

# Assessment of the Legislative Framework Governing Islamic Banking in Algeria; Analysis of Strengths and Weaknesses

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## Abstract

Islamic banking in Algeria has experienced gradual expansion in recent years, driven by increasing financial awareness and growing demand for financial products that comply with Islamic principles. This study aims to evaluate the legislative and legal framework governing Islamic banking in Algeria, highlighting its strengths and weaknesses while assessing its potential role in promoting financial inclusion and supporting economic development. The research adopts a qualitative doctrinal and analytical approach based on the examination of primary legal sources, including laws, regulations and decrees issued by the Bank of Algeria, as well as secondary materials such as academic studies and international reports. A document analysis method was used to assess the adequacy and coherence of the regulatory framework. The findings indicate that Islamic banking has received official recognition within the Algerian financial system, supported by regulatory guidelines that enable banks to provide Sharia-compliant financial products. Key strengths of the framework include institutional legitimacy, the gradual expansion of Islamic banking products, increasing levels of deposits and the establishment of Sharia supervisory mechanisms. However, several structural challenges remain, including the absence of a comprehensive law dedicated specifically to Islamic banking, underdeveloped regulations for sukuk and takaful, taxation issues affecting certain Islamic financial contracts and the lack of a regulatory framework for digital Islamic finance. The study concludes that while Islamic banking in Algeria has made notable progress, its long-term growth and competitiveness depend on further legislative and institutional reforms aimed at strengthening legal certainty, improving dispute resolution mechanisms, adjusting taxation rules and supporting financial innovation.

**Keywords:** Algeria, Financial Inclusion, Islamic Banking, Legislative Framework, Sharia-compliant.

## Introduction

Over the past several decades, Islamic banking has expanded significantly across diverse economic environments and geographic regions. This expansion has been accompanied by institutional development, regulatory refinement and improvements in operational performance. The resilience demonstrated by Islamic banks during the global financial crisis of 2008 further strengthened international interest in Sharia-compliant financial systems (1). Islamic banking operates according to Islamic Sharia principles, which prohibit usury (interest) and emphasize fairness, risk sharing and the equitable distribution of profits and losses between contracting parties (2). Since emerging as a specialized financial model in the second half of the twentieth century, Islamic banking has

developed into a globally recognized financial sector offering various Sharia-compliant instruments, including Murabaha, Mudaraba, Musharaka and Ijarah (3).

Beyond its religious foundations, Islamic banking is increasingly recognized as an innovative financial model capable of supporting economic development, encouraging productive investment and expanding financial inclusion, particularly among communities reluctant to engage with interest-based financial systems (4). Consequently, many countries have incorporated Islamic finance into broader financial sector strategies to diversify funding sources, strengthen financial stability and attract international capital flows. As a result, Islamic banking has become an important

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(Received 04<sup>th</sup> October 2025; Accepted 13<sup>th</sup> March 2026; Published 16<sup>th</sup> April 2026)

subject in both economic and legal scholarship, particularly in relation to regulatory governance, legislative adaptation and financial supervision (5). As a result, Islamic banking has become an important subject in both economic and legal scholarship, particularly in relation to regulatory

governance, legislative adaptation and financial supervision (5). The recent expansion of Islamic banking activity in Algeria is also reflected in key financial indicators related to deposits, financing and the number of specialized branches, as shown in Table 1.

**Table 1: Key Indicators of Islamic Banking in Algeria (2020–2023)**

| Indicator  | 2020  | 2021   | 2022  | 2023  |
|--|-------|--------|-------|-------|
| Volume of Islamic Financing Products (Billion DZD) | 302.3 | 356.9  | 393.9 | 458.5 |
| Volume of Islamic Financing Deposits (Billion DZD) | 340   | 443.92 | 553.8 | 678.2 |
| Number of Islamic Banking Branches                 | 53    | 59     | 74    | 88    |

These indicators illustrate the steady growth of Islamic banking activity following the introduction of regulatory reforms.

In Algeria, Islamic banking has developed gradually over the past three decades. The establishment of Al Baraka Bank Algeria in 1991 marked the beginning of Islamic banking operations in the country, followed by the entry of Al Salam Bank in 2008 and the introduction of Islamic banking windows in public banks starting in 2020 (6). This expansion has increased the need for a coherent legislative framework capable of regulating Sharia-compliant financial contracts,

protecting the rights of contracting parties and ensuring the credibility and stability of the sector within the national financial system (7). Establishing such a regulatory framework is therefore essential for strengthening public confidence, encouraging investment and supporting the sustainable development of Islamic financial services in Algeria (8). The institutional expansion of Islamic banking in Algeria can also be observed through the gradual adoption of Islamic banking services by major public banks since 2020, as shown in Table 2.

**Table 2: Algerian Public Banks Offering Islamic Banking Products**

| Bank   | Date of Starting to Offer Islamic Banking Products |
|--|--|
| Banque Nationale d'Algérie (BNA)                         | 4 August 2020                                      |
| Caisse Nationale d'Épargne et de Prévoyance (CNEP)       | 1 November 2020                                    |
| Banque Extérieure d'Algérie (BEA)                        | 1 January 2022                                     |
| Crédit Populaire d'Algérie (CPA)                         | 30 July 2021                                       |
| Banque de l'Agriculture et du Développement Rural (BADR) | 4 July 2023  |
| Banque de Développement Local (BDL)                      | 18 December 2020                                   |

This gradual institutional participation reflects the growing integration of Islamic finance within the Algerian banking sector.

Globally, the development of Islamic banking has occurred under diverse legislative and institutional conditions. Comparative studies indicate that regulatory frameworks vary considerably across countries due to differences in legal systems, economic and institutional structures (9). In Asia, Malaysia and Indonesia have developed comprehensive regulatory frameworks supported by specialized legislation and structured Sharia governance systems (10). In contrast, countries such as Bangladesh continue to face regulatory challenges due to the absence of integrated legal frameworks for Islamic financial institutions (11). Pakistan represents another regulatory model in which Islamic banking has been integrated into the conventional banking

system through specialized supervisory mechanisms (12).

European experiences illustrate additional approaches to integrating Islamic finance within conventional legal systems (13). The United Kingdom has introduced legislative adjustments enabling Islamic financial products to operate within existing regulatory frameworks, whereas other countries, including Turkey, still lack comprehensive legislation dedicated specifically to Islamic banking (14, 15). In North America and Latin America, Islamic financial institutions have developed more gradually and generally operate within conventional regulatory systems that were not originally designed for Sharia-compliant financial activities (16, 17).

In Africa and the Middle East, regulatory development has also varied significantly. Countries within the Gulf Cooperation Council

(GCC) have established some of the most advanced legal and institutional frameworks supporting Islamic finance, including independent Sharia supervisory boards responsible for ensuring compliance with Islamic principles (18, 19). In Egypt, Islamic banking has expanded alongside improvements in the legal framework governing the sector, whereas Sudan represents a unique case where the entire banking system operates according to Islamic financial principles (20). Within Algeria, academic research on Islamic banking has increased following financial sector reforms initiated in the early 1990s (21). However, much of the earlier literature was published in Arabic or French and focused primarily on market performance, financial inclusion, or consumer adoption rather than on the legislative framework governing Islamic banking operations (22). Recent studies indicate that the sector continues to face several legal and regulatory challenges. Evaluations of Regulation 20-02 and related instructions issued by the Bank of Algeria suggest that their impact on reducing the parallel financial market remains limited (23). Similarly, it is reported that regulatory reforms did not significantly influence the operational efficiency of

Al Baraka Bank Algeria (24), while a study concluded that Islamic banking in Algeria remains at an early stage of development (25).

These findings highlight the need for a systematic legal assessment of Algeria’s regulatory framework for Islamic banking. Accordingly, this study examines the compatibility of Algerian legislation with the operational requirements of Islamic banking and evaluates the effectiveness of the existing legislative and institutional framework governing Sharia-compliant financial activities. The analysis is grounded in the theoretical principles of Sharia-compliant finance, which prohibit interest-based transactions and promote asset-backed financing as well as profit-and-loss sharing mechanisms derived from the Qur’an, the Sunnah and Islamic jurisprudence (26, 27). Although the intellectual foundations of Islamic finance date back to early Islamic economic practices, the modern institutionalization of Islamic banking began with the establishment of the Mit Ghamr Savings Bank in Egypt in 1963 (28). In parallel with regulatory developments, Algeria has also expanded academic programs related to Islamic finance and banking in several universities, as summarized in Table 3.

**Table 3:** Main Islamic Finance and Banking Specializations Offered at Algerian Universities

| University  | Opened Specialization   |
|---|---|
| University of Emir Abdelkader for Islamic Sciences, Constantine | Bachelor's and Academic Master's programs in Islamic Economics, Islamic Finance and Banking and Waqf Management |
| University of Hadj Lakhdar, Batna                               | Master's program in Maliki Jurisprudence and Principles of Contemporary Financial Transactions                  |
| University of Amar Telidji, Laghouat                            | PhD program in Islamic Economics  |
| University of Annaba  | Professional Bachelor's and Master's programs in Islamic Finance and Banking                                    |
| University of Tipaza  | Professional Master's program in Islamic Finance and Banking  |
| University of Blida 2   | Professional Master's and PhD programs in Islamic Finance and Banking   |
| University of Setif   | Academic Master's program in Islamic Finance and Banking  |
| University of M'sila  | Professional Master's program in Islamic Finance and Banking  |
| University of Bordj Bou Arreridj                                | Professional Master's program in Islamic Finance and Banking  |
| University of El Oued   | Bachelor's and Master's programs in Contemporary Islamic Financial Transactions                                 |
| Djamaâ El-Djazair (Great Mosque of Algiers)                     | PhD program in Islamic Studies related to Islamic finance and economics   |

The expansion of these programs contributes to the development of specialized human capital supporting the Islamic banking sector.

The global expansion of Islamic banking accelerated following the 2008 global financial crisis, during which Islamic banks demonstrated greater resilience due to their reliance on asset-backed financing and risk-sharing mechanisms rather than speculative financial instruments (29). As a result, Islamic finance gained wider international recognition and experienced rapid growth. Currently, global Islamic financial assets

exceed USD 3.9 trillion and are projected to reach approximately USD 5.95 trillion by 2026, reflecting an average annual growth rate of nearly 10% (30).

## Methodology

### Research Design

This study employed a qualitative doctrinal, descriptive and analytical design to examine the legislative and institutional framework governing Islamic banking in Algeria. A qualitative legal approach was adopted because the objective of the study was not to measure behavioral variables or

test causal relationships, but to assess the content, coherence and adequacy of the legal and regulatory framework governing Islamic banking in Algeria. This research focuses on the country of Algeria (approximate GPS coordinates: 36°45'9"N, 3°2'31.09"E). This approach is particularly appropriate for research centered on statutory texts, regulatory instruments and institutional mechanisms, as it allows close interpretation of legal provisions and critical assessment of their strengths, limitations and practical implications. Because the study was not experimental, survey-based, or statistical in nature, power analysis was not applicable. Instead, the rigor of the study depended on the relevance, authority and completeness of the selected legal materials.

### **Data Sources**

The analysis relied on both primary and secondary materials. Primary sources included the Monetary and Credit Law No. 90-10 of 1990, Regulation No. 18-02 of 2018 on participatory banking, Regulation No. 20-02 of 2020 on Islamic banking operations and the Monetary and Banking Law No. 23-09 of 2023, along with supporting executive decrees such as Decree No. 21-81 of 2021 on Takaful insurance and Decision No. 85 of 2025 on sovereign sukuk issuance. Secondary sources consisted of scholarly articles, official reports and comparative studies on Islamic banking frameworks in selected jurisdictions, including Malaysia, Indonesia, GCC countries and the United Kingdom. Because this study was based on doctrinal legal analysis rather than empirical participant-based research, conventional sampling procedures were not applicable. Instead, the study used purposive document selection. The primary corpus consisted of the principal Algerian legal and regulatory texts directly governing Islamic banking, while secondary materials were selected based on their direct relevance to the legislative, institutional and comparative dimensions of the study. This approach ensured that the analysis focused on authoritative and contextually relevant sources.

### **Analytical Procedure**

To strengthen the analytical structure of the study, the assessment of the Algerian framework was organized around four conceptual dimensions: legislative design, referring to the existence and scope of legal provisions governing Islamic banking; institutional delivery, referring to

licensing, supervision and Sharia governance mechanisms; supporting environment, referring to taxation, takaful, sukuk and market infrastructure; and evaluation and reform capacity, referring to dispute resolution, legal adaptability and readiness for digital Islamic finance. This conceptual framework guided the analysis of strengths and weaknesses and provided a structured basis for evaluating the coherence of the current regulatory model. A document analysis method was applied to systematically review legislative texts and official decrees. The provisions were categorized thematically into legislative evolution, institutional mechanisms, Sharia compliance and supervision and regulatory gaps related to sukuk, takaful, taxation and digital finance. A comparative perspective was employed to assess Algeria's position relative to international experiences, thereby highlighting both the progress achieved and the remaining legislative and institutional challenges.

### **Ethical Considerations**

This research did not involve human participants, clinical trials, or animal experimentation. All data analyzed were drawn from publicly available legal texts, regulations and published literature. Therefore, approval from an Institutional Review Board (IRB) was not required.

## **Results**

### **The Legislative Framework Governing Islamic Banking in Algeria Before the Issuance of Regulation No. 20-02**

Before the issuance of Regulation No. 20-02, Islamic banking in Algeria operated within a limited and fragmented legal environment. The first relevant legislative milestone was the Monetary and Credit Law No. 90-10, issued on 14 April 1990. Although this law regulated the Algerian banking sector, it did not specifically address Islamic banking. Nevertheless, it encouraged the diversification of banking products and services within the framework of universal banking and the liberalization of the Algerian banking market. This legislative opening facilitated the entry of Al Baraka Bank Algeria in 1991 as the first Islamic bank in the country.

A second important development occurred with the issuance of Regulation No. 18-02 on 4 November 2018, concerning the rules governing

banking operations related to participatory banking by banks and financial institutions. This regulation represented the first official attempt to regulate Islamic banking activities in Algeria. However, despite its significance, the text suffered from ambiguity and a lack of sufficient detail, which limited its practical effectiveness. As a result, it was later replaced by Regulation No. 20-02, which provided a more comprehensive and organized framework for Islamic banking activity. Overall, the period preceding Regulation No. 20-02 was characterized by the absence of a dedicated legal framework for Islamic banking. Islamic banks such as Al Baraka Bank Algeria and Al Salam Bank therefore operated under general banking legislation that was not fully suited to the distinctive legal and operational characteristics of Sharia-compliant finance. This legislative gap constituted a major obstacle to the expansion and market penetration of Islamic banking in Algeria.

### **The Legislative Framework Governing Islamic Banking in Algeria Under Regulation No. 20-02**

A significant development in the regulation of Islamic banking in Algeria occurred with the issuance of Regulation No. 20-02 on 15 March 2020. This regulation filled the legal vacuum that had previously constrained Islamic banking institutions and established a more coherent framework for conducting banking operations in accordance with Islamic Sharia. Consisting of 24 articles, the regulation represents a qualitative step forward in the codification of Islamic banking activity in Algeria.

Regulation No. 20-02 identifies eight principal Sharia-compliant financial products through which Islamic banking activities may be conducted in Algeria: Murabaha, Musharaka, Mudaraba, Ijarah, Salam, Istisna', deposit accounts and investment deposit accounts. These products are defined in Articles 5 to 12 of the regulation and together constitute the core legal instruments of Islamic banking practice. Murabaha is defined as a cost-plus financing contract through which the bank sells an asset to the client at its acquisition cost plus an agreed profit margin. Musharaka is structured as a partnership arrangement in which the bank and one or more parties jointly contribute capital to a commercial venture and share profits according to agreed proportions. Mudaraba is a profit-sharing contract in which the bank provides

capital while the entrepreneur contributes labor and expertise. Ijarah is a leasing arrangement that grants the client the right to use a bank-owned asset for a specified period in return for rent. Salam is a forward purchase contract involving advance payment for goods to be delivered in the future. Istisna' is a manufacturing or construction contract under which the bank undertakes to provide an asset produced according to agreed specifications. Deposit accounts function as safekeeping arrangements, while investment deposit accounts allow depositors' funds to be invested in Sharia-compliant financing activities on a profit-sharing basis.

In addition to defining Islamic financial products, Regulation No. 20-02 establishes the licensing requirements for banks and financial institutions wishing to offer Islamic banking services through dedicated Islamic windows. Such institutions must obtain a special authorization from the Bank of Algeria, which is granted only after obtaining a Sharia compliance certificate issued by the National Sharia Board for Fatwas in the Islamic Financial Industry. This certificate serves as formal confirmation that the products and services offered comply with the principles and objectives of Islamic Sharia.

The regulation also requires Islamic banking windows to maintain strict financial, accounting and organizational independence from the conventional structures of the bank or financial institution. Their financial resources must remain separate, an independent accounting system must be applied and clients' accounts must not be mixed with those of conventional banking departments. In addition, the regulation requires distinct organizational structure and dedicated personnel for the operation of Islamic banking windows, thereby strengthening transparency and institutional efficiency.

With respect to Sharia governance, Regulation No. 20-02 requires each bank or financial institution engaged in Islamic banking activity to establish an internal Sharia Supervisory Board composed of at least three qualified members appointed by the general assembly. This board is responsible for monitoring the compliance of products, contracts and operational structures with the principles of Islamic Sharia and for submitting periodic reports to the management of the institution. The regulation also recognizes the National Sharia

Board for Fatwas in the Islamic Financial Industry as the authority responsible for issuing the Sharia compliance certificate. Together, these supervisory mechanisms contribute to enhancing transparency, institutional legitimacy and public confidence in Islamic banking services in Algeria.

### **The Legislative Framework Governing Islamic Banking in Algeria Under Law No. 23-09**

Law No. 23-09 concerning Monetary and Banking Law was issued on 21 June 2023 as part of a comprehensive reform of the Algerian banking sector. Although the law was not enacted exclusively to regulate Islamic banking, it introduced several important provisions reflecting the legislator's intention to integrate Islamic banking more fully into the national financial system and to address some of the regulatory shortcomings that had persisted under Regulation No. 20-02.

#### **Official Recognition of Islamic Banking**

One of the most important contributions of Law No. 23-09 is the formal recognition of Islamic banking within the Algerian banking system. The law includes Islamic banking activities among the banking operations legally authorized in the Algerian financial market. This recognition constitutes a major legal step toward institutionalizing Islamic banking and strengthening the clarity of its regulatory basis.

#### **Types of Islamic Banking Institutions**

The law also identifies the two categories of institutions permitted to provide Islamic banking services in Algeria. The first category comprises full-fledged Islamic banks, which operate entirely in accordance with Islamic Sharia principles in all transactions and products, such as Al Baraka Bank Algeria and Al Salam Bank. The second category consists of Islamic banking windows within conventional banks. These operate through specialized internal structures that must maintain financial, accounting and administrative independence from the conventional departments of the institution. Examples include Islamic windows established within public banks such as Banque Nationale d'Algérie (BNA) and Banque de Développement Local (BDL).

#### **Sharia Compliance and Regulatory Approval**

To reinforce both Sharia compliance and

regulatory oversight, Law No. 23-09 requires institutions wishing to offer Islamic banking services to obtain a Sharia compliance certificate issued by the Sharia Board for Fatwas in Islamic Finance, in addition to formal authorization from the Bank of Algeria. These requirements strengthen the legal and institutional supervision of Islamic banking operations.

#### **Institutional Representation of Islamic Finance Experts**

The law further supports institutional governance by providing for the inclusion of specialists in Islamic finance within the higher bodies of the central bank. It allows for the participation of an expert in Islamic finance within the Monetary and Banking Council and a specialist within the Financial Stability Committee. This institutional representation helps ensure that Islamic banking considerations are incorporated into national financial policymaking and supervisory discussions.

#### **Supporting Regulatory Instruments**

In parallel with Law No. 23-09, complementary regulatory measures were introduced to support the development of Islamic finance in Algeria. Among the most significant are Executive Decree No. 21-81 of 23 February 2021, which defines the conditions and procedures for practicing Takaful (Islamic insurance) in Algeria and Decision No. 85 issued by the Ministry of Finance on 1 June 2025, which establishes the mechanisms for issuing sovereign Islamic sukuk by the Public Treasury. These measures expand the institutional and regulatory infrastructure necessary for the development of Islamic financial markets.

#### **Overall Significance of Law No. 23-09**

Overall, Law No. 23-09 reflects a clear legislative intention to strengthen the position of Islamic banking within the Algerian financial system. Although Islamic banking remains incorporated within broader banking sector reforms rather than governed by a dedicated standalone law, the provisions introduced by this legislation significantly improve legal recognition, institutional oversight and regulatory support for Sharia-compliant financial activities.

## **Evaluation of the Legislative Framework Governing Islamic Banking in Algeria**

### **Strengths**

One of the principal strengths of the legislative framework governing Islamic banking in Algeria lies in the formal legal recognition granted to Islamic banking activities through Regulation No. 20-02 and Law No. 23-09. This recognition has provided Islamic banks with institutional legitimacy and placed their activities within the supervisory authority of the Bank of Algeria. In addition, Regulation No. 20-02 has clarified the legal status of key Sharia-compliant financial products by expressly authorizing instruments such as Murabaha, Musharaka, Mudaraba, Ijarah, Salam, Istisna', deposit accounts and investment deposit accounts. This regulatory clarification has strengthened legal certainty and facilitated the gradual expansion of Islamic banking services within the Algerian financial system.

Another important strength is the existence of clear political and regulatory support for the development of Islamic finance in Algeria. Recent banking reforms reflect an official commitment to expanding Islamic financial services for several reasons. First, Islamic finance is increasingly viewed as a relatively resilient financial model, particularly in light of its performance during periods of financial instability. Second, Islamic banking is regarded as a mechanism for attracting funds from individuals who avoid conventional interest-based banking for religious reasons, thereby potentially reducing the size of the parallel financial economy. Third, it contributes to the diversification of financing sources for the national economy, which remains strongly dependent on hydrocarbons.

The gradual expansion of Islamic banking services through public-sector banks also constitutes a significant institutional strength. Rather than limiting Islamic finance to a small number of specialized institutions, Algeria has adopted a broader strategy based on the establishment of Islamic windows within conventional public banks. A further strength of the Algerian framework is the formal establishment of Sharia governance mechanisms. Regulation No. 20-02 provides for the creation of the National Sharia Board for Fatwas in the Islamic Financial Industry, which plays a central role in certifying the Sharia

compliance of Islamic banking products and supervising the religious legitimacy of financial practices. This body also serves as a consultative authority for financial institutions and public authorities in matters related to Islamic finance. The existence of such a centralized Sharia supervisory mechanism contributes to strengthening credibility, transparency and public trust in Islamic banking operations.

The growth of Islamic banking indicators in Algeria further reflects the positive effect of these legal and institutional reforms. Progress can be observed in the increasing volume of Islamic financing products, the expansion of Islamic deposits and the growing number of specialized Islamic banking branches. These trends suggest growing demand for Sharia-compliant financial products as well as increasing institutional capacity within the Algerian banking system.

Another positive aspect is the gradual integration of Islamic finance into Algerian higher education and professional training. Several universities and higher education institutions have introduced academic programs specializing in Islamic finance, banking and related fields. This development contributes to building the human capital necessary for the long-term institutionalization of Islamic banking and reflects growing academic support for the sector in Algeria. Taken together, these strengths indicate that Algeria has established an initial institutional and legislative foundation for Islamic banking. Official recognition, product regulation, Sharia supervision, public-bank participation, sector growth and academic support all point to a gradual but meaningful process of integration of Islamic banking into the national financial system.

### **Weaknesses**

Despite these advances, the legislative and institutional framework governing Islamic banking in Algeria continues to face important structural limitations. The most significant weakness is the absence of a comprehensive law dedicated exclusively to Islamic banking or, at minimum, a fully developed chapter within general banking legislation specifically addressing its distinctive legal features. Although Regulation No. 20-02 and Law No. 23-09 have improved formal recognition, they do not establish a complete and autonomous legal framework for Islamic banking as a distinct category of financial institution.

Consequently, Islamic banking remains largely dependent on general banking law and regulatory instructions, which are not always well suited to the specific logic of Sharia-compliant finance.

A second major weakness concerns the limited legal treatment of Islamic financial contracts. At present, these contracts are not supported by a sufficiently detailed private-law framework in either the Civil Code or the Commercial Code. As a result, their implementation and judicial interpretation remain uncertain, particularly in the event of disputes. Moreover, the legal framework currently recognizes only a limited number of Islamic financial products, leaving aside several other contracts commonly used in Islamic finance, such as Wakala, Qard Hasan, Tawarruq, Muzara'a, Musaqah and Ju'ala. This restricts the diversity and competitiveness of Islamic banking products available in Algeria.

Another important limitation is the lack of clarity regarding the supervisory relationship between Islamic banks and the Bank of Algeria. Neither Regulation No. 20-02 nor Law No. 23-09 sufficiently specifies the detailed mechanisms through which the central bank should supervise Islamic banks or Islamic banking windows. This regulatory ambiguity weakens institutional coherence in one of the most crucial areas of financial governance.

The legal treatment of Islamic sukuk also remains underdeveloped. Although Decision No. 85 of 1 June 2025 introduced mechanisms relating to sovereign sukuk issuance, Algeria still lacks a fully developed legal and market framework for issuing and trading sukuk on a broad scale. In practical terms, the absence of an Islamic financial market and the limited readiness of the conventional market to accommodate Sharia-compliant investment instruments continue to impede the effective use of sukuk as a source of resource mobilization and capital market development.

Similarly, the regulatory framework governing Takaful insurance remains incomplete. Executive Decree No. 21-81 of 23 February 2021 established the conditions and procedures for practicing Takaful in Algeria, but Algerian insurance law does not yet fully recognize Takaful as an autonomous model distinct from conventional insurance. This has limited the emergence of fully-fledged Islamic insurance companies. In addition, the requirement that Takaful operators reinsure a portion of their

risks with the Central Reinsurance Company creates a tension with Sharia principles, since Islamic finance generally favours retakaful arrangements rather than conventional reinsurance.

Taxation constitutes another serious obstacle to the competitiveness of Islamic finance in Algeria. Certain Islamic financial transactions, especially Murabaha contracts, are treated under the tax system as ordinary commercial sales rather than as financing structures. This can produce double taxation and impose additional costs on Islamic financial products, thereby reducing their competitiveness relative to conventional banking products.

Dispute-resolution mechanisms also remain insufficiently adapted to the distinctive characteristics of Islamic banking. In cases involving Islamic financial disputes, courts generally apply ordinary civil and commercial legal provisions without giving adequate attention to the Sharia-based structure of the underlying contracts. This may lead to inconsistent judicial outcomes and weaken legal certainty for Islamic banking institutions and their clients.

Finally, Algeria faces an almost complete regulatory vacuum in the area of digital Islamic finance. Despite rapid international developments in financial technology, Algerian law does not yet regulate Sharia-compliant digital innovations such as Islamic crowdfunding platforms, digital wallets, or smart contracts. This gap limits innovation and risks excluding Algeria from emerging global trends in Islamic fintech and digital financial inclusion.

In sum, while Algeria has made visible progress in formalizing Islamic banking, the current framework remains incomplete in several fundamental respects. The principal weaknesses concern the absence of a dedicated Islamic banking law, limited contractual codification, insufficiently developed sukuk and Takaful regulation, unclear supervisory arrangements, adverse tax treatment, weak dispute-resolution mechanisms and the absence of digital finance regulation. These shortcomings continue to constrain the full institutional and operational development of Islamic banking in Algeria.

## Discussion

The results of this study demonstrate that Algeria has made important progress in establishing a legal foundation for Islamic banking through Regulation No. 20-02 (2020) and Law No. 23-09 (2023). These reforms provided official recognition of Sharia-compliant products, expanded the range of permissible contracts and allowed both full-fledged Islamic banks and Islamic windows in conventional institutions to operate under the supervision of the Bank of Algeria (31). The observed growth in deposits, financing products and the spread of Islamic banking branches confirms the increasing demand for these services and reflects the political will to integrate Islamic finance into the national financial system.

Despite these achievements, the Algerian framework still suffers from limitations, including the absence of a comprehensive law dedicated solely to Islamic banking, limited coverage of financial contracts, weak regulation of sukuk and takaful insurance, double taxation in Murabaha contracts and the lack of provisions for digital Islamic finance (32). These challenges suggest that while initial reforms have laid a foundation, further structural adjustments are required to ensure stability, competitiveness and long-term growth of the sector.

When compared internationally, Algeria's progress resembles the early stages of Islamic banking development in countries such as Bangladesh and Turkey, where general banking laws were adapted without fully addressing Sharia-specific contracts (33). In contrast, Malaysia and Indonesia have adopted comprehensive legal frameworks, including separate Islamic banking acts and detailed Sharia governance structures, which have enabled them to become global leaders in Islamic finance. Similarly, Gulf Cooperation Council (GCC) countries established strong supervisory Sharia boards, ensuring compliance and harmonization across institutions (34). This comparison highlights that Algeria, while progressing, is still in a transitional phase and requires deeper institutional reform.

The findings also carry implications for financial inclusion and economic diversification. A clearer regulatory environment would encourage more citizens who avoid conventional banking for

religious reasons to engage with formal financial institutions, thereby reducing reliance on the informal sector (35). Moreover, strengthening the sukuk and takaful frameworks could mobilize additional investment resources for infrastructure, housing and business development. Integrating digital Islamic finance into the regulatory structure would also align Algeria with global fintech trends, expanding access to financial services for younger and technology-oriented populations (36). Overall, the results indicate that Algeria stands at a critical juncture: initial steps have been taken to establish legitimacy and supervision of Islamic banking, but broader legislative reform, harmonization with Sharia principles and adaptation to global best practices are essential for the sector to achieve its full potential.

## Conclusion

This study examined the legislative framework governing Islamic banking in Algeria with the objective of assessing its strengths, weaknesses and capacity to support the sustainable development of Sharia-compliant financial services. The analysis of key legal and regulatory texts particularly Regulation No. 20-02 (2020) and Law No. 23-09 (2023) demonstrates that Algeria has made notable progress in formally integrating Islamic banking into the national financial system. These reforms have provided institutional legitimacy to Islamic banking operations, introduced a set of authorized Sharia-compliant financial products and established supervisory mechanisms such as internal Sharia boards and the National Sharia Board for Fatwas in the Islamic Financial Industry.

The findings of the study highlight several important contributions of the current legislative framework. First, the official recognition of Islamic banking activities has enhanced regulatory clarity and allowed both full-fledged Islamic banks and Islamic banking windows within conventional banks to operate under the supervision of the Bank of Algeria. Second, the gradual expansion of Islamic financial products and services has contributed to increasing financial inclusion by attracting clients who previously avoided conventional banking due to religious considerations. Third, recent institutional reforms, including the development of Takaful regulations and the preparation of

sovereign sukuk mechanisms, indicate a growing political and regulatory commitment to developing the Islamic finance sector in Algeria.

Despite these positive developments, the study also identified several structural limitations that continue to constrain the growth and effectiveness of Islamic banking in the country. The most significant challenge is the absence of a comprehensive and unified legal framework dedicated exclusively to Islamic banking. The current regulatory structure relies primarily on general banking legislation and regulatory instructions issued by the Bank of Algeria, which do not fully address the specific legal characteristics of Islamic financial contracts. Additional challenges include the limited range of regulated Islamic financial instruments, the lack of a fully developed sukuk market, the incomplete regulatory framework for Takaful insurance and the persistence of taxation issues that may disadvantage certain Islamic financing structures such as Murabaha. Furthermore, the absence of clear legal provisions for digital Islamic finance and financial technology innovations may limit Algeria's ability to keep pace with global developments in Islamic financial services.

From a policy perspective, the findings suggest that strengthening the legislative environment is essential for ensuring the long-term stability and competitiveness of Islamic banking in Algeria. Future reforms should focus on establishing a more comprehensive legal framework that clearly defines Islamic banking operations, harmonizing tax and accounting rules with the specific nature of Islamic financial contracts, improving dispute-resolution mechanisms and supporting the development of Islamic capital markets, particularly through the effective implementation of sukuk instruments. In addition, integrating digital Islamic financial services into the regulatory framework would enhance accessibility and support the modernization of the Algerian financial system.

This study also has certain limitations. The research was based primarily on qualitative doctrinal analysis of legal and regulatory texts and did not include empirical investigation of banking performance, customer behavior, or institutional practices within Islamic financial institutions. Consequently, the findings focus on the formal

legislative framework rather than the practical implementation of Islamic banking regulations.

Future research could build upon the present study by conducting empirical analyses of the operational performance of Islamic banking windows and full-fledged Islamic banks in Algeria. Comparative studies examining Algeria's regulatory framework in relation to other emerging Islamic finance jurisdictions would also provide valuable insights into potential reform pathways. Additionally, further research is needed to explore the regulatory implications of financial technology and digital Islamic finance in the Algerian, particularly in relation to crowdfunding, digital banking platforms and smart contracts. Overall, while Algeria has taken significant steps toward integrating Islamic banking into its financial system, the sector remains in a transitional phase. Continued legislative refinement, institutional strengthening and regulatory innovation will be essential to fully unlock the potential of Islamic finance as a tool for financial inclusion, investment mobilization and economic diversification.

### Abbreviations

BADR: Banque de l'Agriculture et du Développement Rural, BDL: Banque de Développement Local, BNA: Banque Nationale d'Algérie, CCR: Central Reinsurance Company, GCC: Gulf Cooperation Council.

### Acknowledgement

The authors would like to thank their respective institutions for providing academic and administrative support that facilitated the completion of this research.

### Author Contributions

Aboubaker Khoualed: conceptualization, methodology, data analysis, manuscript drafting, Hassiba Almi: literature review, data collection, manuscript editing, Poppy Wulandari: methodological review, supervision, critical revision of the manuscript, Khayreddine Bouzerb: data interpretation, legal analysis, Abderrahman Gueroui: financial analysis, validation of research findings, Ahmed Makhoulfi: review of results, discussion development, final manuscript proofreading.

## Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this paper.

## Data Availability

All data used in this study are derived from publicly available legal documents, regulations and academic publications cited in the reference list. No additional datasets were generated or analyzed during the current study.

## Declaration of Artificial Intelligence (AI) Assistance

The authors declare that artificial intelligence (AI) tools were used only for language editing and formatting assistance. The intellectual content, analysis and interpretation of the study remain the sole responsibility of the authors.

## Ethics Approval

This study did not involve human participants, animals, or clinical trials. All materials analyzed were publicly available legal and academic sources; therefore, ethical approval was not required.

## Funding

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

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**How to Cite:** Khoualed A, Almi H, Wulandari P, Bouzerb K, Gueroui A, Makhroufi A. Assessment of the Legislative Framework Governing Islamic Banking in Algeria; Analysis of Strengths and Weaknesses. *Int Res J Multidiscip Scope*. 2026; 7(2): 1033-1044. DOI: 10.47857/irjms.2026.v07i02.08507