

Leveraging Islamic Finance Solutions to Enhance Institutional Economic Value: Evidence from Algeria's Banking Sector

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Abstract

This study investigates the strategic potential of Islamic finance as an innovative, ethically grounded approach to enhancing institutional economic value. By grounding financial operations in Shari'ah-compliant principles, Islamic finance offers a coherent alternative to conventional models one that promotes financial resilience, purposeful value creation, and alignment with long-term development objectives. Anchored in the case of Al Salam Bank within Algeria's banking sector, the research adopts a robust mixed-methods approach, blending qualitative insights from theoretical Islamic finance paradigms with quantitative analysis of institutional financial indicators .The findings underscore the effectiveness of Islamic finance in reinforcing institutional stability, optimizing resource allocation, and fostering sustainable economic outcomes. However, the study also reveals key structural and operational challenges, including regulatory rigidity, market-based competition, and procedural complexities in implementation. In addressing these barriers, the study offers a set of forward-looking recommendations, emphasizing policy innovation, institutional capacity enhancement, and context-sensitive operational strategies. Together, these measures aim to unlock the full potential of Islamic finance as a driver of economic value and resilience within Algeria's evolving financial landscape.

Keywords Islamic Finance, Economic Value, Sustainable Finance, Algeria's Banking Sector.

Jel Classification: G21; P43; Q01; O55; L25

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Introduction

Islamic finance has emerged as a distinctive paradigm within contemporary financial systems, offering a compelling synthesis of economic efficiency and Islamic jurisprudential principles. Through its ethical foundations and innovative instruments, it has expanded globally, positioning itself as a vital component of modern financial architecture. Anchored in Shari'ah principles that prohibit *riba* (usury) and *gharar* (uncertainty), Islamic finance employs a wide array of structured financing instruments that ensure compliance while fostering market integrity and social justice.

This comprehensive framework not only enhances operational efficiency in financial intermediation but also promotes equitable wealth distribution and broader market inclusivity. It stands as a credible alternative that harmonizes ethical governance with market-driven efficiency, responding to the evolving needs of today's financial systems.

The institutional implications of Islamic finance are equally significant. As modern economies increasingly rely on integrated financial and regulatory infrastructures, the Islamic financial model introduces adaptive mechanisms that reinforce institutional resilience and developmental capacity. Its emphasis on risk-sharing, asset-backing, and moral accountability equips institutions with tools to support fiscal stability, inclusive growth, and long-term sustainability. Accordingly, Islamic finance offers a strategic pathway for nations seeking to modernize their financial systems while maintaining cultural and ethical alignment.

In Algeria, Islamic finance is gaining momentum as part of the country's broader effort to reform and diversify its financial sector. It presents a promising avenue for enhancing financial inclusion, stimulating investment, and supporting national development objectives. Al Salam Bank, in particular, plays a pioneering role in advancing Islamic finance within Algeria through its strategic initiatives, tailored banking products, and commitment to sustainable financial solutions. Its contributions underscore the potential of Islamic finance to support institutional development and strengthen Algeria's integration into the global financial landscape.

Research Problem

How can Islamic finance solutions contribute to enhancing institutional economic value, and what role do Islamic financing models play in supporting financial stability and fostering sustainable economic growth?

Sub-questions

1. What is the relationship between Islamic financing instruments and the enhancement of operational efficiency within economic institutions?
2. Which indicators can effectively measure institutional economic value in the context of Islamic finance?
3. What are the primary challenges hindering the application of Islamic finance in value creation for institutions, and what strategies can be adopted to address them?

The Objective of the Study

This study aims to analyze the contribution of Islamic finance to institutional economic value creation by examining its financial instruments and evaluating the case of Al Salam Bank in Algeria. It seeks to assess the impact of Islamic financing policies on supporting economic institutions and promoting sustainability. Furthermore, the research proposes practical indicators to measure institutional value and offers policy-oriented recommendations to strengthen Islamic finance at both national and international levels, thereby enhancing its role in achieving inclusive and sustainable development.

The Significance of the Study

The significance of this research lies in its examination of the connection between Islamic finance as an ethically grounded and viable alternative financial system and the enhancement of

institutional economic value. In the context of the growing global demand for innovative and adaptable financial models, this study offers timely and relevant insights into how Islamic finance can function as a strategic driver of financial resilience and sustainable long-term growth. By focusing on Algeria's evolving experience with Islamic banking, the research provides a nuanced, context-specific understanding of how Islamic financial instruments can contribute to institutional development, promote economic diversification, and expand financial inclusion across emerging economies.

Methodological Approach

The study adopts a mixed-methods approach that combines qualitative and quantitative analysis. The qualitative component explores the theoretical foundations of Islamic finance and the concept of institutional economic value. The quantitative component relies on secondary data extracted from Al Salam Bank's reports in Algeria and other official publications, aiming to measure financial and operational indicators and analyze the impact of financing policies on value creation. This approach seeks to establish a knowledge-based and practical foundation for developing data-driven recommendations to enhance Islamic finance policies and support their institutional implementation.

I. Literature Review

Islamic finance has gained substantial recognition as a sustainable and ethical alternative to conventional financial systems, offering solutions aligned with Shari'ah principles. Its mechanisms aim to balance profit generation with social responsibility, promoting economic inclusivity and financial stability. With its emphasis on risk-sharing, transparency, and ethical investment, Islamic finance provides a structured framework for addressing global financial challenges, including risk management, equitable wealth distribution, and sustainable development, particularly in emerging markets.

Within this context, several studies have examined the role of Islamic finance in strengthening institutional resilience and supporting economic development. [Raimi et al. \(2024\)](#) highlight the contribution of Islamic sustainable finance to achieving the Sustainable Development Goals (SDGs) through Shari'ah-compliant mechanisms that effectively manage financial risks. Their findings underscore the equilibrium Islamic finance maintains between ethical orientation and economic soundness. Similarly, [Mohamed et al. \(2020\)](#) investigate the potential of instruments such as murabahah and musharakah in improving access to finance for small and medium-sized enterprises (SMEs) while also identifying regulatory and awareness-related constraints.

[Al Balushi et al. \(2018\)](#) explore adoption factors among SMEs in Oman, showing that familiarity with Islamic financial products and firm-level characteristics significantly influence uptake. Complementing this, [Matamreh and Almanaseer \(2015\)](#) assess Islamic banks' role in financing SMEs in Bahrain, emphasizing the practical impact of tools like murabahah and ijarah in advancing growth despite ongoing structural limitations.

Furthering this line of inquiry, [Adelekan \(2021\)](#) proposes an alternative entrepreneurial finance model built on Islamic instruments, arguing that murabahah, musharakah, and ijarah offer viable support for startups through risk-sharing and ethical investment. [Adams \(2020\)](#) similarly examines the effect of Islamic finance on SMEs in Nigeria, noting improvements in funding access and operational performance, while also pointing to challenges such as regulatory gaps and limited awareness.

Together, these studies illustrate Islamic finance's capacity to contribute meaningfully to inclusive economic development and institutional support. At the same time, they highlight unresolved barriers—regulatory complexity, limited outreach, and procedural inefficiencies—that warrant further investigation. These insights form a foundation for examining the strategic relevance of Islamic finance in institutional contexts.

II. *Islamic Finance: A Conceptual Overview*

Islamic finance constitutes a distinct and comprehensive financial system that harmoniously integrates ethical principles with economic principles, fundamentally grounded in Islamic Sharī'ah principles. This comprehensive system strives to achieve social and economic justice through the meticulous regulation of financial activities following Islamic values. The foundational principles include the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling) while introducing innovative financial instruments that ensure equitable risk distribution and promote productive economic activities that contribute to societal development (Chapra, 2008).

Unlike conventional finance, Islamic finance operates within a dual framework that combines compliance with Sharī'ah standards and adherence to financial regulations. This integrated approach ensures the consistency and stability of financial operations while allowing for flexibility and contextual adaptation. Consequently, Islamic finance has emerged as a viable model for addressing contemporary financial and ethical challenges, particularly in contexts where sustainable and inclusive financial systems are sought.

Beyond its legal and ethical foundations, the application of Islamic finance finds expression in its interaction with economic institutions. These institutions, understood as dynamic structures that encompass economic, social, and managerial functions (North, 1991), play a pivotal role in translating Sharī'ah principles into implementable financial frameworks. Through their intermediation, Islamic finance principles are operationalized in the coordination of production, distribution, and investment activities. This integration contributes to enhanced efficiency, reduced transaction costs, improved trust in financial systems, and greater institutional adaptability in the face of economic shifts.

Islamic finance further serves as a strategic catalyst for economic diversification and investment promotion. It offers targeted financing solutions for sectors such as small and medium-sized enterprises (SMEs), agriculture, manufacturing, and infrastructure development. A wide array of Sharī'ah-compliant instruments enables this functionality, including (Usmani, 2002; Iqbal & Mirakhor, 2011):

- a. *Murābaḥah* (Cost-Plus Financing): Widely used in trade and asset financing, facilitating transactions based on transparency in cost and profit margins.
- b. *Mushārakah* (Partnership Financing): Suitable for joint ventures and large-scale projects, promoting risk-sharing and collaboration.
- c. *Mudārabah* (Profit-Sharing): A partnership model where one party provides capital, and the other contributes expertise, sharing profits according to pre-agreed ratios.
- d. *Ijārah* (Leasing): This offers structured lease arrangements, allowing access to assets without immediate ownership.
- e. *Istisna'* (Manufacturing Contract): This is designed for customized goods or commodities to be delivered at a future date.
- f. *Salam* (Forward Sale): Allows advance payments for goods to be delivered later, supporting producers and suppliers.

Islamic finance also addresses the unique requirements of rural economies through contracts tailored for agricultural and natural resource development (Shafiai, 2015):

- g. *Muzāra'ah* (Agricultural Partnership): Facilitates joint farming ventures between landowners and farmers.
- h. *Musāqāt* (Irrigation Partnership): Encourages collaborative irrigation management to optimize resource use.
- i. *Mughārasa* (Plantation Partnership): Supports partnerships in plantation and horticulture development.

These financial tools embody the ethical dimensions of Shari‘ah while actively contributing to financial inclusion, wealth redistribution, and social welfare. Their application supports equitable growth, reinforces community resilience, and aligns economic activity with moral and developmental objectives.

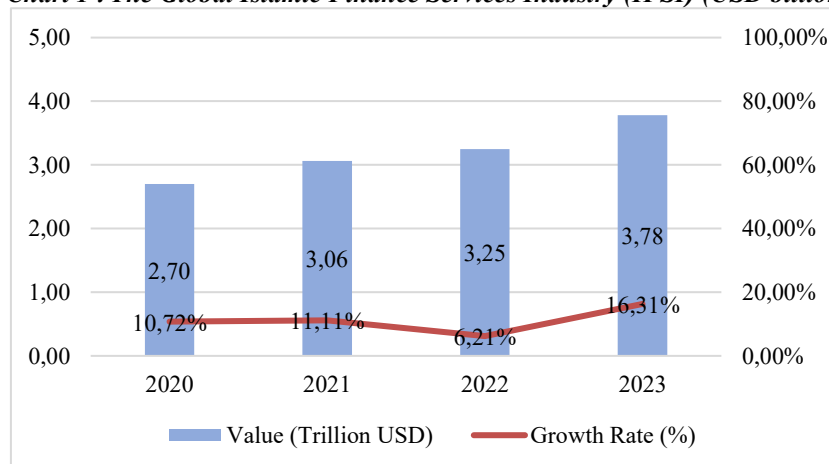
The interplay between Islamic finance and economic institutions underscores the system’s value in responding to complex financial realities. While Islamic finance ensures adherence to ethical norms, institutions provide the necessary structure for implementation, policy development, and market coordination (Acemoglu & Robinson, 2008). This synergy enhances the resilience of financial systems, broadens access to capital, and fosters innovative, inclusive solutions that are essential for achieving sustainable growth across both local and global contexts.

III. Global Trends and Market Dynamics in Islamic Finance

The global Islamic finance industry has experienced a profound transformation in recent years, driven by surging demand for Shari‘ah-compliant financial instruments and its demonstrated resilience amid global economic disruptions. This sector continues to expand through its capacity for financial innovation, the diversification of its product offerings, and its growing presence across both Muslim-majority and non-Muslim markets. These trends underscore the unique potential of Islamic finance not only to navigate increasingly complex financial landscapes but also to uphold its ethical and moral foundations, reinforcing its position as a viable and sustainable alternative within the global financial system.

This impressive trajectory is visually captured in Chart 1, which illustrates the size and growth of the Global Islamic Financial Services Industry (IFSI) as of 2023. The chart highlights the sector’s resilience and its expanding role in contributing to global financial stability and inclusivity.

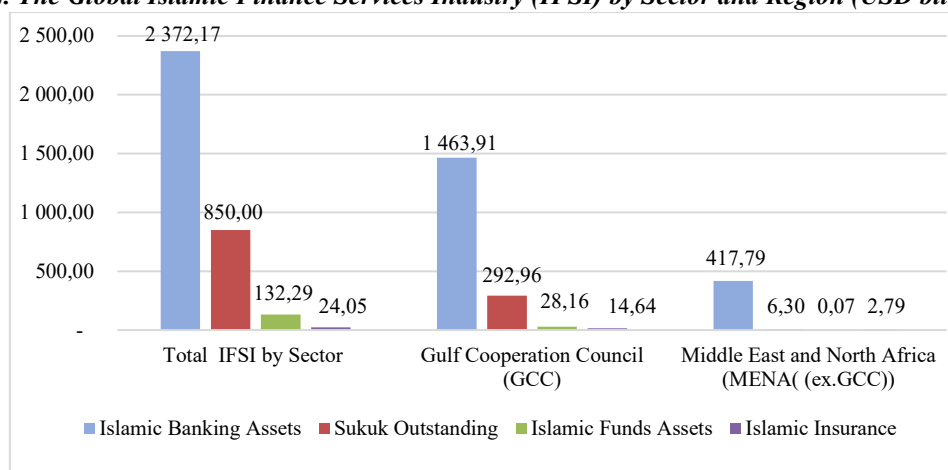
Chart 1 . The Global Islamic Finance Services Industry (IFSI) (USD billion)



Prepared by the researcher based on data sourced from Islamic Financial Services Board Stability (2021, 2022, 2023, 2024)

Chart 1 illustrates a notable upward trajectory in the global Islamic Financial Services Industry (IFSI) values between 2020 and 2023, starting at \$2.7 trillion in 2020 and steadily rising to \$3.78 trillion in 2023. This annual growth trend reflects sustainable performance across various financial, economic, and operational indicators. The initial increase from \$2.7 trillion in 2020 to \$3.06 trillion in 2021 signals a significant leap, driven by enhanced management practices or supportive policy interventions. By 2022, values reached \$3.25 trillion, demonstrating stability in economic and operational conditions. In 2023, the figure rose to \$3.78 trillion, highlighting factors such as increased efficiency, market expansion, and higher demand for Shari‘ah-compliant financial products and services. This sustained growth underscores the global appeal and adaptability of Islamic finance in navigating economic challenges and promoting sustainable development.

Chart 2 illustrates the Global Islamic Finance Index by sector and region, with a particular focus on the Middle East and North Africa.

Chart 2. The Global Islamic Finance Services Industry (IFSI) by Sector and Region (USD billion, 2023)

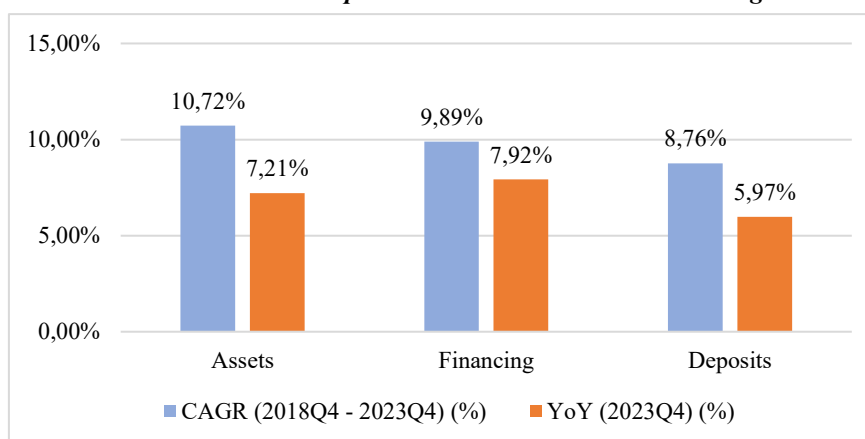
Prepared by the researcher based on data sourced from (Islamic Financial Services Board, 2024)

The global Islamic financial market was valued at \$3,378.51 billion in 2023, with Islamic banking assets dominating at 70.21% of the total market, followed by Sukuk (25.16%), Islamic investment assets (3.92%), and Islamic insurance (0.71%). This distribution reflects the diversity of Islamic financial instruments and varying maturity levels within the sector.

Gulf Cooperation Council (GCC): Accounting for \$1,847.42 billion, the GCC's performance is primarily driven by Islamic banking assets (\$1,463.91 billion) and a robust Sukuk market (\$292.96 billion). These figures underscore the region's advanced financial infrastructure and its role as a global hub for Islamic finance.

Middle East and North Africa (MENA, Excluding GCC): Valued at \$427.82 billion, this region's Islamic financial market remains concentrated in Islamic banking assets (\$417.79 billion), with modest Sukuk contributions (\$6.30 billion), highlighting the need for greater diversification in financial instruments.

These figures affirm the global acceptance of Islamic finance as a viable alternative to conventional systems, with regional variations showcasing unique contributions to the industry's development, with each region contributing uniquely to its development. Central to this growth is the resilience and expansion of Islamic banking assets, which serve as a cornerstone of the industry's progress. Analyzing key indicators such as assets, financing, and deposits through Compound Annual Growth Rate (CAGR) and Year-on-Year (YoY) growth provides a clear picture of the sector's sustained momentum and short-term advancements.

Chart 3. Structural Developments in the Global Islamic Banking Sector

Prepared by the researcher based on data sourced from (Islamic Financial Services Board, 2024)

The global Islamic banking sector has demonstrated remarkable growth, driven by three key components: assets, financing, and deposits. These components have been analyzed through two critical performance metrics: the Compound Annual Growth Rate (CAGR) and Year-on-Year (YoY) growth. The CAGR highlights robust long-term performance, with assets growing at an impressive annual rate of 10.72%, reflecting an expanding resource base and increased operational capacity. Financing recorded a growth rate of 9.89%, underscoring the rising demand for Shari'ah-compliant financial tools supporting diverse economic activities. Deposits grew 8.76%, indicating heightened customer trust and preference for Islamic banking as a secure savings mechanism.

On a shorter timeline, the YoY analysis for the fourth quarter of 2023 reveals steady progress. Assets grew by 7.21%, signaling continued expansion despite market adjustments and macroeconomic fluctuations. Financing increased by 7.92%, showcasing sustained demand for ethical loans and Shari'ah-compliant financial products. Meanwhile, deposits rose by 5.97%, demonstrating stable growth fueled by customer confidence in Islamic financial institutions' security and ethical values.

These long-term and short-term metrics collectively highlight the Islamic banking sector's resilience and adaptability, firmly establishing its role as a cornerstone of sustainable economic development and a key driver of financial inclusivity.

IV. Algeria in the Landscape of Islamic Finance

Amid the global expansion of Islamic finance, Algeria stands at a pivotal juncture as it works to integrate this ethical financial model into its broader economic framework. The gradual adoption of Islamic finance in Algeria signifies an increasing recognition of its potential to address funding gaps, attract investments, and enhance financial inclusion.

Table 1. Volume of Deposits in Islamic Financing (Billion Dinars)

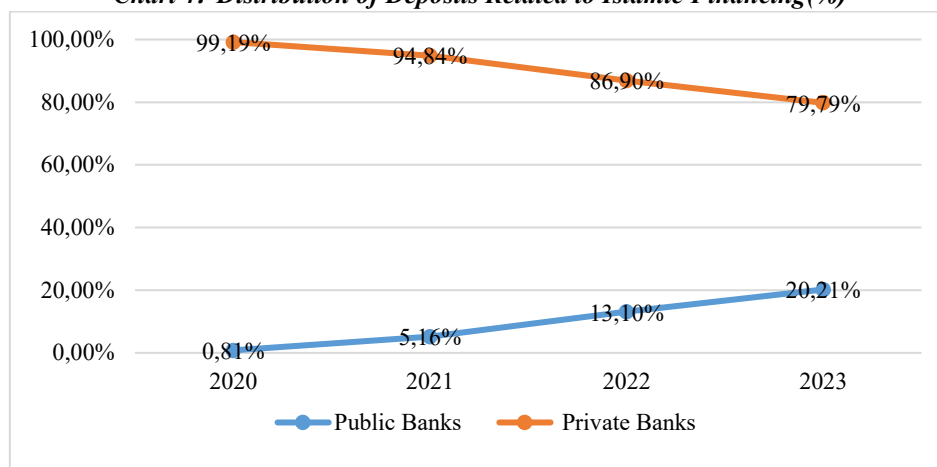
Product	2020	2021	2022	2023
1. Deposit Accounts	163.0	212.0	254.3	421.7
Public Banks	1.8	18.9	56.9	115.5
Private Banks	161.3	193.1	197.4	309.2
2. Investment Deposit Accounts	177.0	231.9	299.5	256.5
Public Banks	1.0	4.1	15.8	24.9
Private Banks	176.0	227.8	283.7	231.6
Total	340.0	443.9	553.7	678.2

Prepared by the researcher based on data sourced from (Bank of Algeria, 2023; Bank of Algeria, 2024)

Islamic finance deposits in Algeria experienced remarkable growth between 2020 and 2023, with total deposits increasing by 99.5% to reach 678.2 billion DZD in 2023, reflecting the rising demand for Shari'ah-compliant banking products. Deposit Accounts grew significantly, reaching 421.7 billion DZD in 2023, driven by substantial growth in public banks, which increased their deposits from 1.8 billion DZD in 2020 to 115.5 billion DZD in 2023, while private banks maintained dominance despite a slowdown in their growth rate. In contrast, Investment Deposit Accounts declined by 14.3% in 2023, falling from 299.5 billion DZD in 2022 to 256.5 billion DZD, with public banks showing stable growth while private banks experienced a notable decrease, indicating a shift in customer preferences toward more liquid accounts. Public banks increased their market share from 0.81% in 2020 to 20.21% in 2023, reflecting the success of their expansion strategies, whereas private banks saw their share decline to 79.79%, maintaining dominance despite intensified competition. This structural transformation highlights growing customer confidence in Islamic banking, emphasizing the urgent need for innovative investment products to meet market demands and expand financial inclusion.

This notable growth in deposits underscores a structural transformation in the sector, with public banks steadily expanding their market share, as illustrated in the following chart 4.

Chart 4. Distribution of Deposits Related to Islamic Financing(%)



Prepared by the researcher based on data sourced from (Bank of Algeria, 2023; Bank of Algeria, 2024)

Chart 4 highlights a significant market shift in Islamic finance deposits. Public banks expanded their share from 0.81% in 2020 to 20.21% in 2023, reflecting strategic growth and increasing trust. Private banks, although still dominant, saw a decline in their share from 99.19% to 79.79%, indicating rising competition. These structural changes reflect a dynamic sector with growing public bank participation and pressure on private banks to innovate and sustain their leadership.

This evolving deposit distribution aligns closely with the performance of various Islamic financial products, where diverse financing tools such as Murābaḥah, Salam, and Istisnā' have been pivotal in driving growth, as illustrated in the following Table 2.

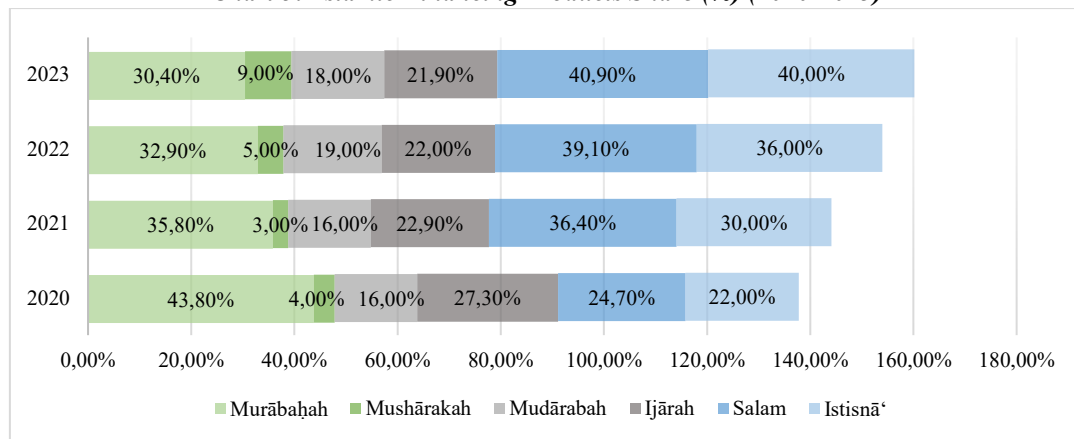
Table 2. Islamic Financing Products (Billion Dinars)

Product	2020	2021	2022	2023
Murābaḥah	132.3	130.7	129.7	139.5
Mushārakah	1.2	1.1	2.0	4.2
Mudārabah	4.9	6.0	7.6	8.3
Ijārah	82.7	83.9	86.5	100.4
Salam	74.7	133.1	153.9	187.7
Istisnā'	6.6	11.1	14.3	18.5
Total	302.3	365.9	393.9	458.6
Public Banks Share	70.1%	70.5%	71.6%	74.7%
Private Banks Share	99.9%	99.5%	98.4%	95.3%

Prepared by the Researcher based on data from (Bank of Algeria, 2023; Bank of Algeria, 2024)

Islamic finance products in Algeria showed significant growth from 2020 to 2023, with total financing rising by 51.7% to reach 458.6 billion DZD in 2023. This growth highlights the rising demand for Sharī'ah-compliant instruments and the diversification of their applications, as clearly illustrated in upcoming chart 5 on the market share of each party.

Chart 5. Islamic Financing Products Share (%) (2020-2023)



Prepared by the researcher based on data sourced from (Bank of Algeria, 2023; Bank of Algeria, 2024)

Chart 5 and Table 2 illustrate the evolution of Islamic financing instruments within Algeria's banking sector over the period 2020–2023. The analysis reveals clear trends in product distribution and institutional preferences, shedding light on the structural dynamics of Islamic finance in the country.

Salam emerged as the dominant product, accounting for 40.9% of total financing in 2023. It increased from 74.7 billion DZD in 2020 to 187.7 billion DZD, reflecting its strong appeal for short-term trade financing and institutional preferences. Murābahah contributed 30.4% of total financing in 2023, with a moderate increase to 139.5 billion DZD, showcasing its enduring importance despite slower growth. Ijārah represented 21.9% of total financing in 2023, reaching 100.4 billion DZD, emphasizing its role in supporting long-term asset financing needs. Istisnā', linked to industrial and infrastructure financing, grew moderately from 6.6 billion DZD to 18.5 billion DZD in 2023, representing 4% of total financing.

Equity-based products, though smaller in scale, exhibited notable growth. Mudārah, with a value of 8.3 billion DZD in 2023, accounted for 1.8% of total financing, showcasing its utility as a profit-sharing tool. Mushārah rose from 1.2 billion DZD in 2020 to 4.2 billion DZD in 2023, contributing 0.9% of total financing and indicating increasing interest in risk-sharing mechanisms.

Regarding market share, public banks increased their market share from 70.1% in 2020 to 74.7% in 2023, reflecting customer trust and effective strategies. Private banks saw their share decline, indicating the need for innovation to sustain their dominance. This dynamic shift highlights the growing role of public banks and the overall adaptability of the Islamic finance sector in Algeria.

V. Islamic Finance and the Strategic Enhancement of Economic Value and Institutional Resilience

Islamic finance offers a comprehensive and ethically grounded framework for generating and enhancing economic value, broadly defined as the intrinsic worth of an asset or institution based on its ability to deliver economic benefits or meet essential needs over time. This value encompasses both tangible and intangible dimensions, including utility, scarcity, and potential returns elements that underpin economic decision-making and financial transactions (Fisher, 1930). Through Shari'ah-compliant strategies, Islamic finance contributes to value creation by aligning revenue generation with responsible risk management while embedding sustainability and ethical considerations into its core financial logic.

1. Islamic Banking Modes and Instruments for the Economic Needs

Islamic banks play a central role in institutional value creation by offering Shari'ah-compliant financial products tailored to diverse economic needs. These instruments support a wide range of sectors, from industry and agriculture to infrastructure and SMEs, while promoting sustainability, innovation, and ethical finance. According to the Islamic Development Bank (2022), key instruments include:

- a. **Murābahah:** Facilitates the acquisition of production inputs for industrial companies without depleting financial resources, ensuring operational continuity and competitiveness. Setting clear profit margins ensures transparency and trust between the parties involved
- b. **Mushāarakah:** Supports large-scale projects in infrastructure and real estate by pooling financial and technical resources, ensuring equitable risk and profit-sharing. It encourages partnerships that leverage collective expertise to achieve strategic economic goals.
- c. **Mudārabah:** Encourages entrepreneurial ventures and high-risk projects, fostering innovation and market expansion through transparency and risk-sharing. This model incentivizes creativity and trust, particularly in start-up ecosystems.
- d. **Salam:** Provides liquidity to producers in agriculture and manufacturing, stabilizing supply chains and ensuring sustained production cycles. It is particularly valuable for forward financing, helping producers meet future demand effectively.
- e. **Istisna':** Significantly contributes to enhancing the value of an economic institution by boosting productivity, improving cash flows, expanding investment opportunities, and building a strong market reputation. This tool is tailored for custom manufacturing and large-scale industrial projects.
- f. **Ijārah:** Offers businesses access to assets without the financial burden of ownership, playing a strategic role in infrastructure development and operational scalability. By enabling operational flexibility, it minimizes capital expenditure while maximizing efficiency.
- b. **Islamic Agricultural Financing:** Tools such as *Muzāra'ah* (sharecropping), *Mughārasa* (tree planting partnerships), and *Musāqāt* (irrigation partnerships) emphasize risk-sharing and equitable benefits, supporting sustainable agricultural practices. These mechanisms foster resilience in rural economies, ensuring food security and resource optimization.

These tools collectively highlight Islamic finance's commitment to ethical practices, risk-sharing, and innovation, fostering economic resilience and sustainable development. Key benefits include:

- a. **Strengthening Financial Structures:** Islamic financing distributes risks equitably between financiers and institutions, fostering robust and resilient financial frameworks.
- b. **Optimizing Resource Utilization:** It enables institutions to efficiently access resources without requiring substantial upfront costs, preserving liquidity (Mohieldin et al., 2012).
- c. **Enhancing Liquidity Management:** Flexible solutions ensure seamless operational continuity and address day-to-day financial needs effectively.
- d. **Facilitating Strategic Investments:** Institutions can acquire ownership progressively or fund long-term projects, promoting innovation and expansion.
- e. **Supporting Growth Projects:** Tailored models directly fund infrastructure, industrial, and expansion activities, driving sustainable development.
- f. **Mitigating Financial Risks:** By linking funding to measurable outputs, Islamic financing reduces uncertainties and protects investments (Raimi et al., 2024).
- g. **Boosting Competitive Advantage:** Collaborative financial structures foster competitiveness and strategic growth opportunities, ensuring institutional differentiation.
- h. **Equitable distribution of wealth, social justice, and investment in halal sectors,** thereby supporting goals such as sustainable economic growth (Syafaat, 2020).

These features collectively exemplify how Islamic financial instruments revolutionize institutional value creation by offering a distinctive blend of ethical compliance and economic efficiency.

2. *Economic Value Indicators within the Context of Islamic Finance*

The economic value of an institution is a multidimensional construct reflecting its overall strength, sustainability potential, and adaptive capacity in the face of evolving internal and external challenges. It serves as a vital benchmark for assessing institutional viability, long-term strategy, and performance orientation. Within the framework of Islamic finance, several key indicators can be employed to evaluate institutional value creation. These indicators not only measure financial and operational outcomes but also align with the ethical imperatives and strategic logic embedded in Sharī'ah-compliant finance.

2.1 *Competitiveness Indicator*

Islamic financial instruments function as strategic enablers that significantly enhance institutional competitiveness. By offering risk-sharing and cost-effective alternatives to conventional financing, these tools allow institutions to access flexible capital while improving operational efficiency and driving innovation within ethical boundaries. For instance, Murābahah and Mushārakah facilitate access to financing without imposing excessive financial burdens, enabling institutions to remain agile in competitive markets (Sahut et al., 2015). Additionally, tools such as Ijārah support capital acquisition without ownership constraints, while Salam and Istisnā' offer tailored solutions for trade, agriculture, and infrastructure. The synergy between Sharī'ah-compliant mechanisms and institutional competitiveness becomes a fundamental driver for value maximization, supporting both short- and long-term strategic goals.

2.2 *Financial Performance and Profitability Indicators*

Financial performance remains a core determinant of institutional value and sustainability. Islamic financing tools such as Murābahah, Mushārakah, and Muḍārabah facilitate profitability through risk-sharing arrangements that reduce exposure to financial shocks. In Muḍārabah, for example, profit-sharing agreements align the interests of capital providers and entrepreneurs while minimizing systemic vulnerabilities. Ijārah contracts generate stable revenue streams through lease-based models, and Salam enables agricultural producers to secure future income via pre-sale arrangements. Meanwhile, Istisnā' aligns disbursements with project milestones, ensuring financial discipline and efficient cash flow management. These mechanisms collectively improve revenue predictability, reduce risk exposure, and strengthen institutional financial sustainability (Puente, 2024).

2.3 *Quality Indicator*

Institutional value is also closely tied to quality, encompassing service delivery, operational performance, and innovation capabilities. Islamic finance fosters quality through transparency, accountability, and ethical compliance. Murābahah, for instance, enhances trust via clear profit disclosures and cost structures. Similarly, Istisnā' contracts improve process quality in manufacturing and construction by linking payments to verified deliverables, promoting efficiency, and reducing rework. These mechanisms reflect alignment with Total Quality Management (TQM) principles, which emphasize continuous improvement, waste reduction, and customer satisfaction. As a result, Islamic finance supports institutions in delivering high-quality outcomes while strengthening brand reputation and stakeholder confidence (Al-Khasawneh, Al-Zoubi, & Alnajjar, 2013).

2.4 *Market Share Indicator*

Market share reflects an institution's ability to attract and retain clients while maintaining a competitive edge. Islamic finance contributes to market expansion through customized and inclusive financing solutions that build loyalty and address diverse sectoral needs. Instruments such as Ijārah and Salam facilitate access to underserved segments, while Istisnā' supports firms in tailoring solutions for niche industrial and infrastructure projects. By employing Sharī'ah-compliant strategies,

institutions differentiate themselves through ethical branding and flexible financial offerings, thereby increasing market visibility and share.

2.5 Bankruptcy Risk Mitigation Indicator

Mitigating bankruptcy risk is fundamental to institutional resilience. Islamic finance strengthens risk management through asset-backed transactions, contractual clarity, and the avoidance of interest-based debt structures (Raimi et al., 2024). In Murābahah, fixed markup terms reduce exposure to variable interest rates and financial shocks. Mushārah and Muḍārah distribute investment risks across partners, limiting the concentration of financial burden. Salam contracts stabilize cash flow in agriculture by securing future income, while Istisnā' aligns financial obligations with production phases, avoiding upfront cost saturation (Puente, 2024). These risk mitigation features provide institutions with stability, solvency, and the capacity to withstand adverse economic conditions.

These indicators collectively reveal that Islamic finance is not merely a set of compliant instruments but a strategic system capable of redefining institutional value in dynamic economic contexts. By embedding financial discipline, ethical governance, and risk-aligned mechanisms, Islamic financing enables institutions to transition from operational adequacy to long-term resilience and strategic relevance. This capacity to integrate measurable performance with value-based principles positions Islamic finance as a viable framework for institutional transformation in both emerging and developed economies.

VI. The Experience of Al Salam Bank in Advancing Islamic Finance in Algeria

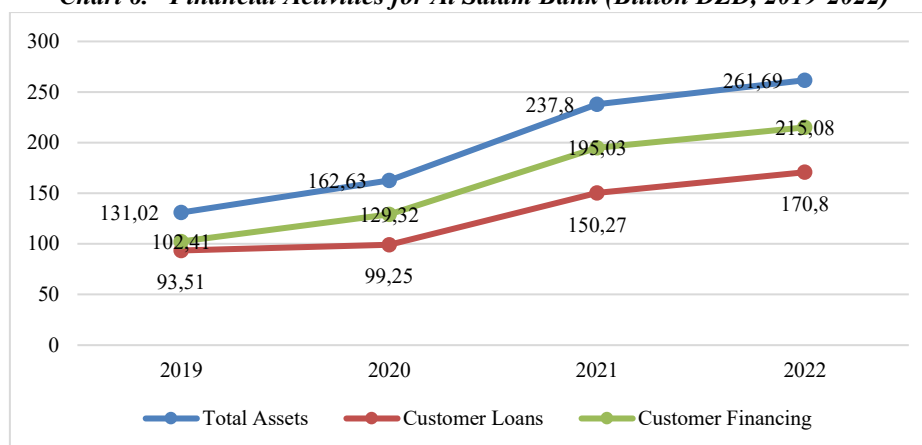
Al Salam Bank stands as one of Algeria's foremost financial institutions, operating in full compliance with Sharī'ah principles under the supervision and regulatory framework of the Bank of Algeria. Established on June 8, 2006, and commencing operations on October 20, 2008, the bank has positioned itself as a pioneer in providing innovative Islamic banking solutions tailored to the socio-economic realities of the Algerian market.

With a network of 25 branches across the country, Al Salam Bank plays an active role in promoting economic growth and financial sustainability. Its service portfolio emphasizes Sharī'ah-compliant investment financing and working capital solutions, targeting private sector enterprises and institutional actors. By aligning its operations with Islamic ethical standards and national development priorities, the bank contributes meaningfully to the advancement of Islamic finance within Algeria's evolving financial landscape.

1. Scaling Islamic Finance: Trends in Growth and Diversification at Al Salam Bank

The case of Al Salam Bank exemplifies the practical scaling of Islamic finance within a developing financial ecosystem. During the period from 2019 to 2022, Al Salam Bank achieved steady institutional expansion and financial consolidation, reflecting its effective positioning within Algeria's Islamic banking landscape. Through a diversified portfolio of Sharī'ah-compliant financing, the bank demonstrated a strong capacity to contribute to national economic priorities while reinforcing its market presence. As evidenced by the data presented in Chart 6, this period marked a clear trajectory of growth in assets, financing volumes, and sectoral outreach.

Chart 6. Financial Activities for Al Salam Bank (Billion DZD, 2019-2022)



Prepared by the researcher based on data sourced from (Al Salam Bank, 2021; Al Salam Bank, 2022)

Figure 6 showcases the sustainable growth of Al Salam Bank's core financial activities between 2019 and 2022. Total assets nearly doubled, growing by 99.7% from 131 billion DZD in 2019 to 261.7 billion DZD in 2022. This growth highlights the bank's ability to attract deposits and invest them effectively in Shari'ah-compliant instruments. Customer loans increased by 82.6%, emphasizing the bank's role in financing economic activities and supporting private sector growth. Additionally, customer financing rose by 110%, reflecting the growing demand for Islamic financial solutions and the bank's capacity to meet these needs effectively.

This growth reflects the bank's ability to diversify its offerings and meet the evolving needs of its customers, as outlined in Table 3 below.

Table 3. Types of Financing (Billion DZD, 2019-2022)

Financing Type	2019	2020	2021	2022
Investment Financing	11,33	10,35	13,95	16,76
Leasing of Movable Assets	9,02	7,96	10,6	11,33
Leasing of Real Estate	5,08	4,79	2,8	3,34
Overdraft Accounts	0,21	0,04	0,26	0,36
Working Capital Financing	53,17	65,9	115,97	136,02

Prepared by the researcher based on data sourced from (Al Salam Bank, 2021; Al Salam Bank, 2022)

Al Salam Bank's financial trajectory over the period under review reflects a deliberate move toward strategic diversification and sector-specific impact. A particularly notable area of expansion was investment financing, which grew by 48%, rising from 11.33 billion DZD in 2019 to 16.76 billion DZD in 2022, underscoring the bank's sustained commitment to institutional development and long-term economic resilience. In parallel, the leasing of movable assets increased by 25.7%, reaching 11.33 billion DZD, thereby enhancing clients' access to productive capital and supporting operational scalability across multiple sectors.

In contrast, leasing of real estate declined by 34.3%, falling from 5.08 billion DZD to 3.34 billion DZD over the same period. This decrease likely signals a strategic reallocation of resources toward sectors with higher economic priority or more immediate return potential in response to shifting market demands. Meanwhile, although modest in scale, overdraft accounts recorded a substantial increase of 71.4%, rising from 0.21 billion DZD in 2019 to 0.36 billion DZD in 2022, indicating an enhanced role for the bank in addressing short-term liquidity constraints faced by businesses.

The most significant growth was observed in working capital financing, which surged by 155.8%, from 53.17 billion DZD to 136.02 billion DZD. This sharp increase reflects the bank's

pivotal role in supporting business continuity and cash flow stability, particularly during periods of economic fluctuation.

Taken together, this diversified financing portfolio demonstrates Al Salam Bank's capacity to strategically allocate capital in ways that respond to evolving client needs while advancing Algeria's broader economic objectives. Further details are presented in Table 5, which outlines the bank's financing focus across key economic segments.

Table 5. Financing by Economic Segment (Billion DZD, 2019-2022)

Segment	Item	2019	2020	2021	2022
Private Institutions	Total Advances and Rights	78.8	89.8	140.3	161.6
	Impairment Allowance	2.8	3.4	4.3	5.5
Public Institutions	Total Advances and Rights	0.014	0.0089	0.0025	-
	Impairment Allowance	-	-	-	-

Prepared by the researcher based on data sourced from (Al Salam Bank, 2021; Al Salam Bank, 2022)

Al Salam Bank's financing orientation between 2019 and 2022 reveals a deliberate strategic shift toward strengthening the private sector as a key engine of economic development. This repositioning reflects the bank's alignment with Algeria's broader policy focus on economic diversification and private sector empowerment. In parallel, the bank significantly scaled back its engagement with public institutions, signaling a reallocation of financial resources in favor of market-driven growth.

During this period, total advances and rights allocated to private institutions registered a remarkable increase of 105%, rising from 78.8 billion DZD in 2019 to 161.56 billion DZD in 2022. This surge highlights the bank's active role in supporting the financial needs of private enterprises and reflects its strategic commitment to enabling long-term institutional development and entrepreneurship.

Simultaneously, the impairment allowance grew from 2.8 billion DZD to 5.5 billion DZD, underscoring a cautious and forward-looking approach to risk management. This increase signals the bank's effort to maintain asset quality and financial resilience amid market fluctuations while expanding its exposure to a broader base of private sector clients.

In stark contrast, financing to public institutions declined to zero by 2022, marking a decisive departure from previous funding patterns. This withdrawal not only illustrates a recalibration of priorities but also reinforces the bank's evolving institutional identity as a strategic partner for the private sector. By concentrating its efforts on private entities, Al Salam Bank has positioned itself as a key player in driving inclusive growth, enhancing credit accessibility, and supporting productive sectors within a Shari'ah-compliant framework.

Overall, this transition demonstrates the bank's capacity to balance financial performance with developmental impact, strategically aligning its financing model with national economic objectives while upholding prudent financial governance.

2. Evolution of Financing Policies at Al Salam Bank

The financing strategy adopted by Al Salam Bank between 2019 and 2022 reflects a deliberate institutional shift toward quality-focused, risk-aware, and development-oriented lending practices. Rather than maintaining a static approach, the bank responded dynamically to emerging economic challenges, including the COVID-19 crisis and shifting national development priorities, by reconfiguring its financing criteria, target sectors, and client base. This period served as a critical phase of transformation in which the bank consolidated its commitment to Shari'ah compliance, private sector empowerment, and long-term financial sustainability.

In 2019, the bank recorded a moderate expansion in its financing activity, processing 467 financing files, a 6% increase from the previous year. Approval authority was distributed across three

main bodies: the Facilitation Committee authorized 31.3 billion DZD, the Financing Committee managed 11.7 billion DZD, and the Board of Directors approved 18.2 billion DZD (Al Salam Bank, 2019). Financing efforts were largely directed toward medium-sized enterprises, which received 50% of total disbursements through simplified credit mechanisms. However, the overall financing volume declined by 3%, primarily due to deferred investments and the weak financial standing of some applicants, as reported in the bank's annual review.

In 2020, a decisive shift occurred: the bank prioritized quality over quantity in financing operations. Although the number of processed files dropped by 3%, the total financing volume grew by 26%, illustrating a successful redirection toward financially resilient clients in key sectors. Of the financing applications reviewed, 37% were approved (totaling 25.7 billion DZD), while 10% were rejected based on credit risk or Shari'ah non-compliance. This refined selection strategy enabled the bank to navigate pandemic-induced uncertainties while protecting its portfolio quality.

By 2021, Al Salam Bank entered a phase of accelerated growth, with net financing facilities increasing by 52%, adding 58.2 billion DZD, which represented 59% of total financing for the year. The expansion was primarily driven by new relationships with large, well-capitalized firms, reinforcing the bank's presence as a leading Islamic financial institution and aligning with its long-term development strategy (Al Salam Bank, 2021).

Across this transformation, private sector financing remained the bank's primary focus. From 2019 to 2022, allocations to private enterprises rose by 105% from 78.8 billion DZD to 161.6 billion DZD, while financing to public institutions was gradually phased out, reaching zero by 2022. Sectoral distribution data further indicate a 20% increase in real estate financing and a 7% increase in movable asset financing. These trends confirm the bank's pivot toward supporting productive private-sector activity as a core driver of economic diversification in Algeria.

3. *Ijārah as a Financing Model Supporting Economic Institutions*

Ijārah financing at Al Salam Bank recorded substantial qualitative and quantitative growth between 2019 and 2021, underscoring the institution's strategic resilience in navigating complex economic and health-related disruptions while reinforcing its standing within Algeria's Islamic finance sector.

In 2019, Ijārah financing grew by 25% compared to the previous year, with 496 files processed and total requests amounting to 13 billion DZD (108 million USD). Of these, 4.4 billion DZD (37 million USD) were approved, reflecting an approval rate of 34%. This performance demonstrates the bank's strategic focus on supporting new projects, thereby optimizing resource allocation and maximizing the developmental impact of financed activities (Al Salam Bank, 2019).

Despite the uncertainties brought by the global economic and health crisis in 2020, Ijārah financing exhibited robust momentum. Total requests increased by 36%, and approved facilities surged by 103%, reaching 9 billion DZD (67 million USD) out of 17.6 billion DZD (133 million USD) in total applications. The approval rate rose sharply to 65%, indicating a refined credit selection strategy that emphasized high-creditworthiness firms and resilient sectors, as outlined in the 2020 annual report.

The upward trend continued into 2021, with Ijārah financing achieving an 88% increase in approved facilities over 2020. Approvals totaled 17 billion DZD (119 million USD), while activated financing reached 8 billion DZD (57 million USD). According to the 2021 performance report, this exceptional growth elevated Ijārah to the second-most utilized Islamic financing instrument in the national banking landscape. This expansion was driven by the bank's targeted support for large corporations, SMEs, and startups, in line with its broader institutional strategy to stimulate innovation and foster economic development.

Collectively, these outcomes reflect Al Salam Bank's capacity to calibrate its financing strategies in response to shifting market conditions while upholding Shari'ah compliance. The consistent growth in Ijārah financing underscores its instrumental role in promoting financial inclusion, enabling access to productive assets, and contributing to Algeria's sustainable development objectives across key economic sectors. Through :

- a. Enhancing Liquidity: Ijārah enables institutions to acquire assets without depleting their cash reserves, supporting operational sustainability and investment in new growth opportunities.
- b. Increasing Productivity: By allowing asset usage without ownership obligations, Ijārah improves operational efficiency and enhances the added value of economic activities.
- c. Reducing Risks: Relying on tangible assets minimizes financing risks and strengthens the financial stability of institutions, particularly in volatile markets.
- d. Improving Profitability: Ijārah reduces direct financing costs, positively affecting cash flows and enabling investments in high-return activities.
- e. Supporting the National Economy: Facilities provided through Ijārah finance strategic projects in vital sectors, boosting economic value and creating new job opportunities.

Ijārah facilities are not merely a financing tool but a strategic mechanism for enhancing institutions' financial performance and economic value.

4. Challenges of Islamic Financing Amid Banking Competition

Despite the notable progress made by Al Salam Bank and other Islamic financial institutions, several structural and operational challenges continue to hinder the effective provision of financing to economic entities. These challenges include:

- Limited Awareness and Knowledge: A lack of awareness among many economic institutions about the benefits of Islamic finance limits its adoption. Societal misconceptions further hinder the acceptance of Islamic banking products.
- Competition from Conventional Banks: Conventional banks often provide broader services, competitive pricing, and extensive infrastructure, making it challenging for Islamic banks to attract and retain clients.
- Risks in Islamic Financing: Risk-sharing mechanisms, such as Mushārah and Mudārah, involve higher risks, particularly in unconventional projects, increasing the complexity of assessments.
- Regulatory and Legislative Gaps: Insufficient laws and regulations governing Islamic banking operations restrict the ability of financial institutions to operate effectively and securely.
- Shortage of Expertise: A deficit in skilled personnel and expertise in Islamic finance affects service quality and innovation in offering Shari'ah-compliant solutions.
- Economic Challenges: Market volatility and liquidity shortages often hinder the ability of Islamic banks to provide long-term, tailored financing solutions.

These challenges underscore the need for a comprehensive evaluation of current practices and an exploration of reform strategies that could enhance the effectiveness, resilience, and outreach of Islamic financing. Addressing these issues is essential not only for the sustainability of individual institutions but also for the broader goal of integrating Islamic finance more deeply into national and global economic systems.

Results and Discussion

The evolving landscape of Islamic finance in Algeria offers meaningful insights into the sector's role in promoting economic growth, enhancing financial inclusion, and addressing diverse market demands. Within this broader context, the performance of Al Salam Bank provides a focused case study that reflects these wider trends. The discussion is structured around key findings and their implications for both institutional development and the national financial ecosystem.

- Rising Islamic Deposits and Shifting Customer Preferences: The increase in Islamic finance deposits indicates a growing preference among customers for ethical banking models that emphasize trust, transparency, and Shari'ah compliance. This trend is consistent with financial intermediation theory, which posits that institutional trust and integrity are foundational to effective financial systems. However, despite this positive momentum, the sector still faces challenges related to liquidity management and the development of competitive investment tools. Islamic banks must strike

a balance between innovation and compliance with Shari'ah principles to attract and retain depositors. This growing inclination toward Islamic deposits underscores the pivotal role of trust as a cornerstone of financial transactions in Islamic finance.

- **Evolving Financing Tools and Product Diversification:** The expansion in the use of instruments such as Ijārah and Salam reflects the sector's flexibility and responsiveness to market demands. These tools demonstrate the practical application of Islamic contractual frameworks in addressing financing needs across various sectors. Conversely, the decline in the use of Murābahah suggests a saturation of traditional models and an opportunity to reintroduce and modernize lesser-used instruments like Istisnā'. Such diversification aligns with the maqāṣid al-Shari'ah by supporting socio-economic welfare, addressing hardship, and promoting equitable development. The adaptability of these tools reinforces the relevance of Islamic finance in Algeria's evolving economic landscape.

- **Strategic Positioning of Al Salam Bank:** Al Salam Bank's financing strategy reveals a deliberate orientation toward the private sector, aligning closely with Algeria's economic reform objectives. By prioritizing tools that promote liquidity and operational resilience, the bank exemplifies how Islamic finance can be strategically integrated with national development goals. However, its limited engagement in public sector financing points to a potential area for growth. Expanding the application of Shari'ah-compliant financing instruments to public projects could enhance inclusivity and impact, thereby supporting broader economic transformation. The bank's performance highlights the strategic role Islamic financial institutions can play in national economic agendas when aligned with policy priorities.

- **Structural Challenges and Reform Priorities:** Despite its achievements, the Islamic banking sector in Algeria continues to grapple with several structural challenges. These include low levels of public awareness, underdeveloped regulatory frameworks, and insufficient investment in human capital. Overcoming these obstacles is essential to sustaining growth and deepening the sector's economic impact. The Islamic concept of iḥsān (excellence) provides a valuable lens through which institutional reforms can be pursued. Enhanced training programs, regulatory standardization, and targeted public outreach could bridge the gap between theoretical Shari'ah principles and practical implementation. Addressing these challenges holistically would contribute to a more resilient and inclusive Islamic finance ecosystem.

- **Socioeconomic Impact and Developmental Value:** Islamic finance plays a vital role in advancing both institutional efficiency and societal well-being. By deploying Shari'ah-compliant mechanisms, Islamic financial institutions strengthen governance frameworks while also enhancing operational performance. This dual contribution increases the resilience of economic systems and supports sustainable growth. Furthermore, the integration of Islamic finance into broader economic strategies facilitates value-based financial practices rooted in transparency, fairness, and accountability.

The adaptability of Islamic finance makes it a key pillar in Algeria's pursuit of inclusive economic transformation. Its emphasis on ethical conduct, risk-sharing, and equitable resource distribution offers a compelling alternative to interest-based systems. By aligning financial innovation with principles of social justice and shared prosperity, Islamic finance not only fosters macroeconomic stability but also supports development that is both inclusive and ethically grounded.

Conclusion and Recommendations

This study highlights the strategic relevance of Islamic finance as a catalyst for enhancing institutional economic value. The case of Al Salam Bank illustrates how Shari'ah-compliant financial practices can drive financial inclusion, promote sustainable growth, and contribute meaningfully to

economic diversification. To fully harness these potentials and address existing implementation challenges, the following recommendations are proposed:

- **Raise Public Awareness:** Organize campaigns to enhance understanding of Islamic finance benefits among individuals and institutions.
- **Enhance Islamic Financing Instruments:** Develop innovative mechanisms that align with evolving institutional needs while streamlining processes for timely application reviews and maintaining Shari'ah compliance.
- **Measure Economic Impact:** Establish robust systems with qualitative and quantitative indicators to evaluate the effectiveness of Islamic financing tools and guide future decision-making.
- **Strengthen Collaboration with Regulators:** Foster partnerships between Islamic banks and regulatory authorities to create a standardized, transparent, and efficient framework for Islamic financial services.
- **Invest in Digital Infrastructure:** Enhance digital platforms to streamline financing processes, improve management systems, and ensure regulatory and Shari'ah compliance.
- **Foster Innovation in Islamic Finance:** Create dedicated centers for developing new financing products, conducting research, and sharing best practices to strengthen Islamic finance's role in economic development.
- **Build Professional Expertise:** Implement specialized training programs to equip sustainable economic development, both locally and globally, continuous banking professionals with the skills needed for risk assessment and innovation in Shari'ah-compliant solutions.

The sector can enhance institutional value creation by implementing these recommendations and providing strategic incentives for economic institutions adopting Islamic financial solutions. These incentives would encourage broader adoption of Islamic financial instruments, leading to stronger institutional performance and market competitiveness. Al Salam Bank's experience demonstrates how such strategic initiatives, combined with innovative financial mechanisms, can effectively strengthen institutional economic value while maintaining ethical compliance and operational efficiency in the evolving financial landscape.

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