




The Reality and Requirements of Developing the Islamic Banking Industry in Algeria ; a Case Study of Al Baraka Bank during the period 2008-2021

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Abstract:

This study aims to see the reality of the Islamic banking industry in Algeria, by shedding light on the reality of Islamic windows in traditional banks. We also focused on the experience of Al Baraka Bank. To achieve the objectives of the study, the descriptive analytical approach was used to try to understand the experience of Islamic banks in Algeria by studying the performance and reality of Al Baraka Bank, as well as the Islamic windows adopted by traditional banks. Information was collected and analyzed using multiple tools and approaches. The study reached a set of results, the most important of which is that Islamic banking in Algeria is still somewhat weak compared to some countries that have made great strides in this field, and also compared to the traditional banking reality in Algeria, as it did not exceed 3% of the total financing volume, despite the efforts and attempts made. By the Bank of Algeria to strengthen Islamic banking, and in order for this type of financing to be promoted, development requirements must be taken into account and horizons studied that make it an Islamic banking industry in line with the reality of the Algerian banking system.

Key words: islamic banking ; Al baraka bank , islamic windows , Financial stability.

JEL Classification Codes: M37 ,M31. G20, G21,G24

1-Introduction:

The Islamic banking industry has proven that it is based on financial controls derived from Islamic Sharia; its effectiveness is an important tool in development projects at the global level. (chibani, 2022)

In the year 2021, for example, the volume of Islamic banking assets reached 2.765 billion US dollars, which is equivalent to 17% of the volume of banking assets around the world, and it is expected to reach 4.025 billion US dollars during the year 2026, which is equivalent to 24% of the volume of banking assets globally. (CHANGE, 2023)

The Islamic banking system has also gained more importance in the last decade after its products became available to all segments of society regardless of their religion, race, and beliefs. In Malaysia, for example, we find 52% of customers are non-Muslims, which means that people can access Islamic banking products all over the world. (Mosab I. Tabash, 2022)

In light of this, which has generated Islamic banks all over the world, Algeria is far behind this procession that is experiencing a rapid movement. Recently and officially, however, Algeria's tendency to open the door to Islamic banking has emerged through Regulation No. 02-18 dated 04/11/2018, published in the Algerian Official Newspaper, issue 73/2018, which sets forth rules for the practice of banking operations relating to participatory banking by banks and financial institutions active in the Algerian banking system (others, 1998)

From the previous purpose, and within the general aim of the study and identifying variables and their purpose, the question posed in this regard is:

“What is the reality of the Islamic banking industry in Algeria?”

Through this problem, the following hypotheses were formulated:

- The development of the Islamic banking industry in Algeria is very slow compared to Other Arab countries.
- Islamic windows in Algeria play an important role by mobilizing individuals' financial savings and raising the importance of Islamic finance within traditional banks.

- Al barka Bank is trying hard to strengthen then the Algerian banking system, even though its share in the economy is weak.

The main objective of this research is to explore the reality of the Islamic banking industry in Algeria due to the developments that have taken place in the legislation and financial systems in order to work with them and to shed light on one of the Islamic banks operating in

Algeria, namely Al baraka Bank by studying the data and indicators during the period extending from 2008 to 2021.

In this research, we adopt a descriptive-analytical methodology by examining the reality of the Islamic banking system in Algeria. This involves studying the Islamic windows present in Algeria and subsequently analyzing the economic role played by Al Baraka Bank amidst the dominance of the traditional banking system. This analysis is conducted using statistics to study, analyze, compare annual financial reports, and formulate results.

To identify problem areas and achieve the study's objectives, the research is divided into two main axes. The first part addresses the reality of Islamic windows in Algeria, while the second part evaluates the experience of Al Baraka Bank within this context.

2. LITERATURE REVIEW

2- 1 / The concept of the Islamic banking industry

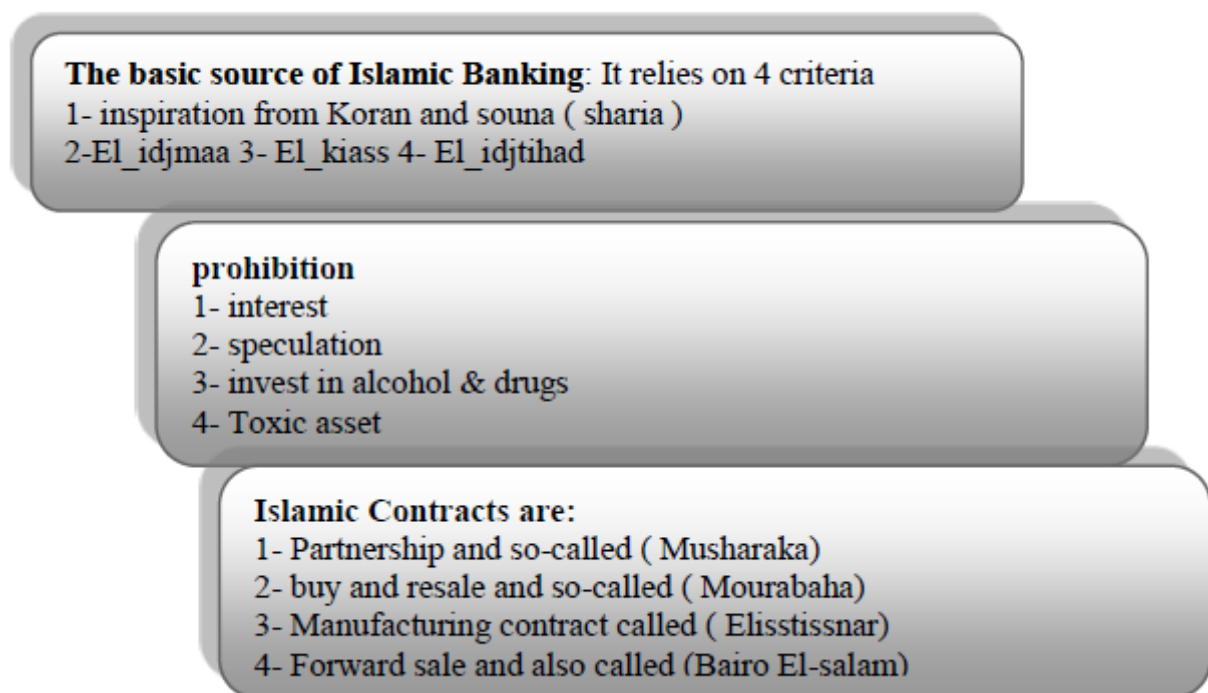
An Islamic bank is a financial institution dedicated to implementing and embodying Islam's economic and financial principles within the banking sector. (Muatuz, 2017)

The Organization of Islamic Cooperation (OIC) defines an Islamic bank as a financial institution whose bylaws, regulations, and procedures explicitly demonstrate its commitment to the principles of Islamic Shariah and the prohibition of interest in any of its operations. (Ahmed, 2020)

According to the Islamic Banking Act of 1983 in Malaysia, an Islamic bank is described as a company engaged in Islamic banking business, which refers to banking activities conducted by Islamic principles and devoid of any elements not sanctioned by Islam.

The chart below illustrates that Islamic banking adheres to the principles of Islam by prohibiting speculation and interest. Furthermore, Islamic banking abstains from engaging in transactions or investments that are deemed impermissible in Islam, such as those involving the alcohol or drug sectors. Additionally, Islamic banks steer clear of toxic assets and instead prioritize investments in tangible, enduring assets. (yassamine, 2022)

Fig (1) : Principles and foundations of the Islamic banking industry



Source : (Sissani Midoun, 2019).

2- 1 / The reality of the Islamic windows in Algeria

Islamic windows have recently emerged within conventional banks in Algeria. Initially, private banks like Gulf Bank Algeria (AGB), AL ESKAN Bank, and Trust Bank pioneered the introduction of Islamic financial products, although these initiatives were overlooked by public banks. Alongside these private institutions, CNEP-Bank launched

its inaugural Islamic product, the "Rasmali savings book," in 2015. Furthermore, in 2016, the BDL bank introduced the "El Badil savings," a zero-interest program, further diversifying the Islamic banking offerings available in Algeria. (Soufyane, 2022)

2-1-1/ The Islamic windows in the system 02-18 :

On November 4th, 2018, corresponding to the 26th of Safar 1440 in the Islamic calendar, Algeria embraced the concept of Islamic windows under system 18-02, which delineated the norms governing financial transactions in participatory banking. The Bank of Algeria subsequently developed twelve papers outlining the implementation of participatory banking through Islamic windows within conventional banks. This initiative drew upon initial experiences from three traditional banks:

- Algerian Popular Credit (CPA)
- Reserve Bank CNP Bank
- Local Development Bank DBL (Laounia, 2020)

Article 01 of system 02-18 delineates the regulations applicable to various financial products offered through participatory banking. Specifically, it categorizes seven key products—Murabaha, Musharaka, Mudaraba, Ijarah, Istisna', Salam, and deposits in investment accounts—as permissible for participatory exchange operations. These products are subject to all relevant articles within the system, ensuring compliance with banking regulations.

Article 02 addresses banking operations associated with participatory exchanges, defining them as activities involving the receipt of deposits, fund utilization, and financing and investment operations that may entail the collection and payment of interest.

Furthermore, Article 03 mandates that banks and financial institutions obtain prior approval from the Central Bank to offer Islamic banking products. This requirement aims to regulate the provision of participatory banking services and promote compliance with established banking standards.

These provisions, along with subsequent articles within system 02-18, serve to organize and regulate the operations of participatory banking, ensuring adherence to Shariah principles and banking regulations. (18-02, 2018)

2-1-2/ Islamic windows under the system 02-20 :

Regulation 02-20, issued on 15 March 2020, serves to delineate the banking operations associated with Islamic banking and its procedural regulations within banks and financial institutions. This regulation supersedes system 18-02, which previously governed the rules and practices of bank operations about participatory banking systems.

The issuance of Regulation 02-20 marks a shift towards refining and updating the framework governing Islamic banking practices, aligning them with contemporary banking standards and practices. By replacing system 18-02, this regulation aims to provide clearer guidelines and more robust regulations for banks and financial institutions engaged in Islamic banking activities.

The legislation was designed to elucidate the conduct of banks and financial institutions regarding Islamic banking products under the new system, particularly focusing on the establishment of Islamic windows. This was achieved through the enactment of twenty-two articles, each detailing specific guidelines and regulations pertaining to the operation of Islamic windows within these institutions.

Article 03 stipulates that banks and financial institutions intending to offer Islamic banking products must adhere to precautionary ratios following regulatory standards.

Article 04 defines the total range of banking products related to Islamic banking.

Articles 05 through 12 further define each specific service related to Islamic banking.

Before obtaining a license from the Central Bank to market Islamic products, Article 13 mandates that banks and financial institutions must obtain a certificate of conformity for these products from the National Fatwa Authority, as outlined in Article 14.

Article 15 requires banks and financial institutions to establish a Sharia supervisory board consisting of at least three members.

The remaining articles emphasize the necessity of administrative, financial, accounting, and executive independence for Islamic net accounts compared to other accounts held by banks and their affiliated institutions. (20-02, 2020)

2.1.3 /A case study of the Islamic window in the National Bank of Algeria(BNA)

The National Bank of Algeria (BNA) was founded on June 13, 1966, and has since engaged in a wide range of banking activities, including the provision of financial support to the agricultural sector. (Chalid, 2021)

Since its inception, the BNA has been dedicated to serving its clients, be they individuals, professionals, or institutions. This commitment to customer service has been central to its mission, making it one of the most dynamic players in the banking industry today. With a customer base exceeding 2.5 million, the BNA stands as a cornerstone institution in the Algerian banking landscape, actively contributing to the country's economic development.

The National Bank of Algeria (BNA) has officially commenced its Islamic finance operations with the endorsement of the High Islamic Council (HCI). Through the introduction of Sharia-compliant products, the BNA aims to attract a significant portion of funds circulating within the informal economy, encouraging Algerians to open accounts in banks and transition from the informal sector to the formal financial system. This initiative not only facilitates financial inclusion but also promotes economic stability and growth by channeling funds into regulated and transparent avenues.

The National Bank of Algeria provides a diverse range of savings and financing solutions in accordance with Islamic principles, as endorsed by the Bank's Sharia Supervisory Board and the National Sharia Authority for Fatwas in the Financial Industry. These offerings align with the teachings of Islamic law, ensuring that customers can access banking products that adhere to Sharia principles while meeting their financial needs.

2-1-4 Types of Islamic financing products in the National Bank of Algeria

1- Auto Murabaha

The National Bank of Algeria enables customers to acquire cars by Islamic law principles. In this process, the bank purchases the vehicle from the sales agent and subsequently sells it to the customer at a mutually agreed-upon profit margin. This approach ensures compliance with Islamic finance principles, such as avoiding interest-based transactions, while facilitating access to essential assets like automobiles.

2- Murabaha Real Estate

In facilitating home ownership in compliance with Islamic law, the National Bank of Algeria follows a Sharia-compliant approach. The bank purchases the property on behalf of the customer and then sells it back to the customer at a known and mutually agreed-upon profit rate. This method ensures that the transaction adheres to Islamic finance principles, avoiding interest-based arrangements while enabling individuals to own homes through a transparent and Sharia-compliant process.

3-Murabaha Equipment

By Islamic principles, the National Bank of Algeria facilitates the acquisition of household equipment or appliances through a Sharia-compliant process. The bank purchases the desired commodity from a local supplier and then resells it to the customer at a pre-agreed profit margin. This approach ensures that the transaction adheres to Islamic finance principles, avoiding interest-based transactions while providing customers with access to essential household items in a manner consistent with Sharia guidelines.

4-Ijarah

The National Bank of Algeria offers a lease contract known as Ijarah Muntahia Bittamleek, which adheres to the principles of Islamic Sharia. This arrangement pertains to movable, durable, and non-perishable equipment and supplies. The bank acquires these assets from suppliers and local agents and then leases them to the customer. Throughout the lease period, the customer benefits from the use of the equipment. After the contract, the customer has the option to raise a purchase form and subsequently becomes the owner of the equipment, as per the terms of Ijarah Muntahia Bittamleek. (algeria, 2023)

2- 2 / Al Baraka Bank Case Study 2008-2020

2-2-1/ definiton of Al Baraka Bank

The inauguration of Algeria's first Islamic bank, Al Baraka Bank, on May 20, 1991, marked the country's entry into the realm of Islamic banking at the onset of the 20th century.

Algeria's Al Baraka Bank holds the distinction of being the country's first mixed-capital banking institution, comprising both public and private ownership. Established with a capital of 500,000,000 Algerian dinars, its shareholders include the Dallah Al-Baraka Group and the Bank of Agriculture and Rural Development of Algeria (BADR), with the latter being affiliated with Saudi Arabia.

Operating under the auspices of Islamic Sharia, Al Baraka Bank is authorized to conduct a comprehensive range of banking, finance, and investment activities. It operates in accordance with the provisions outlined in Law No. 03-11 of August 26, 2003, pertaining to Currency and Credit. (Khaled, 2020)

Al Baraka Bank offers five distinct financing options to its clients: Murabaha, Musharakah, Ijara, Salam, Istisna, and Moussawama. Additionally, it provides various financial instruments such as cash vouchers, savings accounts, and demand deposits to cater to the diverse needs of its clientele. (bank, 2019-2020)

Table 1. Al Baraka Bank of Algeria's financing distribution according to the financing plan for the year 2020

Formulas	Financing amount (billion DA)	The ratio%
Murabaha	23.5	15.36
Musharakah	0.35	0.23
Salam	11.14	14.18
istisna	15.21	0.63
Ijara	67.6	44.18
moussawama	38.8	25.36
the total	153	100

Source: Annual reports 2019 and documents of the Bank

2-2-2/ Financial stability calculation using the Z-SCORE model of Al Baraka Bank of Algeria during 2008-2021

Table2. outlining the financial stability of Al Baraka Bank for the period 2008-2021:

Z-SCORE	$\frac{E/A}{\partial ROA}$	$\frac{ROA}{\partial ROA}$	ROA $\partial(ROA)$	ROA	Result N	Asset A	Equity E	year
6,26%	0,044184907	0,01840341	2,01	0,037	2672738	72254023	6417000	2008
9,91%	0,08472941	0,014365918		0,029	2854214	98845541	16834000	2009
9,12%	0,077791995	0,013		0,027	3243157	120508889	18843000	2010
9,10%	0,07688055	0,014135161		0,028	3778297	132983968	20550000	2011
8,68%	0,072950161	0,013824666		0,028	4190030	150787878	22110000	2012
8,57%	0,072739166	0,012962518		0,026	4092489	157073195	22965000	2013
8,59%	0,072774913	0,013163071		0,026	4306604	162772728	23810000	2014
7,09%	0,060303508	0,010557979		0,021	4107918	193573057	23463000	2015
6,69%	0,057503633	0,009422081		0,019	3983568	210343621	24312000	2016
5,62%	0,04911639	0,007100356		0,014	3548415	248632694	24546000	2017
5,98%	0,05035601	0,009485142		0,019	5166572	270995828	27429000	2018
6,83%	0,056256561	0,012046069		0,024	6333245	261568166	29577000	2019
7,82%	0,062001436	0,016200433		0,033	7825673	240325039	29950000	2020
8,13%	0,063991059	0,01726623		0,035	8125166	234120082	30113000	2021

Source: Annual reports 2008-2021 and documents of the Bank

2.2.3/ Study and analyze the results

Based on the results obtained from the table provided, it is evident that the financial soundness and stability index of Al Baraka Bank of Algeria experienced fluctuations during the study period from 2008 to 2021. The lowest value observed was 5.62 in 2017, while the highest value was 9.91 in 2009. These fluctuations can be attributed to changes in the components of the index, which also varied over the study period.

Specifically, the bank's ownership rights increased from 2008 to 2014, reaching a peak of 23,810,000 million Algerian dinars, reflecting the initial stages of the bank's activity. However, there was a decline in ownership rights in 2015, followed by a gradual increase from 2016 to 2021. Similarly, the return on total assets fluctuated during the study period, with decreases in the rate of return leading to a decline in the financial stability index.

Despite these fluctuations, the overall stability of Al Baraka Bank was maintained, as evidenced by the Z-score consistently exceeding 2.99 throughout the study period, indicating a low-risk area. However, the bank needs to continue implementing necessary measures and procedures to sustain its position in the banking sector.

In conclusion, Al Baraka Bank of Algeria has demonstrated its financial worth by achieving stability and soundness. The financial stability index serves as a crucial indicator for assessing the performance of any bank, especially Islamic banks, which operate according to the principles of Islamic Sharia. Moving forward, efforts should be made to further develop and enhance the bank's operations, considering its unique characteristics as an Islamic financial institution.

3- Conclusion

The growth and advancement of the Islamic banking sector worldwide have garnered significant attention due to its distinctive service offerings. This attention intensified following the global financial crisis of 2008, prompting a shift away from the debt-based model prevalent in traditional banking towards profit and loss-sharing principles.

Islamic financial practices expanded beyond dedicated Islamic banks to encompass traditional banks establishing Islamic windows, as well as transitioning towards Islamic banking operations. Algeria, like many other countries, sought to integrate Islamic banking into its economy, driven by its status as an Islamic nation and its desire to embrace globalization. However, its progress in this regard has been limited compared to some other nations, primarily due to the entrenched presence of traditional public banks, which have dominated the market for an extended period.

Despite the global trend towards Islamic banking, Algeria has seen limited establishment of purely Islamic banks, with only two, namely Al-Baraka and Al-Salam, operating in the country. Instead, the country has opted to permit traditional banks to offer Islamic banking services through Islamic windows, reflecting a cautious approach towards embracing Islamic finance within its banking sector.

The Islamic banking industry in Algeria faces several challenges, including the absence of a comprehensive legal framework and regulatory system that supports its establishment and regulates its operations in alignment with the Central Bank. Additionally, there are concerns regarding the limited qualifications and professional competence of personnel working within Islamic banks, as well as a scarcity of educational institutes and training programs specializing in Islamic banking. Furthermore, there is a lack of cultural awareness in Algerian society regarding Islamic banking practices, hindering its widespread adoption and development.

It is imperative for Algeria to address these challenges and lay down a framework conducive to the growth of Islamic banking, considering its potential to contribute positively to the national economy. Islamic finance, with its prohibition of usury, resonates with the values of Algerian society, making it a desirable alternative to traditional finance.

Algeria has the opportunity to gradually integrate with the Islamic banking system, provided there is political will and a well-defined plan and strategy in place. This integration could unlock significant benefits for the national economy by leveraging the unique financing mechanisms offered by Islamic banks to support various sectors of the state.

In conclusion, addressing the challenges facing the Islamic banking industry in Algeria and implementing strategies for its development are essential steps towards harnessing the potential of Islamic finance to drive economic growth and meet the financial needs of Algerian society.

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