CHAPTER 9

ISLAMIC BANKING: MORE FINANCIAL INCLUSION FOR ARAB STATES?

Clement M. Henry

Islamic banking continues to grow more rapidly than conventional banking in most Arab and many Muslim majority countries, but the sceptic may ask whether it really has a future, mobilizing broad classes of new economic actors, or is simply diversifying the portfolios of wealthy investors in Gulf countries, where most Islamic banking assets are currently concentrated, apart from the Islamic Republic of Iran. This study explores the potential of Islamic banking to be inclusive: that is, to introduce financial intermediation to populations up until now confined to informal economies. Might it promote social as well as financial inclusion, reaching out to lower-income groups? What would be the political costs and possible benefits to the state actors that regulate these banks in each country?

Financial inclusion really matters; by bringing new classes of people into a commercial banking system, more investment becomes available for economic development involving a wider social base. If properly regulated, a banking system can promote shared prosperity. This study first examines whether any greater inclusion is yet associated with the penetration of Islamic banks into the commercial banking systems of Muslim majority states. While time-series data are not yet available, a cross-section of 38 states, including most of the Muslim world except India, was devised.[165] It displays varying degrees of penetration of Islamic banking and therefore offers an opportunity to examine its possible relationship to World Bank assessments of financial inclusion. Worldwide surveys launched in 2011 by the World Bank's Global Financial Inclusion (Findex) Program offer extensive data about banking behavior, based on country surveys. Financial inclusion can be indicated by the percentages of people who have bank accounts and who actually borrow money from banks rather than other informal sources. The surveys also document the percentages of people who cite religious reasons for not having a bank account. At the country level, these results are included in this study's cross-sectional data set. How, if at all, do levels of financial inclusion correlate with those of Islamic financial penetration? The overview of financial development in much of the Muslim world also examines strategic areas in the Arab region outside the

165) The countries and economies for which market shares of Islamic banks could be estimated are Afghanistan, Algeria, Azerbaijan, Bahrain, Bangladesh, Brunei Darussalem, the Arab Republic of Egypt, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon, Malaysia, Maldives, Mauritania, Mauritius, Morocco, Nigeria, Oman, Pakistan, Qatar, Saudi Arabia, Senegal, South Africa, Sri Lanka, Sudan, Syrian Arab Republic, Tajikistan, Tunisia, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan, West Bank and Gaza, and Republic of Yemen. Ben Naceur, Barajas, and Massara (2015) present an alternative way of assessing the potential of Islamic banking for financial inclusion. They compare financial performances of the states in the Organisation of Islamic Cooperation that host Islamic banks with those that do not. They also use data from the World Bank some of which are incomplete or out of date.

Gulf Cooperation Council (GCC) countries where Islamic finance is underdeveloped and may have important potential to bring wider populations of informal economies into their respective banking systems.

The rest of this study focuses on public opinion in the Arab region and particularly on the larger states –Algeria, the Arab Republic of Egypt, Iraq, Saudi Arabia, and Tunisia— for which Arab Barometer survey data are available. The Arab Barometer was devised by political scientists and is principally concerned with political attitudes, not financial behavior. Islamic finance, however, is too closely associated with both local and international politics to be left exclusively in the hands of financial analysts. Specifying the attitudes as well as socioeconomic backgrounds of those most closely associated in a variety of Arab countries with systematic rejection of interest-based finance will offer a more informed appreciation of the potential and limitations of Islamic finance, including their potential political costs and benefits for state regulators.

An Overview of Islamic Banking Penetration

The bulk of Islamic banking assets are concentrated in only four of the GCC countries— Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. Their domestic commercial banking systems held over half of the shari'ah-compliant deposits registered in the 38 Muslim majority or adjacent countries identified in this study. GCC banks also fielded many banking subsidiaries elsewhere. Table 9.1 presents the evolution of market shares of Islamic banks in the commercial banking systems of Arab countries and of other Muslim majority countries having either large populations or large market shares.

The four Gulf States were also among the best banked in the sample and registered among the highest rates of financial inclusion, in the sense of people holding bank accounts. Even among the poorest of their respective populations, over 65 percent had bank accounts except in Qatar. The only other states in the sample enjoying such high rates of participation were Bahrain and Oman, also members of the GCC, and Iran and Malaysia. The latter are also major players in Islamic finance: Iran has totally Islamized its banking system. Malaysia has actively encouraged Islamic capital markets as well as banking, having issued over half the sukūk outstanding in 2015, when Islamic banks held at least 23 percent of the country's commercialbankdeposits.[166]

It does not follow, however, that Islamic finance is attracting depositors who would otherwise stay away from banks for religious reasons. Even in Saudi Arabia, the system most penetrated with retail Islamic banking, where 69.4 percent of those surveyed had a bank account, 23 percent of those without one cited religious reasons for staying away from banks. On other indicators of financial inclusion, such as proportions of people having savings accounts or those receiving financing from banks rather than friends, families, suppliers, employers or the like, the only country with consistently top ratings was Bahrain, the

166) *Sukūk* originating in Malaysia and the GCC countries constituted 54.7 percent and 31.3 percent, respectively, of the total outstanding sovereign and corporate *sukūk* in 2015, according to the Sukūk Monitor, http://www.zawya.com/sukūk/ (accessed April 15, 2015).

pioneer of conventional offshore banking.[167] As the offshore banking business diminished in the 1980s and 1990s, Bahrain repositioned itself as a major center and hub for Islamic finance, hosting the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and launching the world's first sovereign sukūk in 2001. The Central Bank of Bahrain subsequently took the initiative in developing liquidity instruments for Islamic banks. Its high rates of financial inclusion, however, were perhaps more the fruit of the country's history as a banking center and its educational edge over the rest of the GCC, reflecting earlier oil wealth invested in schools, than more recent surges in Islamic banking.

167) With 82 percent of its adult sample having bank accounts, Bahrain was second only to Iran, with 92 percent; In bank lending, Bahrain was in first place, with Iran falling back to eleventh place, just ahead of Lebanon and Saudi Arabia.

Table 9.1 Shari'ah-compliant Percentages of Commercial Bank Deposits

	Founding Year	1986	1996–98	2007	2011	2012	2013
Gulf States							
Bahrain	1979	6.7	9.8	11.5	46	--	32.4
Kuwait	1977	18	16.2	24.4	31	--	47.3
Oman	2013	n.a.	n.a.	n.a.	n.a.	n.a.	2.0
Qatar	1982	10.4	18.1	13.2	--	--	26.0
Saudi Arabia	1988	n.a.	11.5	13.7	35	--	48.9[b]
UAE	1975	3.2	7.9	16.1	17	--	24.7
Other Middle East							
Algeria	1991	n.a.	0.8	--	1.6	--	--
Egypt, Arab	1977	9.7	8.1	--	9.7	10.3	10.3
Iran, Islamic I	1983	100	100	100	100	100	100
Iraq	1992	n.a.	--	--	25.0	--	25.0
Jordan	1978	7	8.9	--	11.3	11.3	11.4
Lebanon	1991	n.a.	0.1	--	--	0.4	0.4
Morocco	2015	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sudan	1977	17	27.9	100	100	100	100
Syria.[a]	2005	n.a.	n.a.	--	7.3	--	--
Tunisia	1983	0.2	0.6	--	--	2.7	3.3
Turkey	1985	0.8	3.6	4.3	5	--	6.6
Yemen, Rep.	1996	n.a.	4.0	41.8	31.9	32.6	42.1
Other Afro-Asian							
Bangladesh	1983	--	--	--	65.0	--	20.0
Brunei Darus	1991	n.a.	--	--	37.1	39.1	41
Indonesia	1992	n.a.	0.1	1.9	4.1	4.6	5.0
Kazakstan	2013	n.a.	--	--	--	--	0.1
Malaysia	1983	--	1.6	14.9	21.1	22.3	22.7
Nigeria	2011	n.a.	--	--	--	--	0.4
Pakistan	1997	n.a.	n.a.	--	9.0	--	10.3
Note:							
a. Syrian *shari'ah*-compliant percentage of private resident deposits in local currency.							
b. Percentage of total assets, not deposits.							

Source: Harvard Islamic Finance Program, various years; McKinsey Co. 2005; Kuwait Bankers training data; EY Islamic Banking Competitive Reports; Indonesian Financial Regulatory Authority (OJK); Brunei Darussalam: http://www.ambd.gov.bn/Pages/Banks-Financial-Highlights; OIC Islamic Finance in the OIC Member Countries 2011; APBT 2012, 2013; various Islamic bank annual reports; author's data set.

Note: -- = not available. n.a. = not applicable.

The available cross-sectional data can only correlate Islamic banking penetration with recent rates of financial inclusion surveyed by the World Bank, including the propensity to cite religion as a reason for not having a bank account.[168] Within the sample of 38 countries for which data were available, there are weak positive but statistically insignificant correlations between market shares and/or the longevity of Islamic banking in the country, on the one hand, and, on the other hand, the two principal indicators of financial inclusion derived from the Findex data, the percentages of bank account holders (Accounts) and of bank borrowers (Borrowing).[169] There is little evidence of any significant causal relation between Islamic banking and financial inclusion. The penetration of Islamic banking might be expected in general to reduce religious opposition to banks (with the possible exception of Saudi Arabia, noted above), but the statistical relationship is very weak, even if pointed in the expected direction. Market shares of Islamic banking are negatively associated with religious reservations about banking (r=-.064), and the years of Islamic banking activity in a country only slightly more so (r=-.152).

In cross-country research, financial inclusion is obviously associated with other variables such as banking traditions, per capita income, the broad money supply (M2) as a proportion of GDP, bank branches per hundred thousand people, credit to the private sector as a percentage of GDP, countrywide education levels and literacy rates, degrees of urbanization, and access to the internet. Since many of these possible determinants are intercorrelated, just a few suffice as controls for examining any possible relationships of Islamic financial penetration or religious objections to financial inclusion. A series of regressions, reported in table 9.2, were run on both indicators of financial inclusion.

Table 9.2 Regressions of Bank Accounts and Borrowing on Possible Correlates

Dependent variable	Bank accounts				Borrowing from banks			
Islamic share	-4.605	-20.45	-10.69		-2.43	-4.63		
Years of Islamic banking	-0.62 *				-0.022			0.032
Religious reason	-134 **	-109 *	-133.9 *	-142.85 **	-41.13 *	-30.57 *	-37.2 *	-29.5
GNI per capita	0.001 ***	0.001 **	0 *	0.001 **	0	0	0	0
Money in banks	71.36 ***		55.85 **		4.624			
Branches per 100,000				0.744			0.032	
Private sec credit/GDP		0.342 ***				0.07 *		0.072
Adjusted R-squared	0.66	0.66	0.595	0.496	0.22	0.479	0.202	0.478
N=	29	32	29	31	29	32	31	32

Source: World Bank – World Development Indicators, Findex; author's data set

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed), *** = 0.1 percent (2-tailed).

168) The national averages were extracted from the Findex survey available online. Since the percentages referred only to those people who did not have bank accounts, they were adjusted downward to include the entire national sample in the denominator.
169) Among the 38 countries in the sample, these indicators of financial inclusion were highly correlated (r=.752) but deserve to be analyzed separately. Accounts and Borrowing were respectively associated with market shares of Islamic banks (r=.218; r=.303) and with longevity (the number of years since the first Islamic bank was established) (r=.117; r=.228).

Whatever the mix of control variables, neither the market shares of Islamic banking nor years doing business in a country have a significant impact on either of the two indicators of financial inclusion. Religious reasons for shunning banks retain a strong statistically significant negative relationship to both indicators of financial inclusion. In other words, Islamic banking does not seem to date to have lessened opposition to banking or to have attracted more people into the formal sector of the economy. If anything, market share and years of stagnant Islamic finance in a country are associated with fewer people having bank accounts or borrowing money from banks, but the results are not statistically significant. Self-exclusion on religious grounds seems to limit financial inclusion in this sample of Muslim countries, and even the existence of Islamic finance is associated with people borrowing more from family, employer, or shopkeepers—not from banks.[170] The stubborn negative relationship between religion and financial inclusion in Muslim countries still remains a challenge to the infant industry of Islamic finance. Arab Barometer survey data, to be discussed later, further confirm a widespread rejection of conventional banking on religious grounds.

Possibly Islamic banking will enjoy greater success in countering the exclusionary impact of these beliefs as it progresses beyond the traditional confines of the GCC countries. Some of the Muslim countries to the west and as well as east of the GCC have the greatest untapped markets, as indicated by the size of their respective economies. As financial deepening (M2/GDP) proceeds, much of the increased money supply will flow into commercial banking, and Islamic market shares may also continue to increase. One way of assessing the untapped potential is to compare the respective sizes of these economies with their respective Islamic bank deposits. The larger the GDP and weaker the penetration of Islamic finance, measured in deposits, the greater the potential of the Muslim majority country for developing Islamic banking.

Table 9.3 estimates the current Islamic deposits bases of the Arab countries along with other principal Muslim majority countries included in the data set.[171] From the data in table 9.1 about market shares, the total of shari'ah-compliant deposits is estimated. In the final column of table 9.3 the ratio of current GDP to shari'ah-compliant deposits is computed to offer a rough idea of each country's potential as the Islamic finance movement progresses. Thus Indonesia, for instance, having the largest economy and also the greatest number of Muslim inhabitants, may have a market share of only about 5.1 percent to date, but its ratio of 56 suggests tremendous potential. Nigeria's high ratio portends an African powerhouse of Islamic finance if financial deepening occurs and its Islamic banks gain market share.

Within the GCC, Oman is the latecomer to Islamic banking and may have greater potential to expand than the other more mature banking markets. But the Arab country standouts, in terms of potential growth, are Algeria, Morocco, and to a lesser extent Tunisia, Egypt, and Iraq, where Islamic banks have already gained 25 percent of the deposits (from a very low deposit base). Lebanon also shows high potential, albeit from a tiny Islamic market share.

170) Neither the market shares nor the longevity of Islamic finance seem to bear much relationship to borrowing from banks, but market share is significantly related to informal borrowing (r=.482, p<.003, n=35), whether from family (r=.358), employer (r=.415), or shopkeepers (r=.427 and .630).
171) World Development Indicators provide GDP and M2 in current U.S. dollars. IMF International Financial Statistics provide the amount of M2 outside the depository system, to be subtracted from M2.

Its Findex banking profile closely matches Algeria's in numbers of account holders and in those not holding account for religious reasons.[172] The Arab Barometer, however, offers data that reveal the large differences in banking attitudes between the two countries and point to Algeria's far greater potential.

Table 9.3 Islamic Deposit Bases of Arab and Other Muslim States (2013)

	GDP	M2	Bank deposits	Islamic deposits	Islamic share	GDP/Islamic deposits
Gulf states		(US billion)			%	
Bahrain	$32.9	$24.3	$23.1	$7.5	32.4	4.4
Kuwait	$175.8	$114.3	$109.1	$51.6	47.3	3.4
Oman	$79.7	$31.1	$27.3	$0.5	2.0	145.9
Qatar	$203.2	$126.0	$122.3	$31.8	26.0	6.4
Saudi Arabia	$748.4	$419.1	$379.6	$185.6	48.9	4.0
UAE	$402.3	$245.4	$234.3	$57.9	24.7	7.0
Other Arab						
Algeria	$210.2	$132.4	$96.0	$1.6	1.6	133.2
Egypt	$272.0	$214.9	$174.2	$18.0	10.3	15.1
Iraq	$229.3	$75.7	$40.3	$10.1	25.0	22.8
Jordan	$33.7	$41.8	$36.4	$4.1	11.4	8.1
Lebanon	$44.4	$110.9	$105.4	$0.4	0.4	105.2
Morocco	$103.8	$116.3	$88.2	$0.0	0.0	n.a.
Sudan	$66.6	$14.0	$9.7	$9.7	100.0	6.9
Syria (2010)	--	--	$19.0	$1.4	7.3	--
Tunisia	$47.0	$31.5	$26.9	$1.0	3.6	48.6
WBG	$11.3	$1.8	--	--	8.4	--
Yemen	$36.0	$14.0	$9.0	$3.8	42.1	9.5
Other Muslim Majority States						
Bangladesh	$150.0	$91.5	$80.5	$16.1	20.0	9.3
Brunei	$16.1	$11.3	$10.4	$4.2	41.0	3.8
Indonesia	$868.3	$356.0	$308.8	$15.5	5.1	56.1
Iran	$368.9	$48.0	$45.3	$45.3	100.0	8.1
Kazakhstan	$231.9	$76.5	$60.8	$0.0	0.0	n.a.
Malaysia	$313.2	$450.9	$427.6	$97.1	22.7	3.2
Nigeria	$521.8	$114.8	$99.9	$0.4	0.4	1305.8
Pakistan	$232.3	$95.2	$72.2	$7.4	10.3	31.2
Turkey	$822.1	$501.5	$458.1	$30.2	6.6	27.2

172) Fifty-one percent of the Algerians and only 46 percent of the Lebanese had bank accounts, with about 8 percent in each country citing religious objections. On the financing or borrowing side, however, 16 percent of the Lebanese used banks, compared to only 2 percent of the Algerians.

Source: World Bank – World Development Indicators; author's data set

Note: All data are as of 2103, except for data for Syria, which are for 2010. WBG = West Bank and Gaza

Preliminary Findings of the Arab Barometer

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 interest is contrary to the teachings of Islam.[173] Table 9.4 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.[174] The final two columns of table 9.4 therefore report the percentages of those really interest-averse people who agreed both that interest is ḥarām (forbidden) and that banks should not charge interest, even for the sake of economic development.

[Please change Palestine to West Bank and Gaza]

Table 9.4 Arab Attitudes toward Bank Interest

	Interest is contrary to teachings of Islam						Interest is never acceptable	
	2006-2008	(n=)	2011	(n=)	2013	(n=)	2011	(n=)
Algeria	88.5%	1123	86.3%	980	89.9%	1124	51.6%	854
Egypt	n.a.	n.a.	72.3%	1126	70.8%	937	33.5%	1086
Iraq	n.a.	n.a.	80.0%	1059	64.7%	994	60.1%	939
Jordan	85.6%	1038	87.2%	1130	88.9%	1737	47.1%	1109
Kuwait	75.8%	650	n.a.	n.a.	77.4%	983	n.a.	n.a.
Lebanon	64.8%	938	68.9%	1202	71.7%	1038	27.4%	1115
Libya	n.a.	n.a.	n.a.	n.a.	82.6%	1149	n.a.	n.a.
Morocco	86.0%	1193	n.a.	n.a.	90.5%	1000	n.a.	n.a.
Palestine	85.1%	1221	85.5%	1152	84.1%	1154	61.3%	1115
Saudi Arabia	n.a.	n.a.	76.7%	1077	n.a.	n.a.	63.6%	992
Sudan	n.a.	n.a.	64.2%	1299	60.2%	1126	41.6%	1224
Tunisia	n.a.	n.a.	85.1%	957	79.5%	1096	42.4%	817
Yemen	81.3%	966	76.8%	1037	80.7%	1087	54.1%	938
Average	81.9%	7129	77.8%	11019	79.1%	13425	47.8%	10189

Source: Arab Barometer: http://www.arabbarometer.org/

173) 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 1,000 respondents. The countries covered are reported in table 9.4.
174) Demirgüç-Kunt, Klapper, and Randall (2013, 5), in a 2012 survey of over 5,000 adults focused on banking in Algeria, Egypt, Morocco, Tunisia, and Republic of Yemen, find that 45 percent preferred a *shari'ah*-compliant product over a less expensive conventional bank product, but that 37 percent preferred the conventional product or did not have a preference.

Note: n.a. = not applicable.

These results point to the sharp differences in opinion between the Lebanese and the Algerians.(175) The countries combining substantial bank assets with intense objection to conventional finance are Algeria, Iraq, and possibly Morocco, which is unfortunately missing from the second wave of data. Despite its smaller system, Tunisia also displays strong potential, with 42 percent unconditionally opposing bank interest despite its heritage of modernization under Habib Bourguiba, Tunisia's leader from independence to 1987.

This analysis must focus on the findings of this second wave of public opinion surveys conducted in 2011, since the other waves had no independent check on perceptions of banking to complement the very widespread belief that bank interest is religiously unacceptable. The other surveys suggest that Morocco may share Algeria's potential for Islamic finance, and under its current government Morocco is taking important first steps in promoting Islamic banks in the kingdom. But further analysis of the survey data is possible only for the ten countries included in the final two columns of table 9.4.

The data set offers a wealth of information about social and political attitudes as well as personal data that the potential clients of Islamic banks may share. In 2011, when the survey was conducted, the Arab world was exceptionally open to political research. If indeed the likeliest clientele for Islamic banks are people who are unconditionally opposed to interest-based conventional banking, it becomes interesting to examine the relationships to their respective polities. To what extent are these potential participants in Islamic banking interested in politics? How much trust do they have in state institutions? How do they relate to other ideas and behaviors relating to religious identity? In particular, variables connoting religiosity, conservative family values, secularism, and Islamism can be constructed out of the data set, along with trust in authorities, interest in politics, and socioeconomic status.

The inclusion of Saudi Arabia also permits the hypothesis of portfolio diversification to be tested in the leading dynamo of Islamic finance. Which personal characteristics and social and political attitudes are most closely associated with those Saudis in the sample who unconditionally reject conventional interest-based banking? Wealth, age, and religiosity may point to a clientele in search of shari'ah-compliant substitutes for conventional investment portfolios. Do the other considerably less wealthy Arab countries show similar relationships between these personal characteristics and the rejection of conventional banking?

How, moreover, do other political and social attitudes interact with these personal characteristics? Another hypothesis to be tested is whether being part of the potential Islamic finance clientele is associated with a strong interest in politics and/or with political Islam.

175) These data cannot really be compared to the Findex findings about those citing religion as a reason for not having a bank account. It is still interesting to note the relatively good fit between the two data sets. The raw Findex data would rank the eight countries (excluding Lebanon and Tunisia, the latter for lack of data) as follows, comparing the ranks with the percentages recorded in table 9.4:

1) Iraq	2)WBG	3) Saudi Arabia	4) Jordan	5) Yemen Rep.	6)Algeria	7) Sudan	8) Egypt
60.1%	61.3%	63.6%	47.1%	54.1%	51.6%	41.6%	33.5%

Or is this potential clientele basically apolitical and conservative? Also to be investigated is whether it generally distrusts the state authority, perhaps associated in public opinion with conventional interest-based banking ever since foreign colonizers established both the state and its banks. If so, official efforts to promote Islamic finance might face an uphill challenge, needing to gain trust and support from a hostile constituency

Correlates of Interest Rejection

As a first step toward locating these potential Islamic bank customers, what sorts of personal characteristics are associated with the unconditional rejection of bank interest? In addition to location (urban/rural), age, sex, wealth, and education, "religiosity" is also reported as a variable summarizing personal religious activities,(176) as is exposure through travel to a Western society.(177) Does the personal profile of the potential clientele vary across the Arab states, which differ not only in percentages rejecting bank interest but also in their economic structures, educational systems, degrees of urbanization, and experiences with Islamic finance, as reported in table 9.1?

Table 9.5 Objective Personal Correlates of Interest Rejection

	All		Algeria	Egypt	Iraq	Jordan	Lebanon	Palestine	Saudi	Sudan	Tunisia	Yemen
Urban	.031**		0.065	.134**	-0.015	0.01	-0.006	0.058	-0.049	0.025	-0.049	0.022
N=	10189		854	1086	939	1109	1115	1115	992	1224	817	938
Age	0.011		.074*	-0.04	0.026	0.053	-0.058	0.054	.101**	-0.006	0.054	0.042
N=	10150		854	1086	939	1098	1115	1100	991	1216	817	934
Female	-.027**		-.077*	0.026	0.001	-.133**	0.043	-0.015	0.001	-.112**	-0.021	-.064*
N=	10189		854	1086	939	1109	1115	1115	992	1224	817	938
Education	.054**		0.011	0.047	-0.062	0.059	-.086**	0.021	0.044	.193**	-0.063	.101**
N=	9327		854	1083	939	1106	1115	1111	992	1210	814	917
Wealth	.071**		-0.042	.068*	0.058	-0.009	-.118**	-0.031	.127**	-0.045	-0.052	-0.021
N=	7951		352	974	834	1096	894	1052	821	581	669	678
Unemployed	-0.063		-.072*	0.009	0.008	-.097**	0.037	-0.049	-0.025	-.076**	-0.065	-.129**
N=	10148		854	1086	939	1103	1115	1115	992	1218	817	909
Married	.032**		-0.006	0.008	0.035	-0.002	0.041	0.011	0.018	-0.013	0.034	.085*
N=	10035		826	1086	939	1065	1115	1073	992	1215	805	919
Christian	-.170**			-.099**	-0.013	-0.039	-.316**	-.096**		0.025		-0.066
N=	8229			1082	936	1105	1114	1107		1217		806
Religiosity	.078**		.272**	.062*	-.076*	.080**	.135**	.161**	0.012	0.032	.136**	0.056
N=	9310		825	1086	929	1106	1108	1111	990	1221	808	934
Trips West	.136**		-.164**	-.118**	-.096**	-0.015	-.083**	-0.056	0.015	-.100**	-0.032	0.005
N=	10021		837	1079	931	1094	1103	1103	949	1194	811	920

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

The aggregate correlation coefficients reported in the first column clearly mask wide variations within the national samples. Despite its apparently general statistical significance, for instance, it is only living in an Egyptian urban environment that seems significantly

176) 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. 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 TV or radio, attended religious classes in a mosque or church, attended Friday or Sunday prayer services, listened to or read the *Qur'ān* 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.
177) Respondents were asked whether they had traveled to a Western country in the past five years and, if so, for how many months, up to six or more.

associated with the unconditional rejection of interest-based banking. Age, too, has mixed but significant effects, despite its overall apparent irrelevance. It is most strongly associated with interest rejection in Saudi Arabia. Indeed, looking further down the list of possible Saudi correlates, the only other statistically significant one is wealth, pointing to a potential constituency for Islamic investments. These survey results apparently reflect the appetite of wealthy Saudi investors for shari'ah-compliant banking assets that indeed have stimulated the development of Islamic windows in conventional banks and the conversion of some of them to "Islamic" banking since the late 1990s. Curiously, however, personal religiosity does not correlate in a statistically significant way with the rejection of interest in the Saudi sample. Elsewhere, except Sudan and Iraq, the correlation coefficients are positive and statistically significant.

Apparently males tend in general to reject bank interest more than females, but again, country by country the results are mixed. As for education, its positive and statistically significant relationship for the sample as a whole is reversed in Lebanon and to a lesser extent in Tunisia. Clearly the content of education matters, and there is significant cross-country variation. Wealth, too, shows significant variations, again pointing to a "deviant" Lebanon, perhaps because much of the wealth is Christian. Indeed none of the personal characteristics works in the same way across all the countries in the sample.

Iraq is the most puzzling anomaly because religiosity is negatively correlated with interest aversion. Everywhere else religiosity is positively associated with rejecting conventional bank interest. Even in the relatively traditional Islamic societies of Saudi Arabia, Sudan, and Republic of Yemen, there is still a weak positive relationship. In Iraq, by contrast, the relationship is negative and statistically significant. As noted earlier, the country seems to offer promising prospects for Islamic finance, yet religiosity does not appear to be opposed to conventional interest-based banking.

In this country study the survey data identified respondents by sect as well as religion.[178] A closer look at the data indicates that clearly identified Sunnis scored lower on the religiosity scale but also tended to be more opposed to interest-based banking than their Shi'ite compatriots. Clearly multivariate analysis was needed, to disentangle the possible effects of religiosity from sectarian identity. A new independent variable of Shi'ite religiosity was therefore constructed. And since the dependent variable, Interest Rejection, is binary, a logistic regression could be performed on all of the independent variables to separate out the independent effects of each, controlling for the others.

Controlling for all the other variables, education seems significantly associated with greater toleration of bank interest. In Iraq an added level on a seven-point education scale is associated with 12 percent less likelihood (1-.88) of rejecting interest. Household income, too, becomes statistically significant, but works in the opposite direction. Every incremental

178) The questionnaire tactfully asked respondents "If I asked about your religion, would you prefer the answer be… (listing the following possibilities: 1) Orthodox. 2) Catholic. 3) Protestant. 4) Christian. 5) Sunni Muslim. 6) Shi'ite Muslim. 7) Muslim. 10) Other (specify). Some 37.4 percent responded Sunni; 43.6 percent, Shi'ite Muslim; and 18.2 percent, Muslim. The self-identified Shi'ites were identified, and a new interactive variable of "Religiosity" and "Shi'ite" was constructed.

$100 of monthly income is associated with an increasing likelihood of 3 percent of rejecting interest. Religiosity still carries a negative sign, but its statistical significance vanishes when the interactive effects of religiosity and Shi'ite identity are taken into account. One unit of Religiosity on a four-point scale among Shi'ites makes them almost 30 percent less likely (1-.707) to reject interest.[179] Exposure to the West still carries significant impact: a couple of months visiting the West are associated with being 35 percent less likely to reject interest!

Before pursuing a similar analysis for other Arab states, the ideational correlates of rejecting interest need to be introduced so as to move the analysis beyond issues of wealth,

Table 9.6 Logistic Regression of Interest Rejection on Personal Correlates–Iraq

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	0.027	0.172	0.025	1	0.874	1.028
Age	-0.005	0.007	0.508	1	0.476	0.995
Female	-0.081	0.177	0.208	1	0.648	0.922
Education	-0.128	0.055	5.425	1	0.02	0.88
Income$100s	0.031	0.016	3.908	1	0.048	1.031
Unemployed	-0.134	0.192	0.485	1	0.486	0.875
Married	0.159	0.201	0.624	1	0.43	1.172
Christian	-1.491	1.234	1.46	1	0.227	0.225
Religiosity	-0.136	0.153	0.791	1	0.374	0.873
Relig_Shi'ite	-0.347	0.054	40.636	1	0	0.707
Trips West	-0.44	0.175	6.296	1	0.012	0.644
Constant	3.697	1.419	6.784	1	0.009	40.309

Source: Arab Barometer, Second Wave

portfolio diversification, and personal religious practice to better understandings of the possible politics that may be associated with Islamic finance. If the analysis of public opinion can identify a potential constituency for Islamic finance, how may policy makers either in government or business attract it, with what sorts of political consequences? Assuming that

179) In an alternative model, substituting Shi'ite for Shi'ite religiosity, being a Shi'ite is associated with a 40 percent decline in the likelihood of rejecting interest. Religiosity then retains its statistical significance ($p<.035$) and is associated with a decline of 27 percent in the likelihood of rejecting interest.

the unconditional rejection of interest signifies potential sympathy for Islamic finance, how interested is this potential constituency in politics?[180] Is it Islamist or predominantly secular in outlook, preferring a separation between politics and religion?[181] If tending toward soft Islamism—the other end of the secularism scale devised from the survey questions—was it a really "fundamentalist" version of Islamism, to be interpreted from responses to additional questions such as affirming hudud punishments, death to Muslim apostates, and a theocratic form of government.[182] Or are these potential sympathizers of Islamic finance simply more conservative in their family values.[183] What relationships, if any, might there be between political Islam and Islamic finance? A further question concerns possible relationships between those opposing interest and their confidence or trust in state authorities. Attitudes toward the government, the judiciary, the police, and the army seemed from the survey responses to be sufficiently inter-correlated to allow for an index of trust in state institutions.[184]

Table 9.7 Ideational Correlates of Interest Rejection

	All	Algeria	Egypt	Iraq	Jordan	Lebanon	Palestine	Saudi	Sudan	Tunisia	Yemen
Interest in Politics	-0.009	-0.002	.074*	-.070*	0.019	-0.039	0.041	-.210**	.059*	0.013	.154**
N=	10149	853	1084	938	1107	1110	1115	975	1215	817	935
Secularism	-.079**	-0.029	-0.027	-0.052	-.073*	-0.024	-.073*	0.056	0.012	-0.015	-.083*
N=	10024	813	1082	934	1090	1108	1110	953	1196	803	935
Hardline Islamism	.102**	.161**	0	0.025	0.017	.132**	.169**	-.173**	0.052	0.007	.171**
N=	10186	854	1086	939	1109	1115	1115	989	1224	817	938
Family Values	.136**	.201**	-0.006	.086**	.210**	.177**	.172**	-.155**	.118**	.091**	.197**
N=	10167	850	1086	939	1107	1114	1115	982	1221	816	937
Distrust of State	.035**	-.130**	.151**	0.003	.069*	0.035	0.003	.065*	.067*	0.043	.162**
N=	10119	851	1080	936	1104	1110	1100	977	1215	811	935

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

Across the entire sample, many of these variables apparently bear statistically significant relationships to the potential Islamic finance constituency. Within each country, however, these relationships vary widely, and multivariate analysis is needed to discover which ones are really significant, controlling for the effects of the others. To return to Iraq, it would

180) Interest in politics was indicated by averaging the scores of each respondent's self-evaluation and by how much he or she followed the news in his or her country. Alpha (coefficient of reliability) = 0.86.
181) Secularism was the mean of the responses on a four-point scale of strong agreement to strong disagreement with the following: 1) Religious leaders (imams, preachers, priests) should not interfere in voters' decisions in elections; 2) Religious practices are private and should be separated from social and political life; 3) Religious associations and institutions (excluding political parties) should not influence voters' decisions in elections; 4) Mosques and churches should not be used for election campaigning. The scores were averaged to form a new variable, Secularism—or conversely, soft Islamism. The variable had borderline reliability: Alpha =.687. The scores were reversed to give the secularist responses the higher scores.
182) "Hardline" Islam was the mean of responses on a four-point scale to the following: 1) favoring a parliamentary system in which only Islamist parties compete in parliamentary elections; 2) favoring a system governed by Islamic law without elections or political parties; 3) agreeing that the government and *Shūrā* Council should enact penal laws in accordance with Islamic law; 4) agreeing that your country is better off if religious people hold public positions in the state; 5) agreeing that religious leaders (imams, preachers, priests) should have influence over government decisions; 6) agreeing that in a Muslim country, non-Muslims should enjoy less political rights than Muslims; 7) agreeing that when a person changes his/her religion he/she should be penalized with death. The scores were reversed to give the higher scores to the more hardline responses. Alpha (coefficient of reliability)=.773
183) Family values were derived from the responses on a four-point scale of strong agreement to strong disagreement to the following: 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; 10) Women can become ministers. Reversing the scoring for items 3 and 4, the scores were then averaged to form a new variable, "Family Values," since the conservative responses received the highest scores. Alpha (coefficient of reliability) = 0.803.
184) On a four-point scale, respondents were asked how much they trusted or distrusted the government, the judiciary, the police, and the army. The mean was constructed with a coefficient of reliability, Alpha = .837.

appear from table 9.7 that any constituency for Islamic finance is positively disinterested in politics (r= -.07; p<.05) and basks in family values (r= .087; p<.01). Controlling for religiosity and other correlates of interest rejection, are conservative family values still so highly correlated with potential sympathizers of Islamic finance? Is there no significant relationship between these sympathizers and political Islamists, when all other sources of variation are taken into account?

To examine the possible independent impact of political Islam upon attitudes toward conventional interest-based banking, a logistic regression on Interest Rejection was run including all of the possible correlates so as to offer a fuller analysis.[185] Education is no longer a significant negative correlate, but it turns out that the relationships shown in table 9.7

Table 9.8 Logistic Regression of Interest Rejection–Iraq

	B	S.E.	Wald	df	Sig.	Exp(B)
Urban	-0.003	0.182	0	1	0.986	0.997
Age	0.001	0.007	0.02	1	0.888	1.001
Female	-0.044	0.184	0.057	1	0.811	0.957
Education	-0.05	0.058	0.739	1	0.39	0.951
Income$100s	0.023	0.015	2.282	1	0.131	1.023
Unemployed	-0.224	0.197	1.293	1	0.256	0.799
Married	0.092	0.207	0.2	1	0.655	1.097
Christian	-1.156	1.442	0.642	1	0.423	0.315
Religiosity	-0.324	0.157	4.272	1	0.039	0.723
Religiosity-Shi'ite	-0.191	0.085	5.042	1	0.025	0.826
Trips West	-0.216	0.18	1.438	1	0.231	0.806
Interest in Politics	-0.544	0.117	21.645	1	0	0.581
Secularism	0.225	0.144	2.454	1	0.117	1.253
Hardline Islam	-0.379	0.219	3.0	1	0.083	0.684
Hardline Sunni	0.695	0.219	10.103	1	0.001	2.004
Family Values	0.685	0.182	14.192	1	0	1.984
Distrust of State	0.27	0.138	3.824	1	0.051	1.31
Sunni Distrust	-0.337	0.178	3.593	1	0.058	0.714
Constant	2.177	1.796	1.471	1	0.225	8.823

Source: Arab Barometer, Second Wave

still hold: (dis)interest in politics and family values remain strong correlates. From table 9.8 it can be seen that a unit of interest in politics on a four-point scale is associated with

185) The model in table 9.8 produced a pseudo R-square of 13.6 percent, more than double the model in table 9.6.

42 percent less likelihood in unconditionally rejecting conventional bank interest. One unit on a four-point scale of family values, by contrast, is associated with twice the likelihood of rejecting interest. The negative rather than positive relationship of Religiosity to Interest Rejection still held up, and indeed it turned out, controlling for all the other variables, that its impact is just as statistically significant for Shi'ites as for Sunnis. Regressions were also run excluding one of the two Islamism variables, but the remaining one just gained marginal statistical significance.[186] However, fundamentalist Islam seemed to carry different weights in the respective Muslim sects.

An interactive Hardline-Sunni variable added to the model is shown in table 9.8. It is highly significant: among Sunnis, a unit on the Hardline Islam four-point scale is associated with twice the likelihood of rejecting conventional bank interest, whereas for the rest of the Iraqi population the Hardliners seem less likely to reject interest. Because the degree of distrust of state institutions varied between the sects, an interactive Sunni Distrust variable was included to complement Distrust of State in table 9.8. Here, too, there were interesting differences: Sunnis who were less trusting of state institutions tended to be less likely to reject interest, unlike the rest of the population. Put differently, more trusting Sunnis were also more likely to be potential clients of Islamic banks.

These potential clients seemed uninterested in politics. Indeed, those more interested in politics seemed to associate with secular values, not Muslim fundamentalism.[187] Table 9.8 summarizes the potential profile of an Islamic finance constituency in Iraq: relatively nonpracticing Sunni Muslims, turned off by day-to-day politics and imbued with "fundamentalist" principles as well as conservative family values. And although the Sunnis in the sample on average had less confidence in state institutions than other Iraqis, the Sunnis who were relatively more trusting of state institutions also tended to be more averse to bank interest. Promoting Islamic finance in Iraq might therefore have been a way in 2011 for the government to reach out to some of its politically as well as financially excluded citizens. Might it still? Or might some other party steal the initiative?

The other more promising prospects for Islamic finance among the larger underdeveloped banking systems of the Arab states may lie in Algeria and to a lesser extent in Egypt and Tunisia.

Prospects for Algerian Islamic Finance

As table 9.1 indicates, Islamic banking has stagnated in Algeria since 1991, when it was introduced. 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. It opened its doors for business shortly before Algeria's decade of civil war (1992–98), and seems in effect to have been managed like a public sector bank. 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

186) For Hardline Islam, p<.055; for Secularism, p<.06.

187) Political interest with Islam, r= -.039, p<.01; with Secularism, r= .063, p<.01.

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 Algeria government from privatizing one of its large public sector banks in 2007.

Algeria exemplifies the seriously underdeveloped financing that has retarded investment and growth in much of the Middle East and North Africa region. One indicator of the impoverished nature of banking systems, shown in table 9.3, 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. The converse, reported in table 9.3, is the proportion of the broad (M2) money supply serviced by the commercial banking systems. Algeria's ratio is higher than Iraq's but lower than that of Egypt or Tunisia. Despite efforts since 1986 to reform the banking system, finance remains the Achilles heel of Algerian development.

The survey data point, however, to a potential constituency that Al Baraka Algeria is not reaching but that other private sector banks might tap, once an adequate regulatory system is in place. A logistic regression including all the ideational as well as personal variables pointed to religiosity, Western exposure, interest in politics, and trust in rather than distrust of state institutions as the significant correlates, along with a positive if only marginally significant relationship to education (table 9.9). The final column recalls the marginal correlates for Algeria recorded in tables 9.5 and 9.7. Age, gender, and employment status lose their statistical significance, whereas Religiosity and Western exposure remain robust correlates, respectively positive and negative, of Interest Rejection. But the most interesting casualty of this multivariate analysis is Hardline Islam. Even if secularism is

Table 9.9 Logistic Regression of Interest Rejection–Algeria

	B	S.E.	Wald	df	Sig.	Exp(B)	correlations
Urban	0.187	0.342	0.298	1	0.585	1.205	0.065
Age	0.006	0.015	0.162	1	0.688	1.006	.074*
Female	-0.277	0.36	0.59	1	0.442	0.758	-.077*
Education	0.192	0.096	3.996	1	0.046	1.212	0.011
Income$100s	-0.068	0.046	2.206	1	0.137	0.934	-0.042
Unemployed	0.437	0.313	1.946	1	0.163	1.547	-.072*
Married	0.292	0.385	0.575	1	0.448	1.339	-0.006
Religiosity	1.073	0.285	14.161	1	0	2.923	.272**
Trips West	-0.453	0.175	6.699	1	0.01	0.636	-.164**
Interest in Politics	0.426	0.202	4.451	1	0.035	1.531	-0.002
Secularism	0.032	0.271	0.014	1	0.906	1.033	-0.029
Hardline Islam	-0.233	0.352	0.439	1	0.508	0.792	.161**
Family values	0.39	0.293	1.769	1	0.184	1.477	.201**
Distrust of state	-0.91	0.217	17.61	1	0	0.402	-.130**
Constant	-1.975	1.542	1.64	1	0.2	0.139	

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

removed from the model, Hardline Islam is no longer associated with statistical significance to Algeria's potential clientele for Islamic finance.[188] Interest in politics, moreover, becomes a significant correlate in the logistic regression. And Distrust of State retains its strong negative correlation. In other words, the relatively educated, politicized Algerian who is devout and trusting in state institutions will be most likely to reject conventional bank interest and be a potential customer for Islam banks.

The findings suggest that Algeria is not only brimming with potential demand for Islamic finance but also that the demand presents a political opportunity. This demand is not associated with Islam, but rather with religiosity as indicated by various behaviors. The potential customers also express an interest in politics as well as strong support for state institutions. Encouraging Islamic banking would make good sense for governments seeking to consolidate the support of a sympathetic constituency. In Malaysia, successive governments took positive steps to encourage Islamic finance so as to neutralize an opposition party that was threatening the hegemony of the ruling party by invoking resurgent Islamic values (Harding 2010, 503). In Algeria, a similar strategy could reinforce regime efforts to keep moderate Islamists in the ruling coalition.

Egypt after the Arab Spring

Egypt is one of the first countries to have permitted the operation of Islamic banks, as shown in table 9.1. President Anwar Sadat supported special legislation to enable the Saudi Prince Muhammad al Faisal to establish the Faisal Islamic Bank of Egypt (FIBE) in 1977. Together with a private Egyptian-owned Islamic bank, they attracted roughly 10 percent of commercial bank deposits by 1985, but rogue money management companies, also claiming to be "Islamic," attracted more substantial shares of deposits and remittances until their Ponzi schemes collapsed in 1988, discrediting the entire idea of Islamic banking in Egypt. Further problems arose in 1991 with the collapse of Abu Dhabi's Bank of Credit and Commercial Investment (BCCI). FIBE, unable to find suitable investments for its customers, had parked some of the investment funds with BCCI, which offered higher returns than the Egyptian government. FIBE consequently lost one-quarter of its balance sheet. It would later recuperate much of it, but Islamic market shares stagnated in Egypt. Bolstered by Islamic windows in Banque Misr and other conventional banks, the Islamic sector finally recovered in the 2000s, almost again reaching 10 percent by 2011.

There may still be some untapped potential. The Arab Barometer survey was conducted in Egypt after the Revolution of January 25 had deposed President Mubarak and facilitated a climate of research where surveying political attitudes became possible. The results recorded in table 9.10 represent public opinion in mid-year, at a time of uncertainty before the elections conducted in December 2011 and January 2012 brought forth a parliament dominated by the

188) In fact, dropping both Secularism and Hardline Islam from the model would slightly increase its adjusted r-squared, from 23.6 percent to 25.5 percent (Cox and Snell), or from 31.4 percent to 34 percent (Nagelkerke). Family Values then becomes almost significant at the .05 level (p= 0.051). In a model excluding Family Values and Secularism, Hardline Islam is still statistically insignificant.

Muslim Brotherhood (46 percent) and the Salafists (24 percent). In March 2011 the military's Supreme Council of the Armed Forces (SCAF) had orchestrated a successful referendum that outflanked the more secularly inclined revolutionaries who were insisting on more time to deliberate about proposed constitutional changes. By the summer of 2011, Egypt was still very much at the beginning of a painful transition from Mubarak to the election of President Mohamed Morsi in June 2012 and his ouster on July 3, 2013. The survey thus occurred before sharper political polarization resulted in prolonged violence and massive government efforts to discredit the Muslim Brotherhood. During the relatively short time Morsi was in power, efforts were made to strengthen Islamic finance, but the legislation concerning sukūk remains a work in progress.

The survey results are of interest precisely because they convey, as in Algeria (but not Iraq), the separation of potential sympathies for Islamic finance from any version of political Islam. In addition to the general political orientations being analysed, the Egyptian survey included questions about party affiliation. Of the 1,219 Egyptians, only 8 were members of a political party, but an additional 95 intended to join one. Of these, only 46 expressed opposition to conventional banks, a bit above the national average of 33.5 percent noted in table 9.4. Among future recruits to the Freedom and Justice Party (Muslim Brotherhood), opinion was divided, with 15 opposed, 11 in favor, and two on the fence, not expressing consistent responses to the questions concerning interest-based banks. By contrast, all three al-Nour (Salafist) Party sympathizers opposed them and therefore might support Islamic finance.

The logistic regression results reported in table 9.10 show that secularism and Islam bear no direct or indirect association with Interest Rejection. They remain statistically insignificant even if only one of them is included in the regression. But at least during the summer of 2011, those who rejected conventional banks were significantly interested in politics. Elsewhere, in most of the Arab world—except Sudan and Republic of Yemen, where Islamic finance was relatively well established—potential customers seemed uninterested in politics, in Saudi Arabia significantly so (table 9.12). In Egypt, political interest was associated with secularism ($r= 0.16$, $p<0.01$) and opposed to hardline Islam ($r=0.305$, $p<.01$). The Egyptians who unconditionally rejected bank interest also distrusted the transitional government in power in the summer of 2011.

Table 9.10 Logistic Regression of Interest Rejection–Egypt

	B	S.E.	Wald	df	Sig.	Exp(B)	Correlations
Urban	0.501	0.154	10.573	1	0.001	1.651	.134**
Age	-0.008	0.006	1.854	1	0.173	0.992	-0.04
Female	0.054	0.202	0.071	1	0.79	1.055	0.026
Education	-0.05	0.047	1.151	1	0.283	0.951	0.047
Income$100s	0.067	0.045	2.272	1	0.132	1.07	.068*
Unemployed	0.011	0.186	0.003	1	0.954	1.011	0.009
Married	0.057	0.197	0.084	1	0.772	1.059	0.008
Christian	-1.828	0.637	8.24	1	0.004	0.161	-.099**
Religiosity	0.284	0.166	2.928	1	0.087	1.328	.062*
Trips West	-0.874	0.257	11.555	1	0.001	0.417	-.118**
Interest in Politics	0.216	0.102	4.502	1	0.034	1.241	.074*
Secularism	-0.178	0.136	1.724	1	0.189	0.837	-0.027
Hardline Islam	0.029	0.162	0.033	1	0.857	1.03	0
Family Values	-0.158	0.166	0.905	1	0.342	0.854	-0.006
Distrust of State	0.425	0.136	9.822	1	0.002	1.53	.151**
Constant	0.674	1.339	0.254	1	0.615	1.962	

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

Government initiatives, such as moving forward with the sukūk legislation, are driven by hopes of attracting more GCC funding. From the survey it seems there may also be potential clients at home who are interested in public affairs and apparently have little sympathy for Islamism in any of its political forms. Another possible side effect of further government initiatives could be to shore up Salafist support for the incumbent regime.

Tunisia in Transition

When promised important Saudi investments to drain and develop swamps by the Lake of Tunis, President Habib Bourguiba admitted an off-shore Islamic bank as part of the deal. BEST Bank (renamed Al Baraka Bank Tunisia) even briefly acquired limited onshore status in 1988, but under President Ben Ali's regime the bank was not permitted to open new branches. His son-in-law Mohamed Sakhr El Materi opened Ez-Zitouna Bank in 2010, as part of Ben Ali's strategy to placate any potential Islamist opposition that had survived the vicious repression of the Islamist Nahda Party in 1991–92, in the wake of the Gulf War. Table 9.1 shows that it immediately gained market share before the Tunisian Revolution of January 14, 2011 overthrew Ben Ali and the state took over the assets of his 113 family members and cronies, including the Zitouna Bank.

The bank continued to flourish, however, with market share increasing from 2012 to 2013. Despite the country's turbulent transition to democracy as well as Zitouna's dubious origins, Islamic finance steadily grew. The bank was in government receivership, yet its deposits increased by 45.7 percent in 2013. [189] As in most of the Arab countries, a devout constituency seemed ready to support Islamic finance.

Table 9.11 Logistic Regression of Interest Rejection–Tunisia

	B	S.E.	Wald	df	Sig.	Exp(B)	correlates
Urban	-0.22	0.196	1.293	1	0.255	0.8	-0.049
Age	0.004	0.009	0.22	1	0.639	1.004	0.054
Female	0.228	0.198	1.331	1	0.249	1.256	-0.021
Education	-0.05	0.068	0.52	1	0.471	0.952	-0.021
Income$100s	-0.01	0.014	0.7	1	0.403	0.988	-0.052
Unemployed	-0.53	0.178	8.945	1	0.003	0.588	-0.065
Married	-0.1	0.235	0.171	1	0.679	0.908	0.034
Religiosity	0.317	0.118	7.269	1	0.007	1.373	.136**
Trips West	-0.02	0.112	0.018	1	0.894	0.985	-0.032
Interest in politics	-0.04	0.107	0.135	1	0.714	0.961	0.013
Secularism	0.03	0.157	0.038	1	0.846	1.031	-0.015
Hardline Islam	-0.09	0.198	0.208	1	0.649	0.914	0.007
Family values	0.22	0.213	1.061	1	0.303	1.246	.091**
Distrust of state	0.312	0.121	6.632	1	0.01	1.366	0.043
Constant	-1.6	1.156	1.918	1	0.166	0.202	
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

The logistic regression reported in table 9.11 shows that religiosity, coupled with being employed and distrusting state institutions, retains statistical significance in the multivariate analysis. Behavioral Religiosity trumps conservative Family Values as well as Secularism and Hardline Islam; that is to say, none of the ideational variables is a significant correlate, even if the others are removed from the model. In short, the Tunisians who might support Islamic finance seem quite removed from any partisan politics. Within the sample, the 47

189) Zitouna deposits exceeded those of BEST (renamed Al Baraka) Bank by the end of the year. See APBT (2012, 54; 2013, 52).

respondents who claimed they were planning to join the Nahda Party appeared a bit more hardline Islamist than the national average, but they were also less unconditionally opposed to conventional bank interest. During Tunisia's political transition, Islamic banking was not a political issue; it is better known as "participatory finance" and seems likely now to steadily expand its market share. The less Nahda promotes it, the more promising its prospects may be for including religious Tunisians who otherwise reject banks altogether.

In sum, the North African countries for which Arab Barometer survey data are available offer bright prospects for Islamic finance. Neither wealth nor gender turned out even in Algeria to significantly condition attitudes toward bank interest. Thus Islamic banks may appeal across a broad range of populations in these countries. In North Africa, it may find ready constituencies not particularly interested in politics, but for whom family values and religion are important aspects of their daily lives.

Portfolio Diversification in Saudi Arabia

Further analysis of the Saudi data may suggest why Islamic finance achieved its headstart in the GCC countries. The hypothesis of portfolio diversification can be further examined in light of the ideational as well as personal characteristics already discussed. The logistic regression with the full set of variables produced surprising results.

Table 9.12 Logistic Regression of Interest Rejection–Saudi Arabia

	B	S.E.	Wald	df	Sig.	Exp(B)	correlations
Urban	-0.23	0.384	0.36	1	0.549	0.794	-0.049
Age	0.032	0.01	10.932	1	0.001	1.033	.101**
Female	0.06	0.247	0.059	1	0.808	1.062	0.001
Education	0.026	0.071	0.133	1	0.715	1.026	0.044
Income$100s	0.02	0.006	11.298	1	0.001	1.02	.127**
Unemployed	0.075	0.226	0.112	1	0.738	1.078	-0.025
Married	-0.22	0.254	0.739	1	0.39	0.804	0.018
Religiosity	0.771	0.204	14.278	1	0	2.163	0.012
Trips West	0.045	0.091	0.238	1	0.626	1.046	0.015
Interest in Politics	-0.42	0.098	18.597	1	0	0.656	-.210**
Secularism	-0.26	0.158	2.633	1	0.105	0.774	0.056
Hardline Islam	-0.78	0.177	19.492	1	0	0.459	-.173**
Family Values	-0.37	0.208	3.201	1	0.074	0.689	-.155**
Distrust of State	0.023	0.16	0.021	1	0.884	1.024	.065*
Constant	1.131	1.304	0.751	1	0.386	3.098	

Source: Arab Barometer, Second Wave

Note: Significance level: * = 5 percent (2-tailed), ** = 1 percent (2-tailed).

Age, income, positive disinterest in politics, Hardline Islam, and Family Values all kept their statistical significance, and personal religiosity became a strong predictor of Interest Rejection, while any distrust in state institutions vanished in this multivariate analysis. The hardline version of Islam remains negatively correlated, holding the other variables constant.[190] In other words, a more liberal Muslim is more likely to reject interest than a more hardline fundamentalist. Religiosity, expressed in daily behavioral routines, is still strongly correlated with the rejection of interest when the effects of the other variables are held constant in the multivariate analysis. But Family Values also works in a surprising direction. More liberal family values, not conservative ones, are significantly correlated with rejecting interest.

In short, the picture of the Saudi clientele depicted by the survey is one of wealthy and aging individuals, not particularly dissatisfied with state institutions but turned off by politics and basically liberal in outlook, at least in the context of Saudi Arabia. Their broadly liberal outlook was perfectly compatible with high degrees of religiosity, or religious practices in daily life. Working with Islamic rather than conventional banks was perhaps part of their religious way of life, although in Saudi Arabia virtually the entire retail sector is shari'ah compliant. The survey sheds light on the individual motivations behind the high demand for sukūk and other Islamic financial instruments open to private investors. It seems to be the relatively wealthy investors from GCC countries who motivated the big international banks to expand their shari'ah-compliant menu of investment options. These banks, in turn, will finance the Saudi and other GCC treasuries dependent on oil revenues that continued their decline in 2015.

Conclusion

The biggest finding from the survey data is the broad rejection of conventional bank interest and consequent potential of Islamic finance in the region. Roughly half of the populations sampled have some affinity for one of the leading ideas behind Islamic finance, the rejection of making money out of money. And for the most part, they have little interest in politics, much less political Islam.

Before drawing conclusions about the apolitical nature of Islamic finance, however, it seems only fair to turn briefly to the other countries represented in the Arab Barometer survey to check for possible correlates of the potential constituencies for Islamic finance with political variants of Islamism. Accordingly, the logistic regressions for each country are

190) When Secularism was removed from the model, Hardline Islam and Family Values gained in statistical significance to the .000 and .033 levels of significance, respectively, with slightly smaller Betas of -.581 and .425.

Table 9.13 Logistic Regressions of Interest Rejection

	Jordan		Lebanon		Palestine		Sudan		Yemen	
	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.	Exp(B)	Sig.
Urban	1.049	0.786	1.471	0.391	1.369	0.034	1.518	0.029	1.232	0.255
Age	1.008	0.202	0.995	0.553	1.02	0.004	1.018	0.096	1.006	0.605
Female	0.727	0.063	1.5	0.037	1.347	0.113	0.628	0.028	1.551	0.03
Education	1.114	0.054	0.917	0.173	1.092	0.125	1.333	0.000	1.158	0.02
Income$100s	0.993	0.566	0.985	0.222	0.996	0.715	0.973	0.269	0.976	0.376
Unemployed	0.964	0.827	1.096	0.622	0.661	0.026	1.21	0.428	0.794	0.291
Married	0.923	0.608	1.087	0.69	0.74	0.132	1.422	0.183	1.32	0.207
Christian	0.535	0.194	0.169	0.000	0.299	0.077	n.a.	n.a.	n.a.	n.a.
Religiosity	1.403	0.003	1.278	0.021	1.382	0.008	1	0.998	1.115	0.533
Trips West	0.954	0.538	0.86	0.131	0.799	0.026	0.822	0.1	0.914	0.66
Interest in Politics	1.007	0.931	1.053	0.558	0.996	0.962	0.996	0.973	1.226	0.042
Secularism	0.901	0.39	1.318	0.106	1.014	0.92	1.002	0.99	1.035	0.826
Hardline Islam	0.854	0.242	1.055	0.804	1.716	0.000	1.136	0.496	1.838	0.002
Family Values	2.251	0.000	1.271	0.17	1.965	0.000	1.628	0.02	1.533	0.036
Distrust of State	1.06	0.586	1.182	0.128	1.021	0.789	1.209	0.122	1.491	0.001
Constant	0.138	0.044	0.223	0.232	0.071	0.018	0.024	0.005	0.003	0.000

Source: Arab Barometer, Second Wave

briefly summarized in table 9.13, presenting the exponents of the Beta coefficients and theirstatisticalsignificance.[191]

In this multivariate analysis, Hardline Islam still retains statistical significance in the Palestinian and Yemeni samples. In West Bank and Gaza, however, any putative association of hardliners with Islamic finance elicits little political interest. That is to say, interest in politics is statistically unrelated to interest aversion, whatever one's understanding of Islam. Among the Palestinians, moreover, interest in politics is significantly related to secularism (r=.093, p<.002), and definitely not to Hardline Islam (r=-.090, p<.002). In this respect, the Palestinians resemble the Egyptians discussed earlier. Only in Republic of Yemen does interest in politics go hand in hand with Hardline Islam, family values, and distrust of state institutions, constituting a powerful Islamist clientele for Islamic finance. Republic of Yemen, however, remains one of the most underbanked countries in the Arab region, despite Islamic banking's 42 percent market share (table 9.1).

While the survey cannot specify banking behaviors, its rich political data collected in the wake of the Arab Spring do help place other information about Islamic banking in perspective. Except in Algeria, the Republic of Yemen, and possibly West Bank and Gaza, the potential constituencies for these banks really seem to be apolitical. In Algeria the government might benefit from channelling its interest in politics into Islamic finance. Its potential constituency for Islamic banking generally supports state institutions, so that promoting this form of

191) Any Exp(B) below 1 connotes a negative correlate. Among the Jordanians, for example, being a female was negatively correlated with Interest Rejection: a female is (1-.727=) 27 percent less likely to reject bank interest. Any Exp(B) above 1 connotes a positive correlate. In Jordan, for example, the most statistically significant correlates of Interest Rejection were Religiosity and Family Values. Holding everything else constant, an increase of Religiosity of one unit on a four-point scale was associated with a 40 percent greater likelihood of rejecting conventional interest-based banking. An increase of one unit in Family Values, also measured on a four-point scale, was associated with a 125% greater likelihood (or odds of over 2 to 1) of rejecting conventional interest-based banking.

banking might be one way of gaining support for restructuring and diversifying Algeria's economy. Comparisons with Iraq are enlightening. Both oil economies, with similar overall GDPs, have underdeveloped financial surfaces, the product of years of state bank monopolies as well as subsequent brutal war and violence. Table 9.3 indicated Iraq's banking assets to be less than half Algeria's. Yet Iraq's Islamic banking has already gained an important foothold in its fragile commercial banking system, whereas Islamic banking has stagnated in Algeria. The survey suggests that it may be an important vehicle for recuperating Sunni support in Iraq. In Algeria's underbanked system, it might also offer greater political and social as well as financial inclusion.

As for Tunisia, the very apolitical nature of its potential constituency for Islamic or "participatory" finance is a distinct advantage. Both Egypt and Tunisia witnessed revolutions being "hijacked," in the view of many, by the Muslim Brotherhood and its Tunisian cousins. While the political transitions took different directions, one common outcome was increased polarization, in Tunisia as well as Egypt, between political Islamists and their religiously more neutral compatriots. By remaining carefully aloof from politics, the banks have better chances of improving their market shares. Previous authoritarian regimes kept a tight lid on Islamic finance, for fear of any association between Islamic finance and Islamist political oppositions. But the Arab Barometer survey data clearly point to the absence of such a relationship. On the ground in Tunisia, moreover, Ben Ali' cynical use of Islamic banking may have compromised it in the eyes of the Nahda Party. Its sympathizers in the survey showed less concern about conventional bank interest than their compatriots on average. In Egypt it was the Salafists rather than Muslim Brothers who seemed most concerned. And despite the political interest associated in Egypt with Islamic finance, the survey results indicate that the authorities need not fear any connection between financial and political Islam.

The governments of Egypt and Tunisia are likely to encourage Islamic banking and finance not so much to satisfy domestic demand as to encourage more investment from the GCC countries. Here again, the survey results point to potential demand for sukūk and other forms of shari'ah-compliant investment from wealthy Saudi families. But as to whether Islamic finance may become really inclusive and self-sustaining across the Arab world, the surveys can only point to a vast potential clientele, part of an arc stretching from Sub-Saharan Africa across to Southeast Asia. As part of a community of practicing Muslims, principally defined in the survey by "Religiosity" and "Family Values," it may overcome the religious objections of some and bring more people out of informal economies. Better time-series data are needed to understand the conditions under which Islamic finance may actually mobilize wealth that would not otherwise circulate and put it to constructive uses.

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