Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

ISLAMIC BANKING IN LIBYA – ITS REALITY AND THE CHALLENGES IT ENCOUNTERS

Khaled Hassan Abdulnabi Ahmed[1]
Murni Bint Yusuf[2]
Shahir Akram Hassan[3]

[1]Center for Islamic Development Management Studies, University Sains Malaysia, (E-mail: khaledhassn@student.usm.my)
[2]Center for Islamic Development Management Studies, University Sains Malaysia, (Email: murniyusoff@usm.my)
[3]Center for Islamic Development Management Studies, University Sains Malaysia, (E-mail: shahirakram@usm.my)

Article history		
Received date	**:**	30-1-2024
Revised date	**:**	1-2-2024
Accepted date	**:**	30-6-2024
Published date	**:**	15-7-2024

To cite this document:
Abdulnabi Ahmed, K. H., Yusuf, M., & Hassan, S. A. (2024). Islamic banking in Libya – Its reality and the challenges it encounters. *International Journal of Accounting, Finance and Business (IJAFB)*, 9 (55), 392 - 406.

Abstract: *The reality of Islamic banking in Libya is tainted with some distress and ambiguity due to the late joining of the Arab and Islamic countries in the Islamic banking system. The country's entry into a state of political, administrative and financial instability in recent years due to the change in the political situation in 2011. This study aimed to shed light on the reality of Islamic banking in Libya and the challenges it faces to become among its counterparts from Arab and Islamic countries in the field of Islamic banking, as well as proposing effective solutions to eliminate the most important obstacles to the process of Islamic banking in Libya. This proposing will be through briefly reviewing of Islamic banks, their origin and development, and mentioning their importance, functions, concept, objectives, characteristics and types. The review also addressed the relationship Islamic banking with the Central Bank, and finally addressed the banking sector in Libya. The librarian and historical approach were utilized in this study. The results revealed that the performance of Islamic banks in Libya is weak and the process of development within this sector is slow as well.*

Keywords: *Islamic banking, the reality of Islamic banking, challenges.*

Introduction

It is known to most of those interested in Islamic banking that Islamic banks at the present time represent the majority of Islamic financial institutions, which are spread locally and internationally in both Islamic and non-Islamic countries. Banks in general, whether traditional or Islamic, have in common that they aim to attract the savings of individuals and other parties and convert them into different investments, while they differ in the way these savings are managed depending on the system that determines the activity of each.

Since traditional banks were established on the basis of usurious dealing (interest), while Islamic banks were established on dealing on a basis other than usury, because Islamic thought forbids dealing with usury, Allah Almighty said: {Those who consume usury will not rise, except as someone driven mad by Satan's touch. That is because they say, “Commerce is like usury.” But Allah permitted commerce, and He prohibited usury. Whoever, on receiving advice from his Lord, refrains, may keep his past earnings, and his case rests with Allah. But whoever resumes—these are the dwellers of the Fire, where they will remain forever} Surah Al-Baqarah (2), verse (257).

This difference is considered the most important and fundamental between traditional banks and Islamic banks, as this difference has encouraged a large segment of Muslim and non-Muslim investors to deal with Islamic banks, which has greatly contributed to the emergence of Islamic banking and increased demand for it throughout the world, and increased demand for Islamic financial products and services that are compatible with the provisions of Islamic Sharia and the diversity of Islamic financing methods.

The banking sector in Libya in general, whether traditional or Islamic, suffers from a lack of modernity and is exposed to many fluctuations and changes in its system and activities. It has witnessed several developments and gone through several phases throughout its history. It consists of a banking system that was basically built on the traditional system since its founding. The legislation regulating banking depends on the traditional foundations of banks (Alshaebi, Yaacob 2019).

As for Islamic banking, Libya is considered one of the most recent countries to join the trend towards Islamic banking. The Libyan experience is still taking its first steps, which actually began its launch through the Republic Bank through the opening of a number of Islamic windows in 2009. Thus, new formulas were adopted in the Libyan arena for Islamic finance, which were called at that time (alternative banking products). This procedure was an implementation of a circular issued by the Central Bank of Libya for commercial banks on 8/29/2009. This publication specified three forms of Islamic financing, namely (Murabaha, Mudaraba, and Musharaka), and after that the publication provided other forms such as Ijara, Salam, and Istisna Al-Trad, Al-Houti (2010). The development of Islamic banking in Libya continued until Law No. 46 of 2012 was issued, in which Law No. 1 of 2005 was amended by adding a special, clear and explicit chapter on Islamic banking, which is considered the milestone in the shift towards Islamic banking in the country. Based on this law, the General National Congress approved Law No. (1/2013), which prohibited Libyan banks from usurious transactions, Article 1 stipulates that “dealing with credit and debit interest is prohibited in all debt and commercial transactions that take place between natural and legal persons, and any apparent or hidden usurious interest resulting from these transactions is absolutely invalid.” (General National Congress Law No. 1/ 2013).

Therefore, this study aims to shed light on the reality of Islamic banking in Libya after its transition from traditional banking and the most important challenges facing this important sector. The importance of this study is due to it shows to readers, researchers and those interested in the field of Islamic banking on the reality and challenges of Islamic banking in Libya. In view of what was contained in the World Bank's report for the year 2020 when it reviewed the financial sector in Libya, and the important points contained in the report's paragraphs about how Libya transformed from traditional banking to Islamic banking, as the report indicated in its paragraph No. 159 that the complete transformation to Islamic banking in Libya was Contrary to what was advised by the Central Bank of Libya. The bank had sent two official letters of recommendation in October and November 2012, respectively, to the General National Congress, which was considered the legislative authority in the country at that time, before the issuance of Law No. 1 of 2013. In these two official letters, the Central Bank warned the General National Congress of the consequences that this rapid and sudden change could cause and the losses that would befall Libyan banks. The Central Bank also confirmed and encouraged in its speeches the introduction of Islamic services in banks. But at the same time, Central Bank called for adopting an approach that allows coexistence between traditional and Islamic banks, similar to other countries with a Muslim majority that are pioneers in this field. There is no doubt that this transformation process has faced and continues to face some problems and challenges, which requires us to shed light on the most important of these challenges and study the reality of the situation. Therefore, the problem of this study will revolve around Libya and the reality and challenges of its transition from traditional banking to Islamic banking. The problem of the study can be put in the following question: What is the reality of Islamic banking in Libya? What challenges do they face?

Methodology

In this study, we relied on the descriptive inductive approach for its suitability in studying such cases. We discussed at the beginning and with some brevity about Islamic banks in terms of their origin and development, then mentioned some of their importance, functions, and concept. After that, we mentioned their most important objectives, characteristics, and types, and concluded by talking about the banking sector in Libya.

Previous Studies

This paper is reviewed some of the most important studies related to the subject that were conducted during the past few years, trying as much as possible to obtain diverse studies in terms of the time of study and the environment in which they were conducted. A study (Alshaebii, Yaacobii (2019) discussed Islamic accounting standards in the Islamic banking sector in Libya, the extent of compliance with them, and the difficulties facing their application from the point of view of employees. The findings of this study demonstrated that employees in the Islamic banking sector in Libya have a clear desire to Shifting towards applying Islamic financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The findings also indicated that there were some obstacles and difficulties that prevent the application of Islamic financial accounting standards in the Islamic banking sector in Libya, as this is due to the slowness and lack of seriousness of the sector's senior management in moving towards applying these standards. The study also recommended reconsidering the training and qualification programs for employees in the banking sector. Islamic banking in Libya and attention to educational materials in Libyan colleges and universities to create professional cadres scientifically and legally qualified to practice Islamic banking and apply its standards. Fouad Hussein (2018) discussed the topic of the transition from traditional to Islamic banking in Libya, his study was an applied study on

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

the Libyan Sahara Bank. His study came to cover an important aspect of the subject of the transformation of traditional banks to operate in accordance with the provisions of Islamic Sharia by studying the subject from both theoretical and practical sides by reviewing some historical studies in the theoretical part, conducting personal interviews, and studying the bank's financial statements in the practical part. The results revealed that the legal regulation of Islamic banks was inadequate, as well as the failure of the bank's general assembly to approve the conversion, in addition to the division of legislative authority in the country, which led to conflict in the application of laws related to Islamic banks. In the same context, a study by Ali Saleh, Al-Naas (2017) aimed to identify the most important challenges facing the transformation of commercial banks in Libya into Islamic banks. The study was applied to the Libyan Republic Bank. The study adopted the descriptive and analytical approach in their study, the findings showed that there was a desire among bank employees to apply the provisions of Islamic Sharia, and that there was a large percentage of the study sample, approximately 56%, who did not have a clear understanding of the Sharia ruling related to the work and activities of traditional banks. This percentage is for those with the most practical experience and high academic qualification in the bank. The study recommended the necessity of clarifying the legal ruling related to the operation of traditional banks to their decision-makers by specialists in the field of Islamic jurisprudence and Islamic banking, with the aim of removing ambiguity or any doubt related the ruling on continuing to practice traditional banking business. While Jabr's study (2017) focused on taking a look at the experience of Arab countries in adhering to Islamic accounting standards in the Islamic banking sector, and reviewing the most important challenges facing the harmonization of accounting and auditing standards in Islamic banks with international standards at the present time. The study also attempted to find appropriate means and methods to help achieve harmonization between Islamic accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and International standards based on the required Sharia controls. In this study, the researcher looked at the practical problems facing the Islamic accounting standards issued by AAIOFI, especially when applying them and when harmonizing them with international standards, through conducting the necessary interviews with specialists. The results showed that the most important challenges facing the process of integration and harmonizing the Islamic accounting standards issued by AAIOFI, and international standards. The challenges included that there was a lack in the harmony between the concept of Islamic accounting and some generally accepted accounting assumptions and principles at the international level, and that many Islamic banks adopt international accounting standards in issuing their financial statements, instead of adhering to the standards issued by AAIOFI. This lack creates a great deal of heterogeneity in financial reporting and disclosure. Additionally, the international standards are also unable to address and recognize the precise aspects of Islamic banking, and there is also a problem in Islamic banks, as there is no unified and practical model for controlling banking transactions accounting and Sharia (profiling). The study recommended several recommendations, the most important of which are: the need to review the methodology underlying the issuance of Islamic accounting standards through AAIOFI to ensure attention to the details of the provisions of Islamic Sharia pertaining to each financial contract, as well as the need to give Sharia compliance the utmost importance when reconciling the standards issued by AAIOFI with customs and international rules. The recommendation also mentioned that the banks should not to fall under the influence of pressure and dominance issued by the International Accounting Standards Board (IASB). A study by Al-Taweel, Abu Al-Qasim (2014) identified the most important requirements for applying Islamic financial accounting standards in Libyan banks in light of the transition to Islamic banking. The results showed that workers in Libyan banks have a complete desire to convert to Islamic banking and apply Islamic financial accounting

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

standards. However, there are many obstacles they face, the most important of which are lack of experience and the need for courses, seminars, and introduction to Islamic accounting standards. Likewise, the previous laws restrict the process of transformation and application, in addition to the absence of the role of other institutions such as the central bank, the stock market and the Accountants Syndicate in supporting the application of practices and standards for Islamic financial accounting.

Islamic Banks

Some call the Islamic banks the name of non-usurious banks, or banks that do not deal with interest, or banks that are based on the principle of participation (Abdullah, hassan, 2022). Islamic financial institutions, the most important of which are Islamic banks, have become a realistic fact that we see in our daily life through our financial transactions, not only in the life of the Islamic nation, but also in various parts of the Islamic and non -Islamic world and in most countries of the world, especially the Arab and Islamic countries, as well as in some European countries that have established windows for Islamic transactions in their banks. For example, British Islamic Bank in London which based its interaction on the ideas of the Islamic economy and a strong response to the rumors that call for the possibility of applying the Islamic banking or their inadequacy for the need for economic transactions in our modern life. Conversely, Abd ul -Haq, and Ali, (2019) showed the opposite through the dealings of these banks positively with the problems of the times it faces and proves its worth in solving these problems, which contributed to attracting attention towards Islamic banks because of their success, steadfastness and lack of affected by these crises, which ravaged the economies of major countries in the world. In the same context, Abdullah et al,(2022) referred to implemented the Islamic banking to enhance the sustainability.

The Emergence and Development of Islamic Banks in Libya

The beginning of the Libyan launch towards the Islamic banking system is new compared to its predecessors from the Arab and Islamic countries. As the first actual start towards Islamic banking in Libya through the Republic's bank was considered by opening a number of Islamic windows and branches in 2009. At that time, it adopted formulas for Islamic finance and investment called (alternative banking products). This was in the context of implementing a leaflet issued by the Central Bank of Libya for commercial banks on 8/29/2009. This leaflet has identified three formulas for financing and investment, which are murabaha, mudaraba, and musharaka. Another different formula was invented for financing such as Ijara, Slim and Istisna Alshabiy & Yaacob (2019).

In the post -political system change in Libya, after 2011, many changes occurred in this aspect. The most important of which was the amendment of Law No. (1) of 2005 under Law No. 46 of 2012, Where a chapter for Islamic banking was added, which is the formation of a milestone in the transformation of commercial banks in Libya into Islamic banks. Whereas, based on this law, the General National Congress was approved at that time, which is considered the highest legislative authority in the country law on preventing usurious transactions for the year 2013, stipulating its first articles as "Dealing with credited and debited benefits is prohibited in all commercial transactions that take place between natural and legal persons, and it is absolutely invalid all the consequences of these transactions, apparent or hidden usurious benefits" .Likewise, Article five of the same law stipulates that "The relevant authorities must organize debited, commercial and banking transactions in a manner that is totally compatible with Islamic law". General National Congress Law No. (1) of (2013).

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

Specialists and researchers in the field of Islamic banking in Libya, such as Farkash (2014), believes that this law, which was taken in a hurry, is the compulsory motivation of traditional banks to shift towards Islamic banking at one time and at a specific time.

As for the controls and foundations of providing alternative banking products in which all commercial banks that provide alternative banking services and products in compliance with the provisions of Islamic Sharia. The leaflet of the Central Bank of Libya No. (9/2010) was one of the most important leaflets in which commercial banks demanded the way and how to hold the products and review the products alternative banking that corresponds to the provisions of Islamic Sharia. Where the Central Bank requested them in this leaflet the need to follow and adhere to the best practices and standards related to managing and organizing Islamic banking services and products based on the accounting and audit standards and legal controls issued by the Accounting and Review Authority for Islamic Financial Institutions (AAOIFI) and their application through their Islamic branches and windows Alshabiy & Yaacob (2019).

At that time, bank revenues from Islamic financing formulas achieved an increase of (730.2) million Libyan dinars in 2011 to (1477.1) million Libyan dinars in 2012, with a growth rate of (102.2%) Alshabiy & Yaacob (2019).

The Importance of Islamic Banks

Islamic banks have arisen in circumstances in which traditional banks were known for great popularity and their concentration in the international and local financial system even for Islamic countries. Additionally, it caused repeated crises, due to the fragility of the system based on the forbidden usurious interest. Thus, the importance of the existence of Islamic banks is due to the following points Abdul -Haq Hani and Ali Murad, (2019).

- It meets the desires of Islamic societies to find channels for banking transactions that do not use interest rates.
- Islamic banks added foundations for dealing between the bank and the customer based on sharing in profits and losses, as well as participation in the effort by the bank and the customer instead of the basis of traditional dealing based on the principle of indebtedness and providing money only without participation in the work.
- Reducing the problem of inflation by not dealing with interest (usury). The Islamic bank links the return on deposits to a percentage of the actual profit in investment projects, and preventing any illicit enrichment due to inflation (decrease in the purchasing power of money) achieved by businessmen who borrow loans from usurious banks with long terms, this in turn corrects the course of transactions in the money and financial markets (Anas Al-Bikai ,2011).
- Collecting surplus frozen funds and paying them to invest in various development projects, whether commercial, industrial, agricultural or service. It is recognized that many of the people of the Islamic nation, who are committed to their faith and the principles and teachings of their religion, do not invest their money and develop it in traditional (usurious) banks, which makes much of the money of Muslims in the Islamic world idle, and their societies do not benefit from it even at the individual, social and economic levels as a whole. Therefore, Islamic banks were an important tool to encourage people to save and invest in legitimate ways (Anas Al-Bikai ,2011).

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

Islamic Banking Functions

Islamic banks have many functions that can be generally summarized in the following functions. Abdul Haq Hani, Baali Murad (2019).

- Managing the investments of other people's funds: The Islamic bank undertakes this function as a speculator, either through a contract in return for a percentage of the investment output that it is entitled to in the event of a profit being achieved only. While in the event of a loss, the bank loses its effort and the owner of the money loses his money, or through a paid agency contract where he is entitled to The bank here is rewarded for its effort, whether the profit is achieved or not.
- Banking services: The Islamic bank provides various banking services for a specific fee, such as transfers, checks, credits, and others.
- Social services: The idea of Islamic banks requires that the bank also provide social services through the loan fund, or the zakat and alms fund, and everything that contributes to the benefit of people.

The Concept of Islamic Banks

Islamic banks, as mentioned by Ezz Al-Din Al-Ammari, Aznan Hassan (2021), are considered one of the modern means of financing, and reliance on them has spread recently due to their economic benefit, which has encouraged many investment projects by providing financing resources of various types. It was established not only because usury is forbidden in Islamic law, but rather it was established in order to implement Islam with its commands and prohibitions. It stems in principle from the fundamental issue that money is God's money, and that humans are responsible for this money to direct it to what pleases Allah Almighty in the service servants of Allah Almighty (Anas Al-Bikai ,2014).

This study presented some definitions of Islamic banks mentioned by researchers and specialists in the field of Islamic economics, Islamic accounting, and Islamic banking.

The Islamic bank, as Samhan and Mubarak (2011) mentioned in their book - Accounting for Islamic Banks in Light of the Standards Issued by the Accounting and Auditing Organization for Islamic Financial Institutions - is a commercial bank that has been licensed to conduct banking business within the provisions of Islamic Sharia. One of its most important works is accepting bank deposits and investing the funds it has accumulated in investment aspects within the provisions of Islamic Sharia, such as Murabaha, Musharakah, Mudaraba, Slim, Istisna, and other banking activities that do not violate the provisions of Islamic Sharia, such as loans and advances that rely primarily on the usury contract forbidden by Sharia.

It is also known as an Islamic organization working in the field of business with the aim of building the Muslim individual and the Muslim community and developing and providing favorable opportunities for it to advance on Islamic foundations that adhere to the rule of what is permissible and what is forbidden (Ezzedine Al-Ammari, Ezznan Hassan ,2021).

Anas Al-Bikai (2014) mentioned in his research entitled "The Experience Of Islamic Banks In Syria, the Reality and Obstacles" a definition attributed to the legislative decree to establish Islamic banks in Syria in its first article, which showed that "the Islamic bank is the bank whose articles of association and bylaws include a commitment to practice banking activities that do not conflict with the provisions of Islamic Sharia, whether in the field of accepting deposits and providing other banking services or in the field of financing and investment.

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

To conclude, the Islamic bank can be defined as a financial institution that provides banking and investment services in light of the provisions of Islamic Sharia using a financial intermediation method based on sharing profits and losses.

Objectives of Islamic Banks

Islamic banks are institutions that do not deal in forbidden usury, nor do they finance institutions that produce forbidden goods or services. Rather, they are financial institutions founded on the approach of the Islamic faith from which they derive their foundations. It plays a fundamental role in economic development by using the available wealth efficiently and effectively. From its definitions, some of the economic and social goals that Islamic banks seek to achieve can be summarized in the following points (Abdullah Ikhil ,2020).

Firstly: The Economic Objectives of Islamic Banks

1- Providing Islamic alternatives for all banking transactions that individuals or institutions desire to avoid transactions in traditional banks, whether for religious or non-religious reasons.
2- Encouraging the idea of saving in various ways among all segments of society and combating hoarding.
3- Finding suitable opportunities and creating mechanisms and tools for investors to encourage them to invest.
4- Providing the necessary funds for entrepreneurs and economic and development businesses.
5- Encouraging small operations and investments in order to relieve the distress of the poor and those with limited incomes (Abdelhak Hani and Ali Murad, 2019).

Secondly: The Social Objectives of Islamic Banks

1- Providing the Qard-al-Hassan (Benevolent Loans) through charitable projects to help those in need to facilitate their lives without interest, for a humanitarian purpose after the approval of the competent committee, study and confirmation.
2- Supporting and addressing the housing problem through available contracts such as Istisna'a and Musharakah.
3- Managing zakat funds that aim to eliminate poverty and unemployment and find solutions for them.
4- Providing the opportunity to refer to jurisprudence, especially the jurisprudence of financial transactions and jurisprudence in contemporary banking transactions (Abdelhak Hani and Ali Murad ,2019).

In addition, it can be said that Islamic banks have other goals that they seek to achieve, such as providing banking services, as their success in providing high-quality banking services to customers and their ability to attract many of them. It seeks to provide customers with distinguished banking services within the framework of the provisions of Islamic Sharia which is a major goal for their management (Ezzedine Al-Ammari, Ezznan Hassan ,2021).

Characteristics of Islamic banks

As Islamic banks carry out their work from an Islamic standpoint and adhere to the provisions of Islamic Sharia in their interactions, this commitment must lead them to distinguish themselves from traditional banks, and this distinction is represented in the following(Ezzedine Al-Ammari, Aznan Hassan,2021).

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

- Excluding dealing with usurious interest, which is the most important thing that distinguishes Islamic banks from other traditional banks.
- The Islamic Bank directs all its efforts towards halal investment, through its commitment in all its work to the provisions of Islamic Sharia and its implementation in achieving the economic and non-economic interests of the people.
- Islamic banks achieve Islamic cooperation and community building (Abdullah Ekhil, 2020).
- Reviving the zakat system, as some Islamic banks establish special funds to collect zakat, which they manage. They also take the responsibility to deliver and disburse these funds to their legally specified banks.
- Contributing to the revival and dissemination of the jurisprudence of transactions, as this jurisprudence has been disseminated in recent years through Islamic banks (Ezzedine Al-Ammari, Ezznan Hassan ,2021).
- Islamic banks seek the help of a Sharia Supervision Authority, which clarifies the Sharia ruling on financial issues presented to them, especially in dealing within banks. This authority derives its existence from the general assembly of the bank.
- Islamic banks do not consider profit to be the sole and fundamental goal that they seek to achieve through the activities they engage in, although it remains a basic goal for them as economic financial institutions. However, other basic goals, such as working to develop the economy, development and service of society, make achieving profit one of the goals that they seek to achieve, but it is not the only primary goal (Abdelhak and Baali,2019).

Types of Islamic Banks

The expansion of the activity of Islamic banks and the increase in the volume of their transactions led to the necessity of their specialization in certain economic activities, and to the establishment of specialized Islamic banks that provide specific services to customers and to other Islamic banks. Based on that, Islamic banks can be classified according to their purposes into the following (Ezzedine Al-Amari, Ezznan Hassan, 2021).

- Banks aim at social development.
- Banks aim to collect savings for individuals.
- Central banks whose mission is to issue state securities, monitor credit, and develop banking work in the country, such as the central bank in countries whose banking systems have become Islamic.
- Multi-purpose banks. This is what most contemporary Islamic banks aim for.

Islamic banks can also be designed according to the geographical scope to:

- Locally active Islamic banks: These are banks that are owned by a single nation, and their operations are restricted to the nation in which they hold nationality and in which they carry out their activities. Furthermore, their work does not extend beyond the geographical scope of the local area, which is the case with the majority of Islamic banks.
- The activity of international Islamic banks: These banks broaden their scope of activity and extend beyond the local scope. This expansion can take many forms, including the establishment of foreign representative offices in all other Arab and foreign countries, the opening of branches of the bank in foreign countries, or the establishment of joint banks with other banks located in other countries.

ACADEMIC INSPIRED NETWORK
Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

According to the bank's field of employment, Islamic banks can be classified into:

- The Islamic industrial banks. It specializes in providing financing for industrial projects. In fact, all Islamic countries, without any exception, need this type of banks, especially after industrial development has become the most important focus in developing productive capabilities.
- Islamic agricultural banks: These are the banks that have investments that are mostly favored by agricultural activity, given that they possess the knowledge that is required for this kind of business.
- Islamic commercial banks: These are the banks that are responsible for collecting deposits and investing them, in addition to providing a variety of banking services. The majority of the numerous Islamic banks that are currently in existence are of this type.

According to the volume of activity, Islamic banks can be classified into three types(Abdul Haq and Baali, 2019).

- Small-sized Islamic banks: These are banks that have limited activity because their activity is limited to the local side only and the banking transactions that the local market needs. They transfer their surplus resources to larger Islamic banks, which invest and employ them in the major projects of these banks.
- Medium-sized Islamic banks: These are banks that have a national character for the reason that their branches are positioned at the state level to cover the consumers of the state who choose to deal with them. Although they are broader geographically, more active in terms of the number of consumers they serve, and more extensive in terms of the number of customers they serve, their activity is still limited in terms of international transactions.
- Large Islamic banks: These are the banks that have an influence on the local or international monetary and banking market. They have also the capabilities that qualify them to direct this market, and they also have branches in the international financial and monetary markets. Figure 1 indicates the all the banks classifications.

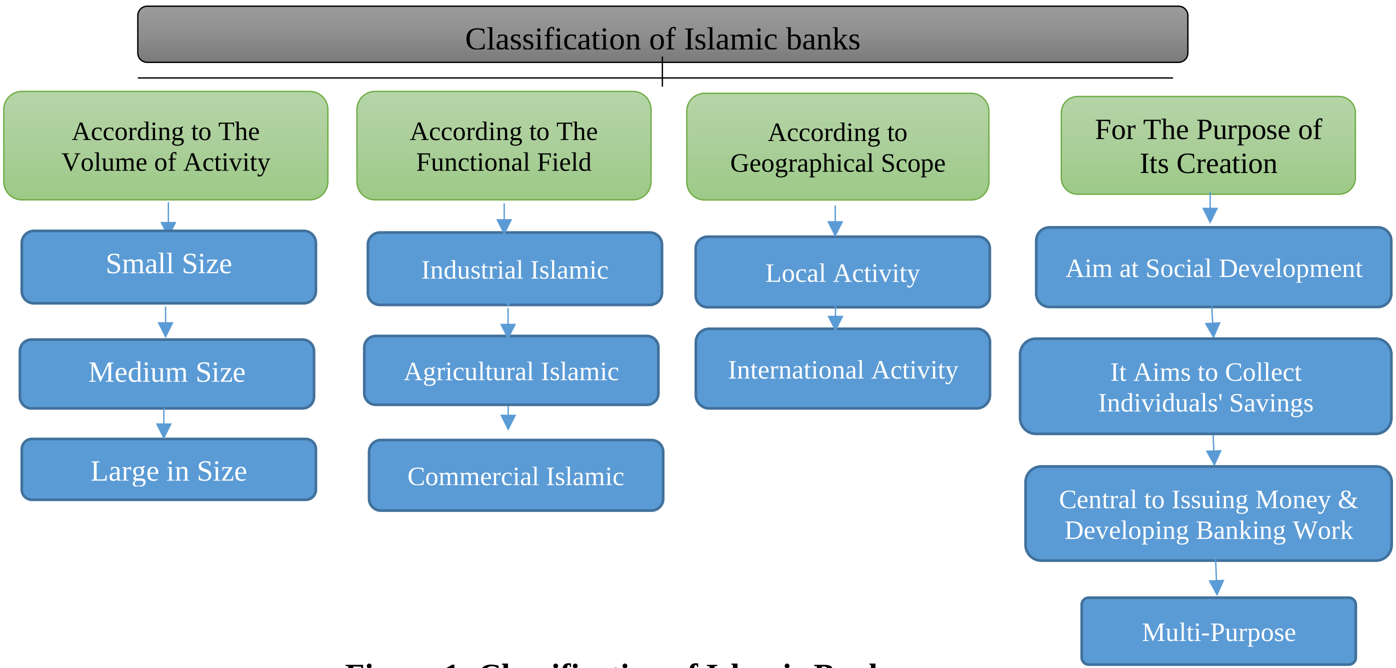

Figure 1: Classification of Islamic Banks
Source: Prepared by Researchers

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

An Overview of The Banking Sector in Libya

In its report on the review of the financial sector in Libya, which was published in 2020, the World Bank stated that the performance of the banking system in Libya is already low, and that economic activity in Libya is characterized by extreme centralization, as is typically the case in oil-producing Arab economies. Furthermore, the government banks were primarily used to finance the economic activity of the state or as mechanisms for transferring wealth. The Libyan financial sector was also affected by policy shifts that impeded the growth of the private sector. These shifts included arbitrary political decisions, such as the unexpected decision to redistribute land, which were among the factors that contributed to the difficulties.

The number of banks in Libya has increased throughout the past few decades. There are currently twenty-one banks in the country. This indicates that the banking sector in Libya has experienced substantial growth. Table 1 shows a list of Libyan banks, along with the kind of ownership that each bank possesses and the locations of their primary departments.

Table 1: List of Libyan Banks According to The Central Bank of Libya Website for The Year 2022 : Source https://cbl.gov.ly/en/

No	Bank name	Main ownership type	The main administration locations
1-	Republic	General	Tripoli
2-	National Commercial	General	Al Bayda
3-	Al-wahda	Mixed in which the state participates	Benghazi
4-	Al-saharaa	Mixed in which the state participates	Tripoli
5-	North Africa	Mixed in which the state participates	Tripoli
6-	Al-waha	Private	Tripoli
7-	Al-Aman for Trade and Investment	Private	Tripoli
8-	Al-wafa	Private	Tripoli
9-	Al-saraya	Private	Tripoli
10-	Al-khalij Al-awal	Private	Tripoli
11-	Al-mutahid	Private	Tripoli
12-	Al-tijarie Al-arabi	Private	Tripoli
13-	Al-tijarat waltanmia	Private	Benghazi

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

14-	Al-tijarat waltanmia	Private	Benghazi
15-	Al-ejmaa alarabi	Private	Benghazi
16-	Libyan Foreign Bank	Private	Tripoli
17-	Nuran Bank	Private	Tripoli
18-	Libyan Islamic Bank	Private	Tripoli
19-	Development Bank	Private	Tripoli
20-	Al-yaqeen Bank	Private	Tripoli
21-	Andalus Bank	Private	Tripoli

Nevertheless, in spite of the fact that the banking industry in Libya has grown, there has not been a corresponding increase in the number of services that include financial intermediation. The banking sector is still strongly dominated by inefficient government banks, as stated in the report. The four large state-owned banks, namely the Republic Bank and the National Commercial Bank, Sahara Bank and Al-Wahda Bank, have taken over 90% of deposits until 2017, and almost the same percentage of loans. Additionally, the two largest banks, Al-Jumhuriya and National Commercial, together controlled 72% of risk-weighted assets (mostly loans) until 2017, which is a significant increase from 75% in 2010. On the other hand, they continue to hold a dominant and preeminent position, which is mostly because to the subsidies provided by huge government corporations.

Before the events of 2011, the government liberalized banking laws to a certain extent therefore, new private banks started entering the banking system. Additionally, foreign ownership was permitted in many banks. However, this trend came to a halt and dramatically decreased as a result of the political crisis. The report states that among these foreign investments is BNP Paribas's investment in Sahara Bank in 2007, but BNP Paribas's investment faced difficulties from the beginning and management was withdrawn from it after the regime changed in 2011. The Arab Bank also invested in Al Wahda Bank in 2008, as well as Banco Suberto Santo's investment in Aman Bank in 2010. In 2019 Banco Suberto Santo exited its investment in Aman Bank. Qatar National Bank invested in the Trade and Development Bank in 2012, where Qatar National Bank acquired 49% of the shares of the Libyan Bank, Qatar National Bank then sold its stake in the Trade and Development Bank to Libyan shareholders in 2019.

The majority of the newly established banks are regarded as being of a very small size and have not yet made a significant contribution to the provision of financial intermediation services in the nation. Already, a significant number of private banks have demonstrated inadequate lending skills, which has resulted in high rates of loan losses. From the perspective of the majority of the remaining banks, the majority of their income has been generated through transaction operations such as trading in foreign currency and sending money back home (A report from the World Bank 2020).

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

Results and Recommendations

Like any research study, this study was concluded after the process of reviewing many studies that dealt directly or indirectly with the subject of the study. The results and recommendations were based to explain the reality of the Libyan situation in its transition from traditional banking to Islamic banking and the most important challenges it faces in the present and future.

Results of the Study

1- The awareness, understanding and desire of employees of the Islamic banking sector in Libya to implement the Islamic banking system despite the lack of experience and capabilities.
2- The poor performance and lack of interest of some departments in some banks converting from the traditional to the Islamic system, which negatively affected the employees' performance of their duties in accordance with the provisions of Islamic Sharia.
3- The inadequacy of the legal regulation of Islamic banks, as well as the presence of some obstacles by some general assemblies of some banks in performing the bank's business in accordance with the provisions of Islamic Sharia.
4- There is a division in the legislative authority in the country, which led to conflict in the application of laws related to Islamic banks.
5- There is some fraud or ambiguity among some employees with experience in some banks about the Sharia ruling related to the work and activities of traditional banks.
6- There is a lack of harmony between the concept of Islamic accounting with some generally accepted accounting assumptions and principles at the international level. In addition, many Islamic banks adopt international accounting standards in issuing their financial statements, instead of adhering to the standards issued by AAIOFI, which works to create a great deal of heterogeneity in its financial statements and reports.
7- There is a problem with Islamic banks, as they do not have a unified and practical model for controlling banking transactions accounting and Sharia.
8- Lack of courses and seminars to introduce the importance of working in accordance with the provisions of Islamic Sharia.
9- The existence of some previous laws that restrict banking work in accordance with the provisions of Islamic Sharia.
10- The clear absence of the role of important institutions in the country, such as the Central Bank, the Stock Market, and the Accountants Syndicate, in supporting the implementation of practices and working in accordance with an Islamic financial system.

Recommendations of The Study

1- Work to develop the staff in Islamic banks by conducting many seminars and training courses that help them understand and realize the importance of working in accordance with the provisions of Islamic Sharia.
2- Work urgently to address the political division in the country, spare the banking business from the scourge of this division, and work to unify the laws in force in Islamic banks.
3- Increase support for effective departments in Islamic banks and motivating them to perform their tasks in accordance with the provisions of Islamic Sharia.
4- Utilize the experience of leading countries in the field of Islamic banking, such as the Malaysian experience, and creating a kind of mutual cooperation with them by concluding agreements to develop the staff in Islamic banks to transfer expertise from these countries.

5- Focus on developing the legal system in Libyan banks in accordance with the provisions of Islamic Sharia.
6- Work to create harmony between the concept of Islamic accounting with some generally accepted accounting assumptions and principles at the international level. The preparing reports and financial statements should rely on Islamic standards issued by AAIOFI.
7- Work on the existence of a unified and practical model to control banking transactions accounting and Sharia.
8- Intensify courses and seminars in Libyan banks to introduce the importance of working in accordance with the provisions of Islamic Sharia.
9- Expedite the amendment or revoke of previous laws that restrict banking activities in accordance with the provisions of Islamic Sharia and replacing them with laws that are compatible with the provisions of Islamic Sharia.
10- Important institutions in the country, such as the central bank, the stock market, and the accountants' union, must have an important and prominent role in supporting the application of practices and working in accordance with an Islamic financial system.

Conclusion

The purpose of this study was to shed light on an important topic in the Islamic banking environment in Libya, which is to review the most important challenges and study the reality of the situation of Islamic banking in Libya after the actual process of transformation from traditional banking to Islamic banking after the year 2011when the political and economic, banking conditions were changed. This explanation was through reviewing the history of Islamic banking in Libya and presenting the most important points that must be clarified to introduce Islamic banks. The study was obtained several results that may contribute to the development of Islamic banking in Libya to become among the ranks of developed countries in the field of Islamic banking. Perhaps the most important of these results is the presence of weakness in the performance of staff in Islamic banks due to the lack of focus on it by senior management and work to develop it through courses, seminars and conferences that would work to develop the most important elements of banking work. As well as the inadequacy of the legal regulation of Islamic banks and the presence of some deficiencies in it in line with the provisions of Islamic Sharia. Through these results, the study suggested some recommendations that may contribute significantly to the development of Islamic banking in Libya and removing obstacles in the way of its progress and development. The most important of these recommendations is to seek assistance from the experience of leading countries in the field of Islamic banking, such as the Malaysian experience, and to create a kind of mutual cooperation with them by concluding agreements to develop the staff in Islamic banks to transfer expertise from these countries. Also, work must be done urgently to amend or abolish previous laws that restrict banking work in accordance with the provisions of Islamic Sharia and replace them with laws that are compatible with the provisions of Islamic Sharia.

Volume: 9 Issues: 55 Issue [June, 2024] pp. 392 - 406
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com
DOI: 10.55573/IJAFB.095530

References

Abdul Haq Hani, & Ali Mourad. (2019). *The impact of Islamic accounting standards on disclosure in Islamic banks*. Master's Thesis, Faculty of Economic Sciences, Commercial Sciences and Management Sciences, Mohamed Boudiaf University - M'sila, Republic of Algeria.

Abdullah Muftah Ali Ekhil. (2020). *Transaction formulas in Islamic banks and their role in economic development*. Graduate School, Sunan Ampel State Islamic University, Surabaya.

Abdullah, E. A.M., Hassan, S. A., & Bahari, Z. (2023*). Islamic banks as a tool to achieve sustainable development*. International Journal of Accounting, Finance and Business (IJAFB), 8(50), 483 - 493

Ali Saleh Ahmed, & Hatem Abdel Razzaq Al-Naas. (2017). *Challenges facing the transformation of traditional banks in Libya towards Islamic banking*. Al-Zaytouna University Journal, (22).

Anas Al-Bikai. (2014). *The experience of Syrian Islamic banks, reality and obstacles*. Damascus University Journal of Economic and Legal Sciences, 30(1).

Central Bank of Libya. (2010). Circular No. 9.

Centeral Bank of Libya *https://cbl.gov.ly/en/*

Ezzedine Muhammad Mansour Al-Amari, & Eznan Hassan. (2021). *Libyan Islamic banks and their importance in achieving development*. Al-Rashad Journal of Islamic Finance, 1(4).

Fouad Al-Mahdi Hussein. (2018). *Requirements and obstacles for transforming traditional Libyan banks into Islamic banks according to Law No. 1 of 2013*. Al-Ma'rifa Magazine, Bani Walid University - Libya, (9).

Hussein Muhammad Samhan, & Musa Omar Mubarak. (2011). *Accounting for Islamic banks in light of the standards issued by the Accounting, Auditing and Controls Organization for Islamic Financial Institutions (2nd ed.)*. Dar Al Masirah for Publishing and Distribution, Amman, Jordan.

Ismail Ibrahim Al-Tarrad, & Salem Rahouma Al-Houti. (2010). *Legislation and procedures regulating the relationship between Islamic banks and the Central Bank*. Second Islamic Financial Services Conference.

Law No. 1 of 2013. *Issued by the General National Congress, Libya.*

Majeed Al-Sharaa. (2003). *Positive aspects of Islamic banking in light of accounting standards for Islamic financial institutions*. First Scientific Conference of the Faculty of Economics and Administrative Sciences, University of Applied Sciences, Amman, Jordan.

Muhammad Al-Shaibi, & Ahmed Al-Yaqoubi. (2019). *Applying Islamic financial accounting standards in the Islamic banking sector in Libya: Challenges and analysis*. Al-Qanater Magazine, 16(1).

Mukhtar Al-Hadi Al-Taweel, & Abdel Fattah Ali Abu Al-Qasim. (2014). *Requirements and difficulties facing Libyan banks in the process of applying Islamic financial accounting standards under Law No. 1 of 2013*. Journal of Economy and Trade, Al-Zaytouna University, Libya, (6).

Raed Gabriel Jabr. (2017). *Harmonizing Islamic accounting standards and international accounting standards: Facing the challenges existing in Arab countries*. Journal of the Islamic University for Economic Studies - Gaza, (25).

The Holy Quran

World Bank 2020 report