

Islamic banking as a mechanism for financial and social reforms in Algeria

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Abstract:

Strengthening the banking system is an inevitable necessity as it is the basis of the financial system. However, the delay in implementing deep reforms on this system is one of the main reasons for the disruption of the movement of capital, resulting in economic difficulties that lead to social ills. This is why it has become a necessity to modernize and reform the banking system in Algeria. keep pace with current developments. The Algerian legislator, under the social pressure that produced a political will to move towards Islamic banking, issued Law 20-02 related to Islamic banking and the rules for its practice. Therefore, the aim of this research was to identify the most important new rules in Islamic finance and their compatibility with the banking system in Algeria. Then does the law bridge the gap in dealings between banks and citizens through diversification of financial products to reach the conclusion that the volume of transactions has increased significantly, which has a positive impact on the financial and social scene in Algeria.

Keywords: Islamic banking; financial system; capital; financial liquidity; exchange and cash

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1. Introduction:

Islamic financial institutions always need to maintain a variety of financial tools and products that enable them to manage their liquidity profitably, in addition to providing them with the appropriate flexibility to respond to changes in the economic and social environment ., financial institutions have long been trapped by limited tools that necessarily force them to evolve to adapt to changes.

Hence the importance of Islamic banking and its various mechanisms as an appropriate tool to find innovative solutions and new financial tools that combine true Shariah guidelines and economic efficiency considerations to create financial and social stability. and in this particular period when the world witnessed enormous radical changes represented by the change in the way of managing economic resources to the free economic model, in addition to the interdependence of international financial markets due to the revolution of communications and information technology, this imposes strong competitive pressures which can be uneven for Islamic finance financial institutions, especially in funding markets and banking and financial services. There is a wide market space which helps it to stand prosecute effectively. The essence of economic globalization is the global financial village. It has recently increased the degree of interdependence of global financial markets, so that the world has truly become one financial village Sources of funding and control of global savings

We see that Algeria has been committed to keeping pace with financial and banking transactions in the monetary and exchange system, in order to face global challenges based on colossal investments that require the presence of a variety of banking products. .move towards Islamic finance by reworking the legal arsenal related to banking transactions through the promulgation of Law 20 -02



relating to Islamic banking and the rules for its exercise. After successful experiences in certain countries which have adopted mechanisms Islamic banks and successfully implemented their plans, we try through this research paper to highlight the importance of a true Islamic bank and to explain the need for the Algerian banking system to move towards Islamic banking formulas .banking and financial system in Algeria?

Was the Islamic banking system able to satisfy the needs of the citizen, who in the past played to satisfy his needs through conventional banks?

Objective of the study: The objective of this research paper was to provide a light on a subject that often preoccupies Arab public opinion in general and Algerian public opinion in particular as to the effectiveness of this Islamic banking system in the light of the division of trends in religious jurisprudence. on the legitimacy of transactions Islamic banking.

Methodology of the study: It relied on an analytical and descriptive approach in the various elements of the research in order to adequately explain the content of the new laws in accordance with an approach with the monetary and exchange laws applicable in traditional banks.

The importance of the study: The importance of the study highlights the fact that Islamic financial transactions in Algeria in are still in their infancy, so it is necessary to do research on the subject to discover the most important problems facing the legal and social system of Algeria. try to find mechanisms that help to understand Islamic banking and the scope In order to approach this research, we relied on two main elements:

- ❖ The concept of Islamic banking
- ❖ The path of reform of the banking system and its impact on economic and social development in Algeria.

2 The concept of Islamic banking

The concept of Islamic banking came in the agreement for the establishment of the International Federation of Islamic Banks as follows: "Islamic banking in this system means banks or institutions whose founding law and statutes expressly stipulate adherence to the principles of Islamic Sharia, not to manage interest by give and take." They are monetary financial institutions with economic, social and ethical objectives, seeking to mobilize resources and employ them in projects consistent with the principles of Islamic Sharia, committed not to deal with usury, whether take or give, and to ensure the economic development and prosperity of the Islamic community (Article 5 of the Agreement Establishing the International Federation of Banks islamic

2.1 Types of Islamic banks

Islamic banks are divided according to their

- functions into international development banks owned by several countries, which aim to achieve development in these countries by participating in development projects and financing productive programs in the public and private sectors, as well as by creating and managing funds to support and help Islamic societies.
- Social banks, which aim to strengthen the bonds of cooperation and social solidarity between individuals by granting loans and granting aid and grants, as well as the collection and distribution of zakat.
- Investment finance banks, which are financial institutions that

carry out various well-known banking, commercial, financial and investment activities (Almy, 2022).

2.2 Distinguishing Islamic banks from conventional commercial banks

Despite the agreement between commercial and Islamic banks, they differ in many aspects, we will try to clarify these aspects in the following.

A - Agreements between Islamic banks and conventional commercial banks

Each of the Islamic and commercial banks is subject to the supervision of the Central Bank and to all the instructions, decisions and regulations that it issues in order to regulate the operations of the banks.

- Not to pay interest to holders of current accounts for each of them, because the purpose of these accounts is to carry out day-to-day current transactions and not to earn a return from them, because Islamic banks do not deal in interest, therefore they do not allow these accounts to participate in profits, and therefore the possibility of their use by banks is reduced.
- All banks carry out foreign exchange transactions, that is, they exchange currencies on the basis of a receipt on the contract board and on the day price of the contract.
- Banks participate in the rental of iron safes (Shabeer, 2007).

B - Differences between Islamic banks and conventional commercial banks

- Transactions in Islamic banks are based on the profit and loss

sharing system, while conventional commercial banks are based on the interest system, i.e. on the basis of a loan with a conditional increase which is determined from the time of deposit.

- Wide scope of investment as it relies on Murabaha for the initiator, and the lease ending with real estate and others, which leads to the cooperation of the capital and labor, unlike traditional commercial banks which attach great importance to loans and only accept investments within a limited framework.
- Islamic banks are subject to two types of Shariah supervision for the purpose of supervising their affairs and activities in accordance with the provisions and purposes of the Islamic Shariah and for other financial purposes. Commercial banks are subject only to financial (Speer, 2007).

2.3 Objectives of Islamic banks

As Islamic banks operate, they strive to achieve a set of goals (Mansoori, 2015)

2.3.1 The Embodiment of Islam in Reality through the Revival of Islamic Financial Transactions Jurisprudence

The embodiment of the teachings of the Islamic religion in the financial field on the reality of practical life obliges banks to know the rules of law and relate them to economic reality, and this is achieved by reviving the jurisprudence of financial transactions in action and application in addition to discussion.

2.3.2 Achieving economic and social development.

Islamic banks strive to make the best use of resources in order to increase national income. The objective of Islamic banks is to achieve a qualitative economic and social cultural change from an Islamic perspective and in accordance with the objectives that Sharia seeks to achieve. The comprehensive and good investment of available

resources leads to increased income. Improve living conditions and meet the basic needs and necessities of community members.

2.4 The most important financial transactions approved in Islamic banks

2.4.1 Transferring money for a small amount of money, as this amount which the Islamic bank takes in exchange for the transfer is a legitimate commission. of cash which circulates easily in the countries where he goes, so the traveler buys some of this money and does not take it in cash, but takes it in the form of a check which has the power of cash , and spend it anywhere with the same amount it owes or its value in another currency, as it is easier to exchange and safer than carrying the money itself.

2.4.2 - Sell shares of companies for a small fee which he receives from the company as an agent in the sales process. as he acts on their behalf in paying the price and receiving the documents for the shipment of the goods (Nasr, 2009)

2.5 Establishment Procedures for Islamic Banks and Counters

Most of the laws regulating the banking system in countries that have adopted the Islamic banking system stipulate procedures generally in line with the general framework of procedures for establishing conventional banks in most countries of the world. the origin of Islamic banking, relied on Islamic banking windows as a prelude to the opening of Islamic banks independent of traditional banks, article 16 of regulation 20-02 stipulates that obtaining an authorization from the Bank of Algeria is required to apply for a prior license to market Islamic banking products as follows:

- Certificate Compliance with Sharia provisions is recognized by the National Sharia Council for issuing fatwas for the financial industry Islam.



- A descriptive sheet of the product
- The opinion of the head of compliance control of the bank or financial institution
- The procedure to be followed to ensure the administrative and financial independence of the "Islamic banking window" from the rest of the bank's financial activities. complete separation in accounting (text of article 16 of regulation n°20-02 of the Rajab 20 1441 corresponding to March 15, 2020) The legislator has done well by stipulating the financial and administrative independence of Islamic counters at the level of conventional banks, in order to avoid mixing halal money with the money of the bank dealing with traditional way based on the interest rate.

3 The road to reforming the banking and financial system in Algeria

The promulgation of Law No. 90-10 relating to cash and credit played a decisive role in the transition to a market economy in order to eliminate the system of financing based on indebtedness and inflation and played a role in activating financial intermediation (Zawawi and Chedry Muammar, 2021)

and Algeria has accelerated the reform of the financial system And the banker by relying on market forces and competition and thus transforming the system from a simple transporter of funds to public institutions to a more active system of mobilizing resources and rationalizing their use through the following:

- Liberalization of interest rates.
- Gradual liberalization of current and capital transactions.
- Adopting a more flexible exchange rate policy.

In general, a sound monetary policy is a complement to financial discipline, since the excessive expansion of liquidity directly affects the external sector, and this policy affects several aspects, including interest rates and exchange rates, which we list below.

3.1 Liberalization of interest and exchange rates

The monetary authorities in Algeria have undertaken many reforms that have affected the exchange rate of the Algerian dinar, and this in several stages

- ✓ The controlled floating of the Algerian dinar, because it benefited from the reforms taken in terms of the national economy
- ✓ Then came the stage of the stability of the dinar to the French franc, and this, after independence, the economy found itself weak, obliging the actors to make efforts in order to promote it and to restructure, thus the bank central was created at the end of 1962.
- ✓ The stage of peg to a basket of currencies, where the dinar was linked to a basket of 14 currencies in order to maintain its stability.
- ✓ The monetary advice stage, where at the end of 1964 a decision was taken to abandon the system of peg to the basket of currencies, to be replaced by the system of fixing sessions at the beginning of 10.01.1994.
- ✓ The intra-exchange market phase during 1996 and the announcement of the adoption of the managed flotation system, through which the dinar became determined according to supply and demand.



- ✓ The stage of convertibility of the Algerian dinar and this after the liberalization of foreign trade with a ceiling for the unavoidable beneficiary (Berbri, 2011)

3.2: Mechanisms for adapting the Algerian banking system to the requirements of Islamic banking.

Considering the great role and importance of Islamic banks in achieving economic and social development, monetary organs should create the appropriate environment for the work of financial institutions by creating mechanisms represented in the following:

3.2.1 - Provide the legal arsenal to regulate the work of Islamic banks with a special law relating to the method of their establishment and supervision to adapt to the relationship between them And between other banks because it provides a clear legislative framework for organize their work according to the requirements of the national economy, all within the framework of relying on Islamic banking as a mechanism for reforming the banking system, and forming a committee of experts and finance specialists and Islamic transactions to prepare these laws in the light of the advantages of the experiences of leading countries and banks in the field of finance is lamique.bancaire .

3.2.2 - Regulate the relationship with the Central Bank so that there is a special relationship between the Central Bank and Islamic banks to distinguish their products from conventional banks because development in terms of supervision (Nasser and Boucherma, 2010)

3.3: The financial system in the light of the promulgation of Law 20-02 relating to Islamic banking and the rules for its exercise.

The particularities of Islamic banking have appeared in Algerian banks with the emergence of device 18-02 of November 04, 2018, which includes the rules of practice for banking operations related to

participatory banking by banks and financial institutions.-03 of April 02, 2020, which defines the products related to Islamic banking and defines the terms and technical characteristics of their implementation by banks and financial institutions, but all this was quickly canceled by Law 20-02 relating to banking Islamic banking and the rules of its practice. (Ben Houhou, read in Regime 20-02 Provisions Relating to Islamic Banking, 2020

A great controversy has arisen between researchers and practitioners in Algeria about the model of Islamic banking so that errors in the application of Islam itself are not counted:

3.3.1 Murabaha: It is a contract in banking transactions in which the bank sells a known commodity to the customer with a pre-agreed profit margin. It is the closest thing to normal commerce, i.e. that the owner of the money buys a commodity in order to resell it at a higher price, whether this sale is cash, installment or deferred Contract Murabaha and loan at interest It turns out that Murabaha is an alternative to interest loan An institution that needs a commodity can go to a conventional bank and get an interest-bearing loan, or go to an Islamic bank and get a Murabaha. The difference is that the object of contract in Murabaha is the commodity. This is called the profit margin. As for the interest of the loan at interest, it is money, so the transaction becomes usurious by the increase of the loan, and the interest loan increases with the increase in the time.As for the profit margin in Murabaha contract, it is fixed (article 5 of regulation 20-02)

3.3.2 Musharaka: It is a contract between the bank and the customer on the basis of capital and profit sharing whether it is a new or existing project. In the fixed partnership, the bank contributes to the



financing with part of the capital of a project, and thus it is a partner in the ownership of this project, in its management and its supervision, as well as in the result according to the ratios agreed in the partnership contract. With regard to the decreasing participation, part of the income of the project is determined as a premium that the partner pays to the bank to recover the share of the bank in the project and replace it in the ownership of the project, either immediately or in installments depending on what is agreed and the nature of the project itself. In this type, each of the two parties to the partnership has a fixed share in the project until the end of the project or partnership period, or the end of the period agreed in the contract (article 6 of regulation 20-02)

3.3.3 Mudaraba: These are contracts suitable for Islamic banking transactions, and are considered one of the most important forms of investing money in them, where the bank or financial institution provides the capital to the entrepreneur who provides his work in the form of a project in order to make a profit (article 7 of regulation 20-02)

3.3.4: Ijarah: leasing is a financing formula in which the bank transfers a profit from which it is owner, whether by holding a neck or by holding a usufruct for a fixed period in return for the payment of rent which is specified in the contract (article 8 of regulation 20-02)

3.3.5: Salam: The contract Salam is a means For financing, it exempts from the interest-bearing loan, therefore anyone who has a product to produce can sell a quantity of it, delivered in the future, in return for immediate payment in cash (article 9 of regulation 20-02)

3.3.6 : Istisna'a: It's a contract p by which the bank undertakes to deliver goods to its customer who has the order By purchasing goods from the factory which will be manufactured according to precise characteristics and agreed between the parties at a fixed price and according to an agreed method of payment (Article 10 of Regulation 20-02)

3.3.7: Deposit accounts: These are accounts that contain money deposited by natural or legal persons with the obligation to return this Money or its equivalent to the depositor. (Article 11 of Regulation 20-02)

3.3.8: Deposits in investment accounts: These are deposits left at the disposal of the bank with a view to investing in Islamic finance and making profits which are distributed between the bank and the investor depositor according to a predetermined mechanism (Article 12 of Regulation 20-02). Although this type of transaction is confirmed by studies, studies have confirmed that it is characterized by a more severe type of risk for financial transactions eras in conventional banks, which requires the presence of a risk management and control body in Islamic financial institutions to avoid the difficulties that may occur in them, such as the lack of financial instruments (Khan, 2003, p. 193

3.4: The nature of risks in Islamic banks

The use of Islamic financing formulas has changed the nature of risks known in conventional banking, and we will now briefly clarify the nature of the risks faced by Islamic spending and the risks inherent in different forms of Islamic finance.

3.4.1 Credit risk: It comes in the form of settlement or payment risks, and one of the parties to the transaction has paid money (such as a Salam or Istisna contract) or has to deliver assets (example in a Murabaha sale) before receiving the money or related assets to expose it to potential loss.

3.4.2 Reference price risk: Certain risks arise in the earnings of Islamic financial institutions that use a reference price to determine the prices of their various financial instruments. In the Murabaha

contract, the profit margin is determined in addition to the risk margin by relative to the reference price, in addition to liquidity risks, operational risks, legal risks resulting from the implementation of contracts, confidence and withdrawal risks, and displacement risks. Commercial (Khan, 2003)

3.5 The role of Islamic banking in Algerian society

3.5.1: It is only possible to promote society and meet its needs through local development within societies. Since Algerian society is a conservative society linked to the Islamic religion, it was necessary to establish the provisions of Islamic banking and finance. Use its products to promote local development, which is mainly based on social and economic work by raising awareness of the local environment, and this awareness must be based on participation, reflection, preparation and implementation (L'Amara, 2006)

3.5.2 Islami banking is a development responsibility to the community by providing basic needs and includes services that help fight poverty and unemployment by financing productive projects that create employment opportunities and add value to those projects (Zakib and Mahdadi, 2017).

3.5.3 Islamic sharia in a way that ensures their growth and achieves the objectives of economic and social development. progress for the people, it seeks to achieve this according to two criteria:

3.5.4: Precision in the choice of projects and investments that the bank works to finance and ensure the adequacy of the repayment of financing

3.5.5: Seek that the use of financial resources of Islamic banks increases ent the level of employment and income from projects such as investing in endowment funds to provide food security, housing and health (Alish and Farqani, 2020).

CONCLUSION

The Islamic system has established itself in the global banking industry and is racing against the clock at a brisk pace to gain more customers and offer many products that keep up with the times within the framework of ethical controls that realize the well-being of society. Islamic banks finance from current accounts which do not earn interest, and Islamic banks use a number of contracts such as the "Murabaha" markup sale contract and Ijarah Muntahia Bittamleek and profit and loss sharing "Mudarabah" in which there must be a basic asset in all sale and lease based banking activities as well as finance services such as treatment, education and tourism.

And the Islamic banks have not yet reached perfection in their financial system, just like the commercial banks which have been established for more than six centuries and which apply are still remembering from their experiences. Perhaps the recent financial crisis, or so-called mortgage crisis, which swept the benchmarks of the global economic system, led to the emergence of an Islamic merchant bank with its own ethical principles by showing a more positive aspect of Islam. Influencing the global financial system, and Algeria is not immune to this development of Islamic banking, especially after the emergence of a conducive legal environment to the orientation of Islamic finance, which was recently noted:

- Islamic finance increases financial inclusion, i.e. expansion of customer base, especially in Muslim countries.
- On secured financing by assets and risk sharing means that Islamic finance can support small and medium enterprises and investments in public infrastructure.

The characteristic of risk sharing and the prohibition of speculation in cont futures rats indicate that Islamic finance may, in principle, be less dangerous for the financial system than conventional finance, and on this basis, given the number of challenges facing the Algerian banking system, much remains to be done to raise the financial sector The level of regional and international standards. In view of the free trade agreement with the European Union and its entry into the World Trade Organization, Algeria must adapt quickly to these challenges and transform them into real opportunities for growth and development, by accelerating the development of the financial sector, improving its performance, broadening its financial base and adapting it to an open and liberal environment in which work is based on competition, by especially with international banks.

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