

ISLAMIC BANKING AND DEVELOPMENT FINANCE IN ALGERIA

Assessing the balance between economic efficiency and sharia compliance

A Case Study of Al Salam Bank Algeria

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Abstract

This study aimed to shed light on Islamic banks in Algeria, specifically the experience of Al Salam Bank Algeria, and to evaluate its performance through an analysis of the bank's financing activity, the sectors it finances, and the various Islamic formulas adopted in financing. The study also examined the extent of the bank's commitment to the various controls that frame Islamic financial work and how its financing portfolio relates to these controls. The study concluded that the bank contributes to financing the commercial sector and the transportation sector in limited areas of Algeria, but its contribution to financing the agricultural and industrial sectors is almost nonexistent, save for some simple and handicraft industries. The study recommended the diversification of Islamic financial services offered by the bank to increase its customer base, the necessity of direct investment in productive sectors, as well as studying the needs of Algerian society and giving them investment priority.

Keywords: Islamic banks, Islamic financing controls, Al Salam Bank Algeria

1. Introduction

Islamic financial work is built upon a set of controls and foundations whose rulings are derived from the Holy Quran and the Sunnah, which constitute an inviolable framework. These controls have detailed and identified various forms of injustice, monopolization, fraud, and deception, and have clarified them with the aim of avoiding and distancing oneself from them. They have also provided the optimal formula for developing the performance of various economic sectors and achieving comprehensive development in all its dimensions, provided there is commitment to and compliance with them. The performance of the Islamic financial institution thus remains largely contingent upon the degree of adherence to these controls, whether religious and doctrinal, or economic, social, and ethical (*Mabrouk, 2007*).

Islamic banks have managed to find an entry point into the Algerian banking market as foreign financial institutions practicing Islamic financial work. Among the most prominent of these is Al Salam Bank Algeria, which has been engaged in this activity since 2008 and has begun to spread and expand across the country with the aim of providing the financing needs of individuals and institutions through Islamic formulas and methods. Given that this bank has been active for approximately twelve years, it has become necessary to examine

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the extent of its commitment to the controls of Islamic financing and whether the bank succeeds in combining economic efficiency in financing projects with Sharia compliance.

Research Problem: From the foregoing, the contours of the research problem emerge in the following central question: To what extent does Al Salam Bank Algeria comply with the controls of Islamic financing in order to combine economic efficiency with Sharia compliance?

Significance of the Study: The significance of the study stems from the importance of the Islamic financial institution's commitment to the controls of Islamic financing and the reflection of this commitment on its capacity to finance development and contribute directly to developing investment in various essential sectors. The importance of the study is further enhanced by the evaluation of Al Salam Bank Algeria, the most important bank providing Islamic financing services in the Algerian banking arena, in terms of its commitment to these controls, particularly the Sharia and economic ones.

Objectives of the Study: This study seeks to achieve a number of objectives, including:

- Identifying the foundations of Islamic banking work.
- Analyzing the financing portfolio of Al Salam Bank Algeria and its investment role.
- Examining the extent of Al Salam Bank Algeria's commitment to the controls of Islamic financing, particularly the Sharia and economic ones.

Structure of the Study: The research problem can be addressed through the following axes:

- Axis One: Controls of Islamic banking financing.
- Axis Two: The financing experience of Al Salam Bank Algeria.
- Axis Three: Evaluation of the financing experience of Al Salam Bank Algeria.

2. Controls of Islamic Banking Financing

Islamic financial transactions are characterized by their subjection to a set of Sharia, economic, and social controls that regulate investment activity and strengthen its capacity to achieve comprehensive development that ensures, in attaining the economic dimension, the integrity of the social dimension within a supreme system of morals and noble values. Through these controls, Islamic finance seeks to achieve rationality in how financial resources are obtained and how they are well utilized, which is the objective of the various investment controls that have addressed the doctrinal and Sharia aspect, then the ethical, and subsequently the economic and social dimensions (*Ajlouni, 2010; Samhan, 2013*).

2.1 Doctrinal and Sharia Controls

The economy in Islam is closely linked to the faith-based doctrine, and therefore it is characterized as a religious economy. This affirms the reality that the economy in Islam is part of a whole that interrelates, interacts, and integrates in harmony and balance with the rest of the components of Islam as a religion and a way of life with a complete system subject to the controls of Islam and proceeding in accordance with its rulings. Accordingly, a Muslim individual, in undertaking any work or activity, including economic activity, is considered in the view of Islam to be a worshipper, provided that two conditions are met: first, that the

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activity is lawful and permissible; and second, that the individual seeks thereby the face of God Almighty and His pleasure. The doctrinal controls represent a set of established doctrinal principles that the Sharia has obligated the Muslim to believe in deeply, as they are principles that guide the behavior of the investor doctrinally and determine the starting point from which investment should proceed. Among the Sharia controls, we find the following:

2.1.1 Prohibition of Dealing in Riba (Usury)

Riba in language means increase and growth, and it is technically defined as the increase in capital without a corresponding consideration in the exchange of money for money, or the increase of one of the two homogeneous counterparts without a corresponding compensation for this increase. It is the predetermined excess stipulated on the borrowed capital in exchange for the time period, which is the increase without consideration in contracts of exchange, or the increase in exchange for the time period, whether stipulated from the outset or determined at maturity. Riba in this technical sense is prohibited in all heavenly religions, regardless of how small the increase may be relative to the original debt, regardless of the purpose of the loan (consumptive or productive), regardless of the nature of the contracting parties (individuals, companies, or states), regardless of the financial condition of either contracting party (solvent or insolvent), and regardless of changes in the value of money over time (decline or rise in purchasing power). It also refers to the demand for interest paid on borrowed money at a rate exceeding the rate determined by Sharia or law, meaning it represents the illegitimate profit earned by the creditor from the money lent to others (*Al-Nasser, 2002; Boujlal, 1990; Bin Zghiba, 2010*).

2.1.2 Prevention of Monopoly and Hoarding of Wealth

Hoarding in language refers to a collection of the two precious metals, gold and silver, and other wealth measured by analogy to them. It has also been said to mean buried wealth. Technically, it is defined as withholding a quantity of money from circulation, which directly affects the monetary volume of the country. As for monopoly, it is the stockpiling of commodities and withholding them from demand, and waiting with them until the stockpiler controls raising their price, due to the scarcity and absence of supply, thus enabling the stockpiler to set prices as desired. In this sense, it means preventing essential commodities that people need from reaching consumer markets. It is also an activity that contradicts the objective of facilitating the circulation of wealth, its exchange, and its rotation among people (*Al-Nasser, 2002; Boujlal, 1990; Bin Zghiba, 2010*).

2.1.3 Avoidance of Gharar (Uncertainty)

Gharar in language is a verbal noun meaning deficiency, risk, exposure to destruction, and ignorance. In technical terms, some scholars have defined it as that whose outcome is hidden, or as that which fluctuates between occurrence and non-occurrence, or that whose knowledge is concealed and whose essence is unknown. Shaykh al-Islam Ibn Taymiyyah defined gharar as that whose outcome is unknown. The prohibition of gharar is a fundamental principle of Sharia in the domain of transactions, sales, and all contracts of exchange.

2.1.4 Prevention of Injustice (Zulm)

All financial transactions in Islamic Sharia are based on justice and the prevention of all forms and manifestations of injustice, on the basis that contracts and transactions founded upon it are invalid, whether the injustice falls upon one of the two parties or both. For although sale is permissible in absolute terms and auctioning is unanimously allowed, this is only when the parties agree and consent to the terms of the contract. Otherwise, it is not permissible for the seller to turn away from the buyer to another who offers a higher price, and if the seller does so, the second contract is not binding and is dissolved, because it causes harm to the first buyer, who was prevented from acquiring what they had purchased after the contract was completed and commitment established (*Al-Khalifi, 2004; Bin Zghiba, 2010*).

2.1.5 Avoiding Investment Through Prohibited Sales

Among the objectives of investment in Islam is the elimination of all impurities that may stand in the way of Islamic economic activity, the most important of which are prohibited sales, due to the harm they cause to others, the ignorance they introduce into sales, or the obstruction they create for the factors of production from performing their function, which means economic instability. Among the most important of these prohibited sales are the following (*Al-Hiti, 2006*):

- Sale of al-Hasah and sale of Gharar: The sale of al-Hasah refers to selling by throwing a stone, which was known in pre-Islamic times. Its form is that the seller says to the buyer: throw this stone, and whatever it lands upon is yours. It is prohibited due to the gharar and risk involved, similar to gambling. As for the sale of gharar, it refers to every sale that involves ignorance, risk, or gambling, and the Lawgiver has prohibited and forbidden it.
- Sale of Najsh and sale of 'Inah: Najsh means that a person attends the commodity and offers a price for it without intending to buy, so that other bidders follow his lead and offer more than they would have offered had they not heard his bid. Whoever engages in najsh while knowing the Prophet's prohibition is disobedient. As for the sale of 'inah, it is the sale of a commodity requested from someone before the seller has acquired it. Its form is that a seller sells a commodity for a price to be paid at a specified future date, then buys it back immediately for a lower price in cash. At the due date, the buyer pays the first price, and the difference between the two prices constitutes riba for the first seller. The transaction is essentially a loan of ten to repay fifteen, with the sale being a formal means to riba.
- Not intercepting riders (*talaqqi al-rukban*), not selling on behalf of one's brother, and not having a townsperson sell on behalf of a nomad: The reason for prohibiting the interception of riders is to prevent the exploitation by the interceptor at the expense of the second party (the rider), where imported goods are purchased for less than their value or what they deserve, resulting in deceit, injustice, and harm, which contradicts the fundamentals of Islamic economics.

- Avoiding the sale of offspring (*natiwj*), *mulamasah*, *munabadhah*, *muhaqalah*, *muzabanah*, and *mukhadarah*: These refer to various pre-Islamic commercial practices involving uncertainty, such as selling the offspring of livestock before they are born, selling by touch without inspection, selling by throwing, selling unharvested crops for a measured quantity of grain, selling dates on the palm for a measured quantity of dried dates, and selling green fruit before its quality becomes apparent.

2.2 Economic Controls

The economic controls of Islamic financing revolve around the following:

2.2.1 Contribution to Increasing the Halal Net Value Added to National Income

A project is considered sound if it provides an appropriate addition to national income under lawful operation. Value added comprises wages, salaries, bonuses, in-kind benefits, directors' remuneration, consultants' fees, social insurance, social security, depreciation, any repayment of installments for the repayment of capital, as well as taxes, customs, retained earnings, and profits distributed to depositors and owners. The criterion is not the value added that is realized within the country, as its owners may transfer it abroad, but rather the value added that is distributed to residents within the country. Therefore, real rather than parasitic investments must be chosen; the latter typically benefit from the advantages and incentives provided by public authorities within the framework of encouraging investment without achieving real gains for the national economy to the extent they achieve for their home countries (*Miloud, n.d.*).

2.2.2 Commitment to the Principle of Sound Planning in Investment

Planning, according to many scholars of positive economics, means preparing plans for economic and social development during a specific time period in accordance with specific objectives. Islam, however, left the task of sound planning to the circumstances of time, place, and conditions that should be followed during planning. The factors that contribute to achieving the desired results from investment can be classified into social, environmental, strategic, and economic factors as follows (*Al-Shamri, 2014*):

- Social factors: These include the necessity for the investor to know the extent to which society accepts and welcomes the investment activity in which they will invest their money. One should not invest in a vacuum that yields no benefit to the investor or to society. These factors also include the necessity for the investor to identify the goods that provide welfare and comfort to the members of society at the lowest cost.
- Environmental factors: These mean the necessity for the investor to be fully aware of the environment in which they invest their money and which they choose as a field for their investment transactions, so as to be able to achieve the objectives and Sharia purposes in their investment. All these factors guide one toward the necessity of avoiding investing money in places of temptation and disaster, and in environments where the Muslim investor cannot feel secure regarding their religion, person, or wealth.

- Strategic factors: These mean that it is essential for the investor to draw upon all available investment studies of their era, taking from them what does not contradict the principles of the Islamic religion. It would be a grave error and a Sharia-rejected matter for an investor to venture into the field of investment without first gaining knowledge and expertise through modern scientific studies and precise investment methods.
- Economic factors: These consist of the necessity for the investor to be well-versed in the world of economics today, so as not to engage in commercial transactions without adequate knowledge of the factors influencing the contemporary global economy. Modern methods of trading money and property on stock exchanges and global commercial centers should be familiar to the investor wishing to enter the world of investment, to safeguard against the losses that may befall them due to ignorance of these developments in the economic world.

2.2.3 Consideration of Future Benefits

Islam does not limit itself to generating sufficient returns for the present generation alone, but extends to future generations and the extent of their benefit from it. Therefore, it is incumbent upon the Muslim to consider selecting projects whose impact extends over the longest possible period of time for the benefit of future generations, for the great reward this brings after death. It is also necessary to consider selecting projects that extend for the longest possible duration through their capacity to generate substantial returns, a portion of which is allocated to consumer spending and a portion to capital formation.

2.2.4 Commitment to the Economic Priorities of Society

This commitment represents one of the economic controls imposed by the Islamic approach to investment upon the owner of wealth. Islam obligates the owner of wealth to consider the needs and priorities of their society and Islamic community when directing their wealth toward investment. They are required to direct their investments according to the Sharia arrangement of Islamic priorities: necessities, needs, and embellishments, in accordance with the preferential rules established by Muslim scholars. Investments should not, for example, be directed toward producing comforts while necessities of society remain unmet, nor should investments be directed toward embellishments while needs remain to be satisfied. This principle also includes diversifying the fields of investment to meet the established needs of society, which is a communal obligation, meaning that work must be done to provide everything society needs in terms of industry, agriculture, commerce, and services, until the entire society becomes self-sufficient. If investors and producers neglect to produce a particular commodity needed by the people, the entire society bears the sin until someone undertakes it, and the ruler should compel specialists to do so (*Abdul Hamid, 2014*). Scholars have divided the needs of society and individuals into three levels as follows:

- Essential interests (*daruriyyat*): These are what human life depends upon; without them, human affairs cannot be properly maintained, and their absence leads to the corruption and chaos of life. They refer to five universals: religion, life, intellect,

progeny, and wealth. The objective of the Sharia regarding these five universals is to preserve people's religion, lives, intellect, wealth, and progeny. Everything that involves preserving these five fundamentals is an interest, and everything that negates them is a corruption, and preventing corruption is an interest.

- Necessary interests (*hajiyyat*): These are what people need in terms of expansion and the removal of hardship so that their interests may be realized with ease (*Ismail, 1996*).
- Embellishment interests (*tahsiniyyat*): These refer to everything that relates to good customs and noble morals, and the conduct of affairs according to the best methods. If they are absent, the order of people's lives is not disrupted, nor do they feel hardship (*Ismail, 1996*).

2.2.5 Commitment to Preserving and Developing Wealth

If Islam has obligated the Muslim to invest their wealth and not leave it idle in order to preserve it, then Islam has gone further than that by obligating a set of additional commitments when undertaking this investment in order to achieve this objective. Among the most important of these commitments are the following (*Abdul Hamid, 2014*):

- The obligation of following the most rational approach in investment; the teachings of Islam require the Muslim to perfect their work and to rely on the best methods to achieve this objective.
- Avoiding frivolity in wealth management; Islam requires the Muslim not to entrust the management of wealth to someone who is not competent to manage it properly, and this principle includes the necessity of selecting people of competence and experience in the task of employing and investing wealth.
- The obligation of working to achieve profit; one of the fundamental purposes of investing wealth in Islam is to achieve the fruit and yield of investment, and this cannot be accomplished unless profit is made one of the primary objectives pursued by this investment, for the preservation and growth of the original capital.

2.2.6 Commitment to the Principle of Preference Among Investment Methods

The investor's commitment to the principle of preference among fields of investment requires them to exercise prudent judgment regarding the investment methods available in their era and environment, selecting from them the methods and approaches that yield profits and returns, provided that these methods and approaches do not conflict with a clear, definitive, and unambiguous text, and do not mix the ranks of Sharia-recognized interests (necessities, needs, and embellishments). The preference between inherited investment methods and modern investment methods is also a fundamental requirement in achieving this control, as it is not correct what some may conclude that investment methods are limited to those approaches and means known to our predecessors in past centuries (*Sano, 2000*).

2.3 Social Controls

Economic soundness of investment is linked to social soundness. An investment project is not considered successful from an economic perspective if it has negative effects on human

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life, which microeconomic analysis used to neglect by virtue of the nature of its criteria derived from its economic doctrine. Therefore, investment activity is subject to controls that maximize social benefit. Among the most important of these are the following (*Salhi, 2006*):

2.3.1 The Control of Equitable Distribution

This criterion reflects the degree of generalizing the benefits of investment among the owners of the factors of production, among regions and areas, and among generations, including:

- Equitable distribution among the owners of the factors of production, so that the largest number of capital owners, shareholders, workers, and employees benefit from the investments to be implemented, ensuring a good social investment climate that embodies psychological satisfaction, reduces causes of conflict, and eliminates factors of resentment resulting primarily from the feeling of injustice in distribution.
- Equitable spatial distribution, which refers to the horizontal spread of investment to cover all regions and areas in a manner that embodies regional balance and eliminates the phenomenon of uneven development within the territory of a single state, which has become a hallmark of the era even in advanced economies, let alone developing ones where the disparity between their regions and areas has increased to the point of suggesting the existence of two different societies within the original single society.
- Equitable temporal distribution, within whose framework investments cover various fields that achieve the present interest of current generations and the future interest of subsequent generations in a strategic balance using a diverse set of incentives and guidance.

2.3.2 The Control of Employment Capacity

The real contribution of investments to employing human capacities and alleviating unemployment rates and the problems associated with them is considered one of the most important controls governing the freedom of investment, distinguishing between actual productive investments and speculative financial investments that have increasingly attracted a significant volume of money in modern economies at the expense of developing the real assets of society.

2.3.3 The Control of Raising the Level of Human Life and Improving Its Material and Moral Conditions

This involves developing the structure of values and the system of customs and traditions in a manner consistent with the needs of social and economic development. This control affirms the civilizational uniqueness of society and highlights its human contribution at the global level, making the contribution of investments an effective contribution to improving the quality of material and moral life. Projects based on corrupting morals are rejected; projects that encourage extravagance and waste are rejected; projects designed to push instincts and desires forward without controls are rejected; projects designed for people to immerse themselves in amusement are rejected; and investments whose existence affects

the environment are rejected, in order to protect non-renewable resources, ensure the good use of renewable resources, and reduce the risks of pollution that affect the quality of material and moral life.

3. The Financing Experience of Al Salam Bank Algeria

Algeria, like the majority of Islamic and Arab countries and even some Western ones, opened the door to Islamic banking to become part of its banking system since it enacted the Money and Credit Law 90-10, which allowed the private and foreign sector to establish banks, including Islamic banks in Algeria. In this regard, Algeria was among the pioneering countries in adopting this type of institution compared to neighboring countries and some other Arab countries. However, this was not reflected in the volume of this type of activity, as only two Islamic banks were accredited, the last of which obtained accreditation in 2008. These are Al Baraka Bank Algeria, the first bank with mixed capital (public and private), established on May 20, 1991, with capital estimated at 500,000,000 DZD, and it began its actual activity in September 1991. Regarding the shareholders, they are the Bank of Agriculture and Rural Development (Algeria) with 44% and the Al Baraka Banking Group (Bahrain) with 56%. Under Law No. 03-11 dated September 26, 2003, the bank has the right to conduct all banking operations, including financing and investments, in compliance with the principles of Islamic Sharia rulings. Long years later, the establishment of a new bank in this field was registered, namely Al Salam Bank Algeria, which recently began its operations by offering a range of financial services in accordance with the provisions of Islamic Sharia, thus becoming the second Islamic bank to enter the Algerian banking market. Its capital at the time of opening on October 20, 2008, was estimated at 7.2 billion Algerian dinars, approximately 100 million US dollars, making it the largest private bank operating at the time. Meanwhile, the Bank of Algeria has not accredited other Islamic banks despite applications deposited years ago. Additionally, the Algerian regulatory authorities allowed some conventional banks to offer banking services compatible with Islamic Sharia at the same time as offering their conventional banking services, the most prominent of which is the experience of the Algerian Gulf Bank (AGB), affiliated with Kuwaiti Holding Company for Projects, which began its activity in Algeria in 2002, offering banking services compatible with the provisions of Islamic Sharia through Islamic windows in its branches (*Makhloufi & Baaeziz, 2017*).

At the end of 2018, the Bank of Algeria issued Regulation No. 18-02 dated November 4, 2018, containing the "rules for practicing banking operations related to participatory banking by accredited banks and financial institutions," within the framework of integrating Islamic banking mechanisms into the Algerian banking system. It is notable that it did not refer to them as Islamic products and confined itself to the term "participatory products" only. Under this regulation, participatory banking is defined as all operations carried out by banks and financial institutions, consisting of fund reception operations, fund employment operations, and financing and investment operations that do not entail the collection or payment of interest. These operations specifically include the following product categories:

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Murabaha, Musharaka, Mudaraba, Ijara, Istisna'a, Salam, as well as deposits in investment accounts (*Bank of Algeria, 2018*).

It is observed that through the issuance of this regulation, the Bank of Algeria narrowed the broad concept of Islamic banking, which does not mean financing without interest, and neglected the broader investment concept, limiting itself to clarifying the concept of the "participatory financial window" and its independence, and clarifying the procedures for offering Islamic banking products by accredited Islamic banks and financial institutions wishing to offer this type of product. This regulation was not followed by an executive mechanism in Algerian banks and financial institutions, and no Islamic window was accredited. Moreover, opening Islamic windows with these narrow concepts and formulas, which are far from the mechanisms and objectives of Islamic financing, will not positively reflect on the volume of Algerian domestic investment, unlike the possibility of directing these windows to finance the purchase of consumer goods through the Murabaha formula, where the profit margin is determined by the interest rate rather than by actual or expected profit, which encourages the consumption of imported goods at the expense of local goods.

Subsequently, in March 2020, Regulation No. 20-02 was issued, repealing the previous regulation and defining banking operations related to Islamic banking and the rules for their practice by banks and financial institutions. This regulation abolished the term participatory finance and adopted the term Islamic finance. It provided a precise definition of the various Islamic formulas adopted and the conditions for their accreditation by the Bank of Algeria, and mandated the establishment of a Sharia supervisory board and its composition, with emphasis on the financial and administrative independence of Islamic banking in conventional banks. This regulation came with more details that removed the ambiguity introduced by the previous regulation (*Bank of Algeria, 2020*).

Al Salam Bank Algeria is a universal bank operating in accordance with Algerian laws and the provisions of Islamic Sharia in all its transactions, as a product of Algerian-Gulf cooperation. The bank was accredited by the Bank of Algeria in September 2008 and began its activities targeting the provision of innovative banking services. Al Salam Bank Algeria operates according to a clear strategy aligned with the requirements of economic development in all vital sectors in Algeria, through the provision of modern banking services derived from the authentic principles and values rooted in the Algerian people, with the aim of meeting the needs of the market, dealers, and investors. Its transactions are overseen by a Sharia board composed of senior scholars in Sharia and economics (*Al Salam Bank Algeria, n.d.-a*).

3.1 Key Financial Indicators of Al Salam Bank Algeria

Figure 1 shows the development of some financial indicators of Al Salam Bank Algeria during the period 2008-2018. The data reveals growth in the volume of assets, financing, and deposits of Al Salam Bank Algeria at increasing rates during the period 2008-2018. Total assets recorded a growth of 28% compared to 2017, while customer deposits recorded

a growth rate of 33% during the same year. This increase is attributed to the bank gaining the trust of its customers. Financing increased by 50% compared to 2017, as the financing movement is largely subject to the growing demand for car purchase financing, which is the service provided by the bank through the Murabaha formula.

Source: Compiled by the researcher based on the 2018 Annual Report of Al Salam Bank Algeria. Retrieved from <https://www.alsalamalgeria.com/>

3.2 Financing Activity of Al Salam Bank Algeria

The financing activity of Al Salam Bank Algeria can be analyzed through the financial services it provides to its customers through various Islamic financing formulas as follows (*Al Salam Bank Algeria, n.d.-b*):

3.2.1 Financial Services of Al Salam Bank Algeria

- Development/Expansion Financing: Al Salam Bank provides a medium-term financing formula not exceeding 5 years, where the financing volume can reach 80% depending on the needs and financial situation of the customers. This operation is carried out according to one of the following Sharia formulas: Murabaha for the promise to purchase, or banking Murabaha, Istisna'a or parallel Istisna'a, Mudaraba, and diminishing Musharaka ending in ownership.
- Operating Financing: This financing concerns the purchase of raw or consumable materials, import and export operations, or financing entry into various public contracts. The bank's customers are financed through the following Sharia formulas: short-term Murabaha, Salam, and agency contract for sale.
- Real Estate Financing: This type of financing concerns the purchase of a piece of land or its construction for industrial or commercial purposes. Al Salam Bank Algeria provides a range of formulas for this purpose, provided that the account is domiciled with the bank and sufficient borrowing conditions are met. Financing is provided through the formula of Ijara described in the liability, or Istisna'a and parallel Istisna'a.
- Transport Equipment Financing: This financing is allocated to those aspiring to develop and renew means of transport or purchase more modern transport equipment. Financing is provided through the banking Murabaha formula and Ijara ending in ownership.
- Professional Equipment Financing: Professional equipment for professionals and craftsmen is financed through the Ijara ending in ownership formula and banking Murabaha.

It is observed from the presentation of the financing services offered by Al Salam Bank Algeria that it is heavily biased toward commercial financing and, to a lesser extent, real estate financing, relying entirely on Islamic commercial financing formulas, foremost among which are banking Murabaha and Istisna'a. Consequently, it relies on the declared profit margin rather than financing through the Mudaraba and Musharaka formulas, which have

higher returns and greater risks. This reflects a conservative policy on the part of the bank, tending to invest funds in the least risky or pre-guaranteed sectors.

3.2.2 The Financing Portfolio of Al Salam Bank Algeria

The number of files studied at Al Salam Bank Algeria reached 440 by the end of 2018, with a growth rate of approximately 54% compared to 2017. The distribution of this financing by the bank's agencies, by type of financed enterprise, and by Islamic financing formulas is analyzed below.

Table 1: Distribution of Financing Granted for 2018

Agency	Number of Files	Percentage
Bab Ezzouar	70	16%
Dali Ibrahim	146	33%
El Koumba	48	11%
Setif	62	14%
Oran	40	9%
Ouargla	4	1%
Other Agencies	70	16%
Total	440	100%

Source: Compiled by the researcher based on the 2018 Annual Report of Al Salam Bank Algeria. Retrieved from <https://www.alsalamalgeria.com/ar/page/list-253-0.html>

The distribution of enterprise financing by Al Salam Bank Algeria for 2018 shows that 45% went to small enterprises, 26% to medium enterprises, and 13% to very small enterprises. The bank finances newly established enterprises at a rate of 8%, and this low percentage reflects the inability of these enterprises to obtain financing due to the absence of necessary guarantees or their low financial capacity given their early stage. These percentages reflect a conservative financing policy by the bank, which clearly shows that the bank does not wish to take risks and is content with financing craft activities or the transport sector, especially given the absence of any financing percentage for large enterprises with industrial activity, for example, which would limit its profitability and thus its financing capacity.

The distribution of financed enterprises by the bank's agencies shows that most of the bank's activity is concentrated in the capital at 60%, specifically in high-income areas characterized by the concentration of businesspeople and significant dealings with foreign banks as opposed to government banks, which limits the bank's customer base to a specific category. Some 33% of enterprises are financed by the Dali Ibrahim agency, followed by the Bab Ezzouar agency at 16% and El Koumba at 11%. Additionally, 14% of enterprises are financed by the Setif agency, as it operates in an eminently commercial area with good financial activity. Meanwhile, the Ouargla agency recorded the financing of only four projects throughout 2018. This reflects the absence of a credit policy that studies the

characteristics of each region and its investment needs and diversifies the financing portfolio according to these needs with the aim of developing local production and developing investment sectors.

b. Individual Financing

Consumer Financing: Consumer financing for individuals achieved a notable completion rate for the second consecutive year, with 7,425 utility vehicles sold through the installment sale formula for a total of 9.3 billion Algerian dinars, compared to 3,100 vehicles in 2017, representing a growth rate of 138%. Additionally, contracts were signed with 9 government institutions for the benefit of their employees from the bank's services directed at individuals, in addition to the previously signed 33 agreements, bringing the total number of agreements to 42.

Real Estate Financing: The year 2018 witnessed intense activity in processing financing files for individuals and real estate promotion companies for the implementation of residential promotion projects, with the value of activated financing reaching 2.8 billion Algerian dinars. Several agreements were also concluded for individual financing between the bank and various economic institutions and universities, concurrent with the opening of new bank branches in certain provinces.

4. Evaluation of the Financing Experience of Al Salam Bank Algeria

To evaluate the work of the Islamic bank and the extent of its commitment to combining economic efficiency with Sharia compliance, it is necessary to examine the extent of this bank's commitment to the various controls governing Islamic financing, whether relating to Sharia, doctrinal, economic, social, ethical, or even environmental controls. This section will focus on Al Salam Bank Algeria's respect for the most important Sharia, economic, and social controls.

4.1 Extent of Al Salam Bank's Compliance with Sharia Controls

The Sharia controls for investment financing from an Islamic perspective revolve around the prohibition of dealing in *riba*, both giving and receiving, the prevention of monopoly and hoarding of wealth, the avoidance of *gharar*, and not investing through prohibited sales such as the sale of *al-Hasah*, the sale of *gharar*, the sale of *najsh*, and the sale of *'inah*. Typically, the Sharia supervisory board at the Islamic bank is authorized to rule on the Sharia compliance of the bank's various financial operations. At Al Salam Bank Algeria, the Sharia supervisory board is an independent body composed of senior scholars of Islamic Sharia and economics who are knowledgeable in religious sciences, economic systems, law, banking, and Islamic transactions. They are appointed upon the proposal of the board of directors and with the approval of the ordinary general assembly of the bank. The Sharia board of Al Salam Bank Algeria is independent of the bank's general management, as it monitors the Sharia compliance of the transactions carried out by the bank, and it is solely responsible for issuing Sharia rulings on all cases and topics referred to it regarding the contracts the bank concludes with its customers, and for supervising all the work of the management and branches to ensure their compliance with the provisions of Islamic Sharia,

with the ability to set aside profits for the bank. This is assisted by the bank's Sharia auditor, Mr. Mohammed Hicham Al-Qasimi Al-Hassani, who submits periodic reports to the board on the bank's activity. Accordingly, it may be concluded that Al Salam Bank Algeria satisfies the Sharia control, which the independent Sharia supervisory board ensures.

4.2 Extent of Al Salam Bank's Compliance with Economic Controls

The economic control of investment financing from an Islamic perspective includes contributing to increasing the local halal value added to national income, committing to sound planning in investment, considering future benefits, and many other equally important controls. However, we will focus on some of them as follows:

4.2.1 Studying the Needs and Priorities of Society

It is observed from the analysis of the financing activity of Al Salam Bank Algeria, whether relating to enterprise financing or individual financing, or even through the strategic plan published by the bank in its annual reports, that there is an absence of any mechanism for studying the basic needs of Algerian society, or even the basic needs of the areas in which it operates. Rather, the bank is content with offering a limited and uniform set of banking services for all its branches, and it does not attach importance to the actual needs of the various segments of Algerian society.

4.2.2 Direct Investment by the Bank

It is observed from the presentation of the financing services of Al Salam Bank Algeria that 100% of all the services offered are preceded by the phrase "upon customer request." Thus, the provision of financing services at the bank is based on the demand that can be obtained from customers, meaning that the bank plays the role of intermediary in most financial transactions, particularly in Murabaha and sales operations, which are the primary operations constituting its investment portfolio. The bank does not play the role of principal investor or partner in the financing of investments, whereas the main investment role of the Islamic bank is divided among three roles: either undertaking the investment activity alone, partnering in one of the investment operations, or acting as intermediary between the two parties of the partnership to manage the partnership process, in addition to its role in marketing various investment operations. This is what is absent from Al Salam Bank Algeria, whose financing portfolio is biased toward financing operational activity at the expense of investment financing.

4.2.3 Financing Real Investments

One of the most important characteristics of Islamic financing is its linking of the financial and real systems, where the mandatory financing of real economic activity is one of the most important controls of Islamic financing that distances the Islamic financial institution from trading in money and emphasizes the necessity of linking the element of money to work, thereby developing the agricultural, industrial, and service sectors. Looking at the financing portfolio of Al Salam Bank Algeria, we find an absence of agricultural partnership formulas and Mudaraba in the aforementioned sectors, which the Islamic bank should prioritize for investment, and even invest its surplus liquidity directly in, and offer

investment proposals in which the bank enters as a partner in developing the industrial, agricultural, medical, or other sectors according to the needs of the society in which the branch operates. This would support the bank's profitability and enrich it beyond the limited profit margin returns provided by commercial activity financing. Indeed, financing commercial activity through the various sales formulas available, in the absence of local production, will lead to encouraging the importation of various goods financed by the bank.

4.3 Extent of Al Salam Bank's Compliance with Social Controls

4.3.1 The Bank's Employment Capacity

During 2018, five new branches of Al Salam Bank Algeria were opened, resulting in the recruitment of 174 employees, bringing the total number of employees to 486. These employees benefited from a unified and integrated internal training program covering all essential banking skills. During 2018, 123 employees who distinguished themselves through good and productive performance were promoted, and a new mechanism was established for rewarding outstanding employees in marketing performance, in line with the management-by-objectives principle in the areas of vehicle sales and the attraction of investment deposits and investment bonds. It is noted that despite the bank's activity in Algeria for ten years, it has a conservative expansion policy, as the number of its branches reached only 9 throughout this period.

4.3.2 The Bank's Social Solidarity

Al Salam Bank has paid great attention to social responsibility through its activation and development of its fields, with keenness to improve the bank's social climate and develop the living standard of the employee. On another front, the bank has committed to participating in community service activities and programs, by directing the funds set aside by Sharia supervision toward services that benefit society, including education, healthcare, charitable work, promoting the culture of social responsibility, and supporting micro-projects. The bank's social responsibility activity witnessed significant development during 2018, with 52 benevolent loans granted to employees ranging between 100,000 DZD and 200,000 DZD for the repayment of debt, rent payment, or home renovation. Al Salam Bank Algeria also seized religious occasions each year to organize a lottery for employees to perform Umrah, with 14 employees benefiting. The bank also ensured the implementation of the solidarity subsidy program by identifying needs in the area of support and assistance in coordination with associations, and implementing assistance and support programs directed at disadvantaged families, including field visits to each beneficiary party to verify the implementation of the granted assistance. The total subsidies from the charity account during 2018 amounted to approximately 46,334,335 DZD.

Table 2: Distribution of the Charity Account at Al Salam Bank Algeria for 2018

Category	Amount (DZD)	Percentage
Quranic Schools & Specialized Associations	14,393,093	31.06%
Benevolent Loans	9,997,868	21.58%

Category	Amount (DZD)	Percentage
Ramadan Food Baskets	7,946,339	17.15%
Scientific Conferences & Events	6,046,629	13.05%
Other Charity Activities	7,950,406	17.16%
Total	46,334,335	100%

Source: Compiled by the researcher based on the 2018 Annual Report of Al Salam Bank Algeria. Retrieved from <https://www.alsalamalgeria.com/ar/page/list-253-0.html>

From the table above, it is clear that the charity account at Al Salam Bank for 2018 is distributed as follows: 31.06% to Quranic schools and specialized associations; 21.58% to benevolent loans granted for economic or non-economic purposes; 13.05% to conferences and scientific events within the framework of Al Salam Bank's support for education and scientific research, particularly in the field of Islamic finance; and 17.15% to Ramadan food baskets.

Conclusion

This study reached several findings, the most important of which are the following:

- The Islamic finance industry is beginning to expand and spread in the Algerian banking market, especially with the issuance of regulations and laws facilitating the development of this industry, particularly Regulation No. 20-02 defining banking operations related to Islamic banking and the rules for their practice by banks and financial institutions, which mandated the financial and administrative independence of Islamic windows in conventional banks and the requirement to form Sharia supervisory committees in each bank.
- Al Salam Bank Algeria is one of the most important private banks providing Islamic financial services, but it is expanding at a slow pace, with only nine agencies registered since the beginning of its activity in 2008, concentrated largely in the capital, accounting for approximately 60% of the total financing granted. The bank has financed the trade and transport sector to a large extent at the expense of other economic sectors, which explains the bank's reliance on Islamic sales formulas, foremost among which are Murabaha, Salam, and Istisna'a, as opposed to financing through Mudaraba and banking Musharaka.
- The bank does not rely on the direct investment formula in economic activity; rather, it acts as an intermediary in most transactions between investment deposit holders and financing applicants, which weakens the bank's profitability, especially since it relies on formulas with limited profit margins.
- The bank has a positive role in enhancing the social developmental dimension and achieving social solidarity through granting benevolent loans or subsidies paid to their eligible recipients. The bank has also financed conferences on the Islamic finance industry in order to disseminate and develop the culture of Islamic financing.
- The bank ensures compliance with the Sharia controls of Islamic financing through the establishment of a Sharia audit and supervisory committee that has the authority to express

opinions on the compliance of daily financial transactions with Sharia requirements, and it enjoys complete independence.

- Regarding Al Salam Bank's compliance with the economic controls of Islamic financing, there is a significant shortcoming in the bank's commitment to these controls, particularly regarding the study of society's needs and giving them financing priority, and the necessity of financing the real sector.

Recommendations

The study's recommendations can be summarized in the following points:

- In order for the bank to increase its profitability and financing capacity, it must enter as an investor in various investment projects in the productive sectors, as Islamic banks are investment institutions first and foremost.

- It is essential for the bank to expand its customer base by diversifying the financial services offered, which should be appropriate for different income levels in society, and to give greater importance to small investors by providing Islamic microfinance services.

- There is a need to study the needs of the society and the environment in which the bank operates, and to give priority to investment in strategic sectors such as agriculture and industry.

- It is necessary to diversify the package of financial services offered and to focus on marketing financing through Musharaka and Mudaraba in order to develop Algerian domestic production.

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