

Islamic Banking Experience in Algeria since the Beginning of the Twentieth Century



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Submission date: 07/03/2026

Acceptance date: 12/04/2026

Publication date: 30/06/2026



Abstract:

This article examines the experience of Islamic banking in Algeria from its beginnings until the first quarter of the twenty-first century, starting from the following question: How and when was Islamic banking formed in Algeria historically, what were the most prominent challenges and turning points it faced, and to what extent has it reached in the modern era? The research relies on the inductive-deductive method to collect scientific data and draw conclusions, the descriptive-analytical method to interpret phenomena, in addition to the historical method to arrange events.

This comparative study examines the achievements of Al Baraka Bank and Al Salam Bank during the period 2020-2025. The findings conclude that the first attempt to establish an Islamic bank in the late 1920s was thwarted by colonialism, and that the real breakthrough came in 1991 with Al Baraka Bank. Since 2020, Algeria has witnessed accelerated regulatory steps to promote Islamic banking. The study recommends further efforts and in-depth benchmarking studies to evaluate the experience in the future.

key words: Islamic economics, Islamic banking, Islamic finance, Albaraka Bank Algeria, Alsalam Bank Algeria.

Introduction:

Islamic banks have witnessed increasing growth both regionally and internationally in recent decades, as part of the Islamic finance sector based on the principles of avoiding interest (riba), being linked to the real economy, and adopting Sharia-compliant financing and investment structures. Interest in this sector has grown not only for religious and social reasons, but also for its potential role in mobilizing savings, expanding financial inclusion, and providing alternative financing solutions that support investment and economic activity.

In this context, the experience of Islamic banks in Algeria stands out as a case study worthy of analysis, representing a model for the gradual integration of Islamic banks within the conventional banking system, in an environment characterized by unique regulatory and economic conditions and distinct operational challenges.

This research aims to provide a comprehensive analytical overview of the development of Islamic banking in Algeria through four main axes: First, presenting the first attempt to establish an Islamic bank in Algeria as a historical starting point for this experience, along with its contexts and limitations. Second, analysing the presence of Islamic banks in Algeria, the development of their institutional presence, and their expansion in the banking market. Third, highlighting the achievements of Islamic banking in Algeria in terms of expanding its services and products, its role in mobilizing resources and providing financing alternatives, and the extent of its contribution to meeting the needs of individuals and institutions. Fourth, exploring the prospects for Islamic banking in Algeria in light of regulatory developments, market trends, and the requirements of competitiveness and sustainability.

To deepen the analysis and provide a more comprehensive view, the research also employs a SWOT analysis methodology to diagnose the reality of Islamic banking in Algeria. This involves identifying the strengths that promote the sector's growth, the weaknesses that limit its effectiveness, the opportunities available in the external environment that can be exploited to develop the sector, and the threats that could negatively affect its sustainability or limit its expansion. This approach allows for a balanced understanding that combines an analysis of the past and present with a future vision, rather than simply providing a general description of the experience.

Based on the above, the research problem revolves around the following question: To what extent has the Islamic banking system in Algeria succeeded in establishing its presence and achieving tangible accomplishments? What are the most prominent factors affecting its development in the light of its strengths, weaknesses, opportunities and threats? The research adopts a descriptive analytical approach based on the analysis of available data, documents and regulatory reports, with the benefit of interpretive analysis and the SWOT analysis methodology, with the aim of reaching results that contribute to understanding the Algerian experience and providing recommendations, that support the development of the Islamic banking system and enhance its sustainability.

Part One: The Historical Roots and Actual Presence of Islamic Banking in Algeria

This study examines the historical roots of Islamic banking in Algeria, beginning with the first attempt to establish an Islamic bank and the circumstances of its failure. It then traces the development of the actual presence of Islamic banks and their growing role in the banking market. Furthermore, it highlights the key transformations that accompanied this trajectory, paving the way for a better understanding of the experience and the factors that shaped its subsequent development.

First requirement: The First Attempt to Establish an Islamic Bank in Algeria

This section deals with the first initiative to establish an Islamic bank in Algeria as the first seed of the experiment, by highlighting its historical context and motives, and then analysing the factors that prevented its realization on the ground.

The first attempt to establish an Islamic bank in the world since the first quarter of the 20th century occurred in Algeria in 1928-1929. Behind this pioneering idea and its groundwork preparations for its success, was one of Algeria's early scholars Sheikh Ibrahim Abu Al-Yaqdhan, a member of the Association of Muslim Scholars. He wrote in an article published in the newspaper "*Wadi Mزاب*" on 11

Muharram 1347 AH, corresponding to 29 June 1928 AD, calling for the establishment of a national bank that is governed by Islamic Shari'ah (law). Sheikh Ibrahim Abu al-Yaqdhan called upon some of the rich notables and leading businessmen in the cities of Algiers and Constantine to participate in establishing an Algerian Islamic Bank governed by Shari'ah laws and principles (Madani¹, 1976 ; Naceur², 2006 ; Belabes³, 2013).

After months of continuous hard work, Sheikh Ibrahim Abu al-Yaqdhan was able to obtain the approval of some prominent Algerian businessmen, who made all the necessary preparations, secured the required capital, and submitted a complete file outlining the idea of establishing an Islamic bank under the name "The Algerian Islamic Bank". However, Algeria, at that time, was still under the French domination (occupation). Despite nearly a century (1830-1929) of occupation, France completed its control over Algeria fertile lands, most important existing assets, and diverse agricultural products, France rejected the idea outright and thwarted it. It did not allow the establishment of the "Algerian Islamic Bank" because it posed a threat to its existence and a danger to its own interests in continuing to colonize Algeria as an integral part of France, as France considered Algeria to be French territory (Algerie Française) (Belabes⁴, 2013, Kheireddine⁵, n.d).

This situation persisted, from direct French domination, until the country's independence in 1962. It remained unchanged until 1991, when Albaraka Bank Algeria was established as the first Islamic bank operating in Algeria—approximately seventy years after the initial attempt, which was not permitted to proceed, and about thirty years after independence. This represents a significant delay in the establishment and development of Islamic banking in Algeria. Algeria should have been the leading country to establish Islamic Banking in the world but unfortunately this did not happen.

Second requirement: Relaunch of Islamic Banks in Algeria

After the abortion of the first attempt of establishing an Islamic bank in Algeria, the re-launch of Islamic banking in the country was delayed and postponed until after its independence in 1962. It was not until 1991, when Albaraka Bank Algeria was established, as the first Islamic bank in Algeria. This was followed later by Alsalam

Bank Algeria, as the second Islamic Bank Algeria in 2008. Furthermore, in 2020, Algeria introduced legal frameworks to regulate Islamic banking, including Central Bank Regulation No. 20-02 and Law No. 09-23, requiring banks to obtain Shari'ah compliance certification before offering Islamic financial products (Ben Haddou⁶, 2019). This is surely a step forward for taking the lead in the near future.

1. Albaraka Bank Algeria

Albaraka Bank Algeria is the first Algerian bank to offer Islamic banking services. It is a prominent and successful subsidiary of the Albaraka International Group, which operates in many countries according to Islamic banking principles. The bank's activities encompass a wide range of Islamic financial services and has approximately 26 branches across the country.

Albaraka Bank Algeria commenced its operations and banking activities in accordance with Islamic Shari'ah law on May 20, 1991. It was the first Islamic bank established in Algeria, with a mixed capital (public and private) of 500,000,000 Algerian dinars. The Bank of Agriculture and Rural Development contributed 44%, and Albaraka Banking Group (Bahrain) contributed 56%. Albaraka Bank Algeria conducts all banking operations, from deposit collection to financing and investments, in accordance with the principles and provisions of Islamic Shari'ah. Its capital has been increased several times, reaching 20 billion Algerian dinars in 2020. (Albaraka-bank.com)

Albaraka Bank Algeria is part of the Albaraka Banking Group, which has a broad geographical presence in many Islamic countries, including Algeria, Tunisia, Bahrain, Sudan, Jordan, Egypt, Turkey, South Africa, Pakistan, Lebanon, and Syria, in addition to two branches in Iraq and a sales office in Libya. Albaraka Bank Algeria strives to create a suitable environment for its clients by developing its products for genuine financial investments across various economic sectors. These products are offered to clients through partnership, profit-sharing, and Murabahah contracts, among others characteristic of Islamic banking. Albaraka Bank Algeria also participates in foreign trade operations, such as letters of credit and bank guarantees, and serves various client segments, including individuals, professionals, companies, and small and medium-sized enterprises (SMEs). (Albaraka-bank.com)

Albaraka Bank Algeria has achieved impressive and consistent financial results since its establishment, thanks to its successful management and the realization of several objectives. These include generating profits free from any taint of impermissible (Haram) practices by utilizing and investing financial and human resources in a Shari‘ah-compliant and efficient manner. The bank has also developed its products for attracting and directing funds towards local investment, providing necessary liquidity to various sectors, and developing financial instruments for Islamic banks (ASJP Cerist, 2021).

Albaraka Bank Algeria was recognized with an annual award from Global magazine, a publication specializing in global banking and finance, demonstrating its outstanding success. The bank was named the best Islamic bank for 2012, a distinction shared by four other banks within the Al Baraka Group: Al Baraka Bank South Africa, Al Baraka Bank Jordan, Al Baraka Bank Bahrain, and Al Baraka Bank Algeria (albaraka-bank.com). This demonstrates the bank's ability to establish itself within the previous Algerian banking system, despite the differences in their legal frameworks. The old Algerian banking system before 2020 adhered to Western interest-based laws, which are incompatible with the laws governing Islamic banks, which are based on Islamic Shari‘ah principles.

2. Alsalam Bank Algeria

Alsalam Bank Algeria was founded in on 8th June 2006, and commenced operations on 20th October 2008, after receiving official accreditation from the Central Bank of Algeria (Bank of Algeria) in September 2008. It began with a capital of 7.2 billions DZD, which increased to 10 billion Algerian Dinars in 2009, then to 15 billion Algerian Dinars en 2020, and finally to 20 billion Algerian Dinars in 2021. In June 2023, Bahrain’s Al Salam Bank acquired a majority stake (53.13%) in the Algerian branch, enhancing its capabilities. This acquisition did not negatively impact the bank's activities; rather, it strengthened the bank's ability to grow its financing portfolio, diversify its products, accelerate its digitalization process, and expand its market share ([alsalambank](http://alsalambank.com)).

Alsalam Bank Algeria has 25 branches up to now, distributed throughout the country, with plans to increase the number of branches to enhance its reach and provide its Islamic financial services. Alsalam bank banking services include trade finance, foreign trade, personal and real estate financing, and investment accounts. Its

total assets reached approximately US\$2.2 billion in the first quarter of 2023. Its financing portfolio reached \$1.3 billion, deposits amounted to \$1.8 billion, and the average annual growth rate of assets was 23.3% since 2010 (alsalambank).

Although Alsalam Bank Algeria began its banking operations approximately fifteen years after Albaraka Bank Algeria, it is known for its advanced digital services and transparency as it is more digitally oriented and utilizes financial technology (Fintech) more effectively, offering greater transparency and clarity than Albaraka Bank Algeria (albayanmagazine).

Alsalam Bank Algeria, the second Islamic bank operating in Algeria since 2008 has experienced significant growth since its inception, with an increase in its assets, customer financing, and deposits. The number of customers has also risen, strengthening the bank's position in the Algerian banking market (ASJP Cerist, 2021).

Section Two: Achievements of Islamic Banking and its Future Prospects (with SWOT Analysis)

This study focuses on highlighting the most prominent achievements of Islamic banking in Algeria in terms of organizational development and the expansion of products and services, and the resulting economic and institutional impacts. The study also explores its future prospects and analyzes its current status using SWOT analysis to identify strengths, weaknesses, opportunities, and threats, thus supporting the development of realistic recommendations.

First requirement: Achievements of Islamic banking in Algeria

This section examines the most significant achievements of Islamic banking in Algeria, including the establishment of a robust regulatory framework and the expansion of Sharia-compliant services and products. It also highlights the progress made at both the institutional and economic levels, paving the way for an assessment of the trajectory and sustainability of this experience.

By the end of September 2024, Islamic finance deposits in Algeria exceeded 817 billion dinars, distributed across 745,000 accounts through a network of 861 branches, windows and counters dedicated to Shari'ah-compliant banking. In line with the

requirements of the Algerian financial market and within the framework of the comprehensive reforms undertaken by Algeria, the new Algerian Monetary and Exchange Law No. 09-23, issued on 21st June, 2023), officially and broadly recognized Islamic banking as an activity compliant with Sharia law. This activity is overseen and monitored by the Shari‘ah Supervisory Board of the High Islamic Council, composed of senior sheikhs and scholars from Algeria, to ensure the availability of Shari‘ah-compliant banking products at banks and financial institutions, such as the Algerian People's Credit Bank, which introduced more than 20 Sharia-compliant products in the last two years. Thus, Islamic finance in Algeria has become an important lever for promoting financial inclusion and diversifying banking products since its launch in Algeria in 2020, as this sector has witnessed remarkable growth, reflecting an increasing reliance by the market on financial products that comply with the provisions of Islamic Sharia (ech-chaab.com/ar).

Both Albaraka and Alsalam banks in Algeria have shown strong financial performance, with growing assets, deposits, and customer bases. The following Comparative table illustrate the achievements of Albaraka Bank versus Alsalam Bank during the period lasting from 2020 to 2025.

**Comparative Table: Achievements of Albaraka Bank versus Alsalam Bank
(2020–2025)**

Indicator	Al Baraka Bank	Al Salam Bank
Year of Establishment	1991	2008
Total Assets (2025)	~19.4% annual growth (est.)	20.74 billion USD
Total Deposits (2025)	Strong growth (no exact figure)	14.07 billion USD
Total Financing (2025)	Murabaha, Ijara, Istisna, etc.	10.52 billion USD
Market Share	First Islamic bank in Algeria	Rapid growth
Financing Methods	Diverse Islamic contracts	Murabaha, Sukuk, etc.

Indicator	Al Baraka Bank	Al Salam Bank
Digital Services	Mobile, SMS, online banking	Full digital suite, AI tools
SME Financing	Active support via “Raed” account	Not detailed
International Trade Financing	3.49 billion USD	Not specified
Profits (H1 2025)	Not disclosed	105 million USD
Equity (2025)	Not disclosed	1.83 billion USD
Number of Branches	34	Not specified
Sharia Compliance	Strong AAOIFI adherence	AAOIFI compliant

Source: Compiled by the authors with the help of Microsoft AI-Copilote

Second requirement: Future Prospects of Islamic Banking in Algeria

This section examines the future prospects of Islamic banking in Algeria by monitoring opportunities for growth and expansion and potential areas of development, while highlighting the challenges that may affect the sustainability and effectiveness of this experience.

In 2020, nearly 90 years after the first attempt to establish an Islamic bank in Algeria, the Algerian authorities decided to support and strengthen Islamic banking in the country by establishing a suitable legal framework to regulate it. The Central Bank of Algeria (Bank of Algeria) issued Regulation No. 20-02 on March 15, 2020, and the new Algerian Monetary and Exchange Law No. 09-23, issued on Dhu al-Hijjah 3, 1444 AH (June 21, 2023), which define banking operations related to Islamic finance and the rules governing their practice by banks and financial institutions operating in Algeria. This legal frameworks require banks operating in Algeria that wish to conduct business in accordance with Islamic law to obtain a

certificate of compliance with Shari‘ah principles from the National Shari‘ah Authority for Islamic Financial Industry before offering Islamic financial products (bank-of-algeria.dz).

This has significantly boosted the presence of Islamic banking in the Algerian financial market, with some conventional banks opening Islamic windows to offer Sharia-compliant banking services to their customers. Algeria has thus begun to witness remarkable growth in the field of Islamic banking, in a serious and ongoing effort to meet the needs of citizens seeking Sharia-compliant financial transactions (bank-of-algeria.dz).

Islamic banking in Algeria is expected to witness further growth, expansion, and prosperity, due to the significant development that Algeria has witnessed in issuing supportive laws that frame the work of Islamic banking, which reflects the increased confidence and interest in Islamic banking by citizens, especially with the continuation of government support and ongoing reforms in the financial sector, which reflects the experience of Islamic banking in Algeria, which is represented in many successes. Promoting financial inclusion and developing innovative products that comply with Islamic Shari‘ah are considered priorities for achieving this growth. This is in addition to benefiting from financial technology to provide digital banking services that comply with the provisions of Islamic Sharia in Algeria (Ben Achour and Aiboud⁷, 2021).

To further measure, analyse and project the future prospects of Islamic banking in Algeria, perhaps it very useful to do that through SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis which give a good idea about the situation.

1. Strengths

- Algeria’s Muslim majority (99%) favors Islamic finance.
- Government support and legal frameworks.
- Global success of Islamic banking.
- Development of Islamic fintech and digital services.
- Emerging Islamic financial markets and instruments.

2. Weaknesses

- Resistance from secular groups.
- Public misunderstanding of Islamic finance principles.
- Early-stage legal reforms still maturing.

3. Opportunities

- New laws enabling more Islamic banks and windows.
- Enhanced regulatory environment.
- Public awareness campaigns and education.
- Integration into university curricula.
- Product diversification and innovation.

4. Threats

- Ambiguities in law interpretation.
- Limited Islamic financial products.
- Attractive interest rates from conventional banks.
- Lack of skilled professionals.
- Liquidity and risk management challenges.
- Underdeveloped Islamic financial markets.

Conclusion

Despite challenges, Islamic banking in Algeria has a promising growth potential, supported by government reforms and public interest. Continued investment in fintech and product innovation will surely enhance its competitiveness.

Key Findings

- Algeria's first Islamic banking initiative dates back to the 1920s but was blocked by colonial authorities.
- Al Baraka Bank (1991) and Al Salam Bank (2008) marked the beginning of Islamic banking post-independence.
- Legal reforms since 2020 have enabled conventional banks to offer Islamic services.

Recommendations

- Encourage the establishment of more Islamic banks.
- Promote awareness through mosques and cultural centres.
- Train professionals in both conventional and Islamic economics to better serve clients.

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