136	0.033
	No	3.58	0.94	-1.990	73.534	0.050
Other	Yes	4.14	1.46	0.637	40	0.528
	No	3.86	1.33	0.616	23.960	0.544

When the One-Sample t test was employed to see if there was a difference between those employees who had previously worked for a CB and those who had not, it was observed that there were significant differences between the two categories in the sample. Those who had answered "Yes", for the reason 'job opportunity', were significantly different from those who had answered "No", and those who had answered "Yes", for reasons of moral satisfaction and a higher salary, were also significantly different from those who had answered "No". It is logical to expect these differences, since these employees had left their jobs with the CBs because of better prospects, in addition to their looking for a permissible (according to Islamic principles) higher income, which was offered by the IB/IFI.

6.3.5 Differences in Employees' Reasons, According to their Age, for Joining the Islamic Bank/Financial Institution

Table 6.5 shows that 'religious reasons' and 'job opportunity' are significantly different from other reasons, since the level of significance (p value) was 0.000 and 0.022 respectively, and this level of significance is below the standard 0.05 level of statistical significance. A 'higher salary' shows marginal significant difference (p=0.081), and the other reasons show no difference according to age group.

Table 6.5: Differences in Employees' Reasons for Joining the IB/IFI According to Age

S.	ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
1	Religious reasons	Between groups	15.806	4	3.952	6.707	0.000
		Within groups	93.682	159	0.589		
		Total	109.488	163			
2	Job opportunity	Between groups	11.198	4	2.800	2.942	0.022
		Within groups	140.854	148	0.952		
		Total	152.052	152			
3	Moral satisfaction	Between groups	0.914	4	0.228	0.352	0.843
		Within groups	85.481	147	0.650		
		Total	96.395	151			
4	Higher salary	Between groups	9.026	4	2.256	2.128	0.081
		Within groups	141.010	133	1.060		
		Total	150.036	137			
5	Other reasons	Between groups	4.905	4	1.226	0.639	0.638
		Within groups	71.000	37	1.919		
		Total	75.915	41			

The Scheffe test is employed to determine where the differences between means lie when the Analysis of Variance indicates that the means are not all equal. The Scheffe test is customarily used with unequal sample sizes, although it can be used with equal sample sizes. The Scheffe test is used with an ANOVA (Analysis of Variance) to determine which variables among several independent variables is statistically the most different. Table 6.6 shows the results of the Scheffe test for the differences in employees' reasons according to age.

Table 6.6: Scheffe Test: Reasons for Joining the IB/IFI According to Age

Reasons	Religious		Job opportunity			Moral satisfaction		Higher salary	
Distribution by group of ages	No. of employees	Subset for Alpha = 0.05	No. of employees	Subset for Alpha = 0.05		No. of employees	Subset for Alpha = 0.05	No. of employees	Subset for Alpha = 0.05
				1	2				
Less than 25	8	1.38	7	2.00		6	2.67	5	3.60
25-32 years	65	1.22	62	2.45	2.45	64	2.84	59	3.58
33-40 years	49	1.12	45	2.62	2.62	42	2.79	39	3.59
41-50 years	37	1.93	35	2.23		35	2.69	31	2.97
More than 50	5	1.20	4		3.75	4	2.50	4	3.50
Sig.		1.45		0.697	0.052		0.918		0.773

This shows that in terms of religious reasons there were no differences among them, which means that the majority of the employees joined the IB/IFI for religious reasons. However, there was a difference for those who joined for the sake of job opportunity (employees aged between 25-32, 33-40 years and more than 50), which is to be expected, since two of these groups represent the middle generation who want to develop their professional careers, whereas those aged less than 25 and those aged between 41 and 50 were less swayed by this aspect. This is understandable, since they are either very young people or are on the point of achieving a good position or promotion before the end of their working lives. With regard to moral satisfaction and high salaries, there were no differences among the age groups.

6.3.6 Differences in Employees' Reasons, According to their Level of Education, for Joining the Islamic Bank/Financial Institution

Table 6.7 shows that there were no significant differences in the employees' reasons for joining the bank according to their level of education in terms of religion, job opportunity, and moral satisfaction (0.371, 0.249 and 0.494 respectively), but there were significant differences according to their level of education in terms of the other two reasons, namely higher salary and other reasons (p=0.030 and p=0.034 respectively).

Table 6.7: Differences in Employees' Reasons for Joining the IB/IFI According to Level of Education

S.	ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
1	Religious reasons	Between groups	2.146	3	0.715	1.053	0.371
		Within groups	106.674	157	0.679		
		Total	108.820	160			
2	Job opportunity	Between groups	4.092	3	1.364	1.389	0.249
		Within groups	143.382	146	982		
		Total	147.473	149			
3	Moral satisfaction	Between groups	1.512	3	0.504	0.803	0.494
		Within groups	91.661	146	0.628		
		Total	93.173	149			
4	Higher salary	Between groups	9.358	3	3.119	3.64	0.030
		Within groups	134.377	132	1.018		
		Total	143.735	135			
5	Other reasons	Between groups	15.290	3	5.097	3.195	0.034
		Within groups	60.615	38	1.595		
		Total	75.905	41			

When the Scheffe test was used (Table 6.8) to test the differences among the employees in their reasons for joining the IB/IFI according to their level of education, it showed that the majority of employees had indicated that they had joined for reasons of religion, job opportunity, moral satisfaction, and higher salary, regardless of their level of education. However, with regard to postgraduate and secondary school graduate employees, 'a number' stated that they had joined the bank for 'other reasons', which some of them had already mentioned in the questionnaire.

Table 6.8: Scheffe Test: Reasons for Joining the IB/IFI According to Level of Education

Reasons	Religious		Job opportunity		Moral satisfaction		Higher salary	
Education level	No.	Subset for Alpha = 0.05	No.	Subset for Alpha = 0.05	No.	Subset for Alpha = 0.05	No.	Subset for Alpha = 0.05
Secondary school	54	1.43	49	2.29	74	2.80	44	3.70
University	80	1.26	76	2.54	52	2.71	70	3.41
Postgraduate	17	1.35	15	2.60	14	3.07	14	2.97
Other Qualification	10	1.70	10	2.90	10	2.70	8	3.63
Sig.		0.399		0.284		0.543		0.074

6.3.7 Employees' Opinions, According to their Banking Background and Level of Education, about the Complexity of Islamic Banking Transactions

Table 6.9 shows that 54 per cent of the employees who had previously worked for CBs thought that Islamic banking transactions were not difficult, while 46 per cent thought that they were. 21 per cent of the employees who had started work in an IB/IFI stated that Islamic banking transactions were difficult, while 79 per cent stated that they were not.

71 per cent of the total number of employees replied "No", Islamic banking transactions are not difficult, while 29 per cent of the total number replied "Yes", they are difficult.

With regard to the mean difference in employees' opinions concerning the difficulty of Islamic banking transactions according to their banking background, Table 7.10 shows that there was no significant difference between the two groups' opinions (overall view), all agreeing that Islamic banking transactions are not difficult ($p = 0.069$).

Table 6.9: Employees' Opinions, According to Banking Background and Level of Education, Regarding the Complexity of IB/IFI Transactions

Statement	Employee Banking Background and Education	Yes		No		Total	
		No.	%	No.	%	No.	%
Banking experience	Worked for CB before	26	46	31	54	57	100
	Worked for IB initially	24	21	92	79	116	100
	Total	50	29	123	71	173	100
Education	Secondary School	10	18	46	82	56	100
	University	31	36	54	64	85	100
	Postgraduate	7	39	11	61	18	100
	Other qualifications	2	18	9	82	11	100
	Total	50	29	120	71	170	100

From the table 6.9 it can be seen that, out of a total sample of 170 employees, 33 per cent were secondary school graduates, 50 per cent were university graduates, 11 per cent had a postgraduate qualification, and 6 per cent had other qualifications.

Table 6.9 shows the different opinions of the employees regarding the complexity of banking transactions according to the level of their educational qualifications. 18 per cent of the secondary school graduate employees answered "Yes", Islamic banking transactions are complex, while 82 per cent answered "No", they are not complex.

36 per cent of the university graduate employees answered "Yes", Islamic banking transactions are complex, while 64 per cent of them answered "No", they are not.

39 per cent of the postgraduate employees answered "Yes", Islamic banking transactions are difficult, while 61 per cent of them said they were not.

18 per cent of the employees with other qualifications answered "Yes", Islamic banking transactions are difficult, while 82 per cent answered "No", they are not.

29 per cent of the total sample answered "Yes", Islamic banking transactions are complex, while 71 per cent of the total sample replied "No", they are not complex.

Table 6.10: Mean Difference in Employees' Opinions, According to their Banking Background, Regarding the Complexity of IB/IFI Transactions

ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
Difficulty of Islamic banking transactions	Between groups	1.472	3	0.491	2.407	0.069
	Within groups	33.823	166	0.204		
	Total	35.295	169			

The Chi-square test shown in Table 6.11 found that there was no significant difference according to level of education among the opinions of the employees regarding the complexity of Islamic banking transactions, since the level of significance was 0.247, and this level of significance is above the standard 0.05 level of statistical significance; thus the overall view was that Islamic banking transactions are not complex.

Table 6.11: Test Statistics "Chi Square"

Test Statistics	Value
Chi-Square	1.338
Significant	0.247

The opinions of the total sample match those of the different groups. This gives a good indication of the similarity of the opinions of all the individuals within a specific educational level and within the total sample.

6.3.8 Employees' Opinions, According to their Banking Background, Regarding the Difficulties they Face when Working in an Islamic Bank/Financial Institution

This section focuses on a number of difficulties that IB/IFI employees face.

1. No uniformity in the accounting policies and auditing standards for IB/IFIs (according to banking background)

In this section, we shall see the differences in the employees' opinions concerning the difficulties they face when working in IB/IFIs, according to their banking experience. An analysis of the sample showed that 26 employees (52 per cent of the sample) had previously worked for a CB, while 24 had worked initially for IB/IFIs (48 per cent of the sample).

Table 6.12 shows that 81 per cent of those employees who had worked for CBs agreed with the statement that there is no uniformity of accounting policies and auditing standards in Islamic banking, while 19 per cent did not agree. 75 per cent of the employees who had initially started work with an IB/IFI agreed with the statement, whereas 25 per cent of them answered "No", which meant that they thought there was uniformity in the accounting policies and auditing standards of IB/IFIs. 78 per cent of the total number of employees agreed with the statement, while 22 per cent disagreed i.e. they believe that there is uniformity in the accounting polices and auditing standards of IB/IFIs.

Table 6.12 also shows the results of the Chi-square test which indicates no significant difference in the employees' opinions concerning Islamic banking uniformity in accounting policies and auditing standards, since the level of significance was 0.626, and this level of significance is above the standard 0.05 level of statistical significance. Thus, the overall opinion was that there is no uniformity (at value = 0.626). This result conflicts with the viewpoint of the specialists involved in the setting of accounting standards in Islamic banking, who agree unanimously that an international accounting

and supervisory framework be established that is effective and which emerges from *Shariah* law and at the same time conforms to the requirements of the usual international standards.

2. A new type of transaction has to be approved by the Religious Supervisory Boards, which takes time

The role of the *Shariah* Supervisory Board (SSB) is vital for two reasons. First, those who deal with an IB/IFI require assurance that it is transacting within *Shariah* (Islamic law). Second, the SSB should monitor the Islamic bank's performance in complying with the *Shariah* principles. It was given the authority to make decisions and issue decrees (*fatawa*) which are binding on IB/IFIs. They also hold seminars and conferences concerning Islamic jurisprudence in relation to the new and evolving financial and economic issues being faced by IB/IFIs (Al-Malgi, 2000).

Table 6.12 shows that 92 per cent of the employees who had previously worked for CBs stated that new types of transaction present difficulties for Islamic banking, while 8 per cent disagreed with this statement, i.e. they believe these new types of transaction are not a problem for the Islamic banking system. 75 per cent of the employees who had started work for an IB/IFI answered "Yes", new types of transaction present difficulties for the Islamic banking system, while 25 per cent answered "No", they are not a problem.

Moreover, 84 per cent of the total number of employees answered "Yes", new types of transaction have to be approved by the religious supervisory boards, which takes time, and this causes difficulties for the employees in their work at IB/IFs, while 16 per cent answered "No", this is not a problem for the Islamic banking system.

The Chi-square test results shown in Table 6.12 reveal that there are no significant differences among the employees' opinions, according to their banking background, regarding the difficulty involved when new types of transaction have to be approved by religious supervisory boards, since the level of significance was 0.099, and this level of significance is above the standard 0.05 level of statistical significance. Thus their overall view was that this issue constitutes a difficulty for the Islamic banking system. However, the number of those dealings that require the approval of the SSB is limited; the banks do not need to apply for approval for most of their operations.

3. A lack of understanding of Islamic transactions

Table 6.12 also shows the opinions of the employees, according to their banking background, regarding the lack of understanding of Islamic transactions presenting a difficulty to the Islamic banking system. 85 per cent of the employees who had previously worked for CBs replied "Yes", there is a lack of understanding of Islamic transactions and it is a difficulty, while 15 per cent replied "No", it is not a difficulty for the IB/IFIs.

88 per cent of the employees who had started work initially for IB/IFIs answered "Yes" to this question, while 12 per cent replied "No", this is not a difficulty for the IB/IFIs.

86 per cent of the total number of employees answered "Yes", it is a difficulty for the IB/IFIs, while 14 per cent replied "No", it is not.

The results of the Chi-square test show that the overall opinion of the two groups is that a lack of understanding does present an obstacle to the development of the IB/IFIs, which means that there is no significant difference between the employees' opinions about the statement according to their banking background, where the level of significance was 0.771, which is above the standard 0.05 level of statistical significance.

4. More documents required

Table 6.12 shows that 69 per cent of the employees who had worked for CBs answered "Yes", the need for more documentation is a difficulty for the IB/IFIs, while 31 per cent replied "No", it is not.

46 per cent of the employees who had begun work initially with an IB/IFI believed that the need for more documentation did present a problem, while 54 per cent answered "No" this is not a difficulty for the IB/IFIs.

58 per cent of the total number of employees replied "Yes", the requirement for more documentation is a difficulty for the IB/ IFIs, while 48 per cent of them answered "No", it does not present a difficulty.

The result of the Chi-square test shown in Table 6.12 indicates that there is no significant difference between the opinions of the two groups with regard to the above

statement, since the level of significance was 0.097, which is above the standard 0.05 level of statistical significance; thus the overall opinion of both groups is that it does present a difficulty for the IB/IFIs.

5. Other difficulties

Table 6.12 also shows that 8 per cent of the employees who had previously worked for CBs answered "Yes", there are other difficulties facing the IB/IFIs, while 92 per cent replied "No", there are no other difficulties.

17 per cent of the employees who had begun work with an IB/IFI answered "Yes", other difficulties do face the IB/IFIs, while 83 per cent replied "No", there are no other difficulties facing the IB/IFIs.

12 per cent of the total number of employees answered "Yes", there are other difficulties facing the IB/IFIs, while 88 per cent answered "No", there are no other difficulties.

Table 6.12: Employees' Opinions, According to Banking Background, Regarding other Difficulties that Face IB/ IFIs

Difficulty statement	Employee Banking Background	No		Yes		Total		Test	
		No.	%	No.	%	No.	%	Chi Sq.	Sig.
No uniformity in the accounting policies and auditing standards	Worked for CB before	5	19	21	81	26	100	2.237	0.626
	Worked for IB initially	6	25	18	75	24	100		
	Total	11	22	39	78	50	100		
A new type of transaction has to be approved by religious supervisory boards, which takes time	Worked for CB before	2	8	24	92	26	100	2.726	0.099
	Worked for IB initially	6	25	18	75	24	100		
	Total	8	16	42	84	50	100		
A lack of understanding of Islamic transactions	Worked for CB before	4	15	22	85	26	100	0.085	0.771
	Worked for IB initially	3	12	21	88	24	100		
	Total	7	14	43	86	50	100		
More documents required	Worked for CB before	8	31	18	69	26	100	2.749	0.097
	Worked for IB initially	13	54	11	46	24	100		
	Total	21	42	29	58	50	100		
Other difficulties	Worked for CB before	24	92	2	8	26	100	0.933	0.334
	Worked for IB initially	20	83	4	17	24	100		
	Total	44	88	6	12	50	100		

The result of a chi-square test revealed that the level of significance was 0.334, and this level of significance is above the standard .05 level of statistical significance. Thus it can be noted from Table 6.12 that the overall opinion of both groups is that other difficulties do not face the development of the IB/IFIs, and that there is no significant difference between the employees' opinions according to their banking background.

6.3.9 Difference in Employees' Opinions, According to their Nationality, Regarding the Difficulties that face Islamic Banks/Financial Institutions

In the following pages the researcher will show the differences in the employees' opinions, according to their nationality, regarding the difficulties that face the IB/IFIs.

1. **Employees' opinions, according to their nationality, about the lack of uniformity in accounting policies and auditing standards according to their nationalities**

An examination of the sample showed that there were 42 Saudis (84 per cent of the sample), and 8 non-Saudis (16 per cent of the sample).

Table 6.13 shows that 76 per cent of the Saudis replied "Yes", the lack of uniformity in accounting policies and auditing standards is a difficulty, while 24 per cent of them replied "No", a lack of uniformity in accounting policies and auditing standards is not a problem for the IB/IFIs.

88 per cent of the non-Saudis replied "Yes", the lack of uniformity in accounting policies and auditing standards does present a difficulty for the IB/IFIs, while 12 per cent of them answered "No", this does not present a difficulty.

78 per cent of the total sample answered "Yes", a lack of uniformity in the accounting policies and auditing standards is a problem, while 22 per cent of the total sample answered "No", it is not a problem for the IB/IFIs.

The result of the Chi-square test shows that there is no difference in the employees' opinions, according to their nationalities, in respect of the statement regarding the lack of uniformity in accounting policies and auditing standards, since the level of significance (p value) was 0.484, and this level of significance is above the standard

0.05 level of statistical significance; thus the consensus of opinion was that this is a difficulty for the IB/IFIs.

2. A new type of transaction has to be approved by a religious supervisory board

Table 6.13 shows that 81 per cent of the Saudis answered "Yes", the fact that a new type of transaction has to be approved by religious supervisory boards, which takes time, does present a difficulty, while 19 per cent answered "No", this does not present a difficulty to the IB/IFIs.

100 per cent of the non-Saudis were of the opinion that this does not present a difficulty to the IB/IFIs, i.e. none of the non-Saudis thought it to be a difficulty.

Table 6.13: Employees' Opinions, According to Nationality, Regarding Possible Difficulties Facing the IB/IFIs

S.	Difficulty statement	Nationality	No		Yes		Total		Test	
			No.	%	No.	%	No.	%	Chi Sq.	Sig.
A	No uniformity in accounting policies and auditing standards for IBs /IFIs	Saudi	10	24	32	76	42	100	0.491	0.484
		Non-Saudi	1	12	7	88	8	100		
		Total	11	22	39	78	50	100		
B	A new type of transaction has to be approved by the religious supervisory board	Saudi	8	19	34	81	42	100	1.778	0.182
		Non-Saudi	-	-	8	100	8	100		
		Total	8	16	42	84	50	100		
C	A lack of understanding of Islamic transactions	Saudi	6	14	36	86	42	100	0.017	0.895
		Non-Saudi	1	12	7	88	8	100		
		Total	7	14	43	86	50	100		
D	More documents required	Saudi	19	45	23	55	42	100	1.107	0.293
		Non-Saudi	2	25	6	75	8	100		
		Total	21	42	29	58	50	100		
E	Other difficulties	Saudi	37	88	5	12	42	100	0.002	0.963
		Non-Saudi	7	88	1	12	8	100		
		Total	44	88	6	12	50	100		

16 per cent of the total sample stated that the fact that new types of transaction have to be approved by the religious supervisory boards, which takes time, does not present a

difficulty for the IB/IFIs, while 84 per cent of the total answered "Yes", this does present a difficulty.

The Chi-square test results reveal no difference in the opinions of the employees according to their nationalities, since the level of significance (p value) was 0.182, and this level of significance is above the standard 0.05 level of statistical significance; thus, the general view was that this issue is a difficulty for the IB/IFIs.

3. A lack of understanding of Islamic transactions

Table 6.13 also shows that 86 per cent of the Saudi employees answered "Yes", this lack of understanding does present a difficulty for the IB/IFIs, while 14 per cent answered "No", it does not present a difficulty.

88 per cent of the non-Saudi employees answered "Yes", this does present a difficulty, while 12 per cent of the non-Saudi employees answered "No", this does not present a difficulty for the IB/IFIs.

86 per cent of the total number of employees replied "Yes", such a lack of understanding may be considered to be a difficulty facing the IB/IFIs, while 14 per cent replied "No", it does not present a difficulty.

The Chi-square test results show that there is no difference in the opinions of the employees according to their nationalities, where the level of significance (p value) was 0.895, which is above the standard 0.05 level of statistical significance; thus the overall view was that a lack of understanding of Islamic transactions may be considered as a difficulty for the IB/IFIs.

4. More documents required

Table 6.13 also shows that 55 per cent of the Saudi employees answered "Yes", the fact that more documents are required does present a difficulty for the IB/IFIs, while 45 per cent answered "No", it does not present a difficulty. 75 per cent of the non-Saudi employees answered "Yes", this does present a difficulty, while 25 per cent answered "No", it does not present a difficulty for the IB/IFIs.

58 per cent of the total number of employees answered "Yes", the fact that more documents are required is a difficulty, while 42 per cent stated that it does not present a difficulty for the IB/IFIs.

The Chi-square test results reveal no difference in the opinions of the employees according to their nationalities in respect of the above statement, since the level of significance (p value) was 0.293, and this level of significance is above the standard 0.05 level of statistical significance: thus the overall view was that the fact that more documentation is required does present a difficulty for the IB/IFIs.

5. Other difficulties

From the same table, we can see that 12 per cent of the Saudi employees answered "Yes", there are other difficulties facing the IB/IFIs, while 88 per cent of the Saudis answered "No", there are no other difficulties.

88 per cent of the non-Saudi employees answered "Yes", other difficulties may face the IB/IFIs; while 12 per cent answered "No", there are no other obstacles standing in the way of the progress of the IB / IFIs.

12 per cent of the total sample of employees stated that there are other difficulties, while 88 per cent of them stated that there are no other difficulties.

The results of the Chi-square test indicate that there are no significant differences in the employees' opinions according to their nationalities concerning other difficulties; since the level of significance (p value) was 0.963, and this level of significance is above the standard 0.05 level of statistical significance; thus, the overall opinion of both groups is that there are no other difficulties standing in the way of the development of the IB/IFIs.

In summary, the results pertaining to the opinions of the total sample according to their working experience and nationality revealed no differences among them. These aspects of the analysis have been taken as cross-measure instruments to demonstrate the credibility of the answers given by the employees: all the results are similar and alike in respect of the opinions of the employees concerning uniformity in accounting policies and auditing standards, new types of transaction which need the approval of the religious supervisory boards, a lack of understanding of Islamic transactions, the

increased amount of documentation required, and other difficulties that may hinder the progress of the IB/IFIs.

6.3.10 Employees' Opinions, According to their Banking Background, Level of Education, and Nationality, Regarding the Differences in Nature between Islamic Banks and Conventional Banks, which Necessitate Different Structures

Table 6.14 shows that 77 per cent of the employees who had worked for CBs answered "Yes", IB/IFIs should have a different structure; while 23 per cent stated that it is not necessary for them to have a different structure.

85 per cent of the employees who had begun work initially for an IB/IFI answered "Yes", IB/IFIs should have a different structure, while 15 per cent answered "No", they should not have a different structure.

82 per cent of the total sample answered "Yes", IB/IFIs should have a different structure, while 18 per cent answered "No", they should not have a different structure.

The Chi-square test results shown in Table 6.14 reveal no significant differences among the opinions of the employees, according to their banking background, concerning whether or not IB/IFIs should have a different structure, since the level of significance was 0.220, which is above the standard 0.05 level of statistical significance. Thus, the overall opinion was that IB/IFIs should have a different structure due to their different nature.

With regard to the employees' level of education, Table 6.14 shows that 78 per cent of the secondary school graduate employees answered "Yes", IB/IFIs should have a different structure from CBs, while 22 per cent answered "No", they should not have a different structure in spite of their different nature.

85 per cent of the university graduate employees answered "Yes", IB/IFIs should have a different structure due to their different nature, while 15 per cent answered "No", they should not have a different structure from CBs.

83 per cent of the postgraduate employees answered "Yes", IB/IFIs should have a different structure, while 17 per cent answered "No", they should not.

73 per cent of the employees with other qualifications answered "Yes", IB/IFIs should have a different structure from CBs, while 27 per cent answered "No", they should not.

82 per cent of the total sample answered "Yes", IB/IFIs should have a different structure due to their different nature, while 18 per cent answered "No", they should not have a different structure from CBs.

The results of the Chi-square test shown in Table 6.14 reveal no significant differences among the employees' opinions according to their level of education concerning whether IB/IFIs should have a different structure due to their different nature, since the level of significance was 0.953, and this level of significance is above the standard 0.05 level of statistical significance. Thus, the consensus of opinion of the groups was that there was a need for a different structure, since the nature of the IB/IFI is different from that of CBs.

With regard to the employees' nationality, Table 6.14 shows that 81 per cent of the Saudi employees answered "Yes", the IB/IFIs should have a different structure from CBs, while 19 per cent of them answered 'No', they should not.

84 per cent of the non-Saudi employees answered "Yes", the IB/IFIs should have a different structure due to their different nature, while 16 per cent of them answered "No", they should not have a different structure from CBs.

82 per cent of the total number of employees answered "Yes", the IB/IFIs should have a different structure due to their different nature, whereas 18 per cent answered "No", they should not have a different structure from CBs.

The Chi-square test results shown in Table 6.14 indicate no significant difference in the employees' opinions according to nationality, the level of significance being 0.699, which is above the standard 0.05 level of statistical significance: thus, the consensus of opinion was that IB/IFIs should have a different structure from CBs due to their different nature.

The employees of the IB/IFIs, regardless of their banking background, nationality, or level of education, were thus in overall agreement that the banks should have a different structure from that of CBs. This stratification revealed no differences in their opinions.

Table 6.14: Employees' Opinions about whether IB/IFIs should have a Different Structure from CBs due to their Different Nature

Different nature	Employee Banking Background, education and nationality	Yes		No		Total		Test Statistics	
		No.	%	No.	%	No.	%	Chi-squ.	Sig.
Employees' banking background	Worked for CB before	43	77	13	23	56	100	1.506	0.220
	Worked for IB initially	98	85	18	15	116	100		
	Total	141	82	31	18	172	100		
Employees' level of education	Secondary school	43	78	12	22	55	100	0.004	0.953
	University	72	85	13	15	85	100		
	Postgraduate	15	83	3	17	18	100		
	Other qualification	8	73	3	27	11	100		
	Total	138	82	31	18	169	100		
Employees' nationality	Saudi	95	81	22	19	117	100	0.150	0.699
	Non-Saudi	46	84	9	16	55	100		
	Total	141	82	31	18	172	100		

6.3.11 Accounting Standards at the Respondent's Islamic Bank are Different from those at other Islamic Banks / Financial Institutions

In question 8 from the questionnaire, concerning whether or not the accounting standards at the employee's IB/IFI were different from those at other IB/IFIs, the respondents were given four options. The responses are shown in Table 7.15.

From Table 6.15, it can be seen that 42 per cent of the employees either agreed or strongly agreed that the accounting standards at their IB/IFI were different from those at other IB/IFIs, and 21 per cent disagreed with this statement, while 37 per cent of the respondents did not know.

With regard to the mean difference in the employees' opinions, according to their banking background and nationality, regarding this statement Table 6.16 shows that there is a significant difference in the opinions of the employees according to their banking background. Thus, the general view was that the accounting standards at the IB/IFIs where they were working were different from those at other IB/IFIs, since the level of significance for this variable was 0.006, as shown in Table 6.16, and this level is below the standard 0.05 level of significance.

Table 6. 15: Accounting Standards and Periodic Financial Statements at the IB/IFIs

Statement	Strongly Agree		Agree		Disagree		Don't know		Total	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Different accounting standards between IBs	28	16	44	26	37	21	63	37	172	100
IBs have contributed towards setting specific accounting standards	90	52	26	15	39	23	18	10	173	100
IBs should prepare periodic financial statements audited by a chartered accountant	108	62	60	35	2	2	3	2	173	100
IBs need to consult each other to produce standard accounting systems	107	62	60	35	4	2	2	1	173	100

Table 6.16: Mean Difference in Employees' Opinions, According to Banking Background and Nationality, Regarding the Statements below

Statement	Employees' experience and nationality	No.	Mean	Std. Deviation	t	Sig.	Mean diff.
Difference in employees' opinions regarding accounting standards	Worked for CBs	57	2.46	1.02	-2.786	0.006	-0.49
	Didn't work for CBs	115	2.95	1.12			
	Saudi	117	2.72	1.14	-1.154	0.250	-0.21
	Non-Saudi	55	2.93	1.03			
The contribution of Islamic banks in setting specific accounting standards that fulfil the requirements of the Islamic Shariah	Worked for CBs	57	2.70	0.84	1.933	0.055	0.30
	Didn't work for CBs	116	2.41	1.00			
	Saudi	118	2.53	0.93	0.624	0.534	9.75
	Non-Saudi	55	2.44	1.01			
IBs should prepare periodic financial statements audited by Chartered accountant	Worked for CBs	57	1.54	0.85	1.285	0.201	0.15
	Didn't work for CBs	116	1.40	0.63			
	Saudi	118	1.43	0.69	-.0349	0.728	-4.05
	Non-Saudi	55	1.47	0.77			
IBs need to consult each other to produce standard accounting systems	Worked for CBs	57	1.40	0.70	-0.500	0.618	-5.34
	Didn't work for CBs	116	1.46	0.64			
	Saudi	118	1.47	0.64	0.783	0.435	8.43
	Non-Saudi	55	1.38	0.71			

Table 6.16 also shows that there is no significant difference in the opinions of the employees, according to their nationalities, regarding this statement. There was overall

agreement among these employees that there was no difference between the accounting standards at the IB/IFIs where they worked and those at other IB/IFIs, at p = 0.250, which is above the standard 0.05 level of significance.

Table 6.17 shows the difference in employees' opinions, according to their level of education, regarding the statement that the accounting standards at their IB/IFI are different from those at other IB/IFIs. It can be seen that there is a significant difference in the employees' opinions regarding this statement according to their level of education, since the level of significance for this variable was 0.036 (as shown in Table 6.17), and this level is below the standard 0.05 level of significance.

Table 6.17: Difference in Employees' Opinions, According to Level of Education, Regarding the Statements below

ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
The accounting system in this IB/IFI is different from that in other IBs /IFIs	Between groups	10.521	3	3.507	2.913	0.036
	Within groups	199.856	166	1.204		
	Total	210.377	169			
Islamic banks are contributing to setting specific accounting standards that fulfil the requirements of the Islamic Shariah.	Between groups	3.152	3	1.051	1.168	0.324
	Within groups	149.295	166	0.899		
	Total	152.447	169			
IBs should prepare periodic financial statements audited by a chartered accountant	Between groups	3.316	3	1.105	2.218	0.088
	Within groups	82.708	166	0.498		
	Total	86.024	169			
IBs need to consult each other to produce accounting standard	Between groups	1.591	3	0.530	1.215	0.306
	Within groups	72.433	166	0.436		
	Total	74.024	169			

6.3.12 Islamic Banks/Financial Institutions have Contributed towards Setting Accounting Standards that Fulfil the Requirements of the Islamic *Shariah*

In question 9 employees were asked whether they thought that the presence of IB/IFIs had contributed towards setting specific accounting standards that fulfil their requirements based on the Islamic *Shariah*. Table 6.15 presents their responses.

As shown in the table, the majority, or 52 per cent, of the respondents strongly agreed that the presence of IB/IFIs has contributed towards setting specific accounting standards that fulfil their requirements based on the Islamic *Shariah*, while 15 per cent agreed. 23 per cent disagreed with the statement and it can therefore be said that two thirds of the employees agreed that the IB/IFIs have contributed towards setting accounting standards that fulfil their requirements based on the Islamic *Shariah*.

With regard to the mean difference in the employees' opinions, according to their banking background and nationality, regarding the contributions made by IB/IFIs to the setting of specific accounting standards that fulfil their requirements based on the Islamic *Shariah*. Table 6.16 shows that there is no significant difference in the opinions of the employees according to their banking background. Thus, the consensus of opinion was that IB/IFIs have contributed to the setting of specific accounting standards that fulfil their requirements based on the Islamic *Shariah*, the level of significance for this variable being 0.055, which is above the standard 0.05 level of significance.

Table 6.16 also shows that there are no significant differences in the opinions of the employees, according to their nationalities, concerning the contribution made by IB/IFIs to the setting specific of accounting standards that fulfil their requirements based on the Islamic *Shariah*. Thus, the overall view was that the IB/IFIs had made such a contribution, since the level of significance for this variable was 0.534, and this level is above the standard 0.05 level of significance.

The table also shows that there are no significant differences in the employees' opinions, according to their level of education, regarding the contribution made by IB/IFIs to the setting of specific accounting standards that fulfil their requirements based on the Islamic *Shariah*, at $p = 0.324$, which is above the standard 0.05 level of significance.

6.3.13 Islamic Banks/Financial Institutions should be required to Prepare Periodic Financial Statements and have them Audited by a Chartered Accountant

Periodic financial statements (PFSs), which may be defined as any published financial statement covering a period of less than one year, are currently required to be published by companies or institutions in many developed and less developed countries. PFSs may

be published on a monthly, quarterly, half- yearly, or any other basis (Al-Bogami, 1996). These PFSs are useful to clients and investors when making investment decisions.

As can be seen from Table 6.15, 97 per cent of the employees either agreed or strongly agreed (35 per cent, 62 per cent respectively) that the IB/IFIs should prepare PFSs and have them audited by a chartered accountant, while 1 per cent disagreed and 2 per cent of the respondents did not know.

Table 6.16 shows that there are no significant differences in the opinions of the employees, according to their banking background, regarding whether or not the IB/IFIs should be required to prepare PFSs audited by a chartered accountant. Thus, the consensus of opinion was that the IB/IFIs should be required to prepare PFSs and have them audited by a chartered accountant, since the level of significance for this variable was 0.201, and this level is above the standard 0.05 level of significance.

There are also no significant differences in the opinions of the employees, according to their nationalities, regarding this requirement, as the level of significance for this variable was 0.728, as shown in Table 6.16, and this level is above the standard 0.05 level of significance. Thus, the overall view was that IB/IFIs should be required to do this.

Once again Table 6.17 shows that there are no significant differences in the employees' opinions, according to their level of education, regarding whether or not IB/IFIs should be required to prepare audited financial statements, at $p = 0.088$, which is above the standard 0.05 level of significance.

6.3.14 Islamic Banks Need to Consult with Each Other and Produce Accounting Standards Acceptable to all

Table 6.15 shows that 62 per cent of the employees strongly agreed that IBs/IFIs need to consult with each other and produce accounting standards acceptable to all, and 35 per cent agreed, while 2 per cent of the respondents disagreed with this statement.

Table 6.16 shows the mean difference in employees' opinions, according to their banking background; we can see that there is no significant difference in the opinions of

the employees regarding this statement, since the level of significance for this variable was 0.618, which is below the standard 0.05 level of significance. Thus, the general view was that IB/IFIs do need to consult with each other and produce accounting standards acceptable to all. Table 6.16 also shows that there are no significant differences in the opinions of the employees, according to their nationalities, regarding this need, as the level of significance for this variable was 0.435, and this level is above the standard 0.05 level of significance. Thus, the overall opinion was that IB/IFIs need to consult with each other and produce accounting standards acceptable to all.

In addition, Table 6.17 shows that there are no significant differences in the employees' opinions, according to their level of education, regarding the need for Islamic banks to consult with each other and produce accounting standards acceptable to all, at $p = 0.306$, since this value is above the standard 0.05 level of significance.

6.3.15 Employees' Opinions Regarding the Contribution made by Islamic Banks/Financial Institutions to the Economic and Social Development of the Country

Table 6.18 shows that 98 per cent of those employees who had previously worked for CBs answered "Yes", to the question of whether the IB/IFIs are contributing to the economic and social development of the country, while only 2 per cent answered "No".

95 per cent of the employees who had begun work initially for IB/IFIs answered "Yes", to the same question, while only 5 per cent gave the answer "No".

96 per cent of the total sample, regardless of their banking background, answered "Yes", to the question, whereas only 4 per cent gave the answer "No".

The Chi-square test result shown in Table 6.18 reveals that there are no significant differences in the employees' opinions, according to their banking background, regarding this question, since the level of significance for this variable was 0.265, and this level is above the standard 0.05 level of significance: thus, the consensus of opinion was that the IB/IFIs are contributing to the economic and social development of the country.

This table also shows that 96 per cent of the employees who graduated from secondary school were of the same opinion, while only 4 per cent of them differed.

94 per cent of the university graduate employees thought the IB/IFIs were contributing to the economic and social development of the country, while 6 per cent thought that they were not.

100 per cent of the postgraduate employees answered "Yes" to the question, as did 100 per cent of those with other qualifications.

96 per cent of the total sample, regardless of level of education, thought that the IB/IFIs were contributing to the economic and social development of the country, while only 4 per cent thought that they were not.

The result of the Chi-square test shown in Table 6.18 indicates that there are no significant differences in the employees' opinions, according to their level of education, concerning the IB/IFIs' contribution to the economic and social development of the country, since the level of significance for this variable was 0.533, which is above the standard 0.05 level of significance. Thus, the overall opinion was that these banks are making are making a contribution.

Similarly Table 6.18 shows that 96 per cent of Saudi employees thought that the IB/IFIs were contributing to the economic and social development of the country, while only 4 per cent of them thought that they were not contributing.

96 per cent of the non-Saudi employees answered "Yes", the IB/IFIs are contributing to the economic and social development of the country, while 4 per cent thought that they were not contributing.

96 per cent of the total sample, regardless of their nationality, thought that the IB/IFIs were contributing to the economic and social development of the country, while only 4 per cent of them thought that they were not contributing.

The Chi-square test result shows no significant differences in the employees' opinions, according to their nationalities, regarding the contribution of the IB/IFIs to the economic and social development of the country, as the level of significance for this variable was 0.607, as shown in Table 6.18, and this level is above the standard 0.05

level of significance. Thus, the overall opinion was that the IB/IFIs are contributing to the economic and social development of the country.

Table 6.18: Employees' Opinions Concerning the Contribution made by the IB/IFIs to the Economic and Social Development of the Country

Statement		Yes		No		Total		Test Statistics	
		No.	%	No.	%	No.	%	Chi-squ.	Sig.
Employees' banking background	Worked for CB before	56	98	1	2	57	100	1.143	0.265
	Worked for an IB initially	110	95	6	5	116	100		
	Total	166	96	7	4	173	100		
Employees' level of education	Secondary school	54	96	2	4	56	100	0.389	0.533
	University	80	94	5	6	85	100		
	Postgraduate	18	100	-	-	18	100		
	Other qualification	11	100	-	-	11	100		
	Total	163	96	7	4	170	100		
Employees' nationality	Saudi	113	96	5	4	118	100	0.035	0.607
	Non-Saudi	53	96	2	4	55	100		
	Total	166	96	7	4	173	100		

The majority of the employees agreed, regardless of their banking backgrounds, their educational level, and their nationalities, that the IB/IFIs contributed to the economic and social development of the country, and this is in fact the distinctive feature of such banks: their direct or indirect contribution to the economic and social development of the country.

6.3.16 Fields of Contribution

As may be seen in Table 6.19, 166 of the IB/IFI employees (96 per cent) answered "Yes", IB/IFIs do contribute to the economic and social development of Saudi Arabia, with 60 per cent of respondents believing that they accomplished this by giving loans

for marriages; 53 per cent believing that they did so by means of their contributions to social welfare; 29 per cent believing that they contributed by financing agricultural projects, and 28 per cent of them believing that IB/IFIs contribute by financing small businesses. However, the employees also believed that the IB/IFIs' contribution is weak in the following fields: the provision of mortgages or loans to build houses, the financing of industrial projects, and the provision of loans to buy furniture/household equipment and vehicles (16, 11 and 11 per cent respectively).

It may be concluded therefore, that, despite the fact that 96 per cent of the employees recognised the IB/IFIs' contribution to economic and social development in Saudi Arabia, the level of the banks' contribution in social development (marriage, social welfare, and mortgages) was seen to exceed the level of their contribution in the field of economic development (industrial projects, agricultural projects, and small businesses). Theorists on Islamic banking, however, believe that the contribution made by the banks should be equally important in the economic and social spheres (Abu Zaid, 1996).

Table 6. 19: Fields of Contribution

The statement	Yes		No		Total	
	No.	%	No.	%	No.	%
Financing industrial projects	18	11	148	89	166	100
Financing agricultural projects	48	29	118	71	166	100
Financing small business	46	28	120	72	166	100
Contribution to social welfare	88	53	78	47	166	100
Giving loans for marriage	100	60	66	40	166	100
Giving mortgages or loans to build houses	26	16	140	84	166	100
Giving loans to buy furniture/ household / vehicles	18	11	148	89	166	100

6.3.17 Most Important Objectives of Islamic Banking Operations

The descriptive statistics shown in Table 6.20 reveal the respondents' assessments of the relative importance of a number of objectives: 69 per cent of the employees thought that the IB/IFI put maximizing the returns of its shareholders first; 47 per cent thought they put their contribution to the economic and social development of Saudi Arabia first; 42 per cent thought that they put the minimizing of risks first; 38 per cent thought

they put maximizing the returns of their depositors first, while 94 per cent of the employees selected 'other' objectives as being of prime importance.

Table 6.20: Objectives of the IB/IFIs and their Decision to Finance a Client

The statement	Yes		No		Total	
	No.	%	No.	%	No	%
Maximising the return of the depositors	65	38	108	62	173	100
Maximising the return of the share-holders	120	69	53	31	173	100
Minimising Risks	72	42	101	58	173	100
Contributing to the economic and social development of the country	82	47	91	53	173	100
Other	163	94	10	6	173	100
His financial situation	23	13	150	87	173	100
His reputation	118	68	55	32	173	100
His experience	140	81	33	19	173	100
Competition of the bank with other banks	141	82	32	18	173	100
Others	161	93	12	7	173	100

6.3.18 Most Important Factors Influencing a Bank's Decision to Provide a Client with Finance

Question 15 of the questionnaire dealt with those factors that were most influential in an IB/IFIs' decision to offer finance to a client. Table 6.20 shows that 141 of the respondents (82 per cent) answered that competition with other banks is the most influential in this regard, and 140 of them (81 per cent) answered that the client's experience is the most influential factor in the bank's decision to finance him. 118 of the respondents (68 per cent) answered that the client's reputation is the most important consideration in the IB/IFIs' decision to finance him, and 13 per cent answered that the client's financial situation is the most important factor. However, 93 per cent of the employees gave 'other' factors as being most influential in an IB/IFIs' decision to give finance to a client.

It is clear from what is mentioned above, that the IB/IFIs seek to retain their existing shareholders, while at the same time attracting new ones, and thus attempt to maximize the returns for their shareholders. This is undoubtedly a long-term policy because the new shareholders become owners of a percentage of the bank according to the number of shares they possess.

Also, the IB/IFIs consider it important to contribute to the economic and social development of the country, and this has two advantages: first, as the achievement of one of the main objectives of an IB/IFI; secondly, an IB/IFI has many responsibilities which go beyond simply maximizing the returns of shareholders and investors including spreading the concept, among the Saudi citizens and other residents, of their role in financing economic projects, and in directing their investments towards the chosen projects according to economic and social standards in order to maximize economic and social returns. This should be accomplished while at the same time producing sufficient revenue for the owners of capital and investors to encourage them to invest their moneys in the IB/IFI (Al-Kafrawi, 2001,).

Also, the employees indicated from their answers that IB/IFIs concentrate more on the competition from other banks when making their decision to finance a client than on the client's financial situation or his reputation and experience.

6.3.19 Relationships between Islamic Bank and other Islamic Financial Institutions

Table 6.21 shows what the employees thought regarding the relationships between their IB and other IFIs: 25 per cent thought these were good, and 24 per cent thought them reasonable, while 40 per cent thought they were poor, and 11 per cent did not know.

With regard to the mean difference in the employees' opinions, according to their banking background, concerning the relationships between their IB and other IFIs, Table 6.22 shows that there is a significant difference in the opinions of employees from different banking backgrounds. Those employees who had previously worked for CBs thought that the relationships between their bank and other IFIs were reasonable, while those employees who had begun work for an IB/IFI thought that they were good p= 0.030 and this level is below the standard 0.05 level of significance.

Table 6. 21: Relationships between their IB/IFI and other IFIs and CFIs

Statement	Poor		Reasonable		Good		Don't know		Total	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Relationships between IB and other IFIs	69	40	41	24	43	25	19	11	172	100
Relationships between IB and CFIs	62	36	58	33	38	22	15	9	173	100

Table 6.22 also shows that there is no significant difference in the opinions of the employees, according to their nationality, regarding the relationships between their IB and other IFIs, since the level of significance for this variable was 0.148, and this level is above the standard 0.05 level of significance: thus the overall opinion was that the relationships between their IB and other IFI were good.

Table 6.22: Mean Difference in Employees' Opinions Regarding the Relationships Between their IB/IFI and other IFIs and CFIs

Statement		No	Mean	Std Deviation	t	Sig.	Mean Difference
Relationships between IB and other IFIs	Worked for a CB before	56	1.82	0.90	-2.187	0.030	- 0.37
	Worked for an IB initially	116	2.19	1.09			
	Saudi	118	1.99	1.03	1.455	0.148	-0.25
	Non-Saudi	54	2.24	1.08			
Relationships between IB and CFIs	Worked for CB before	57	1.84	0.92	- 1.855	0.065	-0.29
	Worked for IB initially	116	2.13	0.97			
	Saudi	118	2.01	0.99	-0.523	0.602	-8.24
	Non-Saudi	55	2.09	0.91			

Table 6.23 shows that there is a significant difference in the opinions of the employees, according to their level of education, regarding the relationships between their IB and other IFIs (p=000) and this level is below the standard 0.05 level of significance. When the Scheffe test was employed with an ANOVA (Analysis of Variance) to determine which variables among several independent variables is statistically the most different (see Table 6.24), it showed that the university graduate employees thought that those relationships were reasonable and that the remaining employees thought that they were good.

Table 6.23: Mean Difference in Employees' Opinions, According to Level of Education, Regarding the Relationships Between their IB/IFI and other IFIs and CFIs

ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
Difference in employees' opinions about the relationships between IB and other IFIs according to level of education	Between groups	22.349	3	7.450	7.550	0.000
	Within groups	162.799	165	0.987		
	Total	185.148	168			
Difference in employees' opinions about the relationships between IFIs & CFIs, according to level of education	Between groups	18.663	3	6.221	7.587	0.000
	Within groups	136.284	166	0.821		
	Total	154.947	169			

6.3.20 Relationships between Islamic Banks/Financial Institutions and Conventional Financial Institutions

Table 6.21 also shows what the IB/IFI employees thought about the relationships between their IB/IFI and conventional financial institutions (CFIs): 22 per cent thought these were good, and 33 per cent thought they were reasonable, while 36 per cent thought the relationships were poor, and 9 per cent of the employees did not know.

With regard to the mean difference in the employees' opinions, according to their banking background, about the relationships between their IB/IFI and CBI, Table 6.22 shows that there is no significant difference in their opinions on this matter, as the level of significance for this variable was 0.065, and this level is above the standard 0.05 level of significance. Thus the consensus was that these relationships were good.

Table 6.22 also shows that there is no significant difference in the employees' opinions, according to their nationality, concerning the relationships between the IB/IFI and CBI, since the level of significance for this variable was 0.602, which is above the standard 0.05 level of significance. Thus the overall view was that the relationships were good.

With regard to the mean difference in employees' opinions, according to their level of education, about such relationships, Table 6.23 shows that there is a significant

difference in their opinions according to their level of education, regarding such relationships (at p=000), as this level is below the standard 0.05 level of significance.

When the Scheffe test was employed with an ANOVA (Analysis of Variance) to determine which among several independent variables is statistically the most different (see Table 6.24), it showed that the secondary school and postgraduate employees thought that the relationships between the two types of institutions were good, while the university graduates and employees with other qualifications thought that the relationships were reasonable.

Table 6.24: Scheffe Test: Relationships between the IB and other IBs and CFIs

Level of education	Relationships with CFI		Relationships with IFI	
	No.	Subset for Alpha = 0.05	No.	Subset for Alpha = 0.05
Secondary school	56	2.43	56	2.50
University graduate	85	1.73	84	1.71
Postgraduate	18	2.28	18	2.22
Other qualification	11	1.73	11	2.36
Sig.		0.83		0.073

6.4 CONCLUSION

In this chapter, the different aspects of the opinions of employees of IB/IFIs in Saudi Arabia were presented. The objective was to provide a description of the sample under discussion, in order to enable the reader to understand the nature and characteristics of the respondents involved.

The Islamic religion in Saudi Arabia was found to be the main factor influencing the decision of the employees to work for the IB/IFIs, since this represents a positive alternative to working for a CB. IB/IFIs are welcomed as an alternative banking system by the Saudis, and they encourage new employees to work for them.

The survey of the employees shows that the Saudis have a very positive attitude towards the IB/IFIs. The analysis dealt with four variables, including the respondents' ages, their banking experience, nationality, and their level of education.

Most of the employees are aged between 25 and 40, and their level of education is very high, with most holding a university degree or higher, while the banking experience of the majority is confined to the IB/IFIs. This means that these banks have helped to reduce unemployment by employing these people, and this may be why job opportunity has been selected as the second most important factor after the religious factor.

The employees claim that they do have problems in their work at the IB/IFIs, associated with the lack of uniformity in accounting policies and auditing standards. In addition, the new types of transaction and their lack of understanding of them together with the abundance of documents do represent obstacles in the eyes of the IB/IFI employees. However, the employees also think that IB/IFIs should have a different structure and composition from CBs.

Accounting standards in IB/IFIs vary from one institution to another. For this reason, IB/IFIs are conducting a search for styles suitable for the preparation of accounting standards, with the participation of accountants, financiers, and specialists from within the SSBs, and this has contributed to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

IB/IFIs contribute to economic and social development, but their contribution in social fields is greater than their contribution in the industrial sector (industrial and agricultural projects and other businesses).

IB/IFIs are concerned to ensure a good return for their shareholders, as well as to attract new clients by offering competitive rates for finance compared to those of other banks. When considering whether or not to finance a client, they take into account such factors as his financial status, his reputation, and his experience.

The respondents' opinions of the relationships between their IB/IFI and other IB/IFIs and CBs were that these are good, or at least reasonable, as dictated by the regulations of the SAMA.

CHAPTER SEVEN

ANALYSIS OF THE CUSTOMERS' SURVEY

CHAPTER SEVEN
ANALYSIS OF THE CUSTOMERS' SURVEY

7.1 INTRODUCTION

This chapter presents an analysis of the clients' responses to the questionnaire administered in the spring of 2002 in Riyadh, the capital of Saudi Arabia, and Jeddah, the second most important city in Saudi Arabia.

In order to carry out the data analysis, descriptive statistics were employed. The questionnaire included a section on clients' profiles, since demographic factors were likely to influence the respondents' opinions regarding the influence of IB/IFIs on accounting standards and economic and social development in Saudi Arabia. A total of 400 questionnaires were randomly distributed to the clients of IB/IFIs. This procedure resulted in a sample of 158 completed questionnaires (a 39.5 per cent useable response rate).

7.2 THE DATA ANALYSIS OF SURVEY RESULTS

The data analysis included the application of a number of statistical techniques from the Statistical Package for the Social Sciences (SPSS, version 10). The techniques were used to identify the overall attitudes of clients towards IB/IFIs and their contribution to accounting standards and economic and social development in Saudi Arabia.

7.2.1 Client Profile

In order to carry out the data analysis, descriptive statistics were employed. The questionnaire included a part that dealt with the client's profile, as various demographic factors, such as nationality, age, occupation, level of education, religion, marital status and size of family were likely to influence the respondents.

Table 7.1 presents a comprehensive profile of the IB/IFI clients participating in this research. The results reported in Table 7.1 indicate that approximately 94 per cent of

IB/IFI clients were Saudis, while only 6 per cent were non-Saudis. This indicates that there is a relatively high degree of stability in the IB/IFIs' client base, which allows the management of those banks to design and implement longer-term financing and saving schemes.

The results reported in Table 7.1 show that 3 per cent of the sample were less than 25 years of age, 26 per cent were between 25-and 34 years, 43 per cent were aged between 35-and 44 years, 18 per cent were between 45-and 54 years, and 10 per cent were more than 54 years old. This distribution indicates that 69 per cent of the sample were from the younger generation, meaning that nearly 70 per cent of IB/IFI clients fall into the group aged between 25 and 44 years, and 90 per cent of respondents were less than 55 years old. This result appears to be in line with the findings of previous banking studies (Randall, 1993). A detailed study shows that management in IB/IFIs need to provide a certain range of products and services for this age group, such as financing the acquisition of cars, houses, and other durable goods, as well as savings (funding) schemes, such as students' educational funds, training centres, medical funds, etc. (Metawa and Almossawi, 1998).

Table 7.1 shows that 46 per cent of the client sample were government employees, 2 per cent were auditors, 3 per cent cashiers, 6 per cent businessmen, 14 per cent teachers, and 30 per cent had other occupations.

The table also shows that the clients are distributed according to their level of education as follows: 70 per cent of the respondents held at least a bachelor degree, with another 20 per cent having a secondary school qualification. This result indicates that the utilization of Islamic banking services in Saudi Arabia is predominantly the habit of well-educated people. Wilson emphasizes the fact that a record proportion of the population, both male and female, are now educated; there is almost universal primary education, and most proceed to secondary education. Moreover, there are over 374,000 university students, which, as pointed out in the previous chapter, is the second largest number in the Arab world after Egypt, a much more populous country (Wilson, 2004). These results provide Islamic bank managers with valuable inputs for formulating their strategies. More sophisticated products/services can be offered as they can be easily handled by these well-educated clients. However, this emphasis on developing products/services aimed at well-educated clients should not lead the management in

IB/IFIs to underestimate the need to develop certain types of products/services that will attract less-educated clients in order to expand their client base.

Table 7.1: Profile of IB/IFI Clients

Variable		Freq.	%
Nationality	Saudis	144	94
	Non-Saudis	10	6
	Total	154	100
Age	Less than 25 years	5	3
	25-35	40	26
	35-44	66	43
	45-54	27	18
	More than 54 years	16	10
	Total	154	100
Occupation	Government employees	50	46
	Auditors	2	2
	Cashiers	3	3
	Businessmen	6	5
	Teachers	15	14
	Other occupations	32	30
	Total	108	100
Education	Primary school	1	1
	Intermediate school	5	3
	Secondary school	30	20
	University	63	41
	Postgraduate	45	29
	Other qualifications	9	6
	Total	153	100
Religion	Muslim	153	100
	Non-Muslim	-	-
	Total	153	100
Marital status	Single	14	9
	Married	135	90
	Other	2	1
	Total	151	100
Family size	Less than 3	19	13
	3-5	57	38
	6-8	59	39
	9-11	11	7
	Above 11	4	3
	Total	150	100

Table 7.1 also shows the client distribution according to religion: 100 per cent of the clients were Muslims. There were no non-Muslims with an account at an IB/IFI in the sample. This is because all citizens in Saudi Arabia who have an account at an IB/IFI are Muslims, and CBs are available for both Muslims and non-Muslims. A vast majority of the respondents were married (90 per cent), while 9 per cent were single and 1 per cent 'other'.

Finally, the results in Table 7.1 indicate the distribution of the client sample according to family size: 13 per cent had fewer than 3 members, 38 per cent had 3-5 members, 39 per cent had 6-8 members, 7 per cent had 9-11 members, and 3 per cent had more than 11 members. This indicates that the majority of the clients had large families.

7.2.2 Clients having an Account with an Islamic Bank / Financial Institution

Table 7.2 shows that 158 clients were asked whether or not they had a bank account with an IB/IFI. 84 per cent of the respondents stated that they did have such an account, while 16 per cent answered "No", they did not..

Table 7.2: Clients Having an Account with an IB/IFI

Statement	Yes		No		Total	
	No.	%	No.	%	No.	%
Having an account with an Islamic bank / IFI	133	84	25	16	158	100

7.2.3 Reasons why Clients were Attracted to Dealing with an Islamic Bank/Financial Institution

The clients were asked what had attracted them to dealing with an IB/IFI. There are certain factors that motivate clients to choose a particular type of bank, be it Islamic or conventional: e.g., profits; competitive services; better access to finance; an efficient and wide range of services, etc. However, with IB/IFIs there is an additional factor; a religious motive prompts clients to deal with them, and this is especially important in the case of IB/IFIs in Saudi Arabia where the majority of people previously abstained from banking on religious grounds.

To test the impact of client motives on their relations with IB/IFIs, the following objectives were listed in the questionnaire and clients were asked to show the factors that prompted them to deal with IB/IFIs: (1) religious reasons; (2) profit; (3) competitive services; (4) more access to finance; and (5) others.

In order to determine the effect of each of these factors, the clients were asked to rank the above reasons for their dealing with IB/IFIs from 1 to 5, using 1 to indicate the most important and 5 to indicate the least important. The SPSS 10 Programme was run, and the results are shown in Table 7.3.

The table indicates that 93 per cent of clients ranked religious reasons first. 41 per cent of the clients ranked competitive services third, and 46 per cent ranked better access to finance as the fourth most important reason. The least important reason was 'others'.

Religious reasons were the most important for the clients. This implies that IB/IFIs have convinced this set of depositors, who in the past refrained from dealing with banks because CBs are interest-based, to deal with them. This religiously-motivated group of clients is at present crucial for the IB/IFIs, and it is therefore important that they should continue supporting these banks. However, if all the banks in Saudi Arabia began working on an interest-free basis, although this may seem unlikely, the religious factor would be disregarded, and this religiously-motivated group of clients could change their minds about dealing with IB/IFIs.

The second, most important factor for dealing with IB/IFIs selected by the clients was profit. 35 per cent of clients indicated that the profit they received on their investments in the IB/IFIs was what motivated them. Only 2 per cent of the clients ranked profit first, and 33 per cent ranked it third. 23 per cent and 7 per cent of the clients ranked profit fourth and fifth respectively. These findings may indicate that IB/IFIs give a high return on investment compared with CBs, and also that the risks are low.

The third most important factor for this group of clients was the competitive service offered by IB/IFIs. 41 per cent indicated that the high quality of the services offered by IB/IFIs was instrumental in their decision to deal with them, this result shows that IB/IFIs are relatively competitive in this area compared with CBs. Only 7 per cent of the clients ranked services first, while 37 per cent ranked competitive services second. 11 per cent and 4 per cent ranked these services fourth and fifth respectively. Thus, one

may conclude that most of these clients were satisfied with the level of services offered by IB/IFIs and that these banks are competitive.

The fourth most important reason given by the clients was better access to finance. This means that if banking services are easily accessible to clients, the number of clients who deal with the bank in question increases. Hence, the bank-client relationship in the case of IB/IFIs depends predominantly on four factors: religious considerations, profit, competitive services, and access to finance. Few clients (2 per cent) are motivated principally by access to finance when dealing with an IB/IFI. The responses of the clients revealed that only 28 per cent began dealing with such banks in order to obtain finance facilities. 46 per cent of the clients ranked better access to finance as the fourth most important reason for dealing with IB/IFIs, while only 7 per cent ranked this factor fifth. This finding may indicate that IB/IFIs still offer poorer access to finance compared with CBs.

The lower amount of credit extended by IB/IFIs might be attributable to their lack of experience compared with CBs. Thus, the number of clients who come to IB/IFIs for finance facilities is still small, and in this regard they need to adopt credit facility policies which are flexible, convenient, and simple.

Table 7.3: Reasons why Clients were Attracted to Dealing with an IB/IFI

S.	Reasons	First rank		Second		Third		Fourth		Fifth		Total	
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1	Religious reason	120	93	3	2	3	2	3	2	-	-	129	100
2	Profit	2	2	30	35	29	33	20	23	6	7	87	100
3	Competitive services	6	7	34	37	37	41	10	11	4	4	91	100
4	More access to finance	2	2	23	28	14	17	38	46	6	7	83	100
5	Other	3	8	10	28	6	17	6	17	11	31	36	100

Consequently, one may conclude that IB/IFIs maintain their customers thanks to religious considerations, profit, and to the competitive services they provide.

The first reason is peculiar to IB/IFIs: the fact that clients choose to deal with these banks since they do not charge or give interest. The second and third reasons are economic ones, and these banks should do more to enhance their good reputation in this respect. However, the bank-client relationship might be endangered if the banks do not attract more clients by extending their range of financing facilities. The responses of the clients with regard to this factor show that it is still less important than other factors in attracting clients.

7.2.4 Mean Difference in Reasons why Clients were Attracted to Dealing with an Islamic Bank / Financial Institution

Table 7.4 shows the results that relate to the main reasons why clients are attracted to dealing with IB/IFIs: the religious factor, profit, the competitive services, better access to finance and 'others'. The results show that religious reasons score the high-rated mean (1.14), with a 0.56 standard deviation. Competitive services and profit show a moderate level of importance (a mean of 2.69 with a standard deviation of 0.92, and a mean of 2.98 with a 0.98 standard deviation, respectively). A low standard deviation and a low mean score indicate a high level of importance, while a high standard deviation and a high mean score indicate a low level of importance. These results show that the adherence to Islamic principles is so strong that only a small number of clients were chasing a profit, which is usually the main reason for investing in the banking system. They may also reflect the pursuit of a permissible source of income and an avoidance of usury (*Riba*), which is strictly prohibited by Islam. The other two reasons (better access to finance and other) are at the bottom of the list.

Table 7.4: Mean Differences in Reasons why Clients were Attracted to Opening an Account with an IB/IFI

S.	Reasons	No.	Minimum	Maximum	Mean	Std. Deviation
1	Religious reasons	129	1	4	1.14	0.56
3	Competitive services	91	1	5	2.69	0.92
2	Profit	87	1	5	2.98	0.98
4	More access to finance	83	1	5	3.28	1.03
5	Other	36	1	5	3.33	1.39

7.2.5 Mean Differences among Clients Regarding Reasons, According to their Nationality, they were Attracted to Dealing with an Islamic Bank/Financial Institution

The two-independent-samples test compares the distribution of one or more numeric variables between two groups (Norusis, 2000, p.341). Just as the t test compares the means of two independent samples, the nonparametric test for two independent samples compares the centre of location for two samples. The difference is that the t test assumes that the populations are normally distributed, while nonparametric tests are distribution free and do not make this assumption. A t test can detect true differences between groups with a smaller sample size than its nonparametric counterpart. Therefore, it is preferable to use a t test when possible. However, if there is a reason to believe that the samples do not come from normal populations, nonparametric tests for two independent samples offer an alternative. The nonparametric tests do assume, however, that the two distributions have the same shape, although this shape does not have to be normal (SPSS Base 10.0 Applications Guide, 1999).

Table 7.5: Mean Differences in Reasons why Clients, According to Nationality, were Attracted to Dealing with an IB/IFI

S.	Reasons	Nationality	No.	Mean	Std. Deviation	t	Sig.	Mean Diff.
1	Religious reasons	Saudi	118	1.14	0.55	0.646	0.009	0.14
		Non-Saudi	7	1	0.00			
2	Profit	Saudi	80	2.99	0.99	1.478	0.143	0.74
		Non-Saudi	4	2.25	0.50			
3	Competitive services	Saudi	84	2.74	0.91	1.050	0.297	0.49
		Non-Saudi	4	2.25	0.96			
4	More access to finance	Saudi	78	3.28	1.03	-979	0.000	-0.72
		Non-Saudi	2	4.00	0.00			
5	Other reasons	Saudi	34	3.29	1.40	0.206	0.838	0.29
		Non-Saudi	1	3.00	0.00			

However, as shown in Table 7.5, the group independent samples tests demonstrate that there are significant differences among the clients in terms of the reasons they were attracted to opening an account with an IB/IFI. The Saudi clients were attracted more for religious reasons, since the level of significance was 0.009, and this level of significance

is below the standard 0.05 level of statistical significance, whereas the non-Saudis were attracted more by better access to finance where the level of significance was 0.000, and this level of significance is below the (0.05) standard level of statistical significance. With regard to the remaining reasons (profit and competitive services) there are no significant differences between the two groups, with levels of significance of 0.143 and 0.297 (respectively), and these levels of significance are above the (0.05) standard level of statistical significance. Thus, the consensus of opinion, regardless of nationality, was that these were the reasons why they were attracted to opening an account with an IB/IFI.

7.2.6 Mean Differences in Clients' Reasons, According to their Level of Education, for being Attracted to Dealing with an IB/IF

An analysis of variance (ANOVA) is used to uncover the main and interactive effects of categorical independent variables (called "factors") on an interval dependent variable.

Table 7.6: Mean Differences in the Reasons why Clients, According to Level of Education, were Attracted to Dealing with an IB/IFI

S.	ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
A	Religious reasons	Between groups	4.750	5	0.950	3.623	0.004
		Within groups	31.202	119	0.262		
		Total	35.952	124			
B	Profit	Between groups	4.905	5	0.981	1.021	0.411
		Within groups	74.905	78	0.960		
		Total	79.810	83			
C	Competitive services	Between groups	1.339	5	0.268	0.311	0.905
		Within groups	70.559	82	0.860		
		Total	71.898	87			
D	More access to finance	Between groups	11.486	5	2.297	2.384	0.046
		Within groups	71.314	74	0.964		
		Total	82.800	79			
E	Other reasons	Between groups	4.373	5	0.875	0.417	0.833
		Within groups	60.770	29	2.096		
		Total	65.143	34			

The results of the ANOVA are presented in Table 7.6. This table contains columns labelled "Source", "Sum of Squares", "df" (degrees of freedom), "Mean Square", "F"

(F-ratio which is between Mean Square divided by within Mean Square"), and "p" (probability), and "sig." (sig. of F). The only columns that are essential for interpretation are the first and the last! The others are used mainly for intermediate computational purposes. The row labelled "Between Groups", having a probability value associated with it, is the only one of any great importance at this time. The other rows are used mainly for computational purposes.

There are significant differences among the clients according to their level of education in terms of the reasons they were attracted to dealing with an IB/IFI, in respect of religious reasons (at p =0.004) and better access to finance (at p 0.046). These values are located under the "Sig." column. Since this value is usually set at .05, any value less than this will result in significant effects, while any value greater than this value will result in non-significant effects.

The Scheffe test is used with an ANOVA (Analysis of Variance) to determine which variable(s) among several independent variables are statistically the most different. The Scheffe test is a procedure that allows one to test unplanned comparisons among means without inflating the Type I error rate. The Sheffe test gives the freedom to test any and all comparisons that look interesting. However, this great flexibly has a price: the Scheffe test normally has very low power.

A post-hoc Scheffe test of significance was performed to determine the source of differences between cells for the identification tests. The default value of ALPHA (which specifies the level of significance for comparisons among the means) is 0.05. Any alpha between 0 and 1 can be specified. The Scheffe test showed that the visual test scores of Group 1 and Group 2 were higher than Group 2's verbal test scores (Table 7.7).

The Scheffe test is normally used to find where the differences between means lie when the Analysis of Variance indicates the means are not all equal. It is customarily used with unequal sample sizes, although it can be used with equal sample sizes. When the Scheffe test was employed to test the differences in the clients' reasons for being attracted to dealing with an IB/IFI, according to their level of education, it appeared that there were no significant differences in respect of profit, competitive services, and other reasons. However, there was a significant difference among them in respect of religious reasons: university graduates and clients with other qualifications were more attracted for this reason than other groups. Also, postgraduate, university and secondary school

graduate clients were more attracted by the increased/better access to finance than those clients with other qualifications.

Table 7.7: Scheffe Test: Reasons for Joining the IB/IFIs According to Level of Education

The reasons	Religious			Profit		Competitive services		More access to finance			Other reasons	
Education level	Subset for Alpha = 0.05			Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05			Subset for Alpha = 0.05	
	No	1	2	No	1	No	1	No	1	2	No	1
Secondary school	23	1.04		16	2.75	18	2.67	14		3.86	9	3.11
University	57	1.18	1.18	42	3.05	41	2.80	40	3.10	3.10	14	3.36
Postgraduate	37	1.00		24	3.00	23	2.70	22		3.50	9	3.67
Other Qualification	8		1.63	2	2.00	6	2.33	4	2.25		3	2.33
Sig.		0.788	0.079		0.311		0.612		0.279	0.382		0.422

7.2.7 Mean Differences in Clients' Reasons, According to their Age Group, for being Attracted to Dealing with an Islamic Bank/Financial Institution

The results of the ANOVA are presented in Table 7.8 which shows that there are no significant differences in the clients' reasons, according to their age group, for being attracted to opening an account at an IB/IFI. The age of the respondent was found to be statistically insignificant, since the levels of significance (p values) were 0.417, 0.907, 0.175, 0.283 and 0.441, respectively, and these levels of significance are above the standard .05 level of statistical significance. Thus, overall the clients were in agreement regarding these reasons.

A Scheffe test of significance was performed to determine the source of differences between cells for the identification tests. The results of the Scheffe test shown in Table 7.9 reveal no significant differences among the clients' reasons according to age. The results of the test show that, in terms of reasons, there were no differences among the age groups.

Many of the clients searching for lawful (*Halal*) profit in the IB/IFIs were reduced to resorting to the services of the CBs that are widespread in Saudi Arabia.

Table 7.8: Mean Differences in the Clients' Reasons, According to Age Group, for being Attracted to Deal with an IB/IFI

S.	ANOVA Dependent Variable	Source of Variation	Sum of squares	df	Mean square	f	Sig.
1	Religious reasons	Between groups	1.146	4	0.287	0.988	0.417
		Within groups	34.806	120	0.290		
		Total	35.952	124			
2	Profit	Between groups	1.006	4	0.252	0.252	0.907
		Within groups	78.803	79	0.998		
		Total	79.810	83			
3	Competitive services	Between groups	5.225	4	1.306	1.626	0.175
		Within groups	66.673	83	0.803		
		Total	71.898	87			
4	More access to finance	Between groups	5.314	4	1.329	1.286	0.283
		Within groups	77.486	75	1.033		
		Total	82.800	79			
5	Other reasons	Between groups	7.429	4	1.857	0.965	0.441
		Within groups	57.714	30	1.924		
		Total	65.143	34			

There has been a reduction in the number of clients using CBs in Saudi Arabia. More and more clients looking for *Halal* finance are now turning to the IB/IFIs. Such banks do not deal in interest according to the system of CBs because they consider that *Riba* runs contrary to Islam. Muslims want their financial dealings to be *Halal*, according to the *Shariah*, in successful banks and financial institutions. For this reason, IB/IFIs are growing rapidly, and this growth is set to continue for the next ten years at a rate of between 10 and 15 per cent. 'Profit is made on the basis of investment revenues from the participation system, which is permissible under Islam.' Bankers in Bahrain say that many of the family companies in the Arab Gulf, the rich oil-producing region, have recently started to transfer their business from CBs to IB/IFIs. The Al-Jazirah Saudi Bank and the National Bank of Sharjah in the United Arab Emirates have transformed

their activities completely from the conventional system to the Islamic system (Janahi, 2001)[9].

Table 7.9: Scheffe Test: Reasons for Joining the IB/IFIs According to Age Group

The reasons	Religious		Profit		Competitive services		More access to finance		Other reasons	
Age group	Subset for Alpha = 0.05		Subset for Alpha= 0.05		Subset for Alpha= 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05	
	No.	1	No.	1	No.	1	No.	1	No.	1
Less than 25 years	4	1.25	4	3.25	4	1.75	4	4.00	2	4.50
25-34 years	37	1.00	29	3.00	28	2.89	28	3.36	10	3.50
35-44 years	49	1.14	33	2.97	36	2.72	30	3.10	14	3.36
45-54 years	22	1.27	12	2.75	13	2.77	14	3.21	6	2.83
More than 54 years	13	1.15	6	2.83	7	2.43	4	4.00	3	2.33
Sig.		0.821		0.892		0.117		0.551		0.292

7.2.8 Dealings with Conventional Banks and the First Account

The results reported in Table 7.10 show that 61 per cent of the surveyed clients had had dealings with CBs, while 39 per cent had not.

Table 7.10 also shows that 77 per cent of those clients who had had dealings with CBs had had such relationships prior to their current relationship with their selected IB/IFI, in that they had opened their accounts with CBs first. Although those clients might be aware of the different philosophies of the two banking systems (Islamic and conventional), it is expected that their previous banking experiences are likely to have influenced their attitudes and perceptions, and also their degree of satisfaction with the current products/services offered by IB/IFIs. 23 per cent of the clients had dealt with an IB/IFI first. After that they had dealt with CBs, either because they were not satisfied with the current products/services offered by the IB/IFIs, or because they used CBs to

[9] The executive president of the Islamic bank of Bahrain, in a talk to Reuters.

pay bills or to cash their salary cheque, and this was done as a matter of necessity, rather than through conviction.

Table 7.10: Dealings with CBs

Statement	The clients' answers	Frequency	Percent
Dealings with Conventional Banks	Yes	94	61
	No	60	39
	Total	154	100
First Account	With Conventional Bank	72	77
	With Islamic Bank	21	23
	Total	93	100

7.2.9 Clients' Opinions Regarding the Strengths of the Conventional Banks by Ranking them in Order of Importance

Frequencies were used to obtain descriptive statistics. Descriptive statistics are simple descriptions of what the data shows, and provide summary information about the distribution, variability, and central tendency of a variable. Table 7.11 shows the opinions of the clients regarding the relative importance of the strengths of the CBs. 27 per cent and 25 per cent of them thought that the availability of an ATM was the first and second most important strength, respectively, while 3 per cent thought that this was the least important. 47 per cent and 23 per cent of the clients gave fast and efficient services the first and second ranks respectively, while nobody gave this as the least important strength. 35 per cent of the clients accorded higher interest on savings less importance, while 9 per cent saw this as the most important strength. 18 per cent of the clients ranked opportunity to obtain a loan as the least important strength by ranking it at five and six, whereas 15 per cent ranked this as the most important strength. 38 per cent of the clients ranked having many branches as the most important strength, while only 3 per cent ranked this as the least important. 39 per cent of the clients ranked 'other strength' as the least important, while 19 per cent thought some other strength was the most important strength of a CB.

The One-Sample t test is used to compare the mean score of a sample with a known value. The t test is the most commonly used method to evaluate the differences in means

between two groups. The t test may be used to test for a difference in test scores between a group of clients who rank the strengths of the CBs from 1 - 6, where 1 indicates the most important and 6 indicates the least important. Theoretically, the t test can be used even if the sample sizes are very small, as long as the variables are normally distributed within each group and the variation of scores in the two groups is not reliably different. On the basis of the mean scores presented in Table 7.11, it may be noted that the clients rank the strengths that distinguish the CBs from a valuable mean score, where the lowest mean value to 1 will rank the first and the farther value from 1 will rank the last. The table also shows that a fast and efficient service received a mean score of 1.93, the availability of ATM facilities has a mean score of 2.76 and comes in the third rank, while having many branches received a mean score of 3.01. The opportunity to get a loan, higher interest on savings, and other received mean scores of 3.12, 3.64 and 4.27, respectively).

Table 7.11: Clients' Opinions Regarding the Strengths of CBs by Ranking them in Order of Importance

	The Strengths ofF CBS	1		2		3		4		5		6		Total		Mean	Std. Deviation	Rank*
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%			
A	Availability of ATM facility	32	27	30	25	17	14	21	18	16	13	4	3	120	100	2.76	1.51	2
B	Fast and efficient service	58	47	28	23	27	22	7	6	3	2	-	-	123	100	1.93	1.07	1
C	Higher interest on savings	8	9	14	17	15	18	17	20	23	27	7	8	84	100	3.64	1.49	5
D	Opportunity to obtain a loan	14	15	20	21	21	22	23	24	15	16	2	2	95	100	3.12	1.37	4
E	Having many branches	17	15	26	23	32	28	20	18	16	14	3	3	114	100	3.01	1.35	3
F	Other strength	9	19	3	6	1	2	7	15	9	19	19	39	48	100	4.27	1.93	6

*The ranking which appears in this table is based on the level of importance expressed by clients.

7.2.10 Mean Differences in Clients' Opinions Regarding the Relative Importance of the Strengths of Conventional Banks

An independent-samples t test was used to compare the mean score, on some continuous variables, for the clients' opinions, according to their banking background, regarding the relative importance of the strengths of the CBs. Table 7.12 shows that there are no significant differences in the clients' opinions regarding the importance of the following strengths: ATM facilities, fast and efficient services, and 'other strengths', as the levels of significance for these variables were 0.072, 0.142, and 0.301, respectively, and these levels are above the standard 0.05 level of significance. However, there is a significant difference among the clients regarding the importance of higher interest on savings, where those who answered "No", thought that it was not an important strength of the CBs (at p=000), since the significance level of the test was p=0.05 or less. Nor was the opportunity to obtain loans seen to be the most important strength (at p=0.015). Having many branches, however, was considered to be an important strength (at p=000), since the values in the "Sig." (2-tailed) column are equal to or less than 0.05.

Table 7.12: Mean Differences in Clients' Opinions Regarding the Relative Importance of the Strengths of the CBs

S.	Statement	Answer	N	Mean	Std. Deviation	t	df	Sig.	Mean Diff.
A	ATM facility	Yes	102	2.86	1.58	1.818	118	0.072	0.70
		No	18	2.17	0.86				
B	Fast and efficient services	Yes	105	1.88	1.06	-1.479	121	0.142	-0.40
		No	18	2.28	1.07				
C	Higher interest on savings	Yes	74	3.41	1.40	-4.403	82	0.000	-1.99
		No	10	5.40	0.70				
D	Opportunity to obtain loans	Yes	85	3.00	1.36	-2.471	93	0.015	-1.10
		No	10	4.10	0.99				
E	Having many branches	Yes	97	3.23	1.30	4.460	112	0.000	1.46
		No	17	1.76	0.83				
E	Other strength	Yes	42	4.38	1.96	1.046	46	0.301	0.88
		No	6	3.50	1.64				

In view of the clients' rankings of the strengths of the CBs, as reported in Table 7.12, IB/IFIs need to take concrete steps to improve the quality of their products/services. These steps may include the following: controlling their costs more quickly and efficiently in order to decrease the cost of their financing schemes, and implementing a programme of regular in-depth study in order to identify the various types of deficiency that exist in their provision of products/services.

7.2.11 Borrowing Money

Question 6 was aimed at eliciting more information on the respondents' actual sources of money when they needed it. According to Table 7.13, 54 per cent of clients indicated that they normally borrowed money from friends; 45 per cent said they obtained money from an IB/IFI, while 9 per cent said they borrowed money from a CB or other financial institution.

Since friends were ranked as the primary source of money when it was needed, while IB/IFIs were ranked second, it seems that Saudi clients are aware of the interest involved in conventional banking and other financial institution loans.

Table 7.13: Borrowing Money

The statements	Yes		No		Total	
	No.	%	No.	%	No.	%
Obtain money from an Islamic bank or other Islamic institution	71	45	87	55	158	100
Obtain money from conventional bank or other financial institution	14	9	144	91	158	100
Obtain money from a friend	85	54	73	46	158	100

7.2.12 Clients' Opinions Regarding whether Risk affects Decisions Related to Accounts, and Account Preferences

In essence, *Shariah* does not allow the division or separation of profit from risk in commercial dealings. It simply states that profit is a reward for diligent performance and may not be earned without being subject to risk. Profits or losses should be split between partnerships or among shareholders according to some pre-agreed formula,

linked, but not solely, to the investment ratio. Technically there are no fixed rules, though the use of the investment ratio is deemed fair. But again, this has to take into account the resources contributed by each party, which need not necessarily be financial, such as experience and expertise. We asked the clients whether the basis of Islamic principles (risk of nominal losses) had affected their decisions to have such an account, Table 7.14 shows that only one quarter (25 per cent) of the clients answered "Yes", the risk of nominal losses affected their decisions, while 75 per cent answered "No".

An investment account with an IB/IFI is a scheme that combines the concepts of time deposit and unit trust in one account. Funds are invested for a specific period of time and returns on investments are based on a mutually agreed predetermined profit-sharing ratio. Following the concept of *Al-Mudarabah*, the return will be shared on the basis of the profit-sharing ratio. On the other hand, a time deposit with a CB is a savings account in which the deposit is held for a fixed term, or from which withdrawals may be made either after giving notice or with a loss of interest. The types of account preferred by the respondents are shown in Table 7.14. Approximately 88 per cent of the sample (N = 131) had an investment account with an IB/IFI and 12 per cent (N = 18) preferred a time deposit account with a CB.

Table 7.14: How Risk Affects Decisions Regarding Accounts, And Account Preferences

Statement	Clients' bank	Frequency	Per cent
Risk Affects Decision on Account	Yes	37	24.7
	No	113	75.3
	Total	150	100
Account Preference	Investment Account with IB	131	88
	Time Deposit with CB	18	12
	Total	149	100

A cross-tabulation was made between those clients who had an account with an IB/IFI and their preference to have an investment account with an IB/IFI or to have a time deposit account with a CB. As can be seen in Table 7.15, 89 per cent of those clients who held an account at an IB/IFI (N=131, as shown earlier in Table 7.14) preferred to

have an investment account with an IB/IFI, whilst 11 per cent of those clients who had an account at an IB/IFI did not wish to have an investment account with that IB/IFI. On the other hand, around 61 per cent of those clients who had an account with a CB (N=18) preferred to have a time deposit account with that bank, whilst 39 per cent of those who had an account with a CB did not.

The results presented in Table 7.15 indicate that the clients' preference percentages are quite high: 89 per cent of those clients who had an account with an IB/IFI preferred to have an investment account, while 11 per cent did not. 61 per cent of clients who had an account with a CB preferred to have a time deposit account, while 39 per cent did not. 85 per cent of the total sample of clients preferred to have an investment account at an IB/IFI and a time deposit account with a CB, while 15 per cent of the total sample did not wish to have an investment account with an IB/IFI or to have a time deposit with the CB.

Thus, most clients in Saudi Arabia prefer to have an investment account with an IB/IFI rather than a time deposit account with a CB.

Table 7.15: Clients' Preferences for having an Investment Account with an IB/IFI, or for a Time Deposit Account with a CB

S.	Bank / Financial Institution	Preferred to have investment account with IB or time deposit with CB		Did not prefer to have investment account with IB or time deposit with CB		Total	
		No	%	No	%	No	%
1	Had an account with an IB / IFI	116	89	15	11	131	100
2	Had an account with a CB	11	61	7	39	18	100
Total		127	85	22	15	149	100

7.2.13 Clients' Opinions Regarding the Efficiency of Islamic Banks/Financial Institutions in Providing Banking Services

In order to gauge the degree of competitiveness of services, clients were asked: "What is the level of Islamic bank services?". The responses to this question are displayed in Table 7.16. It is clear that IB/IFIs carry out their services to a relatively satisfactory level. The group of clients had already indicated that the second most important reason

for their dealing with IB/IFIs was that the services were good. 19 per cent of the clients thought that the efficiency in providing services was acceptable, 15 per cent thought it excellent, while 22 per cent thought it was poor.

Table 7.16: Clients' Opinions Regarding the Efficiency of the IB/IFI in Providing Banking Services

Rank	Frequency	Per cent
Poor	32	22
Acceptable	29	19
Good	66	44
Excellent	22	15
Total	149	100

7.2.14 Mean Difference in Clients' Opinions Regarding the Efficiency of the Islamic Banks / Financial Institutions in Providing Banking Services

The One-Sample t test compares the mean score of a sample with a known value. The mean is one of several indices of central tendency that statisticians use to indicate the point on the scale of measures where the population is centred. The standard deviation is the measure of dispersion around the mean. It gets closer to zero as the sample becomes more homogeneous and larger with a greater dispersion. The sig. value is the probability (p) of observing a test statistic at least as extreme as the value actually observed. Table 7.17 shows that the mean difference in the opinions of the clients regarding the efficiency of the IB/IFI in providing services is 2.52, which means that it is below the good level. The p value (Sig. (2-tailed)) is 0.000, which is less than 0.05, indicating that the average sample of the efficiency of the provision of services ratios are significantly smaller than 3.

Table 7.17: Mean Difference in Clients' opinions Regarding the Efficiency of the IB/IFIs in Providing Banking Services

Statement	Test Value = 3					
	No.	Mean	Std. Deviation	t	Sig	Mean diff.
Islamic banks' efficiency in providing services	149	2.52	0.99	-5.873	0.000	-0.48

7.2.15 Banking Services which Clients make use of at Islamic Banks/Financial Institutions

The usage of services offered by IB/IFIs was surveyed and the empirical results are shown in Table 7.18.

The results presented in Table 7.18 indicate that the usage is quite high for current accounts (87 per cent). In addition, 30 per cent of the surveyed clients used the transfer of money and currency exchange services. Some services, such as the provision of different accounts and borrowings have received low usage scores (17 and 13 per cent respectively). It is also clear that only a small number of clients use the letters of credit services because there is not a high demand for letters of credit, particularly to finance local trade, whereas in contrast, in foreign trade there is a greater demand for suchletters.

Table 7.18: Banking Services which Clients make use of at IB/IFIs

The Services	Yes		No		Total	
	No.	%	No.	%	No.	%
Provision of Different Accounts	27	17	131	83	158	100
Letters of Credit	13	8	145	92	158	100
Transfer of Money & Currency Exchange	47	30	111	70	158	100
Borrowings	21	13	137	87	158	100
Current Account	137	87	21	13	158	100.

7.2.16 The Banking Services which Clients, According to their Banking Background, make use of at the Islamic Banks/Financial Institutions

A cross-tabulation was made of the clients who had accounts with IB/IFIs and the banking services which they made use of at these and at CBs. Table 7.19 shows that the clients of the IB/IFIs made use of all the services provided by their bank, and that there is no significant difference between them and the clients of CBs, except in terms of the money transfer and currency exchange services. Here, there is a big difference, with 96

per cent of the CBs' clients making use of these services, while only 79 per cent of the IB/IFIs' clients make use of them.

When the Chi-square test was used to test the difference in the clients' usage of these services, it appeared that there is a significant difference in the use of the money transfer and currency exchange services, with the clients of the CBs using these services more than the clients of the IB/IFIs (at p=006). This may be because the CBs have large networks of branches all over the world.

In general, the empirical findings regarding the Islamic banking services indicate that the current account is the service most used by clients, while the other services are not widely used.

Table 7.19: Banking Services which Clients make use of at IB/IFIs, according to Banking Background

S.	Banking service	Clients' bank	Yes		No		Total		Chi-square	Sig.
			No.	%	No.	%	No.	%		
A	Provision of different services	With IB	108	82	23	18	131	100	1.721	0.001
		With CB	25	83	2	8	27	100		
B	Letters of credit & guarantee facilities	With IB	122	84	23	16	145	100	0.002	0.006
		With CB	11	85	2	15	13	100		
C	Transfer of money & currency exchange	With IB	88	79	23	21	111	100	6.678	0.314
		With CB	45	96	2	4	47	100		
D	Borrowing from the bank	With IB	114	83	23	17	137	100	0.717	0.314
		With CB	19	91	2	9	21	100		
E	Current account	With IB	117	85	20	15	137	100	1.153	0.218
		With CB	16	76	5	24	21	100		

7.2.17 Restriction to the use of only One Service

Clients were asked to indicate the reasons why they did not use all the bank's services, or at least more than one. Table 7.20 summarizes the study findings regarding the reasons why clients restrict themselves to using only one service. It should be noted that 58 per cent of clients indicated that they did not use all of the bank's services not

because they did not know about them, but because they did not need other services, 6 per cent of clients were unable to meet the bank's conditions, while 19 per cent were unaware of the availability of other services.

Table 7.20: Restriction to the use of only One Service

The reasons	Yes		No		Total	
	No.	%	No.	%	No.	%
Not Aware of Other Services	30	19	128	81	158	100
Unable to Meet Conditions	10	6	148	94	158	100
No Need	92	58	66	42	158	100

7.2.18 Islamic Mutual Funds

Mutual Funds are groups of stocks and other investment instruments (bonds, certificates of deposits, etc.) managed by a "professional". The money from thousands of investors is pooled and by leveraging the aggregated amount of this money stocks and bonds are bought.

Mutual funds are independent legal entities. They have their own boards of directors and staff. Islamic mutual fund participants or unit-holders, just like their counterparts in non-Islamic conventional mutual funds, share in the profits and losses of the fund. Thus there is no difference on the liabilities side between Islamic and non-Islamic mutual funds. Participants in both receive no interest. They are not depositors or creditors of the mutual fund. They are owners. Mutual funds are not permitted to solicit or accept client deposits. Only banks can do so under the close supervision of the central bank. While a bank, whether Islamic or conventional, is obligated under the risk of bankruptcy to return all deposits to its owners in full upon demand or maturity, mutual fund unit-holders share in the profits or losses of the fund. They may lose their entire investment. The difference between an Islamic and non –Islamic mutual fund is to be found on the asset side of the balance sheet. While assets of the former must return a profit, rent dividend, or capital gains they may additionally produce interest income in the latter case (Elhadj, 2001).

Islamic mutual funds offer Islamic investors the opportunity to earn a fixed annual return over long periods. They provide the business sector with fixed-rate long-term loans or leasing facilities. Islamic mutual funds represent a substitute for bond markets by mobilizing the fixed-rate long-term resources of a community. This type of funding is critical for the development of infrastructure projects. Islamic mutual funds, therefore, are particularly useful to those developing economies with no capital markets for bond issuance (Elhadj, 2001).

Islamic mutual funds offer Muslim investors the twin benefits of the management of their capital by specialized investment institutions and compliance with *Shariah* guidelines. An Islamic mutual fund is a managed pool of capital in which individuals may invest their surplus money. It must strictly conform to *Shariah* investment principles, and therefore regulates its selection of investments, its own operations, and its trading practices.

Sixty seven Islamic mutual funds were offered in Saudi Arabia until mid 2004: there were seventeen funds offered by NCB, thirteen by Al-Rajhi, eight by the Riyadh bank, six by SABA (the Saudi-American Bank), six by the Saudi-Holland bank, five by Al-Jazira Bank, four by the Arab National Bank, four by the Saudi-French Bank, three by the Saudi-British bank, and one by the Saudi Investment Bank (SAMA, 2004).

Table 7.21 shows that 25 per cent of the clients had invested in Islamic mutual funds, while the majority (75 per cent) of clients answered "No", they had not invested in such funds.

Table 7.21 also shows that 82 per cent of the clients answered "Yes", Islamic mutual funds were offered by the banks where they held their deposits, while 18 per cent answered "No", they were not offered by their banks.

It can be see from the table that 63 per cent answered that they had invested in one Islamic mutual fund, 29 per cent had invested in two, and 8 per cent had invested in three or more such funds. This result shows that the clients were cautious in the investment of their money in the Islamic mutual funds whether offered by the IB/IFIs, or by a CB.

It can also be observed from Table 7.21 that 97 per cent of the clients answered "Yes" they had invested in Islamic mutual funds because of the attractive income, while only 3 per cent answered "No".

15 per cent of the clients answered "Yes" they had invested their money in Islamic mutual funds because of the capital growth, while 85 per cent answered "No", which means that the majority had not invested their funds for this reason. 90 per cent of the clients answered "Yes", they had invested their money in Islamic mutual funds because of the higher return compared with CB deposits, whereas 10 per cent answered "No", they had not invested their funds for this reason.

It is clear from their answers that the clients had invested their funds in Islamic mutual funds because of their expectation of a higher income and a higher return than on CB deposits.

Table 7. 21: Islamic Mutual Funds

Statement	Answer	No.	Per cent
Clients' investment in Islamic mutual funds	Yes	39	25
	No	117	75
	Total	156	100
Islamic mutual funds offered by the banks where clients held their deposits	Yes	32	82
	No	7	18
	Total	39	100
Number of Islamic mutual funds in which clients had invested their deposits	One	24	63
	Two	11	29
	Three or more	3	8
	Total	38	100
Attractive income	Yes	38	97
	No	1	3
	Total	39	100
Capital growth	Yes	6	15
	No	33	85
	Total	39	100
Higher return than on bank deposit	Yes	35	90
	No	4	10
	Total	39	100

7.2.19 Client's Awareness of the Bank's Policy and Services

The clients were asked if they were aware of the bank's policy and services in relation to credit facilities. The results shown in table 7.22 confirm the fact that there is still only a small number of clients who approach IB/IFIs to obtain credit facilities, and that these clients are aware of the bank's policy and services in relation to credit facilities, while 61 per cent of clients were not aware of the bank's policy and services in this area, despite the fact that they dealt with an IB/IFI and used its credit facilities. This result confirms the finding that IB/IFIs still do not extend credit facilities to a large number of clients despite the importance of this as a service which attracts clients.

Table 7.22: Awareness of Bank's Policy and Services

The respondents	Frequency	Per cent
Yes	56	39
No	86	61
Total	142	100

7.2.20 Clients' Reasons for Withdrawing Money from IBs/IFIs

The results reported in Table 7.23 show that the clients withdrew money from IB/IFIs for several reasons.

Table 7.23: Reasons for Withdrawing Money from IB/IFIs

Statement	Yes		No		Total		Rank
	No.	%	No.	%	No.	%	
Direct Investment	73	46	85	54	158	100	2
Invest Through Friends	21	13	137	87	158	100	3
Deal With Other Islamic Bank	14	9	144	91	158	100	4
Deal With Conventional Bank	6	4	152	96	158	100	6
Transfer To Other Account	11	7	147	90	158	100	5
Keep as cash	-	-	158	100	158	100	--
Purchase Consumer Goods	80	51	78	49	158	100	1

The most important reason was to purchase consumer goods, with 51 per cent of the respondents withdrawing money for this purpose; the second reason was to make a direct investment: 46 per cent. However, investing through friends, dealing with another IB/IFI, transferring to another account, and dealing with a CB were found to have a low degree of importance, while nobody withdrew money in order simply to hold it as cash.

7.2.21 Clients' Preferred Types of Financing

As shown in Table 7.24, 47 per cent of the clients preferred *Mudarabah*, and ranked it first among the Islamic instruments, while 43 per cent preferred *Murabaha* and ranked it first. However, 21 per cent of the clients placed *Musharakah* in the first rank. 10, 8, 4, and 4 per cent of the clients were found to have a low degree of preference for *Bai Muajjal*, lease purchase finance, *Ijara*, and *Bai Al- Salam* respectively. Finally, nobody gave *Bai Istisna* as their first preference.

Moreover, about one third (31 per cent) of the clients ranked *Murabaha* as their second most preferred Islamic instrument, while a quarter (25 per cent) of the clients put *Mudarabah* in the second rank. One fifth (20 per cent) of the clients ranked *Musharakah* as their second most preferred type of financing.

The range of mean scores is significant: 1.96 - 7.54. The rank of preference related to the types of financing, i.e., *Mudarabah*, *Musharakah*, *Murabaha*, *Ijara*, etc., gained the lowest mean scores, indicating the clients' preferences for certain financial instruments. *Murabaha*, *Mudarabah*, and *Musharakah* were the most preferred, scoring 1.96, 2.12, and 2.99 respectively. The clients claimed to prefer *Murabaha* since the procedure is an easy one and the bank does not take a share of the profit from them[10]. The highest mean scores were for the following products: *Bai' Al-Salam*, *Bai Istisna*, and other financing, which had the least preference, the scoring being 5.74, 7.20, and 7.54 respectively.

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[10] The three Islamic financial products briefly outlined in this study are more fully described in the published works of Dixon (1992); Khan and Mirakhor (1987); Nienhaus (1986); Siddiqi (1988); Sudin (1995); Sudin et al., (1994) and Taylor and Evans (1987). These authors also describe other Islamic financial instruments.

Table 7.24: Most Preferred Types of Financing

Types of financing	1		2		3		4		5		6		7		8		9		Total		Mean	Std. dev.
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%		
Mudarabah	54	47	29	25	10	9	17	15	1	1	1	1	1	1	2	2	-	-	115	100	2.12	1.49
Musharakah	21	21	20	20	25	26	10	10	17	17	3	3	2	2	-	-	-	-	98	100	2.99	1.58
Murabahah	46	43	33	31	21	19	4	4	3	3	1	1	-	-	-	-	-	-	108	100	1.96	1.08
Ijara	3	4	2	3	8	10	25	31	9	11	21	26	7	9	4	5	1	1	80	100	4.90	1.68
Bai' Al-Salam	3	4	2	3	11	14	21	26	11	14	24	30	8	10	-	-	-	-	80	100	5.74	1.52
Bai Muajjal	9	10	17	18	11	12	11	12	8	9	19	20	11	12	7	8	-	-	93	100	4.38	2.19
Bai Istisna	-	-	-	-	3	4	2	3	4	5	5	7	20	26	38	50	4	5	76	100	7.20	1.36
Lease Purchase Finance	7	8	6	7	19	20	13	14	12	13	12	13	8	9	13	14	3	3	93	100	4.81	2.24
Other Financing	3	9	-	-	1	3	1	3	1	3	3	9	-	-	3	9	23	66	35	100	7.54	2.57

7.2.22 The Contribution made by Islamic Banks/Financial Institutions to the Economic and Social Development of Saudi Arabia

According to Table 7.25, 83 per cent of the respondents answered "Yes", the IB/IFIs are contributing to the economic and social development of the country, while only 17 per cent of the clients answered "No".

This table also shows that 86 per cent of the clients who had an account with an IB/IFI answered "Yes", to this question, while only 14 per cent of these clients answered "No". 64 per cent of those clients who had an account with a CB answered "Yes", the Islamic banks are contributing to the economic and social development of Saudi Arabia, while 36 per cent gave the answer "No".

The Chi-square test result for the relationship between the clients' background and the IB/IFIs' contribution to the economic and social development of the country is 0.014 (with degrees of freedom "df": 1) and is significant at the preset alpha of .05. Table 7.26 shows that the corrected value is 6.896,with an associated significance level of 0.014 (this is presented in the column labelled Asymp. Sig. [2-sided]); the significant value is 0.014 since this value is smaller than the alpha value of 0.05, so it may be concluded that there are significant differences in the clients' opinions, according to their banking background, with regard to the IB/IFIs' contribution to the development of the country. Thus, the general view was that the IB/IFIs are contributing to economic and social development.

Table 7.25 shows that 82 per cent of Saudi clients believed that the IB/IFIs are contributing to the economic and social development of Saudi Arabia, whereas 18 per cent of them believed that they are not.

90 per cent of the non-Saudi clients answered "Yes", the IB/IFIs are contributing to the economic and social development of the country, while 10 per cent believed that they are not contributing.

83 per cent of the total sample believed that the IB/IFIs are contributing to the economic and social development of the country, while only 17 per cent of them believed that this is not the case.

The Chi-square test of independence was carried out in order to obtain a cross-tabulation of the data. Table 7.26 shows that the Chi-square statistic value is 0.399 and the significance level is 0.455. In this case, since the p-value is greater than 0.05, there are no significant differences in the clients' opinions according to their nationalities with regard to the contribution of the IB/IFIs to the economic and social development of the country. Thus, the general view was that the IB/IFIs are contributing to economic and social development.

Again, Table 7.25 shows that 100 per cent of those clients who had a primary school qualification believed that the IB/IFIs are contributing to the economic and social development of Saudi Arabia. Similarly, 100 per cent of those clients who had an intermediate school qualification believed that the IB/IFIs are contributing to economic and social development. Nobody from either of these levels thought that they are not contributing.

Table 7.25: Clients' Opinions Regarding the Contribution made by IB/IFIs to the Economic and Social Development of the Country

Statement	Clients' bank	Yes		No.		Total	
		No.	%	No.	%	No.	%
The clients' opinions	General respondents	128	83	26	17	154	100
Clients' banking background	Had an account with an IB	114	86	18	14	132	100
	Had an account with a CB	14	64	8	36	22	100
	Total	128	83	26	17	154	100
Clients' nationalities	Saudi	115	82	25	18	140	100
	Non-Saudi	9	90	1	10	10	100
	Total	124	83	26	17	150	100
Clients' education	Primary School	1	100	-	-	1	100
	Intermediate School	4	100	-	-	4	100
	Secondary School	26	90	3	10	29	100
	University	48	77	14	23	62	100
	Postgraduate	37	84	7	16	44	100
	Other Qualification	8	89	1	11	9	100
	Total	124	83	25	17	149	100

90 per cent of the secondary school graduate clients believed that the IB/IFIs are contributing to the economic and social development of Saudi Arabia, while 10 per cent of them believed that this is not the case.

While 77 per cent of the university graduate clients believed that the IB/IFIs are contributing to the economic and social development of the country, 23 per cent of them did not.

84 per cent of the postgraduate clients answered "Yes", the IB/IFIs are contributing to economic and social development, while 16 per cent of them answered "No", they are not.

Finally, 89 per cent of the clients with other qualifications thought that the IB/IFIs are contributing to the economic and social development of the country, while 11 per cent were of the opinion that they are not contributing.

To conclude, 83 per cent of the total sample believed that the IB/IFIs are contributing to the economic and social development of the country, while only 17 per cent of them believed that they are not contributing.

The Chi-square test showed that there are no significant differences in the clients' opinions according to their level of education regarding the contribution made by IB/IFIs to the economic and social development of the country, since the level of significance for this variable is 0.590 and this level is larger than the standard 0.05 level of significance: thus, the consensus of opinion was that a contribution is made by this type of institution.

Table 7.26: Chi-square Test Results of Insignificance

Variable	Pearson Chi-Square		
	Value	df	Asymp. Sig. (2-sided)
Clients' banking background	6.896	1	0.014
Clients' nationalities	0.399	1	0.455
Clients' education	0.290	1	0.590

The majority of the clients agreed, regardless of their banking backgrounds, their nationalities, and their level of education, that IB/IFIs contribute to the economic and social development of the country; this is in fact the distinctive feature of IB/IFIs: that they contribute, in a direct or indirect way, to economic and social development in Saudi Arabia.

7.2.23 Areas of Contribution

According to Table 7.27, roughly 80 per cent of the respondents answered "Yes", the IB/IFIs do contribute to the economic and social development of the country by providing loans to buy furniture/household equipment and vehicles, and 77 per cent of the clients believed the IB/IFIs contribute to economic and social development by providing mortgages or loans to build houses according to the Islamic *Shariah* law, while 74 per cent of the clients thought that the best way for the banks to contribute to economic and social development was by financing industrial projects.

Although these clients believed that financing agricultural projects and small businesses would contribute to economic and social development, they did not consider loans for marriages and social welfare as important contributions to the economic and social development of the country.

Table 7.27: Areas of Contribution

Contribution fields	Yes		No		Total	
	No	%	No	%	No	%
Financing Industrial Projects	95	74	33	26	128	100
Financing Agricultural Projects	81	63	47	37	128	100
Financing Small Businesses	79	62	49	38	128	100
Contribution to Social Welfare	55	43	73	57	128	100
Providing Loans for Marriage	65	51	63	49	128	100
Providing a Mortgage or Loan to Build a House	98	77	30	23	128	100
Loans to Buy Furniture/Household Equipment/Vehicle	103	80	25	20	128	100

7.2.24 Levels of Contribution in Different Areas

It is important to clarify the clients' attitudes towards the level of contribution made by IB/IFIs in different fields. It is clear from Table 7.28 that 39 clients (27 per cent) saw

the IB/IFIs' contribution to the industrial sector as poor; 40 (28 per cent) saw the contribution to the this sector as fair; while more than one third saw the IB/IFIs' contribution to the industrial sector as good and 16 (11 per cent) saw the contribution made as excellent.

With regard to the clients' attitudes towards the level of contribution made by IB/IFIs to the agricultural sector, 55 of the clients (39 per cent) saw this contribution as poor; 35 (25 per cent) saw it as fair; 40 (28 per cent) saw it as good and 11 (8 per cent) saw this contribution as excellent.

Table 7.28 also indicates that about half of the sample saw the contribution made by IB/IFIs to the transport and services sector as fair: 41 clients (30 per cent) saw it as fair, while 24 (18 per cent) saw it as good and 4 (3 per cent) saw the contribution in this field as excellent. The table also shows that more than half of the clients saw the contribution made by IB/IFIs to the financing of small-scale industry as poor; almost a quarter saw it as fair and one fifth saw it as good, while only 6 clients (4 per cent) saw the IB/IFIs' contribution in this field as excellent. A quarter of the clients saw the contribution made by IB/IFIs to trade finance as poor and one fifth (20 per cent) saw it as fair, while 55 (39 per cent) saw it as good and 25 (18 per cent) saw the IB/IFIs' contribution to trade finance as excellent.

In other fields related to social development, such as social welfare and marriage, more than the half of the respondents thought the contribution made by IB/IFIs to social welfare was poor and 16 per cent of the respondents saw it as fair, while 22 per cent of clients saw it as good and 10 per cent of them saw it as excellent. Similar results were obtained regarding the contribution for marriages, where 55 per cent of clients saw it as poor, 15 per cent as fair, while 20 per cent thought the contribution for marriages was good and 10 per cent of the clients saw the IB/IFIs' contribution as excellent.

As indicated in the previous table, with regard to the clients' attitudes towards the IB/IFIs' contribution to housing, 38 of the clients (26 per cent) saw it as poor, 33 (23 per cent) saw it as fair; 51 (35 per cent) saw it as good, and 22 clients (15 per cent) saw the contribution made by IB/IFIs to housing as excellent.

In addition, 42 clients (30 per cent) saw the contribution of IB/IFIs in enabling the purchase of furniture as poor; 35 (25 per cent) saw it as fair, 39 (28 per cent) saw it as

good, and 22 of them (16 per cent) saw the contribution made by IB/IFIs to the assistance of clients with the purchasing of furniture as excellent[11]. With regard to the IB/IFIs' contribution in terms of helping with purchasing items of household equipment, 51 clients (37 per cent) saw it as poor; 36 (26 per cent) saw it as fair; 31 (23 per cent) saw it as good, and 20 (15 per cent) thought that the contribution of IB/IFIs in assisting clients with the purchase of household equipment was excellent.

Finally, 23 of the respondents (16 per cent) saw the IB/IFIs' contribution in assisting clients with the purchase of vehicles as poor, 17 (12 per cent) saw it as fair, 46 (32 per cent) saw it as good, and 60 (41 per cent) thought that the IB/IFIs' contribution in assisting clients with the purchase of vehicles was excellent.

Table 7.28: Level of contribution in different areas

Areas	Poor		Fair		Good		Excellent		Total		Mean	Std. Dev.
	No.	%	No.	%	No.	%	No.	%	No.	%		
Industrial Sector	39	27	40	28	49	34	16	11	144	100	2.26	0.99
Agricultural Sector	55	39	35	25	40	28	11	8	141	100	2.05	1.00
Transport & Services Sector	66	49	41	30	24	18	4	3	135	100	1.75	0.85
Financing Small-Scale Industry	69	51	33	24	28	21	6	4	136	100	1.79	0.92
Trade Finance	35	25	28	20	55	39	25	18	143	100	2.49	1.05
Social Welfare	72	53	22	16	30	22	13	10	137	100	1.88	1.06
Marriage	76	55	21	15	28	20	13	10	138	100	1.84	1.06
Housing	38	26	33	23	51	35	22	15	144	100	2.40	1.04
Furniture	42	30	35	25	39	28	22	16	138	100	2.30	1.07
Household Equipment	51	37	36	26	31	23	20	15	138	100	2.14	1.08
Vehicles	23	16	17	12	46	32	60	41	146	100	2.98	1.08

A descriptive analysis using the mean and standard deviations is presented in Table 7.28. The Mean is a measure of central tendency, each category was given its proper weight (poor: 1, fair: 2, good: 3, and excellent: 4), and calculated by using the sum of the values divided by the total number of observations. Std. Deviation is the measure of dispersion around the mean. It gets closer to zero as the sample becomes more

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[11] If a client wishes to purchase furniture the bank will buy the furniture from the shop and then sell it on to the client.

homogeneous and becomes larger with more dispersion. The table below shows that the attitudes of the respondents towards the IB/IFIs' contribution to vehicle purchasing, trade finance and housing have the highest means: 2.98, 2.49, and 2.40 respectively; while the contribution made to the transport and services sector, the financing of small-scale industry and marriages have the lowest means: 1.75, 1.79 and 1.84 respectively.

7.2.25 Difference in Clients' Opinions, According to their Level of Education, Regarding the Contribution of the Islamic Banks/Financial Institutions in Various Economic, Social, and Financial Areas

The results of the ANOVA are presented in Table 7.29. This table contains columns labelled "Source", " Sum of Squares", "df - for degrees of freedom", "Mean Square", "F or F-ratio", and " p, probability, sig., or sig. of F". The table shows the p values for the following areas:

- Industrial sector (at p = 0.297)
- Agricultural sector (at p = 0.620)
- Trade finance (at p = 0.133)
- Social welfare (at p = 0.103)
- Vehicles (at p = 0.272)

The above p values are greater than 0.05, which means that there is no significant difference in client opinion, according to level of education, regarding the contribution of IB/IFIs in the above mentioned areas.

However, there is a significant difference in client opinion, according to level of education, regarding the contribution of IB/IFIs in the following areas:

- Transport and services (at p=0.018)
- Financing of small-scale industry (at p=0.039)
- Marriages (at p=0.003)
- Housing (at p=0.040)
- Furniture (at p=0.009)
- Household equipment (at p=0.017)

This can be seen by the levels of significance (p value) which are less than the standard 0.05 level of statistical significance.

Table 7.29: Differences in Client Opinion, According to Level of Education, Regarding the Contribution of the IB/IFIs in Various Economic, Social and Financial Areas

S.	Areas of contribution		Sum of squares	df	Mean square	f	Sig.
1	Industrial sector	Between groups	3.624	3	1.208	1.244	0.297
		Within groups	126.234	130	0.971		
		Total	129.858	133			
2	Agricultural sector	Between groups	1.784	3	0.595	0.595	0.620
		Within groups	127.977	128	1.000		
		Total	129.728	131			
3	Transport and services sector	Between groups	7.276	3	2.425	2.462	0.018
		Within groups	86.157	123	0.824		
		Total	93.433	126			
4	Financing small-scale industry	Between groups	7.056	3	2.352	2.864	0.039
		Within groups	101.812	124	0.821		
		Total	108.868	127			
5	Trade finance	Between groups	6.022	3	2.007	1.900	0.133
		Within groups	137.358	130	1.057		
		Total	143.38	133			
6	Social welfare	Between groups	6.786	3	2.262	2.107	0.103
		Within groups	132.064	123	1.074		
		Total	138.85	126			
7	Marriage	Between groups	14.207	3	4.736	4.935	0.003
		Within groups	119.948	125	0.960		
		Total	134.155	128			
8	Housing	Between groups	9.134	3	3.045	2.845	0.040
		Within groups	139.105	130	1.070		
		Total	148.239	133			
9	Furniture	Between groups	13.000	3	4.333	3.994	0.009
		Within groups	136.692	126			
		Total	149.692	129			
10	Household equipment	Between groups	11.969	3	3.990	3.532	0.017
		Within groups	142.308	126	1.129		
		Total	154.277	129			
11	Vehicles	Between groups	4.667	3	1.556	1.315	0.272
		Within groups	156.149	132	1.183		
		Total	160.816	135			

A Scheffe test was applied and the results are shown in Table 7.30. This table shows the difference in client opinion, according to level of education, regarding the contribution made by IB/IFIs in various economic, social, and financial areas. It appears that the clients' view was that the IB/IFIs are making a good contribution in the following areas:

- Industrial sector
- Agricultural sector
- Trade finance
- Social welfare

They also agreed that the IB/IFIs are making a fair contribution to the following areas:

- Transport and services
- Financing of small-scale industry

The university and secondary school graduate clients thought that the contribution of the IB/IFIs in assisting clients with the purchase of vehicles was excellent, while postgraduates and clients with other qualifications thought that the contribution in this field was good.

However, there are significant differences among them according to their level of education as described below.

The clients with other qualifications thought that the contribution of Islamic banking in the field of marriage was good, while the remaining groups of clients thought that the contribution of the IB/IFIs in this field was fair.

Secondary school graduates, university graduates, and clients with other qualifications thought that the contribution of Islamic banking in the field of housing was good, while postgraduates thought that it was fair.

Clients with other qualifications thought that the contribution of Islamic banking in assisting clients with the purchase of furniture was excellent, the secondary school and university graduates thought it was good, while the postgraduates thought it was fair.

The university graduates and clients with other qualifications thought that the contribution of Islamic banking in assisting clients with the purchase of household equipment was good, while secondary school graduates and postgraduates thought the contribution in this area was fair.

Table 7.30: Scheffe Test: The Difference in Client Opinion Regarding the Contribution of the IB/IFIs, According to Various Economic and Social Areas

Areas of contribution	Industrial sector		Agriculture sector		Transport & services		Finance of small-scale industry		Trade finance		Social Welfare		Marriage			Housing			Furniture			Household equipment			Vehicles	
Education level	Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05		Subset for Alpha = 0.05			Subset for Alpha = 0.05			Subset for Alpha = 0.05			Subset for Alpha = 0.05			Subset for Alpha = 0.05	
	No.	1	No	1	No.	1	No.	1	No.	1	No.	1	No.	1	2	No.	1	2	No.	1	2	No.	1	2	No.	1
Secondary sch.	28	2.39	27	2.11	24	1.83	26	1.92	26	2.54	26	1.56	26	1.65	--	28	2.46	2.46	26	2.23	2.23	26	1.92	1.92	28	3.00
University	59	2.27	58	2.10	58	1.90	58	1.93	59	2.63	57	2.04	57	1.98	1.98	58	2.48	2.48	58	2.47	2.47	58	2.40	2.40	60	3.12
Postgraduate	38	1.87	38	1.87	38	1.39	38	1.46	40	2.15	36	1.58	37	1.43	--	39	2.08	--	37	1.92	--	37	1.84	--	39	2.82
Other Qualification	9	2.67	9	2.22	9	2.11	9	2.22	9	2.67	8	2.25	9	--	2.67	9	--	3.11	9	--	3.11	9	--	2.78	9	2.44
Sig.		0.257		.728		.062		.068		.454		.270		.359	.176		.655	.254		.420	.066		.418	.089		.262

7.2.26 Financial Purposes

In question 23 of the questionnaire, the researcher attempted to shed light on the contribution of IB/IFIs to the client's economic and social situation. In particular, the lending of money by providing interest-free loans (*Qard Hasan*), or offering charity or *Zakat*. The clients were asked to show the purpose for which they borrowed or obtained money from the IB/IFI. The responses are set out in Table 7.31.

It is obvious from the table that the financing by IB/IFIs for vehicle purchasing was an important service for the respondents since 35 per cent of the clients had bought vehicles using finance from these banks, while only 26 per cent of them had bought houses using such finance. In addition, the results show that 14 per cent of the clients had obtained furniture through IB/IFI finance, 13 per cent had borrowed money for marriage purposes, and 12 per cent had engaged in trade or business activities with the help of Islamic banking. On the other hand, the percentages for other purposes (household equipment, exports/imports, industrial projects, business or leisure travelling, social welfare, agricultural projects, and other finances) are very low (6; 6; 4; 4; 4; 3; and 4 per cent respectively). The clients preferred to obtain credit for vehicles, houses, furniture, or marriage rather than for investments.

Table 7. 31: Finance Purposes

S	Finance purposes	Yes		No		Total	
		Freq.	%	Freq.	%	Freq.	%
1	Marriage	21	13	137	87	158	100
2	House	41	26	117	74	158	100
3	Furniture	22	14	136	86	158	100
4	Household Equipment	10	6	148	94	158	100
5	Vehicle	55	35	103	65	158	100
6	Industrial Project	6	4	152	96	158	100
7	Agricultural Project	4	3	154	97	158	100
8	Travelling (business or leisure)	6	4	152	96	158	100
9	Trade/Business	19	12	139	88	158	100
10	Exports/Imports	9	6	149	94	158	100
11	Social Welfare	7	4	151	96	158	100
12	Other Financial Contribution	6	4	152	96	158	100

7.2.27 Financial Conditions Set by Islamic Banks/Financial Institutions

Three questions in the questionnaire covered the financial conditions set by IB/IFIs. The respondents were asked to express their opinion on the degree of difficulty presented by various aspects of the financial conditions set by the bank. The responses to question 24 were as follows: 68 of the respondents (47 per cent) believed the financial conditions were difficult to meet. Only 10 per cent of the clients believed the conditions set by IB/IFIs were easy to fulfil. 43 per cent of the clients believed the financial conditions were reasonable.

Table 7.32: Financial Conditions

Statement	Respondents	Frequency	Per cent
The Financial Conditions Set by Islamic Banks.	Difficult	68	47
	Reasonable	62	43
	Easy	15	10
	Total	145	100
Provide Business Plan as a part of Trade Finance Application	Yes	32	23
	No	109	77
	Total	141	100

In order to provide further evidence of the general tendency to avoid productive investments, clients were asked to state whether they had produced a business plan or feasibility study for the bank in order to gain finance for investments. Only 32 (23 per cent) replied that they had applied for credit in productive sectors, while the majority (77 per cent) answered that they had not. The results obtained are shown in Table 7.32.

Table 7.33: Type of Investment Project not Funded

Project	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
Industry	12	37	20	63	32	100
Agriculture	5	16	27	84	32	100
Transport	4	13	28	87	32	100
Other Business not Funded	11	34	21	66	32	100

Among those who had applied for productive credit, 37 per cent planned to finance industrial enterprises, 16 per cent wanted the credit in order to undertake agricultural projects, 13 per cent wanted credit for transport, and 34 per cent planned to finance other businesses. Table 7.33 presents the responses.

7.2.28 Clients' Reasons for Preferring Trade Finance

It is the clients who to a great extent determine the nature of demand by preferring trade finance to productive finance.

The question is, what were the causes of the clients' reluctance to apply for productive loans and their preference for trade finance? The following causes were specified and listed, and clients were asked to say whether these affected their choice of trade finance over productive loans: (1) high and (usually) certain profit from trade finance; (2) the high turnover of capital in trade (3) the low risk of trade finance; and (4) the lack of capital to undertake productive investment. The clients' responses are shown in Table 7.34. 39 per cent of the clients ranked the high turnover of capital as being the main reason for preferring trade finance, 32 per cent ranked lack of capital for other non-trading investment as their main reason, while 26 per cent preferred trade finance because it has high profit margins.

Table 7.34: Reasons for Preferring Trade Finance

Reasons	First preference		Second preference		Third preference		Fourth preference		Fifth preference		Total		Mean	Std. Dev.	Rank
	No.	%	No.	%	No.	%	No.	%	No.	%	No	%			
High Profit Margins in Trade	27	26	33	32	11	11	29	28	3	3	103	100	2.50	1.24	2
High Turnover of Capital in Trade	40	39	26	25	31	30	5	5	1	1	103	100	2.04	0.99	1
Low Risk	22	20	31	27	38	34	22	20	-	-	113	100	2.53	1.02	3
Lack of Capital for other Non-Trading Investment	32	32	15	15	17	17	36	36	1	1	101	100	2.59	1.29	4
Other Reason for Preferring Trade Finance	2	7	-	-	1	4	5	19	19	70	27	100	4.44	1.12	5

In addition, about one third (32 per cent) of the clients ranked high profit margins as the second most important reason for preferring trade finance. 27 per cent gave low risk as the second most important reason, while 25 per cent ranked the high turnover of capital as their second reason for preferring this kind of finance.

The range of mean scores is significant: 2.04 – 2.59 (after the exclusion of the fifth reason "other reasons" owing to the small number of responses and their diversity). The preference ranking related to the reasons for choosing trade finance, i.e., high profit margins in trade, high turnover of capital in trade, low risk and lack of capital for other non-trading investment, gained the lowest mean scores, indicating that, in the clients' preference for trade finance, a high turnover of capital in trade, high profit margins, and low risk were the most important reasons, the scores being 2.02, 2.50, and 2.53 respectively.

To conclude: the clients accorded greater importance to the high turnover of capital in trade than to the high profit margins, and more risk for their satisfaction that a high turnover of capital will compensate for the low profit and that the risk is found by different percentages.

7.2.29 Differences in Client Opinions, According to their Level of Education, Regarding the Importance of the Reasons for their Preference for Trade Finance

An ANOVA was used to determine the main and interactive effects of the categorical independent variables (level of education) on an interval dependent variable (the reasons). Table 7.35 shows that all clients, whatever their level of education, agreed about the level of importance of the various reasons they gave for their preference for trade finance. No significant differences in their opinions were observed according to their level of education regarding their reasons for preferring trade finance, in respect of high profit margins (at sig. = 0.724), and high turnover of capital (at sig. = 0.052), low risk (at sig. = 0.773), lack of capital for other non-trading investments (at sig. = 0.491), and other reasons (at sig. = 0.966), since these values are greater than the standard 0.05 level of statistical significance.

The results of the ANOVA are presented in Table 7.35. The test was used to examine the differences in the clients' opinions about the importance they attached to the reasons

for their preference for trade finance according to their level of education. It was observed that most clients ranked high profit margins third in order of importance. High turnover of capital in trade was ranked the highest in order of importance, while low risk was ranked fourth. Lack of capital for other non-trading investments was ranked the second most important reason, while 'other reasons' for preferring trade finance ranked fifth.

Table 7.35: Differences in Clients' Opinions, According to Level of Education, Regarding the Importance of the Reasons for their Preference for Trade Finance

S	Reasons	Source of Variation	Sum of squares	df	Mean square	f	Sig.	Rank
1	High profit margins in trade	Between groups	3.241	4	0.810	0.517	0.724	3
		Within groups	147.386	94	1.568			
		Total	150.626	98				
2	High turnover of capital in trade	Between groups	8.816	4	2.204	2.437	0.052	1
		Within groups	85.022	94	0.904			
		Total	93.838	98				
3	Low risk	Between groups	1.925	4	0.481	0.449	0.773	4
		Within groups	111.323	104	1.070			
		Total	113.248	108				
4	Inadequate capital for other non-trading investment	Between groups	5.833	4	1.458	0.860	0.491	2
		Within groups	155.982	92	1.695			
		Total	161.814	96				
5	Other reason for trade finance preference	Between groups	0.857	4	0.214	0.138	0.966	5
		Within groups	31.143	20	1.557			
		Total	32.000	24				

When the clients were asked what were the causes of their reluctance to apply for productive loans and their preference for trade finance, the following causes were specified and listed, and clients were asked to say whether these had affected their choice of trade finance over productive loans: (1) the high turnover of capital in trade; (2) the lack of capital for other non-trading investment, i.e., a lack of necessary capital to undertake productive investment; (3) high profit margins in trade, and (4) the low risk of trade finance. From the clients' responses, the following conclusion may be drawn: for these clients, the high turnover of capital was a factor which determined their choice of trade finance over productive loans. This finding implies that the clients are prepared

to take the risks that occur in trade, and therefore accord less importance to the low risk of trade finance.

Another important factor was the lack of capital required for investments. Thus, apart from the fact that these clients were not prepared to take the risks involved in making investments, they also lacked the capital to do so.

To conclude: (i) demand for investments is basically a demand for trade finance; and (ii) the two least important reasons for this tendency were found to be the unwillingness of clients to take risks and the high profit margins required to undertake this kind of productive investment.

Thus, it is the clients who to a great extent drive the nature of demand by preferring trade finance over productive finance.

7.2.30 Importance of Credit Conditions to Clients

In finance, as a rule, there are certain conditions that attract clients and investors to a bank, be it Islamic or conventional. However, it is clear from the analysis of the responses that demand is, in general, low because these clients are constrained by the conditions specified by IB/IFIs for granting credit. If IB/IFIs wish to increase the demand for their services, these conditions need to be relaxed so that clients are able to fulfil them.

To ascertain which credit conditions are the most influential over a client's decision to apply for credit, the following conditions were listed in the questionnaire and clients were asked to show which of these, in order of importance, had affected their decision as to whether or not to obtain credit: the repayment period; the period of grace; the amount of profit taken by the bank; the type of guarantee required by the bank and the freedom regarding what the credit fund is used for.

The responses shown in Table 7.36 are as follows: 29 per cent of the clients gave the grace period as the most important condition affecting their decision. This was followed by the freedom to use credit, which was selected by 29 per cent of the clients (when a client deals with a CB, he has more freedom regarding how the loan fund is used; an IB/IFI does not allow clients to use the credit fund except for the pre-agreed purpose, this procedure sometimes discourages investors from dealing with such banks.) The type

of guarantee was seen as an important condition by 25 per cent of the respondents. Profit margins were only slightly less important for clients, with 20 per cent of respondents saying these were important. Few clients (9 per cent) saw the repayment period as important. Thus, one might conclude that demand would increase, firstly, if the grace period was lengthened; secondly, if there were more freedom regarding how the loan fund could be used; thirdly, if the type of guarantees required by the bank were easy to provide; fourthly, if profit margins on loans were reasonably low, and fifthly, if the repayment period were longer.

Table 7.36: Importance of Credit Conditions

Credit Conditions	Important		Not Important		Total	
	Freq.	%	Freq.	%	Freq.	%
Repayment Period	12	9	124	91	136	100
Grace Period	47	35	87	65	134	100
Profit Margins	27	20	108	80	135	100
Type of Guarantee	32	25	98	75	130	100
Freedom to Use Credit	39	29	94	71	133	100

7.2.31 Importance of Islamic Banks/Financial Institutions in Various Fields

The clients were asked to state the importance of IB/IFIs in various fields. Table 7.37 presents the responses.

Table 7.37: General Opinions about the Importance of IB/IFIs

Fields	Yes		No		Total	
	Freq.	%	Freq.	%	Freq.	%
Important for Muslim People	89	56	69	44	158	100
Important for both Muslims & Non-Muslims	73	46	85	54	158	100
Important to Economic & Social Development	75	48	83	52	158	100
Important to Conventional & Islamic Banks	30	19	128	81	158	100
Other Importance	4	3	154	97	158	100

From the data in Table 7.37, it can be seen that 56 per cent of the clients supported the idea that IB/IFIs are important for the Muslim people. At the same time, 46 per cent of clients thought that they are important for both Muslims and non-Muslims, while 48 per cent indicated that they are important for economic and social development. Only 19 per cent of the clients believed that IB/IFIs are important to both conventional and Islamic banks.

This finding suggests that IB/IFIs are moderately important in all fields except that of the conventional and Islamic banks, which was considered not important by 81 per cent of the clients.

7.2.32 Services Needed by Clients

Question 31 of the clients' questionnaire asked about the importance of and the need for the following services:

a) ATMs: With these machines, the client has easy and secure access to his/her accounts 24 hours a day, anywhere in Saudi Arabia. Also, the client can pay his/her utility bills, (Saudi Electricity Company etc.,) and check his/her investment funds. Besides withdrawing money, he/she can check his/her last ten transactions, and request bank statements and cheque books. Moreover, the clients can transfer money between their accounts or to others within their bank or at any other bank in Saudi Arabia, or worldwide. Clients need not waste their time at the branch waiting their turn to pay bills: instead, they can pay using their ATM card, and in a minute or two they can be heading back to work, or getting on with something else.

b) *Zakat:* A mechanism for the redistribution of income and wealth is inherent in Islam, so that every Muslim is guaranteed a fair standard of living (*nisab*). An Islamic tax, *Zakat* (a term derived from the Arabic *Zakat*, meaning "pure") is the most important instrument for the redistribution of wealth. This tax is a compulsory levy, and is one of the five basic tenets of Islam. The generally accepted amount of the *Zakat* is one fortieth (2.5 per cent) of the Muslim's annual income in cash or kind from all forms of assessed wealth exceeding *nisab*.

Every IB/IFI has to establish a *Zakat* fund for collecting the tax and distributing it exclusively to the poor either directly or through other religious institutions. This tax is

imposed on the initial capital of the bank, on the reserves, and on the profits. Some IB/IFIs establish a Zakat fund, and the fund's management investigates suitable cases for receipt of this funding under the SSB. The Islamic Bank of Dubi was the first bank to establish a Zakat fund and assigned a separate administration and accounts from the bank (DIB web site).

c) Housing loans / financing: In a study carried out by the Ministry of Planning and Economics, it was observed that only 55 per cent of citizens own their own house, while 45 per cent live with their parents or relatives or rent a house (Riyadh newspaper, 8 July 2002).

Consequently possessing a house has become a permanent source of worry for every young man, and of each head of the household that aspires to the formation of a stable family. The current prevalent practice of providing the citizen with a residence is not a useful practice and needs to be reviewed by all of the concerned parties. Table 7.33 shows the housing situation in Saudi Arabia.

Table 7.38: Houses, According to Type, Occupied by Families in the Regions of the Kingdom of Saudi Arabia

The regions	Type of House					
	The demotic house	Villa	Floor in a villa	Flat	Others	Total
Riyadh	94698	243577	128259	221624	61581	749729
Makkah	283743	667503	43847	439144	58678	982162
Jazan	129141	17738	4477	21026	7602	179985
Eastern Province	65210	134095	47225	175184	43250	464964
Aseer	91520	58829	26251	56211	29024	271845
Al-Qassem	45368	51789	15712	22112	13581	148462
Hail	36153	28912	2477	4980	6482	79004
Madinah	86399	19895	3294	114897	14820	229305
Al-Bahah	29317	13829	4601	11127	8845	71719
Northern Frontier	3539	15604	5243	6394	1684	22564
Tabuk	29023	16115	8140	28530	13994	95801
Najran	18498	7551	4249	17863	14872	63034
Al-Jowf	10318	18677	3554	11785	4852	49086
Total	1022726	693271	211429	1120877	279267	2427670

Some CBs (e.g., the as Saudi-British Bank)[12] offer a programme for the transfer of ownership of houses that provides a unique opportunity for Saudi citizens to purchase houses by means of renting with the promise of sale. The construction and possession programme of residential and commercial projects and the financing of the economic development projects come in response to the desires and requests of many citizens in possession of houses. With such facilitation the citizen does not manage the possession of his/her house by means of a cash purchase and this is considered as a new service in the Saudi banking market that is compatible with the *Shariah* roles.

d) *Qard Hasan* (beneficence loan): This is the zero return type of loan that the Holy Quran urges Muslims to make available to those who need it. *Qard Hasan* is a charitable project aimed at helping the needy to manage their lives without charging usurious interest. IB/IFIs also offer *Qard Hasan* for personal affairs such as marriage, or medical treatment for emergencies and accidents, and help with debts and the effects of natural disasters such as earthquakes etc. Applications are submitted to specialized committees for assessment. The borrower is obliged to repay only the principal amount of the loan, but is permitted to add a margin at his/her own discretion, without advance conditions being set.

e) Separate counters for women: Since their formation, IB/IFIs have made special arrangements for women by allocating specific areas for them in various branches, where they are able to access whatever bank service they require Owing to social changes, involving the entrance of women into the workforce, the broadening of their family responsibilities, the economic conditions, and women's desire to increase their capital more women are now using banks. However, most still work in the field of education, and some have dealt with the banks solely through their husbands or fathers, with their business being limited to deposits and withdrawals, the payment of bills, and cashing their salary cheques.

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[12] The Saudi British Bank (SABB), (2001), *"News Archive"*,

http://www.sabb.com.sa/Projects/Web/WebProd.nsf/Ids/MADD-4YXAX3/OpenDocu... English.pdf [accessed 6th November 2002].

However, Saudi women are now more financially aware than their predecessors, and no longer confine their activities to simple deposits and withdrawals. Women have begun to enter the stock market since they changed their consideration of the financial investments, whereas previously they preferred real estate or commercial investments. Such women maintained that they were looking for investment opportunities, and wished to enter the investment field by investment wallets with long-term profit, this led the banks to establish women's branches as an extension of the women's sections offered in different branches. The spread of such women's branches and the increase in the number of accounts held by women give an indication of the success of women's investments. These branches are not confined to offering routine bank services, but are also increasingly offering various other services.

The women's branches of the Saudi banks undertake an effective role in the activation of the bank work. Each branch has good (potent) authority and by coordination with the bank management and an efficient national management they are managed with skill and efficiency. Women's accounts represent 70 per cent[13] of the total number of accounts in Saudi Arabia. This shows that there is a need to extend and concentrate on women's branches. It is also clear that these branches can play a role in motivating and encouraging the economic role of feminine investments in the future.

As shown in Table 7.39, all services were seen as necessary by most of the clients. ATMs and housing loan/financing were required by 94 per cent, and a separate counter for women was needed by 81 per cent of the clients. 77 per cent of them needed *Qard Hasan*, while 44 per cent of the clients needed the IB/IFIs to pay *Zakat* on savings on their behalf.

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[13] Al-Madani, M. A., (2004), "*The investment between the Reality and the Hoped*" Quoted in a study that prepared in King Faysal 's University about the feminine Investment, 2003, Al Ehsaa, Saudi Arabia, http://haramaincenter.co.uk/text/alraseed/1110/tqarir.htm Arabic.pdf [accessed 31st July 2004].

Al-Jazirah Newspaper, Issue No. 11371, 16 November 2003, Riyadh.

Table 7.39: Services Needed

The services	No Need		Need		Indifferent		Total	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
ATM	5	3	142	94	4	3	151	100
Islamic Bank Pays Zakat on Savings on your Behalf	21	15	64	44	60	41	145	100
Housing Loan / Financing	4	3	141	94	5	3	150	100
Interest Free Short Term Loan (Qard Hasan)	17	12	111	77	16	11	144	100
Separate Counter for Women	11	8	114	81	16	11	141	100

7.2.33 Accounting Standards at Islamic Bank/Financial Institutions Vary from One to Another

According to Table 7.40, about one third of the clients (32 per cent) strongly agreed or agreed that the accounting standards at their IB/IFI were different from those at other IB/IFIs. 24 per cent of the respondents, however, disagreed that their bank's accounting standards were different, while 44 per cent of the respondents did not know.

The mean differences in clients' opinions, according to their banking background and nationality, concerning the statement that the accounting standards at their IB/IFI are different from those at other IB/IFIs are shown in Table 7.41. The table shows that there is no significant difference in the opinions of the clients according to their banking background regarding the statement that accounting standards at the IB/IFI they dealt with were different from those at other IB/IFIs. Thus, the clients' view was that the accounting standards at the banks they dealt with were not different from those at other IB/IFIs, since the level of significance for this variable was 0.532, and this level is larger than the standard 0.05 level of significance. Thus, there was seen to be no significant difference between the accounting standards at the IB/IFI they dealt with and those at other IB/IFIs according to banking background. It can be seen from the same table that there is no significant difference in the opinions of the clients according to nationality about the statement that accounting standards at the IB/IFI they dealt with were different from those at other IB/IFIs. Thus, the overall view, regardless of nationality, was that there was no difference between the accounting standards at the banks they dealt with and those at other IB/IFIs (sig.= 0.776, this level being above the standard 0.05 level of significance).

Table 7. 40: Accounting Standards and Periodic Financial Statements of IB/IFIs

Statement	Strongly Agree		Agree		Disagree		Don't know		Total	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Different Accounting Standards between IBs	19	12	31	20	38	24	69	44	157	100
IBs have contributed towards setting specific Accounting Standards	41	26	24	16	36	23	54	35	155	100
IBs Should Prepare Periodic Financial Statements Audited by a Chartered Accountant	100	64	41	26	5	3	10	7	156	100

However, we can see that there are significant differences in the clients' opinions, according to their educational level, concerning the statement that the accounting standards at their IB/IFI are different from those at other IB/IFIs, since the level of significance for this variable was 0.010, and this level is below the standard 0.05 level of significance.

7.2.34 The Presence of Islamic Banks/Financial Institutions has Contributed towards Setting Specific Accounting Standards that Fulfil the Requirements of the Islamic *Shariah*

According to Table 7.40, more than 42 per cent of the respondents strongly agreed or agreed (26 per cent and 16 per cent respectively) that the presence of IB/ IFIs has contributed to setting specific standards that fulfill the requirements of the Islamic *Shariah*, while 23 per cent disagreed and 35 per cent did not know.

Table 7.41 shows the mean difference in clients' opinions, according to their banking background, regarding the statement that the IB/IFIs have contributed towards setting specific accounting standards that fulfil the requirements of the Islamic *Shariah*. In other words, we can see that there is no significant difference. Thus, the general view was that IB/IFIs have made such a contribution, since the level of significance for this variable was 0.592, as shown in Table 7.41, and this level is above the standard 0.05 level of significance. Table 7.41 also shows that there are no significant differences in the opinions of the clients, according to their nationalities, regarding the contribution of IB/IFIs towards setting specific accounting standards that fulfil the requirements of the Islamic *Shariah*. Thus, the overall view was that the IB/ IFIs have contributed, since the

level of significance for this variable was 0.172 and this level is above the standard 0.05 level of significance.

Again, Table 7.42 shows that there are significant differences in the clients' opinions, according to their level of education, regarding the contribution of IB/IFIs to setting specific accounting standards that fulfil the requirements of the Islamic *Shariah* (sig.: 0.073, and this level is above the standard 0.05 level of significance).

7.2.35 Islamic Banks/Financial Institutions should Prepare Periodic Financial Statements and have them Audited by a Chartered Accountant

As can be seen from Table 7.40, 90 per cent of the respondents strongly agreed or agreed (64 per cent, 26 per cent respectively) that IB/IFIs should prepare PFSs and have them audited by a chartered accountant, while 3 per cent disagreed and 7 per cent did not know.

Table 7.41: Mean Differences in Clients' Opinions, According to Banking Background and Nationality, Regarding the Accounting Standards and Periodic Financial Statements of IB/IFIs

Statement	Clients' banking background	No.	Mean	Std. Deviation	t	Sig.	Mean diff.
The accounting standards at this bank are different from those at other Islamic banks	Dealt with CB	94	2.96	1.06	-0.627	0.532	-0.11
	Didn't deal with CB	59	3.07	1.06			
	Saudi	144	3.00	1.08	0.285	0.776	0.10
	Non-Saudi	10	2.90	0.99			
The Islamic banks have contributed setting specific accounting standards that fulfil the requirements of the Islamic Shariah.	Dealt with CB	93	2.69	1.19	-0.537	0.592	-0.10
	Didn't deal with CB	58	2.76	1.14			
	Saudi	142	2.68	1.18	-1.371	0.172	-0.52
	Non-Saudi	10	3.20	0.92			
The IBs should be required to prepare periodic financial statements and have them audited by a chartered accountant	Dealt with CB	93	1.48	0.88	-1.782	0.077	-0.31
	Didn't deal with CB	59	1.80	1.28			
	Saudi	143	1.54	0.98	-2.838	0.005	-0.96
	Non-Saudi	10	2.50	1.65			

Table 7.41, also shows that there are no significant differences in the opinions of the clients, according to their banking background, regarding whether or not the IB/IFIs should be required to prepare PFSs audited by a chartered accountant. Thus, the consensus of opinion, regardless of banking background, was that the IB/IFIs should be required to do this, since the level of significance for this variable was 0.077, and this level is above the standard 0.05 level of significance. However, there are significant differences in the opinions of the clients, according to their nationalities, regarding whether or not the IB/IFIs should be required to prepare PFSs audited by a chartered accountant as the level of significance for this variable was 0.005, and this level is less than the standard 0.05 level of significance. Thus, the consensus of opinion was that the IB/IFIs should be required to do this.

Table 7.42 shows that there are also significant differences in the clients' opinions, according to their educational level, regarding whether or not the IB/IFIs should be required to prepare audited PFSs (sig. = 0.000, and this level is below the standard 0.05 level of significance).

Table 7. 42: Differences in Clients' Opinions, According to level of Education, Concerning the Accounting Standards and Periodic Financial Statements of IB/IFIs

Statement		Sum of squares	df	Mean square	f	Sig.
Difference in clients' opinions according to level of education regarding the Accounting Standards	Between groups	16.786	5	3.357	3.139	0.010
	Within groups	157.214	147	1.069		
	Total	174.000	152			
The contribution of Islamic banks towards setting specific accounting standards that fulfil the requirements of the Islamic Shariah.	Between groups	13.708	5	2.742	2.068	0.073
	Within groups	193.553	146	1.326		
	Total	207.263	151			
The IBs should be required to prepare periodic financial statements and have them audited by a chartered accountant	Between groups	25.872	5	5.174	5.289	0.000
	Within groups	142.838	146	0.978		
	Total	168.711	151			

7.3 CONCLUSION

Many Muslims looking for lawful (*Halal*) profit have stopped resorting to the services of the CBs and have instead headed for the IB/IFIs which do not deal in interest in the way CBs do because they consider it to be *Riba*, which is prohibited by Islam. The results discussed in this chapter have demonstrated that the attitude of the IB/IFI clients in Saudi Arabia follows this trend. The clients showed positive attitudes towards the IB/IFIs. This chapter has provided a descriptive analysis of the sample under discussion, in order to enable the reader to understand the nature and characteristics of the respondents, including their ages, nationalities, level of education, and banking experience. The majority of the respondents were aged between 25 and 44 years, indicating that most IB/IFI clients are from the middle generation. This allows the management of IB/IFIs to study the needs of this generation when designing Islamic products and services in order to implement various long-term banking strategies, such as long term financing schemes and savings programmes, and the financing of residential plans, vehicle purchases, training centres, and academic and medical expenses.

The educational level of the sample was very high, with most of them holding a university or higher qualification, which is consistent with Wilson's (2004) recent discovery that the number of university students in Saudi Arabia is the second largest in the Arab world. This finding provides IB/IFI managers with valuable inputs for formulating their marketing strategy. More sophisticated products and services can be offered as these well-educated clients can easily handle them. However, the emphasis on products and services aimed at this type of client should not lead the management of IB/IFIs to underestimate the need to develop different products and services to attract less-educated clients in order to expand their client base.

The majority of the respondents had had experience of dealing with CBs, while about 40 per cent of them had confined their dealings to IB/IFIs. This means that these banks have succeeded in attracting new clients from among those Muslims who want their financial dealings to be lawful (*Halal*) according to the *Shariah*, in successful banks and financial institutions. For this reason, IB/IFIs are growing rapidly, and this growth looks set to continue over the next ten years at a rate of between 10 and 15 per cent. Some of the IB/IFI clients are still dealing with CBs, despite being aware of the difference

between the philosophies of the two systems (Islamic and conventional). The reasons for this are either that they are not satisfied with the products and services offered by the IB/IFIs, or because they have to use the CBs to pay their bills or to cash their salaries.

The results reveal that the majority of the clients dealt with the IB/IFIs for religious reasons, since religious reasons are the strongest motive. IB/IFIs have convinced a number of clients, who in the past refrained from dealing with CBs because they operate on the basis of interest, to deposit their money with them. The other reasons (profit, competitive services, and better access to finance) also helped to attract the clients to different degrees.

The IB/IFI clients see the strengths of the conventional banking system as lying first in its fast and efficient service, then in the availability of ATM facilities, and then in the abundance of branches, while a less important strength is the high interest rate on savings. This is because the respondents are clients of IB/IFIs who concentrate on the type and source of profit (i.e., whether or not it is lawful) rather than the quantity. In addition, the opportunity to obtain a loan is not highly valued as a service, because the IB/IFI clients prefer to obtain financing on a *Musharakah* (participation), *Mudarabah* (speculation), or *Murabahah* basis, and not on the basis of a loan requiring the payment of usurious interest. For this reason, the risk element does not affect the clients' decisions regarding investment with the IB/IFIs.

Current accounts are the most used service provided by the IB/IFIs, and many clients have confined themselves to using this service only. This is not because they are unaware of other services, but because they either do not require them or are unable to fulfil the required conditions for those services. The transfer of money and currency exchange services are the next most used, while the letters of credit and guarantee facilities are the least popular, since there is no need for such letters in domestic trade, unlike foreign trade that does require such letters.

Out of a total of 155 funds, 67 are Islamic. However, the clients were evidently cautious about investing in Islamic mutual funds, whether offered by the Islamic or conventional banks, since investors in these funds accounted for less than a quarter of the respondents.

This study has shown that IB/IFIs contribute to economic and social development, and this is in fact the distinguishing feature of these banks, which contribute both directly and indirectly to the purchase of vehicles and household equipment and furniture, to housing and the construction of houses, and to the financing of industrial projects. The banks' contributions to vehicle purchases, and to financing trade and house purchases were seen as their greatest contribution, while their contribution to the transport and services sectors, the financing of small-scale industrial projects and marriages were seen to be less important.

The clients also stated that accounting standards vary from bank to bank. This is why IB/IFIs are currently conducting a search for styles suitable for the preparation of accounting standards, with the participation of accountants and financiers, and specialists from within the SSBs, and this has contributed to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This result of the study therefore confirms the importance of continuing to improve the consistency of accounting standards among IB/IFIs.

CHAPTER EIGHT

GENERAL FINDINGS, CONCLUSION AND RECOMMENDATIONS

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GENERAL FINDINGS, CONCLUSION AND RECOMMENDATIONS

8.1 INTRODUCTION

In the previous chapter, a univariate analysis of the research variables of the frequency tables was presented, and the essential reasons for the results were suggested. The follow-up is provided by a bivariate analysis, which is concerned with how two variables are related to each other. From the bivariant analysis we will attempt to draw some conclusions about the population of the survey on the basis of what has been observed. In particular, we will clarify the relationship between the independent and the dependent variables.

The aim of this chapter is to explore any important relationships between pairs of variables. The possible relationships between the variables were verified with the use of the Chi-square and the t test statistical functions of the SPSS package.

The chapter has been organized into four sections. Following the introduction, section two will explain the findings from the analysis of the data collected from the respondents to the questionnaires. The conclusion to the chapter is presented in section three and in section four some recommendations are put forward. The final section of this chapter suggests further research directions.

8.2 THE FINDINGS

The objective of this section is to discuss the results obtained from the employees' and clients' responses and to determine whether there are any significant differences between the responses obtained from the two separate groups of respondents: the employees and the clients of IBs. From a total of 173 employees, the percentage of responses obtained was 86.5, and from the 158 clients, the percentage of responses obtained was 39.5. The two samples were selected from among the employees and

clients of IBs in the capital of Saudi Arabia, Riyadh, and in Jeddah, which are the biggest cities in Saudi Arabia. The rationale for conducting this discussion is to test the probability that there is a significant difference in nature between the responses to the questionnaires obtained from the two groups.

8.2.1 Reasons for Dealing with the Islamic Banks

The analysis of the clients' questionnaire show that the major reason for the Saudi Arabian clients dealing with IBs is religion.

According to the questionnaire, the highest score (indicating the most important) is given a scale of one. Hence the importance of any reason increases as it approaches one.

Table 8.1 shows the results that relate to the main reasons the clients dealt with IBs: the religious reason, the competitive service, profit, more access to finance, and "other reasons". The One-Sample t test is used to get the mean of the population from which the data sample is drawn. The One-Sample t test compares the mean score of a sample to a known value. Usually, the known value is a population mean.

The mean of our sample is 1.14, which is slightly lower than the population value of 1.5, which is a population mean.

The t value for religion is -7.371.

The degrees of freedom for religion are equal to the number of independent scores (N) minus one (N-1=128).

Table 8.1: Reasons for Dealing with IslamicBanks

Attractions Reasons	Test Value = 1. 5					
	No.	Mean	Std. Deviation	t	df	Sig
Religion	129	1.14	0.56	-7.371	128	0.000
Profit	87	2.98	0.98	14.113	86	0.000
Competitive Service	91	2.69	0.92	12.428	90	0.000
More Access to Finance	83	3.28	1.03	15.752	82	0.000
Other Reasons	36	3.33	1.39	7.892	35	0.000

The significance (p-value) for religion is 0.000.

There is a significant difference between the two groups (the significance is less than 0.05).

Therefore, we can say that our sample mean of 1.14 is significantly smaller than the population mean of 1.5. On the other hand, the above results show that all the means are above the specified mean (1.5), except the mean of religious reasons, which is below the specified mean.

Since the Islamic religion is the main factor in attracting clients to dealing with IBs, and these clients are unwilling to deal with a conventional bank, the IBs are welcomed as an alternative banking system by many Saudis. Hence, clients in Saudi Arabia who deal with IBs are motivated in the first place by religious reasons, and this confirms the result obtained by Alshdokhi (1989).

8.2.2 Contribution Made by IBs in Saudi Arabia to Economic and Social Development

Table 8.2 shows that most of the client respondents (83 per cent) believed that the contribution made by IBs in Saudi Arabia to economic and social development is effective.

Table 8.2: Contribution Made by IBs to Economic and Social Development in Saudi Arabia

	Yes		No		Total		Chi-Square		
	Frequency	%	Frequency	%	Frequency	%	Value	Df	Sig. (p)
Clients	128	83	26	17	154	100	14.797	1	0.000
Employees	166	96	7	4	173	100			
Total	294	90	33	10	327	100			

Almost all the employees (96 per cent) had the same belief. The chi-square statistics were used to test whether the two categorical variables used are independent. However, the Chi-square test revealed a significant difference (p=0.000) between clients and employees. This is because the employees believed more strongly than the clients in the

effectiveness of the contribution made by IBs to economic and social development in Saudi Arabia.

8.2.3 Contribution Made by IBs in Saudi Arabia to the Financing of the Industrial Sector

According to the questionnaire, the contribution levels were poor, fair, good, and excellent, and the scores were 1, 2, 3, and 4 respectively. The One-Sample t test is used to show the mean of the population from which the data sample is drawn is equal to a test value=3.

Table 8.3 shows the mean of our sample is 2.29, which is lower than the population value of 3, the t value is 3.54, the degree of freedom is equal to the number of independent scores (N) minus one (N-1=143), and the significance (p value) is 0.001. To be effective, the contribution should be seen as at least good (scale = 3, according to the questionnaire). The One-Sample t test above shows that the mean is well below the level of being good (p =0.001). Therefore the contribution made by IBs in Saudi Arabia towards the financing of the industrial sector is fair.

Table 8.3: Contribution Made by IBs to the Financing of the Saudi Industrial Sector

Statement	Test Value = 3					
	No.	Mean	Std. Deviation	t	Df	Sig
IBs financing of the industrial sectors	144	2.29	0.99	3.54	143	0.001

8.2.4 Contribution Made by IBs in Saudi Arabia to the Financing Agriculture

According to the questionnaire, the contribution levels were poor, fair, good, and excellent and the scores were 1, 2, 3, and 4 respectively. The One-Sample t test is used to show the mean of the population from which the data sample is drawn is equal to a test value=3.

Table 8.4 shows the mean of our sample is 2.05, which is lower than the population value of 3, the t value is -11.34, the degree of freedom is equal to the number of independent scores (N) minus one (N-1=140), and the significance (p value) is 0.000.

To be effective, the contribution should be at least good (scale = 3, according to the questionnaire). The One-Sample t test above shows that the mean is well below the level of being good (p =0.000 and the t value is negative).

Hence, the contribution made by IBs in Saudi Arabia to the financing of investors in the field of agricultural is fair.

Table 8.4: Contribution Made by IBs to the Financing of the Agricultural Sector

Statement	Test Value = 3					
	No.	Mean	Std. Deviation	t	Df	Sig
IBs financing of the agricultural sector	141	2.05	1.00	-11.340	140	0.000

8.2.5 Contribution Made by IBs in Saudi Arabia to the Financing of Social Welfare Projects

According to the questionnaire, the contribution levels were poor, fair, good, and excellent, and the scores were 1, 2, 3, and 4 respectively. The One-Sample t test is used to show the mean of the population from which the data sample is drawn is equal to a test value=2.

Table 8.5 shows the mean of the sample is 1.88, which is lower than the population value of 2, the t value is -1.292, the degree of freedom is equal to the number of independent scores (N) minus one (N-1=136), and the significance (p value) is 0.198.

To be not small or acceptable/moderate, the mean should be at least above fair (scale = 2, according to the questionnaire). The one sample t- test above shows that the mean is well below the level of being fair (p =0.198 and the t value is negative). Hence, the contribution made by IBs in Saudi Arabia to social welfare projects is fair.

Table 8.5: Contribution Made by IBs to the Financing of Social Welfare Projects

Statement	Test Value= 2					
	No.	Mean	Std. Deviation	t	Df	Sig
IBs contribution to social welfare	137	1.88	1.06	-1.292	136	0.198

8.2.6 Contribution Made by IBs in Saudi Arabia to helping Clients Purchase Cars by Instalment Plans

According to the questionnaire, the contribution levels were poor, fair, good, and excellent, and the scores were 1, 2, 3, and 4, respectively. The One-Sample t test is used to show the mean of the population from which the data sample is drawn is equal to a test value=4.

Table 8.6 shows the mean of the sample is 2.98, which is lower than the population value of 4, the t value is -11.424, the degree of freedom is equal to the number of independent scores (N) minus one (N-1=145), and the significance (p value) is 0.000.

In order to be excellent, the mean should be at a scale of four (being excellent means scale=4, according to the questionnaire).

The one sample t- test above shows that the mean is well below the level of being excellent (p= 0.000 and the t value is negative). Hence, the contribution made by IBs in Saudi Arabia to helping clients to purchase cars by instalment plans is fair, although is almost perceived as being good.

Table 8.6: Contribution Made by IBs to the Purchasing of Cars by Instalment Plans

Statement	Test Value =4					
	No.	Mean	Std. Deviation	t	Df	Sig
IBs contribution to purchase of cars by instalment plane	146	2.98	1.08	-11.424	145	0.000

8.2.7 Contribution Made by IBs in Saudi Arabia to the Financing of Trade

According to the questionnaire, the contribution levels were poor, fair, good, and excellent, and the scores were 1, 2, 3, and 4 respectively. The one-sample t test is used to show the mean of the population from which the data sample is drawn is equal to a test value=3.

Table 8.7 shows the mean of the sample is 2.49, which is lower than the population value of 3, the t value is –5.8, and the degree of freedom is equal to the number of independent scores (N) minus one (N-1=142), and the significance (p value) is 0.000.

To be effective, the mean should be at least good (scale=3, according to the questionnaire).

The one sample t- test above shows that the mean is well below the level of being good (p= 0.000 and the t value is negative). Hence, the contribution made by IB/IFIs in Saudi Arabia to the financing of trade is fair.

Table 8.7: Contribution Made by IBs to the Financing of Trade

Statement	Test Value =3					
	No.	Mean	Std. Deviation	t	Df	Sig
IBs contribution in financing trade	143	2.49	1.05	-5.8	142	0.000

8.2.8 *Murabaha* is the Islamic Financing Instrument Preferred by Clients

According to the questionnaire, the values range from one to nine, the highest score (most preferred) is given a scale of one and the lowest score (least preferred) is given a scale of nine. Hence, the preference increases as it approaches one. Table 8.8 shows the closest mean to one is *murabaha* (1.96). *Murabaha*, therefore, was the Islamic financing instrument preferred by clients, according to the ordered means above. Hence, it appears *murabaha* is the Islamic financing instrument preferred by clients.

Table 8.8: *Murabaha* is the preferred Islamic Financing Instrument

	Minimum	Maximum	Mean	Std. Deviation
Murabaha	1	6	1.96	1.08
Mudaraba	1	8	2.12	1.49
Musharaka	1	7	2.99	1.58
Bai Muajjal	1	8	4.38	2.19
Lease Purchase	1	9	4.81	2.24
Ijara	1	9	4.90	1.68
Bai'-Al-Salam	2	8	5.74	1.52
Bai' Istisna	3	9	7.20	1.36
Other Financing	1	9	7.54	2.57

8.2.9 Investment in Islamic Mutual Funds

Table 8.9 shows that 75 per cent of the clients did not invest in Islamic mutual funds. Among the remaining 25 per cent who did, only 37 per cent invested in more than one

fund (63 per cent in one mutual fund only). It can be seen from the table that 63 per cent had invested in one Islamic mutual fund, 29 per cent had invested in two, and 8 per cent had invested in three or more such funds. This result shows that the clients were cautious in the investment of their money in the Islamic mutual funds, whether offered by the IBs, or by a CB.

Table 8.9: Investment in Islamic Mutual Funds

			Number of Mutual Funds						
Answers	Frequency	Percent	1		2		3		Total
Yes	39	25	24	63	11	29	3	8	38
No	117	75							
Total	156	100							

8.2.10 The Risk of Losses from Investing in an IB

Table 8.10 shows that a quarter of the clients (25 per cent) were influenced by the risk of nominal losses, but generally speaking (for 75 per cent of the clients) the risk of nominal losses did not affect the client's decision to invest in an IB.

As can be seen from the responses shown in Table 8.10, the majority of clients said that the risk of loss did not affect their decision to invest in an IB. In this case the expectation of loss had no influence on the clients when choosing to invest in IBs.

Table 8.10: The Risk of Losses from Investing in an IB

Risk affects decision to invest		
	Frequency	Percent
Yes	37	25
No	113	75
Total	150	100

8.2.11 Clients Prefer to Obtain Money from Friends rather than from IBs or CBs

Table 8.11 shows that more than half of the clients (54 per cent) obtained money from friends. IBs (45 per cent), and CBs (9 per cent) scored much lower percentages. This means that clients prefer to obtain money from friends, rather than from IBs or from a CB.

Table 8.11: Clients Obtain Money from Friends when they need it

Obtain Money From	No		Yes		Total
	Frequency	Per cent	Frequency	Per cent	Frequency
An Islamic Bank or other Islamic Institution	87	55	71	45	158
Conventional Bank or other Financial Institution	144	91	14	9	158
A Friend	73	46	85	54	158

8.2.12 IBs have Introduced Acceptable Islamic Investment Tools for Several Groups of Investors

According to the questionnaire, the values range from one to nine, the highest score (indicating the most important) is given a scale of one and the lowest score (least important) is given a scale of nine. Hence, the importance of each type of financing increases as it approaches one.

Table 8.12: IB Products are Offered to Investors

	Minimum	Maximum	Mean	Std. Deviation
Murabahah	1	6	1.96	1.08
Mudarabah	1	8	2.12	1.49
Musharakah	1	7	2.99	1.58
Bai Muajjal	1	8	4.38	2.19
Lease Purchase	1	9	4.81	2.24
Ijara	1	9	4.90	1.68
Bai'-Al-Salam	2	8	5.74	1.52
Bai' Istisna	3	9	7.20	1.36
Other Financing	1	9	7.54	2.57

Table 8.12 shows the closest mean to one is *murabaha* (1.96), indicating that *murabaha* is the most important type of Islamic financing tool for clients, according to the ordered means above. The second most important source of finance is *mudarabah* and the third is *musharakah,* scoring 2.12 and 2.99 respectively. Other financing sources are less important. *Bai' Istisna* is considered to be not at all important, the scoring being 7.54 and 7.20 respectively.

8.2.13 The Contribution Made by IBs to Economic Projects and to Society

A chi-square test, one of the Nonparametric Tests group, was carried out to test if IBs have contributed to economic and social development through financing commerce, factories, farms, housing projects, car purchases, donating to charities, and offering *Zakat* to needy groups in society.

The Chi-square test is shown "observed percentage = 50 per cent".

The frequency table shows observed and expected frequencies, the actual observed number of clients and the expected number of clients. SPSS does allow us to specify unequal expected values, if there is reason to believe that some values occur more often than others. The Residual column shows the differences between the expected and observed values. Large absolute values for the residuals indicate that the observed values are very different from the expected values.

Table 8.13: Extent of Degree of Contribution Made by IBs to Economic Projects and to Society

Economic Projects & society	Observed No.		Expected No.		Residual		Chi-Square	df	Sig.
	No	Yes	No	Yes	No	Yes			
Financing Industrial Projects	37	95	66.0	66.0	-29.0	29.0	25.485	1	0.000
Financing Agricultural Projects	51	81	66.0	66.0	-15.0	15.0	6.818	1	0.009
Financing Small Business	53	79	66.0	66.0	-13.0	13.0	5.121	1	0.024
Contribution to Social Welfare	77	55	66.0	66.0	11.0	-11.0	3.667	1	0.056
Giving Loans for Marriage	66	66	66.0	66.0	0.0	0.0	0.000	1	1.000
Giving Mortgage or Loans to Build House	33	99	66.0	66.0	-33.0	33.0	33.000	1	0.000
Loans to Buy Furniture / Household Equipment/Vehicles	29	103	66.0	66.0	-37.0	37.0	41.485	1	0.000

The results shown in Table 8.13 indicate that more than half of the clients believed that IBs contribute to economic and social development through financing commerce, factories, farms, housing projects, car purchases, marriages, and social welfare.

8.2.14 Lack of Unified and Obligatory Accounting Standards has Led to Variations in the Disclosure of Balance Sheets and Annual Financial Statements

Table 8.14 shows that there is no significant difference between their means (p= 0.074, which is greater than 0.05). A 1 to 4 scale was used: 1 means strongly agree, 2 means agree and 3 means disagree, while 4 means do not know. Hence, clients agree that a lack of unified and obligatory accounting standards has led to variations in the manner of disclosure of balance sheets and annual financial statements, while employees disagree with the above statement.

Table 8.14: Lack of Unified and Obligatory Accounting Standards

	Mean	Std. Deviation	t	df	Sg.
Clients	3.00	1.06	1.791	327	0.074
Employees	2.78	1.11			

8.2.15 Contribution Made by IBs to the Setting of New and Unfamiliar Accounting Standards to Meet the Need to Comply with the *Shariah* Precepts

The two samples t- test was used to make a comparison between clients and employees, and this comparison is shown in Table 8.15.

Clients mean = employees mean

There is no significant difference between their means (p= 0.055, which is greater than 0.05). A 1 to 4 scale was used: 1 means disagree, 2 means agree and 3 means strongly agree, while 4 means do not know. Hence, both clients and employees believed that the emergence of IBs has contributed to setting new and unfamiliar accounting standards which are not used in CBs, in order to comply with the *Shariah* precepts.

Table 8.15: Contribution Made by IBs to the Setting of Accounting Standards

	Mean	Std. Deviation	t	df	Sg.
Clients	2.73	1.17	1.925	326	0.055
Employees	2.50	0.96			

8.2.16 Many Clients were Attracted to Dealing with IBs after their Establishment

Three questions in the clients' questionnaire (1, 2, and 3) were employed to see if many clients were attracted to dealing with IBs after their establishment, using the descriptive statistics. The results are presented in Table 8.16.

The table shows that most clients (84 per cent) have an account with an IB, but that 61 per cent also deal with a CB. However, more than three quarters of the clients (77 per cent) had opened their first account with a CB. This means that most of the clients had moved from conventional to Islamic banks.

Table 8.16: Clients Attracted to dealing with IBs after their Establishment

	Yes		No		Total
	Freq.	Per cent	Freq.	Per cent	Freq.
Have an Account with Islamic Bank	133	84	25	16	158
Dealing with Conventional Bank	94	61	60	39	154
First account with Conventional Bank	72	77			
First account with Islamic Bank	21	23			

8.2.17 The Presence of IBs has Encouraged Members of a Particular Category in Society, who were Previously Hoarding their Money without Investing or Utilizing it in order to avoid *Riba*, to Invest in Commercial Activities; this will Certainly Support the National Economy

This is an extension of the previous finding, utilizing findings 1, 10, 15, and 16. One might expect that the presence of IBs would encourage those people who had been hoarding their money in order to avoid the interest system to invest in commercial activities; this will certainly support the national economy.

Table 8.17 shows that most clients (84 per cent) have an account with an IB, but that 61 per cent also deal with a CB. However, only about a quarter of the clients (23 per cent) had their first account with an IB. This means that many of the clients had not previously had a bank account, and had kept their money in a safe at home. This point was also mentioned by Mohsin (1987), who stated that hoarding is prevalent in the Arab Gulf. It was estimated by the International Association of Islamic Banking that $12 billion in Saudi Arabia alone, and $40 billion in the Middle East as a whole, were being hoarded outside the CBs.

Table 8.17: Presence of IBs has Encouraged those to Invest who Previously Hoarded their Money

	Yes		No		Total
	Freq.	Per cent	Freq.	Per cent	Freq.
Have an Account with Islamic Bank	133	84	25	16	158
Dealing with Conventional Bank	94	61	60	39	154
With Conventional Bank	72	77			
With Islamic Bank	21	23			

8.2.18 The Requirements of Clients are being Met

The binomial test, one of the Nonparametric Tests group, compares the distribution of one or more dichotomous variables to the binomial distribution with a specified probability of being in the first group (Norusis, 2000).

The binomial test (Descriptive Statistics) was used to test the first part of the finding, the degree of satisfaction of clients' demands and requirements. The statistics include the mean, minimum, maximum, and standard deviation. Table 8.18 shows that the means do not satisfy the good or excellent levels (poor =1, fair =2, good =3, and excellent = 4, according to the questionnaire) and all means are less than 3. Hence, there is no strong evidence that IBs satisfy their clients' demands and requirements.

The binomial test was also used to test the second part of the finding, the requirements of clients and their satisfaction. The Binomial Test Prop.= 0.5; Table 8.19 reveals that

about 50 per cent of the clients believed that IBs contributed to their economic and social situation in particular. The level of significance for all the fields is p = 0.000. Hence, there is no strong evidence that IBs satisfy their clients' demands and requirements. However 26 per cent of respondents had obtained housing loans from IBs and 35 per cent had obtained finance for vehicles.

Table 8.18: Degree of Satisfaction of Clients' Demands and Requirements

	Minimum	Maximum	Mean	Std. Deviation
Transport & Services Sector	1	4	1.75	0.85
Financing Small-Scale Industry	1	4	1.79	0.92
Marriage	1	4	1.84	1.06
Social Welfare	1	4	1.88	1.06
Agricultural Sector	1	4	2.05	1.00
Household Equipment	1	4	2.14	1.08
Industrial Sector	1	4	2.29	0.99
Furniture	1	4	2.30	1.07
Housing	1	4	2.40	1.04
Trade Finance	1	4	2.49	1.05
Vehicles	1	4	2.98	1.08

8.2.19 The Emergence of IBs has Resulted in the Employment of Many Saudi Citizens, and this has Reduced the Unemployment Rate

There are two types of contribution to a reduction in unemployment: direct and indirect.

The direct contribution lies in the employment of Saudis in the banks. It can be seen from Table 8.20 that two thirds of the respondents (67 per cent) had not worked for a CB, so the IBs had given them the opportunity to work.

Table 8.19: Requirements of Clients and Satisfaction

The Purpose	Category	Observed Proportion	Sig.
Marriage	No	0.87	0.000
	Yes	0.13	
	Total	1.00	
House	No	0.74	0.000
	Yes	0.26	
	Total	1.00	
Furniture	No	0.86	0.000
	Yes	0.14	
	Total	1.00	
Household Equipment	No	0.94	0.000
	Yes	0.06	
	Total	1.00	
Vehicle	No	0.65	0.000
	Yes	0.35	
	Total	1.00	
Industrial Project	No	0.96	0.000
	Yes	0.04	
	Total	1.00	
Agricultural Project	No	0.97	0.000
	Yes	0.03	
	Total	1.00	
Travelling	No	0.96	0.000
	Yes	0.04	
	Total	1.00	
Trade/Business	No	0.88	0.000
	Yes	0.12	
	Total	1.00	
Exports/Imports	No	0.94	0.000
	Yes	0.06	
	Total	1.00	
Social Welfare	No	0.96	0.000
	Yes	0.04	
	Total	1.00	
Other Financial Contribution	No	0.96	0.000
	Yes	0.04	
	Total	1.00	

The indirect contribution of the IBs lies in their support for industrial, agricultural, and commercial projects, which also gives Saudis the opportunity for work. However, this study is unable to provide evidence of this. But there is a reasonable amount of evidence to show that the emergence of IBs has resulted in the employment of many Saudi citizens, which has reduced the unemployment rate.

Table 8.20: IBs have Contributed to a Reduction in the Unemployment Rate

statement	Frequency	Per cent
Worked for a CB before joining the IB	57	33
Did not work for any CB before joining the IB	116	67
Total	173	100

8.2.20 Difficulties and Length of the Financial Conditions Set

Questions 3 and 4 of the employees' questionnaire were designed to explore if the financial conditions set are difficult because of the lengthy procedures and the many documents that are required. The table of percentages (Table 8.21) shows that:

- with regard to the difficulty of Islamic transactions, the employees agreed that Islamic banking transactions are not difficult;
- with regard to a lack of uniformity, those employees who found Islamic banking transactions difficult also saw a lack of uniformity in the accounting standards;

- with regard to new types of transaction, those employees who found Islamic banking transactions difficult also found that there are new types of transaction which must be approved by the religious supervisory boards, which takes time;

- with regard to a lack of understanding, the respondents mentioned also agreed that a lack of understanding presents an obstacle; and
- with regard to the fact that more documents are required, those employees who found Islamic banking transactions difficult also thought that the increased amount of documentation required presents difficulties for the IB.

Hence, one has to admit that the financial conditions set are difficult to meet, procedures are lengthy, and many documents are required.

Table 8.21: Difficulties of the Financial Conditions

The difficulties	No		Yes		Total
	Frequency	Per cent	Frequency	Per cent	Frequency
Difficult Islamic transactions	123	71	50	29	173
No Uniformity	11	22	39	78	50
New Types of Transaction	8	16	42	84	50
Lack of Understanding	7	14	43	86	50
More Documents Required	21	42	29	58	50
Other Difficulties	44	88	6	12	50

8.2.21 The Decision of an IB Regarding whether or not to Deal with a Particular Client Depends upon the Financial Status of that Client

The binomial test was used to see the decision of an IB regarding whether or not to deal with a particular client depends upon the financial status of that client. The binomial

Table 8.22 tests the hypothesis: Test Prop. = 0.5

Table 9.22: Whether IBs Deal with a Client or not Depends upon the Client's Financial Status

Factors	Category	Observed Prop.	Sig.
Financial Situation	No	0.13	0.000
	Yes	0.87	
	Total	1.00	
Reputation	No	0.68	0.000
	Yes	0.32	
	Total	1.00	
Experience	No	0.81	0.000
	Yes	0.19	
	Total	1.00	
Competition	No	0.82	0.000
	Yes	0.18	
	Total	1.00	
Other Influence	No	0.93	0.000
	Yes	0.07	
	Total	**1.00**	

The Table above shows that all the factors under the level of significance (p=0.000), since the probability value (p) is less than 0.05. It is quite noticeable that the only percentage above the test proportion is the percentage for the financial situation.

Therefore, we have found that the decision of an IB regarding whether or not to deal with a particular client is based upon the financial status of that client.

8.3 CONCLUSION

One of the significant developments in the Muslim world during the last three decades has been the emergence of Islamic banking, which has appeared as a powerful movement. Although some attempts to reorganize banking activities along Islamic lines go back to the early 1960's, the concept of Islamic banking is even older. A limitation of available banking facilities in Muslim communities has existed since the time of the Prophet Muhammad. It was then the practice to deposit money either with the Prophet or with Abu Bakr Al-Seddique, the first Khalif of Islam.

Nasser's Social Bank was founded in the early 1960's in Egypt. This was the first modern IB/IFI, and Islamic accounting is said to have developed simultaneously at the University of Cairo (Crane).

At the first meeting of the Islamic Organisation Conference (IOC) in Jeddah in 1973, the 'Islamization' of financial systems was discussed. Following this, many Islamic banks were established under the profit and loss sharing system (PLS).

Islamic banking has since passed through three phases of development:

Emergence - 1972 to 1975. At this time there was a resurgence of fundamentalist Muslim movements and the establishment of the IOC. Also, oil revenues increased significantly and there was great financial liquidity during this period.

Expansion - 1976 to the early 1980s. During these years Islamic banking spread from the Arabian Gulf resulting in the establishment of 15, 520 IB/IFIs at both the international and inter-continental level. There was a broadening of operations.

Maturity – 1993 to the present. Economic setbacks in the Islamic world. Branches of IB/IFIs spread to the USA, and Islamic banking practices were implemented in Pakistan

and Iran. The first British- based IB/IFI has been given the go-ahead, and will start operating from September 2004, which will give Britain's two million Muslims access for the first time to a British bank which is operated in accordance with *Shariah* principles.

Islamic banking operations are now spreading throughout the world, and symbolize "the growing trend toward transcending national boundaries and unifying Muslims into a political and economic entity that could have a significant impact on the pattern of world trade" (Abdul-Magid, 1981, p. 18). This expansion has led to Islamic banking being subject to rules and regulations other than the traditional ones, and to rivalry from other financial institutions. In fact, it was the strong disapproval of the notion of interest by Islam and the vital role of interest in the modern commercial banking system that led Muslim thinkers to explore ways and means by which commercial banking could be organized on an interest-free basis. However, for a long time, the idea of Islamic banking remained a mere wish.

IB/IFIs are rapidly becoming a feasible alternative to conventional banking. Although innovative solutions to some issues are still lacking, it would be unfair to compare the progress of Islamic finance to that of established conventional finance. There is no justification for looking for disadvantages in the Islamic system in contrast to the problems of conventional banking.

IB/IFIs do not charge or pay interest (*Riba*) on client deposits. All deposits are kept in the IB/IFI and are available on demand. They may be withdrawn without notice at any time by their owners. This contrasts with the deposits of CBs that include, in addition to generally interest-free demand deposits, interest-bearing client time deposits, inter-bank deposits, and other interest-bearing borrowing. A number of CBs in various countries have started of late to pay a rather low rate of interest on demand balances if they exceed a certain minimum average amount and duration. Interest-bearing time deposits may not be withdrawn prior to maturity unless the depositor forfeits a financial penalty. Hence, the difference between an IB/IFI and a CB is to be found not only on the assets side of the balance sheet but also on the liabilities side.

The Islamic methods of finance of *Mudarabah*, *Musharakah,* and other forms, provide an alternative to the interest-based dealings.

IB/IFIs can be said to have made a contribution in that they have attracted new depositors to the banking business. These are people who in the past have eschewed dealings with CBs on religious grounds. Moreover, IB/IFIs have also attracted new small depositors (see Chapter Eight).

Some CBs in both Muslim and non-Muslim countries have met their clients' demands for Islamic investment products by establishing Islamic windows that offer Islamic banking services by managing their own Islamic mutual funds. However, some IB/IFI and religious experts maintain that such a coexistence between the pure and the impure is unacceptable.

Since IB/IFIs pay no interest on current accounts, they have decided to develop the capability of providing Islamic fund management services in order to: 1) retain those clients who wish to receive a return on their liquidity and not keep it all in non-interest bearing demand deposits; 2) attract clients away from competing fund managers; and 3) earn risk-free fee income from fund management.

Mutual funds are independent legal entities. They have their own boards of directors and staff. Islamic mutual fund participants or unit-holders, just like their counterparts in non-Islamic conventional mutual funds, share in the profits and losses of the fund. Thus there is no difference on the liabilities side between Islamic and non-Islamic mutual funds. Participants in both receive no interest. They are not depositors or creditors of the mutual fund. They are owners.

Islamic mutual funds offer Islamic investors the opportunity to earn a fixed annual return for long periods. They provide the business sector with fixed-rate long-term loans or leasing facilities. Islamic mutual funds represent a substitute for bond markets by mobilizing the fixed-rate long-term resources of a community. This type of funding is critical for the development of infrastructure projects. Islamic mutual funds, therefore, are particularly useful to those developing economies with no capital markets for bond issuance.

Mutual funds are not permitted to solicit or accept client deposits. Only banks can do so under the close supervision of the (SAMA). While a bank, whether Islamic or conventional, is obligated under the risk of bankruptcy to return all deposits to its

owners in full upon demand or maturity, mutual fund unit-holders share in the profits or losses of the fund. Consequently, they may lose their entire investment.

The operation of an IB/IFI derives its rules from the *Shariah* (or Islamic Law) and thus differs in spirit and practice from CB operations. The financial information and presentations of IB/IFIs contained in their annual reports are different in certain aspects from the reports offered by CBs; the information is also aimed at a unique set of Muslim shareholders and investors.

Islamic banking has adopted to some degree the accounting principles followed in the USA, as well as international standards. However, because of differences in the way IB/IFIs and CBs perform some of their functions, it may be questioned whether these accounting principles are appropriate for all purposes of Islamic banking.

In IB/IFIs, the development of accounting theory should be based on the provisions of Islamic law, along with other necessary principles and postulates which are not in conflict with the *Shariah*. Two approaches suggest themselves:

1- establish objectives based on the spirit of Islam and its teaching and then consider these established objectives in relation to contemporary accounting thought; or

2- start with objectives established in contemporary accounting thought, test them against Islamic *Shariah*, accept those that are consistent with *Shariah* and reject those that are not.

The financial statements of bank-managed mutual funds are not reflected in the balance sheets of the managing banks. They are prepared, audited, and published independently. Most importantly, unlike depositors in Islamic and conventional banks, who enjoy a legal recourse against the banks for the timely repayment of principal plus interest, unit-holders of bank-managed mutual funds have no recourse against the managing banks for repayment in the event of loss of principal or return.

In place of charging or paying *Riba*, IB/IFIs invest mainly by engaging in trade and industry, directly or in partnership with others, and sharing the profits. These financing methods give rise to many ambiguities in accounting theory and practice which have no counterpart in a conventional banking system. They also give rise to an uneasy relationship between secular and sacred obligations, for the IB/IFI must maintain a dual

system of accounting and auditing controls in order to satisfy both the religious and external auditors. This need to maintain unique and comprehensive standards of ethical investments has no counterpart in conventional banking.

Bodies such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI 2000) have followed the second approach when formulating accounting, auditing, and governance standards for IB/IFIs. Other specialists, such as Gambling and Karim (1986), Adnan and Gffikin (1997), Askary and Clarke (1997), Alam (1997), and Baydoun and Willett (1997), have adopted the first approach.

Certain Islamic ethical principles have a direct impact on accounting policy and principles. These principles include the interest-free economic system, the institution of *Zakat*, and specific business methods. In addition, the Holy Quran and Sunnah, upon which these ethical principles are derived, have defined clearly what is true, fair, and just, what are society's preferences and priorities, what are the corporate roles and responsibilities, and also, in some aspects, spell out specific accounting standards for accounting practices.

IB/IFIs have been fair with clients as opposed to shareholders because they follow the practice of deducting their legal and general reserves from net profits (of shareholders) and not from gross profits (of depositors and shareholders). This practice is fair, since clients have no stakes in these banks.

Economists have offered different opinions on the effectiveness of the banking system in promoting or facilitating economic development. In short, the banking system is one of many institutions that influence the economy and affect its performance for better or worse. A banking system may make a positive contribution to economic growth and development. What can be asserted is that any given banking system might, with different policies, be made more or less effective in its contribution to economic development.

When IB/IFIs were founded, it was declared that one of their objectives was to participate in development. This objective implies a direct and specific responsibility on the part of IB/IFIs to play an effective role in social and economic development by adopting methods of finance that are different from those of CBs.

Saudi Arabian IB/IFIs came into existence with a number of objectives. These objectives similarly imply a direct and specific responsibility on the part of Saudi Arabian IB/IFIs to play an effective role in social and economic development. It is apparent that such banks have concentrated on short- term commercial activities to maintain their existence in the market. There can be no doubt that the policy of achieving high profit is important for the success of IB/IFIs as with any profit-making institution, but this should not be a permanent policy. The policy of convincing depositors and shareholders should be transitional, and IB/IFIs should redirect their objectives towards other really productive activities.

This study was designed to investigate the contribution of IB/IFIs to the accounting standards and economic and social development in Saudi Arabia. A comprehensive profile analysis of IB/IFI employees and clients was conducted. Furthermore, the various aspects of the IB/IFI employees' and clients' opinions regarding the IB/IFIs in Saudi Arabia were examined.

The general conclusions which can be derived from this study are:

1- the results discussed in this study have demonstrated that the attitude of the IB/IFI employees and clients in Saudi Arabia towards the IB/IFIs is positive, with respect to their work or their dealings with the bank;

2- the results of the study show that the majority of the employees are well educated, with approximately 33 per cent holding high school certificates, and 61 per cent holding a bachelor degree or above. Furthermore, the results also show that 70 per cent of them are aged between 25 and 40 years old and 92 per cent are between 25 and 50 years old;

3-the results of the study show that the majority of IB/IFI clients are also well educated, with approximately 20 per cent holding high school certificates, and about 70 per cent holding a bachelor degree or above. The results also show that about 70 per cent of them fall between the ages of 25 and 44 years, indicating that most IB/IFI clients are from the middle generation. This allows the management of such banks to study the needs of this generation when designing Islamic products and services. This will assist in the implementation of various long-term banking strategies, such as long-term financing schemes and savings programmes, the financing of residential plans, the financing of vehicle purchases, training centres, and academic and medical expenses;

4; the Islamic religion in Saudi Arabia was the main factor influencing the decision of the employees to work for IB/IFIs, since this represents a positive alternative to working for a CB. The Saudis have welcomed IB/IFIs as they provide an alternative banking system. In addition, these banks encourage new employees to work for them;

5- our results reveal that the majority of the clients dealt with IB/IFIs for religious reasons, since religious reasons were shown as the strongest motive. IB/IFIs have convinced a number of clients to deposit their money with them, who in the past refrained from dealing with CBs because they operate on the basis of interest. The other reasons (profit, competitive services, and better access to finance) also helped to attract clients in different degrees;

6- the IB/IFI clients see the strengths of the conventional banking system as lying first in its fast and efficient service, then in the availability of ATM facilities, and then in the abundance of branches, while a less important strength is the high interest rate on savings. This is because the respondents are clients of IB/IFIs who concentrate on the type and source of profit (i.e. whether or not it is lawful) rather than the quantity. In addition, the opportunity to obtain a loan is not highly valued as a service, because the clients prefer to obtain financing on a *Musharakah* (participation), *Mudarabah* (speculation), or *Murabahah* basis, and not on the basis of a loan requiring the payment of usurious interest. For this reason, therefore, the risk element does not affect the clients' decisions regarding investment with the IB/IFIs;

7- IB/IFIs have succeeded in attracting new clients from among those Muslims who want their financial dealings to be lawful (*Halal*) according to the *Shariah*, and carried out in successful banks and financial institutions. Some of the IB/IFI clients are still dealing with CBs, despite being aware of the difference between the philosophies of the two systems (Islamic and conventional). The reasons for this are either that they are not satisfied with the products and services offered by the IB/IFIs, or because they have to use the CBs to pay their bills or to cash their salaries;

8- the emergence of IB/IFIs has helped to reduce the unemployment rate by employing Saudis. The respondents selected 'job opportunity' as the second most important factor after the religious factor;

9- current accounts are the most used services provided by the IB/IFIs, and many clients have confined themselves to using this service only. This is not because they are unaware of other services, but because they either do not require them, or they are unable to fulfil the required conditions. The transfer of money and currency exchange services are the next most used, while the letters of credit and guarantee facilities are the least popular, since there is no need for such letters in domestic trade, unlike foreign trade that does require them;

10-the employees claim that they do have problems in their work at the IB/IFIs, associated with the lack of uniformity in accounting policies and auditing standards, or with the new types of transaction. In addition, their lack of understanding and the abundance of documents represent obstacles in the eyes of the employees;

11- both the employees and clients think that IB/IFIs should have a different structure and composition from CBs;

12- the clients and the employees stated that accounting standards in IB/IFIs vary from one institution to another, and for this reason, these banks are conducting a search for styles suited to the preparation of accounting standards, with the participation of accountants and financiers, and specialists from within the SSBs, and this has contributed to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The results of the study therefore confirm the importance of continuing to improve the consistency of the accounting standards of IB/IFIs;

13- there is a lack of knowledge, as well as an absence of broad agreement as to what constitutes Islamic accounting, and a pervasive influence of conventional accounting concepts in Muslim environments;

14- the Islamic Financial Services Board (IFSB) was recently established as "an association of central banks and monetary authorities, and other institutions that are responsible for the regulation and supervision of the Islamic financial services industry; the objectives of the IFSB include promoting, disseminating and harmonising best practices in the regulation and supervision of the Islamic financial services industry";

15- our findings indicate that the vast majority of respondents were satisfied with most aspects of the products and services provided by the IB/IFIs and felt that the requirements of clients are being met. The IB/IFI thus has a competitive advantage in terms of enjoying its clients' confidence;

16- since the IB/IFI operates in line with Islamic teachings, it maintains a good reputation and establishes client confidence in the way it conducts its operations and discloses information. The other reasons for dealing with a bank, such as profits, competitive services, and better access to finance received varying degrees of support from the respondents. Be that as it may, those who deal with the IB/IFIs are prepared to accept any return so long as the bank observes Islamic *Shariah* principles, and they trust the bank as regards their money and its ability to satisfy religious concerns;

17- the contribution made by IB/IFIs to the financing of the industrial and agricultural sectors is still ineffective;

18- the contribution made by IB/IFIs to the financing of social welfare projects is still small, while the financing of the purchase of cars by instalment plans is good, however the contribution made to the financing of trade is ineffective;

19- *Murabaha* is the Islamic financing instrument preferred by clients, although IB/IFIs have introduced other instruments for investment;

20- the demand for medium and long-term loans is in general found to be low, since clients were constrained by the conditions specified by IB/IFIs when granting credit, such as the short repayment and grace periods and the high profit margins, as well as the types of guarantee required;

21- the IB/IFIs are accused of strictness when granting financing, and of arbitrariness in their requests for guarantees. This is because the finance operation is subject to several criteria. The bank first needs to know the purpose of the financing, and secondly the source of the main repayment, it also needs to know what kind of guarantees exist, and if these will be sufficient if the repayments are stopped. The bank's money is society's money, and consequently the bank's management is not authorized to offer money to someone who does not deserve it, or to someone who may be unable to make the repayments. Any decision to offer financing to a client is subject to a number of

considerations: the client's financial situation, the client's reputation, the client's experience, and competition with other banks;

22- the research findings support the opinion that the IB/IFI clients are willing to take risks with the bank, and can accept the loss of part or all of the value of their investment deposits. More important is the finding that the religious element has no greater impact on the willingness of clients to take risks than the profit factor has. Thus, clients are willing to take risks even on a profit basis;

23- the IB/IFIs recognize the importance of the role of women in economic and social development. They emphasize the need to educate women and to undertake rural development activities for their welfare. In addition, the banks are currently looking at ways and means of extending support to women entrepreneurs as part of their small and medium-scale enterprise development programme. IB/IFIs have established special sections within branches for dealing with women; and

24; some of the clients whom the researcher met (during the field-work trip) were totally ignorant of the differences between the Islamic and conventional banks. This partially confirms the findings reported by Gerrard et al. (1997), and is also compatible with the finding of Naser et al. (1999), that some Muslims show a total lack of awareness of the meaning of specific Islamic banking terms. This implies that IB/IFIs operating in both Muslim and non-Muslim countries need to educate their Muslim clients regarding Islamic banking terminology.

8.4 RECOMMENDATIONS

Islamic banking has developed as a unique institution. It is a socio-economic institution but at the same time it is influenced by the religious principles of Islam. Difficulties have understandably arisen, especially as the banks have been faced with the need to handle complicated banking schemes, with increased competition, liquidity traps, and credit crunches, and with a need for accounting standards supportive of their expansion into other nations, some of which are non-Muslim. The following are suggestions for resolving these and future problems:

- Credit analysis. Standards should be set for credit evaluation using modern analytical methods.

- Modern technology. Some banks have incorporated new technology but many have not, and this issue needs to be addressed.

- Freer market facilities. More consideration should be given to increasing the productivity of short-term liquid funds. (This should be possible within the boundaries of *Shariah* principles).

- SSBs should be institutionalised to give uniformity to the interpretation of Islamic law.

- The role of the central banks should be defined. IB/IFIs and central banks need to improve co-ordination and, further, to provide a deposit insurance system.

- Reserve requirements should be agreed upon. Experts seem to consider that a general reserve higher than those of other banks would be useful.

- IB/IFIs need to establish an accounting standard unique to themselves. The aim of practitioners, or bodies, engaged in this task should be the attainment of objectives which are consistent with *Shariah*, and which serve the needs of the banks in all Islamic nations. The range should be broad, and rules should include the nature of disclosures, together with account contents, data sources, and descriptions.

- Auditing issues need to be dealt with before accounting problems arise. This need is reflected in the current economic situations in Islamic nations. Any model of accounting and auditing rules must meet social objectives as well as accepted standards. These rules could be advanced if they were based upon useful models applied elsewhere. An example of a base model for the above purpose is the recent United States General Accounting Office Control and Risk Evaluation (CARE) - based on methodology for reviewing and evaluating the workings of agency accounting and financial management systems.

- In summary, it is important to develop standards for, and which are unique to, Islamic banking needs, but which take into consideration the experiences and practices already existing in Islamic banking.

- The IB/IFIs should increase their average and long-term investment in commercial projects, the industrial and agricultural sectors, and some productive services.

- Every IB/IFI has to establish a *Zakat* fund for collecting the religious tax, and distribute it exclusively to the poor, either directly or through other religious institutions. This tax is imposed on the initial capital of the bank, on the reserves, and on the profits.

- The IB/IFIs should to take care to employ and train national (Saudi) cadres.

- The IB/IFIs should disclose *Zakat* activity details, and details of other social activities, in their periodical and annual reports in order to demonstrate their distinctive contributions in the social field and so encourage individuals to deal with them.

- Information about banking activities, products, and new savings schemes should be communicated through brochures handed out to clients.

- There should be sufficient parking space available for clients.

- The IB/IFIs should have permission to make direct investments in economic and commercial activities within the limits of the supervision rules of SAMA.

- SAMA should set out special regulations and special instructions for IB/IFIs that are different from those for CBs.

8.5 FURTHER RESEARCH DIRECTIONS

Further research in this area is needed to examine the client and employee perceptions of Islamic Banking in other countries of the Gulf Co-operation Council, since this study only dealt with Saudi Arabia.

The clients and employees surveyed here were from the Al Rajhi Banking and Investment Corporation, an exclusively Islamic bank, the National Commercial Bank, a conventional bank offering Islamic deposit and financing facilities, and Dar al Mal al Islami, a Saudi Arabian owned investment company with branches in the Kingdom but with major investments outside.

The respondents therefore represented different types of institution involved in Islamic finance. Future researchers might wish focus on these particular types of institutions, and compare the responses from each category. This was not possible in this study given the limited number of respondents surveyed.

As the competition in the Saudi Arabian market for Islamic financial services has increased with the licensing of the Al Belad and Al Jazira Banks, there is scope for future research surveying clients and employees of these institutions.

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APPENDIX A

THE ISLAMIC' EMPLOYEES' QUESTIONNAIRES

Dear Sir /

The attached questionnaire is part of a research project that I am carrying out in part fulfilment for the award of a Ph.D. degree at the University of Durham, UK under the supervision of Professor Rodney Wilson. The objectives of the research are to investigate the clients and employee perceptions of the Islamic Banking in Saudi Arabia. You are among those who have been chosen in the group of Islamic banks' employees. I would be extremely grateful if you would answer all the questions included in the questionnaire and write any comments and suggestions you think relevant on the last page.

I have only a short time available to me for the completion of this part of my research. I would therefore be most grateful if you could return the completed questionnaire to me or to the bank that supported its distribution as soon as possible using the attached post-free envelope. I assure you that all the information you provide will be dealt with in the strictest confidence and only the summarized data will be used in any publication of the research findings.

If there are any queries concerning the questionnaire or the subject of the research, please do not hesitate to contact me at my address below.

Finally, please accept in advance my sincere thanks and admiration for your assistance and co-operation.

Yours faithfully

Salih R Al-Askar
P.O. Box 674
Hail
Tel: 06 5332516

A QUESTIONNAIRE TO THE EMPLOYEES OF THE ISLAMIC BANKS (IBs)/ISLAMIC FINANCIAL INSTITUTIONS (IFIs)

==========

SECTION ONE

1. *Did you work with a conventional bank before joining this bank?*

Yes..... ☐

No..... ☐

2. *What are your reasons for joining this bank? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.*

Rank

a. Religious reasons..... ☐

b. Job opportunity..... ☐

c. Moral satisfaction..... ☐

d. Higher Salary..... ☐

e. Others (please specify)..... ☐

3. *Do you find operating according to the Islamic banking transactions difficult?*

Yes ..... ☐

No..... ☐

4. *Please specify the difficulties that you face when you work at IB/IFs (please tick (√) where appropriate)*

a. No uniformity in the accounting policies and auditing standards for IB/IFIs ..... ☐

b. A new type of transaction has to seek the approval of the Shariah Supervisory Boards which takes time ..... ☐

c. A lack of understanding of Islamic transactions ..... ☐

d. More documents required ..... ☐

e. Other (please specify) ..... ☐

5. Due to the different nature of the Islamic banks from that of the conventional ones, do you think that Islamic banks should have a different structure?

Yes..... ☐

No..... ☐

6. Did you receive training?

Yes..... ☐

No..... ☐

7. If yes, where did you get your training?

a. In the IB/IFI (internal training) ..... ☐

b. Various technical courses ..... ☐

c. External course(s) ..... ☐

d. Conferences or seminars ..... ☐

8. Do you agree that the accounting standards at this IB/IFI are different from those at other IB/IFIs?

a. Strongly agree ..... ☐

b. Agree ..... ☐

c. Disagree ..... ☐

d. Don't know ..... ☐

9. Do you think that the presence of IB/IFIs has contributed towards the setting of specific accounting standards that fulfil their requirements based on the Islamic Shariah?

a. Disagree ..... ☐

b. Agree ..... ☐

c. Strongly agree ..... ☐

d. Don't know ..... ☐

10. Do you agree that the IB/IFIs should be required to prepare periodic financial statements and have them audited by a chartered accountant?

a. Strongly agree ..... ☐

b. Agree ..... ☐

c. Disagree ..... ☐
d. Strongly disagree ..... ☐
e. Don't know ..... ☐

11. Do you agree that the IB/IFIs need to consult with each other and produce standard accounting systems acceptable to all?

a. Strongly agree ..... ☐
b. Agree ..... ☐
c. Disagree ..... ☐
d. Strongly disagree ..... ☐
e. Don't know ..... ☐

12. In your opinion do Islamic banks contribute to the economic and social development of the country?

Yes..... ☐
No..... ☐

13. If yes, would you state how these banks contribute to these fields?

a. By financing the industrial projects ..... ☐
b. By financing agricultural projects ..... ☐
c. By financing small business ..... ☐
d. By contribution to social welfare ..... ☐
e. By giving loans for Marriage ..... ☐
f. By giving mortgage or loans to build houses ..... ☐
g. By giving loans to buy furniture / household/ vehicles ..... ☐

14. Which one of the objectives below is important for the Islamic bank to achieve first during its operations?

a. Maximising the return of the depositors . ..... ☐
b. Maximising the return of the share-holders ..... ☐
c. Minimizing risks ..... ☐
d. Contributing to the economic and social development of the country ☐
e. Other (please specify)..... ☐

15. Which of the factors below has the greatest influence on the bank's decision to give finance to a customer?

a. His/her financial situation ..... ☐
b. His/her reputation ..... ☐
c. His/her experience..... ☐
d. Competition with other banks..... ☐
e. Others (please specify)..... ☐

16. What do you think of the relationship between the bank and other Islamic financial institutions?

a. Poor ..... ☐
b. Reasonable ..... ☐
c. Good ..... ☐
d. Don't know ..... ☐

17. What do you think of the relationship between the bank and other conventional financial institutions?

a. Poor ..... ☐
b. Reasonable ..... ☐
c. Good ..... ☐
d. Don't know ..... ☐

18. Please give your suggestion(s) as to how the Islamic banks could provide a better service.

.....

.....

.....

.....

SECTION TWO

19. Nationality:

a. Saudi ..... ☐

b. Non Saudi ..... ☐

20. Age:

a. Under 25 ..... ☐

b. 25-32 ..... ☐

c. 33-40 ..... ☐

d. 41-50 ..... ☐

e. Over 50 ..... ☐

21. Position: (please specify) .....

22. Education:

a. Primary School..... ☐

b. Intermediate School ..... ☐

c. Secondary School..... ☐

d. University..... ☐

e. Postgraduate..... ☐

f. Other (please specify) ..... ☐

23. Religion:

a. Muslim..... ☐

b. Non-Muslim..... ☐

24. Marital status

a. Single..... ☐

b. Married..... ☐

c. Other ..... ☐

APPENDIX B

THE ISLAMIC CUSTOMERS' QUESTIONNAIRES

Dear Sir /

The attached questionnaire is part of a research project that I am carrying out in part fulfilment for the award of a Ph.D. degree at the University of Durham, UK under the supervision of Professor Rodney Wilson. The objectives of the research are to investigate the clients and employee perceptions of the Islamic Banking in Saudi Arabia. You are among those who have been chosen in the group of Islamic Banks' customers. I would be extremely grateful if you would answer all the questions included in the questionnaire and write any comments and suggestions you think relevant on the last page.

I have only a short time available to me for the completion of this part of my research. I would therefore be most grateful if you could return the completed questionnaire to me or to the bank that supported the its distribution as soon as possible using the attached post-free envelope. I assure you that all the information you provide will be dealt with in the strictest confidence and only the summarized data will be used in any publication of the research findings.

If there are any queries concerning the questionnaire or the subject of the research, please do not hesitate to contact me at my address below.

Finally, please accept in advance my sincere thanks and admiration for your assistance and co-operation.

Yours faithfully

Salih R Al-Askar
P.O. Box 674
Hail
Tel: 06 5332516

A QUESTIONNAIRE FOR THE CUSTOMERS OF THE ISLAMIC BANKS (IBs)/ISLAMIC FINANCIAL INSTITUTIONS (IFIs)

==========

SECTION ONE

1. Do you have an account with an (IB)/(IFI)?

Yes..... ☐

No ..... ☐

2. If yes, which of the following attracted you to deal with an IB/IFI? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.

Rank

a- Religious reasons ..... ☐

b- Profits ..... ☐

c- Competitive services ..... ☐

d- For more access to finance..... ☐

e- Others, please specify..... ☐

3. Have you had any dealings with conventional banks?

Yes..... ☐

No ..... ☐

4. If yes, did you have an account first with a conventional bank or an (IB)/(IFI)?

a. with a conventional bank first ..... ☐

b. with an (IB)/(IFI) first ..... ☐

5. In your opinion what are the strengths of the conventional banks? Please place in rank order from 1-6 the following reasons, using 1 to indicate the most important and 6 to indicate the least important.

Rank

a. Availability of ATM facilities ..... ☐
b. Fast and efficient services ..... ☐
c. Higher interest on savings ..... ☐
d. Opportunity to get a loan ..... ☐
e. Number of branches ..... ☐
f. Others (please specify) ..... ☐

6. If you need money would you borrow from:

a. An Islamic bank or other Islamic financial institution ..... ☐
b. A conventional bank or other financial institution ..... ☐
c. A friend ..... ☐

7. You are exposed to the risk of nominal losses when you have an investment account with an IB/IFI. Does this affect your decision regarding having such on account?

Yes ..... ☐
No ..... ☐

8. Do you prefer to have an investment account with an IB/IFI or a time deposit with a conventional bank?

a. Investment account with an IB/IFI ..... ☐
b. Time deposit with a conventional bank ..... ☐

9. Indicate how effective the IB/IFIs are in providing services?

a. Poor ..... ☐
b. Acceptable..... ☐
c. Good ..... ☐
d. Excellent ..... ☐

10. Which of the following banking services do you make use of?

a. Provision of different accounts services ..... ☐

b. Letters of credit and guarantee facilities ..... ☐

c. Transfer of money and currency exchange ..... ☐

d. Borrowings from the bank ..... ☐

e. Current account ..... ☐

11. If you restrict yourself to only one of these services (Q10), what are the reasons?

a. Unaware of other services ..... ☐

b. Inability to meet the conditions of these services ..... ☐

c. No need for them ..... ☐

12. Have you invested in Islamic mutual funds?

Yes ..... ☐

No ..... ☐

13. Were these the Islamic mutual funds offered by the bank where you had your deposits?

Yes ..... ☐

No ..... ☐

14. How many Islamic mutual funds have you invested in?

a. One ..... ☐

b. Two ..... ☐

c. Three or more..... ☐

15. Why did you invest in mutual funds?

a. Attractive income ..... ☐

b. Capital growth ..... ☐

c. Higher return than bank deposits..... ☐

16. Are you aware of the bank's policy and services in relation to credit facilities?

Yes ..... ☐

No ..... ☐

17. Do you advise your relatives and friends to deal with IB/IFIs?

Yes..... ☐

No..... ☐

18. Do you withdraw your money from your account with this IB/IFI in order to:

a.Invest directly by yourself ..... ☐

b.Invest through friends ..... ☐

c.Deal with another IB/IFI ..... ☐

d. Deal with a conventional bank ..... ☐

e. Transfer to another account ..... ☐

f.Keep it at home ..... ☐

g. Purchase consumer goods ..... ☐

19. What type of financing do you prefer to have with your bank? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.

Rank

a. Mudaraba ..... ☐

b. Musharaka ..... ☐

c. Murabaha ..... ☐

d. Ijara ..... ☐

e. Bai'-al-salam ..... ☐

f. Bai muajjal ..... ☐

g. Bai istisna ..... ☐

h. Lease purchase financing ..... ☐

i. Others ..... ☐

20. In your opinion do you think that the Islamic banks contribute to the economic and social development of the country in general?

Yes ..... ☐

No ..... ☐

21. If yes, please state how these banks can contribute to the following fields:

a. by financing industrial projects ..... ☐
b. by financing agricultural projects ..... ☐
c. by financing small business ..... ☐
d. by contribution to social welfare ..... ☐
e. by giving loans for marriages ..... ☐
f. by giving mortgages or loans for house building ..... ☐
g. by giving loans to buy furniture/household equipment/vehicles.. ☐

22. How do you find the contribution of the IB/IFIs to the following fields?

	Poor	Fair	Good	Excellent
a. The industrial sector.....	☐	☐	☐	☐
b. The agricultural sector.....	☐	☐	☐	☐
c. Transport and services sectors.....	☐	☐	☐	☐
d. Financing of small-scale industry...	☐	☐	☐	☐
e. Trade finance	☐	☐	☐	☐
f. Social welfare	☐	☐	☐	☐
g. Marriage	☐	☐	☐	☐
h. Housing	☐	☐	☐	☐
i. Furniture	☐	☐	☐	☐
j. Household equipment	☐	☐	☐	☐
k. Vehicles.	☐	☐	☐	☐

23. How has the IB/IFI's finance contributed to your personal economic and social situation in particular? For example for what purposes do you borrow money from the IB/IFI? (Please tick more than one where appropriate).

a. Marriage ..... ☐
b. House ..... ☐
c. Furniture ..... ☐
d. Household equipment ..... ☐
e. Vehicles ..... ☐
f. Industrial project..... ☐

g. Agricultural project ..... ☐
h. Travelling (business or leisure) ..... ☐
i. Trade/business ..... ☐
j. Exports/imports ..... ☐
k. Social welfare ..... ☐
l. Others (please specify) ..... ☐

24. What do you think of the financial conditions set by the bank?

a. Difficult. ..... ☐
b. Reasonable ..... ☐
c. Easy ..... ☐

25. Apart from trade, do you provide a business plan for the bank when applying for finance?

Yes ..... ☐
No ..... ☐

26. If yes, what type of investment project was not funded?

a. Industry ..... ☐
b. Agriculture ..... ☐
c. Transport ..... ☐
d. Others (please specify) ..... ☐

27.Which of the following is the reason you prefer trade finance? Please place in rank order from 1-5 the following reasons, using 1 to indicate the most important and 5 to indicate the least important.

Rank

a. High profit margins ..... ☐
b. High turn-over of capital ..... ☐
c. Low risk ..... ☐
d. Inadequate capital for other non-trading investments ..... ☐
e. Others (please specify) ..... ☐

28. How did you find out about IB/IFIs?

a. Bank publications ..... ☐
b. Clergyman..... ☐

c. Newspaper ..... ☐

d. Television advertisement ..... ☐

e. Internet ..... ☐

f. Friend ..... ☐

g. Others (please specify) ..... ☐

29. Indicate the relative importance of each of the following credit conditions:

Conditions	Important	Not Important
a. Repayment period	☐	☐
b. Grace period	☐	☐
c. Profit margins	☐	☐
d. Type of guarantee required	☐	☐
e. Freedom to use the credit	☐	☐

30. On the basis of your experience what do you think of the IB/IFIs?

a. Important for the Muslim people ..... ☐

b. Important for both (Muslim & non-Muslim people) ..... ☐

c. Important to economic & social development ..... ☐

d. Important to conventional banks & IB/IFIs ..... ☐

e. Others (please specify) ..... ☐

31. Please tick (√) to indicate which of the services listed below you would like IB/IFIs to provide.

Services	Have No Need	Need	Indifferent
a. ATMs	☐	☐	☐
b. Payment of Zakat on savings on your behalf	☐	☐	☐
c. Housing loan /financing	☐	☐	☐
d. Interest free short term loan (Qard hasan)	☐	☐	☐
e. Separate counters for women	☐	☐	☐

32. Do you agree that the accounting standards at this IB/IFI are different from those of other IB/IFIs?

a. Strongly agree ..... ☐
b. Agree ..... ☐
c. Disagree ..... ☐
d. Don't know ..... ☐

33. Do you think that the presence of IB/IFIs has contributed towards the setting of specific accounting standards that fulfil their requirements based on the Islamic Shariah?

a. Disagree ..... ☐
b. Agree ..... ☐
c. Strongly agree ..... ☐
d. Don't know ..... ☐

34. Do you agree that the IB/IFIs should be required to prepare periodic financial statements and have them audited by a chartered accountant?

a. Strongly agree ..... ☐
b. Agree ..... ☐
c. Disagree ..... ☐
d. Strongly disagree ..... ☐
e. Don't know ..... ☐

35. Please give your suggestion(s) as to how the Islamic banks could provide a better service.

- .....
- .....
- .....
- .....
- .....

SECTION TWO

36. *Nationality:*

a. Saudi ☐

b. Non Saudi ☐

37. *Age:*

a. Under 25 ☐

b. 25-34 ☐

c. 35-44 ☐

d. 45-54 ☐

e. Over 54 ☐

38. *Occupation:* .....

39. *Education:*

a. Primary School ☐

b. Intermediate School ☐

c. Secondary School ☐

c. University ☐

d. Postgraduate ☐

e. Other (Please, specify) ☐

40. *Religion:*

a. Muslim ☐

b. Non-Muslim ☐

41. *Marital status:*

a. Single ☐

b. Married ☐

c. Other ☐

42. *Size of your family:*

a. Less than 3 ☐

b. 3-5 ☐

c. 6-8 ☐

d. 9-11 ☐

e. Above 11 ☐

APPENDIX C

THE ISLAMIC' EMPLOYEES' QUESTIONNAIRES

(ARABIC VERSION)

بسم الله الرحمن الرحيم

اخي الكريم حفظك الله

السلام عليكم ورحمة الله وبركاته

الاستبيان المرفق هو جزء من مشروع بحث أقوم بتنفيذه في الوقت الحالي وذلك لنيل درجة الدكتوراه من جامعة "درم" بالمملكة المتحدة، تحت إشراف البروفسر رودني ويلسون. ويهدف البحث الى استطلاع اراء العملاء والموظفين عن إسهام البنوك الإسلامية في المملكة العربية السعودية. وقد تم اختيارك ضمن مجموعة موظفين البنوك والمؤسسات المالية الإسلامية. وسأكون شاكراً لكم إذا تفضلتم بالإجابة على جميع الأسئلة المتضمنة في الاستبيان، وكتابة أي تعليقات واقتراحات تعتقد أنها ذات صلة بالموضوع على الصفحة الأخيرة من الجزء الأول من الاستبيان.

وبسبب ضيق الوقت المتاح لإكمال هذا الجزء من البحث في المملكة، فإنني أرجو أن تتكرم بملء الاستبيان وإعادته لنا أو إلى البنك الذي ساعد في توزيع هذا الاستبيان بأسرع ما يمكن باستخدام مظروف البريد المجاني. وأؤكد لك أن جميع المعلومات التي تقدمها لنا سيتم التعامل معها بسرية تامة وسيتم فقط استخدام ملخص البيانات في أي مطبوعة تتضمن نتائج البحث.

إذا كانت لديك أية استفسارات بخصوص الاستبيان أو موضوع البحث، الرجاء الاتصال بي على عنواني الموضح أدناه.

وأخيراً، أرجو أن تتقبل خالص شكري وتقديري لمساعدتكم وتعاونكم.

المخلص

صالح راشد العسكر

ص . ب 674 ، حائل

هاتف 5332516 (06)

استبيان لموظفي البنوك الإسلامية/المؤسسات المالية الإسلامية

الجزء الأول :

1- هل عملت ببنك تقليدي قبل التحاقك بهذا البنك؟

نعم ☐

لا ☐

2- ما هي أسباب التحاقك بهذا البنك؟ الرجاء ترتيب الأسباب التالية من 1 إلى 5 مبتدءاً بالسبب الأكثر أهمية (1) ومنتهياً بالسبب الأقل أهمية (5).

الترتيب

أ- أسباب دينية ☐

ب- فرصة وظيفية ☐

ج- الرضا الأخلاقي ☐

د- راتب أعلى ☐

هـ- أخرى (الرجاء التحديد) ☐

3- هل تجد العمل وفقاً للتعاملات المصرفية الإسلامية صعباً؟

نعم ☐

لا ☐

4- الرجاء تحديد الصعوبات التي تواجهها أثناء تعاملك مع البنوك الإسلامية / المؤسسات المالية الإسلامية. (الرجاء وضع علامة √ أينما كان ملائماً).

أ- لايوجد سياسات محاسبية ومعايير مراجعة موحد للبنوك و المؤسسات الإسلامية- ☐

ب- نوع جديد من التعاملات يتوجب الحصول على موافقة اللجنة الشرعية بخصوصه، الأمر الذي يستغرق وقتاً. ☐

ج- نقص الفهم بخصوص بعض التعاملات الإسلامية. ☐

د- تطلب مستندات أكثر ☐

هـ- أخرى (الرجاء التحديد) ☐

5- بسبب اختلاف طبيعة البنوك الإسلامية عن البنوك التقليدية، هل تعتقد أن البنوك الإسلامية يجب أن يكون لها بنية و تركيبة مختلفة؟

نعم ☐

لا ☐

6- هل تلقيت تدريباً؟

نعم ----------

لا ----------

7- إذا كانت الإجابة بنعم، أين كان تدريبك؟

أ- تدريب داخلي (في بنك إسلامي/مؤسسة مالية إسلامية) ----------

ب- دورات متخصصة متنوعة ----------

ج- دورة (دورات) خارجية ----------

د- مؤتمرات أو حلقات دراسية ----------

8- هل تجد أن النظام المحاسبي في هذا البنك الإسلامي/المؤسسة المالية الإسلامية يختلف عن غيره في البنوك الإسلامية/المؤسسات المالية الإسلامية الأخرى؟

أ- أوافق بشدة ----------

ب- أوافق ----------

ج- لا أوافق ----------

د- لا أعلم ----------

9- هل تعتقد أن وجود البنوك الإسلامية/المؤسسات المالية الإسلامية قد ساهم في وضع معايير خاصة تفي بإحتياجاتها وفق الشريعة الإسلامية ؟

أ- لا أوافق ----------

ب- أوافق ----------

ج- أوافق بشدة ----------

د- لا أعلم ----------

10- هل توافق على أن يطلب من البنوك الإسلامية/المؤسسات المالية الإسلامية إعداد كشوف مالية دورية وأن تدقق من محاسبين قانونيين ؟

أ- أوافق بشدة ----------

ب- أوافق ----------

ج- لا أوافق ----------

د- أعترض بشدة ----------

هـ- لا أعلم ----------

11- هل توافق على أن تتشاور البنوك الإسلامية/المؤسسات المالية الإسلامية مع بعضها البعض لإعداد معايير وأنظمة محاسبية مقبولة للجميع؟

أ- أوافق بشدة ----------
ب- أوافق ----------
ج- لا أوافق ----------
د- أعترض بشدة ----------
هـ- لا أعلم ----------

12- برأيك، هل تعتقد أن البنوك الإسلامية تساهم في التنمية الاقتصادية والاجتماعية للمملكة؟

نعم ----------
لا ----------

13- إذا كانت الإجابة بنعم، هل يمكنك توضيح الكيفية التي يمكن للبنوك أن تسهم بها في هذه المجالات؟

أ- بتمويل المشاريع الصناعية ----------
ب- بتمويل المشاريع الزراعية ----------
ج- بتمويل الأعمال التجارية الصغيرة ----------
د- بالإسهام في الرفاهية الاجتماعية ----------
هـ- بتقديم القروض للزواج ----------
و- بتمليك المنازل/تقديم القروض لبناء المنازل ----------
ز- بتقديم القروض لشراء الأثاث/المعدات المنزلية/ سيارات ----------

14- من بين الأهداف التالية، أياً منها يحرص البنك الإسلامي/المؤسسة المالية الإسلامية على تحقيقه أولاً أثناء أعماله؟

أ- تحقيق أقصى عائدات من عملياته ----------
ب-تحقيق أقصى عائدات لحملة الأسهم ----------
ج- تقليل المخاطر لأقل درجة ممكنة ----------
د- الإسهام في التنمية الاقتصاديةً والاجتماعيةً للبلد----------
هـ- أخرى (الرجاء التحديد) ----------

15- من بين العوامل التالية، ما هي العوامل التي لها أكبر تأثير على قرار البنك لتقديم تمويل لعميل ما؟

أ- وضعه المالي ----------

ب- سمعته ----------☐

ج- خبرته ----------☐

د- منافسة البنك مع البنوك الأخرى ----------☐

هـ- أخرى (الرجاء التحديد) ----------☐

16- ما هو تقييمك للعلاقة بين البنك الإسلامي مع البنوك والمؤسسات المالية الإسلامية الأخرى؟

أ- ضعيفة ----------☐

ب- معقولة ----------☐

ج- جيدة ----------☐

د- لا أعلم ----------☐

17- ما هو تقييمك للعلاقة بين البنك الإسلامي/المؤسسة المالية الإسلامية مع البنوك لتقليدية؟

أ- ضعيفة ----------☐

ب- معقولة ----------☐

ج- جيدة ----------☐

د- لا أعلم ----------☐

18- الرجاء تقديم اقتراحك أو اقتراحاتك بخصوص الطريقة التي يمكن بها للبنوك الإسلامية تقديم خدمة أفضل.

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الجزء الثاني :

19 – الجنسية:

سعودي ☐

غير سعودي ☐

20– العمر:

أقل من 25 ☐

25–32 ☐

33–40 ☐

41–50 ☐

أكبر من 50 ☐

21– الوظيفة (الرجاء التحديد): ----------

22– المستوى التعليمي:

أ– ابتدائي ☐

ب– متوسط ☐

ج– ثانوي ☐

د– جامعي ☐

هـ– تعليم عالي ☐

و–أخرى (الرجاء التحديد) ☐

23– الديانة:

مسلم ☐

غير مسلم ☐

24– الحالة الاجتماعية:

غير متزوج ☐

متزوج ☐

أخرى ☐

APPENDIX D

THE ISLAMIC' CUSTOMERS' QUESTIONNAIRES

(ARABIC VERSION)

بسم الله الرحمن الرحيم

اخي الكريم حفظك الله

السلام عليكم ورحمة الله وبركاته

الاستبيان المرفق هو جزء من مشروع بحث أقوم بتنفيذه في الوقت الحالي وذلك لنيل درجة الدكتوراه من جامعة "درم" بالمملكة المتحدة، تحت إشراف البروفسير رودني ويلسون. ويهدف البحث الى استطلاع أراء العملاء و الموظفين عن إسهام البنوك الإسلامية في المملكة العربية السعودية. وقد تم اختيارك ضمن مجموعة عملاء البنوك والمؤسسات المالية الإسلامية. وسأكون شاكراً لكم إذا تفضلتم بالإجابة على جميع الأسئلة المتضمنة في الاستبيان، وكتابة أي تعليقات واقتراحات تعتقد أنها ذات صلة بالموضوع على الصفحة الأخيرة من الجزء الأول من الاستبيان.

وبسبب ضيق الوقت المتاح لإكمال هذا الجزء من البحث في المملكة، فإنني أرجو أن تتكرم بملء الاستبيان وإعادته لنا أو إلى البنك الذي ساعد في توزيع هذا الاستبيان بأسرع ما يمكن باستخدام مظروف البريد المجاني. وأؤكد لك أن جميع المعلومات التي تقدمها لنا سيتم التعامل معها بسرية تامة وسيتم فقط استخدام ملخص البيانات في أي مطبوعة تتضمن نتائج البحث.

إذا كانت لديك أية استفسارات بخصوص الاستبيان أو موضوع البحث، الرجاء الاتصال بي على عنواني الموضح أدناه.

وأخيراً، أرجو أن تتقبل خالص شكري وتقديري لمساعدتكم وتعاونكم.

المخلص
صالح راشد العسكر
ص . ب 674 ، حائل
هاتف 5332516 (06)

استبيان لعملاء البنوك الإسلامية/المؤسسات المالية الإسلامية

الجزء الأول :

1- هل لديك حساب ببنك إسلامي/مؤسسة مالية إسلامية؟

☐ نعم ----------

☐ لا ----------

2- إذا كانت الإجابة بنعم، ما هو السبب من بين الأسباب المذكورة أدناه الذي جعلك تتعامل مع بنك إسلامي/مؤسسة مالية إسلامية؟ الرجاء ترتيب الأسباب التالية من 1 إلى 5 مبتدءاً بالسبب الأكثر أهمية (1) ومنتهياً بالسبب الأقل أهمية (5).

الترتيب

☐ أ- أسباب دينية----------

☐ ب- الأرباح ----------

☐ ج- الخدمات المتميزة ----------

☐ د- الحصول على قرض ----------

☐ هـ- أخرى (الرجاء التحديد) ----------

3- هل لديك أي تعامل مع بنوك تقليدية (تجارية) ؟

☐ نعم ----------

☐ لا ----------

4- إذا كانت الإجابة بنعم، هل فتحت حسابك أولاً في البنك التقليدي أو في البنك الإسلامي/المؤسسة المالية الإسلامية؟

☐ أ- في بنك تقليدي أولاً----------

☐ ب- في بنك إسلامي/مؤسسة مالية إسلامية أولاً----------

5- برأيك، ما هي مميزات البنوك التقليدية ؟ الرجاء ترتيب المميزات التالية من 1 إلى 6 مبتدءاً بالميزة الأكثر أهمية وإعطائها الرقم(1) ومنتهياً بالميزة الأقل أهمية وإعطائها الرقم (6).

الترتيب

☐ أ- توفر خدمة ماكينات الصرف الآلي. ----------

☐ ب- الخدمة السريعة والفعّالة ----------

☐ ج- معدلات فائدة أعلى على المدخرات ----------

☐ د- الفرصة للحصول على قروض ----------

☐ هـ- لديها فروع عديدة ----------

☐ و- أخرى (الرجاء التحديد) ----------

6- إذا احتجت لمبلغ من المال، هل ستحصل عليه من:

أ- بنك إسلامي أو مؤسسة مالية إسلامية أخرى ----------

ب- بنك تقليدي ----------

ج- صديق ----------

7- كما تعلم أنت معرض للخسارة (مثل الربح) عند فتحك لحساب استثمار لدى بنك إسلامي/مؤسسة مالية إسلامية، هل سيؤثر ذلك على قراراتك بفتح ذلك الحساب؟

نعم ----------

لا ----------

8- هل تفضل فتح حساب استثمار لدى بنك إسلامي/مؤسسة مالية إسلامية أو حساب إيداع لأجل لدى بنك تقليدي؟

أ- حساب استثمار لدى بنك إسلامي/مؤسسة مالية إسلامية ----------

ب- حساب إيداع لأجل لدى بنك تقليدي ----------

9- حدد مدى فاعلية البنوك الإسلامية/المؤسسات المالية الإسلامية في تقديم الخدمات؟

أ- ضعيفة ----------

ب- مقبولة ----------

ج- جيدة ----------

د- ممتازة ----------

10- أي الخدمات المصرفية التالية تستفيد منها؟

أ- حسابات التوفير المختلفة ----------

ب- خطابات الضمان والكفالات ----------

ج- تحويل الأموال واستبدال العملات ----------

د- الاقتراض من البنك ----------

هـ- حساب جاري ----------

11- إذا اقتصر تعاملك مع البنك الإسلامي /المؤسسة المالية الإسلامية على خدمة واحدة من تلك الخدمات المذكورة في السؤال السابق (10)، فما هو السبب؟

أ- عدم المعرفة بالخدمات الأخرى ----------

ب- غير قادر على الوفاء بالشروط المطلوبة لتلك الخدمات ----------

ج- لا أحتاج تلك الخدمات ----------

12- هل قمت بالاستثمار في صناديق إسلامية مشتركة ؟

نعم ----------

لا ----------

13- هل تم تقديم هذه الصناديق الاسلامية المشتركة من قبل البنك الذي به ايداعاتكم ؟

نعم ☐

لا ☐

14- كم عدد الصناديق الاسلامية التي قمت بالاستثمار فيها ؟

1. واحد ☐
2. اثنين ☐
3. ثلاثة أو أكثر ☐

15- لماذا قمت بالاستثمار في الصناديق المشتركة ؟

1. دخل مغري ☐
2. نمو رأس المال ☐
3. عائد أعلى من ايداعات البنك ☐

16- هل أنت مدرك لسياسة خدمات البنك فيما يتعلق بتسهيلات الائتمان؟

نعم ☐

لا ☐

17- هل تنصح أقاربك وأصدقائك بالتعامل مع بنوك إسلامية /مؤسسات مالية إسلامية؟

نعم ☐

لا ☐

18- هل تسحب نقودك من حسابك في هذا البنك (بنك إسلامي)؟

أ- لاستثمارها بنفسك؟ ☐

ب- لاستثمارها بواسطة صديق؟ ☐

ج- للتعامل مع بنك إسلامي آخر/مؤسسة إسلامية أخرى؟ ☐

د- للتعامل مع بنك تقليدي؟ ☐

هـ- لتحويلها إلى حساب آخر؟ ☐

و- للاحتفاظ بها في المنزل؟ ☐

ز- لشراء سلع استهلاكية أو تسديد خدمات؟ ☐

19-أي مصدر من مصادر التمويل الإسلامي التالية تفضل التعامل به مع البنك الإسلامي/المؤسسة المالية الإسلامية ؟ الرجاء ترتيب المصادر التالية من 1 إلى 9 مبتدءاً بالمصدر الأكثر أهمية وإعطاءه الرقم (1) ومنتهياً بالمصدر الأقل أهمية وإعطاءه الرقم (9).

الترتيب

أ- المضاربة ☐

ب- المشاركة ☐

ج- المرابحة ----------
د- الإجارة ----------
هـ- بيع السلم ----------
و- بيع المؤجل ----------
ز- بيع الاصطصناع ----------
ح- الشراء عن طريق التأجير ----------
ط- أخرى ----------

20- برأيك، هل تعتقد أن البنوك الإسلامية تساهم في التنمية الاقتصادية والاجتماعية للمملكة؟

نعم ----------
لا ----------

21- إذا كانت الإجابة بنعم، هل يمكنك توضيح الكيفية التي يمكن للبنوك الإسلامية/المؤسسات المالية الإسلامية أن تسهم بها في هذه المجالات؟

أ- بتمويل المشاريع الصناعية ----------
ب- بتمويل المشاريع الزراعية ----------
ج- بتمويل الأعمال التجارية الصغيرة ----------
د- بالإسهام في الرفاهية الاجتماعية ----------
هـ- بتقديم القروض للزواج ----------
و- بتمليك و تشييد المنازل ----------
ز- بتقديم القروض لشراء أثاث/معدات منزلية/سيارات ----------

22-ما هو تقييمك لإسهام البنوك الإسلامية في المجالات التالية:

	ضعيف	مقبول	جيد	ممتاز
أ- القطاع الصناعي ----------	-----	----	----	
ب- القطاع الزراعي ----------	-----	----	----	
ج- قطاعات النقل والخدمات ------	-----	----	----	
د - تمويل الصناعات الصغيرة ----	-----	----	----	
هـ- تمويل التجارة ----------	-----	----	----	
و- الرفاهية الاجتماعية ---------	-----	----	----	
ز- الزواج ----------	-----	----	----	
ح- الإسكان ----------	-----	----	----	
ط- الأثاث ----------	-----	----	----	
ي- المعدات المنزلية ----------	-----	----	----	
ك- السيارات ----------	-----	----	----	

23-كيف ساهم التمويل من البنوك الإسلامية في وضعك المالي ووضعك الاجتماعي على وجه الخصوص؟ بمعنى، ما هو الغرض من اقتراضك من البنك الإسلامي/المؤسسة المالية الإسلامية؟ (الرجاء وضع علامة ✓ أينما كان ملائماً).

أ- الزواج ----------
ب- المنزل ----------
ج- التأثيث ----------
د- المعدات المنزلية ----------
هـ- السيارات ----------
و- مشروع صناعي ----------
ز- مشروع زراعي ----------
ح- السفر (عمل أو ترفيه) ----------
ط- تجارة/عمل ----------
ي- تصدير/استيراد ----------
ك- رفاهية اجتماعية ----------
ل- أخرى (الرجاء التحديد) ----------

24- ما هو تقييمك للشروط المالية التي يضعها البنك؟

أ- صعبة ----------
ب- معقولة ----------
ج- ميسرة ----------

25- بخلاف التجارة، هل تقدم خطة عمل للبنك للحصول على تمويل؟

نعم ----------
لا ----------

26- إذا كانت الإجابة بنعم، ما هو نوع المشروع الاستثماري الذي لم يتم تمويله؟

أ- صناعي ----------
ب- زراعي----------
ج- نقل ----------
د- أخرى (الرجاء التحديد) ----------

27- حدد أي من الأسباب التالية وراء تفضيلك للتمويل التجاري؟ الرجاء ترتيب الأسباب التالية من 1 إلى 5 مبتدءاً بالسبب الأكثر أهمية (1) ومنتهياً بالسبب الأقل أهمية (5).

الترتيب

أ- هوامش الربح العالية في التجارة ----------
ب- دوران رأس المال السريع في التجارة ----------

ج- انخفاض درجة المخاطرة ----------
د- عدم كفاية رأس المال للاستثمارات الأخرى غير التجارة ----------
هـ- أخرى (الرجاء التحديد) ----------

28- ما هي مصادر معلوماتك عن البنوك الإسلامية؟

أ- مطبوعات البنك ----------
ب- رجل دين ----------
ج- صحف و مجلات----------
د- إعلان تلفزيوني ----------
هـ- الإنترنت ----------
و- صديق ----------
ز- أخرى (الرجاء التحديد) ----------

29- حدد الأهمية النسبية لكل من شروط الائتمان (الاقتراض) التالية؟

الشرط	هام	غير هام
أ- فترة السداد		
ب- فترة السماح		
ج- هوامش الربح		
د- نوع الضمان		
هـ- حرية استخدام القرض		

30- بناءاً على تجربتك، ما هو رأيك بالبنوك الإسلامية؟

أ- هامة للمسلمين ----------
ب- هامة للجميع (مسلمين وغير مسلمين) ----------
ج- هامة للتنمية الاقتصادية والاجتماعية ----------
د- هامة بالنسبة للبنوك التقليدية والبنوك الإسلامية/المؤسسات المالية الإسلامية ----------
هـ- أخرى (الرجاء التحديد) ----------

31-الرجاء وضع علام √ لتحديد أي من الخدمات التالية ترغب في أن تقدمها البنوك الإسلامية/ المؤسسات المالية الإسلامية:

	غير ضرورية	ضرورية	لا يهم
أ- ماكينات الصرف الآلي			
ب- دفع البنوك الإسلامية/المؤسسات المالية الإسلامية للزكاة عن مدخراتك نيابة عنك			

ج- قروض/تمويل الإسكان ---------- ☐ ----- ☐ ----- ☐

د- قروض قصيرة الأجل بدون فائدة (قرض حسن) -------- ☐ ----- ☐ ----- ☐

هـ- نوافذ صرافة منفصلة للسيدات. ---------- ☐ ----- ☐ ----- ☐

32- هل تجد أن النظام المحاسبي في هذا البنك الإسلامي/المؤسسة المالية الإسلامية يختلف عنه في البنوك الإسلامية/المؤسسات المالية الإسلامية الأخرى؟

أ- أوافق بشدة ---------- ☐

ب- أوافق ---------- ☐

ج- لا أوافق ---------- ☐

د- لا أعلم ---------- ☐

33- هل تعتقد أن وجود البنوك الإسلامية/المؤسسات المالية الإسلامية قد ساهم في وضع معايير خاصة تفي بإحتياجاتها وفق الشريعة الإسلامية ؟

أ- لا أوافق ---------- ☐

ب- أوافق ---------- ☐

ج- أوافق بشدة ---------- ☐

د- لا أعلم ---------- ☐

34- هل توافق على أن يطلب من البنوك الإسلامية/المؤسسات المالية الإسلامية بإعداد كشوف مالية دورية وأن تدقق من محاسبين قانونيين؟

أ- أوافق بشدة ---------- ☐

ب- أوافق ---------- ☐

ج- لا أوافق ---------- ☐

د- أعترض بشدة ---------- ☐

هـ- لا أعلم ---------- ☐

35-الرجاء تقديم اقتراحك أو اقتراحاتك بخصوص الطريقة التي يمكن بها للبنوك الإسلامية تقديم خدمة أفضل.

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الجزء الثاني :

36-الجنسية:

سعودي ☐

غير سعودي ☐

37-العمر:

أقل من 25 ☐

34-25 ☐

44-35 ☐

54-45 ☐

أكبر من 54 ☐

38-المهنة: ----------

39-المستوى التعليمي:

ا- ابتدائي ☐

ب- متوسط ☐

ج- ثانوي ☐

د- جامعي ☐

هـ- تعليم عالي ☐

و-أخرى (الرجاء التحديد) ☐

40-الديانة:

مسلم ☐

غير مسلم ☐

41-الحالة الاجتماعية:

أعزب ☐

متزوج ☐

أخرى ☐

42-عدد أفراد أسرتك

أقل من 3 ☐

5-3 ☐

8-6 ☐

11-9 ☐

أكثر من 11 ☐