

Islamic Banking in Algeria: Reality and Challenges

*Aboubaker Khoualed, LARJEF Laboratory, Badji Mokhtar University – Annaba (Algeria),
aboubaker.khoualed@univ-annaba.dz*

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Abstract:

This study aims to explore the reality of the Islamic banking market in Algeria in terms of competing banks, the structure and volume of Islamic products and deposits, along with an in-depth analysis of the major obstacles hindering the integration of Islamic banking into the Algerian banking system. To achieve the objectives of this study, a qualitative approach was adopted, primarily based on the analysis of various data and information related to the subject, as well as official reports issued by the Central Bank of Algeria and other active public and private banks in the country. The study concluded with several findings, indicating that the Islamic banking experience in Algeria is still in its early stages and cannot yet be fully evaluated.

Keywords: Islamic Banking; Banking System; Islamic Financing Products; Algeria.

Jel Classification Codes: G20, G21, G28.

1. INTRODUCTION

In the latter part of the twentieth century, a new type of financial institution emerged, operating on a fundamental principle: compliance with Islamic jurisprudence. These institutions, known as Islamic banks, serve as financial intermediaries that neither charge nor pay interest (usury). Their primary objective is to generate profit while ensuring an equitable distribution of wealth, all within the framework of Islamic law.

In Algeria, Islamic banking remains a relatively recent phenomenon. Although interest in this concept dates back to the 1920s, its practical implementation has been significantly delayed. Notably, in 1928, prominent Muslim businessmen in Algiers petitioned the French authorities to establish an Algerian Islamic bank. This initiative was driven by Sheikh Ibrahim Aboulyakdan, who published an article titled "*Algeria's Need for a National Bank*" in the *Wadi Mzab* newspaper on June 29, 1928. However, the French colonial authorities rejected the request and suspended the newspaper's publication, arguing that it incited division between Algerians and French settlers.

Algeria has also played a significant role in the development of Islamic finance on an international level. In 1974, it was among the founding members of the Islamic Development Bank (IsDB), headquartered in Jeddah, Saudi Arabia. The country ratified the agreement for its establishment through Ordinance 75/17 and currently holds 2.54% of the bank's total shares.

Despite Algeria's early interest in Islamic banking, its implementation has been significantly delayed compared to other Arab and Islamic countries. This delay can be attributed to two main factors:

The first is political and security-related. During the 1990s, Algeria experienced a turbulent period known as the *Black Decade*, marked by widespread terrorist attacks that caused significant human and material losses. This crisis led to Algeria's isolation from the international community. The root cause of the conflict was extremist religious fundamentalism, which instilled fear toward initiatives with a religious

dimension—including the establishment of Islamic banks.

The second reason is economic. For over 30 years, Algeria operated under a socialist economic model, which resulted in a weak and underdeveloped banking sector that struggled to keep pace with both internal and external financial developments.

With the collapse of the socialist system, both globally and within Algeria, and its proven inefficiency, the country shifted toward a free-market economy. Consequently, in the early 1990s, Algeria launched a series of economic reforms aimed at transitioning from a socialist to a liberal economy. These reforms significantly impacted the banking sector, leading to the most extensive banking reform in Algeria's history—the enactment of the Money and Credit Law 90/10 in 1990.

Although this law did not explicitly mandate the implementation of Islamic banking, it created a favorable environment for its development by encouraging the diversification of banking products and services, including Islamic finance products. This legal framework played a key role in facilitating the entry of Islamic banks into the Algerian banking market.

Islamic banking in Algeria formally began with the entry of Al Baraka Bank (Bahrain) in 1991, followed by Kuwait's Gulf Bank in 2003, which introduced Islamic banking products as part of its commercial banking operations. Later, Al Salam Bank (Bahrain) entered the market in 2008, along with several other foreign commercial banks offering Islamic financial services, such as Trust Bank, the Housing Bank for Trade and Finance (HBTF), and the Arab Banking Corporation (ABC).

For many years, the provision of Islamic banking products in Algeria was exclusively controlled by foreign banks, operating under a vague and unclear legal framework. Until 2020, there was no specific law regulating Islamic banking in Algeria. This changed with the introduction of Regulation 20-02, which established a formal legislative framework for Islamic banking activities.

Following this regulatory development, all six Algerian public banks, which collectively control over 90% of total deposits and loans, began offering Islamic banking products through Islamic windows. This shift

allowed them to tap into the benefits of the Islamic financial industry and expand their service offerings.

In light of these developments, this paper seeks to analyze the current state of Islamic banking in Algeria, identify the key challenges hindering its growth, and propose strategies to support its expansion. The findings aim to contribute not only to the development of Islamic banking in Algeria but also to guide other countries transitioning towards Islamic financial practices.

2. Literature Review

To cover the various local studies that addressed the topic of Islamic banking in Algeria, the National Platform for Scientific Journals (ASJP), an Algerian platform that hosts all scientific journals published by universities, institutes, and research centers in Algeria, was consulted. This platform, established in 2018, today includes 878 journals and 245,421 published papers across different fields of knowledge (ASJP, 2024).

As mentioned earlier, due to the novelty of implementing Islamic banking in Algeria, conducting field studies has been challenging due to the lack of necessary data and figures for analysis. Consequently, many previous studies addressing the topic or one of its elements have been purely theoretical. These include studies such as (Zahaf & Labeeb, 2023), which explored the investment role of Islamic banks; (Radjef, 2024), which examined the governance and performance of Islamic banks; (Salaheddine, 2024), which analyzed the relationship between the central bank and Islamic banks; (Hadjarab, 2021), which addressed the risks associated with Islamic banking; and (Messah & Bessachi, 2023), which focused on the obligation to socialize of Islamic banks.

A study conducted by (Djessas & Chaker, 2023) aimed to clarify the mechanisms for implementing Islamic banking products in Algeria, focusing on Al Salam Bank Algeria, a foreign Bahraini bank. In their paper, the researchers analyzed the various Islamic financing methods adopted by the bank under study to finance its individual and corporate clients.

In contrast, a study by (Bouazzara, Aissa, & Baha, 2022) sought to clarify the role of Islamic finance serves as an alternative to traditional

finance in providing assistance and developing the Algerian banking sector. To achieve this goal, the researchers conducted a case study on the National Bank of Algeria (BNA), a public bank that started applying Islamic banking through the window approach in 2020. The researchers concluded that the bank under study, along with other Algerian banks, should focus more on building a strong and positive image of their Islamic windows and their adherence to Islamic Sharia within society. The study also concluded that Islamic finance the local banking market.

Within the same field, specifically Islamic windows in public Algerian banks, (Bendaoudia & Kamoumia, 2022) conducted a study aimed at identifying the various factors influencing the effective shift to Islamic finance using the Islamic window strategy. The researchers carried out a case study on the National Savings and Reserve Fund (CNEP), a public bank. They surveyed a sample of 130 employees from the bank under study, and the results revealed that the most influential factors were supportive banking laws and regulations, the accessibility of Islamic capital, and competent human resources, all of which had a significant impact on the successful transition to Islamic finance within the bank under study.

In the same context, another study conducted by (Bendjebbes, 2024) intended to evaluate the current state of the Islamic banking sector in Algeria by emphasizing the role of Islamic windows inside conventional banks in the country. To achieve this objective, the researcher adopted a descriptive-analytical method and conducted a case study of Al Baraka Bank Algeria by analyzing its various data and statistics for the period from 2008 to 2021. The study concluded that Islamic banking in Algeria remains very weak compared to many countries that have made significant progress in this field. To strengthen this type of financing, the study suggested considering development requirements and investigating prospects that would harmonize the Islamic banking sector with the actualities of the Algerian financial framework.

(Saadane., 2023) also conducted a study on the status of Islamic windows at the National Bank of Algeria (BNA), and therefore analyzed the bank's data in two areas: Islamic financial deposits and Islamic financing

methods. Regarding Islamic deposits, the researcher found that the majority of customer deposits (78%) were non-investment deposits, meaning they did not generate profits, which implicitly indicates a weak culture of Islamic financial investment among clients. Concerning financing methods, the predominant ones were Cost-plus financing and Leasing, accounting for nearly 100% of the total, which suggests that the bank prefers low-risk financing methods, with an almost complete absence of Musharakah and Mudarabah contracts.

As for the study by (Sebaa, 2020), it took the form of an experimental study aimed at identifying the fundamentals of Islamic banking in Algeria and clarifying the opinions of specialists regarding many of the recurring issues in the field of Islamic banking, whether within the academic community or among the general public. To achieve this, the researcher surveyed a sample of 51 experts specializing in Islamic finance. The study ultimately provided a set of general guidelines for the success of Islamic banking in Algeria, foremost of which was the diversification of Islamic financing methods.

Meanwhile, a recent study conducted by (Bezzaouya, 2024) aimed to assess the current state of Islamic banking in Algeria. To achieve this, the researcher sought to analyze the activities of the Islamic banks operating in Algeria, namely Al Baraka Bank and Al Salam Bank, in addition to the Housing Bank for Trade and Finance (HBTF) and the Arab Gulf Bank (AGB), as both rely on the Islamic windows approach. The researcher concluded that Al Baraka Bank has made a notable contribution to Islamic finance in Algeria, while the contributions of the other private banks remain minimal.

The researchers benefited from various previous studies in several ways, the most prominent of which are:

- They contributed more significantly to enhancing and enriching the theoretical framework of the current study.
- They provided insight into the methodology of previous studies, which facilitated the researchers' work in developing the methodology for the current study.

- They helped identify references, sources, and research that were previously unknown to the researchers.
- They represented an accumulation of intellectual knowledge that allowed the researchers to use them as a foundation to frame phenomena related to the current study.
- They provided an understanding of the results obtained by previous studies, making it easier for the researchers to build on these findings or explore areas that were not previously addressed.

3. Study Methodology

The main objective of this work is to enhance the literature on Islamic banking, particularly on the local level, where this topic is severely under-researched due to several reasons previously discussed. Consequently, this study aims to attract more attention to the subject from both academics and practitioners alike.

This research aims to examine the present condition of Islamic banking in Algeria by discussing several key points, including the main institutions and products, as well as a particular focus on the most significant obstacles. This analysis is expected to help identify the major weaknesses in the practice of Islamic banking in Algeria, ultimately enabling the presentation of constructive proposals for developing the Islamic banking system, especially at the local level.

Thus, this research seeks to address the following fundamental questions:

- RQ1: Which banks offer Islamic banking services in Algeria?
- RQ2: What do the current figures on Islamic finance deposits and products in Algeria indicate?
- RQ3: What are the primary impediments obstructing the advancement of Islamic banking operations in Algeria?

Since the current research is exploratory, a qualitative research approach will be adopted to investigate this phenomenon. Qualitative research focuses on studying the nature of phenomena, including their quality and various aspects, the context or perspectives from which they can

be understood, but without focusing on their scope, frequency, or place in a defined cause-and-effect sequence (Baker & Edwards, 2017).

Thus, this kind of study (qualitative) pertains to meanings, ideas, definitions, traits, metaphors, symbols, and descriptions of phenomena, rather than their enumeration or measurement. Therefore, this research answers the "how" and "why" of a phenomenon's occurrence rather than how many times it has occurred (Lune & Berg, 2017).

This qualitative research relies on data and information gathered from documents, also known as documentary research. It involves referencing official reports issued by the Central Bank of Algeria and data published by banks related to the study's topic. Additionally, previous studies were consulted, and observation tools were used to identify the dimensions of the research problem.

4. Overview of Banks Offering Islamic Banking Products in Algeria

Al Baraka Bank Algeria is considered the first bank specialized in offering Islamic banking products in Algeria, having commenced its operations in 1991. It is a mixed ownership bank, with 44% of its capital owned by the Bank of Agriculture and Rural Development (BADR) and 56% owned by the Al Baraka Banking Group (ABG) of Bahrain. The bank offers its customers a range of Islamic financing products, including Ijarah, Murabahah, Salam, Istisna'a, Musharakah, in addition to charitable and benevolent products such as Qard al-Hasan, Waqf, and zakat as part of its social responsibility.

The second Islamic bank in Algeria is Al Salam Bank of Bahrain, which began operating in Algeria in 2008. Although the bank entered the Algerian market somewhat late, it has achieved notable success, outperforming many other foreign banks that started operating in Algeria before it. The bank offers various Islamic financing products, and its distribution network currently includes 25 branches spread across the country.

In addition to these two Islamic banks, several foreign banks offer some Islamic banking products in Algeria through Islamic windows or by

providing Islamic products within conventional branches. These banks are listed in the following table:

Table (01): Foreign banks offering Islamic financing products in Algeria

Bank	Bank Nationality	Year of Starting Operations in Algeria	Year of Offering Islamic Banking Products in Algeria
Arab Gulf Bank (AGB)	Kuwaiti-Jordanian-Tunisian	2003	2003
Trust Bank	Cypriot	2002	2014
Housing Bank for Trade and Finance (HBTF)	Jordanian	2004	2015
Arab Banking Corporation (ABC)	Bahraini	1998	2021

Source: Prepared by the researchers based on the websites of the respective banks.

Starting from 2020, and thanks to the adoption of Regulation 20-02, all Algerian public banks began offering Islamic banking products through the Islamic windows approach. This approach initially evolved, leading these banks to eventually open fully Islamic branches.

Table (02): Algerian public banks offering Islamic banking products

Bank	Year of Establishment	Date of Starting Islamic Banking Products
National Bank of Algeria (BNA)	1966	4-Aug-20
National Savings and Reserve Fund (CNEP)	1964	1-Nov-20
External Bank of Algeria (BEA)	1967	1-Jan-22
People's Credit of Algeria (CPA)	1966	30-Jul-21
Bank of Agriculture and Rural Development (BADR)	1982	4-Jul-23
Local Development Bank (BDL)	1985	18-Dec-20

Source: Prepared by the researchers based on the websites of the respective banks.

In parallel, there has been a substantial rise in the number of banking branches established. to Islamic banking in recent years, rising from just 49 branches in 2019 to 88 branches in 2023. Of these, 71 branches belong to foreign banks, while 17 are affiliated with public banks. This surge is attributed to the strong entry of public banks into the Islamic banking sector through the Islamic windows approach.

Table (03): Growth in the number of banking branches dedicated to Islamic banking in Algeria (2019–2023)

Islamic Banking Branches	2019	2020	2021	2022	2023
Number of branches dedicated to Islamic banking	49	53	59	74	88
Branches of foreign banks	49	52	57	64	71
Branches of public banks	0	1	2	10	17

Source: Prepared by the researchers based on the 2023 report of the Algerian Central Bank.

5. Islamic Deposits and Financing Products in Algeria

The figures in table (04) below show the significant growth in the volume of Islamic deposits in Algeria, doubling from 340 billion DZD in 2020 to 678.2 billion DZD in 2023. Of the total Islamic deposits, 62.18% are non-investment deposit accounts, which amounted to 421.7 billion DZD in 2023, while the remaining 37.82%, equivalent to 256.5 billion DZD, are financial investment deposits, which generate returns for depositors by being invested in accordance with Islamic principles. A closer look at the data in table (04) reveals that the volume of non-invested Islamic deposits saw a significant increase from 163 billion DZD in 2020 to 421.7 billion DZD in 2023. On the other hand, the volume of investment accounts in Islamic finance experienced fluctuating growth, rising from 177 billion DZD in 2020 to 299.5 billion DZD in 2022, only to decrease to 256.6 billion DZD in 2023. This decline can be attributed to a lack of awareness and understanding of Islamic financial investment among customers.

Table (04): Growth of Islamic Finance Deposits in Algeria (2020–2023)

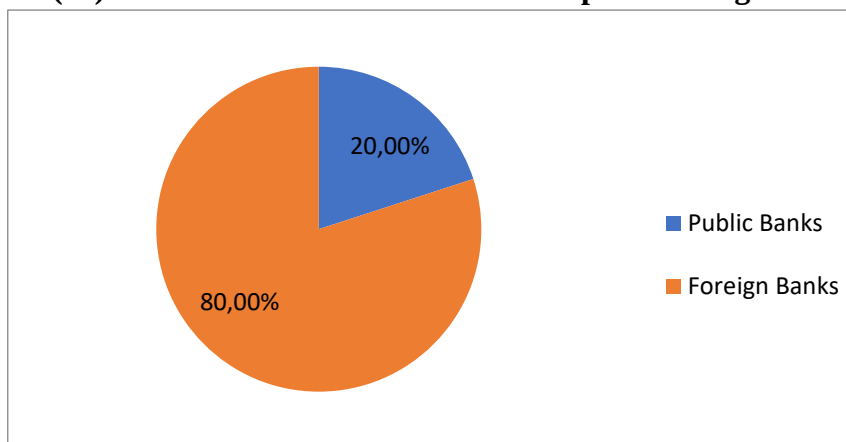
Nature of Islamic Deposit	2020	2021	2022	2023
Islamic deposit accounts	163	212	254.3	421.7
Deposits in Islamic investment accounts	177	231.9	299.5	256.5

Total	340	443.92	553.8	678.2
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Source: Prepared by the researchers based on the 2022 and 2023 reports of the Algerian Central Bank.

In 2023, the share of foreign banks in Islamic finance deposits in Algeria reached 80%, compared to 20% for public banks. This is expected due to the relatively recent entry of public banks into Islamic banking, which only started in 2020. Nevertheless, the growth rate of Islamic deposits in public banks has been remarkably fast, with their share increasing from 13% in 2022 to 20% in 2023, representing a 7% growth within just one year. The figure (01) below shows the distribution of Islamic finance deposits between foreign and public banks in 2023:

Figure (01): Distribution of Islamic finance deposits in Algeria in 2023



Source: Prepared by the researchers based on the 2023 report of the Algerian Central Bank.

The total volume of Islamic finance products in Algeria has experienced significant growth, increasing from 302.3 billion DZD in 2020 to 458.5 billion DZD in 2023, as shown in the following table:

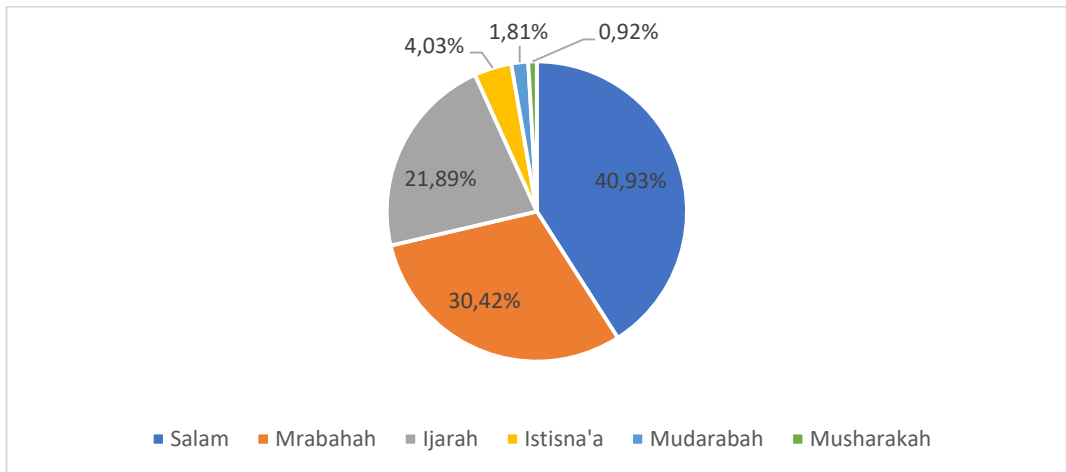
Table (05): Total volume of Islamic finance products in Algeria (2020–2023)

Year	2020	2021	2022	2023
Amount (billion DZD)	302	357	394	459

Source: Prepared by the researchers based on the reports of the Central Bank of Algeria for the years 2022 and 2023.

Upon examining the list of prevalent Islamic finance products in Algeria, it becomes clear that the Salam contract is the most used format in financing by banks, accounting for 40.93% in 2023, equivalent to 187.7 billion DZD. Murabahah contract comes second with 30.42%, equivalent to 139.5 billion DZD, followed by Ijarah with 21.89%, or 100.4 billion DZD. The remaining formats, Istisna'a contract, Mudarabah, and Musharakah, achieved lower percentages of 4.03%, 1.81%, and 0.92%, respectively. This can be attributed to banks focusing on Islamic finance formats that offer higher profitability, lower risks, and greater security, making them more suitable for financing investment projects.

Figure (02): Structure of Islamic finance products in Algeria for the year 2023



Source: Prepared by the researchers based on the report of the Central Bank of Algeria for the year 2023.

It is worth noting that the share of foreign banks in the list of finance products for the year 2023 reached 79.79%, while the share of public banks was 20.21%. Foreign banks dominate the Islamic finance formats in Algeria; however, there has also been significant growth in the share of public banks, increasing from 13.70% in 2022 to 20.21% in 2023, thanks to the adoption of Regulation 20-02, as previously explained.

6. Analysis of the Obstacles to Islamic Banking in Algeria

The recent experience in implementing Islamic banking in Algeria means it faces numerous obstacles and challenges. It is highly beneficial to

identify these obstacles to contribute to finding future solutions. Among the most prominent obstacles are:

6.1 Legislative obstacles

Despite the issuance of Regulation 20-02, which defines banking operations related to Islamic banking and the rules for its practice, and its attachment to Law 23-09, which addresses some other points related to Islamic banking, the legal and legislative framework regulating Islamic banking in Algeria is significantly underdeveloped, characterized by several gaps and contradictions. For example:

- The range of Islamic products currently available is limited to eight products, namely: Murabahah, Musharakah, Mudarabah, Ijarah, Salam, Istisna'a, deposit accounts, and investment account deposits. However, the field of Islamic banking today offers many other financing formats such as sharecropping, irrigation partnership, tree planting partnership, reward-based contract, agency, benevolent loan, commodity-based loan, and others.
- The definition of Islamic banking set by the monetary authority itself is also problematic. Islamic banking is seen as any banking operation that excludes the accrual or disbursement of interest. This definition is highly inadequate as it does not consider one of the primary reasons for establishing Islamic banks, which is the adherence to Sharia principles in financial transactions.
- Regulation 20-02 requires banks and financial institutions entering the Islamic banking market to establish a Sharia supervisory board with no fewer more than three representatives designated by the general assembly of shareholders. However, this legal text does not address the operational mechanisms of this board or the regulations governing its activities.
- Regulation 20-02 requires banks and financial institutions wishing to practice Islamic banking to obtain a Sharia compliance certificate from the National Sharia Board for Fatwa inside the Islamic Financial Sector. However, it does not specify the composition of this board, the entity it

reports to, or the mechanisms and standards for granting the Sharia compliance certificate.

- Regulation 20-02 does not address the mechanisms and procedures for the central bank's oversight of Islamic banks and Islamic banking windows, which is one of the key weaknesses in the legal framework governing Islamic banking in Algeria.

6.2 Obstacles related to the nature of Islamic banking implementation in Algeria

The first major obstacle to the development of Islamic banking in Algeria stems from the recent approach adopted by the government—the introduction of Islamic windows within conventional banks. This approach has faced several criticisms, the most significant being the challenge of maintaining a clear financial and accounting separation between conventional banking operations and Islamic banking services.

This lack of separation has raised concerns among many clients about the legitimacy of engaging with Islamic windows, leading to hesitation and skepticism toward the Islamic banking products offered through this model. Had Algeria instead pursued a strategy of full conversion of existing banks or established entirely new Islamic banks, it is likely that a larger number of clients would have been drawn to the Islamic financial sector.

Another significant shortcoming in the implementation of Islamic banking in Algeria is the over-reliance on financing models based on exchange contracts or profit margins—such as Salam, Murabahah, and Ijarah—which currently account for over 89% of Islamic banking products. This heavy dependence suggests that the primary motivation behind Islamic banking in Algeria is profit-driven rather than developmental.

Additionally, inconsistencies in the application of Islamic financial products pose another challenge. While Islamic banks and windows in Algeria offer the same financing models, they often apply them differently, leading to confusion and skepticism among clients regarding the credibility and uniformity of Islamic banking practices.

A further critical issue is the lack of effective Sharia supervision. Although Islamic banks and windows in Algeria are legally required to

have Sharia supervisory boards, these boards remain largely inactive and purely formal, rather than playing a substantive role in ensuring compliance with Islamic banking principles.

6.3 Obstacles related to the supporting structures for Islamic banking activities

The first obstacle in this category in Algeria is the absence of an Islamic financial market, which poses a significant challenge for Islamic banks in investing their funds in sustained investments that facilitate economic and social advancement. Therefore, the existence of an Islamic financial market is a necessary condition for Islamic banks to play their role in collecting Muslim savings and investing them in medium- and long-term projects essential for economic development. In Algeria, this market has not yet been established, and even the conventional financial market is very weak in terms of activity and efficiency. Although preparations are advancing to establish an Islamic Sukuk market and create its legal framework through an initiative by the Algerian Islamic Development Bank, the project has yet to be launched, and the aforementioned bank has not yet been established.

Another prominent obstacle related to the supporting structures for Islamic banking in Algeria is the recent establishment of the Takaful insurance market in 2021, which remains generally weak, with its contribution to the insurance sector estimated at only 3.74%. Additionally, there are several other challenges, including the extremely low awareness of Takaful insurance in Algeria. A major structural issue also undermines the legitimacy of Takaful insurance in Algeria: The Algerian law requires Takaful insurance companies to reinsure 50% of their risks with the Central Reinsurance Company (CCR). This contradicts the principles of Takaful insurance companies, as they are supposed to assign their reinsurance operations to Takaful reinsurance companies and not to conventional insurance companies, which are prohibited by Islamic law from being involved.

The third obstacle in this category is that Islamic banks and windows in Algeria are under the supervision of the Central Bank of Algeria, like

conventional interest-based banks. As a result, when they need liquidity, they cannot turn to the Central Bank because it imposes interest on the loans it provides, which contradicts Islamic law and the fundamental principle of Islamic banking, which prohibits the giving and receiving of interest. This issue will persist until Algeria establishes an Islamic central bank or enacts specific legislation and regulations to govern the relationship between Islamic banks and central banks, independently of interest-based banks.

6.4 Obstacles related to human resources

Having the right human capital is one of the most critical factors for the success of any institution, especially given the current and future technological advancements. Financial institutions and Islamic banks are no exception. Their success in fulfilling their mission largely depends on their ability to attract and train qualified and skilled personnel.

In Algeria, the reality indicates that the employees of Islamic windows and banks lack proper training and qualifications. It is clear that they do not have sufficient knowledge of Islamic economics and contemporary Islamic financial transactions, due to insufficient focus on human resources. Most of the staff and executives in these banks and windows are not adequately informed about Islamic banking practices, which leads to deviations from the objectives and principles intended for Islamic financial institutions and banks.

This issue can also be attributed to the fact that most of the employees are graduates of universities and institutes that teach conventional economics. How can someone who has received no Sharia training, neither theoretically nor practically, manage an Islamic financial institution? As a result, many banks rely on employees transferred from conventional banks to work in the field of Islamic banking. This has complicated matters further, especially since the training funded by banks in the area of Islamic financial transactions is very weak. So far, the primary training areas that Algerian banks focus on include information systems, marketing, customer service techniques, and risk management, among others.

6.5 External obstacles

Among the most prominent obstacles in this category are:

- The weak culture of Islamic banking in Algeria.
- Weak advertising and promotion of Islamic banking in Algeria.
- Divergence and contradiction of Islamic legal opinions.
- The tax system issue.

7. Conclusion

In Algeria, the experience of Islamic banking is even more recent. Compared to other Arab and Islamic countries that began implementing Islamic banking in the 1960s and 1970s, the partial introduction of Islamic banking in Algeria dates back to the 1990s, when a foreign Islamic bank was allowed to operate without any legal framework to regulate its activities. However, the official adoption of Islamic banking in Algeria was delayed until 2020, when the Islamic windows approach was adopted through Regulation 20-02.

Currently, only two Islamic banks are operating in Algeria, while the rest of the active banks are primarily commercial banks that offer Islamic banking products through Islamic windows. The structure of Islamic deposits in Algeria shows that more than 62% are frozen deposit accounts without investment, and over 89% of Islamic financing products are based on exchange contracts, meaning profit margin formats (Advance payment contract, Cost-plus financing, Leasing, Manufacturing contract).

The analysis of the current state of Islamic banking in Algeria has led us to identify several weaknesses in its implementation, which represent obstacles and challenges hindering the development of Islamic banking in Algeria. These include: The weakness of the legal and regulatory framework governing Islamic banking in Algeria, The approach adopted for the implementation of Islamic banking in Algeria, The excessive focus of Algerian banks that apply Islamic banking on maximizing profitability has resulted in the majority of financing products being based on profit-driven contracts, The deficiency of expertise and training among human resources in Algerian banks about Islamic financing, The weakness of supporting structures for Islamic banking activities in Algeria, External obstacles, most notably: the weak culture of Islamic banking, poor advertising and

promotion, divergence and contradiction in Islamic legal opinions, and issues with the tax system.

8. Recommendations:

Based on the various conclusions mentioned above, the development of Islamic banking in Algeria requires the following actions:

- Completion of the legislative and legal framework governing Islamic banking in Algeria to establish a true Islamic banking system. This involves not only amending the banking law but also revising the commercial law, tax law, insurance law, and the Algerian stock exchange law.
- Establishing fully Islamic banks to meet public expectations and build trust. Experience has shown that confidence in Islamic banking decreases when using the Islamic window approach. At the very least, a clear administrative, accounting, and financial separation of Islamic windows from conventional banks must be ensured.
- Human resource development by subjecting bank employees to intensive training in Islamic banking and finance. Additionally, banks should contribute to establishing specialized training centers and institutes for Islamic banking, both within the banks themselves and in external institutions such as universities and vocational training centers.
- Strict adherence to Shariah principles in the development of Islamic financial products. This necessitates the swift activation of Shariah supervisory boards in Islamic banks and windows in Algeria, as their presence remains largely formal and inactive so far.
- Addressing the shortcomings of Regulation 20-02, particularly by clarifying the mechanisms and frameworks governing the relationship between the central bank and Islamic banks. Additionally, the range of approved Islamic banking products in Algeria should be expanded beyond the current eight products.
- Enhancing complementary financial institutions that support Islamic banking by revitalizing the financial market. This can be achieved through the issuance of Islamic bonds (Sukuk) or the establishment

of a dedicated market for them, in addition to creating Islamic investment funds, Takaful (Islamic insurance) institutions, and integrating Waqf (endowment) and Zakat institutions into Algeria's banking system.

- Promoting Islamic banking awareness across Algeria. All stakeholders in the banking system, including banks, financial institutions, and monetary authorities, should intensify their use of promotional and advertising tools to convince the public of the legitimacy of Islamic financial products and enhance their financial literacy in this field.

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