

The Capacity of Islamic Investment Funds to Enhance the Technology of the Islamic Financial Industry in Algeria

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Abstract:

This study comes with the aim of evaluating the ability of investment funds to promote and activate the activity of the Islamic financial industry, by highlighting the relationship and mutual need between them and the rest of the Islamic financial institutions, and identifying the impact of investment funds on the activity of other Islamic financial institutions

Through the study, it was concluded that Islamic investment funds, with their advantages, are able to strengthen the relationship between the various Islamic financial institutions and create cooperative integration among them, which positively reflects on their financial activity and competitiveness. So that Islamic financial institutions have a positive role in enhancing the role of Sharia supervision of Islamic financial banks, with the general supervision of banking through Sharia legislation and standards, in accordance with Sharia controls, and investment funds were among those financial instruments developed by those supporting institutions.

Keywords: *Islamic investment funds, Islamic financial industry, waqf institutions, Islamic financial engineering*

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1- Introduction.

Investment funds are one of the most important sectors developed in the Islamic financial services industry, where they began their activity in many Islamic as well as Western countries after a significant period of the emergence of Islamic banking, where banks are one of the most important founding and manager of these funds, and the latter has become one of the pillars of Islamic financial activity, which has been growing at a great pace recently, as these funds, despite their modernity, have been able to reserve a distinctive position at the level of the global financial arena. The activity of Islamic investment funds is based on accumulating savings from individuals and institutions in a mudaraba system and reinvesting them in various economic projects provided that they are legally permissible. These funds help owners of capital, especially small ones, to invest what they have effectively as well. Its great contribution to stimulating the movement of the financial market and the banking sector stemming from the relationship between these institutions and investment funds, as many Islamic countries such as Malaysia, the Gulf Cooperation Council countries and even Western countries have witnessed the establishment of hundreds of these funds, which have proven effective in increasing investment opportunities for individuals and economic and financial institutions, while other countries are still unaware of the great importance of Islamic investment funds. In light of the above, the problem of the study can be limited to the following main question:

✚ **Problem of research.** This paper tries to answer the following problem:

How do investment funds contribute to enhancing the activity of the Islamic financial industry in Algeria?

✚ **Sub-questions.**

- What do you know about Islamic investment funds and how do they work?
- What is the role of Islamic financial engineering in the development of the banking industry?
- What role can mutual funds play in Islamic banking?

✚ **Significance of Study.**

The importance of the study stems from the importance of the role played by Islamic investment funds in developing and supporting the activity of Islamic financial industry services, as these funds need more attention and innovation to meet the needs of the financial and economic sectors.

✚ **Study Methodology.**

In order to answer the question raised and to achieve the objectives of the study, the descriptive approach was used as it is appropriate to the nature of the topic, by collecting facts and data related to Islamic investment funds and discussing them. In order to answer the question raised, the study was divided into the following axes:

- The first axis: Islamic investment funds, definition, importance, characteristics, and mechanism of action
- The second axis: Islamic Waqf and its relationship with Islamic investment funds
- The third axis: Financial engineering and its relationship with the Islamic financial industry

- The fourth axis: The experience of Islamic banking in Algeria and the place of Algeria in the Islamic financial industry

2- Islamic investment funds, definition, importance, characteristics, and mechanism of action

2-1 The Concept of Islamic Investment Funds.

Financial institutions collect the funds of small savers, for the purpose of investing them, in various financial portfolios, in the form of a joint stock company, which collects savings under financial instruments or standardized investment documents, pledging to another party to manage them; to invest them on behalf of savers; to achieve the highest return on profit, with the lowest risk according to agreed terms.

2-2 Characteristics of Islamic Investment Funds.

1. Enjoying the legal personality independent of the investors, the owners of the investment units, and the entity entrusted with managing them, as it is an institution that has a legal status, an organizational form, a financial framework, and an independent accounting.
2. The Fund's commitment in its transactions to the provisions and principles of the Islamic Sharia, as well as the fatwas, decisions, and recommendations issued by Fiqh Councils.
3. It is based on the Sharia Mudaraba contract, as the investors in the fund's capital represent the capital, and then the issuer acts as a mudarib to manage the fund, according to the Islamic investment formulas, the terms of the subscription prospectus, and the regulations

2-3 Importance of Islamic Investment Funds.

1. The primary purpose of governments is to raise economic growth.
2. It is a way to eliminate usury because it makes alternative legitimate investment through many legitimate investment formulas.
3. Islamic investment funds open in Islamic windows feature

2-4 Types of Islamic Investment Funds.

Islamic investment funds are characterized by their many types, the most important of which are:

- **Leasing Funds:** The Fund owns assets such as: equipment, cars, aircraft, etc., and then rents it, and benefits from its revenues, or deals with these assets such as leasing ending with ownership (kerrouche, 2018, p. 250)
- **Murabaha funds:** which are based on term financing Murabaha, especially in international commodity markets, so the fund buys Murabaha, and then sells it to a third party (other than those who bought it from him) with a term, and the term is short between one month and 6 months.
- **Common stock funds:** Contemporary jurists differed in companies whose work is permissible, but they practice some forbidden acts, such as borrowing at interest or depositing their money at interest, as some thought not to invest in their shares.
- **Secure capital funds:** It is a relatively modern fund, and its idea is based on responding to the desires of investors who like to collect from high profits and low risks, as it is based on several controls and rules to organize work in it as follows: (berkane, 2016, pp. 8,9)

- **Commodity funds:** They buy permitted commodities in cash, then sell them on credit, provided that these commodities have an organized exchange such as copper and petroleum, with the exception of gold and silver, and these funds can work as forward sales, Murabaha, or ladder (kettaf, 2014)

2-5 Mechanism of Investment in Islamic Investment Funds.

- The shares of these funds are profitable and losable with no fixed profit value in any of them.
- These shares are invested in what is permissible and does not contradict the principles of Islamic Sharia.

2-6 Contracts in Islamic Investment Funds.

- **The entity established for the Fund:** It may be an Islamic bank, or a group of businessmen, called the founders or shareholders, and they are linked to the Fund by the ownership contract and they legally represent the Fund.
- **Complainants in the Fund:** They are the ones who will buy the units - sukuk, etc. - investment, and they are linked to the Fund by the Mudaraba contract.
- **Fund Management:** It is the technical body entrusted with managing the transactions and operations of the Fund, in particular the management of investment and securities portfolios, and it is linked to the Fund by the agency contract.
- **Marketing entities of investment units:** Undertaking by the entity established for the Fund for some
- Financial institutions in issuing and marketing units, in exchange for a commission, or a fee in accordance with the investment contracts of the agency contract as a wage.

3- Islamic Waqf and its relationship with Islamic investment funds.

3-1 Terminological definition of waqf/

The jurists – may God have mercy on them – differed in clarifying the meaning of waqf in the legal terminology according to their differences in some of its provisions, such as the right to dispose of it and retrieve it, the duration of the waqf, and other subordinate jurisprudential provisions.

- **Definition of Shafi 'ism:** As: "Locking up money that can be used while keeping his eye by cutting off the disposition in his neck on an existing permissible bank. (essarkhassi, 1421, p. 47)

They make the property in it unrelated to the person standing or to the person standing on it, but it is the property of God Almighty.

- **Waqf in Legal Terminology.**

The Algerian legislator defined the waqf in Law No. 84-11, which includes the amended and completed Family Law, as: "Withholding money from ownership to any person in a manner of perseverance and charity."

It is also defined in Law No. 91-10, which includes the Amended and Complementary Endowments Law in the text of Article 3 thereof, which reads as follows: "Endowment is the withholding of property from the eye in the form of perpetuity and charity for the benefit of the poor or in a way of righteousness and goodness."

- **Waqf from an Economic Perspective.**

The endowment was defined in economic terms as: "The diversion of funds from consumption and their investment in productive capital assets, which produces benefits and revenues that are consumed in the future collectively or individually , that is, the conversion of part of private income and wealth into permanent symbiotic resources. (salhi, 2005, p. 184)

3-2 Types of waqf .

There are several types of waqf, including: waqf as the first party that it stood on in the beginning.

- Charitable endowment: It is the endowment on the side of righteousness and goodness, which is related to the interests of all people in a country or countries, such as mosques, schools, hospitals, etc., and it is called philanthropy because it is a bringer of good and because of its universal benefit, and it has become a public good (Departments, 1426 , p. 132). And the civil or atomic waqf: It is the one who is stopped at the beginning of the matter on the same waqif or any specific person or persons, even if he makes the end of it to a charitable entity, such as standing on himself, then on his children, and then after them on a charitable entity.
- Joint waqf: It is the one that combines the civil waqf and the charitable waqf; in the sense that the waqf combines them into one waqf, making for his descendants a share of the waqf eye, and for the righteous a limited or absolute share.

3-3 Considering the object of arrest: It is divided into real estate, movable property, and common property.

- **Waqf of the property:** It was the land, houses, shops, gardens, mosques, wells and roads that may be locked up. And orchards and the like; because a group of companions, may God be pleased with them, stood him up.
- **Movable endowment:** such as books, clothes, animals, weapons, etc.

3-4 Waqf in consideration of the administration:

They are divided into controlled waqfs, and excluded waqfs.

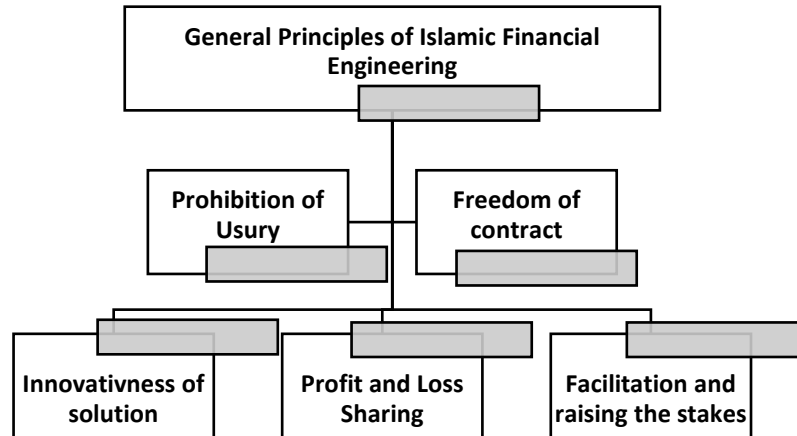
(a) Seized endowments: They are those whose administration and administration is the responsibility of the endowment institution.

4 Financial engineering and its relationship with the Islamic financial industry.

4-1 The concept of financial engineering: Islamic financial engineering is “a set of activities that consists of the design, development and implementation of both innovative financial tools and processes as well as the formulation of creative solutions to financing problems, all within the framework of the guidance of the Holy Shari 'a. (amel, 2012)

Others defined Islamic financial engineering as "finding the benefits of the parties to the financial relationship or increasing them formulated in an innovative system that ensures parity and balance, and invests the benefits of technology and communications, with its measurable measures of performance in a way that meets the credibility of adherence to Sharia requirements, achieving added value in production at the lowest cost, the lowest risk, and the fastest time."

From the definitions of Islamic financial engineering, we can outline a set of general foundations that characterize Islamic financial engineering, and from the following form can be represented the general foundations of Islamic financial engineering.



(mokhtar & bounakeb, p. 155)

4-2 Importance of Islamic Financial Engineering.

- Research and development in Islamic financial engineering leads to the completion of the knowledge system of Islamic economy, which enables it to keep pace with developments in the field of finance.
- The science of Islamic financial engineering helps in making the administrative decisions required by Islamic financial work, which in turn combines both Sharia knowledge and Islamic financial experience. (mohamed)
- The applications of Islamic financial engineering contribute to the innovation of new financial products that are in line with the needs of both customers and current economic dealers, within the framework of compliance with Islamic Sharia.
- The application of Islamic financial engineering helps Islamic financial institutions to compete with traditional financial institutions, as the solutions offered by Muslims are not enough.
- It must achieve more advantages than those achieved by traditional financial institutions, hence the importance of Islamic financial engineering to find Islamic economic solutions capable of competing with the alternatives prevailing in the contemporary economy by Islamic financial institutions.
- Islamic banks always need Islamic financial engineering to manage their liquidity profitably.
- One of the most important advantages of Islamic financial engineering is that it works to reduce the effects of financial crises at the local and international levels, and traditional banks to avoid crises in the future must follow Islamic financial rules.

4-3 Objectives of Islamic Financial Engineering.

- Achieving rewarding returns for investors in addition to diversifying sources of profitability.
- Contributing to the development of local and international financial markets through the creation of Islamic securities.

- Providing stable and real financing from resources already in the economic cycle, which reduces inflationary effects.
- Contributing to the recovery of the economy by benefiting from capital that is reluctant to participate in projects funded by usury.
- Assisting in managing and achieving harmonization between the returns, risk and liquidity of financial institutions and companies.

4-4 Characteristics of Islamic Financial Engineering.

- Given the importance of Islamic financial engineering and the great role it plays for Islamic banks in terms of
- The services it provides to customers with Islamic banks are characterized by a set of characteristics, the most important of which are: (nassri, p. 32)
- Legitimate credibility: Legitimate credibility means that Islamic products are identical to Islamic law, and this requires getting out of the jurisprudential dispute, because the goal of Islamic financial engineering is to reach innovative solutions that are subject to complete agreement.
- Economic efficiency: It is similar to that of traditional financial engineering, and the products of the Islamic financial engineering industry should be more economically efficient compared to traditional financial innovations.
- Real innovation: The diversity available in Islamic financial products is real and not nominal, as in the case of traditional financial engineering tools.

4-5 Principles of Islamic Financial Engineering.

- Balance between the various parties involved in the financing and investment process.
- Integration between the real economy and the financial economy.
- Resolution and legality in financial transactions.
- Proportionality between the contract and its intended objective.

4-6 Islamic Financial Engineering Tools.

Islamic financial institutions always need to maintain a variety of financial instruments and products Through which it can manage its liquidity profitably, in order to face the developments and changes that occur in the internal environment in addition to the developments and changes that occur in the external environment in general.

- Parallel ladder
- Parallel Istisna'a
- Islamic Sukuk
- Bank securitization
- Murabaha sale for purchase order
- open-end leases
- Participation ending with ownership

5- The experience of Islamic banking in Algeria.

If we go back to the date of 1991, we will find that the size of the Islamic financial industry did not exceed in the most optimistic figures \$100 billion, and we found the number of Islamic banks memorized by heart, and when we found the number of takaful companies exceeds the fingers of the hands, and when we found those who know the word Sukuk or a legitimate investment fund; at that time, Algeria was embracing an Islamic bank with a half-public capital; and holding seminars to introduce Islamic financial thought and be the site of the birth announcement of the International Federation of Islamic Banks, and after 25 years in which the Islamic financial industry achieved very advanced levels of quantitative and qualitative development, international acceptance, and legal and legislative recognition; and Algeria, which was to become a pole of excellence for this industry, became unmentioned, and countries that did not know the idea of Islamic finance until months ago raised banners and made plans to be a financial center for it. (haddou, 2019)

5-1 Algeria's position in the Islamic financial industry.

In the Arab world, Algeria is the third exception with two countries, Mauritania and Egypt, which have not yet established a law for one of the Islamic financial institutions or products, knowing that the spread of Islamic finance and its share in these countries is greater than its share in Algeria, half of the Mauritanian banks are Islamic, and in Egypt it is almost one tenth of the total value of financial assets. Knowing that it is close to issuing the laws of Sukuk and Takaful insurance companies, which enabled the establishment of the first Islamic banks by special decisions. Africa, 32 out of 53 countries know the activity of Islamic finance, and a general trend to attract this industry is led by countries with a Muslim minority, competing for a prominent position in the Islamic financial industry at the level of the African continent, and striving diligently to obtain legal frameworks regulating it, as is the case in Nigeria, the Seychelles, South Africa, Kenya and Uganda. While Algeria's share of the African Islamic financial assets market does not exceed 03% . (salim, p. 255)

The Islamic financial industry in Algeria is represented in two forms, banking and insurance, where Islamic banking services are available in 3 banks: Al Baraka Bank, an Algerian bank with a mixed capital that has been active since 1991, Al Salam Bank (UAE), which started its operations in 2008, and an Islamic window in a traditional foreign private bank, Gulf Bank (Qatari capital), whose services have been launched since 2009. In addition to Salama Insurance Company, which has been providing Takaful services since its adoption in 2006 and is an extension of Al Baraka and Al Aman Insurance and Reinsurance Company approved in 2000.

5-2 Legal Challenges and Barriers to the Islamic Financial Industry in Algeria.

One of the most important objectives of any law is to respond to the changes that society is witnessing, in responding to its demands, evaluating its behavior and trying to improve it. The banking law is one of them, as it exists only to regulate the banking institution and its relations, and its behavior is in the direction that protects it and its customers, with the aim of upgrading and developing it to meet the aspirations of society and the state. Like any other law in Algeria, the sources of the legal rules governing the law of money and loan are supposed to be the constitution, then Islamic law, then custom, and after them the laws of nature and justice.

He may appeal to usurious interest to make it the focus of Algerian banking activity. The Constitution does not stipulate its principles, Islamic law does not allow it, Algerians do not practice it, and it is not one of the rules of justice and the laws of nature.

Islamic financial institutions in Algeria are governed by the same laws that regulate traditional financial work, which makes the Algerian financial environment inappropriate for the activity of these institutions due to the fundamental differences that distinguish them from the work system of traditional financial institutions. The legal obstacles faced by Islamic financial institutions in Algeria can be limited to the following points: (nacer)

A- At the level of the Monetary and Loan Law: It regulates Order 03/11 issued in 2003 The banking and cash market in Algeria, and under it are also Islamic banks, knowing that the cash and loan law in Algeria does not distinguish between the types of banks; specialized, investment or business banks; it is of a holistic nature and grants an exploitation license for a comprehensive banking and the bank in accordance with its basic law to clarify the nature of its support and legal form. This was the reason for the possibility of establishing Islamic banks in Algeria, unlike many countries where this was prohibited by law. The observer of the currency and loan law in Algeria does not see many obstacles to Islamic banking. (salim)

- Adapting deposits and financing received and granted by banks as loans on the bank or from the bank, which is a legal problem in adapting investment deposits and Islamic financing based on Mudaraba, Musharaka and Sharia sales contracts; and eliminates the principle of profit and loss sharing on both sides of the Islamic bank's balance sheet;
- Limiting refinancing instruments from the Central Bank as the last resort for liquidity to traditional interest-based instruments and guarantees, such as lending, discounting, gold, foreign currencies, public and private bonds;
- The compulsory reserve formation bowl that collects various deposits and receivables without exception; a logic that contradicts the concept of an investment deposit; in addition to the possibility of receiving interest on it by the Central Bank.
- Mandatory to contribute to the Deposit Guarantee Fund; although it is a small percentage, it does not differentiate between the investment deposit and the rest of the current, savings or term deposits; (elghali, p. 34)

B- At the level of tax law: Within the framework of the law governing the activity of commercial banks in Algeria, the tax imposed on them is related to the interest earned as a result of its lending operations. Whereas the difference in the nature of the activity of the Islamic bank, which is based on the commercial practice of buying, selling and transferring ownership, and the registration required in two independent contracts and the profit margins derived from them, is supposed to differ in the tax treatment of the profits of the Islamic bank from the interests of the traditional bank. However, the failure of the Algerian law to distinguish between the practices of the traditional bank from the Islamic counterpart made the latter benefit, even if unintentionally, from the same tax and tax treatment of bank interests. This raises problems with the activities and work of Islamic banks because they are considered, according to the text of the Monetary and Loan Law, a credit practice and not a commercial one.

C- At the level of the Insurance Law: The insurance activity in Algeria is regulated in accordance with the provisions of Order No. 95/07 amended and completed by Order No. 06/04, which adhered to the definition of insurance stipulated in the Algerian Civil Code in its article No. 619 that it is "a contract under which the insurer is obligated to pay to the insured or to third parties the beneficiary for whom the insurance stipulated an amount of money, revenue or any other financial performance in the event of the realization of the risk set forth in the contract in exchange for installments or any other financial defenses." Accordingly, insurance according to Algerian law is a netting contract that enters it into the section of commercial insurance prohibited by the Sharia decisions of the jurisprudential

councils, where the insurer is obligated to pay Indemnities in the event that the risk insured against is realized and the insured is obligated to pay the agreed premiums in Insurance contract. (ahlem, 2019, p. 78)

6- Conclusion.

Based on what was stated in the study, it can be said that Islamic investment funds have the ability to enhance the activity of the Islamic financial industry through the role they play in creating a kind of interdependence with other sectors, and there is no denying the great role played by Islamic banks in order to activate the activity of investment funds because they realize that this will bring them new gains and increase their market share

6-1 Findings.

The study concluded with a set of results, which we summarize as follows:

- Islamic investment funds attract passive savings and repurpose them in economic activity, which can contribute to real investments that meet the needs of the economy
- Investment funds are one of the most important pillars of the Islamic financial industry as they provide a range of services that benefit investors, the banking sector and the economy as a whole
- Islamic investment funds are characterized by flexibility in transactions, diversity in their number, and the ease for investors to follow up their funds in them, in addition to being free of Sharia taboos, and the lack of risks in their transactions .

6-2 Recommendations.

Therefore, the study recommends the following:

- The abundance of studies on the effectiveness of these investment funds in the world
- Do more to deepen financial and banking awareness of the nature of the work of these funds and develop a marketing strategy with an international dimension to win more new banking and investment markets

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