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### 3 Islamic finance in movement: public opinion in the Arab region

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#### INTRODUCTION

Islamic banking has been developing since the mid-1970s in peaceful competition with conventional banking. It has made significant progress in the Middle East and North Africa (MENA), where Arab Barometer surveys indicate widespread disapproval of interest-based lending and conventional banks in general. This chapter examines this data in order to better understand the characteristics of Islamic finance's potential clientele.

This study is undertaken with the hope that this financial movement may mobilize and educate people so as gradually to eliminate the informal economies that exploit them. It may encourage responsible entrepreneurship by bringing informal actors into a renovated formal banking system. Others have noted in cross-national studies comparing Muslim and non-Muslim financial behavior that religion is a significant impediment to inclusion in conventional banking systems (Demirguc-Kunt et al, 2013). In societies distrustful of or rejecting conventional interest-based banking, Islamic finance can perhaps lure the informal economic actors out into the open by financing small and medium enterprises and even engaging in microfinance, which is much neglected in the region (El-Komi and Gerson, 2013).<sup>1</sup>

Evidently, shariah-compliant financial assets are steadily increasing as a percentage of commercial banking assets across most of the countries in the Muslim world where data is available. Driven by demand from wealthy Gulf investors, Islamic finance has steadily gained market share in many Arab countries, including Syria. Led by Malaysia, it is also gaining traction in Indonesia and other non-Arab countries having Muslim majorities. Even states with Muslim minorities, such as the United Kingdom, have Islamic banks catering to them. The grand total in the world of shariah-compliant financial assets, approaching \$2 trillion, still, however, does not add up to those of a major American or Chinese bank.<sup>2</sup> Although Islamic banking continues to grow more rapidly than conventional banks in most Arab countries, the skeptic may ask whether it really mobilizes new clienteles or simply diversifies the portfolios, as in the Gulf, of wealthy investors. This chapter examines the evidence, focusing on selected under-banked countries where Islamic banking may be attracting new participants. However, before analyzing the market-share data, it is useful to examine Arab survey data to discover the social and political characteristics of the people who might be most attracted to Islamic finance.

Table 3.1 Arab attitudes toward bank interest

Interest is:	contrary to teachings of Islam						never OK	
	2006–08 (%)	(n = )	2011 (%)	(n = )	2013 (%)	(n = )	2011 (%)	(n = )
Algeria	88.50	1123	86.30	980	89.90	1124	51.60	854
Egypt			72.30	1126	70.80	937	33.50	1086
Iraq			80.00	1059	64.70	994	60.10	939
Jordan	85.60	1038	87.20	1130	88.90	1737	47.10	1109
Kuwait	75.80	650			77.40	983		
Lebanon	64.80	938	68.90	1202	71.70	1038	27.40	1115
					82.60	1149		
Morocco	86.00	1193			90.50	1000		
Palestine	85.10	1221	85.50	1152	84.10	1154	61.30	1115
Saudi Arabia			76.70	1077			63.60	992
Sudan			64.20	1299	60.20	1126	41.60	1224
Tunisia			85.10	957	79.50	1096	42.40	817
Yemen	81.30	966	76.80	1037	80.70	1087	54.10	938
Average	81.90	7129	77.80	11 019	79.10	13 425	47.80	10 189

## POTENTIAL CLIENTS

Arab Barometer surveys conducted in 2007–08, 2011 and 2013 indicate that large majorities of representative national samples across the Arab world believe that conventional bank interests are contrary to the teachings of Islam.<sup>3</sup> Table 3.1 summarizes the information, including only those who agreed or disagreed with the proposition that banks charging interest contradict the teachings of Islam. In the second wave of surveys, conducted in 2011, respondents were also asked whether, ‘in order to meet the demands of the modern economy, banks should be allowed to charge interest’. While the responses were significantly correlated with the question about the teachings of Islam, the relationship was weak ( $r = -.162$ ,  $p < .000$ ): a fair number of respondents who had agreed that interest was forbidden in Islam also thought that banks should be allowed to charge interest regardless of the religious teachings.<sup>4</sup> The final two columns of Table 3.1 therefore report the percentages of those really interest-averse people who both agreed that interest was *haram* (forbidden) and that banks should not charge interest.

This chapter assumes that these consistently interest-averse respondents would also be the most likely potential participants in Islamic forms of financial intermediation. They constitute sizable blocks of public opinion in what are supposed to be reasonably representative samples across the Arab world. Accordingly, the present analysis focuses on the findings of this second wave of public opinion surveys, since the other waves unfortunately had no independent check on the behavioral implications of the very widespread belief that bank interest is a religiously unacceptable practice. Here, the second wave locates the potential clients as well as practitioners of Islamic finance from surveys

conducted in 2011 in Algeria, Egypt, Iraq, Jordan, Lebanon, Palestine, Saudi Arabia, Sudan, Tunisia and Yemen.

## CORRELATES OF INTEREST REJECTION

Who then might these potential clients be? As a first step, this chapter looks to answer the questions, are they more likely to be rich or poor, old or young, male or female, live in a city or in the countryside, be relatively well educated or not? Also, how significant an influence is the national environment, which may also shape the culture and financial perceptions? Do national education systems have different impacts upon people's attitudes toward bank interest? What about religion? Presumably Christians, although welcome in the community of Islamic finance, may not share the same degree of commitment to interest-free banking as Muslims. Among the latter, does a person's religiosity or degree of religious commitment make a difference? Also, what about politics? In 2011 the Arab world was exceptionally open to surveys of public opinion that featured political questions. Did it make a difference in Egypt, for instance, if a person was a Muslim Brother or in other ways committed to political Islam, or were attitudes toward interest-based banking independent of political commitment and consequently more resistant, we might suppose, to the political changes occurring in 2013?

The correlates of unconditionally rejecting conventional interest-based banking ('*haram* interest-based banks') are reported in Table 3.2.

Among Palestinians, as in the other population samples, rejecting conventional interest-based banking tended to come from cities rather than villages (including refugee camps in Palestine). Age did not make a significant difference, but males seemed slightly but significantly ( $p < 0.01$ ) more likely to reject the conventional interest-based banks

Table 3.2 *Correlates of 'haram interest-based banks'*

Rural	-.028**	Political interest	-0.009
n =	9074	n =	10 149
Rural Palestine	-.061*	Monthly US\$ income	.071**
n =	1115	n =	7951
Age	0.011	Western exposure	-.061**
n =	10 150	n =	10 021
Gender	-.027**	Islamism	.093**
n =	10 189	n =	10 033
Education level	.054**	Christian	-.170**
n =	9327	n =	8229
Education level	-0.063	Religiosity	.078**
(Tunisia) n =	814	n =	9310
Women at home	.136**	Religiosity	.136**
n =	10 167	(Tunisia) n =	808

*Notes:*

\*\* Correlation is significant at the 0.01 level (two-tailed).

\* Correlation is significant at the 0.05 level (two-tailed).

Saudis and Yemenis were not asked whether Muslim, Christian and so on.

than females, as did those having higher levels of education and income. In Tunisia, however, education was negatively correlated, perhaps reflecting Bourguiba's legacy of modernization. Not surprisingly, the Christians, for the most part in Lebanon and Egypt, were also less likely to reject conventional banking, as were people who had traveled abroad in the past five years. Those who harbored conservative values about women's social roles also tended to reject interest-based banking,<sup>5</sup> as did those whose responses to a series of questions about their religious practices ranked them high on a religiosity scale.<sup>6</sup> Interest in politics<sup>7</sup> hardly made any difference but what is taken from the survey to indicate political Islamism did make a difference: Islamism, which correlated positively with religiosity ( $r = 0.215$ ,  $p < 0.001$ ) and with conservative values about women ( $r = 0.339$ ,  $p < 0.001$ ), was also significantly associated with opposition to interest-based banking. 'Islamism' was derived from correlated responses to six items designed to tap an 'Islamist-secular' dimension.<sup>8</sup> However, interest in politics was negatively rather than positively correlated with Islamism ( $r = -0.033$ ,  $p < 0.001$ ) whereas it was significantly associated with religiosity ( $r = 0.135$ ,  $p < 0.001$ ) and even more so in Tunisia ( $r = 0.212$ ,  $p < 0.001$ ), albeit not with 'Women at home'. Interest in politics, was weakly associated with the more secular perspectives connoted by the items detailed in endnote 5. These 'secular' attitudes, however, were by no means incompatible with religious commitment; they possibly reinforce one another.

To disentangle the possible effects of these correlates, some multivariate analysis is attempted here. A logistic regression is performed in which '*haram* interest-based banks', the probability of rejecting conventional banking, is regressed on the entire set of correlates except religious affiliation (so not to exclude the Saudi and Yemeni data). By including education and religiosity, however, it was necessary to exclude Tunisia, where these variables were coded differently. The Tunisian data are therefore analyzed separately (see the following section). The respondents' country of residence (except Tunisia, and the baseline case of Jordan) is added to the regression as a dummy variable, and the results are reported in Table 3.3.

This summary view presents in the final column the odds of categorically rejecting interest-based banking. The first row, for example, indicates that the odds of a respondent living in an urban environment (compared with a village or, in the case of the Palestinians, refugee camps as well), are 1.225 to 1, holding all the other variables constant. That is, living in a city increases the odds by 22.5 percent. Conversely, a villager is more likely not to reject interest-based banking. The finding is statistically significant:  $r < 0.001$ . Age also seems to make a difference. Although one added year of age increases the odds of rejecting interest-based banking by only 0.6 of a percentage point, ten years would increase them to 6 percent, statistically significant at the .01 level ( $p = 0.007$ ). Gender, however, is no longer even statistically significant (as in Table 3.2) when all the other variables are taken into account. Education and monthly income retain their statistical significance and deserve further discussion below.

Time spent over the past five years in the West is also associated, albeit negatively, with rejection of interest-based banking. One more point of time spent in the West on a four-point scale decreases the odds by 16 percent that the traveler will reject this Western form of financing. Religiosity and conservative attitudes about women's place in the world, on the other hand, are both strongly associated with the rejection of interest-based banking.

When all the other variables are taken into account, however, political Islamism

Table 3.3 *Logistic regression of 'haram interest-based banks'*

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	0.203	0.060	11.325	1	0.001	1.225
Age	0.006	0.002	7.237	1	0.007	1.006
Gender	0.018	0.054	0.106	1	0.744	1.018
Education level	0.078	0.018	19.426	1	0	1.081
Income \$100s	0.009	0.003	7.636	1	0.006	1.009
Time in the West	-0.174	0.034	26.02	1	0	0.840
Religiosity	0.263	0.043	36.867	1	0	1.301
Women home	0.390	0.054	51.888	1	0	1.477
Islamism	-0.095	0.053	3.244	1	0.072	0.909
Political interest	-0.050	0.030	2.772	1	0.096	0.951
Algeria	0.294	0.133	4.861	1	0.027	1.342
Egypt	-0.593	0.102	33.617	1	0	0.553
Iraq	0.560	0.099	32.062	1	0	1.750
Lebanon	-0.683	0.111	37.557	1	0	0.505
Palestine	0.689	0.092	56.607	1	0	1.992
Sudan	-0.093	0.110	0.708	1	0.400	0.912
Yemen	0.245	0.106	5.316	1	0.021	1.278
Saudi Arabia	0.603	0.126	22.839	1	0	1.827
Constant	-2.061	0.267	59.602	1	0	0.127

loses the positive correlation with rejecting interest-based banking that was reported in Table 3.2. The correlation reported in Table 3.2 is reversed because religiosity and conservative values connoted by 'Women at home' have the critical independent effects. Pious conservative Muslims who also believe in a separation of religion from politics will be even more opposed to interest-based banking than pious conservatives who also conflate religion and politics. This may raise the prospects for Islamic finance in countries such as Egypt where political Islam has suffered losses but where the public remains conservative and highly religious. Whatever the fortunes of political Islamism, sympathy for Islamic finance may endure, as it seems protected by these traditional values. Do they vary depending on other country level variables, including the local culture and politics?

The most striking finding in Table 3.3 is that, after taking account of the other variables, there are still enormous differences in banking preferences among residents of the different countries. With the exception of Sudan, all of the dummy variables are statistically significant. That is, the country of residence, presumably its culture and institutions, apparently help to shape these preferences. Compared with the baseline case of Jordan (selected because it is closest to the general average reported in Table 3.1), even those living in the neighboring territories of occupied Palestine display remarkable differences. The odds become almost two to one that Palestinians living under occupation will reject conventional interest-based banking (after taking into account all the other variables). Table 3.3 also shows that living in Algeria makes someone 34 percent more likely to oppose this Western practice than in the baseline case of Jordan. Also, as in Palestine, the odds soar to almost two to one in Saudi Arabia, where virtually all retail banking

Table 3.4 Logistic regression of 'haram interest-based Banks' (Tunisia only)

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	-0.193	0.192	1.014	1	0.314	0.824
Age	0	0.007	0	1	0.996	1.000
Gender	0.061	0.184	0.110	1	0.740	1.063
Education level	-0.015	0.065	0.050	1	0.823	0.985
Income\$100s	-0.009	0.013	0.452	1	0.501	0.991
Time in the West	0	0.109	0	1	0.996	1.000
Religiosity	0.319	0.114	7.798	1	0.005	1.375
Women home	0.186	0.208	0.796	1	0.372	1.204
Islamism	-0.025	0.168	0.022	1	0.883	0.976
Political interest	-0.038	0.105	0.131	1	0.718	0.963
Constant	-1.526	0.821	3.456	1	0.063	0.217

is shariah-compliant. In Egypt and Lebanon, on the other hand, with their Christian minorities, the odds decline to about one to two.

## COUNTRY-SPECIFIC EFFECTS OF INCOME AND EDUCATION

Interactions between country of residence, on the one hand, and education and income, on the other, may offer a better understanding of the national variations in attitudes toward interest-based banking. It has already been noted in Table 3.1 that the correlation between these attitudes and the respondent's educational level changed sign in Tunisia, where more education was associated with less distrust of interest-based banking. Table 3.4 applies the logistic model developed in Table 3.3 to Tunisia.

There are other differences between Tunisia and the other Arab countries. In Tunisia, urban residence is associated with less, not more opposition to interest-based banking (although the result is not statistically significant), and time spent in the West makes no difference, perhaps given the exposure to Western values inside the country, a legacy of Habib Bourguiba built on the country's Mediterranean identity. In Tunisia, the only variable that is statistically significant is religiosity, but changes in sign of both household income and education suggest the need to examine the interactions of these variables with the other national environments as well. Table 3.5 shows the additions to Table 3.3 that specify country interactions with education and income.

Education for the baseline case of Jordan remains positively correlated with opposition to interest-based banking, whereas monthly income loses any statistical significance there. Turning to other national environments, however, education reduces the potential commitment to Islamic finance except in Sudan and Yemen: in Iraq a one level increase in education reduces the odds of rejecting conventional interest-based banking by about 20 percent. In Lebanon too, education reduces the commitment significantly. By contrast, education in Sudan and Yemen is associated with slight, albeit statistically not very significant ( $p < 0.1$  in Sudan) increases in opposition to conventional banking practices.

As for household income, where there are wide average per capita differences across

Table 3.5 *Logistic regression with country-specific correlates of education and income*

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	0.220	0.062	12.741	1	0	1.246
Age	0.005	0.002	5.261	1	0.022	1.005
Gender	-0.001	0.055	0	1	0.989	0.999
Education (Jordan)	0.133	0.048	7.572	1	0.006	1.142
Income\$100s (Jordan)	-0.004	0.01	0.159	1	0.690	0.996
Time in the West	-0.172	0.035	24.597	1	0	0.842
Religiosity	0.258	0.044	34.337	1	0	1.294
Women home	0.381	0.055	48.442	1	0	1.463
Islamism	-0.095	0.053	3.212	1	0.073	0.909
Political interest	-0.054	0.030	3.153	1	0.076	0.948
Education_Algeria	-0.015	0.080	0.038	1	0.846	0.985
Educ_Egypt	-0.089	0.061	2.103	1	0.147	0.915
Educ_Iraq	-0.226	0.068	10.949	1	0.001	0.798
Educ_Palestine	-0.082	0.068	1.463	1	0.226	0.921
Educ_Lebanon	-0.161	0.074	4.724	1	0.030	0.851
Educ_Yemen	0.087	0.069	1.561	1	0.212	1.091
Educ_Saudi	-0.115	0.072	2.515	1	0.113	0.892
Educ_Sudan	0.116	0.069	2.770	1	0.096	1.122
Income\$100s_Algeria	-0.015	0.033	0.209	1	0.648	0.985
Income\$100s_Egypt	0.054	0.041	1.694	1	0.193	1.055
Income\$100s_Iraq	0.025	0.016	2.357	1	0.125	1.025
Income\$100s_Palestine	0.005	0.015	0.139	1	0.710	0.995
Income\$100s_Lebanon	0.032	0.015	4.599	1	0.032	0.968
Income\$100s_Yemen	0.022	0.027	0.653	1	0.419	0.978
Income_\$100sSaudi	0.032	0.011	7.843	1	0.005	1.033
Income\$100s_Sudan	0.029	0.026	1.216	1	0.270	0.972
Algeria	0.463	0.342	1.828	1	0.176	1.589
Egypt	-0.390	0.261	2.224	1	0.136	0.677
Iraq	1.211	0.283	18.357	1	0	3.357
Lebanon	0.407	0.324	1.574	1	0.210	1.502
Palestine	1.064	0.286	13.877	1	0	2.898
Sudan	0.492	0.313	2.468	1	0.116	0.612
Yemen	0.123	0.319	0.150	1	0.699	0.884
Saudi Arabia	0.429	0.337	1.621	1	0.203	1.536
Constant	-2.116	0.329	41.305	1	0	0.12

Arab countries; two of the wealthier ones show statistically significant associations between family income and potential commitment to Islamic finance. They work, however, in opposite directions. In Saudi Arabia, a \$100 increase in monthly income increases the odds by about 3 percent, and the effects appear to be statistically significant ( $p = 0.005$ ), suggesting that portfolio diversification might be driving Islamic finance.<sup>9</sup> In Lebanon, by contrast, the odds decrease by small but statistically significant amounts. Possibly wealth has different effects in Lebanon because much of it is held in Christian hands. In the sample, the average monthly income of the 478 Christians was over \$1500 whereas the 633 Muslims averaged \$1143.

Table 3.6 Logistic regression of haram adding Christian variable

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	0.278	0.068	16.815	1	0	1.321
Age	0.004	0.002	2.802	1	0.094	1.004
Gender	0.006	0.062	0.009	1	0.926	0.994
Education level (Jordan)	0.120	0.049	6.118	1	0.013	1.128
Income\$100s (Jordan)	0.003	0.01	0.070	1	0.791	0.997
Time in West	-0.203	0.041	24.939	1	0	0.816
Christian	-1.492	0.183	66.831	1	0	0.225
Religiosity	0.269	0.049	29.870	1	0	1.308
Women home	0.467	0.063	54.803	1	0	1.596
Islamism	0.037	0.062	0.354	1	0.552	0.964
Political interest	0.006	0.035	0.031	1	0.860	1.006
Education_Algeria	-0.003	0.081	0.001	1	0.971	0.997
Educ_Egypt	0.094	0.062	2.290	1	0.130	0.911
Educ_Iraq	0.218	0.069	10.056	1	0.002	0.804
Educ_Palestine	0.077	0.069	1.271	1	0.259	0.926
Educ_Lebanon	0.183	0.076	5.767	1	0.016	0.833
Educ_Sudan	0.124	0.070	3.173	1	0.075	1.132
Income\$100s_Algeria	-0.016	0.034	0.241	1	0.623	0.984
Income\$100s_Egypt	0.075	0.041	3.279	1	0.07	1.078
Income\$100s_Iraq	0.024	0.016	2.158	1	0.142	1.024
Income\$100s_Palestine	0.003	0.015	0.050	1	0.822	0.997
Income\$100s_Lebanon	0.018	0.016	1.309	1	0.253	0.982
Income\$100s_Sudan	0.028	0.026	1.123	1	0.289	0.973
Algeria	0.446	0.345	1.671	1	0.196	1.562
Egypt	-0.420	0.264	2.535	1	0.111	0.657
Iraq	1.146	0.285	16.183	1	0	3.147
Lebanon	0.757	0.336	5.092	1	0.024	2.132
Palestine	1.021	0.288	12.576	1	0	2.777
Sudan	0.569	0.315	3.257	1	0.071	0.566
Constant	-1.025	0.413	6.161	1	0.013	0.359

What impact, then, does being a Christian have on the odds of rejecting conventional banking? Table 3.6 examines the available data, adding religion to our list of variables at the expense of losing the data from Yemen and Saudi Arabia, where the question was not asked.

Wealth still seemed in Lebanon to diminish rather than increase opposition to conventional banking as in Saudi Arabia, but the negative correlation was weak and statistically insignificant ( $p < 0.253$ ). In general, Christians are more likely to distinguish between bank interest and usury and to tolerate conventional banking practices. Controlling for the other variables in our model, the odds of the Christian opposing the conventional practices are reduced to .225 to 1, in other words to less than 1 to 4. Still it may be worth mentioning that 11.6 percent of the 490 Christians in the sample did oppose interest-based banking (compared with 47.3 percent of the Muslims, excluding Saudi Arabia and Yemen). Education in Lebanon, where most of the Christians were concentrated,

also independently reduced opposition, lowering the odds by almost 13 percent per level of education. Yet, once all these variables are taken into account, the residual effects of residing in Lebanon work in the other direction, increasing the odds of opposing conventional practices by more than 2 to 1 compared with Jordan. Only Iraq and Palestine presented higher odds of rejecting conventional banking when all the other variables in the model are taken into account.

## COUNTRY-SPECIFIC INTERACTIONS WITH IDEATIONAL VARIABLES

How do our ideational variables interact in the different national contexts? So far, it seems that religiosity and conservative attitudes toward women are the two ideational variables most closely associated with the rejection of conventional financial practices, but these spectra of opinion, along with their correlate of 'Islamism,' also display significant national variations. Does it follow that religiosity and conservative values have different effects, depending on their national cultural contexts, or do they interact in more or less the same way, despite national differences?

We have already seen in Tunisia (Table 3.4) that religiosity and 'women at home' increase the odds of rejecting interest-based banking pretty much as they do elsewhere in the aggregate (Table 3.3) despite the cultural transformations of the country over the past century. To assess the other country specific interactions in the sample, while keeping the Muslim-Christian variable where it is relevant, we subdivide the sample by country. Table 3.7 presents the findings (abbreviated just to present the statistical significance and the odds offered by each variable, controlling for the others) for each country. The results suggest that the interactions between religiosity, conservative attitudes toward women, and Islamism-secularism do indeed vary across national contexts.

As noted earlier, when controlling for the other variables, 'Islamism' correlates negatively (and therefore secularism positively) with rejecting interest-based banking in Tunisia and in the region as a whole. In Algeria, Egypt, Palestine and Yemen, however, the correlations are reversed. In Algeria, an increase of one point on the four-point scale ranging from secularism to Islamism is correlated with an increase of over 50 percent in the odds of rejecting these banks, controlling for the positive effects of religiosity and conservative values about women. While perhaps due to sample size, the result was not statistically significant. Algeria also strongly contradicted another general finding, about the weak negative relationship between interest in politics and rejection of conventional interest-based banking. Elsewhere, except in Egypt under a Muslim Brotherhood government, an interest in politics had virtually no relationship to attitudes about finance. The potential clientele for Islamic finance generally appears to be politically apathetic. In Algeria, however, the potential clientele can be mobilized. Conservative values, religiosity, and Islamism march hand in hand with political interest in rejecting conventional banking. In Egypt, too, at least in 2011, before rise and the fall of President Morsi, the Muslim Brothers seemed to be cultivating a political audience for Islamic finance.<sup>10</sup>

The Egyptian survey also included questions about party affiliation. Of the 1219 Egyptians, only eight were actual members of a political party but an additional 95 intended to join one. Of these, only 46 expressed opposition to banks. Among future

Table 3.7 Logistic regressions by country

	Algeria		Egypt		Iraq		Jordan	
	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)
Urban	0.488	1.248	0	1.733	0.838	1.036	0.706	1.068
Age	0.390	1.010	0.086	0.990	0.709	1.002	0.351	1.005
Female	0.927	1.027	0.674	1.073	0.441	0.889	0.017	0.717
Education	0.103	1.160	0.350	0.958	0.178	0.930	0.029	1.121
Income\$100s	0.460	0.972	0.085	1.078	0.059	1.027	0.813	0.997
Time in West	0.008	0.632	0.001	0.418	0.056	0.710	0.592	0.961
Religiosity	0	3.246	0.200	1.231	0.01	0.682	0	1.472
Women home	0.170	1.433	0.539	0.904	0.001	1.802	0	2.236
Islamism	0.189	1.528	0.493	1.105	0.273	0.838	0.705	0.946
Political interest	0.008	1.654	0.027	1.245	0	0.684	0.908	1.009
Christian			0.004	0.159	0.387	0.319	0.216	0.554
Constant	0	0.003	0.388	2.705	0.060	20.608	0.003	0.073
	Lebanon		Saudi Arabia		Sudan		Yemen	
	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)
Urban	0.410	1.438	0.361	0.717	0.029	1.497	0	1.258
Age	0.510	0.996	0	1.029	0.032	1.021	0.039	1.004
Female	0.010	1.585	0.448	0.857	0.076	0.708	0.185	1.072
Education	0.210	0.925	0.591	1.036	0	1.310	0	1.083
Income\$100s	0.170	0.983	0	1.020	0.256	0.973	0	1.019
Time in West	0.100	0.848	0.961	0.996	0.098	0.822	0	0.827
Religiosity	0.010	1.289	0.013	1.559	0.726	1.066	0	1.220
women home	0.140	1.297	0.001	0.535	0.011	1.699	0	1.596
Islamism	0.010	0.668	0.071	0.749	0.270	0.794	0.002	1.160
Political interest	0.870	1.015	0	0.646	0.803	0.973	0.035	0.942
Christian	0	0.163						
Constant	0.520	1.744	0.151	3.861	0.031	0.090	0	0.079

recruits to the Freedom and Justice Party (Muslim Brotherhood) opinion was divided, with 15 opposed, 11 in favor and two in the middle, not expressing consistent responses to the questions concerning interest-based banks. Prospective members of the Tunisian Nahda also expressed mixed attitudes, as did ostensibly secular party sympathizers in both countries. Palestine and Yemen were the only other national environments in which Islamism increased the odds against interest-based banking, but they were not accompanied by any interest in politics. In Yemen an interest in politics is significantly associated with diminished odds!

In Saudi Arabia, interest in politics is associated with even lower odds for rejecting conventional banking than in Yemen. Age, wealth and religiosity seem to be the only strong correlates, whereas conservative attitudes toward women and 'Islamism' work in the other direction. Given the pervasive religious culture and high penetration of Islamic finance in the kingdom, politics and 'Islamism' actually lower the odds against conventional banking. The more significant finding is that age, wealth and religiosity

are all strongly and significantly correlated with the rejection of interest-based banking. Wealthy, pious senior citizens seem most ready to embrace Islamic finance, driving their portfolio diversification. Such preferences, possibly shared by other wealthy senior citizens of the Gulf Cooperation Countries (GCC) states, may indeed be driving the expansion of Islamic finance in the region and beyond.

The conclusion, then, is that there is indeed a significant potential clientele in the Arab world for Islamic banking, and that it is largely the conservative, pious segments of the populations that are most favorably inclined. The survey confirms earlier impressions that Islamic finance represents an alliance between mainstream *ulama*, coopted to monitor compliance with Islamic jurisprudence, and conservative Muslim investors (Kahf, 2005). It also draws attention to the special opportunities for Islamic finance in countries where conventional banking is soundly rejected and where there may be possibilities for political mobilization. Countries that are generally underbanked and little penetrated by Islamic finance may offer the greatest market opportunities.

## RISING MARKET SHARES OF ISLAMIC BANKS

The market share data reported in Table 3.8 trace the rise of Islamic banks in the MENA region and parts of Southeast Asia. In the 40 years since the Dubai Islamic Bank opened for business, the Islamic finance movement has obviously made great strides across the Muslim world, and even in parts of Europe and the United States that are not reported here. Table 3.8 is a work in progress.<sup>11</sup> It includes all the countries surveyed in the Arab Barometer with the exception of Palestine.

Evidently Algeria, Lebanon, and Tunisia lag behind the other countries. Algeria deserves particular attention, given its large population (approaching 40 million) and oil wealth. The survey indicated, however, that over half the Algerians who answered both questions about bank interest opposed conventional banking, and the odds significantly increased among respondents expressing political interest and opposition to secularism. There is obvious dissatisfaction and a significant potential clientele, yet Islamic banking has apparently stagnated since 1991, when it was introduced to Algeria.

The Al Baraka Group created a joint venture at that time with the Banque d'Agriculture et Développement Rurale, one of Algeria's four dominant public sector banks, and despite the former's majority ownership Al Baraka Algeria seems to be managed like a public sector bank. It opened its doors for business just as Algeria's decade of civil war was underway. Efforts to privatize banking in Algeria then went astray in 2003 with a series of spectacular scandals and bankruptcies. Consequently, the government has not encouraged private sector banking, other than foreign banks, to penetrate what is still predominantly a state-run commercial banking system. The looming international financial crisis, notably trouble with housing loans at Citibank, deterred the Algerian government from privatizing one of its large public sector banks in 2007.

Algeria, however, is only one example of the seriously underdeveloped financing that has stunted investment and growth in much of the MENA.<sup>12</sup> One indicator of the impoverished nature of banking systems is the amount of loose currency outside them. People prefer to hold their cash, at least partly out of widespread distrust for conventional banking as indicated in the Arab Barometer surveys. In fact, the Arab countries can be

Table 3.8 Shariah-compliant market shares of commercial banking systems

Year	1986	1996	1997	1998	2000	2001	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Algeria	first established															
Bahrain	1991	0.4	0.5	0.8	1.0								1.7	1.6		
Egypt	1979	6.7	9.8				15.7	8.6	10.1	11.5			5.7	5.8	6.2	
including Banque Misr's I	1977	9.7	5.1		5.7					2.3			9.5	9.7	10.3	
Iraq														25.0		
Jordan (JIBI)	1978	7.0	8.4	8.2	8.0	7.1	8.8					7.7	8.2	8.3	8.3	8.2
including Islamic International Arab Bank					6.9							10.8	11.3	11.3	11.3	11.4
Kuwait	1977	18.0	16.2	16.3	15.5		10.7			24.4						
Lebanon	1991	0.1	0.0	0.1			18.1	22.6	23.7					31		
Libya															0.4	
Morocco																
Qatar	1982	10.4	17.8	18.1			13.7	14.5	14.9	13.2					24.0	
including sharia-compliant windows of conventional banks											30.0					
Saudi Arabia	1988	11.3	11.1	11.5	13.9			14.0	14.1	13.7						
including sharia-compliant windows of conventional banks											38.4			35	53.0	
Sudan	1970			27.9												
Syria (percentage of private resident deposits in local currency)																
Tunisia	1983	0.2	0.6	0.6	0.8									7.3		3.6
Turkey	1985	0.8		3.6	3.6	1.8		3.5	3.8	4.3	4.4	4.7		5	5.6	
UAE	1975	3.2	7.9				10.9	14.4	16.3	16.1				17.0	17.0	
Yemen	1996			4					39.2	41.8	37.1	41.7	39.1	31.9	32.6	42.1
Bangladesh														65		
Indonesia	1992						1.2	2.0						4	4.6	
Malaysia	1983		1.6	1.6			10.5		11.8	14.9	16.5	18.4	19.6	21.1	22.3	23.3
including Islamic window		2	2	2										25		
Pakistan																
Meezan	1997						0.5	0.8						9		

Table 3.9 *Contract-intensive money in the Arab, post-Soviet and other comparators*

	2001 (%)	2005 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)		2001 (%)	2005 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
Algeria	76.4	77.6	74.3	73.7	72.8	72.8	Afganistan			52.1	52.4	55.7	54.5
Iraq		30.2	54.4	55.4	52.6								
Libya	74.0	79.9	83.1	73.5	78.7	79.9	Albania		64.0	66.5	68.6	70.0	70.0
Sudan	61.4	70.4	69.3	67.3	69.5	69.3	Azerbaijan	12.6	25.4	30.2	30.4	29.2	32.9
Syria	66.0	62.9	71.7				Armenia	20.3	30.9	33.3	39.5	40.4	47.3
Syrian central bank		68.0	73.5	71.2			Bulgaria	73.7	76.8	83.6	84.6	84.5	84.7
Yemen			75.9	65.7	70.9	74.7	Georgia	9.8	26.5	45.3	53.6	52.9	56.6
							Ukraine	55.2	66.1	66.5	69.3	71.1	71.1
Morocco	72.8	75.9	76.4	75.9	76.2	75.6	Kazakhstan		69.8	80.1	80.6	79.7	79.7
Jordan	84.7	86.6	87.3	87.5	87.1	86.8	Russia	61.3	63.7	71.1	71.8	72.0	73.5
Egypt	85.7	86.0	84.3	82.0	81.5	80.9	Tajikistan	24.9	11.9	18.5	22.7	22.7	
Tunisia	85.4	84.5	86.3	84.6	86.2	85.8							
							Indonesia	89.2	88.0	87.1	87.0	86.7	86.6
Saudi Arabia	81.8	85.7	89.7	88.8	86.6	89.4	Malaysia	93.0	94.4	94.7	94.9	95.0	
Bahrain		94.6	95.6	95.1	95.0	95.0							
Kuwait	95.0	94.8	96.1	95.7	95.5	95.4	Thailand	91.8	90.5	90.5	90.8	90.9	91.1
Oman		87.1	89.6	89.5	89.2	88.7							
Qatar	92.9	94.5	97.0	97.1	97.1	97.3	Argentina	76.4	61.0	64.2	61.4	60.4	61.1
							Brazil	88.3	88.0	88.9	89.9	89.4	89.6
							Venezuela	86.5	87.4	87.7	89.7	90.1	90.4
Lebanon	92.1	93.7	95.4	95.1	95.1	95.0							
Turkey	90.6	91.8	91.7	91.8	91.9	91.8	UK	97.7	98.1	98.3	98.1	98.0	98.0

compared along this dimension of ‘contract-intensive money’ (CIM) or the proportion of the broad (M2) money supply serviced by the commercial banking systems.<sup>13</sup> Within the region, as Table 3.9 indicates, Algeria, Iraq, Libya, Sudan, Syria and Yemen stand out for their relatively low CIM ratios, together with Morocco. The only comparable standouts seem to be some of those other Muslim countries that were part of the Soviet Union. They are not so different, however, from other former components of the USSR, such as Armenia, Georgia and the Russian heartland. The other Muslim comparators in Table 3.9, Indonesia and Malaysia, support substantially higher CIM ratios and also, especially Malaysia, reflect substantial penetration of shariah-compliant instruments into the commercial banking system.

Given these data, are there grounds for expecting that Islamic finance could become more inclusive than conventional banking and bring little investors and entrepreneurs out of the informal economy into a better protected environment of shariah-compliant financial intermediation? Islamic finance in Iraq, Sudan and Yemen already have substantial market shares comparable to those in the GCC countries, yet they remain under-banked. The survey data showed majorities still rejecting conventional banks in Iraq and Yemen, apparently driven by conservative values rather than politics, but in Sudan, where Islamic banking has a longer history linked to Hassan Turabi’s rise to power. There is no longer majority support and ‘Islamism’ works against it. In Iraq and Yemen, politi-

cal conditions may be too unstable to encourage entry into the formal financial sector, whether conventional or Islamic.

Curiously, however, there was some evidence in Syria, before the eruption of civil strife, that Islamic finance was attracting more popular participation in the banking system. After 2006, when Syria permitted three Islamic banks to begin operations, they quickly penetrated Syria's rudimentary financial markets. By 2011, they had gained 7.3 percent of Syria's total resident deposits in state and private sector banks.<sup>14</sup> During the period Syria's CIM ratio steadily rose until 2011, when it fell under the pressures of political events, terminating chances to test whether Islamic finance might be attracting new clientele. Had violent jihadist factions not hijacked the opposition, both sides could have shared an interest in continuing experimentation with Islamic finance, a source of legitimation for the regime yet also, apart from dress codes and family status laws, one of the very few nonviolent 'Islamist' identity markers.

The countries with the greatest potential for Islamic finance may be those that are both underbanked and so far deprived of Islamic finance. Algeria and Morocco stand out as the most promising prospects. The survey further confirmed popular political support in Algeria for reinforcing the public sector efforts of Al-Baraka Algeria with more private management and initiatives. In the midst of a prolonged succession crisis, the necessary reforms in financial structure remain on hold, but meanwhile, Morocco was unfortunately not included in the second wave of surveys, is forging ahead, with legislation passed in November 2014 enabling Islamic banks and *sukuk* to finally to obtain licenses.<sup>15</sup>

The countries that are less underbanked, such as Egypt and Jordan, also appear more open to Islamic finance. Far less penetrated by Islamic finance, Tunisia may offer interesting opportunities. Table 3.4 indicated that it was not political interest or Islamism that was associated with the rejection of conventional banking, rather it was religiosity and conservative attitudes toward women. In other words, Islamic finance may progress in Tunisia quite independently of the country's politics. Although the Nahda Party lost the legislative elections held in October 2014, private business will continue to advocate *sukuk* and more Islamic banking to attract Gulf investors, if only to keep up with Morocco. In Egypt as well, *sukuk* legislation prepared under President Morsi is still likely to materialize, given the importance of wealthy private investors from the GCC countries.

Finally, the Gulf countries and Lebanon are highly banked, but Lebanon also stands out in the region as being averse to Islamic banking. Opinion about interest-based banking in Lebanon was apolitical and rooted in conservative Muslim values, but Beirut's bank culture has stubborn roots as well, among both Christian and Muslim bankers. By contrast, Saudi Arabia, propelled in part by rapid increases in shariah-compliant market shares (mainly within pre-existing conventional banks) associated with clients' age, religiosity and wealth, was reaching the higher CIM levels of its city-state neighbors.

## CONCLUSION

This chapter has triangulated the results of Arab Barometer surveys with the penetration of Islamic finance into conventional banking across much of the MENA and parts of Asia and with the inclusiveness of their respective banking systems. Interesting patterns

of potential development emerge. Among the underbanked (low CIM) states, notably Algeria and Morocco, survey data offer hope, as stated at the outset of this chapter, that Islamic finance may mobilize new constituencies of economic actors that will broaden the social bases of financial intermediation. These two countries are among the most populous, second only to Egypt, in the Arab world. Representative samples of their respective populations also registered among the highest percentages of people believing that bank interest is forbidden in Islam. In Algeria, where data was also available for rejection rates of conventional banking, the analysis of the survey results reveals a politically sensitized potential constituency for Islamic finance. Promoting Islamic finance more vigorously might serve the interests of both the government and Islamist oppositions. More inclusive banking could contribute to the diversification of the Algerian economy as well as giving the government added legitimacy and the opposition some substantive 'Islamist' achievement.

Saudi Arabia exemplifies another pattern of development that the other members of the GCC probably shared. These wealthy states have 'graduated' from cash-based economies with large informal sectors. Islamic finance did not serve so much to bring more people into the banking system as to be a creative means of portfolio diversification. Since the sum of private wealth in Saudi Arabia far outstrips that of the government (Luciani, 2005), such diversification is likely to continue to be a catalyst for the development of Islamic finance and investment across the Muslim world.

The growth of Islamic finance is also likely to have broader implications for economic development in the region. Islamic finance underlines the need for greater transparency and accountability, because much of the financing is equity rather than debt based. Whether *mudaraba* or *musharaka* or even *sukuk*, these distinctively Islamic instruments are more akin to venture capital or shareholdings than to conventional debt. Corporate *sukuk*, for instance, while generating fixed sources of income, may be more similar to preferred stock than debentures, because in the event of bankruptcy the claims of conventional bondholders have priority.<sup>16</sup>

Islamic banks at least in theory have a greater stake in transparency and accountability than conventional banks. Since their distinctive form of financing is equity rather than debt based, the investors require more extensive information about their entrepreneurs than the standard credit checklist for conventional borrowers. These theoretical considerations may be quite irrelevant to war zones in North Africa or the Levant but in the long run Islamic finance, by sapping the foundations of the MENA's informal economies and responding to popular desires for interest-free banking, may build up civil societies supporting civil states. Even if viewed as illiberal, such states may be more liberal and inclusive than military dictatorships.

## NOTES

1. Converted to shariah-compliant financing by the Abu Dhabi Islamic Bank, the former National Development Bank of Egypt has an infrastructure for microfinance that may be revived. Also in Yemen Al-Kuraimi Bank has converted its microfinance services to fit Islamic norms: <http://www.alkuraimi.com/en/sections.aspx?id=19> (accessed 21 May 2015). The growing interest in Islamic microfinance is documented in Ali (2012).
2. In 2014, 12 international banks, led by the Industrial and Commercial Bank of China, had total assets

- exceeding \$2 trillion dollars. See Top Banks in the World 2014: <http://www.rebanks.com/worlds-top-banks/assets> (accessed 21 May 2015).
3. The Arab Barometer (<http://www.arabbarometer.org/>), originally founded at the University of Michigan in 2005 in consultation with the Global Barometer (<http://www.globalbarometer.net>), partners with the Arab Reform Initiative (<http://www.arab-reform.net/>) in association with other universities in the Arab world to carry out periodic surveys of public opinion. The three waves surveyed representative national samples, each including over 1000 respondents). The countries covered are reported in Table 3.1.
  4. Demircuc-Kunt et al (2013: 5) found in a 2012 survey of over 5000 adults focused on banking in Algeria, Egypt, Morocco, Tunisia and Yemen that 45 percent preferred a shariah-compliant product over a less expensive conventional bank product, but that 37 percent preferred the conventional product or did not have a preference.
  5. Respondents were asked on a four-point scale whether (1) a woman can become the prime minister or president of a Muslim state; (2) a married woman can work outside the home; (3) in general, men are better at political leadership than women; (4) university education for males is more important than university education for females; (5) men and women should have equal work opportunities; (6) it is permissible for a woman to travel abroad by herself; (7) a woman should obtain her inheritance (she should not be denied her inheritance); (8) women's share of inheritance should be equal to that of men; (9) women can assume judicial positions; and (10) women can become ministers. Reversing the scoring for items 3 and 4, the scores were then averaged to form a new variable, 'Woman at home,' since the conservative responses received the highest scores. Alpha (coefficient of reliability) = 0.80.
  6. Like 'Women at home,' religiosity was derived from a set of interrelated questions. This analysis assumes that 'religiosity' may be understood as a continuum, ranging in intensity, rather than a special state of mind reflected by the respondents' answers to one or two questions (depending on the analyst's definition of what 'real' religiosity might be). Respondents were asked on a four point scale ranging from always to rarely (Tunisians were given 'never' as a fifth point) whether they prayed, fasted during Ramadan or Lent, watched or listened to religious programs on television or radio, attended religious classes in mosque or church, attended Friday or Sunday prayer services, listened to or read the Quran or Bible, and read religious books. The scores were then averaged to form a new continuous variable, 'religiosity,' with the highest scores awarded those who engaged the most in these activities. Alpha (coefficient of reliability) = 0.78.
  7. Political interest was indicated by the respondent's self-evaluation and by how much he or she followed the news in their country. Alpha (coefficient of reliability) = 0.86.
  8. Respondents were asked on a four-point scale whether (1) religious leaders (imams, preachers, priests) should not interfere in voters' decisions in elections; (2) your country is better off if religious people hold public positions in the state; (3) religious leaders (imams, preachers, priests) should have influence over government decisions; (4) religious practices are private and should be separated from social and political life; (5) religious associations and institutions (excluding political parties) should not influence voters' decisions in elections; and (6) mosques and churches should not be used for election campaigning. The coding on items (2) and (3) were reversed, so that the responses indicating more 'Islamism' had higher scores while more secular responses had lower scores. Alpha (coefficient of reliability) = 0.69 or borderline reliability of their respective inter-correlations.
  9. The Saudi sample was considerably wealthier than the others. Mean monthly income converted to US dollars varied from \$175 and \$344 in Egypt and Sudan, respectively, up to \$1306 and \$3370 in Lebanon and Saudi Arabia. The overall mean was \$913, with a huge standard deviation of \$1634.
  10. The Arab Barometer second wave of interviews in Egypt were carried out in 2011 after the fall of Mubarak (Tessler et al., 2014: 55); President Morsi was elected in June 2012 and overthrown on 3 July 2013.
  11. Much of the data were compiled by adding up the relevant data from annual reports of Islamic banks and comparing them with combined commercial bank data offered by the respective central banks. Other sources of market shares are also included in Table 3.8. In addition to the author's dataset, also available in Henry and Springborg (2010), Hong Kong Shanghai Banking Corporation sponsored a special supplement to *The Banker* (November 2009) giving total shariah-compliant assets of commercial banks in the world. Other sources were Kuwait Bankers Institute (2006), the Organization of the Islamic Conference (Istanbul) website, and a White Paper by Khan and Bhatti (2008). The data for Yemen 2006–13, drawn from the Central Bank of Yemen (2006), are the ratio of Islamic to total advances of commercial banks (including loans of conventional interest-based banking). The total shariah-compliant assets in 2011 and 2012 were also stated to be 31 percent, so that financing was a fair proxy for market penetration although deposits data were not available. The source for the Tunisian shariah-compliant share of commercial bank deposits is the 2012 Annual Report of the Association Professionnelle Tunisienne des Banques et des Etablissements Financiers. The data for Syria were retrieved from the Central Bank: <https://www.banquecentrale.gov.sy/main-eg.htm>, where the consolidated balance sheets of all commercial banks, private commercial banks and Islamic banks were available through to March 2011. The Syrian data reported in

Table 3.9 also stops in March 2011. The 2013 data for deposits as a percentage of total banking deposits for Bahrain, Kuwait, Qatar, United Arab Emirates (UAE), Malaysia, Pakistan, Turkey and Indonesia were drawn from Ernst and Young's (2014) *World Islamic Banking Competitiveness Report of 2014–15*. Saudi deposit breakdowns were not available.

12. See World Bank (2011). See also Demircug-Kunt and Klapper (2012: 56), where they note that 12 percent of MENA respondents claimed religion to be the reason they did not have bank accounts, compared with 8 percent in South Asia and no more than 4 percent in other (mostly non-Muslim) regions of the world.
13. Clague et al. 1999 suggested that this ratio was a proxy for property rights and perhaps even for confidence in public institutions.
14. The Islamic banks by March 2011 held 15.4 percent of the total assets of Syria's burgeoning private sector, which had risen to contain 27.9 percent of the Syria's total commercial bank assets.
15. El Yaakoubi (2014).
16. See, for example, the National University of Singapore Business School case study by Hrnjic et al. (2014), of 'Emirates Airline: a billion-dollar sukuk-bond issue', which compared the pricing of the *sukuk* with that of a slightly smaller conventional bond issue. In the event of bankruptcy, the conventional bondholders would have priority over the *sukuk* holders. The latter also was a cheaper source of funds for the airline.

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