

# The Role of Islamic Banks Operating in Jordan in Economic Development

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## Abstract

The study aims to identify the role of Islamic banks in Jordan in economic development. The research concludes the following results:1- The statistical analysis shows that there is a statistically significant relationship, despite the achievement of Islamic banks operating in Jordan high rates of growth in the size of their assets and deposits by employing them, but their contribution in economic development in Jordan is still marginal compared with the contribution of the Jordanian banking system ,where it reached the arithmetic mean of 4.4 and standard deviation of 0.81.2- Statistical analysis shows that there is a relationship with significance, there is no statistical differences in the relative importance of the problems and constraints facing Islamic banks operating in Jordan during the course of financing and investment to achieve economic development in Jordan. Where the arithmetic mean of 4.2 and the standard deviation of 0.80.

**Keywords:** Islamic banks, murabaha, shari'ah, musharakah, economic development, funding priorities , local sources of income.

## 1.0 Introduction

Islam has come to organize the social and economic life for all members of community which included the various aspects of life as a system or integrated Sharia. The most notable of the Islamic economic system is characterized by its clarity and balance which is differs from all of other economic systems due to a great dealing of conventional banks with interest. Therefore the Islamic system seeks to avoid collision with beliefs and traditions of the people derived from the heritage of Islamic thought.

Islamic banks are one of the most important achievements of the modern Islamic awakening in the field of economic activity as an endeavor to contribute to solving some of the problems experienced by Muslim countries.

The seventies and eighties of the last century witnessed, a rapid spread of Islamic banks in the Arab and Muslim worlds, but this phenomenon has taken its way in many countries of Western capitalism. The reasons behind the rapid spread of Islamic banks in not only attributed for the religious considerations that constitute the main motive for the establishment of these banks, but also there are sound theoretical foundations and important economic considerations and social on which the system of Islamic banking is based. (Saleh, 1991).

Banks play an important role in the economic, as they are the basis of the modern economy system, cannot imagine the international trade now in isolation from them, but the Jordanian people and often the people of the Muslim world believe in the prohibition of Interest, and therefore, fall into a great wrong in dealing with the conventional banks due to their dependence on interest-based system. Hence the role of Islamic banks is to meet the desire of Muslims who live in the Arab and Islamic countries and the rest of the world. However, Islamic banks, although were performing this purpose, they have developmental purposes, which the commercial banks cannot do, they have greater ability to collect savings from the middle , low-income groups, and also from religious believers ,poor and, rich. (Mokdad and Helles, 2005).

Despite ,the enormous natural and human resources and capabilities endowed to the Muslim world, most of our Muslim countries suffer from poverty that is ,more than two thirds of the Member States of the Organization of the Islamic Conference( OIC)are within the circle of the poverty among the poorest countries of the world, according to statistics provided the average of GNP(per capita income) for the Member States of the Organization of Islamic Conference(OIC). Therefore, the economic development is the biggest challenge facing our nation in the modern age, the Islamic banks of all kinds and forms have a special responsibility in the advancement of this task as it is confronted with the responsibility for managing money, since money, as we all know, is the backbone of banks ,they have undertaken the commitment to Islamic ruling, people expect a lot from them in solving their economic problems and meet the basic requirements of Islamic life.

(Ali, 2001, pp. 9-10).

To study the importance and role of Islamic banks financing of development, investment and capital investment operations, in Jordan.

Islamic banks have created some kind of banking dealings which did not exist before in the conventional banking sector. They have introduced grounds for dealings between the bank and the client that depend on the participation process in profits and losses and the joint participation in the effort by the bank and the client, instead of the traditional dealing principle based on the principle of debt (the debtor / creditor), and providing funds only, without participating in the work.

## **2.0 Reason behind the importance of the existence of Islamic banks are:**

- 1 - Meeting the desire of Muslim communities in finding channels to deal with banking away from the use of interest rates.
- 2 - Finding the field for applying the jurisprudence of transactions in the banking activities.
- 3- Islamic banks are the practical application of the principles of Islamic economics. (Kantakji)2008.

## **3.0 Objectives of the study**

The study aims to introduce investors to Islamic banks so that they become familiar with these banks and in the methods and areas of investment in these banks. Which may be unknown to many people due to the novelty of their inception, and the spread of rumors around them, and skepticism in their work and the extent of their contribution to development, away from dealing in the interest, taking or giving The research aims to study the developmental role of Islamic banks in Jordan, and goals can be formulated as follows,a

**First:** To identify the reality of Islamic banks.

**Second:** To identify the role of Islamic banks in financing of development.

**Third:** To make appropriate proposal for Islamic banks to achieve an important role in economic development.

The study aims to identify the role of Islamic banks in financing investment in general and long-term investment in particular in Jordan, it also aims to determine the size of the investment of these banks inside and outside Jordan.

The study also aimed at identifying the Causes of weakness of Islamic banks in financing long-term projects and development, and looking for methods that can be used to urge the Islamic banks to return to play their genuine role, namely to contribute to financing the development through direct investment or to participate in financing long-term projects in different areas of the economy. And to identify the size and percentage of contribution of Islamic banks operating in Jordan in financing economic sectors, and on the contribution of these banks in providing direct job opportunities in Jordan.

To identify the appropriateness of the size and number of units of Islamic banking required for Islamic banks in Jordan, in turn to take their role and, to support the Jordanian economy, the most important Causes of weakness of proliferation and their failure to open new branches and spread in the cities of Jordan.

The goal of an Islamic bank as was said by( Baali ) «move the energies inherent in the community to reach out the maximum productivity possible, to ensure that the desired change according to sharia, no doubt that moving the potential energy in the society regardless of the type of these energies whether human or material or other, it is a type of change in the society sought by Islamic banks as one of the objectives of Islamic law.

## **4.0 Problem of the study**

Islamic law stimulates the owners of capital to invest their money and run it, but many people may not have sufficient experience in running business ,thus, resulted in paying of their money to some people who have experience in business, in order to run their money safely.

The emergence of such banks in Muslim societies some people of which are ignorant of the nature of their work, a lot of them rush to deal with those banks, especially for non-inhibition of those transactions by the association of Muslim scholars at that time ,until it has become accustomed for the people in dealing with those banks. As well as for the services of those in the development of economic progress, the traders get benefit from their business transactions inside and outside the country and at the level of the world, and they are secured about their money in the banks, which encouraged many people in the Muslim world to deposit their money in those banks they increased the confidence of the people in them over time.

The emergence of Islamic banks in several countries with the systems they adopt, based on the principle of participation , speculation and Murabaha, has a significant impact in giving confidence for many people who were avoiding dealings with conventional banks, they came into existence in the mid of seventies of the last century and spread in many countries of the world.

From this standpoint emerged the problem of this study which focused on the main question of this research; what is the role of Islamic banks in economic development in Jordan?. The importance of this study is finding out the roles played by these banks in the process of economic development in Jordan

### **5.0 Questions of the study.**

- 1 - What are the objectives those Islamic banks operating in Jordan seek to achieve through their various financing activities? What funding priorities of the economic sectors have implemented by the Islamic banks operating in Jordan? What is the role of their employees in achieving that? Does a merger between those banks contribute to the achievement of the objectives of these banks from the point of view of the workers?
- 2- What is the role of Islamic banks operating in Jordan in economic development in terms of: the size of assets, total deposits, investment, paid-up capital and total investments? and employing them in ways such as Murabaha, participation and speculation, and lease financing and what is their contribution to GDP in providing employment directly and spread the awareness of banking system in Jordan?
- 3 - What are the causes of weakness and reluctance of Islamic banks operating in Jordan to open new branches and spread in the cities? And What are the reasons behind the weakness and the reluctance of Islamic banks operating in Jordan for providing funds in methods of participation ,speculation and leasing sale?
- 4 - What are the problems and constraints facing Islamic banks operating in Jordan, which limit their development and prevent them from achieving their goals?
- 5 - What is the role of the Monetary Authority of Jordan, as a supervisor, in supporting and encouraging the Islamic banks in economic development in Jordan? And what are the prevailing views among workers in the Islamic banks in Jordan on the situation of Islamic banks operating in Jordan?

### **6.0 Hypotheses of the study**

the study hypotheses are summarized in the following:

- 1 - despite the achievement of Islamic banks operating in Jordan high rates of growth in size of their assets , deposits and different utilization, their contribution to economic development in Jordan is still marginal compared with the contribution of the other banks in Jordanian banking system.
- 2 - No differences in the relative importance of the problems and constraints facing Islamic banks operating in Jordan during their operations of finance and investment required to achieve economic development in Jordan.

### **7.0 Methodology of the Study**

An analytical descriptive approach is used. Secondary information has been obtained from specialized studies and scientific sources, while primary information was generated through a questionnaire.

### **8.0 Population of the Study**

The studied population consist of 30 Islamic Banks branches. Fifty copy of questionnaires were distributed to administrative officers, in Jordan Islamic Bank, Islamic International Arab Bank, and Jordan Dubai Islamic Bank, of which 44 responded.

### **9.0 The definition and origins of Islamic banks**

Many writers found considerable difficulty in reaching a specific definition of Islamic banks, many definitions came in the writings of them that were not much different in the intent, however, they came to show the work carried out by these institutions.

The agreement for the Establishment the International Federation of Islamic banks, defined, in the first paragraph of Article V of the Islamic banks. Islamic banks meant in this Regulation, those banks or institutions that their basic law and their rules explicitly state the adhering to the principles of Sharia, and not to deal in interest, taking and giving.

The definition of the Islamic Bank in the "economics of money, banking and international trade" for "Mubarak and Younis," that: «financial institution aimed at pooling funds and savings from all those who do not want to deal with Reba (interest) and then work to employ them in different fields of economic activity, as well as providing various banking services for customers in accordance with Islamic Sharia and support the objectives of achieving economic and social development in the community.

Some studies mentioned the historical emergence of Islamic banks, where, the idea of Islamic banking without interest on Islamic basis started in a rural area in Pakistan at the end of fifties, and then subsequently spread to the Muslim world, and the second experiment in the city of Meet Ghamour in the governorate of Dakahlia Egypt's Nile Delta in 1963, but this experiment was disrupted and finally stopped in 1967, because of malicious rumors against it after having achieved success lasted for four years, and in 1966 began the teaching paper of

Islamic economics at the University of Omdurman in Sudan and come out a project bank with no interest, but have occurred circumstances prevented its implementation, in the law of its establishment Provided for not dealing in banking interest, taking or giving, and in 1971, Nasser Social Bank was established, which is the first bank in the law of its establishment provides for not to deal with banking interest, taking or giving, and the nature of the transactions of the bank focused on the social activity and not the banking primarily. While in Jordan, the beginning was in 1978 through the Jordan Islamic Bank for Finance and Investment, and then followed by the International Arab Islamic Bank in 1997 and Jordan Dubai Islamic Bank in 2010 and Al Rajhi Bank in 2011. Also we should point out here the existence of investment and finance companies Islamic in nature of their work to grant funding only, without accepting deposits, this, of course, which confirms that there is great demand for Islamic products and services. There are also many banks that seek to obtain the necessary approvals from the monetary and legitimacy authorities to precede the practice of Islamic banking in Jordan's banking environment. Here, it should be noted that the Central Bank of Jordan currently does not grant approvals for new Islamic banks to open but allows banks to shift from non-Islamic banks, to Islamic, and there are a number of foreign banks looking to work in the banking market of Jordan, including the Abu Dhabi Islamic Bank and Kuwait Finance House and others. The Islamic banks offer services and products under Islamic banking regulations and legitimate determinants, on one hand, and administrative policies and procedures are governed by internal policies and objectives of the bank, on the other.

The investment depositary accounts is one of the most important sources of funding for the Bank and usually wants the owners of those accounts to achieve attractive returns for investing these funds in various areas of Islamic finance. Thus, for the Islamic banks to compete with conventional banks, it is necessary to manage these accounts and invest them in efficient and effective a manner, so that the bank achieves the highest return possible and at the lowest possible risk, therefore acquire the confidence and credibility that help to spread and expand its customer base and not the opposite.

#### **10. Characteristics of the Islamic Banks**

The Islamic banks have an important role in the economy of the country for being an effective organ, it works efficiently and can compete with financial institutions and investment of non-Islamic, and to contribute in advancing the economic development besides achieving the social level the development of cooperation, solidarity and brotherhood among the community members, depositors, investors and employees in the bank, as the Islamic Bank is one of the tools of applying the principle of social solidarity in the Islamic system in the present era. Mashoor (1991)

Therefore, any Islamic banking system should consist of three basic elements:

- 1 - A large number of participating parties involved to provide the depth of the system.
- 2 - A wide variety of devices to meet the various needs of customers of financial institutions.
- 3 - Market of an Islamic banking exchange links among the parties, institutions and devices (Al-Tantawi: the Muslim World League Journal, Q 33, August 1995, p 27. And is based on following basic pillars:
  - That the sources and employment of money must be (Halaal) lawful.
  - The investment of capital must be away from the suspicion of usury.
  - The distribution of returns is between the owners of money and those who manage and employ them.
  - That the truly needy people have the right in the assets of those who are able to pay through zakat.
  - The Shari'ah is the basis of audit and oversight in the work of Islamic banks

Islamic banks are radically different, in their style, from traditional banks, in that the latter are mainly aimed at profit and have no other aim, while the Islamic banks are seeking primarily the development of community and raising it materially, and not to ignore the profit target, but it ranked second (Alameddine) Encyclopedia of banks, both legal and practical, part1. 1993, p 126.

The banks have created regulations to deal with the investment in all economic sectors, which are forms of Islamic investments (Murabaha, Musharaka, Mudaraba, Istisna, ...) In addition to other types or forms investments suitable for the use in all activities.

The differences between the two pillars are as follows:

- 1- Determination of work as a source of earning money and not to consider money as the only source of earning in the banking activity.
- 2- Determination of the principle of participation in gain or loss represented by Mudaraba and Islamic partnership as substitute for the principle of secured gain in the fixed interest rate.
- 3- To correct the role of capital in the community as a servant to its own interests and not as an independent entity in isolation from the society and its own interests and necessary needs. A group of scientists wrote: Abdul Halim Aweys, Encyclopedia of Islamic jurisprudence, the contemporary fulfillment. Dar Al, Mansoura, i 1. 2005, p.2.

## 11. Operational Definition

### Definition of Murabaha-

When Islamic bank purchases item for customer in Islamic financing, an arrangement in which a bank purchases an item for a customer provided the customer agrees to purchase it from the bank at a prearranged higher price.

### Definition of Musharakah-

A joint enterprise or partnership structure with profit/loss sharing implications that is used in Islamic finance instead of interest-bearing loans. Musharakah allows each party involved in a business to share in the profits and risks. Instead of charging interest as a creditor, the financier will achieve a return in the form of a portion of the actual profits earned, according to a predetermined ratio. However, unlike a traditional creditor, the financier will also share in any losses

### -What is shari'ah?

Shari'ah is the set of rules derived from both the Holy Quran and the authentic traditions (Sunnah) of the Prophet (peace be upon him) and the scholarly opinions (Ijtehad) based on Quran and Sunnah

What is the meaning of zakat?

**Zakat** (or Alms giving) is the third pillar of Islam -

Zakat means that every Muslim whose net annual savings are above a certain specified amount must pay an annual amount of 2.5% to the poor and the needy.

**-Riba** means Interest. Riba is forbidden in Islamic economic jurisprudence fiqh and considered as a major sin. Simply, unjust gains in trade or business, generally through exploitation.

There are two types of riba discussed by Islamic jurists: an increase in capital without any services provided and risk-taking, which is prohibited by the Qur'an, and commodity exchanges in unequal quantities, also prohibited in the Qur'an.

**-Murabahah** this concept refers to the sale of goods at a price, which includes a profit margin agreed upon by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement. The bank is compensated for the time value of its money in the form of the profit margin. This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of profit determined by the profit margin. The bank is not compensated for the time value of money outside the contracted term (i.e., the bank cannot charge additional profit on late payments); however, the asset remains as a mortgage with the bank until the default is settled.

## 12. Concept of economic development

Economic development is represented in changing the two structures economic and social change that would move the national economy from the backward, characterized by low level of productive efficiency and deviation of the economic structure to advanced economy characterized by a high level of productive efficiency in light of balance of structural relationships among the core of productive sectors .Farhan, 1991, p. 3.

Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. Economic development can also refer to quantitative and qualitative changes in the economy. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor aiming at economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP Consequently, as economist Sen, A (1983).

Economic development' is a term that economists, politicians, and others have used frequently in the 20th century. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used when discussing economic development. Although no one is sure when the concept originated, most people agree that development is closely related to the evolution of capitalism and the demise of feudalism.<sup>( R. Conteras).</sup>

Economic development has been understood, since the World War II, to involve economic growth, namely the increases in per capita income, and (if currently absent) the attainment of a standard of living equivalent to that of industrialized countries.<sup>( Mansell, R & and When(1998)</sup>

Economic development can also be considered as a static theory that documents the state of an economy at a certain time. Schumpeter (2003)

### 13.0 Economic development objectives

Economic development has multiple and various objectives for all countries, whether developed or developing, however these goals are different largely in developed countries than those of developing countries, in developed

countries it means pursuit of these countries to a large extent to achieve high levels of, scientific and technological progress, and the high rates of economic.

In developing countries, the objectives of development, are considered the way out of the circle of backwardness and access to self-growth in future, Hence we find that the general objectives for economic development in developing countries, can be summed up in seeking to satisfy the needs of all members of the society, in fairness and balance by increasing production, raise the level of national income, and fair distribution of income in the community, note that there are many sub-goals of economic development, differ from one society to another according to their different circumstances, whether political or social or economical, each stage of development and progress in the community has objectives also, the general objectives for economic development in developing countries can be summarized as follows:

1 – raising the real national income:

Represent in an increase of real national income in developing countries which is the most important goal of the economic development of those countries, most developing countries suffer from poverty and low standard of living of its population, the term of national income refers to the total GNP of final goods and services produced by the various economic resources of society during a specific time period, the increase in national income is real if an increase of income achieved, as a result of a deep structural changes in all sectors of the economic structure of society, and perhaps it is clear that an increase in real national income, is the determining factor for increasing real per capita income. Erekat, (1992)

2 - Raising the standard of living:

There is no doubt that close relationship, which is often direct, between increased income and high standard of living in the society, whenever there is an increase in national income, the higher is the average per capita income, and, thus leading to higher standard of living of the members of the society.

Economic development is not only a means to increase the national income, but also is a means to raise living standards. This is because economic development, may succeed, to some extent, in increasing the national income, but this increase may not be accompanied by any change in standard of living, especially, when there is a control of a particular category on the sources of economic activity in the society, or when there is an increase in population by more than the increase in national income.

3 – Reducing the disparity in the distribution of income and wealth

Reducing inequality in the distribution of income and wealth, is considered a target for the economic development process, most developing countries, which suffer from low national incomes, and low average of per capita, face the imbalances in the distribution of income and wealth.

It is normal to have a disparity in the distribution of income and wealth a negative impact on society, represented in majority lacking the sense of social justice, which creates classes in society, leading to expand the social gap among the members of the society, no doubt, that creates the right climate for the spread of hatred and resentment among the society members, and this in turn means also a waste of economic development resources, while the increase in the production capacities of the community resulting from the economic development process, leading to redistribution of income in favor of the wider part of society, rather than in the hands of a specific category, as they are distributed through the national income, in form of individual income. Erekat, 2010, page 33.

4 - Providing the necessary funding for the economic sectors:

Economic development should seek to broaden the base of structural productivity, because economic development is not confined to merely increasing the national income, and increase in the average of per capita income, but rather seeks to expand in some important sectors in terms of economic, and technology, where it supplies these sectors the necessary needs of national economy to achieve growth and prosperity of society. The aim of economic development is to contribute to solve the fundamental problem, experienced by developing countries, represented in lack of coordination among the various economic sectors, and help to identify the needs of these sectors in preparation for their development.

#### **14. Internal sources of financing for economic development**

Means funding provided by local sources of fund, directed at the development of various economic sectors.

The most important internal sources of financing of economic development are represented in savings, the most important national savings is that of optional individuals savings, which is all the saving of people from their income, and savings of the business sector, which is saved by the projects out of their profits in the form of unallocated retained earnings and optional reserves for companies and compulsory savings for the government sector.

The most important internal sources of finance can be classified as follows:

1- The savings of family members represented in their real surplus between the income obtained and their

spending on consumers needs.

There are several factors that affect the level of household saving, such as: the desire to save and compactness, and hedge for the future, and although most of these savings are characterized by smallness in size from the standpoint of the individual, their representation in the aggregate size is not significant at the national level, it is noticeable that most of these savings went to the banks in the form of deposits, investment, some have resorted to spending on luxury goods, while others may hoarding.

2 – Saving of the private sector (business sector):

The undistributed profits in the enterprises and companies of the private sector, as well as the various reserves taken out of profits is the most significant components of the private sector savings, which can be invested in buying of shares and bonds of government. Ajamieh, (2001) . Page 2.

3 - Saving of the public sector:

"The government savings in the surplus of normal government revenues over the normal government expenditure ", constitutes the most important government revenue from taxes duties, fines and licenses imposed in the state, the most important expenses of the government sector is represented in the expenses of institutions, ministries and government facilities such as salaries and different administrative expenses, the difference between these revenues and expenditures represents the Saving or deficit in the public sector . (Farhan, (1991).

The developing countries suffer from the small size of these savings, and probably there is a endemic phenomenon in these countries where is a rapid increase in the government consumption, leading to destruction of their resources and demise of their savings, where most of them now largely suffering from a deficit in their budget and aggravation in their debts.

### **15. External Sources in economic development financing**

Foreign aids consist of grants which are not included within the external debt, but considered soft loans in it , where they are conducted in accordance with the terms and conditions which is easier than those of prevailing in international financial markets, interest rates on soft loans are less than those at the normal levels, where they have grace periods usually are long, or the repayment period, which lasts for long time.( Abdul-Aziz, 1998, p 408) .

These aids are often given in commodity aids, particularly for foodstuffs, and various services, which often are not given in form of cash, if it is so, probability of the loan to be paid with little importance by present value of the loan , provide the loan at low interest rate, and sometimes exemption from the obligation of paying premiums in the early years of the loan. The financial burden arising from the loan on the borrowing country is simple, this type of aids meet the most pressing needs in the underdeveloped countries, in view of what these countries suffered from a sever shortage in the food resources, these aids are provided to the beneficiary countries, in order to help them to raise economic growth rates without selecting a specific projects themselves, the beneficiary State should direct these aids for the developmental projects in accordance with the priorities set by them. Bakri, (1984), p122.

Out of all of the above, the Islamic banks obliged to contribute in the achievement of the objectives of economic and social development of their societies and in Islamic countries in which they operate, and as such development should be reflected directly in their investment strategies and funding formulas, and also in the Criteria for evaluating and selecting projects that they want to finance or participate in them.

#### **Review of Literature 16.0**

**A Study BY (Mokdad and Hillis, 2005), entitled: "The role of Islamic banks in financing economic development in Palestine."**

This study discussed the role of Islamic Banks in financing economic development in Palestine. The researchers depended on the published as well as a self-designed questionnaire prepared for this reason.

The study confirms the role of Islamic Banks in financing economic development from the theoretical point of view, but results of the field work assures, that Islamic Banks in Palestine could not play this role.

Although results show that Islamic Banks succeeded in supporting saving and collecting a reasonable amount of deposits, but they failed to support direct or indirect investment and facilitated loans especially in Palestine, and this will reduce the role of Islamic Banks in compliance with the economic development in Palestine.

The researchers proposed some important recommendations to improve the developmental role of Islamic Banks in Palestine, and we believe that those recommendations are valid elsewhere. Researchers assured the importance of planning, and trying to find alternatives to facilitate financing development,

Depending on Murabaha, and Musharaka. This includes the clearance of rules and principles for different ways of Islamic finance, which are valid for application under the Palestinian economy.

Researchers also confirmed the role that the Palestinian National Authority should play, to support the role of Islamic Banks in Palestine. Mokdad and Halas ,( 2005)- p. 239).

**A study conducted by Mashharawi (2003), entitled Evaluation of the role of Islamic banks in the economic development in Palestine**

This research aims to discuss and assess the role of Islamic banks operating in Palestine for the period (1996-2002) the phenomenon of a new bank in the financing of economic development in the banking business in Palestine using the financial analysis and percentages of the budget data collected for these banks, tow questionnaires were also distributed the first to administrative managers of these banks and the second to all workers in the technical divisions of the Islamic banks operating in Palestine in addition to the Cairo Amman Bank - Branch of Islamic transactions, the most important results indicated that despite the assets ,and deposits working of Islamic banks operating in Palestine have a high growth rates, they represent a small percentage of their counterparts in the Palestinian banking system, and most of their working of Murabaha.

Commercial sector occupies the highest priority of financing, as is the agricultural sector in the lowest of these priorities. Islamic banks operating in Palestine contributed in marginal proportions to gross domestic product (GDP) and in the labor force in Palestine.

**A Study conducted by Abu moammar(2005),entitled Measuring the quality of banking service in banks operating in the Gaza Strip**

The aim of the study is to measure the service quality of the banking system in Gaza strip and to determine the importance of the service quality items. Adding to that, the study measures the relationship between banking service quality and client's satisfaction. The sample of the study includes (166)questionnaires. The study concludes that understanding the client's expectations is very important to provide better banking service quality as well as achieving client's satisfaction. Furthermore, the measurement of service quality and the client's perception of the service is considered the main approach for the development and improvement of the banking service quality . In addition, the findings also show a significant relationship between the client's satisfaction and the provided service quality, and the client's continuous dealing with banks. Abu Mammam(2005) p. 77 – 105.

**Data analysis**

Table (1) Sample distribution according to sex

Sex	Frequency	percentage
Male	27	61,4
Female	17	38,6

The above table shows that the percentage of males reaches 61.4%, and females 38.6%.

Table(2) Subject distribution with respect to the variable do you think that your bank branch is sufficient to provide the service of Islamic banking in Jordan?

Do you think that your bank branch is sufficient to provide the service of Islamic banking in Jordan?	frequency	percentage
Yes	11	25
No	33	75

The above table shows that the percentage of **Yes** respondents have reached 25%, and **No** respondents 75%.

Table (3) Means, standard deviations and ranks, with respect to the item what are the reasons for not opening new branches for your bank?

No.	paragraph	mean	standard deviation	rank
1	there is no future plan for embranchment	4,2	0,83	first
2	presence of strong competition by the conventional banks	3,8	1,1	second
3	The unwillingness of management	3,6	0,89	third
4	High costs of opening new branches	3,5	1,0	fourth
5	lack of specialty and experience of Islamic banks	3,2	1,1	fifth

From the table above it appears that the paragraph there is no future plan for embranchment "was ranked first with a mean of 4.2 and standard deviation of 0.83, and in second rank came the paragraph" The presence of strong competition from conventional banks, "with a mean 3.8 and standard deviation of 1.1, and in the last rank



came the paragraph lack of specialty and experience of Islamic banks. "With a mean of 3.2 and a standard deviation of 1,1

Table (4) The sample responses with respect to the paragraph, does your bank work in financing in a manner of participation?

Does your bank work of financing in a manner of participation?	frequency	percentage
Yes	5	11,4
Not specified percentage	25	56,8
No	14	31,8

The above table shows that the percentage of **yes** respondents has reached 11.4%, not specified percentage of respondents 56.8%, and **No** has reached 31.8.

Table (5) Means, standard deviations and ranks ,with respect to the variable the reasons for not financing in a manner of participation

No.	paragraph	mean	standard deviation	rank
1	high degree of risk	4,4	0,75	first
2	Shortness and modernity of the age of bank	4,2	0,84	second
3	Lack of appropriate financing opportunities in Jordan	4,0	0,95	third
4	Absence of policies encouraging Islamic banks by the Investment Promotion Board	3,8	0,85	fourth
5	weakness of banking experience among Executive management of the Islamic banks	3,2	0,1	fifth

From the above table it appears that the paragraph "The high degree of risk" was ranked first with a mean of 4.4 and standard deviation of 0.75 and came in second rank the paragraph, "shortness and modernity of the age of bank" with a mean of 4.2 and standard deviation of 0.84 .in the last rank came the paragraph " weakness of banking experience to Executive management of the Islamic banks " with a mean of 3.2 and standard deviation of 1.0

Table (6) With respect to variable Does your bank work of financing in a manner of Mudaraba?

Does your bank work of financing in a manner of Mudaraba	frequency	percentage
Yes	8	18,3
Not specified percentage	19	43,2
No	17	38,6

The above table shows that the percentage of **yes** respondents has reached 18.2%. and not specific percentage of respondents 43.2%, and **No** has reached 38.6%.

Table (7) Means, standard deviations and ranks ,with respect to the item the reasons for not financing in a manner speculation

	paragraph	mean	standard deviation	rank
1	Shortness and Modernity of bank age	4,2	0,99	first
2	Lack of appropriate financing opportunities in Jordan	3,6	1,3	second
3	high degree of risk	3,4	1,2	third
4	weakness of banking experience among executive management of the Islamic banks	3,3	1,3	fourth
5	Absence of policies encouraging Islamic banks by the Investment Promotion Board	2,9	1,2	fifth

It appears from the above table that the paragraph" Shortness and Modernity of bank age " was ranked first with a mean of 4.2 standard deviation of 0.99,and in second place came paragraph" Lack of appropriate financing opportunities in Jordan " with a mean of 2.9 and standard deviation of 1.2,and in the last rank the paragraph"

Absence of policies encouraging Islamic banks by the Investment Promotion Board" with a mean of 2.9 and standard deviation of 1.2.

Table (8) With respect to paragraph does your bank work in a manner of lease financing?

Does your bank work in a manner of lease financing?	frequency	percentage
Yes	3	6.8
Not specified percentage	35	79.5
No	6	13.6

The above table shows that the percentage of **Yes** respondents has reached 6.8%, not specified percentage of respondents 79.2%, and **No** has reached 13.6%.

Table (9) Means, standard deviations and ranks

No.	paragraph	mean	standard deviation	rank
1	Shortness and Modernity of bank age	4.4	0.82	first
2	high degree of risk	4.2	0.84	second
3	Lack of appropriate financing opportunities in Jordan	4.2	1.0	third
4	Absence of policies encouraging the Islamic banks by the Investment Promotion Board	3.8	1.2	fourth

It appears from the above table that the paragraph " Shortness and Modernity of bank age " was ranked first with a mean of 4.4 and standard deviation of 0.82 and in second place came paragraph "The high degree of risk" with a mean of 4.2 and standard deviation of 0.84 " Absence of policies encouraging Islamic banks by the Investment Promotion Board " with a mean of 3.8 and standard deviation of 1.2 came in the last rank.

Table (10) Means, standard deviations and ranks

No.	Paragraph	Mean	Standard Deviation	rank
1	To contribute in the economic developmental plan in Jordan	4.5	0.75	first
2	to meet customer needs	4.3	0.71	second
3	To achieve the greatest possible profit for the bank	4.3	0.95	third
4	To achieve social utility for members of the Jordanian society	4.0	0.80	fourth

The above table shows that the paragraph " to contribute in the economic developmental plan in Jordan" was ranked first with a mean of 4.5 and standard deviation of 0.75 and came in second the paragraph "to meet customer needs" with a mean of 4.3. And a standard deviation of 0.71 in the last rank the paragraph " To achieve social utility for members of the Jordanian society " with a mean of 4.0 and standard deviation of 0.80.

Table (11) Means, standard deviations and ranks of the paragraphs

No.	Paragraph	Mean	Standard Deviation	rank
1	A high rate of compulsory cash reserve ratio imposed by the Monetary Authority on deposits	4.5	0.50	first
2	The absence of a favorable investment climate to invest in Jordan	4.1	0.78	second
3	Scarcity of skills and expertise of trained staffs of Islamic banking	3.6	1.0	third
4	Weakness of public confidence in the Islamic banks	3.5	1.3	fourth

The above table shows that the paragraph " A high rate of compulsory cash reserve ratio imposed by the Monetary Authority on deposits " was ranked first with a mean of 4.5 standard deviation of 0.50 and second rank came the paragraph, "the absence of a favorable investment climate for investment in Jordan", with a mean of 4.1, and a standard deviation of 0.78, and in the last rank came the paragraph " Weakness of public confidence in the Islamic banks" is with a mean of 3.5 and standard deviation of 1.3.

Table (1 2) Responses with respect to paragraph, do you support the idea of a joint investment projects among Islamic banks in Jordan?

Do you support the idea of a joint investment projects among Islamic banks in Jordan?	Frequency	percentage
Yes	38	86.4
No	6	13.6

The above table shows that the percentage of **yes** respondents has reached 86.4%, and **no** respondents 13.6%.

Table (13) Respondents with respect to paragraph do you support the idea of merger of Islamic banks in Jordan?

Do you support the idea of merger of Islamic banks in Jordan?	Frequency	Percentage
Yes	33	75
No	11	25

The above table shows that the percentage of **yes** respondents has reached 75%, and **no** respondents reached 25%.

Table (14) Responses with respect to paragraph what is the number of banks that deem appropriate to the need of the Jordanian society?

What is the number of banks that deems appropriate to the need of the Jordanian society?	Frequency	Percentage
One bank	19	43.2
Tow banks	23	51

The above table shows that the percentage of one bank respondents has reached 43.2%, and the two banks 51%.

Table (15) Means, standard deviations and ranks

No.	paragraph	mean	standard deviation	rank
1	Administration's desire to merge	4.4	0.95	first
2	The desire to success of the idea of Islamic banks and developing it	4.4	0.81	second
3	Supporting the ability of Islamic banks on competition	4.2	1.0	third
4	Maintaining the public confidence in the bank	4.1	0.84	fourth
5	Increasing the ability to support the economic development plans in Jordan	4.0	1.0	fifth

The above table shows that the paragraph "administration's desire to merge " is ranked first with a mean of 4.4 ,standard deviation of 0.95 and in the second rank came the paragraph, " The desire to success of the idea of Islamic banks and developing it" with a mean of 4.4. And a standard deviation of 0.81 and in the last rank came the paragraph "increasing the ability to support the economic development plans in Jordan." with a mean of 4.0 and standard deviation of 1.0.

No.	paragraph	mean	standard deviation	Table (16) Means, standard deviations and ranks rank
1	Islamic banks provide financing plan for the economic sector	4.5	0.69	first
2	Provide tangible facilities for Islamic banks which establish vital developmental project	4.2	0.82	second
3	Seeks to implement the plan of development of Jordan through the employment of resources of Islamic banks	4.0	0.93	third

The above table shows that the paragraph " Islamic banks provide financing plan for the economic sector " is ranked first with a mean of 4.5.and standard deviation of 0.69 and in the second rank came the paragraph, " Provide tangible facilities for Islamic banks which establish vital developmental project " with a mean of 4.2. and a standard deviation of 0.82 and in the last rank came the paragraph "Seeks to implement the plan of development of Jordan through the employment of resources of Islamic banks" with a mean of 4.0 and standard deviation of 0.93

#### Discussion of findings and recommendations

Hypothesis testing

##### The first hypothesis

Hypothesis	Standard Deviation	Mean	Significance level
despite the achievement of Islamic banks operating in Jordan high rates of growth in the size of their assets, and deposits by employing them, but their contribution in economic development in Jordan is still marginal compared with the contribution of the Jordanian banking system	0.81	4.4	0.05

The statistical analysis shows that there is a statistically significant relationship. despite the achievement of Islamic banks operating in Jordan high rates of growth in the size of their assets and deposits by employing them,

but their contribution in economic development in Jordan is still marginal compared with the contribution of the Jordanian banking system ,where it reached the arithmetic mean of 4.4 and standard deviation of 0.81.

**The second hypothesis**

The second hypothesis	Mean	Standard Deviation	Significance level
There are no differences in the relative importance of the problems and constraints facing Islamic banks operating in Jordan during the course of financing and investment to achieve economic development in Jordan	4.2	0.80	0.05

Statistical analysis shows that there is a relationship with significance, there is no statistical differences in the relative importance of the problems and constraints facing Islamic banks operating in Jordan during the course of financing and investment to achieve economic development in Jordan. Where the arithmetic mean of 4.2 and the standard deviation of 0.80.

**Recommendations:**

- Further studies on this topic should be conducted ,there is lack of previous studies.
- Directing the spotlight on the role of Islamic banking system in reducing losses in the light of the global financial crisis.
- work on the development of the government programs that encourage the establishment of Islamic banks.

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