

Islamic finance for small and medium enterprises in Algeria

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Abstract:

Small and medium enterprises play a prominent role in the development of modern societies, especially by eliminating a large part of the phenomena of unemployment and poverty that are rampant in Arab societies. These institutions need to finance their projects to fulfill their economic role entrusted to them, and Algeria, in keeping with international economic development, has relied on Islamic financing formulas. Where these formulas have become adopted even in Western countries, such as Britain, for example, and therefore the following problem arises: "How efficient are Islamic financing formulas in financing small and medium enterprises projects in Algeria?"

To answer this problem, we decided to follow the following plan:

The first axis: small and medium enterprises in the Algerian law

The second axis: Islamic banks and Islamic financing formulas

key words: small and medium enterprises - projects - Islamic financing formulas - unemployment – poverty.

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Introduction:

Islamic finance is considered one of the most important means and methods of modern financing for small and medium enterprises projects in Algeria, as it is an African country, as Algeria has kept pace with international economic development and relied on Islamic financing formulas, and this is to achieve comprehensive development, by exploiting the energies and talents of the individual as a basis for achieving development, and from here the following problem arises:

"How efficient are the Islamic financing formulas in financing small and medium enterprises projects in Algeria?"

To answer this problem, the following hypotheses can be put forward:

- The higher the financing of Islamic banks for small and medium enterprises, the more they will be responsible for managing about half of the savings of the Islamic world during the next ten years.
- The greater the number of small and medium enterprises, the less the specter of unemployment.
- One of the most important forms of financing is the form of participation and speculation

Formula, as it is compatible with these institutions.

This study aims to:

- Identify the sources of Islamic financing for small and medium enterprises, and evaluate these sources on the basis of their suitability to the reality of these institutions.
- Study the obstacles that encounter small and medium-sized enterprises that weaken their effectiveness
- The role of Islamic banks in supporting, developing and financing small and medium enterprises, as they are the most important sources of financing.

We have followed the descriptive approach that aims to describe small and medium enterprises and the method of financing these institutions by Islamic banks in accordance with the rules and principles of Islamic law.

Small and medium enterprises in the Algerian law

The term small and medium enterprises is a broad term, and this term includes activities that include those who work for their own account or in an establishment that employs a limited number of workers, and this is not limited to private sector establishments and their owners and business owners, but includes cooperatives and family or domestic production groups. The definition and concept of small and medium enterprises differs from one country to another according to their different economic and social capabilities and conditions such as the nature of the components and factors of production, the quality of the existing industries, the population density, the extent of manpower availability and the degree of its qualification, and other economic and social aspects that determine the features and nature of the industries existing in it. (Hamad Mohamed Al Al-Cheikh, 2018)

More than 25 global definitions or terms for small and medium enterprises.

The definition also differs according to its purpose, and whether it is for statistical, financing, or any other purposes. Economists also differed in the definition of these establishments, and in the criteria they use for this definition, and it is worth noting that all these definitions or terms use three basic criteria: the size of capital, Number of employment, and volume of sales. (Hamad Mohamed Al Al-Cheikh, 2018)

Algerian law defined it in Article four (04) of the Directive Law for the Promotion of Small and Medium Enterprises promulgated in 2001, as: “Small and medium enterprises, regardless of their legal nature, are defined as an enterprise producing goods or services.

Small and medium enterprises, regardless of their legal nature, as an institution producing goods or services.

It employs from 01 to 250 people.

Its annual turnover does not exceed 02 billion AD or the total annual turnover does not exceed 510 million AD. It meet the independence criteria.

Distinction between Medium, Small and Micro Enterprises

The Algerian legislator distinguished between a medium, small and small enterprise according to the following table:

Table 1: The distinction between small, medium and small enterprises

Type of institution	Small	Medium	Micro
Number of Workers	250 – 50	49 – 10	09 – 01
Business number AD	200 millions- 2 billions	200 millions	20 millions
Annualproceeds AD	100 millions-500 millions	100 millions	10 millions

Source: Quoted by: BenantarAbderrahman - BelouenassAbdallah, “Small and Medium Enterprises Between Challenging Obstacles and the Need to Support Their Competitive Capabilities in Light of International Competition”, Al-Qadisiyah Journal of Economic and Administrative Sciences, Volume 14, issue 01, 2012, p. 19.

From Table 1, we note that the Algerian legislator relied in its definition of small and medium enterprises on three basic criteria: the number of workers, the number of work and the annual proceeds. (BenantarAbderrahman, 2012, p. 19)

Small enterprises work to combat unemployment and poverty, and this is evident through the following table:

Table 2: Evolution of the number of small and medium enterprises in Algeria for the period (2008-2020).

The nature of small and medium enterprises				
Contribution to employment	Total of institutions	Activities of traditional	Public institutions	Private institutions

		industries				Number of institutions
1.848.117	711837	291164	557	42117	2008	
1.724.197	6509509	266976	572	391761	2009	
1.20.000	615072	249196	557	369319	2010	
1.645.784	625069	1765080	591	55398	2011	
1776461	687386	154123	561	532702	2012	
1915495	747938	168801	547	578586	2013	
1082304	820738	186303	544	633891	2014	
2238233	896811	206166	532	690014	2015	
2487914	1014075	233298	438	780339	2016	
2601958	1060289	243699	264	816326	2017	
2690246	1093170	241494	262	851414	2018	
2818736	1171949	268369	244	903332	2019	
2885651	1193339	274554	243	918542	أفريل 2020	

Source: Quoted from: - AbounZarkin - Touatia Al-Taher, "The Expected Effects of Algeria's Accession to the Global Neighboring Organization on the Competitiveness of Small and Medium Enterprises," Baghdad College of Economic Sciences Journal, Issue 43, 2015, p. 201.

- Reports of the Algerian Ministry of Industry and Mines Through Table 2, we note that small and medium enterprises in Algeria are constantly increasing from year to year, as the total of small and medium enterprises in Algeria in the year 2008 was estimated at 711,827 institutions, to witness an increase in successive years, bringing the total of small and medium enterprises in Algeria to 1193339 in April 2020, and this What confirms the state's interest in such institutions, and the latter is the main nerve of the economy, in light of the national economy's tendency to diversify exports outside of hydrocarbons, and the growth of small and medium enterprises led to an increase in total employment, as in 2008 it was estimated at 1,848,117, to reach in the year 2020 to 2885,651 and this A positive indicator in the absorption of unemployment in

Algeria. (Sameh Abdel-Karim Mahmoud Abu Chaneb, 2015, p. 4)

The role of small and medium enterprises

Small and medium enterprises play growing economic and social roles in various countries of the contemporary world. Indeed, these establishments almost form the backbone of the vast majority of the economies of these countries, and there is a need to spread, develop and develop these institutions in the service of the overall economy, and for many other economic and social reasons, among which are the flexibility of these institutions and their ability to face the problems of poverty and unemployment at relatively limited capital and financing costs. And strengthening it for a dynamic and effective national economic structure.

Therefore, it needs financing to inject the economic spirit into it and to play the economic role on which it was established. Perhaps among the most important modern financing methods is Islamic finance, which can be defined as: Islamic finance is a "relationship between financial institutions in their comprehensive sense, institutions or individuals, to provide Money is for those who benefit from it, whether for personal needs or for the purpose of investment, by providing financial instruments compatible with the Islamic law such as contracts for Murabaha, participation, rental, fabrication, ladder or loan. » (Sameh Abdel-Karim Mahmoud Abu Chaneb, 2015, p. 6)

Whereas, one of the most important goals of Islamic finance is to find alternatives to financing that is compatible with the Islamic law, such as an interest-free loan, and creating job opportunities, by providing types of financing that are provided to large companies, and this that contributes to providing job opportunities for individuals, or providing small capital for individuals to create Small projects that benefit the community. (Sameh Abdel-Karim Mahmoud Abu Chaneb, 2015, p. 7)

Islamic banks and Islamic financing formulas

Now around the world there are more than three hundred banks and institutions working in the so-called Islamic banking system, while the volume of investment in it is estimated between 400 and 450 billion dollars and is growing rapidly by 23% annually, which is a large growth rate in the banking business. Studies expect that Islamic banks will be responsible for managing about half of the Islamic world's savings over the next ten years. (Bechto, 2018)

The concept of Islamic banking

Islamic banks are characterized by self-immunity that makes them able to face risks and tendency to stability, thanks to their products that are based on real, not fictitious assets, and their actual, not fictitious, financing formulas. This talk is unmistakable in theory, but reality reveals many of the risks facing the Islamic banking business from Among them: the problem of liquidity in its two parts, the management of surplus liquidity and lack of liquidity, the dependence of financing on the murabaha and tawarruk processes, as these two formulas are almost the main activity of investment in Islamic banks, as they reached 90% in some of them, weak financing in the participatory formula, so the practical experience shows a low participation rate, Its percentage in Egyptian, Gulf, and Jordanian banks does not exceed 3%. On this basis, the Islamic banking industry suffers from the weakness of its risk management system. (MokhtarBounekab, 2016, p. 46)

Islamic banks collect their financial resources from savers or those with financial surpluses on the basis of the principle of sharing in profit and loss and follow some well-known formulas in the jurisprudence of Islamic transactions in order to invest these resources. In addition to this, the Islamic banks perform most of the banking services known in interest-based commercial banks,

with ridding them of interest and replacing them with commission or wages. (Ibrahim Khalil Aliane, 2014, p. 11)

It is worth noting that Islamic banks appeared in several ways, the first of which was the establishment of banks on an Islamic basis, such as Kuwait Finance House, Faisal Islamic Bank, Jordan Islamic Bank, Palestinian Islamic Bank, Abu Dhabi Islamic Bank and Dubai Islamic Bank (Wikipedia, 2018)

The second is the provision of Islamic banking services from banks operating on the traditional system, due to the presence of demand for Islamic services, in two ways (Wikipedia, 2018)

1 / Opening Islamic banks that follow the original banks in management and ownership and are separated from them mathematically. It may bear different names from the original bank, such as the Arab Bank.

The International Islamic Bank affiliated to the Arab Bank Limited, and the Cairo Amman Islamic Bank affiliated to the Cairo Bank of Jordan.

2 / Providing Islamic transaction services through the usual bank, where it is under Sharia control, often an Islamic cleric or a jurisprudential congregation, and it is most prevalent in Western banks such as the (HSBC) bank, which provides an account named trust that is subject to supervision by an Islamic body and the account is marketed to the Islamic minority In the United Kingdom, Britain.

Islamic banks can be defined as: banking institutions that, in all their transactions, investment activities and management of all their business, adhere to Islamic law and its purposes, as well as the objectives of the Islamic community internally and externally, and these banks carry out commercial banking business, but with a new vision that does not depend on the adoption of interest - usury - in financing, but rather by proposing methods. Finance commensurate with Islamic law (Ibrahim Khalil Aliane, 2014, p. 7).

It can also be defined as: a banking financial institution that derives its foundations from the principles of Islamic economics,

that mobilizes and invests funds and conducts banking services within the scope of Islamic law, with the aim of achieving an adequate return for shareholders and investment account holders in addition to achieving social and symbiotic goals to build the Muslim community (Moussa Omar MoubarakAbou Mohamed, p. 49) .

Formulas of Islamic Finance

In order to finance economic projects, Islamic finance takes several forms:

Mudaraba:

A partnership between one or more speculative client and the financial institution, whereby the first one is assigned to work and dispose of his money in order to achieve profit, provided that the distribution of profits is according to the agreement concluded between them in the speculation contract, and the banking institution shall bear all losses that may result from its activities unless The speculator violates the provisions of the Mudaraba contract . (Saif Hichem Sabah Al-Fakhri, 2009)

Murabaha:

It is defined as a sale at the same price as the first price with an increase in profit. It is a trust sale because it depends on the seller's sincerity in determining the cost. Islamic banks have introduced the idea of "selling murabaha to order to buy". (Al Baraka Bank, 2018)

The latter can be defined as one of the methods of direct financing whereby the customer requests the bank to buy a commodity and undertakes to purchase it from the bank in the event that the bank buys it, and accordingly the bank buys this commodity and enters its ownership and then sells it to the buyer requesting the purchase

with the first price and a known profit Accordingly, the Murabaha order to buy consists of four components. (Safa Bank, 2018)

Participation:

An investment and financing formula that is compatible with the Islamic law, and in which several parties can participate with the bank, and the individual's participation with the bank aims to achieve profits from sharing money, while the bank is looking to participate in financing, and vice versa if the bank enters into Participation in trade business with one of his merchant clients. (Saif Hichem Sabah Al-Fakhri, 2009)

Sale of peace:

It is the sale of something for which the price is paid for money, and its delivery is postponed to a future period, and it may be called the sale of advances, so the owner of the capital needs to buy the commodity, and the owner of the commodity needs its price in advance to spend it on his commodity, and with this we find that the bank or any merchant can be able to Lends money to producers, and repays the loan, not cash; Because it would be a loan with interest, but with products; This leads us to a sale of peace that allows the bank or the trader to make a legitimate profit, and the bank disposes of the products and goods that he obtains, and by this he is not a cash and credit merchant, but rather a true merchant whose legitimacy and trade Islam recognizes, and thus the Islamic bank becomes not just a project that receives money with interest in order to distribute it with interest Higher, but private, as he gets money to trade, speculate and contribute to . (Saif Hichem Sabah Al-Fakhri, 2009)

Ordering to make:

It is one of the direct financing methods through which the bank manufactures a specific commodity or constructs a building at the request of its client and is known to be a specific sales contract described in the liability to be made. It is a binding contract for the two parties if it meets its conditions, including stating the sex, type, amount, description, price information, determining the term, and the banking application of the Istisna'a method, which is achieved through: The bank contracted in its capacity as a manufacturer with its client as an industrious on a commodity that needs to be manufactured at a specific price for a specific period, and then the bank contracted As an istisna 'with a manufacturer or specialized contractor to manufacture a commodity with the same specifications of the commodity contracted with the customer with counting the linkage between the two contracts, which is known as parallel istisna. (Safa Bank, 2018)

Tawarruk:

Tawarruk is the language is the requesting of paper, where the word “paper” means silver dirhams, and tawarruk is the purchase of a specific commodity and reselling it to a third party for the purpose of obtaining cash. This type of financing appeared to enable bank clients to obtain cash in an Islamic way. Instead of resorting to traditional loans, where the bank can buy or finance the required commodity, then sell it to the customer plus a specified profit, then sell it for the benefit of his client and add the amount to his account, and later the customer can pay the purchase amount in cash or in installments. (Saif Hichem Sabah Al-Fakhri, 2009)

Leasing:

It is a contract required for an intended benefit that can be made and permissible for a specific period of time with a known compensation, and the aforementioned license is an updated form of financing in the light of the lease contract, and within the framework of a common financing formula that allows easy access for the one who wants to own long-lived assets. Such as: cars, real estate and high-valued assets, which can benefit clients of all segments. (Saif Hichem Sabah Al-Fakhri, 2009)

Analysis of the results:

This study shows us that small and medium enterprises are the main pillar for building a strong economy, and this indicates the great interest that they receive from the countries of the world, similar to the Algerian state that has paid great attention to this diversity of institutions by laying out programs to finance them and work to develop their capabilities. Competitiveness in the market, and this considers unconventional Islamic finance in all its forms stemming from the controls and principles of Islamic law, for the best evidence of the state's interest in this type, through the adoption of Islamic banks such as Al Baraka Bank, as well as financing funds such as the Zakat Fund, in addition to the recent adoption of traditional banks for Islamic financing formulas.

Through this study, we have reached conclusions, including the following:

- Small and medium enterprises are the core nucleus in building strong economic and social development, due to their positive results at the economic and social levels, such as reducing unemployment, poverty, an increase in gross domestic product and diversifying exports outside of hydrocarbons.
- Small and medium enterprises contribute a large percentage to the employment process, which allows for a large absorption of unemployment rates in Algeria;

- Islamic finance is considered one of the different methods that provide capital to any small and medium enterprise, in accordance with the principles of Islamic Sharia.

- Diversification of Islamic financing modes has positive effects and advantages on various divorces appropriate to the nature, characteristics, characteristics, and activity of small and medium enterprises.

- Islamic finance formulas in accordance with the systems and principles of Islamic law contribute to the increase in the number of small and medium enterprises. They are also strengthened and funded in order to grow, survive and survive in the market that is characterized by competition.

From the above, it is possible to answer the proposed hypotheses:

- Islamic finance is considered one of the forms of financing small and medium enterprises by providing in-kind or cash capital from the owners of financial surpluses (Islamic banks) to the owners of financial deficits (small and medium enterprises) to dispose of them according to their needs in accordance with the provisions and regulations of the Islamic law, and the best guide for many countries. Foreign investments are based on Islamic financing formulas, which makes Islamic banks on the verge of managing nearly half of the savings of the Islamic world, and this confirms the acceptance of the first hypothesis.

- Small and medium enterprises play an important role in the process of building comprehensive economic development with its economic and social aspects, due to its positive effects on the economic and social levels by providing many jobs that allow the rate of unemployment to be absorbed in society, and this confirms the acceptance of the second hypothesis.

- Islamic financing in the forms of speculation and musharaka is considered one of the most important and appropriate Islamic formulas in the process of financing small and medium enterprises, and this is because they are formulas that are less risky in the first place, and with high returns in the second degree, and this confirms the acceptance of the third hypothesis.

Conclusion:

Although the Algerian state has paid great attention to small and medium enterprises, which has been devoted to issuing a special law for them since December 2001, the owners of these institutions still face many difficulties in many fields, whether they are organizational difficulties or financing difficulties.

Through the previous analysis, we reach the following:

- Islamic finance is defined in Islamic law and its provisions cannot be departed from, and any deviation from these provisions is not considered Islamic financing.
- Islamic finance in its form is considered the most efficient for financing economic projects, among which are small and medium enterprises.
- Western countries' adherence to the Islamic banking system is one of the most indicative reasons for the success of this system in managing economic crises and financing projects.

From what we have reached, the following can be suggested:

- We ask the legislator to work on providing legislations and laws that benefit from Islamic financing formulas in financing small and medium enterprises.
- We call for holding seminars and forums to set ways to benefit from the financing of Islamic banks, the conditions to be able to obtain them, and the guarantors and guarantors for them.
- Advocating to educate young people on how to establish small and medium enterprises by preparing the necessary files to benefit from these formulas.
- Calling on central banks to adopt Islamic financing formulas.

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