Developing Islamic Financial Institutions in Algeria in Light of the Experiences of the Islamic Finance Industry

تطوير مؤسسات التمويل الإسلامي في الجزائر في ضوء تجارب الصناعة المالية الإسلامية

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Abstract:

This research aims to highlight the important role played by Islamic sukuk in developing Islamic finance for financing institutions in Algeria, with the objective of achieving Shariah governance within Islamic financial institutions in the country.

The descriptive approach was employed in the first section to outline the theoretical framework of financing institutions in Algeria, while the analytical approach was applied in the remaining sections to describe the results obtained and to examine the expected impacts on financing institutions in Algeria and on the national economy.

Keywords: Islamic finance; Sukuk; Shariah governance; Financial institutions; Financing institutions.
JEL Classification Codes: G21, G23, G18, Z12.

ملخص:

نهدف من خلال هذا البحث إلى إبراز الدور الهام الذي تقدمه الصكوك الإسلامية في تطوير التمويل الاسلامي لمؤسسات التمويل في الجزائر وذلك من أجل الوصول إلى الحوكمة الشرعية في المؤسسات المالية الإسلامية بالجزائر.

وقد إستخدامنا المنهج الوصفي في المحور الأول للإشارة إلى الإطار النظري لمؤسسات التمويل في الجزائر، ثم وظفنا المنهج التحليلي في بقية المحاور من أجل وصف النتائج المتوصل إليها، والآثار المتوقعة على مؤسسات التمويل في الجزائر والإقتصاد الوطني.

كلمات مفتاحية: تمويل إسلامي، صكوك، حوكمة شرعية، مؤسسات مالية، مؤسسات تمويل.

تصنيفات JEL : G21،G23،G18،Z12.

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Introduction:

Many may wonder about the reasons behind the growing global interest in Islamic finance and the efforts by capital cities to position themselves as gateways to this emerging industry. The current economic downturn has demonstrated that the world is deeply interconnected and that this form of financing is bound to expand in the future. Consequently, financial experts worldwide have reached a consensus that global financial stability is in need of Islamic finance as a profound solution capable of addressing the imbalances that have spread throughout the global financial system.

Since Islamic sukuk represent the most widely traded instrument in Arab and Islamic financial markets—being among the most important products of Islamic finance as a safe haven and a source of attraction for millions of investors worldwide—this is particularly evident in Algeria.

Research Problem :

Based on the foregoing, and in order to further encompass the topic of this paper, the research problem can be formulated as follows : *To what extent can Islamic sukuk contribute to the development of Islamic finance in Algeria ?*

Research Hypothesis :

In light of the above, and in response to the research problem, the following hypothesis is proposed: It is expected that the development and issuance of Islamic sukuk in Algeria will significantly support the growth of Islamic finance by providing Shariah-compliant financing instruments, attracting investments, and enhancing the diversification of funding sources, thereby contributing to the advancement of economic development.

Research Objective :

This study aims to present a roadmap for the development of the Islamic financial industry in Algeria through the issuance of sukuk in their Shariah-compliant forms as Islamic financial and investment products, marketed within a purposeful Islamic financing framework that contributes to achieving comprehensive national development efficiently. This is to be realized under a framework of openness and cooperation among banks covering project financing deficits through Shariah-compliant modes, insurance institutions providing risk coverage and hedging, and financial market institutions—such as the stock exchange—absorbing funds into Islamic investment portfolios, thereby fostering development, achieving integration, and ultimately attaining Shariah governance within Islamic financial institutions in Algeria.

Research Methodology :

To examine the research problem and provide answers thereto, the descriptive approach was adopted in the first section to outline the theoretical framework, while the analytical approach was employed in the remaining sections to clarify the proposed strategy for achieving Shariah governance in Islamic financial institutions in Algeria.

1- First Axis: Foundations of Islamic Finance :

1-1 Concept of Islamic Finance :

Islamic finance refers to the relationship between financial institutions and institutions or individuals for the purpose of providing funds to meet personal needs or for investment purposes, through the provision of Shariah-compliant financial instruments such as Murabaha, Musharakah, Ijarah, Istisna, and Salam (Al-Zahraa & Gouidri, 2022, p. 221).

Based on the above, Islamic finance can be defined as a financing system founded on the principles of Islamic Shariah, in which dealings involving riba (interest) and illegitimate speculation are prohibited, while investment based on partnership and risk-sharing is encouraged, with a strong commitment to transparency and the achievement of justice among all parties.

1-2 Characteristics of Islamic Finance :

Islamic finance has several distinctive characteristics, including :

- Giving priority to Islamic financing instruments, in their various forms, in the allocation of financial resources based on investment and economic feasibility studies, rather than focusing primarily on the debtor's financial solvency and repayment capacity ;
- Engaging in trade in lawful (*halal*) goods, services, and usufructs, or in ownership rights of tangible assets or assets described as a liability, which results in risk-sharing and the assumption of responsibility at the same time, thereby eliminating all forms and instruments of *gharar* (excessive uncertainty) and corruption ;
- Avoiding falling into the trap of destructive indebtedness, which often occurs in interest-based financing founded on the principle of loans with interest ;
- Ensuring proportionality between sources of funds and investments—for example, short-term funds are not used for long-term investments, as this could negatively affect a bank's liquidity position ;
- Adopting the principle of granting respite to distressed debtors in accordance with Shariah regulations ; accordingly, there is no place for late-payment interest that may exceed the original interest rate, nor for debt rescheduling interest, which exacerbates the debtor's inability to repay due to the inflation of debt that could not even cover its principal (Al-Ani, 2013, pp. 57–61).

From the above, it can be concluded that the characteristics of Islamic finance are concentrated in the following points :

1. Compliance with Islamic Shariah in all transactions, meaning that they must be free from *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling).
2. Reliance on real assets, whereby financing is linked to tangible activities or physical assets.
3. Risk and profit sharing, with returns and losses distributed among the parties according to agreed-upon ratios.
4. Transparency and justice, through clear terms and the avoidance of exploitation.
5. Investment in permissible (*halal*) activities, whereby financing of prohibited sectors such as alcohol or gambling is excluded.
6. A focus on social development, by supporting projects that generate benefits for society and the economy.

It can therefore be stated that Islamic finance plays an effective role as a suitable alternative for addressing the issue of corporate financing in Algeria. It is a comprehensive system that encompasses a wide range of diverse, flexible, and integrated financing instruments, providing institutions with broad opportunities for comparison and choice on the one hand, while ensuring the provision of financial resources in line with various financing needs—whether at the establishment stage, during expansion, or in achieving stability and the realization of their intended objectives.

2-Second Axis: The Reality of Islamic Finance in Algeria :

Islamic finance in Algeria is considered a means of developing national economic units, increasing their productivity, and enhancing competitiveness in the national financial market. This is due to the alternatives it provides for financing these institutions, which do not rely on interest-based transactions but are instead founded on the principle of profit-and-loss sharing, in accordance with the rules and provisions of Islamic Shariah, such as *Murabaha*, *Musharakah*, *Salam*, *Istisna*, and other Islamic financing modes (Ahmed & Boumediene, 2021, p. 18).

In summary, Islamic finance in Algeria has witnessed tangible development, as services have expanded since 2020 and have been supported by the government through a clear legislative framework and a vision for issuing sovereign sukuk in 2025. At the same time, the market share of Islamic finance remains relatively limited, despite growing indicators and increasing demand.

With enhanced awareness, product diversification, and stronger support for small and medium-sized enterprises, Islamic finance can become a genuine driver of national economic development.

2-1 Islamic Finance Institutions in Algeria :

Bank of Algeria Regulation No. 20-02 did not explicitly define Islamic finance institutions in Algeria ; rather, it limited itself to specifying the banking operations related to Islamic finance, the rules applicable thereto, the conditions for their practice, as well as the requirements for prior authorization by the Bank of Algeria, as referred to in Article One thereof (Bank of Algeria, 2020).

From this, it can be inferred that Islamic banks constitute a cornerstone of the Islamic banking system, given the importance of the role they play in national economies—especially in light of their significant growth and widespread expansion. They have become a concrete reality not only within the Muslim world but also across the rest of the world.

2-2 Development of Islamic Finance Institutions in Algeria :

Due to the economic and social importance of this financing model, the Algerian state gradually adopted it starting in 1990 by allowing Islamic banks to operate. In 2001, certain contractual forms governed by Islamic Shariah were introduced through Law No. 01-07 amending the Endowments (Awqaf) Law, notably Ijarah in its various forms, such as Hikr, Marsad, restoration, and development. In 2003, the Zakat Fund was established, and the possibility of utilizing part of zakat funds to support investment projects through Islamic financing modes was recognized.

In 2018, the Central Bank issued the first legal text regulating Islamic banking in Algeria, namely Regulation No. 18-02, which regulated only Mudarabah and Musharakah. This regulation was repealed in 2020 by Regulation No. 20-02, currently in force, which introduced Murabaha, Salam, Ijarah, Istisna‘, Mudarabah, and Musharakah, in addition to investment accounts. This development followed the establishment of the Supreme Islamic Council’s “National Shariah Authority for Fatwa in the Islamic Financial Industry.”

In 2021, the Finance Law for 2021 referred to the adoption of Takaful insurance, followed by the issuance of Executive Decree No. 21-81, which regulated the rules of the Takaful insurance system. Furthermore, the National Office for Zakat and Endowments was established to act as the manager of endowment assets and oversee the collection and distribution of zakat in Algeria. The legislator granted it broad powers to manage the zakat and endowment sectors and to invest their funds in accordance with Islamic Shariah, pursuant to Executive Decree No. 21-179 (Ounoughi, 2021).

From the above, it can be concluded that Islamic finance institutions in Algeria have experienced gradual development since the early 1990s. The first practical experiment began with the establishment of Al Baraka Bank Algeria in 1991 as an effective starting point for the provision of Shariah-compliant banking services, followed later by Al Salam Bank. Over the subsequent two decades, the scope of activity expanded as some conventional banks began offering Islamic products such as Murabaha, Ijarah, and Musharakah.

With the issuance of the official regulatory framework for Islamic banking by the Bank of Algeria in 2020, a modern phase commenced, characterized by the opening of Islamic windows in public banks, the expansion of branch networks, and the introduction of innovative products such as sukuk. This has strengthened competition and contributed to the integration of financial technology into the sector, making Islamic finance today one of the growing components of the Algerian financial system.

3- Third Axis : Challenges of Issuing Islamic Sukuk in Algeria :

Islamic sukuk are defined as sharia-compliant securities that represent undivided shares in the ownership of existing or under-development assets, usufructs, services, or a specific

investment project, through specified sharia contracts. Their main types are classified according to their contractual nature and underlying asset into : Ownership and Partnership Sukuk (such as Mudarabah and Musharakah sukuk, which bear profit-and-loss risk), Debt-based Sukuk derived from transactions (such as Murabaha, Ijarah, Salam, and Istisna' sukuk, which represent financial rights arising from the sale or lease of real assets), and Agency (Wakalah) and Usufruct Sukuk. There are also hybrid structures such as Mixed Sukuk that combine several contracts in a single portfolio, and sukuk dedicated to social purposes like Waqf Sukuk. All are subject to strict sharia principles that prohibit dealings in usury (riba) and excessive uncertainty (gharar), mandate their linkage to real assets or economic activities, require risk-sharing between the parties, and necessitate supervision by independent sharia boards. This fundamentally distinguishes them from conventional interest-based bonds. (Clubpedia Arabic Channel, 2017)

Global interest in Islamic finance has increased in recent years, particularly following the crises caused by conventional finance, the most notable of which was the 2008 global financial crisis. Islamic sukuk have emerged as one of the key products and instruments of the Islamic financial industry, gaining a significant position in international financial markets and becoming competitive with conventional financial instruments due to the substantial financing role they play in capital formation, savings mobilization, and the promotion of economic development. Moreover, the diversity of sukuk issuance structures—depending on the type of underlying Shariah contract—has made them among the most effective instruments for financing various income-generating projects. This diversity has opened the door for investors and capital owners to choose among investment opportunities in line with their aspirations, expertise, and preferences (Flami & Oukil, Requirements for the Adoption of Islamic Sukuk in Algeria in Light of the Malaysian Experience, 2022, p. 71).

In summary, the issuance of Islamic sukuk in Algeria faces a set of challenges that limit their spread and hinder the activation of their role in mobilizing financial resources. These challenges include the absence of a comprehensive legal and legislative framework defining the rules for their issuance in accordance with international standards and Shariah principles, as well as the lack of technical expertise among financial institutions and supervisory bodies in designing sukuk structures and managing them efficiently. In addition, the limited depth of the financial market and the weak liquidity of the stock exchange impede the effective trading of sukuk, alongside tax and accounting complexities related to their treatment. Furthermore, low investment awareness among the public and investors regarding the nature of sukuk and their investment advantages, as well as the absence of local Shariah and financial rating institutions capable of enhancing investor confidence and ensuring the quality of issuances, further compound these challenges.

4-Fourth Axis: The Role of Islamic Sukuk in Financing Institutions and Enhancing Financial Stability and Economic Development in Algeria :

The issuance of Islamic sukuk, particularly sovereign sukuk, highlights significant impacts on financial institutions and the national economy in Algeria, as these instruments represent a government financing tool that serves as an alternative to conventional bonds. Issued by the state against publicly owned assets, sukuk aim to mobilize financial resources, finance major development projects, and cover public budget deficits in accordance with Islamic Shariah principles through various contractual structures such as musharakah, ijarah, murabahah, istisna‘, and salam, thereby providing financing flexibility aligned with the nature of assets and public sector needs. Moreover, sukuk contribute to enhancing liquidity

management within financial institutions by offering low-risk, highly liquid assets and achieving a balance between liquidity and profitability, in addition to their role in diversifying investment opportunities through multiple investment forms, including mudarabah, musharakah, ijarah, murabahah, wakalah bi al-istithmar, and hybrid sukuk, which facilitates risk distribution and meets the expectations of different categories of investors. Furthermore, the growing role of Islamic investment funds as collective investment vehicles that attract savings and channel them toward real, Shariah-compliant activities under both Shariah and financial supervision enhances confidence and financial stability. Overall, the issuance of Islamic sukuk contributes to laying the foundations of an Islamic capital market, activating the flow of capital toward productive development-oriented investments, improving economic welfare, increasing export capacity, and strengthening the resilience of the national economy on sustainable Shariah-based development foundations, (El-Kour, 2019, p120).

We conclude that Islamic sukuk, especially sovereign sukuk, represent a Shariah-compliant alternative to conventional bonds in Algeria, supporting public financing, enhancing liquidity management, diversifying investments, and strengthening financial stability, while contributing to the development of an Islamic capital market and achieving sustainable economic growth.

5-Fifth Axis: A Case Study on the Process of Issuing Islamic Sukuk at Al Baraka Bank :

This axis presents a case study on the development of the process of issuing Islamic sukuk in Algeria. This applied case represents a practical projection of the theoretical axes discussed earlier in this paper. Al Baraka Bank was selected as a fertile field for illustrating—through statistical and analytical methods—the development of the sukuk issuance process.

5-1 Analysis of the Reality of Sukuk Issuance at Al Baraka Bank Algeria

5-1-1 General Presentation of Sukuk Issuance Data at Al Baraka Bank:

Islamic banking in Algeria is witnessing notable growth, particularly with the state's orientation toward strengthening Islamic financial instruments such as sukuk as an alternative to conventional financing. Al Baraka Bank Algeria plays a pivotal role in this transformation by issuing investment sukuk as an innovative financing instrument that meets the needs of large-scale projects and infrastructure, while adhering to the provisions of Islamic Shariah.

5-1-2 Initial Processing and Analysis of the Reasons for Issuing and Granting Sukuk at Al Baraka Bank :

Based on Table No (1) In the appendices below, the effectiveness of demand for Islamic sukuk issued by Al Baraka Bank Algeria is clearly evident in both types: sukuk granted to financial institutions and those granted to customers. The values presented in the table reveal a significant disparity between the two types in attracting demand for sukuk. This disparity is attributed to the weak interbank sukuk transactions among banks, financial institutions, and funds in Algeria, as a result of these institutions' adoption of conventional monetary and financial instruments (interest-bearing bonds). In addition, legal, regulatory, and legislative

constraints limit the ability of national banking and financial institutions to strengthen Islamic sukuk projects.

This disparity can also be explained by the bank's financial policy in issuing and granting sukuk, which focuses on diversifying financing alternatives to suit the needs of individuals and small and medium-sized enterprises, as a fertile and secure alternative for generating additional financing resources for public treasury needs, as well as for meeting the financing requirements of economic institutions outside the scope of conventional banking finance.

5-1-3 Graphical Interpretation of Sukuk Issuance and Allocation at Al Baraka Bank :

As illustrated by Figure No (1) In the appendices below, there is a clear development in demand for Islamic sukuk issued by Al Baraka Bank Algeria. This growth is attributed to the bank's marketing and promotional policy for Islamic investment sukuk, presenting them as attractive and suitable financial products, such as Baraka Car for acquiring means of transportation, Dar Al Baraka for home ownership and residential real estate acquisition, Baraka Documentary Collection for settling export and import invoices for businesspersons, and Baraka Equipment Financing for professionals and self-employed individuals, among other financing products that vary and diversify according to the needs of different segments of Algerian society.

5-1-4 Statistical Analysis and Processing of Sukuk Issuance and Allocation at Al Baraka Bank :

According to the bank's annual report for 2024, the granted sukuk are divided into demand accounts, savings accounts, and time deposit accounts—their aggregate values being presented in Table No (1) In the appendices below. In 2017, the value of sukuk granted to customers amounted to DZD 136,553,370 thousand, while sukuk granted to financial institutions reached DZD 3,123,641 thousand.

In 2018, the value of sukuk granted to customers increased to DZD 154,159,890 thousand, whereas sukuk granted to financial institutions declined to DZD 2,299,974 thousand, for the reasons mentioned above (see the section on initial processing and analysis of the reasons for issuing and granting sukuk at Al Baraka Bank).

In 2019 and 2020, the value of sukuk granted to customers remained relatively stable at DZD 153,053,279 thousand and DZD 153,606,584 thousand, respectively. However, sukuk granted to financial institutions declined to DZD 1,547,484 thousand and DZD 1,923,729 thousand, reflecting a clear decrease in sukuk allocations to the latter.

For the years 2021 and 2022, the value of sukuk granted to customers decreased to DZD 134,584,192 thousand and DZD 131,506,406 thousand, respectively. Similarly, sukuk granted to financial institutions declined to DZD 915,175 thousand and DZD 574,898 thousand. This decrease is attributed to the damages and losses incurred by economic operators as a result of the COVID-19 pandemic, which negatively affected the bank's financial and commercial performance.

In 2023, it is observed that the value of sukuk granted to customers and to financial institutions increased to DZD 137,661,979 thousand for the former, and DZD 1,255,453 thousand for the latter, reflecting a slight recovery following the pandemic. This improvement

is attributed to the contribution of public authorities to combating the COVID-19 crisis, after conducting an objective assessment of the damages and losses suffered by economic operators, particularly small and medium-sized enterprises and self-employed professionals.

5-2 Discussion of the Results :

As a conclusion to this research, and despite the volatility observed in the data of Al Baraka Bank Algeria, the results demonstrate that the prospects of Islamic banking in Algeria are promising. Moreover, the issuance of Islamic sukuk in their various forms has positive effects on Islamic financial institutions on the one hand, and on the national economy on the other.

This indicates that the bank, as an investment-oriented and Islamic financial institution, plays a vital role in financing national financial and economic units through the introduction of new financing products. It represents a leading national and global example in innovative participatory finance and provides an agile, ethical financial system designed for the digital age in compliance with Islamic Sharia. This is achieved through continuous efforts to adapt to the digital era and to rapidly changing customer behavior in order to meet their needs within a dynamic and challenging environment.

5-3 Analysis of the Results of This Research :

As an outcome of this research proposal, which we consider a possible strategic roadmap for developing the Islamic financial industry in Algeria, the issuance of Islamic investment sukuk through purposeful Islamic financing can contribute efficiently to achieving comprehensive national development. This would take place within a climate of openness and cooperation among banks financing national economic projects, insurance institutions that protect these projects from risks, and the stock exchange that injects financial resources into investment portfolios, thereby fostering the establishment of a national financial market under the supervision of the central bank. This supervision takes into account the dual legislative framework that preserves the specificity of conventional banks on the one hand and Islamic financial institutions on the other, with the aim of achieving sustainable development, economic integration at the national level, and ultimately Sharia governance within Islamic financial institutions in Algeria.

6 – Research Recommendations :

Through this research, we recommend the following :

- Strengthening the legal and regulatory framework of Islamic finance by issuing robust regulatory legal texts to support the Islamic sukuk project and complete its legal framework. This requires amending the commercial law to recognize an instrument known as Islamic sukuk and to establish a specific law governing them, as is the case in many Arab and Islamic countries ;
- Issuing Islamic investment sukuk as a safe investment and financing instrument that complies with the provisions of Islamic Sharia, to be launched by the government following the enactment of the new commercial law, which would allow the use of this new instrument and provide additional resources for financing the public treasury on the one hand and economic institutions on the other ;

- Recommending the issuance of sovereign sukuk to finance the public treasury, which would certainly stimulate investment, increase the productivity of national output, mobilize financial resources, finance economic institutions, and enable financial institutions to enhance their investment activities and allocate their profit returns in accordance with Islamic Sharia ;
- Listing this important financial instrument on the Algiers Stock Exchange would, according to specialists, contribute to channeling savings circulating outside official channels and revitalizing the financial market ;
- Urging the executive authority to introduce new instruments into the country's monetary policy by moving toward amending the law on money and credit in line with reforms aimed at enhancing transparency and stability in financial management ;
- Increasing public awareness of Islamic finance instruments ;
- Encouraging investment in Islamic financial technology (FinTech) ;
- Strengthening cooperation with international institutions specialized in Islamic finance.

7 – Conclusion :

This study demonstrates that Islamic sukuk can play a transformative role in developing Islamic finance in Algeria. The research problem—questioning the extent of sukuk's contribution—finds a clear and affirmative answer. The core hypothesis is validated : the development and issuance of Islamic sukuk can significantly propel the growth of Islamic finance by providing Sharia-compliant instruments, attracting new investments, and diversifying funding sources, thereby fostering national economic development.

The analysis reveals that sukuk issuance, particularly sovereign sukuk, is not merely an alternative financing tool but a strategic lever for achieving multiple objectives. It directly supports Algerian financial institutions by offering them high-quality, liquid assets for better liquidity management and portfolio diversification. More broadly, sukuk channel savings into productive, asset-backed investments, financing major development projects and public budget deficits in a Sharia-compliant manner. This process stimulates economic activity, enhances financial inclusion, and strengthens overall financial stability by promoting risk-sharing and linking finance to the real economy.

Ultimately, integrating sukuk within a cooperative framework—involving banks, takaful insurers, and the stock exchange—under a robust regulatory and Sharia governance structure paves the way for a mature Islamic capital market in Algeria. This ecosystem is essential for achieving sustainable development and the overarching goal of entrenching Sharia governance within the nation's Islamic financial institutions, positioning Algeria to harness the full potential of its Islamic finance industry.

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9- Al Baraka Bank Algeria data :

The following table shows the value of the granted Islamic investment Sukuk :

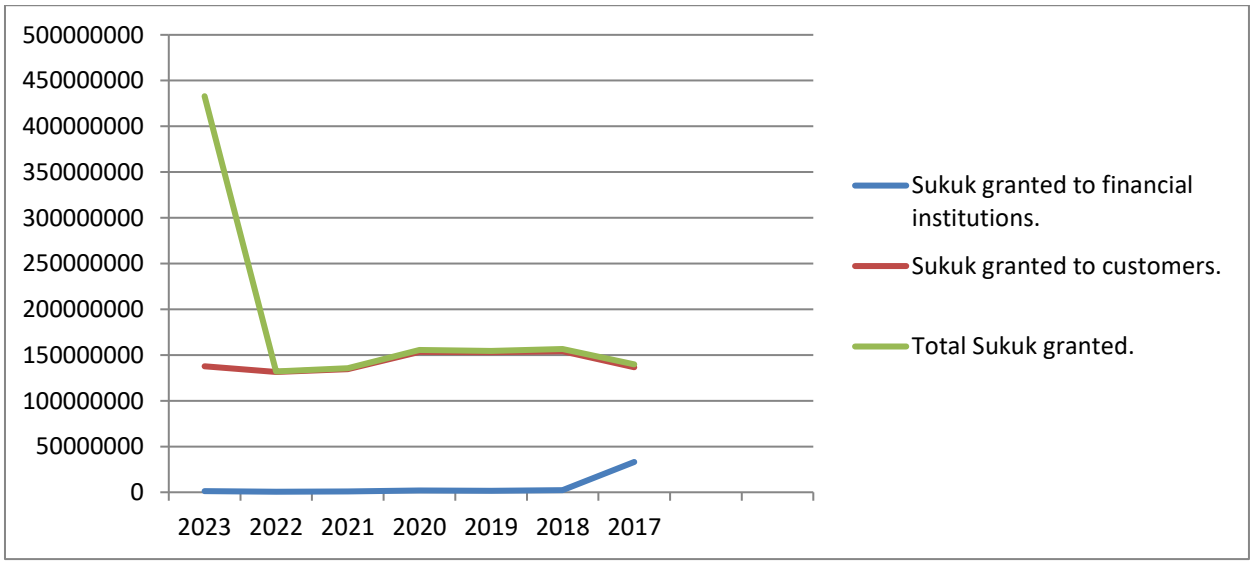
Table No. 01: Evolution of Islamic Sukuk Financing at Al Baraka Bank (Unit), in Thousands of Algerian Dinars.

Total Sukuk granted.	Sukuk granted to customers.	Sukuk granted to financial institutions.	Years
432 917 8**13**	137 661 979	1 255 453	**2023**

132 081 304	131 506 406	574 898	**2022**
135 499 367	134 584 192	915 175	**2021**
155 530 313	153 606 584	1 923 729	**2020**
154 600 763	153 053 279	1 547 484	**2019**
156 459 864	154 159 890	2 299 974	**2018**
139 677 011	136 553 370	3 123 641	**2017**

Source: Prepared by the two researchers based on 2024 data obtained from the bank's website at the following link: https://www.albaraka-bank.dz/?lang=ar

Figure No 01: Represents the curve of the evolution of Islamic Sukuk financing at Al Baraka Bank – Unit : **in thousands of Algerian dinars.**



Source: Prepared by the two researchers based on the data presented in Table No 1 above.