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The role of Islamic financial products in financing small and medium-sized enterprises (SMEs) in Algeria: A case study of Al Salam Bank Algeria

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Abstract :

The aim of this study is to identify the Islamic banking, various financial products and financing modalities adopted, and the extent to which they contribute to the financing of small and medium-sized enterprises through a study of the situation of Al-Salam Bank of Algeria, as they represent an effective alternative to the traditional financial system. The important role of these projects in reviving economic development, given their easy and flexible costs, in addition to the analysis of some economic data were availabie through some annul reborts, and it is considered as one of its methodsas the study concluded. Addition to the The study concluded that, despite its recent establishment, Al-Salam Bank of Algeria had achieved positive results by providing various financial formulas and products, all of which took into account Islamic Sharia provisions and provided them to professionals, individuals and institutions, with a view to enabling them to contribute to sustainable development.
Keywords: Islamic Banking, Islamic Finance, Small and Medium Enterprises, Al-Salam Bank of Algeria

Calification JEL : G21;G23;G32

Introduction: The financing process represents the beating heart of economic life, since the economic sector is in need of funds in order to carry out investment and development operations. From here appeared the role of banks as a financer for any activity, through receiving funds, developing them, investing them, and financing those who need them. Conventional banks are considered pioneers in the banking field, as their activities are based on dealing with usury which is religiously prohibited. From this point, Islamic banks emerged as an alternative and an urgent necessity to respond to the demand of clients, individuals and institutions, who refuse to deal with usury.

Algeria is one of the countries of the world that works on activating and promoting Islamic banking within its financial system through “Regulation No. 18/02 including the rules governing the practice of banking operations related to participatory banking by banks and financial institutions”, through Islamic branches and financial institutions, as is the case with Bank Al Salam Algeria. The emergence of Islamic banking in Algeria and its entry as a financial intermediary constituted a qualitative shift in the economics of financing and a pioneering experience, which enabled business owners to find a financing alternative through various Islamic financial products and financing

formulas. From this context, the following problem is raised:

- **What is the role of Islamic banking in financing small and medium enterprises in Algeria?**

In order to better understand the subject and simplify the proposed problem, the following sub-questions are raised:

- What is the concept of Islamic banking, Islamic financing, and financing formulas?
- What is the importance of financing for small and medium enterprises?
- What is the reality of Islamic financing in Algeria?

Hypotheses:

As an initial answer to the sub-questions, the following hypotheses can be presented:

- Islamic banking and Islamic financing refer to banking activities issued by Islamic banks.
- The financing process represents the vital artery and the beating heart for small and medium enterprises.
- Despite the recent emergence of Islamic banking in Algeria, it has achieved positive results in providing the necessary financing for small and medium enterprises.

Research Objectives:

This research seeks to clarify the importance of Islamic banks and the most important financing formulas adopted in Algerian law, while examining the reality of Islamic financing in Algeria, taking Bank Al Salam Algeria as a case study.

Research Methodology:

The descriptive-analytical method was adopted in order to conduct an in-depth study of the reality of Islamic financing for small and medium enterprises in Algeria, through data and information obtained from references and sources.

1. Islamic Banks:

1.1 Definition of Islamic Banks:

There are numerous definitions of Islamic banks, among the most important are (Abdelli, Abdelli, & Abdelli, 2020, p. 66):

- An Islamic bank is defined as: "that bank or institution whose law of establishment and basic statute explicitly stipulate commitment to the principles of Islamic Sharia, and non-dealing with interest whether taking or giving."
- It is also defined as: "a financial intermediary that collects savings and mobilizes them, in return for a share of profit, within participation channels for investment, in a manner free from the interest rate, through methods of mudaraba, partnership, trading, direct investment, and providing all banking services within a framework of Sharia-compliant formulas for a fee, in a way that ensures equity, development, and stability."
- It is also defined as: "a financial, banking, economic and social organization that seeks to attract resources from individuals and institutions, and works to use them in the best manner with the provision of multiple banking services, and works to achieve an appropriate return for capital owners, as well as contributing to achieving social solidarity in society, and adhering to the principles and requirements of Islamic Sharia, with the aim of achieving economic and social development for individuals and institutions, while taking into account the conditions of society."

It is defined as "a banking system that derives its rules from the jurisprudence of transactions in Islamic Sharia, where its formulas for attracting and employing funds are governed by the controls of Islamic Sharia and according to the formulas of sales and partnerships" (Tilkhoukh, 2021, p. 59).

• Through the previous definitions, it becomes clear that Islamic banks are financial institutions that operate according to the provisions of Islamic Sharia, and whose main objective is to achieve economic development and social solidarity within society.

1.2 Characteristics of Islamic Banks:

Islamic banking is characterized by two main features: Sharia credibility (that Islamic products are compliant with Sharia to the greatest possible extent), and economic efficiency (which requires research into standard profit, alternative profit, and cost, and Islamic financial engineering products can increase economic efficiency by expanding investment opportunities in brokerage and intermediation commissions) (Tilkhoukh, 2021, p. 59).

It can be distinguished from conventional banks through the following characteristics (Abdelli, Abdelli, & Abdelli, 2020, p. 67):

1.2.1 Non-dealing with usurious interest:

The most important feature that distinguishes the Islamic bank from the conventional one is the exclusion of dealing with interest, as the latter is considered a form of usury which jurists unanimously agreed on its prohibition, in observance of the provisions of Islamic Sharia, with the aim of achieving economic and social development in society. Without this feature, this bank becomes like any other usurious bank.

1.2.2 Investment in legitimate projects:

Islamic banks seek to invest in lawful projects that achieve benefit for society, through adopting fair participation formulas based on cooperation between the capital owner and the financing applicant in cases of profit or loss, which makes its activity distinct from the conventional usurious system that seeks to achieve the highest possible interest rate without concern for the nature of projects, whether they are beneficial or harmful to humans. It is not legally permissible to provide financing for any project that produces prohibited goods or services, meaning that it is not permissible to grant a loan for a sin, or to a factory producing alcohol, or any activities prohibited by Islam and that cause harm to society. Thus, it is financing governed by religious Sharia controls derived from the provisions of Islamic Sharia.

1.2.3 Achieving economic and social development:

Achieving economic development is considered a requirement to which Islamic banks give great attention, and they seek to achieve this through establishing real investment projects that comply with Sharia controls and contribute to activating the wheel of economic activity, while taking into account the social dimension, by meeting real needs of society, thereby achieving both material and social returns at the same time (Bouhassoun, 2021, p. 62).

1.2.4 Ideological nature:

Islamic banks are based on following the provisions of Islamic Sharia, and therefore all their activities are governed by what Allah has permitted. This drives toward investing in and financing projects that achieve good for the country and the people, while adhering to the rule of lawful and unlawful.

1.3 Objectives of Islamic Banks:

The Islamic bank has a main role in economic development that serves the public interest of society, proceeding according to an Islamic perspective. Among the objectives that Islamic banks seek to achieve are the following (Abdelli, Abdelli, & Abdelli, 2020, p. 68):

1.3.1 Reviving the Islamic approach in financial and banking transactions:

Islamic banks aim to implement the methodology of Allah on earth with regard to financial and banking transactions through:

- Commitment to Islamic rules and principles in financial and banking dealings.
- Calling for the application of Islamic Sharia in banking and financial transactions, by first adhering to it themselves, then advising and guiding members of society to follow humane behavior in investing and employing their funds.
- Developing and consolidating ideological and moral values in transactions among employees and clients.

1.3.2 Achieving the hopes and aspirations of bank owners and employees:

Shareholders in the Islamic bank invest their funds in a Sharia-compliant manner, in addition to the fact that its employees carry out their work while being keen to observe the provisions of Islamic Sharia.

1.3.3 Achieving economic development:

Islamic banks contribute to achieving economic development through:

- Mobilizing the latent capacities in society to reach the highest possible productivity, in a manner that ensures the desired change in Sharia. There is no doubt that mobilizing latent capacities in society, regardless of their type (human, material, etc.), constitutes a form of change in society sought by the Islamic bank as one of the objectives of the Islamic project.
- Encouraging investments and combating hoarding by creating numerous opportunities and investment formulas suitable for individuals and companies, that is, creating alternatives for those who refuse to deal with usury.
- Working to keep capital within the country, thus increasing reliance on basic self-resources and capabilities that are employed within Islamic countries.
- Eliminating usurious interest and reducing project costs, which leads to encouraging investment, creating new job opportunities, reducing unemployment rates, and increasing national income.
- Attracting deposits and investment to achieve profit in order to compete in the banking market (Motahhari, 2017, p. 133).

1.3.4 Achieving social solidarity:

Islamic banks are concerned with achieving social solidarity through:

- The Islamic bank achieves social solidarity among members of society through various means, especially through zakat funds that are financed through multiple resources, the most important of which is the zakat legally imposed on the bank's capital and its profits, in addition to charities, donations, and grants that it receives from individuals and organizations.
- Islamic banks direct these resources to their Sharia-compliant channels in cash or in-kind forms to various entitled parties and individuals such as the poor, the needy, mosques, and charitable associations.
- In addition to the interest of Islamic bank management in benevolent loans, whether productive or social, in-kind or cash, and contributing to social projects that do not aim at profit.
- These social activities, which the Islamic bank uniquely performs, help in achieving social solidarity among members of society and strengthening the surrounding social structure.

2. Islamic Financing:

2.1 Definition of Islamic financing:

Islamic financing is defined as providing in-kind or cash wealth with the purpose of profit-seeking from its owner to a person who needs it and disposes of it in return for a return permitted by Sharia rulings. Islamic financing includes a comprehensive framework of patterns, models, and various formulas that cover all aspects of life. Islamic financing is distinguished by being obtained without cost (and cost is the amount deducted from the procedure before reaching profit). Islamic financing also provides funds in different forms suitable for the diversity of economic activities, as each activity or group of activities is suited to a specific formula or a limited number of formulas (Tilkhoukh, 2021, p. 60).

There are many definitions of Islamic financing, among the most important are the following (Amari, 2019, p. 132):

- It is for a person to provide something of financial value to another person, either by way of donation or by way of cooperation between the two parties, for the purpose of investing it in order to obtain profits that are divided between them according to a ratio agreed upon in advance, according to the nature of each party and the extent of their contribution to capital and to administrative and investment decision-making.

- It is permissible financing that provides in-kind or cash funds from the owner to another person (the client) to dispose of them, within the provisions and controls of Islamic Sharia, with the aim of achieving a return that is legally permissible.

2.2 Types of Islamic financing:

Islamic financing is viewed from two angles, one commercial and the other financial, as follows (Amari, 2019, p. 134):

a- Commercial financing: It refers to that financing in which the owner specifies the type of commodity, owns it, and prepares it according to the specifications required by another party, while bearing the obligations and responsibilities arising from that related to his ownership of the commodity and his benefit from the funds he has, as a result of facilitated financial conditions for the other party, in return for a price that includes consideration of profit from the capital.

b- Financial financing: It is that financing which does not involve dealing with the commodity or its services at all, but rather results in providing present cash in exchange for deferred cash. This is done through the methods of mudaraba and partnership. Therefore, financial financing is that financing which places the burden of investment decision-making solely on the working party, and limits the role of the owner to placing what he owns of cash in mudaraba, or land in sharecropping, or trees in musaqat, under the disposal of the other party, without having the right to take administrative and investment decisions.

2.3 Controls governing Islamic financing:

There are many Sharia controls that govern Islamic financing, among the most important are the following (Amari, 2019, p. 135):

a- The control of permissibility (halal): This means that the field of the small project must be lawful and good.

b- The control of achieving the objectives of Islamic Sharia: These are the meanings and wisdoms intended by the Legislator through His legislations to achieve the interests of creation in this world and the Hereafter.

c- The control of preserving wealth and protecting it from risks: Islam commanded us to preserve wealth and not expose it to destruction and loss, and not to give it to the foolish. It also commanded us to invest and grow wealth, even the wealth of the orphan.

d- The control of commitment to Islamic priorities: Islamic Sharia organized investment priorities, which Imam Al-Shatibi arranged into three levels: necessities, needs, and improvements. Therefore, it is not permissible to give projects of luxuries priority before fulfilling necessities and needs.

e- The control of developing wealth through circulation and avoiding hoarding: Allah Almighty commanded us in His Noble Book to avoid hoarding wealth. The system of zakat on wealth played an important role in preventing hoarding, and the guardian of the orphan's wealth was commanded to invest it so that charity does not consume it.

f- The control of accounting documentation to preserve rights: Allah Almighty commanded us in His Noble Book to record transactions, and Islamic jurists paid attention to the jurisprudence of writing. Islamic heritage contains evidence confirming this.

g- The control of documentation to preserve rights: Allah Almighty commanded in

His Noble Book to strengthen contracts and bear witness to them, as stated in many verses of the Clear Book.

h- The control of performing Allah's right in wealth, which is zakat: Zakat on wealth is a legal obligation and one of the most important pillars of the Islamic economic system.

From the above, it can be said that these controls constitute the requirements of effective financing aimed at achieving comprehensive development, and they are also among the fundamentals of the success of small and medium enterprises.

2.3.1 Products and formulas of Islamic financing:

Islamic methods constitute the vital and main objective of the bank, considering that investments are an important pillar in Islamic banking activity, and a source of achieving profits, increasing banks' shares, and contributing to achieving the development of the country. Accordingly, these products can be presented as follows (Sakhri & Ben Ali, 2021, p. 100):

2.3.2 Investments based on participation: They are of several types, summarized as follows:

a- Mudaraba: Mudaraba is basically based on the meeting of capital with human effort to achieve profitable work. It is also defined as a contract based on sharing profits according to ratios agreed upon in advance between the owner of capital (the bank) and the mudarib (the worker).

b- Musharaka: Musharaka means an agreement between two or more parties to carry out an investment activity such that capital and profit are shared between them, or it is a contract established between two or more persons in capital or physical or administrative effort for the purpose of practicing commercial activities that generate profit.

c- Mugharasa: In this formula, the Islamic bank applies this formula by purchasing land and then granting it to those who work on it under mugharasa, or the bank may play the role of the worker, by working on others' land under mugharasa, using workers who are under the responsibility of the Islamic bank.

d- Musaqat: It is that type of partnership based on the worker exerting effort in caring for fruit-bearing trees, watering them, and maintaining them, on the basis that the resulting fruits are distributed according to ratios agreed upon in advance.

e- Muzara'a: It is defined as giving land by its owner to someone who cultivates it or works on it, and they share the crop between them. It is thus a partnership contract between the landowner and the worker on it.

2.3.3 Investments based on sales: These formulas can be carried out as follows:

a- Murabaha: It is when the Islamic bank purchases the commodity needed from the market based on a study of market conditions, or based on a promise to purchase submitted by one of its clients, in which he requests the bank to purchase a specific commodity or import it from abroad, for example, and expresses his desire to purchase it again from the bank. The bank may sell it to the first purchase applicant or to others on a murabaha basis, by declaring the purchase cost plus the expenses incurred in relation to it.

b- Salam: It is a deferred sale with immediate payment, meaning a sale in which the price is paid in advance at the contract session, while the commodity or goods (the subject of salam) are deferred to a specified term. It is the opposite of deferred sale, as it is a financial transaction whereby payment of the price is accelerated and paid in cash to the seller, who commits to delivering the specified and controlled commodity or goods with defined specifications at a known time.

c- Istisna': Istisna' is a type of sale in which the exchange of the commodity takes place before its existence. It is defined as a contract with a manufacturer to make a specific item as a liability, and it is one of the sales contracts. It means requesting the manufacturer to manufacture a specific commodity, and when the requested commodity is manufactured and delivered, the istisna‘ sale is completed.

h- Ijara:Ijara is a modern financing technique that usually includes three main active parties: the supplier (the seller or manufacturer) of machines and equipment, the lessor, which is the Islamic bank that purchases the machines and equipment for the purpose of leasing them to its clients, and the lessee or the client who requests the leasing of the equipment and machines.

2.3.4 Takaful and social services:

These services are mainly represented in:

a- Zakat: Zakat has great importance in the Islamic religion, as it represents a deduction from the الأمـوال of the wealthy in favor of the poor in a specified amount determined by the provisions of Islamic Sharia. Scholars have unanimously agreed that zakat is considered one of the most important Islamic sources for providing financing to small and medium enterprises in a basic manner.

b- Qard Hasan: Qard Hasan falls within non-profit financing, which is carried out by Islamic financing institutions with the aim of extending help and assistance to the society in which they operate, to enable beneficiaries to improve their income levels and alleviate the problems of poverty and unemployment suffered by most Islamic countries.

c- Waqf system: It is the detention of the principal and the dedication of the benefit, meaning retaining the endowed asset and preventing its ownership, and spending the benefits of the endowed asset on the intended and concerned party of the waqf. This process takes place in waqf funds in which funds are collected from individuals and institutions by way of endowment and donation, then these collected funds are invested and their returns are spent on channels that achieve benefit for the individual and society.

d- Takaful insurance: The field of insurance is considered one of the automatic cases in which conflict occurs between Islamic Sharia and traditional financial institutions, which led to the emergence of cooperative or takaful insurance. The word takaful means mutual assistance and cooperation, and it is an agreement or practice among members of a group called participants, who enter into an agreement among themselves to insure themselves against any loss or damage that may befall any one of them.

2.4 Risks of financing and investments in Islamic banks: They can be divided into the following (Zaid & Gharoumi, 2020, p. 434):

2.4.1 Risks arising from internal factors:

a- Risks arising from investor clients:

The nature of the relationship between the investor and the Islamic bank, which is represented in sharing profit and loss and therefore sharing risk, was one of the important reasons for investors being among the most important sources of risk for Islamic banks. This matter becomes clear through comparing Islamic banking with usurious banking. The conventional bank relies in most of its investments on the principle of lending and interest, whereas the situation is different in the Islamic bank, as its investment is based on the participation of the investor client in all project procedures.

b- Risks arising from the quality of available human resources:

The quality and nature of the investments carried out by Islamic banks constitute a fundamental source of the risks they face, given that these investments are characterized by a special nature such as partnership, murabaha, istisna‘, and other forms.

This special nature of Islamic banks’ investments requires the availability of a distinguished type of human resources capable of studying and evaluating the investor’s work and determining the extent of its suitability and appropriateness for participation by the Islamic bank.

The availability of such suitable human resources represents one of the basic guarantees required to face the risks that these investments encounter. If Islamic banks fail to provide them, or if the available human resources are unqualified, they will become one of the sources of risks facing these investments. The risks that may result from these sources are represented in the following types:

- Risks that may arise as a result of the inability to study and select appropriate investment operations.
- Risks that may arise due to the inability of these resources to follow up investment operations and their inability to innovate solutions to the problems generated by practical application.

c- Reputation risks:

These risks arise in the case of the presence of a negative public opinion toward banks due to their inability to provide banking services via the internet in accordance with standards of security, confidentiality, and accuracy, with continuity and immediate response to clients' needs and requirements. This is a matter that can only be addressed through intensifying the bank's attention and care in developing, monitoring, and following up performance in electronic activities.

2.4.2 Risks Arising from External Factors

A- Risks related to the prevailing systems and laws: The instructions and regulations governing banking activity were designed to serve conventional banks, therefore it is natural that Islamic banks face difficulties in dealing with these instructions which do not take into consideration the specificities of Islamic banking work. Nevertheless, these risks differ from one bank to another depending on the country in which it operates and the banking regulations to which it is subject.

B- Risks related to Sharia supervision: The lack of a clear crystallization of the concept of Sharia supervision within the Islamic bank has led to the emergence of risks related to Sharia control, including:

- The limited number of jurists specialized in banking transactions and modern economic issues, which leads to lack of clarity in perceptions of these issues and thus difficulty in reaching the correct Sharia ruling regarding them.
- The rapid and large development in economic transactions and the difficulty of following them through fatwas and clarifying the specific Sharia ruling related to them.
- The lack of quick response to the decisions of the Sharia board in permitting certain practices, where management may rely on the incomplete awareness of the board regarding the fine details of banking transactions, thus formulating the question and adapting it in a specific way or deleting parts of it, or the formulation of the question may be contrary to the practical reality and then presented to the board to permit the practice based on what was submitted to it. Due to the narrow scope of the board's competencies, its role is often limited to the form of question and answer only, without correcting errors or providing a Sharia alternative, thus becoming a Sharia façade that completes the rest of the fronts by adding a Sharia form to the bank and acting as publicity before the Muslim public.

C- Liquidity risks: Liquidity in its economic concept means the ability and efficiency of banks to meet their obligations and commitments towards others when due. Since Islamic banks do not have a specific law in some countries in which they operate, they are subject to the central bank law and the ratios it determines. If the Islamic bank does not maintain sufficient liquidity ratios, or if its resources fail to cover its financial obligations, or it is unable to liquidate them at the time of need, it will be exposed to several risks, including stopping its activity and failure to meet its obligations, loss of confidence of its clients, and possibly bankruptcy or the tendency to withdraw deposits. On the other hand, mobilizing liquid financial resources and savings and directing them to finance various investment projects represents the backbone for Islamic banks and one of their most important activities that ensure their survival and continuity. Therefore, Islamic banks must balance between liquidity considerations that provide them with the ability to meet their obligations, and profitability considerations that require operating and employing surplus liquidity available to them.

D- Risks of applying the legal reserve ratio: Applying the legal reserve ratio on investment accounts in Islamic banks contradicts the nature of these accounts, as their holders deposit these amounts for investment through Sharia-compliant financing instruments, bearing the consequences of investment in terms of profit and loss and accepting the risks that may occur. Imposing this ratio prevents benefiting from employing all funds and wastes good investment opportunities, thus reducing the return that can be obtained.

E- Credit ceiling renewal risks: The renewal by the central bank of the upper and lower limits for types of financing, within the framework of setting controls governing credit ceilings, deprives the Islamic bank of the opportunity to benefit from the existence of a good investment alternative. This leads to the bank losing returns that could have been achieved and consequently raises the level of risks facing Islamic banks.

F- Exchange rate risks: Banks face the risk of losing part of their assets as a result of exchange rate movements, despite what established accounting rules provide in terms of transparency.

G- Pricing risks: These arise from changes in the prices of funds, particularly the financial investment portfolio. There are internal and external factors related to local economic conditions and the prevailing business climate in the market. As for internal factors, they differ within the economic unit itself, including the financing structure, operating results, duration of operational efficiency, and other internal conditions.

H- Compliance risks: These refer to the bank's exposure to penalties, whether in the form of sanctions or fines, or restrictions on practicing a certain activity due to committing violations.

I- Investment risks: The Islamic bank does not obtain a fixed return as a result of employing funds, but rather depends on the outcome of its participation with its clients, therefore its investments are exposed to profit and loss.

J- Electronic banking risks: The significant growth in electronic banking activities has created new challenges for banks and regulatory authorities, in light of the lack of sufficient experience among management and bank employees to keep pace with developments in communication technology participation, in addition to the increasing possibility of fraud and deception on open networks such as the Internet, due to the absence of traditional practices through which the legitimacy of the client's identity was verified.

3. Small and Medium-Sized Enterprises (SMEs):

3.1 Definition of Small and Medium-Sized Enterprises:

Several definitions have been provided for small and medium-sized enterprises. The World Bank defined them on the basis of the criterion of the number of workers as those establishments that employ less than 50 workers, and it classifies projects employing fewer than 10 workers as micro-enterprises. Enterprises employing between 10 and 50 workers are considered small enterprises, while those employing between 50 and 100 workers are classified as medium enterprises (Amari, 2019, p. 131).

With regard to the Algerian legislator, small and medium-sized enterprises were defined through Law No. 01/18 issued in December 2001, which includes the framework law for the promotion of small and medium-sized enterprises, as follows: "Small and medium-sized enterprises, regardless of their legal nature, are defined as enterprises producing goods and/or services that employ from 1 to 250 persons, whose annual turnover does not exceed two billion dinars, or whose total annual balance sheet does not exceed five hundred (500) million dinars, and which meet the criteria of independence" (Official Gazette, 2001, p. 5). The following table clarifies this definition:

Table 1: Types of Small and Medium-Sized Enterprises in Algeria

Type of Institution	Number of Employees	Capital (DZD)	Total
Micro	From 01 to 09 employees	Less than 20 million	Less than 10 million
Small	From 10 to 49 employees	From 20 to 200 million	From 10 to 100 million
Medium	From 50 to 250 employees	Between 200 million and 2 billion	From 100 to 500 million

Source: Algerian Official Gazette, Issue 77, issued on 15/12/2001.

3.2 Development of Small and Medium-Sized Enterprises in Algeria:

The number of small and medium-sized enterprises in Algeria has witnessed noticeable development, particularly after the issuance of Ordinance 01-03 in 2001 relating to the promotion of investment, and the framework law for the promotion of small and medium-sized enterprises on 15/12/2001, which aims at improving the environment related to small and medium-sized enterprises. The following table illustrates this development

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Table 2: Development of the Number of Small and Medium-Sized Enterprises in Algeria by Their Nature for the Period 2010–2019

Nature of Small and Medium-Sized Enterprises	Private Enterprises	Public Enterprises
2010	618,515	557
2011	658,737	572
2012	711,275	561
2013	777,259	547
2014	854,511	544
2015	934,037	532
2016	1,036,231	390
2017	1,074,236	267
2018	1,092,908	262
2019	1,193,116	243

Source: Statistical bulletins of the Ministry of Industry, Small and Medium-Sized Enterprises, and Investment Promotion.

It can be observed from the table that from 2010 to 2019, the rate of increase in the number of small and medium-sized enterprises approached 55%, and that 99.97% of these enterprises are private, with the creation of 574,601 new enterprises during this period

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Table 3: Development of the Number of Small and Medium-Sized Enterprises in Algeria for the Period 2010–2019

Years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number	619,072	659,309	711,832	777,816	852,053	934,569	1,022,621	1,074,503	1,093,170	1,193,359

Source: Statistical bulletins of the Ministry of Industry, Small and Medium-Sized Enterprises, and Investment Promotion.

The above table shows the continuously increasing number of small and medium-sized enterprises during the period 2010–2019, year after year. During this period, 474,098 enterprises were established, which is attributed to the growing interest in this sector.

3.3 The Importance of Financing for the Development of Small and Medium-Sized Enterprises:

Financial financing is considered the main tool of economic movement, as through it the investor is able to implement the idea of his project and achieve the product, service, or industry that he planned and designed. Many investors possess ideas for small and medium-sized projects but do not own the necessary financial financing, while others possess financial resources but do not know how to invest them, and there are also those who possess financial financing and investment ideas and are able to manage them properly. Thus, when financial financing is available alongside the project idea, small and medium-sized enterprises are established without financing obstacles, which results in economic growth and economic development.

The availability of financial financing contributes to the creation and expansion of small and medium-sized enterprises, which reflects positively on the local economy of the state and the global economy. Financing, especially financial financing, is considered one of the basic functions of financial management, and it is natural that whenever the volume of investment increases, the volume of financing increases as well, which leads to an increase in the importance of financing. This importance stems mainly from the decisions resulting from financing. Islamic banks should not limit their view to the size of financing they possess in order to cover a specific number of projects, but rather they should adopt a broader vision by carrying out a reverse calculation process, which consists of setting a future forecast for the number of small and medium-sized enterprises required by the market, and based on that, estimating the volume of financing needed, and then seeking to provide it through their own methods and by encouraging investors and shareholders in banks (Amari, 2019, p. 133).

3.4 The Economic and Social Importance of Small and Medium-Sized Enterprises:

This role can be highlighted through the following points (Khadawi, Menia, & Sebaa, 2021, p. 369):

3.4.1 Improving Economic Growth Rates: This is achieved through their contribution to increasing the gross domestic product, national product, and added value, as they allow for an increase in the volume of transactions at the level of the national economy.

3.4.2 Contributing to Import Substitution and Export Development: Planning for the development of small and medium-sized enterprises to produce what the local market requires represents one of the basic national objectives that contribute to import substitution, and these enterprises may also succeed in developing exports if international competitiveness is achieved.

3.4.3 Reducing Unemployment and Providing Job Opportunities: They are considered among the best ways to reduce unemployment by providing job opportunities at a lower cost compared to large projects and government institutions. Unemployment rates in Arab countries range between 8% and 30%, while in a developed country such as Japan, which relies heavily on small and medium-sized enterprises, the unemployment rate reaches about 4.7%.

3.4.4 A Fertile Field for Women's Employment: Encouraging women to establish, own, and manage small and medium-sized enterprises leads to increasing their self-confidence, reliance on their abilities, and self-respect. This is positively reflected in creating added value for the national economy, increasing household income, and improving the overall level of society, in addition to the serious contribution of women to the development process.

4. The Reality of Islamic Banking in Algeria:

Many Islamic and Arab countries have adopted the issuance of legislations and laws regulating the activities of Islamic banks, and this step has had a clear and significant impact on strengthening the foundations of Islamic banking practice. Algeria, like many Islamic and Arab countries, has opened the field for Islamic banks to carry out their activities. Through this section, an attempt will be made to diagnose the reality of Islamic banking in Algeria.

4.1 The Legislative Environment for the Work of Islamic Banks in Algeria:

Islamic banks face major challenges that hinder their growth and the expansion of their products in the Algerian banking market, as their market share does not exceed 2%. According to financial experts, the Islamic financial industry needs to strengthen its infrastructure and to formulate a legislative, regulatory, and supervisory framework capable of providing a suitable environment for its growth in the country.

4.2 The Legal System Governing the Practice of Banking Operations:

The adoption of regulatory texts for Islamic banking in Algeria experienced significant delay. The beginning was in 2018 with Regulation No. 18-02, which consisted of only 12 articles and was characterized by many shortcomings and disturbances, most notably the absence of definitions for Islamic banking products. Subsequently, Regulation No. 20-02 was issued with a broader, more comprehensive, and clearer vision through 24 articles, and it was complemented by Instruction No. 20-03, which included 60 articles concerned with Islamic banking products and the mechanisms for their implementation (Ben Houhou, 2020).

4.2.1 Its Objectives:

Internal Regulation No. 20-02 aims, through these rules, to define:

- Banking operations related to Islamic banking and the rules governing their practice by banks and financial institutions.

It identified eight banking operations related to Islamic banking, namely: *Murabaha, Musharakah, Mudarabah, Ijarah, Salam, Istisna‘, deposit accounts, and investment deposit accounts.*

4.2.2 Its Conditions:

The bank or financial institution wishing to market these products is required to submit information within the license application file, including: a certificate of Sharia compliance issued by the National Sharia Authority for Fatwa on Islamic Financial Industries, a descriptive card of the product, the opinion of the compliance officer of the bank or financial institution, and the procedures to be followed to ensure the administrative and financial independence of the Islamic banking window.

- After obtaining prior authorization from the Bank of Algeria, accredited banks and financial institutions wishing to obtain a Sharia compliance certificate for their products must submit those products for evaluation by the nationally competent authority legally authorized to do so.

- The Bank of Algeria stipulated that the Islamic banking window must be financially independent from the other departments and branches of the financial institution.

Funds of Islamic banking are subject to the provisions of Order No. 03/11 dated 27 Jumada II 1424 corresponding to 26 August 2003, with the exception of investment deposits, which are subject to an agreement concluded with the customer allowing the bank to invest the deposits in a portfolio of projects and operations of the Islamic finance window in the financing operations carried out by the bank (Official Gazette, 2020).

4.3 An Overview of Algeria’s Establishment of Islamic Banks:

Algeria opened the field to Islamic banking as part of its banking system since the enactment of the Law on Money and Credit No. 90/10, which allowed the private and foreign sectors to establish banks, including Islamic banks in Algeria. In this regard, Algeria is considered among the pioneering countries in adopting this type of institution compared to neighboring countries.

4.3.1 Al Baraka Bank Algeria:

This refers to Al Baraka Bank Algeria, which was established on 06/12/1990 and officially opened on 20/05/1991. It is considered the first banking institution operating in accordance with Islamic Sharia in Algeria, with a capital of 500,000,000 DZD, divided into 500,000 shares, each valued at 1,000 DZD. Ownership is equally shared between:

- A public Algerian bank, BADR (Bank for Agriculture and Rural Development), with a share of 50%.

- Dallah Al Baraka Holding International Company, headquartered between Jeddah (Saudi Arabia) and Bahrain, with a share of 50%.

According to the latest reports issued by the bank, ownership stands at 59.9% for the Al Baraka Group and 40.1% for the Bank for Agriculture and Rural Development.

4.3.2 Gulf Bank:

The Bank of Algeria did not approve other Islamic banks despite applications submitted over several years. In addition, Algerian regulatory authorities allowed some conventional banks to open windows offering Islamic banking services alongside their conventional services. Among the most prominent experiences in this field is Gulf Bank Algeria, affiliated with Kuwait Projects Holding Company, which began its activities in Algeria in 2002, providing Sharia-compliant banking services through Islamic windows in its branches. The government also allowed three public banks to open Islamic windows starting from November 2017: the National Popular Credit Bank, the National Savings and Reserve Fund Bank, and the Local Development Bank.

In 2020, the Algerian Central Bank granted approval to banks operating within the Algerian banking system to conduct activities according to the eight aforementioned types of Islamic transactions.

4.3.3 Al Salam Bank

5. A Field Study of Financing Operations for Small and Medium Enterprises at Al Salam Bank in Algeria (2016–2020)

5.1 Accreditation of Al Salam Bank Algeria:

Al Salam Bank Algeria is a universal bank operating in accordance with Algerian laws and in compliance with Islamic Sharia in all its transactions. The bank was accredited by the Bank of Algeria in September 2008 and began its activities with the aim of providing innovative banking services, becoming the second Islamic bank to enter the Algerian banking market. The capital of Al Salam Bank, inaugurated on 20/10/2008, was estimated at 72 billion Algerian dinars, approximately 100 million US dollars, making it at the time the largest private bank operating in Algeria.

In 2020, the bank's capital was increased to 15 billion Algerian dinars in compliance with Bank of Algeria Regulation No. 18-03 dated 04 November 2018 concerning the minimum capital required for banks and financial institutions operating in Algeria. Its network in 2020 consisted of 18 branches distributed across the national territory.

Al Salam Bank Algeria operates according to a clear strategy aligned with the requirements of economic development in all vital sectors in Algeria, by providing modern banking services. Its transactions are overseen by a Sharia board composed of senior scholars in Sharia and economics. The bank provides services to both companies and individuals. Corporate services include banking operations (current accounts, free checkbooks, and automated funds transfer services), foreign trade services (collection bills, documentary credits, guarantees and bank undertakings), and financing through contracts such as Murabaha to the Purchase Orderer, Ijarah, Salam, Mudarabah, Musharakah, and Istisna‘, among others. It also offers a range of banking services such as automated teller machines, electronic payment services, and online payment services.

5.2 Rules for the Presentation of Financial Statements:

The bank's financial statements were prepared in accordance with the provisions of the regulations of the Bank of Algeria:

- Regulation No. 09-04 dated 23/07/2009, which includes the bank chart of accounts and the accounting rules applicable to banks and financial institutions.
- Regulation No. 09-05 dated 18/10/2009, which concerns the preparation and publication of financial statements of banks and financial institutions.
- Regulation No. 09-08 dated 29/12/2009, which relates to the rules of valuation and accounting recognition of financial instruments by banks and financial institutions.

Based on Regulation No. 09-05 referred to above, the financial statements include: the balance sheet, off-balance-sheet items, the income statement, the cash flow statement, the statement of changes in equity, and the notes, which are considered an integral part of the financial statements.

5.3 Al Salam Bank Activity during the Year 2020:

With regard to operations involving high risk ceilings, such as financing and foreign trade operations, and for statistical purposes, the bank's control team was able to process more than 635,000 operations carried out across the various branches of the bank. This made it possible to propose a set of recommendations concerning the introduction of standardizations to the information system and the updating of internal procedures, in order to limit and remedy the risk gaps to which the bank's activities are exposed. All of this aims at establishing a managerial tool that enables the general management to adopt management approaches consistent with its defined business plan, as well as to establish and strengthen a control culture within the bank across all work centers.

5.3.1 Risk Management:

In application of the bank's approved strategy and the directives of the Board of Directors regarding risk management policy, risks were identified as follows:

A- Financing Risks: The financing risk policy is considered the main reference that defines the general framework, principles, and basic rules upon which the granting of facilities is based. Among the objectives of establishing this policy is the control of risks associated with granting credit, whether counterparty credit risks or risks related to credit concentrations. During the year 2020, the classification of 680 operators or related persons was reviewed, whereby each was classified according to risk level, sector of activity, geographical area, and product. This classification allows for the monitoring of various levels of concentration.

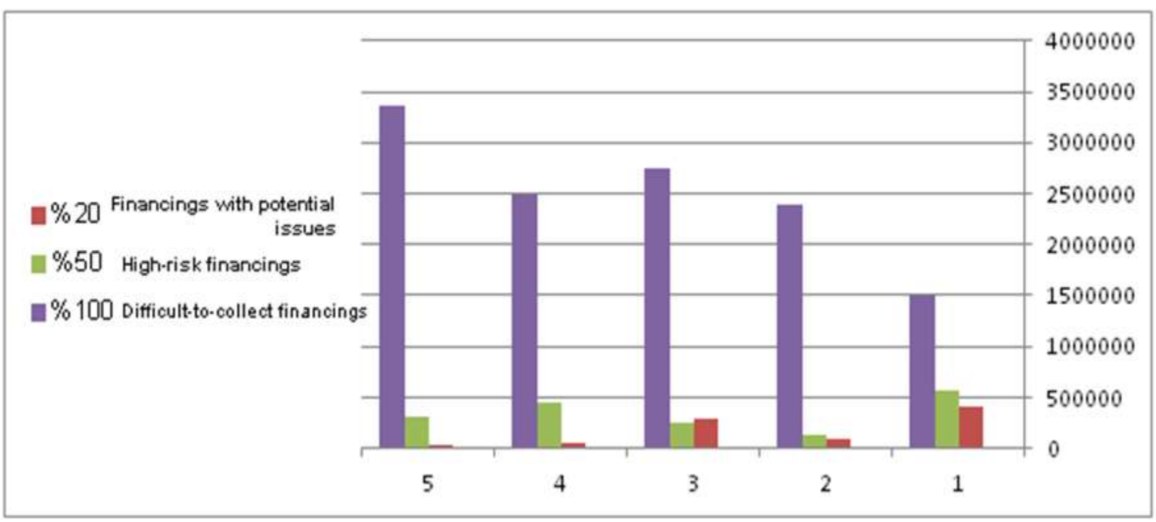
Table 04: Financing by Categories of Classified Claims (2016–2020)

Unit: thousand DZD

Classified Rights Categories	2016	2017	2018	2019	2020
Financing with Possible Risk 20%	823,402	638,980	823,290	732,494	529,443
High-Risk Financing 50%	963,571	974,120	398,255	641,449	1,565,574
Difficult-to-Collect Financing 100%	748,497	1,878,397	2,472,740	2,507,907	2,358,679

Source: Prepared by the researcher based on the annual reports for the years 2016-2020

Figure 1: Financing by Classified Rights Categories 2016-2020



Source: Based on the data from Table 04

Through Figure 1, prepared based on the data recorded in Table 04, it is observed that the non-performing loans constitute a significant proportion of the total financing, which represents one of the challenges facing the success of Islamic banking in Algeria.

b. Operational Risks:

The primary tasks in risk management include identifying and measuring operational risks, which is achieved through self-assessment of risks for each job within the bank (the risk map of Al Salam Bank Algeria contains 455 risks) in order to identify all operational risks arising from these activities to eliminate, mitigate, transfer, or manage these risks. Operational risk management also includes effective monitoring and reporting. In 2020, 78 operational events were recorded in the bank's event database, classified by severity and job, and corrective plans were implemented aiming to mitigate, transfer, or resolve these events.

c. Stress Tests Related to Liquidity and Credit:

The objective is to determine the bank's ability to withstand risks and to assess its vulnerability. A stress test exercise was conducted for liquidity and credit based on the simulation of three scenarios: the baseline scenario, the moderate scenario, and the severe scenario. These scenarios depend on the negative development of classified debts and deposits over a specific period, with semi-annual frequency. The test results, represented by the solvency and liquidity indicators, were all satisfactory and compliant with standards.

d. Marketing and Product Development:

The bank utilized advertising spaces to promote its products through various channels. Two advertising spots were produced for investment accounts and digital services, and a campaign was conducted on a well-known channel for seven months. The bank also exclusively sponsored the Mawlid al-Nabawi evening program on official channels and supported the "David's Flutes" program for young Quran memorization students, as well as programs such as "Divine Breezes," "Religion and World," "My Story with Islam," and "Halal Fund," among others. The bank intends to develop a service allowing bill and payment settlement via mobile phone and another service for sending account notifications via SMS. A digital platform will also be launched with the partner Safitam, expected to become the largest online consumer finance platform.

The bank also participated in sponsoring several events and ceremonies, including an honoring ceremony for doctors and nurses (the "White Army"), contribution to an elementary education competition, participation in cooperative finance events, and change challenges. Efforts were focused on marketing products via the bank's official website and social media, along with monthly internal newsletters and the Islamic Economy Magazine of Al Salam Bank.

To improve service quality, the bank launched a customer support service to handle client requests and complaints within 48 hours. Additionally, an AI-powered service was introduced to answer client questions via Facebook messages and the bank's official website. The official Facebook page reached 140,000 followers, and the bank's website recorded 875,000 visits.

5.3.2 Financing Activity:

Table 05: Financing by Geographic Distribution 2016-2020 (Unit: Thousand DZD)

Geographic Areas	2016	2017	2018	2019	2020
Central Region	26,753,481	39,671,726	57,633,518	70,539,612	68,579,671
Eastern Region	2,088,200	4,525,241	11,784,768	17,530,676	24,483,617
Western Region	2,004,306	3,242,066	7,540,710	7,887,690	9,863,503
Southern Region	-	-	868,996	2,847,780	2,551,022
Total	30,845,987	47,439,033	77,827,992	98,585,758	105,477,813

Source: Prepared by the researcher based on annual reports for the years 2016-2020

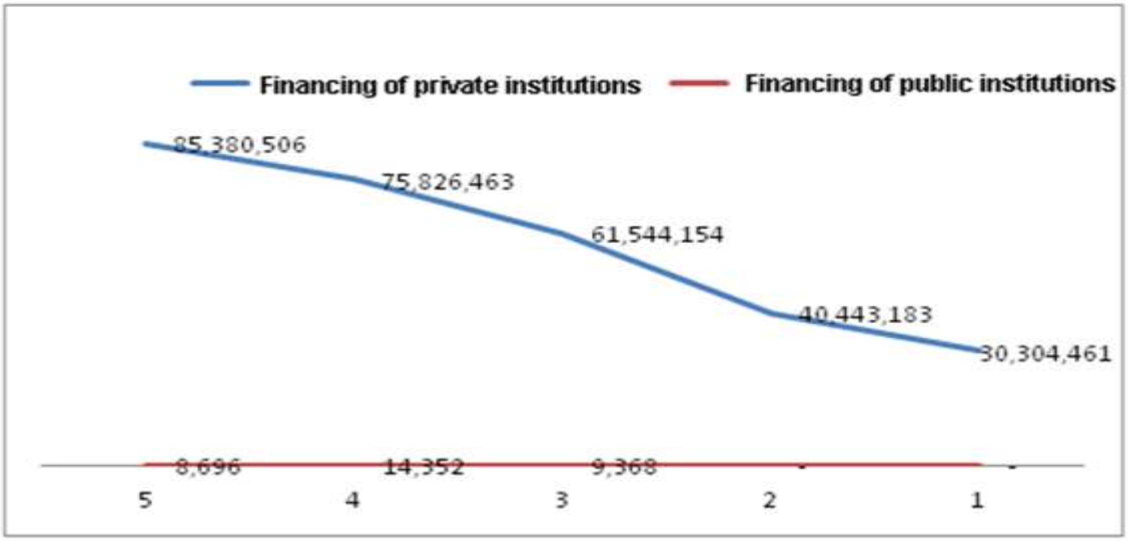
The data in the table above shows that the financing operations, and more broadly Islamic banking activity in Algeria, are concentrated in the central region, while other regions, particularly the south, are largely neglected. This is due to the absence of branches and offices in these areas on one hand, and the population density being higher in the central region.

Table 06: Financing by Economic Actor 2016-2020 (Unit: Thousand DZD)

Type of Financing	2016	2017	2018	2019	2020
Financing for Private Companies	30,304,461	40,443,183	61,544,154	75,826,463	85,380,506
Financing for Public Companies	-	-	9,368	14,352	8,696

Source: Prepared by the researcher based on annual reports for the years 2016-2020

Figure 03: Financing by Economic Actor 2016-2020



Source: Based on the data of Table 06

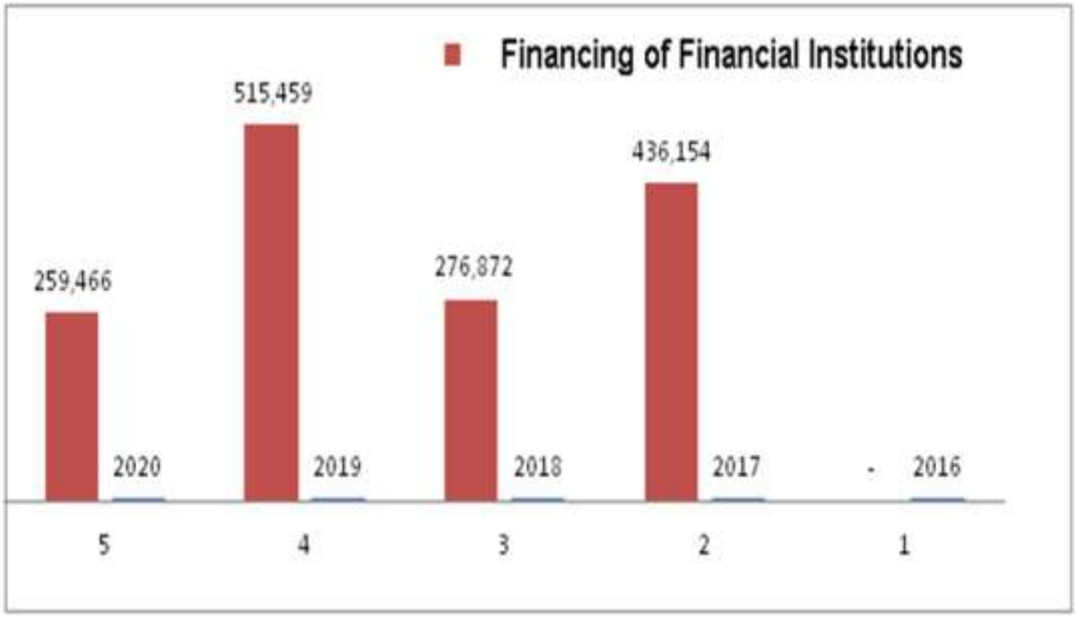
It can be observed from Figure 3 that the financing ratio of Bank Assalam for small and medium enterprises nearly tripled from 2016 to 2020, which is due to the increase in the number of enterprises and the growing focus on this sector. In addition, the total financing is allocated to the private sector, while the public sector is almost negligible.

Table 07: Financing of Financial Institutions 2016-2020 (Unit: thousand DZD)

Financing Type	2016	2017	2018	2019	2020
Financing of Financial Institutions	-	436,154	276,872	515,459	259,466

Source: Prepared by the researcher based on the annual reports for the years 2016-2020

Figure 04: Financing of Financial Institutions 2016-2020



Source: Based on the data of Table 07

Among the activities of Bank Assalam Algeria is the financing of financial institutions. Duringthe period 2016-2020, it is noted that the highest total was in 2019, while the lowest was in 2020,which is of course due to the COVID-19 pandemic.

b- Leasing Financing: Leasing financing activity achieved significant figures despite the health and economic conditions prevailing nationally and globally. The total value of files submitted to the leasing financing committee reached 17.6 billion DZD, of which 65% of the total requested financing was approved, while 28% of the requested facilities were either rejected or reconsidered. The total leasing financing in 2020 amounted to 133 million USD (equivalent to 17.6 billion DZD), reflecting a growth rate of 36% compared to 2019. The granted facilities in leasing format were double the figures of the previous year, reaching 67 million USD (approximately 9 billion DZD) compared to 33 million USD (4.4 billion DZD) in 2019, representing a growth rate of 103%.

c- Consumer Financing: Consumer financing for individuals during 2020 experienced disruptions due to two main factors. The first was the measures taken by authorities in the first half of 2019, which capped local car assembly, negatively affecting consumer financing. The second was the pandemic, which impacted overall economic activities and delayed clients' repayments. Under these conditions, the unit focused on collecting delinquent debts, financing locally assembled motorcycles, digitizing consumer financing, and developing microfinance products for artisanal activities and small businesses. Consequently, consumer financing for individuals declined, reaching 456.7 million DZD in 2020 compared to 8.5 billion DZD in 2019.

d- Real Estate Financing: In real estate financing activity, the objectives were achieved despite prevailing economic and health conditions caused by the COVID-19 pandemic. Real estate financing in 2020 was very intensive, dealing with financing files for individuals and real estate development companies for social housing projects. A selective policy was applied for financing developers.

d- Real Estate Financing for Individuals: The value of real estate financing allocated in 2020 reached approximately 1,157 million DZD compared to 1,300 million DZD in 2019. Real estate financing maintained the same level as the previous year despite exceptional health conditions. Several agreements were concluded between the bank and various economic institutions and universities, along with the opening of branches, including Berriane University, Biskra University, and Silas Cement / Lafarge branch. Preliminary approvals were also granted for several agreements, including Algerian Radio, Algeria Post, Annaba Port, Laghouat University, and the Algerian Insurance Company.

e- Real Estate Financing for Development Companies:A selective policy was adopted for financing developers. The bank's financing volume for real estate development projects amounted to 76 million DZD. In monitoring the collection of real estate guarantees, more than 211 property ownership and first-degree mortgage contracts were completed for bank-financed properties for individual clients. Additionally, the number of insurance policies for financed housing units totaled 257 files.

f- Foreign Trade Activity: Foreign trade activity achieved good results despite the exceptional difficulties of 2020 due to the COVID-19 pandemic, which negatively affected the global economy. However, the bank maintained the provision of high-quality services to clients by executing documentary operations in the shortest possible time, which enhanced the bank's reputation and enabled it to attract new clients.

6. Conclusion:

In conclusion, through the exploration of this study, it can be stated that the implementation of Islamic banking and the adoption of Islamic financing tools and methods in the Algerian banking sector are influenced by multiple factors and face several obstacles. These include sources of financing and investment risks, the legal and legislative framework, as well as human resources. This necessitates that stakeholders take the necessary measures to address these challenges to enhance the role of Islamic banking in financing small and medium-sized enterprises in Algeria.

6.1 Findings:

The following results were reached:

1. Islamic banking derives its rulings from the provisions of Islamic jurisprudence on transactions (Fiqh al-Muamalat).
2. Islamic banking operations in Algeria rely on a network of branches of Arab Islamic financial institutions, such as Bank Assalam Algeria, in addition to recently established windows in conventional local banks.
3. Islamic banking and Islamic finance are not exclusive to Islamic banks; the study revealed that conventional banks also offer Islamic finance through dedicated windows.
4. Islamic banking faces significant risks due to its reliance on depositors' funds, including financial risks, operational risks, and legal risks.
5. Bank Assalam Algeria provides a diverse range of financing solutions for institutions, professionals, and individuals to support investment projects, which is positive despite the bank being relatively new (established in 2008).
6. Not all regions of the country are covered by sufficient branches to bring services closer to citizens.

6.2 Recommendations:

1. Enact a special law on Islamic finance, including provisions for its establishment and supervision, as Algeria is currently an exception in the Maghreb region, being the only country without a dedicated Islamic finance law.

2. Focus on opening full-fledged Islamic banks instead of just windows, which would encourage Algerian citizens and increase their confidence in the legitimacy of Islamic banking, thereby attracting investors who refuse interest-based transactions.
3. Intensify training programs for staff and employees of conventional banks operating with Islamic financial products by establishing a banking training center at Bank of Algeria to qualify them and familiarize them with Islamic banking supervision mechanisms.
4. Develop accounting treatments that consider the unique characteristics of Islamic banking and financial products within the framework of the existing conventional accounting and financial system.
5. Organize forums and seminars on Islamic finance by existing Islamic banks or universities to raise awareness among clients and economic operators about this type of financing, while reviewing leading Arab and international experiences to benefit from their expertise.
6. Bank Assalam Algeria should conduct awareness campaigns on financial products and financing methods offered, and organize academic and jurisprudential seminars to educate clients and economic actors about Islamic financing methods.

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