

ISLAMIC FINANCE AS AN EFFECTIVE ALTERNATIVE FOR HOUSING SECTOR FINANCING IN ALGERIA

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Send Article Date: 10 /08/2024

Date of acceptance of the article: 10/11/2024

Abstract:

This study meticulously examines the role of Islamic finance within Algeria's housing sector, aiming to delineate its current state and propose strategic enhancements to augment its utility. A comparative analysis between Islamic and traditional loans reveals that the cost associated with Islamic banking is notably higher, potentially diminishing its appeal. For Islamic finance to emerge as a viable alternative funding source, it is crucial to mitigate operational costs and payment risks. Additionally, the financing of significant development projects via partnership and Murabaha agreements stands out as a pivotal strategy. A substantial enhancement can be achieved through the issuance of Islamic securities in the secondary market, thereby strengthening the financial architecture.

key words: Islamic Finance, Islamic Loans, Housing Sector, Housing Policy.

Introduction:

Urban expansion projects represent a formidable challenge to economic development globally, necessitating substantial capital and a rigorous framework for both production and financing. Housing, prioritized by governments, is acknowledged as a fundamental right of every citizen and an essential societal need that underpins social, economic, and political stability. Given its critical importance, national authorities consistently emphasize housing through ongoing reforms and policies designed to equilibrate the supply-demand dynamics in the market.

In Algeria, as in many developing nations, a severe housing crisis has persisted, exacerbated by rapid demographic expansion. Historically, the government has shouldered the financial and administrative burdens associated with this sector, significantly straining the public treasury. In response, the Algerian government has implemented numerous reforms and diversified housing programs, particularly post-1990s, and explored novel financing avenues, including Islamic finance as a potential alternative.

This backdrop sets the stage for the central research question: "How can Islamic finance contribute to alleviating the housing crisis in Algeria?"

Hypotheses:

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To tackle the identified problem, we delineate the following research hypotheses:

- _ Islamic finance has yet to make a substantial contribution to resolving the housing crisis in Algeria.
- _ There are no foreseeable alternative solutions that Islamic finance could provide to completely eradicate the housing crisis in the future.

Research Objectives:

The study sets forth to accomplish several distinct objectives:

- _ To explicate the foundational concepts of Islamic finance;
- _ To delineate the current state of the housing sector in Algeria;
- _ To explore the innovative mechanisms within Islamic finance that could potentially resolve the housing dilemma.

Research Methodology:

The approach utilizes descriptive and analytical methodologies to thoroughly examine the current landscape and future potential of Islamic finance in addressing Algeria's housing needs.

FIRST TOPIC: THEORETICAL FRAMEWORK OF ISLAMIC FINANCE FOR THE HOUSING SECTOR

In this section, we will introduce the term Islamic finance and its main rules, and we will display the various formulas used in financing the housing sector.

FIRST REQUIREMENT: THE NATURE OF ISLAMIC FINANCE FOR THE HOUSING SECTOR

Islamic finance entails the transfer of tangible or monetary assets from the owner or a trustee (such as an Islamic bank) to an individual or institution, managed under the stringent guidelines of Islamic law. ¹This process is aimed at generating legitimate profit through contracts that align with Sharia principles. Key tenets of Islamic finance include:²

- _ The prohibition of interest (usury);
- _ Adherence to ethical standards;
- _ Emphasis on moral and social values;
- _ Shared responsibility for risks associated with business transactions.

The pioneering efforts to establish Islamic banking were initiated by Prince Mohammed Al Faisal in 1977, involving prominent Saudi businessmen. This led to the founding of Faisal Islamic

¹ Zoubir Ayach, Samira Manassara, "Islamic Financing as an Alternative Financing for Small and Medium Enterprises," Milaf Journal for Research and Studies, Issue 3, 2016, p. 116.

² Al Baraka Bank, "Islamic Banking," accessed July 6, 2024: <https://www.albaraka.com/ar/default.asp>

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Bank in Sudan and Egypt in 1978, and the Kuwait Finance House that same year. The proliferation of Islamic banks was further catalyzed by the formation of an international union of Islamic banks, fostering their geographic and qualitative expansion.³

By 2010, the Islamic finance sector boasted a market size of approximately \$1,000 billion, with an estimated annual growth rate of 15%. Presently, the sector encompasses around 300 Islamic banks, with 80% situated in the Gulf countries, 10% in Malaysia, and the remaining 10% distributed across Africa and Europe.⁴

Regarding housing finance, Islamic law frames it as a mechanism to provide prospective homeowners with sufficient funds for construction, renovation, or improvement projects, strictly adhering to Sharia stipulations. This approach eschews interest-based transactions, focusing instead on savings and investment, thereby positioning the financier as an investor, partner, and economic advisor to clients.⁵

SECOND REQUIREMENT: ISLAMIC FINANCING FORMULAS FOR THE HOUSING SECTOR

In this section, we elucidate the principal Islamic financing models that are apt for facilitating housing finance:

Firstly: Diminishing Partnership Ending in Ownership

This model involves a co-ownership arrangement between the bank and the client, where each party's share is proportional to their financial contribution. The bank agrees to lease its share to the client at a predetermined rental value. This arrangement allows the client to gradually acquire full ownership of the property over a specified period, thereby transitioning from part-owner to sole owner.⁶

Secondly: Murabaha (Cost-Plus Financing)

Murabaha constitutes a transaction where an asset is sold at its cost plus an agreed-upon profit margin. For Murabaha to be considered valid, it must clearly delineate the capital cost and the profit margin. In housing finance, the bank buys the property as specified by the client and subsequently sells it to them at a profit.⁷

³ Islamic Development Bank, "Forms of Development Financing in Islam," Annual Report, Khartoum, 1993, pp. 15-16.

⁴ Isabelle Chapelli re, "From Muslim Economic Ethics to Islamic Finance: Towards a Renewal of the Concept of Rationality," The Financial Review, No. 182-183, 2007, pp. 17-18.

⁵ Mohamed Jaafar Hani, Ahmed Madania, "Islamic Securitization as a Mechanism for Financing the Housing Sector in Algeria," Shariah Research Journal, no volume number, no publication year, p. 111.

⁶ Ibid.

⁷ Al Ahli Bank, "Shariah Financing Forms at Al Ahli Bank," accessed August 6, 2023: <https://www.alahli.com/ar-sa/Documents/pdf>

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The property remains registered under the bank's name until the client completes all payments, securing ownership rights. The Murabaha contract specifies the property details, price, initial cash installment (as a commitment guarantee), payment installments, the bank's profit margin, and the total payable amount.⁸

Thirdly: Commissioned Manufacture

Partnership Ending in Ownership is employed particularly by clients who own land or are contracting companies. An Partnership Ending in Ownership contract is forged between the bank and the client, stipulating the housing specifications and its estimated value against an upfront payment from the client.

The bank orchestrates the construction either through its engineering division or via a parallel Partnership Ending in Ownership agreement with a contractor. Upon completion, the client takes possession of the property in return for fulfilling their payment obligations⁹.

Distinct from conventional bank loans:¹⁰

- _ Engages in deferred sales based on partnership, with profits equating returns, unlike interest-based bank loans.
- _ Sees the bank actively managing and supervising the investment, unlike in conventional loans where the bank's role is limited to managing the loan.
- _ Focuses on the economic viability of the project rather than merely securing guarantees against risks.
- _ Directly involves the bank in the construction process, contrasting with conventional loans where the client or a developer manages construction.

Fourthly: Lease to Own

This contract entails the bank purchasing an asset required by the client and leasing it back for a stipulated rent. The lessee has the option to purchase the asset at the end of the lease period. The Ijarah agreement specifies the offer and acceptance terms, the parties involved, and the subject of the contract.

This model is particularly advantageous for acquiring housing as it allows the bank to hold temporary ownership until the lessee fulfills all payment obligations. Should there be a delay in

⁸ Op. cit., p. 112.

⁹ Ibid., p. 113.

¹⁰ Abdel Rahman Benchikh, Mohamed El Beshir Merkan, "What Distinguishes Istisna'a Real Estate Financing from Usurious Real Estate Loans," Economic Notebooks, Volume 6, Issue 2, Djelfa, 2015, p. 274.

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payment, the bank may impose a financial penalty, which introduces a degree of uncertainty in the project's profitability.¹¹

Fifthly: Islamic Securitization Technique in Financing the Housing Sector

Islamic jurisprudence strictly prohibits traditional debt securities in securitization due to their inherent interest commitments, which are deemed usurious. As an ethical alternative, Islamic finance introduces Sukuk, or bonds, based on Profit-sharing.¹² These instruments do not yield interest but instead confer a share in the actual profits of a designated investment project.¹³

The operational principle of Islamic securitization involves "transforming tangible assets or entitlements into tradable Sukuk," strictly adhering to Sharia mandates which ensure the investors hold ownership over income-generating assets, thus defining the returns of the Sukuk.¹⁴ Notably, the returns are predetermined, emphasizing a partnership in capital rather than a debt relationship.

Characteristics of Islamic Sukuk include:¹⁵

- _ Equal denominations upon issuance.
- _ Representation of ownership stakes in tangible assets or benefits.
- _ Classification as capital ownership rather than debt obligations.
- _ Provision for shared profits and losses among holders.
- _ Tradable nature in financial markets.

Significance of Islamic Sukuk:¹⁶

- _ Sukuk play a pivotal role in absorbing excess liquidity, mitigating inflation, and enabling banks to manage surplus funds effectively.

¹¹ Al Baraka Bank, "Islamic Financing Forms," accessed August 6, 2023: <https://www.albaraka.com/ar/default.asp>

¹² Abdelkader Baltas, "Housing Finance Strategy in Algeria," 2nd ed. (Algiers: Legend, 2007), p. 358.

¹³ Ali Mohieddin Al-Karadaghi, "Islamic Sukuk 'Securitization' and its Contemporary Applications: A Shariah Economic Study," Report by the Organization of Islamic Cooperation, 2009, p. 8.

¹⁴ Khair El Din Maata Allah, Rafik Chriak, "Islamic Sukuk as a Tool for Financing Economic Development Projects," International Symposium on: Foundations for Achieving Sustainable Development in the Islamic Economy, University of Guelma, December 3-4, 2012, p. 237.

¹⁵ Ajil Jasim Al-Namachi, "Securitization and its Applications," Report by the Organization of Islamic Cooperation, 2009, p. 7.

¹⁶ Nawal Ben Amara, "Islamic Sukuk and Their Role in Developing the Islamic Financial Market," Experience of the International Islamic Financial Market, Bahrain, Al-Baath Journal, Issue 9, 2011, pp. 254-255.

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- They finance significant developmental and infrastructure projects, offering an alternative to conventional treasury bonds and public debt mechanisms.
- Sukuk enhance profitability and creditworthiness for financial institutions.
- They foster transparency and enhance the structural integrity of market information.

The Islamic securitization process is carried out according to Sharia controls with the participation of the following parties:

- **The Originator:** Initially sells the assets or a portfolio of financial rights to acquire their cash value.
- **The Issuer (Sukuk Manager):** Manages the assets on behalf of Sukuk holders, typically through a Special Purpose Vehicle (SPV) company, in return for a fee.
- **The Investor (Sukuk Holder):** Holds various types of Sukuk, representing fractional ownership in the underlying assets.
- **The Trustee:** Ensures the protection of the investors' interests and the safekeeping of documents and securities.
- **Global Rating Agencies:** Evaluate and rate the creditworthiness of the financial offerings.
- **Securitization Portfolio (Asset Portfolio):** Comprises diversified assets that have been securitized to generate liquidity for financing specific projects.
- **Sharia Supervisory Body:** Monitors and ensures compliance with Islamic legal principles throughout the Sukuk issuance and contractual processes.¹⁷

In the field of housing, the documents or certificates that can be used are as follows:

- **Lease Certificates:** These are equal-value Sukuk representing a share in the ownership of a benefit. The rental yield is distributed among the owners according to their ownership share. The purpose of this formula is to convert lease contracts into tradable Sukuk in the secondary market. In housing finance, a lease certificate represents the bank's ownership shares in a partially or fully financed residential complex.¹⁸ The bank leases these to the certificate holders for a specific period that ends with ownership upon payment of all rental installments. The certificate holder may sell their share to another party, transferring their ownership rights in the housing, provided the buyer is aware of all contractual details.¹⁹

¹⁷ Suleiman Nasser, Rabia Ben Zaid, "Islamic Sukuk as a Tool for Financing Economic Development and the Possibility of Benefiting from it in Algeria," International Symposium on: Products and Applications of Innovation and Financial Engineering Between Traditional Financial Industry and Islamic Financial Industry, University of Ferhat Abbas Setif, May 5-6, 2014, pp. 5-6.

¹⁸ Nawal Ben Amara, op. cit., p. 257.

¹⁹ Center for Islamic Transactional Law Research, "Housing Finance According to Islamic Law," accessed August 7, 2023: <https://kantakji.com/media/8374/iskan.htm>

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- **Partnership Ending in Ownership Certificates:** These are "equal-value documents issued for using the proceeds from the subscription to manufacture a commodity, and the manufactured item becomes the property of the Sukuk holders²⁰." In housing finance, these certificates are offered for constructing a building by a specific institution for an amount exceeding the necessary construction costs. The rights of the Sukuk holders lie in what they have paid for these certificates plus the profit, which represents the difference between the manufacturing cost and the selling price. In this scenario, the issuer of the Sukuk is the manufacturer or seller, and the subscribers are the buyers of the asset. ²¹For example, a bank might finance a residential complex through an contract by agreeing with the financing requester on a cost of \$15 million, while simultaneously agreeing with a contracting company to carry out the construction for \$10 million. Since the bank does not have the full amount, it issues one million Partnership Ending in Ownership certificates at \$10 each, sharing the \$5 million operation profit with the certificate owners after deducting the bank's commission for its commitment to repurchase the certificates from the owners in the future.²²
- **Housing Certificates:** These are interest-free financial instruments aimed at encouraging homeownership and are also tools for investing savings. This technique was applied in Turkey by the Collective Housing and Community Participation Administration in the Halkali area of Istanbul suburbs, where housing bonds were issued, each linked to one square meter of a construction project, tradable in the secondary market for 5 years (the maximum project completion period). Each bond has an initial (issue) value recalculated monthly by the administration, announced on the tenth of each month and remaining valid until the tenth of the following month. This cash value is based on the supply and demand dynamics in the housing market. The certificates are cashed on demand by authorized banks based on the last announced value, and those wishing to purchase an apartment from these buildings must collect 30 bonds, where bondholders do not know which apartments they have purchased but know they are the least valued apartments.²³

THIRD REQUIREMENT: EXAMPLES OF SUCCESSFUL EXPERIENCES IN ISLAMIC HOUSING FINANCE

This segment explores prominent international models in Islamic housing finance that have demonstrated considerable success:

Firstly: The Malaysian Experience

Malaysia stands out as a beacon of success in resolving housing challenges through a robust policy that ensures the availability of affordable, high-quality housing. This success is underpinned by meticulous federal oversight and a dynamic financial system composed of 50% commercial

²⁰ Khair El Din Maata Allah, Rafiq Shriaq, op. cit., p. 241.

²¹ Nawal Ben Amara, op. cit., p. 256.

²² Center for Islamic Transactional Law Research, op. cit. (accessed August 7, 2023).

²³ Mohamed Jaafar Hani, Ahmed Madania, op. cit., p. 122.

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banks, 25% financial institutions, and 25% specialized financial institutions. These entities have significantly propelled the development of the housing sector.²⁴

Notably, mortgage financing in Malaysia constitutes 31.5% of the Gross Domestic Product, with commercial banks disbursing 81.5% of these loans at interest rates between 9.8% and 9.9%.²⁵ The Central Bank of Malaysia plays a crucial role in regulating mortgage loans, setting interest rates, and defining profit margins for operators within the sector.²⁶

In response to the incompatibility of traditional financing with Islamic principles, Malaysia has embraced Islamic financing mechanisms such as deferred payment sales (where the bank buys the property at market price and sells it to the client at a cost-plus-profit basis without interest) and partnerships in property purchase.²⁷

Furthermore, since 1983, the Malaysian government has issued Islamic securities like "investment certificates" or "benevolent loans" aimed at funding developmental projects, with returns that are not pre-determined. Malaysia's prowess in managing Islamic securities is evident, with a total issuance worth \$250,953 million between 2005 and 2012.²⁸

Secondly: The United Arab Emirates Experience

Since its inception in 1971, the UAE has prioritized providing quality housing to foster sustainable development.²⁹ The housing policy here is heavily supported by government initiatives, offering subsidies to citizens earning below 1000 dirhams and concessional loans through entities like the Abu Dhabi Housing Authority and the Mohammed Bin Rashid Housing Establishment.³⁰

The UAE boasts a robust banking infrastructure featuring prominent local and international banks, all regulated by the Central Bank. This structure makes the UAE one of the most attractive destinations for real estate investments, with Dubai alone attracting 13.6 billion dirhams in real estate sales in 2017, ranking 27th globally in terms of foreign investment allure. Islamic financing

²⁴ Maher Jabbar Al-Khalili, "Housing Policy in Malaysia and the Possibility of Benefiting from It," A Historical Economic Study, Al-Ghar Journal for Economic and Administrative Sciences, Volume 10, Issue 11, 2015, pp. 233, 235.

²⁵ Housing Finance Network, Malaysia, viewed July 30, 2023: <https://www.housing-finance-network.org>

²⁶ General Housing and Urban Development Corporation, "Study of Housing Finance Support Programs for Low-Income Individuals," Research Paper, Jordan, 2011, p. 12: <https://hudco.org.in/>

²⁷ Imoney Editorial, "Types of Home Loan in Malaysia," viewed July 30, 2024: <https://www.imoney.my/articles/types-of-home-loans-in-malaysia>

²⁸ Maya Fitni, "The Malaysian Experience in Issuing Islamic Sukuk," Presentation at the International Symposium: Products and Applications for Innovation and Financial Engineering Between Traditional Financial Industry and Islamic Financial Industry, University of Setif 1, May 5-6, 2014, p. 3.

²⁹ Nawzad Abdul Rahman Al-Hiti, "The Experience of the United Arab Emirates in Housing Projects," Al-Ghar Journal for Economic Sciences, Volume 10, Issue 11, 2015, p. 135.

³⁰ Mark Boleat, "Housing Finance in the United Arab Emirates," Barclays Bank Report, 2004, pp. 1, 8.

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is integral to the UAE's housing strategy, implementing methods such as Murabaha, leasing contracts, and Istisna contracts.

Mortgage financing is a key product for Islamic banks, facilitating housing construction with beneficiaries committing to 25-year installment plans. These plans require a minimum down payment of 25% of the property's value for government housing projects and a minimum income threshold of 7000 dirhams.³¹

SECOND TOPIC: HOUSING POLICY IN ALGERIA

Algeria's housing policy has experienced significant transformations since gaining independence, initially focusing on completing housing projects initiated during the colonial era. In the early post-independence years, housing was perceived as a secondary priority, believed to be less effective in stimulating economic development compared to directly productive sectors such as industry and agriculture.

During this time, development plans allotted a modest portion, no more than 10%, of the total financial resources available for sectoral investments to housing. The financing of the housing sector was primarily reliant on the public treasury, with the National Fund for Savings and Reserve contributing to no more than 25% of the total housing finance, mainly aimed at public upgrading.

In the 2000s, Algeria embarked on a novel developmental trajectory by implementing three strategic plans aimed at bolstering economic growth with a particular focus on housing as a critical sector to address the ongoing housing crisis. The strategies employed included diversifying housing models and their financing sources by integrating bank funds, eradicating shantytowns, and enhancing construction quality.

Consequently, the housing sector received the second-largest financial allocation after public works and transport. Innovations such as the rent-to-own housing model and the promotion of subsidized promotional housing, as alternatives to contributory social housing, were introduced. Despite the promising aspects of these programs, challenges in planning and execution led to widespread stalling in both implementation and financing processes.³²

THIRD TOPIC: THE REALITY OF ISLAMIC FINANCE FOR THE HOUSING SECTOR IN ALGERIA

Islamic finance has been adopted by various Islamic and Arab nations to fund their investment projects and foster economic development. Countries like Pakistan, Iran, and Sudan have fully integrated Islamic banking systems, while others such as Malaysia, Turkey, the UAE, Yemen, Kuwait, and Lebanon have established specific regulations governing Islamic banks. In

³¹ Dubai Islamic Bank, "Dubai Islamic Bank Al Islami Home Finance for UAE Nationals," viewed August 1, 2024: <https://www.souqalmal.com/ae-en/home-loans/dubai-islamic-bank>

³² Salma Memiche, "Housing Economics: Reality and Ambition," Journal of Administrative and Financial Sciences, Issue 2, 2017, p. 477.

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Algeria, the presence of Islamic banking remains limited to a select few institutions, including Al Baraka Bank and Al Salam Bank.³³

Additionally, a number of public and private banks have begun to offer Islamic financing services. This adoption underscores a growing interest and a gradual shift towards Islamic financial principles, which align with broader economic strategies and cultural preferences.

FIRST REQUIREMENT: HOUSING FINANCE THROUGH AL BARAKA ISLAMIC BANK SERVICES

Al Baraka Group was established in 1978 in Jordan and is today considered a pioneer in Islamic banking, with a wide geographical spread, owning about 700 branches in 16 countries, including Algeria. Al Baraka Bank Algeria was established on May 20, 1991, with a capital of 500 million DZD, a joint venture between Al Baraka Bahrain Group and the Algerian Rural Development and Agriculture Bank.

It was the first Islamic bank to obtain a license from the Bank of Algeria. In the context of housing finance, Al Baraka Bank Algeria offers property purchase loans, after conducting an economic feasibility study of the project and assessing the customer's ability to pay dues. The types of housing financed include:

- **Self-construction financing:** This model uses the Partnership Ending in Ownership financing formula to enable private individuals and professionals to build homes on their own land, where the bank finances about 80% of the real estate project. The repayment period is tailored to the client, with monthly installments suited to their financial capabilities, and the start of repayment is deferred for 12 months.
- **Financing for housing renovation or expansion:** This model also uses the Partnership Ending in Ownership financing formula, enabling individuals and professionals to renovate or expand their own homes, applying the same conditions as self-construction financing, with repayment beginning after a 6-month deferment.
- **Financing for purchasing used property:** This model relies on the lease to own financing formula to enable individuals and professionals to buy used properties, where the bank finances about 80% of the purchase price. The repayment period is suitable for the client, with monthly installments matching their financial capabilities, and repayment starts after a 6-month deferment.
- **Financing for purchasing new property:** This involves the lease to own financing formula, similar to the conditions applied in financing used property, with a repayment deferment period starting after 3 months.

Regarding the conditions required for housing finance applicants, the bank mandates that the client's monthly income be stable throughout the loan period and not less than 40,000 DZD. The bank accepts guarantors provided that the guarantor's income is not less than 30,000 DZD.

³³ Suleiman Nasser, Abdelhamid Boucharma, "Requirements for Developing Islamic Banking," Al-Baath Journal, Issue 07, 2009, p. 310.

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The loan duration must not exceed 20 years, and between 3 to 5 years in case of loans for housing renovation or expansion. The cost for studying the file is set at 3,000 DZD, and the management fees are 10,000 DZD for loans over 5 years and 7,000 DZD for shorter loans.

The target audience includes employees, traders, craftsmen, freelancers, and corporate shareholders, provided the client's age does not exceed 65 years at the last installment, with all documents proving land or housing ownership required³⁴. In 2018, Al Baraka Bank Algeria's financing balance reached 16,783 million DZD, representing a 12.02% increase compared to 2017, which had a financing of 139,677 million DZD.³⁵

SECOND REQUIREMENT: HOUSING FINANCE THROUGH BANQUE AL SALAM SERVICES

Banque Al Salam of Algeria, inaugurated in September 2008, operates under the dual governance of Algerian laws and Islamic Sharia principles, embodying a successful collaboration between Algerian and Gulf partners.

The bank employs a comprehensive array of Islamic financing methods such as Partnership Ending in Ownership, profit-sharing, lease, cost-plus sale, Partnership Ending in Ownership (commissioned manufacture), installment sale, and deferred sale, catering to various investment projects. With branches strategically located in key cities including the capital, Blida, Oran, and Constantine, Banque Al Salam has positioned itself as a pivotal player in the financial landscape.

Within the realm of housing finance, Banque Al Salam offers the "Dar Al Salam" scheme, specifically designed to fund diverse real estate programs in a manner compliant with Sharia law. The financing options available under this scheme include:

- **Financing of Public Promotional Housing:** Utilizing the Partnership Ending in Ownership and lease to own models, this option facilitates access to public promotional housing, establishing an ownership split of 30% for the client and 70% for Banque Al Salam. The bank rents its share to the client under a lease-to-own agreement spanning up to 25 years, with eligibility extending to individuals up to 70 years old at the time of the final installment. Targeted at employees, freelancers, traders, and those with stable incomes, this financing requires a consistent income of no less than 40,000 DZD. Upon acquiring property transfer documents, clients must secure a mortgage in favor of the bank, facilitated by a notary based on a written pledge from the client.
- **Financing of Self-Construction or Expansion of Existing Housing:** Leveraging the Partnership Ending in Ownership model, this financing option enables private individuals and professionals to either construct new homes or expand existing ones. It offers up to 20 million DZD with a repayment period of 5 to 25 years, provided the borrower does not exceed 70 years of age at the final installment. This option is directed towards individuals

³⁴ Al Baraka Bank, "Real Estate Financing," viewed August 22, 2023: https://www.albaraka-bank.com/fr/index.php?option=com_content&task=view&id

³⁵ Al Baraka Bank of Algeria, "Annual Report," Algeria, 2018, p. 12.

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with a stable and regular income of at least 40,000 DZD, or 1,500 Euros for residents abroad, alongside a guarantee amounting to approximately 10% of the construction costs.

- **Financing of Housing Arrangement:** Similar to the self-construction option, this uses the Partnership Ending in Ownership formula to facilitate home arrangements with financing up to 5 million DZD and a repayment period of 2 to 7 years under the same financial conditions.
- **Financing of Purchasing a New Property from a Developer or an Old One from Private Owners:** This model employs the Lease to Own formula, allowing individuals and professionals to purchase new properties from developers or old properties from private owners. Financing can reach 20 million DZD with a repayment period of 5 to 25 years under the same conditions applicable to housing arrangements.

In terms of pricing, Banque Al Salam applies a profit margin of 7% for holders of the "Amanati" savings book or card, 7.25% for saving clients, and 7.75% for non-saving clients, maintaining competitive rates that reflect the bank's commitment to fostering affordable housing solutions.³⁶

Thirdly: Islamic Housing Finance Service in Traditional Banks

In addition to the housing finance services offered by Banque Al Baraka and Banque Al Salam, the Minister of Finance officially announced at the end of 2017 that public banks intend to introduce this service into their programs.³⁷ This decision came into effect after the publication of Regulation No. 20-02 dated March 15, 2020, which defines banking operations related to Islamic banking and the rules for its practice by banks and financial institutions.

The initiative started with the establishment of a special agency for Islamic financing under the National Fund for Savings and Reserve, operating according to Islamic Sharia rules, offering interest-free real estate loans under the lease to own formula.

In November 2017, the National Fund for Savings and Reserve set the required conditions to obtain an Islamic loan, as outlined in the table below, assuming that the value of the housing is estimated at 8,000,000 DZD.

Table 01: Islamic Financing Conditions in the National Fund for Savings and Reserve

Income (DZD)	Loan Duration	Granted Amount (DZD)	Monthly Payment (DZD)
30,000	30 years	1,629,000	11,952.93
40,000	30 years	2,173,000	15,997.94
50,000	30 years	2,716,000	19,995.59

³⁶ Al Salam Bank – Algeria, "About Al Salam Bank – Algeria," viewed August 22, 2023: <https://www.alsalamalgeria.com/fr/page/list-51-0-2.html>

³⁷ Bank of Agriculture and Rural Development, "Islamic Finance: CNEP, BADR, and BDL are launching," viewed August 25, 2023: https://badr-bank.dz/?id=actualite_details&ida=613

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60,000	30 years	3,259,000	23,093.23
70,000	30 years	3,803,000	27,998.24
80,000	30 years	4,889,000	35,993.53
90,000	30 years	5,501,000	40,494.16
100,000	30 years	6,112,000	44,997.43

Source: National Fund for Savings and Reserve

The table illustrates that the maximum duration for Islamic financing does not exceed 30 years, with the minimum income requirement set at 30,000 DZD and the maximum at 100,000 DZD. The bank's contribution to housing financing can reach up to 76.4% based on the beneficiary's income and their monthly payment capacity.

For a comparative analysis between Islamic financing and traditional housing finance at the National Fund for Savings and Reserve, consider the example provided by the fund within the framework of lease to own, compared to a traditional mortgage obtained from the fund.

Assuming customer "A" wants to purchase public promotional housing under the conditions set by the CNEP Bank, with the housing value at 8,000,000 DZD and the borrower's monthly income estimated at 100,000 DZD, and the borrower's age at 45:

The bank grants the client 90% of the housing value under the following conditions:

- _ The maximum loan duration does not exceed 30 years;
- _ The maximum age at the last installment is 75 years;
- _ The lending rate varies between 30% and 60%, provided that the income is not less than 15,000 DZD.
- _ The interest rate does not exceed 1% if the monthly income is equal to or less than six times the minimum national wage, and 3% if the monthly income exceeds six times and is less than twelve times the wage.
- _ Insurance premium: Assuming the bank deals with "Cardif el djazair" for its loan insurance, which covers the loan by 100%, if the interest rate on the loan ranges between 1% and 3%, the bank obtains an insurance premium rate of 0.037%.³⁸

After the bank reviews the customer's file, it can approve it as it meets the required conditions. Here's how the payment dues are calculated:³⁹

- **Loan Value = Housing Value x Financing Rate**

³⁸ Asma Aiouaz, "Individual Home Loans," End of Studies Dissertation, Non-published, Higher School of Banking, 2017, p. 40.

³⁹ Calculations based on the method adopted by the National Fund for Savings and Reserve.

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$$8,000,000 \times 90\% = 7,200,000 \text{ DZD}$$

- **Loan Duration = Max Age - Borrower's Age** 75 – 45 = 30 years (360 months)
- **Payment Duration = Loan Duration - Repayment Deferment Period** 360 - 6 = 354 months
- **Repayment Capacity = Monthly Income x Borrowing Rate (assuming a borrowing rate of 40%)**

$$100,000 \times 50\% = 50,000 \text{ DZD}$$

$$\frac{\text{Ability to Repay.}}{\text{Scheduled value}} = \text{Rightful loan}$$

$$\bullet \text{ Scheduled Value} = \frac{\frac{\text{Interest Rate}}{1200}}{1 - \left(1 + \frac{\text{Interest Rate}}{1200}\right)^{(-\text{Payment Duration})}}$$

Assuming the borrower has LEL, thus the interest rate of 5.75% applies.

$$0.004260179 = \frac{\frac{3}{1200}}{1 - \left(1 + \frac{3}{1200}\right)^{(-354)}}$$

- **Insurance Premium = Loan Value x Premium Rate** 7,200,000 x 0.037% = 2,664 DZD
- **Repayment Capacity after Insurance Premium Deduction = Repayment Capacity - Insurance Premium** 50,000 - 2,664 = 47,336 DZD
- **Real Loan Value = (Repayment Capacity after Insurance Premium)**

$$\frac{\text{Repayment Capacity after Insurance Premium}}{\text{Scheduled Value}}$$

$$11111270.21 = \frac{47336}{0.004260179}$$

- **Real Loan Value (11,112,270.21) is higher than the Granted Amount (7,200,000)**
- **Debt = Loan Value x Scheduled Value** 7,200,000 x 0.004260179 = 30,673.2888 DZD
- **Monthly Payment = Debt + Insurance Premium** 30,673.2888 + 2,664 = 33,337.2888 DZD

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This analysis shows a difference between the two outcomes, summarized in the following table:

Table 02: Difference Between Halal Loan and Regular Loan Offered by the National Fund for Savings and Reserve

Difference	Islamic Loan	Regular Loan
Housing Value	8,000,000 DZD	8,000,000 DZD
Borrower's Income	100,000	100,000
Loan Value	6,112,000 DZD	7,200,000 DZD
Loan Recovery Period	30 years	30 years
Monthly Payment	44,997.43 DZD	33,337.2888 DZD

Source: Prepared by the researcher based on the results of the example

The table indicates that if customer "A" chooses a halal loan provided by the National Savings and Reserve Fund (CNEP) within the framework of Lease to Own, they will receive 6,112,000 DZD, which must be repaid over a period of 30 years with a monthly installment of 44,997.43 DZD.

Conversely, if the same customer opts for a conventional (usurious) loan, they will receive 7,200,000 DZD to be repaid over 30 years with a monthly installment of 33,337.29 DZD. This comparison indicates that the conventional loan is more advantageous and less costly compared to the halal loan. By the end of the borrowing period, the borrower will have paid the bank a total of 16,199,074.80 DZD (44,997.43 x 360).

According to the cost of financing under the Lease to Own model, the bank's profit margin can be calculated as follows:⁴⁰

$$100 \times \frac{\text{Cost Rate of Lease} - \text{to} - \text{Own}}{\text{Average Lease Duration} \times \text{Purchase Price of the Asset}} = \text{Cost Rate of Lease to Own}$$

- **Total Lease Payments (Installments):** Monthly Installment x Loan Duration (in months)
44997.43 X 360 = 16199074.8 د.جـ
- **Purchase Price of the Asset:** The loan amount (6,112,000 DZD) is used as the bank financed 76.4% of the asset valued at 8,000,000 DZD without purchasing it entirely.

$$100 \times \frac{6112000 - 16199074.8}{30 \times 6112000} = 5.5\%$$

Hence, the bank applies a profit margin of 5.5% for an Islamic loan, compared to a subsidized interest rate of 3% for conventional financing. The bank factors in all purchasing costs, operational expenses, and deferred payment risks when determining the profit margin.

⁴⁰ Mohamed Boujlal, Chaouki Bourakba, op. cit., p. 68.

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Despite this, the bank can potentially reduce costs to prevent borrowers from opting for conventional loans. Consequently, this scenario reflects the failure of the Islamic financing policy adopted by the National Savings and Reserve Fund.

FOURTH TOPIC: MECHANISMS TO ACTIVATE THE HOUSING FINANCE SYSTEM IN ALGERIA

Despite serious attempts in this area, there has not been significant success, mainly due to the higher costs in Algeria compared to traditional loans. To activate and develop this alternative source, the following measures should be undertaken:

1. **Reducing the profit margins of banks** by controlling operating costs and payment risks.
2. **Creating a new formula, "rent-to-own housing,"** and activating the role of Islamic banks in financing it.
3. **Financing through BOT (Build-Operate-Transfer) contracts** for real estate development companies, where banks can apply the Partnership Ending in Ownership formula to finance project costs and share profits with the property developer. The Murabaha formula could also be applied by purchasing building materials and selling them to the developer on installments, or by contracting between them to rent equipment with a promise of ownership at the end of all payments.
4. **Establishing special Islamic financing companies** that operate in the field of Murabaha for real estate. These companies would buy properties and resell them for a known profit, allowing the beneficiary the option to make installment payments.
5. **Creating investment companies** that collect savings from citizens and invest them in constructing buildings for rent. The bondholders (savers) would receive a portion of the rental returns according to their investment value.

One of the best methods in Islamic financing is through Sukuk, which involves converting tangible assets (real estate) into tradable securities. This is a very effective mechanism that can be used to provide the liquidity needed to finance major developmental projects, in addition to generating profitability for financial institutions. To ensure its success in Algeria, the following needs to be achieved:

- **Activating the secondary market** and developing the trading of securities.
- **Encouraging the use of Islamic financing formulas** and resorting to Islamic banks.
- **Establishing bodies responsible for regulating the secondary market**, primarily including:
 - **The Issuer:** Manages the assets owned by Sukuk holders in exchange for a commission, usually in the form of a Special Purpose Vehicle (SPV).
 - **Investment Insurance Company:** Protects the interests of investors and retains documents and securities.
 - **Rating Agencies:** Focus on assessing the risk level in Sukuk.

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- **Sharia Supervisory Body:** Responsible for monitoring the compliance with Sharia in the trading process.

Conclusion

Based on the current study's analysis, several conclusions can be drawn:

- Islamic banks in Algeria implement the lease to own model for purchasing new homes and the Partnership Ending in Ownership model for improving and renovating existing homes.
- Algeria is moving towards integrating Islamic services within conventional banks. However, their success remains limited due to the higher costs associated with Islamic loans compared to traditional loans.
- Islamic financing can become an effective source for funding the housing sector by achieving the following:
 - ✓ Controlling operational costs and payment risks to reduce lending costs.
 - ✓ Financing real estate developers through the application of Partnership Ending in Ownership and Murabaha (cost-plus financing) models.
 - ✓ Creating lease-to-own housing funded by Islamic banks and financial institutions.
- Islamic Sukuk are a highly effective mechanism that Algeria can use to finance major developmental projects and, simultaneously, enhance the profitability of banks. However, their success requires the initial activation of the secondary market, the development of securities trading, and the establishment of all necessary regulatory bodies.
- The secondary Islamic market should engage in trading by issuing Sukuk in the form of lease-to-own certificates, Partnership Ending in Ownership certificates for new property creation, and housing certificates.

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