

THE IMPACT OF OPENNESS ECONOMIC AND ISLAMIC DEVELOPMENT BANK PROJECTS ON ECONOMIC GROWTH IN THE ALGERIA ECONOMY

Fouad Mahfoudi¹, Siham Riache², Fawzi Chahdi³, Mabrouk Riache², Bilal LOUAIL^{4,*}

¹ Faculty of Economic, Commercial and Management Sciences, Ziane Achour University of Djelfa, Algeria.

² Faculty of Economic, Commercial and Management Sciences, University of Algiers 03, Algiers. Algeria.

³ Accounting Information Systems Laboratory - Applied Studies in Commercial Sciences and Management, The Higher School of Commerce, Koléa University Center, Tipaza.

⁴ Faculty of Economic, Commercial and Management Sciences, University of M'Hamed BOUGARA Boumerdes. Algeria

* Corresponding Author: b.louail@univ-boumerdes.dz

Received: 12/2023

Published:03/2024

ABSTRACT:

This study aims to illustrate the importance of IDB projects in developing economic growth in Algeria through economic openness. This study used the multiple regression of Algeria's economy from 1980-2022. The study found a positive and significant impact of FDI, per capita, and total population growth on Algeria's economic growth and a negative impact of inflation on growth. Through the results of this study, decision-makers in Algeria's economy can rely on this study to develop their economies through IDB projects. Researchers and academics can also benefit from the results of this study as a study that opens up new prospects for the topic in the future. The limits encompass data constraints, difficulties in establishing causation, external influences, limitations in sample size, and methodological constraints that impact the strength of conclusions.

Keywords: Islamic Development Bank, Economic Growth, Openness economic, Algeria economy.

JEL Classification : E42, F15, E22, F21.

1. INTRODUCTION

Islamic countries suffer from general economic backwardness, and the urgent need for economic development appears in them. All these countries make efforts of varying degrees of intensity, seriousness and degree of success to raise the rates of economic development, and because of the factors of division and political conflict between Islamic countries, and Because of the importation of development approaches from

abroad, whether the socialist approach of the capitalist approach, the movement of capital is not in the interest of Islamic countries. The countries of financial surplus, despite their small number, offer their money to the outside world, and the countries of shortage seek their needs of capital from the outside world, and this instead of That there be an exchange of capital between the area of surplus and the area of shortage within the Islamic world.

Moreover, one of the most critical problems facing Islamic countries to achieve the development process is providing the necessary financial resources and directing them towards achieving the desired goals. Indeed, all Islamic countries, except for oil-producing countries, suffer from severe deficiencies in their financing resources to achieve economic development, which is already arising due to the low savings rates accordingly due to the low rates of real incomes, which led them to resort to external borrowing, which placed them in huge debts, resulting from the difficulty of agreeing between continuing to pay the amounts of external debt service, which are represented in interest plus instalments, and the continuation of financing the necessary imports that direct to finance the development process.

It necessitated the necessity of establishing a non-traditional financing institution in which the positive effects of the aid prevail over the negative ones, and that it conforms to the peculiarities of Islamic countries and serves as the mainstay of the development process and is in line with the provisions of the tolerant Islamic law as it is the primary reference for all Islamic countries and peoples. This matter has been achieved by establishing The Islamic Development Bank in 1975 to undertake the mobilization of capital from Islamic countries and use it to support these countries' economic and social development activities and achieve cooperation and exchange in the economic field to improve the standard of living for Islamic societies.

The Islamic Development Bank is a multilateral financial institution that operates by the provisions of Islamic law and is committed to assisting member states in their endeavors to achieve economic development and social progress and consolidate their position to address the regional and global challenges they face effectively. Decades of its establishment, the scope of its work expanded, and its products and services diversified, which allowed it to provide more and better services to its Islamic member states and Islamic societies in non-member states (Beggache, 2014). However, this expansion posed new challenges before considering the development problems these countries are running into and the big difference in economic performance from one Islamic country to another Islamic country (Louail, 2015).

The painful reality of Islamic countries on the one hand, and the emergence of the Islamic Development Bank on the other hand as a means of trying to get out of this situation by providing the necessary financing for the development process, leads us without a doubt to discuss the role that the Islamic Development Bank plays to advance

development in Islamic countries through various programs. Moreover, the operations it provides and what the Bank provided to Algeria economy as the founding members to help support the development process in the period 1980-2020.

The importance of this study is evident in the fact that it addresses an important topic represented in the developmental reality of Islamic countries and the problems that these countries suffer from, and highlighting the importance of relying on Islamic financing formulas as one of the practical solutions to get out of the dilemma of underdevelopment. The importance of this research lies in shedding light on the institution. The Islamic Development Bank is an institution that works to mobilize financial surpluses from Islamic countries and direct them towards the best uses. In this way, it is considered the main engine for economic development in Islamic countries by shedding light on the historical background of the establishment of the Islamic Development Bank and its role in supporting the development process in Islamic countries by adopting methods that are in line with the provisions of Islamic law, and his role in supporting cooperation between Islamic countries as it is imperative to achieve development, as well as the most important problems that impede the work of the Bank, and try to find solutions to them.

In this study, we found a positive and significant impact of foreign direct investment, the growth of the individual and the total population on the economic growth of Algeria economy; this corresponds with the findings of other researchers (e.g. Louail, 2019; louail, 2015; Zouita et al., 2020). Moreover, the negative impact of inflation on growth corresponds with the findings of other researchers (e.g. Louail, 2019; Riache et al., 2020). Through the results of this study, decision-makers in the Algeria economy can rely on them to develop their economies through the Islamic Development Bank projects. Researchers and academics can also benefit from it and consider it a study that opens new horizons for the subject studied.

This study was divided into four sections—section 1 introduction. Section 2 Literature reviews—section 3 research methodology. And the last section exposures some discussion and conclusions.

2. Literature reviews

A limited number of scientific and academic studies and research have been conducted on the topic of the Islamic Development Bank, which we mention below:

Kayed (1989) a master's thesis at the University of Yarmouk of Jordan, entitled The Islamic Development Bank, an economic, analytical and jurisprudential study of its operations, in which the researcher presented an overview of the Islamic Development Bank, then dealt with the Bank's operations, whether normal operations, foreign trade financing operations, or operations financed from the particular aid account, And the financial side of the functions of the Islamic Development Bank, accompanied by all of this with the jurisprudential graduation in all its operations, but this study focused

on jurisprudential analysis more than economic analysis, which was limited to presenting the operations carried out by the Bank without measuring their effects.

Abada (2002) Master thesis at the University of Yarmouk of Jordan, entitled The role of the Islamic Development Bank in the trade exchange of Islamic countries. The researcher reviewed trade and economic cooperation among the member states of the Organization of the Islamic Conference. The programs used by the Islamic Development Bank in financing trade in the Islamic countries that are members of the Bank, and the researcher dealt with formal statistical analysis of the role of the Islamic Development Bank in trade exchange through data issued by the Bank and the organization and through the use of some standard models, and the researcher found the weakness of intra-trade between Islamic countries, and that the increase in the volume of intra-trade is subject to factors Others exceed the volume of financing provided by the Islamic Development Bank for trade purposes.

The research conducted by Al Madani et al., (2020) investigates the adherence of Islamic Development Bank (IDB) Sukuk to Maqasid Al-Shari'ah. This study employs a qualitative methodology and empirical case study to examine the impact of Sukuk on the distribution, growth, and conservation of wealth in order to promote social fairness. The findings indicate that the MTN Sukuk program effectively promotes the protection of wealth and is in line with Maqasid Al-Shari'ah principles, which aim to enhance human well-being and ensure sustainable development.

Alam, 2007 a master's thesis at the University of Algeria entitled the Islamic Bank for Development and Development Finance in Islamic Countries, in which the researcher dealt with the reality of development in Islamic countries in the period "1990-2000", and discussed the role that the Islamic Development Bank played in enhancing cooperation among member states The same period, he also dealt with the problems that hinder the Bank's work. He concluded that to should take actual steps to reach a bloc that includes Islamic countries. such as unifying monetary, financial, customs, transport and transit policies, and anticipating the possibility of establishing the common Islamic market and the related issues of protection, support, competition and freedom Economic while working to activate the existing regional groupings and to enhance cooperation and trade exchange between the various Islamic countries.

Abd Dawood (2009) a master's thesis at the University of Yarmouk of Jordan, entitled Development Aid provided by the Islamic Development Bank to Jordan, in which the researcher presented the forms of aid provided by the Islamic Development Bank to Jordan from its inception until the end of 2008. Its impact on the development process in Jordan, then compared it to the total aid Arab and foreign countries provided to the government, using formal analysis and some numerical ratios. The statistics provided were limited to the financing amounts provided to Jordan.

The report conducted by Mohsin et al. (2016) provides an overview of the efforts made by the Islamic Development Bank (IDB) Group in Jeddah to enhance the worldwide waqf sector. The activities encompass the establishment of progressive waqf legislation, provision of technical assistance, execution of research, enhancement of institutional capabilities, retrieval of lost waqfs, integration of waqfs into developmental initiatives, and administration of funds for asset growth. These endeavors are in accordance with the IDB's overarching plan for sustained expansion.

3. Method

The Algerian economy was analyzed using a multiple regression model to find important economic factors. The analysis was performed with the EViews 12 program. This methodology facilitated a thorough analysis of multiple elements influencing the economy, yielding useful observations into the dynamics of Algeria's economic environment. The study utilized rigorous statistical analysis to identify the primary factors influencing economic trends in Algeria. Its objective was to provide policymakers and stakeholders with valuable insights into potential areas for intervention or policy adjustments that can facilitate sustained economic growth and development in the country.

3.1 Variable of Study

All variables used in this study include Algeria economy component and a times-series component (1980–2022). Data were taken from the World Bank's database for all the variables during the study period and the consolidation of data sources. The variables are summarized in Table 1 and Figure 1.

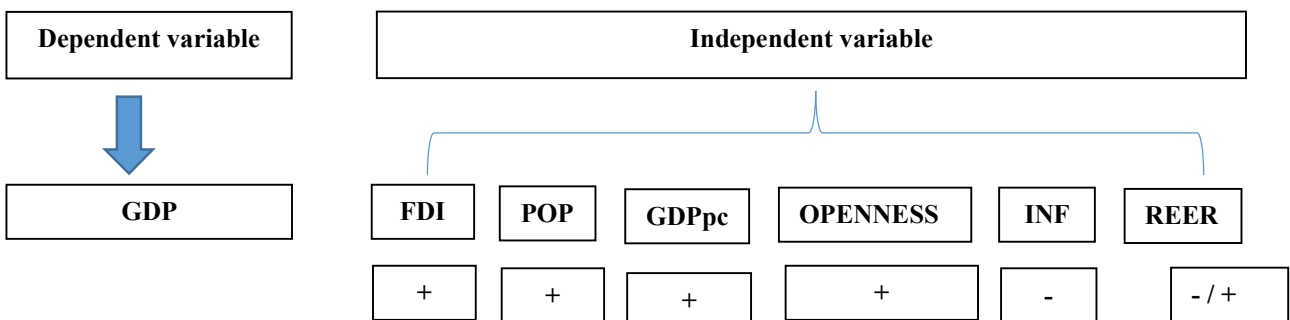


Figure 1. Variable of Study

Table 1: Definition of Variables

Variable	Characteristic
GDP	Gross Domestic Product (GDP) (current US\$)
FDI	foreign direct investment, net inflows (balance of payments, current US\$)
POP	Population, total
GDP pc	GDP per capita (current US\$)

OPENNESS	[import value index (2000 = 100) + export value index (2000 = 100)]/GDP
INF	inflation, consumer prices (annual %)
REER	real effective exchange rate index (2010 = 100)

3.2 Exploratory examination

The study variables are analyzed in Table 2, providing descriptive insights into the Algerian economy. The panel dataset consists of 42 observations that cover the whole year, offering a thorough overview of important economic indicators. This analysis provides vital insights for researchers and policymakers, enabling a more profound comprehension of the economic processes within Algeria. Through the analysis of different variables and their descriptive statistics, stakeholders can obtain valuable information about the present condition of the economy. This allows them to identify possible areas that require additional inquiry or policy intervention in order to promote sustainable economic development and growth efforts.

Table 2: Descriptive Analysis

	Mean	Median	Maximum	Minimum	Std. Dev.
GDP	5.81E+10	2.56E+10	7.56E+11	2.20E+08	9.90E+10
FDI	1.20E+09	2.21E+08	.95E+10	-3.19E+09	3.48E+09
INF	8.117467	4.142976	132.8238	-10.06749	14.79987
OPNESS	6.52E-08	1.02E-08	1.42E-06	0.000000	2.01E-07
Obs	42				

Source: Output of EViews 12.

3.3 Model and estimation

The model's functional form is represented by the following equation:

$$GDP_t = f(FDI_t, INF_t, GDPpc_t, POP_t) \quad (a)$$

$$GDP_t = \beta_0 + \beta_1 * FDI_t + \beta_2 * INF_t + \beta_3 * GDPpc_t + \beta_4 * POP_t + \varepsilon_t \quad (b)$$

Where GDP_t : is the gross domestic product, FDI_t : is the flows FDI percentage of GDP, INF_t : is inflation, $GDPpc_t$: is GDP per capita (current US\$), POP_t : is the population total, $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$: is the parameters and ε_t : is the error term.

The model was estimated according to three stages, as follows:

3.3.1 Estimation Model

By estimating the model using the regression multiple for Algeria economy in its general form, without fixing the time series nor making it random, it was found that

there is a positive and significant impact of both foreign direct investment, the growth of the individual and the total population on the economic growth of Algeria economy, And a negative impact of inflation on growth. The results are illustrated in the following Equation b1 and Table 3:

$$GDP_t = -2.72e + 9 + 11.05 * FDI_t - 5.56e + 8 * INF_t + 24.5 * GDPpc_t + 18.06 * POP_t + \varepsilon_t \quad (b1) \quad (0.031) \quad (0.002) \quad (0.0046) \quad (0.0001) \quad (0.0000)$$

Table 3: Estimation Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDPPC	24.5	23.953	9.786834	0.0001
FDI	11.05693	0.863407	17.43897	0.002
INF	-5.56E+08	1.96E+08	-2.842881	0.0046
POP	18.06	170.6391	11.18768	0.0000
C	-2.72E+09	4.74E+09	-0.784455	0.031
R-squared	0.682703			
Adjusted R-squared	0.679449			
Prob (F-statistic)	0.000253			
Obs	42			

Source: Output of EViews 12.

4. Conclusion and Discussion

The study aims to clarify the importance of the Islamic Development Bank in developing economic growth in Algeria economy through foreign direct investment. We are using in this study the Regression multiple method for Algeria economy during the period 1980-2022. we found a positive and significant impact of foreign direct investment, the growth of the individual and the total population on the economic growth of Algeria economy, And a negative impact of inflation on growth. Through the results of this study, decision-makers in the Algeria economy can rely on them to develop their economies through the Islamic Development Bank projects. Researchers and academics can also benefit from it and consider it a study that opens new horizons for the subject studied Mameche & Masood, (2021). The Islamic Development Bank is a multilateral financial institution that operates by the provisions of Islamic law and is committed to assisting member states in their endeavors to achieve economic development and social progress and consolidate their position to address the regional and global challenges they face effectively. Decades of its establishment, the scope of its work expanded and its products and services diversified, which allowed it to provide more and better services to its Islamic member states and Islamic societies in non-member states. However, this expansion has posed new challenges before it in light of the development problems that these countries are facing and the big difference in

economic performance from one Islamic country to another Islamic country (Mameche, 2020; Riache et al., 2020). The painful reality of Islamic countries on the one hand, and the emergence of the Islamic Development Bank on the other hand as a means of trying to get out of this situation by providing the necessary financing for the development process, leads us without a doubt to discuss the role that the Islamic Development Bank plays to advance development in Islamic countries through various programs. Moreover, the operations it provides, mainly what the Bank provided to Algeria as one of the founding members to help support the development process in the period 1980-2022.

Limitations of this study may encompass data constraints. The study may be compromised due to potential limitations in the availability and trustworthiness of data pertaining to Islamic Development Bank programs and economic variables. Establishing causation between openness, IDB initiatives, and economic growth can be problematic due to the presence of other contemporaneous factors that influence the economy. External issues such as political stability, global economic conditions, or regional conflicts may not be considered when assessing the impact on Algeria's economy. Sample The study period's size or duration may be inadequate to capture long-term effects or fluctuations in economic growth. The robustness of the conclusions may be affected by methodological constraints and restrictions, such as assumptions made in the model or analytical approaches applied in the process.

Future research might focus on investigating the long-term effects of openness and IDB initiatives on economic growth. This would involve examining the sustained impact of these factors over lengthy periods to gain a better understanding of their lasting benefits. The sectoral study investigates the distribution of IDB projects across different sectors of the Algerian economy and their varying influence on each area. This study aims to examine the impact of openness and IDB initiatives on socioeconomic variables, including employment, income distribution, and poverty reduction, in order to assess their overall influence on Algerian society. In comparative studies, the aim is to perform analyses that compare different nations in order to find distinctive variables that influence economic growth and assess the impact of IDB initiatives. Furthermore, qualitative viewpoints can be enhanced by incorporating qualitative methods such as case studies or interviews. These methods serve to complement quantitative analyses and offer more profound insights into the underlying mechanisms of the observed connections.

5. References

- Abd al-Haq Muhammad Kayed (1989), Islamic Development Bank, An economical, analysis, comparative jurisprudence study of its operations, Master Thesis, Yarmouk University of Jordan.
- Chahira BEGGACHE, (2014), The role of the Islamic Development Bank in supporting economic development in the member states, these doctorates, *Faculty of*

Economic, Commercial and Management Sciences, University of Algiers 03, Algiers. Algeria.

- Ibrahim Abada (2002), The role of the Islamic Development Bank in the commercial exchange of Islamic countries, an M.A. thesis at Yarmouk University of Jordan.
- Louail, B. (2015). ECONOMIC OPENNESS AND ITS IMPACT IN THE GROWTH OF THE ALGERIAN ECONOMY DURING THE PERIOD (1970-2012). *European Scientific Journal, ESJ*, 11(10).
- Louail, B., (2019). Determinants of foreign direct investment in Algeria economy during 1970– 2016. *International Journal of Advanced and Applied Sciences* 6(3), 102-110. <https://doi.org/10.21833/ijaas.2019.03.015>
- Mameche, Y. (2020). Empirical evidence on the short-run & long-run effect of IFRS adoption on FDI in developing economies: The Algerian context. *SMART Journal of Business Management Studies*, 16(1), 13-25.
- Mameche, Y., & Masood, A. (2021). Macroeconomic evidence on the impact of mandatory IFRS adoption on FDI in the Gulf Cooperation Council (GCC) countries. *Journal of Accounting in Emerging Economies*. <https://doi.org/10.1108/JAEE-04-2020-0084>
- Mohamed Salah ZOUITA, Bilal LOUAIL, Youcef MAMECHE. (November 2020), The impact of the local SMEs sector on FDI and the mediating effect of IFRS adoption in developing economies: the case of Algeria, *International Journal of Advanced and Applied Sciences*, TAIPEI, TAIWAN, Volume 6, Issue 11, P.P.: 120-129.
- Othman Alam (2007), Islamic Bank for Development and Development Finance in Islamic Countries, Master Thesis, University of Algeria.
- Salma Abd Dawood (2009), Development Aid provided by the Islamic Development Bank to Jordan, Master Thesis, Yarmouk University of Jordan.
- Siham RIACHE, Bilal LOUAIL, Ali Nabil BELOUARD. (April 2020), The relationship of Arab economic integration to foreign direct investment in the Algeria economy: Impact analysis using the Augmented gravity model, *International Journal of Advanced and Applied Sciences*, TAIPEI, TAIWAN, Volume 7, Issue 4, P.P.: 84-90.
- Siham RIACHE, Bilal LOUAIL, Chahira BEGGACHE, (2021), Causal Dynamics Between Foreign Direct Investment, Growth Economic and Financial Development in Algeria During 1970–2017, *SMART journal of business management studies*, Volume 17, Issue 1, PP:103-116.
- Mohsin, M. I. A., Dafterdar, H., Cizakca, M., Alhabshi, S. O., Razak, S. H. A., Sadr, S. K., ... & Obaidullah, M. (2016). Waqf development: The Islamic development bank experience. *Financing the Development of Old Waqf Properties: Classical Principles and Innovative Practices around the World*, 221-236.
- Al Madani, H., Alotaibi, K. O., & Alhammadi, S. (2020). The role of Sukuk in achieving sustainable development: evidence from the Islamic Development Bank. *Banks Bank Syst*, 15(4), 36-48.