How to Cite:
Lakahal, F., & Benchikha, F. Z. (2026). Performance and Sharia Compliance of Islamic consumer financing: Evidence from the foreign bank of Algeria (BEA) – Arzew Branch (2020–2024). *International Journal of Economic Perspectives*, *20*(5), 426–441. Retrieved from https://ijeponline.org/index.php/journal/article/view/1313

Performance and Sharia Compliance of Islamic consumer financing: Evidence from the foreign bank of Algeria (BEA) – Arzew Branch (2020–2024)

Farida Lakahal
University of Oran 2 Mohamed Ben Ahmed, Algeria
Email: lakahal.farida@univ-oran2.dz
ORCID: https://orcid.org/0009-0004-4780-1021

Fatima Zohra Benchikha
University of Oran 2 Mohamed Ben Ahmed, Algeria
Email: benchikha.fatima@univ-oran2.dz
ORCID: https://orcid.org/0009-0000-2818-1083

***Abstract*---**This article aims to analyze the experience of implementing Islamic finance at the Foreign bank of Algeria through a case study of the Arzew branch during the period 2020–2024, which marked the effective launch of Islamic banking in Algeria's public banks following the issuance of the regulatory framework in 2020. The study adopted a descriptive, analytical, and statistical approach to present the theoretical concepts of Islamic finance, identify its adopted modes, and analyze its operational and financial performance within the branch. The results indicate that the integration of Islamic products—primarily murabaha, ijara, and mudaraba—has enhanced the branch's attractiveness and attracted new customer segments, despite challenges related to awareness-raising, marketing, and competency development. The study concludes that advancing Islamic finance requires updating management mechanisms, expanding the product base, and supporting digital transformation to achieve greater efficiency in Islamic banking within Algerian banks.

***Keywords*---**Islamic finance, Islamic banking, Foreign bank of Algeria, Arzew branch, murabaha, 2020–2024.

Corresponding author: *Farida, L., Email: lakahal.farida@univ-oran2.dz*
Submitted: 09 February 2026, Revised: 18 March 2026, Accepted: 30 April 2026

Introduction

The Algerian banking sector has undergone profound structural transformations in recent years, particularly following the adoption of the regulatory framework for Islamic banking starting in 2020, which enabled the launch of Sharia-compliant financing windows and products within public banks. In this context, the Foreign bank of algeria has worked to develop its Islamic services across various branches, including the Arzew branch, which has become an important space for testing the effectiveness of these financing modes and the level of customer uptake.

Building on this development, this study adopts the period from 2020 to 2024 as its temporal framework for analysis, as it represents the stage when Islamic banking began to take practical shape through products such as murabaha, mudaraba, and ijara, supported by available financial and operational data that allow for evaluating the branch's performance over these four years. The selection of this period aims to track the dynamics of the evolution of Islamic financing services and measure their impact on the activities of the Foreign bank of algeria – Arzew branch, enabling the extraction of objective indicators on the effectiveness of this new direction within the Algerian banking system. This system has seen an increasing trend over the past decade toward diversifying its financial tools by integrating Islamic banking as a strategic option aimed at enhancing financial inclusion and improving banks' ability to mobilize savings. The issuance of the regulatory framework for Islamic banking in 2020 represented a pivotal turning point, as the legislative texts allowed for the launch of Sharia-compliant financial products within public banks, led by the Foreign bank of Algeria, which sought to expand its service base by establishing Islamic windows across its various operational branches. This is based on the evolution of adopted products and customer response, within an analytical approach that combines theoretical data and practical indicators.

Research Problem

Despite the growing spread of Islamic banking services in Algeria since 2020, evaluating their actual performance within public banks remains limited, particularly at the level of local branches that serve as direct points of contact with customers. From this perspective, we pose the following research problem:
To what extent has the implementation of Islamic financing modes at the Foreign bank of Algeria – Arzew branch during the period 2020–2024 enhanced the branch's expansion and attractiveness to customers

To address this research problem, we have formulated the following sub-questions:

First Question
What is the impact of adopting Islamic financing modes on the development of consumer loans at the Foreign bank of Algeria – Arzew branch during the period (2020–2024)

Second Question
To what extent do the Islamic financing modes adopted for consumer loans at the Foreign bank of Algeria comply with established Sharia controls

In an attempt to answer the aforementioned sub-questions, we formulate the following hypotheses

First Hypothesis:
Islamic finance contributes to improving the performance of consumer loans at the Foreign bank of Algeria – Arzew branch during the period (2020–2024).
Second Hypothesis:
The Islamic financing modes adopted for consumer loans at the Foreign bank of algeria adhere to the principles and rulings of Islamic Sharia.

Study Objectives
This study aims to:
Highlight the Foreign bank of Algeria's experience in Islamic financing for consumer loans through the Arzew branch.
Evaluate the performance of Islamic consumer loans during the period (2020–2024).
Analyze the Sharia compliance of the adopted Islamic financing modes.
Propose recommendations to enhance the effectiveness of Islamic finance in Algerian banks.
Would you like me to translate additional sections, adjust the terminology (e.g., specific banking terms), or format it differently?

1. Theoretical and Sharia Framework for Islamic Financing Modes Adopted in Algerian Banks

Islamic banks emerged in the 1960s as financial institutions seeking to conduct banking activities in accordance with Islamic Sharia rulings, by prohibiting interest (RIBA) and adopting financing modes based on profit-and-loss sharing, linking financial transactions to real economic activities. This approach contributed to the crystallization of an alternative banking model that considers ethical values and Sharia controls in financial transactions (Chapra, 2016).

In this context, the Agreement Establishing the Islamic Development Bank defined Islamic banks and financial institutions as entities that mobilize financial resources and employ them in economic and social development fields, while fully adhering to Islamic Sharia rulings in all their financing and investment operations, thereby achieving Sharia objectives, promoting economic justice, and supporting sustainable development in member states (Development Islamic Bank, 1975). This underscores the importance of compliance with jurisprudential controls as the foundation for banking activities, ensuring alignment with Sharia objectives in economic justice and risk-sharing.

Islamic finance in Algerian banks is based on a system of jurisprudential and economic foundations aimed at ensuring justice and preventing unethical practices such as riba and gharar. This framework reflects the global evolution of Islamic finance, supported by broad jurisprudential consensus and international standards, most notably those of the Accounting and Auditing Organization for Islamic Financial Institutions (Accounting and Auditing Organization for Islamic Financial institution , 2020) and the Islamic Financial Services Board (the Islamic Financial Services Board, 2019).

1.1. Origin and Evolution of Islamic Banks:

The origin of Islamic banks can be traced back to early intellectual debates in the late 19th and early 20th centuries, when Muslim scholars emphasized the need for a financial system compliant with Islamic principles, particularly the prohibition of interest (riba). The first practical experiment emerged in the 1960s with the establishment of savings institutions based on profit-sharing principles, notably the Mit Ghamr Savings Bank in Egypt. The sector entered a foundational phase in the 1970s with the creation of major institutions such as the Islamic Development Bank in 1975, marking the formalization of Islamic banking at the international level. Since then, Islamic banks have experienced significant expansion, evolving from localized initiatives into a global financial industry characterized by product diversification, regulatory frameworks, and integration into both Islamic and conventional financial systems.

1.2. Stages of Development of Islamic Banks:

- **Preparatory Stage (1850–1940):**

This stage represents the intellectual and theoretical beginnings of Islamic finance, where focus was limited to jurisprudential aspects and the prohibition of riba, without actual Islamic banking institutions. It was characterized by weak practical application and the absence of institutional frameworks.

- **Foundational Stage (1940–1970):**

This period witnessed the first practical attempts to establish financial institutions operating according to Sharia principles, such as Islamic savings experiments and local banks with an experimental character, paving the way for the emergence of Islamic banks.

- **Expansion Stage (1970–1980):**

This stage marks the fundamental turning point, with the establishment of the first official Islamic banks, most notably the Islamic Development Bank in 1975, which contributed to enhancing the institutional legitimacy of the sector and expanding its scope.

- **Dissemination Stage (1980–1990):**

This phase was characterized by the geographical spread of Islamic banks across various Islamic countries, with product diversification, increased demand, and the development of regulatory and supervisory frameworks, including the emergence of Sharia boards and international standards (Accounting and Auditing Organization for Islamic Financial institution , 2020) (the Islamic Financial Services Board, 2019).

- **Entry of Conventional Banks into the Islamic World (1990–2000):**

This stage represents international recognition of the importance of Islamic finance, as conventional banks began establishing Islamic windows and offering Sharia-compliant products, enhancing the global position of Islamic banking.

Thus, Islamic banking activity transitioned from a preparatory stage with an intellectual and jurisprudential character, to institutional foundation, then expansion, culminating in global dissemination and the entry of conventional banks into Islamic banking.

1.3. Modes of Islamic Financing:

Islamic financing modes are based on a set of Sharia controls, the most important of which are:

1.3.1. Prohibition of Riba:
The prohibition of fixed interest is a central rule in Islamic finance, based on explicit Quranic texts (Al-Baqarah: 275) and fatwas from international jurisprudential councils (Islamic Fiqh Council, 2015). Islamic economists emphasize that interest leads to economic imbalance and unfairly burdens customers with risks (Chapra, 2016).
1.3.2. Prohibition of Gharar and Gambling:
Sharia prohibits any transaction involving uncertainty or uncalculated risk, aligning with the jurisprudential rule "gharar invalidates contracts" (Taymiyyah, 2004). Thus, financing modes must be based on clarity and transparency (El-Gamal, 2006).
1.3 Principle of Profit-and-Loss Sharing:
Islamic finance relies on risk-sharing models, such as musharaka and mudaraba, which promote justice and prevent guaranteed profits in advance (Siddiqi, 2018).
1.3.4. Link to Real Economic Activities:
Sharia requires the existence of a real asset or service underlying the contract, promoting productive economies and reducing speculation (Iqbal & Mirakhor , 2017).

2.Islamic Banking Expansion in Algeria: Trends, Indicators, and Institutional Development:
Islamic banking in Algeria has experienced a remarkable expansion in recent years, both in terms of the volume of financing granted and the number of accounts opened. This evolution reflects the growing interest of households and economic entities in this banking model, as well as its increasingly important role in promoting financial inclusion.

According to official data released by the Ministry of Finance, the total value of Islamic financing granted up to June 30, 2025, exceeded 671 billion Algerian dinars. These funds were distributed between public banks and banks operating in the market, benefiting both individuals and business entities in a significant manner.

With regard to public banks, Islamic financing amounted to approximately 62 billion dinars, of which 47.67 billion dinars were allocated to individuals, while 14.39 billion dinars were directed toward economic institutions. Meanwhile, the total Islamic resources mobilized by public banks reached nearly 222 billion dinars, indicating a gradual but steady expansion of Islamic banking activities within the public banking sector.

As for market banks, including private banks and specialized Islamic banks, the volume of Islamic financing granted reached 609.5 billion dinars. Economic institutions accounted for the largest share, with financing valued at 520.2 billion dinars, compared to 89.3 billion dinars allocated to individuals. In parallel, the total resources mobilized by these banks were estimated at around 930 billion dinars, highlighting the growing capacity of market banks to attract Islamic financial resources.

This quantitative growth has been accompanied by a notable expansion in the distribution network of Islamic banking services. The number of Islamic banking windows and dedicated branches reached 703 windows and 25 specialized branches within public banks, compared to 817 windows and 91 branches within market banks. Moreover, the total number of Islamic banking accounts nationwide exceeded 1.21 million, according to the response of the Minister of Finance to a parliamentary question raised by MP Rabah Djedou.

The range of Islamic banking products offered is defined by Bank of Algeria Regulation No. 20-02, dated March 15, 2020. These products include Murabaha, Musharakah, Mudarabah, Ijarah, in addition to deposit and investment accounts, all of which are structured in strict compliance with the principles of Islamic Sharia.

In terms of governance and oversight, the Minister of Finance emphasized that the supervision of banking activities—whether conventional or Islamic—falls under the exclusive authority of the Bank of Algeria. Islamic financial products are required to obtain prior Sharia compliance certification before being marketed, and Islamic banks must establish internal Sharia supervisory boards composed of at least three members. These bodies are responsible for ensuring compliance with Islamic principles and monitoring related banking operations.
Looking ahead, Islamic banking in Algeria is expected to continue its expansion in the coming years, driven by rising demand and its potential to idle liquidity outside the formal banking system, thereby strengthening confidence in the national financial sector.

Table 1. Evolution of Islamic Banking Indicators in Algeria

Indicator	**Public Banks**	**Market Banks (Private & Islamic)**	**Total**
Total Islamic Financing Granted (billion DZD)	62.0	609.5	671.5
– Financing to Individuals (billion DZD)	47.67	89.3	136.97
– Financing to Economic Institutions (billion DZD)	14.39	520.2	534.59
Total Islamic Resources Mobilized (billion DZD)	222	930	1,152
Number of Islamic Banking Windows	703	817	1,520
Number of Dedicated Islamic Branches	25	91	116
Total Number of Islamic Banking Accounts	—	—	> 1.21 million

Source: Ministry of Finance (2025)

2.1. Legal and Regulatory Framework in Algeria:

Since 2020, Algeria has adopted a series of regulatory texts to integrate Islamic finance into the banking system, centered as follows:

2.1.1. Regulatory Decisions of the Bank of Algeria:
Instruction 20-02 of 2020 specifies conditions for practicing murabaha, ijara, musharaka, and others, emphasizing the necessity of establishing Sharia supervisory boards within each bank (BANK OF ALGERIA , 2020).
2.1.2. National Sharia Board for Fatwa in Islamic Finance:
This is the highest Sharia authority overseeing the approval of bank products and ensuring their compliance with Sharia principles, similar to Sharia boards in Malaysia and Sudan (the Islamic Financial Services Board, 2019).
2.2. Sharia-Compliant Modes Adopted in Algerian Banks:
The most important Islamic financial products applied in the Algerian market include:
2.2.1. Murabaha: A cost-plus sale mode where the price includes cost and a known profit margin, requiring the bank to own the commodity before selling it to the customer (Accounting and Auditing Organization for Islamic Financial institution , 2020).
2.2.2. Ijara: Financing based on leasing an asset for a specified period in exchange for rent, with ownership remaining with the bank, based on the jurisprudential ijara contract (Al-Zarqa, 1998).
2.2.3 Musharaka: Based on joint contribution to capital and sharing results, an original contract in Islamic jurisprudence and one of the most important long-term financing modes (Siddiqi, 2018).
2.2.4 Mudaraba: The bank provides capital while the client provides effort and expertise, without guaranteeing the capital (Academy International Islamic Fiqh, 2015).
3.5 Salam and Istisna'a: Specialized modes for production financing, particularly in agriculture and industry, based on established jurisprudential transactions from early eras (El-Gamal, 2006)

3. Case Study: Foreign bank of algeria (BEA), Arzew Branch (2020–2024):

During the 1970s and 1980s, with the expansion of Algeria's industrial policy, BEA's functions evolved, transforming from a bank dedicated solely to foreign trade into a comprehensive bank offering a full range of services to individuals and institutions. It contributed to:
Financing major projects in infrastructure, industry, and transportation sectors.
Entering financial partnerships with large public institutions like Sonatrach and Sonelgaz, funding gas and oil exploration projects and energy transmission.
Supporting national economic institutions through investment loans and credit facilities.
Its branch network expanded to cover nearly all provinces, in addition to opening international representative offices to facilitate banking operations.

3.1. Organizational and Administrative Structure of Foreign bank of Algeria (BEA):
Organizational structure is the cornerstone of success for financial institutions, especially banks, given the complex and diverse nature of banking activities. BEA adopts a centralized yet flexible administrative structure that combines central control over general policies with partial delegation of executive powers at the branch and agency levels, allowing it to respond to market changes and customer needs at both local and international levels.

From the early 1990s, as the Algerian economy entered a transitional phase toward a market economy, public banks including BEA faced new challenges, necessitating updates to operational models and improvements in competitiveness. It began:

- Updating organizational structures and adopting modern management methods.
- Introducing digital technology in banking services.
- Developing banking products to include payment cards, online accounts, and financing tailored to individuals.

From the beginning of the third decade of the 21st century, BEA entered a new phase of banking transformation, most notably opening up to Islamic banking as part of its strategy to diversify its financial offerings and respond to changing demands within Algerian society, culminating in the adoption of modern, Sharia-compliant financing modes, as seen in the experience of the Arzew branch, which represents a model of balanced banking transformation between authenticity and innovation.

3.2. Distinctive Features of the Arzew Branch:

- Considered among the first branches to open an Islamic banking window as part of the bank's policy after 2021.
- Welcomed an increasing number of customers seeking Sharia-compliant financing.
- Played a role in enhancing financial inclusion in the Arzew industrial area by targeting workers and small enterprises.

The organizational and administrative structure of Foreign bank of algeria (BEA) reflects notable evolution toward specialization and efficiency, balancing centralized management with decentralized execution at the branch level. The BEA Arzew branch serves as a successful local model for applying this structure, particularly after integrating Islamic financing modes, demonstrating the bank's ability to adapt to economic, religious, and social changes within a comprehensive development strategy.

3.3. Transition to Islamic Banking at BEA Arzew Branch:

3.3.1. Practical Launch of Islamic Banking at BEA:

After an internal preparation phase and coordination with the Bank of Algeria, BEA announced the launch of its first Islamic services in 2021 through experimental Islamic windows in select branches, including:

- Central Algiers branch.
- Blida branch.
- BEA Arzew branch as a model in western Algeria.

Adopted Steps:

- Establishing a dedicated Islamic banking department in each targeted branch.
- Training staff on Sharia and practical aspects of Islamic transactions.
- Preparing an internal Sharia manual to ensure product compliance with Sharia rulings.
- Developing a parallel accounting system to separate conventional and Islamic transactions.

Marketing began with a single product—the consumer murabaha—as an initial phase to test market response, with plans to expand to others such as:

- Islamic home financing.
- Commercial murabaha for enterprises.
- Investment deposits (mudaraba/wakala).

Integrating Islamic banking as an alternative financing tool responds to the aspirations of a broad societal segment and enhances financial inclusion in a traditionally conventional banking environment, through opening Islamic banking windows in several branches, including the Arzew branch in Oran Province.

3.3.2. Experience of BEA Arzew Branch in Islamic Banking for Consumer Loans:

Thanks to its location in the industrial city of Arzew, Oran Province, and the diversity of its customer base, the BEA Arzew branch was among the first selected to launch the Islamic window as part of the bank's strategy. Implementation of consumer loan financing operations began on November 30, 2022:

- Bank savings accounts opened on October 1, 2023.
- First file studied: December 17, 2023—a consumer loan file for an employee at BEA Arzew branch.
- The initial or inaugural financing experience used the murabaha mode at the Arzew branch, as a first step to meet consumer loan needs.

Key Features of the Experience:

- Received a large number of consumer murabaha requests in the first months of launch.
- Recorded positive customer response, especially from youth segments.
- Organized open days to introduce Islamic banking products.
- Collaborated with the central Islamic banking directorate to ensure Sharia compliance.

3.3.3.1. Definition of Islamic Consumer Loans and Their Sharia Mode:

In pursuit of providing Sharia-compliant financing alternatives to meet growing demand for interest-free products, Algerian banks—especially public institutions like BEA—adopted Islamic murabaha as the primary mode for consumer financing in their Islamic windows. Consumer murabaha is today one of the most widely used Islamic banking products due to its clarity, simplicity, and alignment with Sharia principles.

- **Definition of Murabaha:**

Murabaha is a sales contract where the seller (bank) discloses the purchase price of the commodity and adds a known, agreed-upon profit margin for the buyer (customer). This mode is among the most prominent contemporary Islamic financing tools, meeting the needs of individuals and institutions seeking to acquire goods or equipment in a Sharia-compliant manner.

The fundamental difference between a "conventional loan" and "Islamic murabaha" is that the former involves lending money for interest, while the latter involves the bank owning and selling a commodity for a known profit, without usurious interest.

- **Jurisprudential Basis:**

The murabaha mode is based on the principle of "murabaha to the purchase orderer," approved by the International Islamic Fiqh Academy provided several controls are met, including:

- Bank's ownership of the commodity before sale.
- Absence of riba conditions.

3.3.3.2. Characteristics of Islamic Consumer Loans via Murabaha:

In practical application within Algerian banks, particularly at BEA Arzew branch, consumer murabaha is executed through a defined methodology combining Sharia discipline and procedural efficiency.

- **In-Kind, Not Cash Financing:** The bank does not provide cash to the customer but purchases the requested commodity (car, electrical appliance, home equipment, etc.) from the supplier itself, then sells it to the customer.
- **Transparency in Commodity Pricing:** The bank discloses the purchase price from the supplier to the customer, it determines the agreed profit margin (fixed rate), and These details are included in the Sharia-compliant sales contract.
- **Bank's Actual Ownership:** The bank must genuinely own the commodity before sale, this includes legal transfer of ownership to the bank and bearing risks, realizing the "profit with liability" principle.
- **Financed Commodities Must Be Permissible:** Prohibits financing Sharia-prohibited goods (e.g., alcohol or forbidden games), it verifies the commodity's permissibility and benefit before approval.
- **Repayment in Known Instalments:** A deferred payment sales contract is concluded including total sale price, repayment period (6, 12, 24, or 36 months), value and due date of each instalment, and No price changes or penalties for delays, respecting price stability.

3.3.3.3. Stages of Implementing Islamic Consumer Loans in the Bank:

Step 1: Submitting the Application

The customer submits a request to the Islamic window (BEA Arzew branch) for a specific commodity, specifying the supplier or product type.

Step 2: File Review

Financial review of the customer (income, obligations, job stability).

Ensures repayment capacity without excessive debt.

Sample Financial Case Study, Profit Margin, and Financing Period

Administrative File:

- Written customer request for consumer loan.
- Health card number.
- 2 copies of national ID.
- Birth certificate, residence card, family record, honor statement.
- Retirement income certificate from pension fund.
- Income in ordinary current account (1 year).
- Open Islamic current account (requires DZD 1,000 deposit to activate).

File Review:

- Unilateral purchase order and commitment (from customer).
- Customer pays 10% of price as earnest money.

- Guarantee is important.

Step 3: Bank's Purchase of the Commodity

- Bank negotiates directly with supplier and purchases in its name.
- Invoice issued in bank's name, proving actual ownership.
- Purchase offer document sent to supplier.
- Supplier responds via acceptance notice (institution's acceptance).

Step 4: Signing the Murabaha Contract

- The bank concludes a contract with the customer including:
- All financial details (purchase price + profit).
- Monthly payment schedule.
- Delivery conditions.

Step 5: Delivery to Customer

- Commodity delivered immediately upon contract signing.
- Supplier may handle delivery, or customer collects directly.
- Fourthly: Distinctive Aspects of Consumer Murabaha at BEA

3.3.3.4. The distinguishing characteristics of consumer Murabaha financing at Foreign bank of Algeria (BEA):

- **Transparency and Clarity:** This product stands out for its customer clarity regarding: original price, imposed profit, period and instalments.
- **Alignment with Customer Values:** Provides financing respecting ethical and religious dimensions, earning trust from those avoiding usurious banks.
- **Ease of Procedures:** Features simple procedures, facilitating customer understanding of the contract.

Islamic consumer loans via murabaha represent a successful model of Islamic banking in Algeria, offering Sharia-compliant financing for individuals seeking consumer goods without riba. BEA's experience, particularly at the Arzew branch, proves this financing can yield positive results in customer satisfaction and bank financial performance, provided ongoing training, development, and product diversification continue.

3.3.3.5. Conditions for Benefiting from Islamic Consumer Loans at BEA Arzew Branch

Islamic consumer loans via murabaha are among the flagship products offered by the Islamic window at BEA Arzew branch, as part of efforts to integrate Islamic banking into Algeria's financial system. Given its distinct nature—differing from conventional loans in objectives and Sharia controls—the bank has set conditions ensuring Sharia compliance and minimizing operational risks.

First: General Framework for Conditions: These derive from three core dimensions:

- Sharia Dimension: Full compliance with Islamic transaction rulings, especially legitimate sale, actual ownership, and contractual commitment capacity.
- Regulatory Dimension: Aligns with Bank of Algeria instructions governing Islamic window financing.
- Financial/Operational Dimension: Ensures customer repayment ability, maintaining portfolio quality and reducing default rates.

Secondly: Customer-Specific Conditions

- Nationality and Residence: Must be Algerian national, permanent resident in Algeria, ensuring ease of legal/administrative follow-up (linked to regular monthly repayments, difficult with temporary/unstable residence).
- Legal Age: Customer age must not exceed 70 at final instalment repayment, protecting the bank from non-repayment risks due to retirement or age, aligning with responsible financing principles.

Table 2. Required Administrative Documents

Document	Purpose
National ID Card	Proof of identity and nationality
Residence Certificate	Proof of residence in/near branch province
Employment Certificate or Pension Statement	Proof of income source and continuity
Salary Slips 3 months	Financial capacity assessment
Price Quote from Approved Supplier	Precise commodity value and Sharia permissibility verification

Source: prepared by authors.

4. Conditions for Financed Commodities:

Islamic consumer loans at BEA Arzew are limited to specific, Sharia-permissible consumer goods:

Table 3. Financed Consumer Goods (Specified and Sharia-Permissible)

Commodity Type	Examples
Passenger Vehicles	New small cars from approved brands
Household Appliances	Refrigerators, washers, ovens, ACs...
Furniture & Fittings	Bedrooms, sofas, kitchen equipment

Source: Arzew Branch Document.

4.1. Sharia Controls:

- Commodity must be permissible and bank-owned before sale contract.
- No financing for prohibited goods (e.g., alcohol or illicit entertainment devices).
- Repayment Conditions and Terms
- Repayment period: 12–60 months based on commodity nature, price, and customer capacity.
- Prepayment allowed without penalties, provided it does not violate core murabaha conditions (price stability).
- Islamic banking feature: Prohibits late payment interest or arbitrary fines, unlike conventional banks, reflecting ethical transactions.

The conditions adopted by BEA's Islamic window at Arzew form an integrated system balancing Sharia compliance and financial control. Despite simplicity, they ensure:

- Customer seriousness.
- Sharia clarity.
- Reduced operational/financial risks for the bank.

These standards align with international Islamic banking criteria (e.g., AAOIFI), enhancing Algeria's experience credibility.

4.2. Evaluation of Arzew Branch's Experience in Implementing Islamic Consumer Loans:

With the national bank BEA activating Islamic windows, the Arzew branch emerged as a leading outlet for adopting and applying Islamic financial products, especially consumer murabaha. Since launch, it has shown initiative through promotional and organizational measures to establish a Sharia-compliant financial culture.

4.2.1. Promotion and Activation Efforts:

The branch intensively promoted consumer murabaha from the start, manifested in:

- Direct customer communication explaining product mechanisms and Sharia advantages.
- Training courses for staff on Islamic contracts and financing principles.
- Simplified promotional materials for public understanding.

4.2.2. Initial Results:

- In the first year, Over 120 murabaha requests received.
- Approval rate exceeding 65% of submitted requests post-financial review.
- Financing focused on durable consumer goods: cars, air conditioners, electronics/household appliances.

4.2.3. Field Challenges:

Despite positives, obstacles limited spread/effectiveness:

- Slow administrative procedures with suppliers, prolonging operations.
- Few approved suppliers willing to engage in murabaha due to poor understanding/lack of trust.
- Weak Islamic financial literacy among some customers, requiring more awareness.
- Insufficient ongoing staff training in Sharia/practical aspects.

5. Development and Expansion Prospects:

Arzew's experience is a promising model, expandable via:

- Introducing new modes (e.g., ijara/musharaka for housing/SMEs).
- Expanding approved supplier networks.
- Continuous training in Sharia/finance/technology.
- Media awareness strategies for local trust and uptake.
- Arzew's young experience marks a key starting point for Islamic banking in Algeria's system, with encouraging results showing market adaptability—provided adaptation, development, and awareness continue.
- Challenges and Opportunities Facing BEA Arzew in Islamic Financing
- Regulatory and Administrative Challenges

Design/methodology/approachThe field study offered at BEA Arzew, provides a response to the findings addressed by deploying the methodological identifiers in the wake of very specific barring conditions on Company Instruction 20–02 on Islamic Financial Instruments and Solutions.Most importantly is while Islamic finance is considered part of strategic efforts and adjunctive operations, many stakeholders are faced with litigation-based consignment limitations due to their own regulatory levels or market settings. Regulatory landscape: The sustaining presence of an incomplete legal framework continues to limit the sustainability and competitiveness of Islamic financial instruments. Specifically, the lack of a clearly defined tax regime covering Islamic contracts such as murabaha and ijara places extra costs on clients making them less competitive compared to conventional products. Moreover, absent legal guidelines covering default in participatory modes such as musharaka and deferred payment contracts makes judicial recourse difficult and gives financial institutions a sense of uncertainty while carrying out exigent processes. To make it worse, there is a lack of binding regulatory texts governing internal Sharia supervisory boards leading to variable interpretations (fatwas) which undermine the customers confidence in institutions responsible for these types of affairs. Leadership decisions are hindered and the absence of laws degrades the attractiveness of Islamic banking products for local investors.

On an organizational level, a yawning gap of specialized human capital with regards to sharia expertise and professional competencies can be observed. Most of the banking staff, originally trained in conventional financial systems, have limited proficiency in these fundamental principles and actual functioning mechanisms of practically applicable Islamic contracts like murabaha, istisna and musharaka. This knowledge gap not only hinders the quality of advisory services frequently provided by wealth management firms but limits product communication and marketing. Moreover, due to procedural inaccuracies identified in everyday operations makes institutions susceptible to potential legal and compliance risks. These results highlight the necessity of routine, standardized training programs and a partnership with prominent Sharia authorities to promote both technical competence and the principles of ethical conduct.

In addition, the administrative rigidity tied into Islamic financing processes represents another barrier to competitiveness. Unlike traditional lending where the entire transaction between a startup and an investor happens directly, Islamic financial transactions are composed of several sequential stages involving asset verification, bank acquisition, contract formalization and final delivery which eventually chains away backend processing times. These delays have repercussions on customer satisfaction, reduced faith in Islamic banking services and loss of opportunities with mutual financial markets which is now extremely competitive. It is further complicated by low tech support and insufficient admin tools that put extra pressure on human resources. Dealing with the inefficient system is not just a matter of raising the operating procedures; they must become much more flexible and efficient thanks to digitalization and process optimization. Moreover to the above-mentioned structural constraints, there are also financial- and marketing-related challenges for the diffusion of Islamic finance. Partition is the existence of a specific Islamic accounting system. Traditional accounting frameworks are inadequate to register particular differences in Islamic monetary exchanges around property possession, acknowledge of benefits and installments splited by portions. Such deficiency results in delays of the financial reporting, diminishes decision making processes, and restricts the monitoring efficacy of

Sharia compliance. This has led to a strong need for a separate or parallel accounting system.

The study has also uncovered an illiteracy surrounding the principles and advantages of Islamic finance. Misconceptions still persist on a large scale whereby Islamic products are viewed primarily as re-packaging of traditional banking services under another name or obscured interest-based transactions. This misconception is primarily due to a lack of effective communication strategies, limited utilization of digital marketing tools, and insufficient clarity in contractual practices. Overcoming this barrier calls for financial institutions to actively pursue widespread awareness campaigns via multiple streams of communication, integrating religious scholars and educational initiatives (such as scheduled open days and interactive literacy) to the ecosystem naturally.

However, these findings also indicate large potential for the development of Islamic finance at BEA Arzew. The demand side is also well defined with obvious interest for Sharia-compliant financial services, based on religious reasons and also upon potential segments of the economic fabric (middle income households, SMEs or diaspora. Products such as murabaha have already seen variable but established traction, indicating strong potential for continued diversification into participatory financing modes, including musharaka and istisna.

On the type of enable on institutional level, public authorities' support is a big enabler. The inclusion of Islamic finance in national financial inclusion strategies, the granting of regulatory approvals for new products and public banks' involvement in promoting this sector make a business landscape conducive to growth. These advances pave the way to implement more advanced instruments, such as real estate murabaha, operational ijara and even sovereign sukuk.

BEA Arzew is well placed, in this context, to transform its operations into an Islamic banking model. The institution can start by offering customers Islamic financing products like murabaha, and then, step-by-step expand to services such as Islamic savings accounts or investment accounts based on mudaraba, and other Sharia-compliant payment instruments, leading in the future towards customized SME anzaari financing options. But, this kind of shift would require an integrated and step-by-step strategic framework backed by resources for digital infrastructure, institutional driver partnership with suppliers and improved governance via appropriate Sharia supervisory mechanisms.

Conclusion

The launching of Islamic banking within BEA Arzew over the period 2020–2024 represents an important step in the continuous evolution of the Algerian Banking system. This is indicative of a strategic pivot towards the diversification of financial services, while also solidifying public financial institutions' competitive standing in an evolving, highly segmented marketplace. The advancement made today especially in the aspects of product readiness and basic customer use exemplifies the feasibility and relevance of incorporating Sharia-compliant financial solutions into a mainly conventional banking environment. But these efforts, important as they are, will always be piecemeal and make a case for a systems approach to sustainability.

Thus, for the Islamic banking model to be long term effective and replicable, it can depend fundamentally on three interdependent pillars. The first requirement is a consilidation of an adequate and coherent regulatory framework to diminish legal uncertainty, improve institutional credibility, and guarantee consistency in Sharia compliance across institutions. Second, the generation of targeted human capital — where technical banking knowledge is merged with an adequate understanding of Islamic law — appears as a determining success parameter in terms of enhancing service quality, operational efficiency & customer confidence. Third, modernization in technology, via developing standalone dedicated digital infrastructures and accounting systems that reflect the unique nature of Islamic finance is crucial for better efficiency, lower processing costs and transparency.

Importantly, these dimensions must not be addressed in silos but through an integrated strategic vision that brings together regulatory reforms, capacity building, and digital transformation efforts. This would allow Islamic finance to stop being experimental and become part of a systemic, established, and competitive segment of the national financial system. More generally, such a reinforcement of these foundations will definitely increase financial inclusion by capturing new or idling parts of the population into the system while helping in growing the economy by promoting responsible, asset-backed and risk-sharing finance. Therefore, Nigerian Islamic banking is of macroeconomic and not merely sectoral significance as it could provide a lever for an inclusive and sustainable growth in Algeria.

Bibliography:

Accounting and Auditing Organization for Islamic Financial institution . (2020). *Shari'ah Standards.*

Academy International Islamic Fiqh. (2015). *Resolutions and Recommendations on Financial Transactions.*

BANK OF ALGERIA . (2020). Regulation No. 20-02 concerning Islamic banking products.

Chapra, M. U. (2016). *Islamic Finance: What It Is and What It Could Be.* Djedda: Islamic Development Bank.

Development Islamic Bank. (1975). *Agreement establishing the Islamic Development Bank.* Djedda: Islamic Development Bank.

El-Gamal, M. (2006). Islamic Finance: Law, Economics, and Practice. . *Cambridge University Press.*

Financial, A. (. (2020). *Shari'ah Standards.*

Iqbal, Z., & Mirakhor , A. (2017). *Islamic Finance: Theory and Practice.*

Siddiqi, M. N. (2018). *Partnership and Profit-Sharing in Islamic Finance.*

Taymiyyah, I. (2004). *Majmu' al-Fatawa (Collected Fatwas), edited by 'Abd al-Rahman ibn Qasim.*

The Islamic Financial Services Board. (2019). *Core principles for Islamic finance regulation.* (IFSB).