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TITLE OF RESEARCH ARTICLE

Gradual Transition toward Islamic Banking in Algeria: Legal Foundations, Institutional Mechanisms, and the Strategic Role of Islamic Windows in Achieving Sustainable Financial and Socioeconomic Development

Chani Mohamed Abdelouaheb	Tissemsilt University Algeria Correspondent author
Mohamed Zobir	Prof. Tissemsilt University Algeria Email: mohamed.zobir@univ-tissemsilt.dz
Farhi Mohammed	Dr. Khemis Maliana University Algeria E-mail: m.farhi@univ-dbkm.dz
Sara Ben Mouhoub	Dr University of Algiers 3 Algeria Email: sara.benmouhoub-sara@univ-eloued.dz
Seloua Benchiheb	Dr. Constantine University Algeria Email: Seloua.Benchiheb@umc.edu.dz

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Abstract

This study examines the gradual transition toward Islamic banking in Algeria as a strategic and institutional choice aimed at addressing structural challenges within the national financial system and responding to growing societal demand for Shariah-compliant financial services. The research focuses on the concept of gradual transition and the adoption of Islamic banking windows as an intermediary mechanism between conventional banking practices and full Islamic banking transformation. By analyzing the legal and regulatory framework—particularly Law No. 20-02 of March 15, 2020—the study evaluates the effectiveness of recent banking reforms in facilitating the integration of Islamic finance into Algeria's banking sector. The paper adopts an analytical and descriptive approach, combining legal analysis with institutional assessment to explore the evolution of Islamic banking in Algeria, from early historical attempts to contemporary regulatory developments. The findings indicate that Islamic windows represent an essential transitional tool that allows conventional banks to offer Shariah-compliant products, test market readiness, and build technical and human capacities. However, the study also argues that gradual transition alone remains insufficient to fully satisfy client needs or maximize the developmental potential of Islamic finance. A comprehensive and well-regulated transition toward full-fledged Islamic banking is therefore necessary to enhance financial inclusion, mobilize dormant savings, and support sustainable economic and social development in Algeria.

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Introduction

In light of the great successes of the Islamic financial industry worldwide, and given the national economy's entanglement in several problems, Algeria hastened to adopt Islamic banking as a solution to revive the national economy. The first Islamic bank in Algeria, Al Baraka Bank, was established in 1991, followed by Al Salam Bank in 2008. However, their activity lacked a legal framework allowing them to grow, progress, and expand. The Algerian legislator responded very late by issuing Law 20-02 on 15/03/2020 concerning Islamic banking in Algeria. This law aims to define banking operations related to Islamic banking and the rules governing them, repealing the previous Law 18-02 dated 04/11/2018 concerning participatory banking in Algeria.

Algeria then adopted gradual transition methods to Islamic banking through opening Islamic financial "windows" to offer a variety of Islamic products to clients. This step is considered one of the most important measures for the transition to Islamic banking, which will be addressed in this article.

Research Problem

To what extent have banking reforms under Law 20-02 contributed to establishing the gradual transition to practicing Islamic banking in Algeria?

This main question includes the following sub-questions:

- What is meant by the gradual transition to practicing Islamic banking?
- What is meant by Islamic windows?
- What is the reality of the transition in Algeria?

Significance of the Study

The study's importance stems from the Algerian economy's need to adopt Islamic banking, as it provides effective financing and investment solutions, in addition to the religious motivation, which is a key financial and investment driver in Algerian society.

Objectives of the Study

- Address concepts related to gradual transition;
- Highlight the reality of Islamic banking in Algeria in light of banking reforms and examine its prospects through evaluating the opening of Islamic windows;

- Emphasize the importance of practicing Islamic banking in Algeria;

- Highlight Algeria's need to benefit from the features of the Islamic financial system, especially given the rapid growth of the Islamic financial industry in various countries worldwide.

Section One: The Nature of Gradual Transition to Islamic Banking

The difficulties faced by many traditional banks in multiple areas due to the interest-based system have accelerated the adoption of transition to Islamic banking, especially after the rapid growth achieved by Islamic banks worldwide.

1. Emergence of Islamic Banking

The experience of Islamic banks is relatively recent. Algeria witnessed its first attempt to establish an Islamic bank in 1929 under the name "Algerian Islamic Bank," initiated by Sheikh Ibrahim Abu Al-Yaqzan, a member of the Association of Algerian Muslim Scholars. After preparing its basic law and gathering the nominal capital from prominent Algerian businessmen, the French colonial authorities strongly opposed and aborted it.

The first practical experience in establishing an Islamic bank came in 1963, when local savings banks were established by Dr. Mohamed Al-Naggar in Mit Ghamr, Egypt, lasting around three years before being nationalized and integrated into a public Egyptian bank.

Subsequently, Nasser Social Bank was established in Cairo in 1971 to collect and distribute zakat and benevolent loans. Similar initiatives followed in Pakistan, the Islamic Development Bank in Saudi Arabia in 1974, Dubai Islamic Bank in 1975, Faisal Islamic Bank of Sudan in 1977, Kuwait Finance House in 1977, Faisal Islamic Bank of Egypt in 1977, and the Jordan Islamic Bank for Finance and Investment in 1978, followed by the Arab International Islamic Bank in 1997.

At the end of 2020, a report by "Global Finance" indicated that total Islamic finance assets reached $2.88 trillion, expected to reach $3.69 trillion by 2024 after global economic recovery from the COVID-19 pandemic. Islamic banks worldwide are the main source of these record figures.

2. Definition of Transition from Conventional to Islamic Banking

This is when a conventional bank operates according to Sharia rules, replacing conventional banking with Islamic banking. This can occur through opening Islamic windows, converting existing branches, creating new Islamic branches, or fully converting the bank to Islamic banking.

Thus, the transition from a conventional bank to an Islamic bank occurs through opening windows, Islamic branches, or full conversion, providing financial and banking products compliant with Sharia rules to achieve its objectives.

3. Reasons for Transitioning to Islamic Banking

There are many reasons and motivations for transitioning to Islamic banking, including:

- Maximizing profits, which is the primary incentive for conventional banks given the rapid growth of profits in Islamic institutions;

- Reducing inconvenience for Muslim clients wishing to invest according to Sharia;

- Addressing significant liquidity leakage by attracting idle funds;

- Religious and social incentives aligned with conventional banks' objectives, serving as a step toward full transition;

- Competition, imitation, and dissatisfaction with absence in this new sector;

- Combating inflation and reducing wealth inequality;
- Retaining clients and attracting new ones to compete with successful Islamic banks responding to high demand;
- Demonstrating the capacity to withstand global financial crises.

4. Concept of Islamic Windows and Branches

Opening Islamic windows and branches is a key step in transitioning to Islamic banking. Definitions include:

1. **Islamic Windows:**

- Organizational units managed by conventional banks offering Islamic financial services.
- According to Algerian Law (Article 17, Official Gazette), an Islamic banking window is a structure within a bank or financial institution exclusively responsible for Islamic banking services and products.

2. **Islamic Branches:**

- Organizational units managed by conventional banks, specializing in Islamic financial services. As branches derive from the concept of a subsidiary institution, Islamic branches can generally be defined as "branches established by interest-based banks to provide Islamic banking services."

5. Effects of Opening Islamic Windows and Branches; Positive effects:

- Enhances competition between Islamic and conventional banks, benefiting clients;
- Improves banking services in Islamic banks through modernized systems, cost reduction, competitive pricing, and new products;
- Raises awareness of the necessity of adopting Islamic banking;
- Encouraged some conventional banks to fully convert to Islamic banks (e.g., Bank AlJazira, Kuwait Real Estate Bank, Sharjah Islamic Bank).

Negative effects:

- Approval for conventional banks to create Islamic branches raises the question of why fully Islamic banks are not established directly;
- Conventional banks offering Islamic services may hinder the establishment or expansion of Islamic banks;
- Providing Islamic services through conventional bank branches may distort Islamic banking and prolong conventional banks' operation in their current form.

Section Two: Reality of Gradual Transition to Islamic Banking in Algeria

1. Legal Framework for Islamic Banking in Algeria

Law 18-02 on Participatory Banking in Algeria:

- Defines rules for participatory products and licensing requirements by the central bank;

- Article 2: Participatory banking operations include transactions without interest, including murabaha, musharaka, mudaraba, ijarah, istisna, and salam;

- Articles 3, 5, 6: Require administrative, financial, and accounting independence for Islamic windows;

- Products must be evaluated by the national authority for Sharia compliance;

- Banks must inform clients of pricing tables, minimum and maximum conditions, and allow depositors to share profits and losses from participatory windows (Articles 8–9).

Law 20-02 on Islamic Banking in Algeria:

- Article 3: Banks offering Islamic banking products must meet prudential requirements;

- Covered products: murabaha, musharaka, mudaraba, ijarah, salam, istisna, deposit accounts, investment accounts (Articles 5–12);

- Requires prior central bank authorization (Article 13);

- Must establish a Sharia supervisory board of at least three members appointed by the general assembly (Article 15);

- Articles 16–18: Ensure administrative, financial, accounting, and operational independence of Islamic windows;

- Banks must inform clients of pricing tables, minimum and maximum conditions, and allow depositors to share profits and losses (Article 19).

2. Opening Islamic Windows in Algerian Conventional Banks

Algeria's move to establish Islamic windows is an important step to benefit from Islamic banking features. Several Algerian banks have hastened to open Islamic windows, both before and after Law 20-02, which regulates Islamic banking operations and applicable rules.

1. **Al Gulf Bank Algeria**: It is an international foreign bank subject to Algerian laws. It began operations in 2004 and has a network of 61 branches distributed throughout Algeria. AGB Bank strengthens its position year after year, being considered one of the top three private banks in Algeria, with its capital held by three shareholders:

- **Burgan Bank (Kuwait)**: The largest shareholder in Al Gulf Bank Algeria with 60%, established in 1977, one of the largest conventional Kuwaiti banks;

- **Global Tunis Bank**: Owns 30% of Al Gulf Bank Algeria, established in 1882, the first commercial bank in Tunisia;

- **Jordan Kuwait Bank**: Owns 30% of Al Gulf Bank Algeria, established in 1976, considered one of the most effective banks in the Jordanian banking system.

The first experience of Islamic windows in Algeria belongs to AGB Bank, which opened its first Islamic window in 2009 in an effort to meet all customer needs and offer services and products that fulfill their expectations.

2. **Trust Bank Algeria**: A foreign bank, member of LTD, NEST INVESTMENTS HOLDING, headquartered in Cyprus, most of whose capital is owned by the "Abu Nahl" family. It began operations in Algeria in April 2003 with private capital estimated at 750 million DZD. The bank's capital has been regularly increased, reaching $97 million in 2012 and $128 million on 31/12/2019.

The Islamic banking window at Trust Bank was established in July 2014, with actual operations beginning in 2016.

3. **Housing, Trade, and Finance Bank Algeria (BHTF Algeria)**: Established in October 2003, considered a foreign bank with capital ownership as follows:

- **Housing, Trade, and Finance Bank Jordan**: 85%
- **Liben Arab Foreign Investment Holding Company Algeria**: 15%

The Islamic window at BHTF Algeria began operations in March 2015.

4. **National Bank of Algeria (BNA)**: Established on June 13, 1966, carrying out all banking activities, including financing the agricultural sector. Following Law 90-10, the National Bank of Algeria was recognized as a legal entity responsible for attracting resources, granting loans, managing payment means, and serving clients. It was the first bank to obtain accreditation from the Monetary and Credit Council in 1995. In June 2018, its capital was increased from 41,600 billion DZD to 150,000 billion DZD.

The National Bank of Algeria obtained a license to market Islamic banking products starting July 30, 2020, offering a variety of Sharia-compliant savings and financing products, approved by the bank's Sharia supervisory board and the National Sharia Board for Islamic financial industry. These products target individuals, professionals, and institutions.

5. **Algerian Popular Credit Bank (CPA)**: Established in 1966, it is one of the main commercial banks in Algeria, with state-owned capital currently estimated at 200 billion DZD. It has a geographic presence through 161 branches nationwide. To efficiently meet client needs, it diversified its banking offerings across private sectors, institutions, and professionals.

CPA began Islamic banking activities in October 2020 and obtained Sharia compliance certification for several Islamic products on September 15, 2020. It currently has 98 Islamic banking windows.

6. **National Savings and Reserve Fund (CNEP Bank)**: Established on August 10, 1964, under Law 227/64, its mission was to collect small savings from families and individuals. Regarding loans, the fund financed three types of operations: housing, local authorities, and certain public-benefit operations.

On February 19, 1971, by decision of the Minister of Finance, CNEP was established as a national housing bank, consolidating the savings system for housing, giving it a strong incentive to develop its market position. Instruction No. 8 in April 1971 specialized in financing housing programs using depositors' funds and public treasury funds. The bank increased its capital from 14 to 46 billion DZD. In 2020, the bank adopted Islamic banking by opening several Islamic windows nationwide, currently numbering 85 windows and one branch.

7. **Local Development Bank (BDL)**: A public bank established on April 30, 1985, under Decree 85-85 with a capital of 500 million DZD. By the end of 2018, its capital reached 36.8 billion DZD. The bank aims to actively participate in national economic development, especially supporting small and medium enterprises across all sectors, and meet individual financing needs, including housing projects.

After Law 20-02, BDL adopted Islamic banking, opening multiple Islamic windows, currently 125, offering various products for individuals, institutions, and professionals.

8. **Agriculture and Rural Development Bank "Badr"**: A national financial institution established on March 13, 1982, legally organized as a joint-stock company. For around forty years, it has supported regional development and client projects, including agriculture, food industries, fisheries, and aquaculture, contributing to national economic development.

To achieve maximum client satisfaction, Badr Bank employs over 7,000 staff, with 1,200 client officers across 321 branches and 39 regional exploitation complexes nationwide, supported by a new information system for increased security, ease, efficiency, and speed.

Regarding Islamic banking, Badr Bank offers over 16 products for individuals and institutions, including current and savings Islamic accounts and Murabaha transactions in compliance with Sharia and guidance from the Supreme Islamic Council. According to the Algerian Press Agency, Badr Bank's Islamic banking windows will increase to over 60 windows and branches across all provinces.

9. **External Bank of Algeria**: Established on October 1, 1967, it is one of Algeria's major banks, offering financing to various economic sectors. It has around 198 branches nationwide.

Islamic banking activities officially launched on December 30, 2021, with 10 Islamic products marketed through 85 Islamic windows, mostly targeting the institutional sector to finance the national economy. The bank intends to expand these windows to its other branches across Algeria in the following year.

Conclusion

From the above, it can be said that Islamic banking is a system operating under Sharia principles, distinguishing it from conventional banking based on interest, which has caused many global financial crises. Islamic banking is an effective tool for achieving economic and social development through Islamic financial products.

It is worth noting that many conventional Algerian banks, due to recurring problems from interest-based loans, and following the success of Al Baraka Bank Algeria and Al Salam Bank, hastened to adopt methods for transitioning to Islamic banking by opening Islamic windows and branches after Law 20-02, which defines banking operations related to Islamic banking and repeals Law 18-02 on participatory banking in Algeria.

It is necessary to move to the final stage: the full Islamization of conventional banks to further activate banking operations in Algeria, achieving a qualitative leap in the banking system with positive effects contributing to economic and social development.

Ethical Considerations

This research is theoretical and analytical in nature and does not involve human participants, personal data, surveys, interviews, or experimental procedures. As such, ethical approval was not required. The authors affirm that the study adheres to internationally recognized principles of academic integrity, including originality, transparency, accurate citation of sources, and responsible scholarly conduct in accordance with COPE guidelines.

Author Contributions

All authors contributed substantially to the preparation of this manuscript. **Chani Mohamed Abdelouaheb** contributed to the conceptual framework and data collection. **Prof. Mohamed Zobir** supervised the study, refined the legal and theoretical analysis, and reviewed the manuscript critically. **Dr. Farhi Mohammed** contributed to the historical and institutional analysis of Islamic banking. **Dr. Sara Ben Mouhoub** participated in drafting and structuring the manuscript and reviewing relevant literature. **Dr. Seloua Benchiheb** contributed to the analytical discussion and final revision. All authors reviewed and approved the final version of the manuscript and agree to be accountable for its content.

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Conflict of Interest

The authors declare that there are no conflicts of interest related to the publication of this article.

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