

**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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Table of Contents

PERMISSION TO USE	I
ABSTRACT.....	II
ACKNOWLEDGEMENTS	III
LIST OF TABLES	VIII
LIST OF APPENDICES.....	IX
CHAPTER ONE INTRODUCTION	1
1.1 Introduction	1
1.2 Problem statement	3
1.3 Research Questions	4
1.4 Research Objectives	4
1.5 Significance of study	4
1.6 Scope of study	5
1.7 Structure of the research	5
CHAPTER TWO BACKGROUNDS AND RELATED WORKS	6
2.1 Introduction	6
2.2 Islamic banking history	7
2.3 Interest rate (Riba) in Islam	8
2.4 The nature and features of Islamic banks	10
2.4.1 Islamic bank is the ideology Bank	11
2.4.2 Islamic bank is bank of financing by participation	12
2.4.3 Islamic bank links economic development to social development.....	13
2.5 The objectives of Islamic banks	13
2.6 Characteristics of Islamic banks.....	14
2.7 Deposit facilities of Islamic Banking.....	14
2.7.1 Current accounts	15
2.7.2 Investment accounts	18

2.8	Financing facilities of the Islamic banking	18
2.8.1	Investment financing (partnership financing)	19
2.8.2	Trade financing	21
2.8.3	Istisna (commissioned manufacture), (von ,2002)	23
2.8.4	Lending	24
2.8.5	Government transactions	25
2.9	Islamic banking financing obstacles:	26
2.9.1	Long-term projects.....	26
2.9.2	Small businesses	27
2.9.3	Running businesses	27
2.10	Algeria's demographic and economics introduction	28
2.10.1	Demographic Data	29
2.10.2	Algeria Economic Statistics:.....	29
2.10.3	Algeria's banking sector	30
2.10.4	Islamic banking in Algeria	31
CHAPTER THREE RESEARCH METHODOLOGY		33
3.1	Introduction	33
3.2	Research design.....	33
3.3	The Quantitative design.....	34
3.4	Population and sampling	35
3.5	Measurement	36
3.6	Pilot test.....	37
3.7	Validity.....	37
3.8	Reliability	38
3.9	Hypotheses	38
3.10	Data Analysis	39
3.11	Summary	39
CHAPTER FOUR DATA ANALYSIS		40
4.1	Introduction	40
4.2	Demographics Data.....	40
4.3	Reliability Analysis	42
4.4	Results of Hypothesis Testing	45

4.5.1	Relationship among Variables	45
4.5	Summary	47
CHAPTER FIVE CONCLUSIONS AND IMPLICATIONS		49
5.2	Discussion and Recommendations	49
5.3	Contributions of the Research	50
5.4	Limitations and Future research	51

List of Tables

Table 2. 1: Algerian Demographic Information	29
Table 2. 2: Algerian Economics Statistics	30
Table 4. 1: Level of Education.....	40
Table 4. 2: Specialization.....	41
Table 4. 3: Experience in Banking.....	41
Table 4. 4: Job Positions	41
Table 4. 5: Reliability	43
Table 4. 6: Descriptive Statistics.....	44
Table 4. 7: Correlation Between the Adoption of Islamic Banking and the Independents Variables	46
Table 4. 8: Results for Test Hypotheses Between Adoption of Islamic Banking and Its Independent Variables	47

List of Appendices

Appendix A Questionnaire	58
Appendix B Statistic Tables.....	62
Appendix C Item Designation Tables.....	64

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 (Harram) 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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