

**T.C.  
SAKARYA ÜNİVERSİTESİ  
SOSYAL BİLİMLER ENSTİTÜSÜ  
İSLAM EKONOMİSİ VE FİNANSI ANABİLİM DALI**

**DEVELOPMENT OF ISLAMIC FINANCE IN BALKAN REGION:  
OPPURTUNITIES AND CHALLENGES**

**Rexhail MUSTAFI**

**MASTER THESES**

**Supervisor: Prof. Dr. Şakir GÖRMÜŞ**

**APRIL- 2022**

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**MASTER THESIS**

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**Department of Institute: Islamic Economics and Finance**

**“This thesis was defended online on 15/04/2022 and was unanimously accepted by the jury members whose names are listed below.”**

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**Rexhail MUSTAFİ**

**15/04/2022**

## TABLE OF CONTENT

<b>ABBREVIATIONS</b> .....	<b>iii</b>
<b>LIST OF TABLES</b> .....	<b>iv</b>
<b>LIST OF GRAPHS</b> .....	<b>v</b>
<b>LIST OF FIGURES</b> .....	<b>vi</b>
<b>ÖZET</b> .....	<b>vii</b>
<b>ABSTRACT</b> .....	<b>viii</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>CHAPTER 1: ALBANIA</b> .....	<b>8</b>
1.1. Islamic Finance in Albania .....	<b>9</b>
1.1.1. Albania’s Main Economic Indicators .....	<b>13</b>
<b>CHAPTER 2: BOSNIA AND HERZEGOVINA</b> .....	<b>15</b>
2.1. Islamic Banking in Bosnia and Herzegovina .....	<b>16</b>
2.1.1. Main Economic Indicators of BiH.....	<b>19</b>
<b>CHAPTER 3: KOSOVO</b> .....	<b>20</b>
3.1. Islamic Finance in Kosovo .....	<b>21</b>
3.1.1. Kosovo’s Main Economic Indicators .....	<b>25</b>
<b>CHAPTER 4: NORTH MACEDONIA</b> .....	<b>28</b>
4.1. Financial Market and Development Indicators of North Macedonia .....	<b>31</b>
<b>CHAPTER 5: NON-ECONOMIC FACTORS RELATED TO THE DEVELOPMENT OF ISLAMIC FINANCE IN THE BALKANS</b> .....	<b>34</b>
5.1. Religious and Social Issue .....	<b>34</b>
5.1.1. Historical and Geographical Issue .....	<b>36</b>
5.1.2. Moral, Justice, and Developmental Issue .....	<b>43</b>
5.1.3. Balkans, EU integration, Law, and Islamic Finance .....	<b>46</b>
<b>CHAPTER 6: ANALYSIS OF RESULTS FROM INTERVIEWS AND SURVEY</b> .....	<b>54</b>
6.1. Survey Analysis.....	<b>60</b>
6.1.1. T-test Analysis.....	<b>62</b>
6.1.2. Chi-Square Analysis .....	<b>68</b>
6.1.3. ANOVA Analysis.....	<b>77</b>

<b>CONCLUSIONS.....</b>	<b>81</b>
<b>REFERENCES .....</b>	<b>83</b>
<b>CURRICULUM VITAE .....</b>	<b>91</b>

## **ABBREVIATIONS**

<b>ATM</b>	: Automated Teller Machine
<b>BH</b>	: Bosnia and Herzegovina
<b>BBI</b>	: Bosnia Bank International
<b>CBK</b>	: Central Bank of Kosovo
<b>COMCEK</b>	: Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Counties
<b>EFTPOS</b>	: Electronic Funds Transfer Point of Sale
<b>EU</b>	: European Union
<b>FDI</b>	: Foreign Direct Investment
<b>GDP</b>	: Gross Domestic Product
<b>IDB</b>	: Islamic Development Bank
<b>IF</b>	: Islamic Finance
<b>IFIs</b>	: Islamic Financial Institutions
<b>IM</b>	: Islamic Microfinance
<b>NATO</b>	: North American Treaty Association
<b>OIC</b>	: Organization of Islamic Countries
<b>PLS</b>	: Profit and Loss Sharing
<b>POS</b>	: Point of Sale Terminal
<b>ROA</b>	: Return on Asset
<b>ROE</b>	: Return on Equity
<b>SESRIC</b>	: Statistical, Economic, and Social and Training Center for Islamic Countries
<b>UBA</b>	: United Bank of Albania
<b>CEFTA</b>	: Centra European Free Trade Agreement
<b>TIKA</b>	: Turkish Cooperation and Coordination Agency
<b>YTB</b>	: Presidency for Turks Abroad and Related Communities
<b>DIYANET</b>	: Presidency of the Republic of Turkey, Presidency of Religion

## LIST OF TABLES

<b>Table 1:</b> Albania in Figures .....	9
<b>Table 2:</b> Usage of ATM and POS Devices in Albania .....	13
<b>Table 3:</b> Main Development Indicators for Albania.....	14
<b>Table 4:</b> Bosnia and Herzegovina in Figures.....	16
<b>Table 5:</b> Development Indicators for Bosnia and Herzegovina.....	19
<b>Table 6:</b> Kosovo, Demographics .....	21
<b>Table 7:</b> Number of Financial Institutions in Kosovo .....	23
<b>Table 8:</b> Usage of ATM cards POS and EFTPOS terminals .....	24
<b>Table 9:</b> Main Development Indicators for Kosovo .....	26
<b>Table 10:</b> Macedonia in Figures .....	29
<b>Table 11:</b> Demographics of Macedonia in Year 1904.....	29
<b>Table 12:</b> Development Indicators for N. Macedonia .....	33
<b>Table 13:</b> Number of Real-estate Works in Balkans built by the Ottoman Empire. ..	37
<b>Table 14:</b> Data on Participants (Country, Age, Occupation, and Income Level).....	61
<b>Table 15:</b> Data on Participants (Level of Education and Gender).....	61
<b>Table 16:</b> T- Test Analysis .....	63
<b>Table 17:</b> Chi-Square Test (Factor Level of Education). .....	68
<b>Table 18:</b> Chi-Square Test (Factor Occupation).....	71
<b>Table 19:</b> Chi-Square Test (Factor Income Level).....	73
<b>Table 20:</b> Chi-Square Test (Factor Age) .....	75
<b>Table 21:</b> ANOVA test .....	78

## LIST OF GRAPHS

<b>Graph 1:</b> ROE, ROA Analysis for UBA Bank. ....	11
<b>Graph 2:</b> ROE, ROA Analysis for Central Bank of Albania. ....	11
<b>Graph 3:</b> Sectoral Balance Sheet of Commercial Banks (Bank of Albania, 2021a).....	12
<b>Graph 4:</b> Values for Current Account and Term Deposit in Millions (Lek). ....	12
<b>Graph 5:</b> ROE, ROA Analysis for Central Bank of BiH. ....	17
<b>Graph 6:</b> ROE, ROA Analysis BBI bank. ....	17
<b>Graph 7:</b> Total Deposits and Loans in Commercial Banks of BiH (CBBiH, 2020).....	18
<b>Graph 8:</b> Trends of Loans and Deposits in Local and Other Currencies Millions. ....	18
<b>Graph 9:</b> ROE, ROA Analysis for Central Bank of Kosovo. ....	23
<b>Graph 10:</b> Data on Deposits in Kosovo. ....	25
<b>Graph 11:</b> Loans by Maturity in Kosovo. ....	25
<b>Graph 12:</b> ROE, ROA Analysis for National Bank of N. Macedonia. ....	31
<b>Graph 13:</b> Loans in North Macedonia (NBNM, 2021).....	32
<b>Graph 14:</b> Deposits in North Macedonia (NBNM, 2021).....	32



## LIST OF FIGURES

<b>Figure 1:</b> Hurufat Records of the Berat Foundations .....	38
<b>Figure 2:</b> Document Related to Sultan Murat Tomb .....	39

## ÖZET

**Başlık:** Balkanlarda İslami Finans Gelişimi: Fırsatlar ve Zorluklar

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**Danışman:** Prof. Dr. Şakir Görmüş

**Kabul Tarihi:** 15/04/2022

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Bölge olarak Balkanlar, stratejik konumu, doğal kaynakları ve Avrupa kıtası ile Asya arasındaki altyapı bağlantı potansiyeli nedeniyle her zaman hedef olmuştur. Bu nedenle bu bölge tarihsel olarak çatışmalara ve karışıklıklara sahne olmuş ve büyük güçlerin ilgisini çekmiştir. Balkanların bir diğer özelliği de dini, etnik ve kültürel açıdan karışık nüfusudur. Son dönemlerdeki sosyal ve ekonomik gelişmelere paralel olarak İslami finansa gelişmeye ve gündeme olmaya başlamıştır. Bu bölgede İslami Finansın geliştirilmesinde ve bundan sonraki gelişmelerinde arka planda yatan pek çok nedenler vardır. Her şeyden önce, bu bölge önemli bir Müslüman nüfusa ev sahipliği yapıyor ve bu da dini bir gereklilik olarak İslami finansın gelişimini olumlu etkiliyor. İkincisi, bu bölge eğitiminden başlayarak İslami finansın geliştirilmesini, kurumsal tecrübenin yeniden canlandırılmasını ve kaybedilen İslami mirasın yeniden ihya edilmesini savunan tüm tarihsel altyapıya sahiptir. Üçüncüsü, bir din olarak İslam'ın evrenselliği ilkesi İslami finans içinde geçerlidir ve sistemin Müslüman olmayan nüfus için de kullanılmasını sağlar. Balkanlarda İslami finansın geliştirilmesine yönelik olarak bankalar, mikro finans, sunumlar, fuarlar, öğretim programları, araştırma, proje finansmanı vb. ile sonuçlanan bazı ilerlemeler kaydedilmiştir. Bununla birlikte, Balkanlar'da ve genel olarak dünyadaki İslami finans gelişimi, ekonomik olmayan faktörlerden de etkilenir. Bu araştırma üzerinden özellikle Balkan bölgesinde İslami finans için yaratılan belirsizliklere ışık tutmaya çalıştık. Aynı zamanda eğitim, kültür ya da vakıf şeklinde olan İslami mirasının yeniden ihya edilmesi imkânları da bu çalışmada yer almıştır. Anketler ve görüşmeler kullanarak finansal okuryazarlığı, İslami finans oranı okuryazarlığı, borç verme ve borç alma kültürünü, İslami ve konvansiyonel finansa sahip olma isteğini hem eğitimsel hem de uygulanabilir olarak ölçmeye çalıştık. Bununla beraber Balkanlarda İslami finanstaki gelişmeleri değerlendirdik. Son olarak, politika odaklı önerileri sunarak İslami finansın nasıl geliştirilebileceğine dair öneriler çıkarıldı.

**Anahtar Kelimeler:** İslami Finans, Gelişim, Balkanlar, Fırsatlar, Zorluklar

## ABSTRACT

**Title of Thesis:** Development of Islamic Finance in Balkan Region: Opportunities and Challenges

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**Supervisor:** Prof. Dr. Şakir Görmüş

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Balkan as a region has always been a target due to its strategic position, natural resources, and the potential for infrastructural connectivity in between the continent of Europe and Asia. For that reason, this region historically has witnessed clashes and unrests and has been an issue at the table of great powers. Another characteristic of Balkan is the mixed population in religious, ethnic, and cultural background. Recently, besides all developments, Islamic finance has been raised as an issue. Many reasons lie behind the need of developing Islamic Finance in this region. Firstly, the region is home to a considerable Muslim Population which means that is a religious duty. Secondly, this region has all the historical background that advocates the development of Islamic finance starting from education, revitalization of institutional experience, and revitalization of lost Islamic heritage. And thirdly, the universalism of Islam as a religion reflects the same to Islamic finance by that enabling use of the system also for the non-Muslim population. Some progress has been made towards developing Islamic finance in Balkan resulting in banks, microfinance institutions, presentations, fairs, teaching programs, research, project finance, etc. Nevertheless, the development of Islamic finance across Balkan countries still has not gained momentum considering expectations. Nonetheless, Islamic finance is an economic issue its development in Balkan and throughout the world at large is affected by non-economic factors imposing for elaboration on those factors. Over this research, we have tried to light up upon ambiguities that are created for Islamic finance particularly in the Balkan region. At the same time, possibilities for the revitalization of Islamic heritage being in the form of education, culture or waqfs have taken place in this research. Using surveys and interviews we have tried to measure financial literacy, interest rate literacy, lending and borrowing culture, preferences over Islamic and conventional finance, and willingness for having Islamic finance both educationally and applicably. Meanwhile, we have considered current developments of Islamic finance intending to instruct further expansion. Finally, we have concluded with insights on the ways Islamic finance can be developed by providing policy-oriented suggestions.

**Keywords:** Islamic Finance, Development, Balkans, Opportunities, Obstacles

# INTRODUCTION

## Research Topic

The development of the Balkan is closely related to historical events and changes in politics, economy, institutional governance, and general social changes. Despite all the resources and other advantages this region has, in recent history its development has been replaced by non-development. In the search for a way out for more sustainable development, Islamic finance should be seen as the main contributor. Although the Balkan offers enormous potential for the application of Islamic finance, it also faces some obstacles as a region. We used the word *opportunities* before *difficulties* in the title of theses, and that is what it should be since we will start with the good ones. Best of all, Islam has been preserved in this region for centuries and is the basis for the practice of Islamic finance. The barriers to the implementation of Islamic finance in this region are many, but at present, the main obstacle is seen the law incompatibility.

## Research Aim

By conducting this research, we try to prove the need for interdisciplinary study in Islamic finance. Not that this is not done before, but we try to go further and strengthen the arguments for that. We have brought together the statistics and economics altogether with financial accounting and analysis. We provided country profile data on demographics, development indicators, financial market, and overall political position of every country. We state the need for considering history, geography, religion, future oriented political strategies, and law order for healthier development of Islamic finance. We try to prove once more that the Islamic theological teaching has no contradiction in scientific research being it economics or any other field. Considering all these we should say that apart from just completing research we search for the breaking of taboos and misunderstandings on studies and research in Islamic religion that exist particularly in that region. This claims that we contribute to the literature development by trying to bring together what has been broken apart in the last century starting from the education side. Before everything else we need intellectual development and confidence for applying the next steps of Islamic finance that we strive for.

## **Research Area**

Islamic Finance and its implementation is a task that occurs at times when uncertainty in finance has become a part of our lives. For more effective implementation of IF first, a proper understanding and then adequate publicity is needed. The promotion should not be for commercialization, but to teach people what Islamic finance is. Islamic finance owns both the adequate timeline for forecasting and the success story given the resistance during crises. At this point, the Balkans can join the development trend by benefiting from sharing the experiences of other countries, even with some delays. Based on the current concentration of the Muslim population, we targeted four countries from the Balkan region in our research: Albania, Bosnia and Herzegovina, Kosovo and North Macedonia. Apart from that, according to the Albanian Encyclopedic Dictionary, the Balkan geography includes the lands between the Black Sea, the Sea of Marmara, the Aegean Sea, the Ionian Sea, the Mediterranean Sea, and the Adriatic Sea. According to the data provided in 2006, it has a population of 51,197,010 million in an area of 551.501 km<sup>2</sup> and the population density is 95.8 persons per km<sup>2</sup>. Continuing with the European part of Slovenia, Croatia, and Serbia, along with the Romanian province of Dobrudja, Montenegro, Kosovo, Albania, North Macedonia, Bulgaria, Greece, and Turkey (European part) is what represents the Balkans geographically (Albanian Academy of Sciences, 2008).

## **Importance of Research**

Seeing Islamic finance as an alternative way of finance and applying Islamic finance in the Balkans leads us to evaluate the changes in the financial system in a historical context. It is almost non-existent that other systems have provided long-term solutions to the needs of the population living in that geography. In the post-Ottoman era, in less than a hundred years, the Balkans witnessed two changes in the economic system. This cannot be called a change to the system, as it takes much longer to set up and implement a system. The first results of these experiments are the Balkan Wars of the second decade of the 1900s. The later implementation of communism and socialism resulted in major religious restrictions in the Former Yugoslavia and the complete abolition of religion in Albania. This was a time when all kinds of Islamic religious heritage were damaged, including in the field of economics. Later in the 1990s, as the transition from socialism to capitalism

took place, other tragedies rocked the region. The wars in Bosnia and Herzegovina, Kosovo, and Croatia proved once again that things are not going well in this region. The changes we mentioned were followed by the constant migration of the Muslim population. Also, the attempt to ethnically cleanse the Muslim population, as happened to Albanians, Turks, and Bosnians, has proven the failure of the systems, as well as caused loss and harm and sufferings due to the massacres. The international community has also failed to provide long-term solutions. A degree of capitalism and democracy is currently practiced in the Balkans. However, the endless transition, unfair privatization, corruption, unemployment, instability, underdevelopment, weak education system, and the uncertain future perspective especially for young people bring with it to consider other alternatives. Considering these arguments, above all Islamic finance should be understood as an alternative to tackle the region's unresolved problems and provide long-term solutions.

### **Research Question**

Literature on Islamic finance in the Balkan region has not yet experienced its moment of development. Among some research that has been done, we hope to develop much faster in the literature in the future. Special attention should be paid to literature in local languages. Currently, much research is carried out on a country basis in Bosnia and Herzegovina and then in Kosovo. At the same time, there are no comprehensive and general studies on a regional basis. This highlights the need for more regional cooperation at the academic level. In addition, the lack of literature in local languages, lack of study programs, and insufficient expertise for large-scale applications are the main challenges for expansion.

A study by Göksu and Becic (2012) examines the awareness of Islamic banking in Bosnia and Herzegovina. In the beginning, the article introduces Islamic banking to continue with the explanations regarding the prohibition of the interest rate. Banking contracts executed by Islamic banks are also elaborated. At the same time, legal incompatibility, and lack of awareness on Islamic finance are also revealed. Operational difficulties, double taxation, and low representativeness compared to conventional banks are included in this research. The study is an empirical study targeting customers that use Islamic banking. At that time, information about Islamic banking was not widespread enough. Another study by Kozarević and Nuhanović (2014) analyzes the financial market of BiH

emphasizing risk management in Islamic finance. According to the study, risk management is currently measured by the same methods in both types of banking. In addition, most of the risk measurement mechanism in Islamic finance has been adopted from the conventional system. What is fundamentally different is the shortcomings caused by the incompatibility of Islamic finance with regulations of conventional finance. Example: Since Islamic finance is asset-based financing, reserve funds to be required from the central bank cannot be estimated as in the conventional system. Another risk present in Islamic finance is Sharia-compliant risk, which is the basis of Islamic finance and not a concern in the other. In both systems, there is credit risk, moral hazard risk, liquidity risk, market risk, operational risk, and so forth. The difference is in the establishment of criteria for risk measurement. Researchers conducted surveys with commercial banks in this country, making comparisons about what kind of risk mechanisms are used in both types of banking. Ergun and Djedovic (2011) examined the perception and determining factors of preferring Islamic banking in BiH. According to the survey, the main reasons for preferring Islamic finance are the prohibition of interest, PLS contracts, the prohibition of activities deemed haram by Islam, and the prohibition of seeing money as a product. At that time, the study identified the need for improvement in the services offered by Islamic banks, product quality, and the proliferation of branches and ATMs. Trokic (2016) researched developing the Islamic Bosnian Diaspora Investment fund and turning it into an idea of charitable activities linked to Islamic finance. According to the paper, the migration process in this country can be described in three phases: pre-war migration, wartime migration, and post-war migration. In the study, it was found that a total of 1.669.000 Bosnians constitute the diaspora of this country. The value of remittances from this diaspora ranged from 18% to 12% of GDP in years 2007-2010. Remittances, which are mostly used for consumption purposes, did not provide long-term development incentives. Thus, the research supports the idea of converting this capacity into funds, which will work according to the principle of Islamic finance and contribute to the so-called brain gain instead of brain drain and economic development.

In terms of literature development, Kosovo has been a priority in some studies. Research conducted by Mustafi (2013) explored the potential of Islamic finance in this country. The article points to the need for financing for Kosovo in the post-war period and sees Islamic banking as a solution. Part of the work is measuring and promoting awareness of

Islamic finance. Awareness was not at a pleasant level back then. However, support for an Islamic bank in Kosovo indicates 95% of the respondents. The study also reveals that IF will contribute to lower interest rates and increase business activity, which is important for economic development. Changes in the law that enable the functioning of Islamic financial institutions are also discussed in detail. Also, treatment of IFIs from the central bank of Kosovo and the political environment are presented. There are suggestions for further development, such as a focus on teaching programs and membership in the Islamic Development Bank. Here is the law extract No. 04/L-093 on banks, microfinance institutions, and non-bank financial institutions approved by the parliament of this country:

“Islamic Bank - a type of bank, including an Islamic banking window that undertakes the business of banking according to Shariah principles and subject to the provisions of this Law and regulations promulgated by the CBK; “Islamic banking window” refers to a department or division of a non-Islamic bank that provides financing services according to principles of Shariah” (Official gazette Republic of Kosovo, 2012).

In addition, Demir (2017) provides information about cash foundations in the historical context. The study describes the evolution of financial institutions in the Ottoman Empire in a detailed and well-articulated manner. Fifty archived documents of historical records can be found on how cash foundations operated in Prizren – Kosovo and Gostivar and Tetovo (Kalkandele) Macedonia.

If we cannot say that the educational part of Islamic finance in Albania is not developed now, it is very underdeveloped. Perhaps one of the most important factors in not achieving superior performance is the lack of development in this regard. We can say that in the case of Albania informative literature can be found much in reports prepared by IsDB and complementary institutions. Example in a report published by COMCEC (2017) the example of Albania is presented as a country with high public debt and in some cases, there is a need to raise the ceiling debt to a percentage of GDP.

The article by Abdullahi and Sharahudin (2016) describes information for knowledge, awareness, demand, and support for Islamic Banking Services in Macedonia. The main finding of the article is that there is an awareness of the existence of Islamic finance and people's positive reflections on IFIs. The results show that citizens are sensitive to the



interest rate (riba) issue and would be happy to have the Islamic bank operating there. Results from the surveys also reveal that literacy for IFIs is not at low levels. Another historical study for Islamic finance was done by Altay and Bulut (2017). The study focuses on the socio-economic analysis of cash foundations in Macedonia. Part of the study reveals changes in currency measures in different periods, gender-based ownership of foundations, income distribution, and social status of foundation owners. The main purpose of the study is to shed light on the establishment of the foundation following Islam. According to the study, 83 foundations were established under Islamic rules. The study also includes a graphical representation of different variables of money foundations such as capital formation, ribh income, and income analysis from 1506 to 1912. During the Ottoman period, Macedonia played an important role as a center in administrative matters.

Based on the scanning that is conducted following completions can be referred: The development of Islamic finance has been covered by some researchers with emphasis on the Balkans or a particular country from that region. Besides scientists, IF has also been researched by governmental or non-governmental agencies and organizations, resulting in reports or policy recommendations. At the same more specifically we can address the following concerns:

- Academic research for IF is not as developed as elsewhere in the world. There is a big gap in the literature and research with the emphasis Balkans. Most of the studies date back to 2010, or to be more precise, there has been a lot of improvement in the last three or five years. At the same time, most of the work is done in foreign languages rather than local languages. This is disadvantageous given the need to introduce IF to the community living there. In addition, applications, evaluations, and updates should be followed in line with the developments in the Islamic finance sector.
- Most of the studies are still in the introduction phase which reflects the immature situation. Every development has its initial phases. However, in Balkan, this phase should be passed and proceed on further developments.
- Improvement still has not resulted in establishing academic curricula for universities in the region. Until now there is only one joint program that offers master's education on IF.

- The region's history is very complex and unfortunately, these complications have adversely affected the overall development of the region. Before the 1990s it was not a good idea to talk about Islamic finance in the Balkans.
- Perceptions for IF are sometimes wrong and it will take time and effort to overcome them. These include presenting Islamic finance as dogmatic and limited to Muslims only, easy access to finance and philanthropy only, affiliating IF to money laundering and terrorism, etc.
- Difficulties in implementing IF due to inappropriate regulations and difficulties in obtaining legislative changes to create a better environment for IFIs.
- Lack of local expertise for the general implementation of IF. Islamic finance is not an easy task as it requires expertise in different fields leading to undertake a multidisciplinary style of work.

### **Research Methodology**

We used the mixed research methodology, which we saw as the appropriate method to carry out our research. Considering the way, we conducted the whole research, both qualitative and quantitative methods were used. We have elaborated financial markets of the countries that are in our scope of research by analyzing the overall financial market. We examined the performances of central banks and commercial banks for the countries within the scope of the research. We continued with more detailed analyzes for countries that have made progress in the field of Islamic finance. At the same time, we conducted interviews and surveys using online survey forms. We did our best to select peer-reviewed literature that represents truth and objectively defends the arguments. We used T-test, ANOVA, and Chi-square statistical methods for questionnaire analysis. We chose these methods because we wanted to represent the results most accurately. We have made efforts for action-oriented research that can serve as the basis for policy recommendations.

## CHAPTER 1: ALBANIA

Albanians descend from the ancient Illyrians and have been inhabitants of the Balkans since ancient times. Since our work is not history or anthropology, we will only touch on the most relevant topics relevant to our research. One of the debates among Albanian society is religious affiliation, which relates it to the historical context. Currently, the majority are Muslim Albanians, but there are also Christian Albanians, Orthodox Albanians, and non-religious Albanians. Of course, Christianity, Orthodoxy, and in some cases even paganism, will feature in religious narratives, as Albanians are descended from the Illyrians and date back to ancient times. This is so because this is how the entire worldly religious expression is. Over time, some converted to Islam, and some continued to follow the religion of their ancestors, but this does not give non-Muslims the right to force Muslims to the religion of their ancestors and vice versa. Religious belief is above all else and is freedom of choice and cannot be forced to accept religion. According to the Islamic encyclopedia: “The Illyrians are the oldest nation in the Balkans that adhere to the Austrian Hallstatt culture, this fact has been tried to be concealed by some Serbian writers for political reasons” (Karpat, 2021). An example of this is Vasa Chubrillovic; a Member of the Serbian Cultural Club in Belgrade, academician, historian, and politician. At the end of the Second World War, he received the title of director of Balkanology at the Academy of Arts and Sciences of the Former Yugoslavia in Belgrade in 1970. He is the person responsible for idealizing the ethnic cleansing of the Albanian population from Kosovo and other parts of the Balkans through forced migration (AAS, 2008). While writing the introduction, we stated that the Balkans is the rivalry of the great powers and that this is not only a matter of our time but also of history. Illyrian, Macedonian, Roman, Byzantine, Ottoman Empire, and recent forces are part of Balkan history. As stated in the Islamic encyclopedia, Albanians began to take part in the administration of the Ottoman Empire during the reign of Bayezid the I<sup>st</sup>. The existence and contribution of this nation in the Ottoman Empire in areas like education, administration, politics, military service, etc. have continued. According to Kaleshi “Albanians have given the Ottoman empire 42

Sadrazams <sup>1</sup> (Grand Vizier)” (Sancaktar, 2011). Albania as previously stated, currently represents less than what is in terms of territory and the role it should have in the Balkans.

**Table 1:** Albania in Figures.

• <b>Country:</b> <i>Albania</i>	• <b>98.1% Albanian</b>	• <b>58% Muslim</b>
• <b>Capital:</b> <i>Tirana</i>	• <b>0.9 % Greeks</b>	• <b>6.67%Christian</b>
• <b>Population:</b> <i>2,821,977</i>	• <b>1 % Others</b>	• <b>9.95 % Orthodox</b>
• <b>Pop. growth:</b> <i>- 0.11%</i>		• <b>7.93% No religion</b>

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**Source:** (European Commission, Demographics, 2021).

While providing data for religion we do not have clear information for more than 17% of the population. Another fact worth to be mentioned is the Albanian diaspora. According to the statistical institute of the Republic of Albania:

“It is estimated that 1.64 million Albanians live out of Albania. Among the oldest diasporas are the Arbresh of Italy, Arvanites in Greece, and Albanians of Egypt. During the rule of Mehmed Ali Paşa in Egypt, Albanian warriors were settled across Palestine, Syria, Lebanon, Libya, Hijaz, Yemen, and Sudan. Last names like Arnauti and El-Albani have been preserved up to our times. In our living times, the most important diasporas are Albanians in Turkey, Europe, and the USA. In Turkey, through different timeframes, there have migrated around 1.5 million Albanians settled mainly across the Marmara area“ (Albanian Institute of Statistics, 2019).

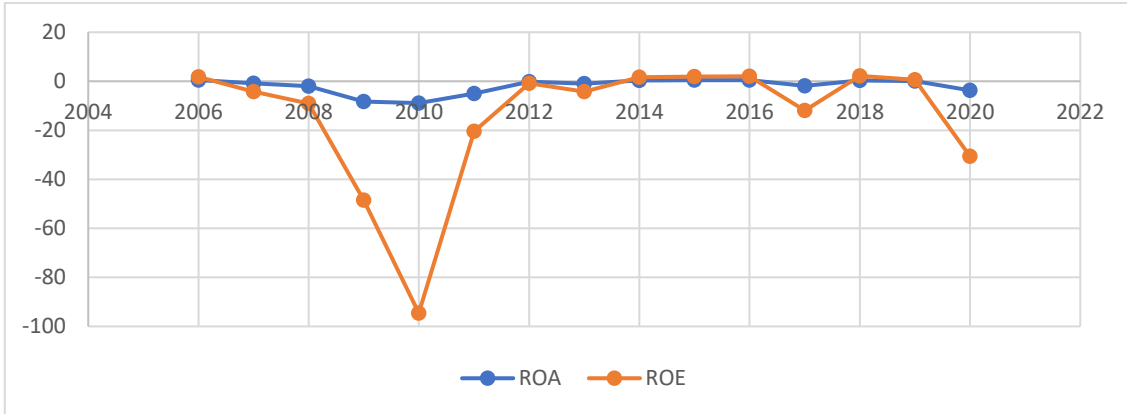
### **1.1. Islamic Finance in Albania**

In terms of Islamic finance, Albania is in a better position compared to Kosovo and other countries in the region. Albania has granted full membership to the OIC with all its complementary organizations like IDB, SESRIC, COMSEC, etc. OIC membership was granted in 1992 and to IDB on 21 August 1993. A total of 39 projects, 35 of which were completed and 4 of them ongoing worth 602 million dollars were supported by the IDB (IsDB Republic of Albania, 2020). A meeting was held in Jeddah on 12 March 2012 to strengthen the cooperation between the IDB and Albania. At this meeting, the Chairman of the IDB group, Dr. Ahmad Mohamed Ali, along with the Economic Adviser to the

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<sup>1</sup> Sadrazam has been of main political positions in the Ottoman Empire. According to Islamic encyclopedia “The Grand Vizier, which was a strong institution in the Ottoman state organization from the beginning, emerged as a continuation of the chief vizierate in the Turkish-Islamic states and especially in the Seljuks” (İpşirli, 2021).

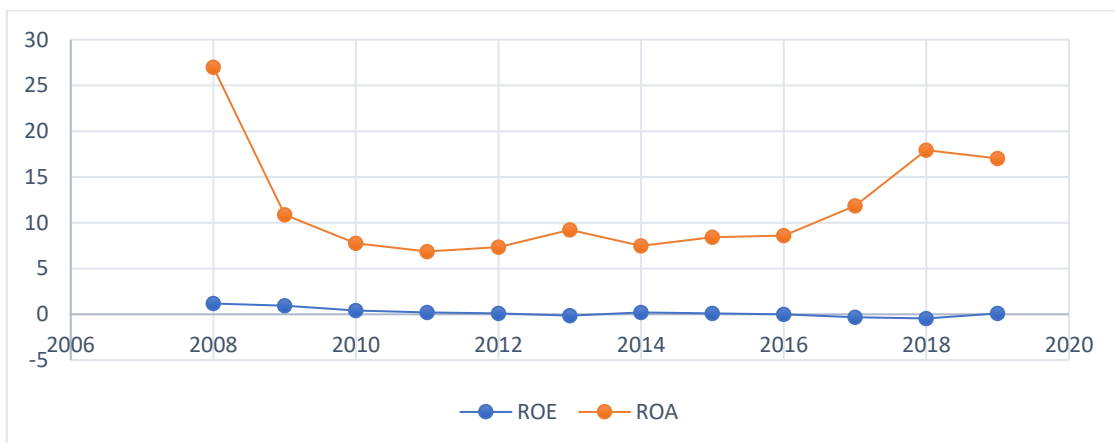
Albanian Prime Minister and Deputy Minister of Labor, welcomed Mr. Nezir Haldeda, Albanian Deputy Finance Minister and Head of the IDB, at the Bank's headquarters (IsDB, 2021). As a member state, Albania is represented at regular meetings of the IDB group by government representatives such as the Prime Minister or other government bodies. Many meetings of the group held by complementary organizations such as COMSEC and SESRIC were hosted in Turkey, where Albania is represented as a full member on regional issues. Another important development in the field of Islamic finance in Albania is that the UBA bank (United Bank of Albania) started its activities by making the first Islamic bank in the region in May 1993. The Bank was established to engage in banking activities following Albanian laws and operates under license No. 63. 03/1, which allows the execution of all banking activities by the characteristics of article 4 of the “Law on Banks in the Republic of Albania” dated 18.12.2006 and numbered 9662 (International Conference on Foreign Investment in Albania, 2012). Currently shareholders of UBA bank are as follow Islamic Development Bank Jeddah 77,7% Eurosig SH. 9.00% Ithmaar Bank B.S.C. 4.63% Dallah Albaraka Holding Co 2.32% others 6.35%. UBA bank operates with three branches in the capital city Tirana and other branches in other cities. All the customers of UBA bank are granted cash withdrawal from all ATMs across Albania without any provision (UBA Shareholders, 2020). However, rate-of-return analysis shows that this bank will do more to improve its performance. The 2008 financial crises affected the performance of this bank. More development will be targeted in the post-crisis recovery period.



**Graph 1: ROE, ROA Analysis for UBA Bank.** <sup>2</sup>

**Source:** (Annual Report, 2020).

In addition, we present the analysis of the National Bank of Albania's rate of return excluding the years 2006 and 2007 in graphical representation, as there is a large difference between the values and affects the overall shape of the chart.

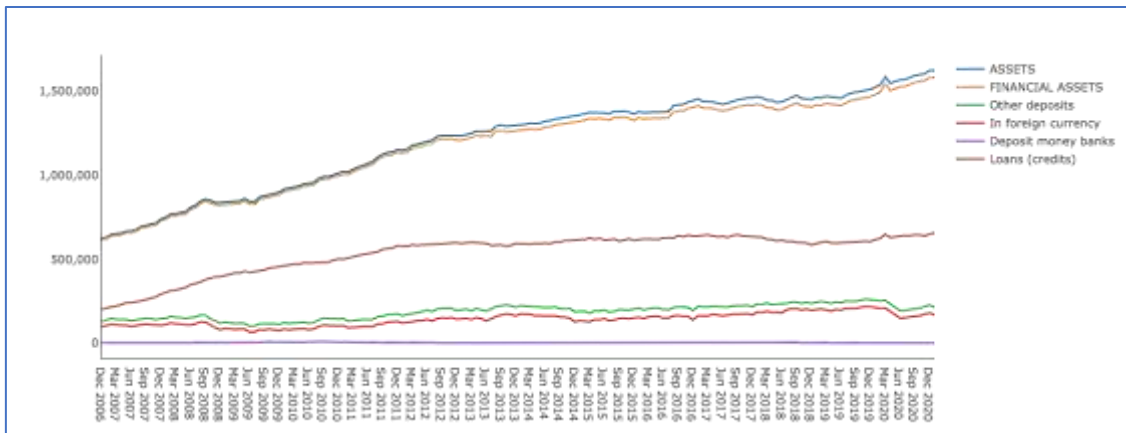


**Graph 2: ROE, ROA Analysis for Central Bank of Albania.**

The high rates of return in previous years were greatly affected by the 2008 financial crisis. The post-crisis period shows performance followed by slight growth without much fluctuation. We continued the financial analysis by providing a graphical presentation of assets, deposits, and loans along with some other indicators for commercial banks. In general, an increase is observed in all indicators reflecting the development in the

<sup>2</sup> Data for ROE and ROA analysis are taken form annual reports of UBA banks site and have been adopted to graphical representation by the researcher.

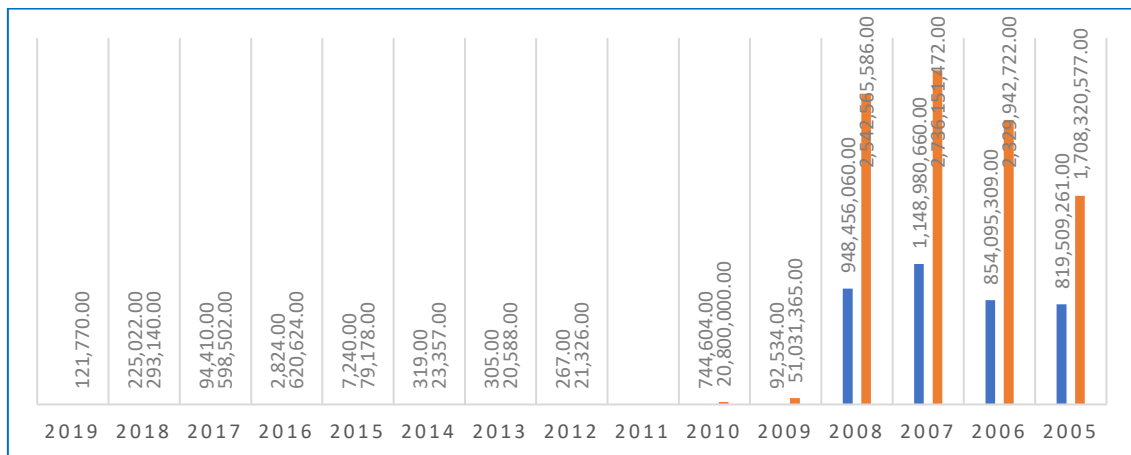
financial market. We did not make detailed analyzes of the effect of loans on the real economy in this place.



**Graph 3:** Sectoral Balance Sheet of Commercial Banks.

**Source:** (Bank of Albania, 2021a).

At the same time, we have provided current account and time deposit statistics of UBA bank in Albania as the only Islamic bank. The years 2005-2008 give positive figures. The global financial crises experienced in 2008 both affected the indicators and both current transactions and deposits remained lower than before the financial crises.



**Graph 4:** Values for Current Account and Term Deposit in Millions (Lek).<sup>3</sup>

**Source:** (Sectoral Balance Sheet of Banks, 2021b).

<sup>3</sup> Data are taken from annual reports of UBA bank and have been adopted to graphical representation by the researcher.

According to the Bank of Albania, 12 banks with domestic and foreign capital currently operate in this country (National Bank of Albania, 2021). In the table below, we have presented data on the number of ATM and POS devices in the last three years. There has been a reduction in the number of ATMs, and this can be assumed due to technology change. Trends are moving towards digital payments, and over time ATMs may become obsolete due to disruptive changes in technology. On the other hand, there has been an increase in the use of POS devices.

**Table 2:** Usage of ATM and POS Devices in Albania.

Regions	2017		2018		2019	
	ATM	POS	ATM	POS	ATM	POS
Tirana	456	6269	390	7.259	442	9.449
Shkodra	75	320	83	373	68	459
Korça	59	138	76	282	57	323
Gjirokastra	42	173	46	218	38	217
Elbasani	32	137	38	278	30	377
Lushnje	83	257	90	316	72	370
<b>Total</b>	<b>747</b>	<b>7.294</b>	<b>723</b>	<b>8.726</b>	<b>707</b>	<b>11.195</b>

**Source:** (Payment Systems Statistics, 2020).

In our time, central banks play an important role in the financial world. Their role can be understood by the fact that they are called central. All decision-making processes in the financial field of a country pass through the door of central banks. The Central Bank of Albania, called the Bank of Albania, was established in 1912 after the declaration of independence.

“On October 4, 1913, the government of Ismail Qemali in the composition of two financial delegation groups signed the first consortium with Wiener Bank Verein and Commerciale Italiana for creation of the National Bank of Albania. This bank was established on September 2, 1925, and as currency instead of “Golden Frang” was used currency named “Lekë” (BA, 2021).

### **1.1.1. Albania’s Main Economic Indicators**

Albania can be counted on the list of developing countries. Although GDP growth has been positive, higher GDP growth should be targeted. Livestock production index has scored improvement in 2018 and this represents food production capabilities. Agriculture, fisheries, and forestry should be further developed; Especially the fishing sector since Albania is a country that has a considerable coast in the Adriatic Sea. Opportunities and



possibilities for gas and oil reserves in the Adriatic Sea should be given priority in the industry, apart from metal, construction, and other sectors. Disputes over coastal and marine waters between Greece and Albania and the interest of major players in this sector to invest in these areas as a lobby have these interests. Unemployment has dropped more than 6% within five years. Exchange rate has been stable in the last years whereas lending interest rate has shown slight decrease. The worrying issue is that the aggregate debt service indicator is sometimes over 30% of total GD

**Table 3: Main Development Indicators for Albania.**

Name Series	2015	2016	2017	2018	2019	2020
GDP (current US \$)	11.38bln	11.86bln	13.01bln	15.14bln	15.28bln	14.79bln
GDP growth (annual %)	2.21%	3.31%	3.80%	4.07%	2.17%	-3.31%
Current account balance	-8.60%	-7.59%	-7.54%	-6.66%	-7.97%	-8.90%
Foreign direct investment	989,57mil	1.04bln	1.02bln	1.20bln	1.20bln	989,57mil
Unemployment rate	17.19 %	15.42%	13.62%	12.3%	11.47%	...
Industry aid to GDP %	21.76%	21.14%	20.35%	21.28%	20.23%	19.70%
Official exchange rate	125.96	124.14	119.1	107.98	109.85	108.65
Lending interest rate %	7.87%	6.73%	6.22%	5.93%	6.27%	6.12%
Livestock prod. index	100.24	101.41	101.39	105.58	...	...
Personal Remittances	11.33%	11.01%	10.07%	9.62%	9.63%	9.90%

**Source:** (World Bank Database, 2021a).

According to the World Bank's latest results, the Republic of Albania has realized 2,876 million dollars' export with 415 products to 127 partner countries. Imports are in the value of 5,941 million dollars with 2410 products from 184 partner countries (Albania Trade Summary WITS Data, 2021)

## **CHAPTER 2: BOSNIA AND HERZEGOVINA**

Today's Bosnia and Herzegovina is a country surrounded by Montenegro, Serbia, and Croatia. BiH is a recorded country of Illyrians in distant history. “The name Bosnia is referred to the Illyrian ancestors, and Herzegovina (Herzeg) to the Neretva River” (Djurdjev, 2021). Bosnia and Herzegovina, which had very close relations with the foreign policy of the Turkish Republic during and after the Ottoman period, inherited a rich cultural representation from the Ottomans.

“Spread of Islam in Bosna and Herzegovina is still a debatable issue till living days. Before the first world war by lots of scholars is stated that the pressure of the Bogomil heretic church has been the main determinant for acceptance of Islam” (Djurdjev. et al. 2021).

The acceptance of Islam as a system of convenience and more convenient life in the Balkans can be taken as an argument for the spread of Islam, as even non-Muslims in the Ottoman Empire chose to live under this rule without converting. At the same time, the rules before the Ottoman Empire brought a high taxation system, as we mentioned the Bogomil rule. For this reason, Islam, as a religion, provided convenience in taxation and other dimensions of life, along with its spiritual dimension. Today's Bosnia and Herzegovina is an independent country after a bloody war with Serbia. With the Dayton agreement, the war in BiH was stopped. Still, this agreement is seen by many as a permanent overcoming of the situation that has resulted in a two-constitutional state system. It is aimed to reach final clarifications on the final EU integration for the entire Western Balkans, which has not happened for a long time. In an article written by Chandler on the Dayton agreement, the following statement can be found in the conclusion:

“Rather than state-building, it would appear that ten years of 'informal trusteeship' or 'shared sovereignty' under the framework established by the Dayton agreement, have done little to either build the capacity of the Bosnia state or to legitimate it in the eyes of the population” (Chandler, 2021).

**Table 4:** Bosnia and Herzegovina in Figures.

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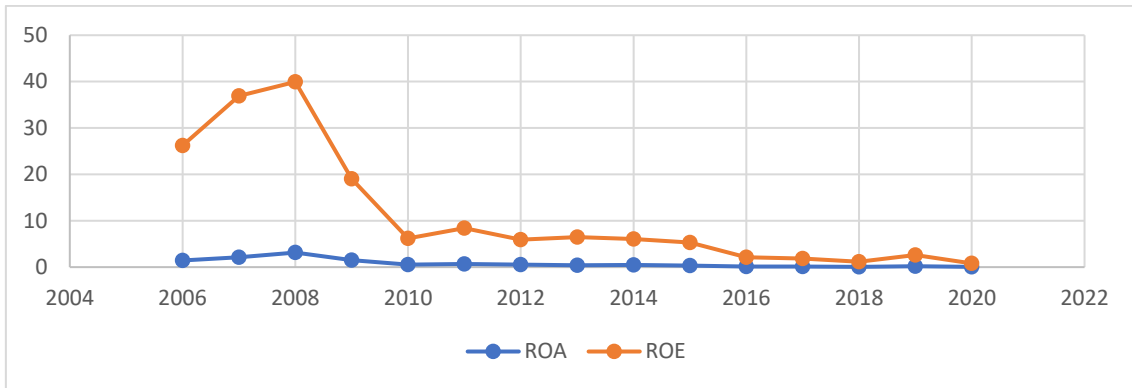
• <b>Country:</b> <i>BiH</i>	• <b>48% Bosnian,</b>	• <b>50% Islam,</b>
• <b>Capital:</b> <i>Sarajevo</i>	• <b>37% Serbs,</b>	• <b>31% Orthodox Christians</b>
• <b>Population:</b> <i>3.271.155</i>	• <b>14% Croats and</b>	• <b>15% Catholic</b>
• <b>Pop. growth:</b> <b>0.61%</b>	• <b>0.6% other.</b>	

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Source: (WPR, 2021).

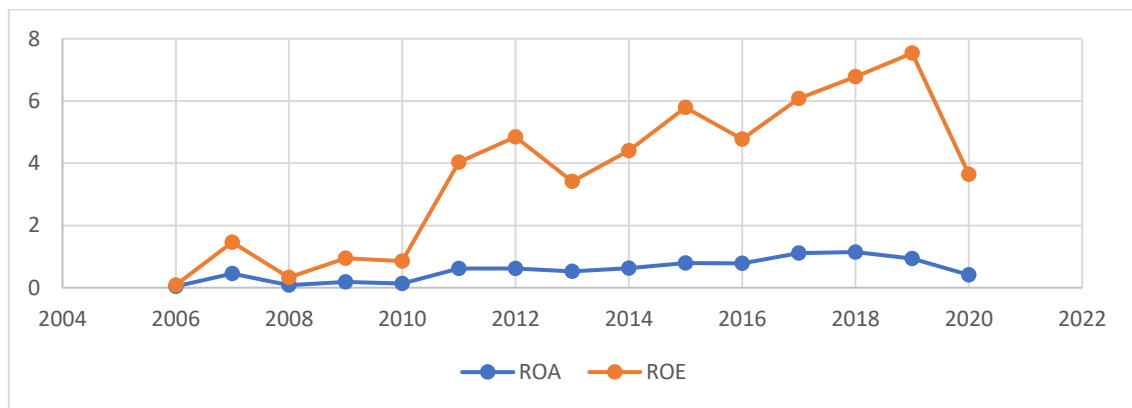
### **2.1. Islamic Banking in Bosnia and Herzegovina**

Bosnia and Herzegovina has now done much more in the development of Islamic finance compared to other countries. BiH's banking market consists of banks with local, regional, and international capital. According to the BiH central bank, 24 commercial banks are operating in the Federation of Bosnia and Herzegovina and Republika Srpska (Central Bank of BiH, 2021). Performance analysis of BiH's financial market shows different developments compared to conventional banking and the performance of Bosnia Bank International (BBI) as an Islamic bank. The central bank of this country realized a decrease in both ROA and ROE during the period when we made our forecasts. The biggest decline has occurred in 2008 when the global financial crisis took place. However, this has not been the case for BBI as an Islamic bank. The bank has achieved continuous growth. The 2008 crisis did not cause change, on the contrary, there was an increase in ROA during this time and continued growth after the crisis as was not performed in the conventional system. The rate of return analysis is based on three variables: income and net income from balance sheets, total assets, and total equity. In the case of conventional banking, the main determinant of revenue is income from the interest rate. In Islamic banking replaced by murabaha, wakala, musharaka, the gains come from PLS (profit and loss sharing) contracts and trading contracts. The rate of return analysis shows the clear advantage of performance in the case of Islamic banks. Despite being a single bank and representing a small part of Bosnia and Herzegovina's entire financial market, it exhibits a clear advantage in performance as a model, even during the crisis. The graphs below visually present what we mentioned earlier.



**Graph 5: ROE, ROA Analysis for Central Bank of BiH.<sup>4</sup>**

**Source:** (Annual Reports, 2020).



**Graph 6: ROE, ROA Analysis BBI bank.<sup>5</sup>**

**Source:** (Annual Reports Bosna Bank International, 2020).

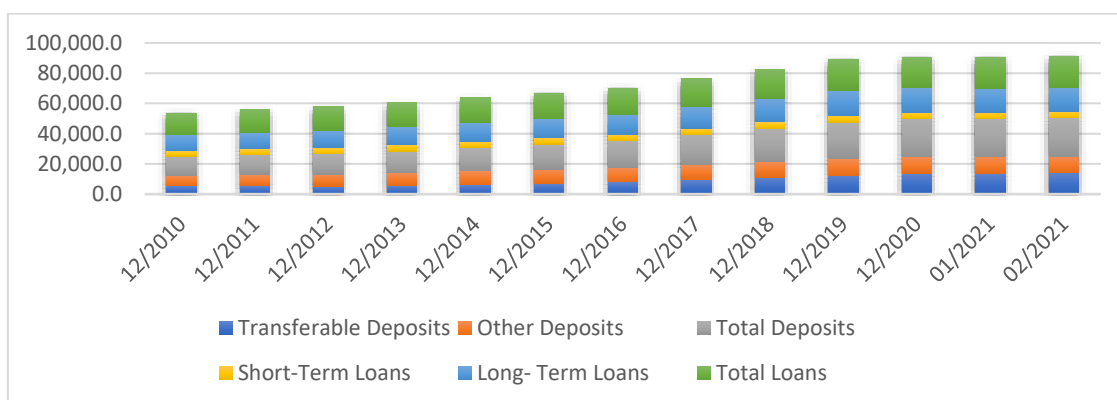
Another feature of BBI performance is the number of branches and ATMs. ‘‘This growth resulted in 36 branches in Bosnia and Herzegovina and 148 ATMs at BH 59 owned by BBI. The bank ranks third in BiH for the number of ATMs’’ (Bosnia Bank International, 2020). The growth of Islamic banks also means the growth of the real economy because the growth is based on the PLS contract. Growth in conventional banking does not represent growth in the real economy because the main determinant of profit is earnings from the interest rate.

<sup>4</sup> Data are taken from annual reports of central bank of BiH and have been adopted to graphical representation by the researcher.

<sup>5</sup> Data are taken from annual reports of BBI and have been adopted to graphical representation by the researcher.

“BBI is the first bank, both in B&H and Southeast Europe, to operate following Islamic finance principles. It began operations on 19<sup>th</sup> October 2000 in its Sarajevo headquarters. Founders of BBI Bank are the Islamic Development Bank (IsDB), with an ownership share of 45,46%; Dubai Islamic Bank, with the share of 27,27%; and Abu Dhabi Islamic Bank, with the share of 27,27%” (BBI, 2020).

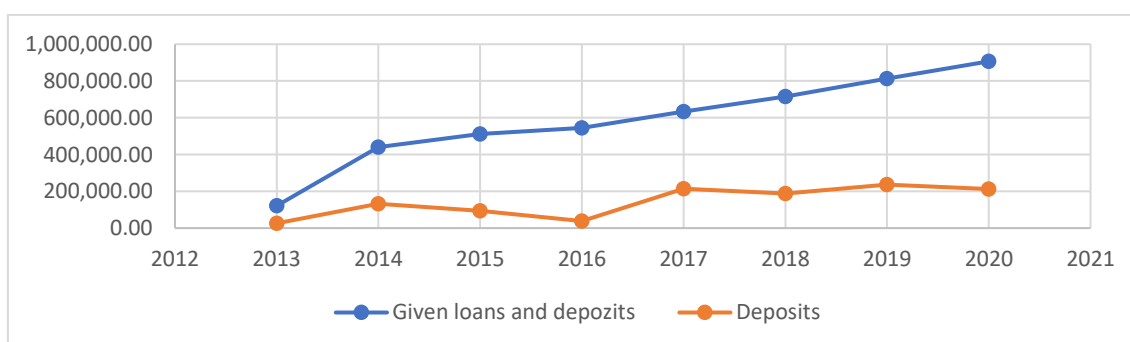
Another important area for evaluating financial market performance is banks' loans and deposits. The banking sector generally has performed well, with continued growth in short- or long-term loans. Deposits also increased for the ten years.



**Graph 7:** Total Deposits and Loans in Commercial Banks of BiH.

Source: (CBBiH, 2020).

In the case of BBI deposits have not performed increase all the time. Some years show a drop in the trend of deposits while loans have shown continuous growth.



**Graph 8:** Trends of Loans and Deposits in Local and Other Currencies Millions. <sup>6</sup>

Source: (Annual Reports Bosna Bank International, 2020).

<sup>6</sup> Data are taken from annual reports of BBI and have been adopted to graphical representation by the researcher.

Alongside activities in Islamic banking, there are activities on education and the halal industry, culminating in a master's program for Islamic finance education and an annual halal fair in the capital city of BiH Sarajevo. This fair focuses on the food industry and promotes the halal industry.

### 2.1.1. Main Economic Indicators of BiH

Development indicators show that BiH is also experiencing mild GDP growth. A foreign trade deficit is also among the issues that need improvement. More needs to be done in developing production capabilities for a lower trade deficit and much more domestic strength. As an indicator, foreign direct investments have grown over the years, but there are fluctuations. The best performance was achieved in 2017 and 2018.

**Table 5:** Development Indicators for Bosnia and Herzegovina.

Name Series	2015	2016	2017	2018	2019	2020
GDP (current US \$)	16.21bln	16.91bln	18.08bln	20.18bln	20.20bln	19.78bln
GDP growth (annual %)	3.08%	3.14%	3.17%	3.74%	2.83%	-4.32%
Current account balance	-5.09%	-7.75%	-4.84%	-3.35%	-3.08%	-3.20%
FDI millions	383.08	313.19	509.42	594.80	390.21	...
Unemployment rate	27.69 %	25.41%	20.53%	18.4%	15.69%	15.86%
Industry aid to GDP %	22.62%	23.24%	24.00%	24.52%	23.96%	23.87%
Official exchange rate	1.76	1.76	1.73	1.65	1.74	1.71
Lending interest rate %	5.78%	5.23%	4.37%	3.79%	3.28%	3.07%
Livestock prod. index	110.62	100.09	93.62	90.5	...	...
Personal Remittances	11.11%	10.91%	11.15%	11.21%	11.19%	9.15%

**Source:** (DataBank, 2021b).

Bosnia and Herzegovina has realized 7, 182 million dollars of export with 2, 972 sorts of products in 147 partner countries. Imports have reached the value of 11, 630 million dollars with 4, 152 types of products from 206 partner countries (Bosnia and Herzegovina Trade Summary WITS Data, 2021).

### **CHAPTER 3: KOSOVO**

Kosovo is a self-enclosed country. It is a country with more than 90% Albanian population and 90% of its population is Muslim (Agjensia e Statistikave të Kosovës, 2019). All neighborhoods of this country have the same population. The population of the Republic of Albania is also Albanian in an almost absolute number. North Macedonia is home to about one million Albanians. Parts of Montenegro are also populated with this nation. Serbia also has an Albanian population beyond the borders of Kosovo. It can be estimated that the religion of Islam among Albanians in the Balkan countries is in the range of 80-90%. According to some narrations, the religion of Islam in the Albanian population dates back before the Ottoman Empire. The spread of Islam in the Balkans was primarily through trade with Muslim merchants and scholars who invited them to this religion. In the Ottoman period, Islam gained much more power as it came in the form of state, administration, and military service, apart from scholars and merchants. There are mosques in the Balkans that date back to before the existence of the Ottoman Empire. While the construction of mosques and other religious places in Albanian lands emerged at the beginning of the XV<sup>th</sup> century, construction became widespread in all Balkan countries after the Ottoman rule took its final form in the XVI-XVII<sup>th</sup> centuries. As an example of the greatness of Islamic works and architecture in the Balkan countries, there are projects prepared by the great architect Sinan (1498-1589), born in Qesarat (Tepelen), who was the head of architects in the Ottoman Empire during his lifetime (AAS, 2008). We are talking about these facts because, after the Ottoman Empire, a process called Balkanization took place in the Balkans. This process was carried out to create countries with the same population for easier “governance.” Simply divide and conquer method is used. Thus, the process of establishment of national states took place. Nationalism, a false ideology in its form, was also misapplied in the Balkans. If a strong national state should have been created in the Balkans, it is Albania, which was never created. The independence of Albania and the proclamation of the national state in 1912 can be called anything else. Parts of Kosovo, Macedonia, Serbia, and Montenegro have been abandoned and so far, excluded from the administration. If we go to a more distant history, the presence of Albanians in Greece and Italy has somehow disappeared. With the help of Russia and some western countries, the power to become the main player in the Balkans was given to Serbia. Albanians are divided into five countries. During

communism, Albanians under the rule of Enver Hoxha (present-day Albania) were not allowed to communicate with Albanians of Former Yugoslavia (Kosovo, Macedonia, Serbia, and Montenegro) under the rule of Josip Broz Tito. Worse still, until 2000, when this form of government began to disintegrate, there were cases of restraint even in the former Yugoslavia, starting in the 1980s until its total collapse. Encouraged for local leadership, Serbia is a country that has recently caused wars, massacres, rapes, ethnic cleansing and has not been tried for war crimes until today. The Hague tribunal aiming to resolve this issue is a complete failure of the international justice system, somehow freeing Serbia from the war crimes and genocides committed in Kosovo and Bosnia and Herzegovina. Kosovo gained its independence from Serbia after the intervention of United States-led NATO forces in the 1998-1999 war. The war ended with the Rambouillet agreement process. After the declaration of independence on February 17, 2008, the Republic of Turkey was among the first countries to recognize the independence of Kosovo. As the youngest country in Europe, Kosovo is still fighting for institutional capacity building and state-building. After the war, Kosovo's main battle was the recognition of its independence by the world and its membership in international organizations. This country has a path ahead of it as well as many challenges to building the state. Still, the advantage of this country is its young population.

**Table 6:** Kosovo, Demographics.

• <b>Country:</b> <i>Kosovo</i>	• <b>92.9% Albanians</b>	• <b>90% Muslim</b>
• <b>Capital:</b> <i>Pristina</i>	• <b>1.5% Serbians</b>	• <b>6% Orthodox</b>
• <b>Population:</b> <i>1,782,115</i>	• <b>1.1Turks</b>	• <b>3% Catholic</b>
• <b>Population growth:</b> <i>0.86</i>	• <b>1.6 Bosnians</b>	• <b>1% Others</b>

**Source:** (Agjensia e Statistikave të Kosovës, 2019).

### **3.1. Islamic Finance in Kosovo**

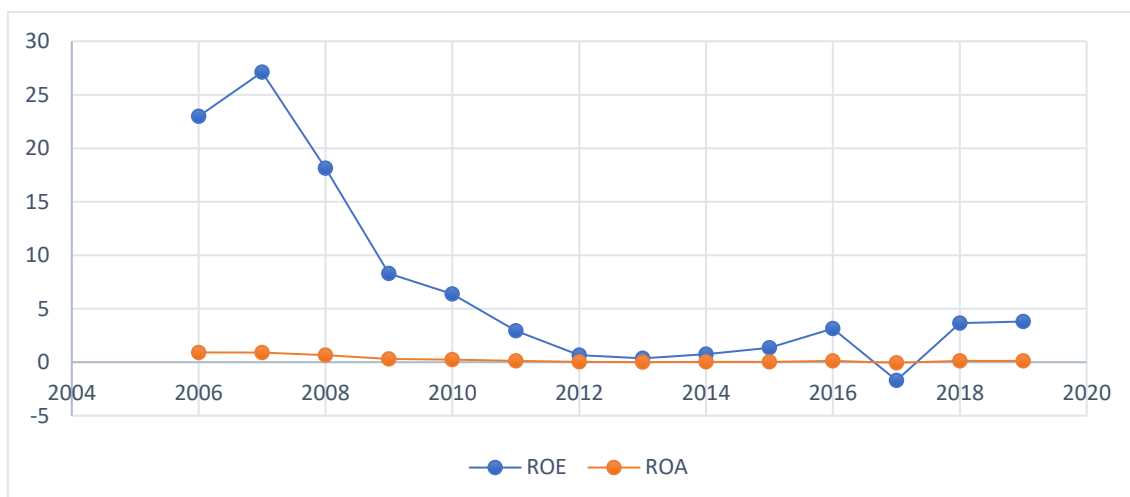
The fact that Kosovo is a country with a 90% Muslim population and in need of financing as it created a breakthrough opportunity for Islamic finance in the post-war period still lacks extraordinary development in IF. Despite the legal regulations approved in 2012, there is no Islamic bank operating there. Zeqiri (2020) head of Islamic microfinance START, gives information about the establishment and activities of this institution.



“This microfinance was founded in 2002 being among the first Islamic financial institution in the Balkan region. From that time till May 2020 the value of funds for project finance has reached 29, 510, 940 euro of which 20 009 170 through Qard al Hassen and 9, 501, 770 through Murabaha. All the projects have been realized with a 96-98% repayment rate. Even though no marketing has been conducted the demand for Islamic financial products is twice the capacity offered currently. During the time of operation even though there has been a lack of support on the academic side compatibility of products with Sharia compliance has not faced any issue. Because of the charity approach that this microfinance uses extra funding is needed to increase the capacities of trained staff. We have managed to make some investments in fintech for internal databases.”

The financial market of this country started consolidation in 1999 with the acceptance of foreign capital after the war. According to the Albanian Encyclopedic Dictionary, the Serbian administration intervened in previous financial developments. After 1945, the Central Bank of Kosovo functioned as a part of the former Yugoslavia banking system. In 1962, with the decision of the Kosovo Parliament (known as the autonomy of Kosovo at that time) was established Banka Ekonomike. The purpose of this bank was to contribute to the socio-economic development of Kosovo. Then, in 1989, the banking system was destroyed and replaced by the banking system of the Republic of Serbia (AAS, 2008). Therefore, one of the disputes between Kosovo and Serbia in the post-war period is the financial part and financial records, as is the case with pension funds. In terms of financing, it can be said that this country has implemented rather than established its financial institutions. The necessity of the time and political struggles for state-building have pushed Kosovo to perform such behaviors. As a future goal, along with the warm welcome of foreign capital, domestic development and a degree of internal financial freedom with their policies shall be aimed.

The central bank of Kosovo plays important role in the decision-making process for the financing sector of this country. Supervision, control, licensing, law regulations, monitoring are some of the functions of this institution. For that reason, we have done a return rate analysis for the central bank of Kosovo since the year 2006. Analysis shows negative developments in performance for the central bank of this country.



**Graph 9:** ROE, ROA Analysis for Central Bank of Kosovo. <sup>7</sup>

**Source:** (CBK Annual Report Banka Qendrore e Republikës Së Kosovës, 2020).

The financial market of Kosovo including banks, insurance companies, and microfinance institutions is established with local, regional, and international capital. Here are some data for the number of financial institutions in Kosovo through the years:

**Table 7:** Number of Financial Institutions in Kosovo

Type of institution	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Commercial banks	8	8	9	10	10	10	10	10	10	10
Insurance companies	12	13	13	13	14	15	15	15	14	13
Pension funds	2	2	2	2	2	2	2	2	2	2
MI and banks	17	20	17	17	18	18	16	18	22	20
Financial auxiliaries	28	34	38	39	42	44	48	52	51	51

**Source:** (CBK Financial Stability Report, 2020).

Today, one of the main determinants of financial development is the use of technology and its application in financial transactions. The latest technology trends have increased finance capabilities and made things much easier for day-to-day transactions. In any case, the right application and correct use are as important as the possibilities offered by technology. ATMs, POS terminals, Credit cards, EFTPOS, SWIFT codes are some of the latest technologies developed and used in finance. In a study of the Central Bank of

<sup>7</sup> Data for ROE and ROA analysis are taken from the annual reports of central bank of Kosovo and have been adopted to graphical representation by the researcher.

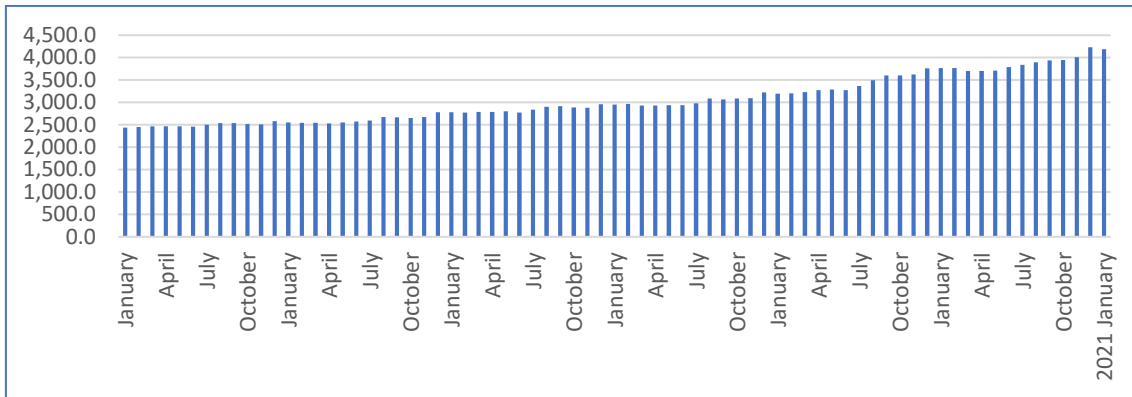
Kosovo on the use of technology in financial transactions, the following data can be obtained.

**Table 8:** Usage of ATM cards POS and EFTPOS terminals.

ATM with cash withdrawal function	497	
ATM with credit transfer function	51	
ATM with cash deposit function	244	
POS (Point of Sale) terminals	13,769	
POS with cash withdrawal function	87	
EFTPOS:	13,682	
Types of Cards	Debit	Credit
Local Cards	27, 552	339
Visa	656,339	129,953
Master Card	424,464	54,426
Total number	1,108,355	184,718

**Source:** (CBK, 2020).

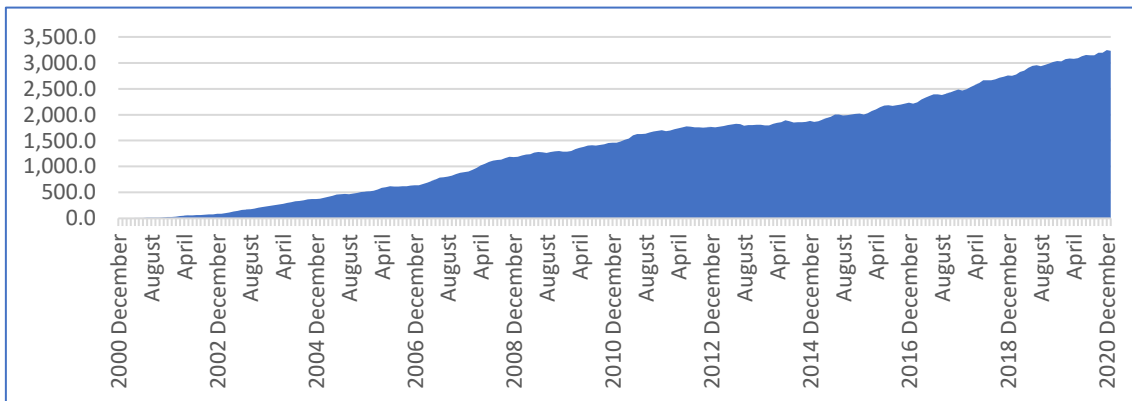
The usage of ATMs with various functions is lower than POS and EFTPOS terminals. POS terminals are becoming more and more popular as they are easier to install at different points of sale and are a less costly technology than ATMs. Electronic money is replacing ATMs with POS terminals and other technologies. The banking sector, of course, is mainly based on two activities, depositing money and lending. That is why we have provided some statistics on what deposits and loans are worth in this country. We start with the deposit side by providing monthly data from 2015 to January 2021. The value of the deposit is expressed in euro currency and the value of the numbers in millions.



**Graph 10: Data on Deposits in Kosovo.** <sup>8</sup>

**Source:** (Seritë Kohore Banka Qendrore e Republikës Së Kosovës, 2021).

We mentioned earlier that Kosovo’s financial market started to consolidate in the post-war period. This is evidenced by the graph below, which presents the lending propensity of commercial banks. Loans to maturity increased continuously over the twenty-year forecast period.



**Graph 11: Loans by Maturity in Kosovo.** <sup>9</sup>

**Source:** (Seritë Kohore Banka Qendrore e Republikës Së Kosovës, 2021).

### 3.1.1. Kosovo’s Main Economic Indicators

Kosovo has a negative expansion in the current account. Given that Kosovo is on the verge of becoming a less developed country and a developing country, GDP growth will

<sup>8</sup> Data are taken from the website of central bank of Kosovo and adopted to graphical representation by the side of researcher.

<sup>9</sup> Data are taken from the website of central bank of Kosovo and adopted to graphical representation by the side of the researcher.

be geared towards higher values. Industry contributing to GDP, albeit with positive values, can provide further incentives for development. The mining industry and energy resources can be solid for Kosovo's development. The mining area known as Trepça in the city of Mitrovica is estimated to have billions of dollars' worth of metal and other mineral reserves. However, in the war of 1999, Kosovo was completely liberated, except for a part of this city, where this wealth is located. Since then, twenty years of conflict between Kosovo and Serbia has been going on over this place. Kosovo has every right to this place without the need for any form of territorial exchange. It is also interesting that the forces of a country famous for its colonial spirit are found in the composition of NATO forces in this city. Kosovo suffers high unemployment rate and at the same time lending interest rate though has lowered still represents burden for the businesses. Exchange rate is stable, and we must note that Kosovo has not developed its currency but adopted euro from its start and exchange is presented compared to US dollar. There is a positive development in the administrative reform for the opening of new enterprises. The peculiarity of this country is the dependence on remittances from the population working abroad. Part of the imperative of culture and circumstances has been dependence on remittances. Immigration, which is indispensable for survival, has also turned into an indicator of development for this country. The debt service of this country has increased. FDIs have not recorded sustained growth.

**Table 9:** Main Development Indicators for Kosovo.

Name Series	2015	2016	2017	2018	2019	2020
GDP (current US \$)	6.44bln	6.71bln	7.24bln	7.94bln	7.95bln	7.61bln
GDP growth (annual %)	4.09%	4.07%	4.22%	3.81%	4.94%	-6.88%
Current account balance	-8.49%	-7.89%	-5.21%	-7.56%	-5.62%	-7.24%
FDI millions	343,35	243,78	286,83	318,54	285,08	343,35
Unemployment rate	32.93%	27.47%	30.34%	29.42%	26%	26.17%
Industry aid to GDP %	23.78%	23.79%	25.56%	26.34%	26.38%	25.81%
Official exchange rate	0.90	0.90	0.88	0.84	0.89	0.87
Lending interest rate %	8.32%	7.44%	6.83%	6.64%	...	...
Personal remittances	15.07%	14.67%	15.34%	15.55%	15.70%	18.86%

**Source:** (World Bank Database, 2021).

Kosovo needs to focus on exports for strengthening economic growth. Exports of goods in April 2021 amounted to 61.1 million Euros, while imports 384.5 million Euros, which

means an increase of 86.9% for exports and 98.2% for imports, compared to the same period of 2020 (ASK, 2021).

## **CHAPTER 4: NORTH MACEDONIA**

Today's Macedonia was established under the name FYROM (Formal Republic of Macedonia) under UN Security Council Resolution 817, following the peaceful secession from the former Yugoslavia on 7 April 1993 (Ker-Lindsay J., 2019). Recently changed its name to North Macedonia over Greece's name issue after protracted disagreements with the Republic of Macedonia. This was done for the sake of the promise to achieve the EURO ATLANTIC Integration. The name Macedonia and the competition for it, who and what it has are all part of the history of this country. Ancient Macedonia and the figure of Alexander the Great is the main reason for the discussions on this state. We will not focus on the journey of the Macedonian state because it is an ocean of work and distracts our research focus. We will only ask one question without an answer. Given the Slavic identity of today's Macedonians in North Macedonia, do they inherit the glory of ancient Macedonia and the glory of Alexander the Great?

In the ambiguity of the name change to North Macedonia, we must understand that the long debate over the name is perhaps not what it seems. Not for the sake of who is right and who is wrong, or who won the war over the name issue. Rather, before reaching the final stand for the deal we should ask what is the backstage of this marathon? Previously we mentioned regions past that is very complicated. We shall say that North Macedonia is a hybrid country, in which many domestic issues follow until it reaches the final form. Aiming at the EURO ATLANTIC integration North Macedonia should revise what does it mean to establish a state appropriate to what it should be as a country of our age. At the same time reconciling it between the Republic of Turkey and the historical context means more pressure from both sides to not allow fundamental human rights violations. Issues that began with the withdrawal of the Ottoman Empire, will be described in more detail in later chapters. During and after the rule of the former Yugoslavia, the role of the Muslim population, and mostly Albanian and Turkish populations, was weakened, neglected, and systematically repressed. The most recent time of conflict over more rights for Albanians resulted in the Ohrid Framework agreement in 2001. However, this agreement was politically devalued and internal issues did not stop and some interventions were needed which brought the well-known Prespa agreement to the agenda. North Macedonia will not have a clear perspective unless it treats all people living in this country as equal citizens. This is not based on ethnicity percentages as it proves

the political devaluation of the Ohrid Agreement. An example is a dispute over the official use of Albanian languages at all state levels. Albanians should not be seen as a minority; they should be seen as the defining element of this country. A compromise that will give equal rights for all citizens that might result in the sacrifice of at least one mandate which is less costly for any political party in the Macedonian bloc, rather than political suicide, which is costlier for the whole country should be reached.

With this, according to Ker-Lindsay J., (2019) the three major events that are intended to be a key point for the normalization of the Balkans are the Dayton Agreement (1995), Kosovo's declaration of independence (2008), and the Prespa agreement (2018).

**Table 10:** Macedonia in Figures.

- **Country:** *N. Macedonia*
- **Capital:** *Skopje*
- **Population:** *2.083.223*
- **Pop. Growth:***0.00%*
- **64.17% Macedonians,**
- **25.17%Albanians,**
- **3, 5% Turks,**
- **2.66% Roma,**
- **65% Orthodox Christianity,**
- **0.4% Other Christian denominations**
- **33% Muslim**

**Source:** (World Population Review, 2021).<sup>10</sup>

This country also has great potential for the development of Islamic finance. One of the issues that need to be treated before going into IF development is the games played in the demographic representation that results in the minimization of the role of the Muslim population there. Let us look at the 1904 demographic data of Macedonia based on the research done by Yüsküp (2007).

**Table 11:** Demographics of Macedonia in Year 1904.

Nationality	Expressed in Numbers
Turk and Albanian	1.508.507
Bulgarian and Macedonian	896.494
Greek	307.000
Serbian	100.717
Ulahlar	99.000
<b>Total</b>	<b>2.911.721</b>

<sup>10</sup> We have to note that the data provided are based on the registration committed in year 2002.



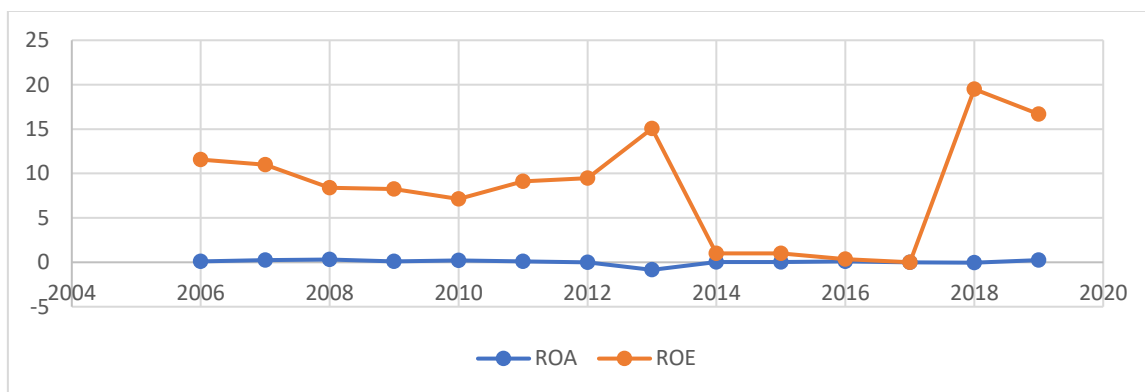
The first comparison that can be made is the change in the total population number, resulting in the loss of almost a third. All this happened in a century. The second issue is the change in the nationality structure since as can be seen in 1904 Turks and Albanians were the majority. At the same time, both nationalities mentioned belong to the religion of Islam in almost absolute numbers. When it comes to accuracy in the representation of statistics, the demographic representation of this country today should be looked at with hesitation. The latest registration done in 2021 again is subject to ambiguity at least in the methodology of representation since considerable number of population (132, 269 residents) have 'refused' the census. Even though, data from existing national dataset are taken as base to proceed these residents on final representation it is not a clear picture of how it is done, hence the overall representation is affected. Actually, in the last registration there is an increase on population but according to official data we have less 185,834 residents. How is that so? Based on registration done in year 2002 total number of population is 2, 083, 223. In the latest registration in 2021 total population number is 1, 836, 713 but when we add 260, 606 nonresidents, number goes to 2, 097, 606 by that showing increase of 14, 096 residents. At the same time diaspora statistics (258, 932 residents of whom 24.55% declared themselves as Macedonians, 66.42% as Albanians, 4.78% as Turks, and others) are excluded in the final result by that targeting specific structures of population in terms of ethnicity and religion. Adding this number, the final result goes to 2, 356, 251 residents. (<https://eacea.ec.europa.eu>, retrieved 01. 04. 2022) Last registration was followed by criticism and reaction during and after the final result by some political and nonpolitical entities. Another worthy thing to mention is that increase on population number in this country has been subject to Muslim population and Roma population thus remedies for child support has gone through revision by that either stopped or channeled to targeted population.

In this country, Muslims are first and foremost a demographic factor and everything will start from this point. The demand for Islamic finance should be understood as a fundamental right granted to every Muslim. Islamic finance is part of the religious right and the right over religion is a fundamental right for everyone and everywhere. Demanding Islamic financial and legal regulations for this is the same demand as demanding freedom to practice religion. If Muslims and people from other religious communities have been living together for centuries in this country, where mosques and

churches are in almost every city, it means that Islamic finance can also live together with the conventional one and which one to use will be the choice of the customers.

#### 4.1. Financial Market and Development Indicators of North Macedonia

Currently, 14 commercial banks are operating in the North Macedonian financial market (National Bank of the Republic of N. Macedonia, 2021). Banks' capital is a mix of domestic and foreign capital. Performance analysis for the National Bank of North Macedonia shows instability in the ROA ratio, with ROE close to zero or negative.



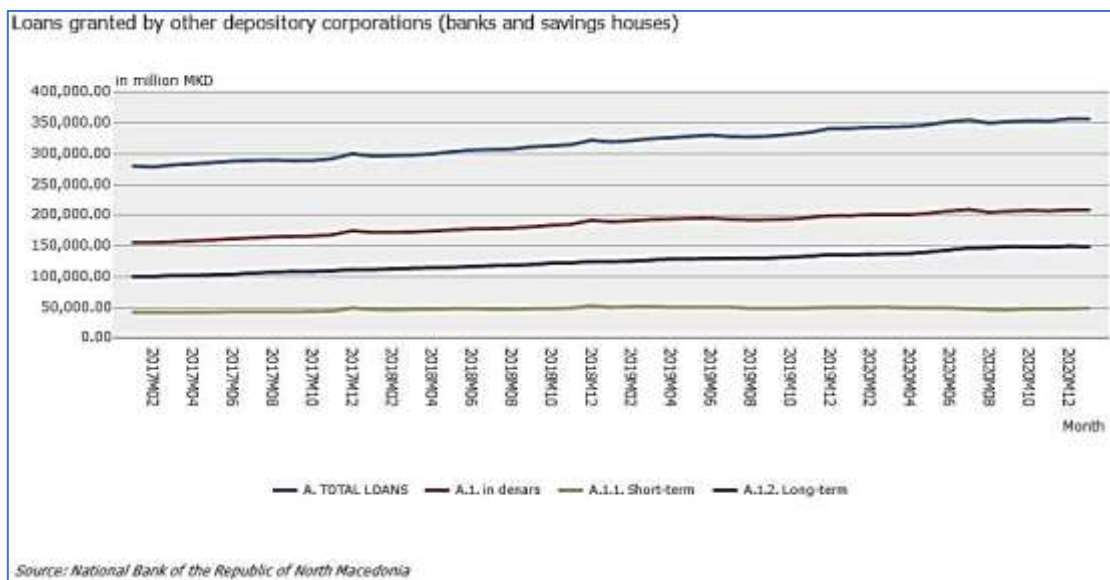
**Graph 12:** ROE, ROA Analysis for National Bank of N. Macedonia. <sup>11</sup>

**Source:** (NBNM Annual Reports, 2020).

According to the National Bank of North Macedonia, payments with cards at the internet points of sale, which amounted to 153% in the last quarter of 2020 and was twice higher than the annual growth in the same quarter of 2019 (71%). Regarding the use of payment cards at POS terminals by the citizens, the last quarter of 2020 registered an annual growth of 22%, which indicates a steady and unchanged growth of payments with payment cards at POS terminals, compared to the annual growth registered in the last quarter of 2019. In the last quarter of 2020, the number of electronic credit transfers initiated by the citizens increased by a significant 39.5% on an annual basis, which is three times more compared to the annual growth in the same quarter in 2019 (11.8%) (National Bank of N. Macedonia, 2020).

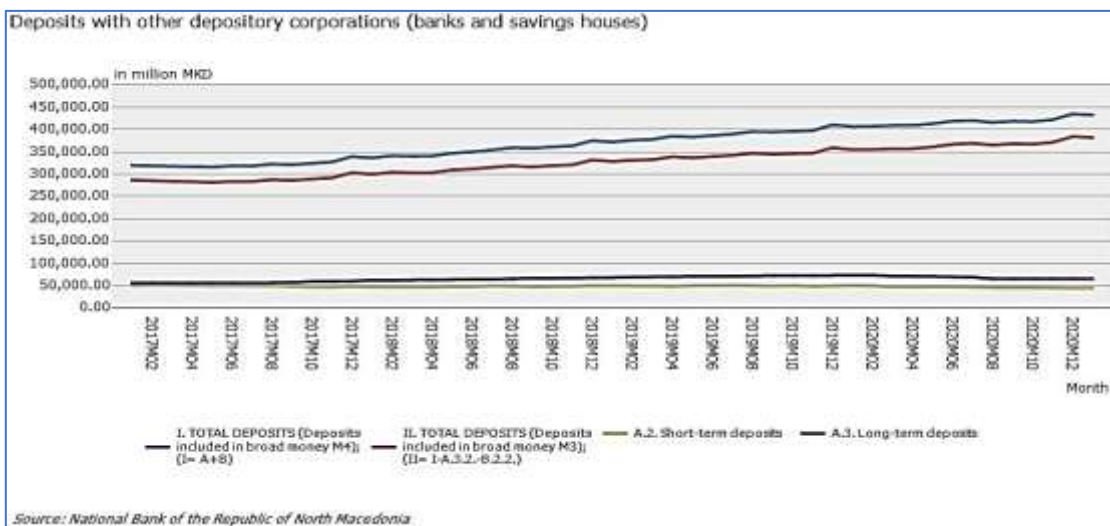
<sup>11</sup> Data for the performance analysis of National Bank of North Macedonia are taken from annual reports and are adopted to graphical representation by the researcher.

Continuing our analysis of the North Macedonian financial market, we have presented a graphical representation of loans and deposits issued by commercial banks of this country. Both loans and deposits have increased over the past decade. Short-term loans are not preferred as long-term loans are. On the other hand, as can be seen in the charts below, short-term deposits also have decreased.



**Graph 13: Loans in North Macedonia**

Source: (NBNM, 2021).



**Graph 14: Deposits in North Macedonia.**

Source: (NBNM, 2021).

The development indicators of North Macedonia are not much different from the previous countries. Slight GDP growth with trade deficit always foreshadowing dependence on remittances is also characteristic of this country. There is a positive development in the field of FDI.

**Table 12:** Development Indicators for N. Macedonia.

Name Series	2015	2016	2017	2018	2019	2020
GDP (current US \$)	10.07bln	10.68bln	11.31bln	12.67bln	12.54bln	12.26bln
GDP growth (annual %)	3.85%	2.84%	1.08%	2.88%	3.17%	-4.53%
Current account balance	-1.91%	-2.90%	-0.85%	-0.13%	-3.33%	-3.45%
Foreign direct investment	989,57mln	1.04bln	1.02bln	1.20bln	1.20bln	...
Unemployment rate	26.07 %	23.72%	22.38%	20.74%	17.26%	17.2
Industry aid to GDP %	21.76%	21.14%	20.35%	21.28%	20.23%	19.70%
Official exchange rate	55.53	55.73	54.65	52.107	54.94	54.14
Lending interest rate %	7.45%	7.01%	6.60%	6.10%	5.60%	5.19%
Livestock prod. index	96.59	102.04	102.21	101.64	...	...

**Source:** (World Development Indicators DataBank, 2021c).

In terms of trade, North Macedonia has realized 6, 906 million dollars of export with 2927 types of products to 129 partner countries. On the other side, it has done imports in value of 9,052 million with 4002 products from 170 partner countries (N. Macedonia Trade Summary WITS Data, 2021).

## **CHAPTER 5: NON-ECONOMIC FACTORS RELATED TO THE DEVELOPMENT OF ISLAMIC FINANCE IN THE BALKANS**

Although the development of Islamic finance in the Balkan countries is an economic issue, its development largely depends on non-economic factors. Among these factors, some are very positive and are the basis for supporting the cause. Anyway, some factors hinder development and require careful treatment. Some of these are briefly discussed in the first chapters of the study. The advocacy of the application of Islamic finance in the Balkans or anywhere in the world as much as it is an economic issue it is a religious issue, it is a social issue, it is a historical issue, it is a moral issue, it is a justice issue, it is a development issue, it is the issue of turning back people to natural state *fitrat*.<sup>12</sup> Finance being embedded in every economic system above everything is related to the law issue. Laws whether civil, constitutional, local, or international either consist of considering revelation, either consist of by not considering revelation meaning are secular. No one can support the usage of the interest rate and make law regulations in favor of it unless closing their eyes in front of religious concerns.

### **5.1. Religious and Social Issue**

It has been previously stated that the presence of Muslims necessitates the development of Islamic finance in the Balkans. At the same time, post-Ottoman social changes and their results reveal that IF has to do with the social dimension. Beyond that, the fact that Islamic finance is a religious issue is not only defended by the Muslim entity. There are religious teachings to make Islamic finance a religious issue at its core. This topic is very broad, but to elaborate briefly, let us take the example of the interest rate considering Islamic religious teachings. The rate of interest, which the Qur'an explicitly prohibits, is reported in Surah Ali Imran. It should be noted that this is not the only surah that prohibits interest, but we are talking about this surah as the prohibition of interest is explained in four stages and we have to look at more details in the interpretation (tafsir<sup>13</sup>) of this surah.

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<sup>12</sup> The word *Fitrat* means "to split, to divide into two; *Fatr*, means to create, to invent and it means "creation, having a certain talent and predisposition". The first creation is expressed with the word "Fitrat" because it is considered as the split of absolute non-existence and the emergence of existence from it. *Fitrat* also means the types of beings at the time of their first creation, and their initial states that have not yet been affected by external influences (Hökelekli, 2021).

<sup>13</sup> In the first verse about the subject that was revealed in the period of Mecca, it is stated that the interest rate was an unproductive gain in the sight of Allah, it did not increase the property but, on the contrary, it

Prohibition did not happen at once but gradually and this also can be a model for our living time.

**130.** O you who believe! Eat not *Riba* (usury) doubled and multiplied, but fear Allah that you may be successful.

**131.** And fear the Fire, which is prepared for the disbelievers.

**132.** And obey Allah and the Messenger (Muhammad ) that you may obtain mercy. (Surah Ali- Imran 130-132)

At the same time, the Sunnah of the Prophet (s.a.s) prohibits the use of interest, and we will mention the following hadiths: It is narrated from Ibn Masood (r.a.) that “The Prophet (s.a.s) accused the giver and user of interest” (Muslim) Tirmidhi and others added “witnesses and contractors.” (Ajidini, Morina & Ibrahim 2013 p.499) Another hadith confirming the prohibition of interest is founded on al-Bukhari's collection, one of the most well-known in the field of hadith.

It is narrated by Abu Huraira (r.a.) that: Prophet (s.a.s) has commanded his companions “**Be aware of seven destructive things**”. Companions have asked the Messenger of God which are they? Messenger of God commanded: **1. To associate with God, 2. To do magic, 3. To kill someone, a living creature that is forbidden by Allah (s.w.t.), 4. Use of interest rate, 5. To use the property of orphans, 6. To**

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eliminated the abundance; On the other hand, it is emphasized that zakat given for the sake of Allah (s.w.t.) will increase the property (Rum 30/39). At this first stage, although interest was not explicitly prohibited, it was denigrated by mentioning that it was seen as ugly and inefficient by Allah (s.w.t.). At this stage psychological basis for abolition of interest rate was prepared regarding it as an ugly gain even in the age of Ignorance.

In the second stage, the verses 160-161 of Surah Nisa reveals that although the interest rate was forbidden to the Jews, they were sentenced to many punishments since they continued to buy and give it as halal, and again indirectly, the prohibition of interest was touched on.

In the verses, which constitute the third stage and are our subject, interest is clearly prohibited, and it is stated that reaching salvation depends on obeying this prohibition of Allah (s.w.t.) In this phase was forbidden the compounded interest known as a practice in the period of ignorance in Arab peninsula.

In the fourth stage, in the Surah of al-Baqarah verses 275-281 interest is now banned with a strict and harsh style by commanding remove of previous record on interest rate. By doing this some incentives are brought to those who leave the interest, such as not being held responsible for what they have received in the past. It is also stated that those who insist on interest will wage war against Allah (s.w.t.) and His Messenger (s.a.s) In these verses, it is emphasized that interest is different from trade, and the bad consequences of interest rate in the world and the hereafter are pointed out. In verse 131, "Beware of fire prepared for disbelievers!" It is pointed out that those who take interest will be punished in Hell, which is specially prepared for the unbelievers in the hereafter, and verse 132 emphasizes the necessity of obeying the orders and prohibitions of Allah (s.w.t.) and His Messenger (s.a.s) to attain Allah's mercy and blessings (Âl-i İmrân Suresi 130-132. Ayet Tefsiri - Diyanet İşleri Başkanlığı Accessed April 12, 2021).

**escape from the battlefield, 7. Slander adultery to honorable believing women.**

(Akin, 2017 p.450)

Muslims are encouraged to work to continue their lives, but as it is known as halal in Islamic terminology, the work must meet the criteria of being permissible. In the Musnad of Ahmed b. Hanbali it is stated that the Prophet (s.a.s) commended as follows: "Searching for halal is an obligation (fard) for every Muslim" (Dönmez, p.240) Muslims are given the freedom to work, but some criteria must be followed in the journey of earning. Compliance with rules and criteria can be perceived from the point of view of the management that controls whether the rules are followed, and from the point of view of the inner sincerity of each individual who abides by the rules even if they are not supervised. The second point of view is related to Muslims' worldview and belief in the hereafter. According to Al-Ghazali, there are three types of people: the one that this world has made to forget the hereafter one and he/she is the looser, the one that the hereafter has made to forget this one and he/she is the winner and the one that sees this world as preparation for the hereafter and he/she is the holder of the middle path" (Iljazi, 2018). Islam encourages people to work to maintain a sustainable life and is against free rides. Related to the issue we provide the story of the prophet Isa (a.s) in an occasion that emphasis the need for work. Isa (a.s) saw a man and asked, "What do you do for a living?" The man said, "I am praying. "So, who's feeding you?" "My brother." Responds the person. "Your brother is more pious than you," says Isa (a.s) (Iljazi, 2018). Ghazali further explains the appropriation and need to support certain categories of people working on certain issues, such as contributing to the solution of certain problems by that having limited time for personal life maintenance (Iljazi, 2018). We understand from these arguments that the development of finance in the light of the permissibility of Islam means distinguishing what is halal (permissible) and haram (forbidden) and then rejecting the haram and accepting the halal.

**5.1.1. Historical and Geographical Issue**

Historical facts carry great importance in the search for expansion of Islamic finance in the case of the Balkans. Along with history, we should also mention the geographical factor. These two are laying the groundwork for the reorganization of bonds that have existed for more than five hundred years. We will also focus on some historical data and

facts about the contribution of the Ottoman Empire to the development of the Balkans. The history of the Balkans in the Ottoman period for a certain interval was aimed to be shown as the reason for current underdevelopment and Ottoman Empire was presented as an occupational force. In a study conducted by İnalçık, Lowry, Göyünç and Ertlinsal, (1990) on this subject, the following statement is found:

“Calling the Ottoman period, a period of darkness, occupation and destruction were repeated for a long time, under the influence of the official ideologies of the respective countries, and it was considered the dominant view even in scientific research. However, studies focusing on archive sources for the last thirty or forty years and supporting them with local investigations revealed that the Ottoman administration in the Balkans should be re-evaluated.”

According to İbrahimgil and Keleş (2019) the Ottoman strategy towards the Balkan geography was not temporary, but long-term and to make the Balkans homeland. This argument can be proven with the heritage that despite the damage, it has been preserved until today. All kinds of heritage (real estate, religion, tradition, culture, education, art, etc.) reflect how important the Balkans were to the Ottoman Empire. In the table below, the real estate heritage of the Balkan countries (mosques, bridges, baths, madrasas, lodges (mausoleums), castles, schools, etc.) is presented.

**Table 13:** Number of Real-estate Works Constructed Across Balkans by the Ottoman Empire.

Balkan countries	Being constructed in Ottoman times	Being in existence in our times	Expressed in Percentage
Albania	1015	230	20%
B. Herzegovina	3560	926	18%
Bulgaria	3339	628	16%
Croatia	241	54	22%
Montenegro	222	137	43%
Kosovo	576	225	61%
Hungary	724	41	0,6%
Macedonia	1413	584	34%
Romania	291	140	38%
Serbia	909	182	18%
Greece	3339	756	20%
<b>Total</b>	<b>15,846</b>	<b>3,903</b>	<b>15%</b>

**Source:** <sup>1</sup> (İbrahimgil & Keleş, 2019).



**Note:** Original table can be founded in the article. Translation to English and adoption is done by the researcher

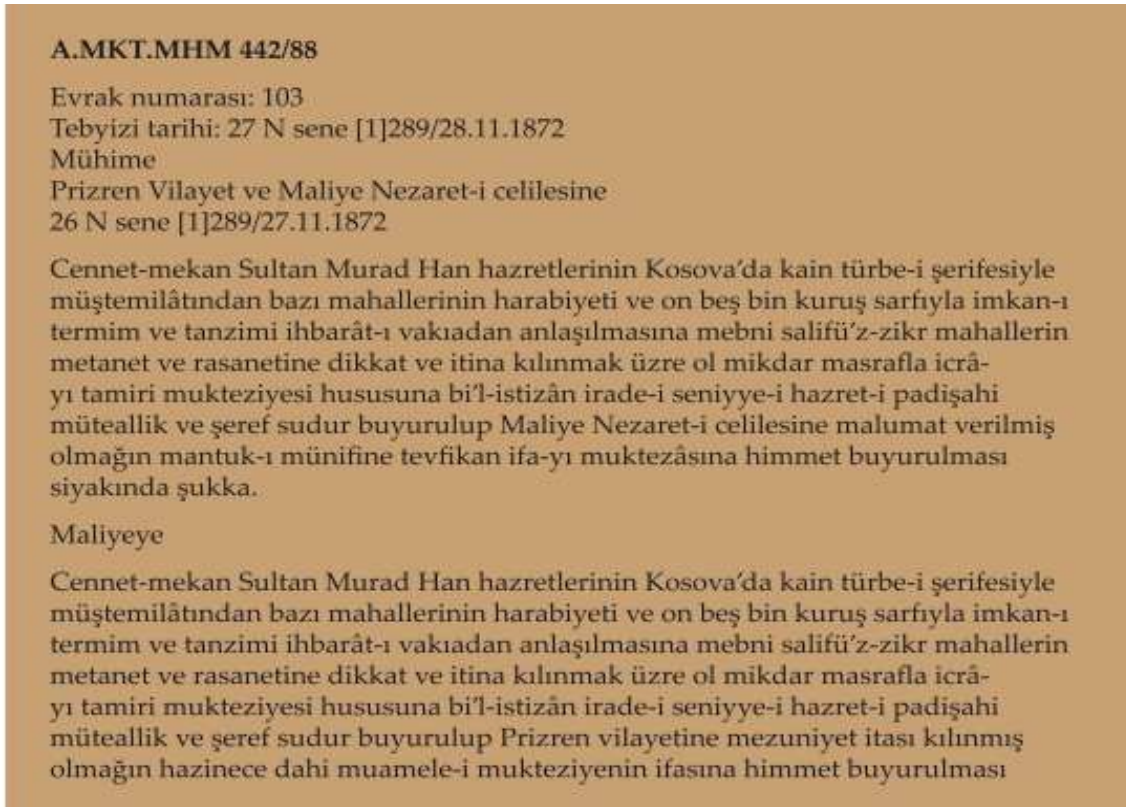
Only 15% of the total real estate heritage, expressed as a percentage, has been preserved unharmed. Kosovo, Macedonia, Montenegro, and Romania are the countries where real estate heritage is most protected. Since archive-based studies are mentioned as a way of illuminating the uncertainties created for the history of the Balkans during the Ottoman period, it would be appropriate to mention the volume of these archives. According to Şenyurt (2012) "It is known that almost half of the more than one hundred and fifty million documents in the Prime Ministry Ottoman Archives are related to the Balkan countries." Next, we will present two types of archived documents as an example (one with the old Ottoman script and the other with the modern Turkish alphabet).

**Figure 1:** Hurufat Records of the Berat Foundations.



**Source:** (Çam, 2018).

**Figure 2:** Document related to Sultan Murat.



**Source:** (Şenyurt, 2012).

As our study focuses on four countries from the Balkan geography, we will go further and discover more about them. Let us start with the “Suret-i Defter-i Sancak-i Arnavid”, the first document written in the old Ottoman script and known to be the first book in the Ottoman Empire. The book was written in Hijri 835, 1431-1432 Gregorian calendar. The book provides information about the country's population, administration, geography, and lifestyle, and the name Arnavid is used to refer to Albanians. According to this book, between the years 1431-1432, Albanian lands included the following provinces (*vilayet*)<sup>14</sup>: 1. Vilayet of Aryurikasri, 2. Nahiyet of Sopot, 3. Vilayet of Klisura, 4. Vilayet of Kanina, 5. Vilayet of Belgrad, <sup>15</sup> 6. Vilayet of Tomorince, 7. Vilayet of Skrapar, 8. Vilayet of Pavlo (Durmuş & Simitçiu, 2016).

<sup>14</sup> It is the largest administrative unit in the Ottoman provincial organization under the administration of a beylerbey (İnalçık, 2021).

<sup>15</sup> According to the first determinations made in 1431-1432 after the conquest, Berat, which has had a population of about 1000 people, was made the center of the Avlonian sanjak of the Rumelia province and it started to be known as Albanian Belgrad because the Serbs called it Belgrade (Giray, 2021).

“According to Evliya Çelebi, in the Ottoman Empire, there were four castles named Belgrade. The first one was Belgrade Fortress, located at the edge of the rock at the confluence of the Danube and Sava rivers, the other was Ustolni Belgrade Fortress, located on the border of Hungary's Budin region, the third was Belgrade Fortress in Erdel and the fourth was Albanian Belgrade that is the city of Berat” (Durmuş & Simitçiu, 2016).

Previously, we talked about the abolition of religion in Albania and the damage done to the Islamic heritage. As İbrahimgil et al., (2019) stated in their paper, the Ethem Bey mosque in the capital Tirana and the mosque of Beyazıt the II<sup>nd</sup> in the city of Berat is turned into a basketball court during the communist era. Bektashi tomb in Tirana city was used for homeless people. In addition to the paper existence of the Ottomans in BiH, although it was declared during the reign of Sultan Mehmet Fatih, the actual settlement was done in XVI<sup>th</sup> century. Development of small cities such as Sarajevo, Mostar, Travnik, Pocitelj, Stolach, Banjaluka, Bihac, and Zvornik was realized after the war between the Ottomans and the Hungarian Empire (İbrahimgil et al., 2019). The Ottoman real estate heritage in this country was unfortunately badly damaged and only 926 of 3560 monuments are recorded to be in good condition. It is worth mentioning the famous Mostar bridge as an example. According to Sert, during the final battle in BiH on 9 November 1993, the Croatian Artillery Militia destroyed the bridge after 54 artillery fires that lasted three days. It was rebuilt in the post-war period by the World Bank, EU, and local aid and is listed on UNESCO. The reconstruction was done by the Turkish company (Sert, 2015). The heritage of Kosovo and Macedonia does not differ much in terms of survival, as the region faces almost the same problems with slight differences from country to country. According to the historical records, Kosovo joined the Turkish administration in 1389 with the "Kosovo Battle". In the war of 1999, 30 buildings from Ottoman time were partially destroyed in the cities of Ipek, Gjakova, Gilan, and Mitrovica (İbrahimgil et al., 2019). On the other hand, only 484 out of 1413 buildings survived in Macedonia. 225 Turkish works are registered in the Macedonian Monuments Protection Institute. Only 107 of these registered Turkish works are under state protection. The remaining 118 artifacts are cultural assets and are not in the status of artifacts to be protected (İbrahimgil et al., 2019). This destruction in all types of heritage has been fatal for the Muslim population living in the Balkan Geography. We focused on real estate because it is easier to document and can be presented much more easily. All this ruin is

done after the withdrawal of the Ottoman Empire from the Balkans. This destruction is not instantaneous, it is continuous and unfortunately still an ongoing issue in some parts of the Balkans. The withdrawal of the Ottoman Empire from the Balkans was a result of the Balkan wars and the general weakening of the Empire. In the importance of Balkan and Ottoman Empire relations, we should also point out that the executive role of the Grand Vizier during the period of 1453-1623 was carried out by only five Turks. Out of 47 of them, 11 were Albanian, 11 South Slavic, 6 Greek, 1 Armenian, 1 Italian, 1 Georgian, 1 Circassian, and 10 unknown nationals (Sancaktar, 2011). We are mentioning this because one of the reasons for the defeat of the Ottomans in Balkan is nationalist movements, while in Ottoman rule, we see that has not been the case even in the highest political positions. This model has been successful for centuries by applying the well-known *millet* system. According to Eryılmaz (1992) the millet system does not represent any community based on a nation or the same spoken language, but an administratively and culturally organized community with the same religious belief or Madhab.<sup>16</sup> In *Kamus-i Türki* one of the most important dictionaries of the Ottoman Empire, *millet* means different people with different nationalities and languages linked to the same religion. In this regard the writer of *Kamus-I Türki* Shemsedin Sami instead of (*milet-i İslamiye*) Islamic nations, communities used (*milet-i İslamiye*) meaning Islamic community and instead of (*İslam ümetleri*) that is in plural used (*ümem-i İslamiye*) which means the Muslim Ummah. After the period known as Tanzimat<sup>17</sup> with westernization and secularization, these two terms started to lose their meaning in real practice. Also, these terms lost their religious representation even in translations and did not represent what it was and were confused with the nation-state (nationalism) that was gaining ground at the time. In the last two hundred years of the Ottoman Empire, nationalism as a movement has been the main reason for the collapse and disintegration of minority rights. To prove this once again, let us look at some statistics of the city of Skopje for the years 1455-1569. Muslim population, which was 2,584 in 1455, constituted 63.1% of the

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<sup>16</sup> The system of thought that has its own unique approaches to understanding and interpreting the principles of belief or legal provisions of religion; The scientific and intellectual accumulation that is the product of the ecocivilisation that took place around these approaches. Example Hanefi, Maliki, Hanbeli and Shafi Madhabs (Üzüm, 2021).

<sup>17</sup> The civil reform program published by Sultan Abdülmecid and the period when it was implemented (Akyıldız, 2021).

population, it increased to 8,080 in 1569, making up 76.7% of the population. Therefore, there has been an increase of 320% in the Muslim population in approximately 15 years (Mehmet, 2010). In this statistical representation, only Muslim and non-Muslim populations are mentioned for demographic representation. In our age, demographic representation is carried out with an emphasis on national representation rather than religion. For this reason, we have touched on this issue in the previous sections so that we can make comparisons about how a change in government organization and administration is reflected even in demographic representation methods in different periods. In this regard, due to the millet system in the Ottoman Empire, Muslims, Christians, and Jews lived together in peace (Eryılmaz, 1992). While the Ottoman Empire was receding, the region fell into wars and disappointments that resulted in the Balkan wars. Montenegro's declaration of war on the Ottoman Empire on October 8, 1912, is the starting point of the First Balkan War. This war ended with the Treaty of London on 30 May 1918, a complete defeat for the empire and a victory for the Balkan Alliance. The territories of North-Central Macedonia and Kosovo were taken by Serbia. The autonomous island of Crete and South Macedonia was taken by Greece. Eastern Macedonia, Edirne, and Kırkaeli were taken by Greece. The area known as the New Bazar and Sanjak came under the rule of the Austro-Hungarian Empire from 1878 and was taken by the forces of Serbia and Montenegro. In this state of war, Albania declared its independence on 28 November 1912. The Ottoman Empire withdrew on the Modye-Enez line in Eastern Thrace. In June 1913 Bulgaria attacks Serbia and Greece intending to take Macedonia completely, thus starting the second Balkan war. The Serbia-Greece-Romania-Montenegro alliance defeated Bulgaria and the war ended with the Bucharest agreement on 10 August 1913. According to that agreement, Macedonia was divided into three parts between Serbia, Greece, and Bulgaria where north, west, and central parts of Macedonia were given to Serbia, the southern part to Greece, and a small part to Bulgaria in the east. Southern Dobruja passed from Bulgaria to Romania. Southern Epirus was given to Greece and northern Epirus to newly formed Albania. Edirne and Kırkaeli were left to the Ottomans in the Istanbul treaty signed on September 29, 1913. On the other hand, with the Belgrade agreement in 1913, the New Bazar was divided between Serbia and Montenegro. Thus, approximately 550 years of Ottoman-Turkish domination in the Balkans came to an end (Sancaktar et al., 2011). After the withdrawal of the Ottomans,

necessary changes took place in the economic and political system. The fate of the Muslim population living in that geography was like the fate of an orphan. In this situation, helpless, oppressed, and hopeless Muslims had to migrate, and their main destination was Turkey. The region was later divided into microstates.

“The new constitution (January 1946), modeled on the 1936 Soviet document, organized Communist-controlled Yugoslavia as a federation of Serbian, Montenegrin, Croatian, Slovenian, Bosnia- Herzegovinian, and Macedonian republics, centrally controlled from the capital at Belgrade by the Communist party. Kosovo and Vojvodina were recognized as autonomous provinces of Serbia” (Hupckick, 2002).

### **5.1.2. Moral, Justice, and Developmental Issue**

Financial/economic morals will only be applied when it is based on religion. We talked about the consequences of ignoring religion in financial/economic matters in previous chapters, and unfortunately, these results were devastating in the Balkans. Both communism and capitalism systems have removed humanity from the natural condition *fitrat* in different ways. Communism, along with the idea of industrialization, abolished the right to private property and trade. Large factories with large production capacities also contributed to environmental pollution.

“The Communists followed the Soviets’ lead and concentrated on initiating rapid industrialization to shed the impression of backwardness and create a widespread proletariat (whom they ideologically claimed to represent). Party governments nationalized all economic sectors and moved against private ownership and management” (Hupckick et al., 2002).

On the other hand, besides the recognition of property rights and trade in capitalism, the allowance for practicing interest rates opened the door to unprecedented debt. The debt burden, debt service, bankruptcy, ruthlessness, and loss of interpersonal solidarity are some of the consequences of interest rates. In both systems, people are not seen as central, but as workers (slaves) or consumers. In capitalism, with the culture of excessive marketing and consumption, people have to obey the rules of the companies, while in communism, everyone had to pay a price to make a profit collectively. Due to religious restrictions during the communist era, the economy was deprived of the religious spirit. Capitalism promoted unwarranted freedom, but same as communism failed to introduce

morality into the economy. At the academic level, both systems have mostly used the secular approach. The scientific method has been used as an excuse to portray religion as something dogmatic and has no place in scientific research. This is not the case in Islam as a religion. Muslims are encouraged to engage in research and development and seek knowledge to provide solutions to humanity's problems. Early Muslim scholars such as Abu Jusuf, Ghazali, Ibn Rushd, Ibn Khaldun, and many other scholars have made enormous contributions to economic theories that are valid even for our time. The ethics of finance is not limited to the prohibition of the interest rate, but this implies that the ethics in Islamic finance encompasses the moralization process of the entire system. Moralizing finance means applying Islamic finance as an alternative. The teachings of Muhammad (s.a.s), the best role model for humanity of all times, will of course be a starting point for this.

**107.** And We have sent you (O Muhammad) not but as a mercy for the '*Alamin* (mankind, jinn's and all that exists). (Surah Al-Anbiyah verse 107) <sup>18</sup>

**4.** And verily, you (O Muhammad ) are on an exalted standard of character. (Surah Al-Qalam) <sup>19</sup>

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<sup>18</sup> Hz. Muhammad is a prophet sent to all humanity, therefore mercy to the worlds. The Quran revealed to him is a universal book, beyond the ages; It appeals to all humanity regardless of their lineage, race, or cultural environment, and shows everyone the right way; appeals to reason and common sense and calls people to unity, brotherhood, justice, equality, and solidarity. To love each other, animals, and plants because of mercy on the worlds; recommended to preserve the ecological balance. It is He who teaches people the ways of salvation and happiness. Through him, people had the opportunity to attain many favors in terms of life in the world and the hereafter. When He came, human dignity was violated, people worshiped idols that made with their hands as gods and bury their daughters alive. Allah Almighty, to free people from the grip of these false beliefs and to free them in thought, belief, and social life, sent the Prophet Muhammad (s.a.s). He has been a mercy for humanity due to the religious and moral principles he brought. As a matter of fact, he himself said in one of his hadiths, "I am a guide of mercy and guidance" (Dârimî, Sünen, "Mukaddime", 3); He replied to those who offered to curse the polytheists, saying, "I was sent not as a curse, but as a mercy to the worlds." (At-Tawbah 9/128), ("Enbiyâ Suresi 107. Ayet Tefsiri - Diyanet İşleri Başkanlığı" Accessed April 17, 2021).

<sup>19</sup> The "never-ending reward" title given to the Prophet is the help of Allah (s.w.t.) that he finds with him against all kinds of obstacles while performing his prophet hood in the world, and the exceptional rewards that Allah (s.w.t.) will bestow on him in the hereafter (Ibn Asshur, XXIX, 62-63). The "superior morality" stated in the 4<sup>th</sup> verse is the morality of the Quran that the Prophet possessed. As a matter of fact, Hz. Aisha, on answering a question, has stated that the morality of the Prophet is the moral of the Quran (Muslim, "Musafirin", 139); She also stated that He was sent to complete the good morals (Muvatta ', "Hüsnü'l-huluk", 8). These explanations show that the Prophet is not magnanimous as the polytheists claimed, but a high personality who has been honored by Allah (s.w.t.) with superior moral, an exemplary leader, and a reliable guide for mankind (Kalem Suresi 1-7. Ayet Tefsiri - Diyanet İşleri Başkanlığı, (2021).

By applying the moral teachings that He (s.a.s) ordered us to continue, we are one step closer to the sustainable development that is missing in our time. Some areas are indeed developing more than ever before in our time, but at the same time, inequitable development and unstable development are more present than ever before. Going to sleep as the richest man in the world and the morning you wake up with the loss of billions of dollars without having any physical damage in the company or any drop in sales but because the lottery in the stock exchange has lived shocks during the night says enough of what current financial world is. At the same time, there is one part of the world's population that as main health problems have obesity and on the other hand there is part of world's population that dies while starving for food and drinking water. Justice has never been achieved in systems that are far from divine teachings and that can never be achieved unless we return to divine teachings. According to Orman (2018), a distinction should be made between justice and social justice, as social justice is a by-product of our age and is mainly the result of the concept of income redistribution in the last century. He explained the concept of social justice in the light of al-Ghazali's classical teachings. In the pursuit of social justice, permissiveness and prohibitions must be followed and their classification according to Islam is as follows:

Fard <sup>20</sup>Wajib, Mendup, <sup>21</sup> Mubah or Helal, <sup>22</sup> Tenzinen Mekruh, <sup>23</sup> Tahrimen Mekruh, Haram. <sup>24</sup>

Fardul Ayn  
Fardul Kifaye

Close to helal: close to haram

<sup>20</sup> According to Hanafi school fard and wajib being obligatory actions their applications are summarized as follows: Those who do these acts with the will to obey Allah's command are considered worthy of religious praise and deserve reward. Those who denies the fard are dismissed from religion, and those who quits without a valid excuse become a sinner. A person who denies a wajib does not leave his religion; he is regarded as a sinner who quits because he underestimates the news of the wadi; A person who does not fulfill it due to the difference in ijihad in the interpretation is not considered a sinner. Those who abandons both deeds without an excuse will be deemed to be condemned and otherworldly punished (Dönmez, 2021).

<sup>21</sup> As a term of fiqh methodology, it refers to the works that are required to be made strictly and without binding and whose abandonment is not condemned in terms of religion (Koca, 2021).

<sup>22</sup> It is a term used in fiqh method to explain an act that is permissible and that is in the will of individual for the committing or noncommitting of that act (Koca, 2021).

<sup>23</sup> It is a term used to explain an act that is not desired for committing but is not strictly prohibited (Koca, 2021).

<sup>24</sup> An act that is clearly prohibited according to Islamic law. Haram activities will be punished worldly and in the hereafter. Final stands for those who commit haram activities are to Allah (s.w.t.) Allah knows the best (Demirci, 2021).



Fardul ayn, which means individual obligations, and fardul kifaye, which means collective obligations, are included in the fard category. We emphasize this categorization since fardul kifaye is subject to social justice and we will elaborate zakat as an example. Zakat is individual as fard and worship, but in the case of distribution, when individuals meet their needs and surpluses, its redistribution becomes fardul kifaye and turns into social responsibility. Thus, zakat contributes to social justice because zakat is a wealth tax, and its redistribution brings balance from the rich to the needy (Orman, 2018). Justice will be explained in the best way by referring to one of the beautiful names of Allah (s.w.t.) which is El-Adl. As the attribution of Allah (s.w.t.) has the following meaning: The One that is just and merciful, the One that judges rightly, the One that the right doers give the right and the wrongdoers' punishment, the One that does the right thing in the right place, the One that every saying, every command and prohibition does rightly, the One that performs everything rightly the one that never commits cruelty (Karagöz, 2020 p.249). Righteousness, development, morality, and justice will be priority targets in Islamic finance practice. The ultimate goal is to bring humanity to a state of nature (fitrat) and to live a balanced life with the struggle to do the right thing and win the hereafter. According to Öztürk (2019) Our Prophet (s.a.s) in His well-known journey named as Isra and Miraj apart from all the blessings and the events that was exposed narrates us the case when the angel Jibril (a.s.) has offered Him two glasses one with alcohol and one with milk. Upon choosing the milk for drinking Jibril (a.s.) has said that the Prophet (s.a.s) has chosen the fitrat. We have previously explained what fitrat is in the human condition but that is also valid in the production process. Every product in the form of raw materials from nature is in the form of fitrat. We are the ones who determine whether it will be beneficial or detrimental to humans in the production process. We have been bombarded with marketing for bio-food lately, and we are seeing a lot of advice to be aware of what we are consuming. This topic was chosen in the journey of Isra and Miraj, and we must continue to use fitrat not only for the human condition but also for production, consumption, protecting the environment, and living a balanced life.

### **5.1.3. Balkans, EU integration, Law, and Islamic Finance**

We have previously discussed in detail the consequences of the anti-religious movements that replaced the Ottomans in the Balkans. At the same time, we mentioned that post-Ottoman systems did not bring long-term and stable solutions. We have now come to the

point of making suggestions for transforming Islamic finance into a solution for the Balkans. At this point, we should first consider the EU integration process and its relationship with the development of Islamic finance. In the process of integration with the EU, the Balkans faced a problem of separation. This can be discussed with the integration process of the region. There are already countries with full membership status, countries with candidate status, and countries with potential candidate status. This classification has resulted in discrimination between and sometimes even within countries. At the same time, this process has reflected the development issues of the countries that are given full membership compared to the non-members. The integration of the Balkans into the EU has the following timeline: Greece granted full membership in 1981, Bulgaria and Romania in 2007 (Enlargement of the Union Factsheets on the European Union European Parliament, 2021). Meanwhile, the so-called Western Balkans is emerging in EU integration terminology. The EU has developed a policy to support the gradual integration of the western Balkan countries with the Union. On 1 July 2013, Croatia became the first of the seven countries to join, while Montenegro, Serbia, the Republic of North Macedonia, and Albania are official candidates. Accession negotiations and chapters have been opened with Montenegro and Serbia, and Bosnia and Herzegovina and Kosovo are potential candidate countries (The Western Balkans Fact Sheets on the European Union European Parliament, 2021). The question is, what are the selection criteria for making such a classification? Secondly, in the Balkans, secular laws were applied in the process of communism, socialism, capitalism, democracy, and even EU integration after the Ottoman Empire. We are now questioning how to implement Islamic finance in a region with a secular legal order that puts Islamic finance at a competitive disadvantage. Another concern is what kind of legal order we should have to avoid legal confusion for correct implementation. While trying to answer these questions, we will examine the following terminologies: Islamic state versus religious state, secularism, social contract, divine right, enlightenment process, nation-state, union concept, and legal order.

After the abolition of the caliphate, Muslims have been trying to organize Muslim societies at the state level, both intellectually and practically. The biggest challenge faced by Muslims due to the losses is choosing the right method of return. Therefore, the religious state in Islam has been misunderstood and its application has led to the wrong

methodology. According to Al-Kardavi (2009) since the religious state means government based on divine right, we should say the Islamic state, not the religious state. The religious state derives from the Western experience of the conflict between the State of the Church, which resulted in the French revolution, and Didero's famous slogan: "*The people will never be free until Las king is suffocated by the bowels of the last priest.*" Secularists in Muslim countries have argued that the Islamic state will be turned into a religious state and that some people will use divine right to make the administration based on divine right. This argument is made when sanctions are imposed on thieves, prostitutes, drinkers, renegades, and those who cause cruelty on earth. Islam should not be accepted and understood only partially but should be understood in its entirety to avoid misunderstandings. In this way, the Islamic state turns into a civil state where power is not absolute but limited. No one has the right to change anything from the constant disposition of Allah (s.w.t.), regardless of the king, president, prime minister, head of parliament, government, a revolutionary body, any central comity, national congress, or any other position of power.

In the analysis of secularism and the social contract, we must first consider the preconditions of the secular movement, as well as different views on social contract theory. Secularism has been a product of western culture and its main purpose has been government based on divine right, as stated before. Nicola Machiavelli is one of the figures that was taken as a basis while defending secularism and later influenced many western writers and thinkers. He blamed the church as the root cause of the historical process known as the *Dark Middle Ages* in the West and criticized religion and religious administration in the West. He accuses the Judeo-Christian discourse of being cruel to literature, music, philosophy, architecture, and science. He yearns for Pagan Europe (Greco-Roman) and builds a vision for the rebirth of Europe based on pre-Christian Europe. Machiavelli's writings have been prohibited by the church considering him a controversial figure and have been interpreted from different perspectives. He is also basing politics with the saying *aim justifies the means* which unfortunately in many places produced that kind of politician that does not care for their actions to reach their goals (Makolkin, 2008). We interpret Machiavelli as follows; He was justified in the criticism of the divine right-based government that lead even the Inquisition courts. We are against the criticism of religion in all its forms and its secular approach. We must clarify what it

is to try to abuse religion for personal or group interests that can occur in any religion and result in blaming all religions. Therefore, the Machiavellian view has no place in Islam at all.

Social contract theory originates in the renaissance period and the main figures for the development of this theory are Thomas Hobbes, John Locke, and Rousseau. Hobbes writes about social contract theory influenced by the bloody English civil war. The English civil war, known to end the absolute monarchy, created chaos, and Hobbes' reflections are largely post-war and post-traumatic. Trying to model the social contract as the solution, he portrays the human condition as harsh, perpetually fearful, insecure, brutal, and brief. He also attempts to establish his theory of the social contract, based on the Latin proverb *homo hominis lupus est*, meaning a man to a man is a wolf. It tries to describe the nature of human beings as savage unless it is included in the social contract for setting the rules and by associating the natural state of human beings with the animal state. We are against this approach, because before it was a brief explanation of the natural state of human according to Islam, which is the state of fitrat. Human is different being from other creatures that is given reason and intellect, and it is a wrong approach to compare human to the wild nature of animals. On the other hand, John Locke's approach is different from the Hobbesian approach. He sees the natural state of humans in a state of peace, equality in complete harmony with nature. Human beings in this situation do not have any laws or property regulations, so to maintain them, they must indulge in social contract theory. We oppose this approach as it is secular, stating that everything comes from mother nature and that this approach is not sufficient to explain the complexity of human life. If everything comes from mother nature, who created mother nature? As a religion, Islam tells us that Allah (c.c.) is the creator of nature, man, the earth, the sky, and every living creature. Rousseau is somewhat similar to Locke in his approach to social contract theory. He also advocates equality and states that man is born free but then is surrounded by chains (Elahi, 2014).

The three approaches we have mentioned are about to explain the constitutional model of absolute monarchy and the rule of law of state-building derived from the social contract theory. However, these approaches are influenced by secular ideology, as we have mentioned the Machiavellian sentiment. At the same time, these approaches try to find a solution to regulating human life within the social order, but the methodology misses the

point from the beginning. In none of the approaches, the natural state of man cannot be adequately explained as in the explanations of Islamic teachings. There is a tendency to reject revelations completely and to explain only by reasoning. It is also important to mention other names that have been affected by the Machiavellian thoughts and take place in the development of western thought and to some degree the Russian one including law, economy, social order, literature art, etc. Some of them are Cromwell, Bacon, Ferdinando Galiani, Giambattista Vico, Adam Smith, Herder, Leibnitz, Descartes, Voltaire, Rousseau, Montesquieu, and Nietzsche. He used to fascinate Russian Count Peter Tolstoy (1645-1742), Karl Marx, and revolutionaries such as Lenin, Trotsky, Kamenev, Chicherin, and later, Jean-Paul Sartre, Jacques Derrida, and the post-modern Chicago and Frankfurt schools representatives (Makolkin et al., 2008).

In response to what we have explained previously, we take the example of the Medina Convention. The contract made after the migration of Muhammad (s.a.s) from the city of Mecca to the city of Medina has been interpreted from different perspectives. The state established in the city of Medina in the background of the main events has this contract. Interpreted as agreement, contract, constitution, etc. is the basis of the Islamic state. Although the later developments did not last long, it was taken as a basis for the social order. It is an agreement that was made only between Muslims at first and then to include Jews in its body and to ensure social order. An issue worth emphasizing in this contract is that the treaty, which has been based on respect for minorities since the day it was established in the Islamic state, is also valid for non-Muslims. This is unlike the social contract theories we've been talking about, as the contract takes into account revelation (Akarsu, 2018).

The divine right is explained in the example of the west, and it is explained as seeing the experience made to produce secularism as a solution. When it comes to Islam, we are faced with a different situation because the administration is set up differently according to Islam. According to Uludağ (2016) the conditions for establishing a state are society (tribe, nation, ummah), state (homeland), and freedom. At this point, we need to elaborate on one issue. We have two basic perspectives on state organization in the Islamic tradition. The approach that supports the Caliph/Sultan, known as Ahl-Sunnah, and the imamate approach that supports the rule of the Imam, which is similar to the rule based on divine right, so that the ruler is attained directly from the Good. In our case, it is worth

mentioning these facts as we are talking about the Balkans and the practice of Islamic finance where law and rule are concerned. It should be noted that in the Balkans, historically dominated the Hanafi school of thought, therefore, rejecting rule based on divine right. Hence, revelation is considered, but the ruler is reached based on merit. As a religion, Islam has offered solutions to the changing management models over time, even in the democratic period. Anyway, we should clarify one basic condition; no divine right rule is supported in any of the dominant models. Even though we know that Muhammad (s.a.s) is a messenger, we accept Him first as Allah's (s.w.t.) servant and then as His messenger. What fundamentally sets him apart from other people is the revelation. So other people will come to power by working and being pious. All kinds of superiority will be the result of hard work, strive, and effort.

In addition to rule models, let us see in detail the nation-state model and its inconsistency in terms of the new realities created after the nation-state creation trend. The nation state as a birthplace has France and as a means has the French revolution. Moto of this revolution has been *Liberté, Égalité, Fraternité* (Liberty, Equality, and Brotherhood), and to reach this *laïcité* (secularism) has been supposed to be the solution. Nevertheless, these assumptions have proved that there is a contradiction between the terms used, what they mean, and their application in real life. Liberty that is meant to be reached failed because everyone has been forced to commit French identity linked to citizenship that resulted in side effects for the emigrant population. Equality also has failed especially in the case of emigrants because they were not treated equally rather there have been controversial laws applied that have resulted to be xenophobic, Islamophobia, racial, etc. Identity politics in France have shaken the ground of the moto based on which modern France has been established. The brotherhood that has been supposed to be reached has failed. You must be French so that you are part of Fraternity but indeed not everyone is French and it's not the will of everyone to be so. By that, the French brotherhood model is exclusionary and is not universal (Genese, 2011). The solution to this is also in Islamic teachings. Human brotherhood is achieved through the formation of the ummah, and all those who accept Islam are brothers to each other and it is the religion that provides brotherhood. Policies are not made based on race, nationality, or social status, they are made based on righteousness. By this brotherhood in Islam, it is truly universal.

“O humanity! Indeed, We created you from a male and a female and made you into peoples and tribes so that you may ‘get to’ know one another. Surely the noblest of you in the sight of Allah is the most righteous among you. Allah is truly All-Knowing, All-Aware” (Al-Hujurat verse 13).

Since the nation-state failed to be the right solution for the West and the whole world, unions emerged in the post-World War II period. We will not talk about all unions, their types, and their functions. Let us briefly analyze the European Union and the position of the Western Balkans in the EU integration process. EU has started to be formed initially based on economical agreements as are the agreements on common usage of energy resources, steel agreement, etc. The later evolution of the EU has been shifted on common policies by a requirement to give up from national integrities in the Europeanization process. This is meant to be achieved through common policies on the economy, customs, trade, free movement of labor and capital, and even to the common currency. Europeanization based on the economy would be successful until the EU did not somehow manage the other dimensions of society correctly. The EU should be aware that it is no longer a homogeneous continent. While the Union was expected to set an example in managing differences even in foreign policy, it started to have internal problems in this regard. Selective behavior when admitting immigrants and the application of controversial laws for existing ones are some examples. The Union's renunciation of national integrity for the sake of common interests was not welcomed in all EU member states, and the transition from the national model to the supranational model created divisions within the Union (Marks, 2008). The issue of Brexit is an example that the EU is not unique in every respect and that an important member like Great Britain is now leaving the EU. In addition, the interaction of the EU with non-member countries and other unions is not the same as it was years ago. The balance of power has changed, and with it, the EU and the Balkans are not only a matter of EU integration but also an issue whether Turkey joins the EU or not.

As emphasized in all the studies, the field of law is important for the implementation of Islamic finance in the Balkans. By that EU has been the facilitator of lawmakers in the Balkans by trying to make integration through law in the model from non-law to soften law and final to harden law (Terpan, 2021). This is a good theoretical assumption, but reality speaks differently. First, it is not true that there is no law, but it is not respected.

Secondly, in the EU integration process, law enforcement has been the main criterion and the condition in the standard packages to maintain EU integration. However, the Balkans acted as a black hole for money laundering, organized crime, and corruption even during the EU integration process. Third, the strict law to be achieved requires fundamental changes of the political and administrative elites involved in the scandals mentioned earlier. Another important issue to be addressed in legal matters is the *de facto* and *de jure* dimensions of Islamic law in the application of Islamic finance. In the Balkans, Islamic law was removed from its *de jure* status, but it has always functioned in *de facto* status, even in the most difficult days. In the case of Islamic finance, a transfer from *de facto* to *de jure* will be needed to achieve the undistracted functionality of Islamic finance without major hurdles.



## **CHAPTER 6: ANALYSIS OF RESULTS FROM INTERVIEWS AND SURVEY**

We had an e-mail interview with the Ministry of Culture of the Republic of Albania and the BBI Bank of Bosnia and Herzegovina. We also conducted an online interview with the director of microfinance START in Kosovo. We were answered with an official document from the Ministry of Culture of the Republic of Albania by Irena Prici- who works in the policy and strategy guide for cultural development at the Ministry of Culture of the Republic of Albania. According to this document, the following data were obtained:

R. Mustafi: Being ministry of culture in Albania can you please briefly inform us of your activities in the field of Islamic cultural heritage? If you have performed such activities, can we be informed about those activities?

*The Ministry of Culture of the Republic of Albania has not performed tangible activities in the field of Islamic heritage in Albania. Main projects and activities in this regard have been performed in cooperation with the Republic of Turkey where has been done restoration of cultural monuments in Albania. By that, renovation of the Mosque of Shkodra, Ethem Beu Mosque in Tirana, Mosque of Bazar in Gjirokaster, King's Mosque, and Mosque of Bachelors in Berat, and the tomb of Helvetives has been realized. Recently on date 13.04.2021 attached to the current cooperation with the Republic of Turkey, there has been signed Agreement for Cultural Cooperation in Between Ministry of Culture of Albania and the Ministry of Culture and Tourism from the Republic of Turkey for cultural and artistic cooperation in between countries. Subjects are going to cooperate mainly in cultural development especially in the field of art, national traditions, libraries, publishing, archeology, museology, and mutual projects that include promotion and study of cultural heritage out of the real estate.*

R. Mustafi: What is your cooperation level with the Republic of Turkey on this issue especially with institutions like TIKA, DIYANET, YTB, and Yunus Emre institutes?

*On January 6, 2021, cooperation protocol between the Ministry of Culture of the Republic of Albania and the General Directorate of Foundations of the Ministry of Culture and Tourism of the Republic of Turkey has been signed. By this agreement, the project for restoration and construction of a flood protection system for the Mosque of Shkodra (Busatli Mehmet Pasha), Shkodra, Albania has been approved. The Albanian state through the Ministry of Culture has signed the cooperation*

*protocol for starting the relevant procedures for the implementation of the project "Restoration of the mosque named (Xhamia e Plumbit) in Shkodra", drafted by Ecolimarlik with investor Directorate of Waqfs in Turkey. In the framework of the Cooperation Protocol for the Design and Restoration of Cultural Monuments in Albania in 2014 restoration of five monuments have been supported by TIKA (Ethem Bey Mosque, Tirana; - Bazaar Mosque, Gjirokastra; - Bachelors Mosque Berat; - Kings Mosque; Berat, - The Helvetian Tomb). In these projects, there has been close cooperation between the specialists of the two countries for the collection of materials, study, and adaptation of appropriate solutions in the implementation of the legislation on inheritance in force. The process was finalized with the approval of projects by decision-making bodies. The implementation of the projects started in 2018, with funding from TIKA. Meanwhile, the project-Ideas for the rehabilitation of the Medieval Center, Berat was approved. This project is also financed by TIKA. (Prici, personal communication April 21, 2021)*

The other interview was with Mr. Vehbi Zeqiri, founder of Microfinance START Kosovo. Thanks to this interview, we were able to reach important information for the development of Islamic finance in this country. It should be noted that the data is from the real-life sector, as this microfinance has a performance of twenty years and has detailed information for development of Islamic finance in all dimensions in Kosovo.

R. Mustafi: What is your current position as Islamic microfinance in the market of Kosovo?

*First of all, we should state that we are the first to introduce Islamic finance in Kosovo by making history on this subject. Secondly, we succeeded in raising awareness about the existence of a financial system different from the conventional system. Until the universities, we were taught only the conventional one in our education system. Islamic finance makes no difference as a system and covers all layers of society, so it is a just system. There are no losers due to the implementation of PLS agreements and all participants benefit/lose equally from the efforts. Third, our offer was the cheapest until recently, when commercial banks began lowering interest rates.*

R. Mustafi: How many projects and to what amount of money can you support?

*It depends on the timeframe since we have evolved through the operational period in twenty years. From 2002 to 2011 we only provided Qard al Hassen support. From 2002 to 2008 we implemented a tax administration of 50 Euros, between 2008 and*

2020 the administrative tax increased to 60 euros. On average we support with 1200-1300 euros per request on annual basis and we provide loans to more than 1000 people, sometimes up to 1400. We started with the Murabaha contract in 2011 and increased the limits to 5000 euros. Under current microfinance law, the limit is 25 000 Euros, but we prefer to stay at 5000 due to the nature of borrowers. Sometimes we made exceptions and supported up to 25,000 Euros or even more. In the first years, we only financed projects that brought income to families in need, so we did not create a debt burden by passive financing. Then we allowed subsidies for the regeneration of habitats, as Kosovo suffered up to 60% damage to its habitat at the national level in the last war. At the same time, cultural factors and family expansions made it necessary for us to support building and construction projects. As demand has always exceeded what we can deliver, we prioritized projects that yielded a profit in the selection process. Later, on my initiative, we allowed support in matters such as debt settlement, marriage, education, and health care, because in these cases support is an integral task. We have provided support beyond the limits with *Qard al Hassen* in case the borrower is engaged in activities that simulate employment.

R. Mustafi: Are you treated differently being Islamic microfinance in law issues?  
*Generally speaking, we were not distracted in our operational issues, but we should point out that there were problems in reporting to the central bank due to non-compliance with the law. Since our products are different from conventional products, we have to make adjustments in reporting. For example, profit from Murabaha is placed in the category of interest income. At the same time, we needed special permission for Murabaha contracts in 2011 and this will be the case for every product we add to our portfolio. We also contributed by affecting positively law changes that regulate the functioning of the Islamic banking and microfinance.*

R. Mustafi: What are the contracts that you use for supporting finance?  
*We mainly provide *Qard al Hassen* and Murabaha contracts. We also practiced *Bey al Istisna* to some extent but reported it as Murabaha in the reports.*

R. Mustafi: What do you consider as the biggest advantage and biggest disadvantage while operating as Islamic microfinance?  
*Our biggest advantage is the approach we use to reach people by supporting social projects, helping people, acting humbly, and by not taking advantage of the needy people, a behavior that is missed in the other system. As a disadvantage, we think that there is not enough awareness about Islamic finance. In some cases, there is an*

*inability to support Islamic finance where our products may be more expensive. As Islamic microfinance, we should state that we are in a comparative disadvantage in terms of funds. Conventional microfinances borrow funds from commercial banks with an interest rate of 5-6% and lend as loans to end consumers at 20%. We do not engage in such activities due to religious prohibition.*

R. Mustafi: Based on experiences as Islamic microfinance do you think in Kosovo should operate an Islamic bank?

*Of course, it should because we need to increase competition in the financial market. Some commercial banks have tried to provide Islamic finance products through the Islamic banking window. It should be noted that these tentative is strategic rather than religious, as there are great potentials for Islamic finance in Kosovo. We should also point out that there is a certain human structure that does not deposit money in conventional banks due to interest rates and therefore causes the circulation of money in the market to be dispersed. As START microfinance, we are limited by the contracts we provide and the value of the support. If a bank operates, it will enrich both its product portfolio and project support.*

R. Mustafi: What is the number of people employed in your microfinance? Are they trained or educated on Islamic finance? What are your comments on the issue of education for Islamic finance in Kosovo?

*Currently, there are 19 full-time employees and one part-time employee. In terms of education and training, I can talk about the education I received in the Chartered Islamic Finance program, which lasts 3 years in Malaysia and is equivalent to a master's degree. Assistant managers and loan managers are trained through online programs in cooperation with educational institutions from Malaysia. Some other personnel followed the 6-month online training of the Frankfurt School for Finance and Management, which also provides training on Islamic finance. We organized three training sessions in our offices and groups of 30-40 people participated in each training session. We also made presentations at various events. It should be noted that we were negatively surprised by the lack of information on Islamic finance in Kosovo from both citizens and religious personnel in attempts to introduce Islamic finance.*

R. Mustafi: Do you think you can add value to the education part and if yes in what form?

*In parallel with the development of financial institutions, I fully support the development of the educational part of Islamic finance. We tried to do something like*

*TV broadcasting and video preparations, but we must state that we are limited in terms of support, resources, and time. We need cooperation and support and at the same time, we are ready for any contribution depending on the offers we receive.*

R. Mustafi: Where do you see yourself in the next 5 years?

*Our main vision is to increase the product portfolio and financial capacity. We wait three years for new law changes to be made and we always go back to ground zero because of government changes. We are highly experienced in the market field as we have been operating for over twenty years. We will be ready to be part of any full-fledged Islamic bank or to convert our microfinance into an Islamic bank. We are reliable and have built trust through years of operation. We are truthful in our statements as the prayers of the people we help are our main reference. (Zeqiri, personal communication April 22, 2021)*

The other meeting was held with Admir Mešković, Vice Chairman of the Board of BBI Bank. BBI data made it possible for us to learn in more detail the performance of this bank and the development of Islamic finance in BiH in general. Recognizing BBI as the largest and more successful Islamic financial institution in the Balkans, this interview was very informative by sharing data on the bank's success with us.

R. Mustafi: As the only Islamic bank in Bosnia and Herzegovina can you please introduce us in a few words BBI bank?

*Thank you for your interest in our bank. We are the only bank in Southeast Europe and our closest Islamic bank is UBA bank in Albania. Since its founding in year 2000, we have ushered in a new era for the financial market in BiH. We are the fastest growing and most stable bank. BBI is headquartered in the capital city of Sarajevo and is connected to the Business Trade Center. We didn't start with a commercial approach in the beginning and our profits were always reinvested. We set up a Sharia committee with internal and external experts. The years 2006-2019 resulted in annual average growth of 18.2%. Assets, which were 144 million KM in 2006, reached 1.261 billion KM in 2019. BBI President Amir Bukovic states that we are changing the structure of the market not only in finance but also in supporting businesses to find new markets and obtain financing with our own internal business chamber club. We started from scratch and are growing as a model three times faster than any other local model. Total capital is 156 million KM and market value is 380 million KM. We have 38 branches with 460 employees, approximately 93 0000 customers, and 146 ATMs. We treated our customers as partners and as an example,*

*we will commemorate that the food production company Bosna Plod Brcko, which has been working in food production for 70 years and with the increased capacity provided by BBI, has become a company that exports 85% of it to the EU market. Another example is As Holding's flour and bakery product producer, which has increased the number of employees to 5000 and exports to 33 countries. We have also cooperated with UBA bank, which is the closest bank in the region, operating according to Islamic principles.*

R. Mustafi: Can we please be informed what is your form of functioning considering law issues? Do you face obstacles at this point?

*As for the legal barriers, our position is inappropriate because the legislation does not allow Islamic banks to operate at full capacity. In addition, the new laws that they aim to protect their customers do not comply with Islamic banks. For example, customer protection laws require that profit for the customer be calculated immediately after the deposit is paid, based on the amount of interest he/she will receive at maturity. This puts Islamic banks in a bad position because profits on investment accounts are only calculated at the end of the period. Therefore, we cannot use mudaraba accounts, we only use wakala. We should also point out that the current regulator has narrowed the field of development, making the implementation of some Islamic banking products difficult or even impossible.*

R. Mustafi: What are your general reflections on the performance of BBI bank in BH?

*We attach great importance to social responsibility as BBI cannot fully comply with Islamic finance principles in current circumstances. We aim to have a strong social impact and therefore to be an Islamic bank. This is a different strategy from many banks in Islamic countries where businesses are technically in line with Islamic banking principles. However, in general, the effects of the activities of such banks are the same as the effects of the operations of conventional banks. This is not the case at BBI Bank, we strive to make a tangible positive impact on the society in which we operate. All this can be seen in promotional materials in the media, interviews, and corporate film of BBI.*

R. Mustafi: How many people are employed in BBI bank? What is their level of education in terms of Islamic finance? Do you face problems finding staff that is trained for IF? Do you provide training and education for staff?

*We have about 450 employees. In the first years of the bank's establishment, the lack of professional staff was a major problem. We have established an internal academy where we conduct seminars in the field of Islamic banking, as well as in other areas that are important to bank employees. We established a master's program in Islamic banking at the University of Sarajevo. We also cooperate with other banks that we send our employees to for training and exchange. For example, in 2019, I went to Ziraat Participation Bank and Sabahatim Zaim University, where we received training in Islamic banking, with a group of about 15 people. (Mešković, personal communication April 21, 2021).*

### **6.1. Survey Analysis**

We conducted an online survey and selected four countries from the Balkan region as a target (Albania, Bosnia and Herzegovina, Kosovo and North Macedonia). The questionnaire has also been prepared in local languages so that we could reach much more participants in a total of 237. All questions have been prepared as multiple choice and the option to add comments has been enabled. With the survey, we aimed to measure financial literacy, interest literacy, system preferences, and consumer satisfaction for the banking sector. In addition, the culture of lending and borrowing and the willingness to have Islamic finance were measured. We are obliged to state that some of the questions used are modeled after the report prepared by the Participation Banks Association of Turkey in 2020 to measure financial literacy in this country. The data of the respondents do not include direct personal data or identity data. Each participant is required to provide information about age, gender, country, city, education level, occupation, and income level. We chose this data format because we aimed to respect each participant's access to candid responses. At the same time, necessary data provide incentives to measure development by country, gender, level of education, perception of financing, and income level of participants. We performed t-test, chi-square, and ANOVA statistical analyzes for the results we obtained from the survey. In the analysis, we will first present data to the participants by country, age, occupation, and income level.

**Table 14:** Data on Participants (Country, Age, Occupation, and Income Level).

Country	Albania	57	24,05%
	Kosovo	61	25,73%
	North Macedonia	79	33,33%
	Bosnia & Herzegovina	35	14,36%
	Irrelevant	6	2,59%
<b>Total</b>		<b>237</b>	<b>100%</b>
Age	18-25	150	63,29%
	25-35	53	22,36%
	35-45	28	11,81%
	45-64	6	2,53%
<b>Total</b>		<b>237</b>	<b>100%</b>
Occupation	Self-Employed	69	29,11%
	Gov. Officer	26	10,97%
	Business Owner	8	3,33%
	Unemployed	131	55,27%
	Irrelevant	3	1,27%
<b>Total</b>		<b>237</b>	<b>100%</b>
Income Level	0	3	1,26%
	0-200	101	42,61%
	200-350	61	19,40%
	350-500	79	20,25%
	500 and above	35	12,65%
	Irrelevant	6	3,79%
<b>Total</b>		<b>237</b>	<b>100%</b>

**Table 15:** Data on Participants (Level of Education and Gender).

Level of Education	Secondary	28	11,81%
	Professional education	19	8,07%
	Graduate	125	52,74%
	Postgraduate	60	25,31%
	Irrelevant	5	2,10%
<b>Total</b>		<b>237</b>	<b>100%</b>
Gender	Male	88	37,13%
	Female	149	62,86%
<b>Total</b>		<b>237</b>	<b>100%</b>

In addition, most of the participants are at graduate and postgraduate levels in terms of education level. The low scores of vocational educations indicate that this type of education should be made more widespread. Vocational training on the practical side can be a good incentive for employment, as currently a shortage of skilled labor in certain fields of activity in most markets. The number of female participants in the survey is much higher than that of males, resulting in 62.86%. This is also important as the survey



was conducted by Muslim respondents and the participation of women in the surveys proves that the development of Islamic finance in the Balkans will not face gender issues. Another important feature of the statistics used in our study shows that most of the participants speak more than one language and to some degree more than two. Example 115 of respondents speak both the English and Turkish language. A major number also speaks Arabic. German language has scored less compared to the others. This statistic is very important since participants are in advanced level of education and their ability to speak more languages is helpful for all of them if they would consider to attend any of trainings to be organized in the future. We have chosen these languages in purpose since much of the literature for Islamic finance is already available in these languages. Various training vocations and workshops can be insightful for networking and teams can be further developed by those who have participated in the survey.

### 6.1.1, T-test Analysis

All questions are grouped into five categories for measurement: financial literacy, interest rate literacy, lending and borrowing culture, system preference, and willingness to have Islamic finance in the living place. The first method in our statistical analysis is the t-test<sup>25</sup> analysis. In our case each question in prior is turned into hypothesis and to provide the  $H_0$  and  $H_1$  hypothesis that same question once is termed as negation and once as

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<sup>25</sup> The t-test is routinely used to test hypotheses on  $\theta$ . A simple null and complete hypothesis takes the form

$$H_0 : \theta = \theta_0$$

$$H_1 : \theta \neq \theta_0$$

Where  $\theta_0$  is some pre-specified value. A t-test rejects  $H_0$  in favor of  $H_1$  when  $|t_n(\theta_0)|$  is large. By ‘large’ we mean that the observed value of the t-statistic would be unlikely if  $H_0$  were true, formally, we first pick an asymptomatic significance level  $\alpha$ . We then find  $Z_{\alpha/2}$ , the upper  $\alpha/2$  quartile of the standard normal distribution which has the property that if  $Z \sim N(0,1)$  then

$$P(|Z| > z_{\alpha/2}) = \alpha.$$

For example,  $z_{.025} = 1.645$  and  $z_{.05} = 1.645$ . A test of asymptotic significance  $\alpha$  rejects  $H_0$  if  $|t_n| > z_{\alpha/2}$ . Otherwise the test does not reject or accept  $H_0$ . The asymptotic significance level is  $\alpha$  because Theorem 5.8.1 implies that

$$P(\text{reject } H_0 | H_0 \text{ true}) = P(|t_n| > z_{\alpha/2} | \theta = \theta_0)$$

$$\rightarrow P(|Z| > z_{\alpha/2}) = \alpha.$$

The rejection/acceptance dichotomy is associated with the Neyman-Pearsons approach to hypothesis testing. While there is no objective scientific basis for choice of significance level  $\alpha$ , the common practice is to set  $\alpha = .05$  or 5 %. This implies a critical value of  $z_{.025} = 1.96 \approx 2$ . When  $|t_n| > 2$  it is common to say the t-statistic is **statistically significant** and if  $|t_n| < 2$  it is common to say that the t-statistic is **statistically insignificant** (Hansen 2010, p.89).

admission. We have applied the common practice, if result  $> 0.05$  accepted or if result  $< 0.05$  rejected based on the significance value obtained by the SPSS software given the t-test analysis. We also have to note that the answers to the questions are categorized in scaling format (I strongly agree, I agree, no choice, I do not agree, I strongly disagree).

**Table 16:** T- Test Analysis.

Levene's Test for Equality of Variances and t-test for Equality of Means on gender basis.		Levene's Test for Equality of Variances		t-test for Equality of Means	
		Sig.	t	Significance	
				One-Sided p	Two-Sided p
<b>1. H<sub>0</sub>:</b> Gender does not matter on considering lending as normal behavior. <b>H<sub>1</sub>:</b> Gender matters in considering lending as normal behavior.	Equal variances assumed	<b>.357</b>	-.656	.256	.512
	Equal variances not assumed		-.703	.241	.483
<b>2. H<sub>0</sub>:</b> Statement: Lending should not be done for profit, is supported on a gender basis. <b>H<sub>1</sub>:</b> Statement: Lending should be done for profit, is supported on a gender basis.	Equal variances assumed	<b>.052</b>	1.155	.125	.249
	Equal variances not assumed		1.004	.159	.317
<b>3. H<sub>0</sub>:</b> Gender hinders sharing of profit with the borrower from the loaned money. <b>H<sub>1</sub>:</b> Gender does not hinder sharing of profit with the borrower from the loaned money.	Equal variances assumed	.001	2.688	.004	.008
	Equal variances not assumed		2.304	.012	.023
<b>4. H<sub>0</sub>:</b> Gender does not matter in the need for taking advice for financial issues. <b>H<sub>1</sub>:</b> Gender matters in the need for taking advice for financial issues.	Equal variances assumed	<b>.283</b>	-1.759	.040	.080
	Equal variances not assumed		-1.63	.040	.080
<b>5. H<sub>0</sub>:</b> Gender does not hinder in consultation with each other for possible losses and accidents. <b>H<sub>1</sub>:</b> Gender hinders in consultation with each other for possible losses and accidents.	Equal variances assumed	<b>.080</b>	-2.044	.021	.042
	Equal variances not assumed		-1.970	.025	.051
<b>6. H<sub>0</sub>:</b> Gender does matter on not choosing financial means that are interest-based. <b>H<sub>1</sub>:</b> Gender matters on not choosing financial means that are interest-based. 6	Equal variances assumed	.001	2.380	.009	.018
	Equal variances not assumed		1.835	.035	.070
<b>7. H<sub>0</sub>:</b> Gender does not hinder for not getting involved in transactions that include the interest rate. <b>H<sub>1</sub>:</b> Gender hinders for not getting involved in transactions that include the interest rate.	Equal variances assumed	<b>.444</b>	-.412	.340	.681
	Equal variances not assumed		-.529	.229	.598
<b>8. H<sub>0</sub>:</b> Gender does not matter for being against taking interest rate. <b>H<sub>1</sub>:</b> Gender matters on being against taking interest rate.	Equal variances assumed	<b>.299</b>	-.954	.171	.341
	Equal variances not assumed		-1.230	.110	.221
<b>9. H<sub>0</sub>:</b> Gender is a factor for being against paying the interest rate. <b>H<sub>1</sub>:</b> Gender is not a factor for being against paying the interest rate.	Equal variances assumed	<b>.811</b>	-1.899	.029	.059
	Equal variances not assumed		-1.902	.029	.059
<b>10. H<sub>0</sub>:</b> Gender counts for opposing only transactions with a high-interest rate. <b>H<sub>1</sub>:</b> Gender does not count for opposing only transactions with a high-interest rate.	Equal variances assumed	<b>.191</b>	.666	.253	.506
	Equal variances not assumed		.624	.267	.533
<b>11. H<sub>0</sub>:</b> Gender does not count for wishing to deposit money in return for a high-interest rate. <b>H<sub>1</sub>:</b> Gender counts for wishing to deposit money in return for a high-interest rate.	Equal variances assumed	<b>.205</b>	-.548	.292	.584
	Equal variances not assumed		-.535	.297	.593

12. <b>H<sub>0</sub></b> : Gender does not matter for willingness to borrow money for a low-interest rate. <b>H<sub>1</sub></b> : Gender matters for willing to borrow money for a low-interest rate.	Equal variances assumed	<b>.086</b>	1.022	.154	.308
	Equal variances not assumed		.890	.188	.375
13. <b>H<sub>0</sub></b> : Gender does not prevent making partnerships in case of money possession. <b>H<sub>1</sub></b> : Gender prevents making partnerships in case of money possession.	Equal variances assumed	.002	-4.248	.001	.001
	Equal variances not assumed		-.407	.342	.685
14. <b>H<sub>0</sub></b> : Gender as a factor supports the statement: If my company is a profit-making company, I would like to take partners. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: If my company is a profit-making company, I would like to take partners.	Equal variances assumed	<b>.833</b>	-.407	.342	.685
	Equal variances not assumed		-.415	.339	.679
15. <b>H<sub>0</sub></b> : Gender does not matter on the willingness not to harm the others for making profit. <b>H<sub>1</sub></b> : Gender matters on the willingness not to harm the others for making profit.	Equal variances assumed	<b>.248</b>	-.993	.161	.322
	Equal variances not assumed		-1.286	.100	.200
16. <b>H<sub>0</sub></b> : Gender is not a factor for saving money to achieve certain goals. <b>H<sub>1</sub></b> : Gender is a factor for saving money to achieve certain goals.	Equal variances assumed	.001	1.829	.034	.069
	Equal variances not assumed		1.405	.082	.164
17. <b>H<sub>0</sub></b> : Gender does not count for buying/selling raw materials in instalments. <b>H<sub>1</sub></b> : Gender counts for buying/selling raw materials in instalments.	Equal variances assumed	.002	1.737	.042	.084
	Equal variances not assumed		1.336	.092	.185
18. <b>H<sub>0</sub></b> : Gender does not count for renting rather than buying a machine in company. <b>H<sub>1</sub></b> : Gender counts for renting rather than buying a machine in company.	Equal variances assumed	.003	1.428	0.77	.155
	Equal variances not assumed		1.24	.108	.216
19. <b>H<sub>0</sub></b> : There is an awareness that in my country are institutions in which I can do savings without engaging in interest rate activities on a gender basis. <b>H<sub>1</sub></b> : There is no awareness that in my country are institutions in which I can do savings without engaging in interest rate activities on a gender basis.	Equal variances assumed	.020	1.069	.143	.286
	Equal variances not assumed		.977	.165	.330
20. <b>H<sub>0</sub></b> : Gender does not matter for not preferring to take part in a contract that contains ambiguity. <b>H<sub>1</sub></b> : Gender matters for not preferring to take part in a contract that contains ambiguity.	Equal variances assumed	<b>.329</b>	-.652	.258	.515
	Equal variances not assumed		-.84	.200	.401
21. <b>H<sub>0</sub></b> : Gender does not count for considering investments that harm people and environment as inappropriate. <b>H<sub>1</sub></b> : Gender counts for considering investments that harm people and environment as inappropriate.	Equal variances assumed	<b>.431</b>	-.379	.352	.705
	Equal variances not assumed		.354	.362	.724
22. <b>H<sub>0</sub></b> : Gender does not count for risk share rather than risk aversion in case of losses. <b>H<sub>1</sub></b> : Gender counts for risk share rather than risk aversion in case of losses.	Equal variances assumed	<b>.331</b>	-.582	.281	.561
	Equal variances not assumed		-.624	.267	.533
23. <b>H<sub>0</sub></b> : Statement: I can manage my assets without engagement in interest rate is supported on gender basis. <b>H<sub>1</sub></b> : Statement: I can manage my assets without engagement in interest rate is not supported on gender basis.	Equal variances assumed	.003	1.560	.060	.120
	Equal variances not assumed		1.312	.096	.192
	Equal variances assumed	<b>.958</b>	-.106	.458	.916

24. <b>H<sub>0</sub></b> : Gender does not reflect on the statement: Gambling is a trap in which fall the one that does not know math calculations. <b>H<sub>1</sub></b> : Gender reflects on the statement: Gambling is a trap in which fall the one that does not know math calculations.	Equal variances not assumed		-.105	.458	.916
25. <b>H<sub>0</sub></b> : There is awareness of the negative effects of interest rates in the economic environment on a gender basis. <b>H<sub>1</sub></b> : There is no awareness of the negative effects of interest rates in the economic environment on a gender basis.	Equal variances assumed	<b>.316</b>	.408	.342	.683
	Equal variances not assumed		.382	.351	.703
26. <b>H<sub>0</sub></b> : Gender as factor supports the statement: Interest rate negatively affects redistribution of income. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: Interest rate negatively affects redistribution of income.	Equal variances assumed	<b>.047</b>	.901	.184	.368
	Equal variances not assumed		.782	.218	.436
27. <b>H<sub>0</sub></b> : There is an awareness that in my country are institutions in which I can do borrowings without engaging in interest rate activities on a gender basis. <b>H<sub>1</sub></b> : There is no awareness that in my country are institutions in which I can do borrowings without engaging in interest rate activities on a gender basis.	Equal variances assumed	<b>.091</b>	.791	.215	.430
	Equal variances not assumed		.743	.229	.459
28. <b>H<sub>0</sub></b> : Gender as a factor considers borrowing money from relatives as a good option. <b>H<sub>1</sub></b> : Gender as a factor does not consider borrowing money from relatives as a good option.	Equal variances assumed	.003	1.290	.099	.198
	Equal variances not assumed		1.087	.140	.279
29. <b>H<sub>0</sub></b> : Gender as a factor considers borrowing money from friends as a good option. <b>H<sub>1</sub></b> : Gender as a factor does not consider borrowing money from friends as a good option.	Equal variances assumed	<b>.057</b>	.623	.267	.534
	Equal variances not assumed		.541	.295	.590
30. <b>H<sub>0</sub></b> : Gender as a factor considers borrowing money from banks as a good option. <b>H<sub>1</sub></b> : Gender as a factor does not consider borrowing money from banks as a good option.	Equal variances assumed	.001	1.864	.032	.064
	Equal variances not assumed		1.593	.057	.114
31. <b>H<sub>0</sub></b> : Gender as a factor does not consider borrowing money on interest from gray market as a good option. <b>H<sub>1</sub></b> : Gender as a factor considers borrowing money on interest from grey market as a good option.	Equal variances assumed	<b>.785</b>	-.110	.456	.913
	Equal variances not assumed		-.112	.455	.911
32. <b>H<sub>0</sub></b> : Gender as a factor does not supports the statement: I am overall satisfied with the banking system. <b>H<sub>1</sub></b> : Gender as a factor supports the statement: I am overall satisfied with the banking system.	Equal variances assumed	<b>.389</b>	.901	.184	.368
	Equal variances not assumed		.782	.218	.436
33. <b>H<sub>0</sub></b> : Religion is considered for deciding to get or to not get involved in transactions with an interest rate on a gender basis. <b>H<sub>1</sub></b> : Religion is not considered for deciding to get or to not get involved in transactions with an interest rate on a gender basis.	Equal variances assumed	<b>.247</b>	-.867	.193	.387
	Equal variances not assumed		-1.118	.133	.265
	Equal variances assumed	.152	-.834	.202	.405

34. <b>H<sub>0</sub></b> : Gender as a factor supports the statement: I would be happy to have an Islamic bank in my living place. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: I would be happy to have an Islamic bank in my living place.	Equal variances not assumed		-.894	.186	373
35. <b>H<sub>0</sub></b> : Gender as a factor supports the statement: I would participate in training/educations for Islamic finance. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: I would participate in training/educations for Islamic finance.	Equal variances assumed	.004	1.402	.081	.162
	Equal variances not assumed		1.179	.120	.241
36. <b>H<sub>0</sub></b> : Gender as a factor supports the statement: I think banks take advantage of needy people. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: I think banks take advantage of needy people.	Equal variances assumed	.002	1.621	.053	.106
	Equal variances not assumed		1.247	.108	.216
37. <b>H<sub>0</sub></b> : Gender as a factor supports the statement: I think banks help the people. <b>H<sub>1</sub></b> : Gender as a factor does not support the statement: I think banks help the people.	Equal variances assumed	.003	1.623	.052	.104
	Equal variances not assumed		1.422	.079	.158

- Financial literacy rate: For questions 4, 5, 15, 20, 21 and 24, **H<sub>0</sub>** hypothesis was accepted. **H<sub>0</sub>** hypothesis was rejected for the questions 16, 17 and 18. Generally speaking, financial rate literacy on gender basis is developed. Buying on instalments and renting instead of buying even though not supported this can be argued based on the circumstances. Buying on instalments is beneficial but in most cases puts individuals on the vicious cycle of debt. At the same time, buying on installments proves the concept of living beyond the means a common practice of capitalism. Literally speaking, means that I can grant to myself a life that is postponed in terms of paying but at the end the way is debt. If that is for basic needs of course it is allowed but *living beyond the means* culture in today's world is much more about luxury life rather than basic needs. You are granted instalments based on your property or estimations on your income. Question 24 referring to gambling was opposed as a habit with high significance. Gambling in most cases is done by those who do not do simple calculations that prove gambling is a waste of money, time, and effort. For example, if two people gamble, the chance of winning is divided by 50:50%. If the number of participants is 3 it drops to 33,33 %. If the number of participants is 4, it goes to 25 %, and as the number of participants increases, the chance of winning narrows down. Apart from that, gambling distracts people from income-generating jobs and creates the illusion that we will get rich overnight. The other category of gamblers are people who experience deviations from daily life and who turn gambling into a hobby. A large amount of money is wasted in this category and is often done in

casinos, followed by alcohol and prostitution. In some places, even corporate money or public money from corrupt officials is wasted in such activities.

- Interest rate literacy: In this section respondents have answered twelve questions. Some questions have similarities and differ from one another for nuance. We have strived for more questions since we wanted to measure interest rate literacy from a different point of view such as lending and borrowing with interest rate based contracts, effects of interest rate on economic environment, and sensitiveness on religious issues. The  $H_0$  hypothesis is accepted for questions 7, 8, 9, 10, 11, 12, 25, 27 and 33, while it is rejected for questions 6, 19 and 23. Rejections show us that there is not enough institutional awareness for running activities without interest rate while acceptance of hypothesis for questions 10, 11, and 12 shows contradiction towards Islamic rules therefore we conclude that interest rate literacy is not developed enough on gender basis.

- Culture of lending and borrowing: It is essential to explore this type of culture because the Islamic or any other model of finance is essentially based on lending and borrowing. For this reason, we investigated the preferred sources for borrowing, how lending is perceived, and the desire for partnership.

- Investigation of lending and borrowing is followed with acceptance of  $H_0$  hypothesis for questions 1, 2, 13, 14, 22, 28, 29, 30, 31 and rejection for the questions 3, 13, 28 and 30. Overall result shows that readiness for partnership on gender basis is supported. Profit share from lending is not perceived as right behavior and at the same time relatives and banks are not the preferred sources for borrowing on a gender basis.

- System preference: In this section, we tried to measure the level of satisfaction with the existing banking system, taking into account the availability of Islamic finance in all countries except North Macedonia.

- $H_0$  hypothesis is accepted for questions 26, 32 while it is rejected for questions 36 and 37. At current respondents are not satisfied with banking system and at the same time are aware of negative effects of interest rate on redistribution issues. Banks are not seen either as advantage takers nor as helpers of the people on a gender basis analysis. Willingness to have Islamic finance: In this section, we tend to measure participants' willingness to have Islamic finance where they live. Despite that the presence of Islamic finance by gender is supported, the education part is not.

### 6.1.2. Chi-Square Analysis

Apart from the t-test, we also performed a chi-square <sup>26</sup> analysis in which education level, income level, occupation, and age were taken as factors meaning are dependent variable.

**Table 17:** Chi-Square Test (Factor Level of Education).

Nr	Pearson Chi-Square by factor: Level of Education	Value	Asymptotic Significance (2-sided)	Hypothesis
1	<b>H<sub>0</sub>:</b> Lending money is appropriate behavior. <b>H<sub>1</sub>:</b> Lending money is not appropriate behavior.	14.689	<b>.794</b>	<b>H<sub>0</sub></b> Accepted
2	<b>H<sub>0</sub>:</b> Lending should be done for profit. <b>H<sub>1</sub>:</b> Lending should not be done for profit.	13.991	<b>.831</b>	<b>H<sub>0</sub></b> Accepted
3	<b>H<sub>0</sub>:</b> In case you earn profit because of the money you have lent you should share with the borrower. <b>H<sub>1</sub>:</b> In case you earn profit because of the money you have lent you should not share with the borrower.	13.074	<b>.874</b>	<b>H<sub>0</sub></b> Accepted
4	<b>H<sub>0</sub>:</b> People should take advice for financial issues. <b>H<sub>1</sub>:</b> People should not take advice for financial issues.	26.619	.046	<b>H<sub>0</sub></b> Rejected
5	<b>H<sub>0</sub>:</b> People should consult with each other for possible losses and accidents. <b>H<sub>1</sub>:</b> People should not consult with each other for possible losses and accidents.	8.899	<b>.712</b>	<b>H<sub>0</sub></b> Accepted
6	<b>H<sub>0</sub>:</b> In case I need financial means, I do not have problem whether is interest based or not. <b>H<sub>1</sub>:</b> In case I need financial means, I have problem if it is interest based or not.	25.836	<b>.171</b>	<b>H<sub>0</sub></b> Accepted
7	<b>H<sub>0</sub>:</b> I do not get involved in transactions that include interest rate. <b>H<sub>1</sub>:</b> I get involved in transactions that include interest rate.	23.155	<b>.281</b>	<b>H<sub>0</sub></b> Accepted

<sup>26</sup> **H<sub>0</sub>:** the event an observation is in row *i* is dependent of the event the same observation is in column *j* i e:  
 $P(\text{row } i, \text{column } j) = P(\text{row } i) P(\text{column } j), \forall i, j$

**H<sub>1</sub>:** The events an observation is in row *i* and the same observation is in column *j* are dependent i.e:  $\exists i, j,$   
 $P(\text{row } i, \text{column } j) \neq P(\text{row } i) \square P(\text{column } j)$

Let  $r_i$  denote the row totals as such that:

$$r_i = \sum_{j=1}^c O_{ij} \text{ and } n = r_1 + r_2 + \dots + r_r = c_1 + c_2 + \dots + c_c.$$

As before, we use the test statistic:

$$T = \sum_{i=1}^r \sum_{j=1}^c \frac{(O_{ij} - E_{ij})^2}{E_{ij}}, \text{ with } E_{ij} = \frac{r_i c_j}{n},$$

which has the asymptomatic chi-square distribution with  $df = (r-c)(c-1)$  degrees of freedom. Note, however, that since the row totals can vary in this situation, the exact probability associated to a certain value of *T* is even more difficult to compute than before because there are a great number of possible tables with the same *T*. (Marques De Sa, p.196)

8	<b>H<sub>0</sub>:</b> I am against taking interest rate. <b>H<sub>1</sub>:</b> I am against taking interest rate.	21.511	<b>.368</b>	<b>H<sub>0</sub> Accepted</b>
9	<b>H<sub>0</sub>:</b> I am against paying interest rate. <b>H<sub>1</sub>:</b> I am not against paying interest rate	6.881	<b>.975</b>	<b>H<sub>0</sub> Accepted</b>
10	<b>H<sub>0</sub>:</b> I only oppose transactions with high interest rate. <b>H<sub>1</sub>:</b> I do not oppose only transactions with high interest rate.	13.527	<b>.854</b>	<b>H<sub>0</sub> Accepted</b>
11	<b>H<sub>0</sub>:</b> I want to deposit money in return for high interest rate. <b>H<sub>1</sub>:</b> I do not want to deposit money in return for high interest rate.	8.344	<b>.938</b>	<b>H<sub>0</sub> Accepted</b>
12	<b>H<sub>0</sub>:</b> I want to borrow money for low interest rate. <b>H<sub>1</sub>:</b> I do not want to borrow money for low interest rate.	29.598	<b>.077</b>	<b>H<sub>0</sub> Accepted</b>
13	<b>H<sub>0</sub>:</b> In case I have money, I would make partnership. <b>H<sub>1</sub>:</b> In case I have money, I would not make partnership.	32.997	<b>.007</b>	<b>H<sub>0</sub> Accepted</b>
14	<b>H<sub>0</sub>:</b> If my company makes profit, I would like to take partners. <b>H<sub>1</sub>:</b> If my company makes profit, I would not like to take partners.	37.989	<b>.009</b>	<b>H<sub>0</sub> Accepted</b>
15	<b>H<sub>0</sub>:</b> I do not want to harm anyone to make profit. <b>H<sub>1</sub>:</b> I would harm anyone to make profit.	18.245	<b>.571</b>	<b>H<sub>0</sub> Accepted</b>
16	<b>H<sub>0</sub>:</b> I would save money to achieve certain goal. <b>H<sub>1</sub>:</b> I would not save money to achieve certain goal.	108.141	<b>.001</b>	<b>H<sub>0</sub> Rejected</b>
17	<b>H<sub>0</sub>:</b> We should buy/sale raw materials and products in instalments. <b>H<sub>1</sub>:</b> We should not buy/sale raw materials and products in instalments.	29.107	<b>.086</b>	<b>H<sub>0</sub> Accepted</b>
18	<b>H<sub>0</sub>:</b> In my company I would rent a machine rather than buy it. <b>H<sub>1</sub>:</b> In my company I would not rent a machine rather than buy it.	19.339	<b>.500</b>	<b>H<sub>0</sub> Accepted</b>
19	<b>H<sub>0</sub>:</b> In my country there are institutions in which I can save money without engaging in interest rate activities. <b>H<sub>1</sub>:</b> In my country there are no institutions in which I can save money without engaging in interest rate activities.	26.190	<b>.160</b>	<b>H<sub>0</sub> Accepted</b>
20	<b>H<sub>0</sub>:</b> It is not preferred to take part in a contract that contains ambiguity. <b>H<sub>1</sub>:</b> It is preferred to take part in a contract that contains ambiguity.	19.214	<b>.508</b>	<b>H<sub>0</sub> Accepted</b>
21	<b>H<sub>0</sub>:</b> Investment that harm people and environment are not appropriate. <b>H<sub>1</sub>:</b> Investment that harm people and environment are appropriate.	42.973	<b>.002</b>	<b>H<sub>0</sub> Rejected</b>
22	<b>H<sub>0</sub>:</b> In case of loses they should be shared rather than be transferred for risk aversion. <b>H<sub>1</sub>:</b> In case of loses they should not be shared rather should be transferred for risk aversion.	30.203	<b>.067</b>	<b>H<sub>0</sub> Accepted</b>
23	<b>H<sub>0</sub>:</b> I can manage my assets without engagement in interest rate. <b>H<sub>1</sub>:</b> I cannot manage my assets without engagement in interest rate.	28.210	<b>.105</b>	<b>H<sub>0</sub> Accepted</b>
24	<b>H<sub>0</sub>:</b> Gambling is a trap in which fall the one that does not know math calculations. <b>H<sub>1</sub>:</b> Gambling is a trap in which do not fall the one that does not know math calculations.	26.120	<b>.162</b>	<b>H<sub>0</sub> Accepted</b>
25	<b>H<sub>0</sub>:</b> There are negative effects of interest rate in economic environment. <b>H<sub>1</sub>:</b> There are not negative effects of interest rate in economic environment.	25.035	<b>.200</b>	<b>H<sub>0</sub> Accepted</b>
26	<b>H<sub>0</sub>:</b> Interest rate negatively affects redistribution of income. <b>H<sub>1</sub>:</b> Interest rate does not negatively affect redistribution of income.	23.207	<b>.279</b>	<b>H<sub>0</sub> Accepted</b>
27	<b>H<sub>0</sub>:</b> There is institution in my country from where I can borrow money without interest. <b>H<sub>1</sub>:</b> There is no institution in my country from where I can borrow money without interest.	52.602	<b>.001</b>	<b>H<sub>0</sub> Rejected</b>
28	<b>H<sub>0</sub>:</b> Borrowing money from relatives is good option. <b>H<sub>1</sub>:</b> Borrowing money from relatives is not good option.	19.968	<b>.460</b>	<b>H<sub>0</sub> Accepted</b>
29	<b>H<sub>0</sub>:</b> Borrowing money from friends is a good option. <b>H<sub>1</sub>:</b> Borrowing money from friends is not a good option.	30.756	<b>.058</b>	<b>H<sub>0</sub> Accepted</b>
30	<b>H<sub>0</sub>:</b> Borrowing money from banks is a good option. <b>H<sub>1</sub>:</b> Borrowing money from banks is not a good option.	23.504	<b>.265</b>	<b>H<sub>0</sub> Accepted</b>
31	<b>H<sub>0</sub>:</b> Borrowing money with interest from grey market is a good option. <b>H<sub>1</sub>:</b> Borrowing money with interest from grey market is not a good option.	29.269	<b>.022</b>	<b>H<sub>0</sub> Rejected</b>
32	<b>H<sub>0</sub>:</b> I am overall satisfied with banking system. <b>H<sub>1</sub>:</b> I am not overall satisfied with banking system.	25.375	<b>.063</b>	<b>H<sub>0</sub> Accepted</b>



33	<b>H<sub>0</sub></b> : Religion impacts me to take decision for getting or not getting involved in transactions with interest rate. <b>H<sub>1</sub></b> : Religion does not impact me to take decision for getting or not getting involved in transactions with interest rate.	34.805	.021	<b>H<sub>0</sub></b> Rejected
34	<b>H<sub>0</sub></b> : I would be happy to have Islamic bank in my living place. <b>H<sub>1</sub></b> : I would not be happy to have Islamic bank in my living place.	22.595	.309	<b>H<sub>0</sub></b> Accepted
35	<b>H<sub>0</sub></b> : I would participate in trainings/educations for Islamic finance. <b>H<sub>1</sub></b> : I would not participate in trainings/educations for Islamic finance.	15.457	.750	<b>H<sub>0</sub></b> Accepted
36	<b>H<sub>0</sub></b> : I think banks take advantage of needy people. <b>H<sub>1</sub></b> : I do not think banks take advantage of needy people.	11.980	.917	<b>H<sub>0</sub></b> Accepted
37	<b>H<sub>0</sub></b> : I think banks help the people. <b>H<sub>1</sub></b> : I do not think banks help the people.	25.922	.168	<b>H<sub>0</sub></b> Accepted

- For questions 5, 15, 17, 18, 20, and 24, **H<sub>0</sub>** hypothesis was accepted. **H<sub>0</sub>** hypothesis was rejected for the 4th, 16th, and 21st questions. According to these results, we can conclude that the level of financial literacy, with factor education, is at a moderate level. For this reason, there are criticisms of not being aware of harming people and the environment for profit and not being ready to receive financial advice.

- In the interest rate literacy section, the **H<sub>0</sub>** hypothesis was accepted for questions 6, 7, 8, 9, 10, 11, 12, 19, 23, 25, and 33, while it was rejected for questions 27 and 33. Accepting the **H<sub>0</sub>** hypothesis for questions 6, 10, 11, 12 shows that interest rate literacy is not pleasant because accepting the **H<sub>0</sub>** hypothesis is against the rules and regulations for Islamic finance. On the other hand, the rejection of the **H<sub>0</sub>** hypothesis for question 27 indicates the lack of knowledge about the existence of Islamic financial institutions in the place where the participants live. The situation in question 33 shows that there is no religious influence in the decision of whether to participate in interest-bearing transactions.

- Investigation of lending and borrowing culture shows that for all questions 1, 2, 3, 13, 14, 22, 28, 29, 30, 31 the **H<sub>0</sub>** hypothesis was accepted, except for the 31st question. Based on this result, we can conclude that lending and borrowing culture with factor education level is appropriate and has all the necessary elements for the development of Islamic finance.

- System preference measures include questions 26, 32, 36, and 37, and **H<sub>0</sub>** hypothesis is accepted in all questions. This time, we emphasize how important it is to see banks as beneficiaries of those in need. Most of the participants are from the upper level of education, so they gave a realistic assessment of the role of the bank towards people in need.

• Finally, we have measures regarding the desire to have Islamic finance. For the 34<sup>th</sup> and 35<sup>th</sup> questions, the **H<sub>0</sub>** hypothesis is accepted with high importance in terms of support for education, so Islamic finance has support for development both academically and practically.

**Table 18: Chi-Square Test (Factor Occupation).**

Nr	Pearson Chi-Square by factor: Occupation	Value	Asymptotic Significance (2-sided)	Hypothesis
1	<b>H<sub>0</sub></b> : Lending money is appropriate behavior. <b>H<sub>1</sub></b> : Lending money is not appropriate behavior.	12.338	<b>.904</b>	<b>H<sub>0</sub></b> Accepted
2	<b>H<sub>0</sub></b> : Lending should be done for profit. <b>H<sub>1</sub></b> : Lending should not be done for profit.	29.767	<b>.074</b>	<b>H<sub>0</sub></b> Accepted
3	<b>H<sub>0</sub></b> : In case you earn profit because of the money you have lent you should share with the borrower. <b>H<sub>1</sub></b> : In case you earn profit because of the money you have lent you should not share with the borrower.	27.089	<b>.133</b>	<b>H<sub>0</sub></b> Accepted
4	<b>H<sub>0</sub></b> : People should take advice for financial issues. <b>H<sub>1</sub></b> : People should not take advice for financial issues.	11.078	<b>.805</b>	<b>H<sub>0</sub></b> Accepted
5	<b>H<sub>0</sub></b> : People should consult with each other for possible losses and accidents. <b>H<sub>1</sub></b> : People should not consult with each other for possible losses and accidents.	11.656	<b>.474</b>	<b>H<sub>0</sub></b> Accepted
6	<b>H<sub>0</sub></b> : In case I need financial means, I do not have problem whether is interest based or not. <b>H<sub>1</sub></b> : In case I need financial means, I have problem if it is interest based or not.	15.619	<b>.740</b>	<b>H<sub>0</sub></b> Accepted
7	<b>H<sub>0</sub></b> : I do not get involved in transactions that include interest rate. <b>H<sub>1</sub></b> : I get involved in transactions that include interest rate.	23.473	<b>.266</b>	<b>H<sub>0</sub></b> Accepted
8	<b>H<sub>0</sub></b> : I am against taking interest rate. <b>H<sub>1</sub></b> : I am against taking interest rate.	24.116	<b>.237</b>	<b>H<sub>0</sub></b> Accepted
9	<b>H<sub>0</sub></b> : I am against paying interest rate. <b>H<sub>1</sub></b> : I am not against paying interest rate	21.739	<b>.152</b>	<b>H<sub>0</sub></b> Accepted
10	<b>H<sub>0</sub></b> : I only oppose transactions with high interest rate. <b>H<sub>1</sub></b> : I do not oppose only transactions with high interest rate.	26.950	<b>.137</b>	<b>H<sub>0</sub></b> Accepted
11	<b>H<sub>0</sub></b> : I want to deposit money in return for high interest rate. <b>H<sub>1</sub></b> : I do not want to deposit money in return for high interest rate.	15.647	<b>.478</b>	<b>H<sub>0</sub></b> Accepted
12	<b>H<sub>0</sub></b> : I want to borrow money for low interest rate. <b>H<sub>1</sub></b> : I do not want to borrow money for low interest rate.	33.303	.031	<b>H<sub>0</sub></b> rejected
13	<b>H<sub>0</sub></b> : In case I have money, I would make partnership. <b>H<sub>1</sub></b> : In case I have money, I would not make partnership.	40.745	.001	<b>H<sub>0</sub></b> Rejected
14	<b>H<sub>0</sub></b> : If my company makes profit, I would like to take partners. <b>H<sub>1</sub></b> : If my company makes profit, I would not like to take partners.	42.157	.003	<b>H<sub>0</sub></b> Rejected
15	<b>H<sub>0</sub></b> : I do not want to harm anyone to make profit. <b>H<sub>1</sub></b> : I would harm anyone to make profit.	17.990	<b>.588</b>	<b>H<sub>0</sub></b> Accepted
16	<b>H<sub>0</sub></b> : I would save money to achieve certain goal. <b>H<sub>1</sub></b> : I would not save money to achieve certain goal.	18.891	<b>.274</b>	<b>H<sub>0</sub></b> Accepted
17	<b>H<sub>0</sub></b> : We should buy/sale raw materials and products in instalments. <b>H<sub>1</sub></b> : We should not buy/sale raw materials and products in instalments.	25.621	<b>.179</b>	<b>H<sub>0</sub></b> Accepted
18	<b>H<sub>0</sub></b> : In my company I would rent a machine rather than buy it. <b>H<sub>1</sub></b> : In my company I would not rent a machine rather than buy it.	25.072	<b>.199</b>	<b>H<sub>0</sub></b> Accepted
19	<b>H<sub>0</sub></b> : In my country there are institutions in which I can save money without engaging in interest rate activities. <b>H<sub>1</sub></b> : In my country there are no institutions in which I can save money without engaging in interest rate activities.	25.241	<b>.192</b>	<b>H<sub>0</sub></b> Accepted
20	<b>H<sub>0</sub></b> : It is not preferred to take part in a contract that contains ambiguity. <b>H<sub>1</sub></b> : It is preferred to take part in a contract that contains ambiguity.	23.398	.270	<b>H<sub>0</sub></b> Accepted

21	<b>H<sub>0</sub></b> : Investment that harm people and environment are not appropriate. <b>H<sub>1</sub></b> : Investment that harm people and environment are appropriate.	17.221	.639	<b>H<sub>0</sub></b> Accepted
22	<b>H<sub>0</sub></b> : In case of loses they should be shared rather than be transferred for risk aversion. <b>H<sub>1</sub></b> : In case of loses they should not be shared rather should be transferred for risk aversion.	23.561	.262	<b>H<sub>0</sub></b> Accepted
23	<b>H<sub>0</sub></b> : I can manage my assets without engagement in interest rate. <b>H<sub>1</sub></b> : I cannot manage my assets without engagement in interest rate.	16.591	.679	<b>H<sub>0</sub></b> Accepted
24	<b>H<sub>0</sub></b> : Gambling is a trap in which fall the one that does not know math calculations. <b>H<sub>1</sub></b> : Gambling is a trap in which do not fall the one that does not know math calculations.	14.543	.802	<b>H<sub>0</sub></b> Accepted
25	<b>H<sub>0</sub></b> : There are negative effects of interest rate in economic environment. <b>H<sub>1</sub></b> : There are not negative effects of interest rate in economic environment.	30.971	.056	<b>H<sub>0</sub></b> Accepted
26	<b>H<sub>0</sub></b> : Interest rate negatively affects redistribution of income. <b>H<sub>1</sub></b> : Interest rate does not negatively affect redistribution of income.	22.538	.312	<b>H<sub>0</sub></b> Accepted
27	<b>H<sub>0</sub></b> : There is institution in my country from where I can borrow money without interest. <b>H<sub>1</sub></b> : There is no institution in my country from where I can borrow money without interest.	22.804	.299	<b>H<sub>0</sub></b> Accepted
28	<b>H<sub>0</sub></b> : Borrowing money from relatives is good option. <b>H<sub>1</sub></b> : Borrowing money from relatives is not good option.	18.834	<b>.533</b>	<b>H<sub>0</sub></b> Accepted
29	<b>H<sub>0</sub></b> : Borrowing money from friends is a good option. <b>H<sub>1</sub></b> : Borrowing money from friends is not a good option.	19.141	<b>.513</b>	<b>H<sub>0</sub></b> Accepted
30	<b>H<sub>0</sub></b> : Borrowing money from banks is a good option. <b>H<sub>1</sub></b> : Borrowing money from banks is not a good option.	38.455	<b>.008</b>	<b>H<sub>0</sub></b> Accepted
31	<b>H<sub>0</sub></b> : Borrowing money with interest from grey market is a good option. <b>H<sub>1</sub></b> : Borrowing money with interest from grey market is not a good option.	17.807	<b>.335</b>	<b>H<sub>0</sub></b> Accepted
32	<b>H<sub>0</sub></b> : I am overall satisfied with banking system. <b>H<sub>1</sub></b> : I am not overall satisfied with banking system.	28.624	.027	<b>H<sub>0</sub></b> Rejected
33	<b>H<sub>0</sub></b> : Religion impacts me to take decision for getting or not getting involved in transactions with interest rate. <b>H<sub>1</sub></b> : Religion does not impact me to take decision for getting or not getting involved in transactions with interest rate.	22.909	<b>.293</b>	<b>H<sub>0</sub></b> Accepted
34	<b>H<sub>0</sub></b> : I would be happy to have Islamic bank in my living place. <b>H<sub>1</sub></b> : I would not be happy to have Islamic bank in my living place.	20.742	<b>.412</b>	<b>H<sub>0</sub></b> Accepted
35	<b>H<sub>0</sub></b> : I would participate in trainings/educations for Islamic finance. <b>H<sub>1</sub></b> : I would not participate in trainings/educations for Islamic finance.	23.630	<b>.259</b>	<b>H<sub>0</sub></b> Accepted
36	<b>H<sub>0</sub></b> : I think banks take advantage of needy people. <b>H<sub>1</sub></b> : I do not think banks take advantage of needy people.	22.868	<b>.295</b>	<b>H<sub>0</sub></b> Accepted
37	<b>H<sub>0</sub></b> : I think banks help the people. <b>H<sub>1</sub></b> : I do not think banks help the people.	18.589	<b>.549</b>	<b>H<sub>0</sub></b> Accepted

• For questions 4, 5, 15, 16, 17, 18, 20, 21, and 24, measuring financial literacy by factor occupation **H<sub>0</sub>** hypothesis was accepted. Based on these results, we can conclude that financial literacy by factor occupation is at full credit.

• In the interest rate literacy section, the **H<sub>0</sub>** hypothesis was accepted for questions 6, 7, 8, 9, 10, 11, 19, 23, 25, 27, and 33, while it was rejected for question 12. Accepting the **H<sub>0</sub>** hypothesis for questions 6, 10, and 11 shows contradiction to the rules of Islamic finance.

- Investigation of lending and borrowing culture  $H_0$  hypothesis was accepted for all questions 1, 2, 3, 22, 28, 29, 30, 31. For questions 13 and 14, the  $H_0$  hypothesis was rejected, reflecting that the partnership was not supported.
- System preference measurement includes questions 26, 36, and 37, and  $H_0$  hypothesis is accepted for all questions, while it is rejected for question 32. This means a criticism of the existing banking system.
- Measurements of willingness to have Islamic finance show that hypothesis  $H_0$  is accepted for questions 34 and 35, so Islamic finance has support for development both academically and practically.

**Table 19:** Chi-Square Test (Factor Income Level).

Nr	Pearson Chi-Square by factor: Income Level	Value	Asymptotic Significance (2-sided)	Hypothesis
1	$H_0$ : Lending money is appropriate behavior. $H_1$ : Lending money is not appropriate behavior.	23.384	.555	$H_0$ Accepted
2	$H_0$ : Lending should be done for profit. $H_1$ : Lending should not be done for profit.	23.972	.521	$H_0$ Accepted
3	$H_0$ : In case you earn profit because of the money you have lent you should share with the borrower. $H_1$ : In case you earn profit because of the money you have lent you should not share with the borrower.	33.708	.114	$H_0$ Accepted
4	$H_0$ : People should take advice for financial issues. $H_1$ : People should not take advice for financial issues.	21.817	.350	$H_0$ Accepted
5	$H_0$ : People should consult with each other for possible losses and accidents. $H_1$ : People should not consult with each other for possible losses and accidents.	18.230	.251	$H_0$ Accepted
6	$H_0$ : In case I need financial means, I do not have problem whether is interest based or not. $H_1$ : In case I need financial means, I have problem if it is interest based or not.	21.304	.676	$H_0$ Accepted
7	$H_0$ : I do not get involved in transactions that include interest rate. $H_1$ : I get involved in transactions that include interest rate.	23.347	.557	$H_0$ Accepted
8	$H_0$ : I am against taking interest rate. $H_1$ : I am against taking interest rate.	35.021	.088	$H_0$ Accepted
9	$H_0$ : I am against paying interest rate. $H_1$ : I am not against paying interest rate	16.185	.705	$H_0$ Accepted
10	$H_0$ : I only oppose transactions with high interest rate. $H_1$ : I do not oppose only transactions with high interest rate.	28.138	.302	$H_0$ Accepted
11	$H_0$ : I want to deposit money in return for high interest rate. $H_1$ : I do not want to deposit money in return for high interest rate.	24.500	.221	$H_0$ Accepted
12	$H_0$ : I want to borrow money for low interest rate. $H_1$ : I do not want to borrow money for low interest rate.	32.511	.144	$H_0$ Accepted
13	$H_0$ : In case I have money, I would make partnership. $H_1$ : In case I have money, I would not make partnership.	24.931	.204	$H_0$ Accepted
14	$H_0$ : If my company makes profit, I would like to take partners. $H_1$ : If my company makes profit, I would not like to take partners.	33.630	.116	$H_0$ Accepted
15	$H_0$ : I do not want to harm anyone to make profit. $H_1$ : I would harm anyone to make profit.	19.757	.759	$H_0$ Accepted

16	<b>H<sub>0</sub>:</b> I would save money to achieve certain goal. <b>H<sub>1</sub>:</b> I would not save money to achieve certain goal.	17.069	<b>.649</b>	<b>H<sub>0</sub> Accepted</b>
17	<b>H<sub>0</sub>:</b> We should buy/sale raw materials and products in instalments. <b>H<sub>1</sub>:</b> We should not buy/sale raw materials and products in instalments.	41.543	<b>.020</b>	<b>H<sub>0</sub> Rejected</b>
18	<b>H<sub>0</sub>:</b> In my company I would rent a machine rather than buy it. <b>H<sub>1</sub>:</b> In my company I would not rent a machine rather than buy it.	23.472	<b>.550</b>	<b>H<sub>0</sub> Accepted</b>
19	<b>H<sub>0</sub>:</b> In my country there are institutions in which I can save money without engaging in interest rate activities. <b>H<sub>1</sub>:</b> In my country there are no institutions in which I can save money without engaging in interest rate activities.	31.923	<b>.160</b>	<b>H<sub>0</sub> Accepted</b>
20	<b>H<sub>0</sub>:</b> It is not preferred to take part in a contract that contains ambiguity. <b>H<sub>1</sub>:</b> It is preferred to take part in a contract that contains ambiguity.	11.136	<b>.992</b>	<b>H<sub>0</sub> Accepted</b>
21	<b>H<sub>0</sub>:</b> Investment that harm people and environment are not appropriate. <b>H<sub>1</sub>:</b> Investment that harm people and environment are appropriate.	12.319	<b>.984</b>	<b>H<sub>0</sub> Accepted</b>
22	<b>H<sub>0</sub>:</b> In case of loses they should be shared rather than be transferred for risk aversion. <b>H<sub>1</sub>:</b> In case of loses they should not be shared rather should be transferred for risk aversion.	17.657	<b>.857</b>	<b>H<sub>0</sub> Accepted</b>
23	<b>H<sub>0</sub>:</b> I can manage my assets without engagement in interest rate. <b>H<sub>1</sub>:</b> I cannot manage my assets without engagement in interest rate.	22.592	<b>.601</b>	<b>H<sub>0</sub> Accepted</b>
24	<b>H<sub>0</sub>:</b> Gambling is a trap in which fall the one that does not know math calculations. <b>H<sub>1</sub>:</b> Gambling is a trap in which do not fall the one that does not know math calculations.	33.287	<b>.124</b>	<b>H<sub>0</sub> Accepted</b>
25	<b>H<sub>0</sub>:</b> There are negative effects of interest rate in economic environment. <b>H<sub>1</sub>:</b> There are not negative effects of interest rate in economic environment.	23.884	<b>.526</b>	<b>H<sub>0</sub> Accepted</b>
26	<b>H<sub>0</sub>:</b> Interest rate negatively affects redistribution of income. <b>H<sub>1</sub>:</b> Interest rate does not negatively affect redistribution of income.	21.489	<b>.665</b>	<b>H<sub>0</sub> Accepted</b>
27	<b>H<sub>0</sub>:</b> There is institution in my country from where I can borrow money without interest. <b>H<sub>1</sub>:</b> There is no institution in my country from where I can borrow money without interest.	28.819	<b>.272</b>	<b>H<sub>0</sub> Accepted</b>
28	<b>H<sub>0</sub>:</b> Borrowing money from relatives is good option. <b>H<sub>1</sub>:</b> Borrowing money from relatives is not good option.	13.617	<b>.968</b>	<b>H<sub>0</sub> Accepted</b>
29	<b>H<sub>0</sub>:</b> Borrowing money from friends is a good option. <b>H<sub>1</sub>:</b> Borrowing money from friends is not a good option.	13.088	<b>.975</b>	<b>H<sub>0</sub> Accepted</b>
30	<b>H<sub>0</sub>:</b> Borrowing money from banks is a good option. <b>H<sub>1</sub>:</b> Borrowing money from banks is not a good option.	26.959	<b>.358</b>	<b>H<sub>0</sub> Accepted</b>
31	<b>H<sub>0</sub>:</b> Borrowing money with interest from grey market is a good option. <b>H<sub>1</sub>:</b> Borrowing money with interest from grey market is not a good option.	20.523	<b>.426</b>	<b>H<sub>0</sub> Accepted</b>
32	<b>H<sub>0</sub>:</b> I am overall satisfied with banking system. <b>H<sub>1</sub>:</b> I am not overall satisfied with banking system.	14.579	<b>.800</b>	<b>H<sub>0</sub> Accepted</b>
33	<b>H<sub>0</sub>:</b> Religion impacts me to take decision for getting or not getting involved in transactions with interest rate. <b>H<sub>1</sub>:</b> Religion does not impact me to take decision for getting or not getting involved in transactions with interest rate.	21.044	<b>.690</b>	<b>H<sub>0</sub> Accepted</b>
34	<b>H<sub>0</sub>:</b> I would be happy to have Islamic bank in my living place. <b>H<sub>1</sub>:</b> I would not be happy to have Islamic bank in my living place.	18.083	<b>.839</b>	<b>H<sub>0</sub> Accepted</b>
35	<b>H<sub>0</sub>:</b> I would participate in trainings/educations for Islamic finance. <b>H<sub>1</sub>:</b> I would not participate in trainings/educations for Islamic finance.	36.147	<b>.069</b>	<b>H<sub>0</sub> Accepted</b>
36	<b>H<sub>0</sub>:</b> I think banks take advantage of needy people. <b>H<sub>1</sub>:</b> I do not think banks take advantage of needy people.	31.945	<b>.160</b>	<b>H<sub>0</sub> Accepted</b>
37	<b>H<sub>0</sub>:</b> I think banks help the people. <b>H<sub>1</sub>:</b> I do not think banks help the people.	31.291	<b>.180</b>	<b>H<sub>0</sub> Accepted</b>

• Financial literacy with factor income level is pleasant since **H<sub>0</sub>** hypothesis is accepted for questions 4, 5, 15, 16, 17, 18, 20, 21, and 24. Although most of the participants are

unemployed, we should take into account that they can be included in the self-employed group because they are students. Therefore, students have recorded high financial literacy.

- In the interest rate literacy section, the **H<sub>0</sub>** hypothesis is accepted for all questions 6, 7, 8, 9, 10, 11, 12, 19, 23, 25, 27, 33. Accepting the **H<sub>0</sub>** hypothesis for questions 6, 10, 11, and 12 reflects the contradiction with the values of Islamic finance.
- Researching the culture of lending and borrowing **H<sub>0</sub>** hypothesis is accepted for all questions 1, 2, 3, 13, 14, 22, 28, 29, 30, 31. In this case, acceptance of the **H<sub>0</sub>** hypothesis for question 31 provides support for activities that should not exist in the financial market.
- System preference measures include questions 26, 32, 36, and 37, and **H<sub>0</sub>** hypothesis is accepted in all questions. This shows that there are criticisms of the current system and there are some positive evaluations as well.
- By acceptance of the **H<sub>0</sub>** hypothesis for questions 34 and 35, Islamic finance has support for development, both academically and practically.

**Table 20:** Chi-Square Test (Factor Age).

Nr	Pearson Chi-Square by factor: Age	Value	Asymptotic Significance (2-sided)	Hypothesis
1	<b>H<sub>0</sub></b> : Lending money is appropriate behavior. <b>H<sub>1</sub></b> : Lending money is not appropriate behavior.	20.811	<b>.143</b>	<b>H<sub>0</sub></b> Accepted
2	<b>H<sub>0</sub></b> : Lending should be done for profit. <b>H<sub>1</sub></b> : Lending should not be done for profit.	16.006	<b>.382</b>	<b>H<sub>0</sub></b> Accepted
3	<b>H<sub>0</sub></b> : In case you earn profit because of the money you have lent you should share with the borrower. <b>H<sub>1</sub></b> : In case you earn profit because of the money you have lent you should not share with the borrower.	29.803	<b>.013</b>	<b>H<sub>0</sub></b> Accepted
4	<b>H<sub>0</sub></b> : People should take advice for financial issues. <b>H<sub>1</sub></b> : People should not take advice for financial issues.	12.056	<b>.441</b>	<b>H<sub>0</sub></b> Accepted
5	<b>H<sub>0</sub></b> : People should consult with each other for possible losses and accidents. <b>H<sub>1</sub></b> : People should not consult with each other for possible losses and accidents.	3.754	<b>.927</b>	<b>H<sub>0</sub></b> Accepted
6	<b>H<sub>0</sub></b> : In case I need financial means, I do not have problem whether is interest based or not. <b>H<sub>1</sub></b> : In case I need financial means, I have problem if it is interest based or not.	17.905	<b>.268</b>	<b>H<sub>0</sub></b> Accepted
7	<b>H<sub>0</sub></b> : I do not get involved in transactions that include interest rate. <b>H<sub>1</sub></b> : I get involved in transactions that include interest rate.	18.874	<b>.220</b>	<b>H<sub>0</sub></b> Accepted
8	<b>H<sub>0</sub></b> : I am against taking interest rate. <b>H<sub>1</sub></b> : I am against taking interest rate.	16.726	<b>.336</b>	<b>H<sub>0</sub></b> Accepted
9	<b>H<sub>0</sub></b> : I am against paying interest rate. <b>H<sub>1</sub></b> : I am not against paying interest rate	12.184	<b>.431</b>	<b>H<sub>0</sub></b> Accepted
10	<b>H<sub>0</sub></b> : I only oppose transactions with high interest rate. <b>H<sub>1</sub></b> : I do not oppose only transactions with high interest rate.	22.326	<b>.100</b>	<b>H<sub>0</sub></b> Accepted
11	<b>H<sub>0</sub></b> : I want to deposit money in return for high interest rate. <b>H<sub>1</sub></b> : I do not want to deposit money in return for high interest rate.	9.352	<b>.673</b>	<b>H<sub>0</sub></b> Accepted

12	<b>H<sub>0</sub>:</b> I want to borrow money for low interest rate. <b>H<sub>1</sub>:</b> I do not want to borrow money for low interest rate.	19.805	<b>.180</b>	<b>H<sub>0</sub> Accepted</b>
13	<b>H<sub>0</sub>:</b> In case I have money, I would make partnership. <b>H<sub>1</sub>:</b> In case I have money, I would not make partnership.	33.029	.001	<b>H<sub>0</sub> Rejected</b>
14	<b>H<sub>0</sub>:</b> If my company makes profit, I would like to take partners. <b>H<sub>1</sub>:</b> If my company makes profit, I would not like to take partners.	37.131	.001	<b>H<sub>0</sub> Rejected</b>
15	<b>H<sub>0</sub>:</b> I do not want to harm anyone to make profit. <b>H<sub>1</sub>:</b> I would harm anyone to make profit.	24.598	<b>.056</b>	<b>H<sub>0</sub> Accepted</b>
16	<b>H<sub>0</sub>:</b> I would save money to achieve certain goal. <b>H<sub>1</sub>:</b> I would not save money to achieve certain goal.	13.132	<b>.359</b>	<b>H<sub>0</sub> Accepted</b>
17	<b>H<sub>0</sub>:</b> We should buy/sale raw materials and products in instalments. <b>H<sub>1</sub>:</b> We should not buy/sale raw materials and products in instalments.	29.899	<b>.012</b>	<b>H<sub>0</sub> Accepted</b>
18	<b>H<sub>0</sub>:</b> In my company I would rent a machine rather than buy it. <b>H<sub>1</sub>:</b> In my company I would not rent a machine rather than buy it.	29.558	<b>.014</b>	<b>H<sub>0</sub> Accepted</b>
19	<b>H<sub>0</sub>:</b> In my country there are institutions in which I can save money without engaging in interest rate activities. <b>H<sub>1</sub>:</b> In my country there are no institutions in which I can save money without engaging in interest rate activities.	30.191	<b>.011</b>	<b>H<sub>0</sub> Accepted</b>
20	<b>H<sub>0</sub>:</b> It is not preferred to take part in a contract that contains ambiguity. <b>H<sub>1</sub>:</b> It is preferred to take part in a contract that contains ambiguity.	13.157	<b>.590</b>	<b>H<sub>0</sub> Accepted</b>
21	<b>H<sub>0</sub>:</b> Investment that harm people and environment are not appropriate. <b>H<sub>1</sub>:</b> Investment that harm people and environment are appropriate.	12.977	<b>.604</b>	<b>H<sub>0</sub> Accepted</b>
22	<b>H<sub>0</sub>:</b> In case of loses they should be shared rather than be transferred for risk aversion. <b>H<sub>1</sub>:</b> In case of loses they should not be shared rather should be transferred for risk aversion.	29.885	<b>.012</b>	<b>H<sub>0</sub> Accepted</b>
23	<b>H<sub>0</sub>:</b> I can manage my assets without engagement in interest rate. <b>H<sub>1</sub>:</b> I cannot manage my assets without engagement in interest rate.	24.196	<b>.062</b>	<b>H<sub>0</sub> Accepted</b>
24	<b>H<sub>0</sub>:</b> Gambling is a trap in which fall the one that does not know math calculations. <b>H<sub>1</sub>:</b> Gambling is a trap in which do not fall the one that does not know math calculations.	17.699	<b>.279</b>	<b>H<sub>0</sub> Accepted</b>
25	<b>H<sub>0</sub>:</b> There are negative effects of interest rate in economic environment. <b>H<sub>1</sub>:</b> There are not negative effects of interest rate in economic environment.	13.852	<b>.537</b>	<b>H<sub>0</sub> Accepted</b>
26	<b>H<sub>0</sub>:</b> Interest rate negatively affects redistribution of income. <b>H<sub>1</sub>:</b> Interest rate does not negatively affect redistribution of income.	23.593	<b>.665</b>	<b>H<sub>0</sub> Accepted</b>
27	<b>H<sub>0</sub>:</b> There is institution in my country from where I can borrow money without interest. <b>H<sub>1</sub>:</b> There is no institution in my country from where I can borrow money without interest.	30.849	<b>.009</b>	<b>H<sub>0</sub> Accepted</b>
28	<b>H<sub>0</sub>:</b> Borrowing money from relatives is good option. <b>H<sub>1</sub>:</b> Borrowing money from relatives is not good option.	20.474	<b>.155</b>	<b>H<sub>0</sub> Accepted</b>
29	<b>H<sub>0</sub>:</b> Borrowing money from friends is a good option. <b>H<sub>1</sub>:</b> Borrowing money from friends is not a good option.	29.125	<b>.015</b>	<b>H<sub>0</sub> Accepted</b>
30	<b>H<sub>0</sub>:</b> Borrowing money from banks is a good option. <b>H<sub>1</sub>:</b> Borrowing money from banks is not a good option.	30.178	<b>.011</b>	<b>H<sub>0</sub> Accepted</b>
31	<b>H<sub>0</sub>:</b> Borrowing money with interest from grey market is a good option. <b>H<sub>1</sub>:</b> Borrowing money with interest from grey market is not a good option.	14.887	<b>.248</b>	<b>H<sub>0</sub> Accepted</b>
32	<b>H<sub>0</sub>:</b> I am overall satisfied with banking system. <b>H<sub>1</sub>:</b> I am not overall satisfied with banking system.	15.662	<b>.207</b>	<b>H<sub>0</sub> Accepted</b>
33	<b>H<sub>0</sub>:</b> Religion impacts me to take decision for getting or not getting involved in transactions with interest rate. <b>H<sub>1</sub>:</b> Religion does not impact me to take decision for getting or not getting involved in transactions with interest rate.	20.771	<b>.144</b>	<b>H<sub>0</sub> Accepted</b>
34	<b>H<sub>0</sub>:</b> I would be happy to have Islamic bank in my living place. <b>H<sub>1</sub>:</b> I would not be happy to have Islamic bank in my living place.	13.473	<b>.566</b>	<b>H<sub>0</sub> Accepted</b>
35	<b>H<sub>0</sub>:</b> I would participate in trainings/educations for Islamic finance. <b>H<sub>1</sub>:</b> I would not participate in trainings/educations for Islamic finance.	17.154	<b>.310</b>	<b>H<sub>0</sub> Accepted</b>
36	<b>H<sub>0</sub>:</b> I think banks take advantage of needy people. <b>H<sub>1</sub>:</b> I do not think banks take advantage of needy people.	16.122	<b>.374</b>	<b>H<sub>0</sub> Accepted</b>

37	<b>H<sub>0</sub></b> : I think banks help the people. <b>H<sub>1</sub></b> : I do not think banks help the people.	12.349	.652	<b>H<sub>0</sub></b> Accepted
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- **H<sub>0</sub>** hypothesis is accepted for questions 4, 5, 15, 16, 17, 18, 20, 21, and 24. We can conclude high financial literacy for factor age. This is promising as most of the respondents are young.
- In the interest rate literacy section, the **H<sub>0</sub>** hypothesis is accepted for all questions 6, 7, 8, 9, 10, 11, 12, 19, 23, 25, 27, 33. The acceptance of the **H<sub>0</sub>** hypothesis for questions 6, 10, 11, and 12 as in the previous cases reflects the need for further development of interest rate literacy.
- Investigation of lending and borrowing culture **H<sub>0</sub>** hypothesis was accepted for all questions 1, 2, 3, 22, 28, 29, 30, 31. For the 13th and 14th questions, the **H<sub>0</sub>** hypothesis is rejected and from this, we understand that the partnership is not supported as it should be.
- System preference measures include questions 26, 32, 36, and 37, and **H<sub>0</sub>** hypothesis is accepted in all questions.
- The desire to have Islamic finance shows that the **H<sub>0</sub>** hypothesis is accepted for questions 34 and 35, and as a result, we conclude that it supports the development of Islamic finance both academically and practically.

### 6.1.3. ANOVA Analysis

The same list of questions has been subject of the ANOVA<sup>27</sup> testing by comparing the results between the countries (Albania, BiH, Kosovo and N. Macedonia) hence the

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<sup>27</sup> Performing ANOVA testing there are two comparisons that can be made in the sample dataset and they are in between the group and between the groups. In our case we refer the second method. The second term is called the between-group (or between-class) sum of squares, SSB, and represents the contribution to the total variance of the deviations of the group means from the global mean. Thus:  $SST = SSW + SSB$ .

The one-way ANOVA, assuming the test conditions are satisfied, uses the following test statistic:

$$F^* = \frac{VB}{VW} = \frac{MSB}{MSE} \sim F_{c-1, n-c} \text{ (under } H_0\text{)}.$$

If  $H_0$  is not true, then  $F^*$  exceeds 1 in a statistically significant way. The F distribution can be used even when there are mild deviations from the assumptions of normality and equality of variances. For  $C = 2$ , it can be proved that the ANOVA test is identical to the  $t$  test for two independent samples. As  $c$  increases, the  $1-a$  percentile of  $F_{c-1, n-c}$  decreases rendering the rejection of the null hypothesis easier. Equivalently, for a certain level of confidence the probability of observing a given  $F^*$  under  $H_0$  hypothesis for  $c > 2$  is more restrictive than for  $C = 2$ .

The previous sums of squares can be shown to be computable as follows:



between group results are presented in the table. Again the hypothesis is accepted or rejected based on obtained significance with the following significance scope  $> 0.05$  accepted and  $< 0.05$  rejected. We have stacked only at the between group analysis by which it is represented the overall result on the country basis. Using this analysis, we have the general picture of acceptance or rejection without sole significance prescription of each country. That sort of result is attained in case we attach the so called multiple comparison table where Tukey HSD analysis is performed.

**Table 21:** ANOVA test.

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
1.Lending money is appropriate behavior.	Between Groups	488.545	4	122.136	.772	<b>.544</b>
	Within Groups	36680.780	232	158.107		
	Total	37169.325	236			
2.Lending should be done for profit.	Between Groups	721.433	4	180.358	1.596	<b>.176</b>
	Within Groups	26223.158	232	113.031		
	Total	26944.591	236			
3.In case you earn profit because of the money you have lent you should share with the borrower.	Between Groups	3594.681	4	898.670	1.765	<b>.137</b>
	Within Groups	118104.635	232	509.072		
	Total	121699.316	236			
4.People should take advice for financial issues.	Between Groups	3.042	4	.761	2.094	<b>.082</b>
	Within Groups	84.274	232	.363		
	Total	87.316	236			
5.People should consult with each other for possible losses and accidents.	Between Groups	1.892	4	.473	1.158	<b>.330</b>
	Within Groups	94.775	232	.409		
	Total	96.667	236			
6.In case I need financial means I do not have problem whether is interest based or not.	Between Groups	570.139	4	142.535	1.244	<b>.293</b>
	Within Groups	26473.031	231	114.602		
	Total	27043.169	235			
7.I do not get involved in transactions that include interest rate.	Between Groups	105.934	4	26.483	.644	<b>.632</b>
	Within Groups	9543.543	232	41.136		
	Total	9649.477	236			
8.I am against taking interest rate.	Between Groups	64.106	4	16.027	.388	<b>.817</b>
	Within Groups	9585.624	232	41.317		
	Total	9649.730	236			
9.I am against paying interest rate.	Between Groups	1.287	4	.322	.312	<b>.870</b>
	Within Groups	239.000	232	1.030		
	Total	240.287	236			
10.I only oppose transactions with high interest rate.	Between Groups	477.643	4	119.411	.517	<b>.723</b>
	Within Groups	53537.674	232	230.766		
	Total	54015.316	236			
	Between Groups	8.322	4	2.081	1.676	<b>.156</b>

$$SST = \sum_{i=1}^c \sum_{j=1}^{r_i} x_{ij}^2 - T^2 / n,$$

$$SSB = \sum_{i=1}^c (T_i^2 / r_i) - T^2 / n,$$

where  $T_i$  and  $T$  are the totals along the columns and the grand total, respectively. These last formulas are useful for manual computation. For further detailed prescription of the method please refer to the book citation. (Marques De Sa, p.143)

11.I want to deposit money in return for high interest rate.	Within Groups	287.990	232	1.241		
	Total	296.312	236			
12.I want to borrow money for low interest rate.	Between Groups	187.714	4	46.928	.399	<b>.809</b>
	Within Groups	27297.864	232	117.663		
	Total	27485.578	236			
13.In case I have money I would make partnership.	Between Groups	6.258	4	1.565	1.340	<b>.256</b>
	Within Groups	270.965	232	1.168		
	Total	277.224	236			
14.If I am a profit making company I would like to take partners.	Between Groups	1495.356	4	373.839	3.290	.012
	Within Groups	26363.961	232	113.638		
	Total	27859.316	236			
15.I do not want to harm in order to make profit.	Between Groups	209.227	4	52.307	1.290	<b>.275</b>
	Within Groups	9410.731	232	40.563		
	Total	9619.958	236			
16.I would save in order to achieve certain goal.	Between Groups	1529.254	4	382.313	5.103	.001
	Within Groups	17381.691	232	74.921		
	Total	18910.945	236			
17.Raw materials and products we should buy/sale in instalments.	Between Groups	330.750	4	82.687	1.044	<b>.385</b>
	Within Groups	18370.929	232	79.185		
	Total	18701.679	236			
18.If I am a company I would rent a machine rather than buy it.	Between Groups	1394.162	4	348.540	1.542	<b>.191</b>
	Within Groups	52451.155	232	226.083		
	Total	53845.316	236			
19.There are institutions in my country in which I can save my savings without engaging in interest rate activities.	Between Groups	1208.869	4	302.217	.891	<b>.470</b>
	Within Groups	78673.941	232	339.112		
	Total	79882.810	236			
20.It is not preferred to take part in a contract that contains ambiguity.	Between Groups	345.551	4	86.388	2.167	<b>.074</b>
	Within Groups	9249.369	232	39.868		
	Total	9594.920	236			
21.Investment that do harm people and environment are not appropriate.	Between Groups	355.158	4	88.790	1.102	<b>.357</b>
	Within Groups	18618.821	231	80.601		
	Total	18973.979	235			
22.In case of loses they should be shared rather than be transferred for risk aversion.	Between Groups	722.014	4	180.503	1.153	<b>.332</b>
	Within Groups	36147.834	231	156.484		
	Total	36869.847	235			
23.I can manage my assets without engagement in interest rate.	Between Groups	677.141	4	169.285	1.081	<b>.367</b>
	Within Groups	36338.108	232	156.630		
	Total	37015.249	236			
24.Gambling is a trap in which fall the one that does not know math calculations.	Between Groups	3030.468	4	757.617	2.512	.043
	Within Groups	69983.591	232	301.653		
	Total	73014.059	236			
25.There are negative effects of interest rate in economic environment.	Between Groups	281.632	4	70.408	.442	<b>.778</b>
	Within Groups	36918.596	232	159.132		
	Total	37200.228	236			
26.Interest rate affects negatively redistribution of income.	Between Groups	284.186	4	71.047	.589	<b>.671</b>
	Within Groups	27735.457	230	120.589		
	Total	28019.643	234			
27.There is institution in my country from where I can borrow money without interest.	Between Groups	1458.376	4	364.594	.974	<b>.423</b>
	Within Groups	86485.060	231	374.394		
	Total	87943.436	235			
28.Borrowing money from relatives is good option.	Between Groups	416.867	4	104.217	.658	<b>.622</b>
	Within Groups	36605.044	231	158.463		
	Total	37021.911	235			
29.Borrowing money from friends is a good option.	Between Groups	633.274	4	158.318	1.349	<b>.253</b>
	Within Groups	27234.203	232	117.389		
	Total	27867.477	236			
30.Borrowing money from banks is a good option.	Between Groups	687.650	4	171.913	.646	<b>.630</b>
	Within Groups	61749.472	232	266.162		
	Total	62437.122	236			
31.Borrowing money with interest from grey market is a good option.	Between Groups	87.813	4	21.953	.192	<b>.942</b>
	Within Groups	26519.250	232	114.307		

	Total	26607.063	236			
32.I am overall satisfied with banking system.	Between Groups	9.807	4	2.452	2.633	.035
	Within Groups	216.016	232	.931		
	Total	225.823	236			
33.Religion impacts me to take decision for getting or not getting involved in transactions with interest rate.	Between Groups	107.927	4	26.982	.656	.623
	Within Groups	9546.765	232	41.150		
	Total	9654.692	236			
34.I would be happy to have Islamic bank in my living place.	Between Groups	1674.271	4	418.568	1.353	.251
	Within Groups	71767.122	232	309.341		
	Total	73441.392	236			
35.I would participate in trainings/educations for Islamic finance.	Between Groups	879.276	4	219.819	1.401	.234
	Within Groups	36402.783	232	156.909		
	Total	37282.059	236			
36.I think banks take advantage of needy people.	Between Groups	136.321	4	34.080	.423	.792
	Within Groups	18706.674	232	80.632		
	Total	18842.996	236			
37.I think banks help the people.	Between Groups	479.305	4	119.826	.520	.721
	Within Groups	53499.413	232	230.601		
	Total	53978.717	236			

- **H<sub>0</sub>** hypothesis is accepted for questions 4, 5, 15, 17, 18, 20 and 21. On contrary for questions 16 and 24 **H<sub>0</sub>** hypothesis is rejected by that we can conclude that the financial literacy is high yet saving for achieving goals has been refused and the gambling phenomenon has not been rejected on the country base analysis.
- In the interest rate literacy section we have acceptance of the **H<sub>0</sub>** hypothesis for all the questions of this category (6, 7, 8, 9, 10, 11, 12, 19, 23, 25, 27 and 33). Nevertheless, acceptance of hypothesis for questions 6, 10, 11 and 12 reflects ambiguity in the interest rate literacy since issues prohibited by sharia are recorded as acceptable. This means interest rate literacy awareness should be increased.
- Investigation of lending and borrowing culture **H<sub>0</sub>** hypothesis was accepted for questions 1, 2, 3, 14, 22, 28 and 29. For the 13th questions, the **H<sub>0</sub>** hypothesis is rejected. We conclude that lending and borrowing behavior on a country basis is in good shape except the fact that grey market was accepted a good option for borrowing.
- In the system preference category **H<sub>0</sub>** hypothesis for questions 26, 36, and 37 is accepted and for question 32 is rejected. This result implies that interest rate harms the redistribution of income and the economic environment. At the same time there is no satisfaction with the current banking system and banks use the change to gain from people in need.
- Since **H<sub>0</sub>** hypothesis is accepted for questions 34 and 35 both the practical and educational side of developing Islamic finance in Balkans is supported on a country basis.

## CONCLUSIONS

Complementing the research, we tried to describe the current development of Islamic finance in the Balkans. As we mentioned at the beginning, there is already an expansion, we expect much more in the future. The immediate recommendation that can be made is to strengthen the role of Islamic microfinance institutions in poverty reduction and to promote profitable projects for low-income individuals and families. As Özdemir (2019) has stated, Islamic microfinance aims to reduce poverty by ensuring that people are financed according to Islamic principles. The example of North Macedonia, where there is no IM or Islamic bank, puts Muslims in a difficult position to obtain financial opportunities according to Islamic principles. In the case of Kosovo, the demand for IF has increased over time and IMs are not able to meet the demand. The full-fledged Islamic bank will help enrich financing opportunities in terms of both capacity and an increase in the portfolio of Islamic finance products. Albania and BiH have already established Islamic banks and their market position should be further strengthened, especially in the Albanian case. Another important aspect of the development of Islamic finance in the region is to make progress in a decentralized way. An example of this would be the expansion of Islamic financial institutions into all areas to meet demand, both practically and educationally. Establishing country-based training centers and then integrating them into regional collaborations will be important for networking for the intellectual development of Islamic finance. Parallel to this similar approach, it will also be beneficial for Islamic financial institutions. While presenting the research methodology, we mentioned that we aim for an action-oriented study that will form the basis of policymaking. The first recommendation is to achieve legislation that removes barriers to better performance of Islamic finance. Another suggestion is to increase the number of IFIs, both as microfinance and as a bank. Despite the improvements, the survey results proved the need for more IFIs. The development of study programs that will enable the participation of other students is also supported. Regional cooperation will be encouraged by establishing research centers in the capitals of the countries we research in (Tirana, Pristina, Skopje, Sarajevo). Integration of all Islamic financial institutions, whether financial or educational, in a single regional office, which will now be the most suitable location - Pristina. To establish close cooperation with other country institutions such as Association of Participation Banks of the Republic of Turkey, Islamic Research and

Training Institute part of IDB, Islamic Financial Service Board, The Accounting and Auditing Organization for Islamic Financial Institutions, etc. At the same time, research projects carried out with other education centers in the world, such as in the Republic of Turkey, Malaysia, England, Qatar, and other countries, will enrich the academic experience as it is identified as a deficiency in the Balkan countries.

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