THE OBSTACLES THAT HAMPER THE SUCCESS OF ISLAMIC BANKING AND FINANCE IN ALGERIA

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ABSTRACT

The objective of this study is to show the concept, objectives, characteristics and the working mechanism of Islamic banking and financial system and to investigate the social, technical and legal obstacles that are confusing the Islamic banking in Algeria today. Questionnaires are designed and distributed to groups of senior staff in the nine public banks in the city of Boumerdes, Algeria. Multivariate statistical analysis is performed to analyze the data of this study. The results of the regression analysis indicate that all of the three hypotheses tested are supported. There is a positive effect and significant relationships between the technical and social obstacles and the adoption of Islamic Banking in Algeria. Where the legal obstacle has a negative correlation within the adoption of Islamic Banking in Algeria. These variables are significantly and highly correlated with the adoption of Islamic Banking initiatives. These results proved that there are many social, legal and technical obstacles which hamper the success of Islamic banking and finance in Algeria.
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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Financial system plays important roles in the economy of any country, which include provision of loans and credit facilities for the conduct of the production process (Gmph, Delphi, 1997).

The banking sector is an integral part of the economy. Hence this sector plays a key role in the wellbeing of the economy. A weak banking sector not only jeopardizes the long-term sustainability of an economy, it can also be a trigger for a financial crisis which can lead to economic crises (Santha Vaithilingm, 2006). Banks are essential for each country’s economy, since no growth can be achieved unless savings are efficiently channeled into investment. In this respect, the lack of a full-fledged banking system has often been identified as a major weakness of the centrally planned economies.

Moreover, it is known that the existing banks in most countries of the world rely on the system of interest, and most dealers in the Islamic countries have big objections to interest rate due to their religious beliefs. In addition, the interest (Riba) goes against the Purposes of the Shariah (Maqasid al-Shariah) and therefore can be termed illegal or forbidden (Harraam) from Islamic perspective (Larbani, 2009).

Under these circumstances, Islamic banks were started to eliminate the menace of interest rate. Moreover, Islamic banking services are becoming successful despite the many economic and political complexities. In addition, the phenomenon of Islamic banks exceeded the confines of Muslim countries as the major conventional banks in the western world have opened windows for Islamic banking products (Bhatti, 2008).
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