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The role of Algerian Islamic Banks to finance the agricultural Sector, providing job opportunities and fighting poverty: Al- Salam Bank as a model

Dr. CHANI Mohamed Abdelouaheb

Tissemsilt University (Algeria)

Email: abdelwahabchani1233@gmail.com

<https://orcid.org/0009-0000-9498-5151>

Dr. MORKANE Mohamed El Bachir

Tissemsilt University (Algeria)

Email: morkane.elbachir@univ-tissemsilt.dz

<https://orcid.org/0000-0003-2646-8472>

Dr. MAZOUZ Fethallah

Tissemsilt University (Algeria)

Email: mazouz.fethallah@univ-tissemsilt.dz

<https://orcid.org/0000-0002-1569-9745>

Dr. St. SOUFI Ferial Sabrina

Sidi Bel Abbès University (Algeria)

Email: FerielSabrina20@gmail.com

<https://orcid.org/0009-0001-5172-0732>

Abstract---This study aims to demonstrate the significance and the role of Islamic banks in financing the agricultural sector and providing employment opportunities while combating poverty. To do this, the descriptive, analytical, and historical approach was relied upon by presenting and analysing the theoretical framework of Islamic banks and highlighting their role in financing the agricultural sector while providing employment opportunities and fighting poverty, beside a presentation of financial indicators during the period 2016-2022. It was concluded that Islamic banks play an effective role through Islamic financing tools in agricultural financing and absorption of unemployment rates and reduction in poverty rates, due to their ability to attract funds and direct them towards financing and

investment. This is also considered a change and qualitative development for the Islamic financial industry in Algeria and achieving economic growth.

Keywords---Islamic Banks, Al-Salam Algerian Bank, Agricultural sector, Employment opportunities and poverty.

JEL Classification Codes: G21, J21, O13, Q14.

Introduction

Islamic banks are among the most important financial and banking institutions that play a significant role in economic and social life. They are considered major financial centers that seek to collect funds and mobilize savings, and then channel them towards several vital sectors in accordance with the provisions and principles of Islamic Sharia, thus contributing to achieving sustainable development.

The agricultural sector is one of the most important of these vital sectors. Islamic banks provide a variety of financial products and services to meet the needs of the agricultural sector and enhance its growth and development. The development of these sectors leads to increased job opportunities and the fight against poverty, thus improving the living standards of individuals and society and consequently achieving the comprehensive concept of development.

Problematic of the study:

In light of what has been raised, the essence of the problem of the study crystallizes in answering the following main question: How can Islamic banks in Algeria impact the financing of the agricultural sector, create jobs, and fight poverty?

For the purpose of clarifying the problem of the study, it was divided into the following questions:

- What are the functions of Islamic banks? And does it derive from the functions of conventional banks?
- How do Islamic banks influence the financing of the agricultural sector?
- Is there an impact of Algerian Islamic banks on job opportunities and the fight against poverty?

Hypotheses of the study:

Based on the problem posed and in order to achieve the objectives of the study, we can formulate the following hypotheses:

- The functions of Islamic banks and conventional banks are similar and operate on the same principles;
- Islamic banks have a positive impact on the financing of the agricultural sector thanks to the characteristics of their financing instruments;
- Islamic banks contribute positively to job creation and the fight against poverty.

Objectives of the study:

- Introducing Islamic banks and their working mechanisms;
- Highlighting the role of Islamic banks in financing the agricultural sector, creating jobs and fighting poverty;
- Presentation of the experience of Al Salam Bank in Algeria.

I. A Conceptual Framework for Islamic Banks:

- 1. Definition of Islamic Banks:** There are many definitions of an Islamic bank, but they have almost the same meaning, for example:
 - These are monetary and financial institutions that attract monetary resources from members of society and employ them effectively in order to ensure their maximization and growth within the framework of the rules in accordance with the provisions of the Islamic Shariah and in order to serve the peoples of the Ummah and promote the development of their economies;
 - It has also been defined as Islamic organizations working in the field of business with the aim of building and developing the Muslim individual and society and providing opportunities for the advancement of Islamic foundations committed to the application of the provisions of Islamic Sharia in all banking and investment transactions through the application of the concept of financial intermediation based on the principle of profit and loss sharing; (Youness, 2012, p27.)
 - In the agreement establishing the International Union of Islamic Banks, Al-Jammeh defines that Islamic banks are those institutions whose establishment and articles of association are stipulated by law to abide by the principles of Sharia and not to deal with interest in giving and taking. (Feiza Dekiche, Haoulia Yahia,, 2021, p03)
- 2. The basis of the Work of Islamic banks:** Islamic banks conduct their activities in accordance with the contents of economic principles, which focus on the following principles: (Merdassi Ahmed Rachad, Boutaba Sabrina, Mohamed Taher Derbouche, 2018, p04.)
 - 2.1. The relationship between the Islamic economic system and religion:** The Islamic economic system is linked to religion, and all its values are derived from Islamic law, so the principle of haram and halal and the principle of integrating material values with spiritual values govern all investment decisions;
 - 2.2. The principle of succession:** economic regulation is based on the basic principle that money belongs to God Almighty, and man is backward in it to manage, invest, and spend it in accordance with divine directives that he is obliged to follow;
 - 2.3. The principle of no harm and no harm:** Islamic law considers human activity to be economic as long as it is mutually beneficial and profitable, provided that it is free from harm;
 - 2.4. Work and retribution:** workers are entitled to fair remuneration for their work regardless of the worker's sex or nationality, and an individual is not entitled to his remuneration unless he performs a specific job;
 - 2.5. Sheep by fine:** this principle means that a person does not obtain a certain profit without being exposed to risk;

- 2.6. Rationalization of production and consumption:** economic resources should be concentrated on the production of essential goods and services that satisfy human needs ;
- 2.7. Rationalization of investment spending:** Islam encourages the expenditure of money and the prevention of hoarding, as it includes spending on the payment of zakat and alimony on family relatives and people with essential needs, and encourages investment and risk taking in it, and provides financing according to the formulas approved by Sharia;
- 2.8. Prohibition of usury:** economic activities are managed in accordance with the principle of gain-by-effort and participation in profit and loss, and the prohibition of usury by taking or giving;

3. Islamic Banking Services: Islamic banks offer many services that can be divided as follows: (Hamza, 2020, p08-09.)

➤ **Financing services:**

Islamic banks offer financing formulas that take into account the distribution of risks, and are keen to pay attention to the feasibility and efficiency of the project as a main guarantee, and Islamic financing formulas can be divided into: (Seba'a Fatima Zehra, Mohamed Kouidri, 2018, pp10-14.)

- **Formulas based on corporate jurisprudence:** Musharaka, Mudaraba, farming, Musaqat and Mugharassa formulas;
- **Formulas based on the jurisprudence of sales:** Murabaha and Murabaha for the person ordering the purchase, Salam and securitization;
- **Formulas based on the jurisprudence of leasing:** Ijara and Istisna'a;

➤ **Banking Services:** It consists of:

- Opening of current accounts and related issuance of checkbooks and cards;
- Collection of commercial papers;
- Internal and external transfers;
- Sale and purchase of foreign currency;
- Securities operations (stocks without bonds);
- Rental of iron safes;
- Issuance of letters of guarantee;
- Sale and purchase of precious metals;
- Providing consultations and feasibility studies;
- Acceptance of trusts and other banking services that are legally permissible.

➤ **Social Services:** The social services provided by Islamic banks are services granted to the poor and needy, and this is to fight poverty and improve their standard of living while preserving their dignity and fighting social scourges such as theft, robbery, and vandalism. The need for money may push its owner to infringe on the money of others and several immoral manifestations. The social services recommended by the Islamic lead to the preservation of all rights and strengthen social ties, and these services are:

- Granting good loans;
- Providing financial and in-kind subsidies to several projects and institutions of a social nature;
- Supporting the financing and conduct of humanitarian and other campaigns.

II. Al-Salam Bank Experience:

Al Salam Bank is one of the most important experiences of Algeria in the field of Islamic banking, as it has proven its effectiveness and ability in achieving the financing and investment advantage for individuals and institutions, and this is what contributed to moving the wheel of development through the expansion and development of projects, increasing job opportunities, and reducing unemployment rates, thus achieving the comprehensive concept of development.

1. **Overview of Al Salam Bank Algeria:** Al Salam Bank-Algeria is a comprehensive bank operating in accordance with Algerian laws and in accordance with the provisions of Islamic Sharia in all its dealings. It was accredited by the Bank of Algeria in September 2008 to start practicing its activities by providing financing and investment services to customers in order to meet the needs of the market.
2. **Development of the most important financial Indicators of Al-Salam Bank:**

The following figure shows:

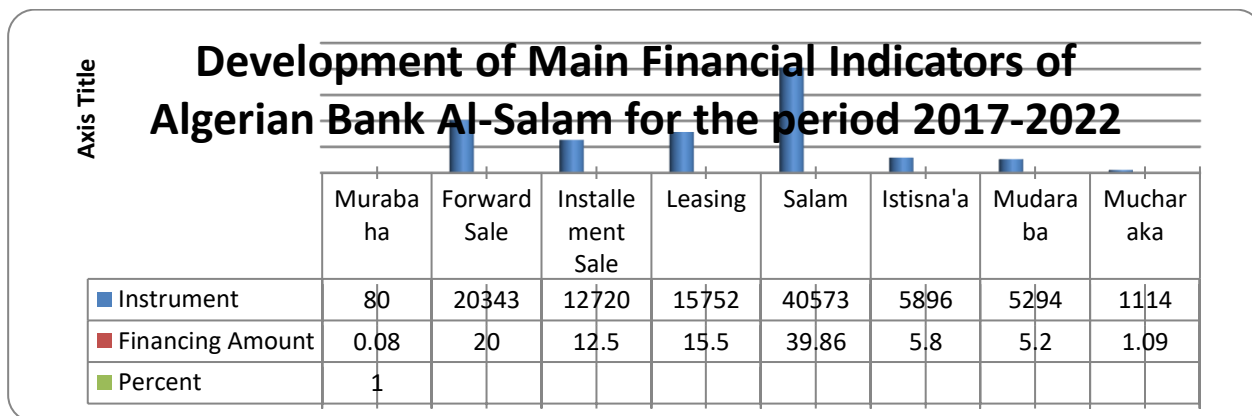


Figure (1): Evolution of the most important financial Indicators of Al-Salam Bank for the period (2008-2022)

Source: relying on the annual reports of Al-Salam Bank Algeria for the period (2016-2022)

It is noted from the table and figure above that the size of the budget and the volume of deposits and financing at Al Salam Bank are in remarkable and continuous development, and this proves the ability and efficiency of Al Salam Bank in mobilizing savings and directing them to finance and investment through Islamic financial instruments that will be presented later, and this is what made it provide real work through which it contributes to achieving economic and social development and does not provide fictitious work like the theory of the

conventional bank that caused financial crises, and the best evidence of this is the 2008 global financial crisis.

3. The relative importance of the extent to which deposits cover the financing of Al Salam Bank Algeria

Table 3: Presentation of the most important financial Indicators of Al-Salam Bank (2015-2022)

Years	2015	2016	2017	2018	2019	2020	2021	2022
Deposits	23685	34512	64642	85431	102405	129320	195031	215076
Deposit growth rate	-	0,45	0,87	0,32	0,19	0,26	0,50	0,10
Funding	21268	29377	45455	75340	93510	99252	150267	170759
Financing Growth Rate	-	0,38	0,78	0,65	0,24	0,06	0,51	0,13
Deposit coverage for financing	1,11	1,17	1,42	1,13	1,09	1,30	1,29	1,25

Source: based on the annual reports of Al Salam Bank Algeria for the period (2015-2022)

Table (2) notes that Al Salam Bank's deposits have covered all its financing and surplus liquidity remains, which proves the bank's efficiency in accumulating savings and funds from surplus holders and directing them to finance and invest through a range of financial banking and social services that comply with the provisions of Islamic Sharia.

4. Financing and investment formulas used in Al-Salam Bank: (Bank Salam, 2023)

- **Murabaha:** the process of the bank's purchase of movable or immovable assets with specific specifications at the request and promise of the customer to buy them and then resell them Murabaha after owning and receiving them at a price that includes the cost plus a profit margin promised by the customer;
- **Leasing:** a contract between the bank and the customer whereby the bank leases an asset that is in the bank's property at the time of the contract or described in the lessor's possession and is delivered on a specific date, and it is of two types: lease ending with ownership and operational leasing;
- **Istisna'a:** Within the framework of financing through Istisna'a, the bank relies on two formulas depending on the subject of financing: the form of istisna'a and parallel Istisna'a;
- **Installment sale of cars:** a formula through which the bank sells cars available to it, owned by it, and received by it in installments to dealers, whereby dealers are offered to buy cars available in the stock of cars previously purchased and received by the carrier of the guarantee;
- **Salam:** a two-stage financing formula based on two separate contracts, the Salam sale contract and the sale power of attorney, whereby the bank purchases goods or merchandise from the customer and then entrusts him to sell them after delivery;

- **Participation:** Participation in Al Salam Bank Algeria takes place in two ways: permanent participation and the second diminishing participation;
- **Mudaraba:** in two forms, either restricted or absolute;
- **Forward sale:** It is the sale in which the contractors agree to postpone the payment of the price to a specific date in the future, and the payment may be in one bulk or in installments.

Al Salam Bank Algeria offers a range of banking services to individuals and institutions, including: (Bank Salam, 2023)

- Opening current accounts;
- Payment and debit card;
- Savings card;
- Visa card;
- Remote banking service;
- Phone banking application;
- Foreign Trade Platform;
- Payment via Wimbai survey;
- Electronic payment machine.

5. Distribution of Al Salam Bank Algeria financing for the year 2020:

The following figure shows:

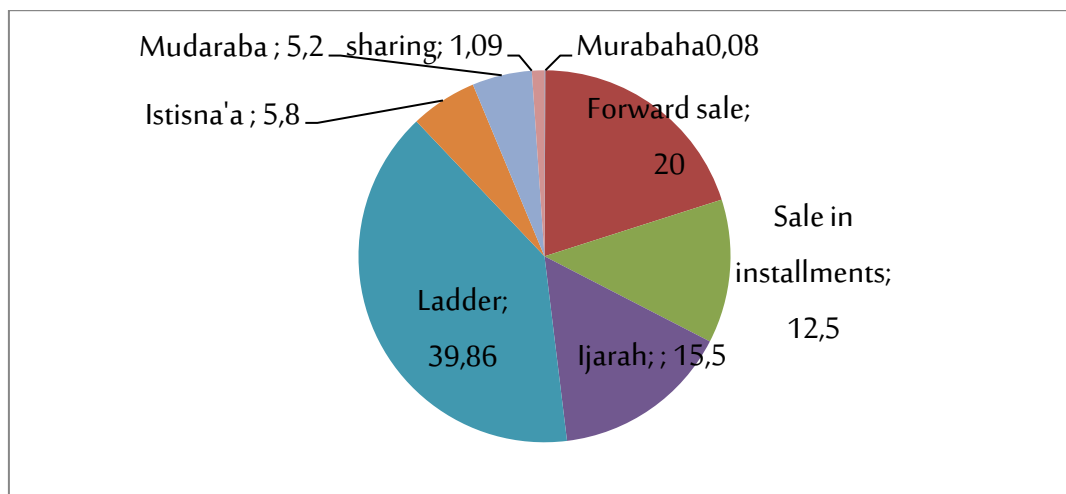


Figure: Distribution of Al Salam Bank Financing for the year 2020

Source: based on: Suleiman Nasser, *The Experience of Islamic Banks in Algeria: A General Evaluation Study*, Alpha Documents for Publishing and Distribution, Algeria, First Edition, 2022, p. 79.

It is noted through the figure that the Salam formula represents 39.86% of the bank's financing formula, and this percentage is the highest of the bank's financing ratios, followed by forward sale by 20%, then leasing by 15.5%, then sale in installments by 12.5%, then Istisna'a by 5.8%, then Mudaraba by 5.2%, then Musharaka and Murabaha at almost non-existent rates, and it is rumored in

the Murabaha sale that it represents about 90% of Islamic banks' transactions, and this is not true.

III. The Role of Islamic Banks in Financing the Agricultural Sector and Increasing Job Opportunities while Fighting Poverty:

Islamic banks play an important role in financing the agricultural sector, as they provide agricultural financing services in several ways, some of which are based on participations and some of which are based on sales and benefits, namely:

- **Musharaka financing:** Islamic banks rely on a set of Musharaka-based formulas for the development of the agricultural sector, through which the bank shares farmers and agricultural companies in profits and losses, through its contribution to land reclamation, improving agricultural infrastructure and developing advanced agricultural techniques, which increases productivity and enhances environmental sustainability in the agricultural sector, and this is according to Islamic financing formulas based on partnerships, namely: Al-Mugharassa, Al-Musaquat, Al-Muzara'a, Mudaraba and Musharaka; (Ammar, 2023, p275.)
- **Financing by sales and benefits:** Islamic banks can provide financing to farmers and agricultural companies through sales-based contracts, including, for example, the following instruments: Murabaha, Salam and installment sale. In this case, the bank provides and develops agricultural production requirements with an increase in the promotion of agricultural products and the activation of internal and external trade. (Abdelouahab, 2020, pp70-77.)

Islamic banks contribute to providing job opportunities and fighting poverty through Islamic financing and investment formulas that contribute effectively to advancing economic and social growth.

Conclusion

Through the above and as an answer to the problem, which revolved around the impact of Islamic banks in Algeria on financing the agricultural sector, job opportunities, and fighting poverty? It can be said that Islamic banks have an effective and important role in advancing economic and social development alike and promoting the growth of the agricultural sector in particular through the various Sharia-compliant financing services they provide, which in turn constitute a financing solution, thus contributing to enhancing production, improving income, and raising the standard of living of individuals.

Testing the validity of the hypotheses of the study:

- **The first hypothesis:** "The functions of Islamic banks and conventional banks are similar and operate with the same principles" (hypothesis denied), as the work of Islamic banks is governed by the rules and provisions of Islamic Sharia and therefore completely differs from the mechanism of work of Islamic banks;
- **The second hypothesis:** "Islamic banks positively influence the financing of the agricultural sector thanks to the characteristics of their financing instruments" (the hypothesis was confirmed), as they provide financing solutions for this sector alternative to what is traditional, some of which are based on the principle of profit and loss sharing.

- **Thirs Hypothesis:** Islamic banks contribute positively to job creation and the fight against poverty (hypothesis confirmed) thanks to the characteristics and advantages of several Islamic financial instruments and products.

Finding of the study: From the above, the following results can be formulated:

- Islamic banks contribute to achieving economic development through:
- Achieving the appropriate and optimal use of economic resources;
- Mobilizing savings and channeling them to investment through various Islamic financing instruments;
- Financing productive activities and ensuring their sustainability;
- Promoting financial innovations in various sectors and thus creating new financing opportunities continuously;
- Increasing real investments, such as agriculture and industry;
- Islamic banks contribute to social development through:
- Attention to the human element;
- Provision of financing for low-income individuals;
- Attracting the labor force and thus contributing effectively to the decline in unemployment rates;
- Trying to achieve social justice and solidarity;
- The efficiency of Al Salam Bank in investing in savings, expanding and developing several projects, increasing job opportunities, and reducing unemployment.

Suggestions: Below are a series of suggestions that would help Islamic finance develop the agricultural sector:

- Creating Islamic financing formulas, such as Murabaha and Musharaka, to meet farmers' needs;
- Providing soft loans and flexible repayment terms to farmers, especially at the beginning of the agricultural season;
- Providing training programs for farmers on how to use Islamic finance effectively;
- Supporting agricultural innovation through scientific and professional workshops and seminars;
- Directing funding to projects that promote environmental sustainability and efficient use of resources;
- Using technology to facilitate access to finance, such as smartphone applications;
- Providing tax incentives to investors in the agricultural sector;
- Providing Islamic insurance products to help farmers cope with risks;
- Encouraging studies that help identify the most feasible and sustainable agricultural projects;
- Supporting the establishment and development of cooperatives that can pool resources and provide financing to farmers.

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