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USING PROFIT AND LOSS SHARING (PLS) OF ISLAMIC FINANCE FOR FINANCING SMALL AND MEDIUM ENTERPRISES (SMES) IN LIBYA: SETTING UP A ROAD MAP

Abstract:

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Purpose: This paper aims to setting up a road map for using profit-and-loss sharing (PLS) type of Islamic financing to overcome the financial difficulties of SMEs in Libya.

Design/Methodology/Approach: The road map has been developed based on the conceptual framework of Ascarys's (2010) which use the Analytic Network Process (ANP) method, to analyse problems faced by Islamic banks when dealing with PLS financing.

Findings: The study found that (1) there is a finance gap in financing SMEs in Libya; (2) most Libyan firms have knowledge about the existence of Islamic banking and finance; (3) loan has interest is the highest important reason as to why Libyan SMEs do not apply for any loan from the bank; (4) the portfolio of Islamic finance worldwide is dominated by non PLS financing; and (5) the conceptual framework of Ascarys's (2010) includes three aspects of the lack of PLS in Islamic banks namely, problems, alternative solution and development strategies.

Research limitations: An empirical study is needed to provide more support to the suggested road map.

Originality/Value: This is the first study that proposal the use of PLS for financing SMEs in Libya. The paper demonstrated various issues for PLS financing of SMEs in Libya which could help policy makers to undertake some serious public policy issues by understanding motives for encouraging Libyan Islamic banks and SMEs to deal with such PLS contracts.

Keywords:

Profit-and-Loss Sharing (PLS); Islamic Finance; Islamic Banks; Small and Medium Enterprises (SMEs); Road Map; The Conceptual Framework of Ascarys's (2010); Libya.