

Banking Profit-Sharing Contracts Between Islamic Jurisprudence and Legal Theory

Ghania Khroufa
Université Frères Mentouri Constantine 1, Algeria,
ghania.khroufa@umc.edu.dz

Received: 24/07/2025 Accepted: 23/11/2025

Abstract:

Profit-Sharing partnerships are among the most flexible forms of Islamic financial transactions, making them a broad field for both practical application and jurisprudential reasoning. They can be effectively utilized to meet various social and economic needs within the framework of Sharia principles. Among Islamic financial contracts, Profit-Sharing is particularly adaptable to contemporary financial practices. Islam permits and encourages this contract to facilitate economic participation: the capital owner who lacks the skills to invest can benefit from the expertise of an agent who possesses the necessary skills but may lack capital. Through this collaboration, significant mutual benefits can be realized.

key words: Profit-Sharing Partnership; Islamic Banking; Unrestricted Contracts; Restricted Contracts; Contractual Conditions.

Introduction

Islam allows people to build wealth through partnerships in general, but Profit-Sharing is one of the most important ways to invest money in Islamic law. It is a kind of partnership between capital and labor that is based on the cooperation of capital owners and experts. The capital owners provide the capital, and the experts provide their knowledge in order to make a legal profit that is shared between them in agreed-upon amounts.

Al-Kasani says, People need the Profit-Sharing contract because one person may have money but not know how to trade, and another person may know how to trade but not have money. So, the law that governs this contract meets both needs. God has not made any laws about contracts that are not for the benefit of His servants and the fulfillment of their needs.

The Profit-Sharing contract is one of the oldest contracts in the world and was known to Arabs before Islam. Islam supported the contract after making it better and setting its rules because it is good for people. This is in line with the general idea behind Islamic law, which is to promote good and discourage bad while warning against harm.

Profit-sharing is now a key part of the Islamic economy. It is a major part of modern Islamic financial transactions and a key support for an economic system that tries to combine traditional Islamic values with modern financial methods.

Additionally, when the Algerian government passed Law No. 20-02 on March 15, 2020, it paid special attention to Profit-Sharing. This law governs banking operations related to Islamic finance and sets the conditions for their use by banks and financial institutions, as well as outlining the technical procedures and characteristics for their implementation. Instruction No. 20-03, dated April 2, 2020, also defines the products related to Islamic finance and lists the steps and technical details that banks and other financial institutions need to follow to carry them out. These rules stress how important and appropriate Profit-Sharing is for use in modern banking.

Given this context, to what extent has the Algerian legislator succeeded in drafting legal provisions regulating Profit-Sharing in banking compared to the principles established in Islamic jurisprudence?

To answer this question, we have divided this study into two main sections:

- First: The Concept of Profit-Sharing in Jurisprudence and Law
- Second: The Conditions for the Establishment of Profit-Sharing in Islamic Banks and Its Types, from Both Jurisprudential and Legal Perspectives

1. The Concept of Profit-Sharing in Jurisprudence and Law

The Profit-Sharing contract is one of the most basic types of Sharia-compliant transactions that Islamic banks use. It is a new model in Islamic financial law that was first used as a legal alternative to regular banking. Operations that took place before the introduction of cost-plus sales and joint partnership contracts.

Given this, what is the precise meaning of Profit-Sharing, and to what extent is it deemed legitimate?

1.1 Definition of Profit-Sharing

The Profit-Sharing contract is a Sharia-compliant agreement that is commonly used in Islamic banks and Islamic finance companies for modern banking transactions. But what exactly does it mean?

A. Linguistic Meaning

Profit-Sharing is derived from the verb *daraba* (to strike or to travel), commonly used by the people of Iraq to describe this contract. The term profit-sharer (the working partner) refers to the individual who strikes or travels back and forth on the land in

pursuit of livelihood ([al-Sarakhsi, p. 08](#)). For example, the Qur'an uses expressions such as:

- ...and others travel throughout the land... (Quran, al-Muzzammil, 73:20)
- ...and when you travel through the land, there is no blame upon you for shortening the prayer.... (Quran, al-Nisa', 4:101).
- They cannot travel through the land... (Quran, al-Baqarah, 2:273).

In this context, traveling through the land means moving like a traveler or worker looking for food. So, the idea behind Profit-Sharing is to give someone money from your wealth to trade with, with the understanding that you will both get a share of the profits, or that the working partner will get a set amount of the profits. The worker makes money by working and traveling on the land, or both partners share the profit, so each is called a profit-sharer.

In the Hijaz region, the Profit-Sharing contract is referred to as qirad or muqaradah, terms derived from the root meaning cutting, as the original linguistic root of qard (loan) comes from cutting or dividing the land by walking upon it. According to Al-Zamakhshari, its origin lies in cutting through the land by walking upon it. This reflects that the owner cuts a portion of his wealth for the worker and entrusts it to him for trade.

The Hanafi and Hanbali schools prefer the term Profit-Sharing as it aligns with the textual sources, whereas the Maliki and Shafi'i schools favor the term Qirad. It is clear from this that the meaning is consistent, despite the variation in linguistic terminology ([Jar Allah, 1439 AH, p. 10](#)).

B. Terminology

Scholars from the four main Sunni schools of thought have found that the term profit-sharing has very similar meanings in Islamic law texts:

- In the Hanafi school, it is defined as a partnership contract in which one party provides capital and the other party provides labor or expertise ([Al-Jaziri, 2003, p. 30](#)). Many other schools also agree with this definition.
- In the Maliki school: Ibn Juzayy describes it as a loan of money from one person to another for trade, with the profits shared according to their agreement ([Ibn Juzayy, p. 309](#)).
- The Shafi'i school defines Profit-Sharing as an arrangement where one party gives capital to another to trade with, and the profits are shared between them. It is also

called a contract in which one party gives money to another to trade and both parties share the profits ([Al-Ramli, 1392 AH, p. 61](#)).

- In the Hanbali school: Ibn Qudamah defines Profit-Sharing as when one person entrusts his capital to another to trade on his behalf, with profits shared according to their mutually agreed terms ([Husayn, 1435 AH, p. 03](#)).

These definitions are in line with modern Islamic law. Ibn Rushd, for example, says that it is an agreement in which one person gives another money to trade with, and the worker gets a certain amount of the profits, whether it is a third, a quarter, or half, depending on their agreement ([Ibn Rushd Al-Qurtubi, 1418 AH, p. 25](#)).

It is also described as an agreement between two parties in which one party provides the money, and the other manages it. The profits are shared according to agreed terms, while any financial losses are typically borne by the provider of the capital. This type of contract is also known as a profit-sharing agreement and may be referred to by other names in classical Islamic law ([Saad Allah, 1416 AH](#)).

Based on the consensus of scholars on Profit-Sharing, it can be defined as: A partnership contract for sharing profits involving capital from one party and labor or management from the other.

It looks like this meaning isn't very different from the linguistic definition that has been used for Profit-Sharing since before and after Islam. But the Wise Legislator makes certain rules that must be followed for Profit-Sharing to be legal under Islamic law. For instance, the profit should be split up according to a normal ratio instead of a set amount, so that neither party is hurt.

C. Legal Perspective

When you look at Algerian law, you can see that the lawmaker doesn't clearly define Profit-Sharing, even though it is a known contract that affects property rights. Instead, the law just talks about partnership contracts in general without mentioning Profit-Sharing. Also, the Civil Code doesn't list it as one of the specific types of partnerships.

Law No. 20-02, which governs banking activities related to Islamic finance and the rules banks and financial institutions must follow when doing so, filled this gap. Profit-Sharing is defined in Article 7 of this law ([Regulation No. 20-02, 2020](#)) as a contract in which a bank or financial institution, called the lender of funds, gives the entrepreneur the money they need to start a business and the entrepreneur works on the project to make money. The first paragraph of Article 19 of Instruction No. 20-03 repeats this definition. It lists products related to Islamic finance ([Instruction No. 20-03, 2020](#)).

and explains how banks and other financial institutions should use them, including the steps they need to take and the technical details.

1.2 Legitimacy of Profit-Sharing

Jurists unanimously agree on the permissibility and legitimacy of Profit-Sharing. Some support this with evidence from the Qur'an, Sunnah, and consensus, while others rely solely on consensus, grounded in the Sunnah by tacit approval.

The Qur'anic evidence for legitimacy is the verse: ...and others travel through the land seeking the bounty of Allah.... (Qur'an, al-Muzzammil, 73:20).

According to this noble verse, Profit-Sharing encompasses the concept of venturing into the land and spreading out for trade in pursuit of livelihood.

As for the proof from the Sunnah that it is okay, it is said that Al-Abbas ibn Abd al-Muttalib, when giving money in a Profit-Sharing contract, told his partner that he could not go on sea voyages, go down into valleys, or buy things that would go bad. The partner would be responsible if any of these conditions were broken. When Al-Abbas told the Prophet Muhammad (peace be upon him) about this condition, he agreed. The Prophet also said, three types of transactions are blessed with barakah (blessing): selling something with a delayed payment, sharing profits, and mixing barley and wheat for personal use, not for sale.

Also, the Prophet Muhammad (peace be upon him) himself did profit-sharing, and people dealt with him this way without any complaints. This is an implicit endorsement, since tacit approval is part of the Sunnah.

The Companions (may Allah be pleased with them) also took part in Profit-Sharing without any problems, which shows that it is allowed and right ([Institute of Banking Studies, 2010](#)).

Islam allows profit-sharing in order to help society by letting capital owners who can't manage their own money in trade invest by giving their money to people who don't have any but know how to run a business and manage investments. This contract fills the gap between capital and labor ([Al-Yasiri, 2009, p. 25](#)).

So, Islamic law says that Profit-Sharing is okay because it helps capital and labor work together, which is good for both sides and society as a whole.

2. Conditions for Establishing Profit-Sharing in Islamic Banks and Its Types: Jurisprudential and Legal Perspectives

Profit-Sharing is a type of investment agreement between business owners and capital owners that works well in a variety of economic situations. It makes sure that savings are used to finance development, which gives the Islamic economic system a steady and growing source of power.

Given this context, what are the conditions upon which it is established (First Topic), and what are its types (Second Topic)?

2.1 Conditions for Establishing Profit-Sharing in Islamic Banks

There are some general rules that apply to all contracts, like making an offer and accepting it, having the right parties involved, and writing it up correctly. However, there are also some specific rules that must be followed for a Profit-Sharing contract to be a good investment and acceptable under Sharia law.

There are three types of conditions: those that have to do with capital, those that have to do with profit, and those that have to do with labor.

2.1.1 Conditions Related to Capital

The entrepreneur's work is all about capital. Islamic scholars have set out a number of rules for the capital used in Profit-Sharing contracts to make sure that the contract is valid. This is because funds have very different characteristics:

A. Capital must be in cash

All jurists agree that Profit-Sharing is allowed with cash and currency that has been historically recognized as money, like gold dinars and silver dirhams, as well as modern paper and metal currencies. However, most jurists agree that using goods or physical assets as capital in Profit-Sharing contracts is not allowed and that capital must be money. Al-Kasani said, According to the consensus of scholars ([Al-Kasani, 1986, p. 81](#)), capital can be in the form of dirhams or dinars. Most people don't allow profit-sharing with goods because they don't know how much they will make when they buy and sell them. Ibn Rushd explained this by saying, Because the capital in goods may be received at the same value but returned at a different value, making both capital and profit uncertain ([Abu Zayd, p. 26](#)) ([Subhani, 1416 AH, p. 64](#)).

According to Algerian Legislative Instruction No. 20-03, specifically paragraph two of Article 19, the Algerian legislator clearly allows the bank or financial institution to give money or goods, or both, as long as the goods are given a specific value.

B. The Capital Must Be Known

Everyone agrees that this is the case because not knowing the capital makes it hard to know how much money you can make. Profit-Sharing is only valid if the capital is known. If it isn't, there will be arguments about what the return should be when the deal is done. Al-Kasani says that one of the conditions for Profit-Sharing is that the capital must be known. If it is not known, the Profit-Sharing is not valid because not knowing the capital means not knowing the profit, and knowing the profit is a condition for the validity of Profit-Sharing (Al-Kasani, 1986, p. 82).

C. The Capital Must Be Tangible, Not Debt

This means that the capital must be present and tangible, not a debt owed by the profit-sharer. Debt cannot be converted or returned as a trust. Thus, if the capital owner says to the worker, Trade using the debt you owe, this is not permissible (Al-Amin, 1993, p. 28).

The Hanbali, Hanafi, and Shafi'i schools say that this is okay because the agent is only allowed to collect the debt and not that collection is a condition of the Profit-Sharing contract itself. Malik and his followers say this is not allowed because it adds an extra condition that makes the loan deal more beneficial, which makes the contract invalid (Al-Amin, 1993, p. 28).

D. Delivery of Capital to the Manager

To meet this condition, the capital owner must give the manager full control over the Profit-Sharing capital, allowing them to do whatever they want with it.

Algerian law follows this principle. For example, Article 19 of Instruction No. 20-03 says that the bank's or financial institution's contribution may be monetary or in kind.

2.1.2 Conditions Related to Profit

Jurists have stipulated several conditions for profit to ensure the validity of the Profit-Sharing contract, including:

A. The share of each party must be known at the time of contracting, thereby eliminating uncertainty and preventing disputes.

The Profit-Sharing contract is only valid if both parties agree on how profits will be split, and this must be made clear in the contract. The contract is void because the subject matter is the profit, and there is uncertainty about this (Abu Zayd, p. 27.28).

The Algerian legislator agreed with this view when they wrote in Article 22 of Instruction No. 20-03 that Profits shall be distributed according to a profit-sharing

formula mutually agreed upon by the parties and specified at the time the contract is signed. The parties can agree to change this distribution formula at any time.

B. Profit Must Be Shared Between the Contracting Parties

Neither party has exclusive rights over the profit; rather, the capital provider receives his share based on his capital, and the mudarib (working partner) receives his share based on his labor. If the profit is stipulated for only one of the two parties, the mudarabah is invalid by unanimous agreement of the jurists. The jurists also unanimously agree that it is not permissible for either party to stipulate a fixed amount of money from the profit. As for losses, the jurists agree that they are borne by the capital provider from his capital, and the working partner bears no part of it, as long as he has not been negligent or violated the agreed conditions ([Abu Zayd, p. 28](#)).

The Algerian legislator confirms this principle in paragraph 3 of Article 22 of Instruction No. 20-03.

C. Profit Distribution Must Represent a Common Share for Both the Entrepreneur and the Capital Owner

This means that the agreed-upon percentage for each party should only be a share of the profit, not the capital. The Profit-Sharing contract is no longer valid if any part of the capital or a combination of capital and profit is given as the share. This is because Profit-Sharing is a partnership that only makes money, and the money is what the parties are agreeing to in the contract. If the entrepreneur's share includes any of the capital, the contract is no longer a profit-sharing agreement and is more like a lease with an uncertain return ([Al-Amin, 1993, p. 29](#)).

2.1.3 Conditions Related to the Work (Effort)

Jurists also hold that the work must meet a number of conditions for the mudarabah to be valid. If these conditions are not met, the mudarabah transitions from being valid to invalid. These conditions are as follows:

- The work must be the sole responsibility of the mudarib (working partner):

According to Article 20 of Instruction 20-03, the contractor is fully responsible for managing the funds, and neither the bank nor the financial institution has the right to participate in the management of the funds.

- The work must be lawful and fall within the permissible scope of mudarabah and must comply with the conditions outlined in the mudarabah contract.
- The mudarib must not exceed the authority granted to him.

- The capital provider must not impose undue restrictions on the mudarib.
- The capital provider has the right to terminate the mudarabah contract.

2.2 Types of Profit-Sharing

Profit-Sharing is a contract between the capital owner and the worker who invests effort into the capital. Islamic banks may act as the profit-sharer, the capital owner, or both simultaneously. Several types of Profit-Sharing exist, outlined as follows:

2.2.1 Absolute Profit-Sharing

It's the contracts that don't limit the activity by time, place, or type. For example, the owner of the capital might say, Take this money and do Profit-Sharing. We'll share any profits that God gives us according to the agreed ratio. In this case, the manager can buy and sell in ways that are known to be common in order to make the profit that is the subject of the contract.

The Hanafi school also says that the manager can sell for cash or deferred payment on normal terms and can also travel with the capital by land or sea. The manager can also do things like make deposits, pledges, mortgages, leases, and hires. The Maliki school, on the other hand, doesn't allow deposits or sales on credit, but it does allow traveling with the capital ([Al-Amin, 1993, p. 46](#)).

Under Article 23 of Instruction 20-03, Absolute Profit-Sharing is a type of Islamic banking contract that lets the bank or financial institution give the manager full control over Profit-Sharing operations, including the freedom to choose investments. The manager still has to protect the interests of both parties in order to meet the goals of the Profit-Sharing contract.

Lawyers put the manager's actions in Absolute Profit-Sharing into two groups: those that are allowed and those that are not.

The Hanafi school divides the manager's actions in Absolute Profit-Sharing into four groups.

- First Section: The first group includes actions that are allowed without being specifically stated. Some examples are:
 - Buying and selling with the local currency in all types of trade, anywhere, with all people, at the market price or lower, since the manager acts as an agent, and the agent's buying and selling is conducted according to customary practice.
 - Hiring workers to manage the capital.

- Traveling with the Profit-Sharing capital.
- Using the capital to purchase goods.
- Authorizing others to buy and sell on the manager's behalf.
- Selling on credit.
- Section Two: Actions Not Permitted Unless Explicitly Authorized by the Owner Unless the capital provider gives the Profit-Sharing entrepreneur permission, these are things that are usually not within their power. Some examples are borrowing money for the Profit-Sharing capital, lending out the Profit-Sharing funds, buying things at prices that people would not normally agree on because of favoritism (which is not allowed because you shouldn't favor others with someone else's money), and freeing a slave or letting someone go free under a contract.
- Section Three: Actions Permissible if the Entrepreneur Is Granted Discretion If the entrepreneur is told to manage according to your judgment, they can do these things even if the contract doesn't say so. For example, it is okay to move the Profit-Sharing capital to another Profit-Sharing contract because one Profit-Sharing venture is similar to another, and like follows like. But you can't mix the Profit-Sharing capital with the entrepreneur's own money or money from other people. This is because it would give someone else a right to the owner's capital, which is only allowed with the capital provider's clear permission.
- Section Four: Actions Not Permitted at All These actions are always illegal, like handling assets that the entrepreneur doesn't legally own or that can't be sold.

The Maliki and Shafi'i schools of Islamic law agree on how to group the actions an entrepreneur can take in an unrestricted Profit-Sharing contract. They put them into three groups, as shown below:

- Actions inherently permitted by the general contract.
- Actions not allowed unless specifically authorized.
- Actions not permitted under any circumstances.

For reference, the Hanbali school aligns with the Hanafi view by categorizing the entrepreneur's actions in an unrestricted Profit-Sharing contract into four sections, detailed as follows:

- Section One: Actions permitted by the general terms of the contract, such as purchasing goods offered in the market.

- Section Two: Actions not permitted unless explicitly authorized, such as purchasing goods exceeding the amount of the Profit-Sharing capital due to the potential harm involved.
- Section Three: Actions allowed if the entrepreneur is told to manage the funds at your discretion, such as transferring the Profit-Sharing capital to another Profit-Sharing contract.
- Section Four: Actions absolutely prohibited, like purchasing carrion, alcohol, or pork.

It is clear from the above that the entrepreneur's discretion in an unrestricted Profit-Sharing contract is not absolute when it comes to what transactions are allowed. Instead, it can be divided into three main groups: actions that are not valid unless the owner gives permission, actions that are not valid without clear contractual permission, and actions that are not valid at all.

The Hanafī and Hanbali schools also agree on what actions the entrepreneur can and can't take, just like the Maliki and Shafī'i schools do. The main difference between these two groups is that the Hanafī and Hanbali schools think that the general contract only allows a few actions. However, a directive from the owner to act according to your judgment makes this list longer to include actions that would normally be against the general contract. On the other hand, the Maliki and Shafī'i schools do not see a difference between the general terms of the contract and the owner's order to act at your discretion.

Even though both sides agree on some things, there are still disagreements about unrestricted Profit-Sharing. For example, traveling with the capital, mixing funds, deferred sales, buying more than the capital amount, and the entrepreneur lending the Profit-Sharing capital to other people to invest ([Al-Khuwaitir, 1999, pp. 44-52](#); [Muhammad, 1987, pp. 58-74](#)).

It is important to note that in Islamic banking, unrestricted Profit-Sharing means that the capital owner can give the entrepreneur full control over the Profit-Sharing activities without having to set any conditions or limits. This deal gives the entrepreneur some power based on how trustworthy, honest, and knowledgeable they are about the bank. But this freedom comes with the condition that both parties' interests are protected, with the goal of making money. The entrepreneur's actions must also stay within the normal business practices in the investment field that are relevant to the Profit-Sharing contract ([Qantujji, 2015, pp. 306–307](#)).

2.2.2 Restricted Profit-Sharing

Restricted Profit-Sharing means limiting what the entrepreneur can do, such as only dealing with a certain person, commodity, time period, or geographic area. This means that it is subject to conditions that limit the entrepreneur's ability to act.

It is also defined as the arrangement in which the bank or financial institution sets limits on the contractor's activities, such as the type of work they do, the methods and conditions of investment, or any other aspect that is deemed appropriate ([Article 23-02 of Instruction No. 20-03, 2020](#)).

The main idea behind profit-sharing is to give the profit-sharer full control over the capital without any conditions or restrictions from the capital owner. But this unrestricted power doesn't go against good conditions that are good for both parties and are agreed upon by the profit-sharer after they have thought about them carefully and understood what they mean.

Because of this, all lawyers agree that beneficial conditions are legal and must be followed.

There are two types of conditions that can be attached to a contract: valid conditions that don't go against the contract's main purpose and invalid conditions. Jurists agree that valid conditions are those that are allowed and that people must follow them when they are helpful. The profit-sharer must follow these rules and not break them, or they will be held responsible, as the Divine command says: O you who believe! Do what you said you would do.

And also: And fulfill the covenant; surely the covenant will be questioned about.

The Prophet (peace be upon him) said, The Muslims are bound by their conditions, except for one that allows what is forbidden or forbids what is allowed.

This proves that it is legal to add valid conditions to contracts and that people must follow them. Most jurists, especially those from the Hanafi school, agree with this view. They say that a Profit-Sharing partnership can accept useful restrictions even after the contract has been signed, as long as the capital has not been used up. In these situations, the person who owns the capital can't fire the person who shares the profits or add any more restrictions. On the other hand, restrictions that don't make sense, like the ban on selling capital while it's being used, are not recognized at all. These kinds of conditions are considered null and void.

Lawyers all agree that beneficial restrictions are legal and can be enforced, but they disagree on what exactly makes a condition beneficial.

The merchants' customs and traditions, which change over time, place, and era, are what cause this difference. In some situations, a useful restriction may mean that the

Profit-Sharing contract needs to be limited, but conditions that are not helpful cannot be put in place.

Most jurists seem to agree that the manager's actions in a Profit-Sharing contract should follow the usual rules that most people in similar situations follow.

Jurists say that in Profit-Sharing agreements, it is okay to limit things like the length of the contract, the location of the business, a specific person, or a specific product.

Both parties usually agree on these kinds of helpful restrictions ahead of time; otherwise, they wouldn't be binding, especially on the manager. Also, these restrictions don't break any laws in Islam. So, using them doesn't go against any religious evidence, which backs up the idea that these conditions are real and can be enforced.

There are also invalid conditions that are part of the Profit-Sharing contract. These are conditions that are not valid and were not mentioned before. These are terms that go against the contract's main purpose or nature, or that break one of its main rules or requirements for validity. Some invalid conditions are making the manager pay part of the loss, not giving the manager the capital, or making the manager promise to pay for any mistakes or negligence (Muhammad, 1987, p. 80).

According to Instruction No. 20-03, it lays out rules and regulations for transactions that happen under the Profit-Sharing framework. The bank's contribution can be cash, goods, or both, as long as the value is clearly stated so that each partner can easily figure out how much they own of the capital. It also says that the parties must agree on a formula for how to divide the profits.

It is also okay to agree to change the way profits are shared at the time they are to be shared. The parties should say how much of the profits each person gets as a percentage instead of a set amount or a percentage based on how much capital they put in (Articles 15 of Instruction No. 20-03, 2020; Articles 16 of Instruction No. 20-03, 2020).

Article 23 of Instruction No. 20-03 defines products related to Islamic finance and lays out the technical steps and requirements for banks and other financial institutions to follow when implementing them. This shows that the Algerian legislator is in line with Islamic law by using the Hanafi classification. This classification breaks down Profit-Sharing contracts into two groups: unrestricted (absolute) and restricted, as was explained earlier.

CONCLUSION

In conclusion, this study has shown that Profit-Sharing is one of the most important ways for Islamic banks to get money. It is the first real alternative to traditional

interest-based banking operations as an investment model. This makes it a pioneering framework and a cornerstone for the existence of Islamic banking institutions.

The Algerian government passed Law No. 20-02 on March 15, 2020, which defines banking operations related to Islamic finance and the conditions under which banks and financial institutions can carry them out. They also issued Instruction No. 20-03 on April 2, 2020, which outlines Islamic finance products and specifies the technical procedures and characteristics for their execution. By adopting the Profit-Sharing contract as an Islamic banking operation, the Algerian government has followed the path of Islamic jurisprudence.

The lawmaker has, to some extent, been able to write rules that recognize Profit-Sharing as the best way for modern businesses to work. This framework says that the Profit-Sharing system is a good way to change a lot of interest-based economic institutions so that they follow Sharia law.

The Profit-Sharing contract is one of the contracts that Islamic law recognizes. Before Islam, it was known, and then the Prophet Muhammad (peace be upon him) supported it, which gave it legitimacy through his silent approval. The Companions then did it, and all scholars agree that it is okay to do so.

Profit-sharing is a real transaction that can be used in a lot of different ways. It meets people's needs and serves their interests in a way that is consistent with Shariah law.

Profit-sharing is the main idea behind Islamic banks and is an alternative to the interest-based financial system. It helps a lot with fixing a lot of economic issues.

Profit-sharing lets capital owners invest their money to make legal profits, while also giving people in need access to ways to make a living. This solves a lot of complicated social and economic problems.

Accordingly, based on the conclusions reached, we propose several recommendations for future legislative efforts, including:

- Encouraging Islamic values and principles in society, both in terms of how people think and how they act, especially when it comes to money matters that Muslims have stayed away from because of foreign economic systems. Adding Islamic banking, Islamic economics, and Islamic financial transactions to school curricula could help with this.
- Working on formulating legal, economic, and financial legislation aligned with Islamic law, especially since Law 20-02 and Directive 20-03 contained several deficiencies that sparked widespread debate over their implementation.

- Encouraging lawmakers to adopt, if not fully then substantially, the Profit-Sharing approach due to its potential to offer numerous benefits at the national economic level, such as contributing to the resolution of unemployment.

Bibliography List:

- Abu Zayd, Muhammad ‘*Abd al-Munim. Profit-Sharing and Its Practical Applications in Islamic Banks. 1st ed., Cairo: International Institute of Islamic Thought, 1996.*
- Al-Amin, H. (1993). *Legal Profit-Sharing and Its Modern Applications* (2nd ed.). Jeddah: Islamic Development Bank.
- Al-Jaziri, A. a.-R. (2003). *Islamic Jurisprudence According to the Four Schools* (Vol. 3). Beirut: Dar al-Fikr.
- Al-Kasani. (1986). *The Marvels of Artful Legal Reasoning*. Beirut: Dar al-Kutub al-Ilmiyyah.
- Al-Khuwaitir, ‘. A. (1999). *Profit-Sharing in Islamic Law: A Comparative Study of the Four Sunni Schools* (1st ed.). Riyadh: Dar al-Maseer.
- Al-Ramli, S. A.-D. (1392 AH). *The Utmost Need for a Commentary on Al-Minhaj*. Dar Al-Tibah Al-Muasirah.
- al-Sarakhsi, M. i. (n.d.). *al-Mabsut* (3rd ed., Vol. 22). Beirut: Dar al-Ma‘rifah.
- Al-Yasiri, I. J. (2009). Challenges in Applying the Profit-Sharing Contract in Islamic Banks. *Master’s thesis, College of Administration and Economics, University of Kufa. Najaf, Najaf Governorate, Iraq: University of Kufa.*
- Husayn, M. A. (1435 AH). *Profit-Sharing in Islamic Banks*. Palestine.
- Ibn Rushd Al-Qurtubi, A. A.-W. (1418 AH). *The Distinguished Jurist's Primer*. Beirut: Dar Al-Ma‘rifah.
- Institute of Banking Studies. (2010). Profit-Sharing in Contemporary Islamic Finance. *Financial and Banking Insights, Awareness Bulletin*(1).
- Instruction No. 20-03. (2020, 4 2).
- Jar Allah, ‘. a.-R. (1439 AH). *The Mudarabah Company in Islamic Jurisprudence*.
- Ibn Juzayy, M. I. (n.d.). *Legal Principles of Shariah Rulings*. Cairo: Maktabat ‘Alam al-Fikr.
- Muhammad, T. (1987). *Al-Mudarabah fi Al-Shari’a Al-Islamiyya* (2nd ed.). Cairo: Hassan Press.
- Qantuqji, S. M. (2015). *The Finance Industry in Islamic Banks and Financial Institutions* (2nd ed.). Hama: Dar Abi al-Fida.
- Regulation No. 20-02. (2020, 3 24). Concerning Islamic Banking Operations and the Rules Governing Their Practice by Banks and Financial Institutions. *Official Gazette*. Algiers, Algeria: Government of Algeria.

Saad Allah, R. (1416 AH). *The Role of Islamic Banks in Developing the Economies of the Maghreb*. Saudi Arabia: Islamic Research and Training Institute, Islamic Development Bank.

Subhani, A. J. (1416 AH). *The Profit-Sharing System in the Noble Islamic Shariah* (1st ed.). Qom: Imam al-Sadiq Foundation.