

Islamic Banking in Algeria (Reality and Challenges)**GHOUINI Samir ^{1♦}, CHILEGUE Rabah**¹ Ziane Achour Djelfa University (Algeria), bilal.ghouini@gmail.com² Ziane Achour Djelfa University (Algeria), chileguerabeh@gmail.com**Received:** 22/03/2025**Accepted:** 24/04/2025**Published:** 25/05/2025**Abstract:**

In this study, we examined the reality of Islamic banking in Algeria by highlighting the main institutions operating in this field, whether as banks such as Al Salam Bank Algeria and Al Baraka Bank Algeria, or through Islamic banking windows within conventional banks. We also analyzed the operational environment of these institutions by reviewing the laws and regulations governing Islamic banking in Algeria, starting with Regulation 18/02 dated November 4, 2018, concerning participatory banking, followed by Regulation 20/02 (March 15, 2020) on Islamic banking, and concluding with the new Monetary and Banking Law. Finally, we identified the legal, human, and technical requirements essential for the advancing Islamic banking in Algeria.

Keywords: Participatory banking, Islamic banking, Islamic windows and counters.

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1. INTRODUCTION

Following the successive crises witnessed by the world over the past two decades—starting with the subprime mortgage crisis, which exposed the flaws of an interest-based system (usury) and speculative trading, leading to market collapses; then the oil price crash; and finally, the COVID-19 crisis—these events resulted in price inflation, market stagnation, and a multitude of economic challenges. These crises have prompted countries worldwide, including Algeria, to turn to Islamic banking as a means of mobilizing savings and attracting funds through Sharia-compliant financial instruments, which has demonstrated its success in finance and business. However, despite the progress made, Islamic banking in Algeria remains stagnant due to several obstacles and challenges. Chief among these is the absence of a supportive environment, including the necessary legal and regulatory frameworks, as well as the institutions required to facilitate and support its development.

1.1. Research Problem:

Based on the above, the research question of this study is:

What is the current state of Islamic banking in Algeria, and what are the necessary requirements for its activation?

1.2. Research Hypotheses:

This study is based on two hypotheses:

- Islamic banking in Algeria faces several obstacles, the most significant being the lack of a genuine political will to support this sector, which has caused Algeria to lag behind other nations that have embraced Islamic banking and benefited from its advantages.
- One of the reasons for the underdevelopment of Islamic banking in Algeria is the reliance of banking institutions on a limited range of financing models, many of which are surrounded by Sharia-related ambiguities, discouraging potential clients from engaging with them.

1.3. Research Objective:

This study aims to examine the reality of Islamic banking in Algeria from both an institutional and legislative perspective, highlighting its advantages and disadvantages to identify the key challenges and obstacles hindering the success of this sector. Accordingly, the study seeks to outline and clarify the requirements, foundations, and essential elements needed to advance and develop this industry in all aspects (Sharia, legal, and regulatory).

To achieve this objective, the study is structured as follows:

- **First:** A historical overview of the development of Islamic banking worldwide.
- **Second:** The current state of Islamic banking in Algeria.
- **Third:** The requirements for the success of Islamic banking in Algeria.

2. Historical Overview Section

Islamic banking is based on offering financial services and banking products that adhere to the principles of Sharia law. It prohibits interest-based transactions (usury), whether in lending or borrowing, as well as speculative uncertainty (gharar), hoarding, and unjust practices. It upholds ethical conduct in financial dealings, all of which are subject to Sharia supervision and governed by principles such as "al-ghunm bil-ghurm" (profit is accompanied by risk) and "al-kharaj bil-daman" (returns are justified by liability).

Islamic banking operates through diverse and multiple financing modes, emphasizing profit and loss sharing and investment in real assets rather than interest-based lending and speculation on fictitious assets, which contributed to numerous financial crises, most notably the subprime

mortgage crisis. In this context, we will discuss the emergence and evolution of Islamic banking worldwide.

2.1. The Emergence of Islamic Banking

Most scholars and authors in the field of Islamic finance agree that Islamic banking emerged in the 1940s (Al-Hiti, 1998, p. 174) (Asni.F & SULAIMANE, 2019, pp. 63-64) (Zafar.m, 2020) , first in Malaysia and then in Pakistan during the 1950s, followed by Egypt in the 1960s. Subsequently, Nasser Social Bank was established in 1971, followed by the Islamic Development Bank in 1974. This led to the flourishing of Islamic banking in Egypt and other countries.

Given this consensus, researchers have generally not considered the possibility of earlier writings advocating the concept of Islamic banking. However, Mohamed Nasser, in his book *Algerian Press Article* (Belabbas, 2013, p. 01) , refers to an article dating back to the late 1920s that called for the establishment of a bank based on Islamic principles as defined in Islamic jurisprudence. This article, titled "Algeria's Need for a National Bank," was written by Sheikh Ibrahim Abu Al-Yaqzan and published in Wadi M'zab newspaper on 11 Muharram 1347 AH (June 29, 1928).

At the end of his article, Sheikh Abu Al-Yaqzan urged prominent figures and businessmen in major Algerian cities to develop the idea of a bank based on Islamic jurisprudential principles. A few months later, his call was well received by leading businessmen in Algiers, who submitted a comprehensive proposal for the establishment of a bank named "The Algerian Islamic Bank." However, the French colonial authorities at the time rejected the project, viewing it as a threat to their interests.

This historical evidence challenges the prevailing notion that the first practical attempts to establish Islamic banking date back to the late 1950s in rural Pakistan or Egypt, through local savings fund initiatives or Malaysia's Tabung Haji (Pilgrims' Savings Fund) project (Belabbas, 2013, pp. 03-05).

2.2. Growth of Islamic Banking Worldwide

The volume of Islamic financial services has grown significantly worldwide, reaching \$2,438.6 billion in 2019. The Islamic banking sector played a major role in this growth, contributing to \$1,765.8 billion, which represents 72% of the total industry. Additionally, the total number of Islamic banks worldwide reached 526 in 2019, including 428 commercial banks, 57 investment banks, 22 universal banks, and 19 specialized institutions (ICD, 2020, p. 26)

Table 1: Volume of Islamic Financial Services Worldwide by Sector and Region

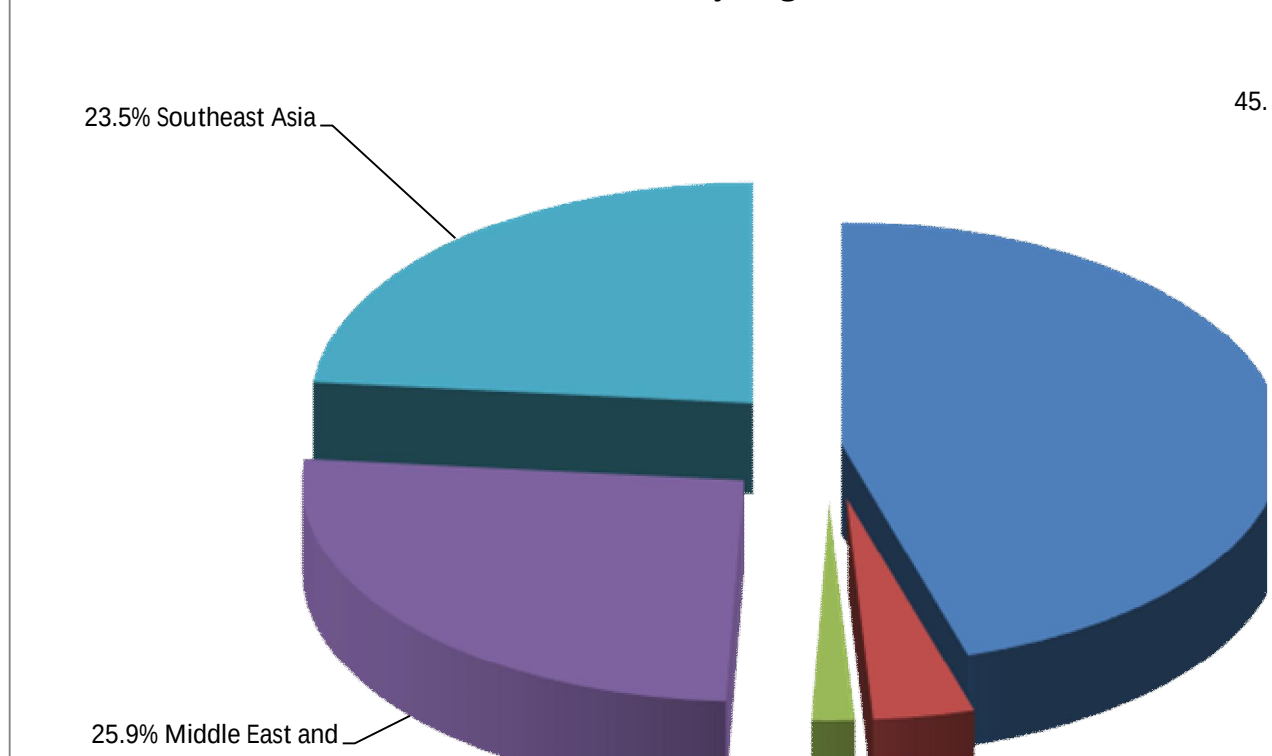
Sector Region	Banking Assets	Sukuk	Investment Funds	Takaful Insurance	Total	Percentage
Gulf Cooperation Council (GCC) Countries	854.0	204.5	36.4	11.70	1 ,106.6	45.%
Southeast Asia	240.5	303.3	26.7	3.02	573.5	23.5%
Middle East and South Asia	584.3	19.1	16.5	11.35	631.3	25.3%
Africa	33.9	1.8	1.6	0.55	37.9	1.6%
Others	53.1	14.7	21.1	0.44	89.3	3.7%

Total	1,765.8	543.4	102.3	27.07	2,438.6	100%
Percentage	72.4%	22.3%	4.2%	1.1%	100%	

Source: (BORD(IFSB), 2020, p. 12)

In 2019, the global Islamic banking sector experienced significant growth in asset volume, with an annual increase of 12.7%, compared to a modest 0.9% growth in 2018. This notable expansion in Islamic banking assets was primarily driven by the Gulf Cooperation Council (GCC) countries, where major mergers among Islamic banks took place. These mergers aimed to enhance competitiveness, attract stable deposits, and improve operational efficiency.

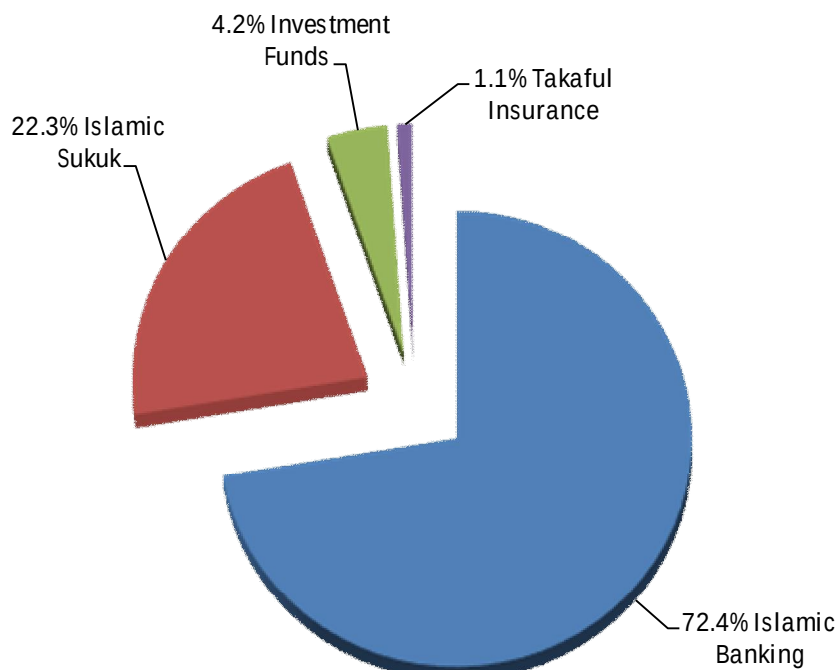
Figure 1: Illustrative Representation of the Islamic Financial Services Ind by Region



Source: (BORD(IFSB), 2020, p. 15).

the Islamic banking sector meanwhile, accounts for 72.4% of the total Islamic financial services industry a significant share, that representing nearly three-quarters of the global Islamic financial services market. It is followed by Islamic sukuk at 22.3%, investment funds at 4.2%, and finally, the takaful (Islamic insurance) sector at 1.1%.

Figure 2: Sectoral Composition of the Islamic Financial Services Industry



Source : (BORD(IFSB), 2020, p. 13).

3. THE REALITY OF ISLAMIC BANKING IN ALGERIA

The concept of Islamic banking and its application in Algeria is not a recent development; rather, its roots can be traced back to the 1920s, as previously mentioned. However, Islamic banking in independent Algeria began to emerge institutionally and paratactically in the 1990s, following the financial reforms introduced by Law 90-10 on Credit and Money, issued on April 14, 1990. This law introduced a series of banking reforms, most notably the liberalization of the banking sector from the dominance of public banks, allowing the entry of foreign and private banks into the Algerian market.

This law led to establishment of Al Baraka Bank and Al Salam Bank as well as the authorization of certain foreign banks to provide Islamic banking services. Nevertheless, Islamic banking remained unregulated by specific laws, and these banks operated within the general banking framework without any legal distinction or formal recognition of their distinct operational principles.

The following section provides an overview of these banks and Islamic banking windows.

3.1. Islamic Banks Operating in Algeria

✓ Al Baraka Bank

Al Baraka Bank Algeria is the first bank with mixed capital (public and private). It was established on May 20, 1991, with an initial capital of 500,000,000 DZD, and officially commenced its operations in September 1991.

The banks shareholders include the Agricultural and Rural Development Bank (Algeria) and Al Baraka Banking Group (Bahrain).

Under Law No. 03-11, issued on September 26, 2003, the bank is authorized to conduct all banking operations, including financing and investments, in accordance with Islamic Sharia principles.

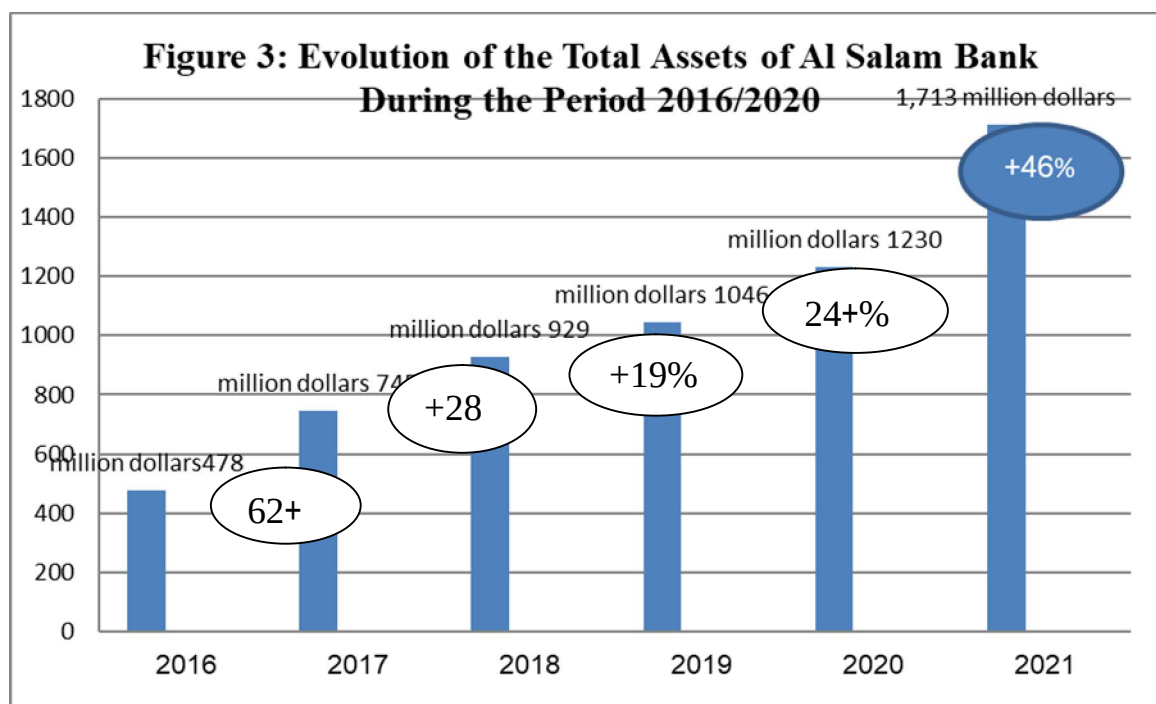
The following are the key milestones in the history of Al Baraka Bank Algeria (Al Baraka Bank Algeria, n.d.)

- **1991:** Establishment of Al Baraka Bank Algeria.
- **1994:** Achieved financial stability and balance.
- **2000:** Ranked **first** among privately owned banks.
- **2002:** Expanded into **new market sectors**, particularly targeting professionals and individuals.
- **2006:** Increased capital to **2.5 billion DZD**.
- **2009:** Second capital increase to **10 billion DZD**.
- **2012:** Launched the **first fully integrated and centralized banking system** compliant with **Islamic Sharia principles**.
- **2016:** Emerged as a leading provider of **consumer financing** in Algeria.
- **2017:** Third capital increase to **15 billion DZD**.
- **2018:** Named **Best Islamic Bank in Algeria** for the **sixth consecutive year** by *Global Finance Magazine*.
- **2018:** Recognized as one of the **top-performing units** within **Al Baraka Banking Group**.
- **2018:** Emerged as one of the **most prominent banks** in the Algerian banking sector.

✓ Al Salam Bank

Al Salam Bank Algeria is a universal bank that operates under Algerian laws while adhering to Islamic Sharia principles in all its transactions. The bank was established through a collaboration between Algeria and the United Arab Emirates on June 8, 2006 and was officially licensed by the Bank of Algeria in 2008 as a commercial bank with an initial capital of 7.2 billion DZD.

Al Salam Bank has experienced continuous growth in its total assets, as illustrated in the figure below, which shows the evolution of the bank's total assets between 2016 and 2020.



Source: (Al Salam Bank, 2021)

Al Salam Bank began its operations in Algeria by offering a range of financial and banking services, including:

- ✓ Savings accounts and investment deposit accounts.

- ✓ Real estate financing through Murabaha, allowing customers to acquire a new home with a financing term of up to 20 years and covering up to 80% of the property's value.
- ✓ Auto financing via Murabaha for up to five years, covering 80% of the vehicle's price.
- ✓ Consumer financing is also offered for furniture and electronic appliances, with a repayment period of up to two years (Mimouni, Aboud, & Dmadhma, 2018, pp. 198-199)

Additionally, Al Salam Bank Algeria has been recognized as one of the fastest-growing Islamic banks in the world. According to a study by the Union of Arab Banks, it ranked second worldwide—after a Turkish bank—with an impressive growth rate of 62% in 2018.

Rank	Bank	Country	Islamic Assets (Million USD)	Growth Rate (%)
01	Ziraat katilim Bankasi	Turkey	3.776.18	%80.29
02	Al Salam Bank Algeria	Algeria	747.06	%61.52
03	Gharzolhasaneh Mehr Iran Bank	Iran	3.878.08	%61.06
04	Export development Iran Bank	Iran	6.855.93	%60.05
05	Vision Bank	Kuwait	5.868.81	%57.33
06	Union Bank Limited	Bangladesh	1.614.65	%56.91
07	Tourism Bank	Iran	6.312.99	%52.03
08	Bank of Khartoum	Sudan	2.723.42	%50.93
09	Alizz Islamic Bank	Oman	1.479.73	%49.08
10	Syria Islamic Bank	Syria	608.88	%43.61

Source: (Union of Arab Banks, 2019, p. 27)

4. Islamic Financial Windows

✓ Gulf Bank Algeria Window

Gulf Bank was founded in 2003 through the contribution of three banks: Burgan Bank, Bank of Kuwait Jordan, and Banque International Arabe de Tunisie (BIAT). These banks are affiliated with the Kuwait Projects Company (KIPCO), one of the largest holding firms companies in the (MENA) region.

The bank provides both conventional and Islamic financing solutions, having dedicated a special window for Islamic banking services under the "Proline" service. This service includes:

- **Salam sale (Bai' al-Salam)**
- **Murabaha sale**
- **Islamic leasing (Ijarah financing)**

✓ Trust Bank Algeria Window

Trust Bank Algeria has also launched an Islamic banking window, providing customers financing solutions based on the Murabaha model, in addition to a participatory savings account, which allows the bank to share its profits with clients.

Furthermore, in November 2017, the Algerian government authorized three public banks to open Islamic banking windows, namely:

- **Popular Credit of Algeria (PCA)**
- **National Savings and Pension Fund (CNEP-Banque)**
- **Local Development Bank (BDL)**

In October 2018, the Algerian Central Bank granted approval for banks operating under the Algerian banking system to engage in Islamic financial transactions under eight types of Islamic

banking operations, as specified in Regulation 18-02 concerning participatory finance. This was later reinforced by Regulation 20-02, which defines Islamic banking operations, as detailed in the following section.

5. Legislative Regulations Related to Islamic Banking

✓ Regulation No. 18-02 on Participatory Finance

Regulation 18-02, issued on November 4, 2018, establishes the rules governing Islamic banking operations conducted by banks and financial institutions. It represents the first legal framework specifically designed for banking transactions compliant with Sharia principles.

This regulation defines the types of banking operations related to:

- **Funds collection and utilization**
- **Financing and investment operations**

It explicitly states that these transactions must not involve the accrual or payment of interest.

Below is an outline of the key positive and negative aspects of this regulation. (Nasser, A General Review of Regulations Related to Islamic Banking in Algeria, 2020):

❖ Positive Aspects:

- **First legal framework:** Regulation 18-02 represents the first attempt to establish a legal framework governing Islamic banking operations in Algeria.
- **Licensing requirement:** Any bank or financial institution wishing to offer Islamic banking products must apply for a license from the Bank of Algeria. After obtaining this license, the institution must acquire a Sharia compliance certificate from a qualified national authority, ensuring a standardized approach to offering Islamic banking products across Algerian banks.
- **Financial and accounting separation:** The regulation strictly mandates that financial and accounting records for Islamic banking windows must be separated from the bank's conventional activities.
- **Transparency and disclosure:** Institutions authorized to offer Islamic financial products are required to inform customers about pricing schedules, minimum and maximum applicable conditions, and investment account details, thereby enhancing transparency and customer confidence.
- **Investment deposit principles:** The regulation emphasizes the nature of investment deposits, stating that they are not guaranteed by the bank. Instead, depositors share in both profits and losses, as they are considered investors (Mudaribs) rather than lenders.

❖ Negative Aspects:

- **Terminology concerns:** The regulation avoids explicitly labeling these products as "Islamic", instead referring to them as "participatory", which raises questions about the intent behind this terminology.
- **Incomplete definition of participatory products:** The regulation defines participatory products as those that do not involve interest (riba) in lending or borrowing. While this definition is correct, it remains incomplete, as a product may comply with this criterion yet still violate Islamic Sharia in other aspects.
- **Limited scope of participatory banking operations:** The regulation restricts participatory banking activities to a specific set of products, meaning that banks cannot offer other Islamic financial products, such as agricultural financing models (Muzara'a, Mugharasa, and Musaqa).

- Lack of mandatory Sharia supervisory boards: The regulation does not require Islamic banking windows within conventional banks to have a Sharia supervisory body, even a single qualified expert. Sharia supervision is not limited to verifying compliance before launching a product; rather, it requires ongoing monitoring before, during, and after a service is provided. This is particularly crucial, as customer confidence in Islamic banking largely depends on the assurance that financial services strictly adhere to Sharia principles.
- Regulatory gaps regarding the central bank's role: Despite the long-awaited introduction of this legal framework, it does not resolve key outstanding issues, such as the relationship between Islamic banks and the Central Bank of Algeria in terms of banking supervision and monetary policy implementation.
- Monetary policy constraints: Regulation 09-02, issued on May 26, 2009, defines four key monetary policy tools:
 - Rediscounting and lending operations
 - Minimum reserve requirements
 - Open market operations
 - Standing facilities

However, most of these mechanisms are designed for conventional banking rather than Islamic banking. The only potentially applicable tool is the minimum reserve requirement, but it would require modifications to align with Islamic banking principles.

✓ Regulation No. 20-02 Defining Islamic Banking Operations

On March 15, 2020, Regulation No. 20-02 was issued to define Islamic banking operations and the rules governing their practice by banks and financial institutions. This regulation repealed all provisions of Regulation No. 18-02.

Regulation 20-02 defines an Islamic banking operation as any banking transaction that does not involve the accrual or payment of interest. It also defines an Islamic banking window as a dedicated structure within a bank or financial institution exclusively responsible for providing Islamic banking services and products.

The regulation authorizes banks to offer eight Islamic banking products, namely: Murabaha, Mudaraba, Musharaka, Ijarah, Salam, Istisna'a, Deposit accounts, Investment deposits

Additionally, the regulation provides detailed definitions of each Islamic financial product in Articles 05 to 12 (Al-Arabi & Trobia, 2020, p. 256)

While similar to the previous regulation (18-02), Regulation 20-02 introduced several additions and clarifications, which will be outlined in the following section (Nasser, A General Review of Regulations Related to Islamic Banking in Algeria, 2020, p. 14) (Qandouz & Qaâloul, 2020, pp. 31-32)

- Explicit reference to "Islamic Banking": Unlike the previous regulation, which avoided explicitly using the term "Islamic", this regulation is officially titled "Defining Islamic Banking Operations and the Rules for Their Practice by Banks and Financial Institutions." This indicates that the authorities have finally adopted the term without hesitation.
- Mandatory Sharia compliance certification: While the previous regulation did not require banks or Islamic windows to obtain a Sharia compliance certificate for their products, the new regulation makes it mandatory. Banks must obtain approval from the National Sharia Board for Islamic Financial Industry before applying for product licensing from the Bank of Algeria.

- Establishment of a Sharia Supervisory Board: Banks offering Islamic financial services must establish an internal Sharia Supervisory Board composed of at least three members, appointed by the General Assembly.
- Expanded range of Islamic banking operations:
 - The previous regulation (18-02) recognized seven Islamic banking operations: Murabaha, Musharaka, Mudaraba, Ijarah, Istisna'a, Salam, and Investment Deposits.
 - The new regulation (20-02) adds an eighth operation: Deposit Accounts, which are similar to conventional deposits in function but adhere to Islamic banking principles.
- Independent financial structure for Islamic banking windows: The regulation reaffirms that Islamic banking windows must be financially and accounting-wise independent from other departments of the bank or financial institution. Additionally, customer accounts within Islamic banking windows must be kept separate from conventional banking accounts. While this requirement was mentioned in the previous regulation, the new regulation places stronger emphasis on its implementation.

6. REQUIREMENTS FOR THE SUCCESS OF ISLAMIC BANKING IN ALGERIA

Given that the state of Islamic banking in Algeria does not align with the global growth rate of the industry—where Algeria's share of total Islamic banking assets remains below 0.5%—it is necessary to critically examine the obstacles and challenges that have led to this situation.

To overcome these hurdles and advance Islamic banking in Algeria, a systematic approach must be adopted to define the key requirements for its development and expansion. The following points outline the essential factors needed to revitalize the Islamic banking sector in Algeria.

6.1. Sharia Compliance Requirements

The key distinction between Islamic and conventional banking lies in the sacred and unchanging nature of the Islamic legal framework that governs the Islamic economic system in general and Islamic banking in particular. This system has existed for over 1,400 years, meaning that its theoretical and practical foundations are already well-defined and diverse—whether through definitive religious texts or jurisprudential interpretations by scholars and experts in the field.

Over time, the Islamic financial system has undergone practical applications across different historical periods and geographical regions, contributing to an extensive body of knowledge and accumulated experience (Bouhedida, 2011, p. 356). This indicates that theoretical development is not the primary obstacle to the growth of Islamic banking in Algeria.

However, despite this solid foundation, several key issues related to Sharia compliance must still need to be addressed, as outlined below.

⇒ Clarifying the legitimacy of Islamic banking products:

Experts in Islamic finance must provide clear and accurate explanation of the Islamic banking products used in Algeria. This is essential to eliminate doubts regarding potential usury (riba) and concerns that these products might be identical to conventional banking products in form but identical in essence.

⇒ Commitment to authentic Sharia-compliant financing models:

There must be a genuine shift toward the core Islamic financial structures, such as Musharaka (partnership), Mudaraba (profit-sharing), and Istisna'a (manufacturing contracts). This requires strict adherence to the principles and foundations of Islamic banking, as well as compliance with fatwas (Islamic legal rulings) and Sharia standards. Maintaining this commitment is crucial to preserving the identity of Islamic finance while effectively meeting market needs (Al-Arabi & Trobia, 2020, p. 262)

⇒ **Ensuring Genuine Sharia Compliance in Products and Contracts**

Verifying that the products and contracts offered in the market truly comply with Islamic Sharia principles and are not merely formal products. This necessitates the presence of Sharia supervisory bodies. Although the regulation has defined the National Sharia Board for Fatwa on Islamic Financial Industry, it has not specified the process for its establishment and the appointment of its members. However, (Qandouz & Qaâloul, 2020, p. 43)

⇒ **Benefiting from the Efforts of Regional and International Organizations Working on the Development of Islamic Banking**

Organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which establishes accounting standards that are both aligned with global standards and compliant with Islamic Sharia principles.

The Islamic Financial Services Board (IFSB), which sets prudential regulations that are compatible with global standards such as Basel regulations, while also considering the specific nature of Islamic banking operations (Nasser & Boucherma, Requirements for Developing Islamic Banking in Algeria, 2010, p. 313)

6.2. Human Resource Requirements

Over the past five decades, the Islamic banking experience has drawn the attention of a wide range of professionals, including economists, bankers, financial experts, and Sharia scholars, who have engaged in discussions on various topics related to economics, banking, and finance in the Islamic world.

Human capital plays a crucial role in the development of the Islamic financial system, as it addresses critical issues and emerging challenges in Islamic economics. Furthermore, it serves as the driving force behind the practical implementation of institutions based on Sharia principles.

Thus, one of the most crucial factors for Algeria in activating and ensuring the success of the Islamic banking sector is human expertise (Bouhedida, 2011, p. 357), which can be achieved this can be achieved through several measures, including:

⇒ **Training and Sharia Education for Islamic Banking Employees**

(Nasser & Boucherma, Requirements for Developing Islamic Banking in Algeria, 2010, p. 313) This involves preparing scientifically and practically qualified personnel to work in Islamic banks and financial institutions through the following measures:

- Establishing a specialized educational and training center for Islamic banking sciences, aimed at training and graduating qualified banking professionals. This includes setting up a dedicated department for Islamic banking at the Higher School of Banking in Algiers.
- Encouraging Islamic banks in Algeria to create specialized departments focused on the development of Islamic financial engineering and the promotion of financial innovation in Islamic banking.

⇒ **Benefiting from the Experiences of Leading Countries in the Field**

The distribution of human capital in Islamic banking is unevenly spread, with expertise mainly concentrated in Gulf Cooperation Council (GCC) countries (such as UAE, Kuwait, Bahrain, and Saudi Arabia) and Southeast Asian nations (such as Malaysia and Pakistan).

To address this imbalance, Algeria must learn from the experiences of these countries to develop a strong academic and practical human capital base in Islamic banking. This can be achieved by:

- Leveraging specialized institutions such as:

- o The Islamic Research and Training Institute (IRTI), affiliated with the Islamic Development Bank (Jeddah).
- o The Islamic Economics Center, affiliated with the International Islamic Bank for Investment and Development (Cairo).
- Organizing government-sponsored training missions and internships in successful Islamic banks, as well as in leading academic institutions and training centers in the field.

⇒ **Bridging the Gap Between Islamic Finance Scholars and Economists**

This requires the creation of a specialized group of "Sharia economists," who can integrate both Islamic jurisprudence and economic knowledge.

- **Islamic finance research** typically falls into one of two categories:
 1. **Purely Sharia-based studies** that **lack economic depth** and require **economic insights** to produce **a comprehensive study of Islamic economics**.
 2. **Purely economic studies** that **lack Sharia input**, requiring **Islamic legal validation** to qualify as **Islamic economic research**.

Thus, developing professionals who can bridge this gap will reduce the disconnect between Islamic legal scholarship and practical economic applications. This will enable better coordination between Islamic scholars and economists, contribution to a more integrated and effective Islamic banking industry.

6.3. Technical and Accounting Requirements

This involves adaptation the accounting and technical systems used by Algerian banks to align with the specific nature of Islamic banking operations. This can be achieved through:

- ⇒ Developing a comprehensive Islamic accounting system that ensures the provision of financial services in compliance with Sharia requirements, while supporting the framework and objectives of Islamic banking. Since Islamic and conventional banking operations differ in their principles and mechanisms, it is necessary to enhance and develop appropriate technical, accounting policies, and systems tailored to the nature of Islamic banking. These developments should address both Sharia compliance and data analysis and performance measurement, ensuring the successful implementation of Islamic banking practices. (Al-Arabi & Trobia, 2020, p. 261)
- ⇒ **Ensuring compliance with international regulatory standards:** It is essential to adhere to the **guidelines, principles, regulations, and laws** issued by both **Islamic and conventional international organizations** regarding **capital adequacy ratios**, particularly those **tailored to Islamic financial institutions**.
 - Adopting capital adequacy standards: The Islamic Financial Services Board (IFSB) has developed two formulas for calculating capital adequacy in Islamic financial institutions (Islamic Financial Services Board (IFSB), 2013, pp. 117-118)
 - Implementing liquidity coverage requirements: Islamic banks must also comply with internationally recognized liquidity coverage ratios (LCR), such as those established under Basel III (STANDARD AND MONITORING BANK INTERNATIONAL SATTELEMENTS, 2010, p. 08)
 - Enhancing financial stability and depositor confidence: These regulatory requirements ensure that Islamic banking operations remain resilient to financial risks while gaining the trust and confidence of depositors, making them more attractive for capital inflows.

- The role of the Bank of Algeria: The Bank of Algeria must adopt these international regulatory frameworks to establish a robust Islamic banking sector that aligns with global financial standards while maintaining Sharia compliance.

6.4. Regulatory and Legal Requirements

The regulatory framework for Islamic banks depends on the legal framework of each country. In countries that have allowed the establishment of Islamic banks while maintaining a conventional banking system—as is the case in Algeria—it is common practice to exempt Islamic banks from some conventional banking regulations, given the differences in their operational models (Fattouh, 2008, p. 82)

However, Algeria lagged behind in this aspect for nearly 20 years, only to eventually introduce legal provisions that remain insufficient in defining the status of Islamic banks or taking a decisive step toward fully integrating Islamic finance.

These legal provisions were introduced through two key regulations:

- 1. Regulation 18/02, issued on November 4, 2019.**
- 2. Regulation 20/02, issued on March 15, 2020, which repealed Regulation 18/02 (Bank of Algeria, 2020, p. 04)**

Regulation 20/02 allowed banks and financial institutions to establish Islamic banking windows, provided that:

- The Islamic banking window is financially and accounting-wise independent from the bank's other structures.
- Customer accounts within the Islamic banking window must be separate from other customer accounts (Bank of Algeria, 2020, p. 03)

This measure was expected to improve the status of Islamic banks in Algeria. However, several obstacles still hinder this objective. To overcome these challenges, the following steps are required:

- ⇒ Granting Islamic banking laws an appropriate status within the Algerian banking system regulations (Zankari & Mahmoud, 2013, p. 13)
- ⇒ Completing the Legislative Framework and Legal Structures Governing the Islamic Banking Market

This includes clarifying the relationship between Islamic banks and the Bank of Algeria (Central Bank). To ensure that a bank fully complies with Islamic Sharia principles, all its transactions—including those with the central bank—must adhere to Sharia regulations. However, the Bank of Algeria does not currently distinguish between conventional and Islamic banks in its interactions.

Completing this regulatory framework requires the enactment of laws governing the operations of Islamic banks, either by incorporating a dedicated section within the Credit and Money Law or by introducing a special appendix to the current law, which does not yet accommodate Islamic banking regulations and should address the following issues (Sahli, Integrated Foundations for Integrating Islamic Financial Institutions into the Algerian Economy, 2019, p. 13)

- **The nature of operations and the specific characteristics of Islamic banking activities.**
- **The institutions and structures that constitute an Islamic bank.**
- **Capital, balance sheets, audit procedures, financial reviews, and tax accounting treatments.**

- **Basic conditions for obtaining licenses, opening branches, transformation, and mergers.**
 - **Regulation of supervision and oversight processes.**
- ⇒ Establishing a legal framework to regulate the operations of Takaful insurance companies and the issuance of Islamic Sukuk:
- For the Takaful insurance sector, the biggest challenge remains the absence of legal provisions governing the operations of Takaful insurance companies. This alone represents a major obstacle for companies wishing to offer Takaful insurance services.
 - The same issue applies to the issuance of Islamic Sukuk, where the lack of a clear regulatory framework continues to hinder its development. (Qandouz & Qaâoul, 2020, p. 44)
- ⇒ The proposed laws must explicitly allow Islamic banks to engage in all banking, financial, commercial, real estate, investment, development, and urbanization activities, as well as the establishment and the ability to establish and participate in companies both domestically and abroad.
- Additionally, these laws should specify that Islamic banks are exempt from all restrictions imposed on expansion in these areas.
- ⇒ Establishing a suitable and incentivizing tax system for Islamic banking aimed at attracting and encouraging foreign direct investments.
- Such a system should help familiarize foreign investors with Sharia-compliant financial models and encourage them to adopt these investment mechanisms. (Slim, 2021, p. 104)

6.5. Informational and Marketing Requirements

The success and development of Islamic banking largely depend on public awareness regarding the nature of its products and services. To reach a wider audience and attract more funds, effective media and marketing strategies must be implemented through:

- ⇒ Pre-launch media support for Islamic banking products, followed by field monitoring through informative publications and post-launch evaluation reports.
- ⇒ Organized marketing efforts that clearly explain to clients the nature of Islamic banking products, highlighting their differences from conventional products, while demonstrating:
- The Sharia basis on which each product is founded.
 - The cost differences compared to conventional alternatives.
 - Other relevant product features, ensuring that Sharia compliance is maintained.

CONCLUSION

Despite the achievements in Islamic banking in Algeria, particularly the success of Al Baraka Bank and Al Salam Bank, which have achieved significant global growth rates, and the notable progress in regulatory frameworks, including Regulation 18-02 and Regulation 20-02, which define Islamic banking operations, establish structural and procedural guidelines, and set Sharia compliance and legal oversight mechanisms, Islamic banking in Algeria remains in its early stages.

Its presence and development are still unclear compared to neighboring countries such as Morocco and Tunisia, as well as other Arab and European nations.

To achieve the desired goals, it is crucial to establish a comprehensive system of Sharia, legal, and institutional requirements. This can only be realized through serious and continuous efforts, along with a genuine commitment to developing the sector and catching up with nations that have

successfully implemented Islamic banking. Algeria must seize the opportunities that Islamic banking offers, many of which have been overlooked until now.

Study Findings

The study reached the following conclusions:

- ✓ Islamic banking in Algeria has experienced significant growth, as evidenced by the achievements of Al Baraka Bank and Al Salam Bank, particularly in terms of asset volume, rapid expansion, and their ability to reach a broad segment of the Algerian population.
- ✓ Regulations 18/02 and 20/02, which define the framework for Islamic banking operations in Algeria, represent a turning point and a positive shift in the legal framework of the Bank of Algeria. These regulations establish an independent foundation for Islamic banking, ensuring its separation from conventional banking laws, and serve as a new starting point for the sector's development.
- ✓ Numerous challenges and obstacles persist, both within Islamic financial institutions and in the external legal and institutional environment, which hinder the growth and development of the Islamic banking sector in Algeria. Recommendations to Overcome These Challenges:
 - Recognizing the unique nature of Islamic banking operations and enacting laws and regulations that support its growth while ensuring compliance with Sharia principles and achieving economic efficiency and effectiveness.
 - Ensuring strict adherence to Sharia regulations by Islamic banks and financial institutions, while avoiding deceptive mechanisms and questionable financial structures, which may deter customers from engaging with Islamic banking products.
 - Adhering to international standards, regulations, and guidelines issued by global financial regulatory bodies regarding risk management to ensure the stability of the Islamic banking sector and prevent financial losses or bankruptcy.
 - Utilizing digital technology and leveraging its advantages (various payment methods, ATMs, mobile banking applications, etc.) to compete with conventional banking products and ensure sustainability in the market.

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