



Islamic financial institutions and its Role in Developing small and medium-sized enterprises in Algeria

-Al Baraka Bank as a model-

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Abstract

Islamic finance is considered as one of the forms most in demand because it is considered as an important factor for economic and social development. Small and medium-sized enterprises (SMEs) are the engine and the driver of the economy, this interest in them has become a strategic direction for all countries. This study aimed to highlight the role of Islamic finance in developing the Algerian economy by providing the necessary financing to SMEs, and to demonstrate the specificity of the Islamic finance system and its compatibility with these institutions. This study concluded that the reality of Islamic financing for SMEs in Algeria did not reach the required level due to several obstacles, especially the ineffectiveness of the Algerian banking system.

Keywords: *Islamic financial institutions, small and medium-sized enterprises, Al Baraka Bank.*

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1. INTRODUCTION

Algeria, like other countries, has relied on the option of paying attention to small and medium enterprises because of the importance that these institutions can have in the national economy, as these institutions represent a major factor in economic and social development in all countries of the world in general and developing countries in particular. It also SMEs to be one of the basic pillars on which countries rely to achieve their economic policy goals, especially with regard to the operational aspect, as these institutions contribute a large part to reducing the unemployment rate, so economic progress depends to a large extent on the growth and expansion of these institutions.

The development and growth of SMEs depends largely on the availability of the necessary financing, therefore the lack of financing is considered as one of the most important obstacles they face.

The financing obstacles are represented by the small amount of financing granted, high interest rates, in addition to the lack of sufficient guarantees. Banks usually contribute to financing large projects and prefer to deal with them, due to the low degree of banking risk in them and the ability of these institutions to provide the required guarantees.

Since **SMEs** are development projects and a significant contribution to economic and social development, banks and Islamic financial institutions must play a major role in financing them, Whereas SMEs require flexibility and diversity in financing methods, and this is what Islamic finance provides with its multiple tools and methods in a way that is compatible with their desires and serves their requirements, in order to reach an economic development and to achieve the objectives of Islamic banking, so this study came to Highlight the current practical reality of Islamic banks in financing small and medium enterprises, through the financing system they adopt, and for that we will try to answer the question *"How efficient are the Islamic financing*

formulas in financing small and medium-sized enterprises projects in Algeria?"

2. The Concept of Small and Medium-sized Enterprises

There have been many definitions on the subject of small and medium-sized enterprises, as there is no agreed upon definition that precisely defines what these institutions are¹, There is a study that gave more than fifty definitions in seventy-five countries², this is due to the multiplicity of standards adopted in determining these definitions, and there is no doubt that this difference makes it difficult to make international comparisons, even if statistics exist³, for this some researchers resorted to relying on quantitative criteria (number of workers, size of invested capital, sales value, quantity of production, etc.) in defining the concept of these institutions, while others resorted to relying on qualitative criteria (nature of ownership, administrative responsibility, etc.), and some of them mix these criteria.

We can also attribute this diversity of definitions to two basic things⁴:

- The great difference in the economies that organize these institutions in terms of specialization, degree of growth, and method of organization;
- The great difference and diversity in adopting standards and indicators that enable the distinction between large institutions on the one hand and small and medium enterprises on the other hand.

2.1. Different Definitions of Small and Medium-sized Enterprises

The difference in the degree of economic growth from one country to another has led to each country adopting its own definition, either based on the legal or administrative side. There are also different definitions for international groups or institutions such as the European Union, the International Labor Organization, and others. Below we will discuss some of these definitions:

2.1.1. USA Definition of Small and Medium-sized Enterprises

The American Development Bank defines small and medium-sized enterprises as “a group of enterprises that produce on a small scale, use small capital, and employ a limited number of Laborers”⁵.

However, it should be noted here that the term small and medium-sized enterprises is not widely used in the United States of America, and the concept of these enterprises has been defined in a detailed manner based on the volume of sales and the number of employees. Therefore, the law set upper limits for these enterprises, which are:

- Service institutions and retail trade, from 1 to 15 million US dollars in annual sales;
- Wholesale trade enterprises from 5 to 15 million US dollars;
- Industrial establishments: the number of workers is 250 or less.

2.1.2. The World Bank's definition of SMEs

The World Bank, through its branch, the International Finance Corporation (IFC), distinguishes between three types of small and medium-sized enterprises, which we will summarize in the following table:

Table 1: Criteria for distinguishing between the size of institutions according to the World Bank.

Institution/ criteria	Number of Workers	Its total assets (US Dollar)	Annual sales volume (US Dollar)
Micro enterprise	Less than 10	100.000	100.000
Small enterprise	Less than 50	3M	3M
Medium enterprise	Less than 300	15M	15M

*Elaborated by the researcher based on World Bank statistics.

2.1.3. Definition of the International Labor Organization

Definitions of SMEs often vary by country and are usually based on the number of employees, the annual turnover or the value of assets of enterprises. Typically, micro-enterprises are defined as enterprises with up to ten employees, small enterprises as those that have ten to 100 employees, and medium-sized enterprises as those with 100 to 250 employees⁶. This includes all types of enterprises, irrespective of their legal form (such as family enterprises, sole proprietorships or cooperatives) or whether they are formal or informal enterprises. For the sake of readability⁷.

2.1.4. United Nations Industrial Development Organization definition

SMEs are defined according to this organization as follows:

“These are all small-scale production units that include rural, manual, and craft industries, in addition to modern small factories, whether they take the form of factories or those that do not take this form”⁸.

2.1.5. Japan's definition of SMEs

These institutions are defined by the law called the Basic Law for Small and Medium Enterprises amended in December 1999⁹, where the definition was based on the double standard (labor, capital) as a determinant of the size categories of these institutions, However, the limits of this standard vary according to the classifications of activities¹⁰, and this is what we will highlight in the following table:

Table 2: Criteria for distinguishing between the size of institutions in Japan.

sector	Number of employees	Capital (million yen)
Industry and other sectors	≤ 300	≤300
Wholesale trade	≤100	≤100
Retail trade	≤50	≤50
Services	≤100	≤50

Source: Ibrahim bin Saleh Al-Qarnas,(2002), “The Japanese Experience in Supporting and Developing Small and Medium Enterprises,” the training program organized by the Japanese Cooperation Center for the Middle East, Tokyo, p.4.

2.1.6. The European Union’s definition of SMEs

On December 31, 1997, the European Union reached a unified definition for SMEs. Many European countries tried to introduce it into their local legislation and implement it gradually. This definition can be summarized through the following table:

Table 3: Criteria for distinguishing between the size of institutions according to the European Union.

Institution / criteria	Maximum number of employees	Maximum Business Number (million euros)	Maximum budget (million euros)
Micro	01-09	≤ 2	≤ 2
Small	10-49	≤10	≤10
Medium-sized	50-249	50-200	≤43

Source: Document du travail N°8 sur les instruments financiers et les programmes de l’UE en faveur des petites et moyennes entreprises, commission des budgets, parlement européen, 16 mai 2003, p11.

2.1.7. Algeria's definition of SMEs

In Algeria, the Algerian guiding law for the promotion of **SMEs**, regardless of their legal nature, is defined as an institution that produces goods and/or services employing 1 to 250 people whose annual **Business Number** does not exceed 500 million Algerian dinars and also satisfy the criterion of independence.

The following table shows us the criteria for distinguishing between the size of institutions in Algeria:

Table 4: Criteria for distinguishing between the size of institutions in Algeria.

Institution/ criteria	Employed labor (worker)	Annual Business Number (million DZD)	Annual revenue (million DZD)
Micro	01-09	20	10
Small	10-49	200	100
Medium-sized	50-250	200-2000	100-500

254Source: P.D.R.A.,(2001), Law 01/18 issued on 12/12/2002 containing the directive law for the promotion of **SMEs**, Algeria, p. 08.

Below is a table showing the development of the number of small and medium enterprises in Algeria from 2008 to 2020 :

Table 5 :Evolution of the number of small and medium enterprises in Algeria for the period (2008-2020)

years	The nature of small and medium enterprises				
	Private institutions	Public institutions	Activities of traditional	Total of institutions	Contribution to employment
2008	42 117	557	291 164	711 837	1 848 117
2009	391 761	572	266 976	509 509	1 724 197
2010	369 319	557	249 196	615 072	1 200 000
2011	55 398	591	765 080	625 069	1 645 784
2012	532 702	561	154 123	687 386	1 776 461
2013	578 586	547	168 801	747 938	1 915 495
2014	633 891	544	186 303	820 738	1 082 304
2015	690 014	532	206 166	896 811	2 238 233
2016	780 339	438	233 298	1 014 075	2 487 914
2017	816 326	264	243 699	1 060 289	2 601 958
2018	851 414	262	241 494	1 093 170	2 690 246
2019	903 332	244	268 369	1 171 949	2 818 736
2020	918 542	243	274 554	1 193 339	2 885 651

Source: Quoted from: - Aboun Zarkin - Touatia Al-Taher, (2015), "The Expected Effects of Algeria's Accession to the Global Neighboring Organization on the Competitiveness of Small and Medium Enterprises," Baghdad College of Economic Sciences Journal, Issue 43, p. 201.

From Table 5, we note that small and medium enterprises in Algeria are constantly increasing from year to year, as their number in 2008 was 711,837 enterprises, to become 1,193,339 enterprises in 2020. We also note that the private sector is the

owner of the largest number of institutions. Regarding to employment, **SMEs** have contributed to providing many job positions, as we note from the table above, in the year 2020, these institutions provided about 2,885,651 job positions.

3.The Concept of Islamic Banks

3.1. Definition

An Islamic bank is defined as: “An Islamic financial institution that performs banking and financial services, it also carries out financing and investment operations based on Islamic principles , Basically, in Islamic banking it is not allowed to pay and receive interest but rather it is based on profit sharing. Islamic banks focus on generating returns on investments through investment tools that are “Shari'a” compliant.with the aim of contributing to instilling Islamic values, ideals and morals in the field of transactions, and helping to achieve a good and dignified life for the Islamic nation.

That is, Islamic banks are ordinary banks that carry out all the activities carried out by conventional banks, excluding dealing in them at interest rates or any activity prohibited by the texts of the Qur’an and Sunnah.

3.2. Types of Islamic Financing Formulas

There are many Islamic financing formulas, which can be summarized in the following table:

Table 6 : Various Islamic Financing Formulas.

Formulas based on commercial debt	Formulas based on sharing the profit from investment	Formulas based on righteousness and charity
<ul style="list-style-type: none"> - mourabaha - sale salam - istisnaa - Ijarah 	<ul style="list-style-type: none"> - participation -speculation(moudarabah) - mouzaraa - musaqat 	<ul style="list-style-type: none"> - good loan - Donations and grants - zakat - Endowment

Source : Developed by the researcher based on data from the ‘Baraka Bank’.

3.2.1. Mourabaha

Murabaha is a form of financing alternative to interest financing,or is a sales contract through which the bank acquires a good or service designated by the Client, with payment facilities, as the Bank buys the goods for cash or on credit and resells them for cash or on credit to its customer at a profit margin agreed between the two parties. Murabaha remains among the most widely used Islamic products.

3.2.2. Sale Salam

contract of sale in advance with delivery of the goods on a later date. The bank purchases goods and promptly pays their price to the partner in the form of an advance on the account. Upon delivery of the goods, the two parties contract to sell by proxy, through which the partner is obligated to sell the goods to the bank's account on a minimum basis including the amount of financing plus There is a profit margin for the bank, and above this price is the profit for the partner who represents the client in exchange for bonuses.

Salam is considered today as a highly effective financing instrument in Islamic economy and in the activities of Islamic banks due to its flexibility and responsiveness to the various needs of financing, be it for short, medium or long terms, as well as its adaptability to the needs of various and multiple sections of customers, be they producers, agrarians, industrialists, building contractors, or traders, in addition to the capacity it offers to finance operating as well as other capital expenses.

3.2.3. Ijarah

The term Ijarah means leasing of property pursuant to a contract under which a specified permissible benefit in the form of usufruct is obtained for a specified period in return for a specified permissible consideration.

This form of leasing contract includes a promise by the lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijarah period or by stages during the term of the contract or at any time during the lease period when the lessee wishes to acquire the ownership of the leased asset.

3.2.4. Musharaka (participation)

It is An investment and financing formula that is compatible with the Islamic law, and in which several parties can participate with the bank, and the individual's participation with the bank aims to achieve profits from sharing money, while the bank is looking to participate in financing, and vice versa if the bank enters into participation in trade business with one of his merchant clients.

As the bank provides money to his client, provided that the latter, in addition to the effort, provides a portion of the money without charging interest, as is the case in usurious financing, with the bank bearing the result of the sharing process, whether it is profit or loss, according to what was previously agreed upon before the beginning of work between the bank and the client. (Partner).

3.2.5. Moudarabah

The concept of Mudaraba is a simple system of partnership, which will work by the distribution of half yearly profits to the account holders/customers who in fact are

the shareholders to the Bank. The bank will accept deposits from the community both for safekeeping and profit sharing purposes. A certain personal loans while the major portion will be utilized to meet the credit requirements of the business and the industry. Or it is a person giving money to another person to dispose of it and the profit is between them according to a stipulation, so the profit goes to the owner of the money because it is an increase in his money and what is generated from it, and to the speculator in consideration of his work and effort.

3 -The Positive Effects of Islamic Financing Formulas on SMEs

- The Murabaha financing method is considered a suitable method for small and medium enterprises because it helps to obtain the various resources they need without immediate payment, This method also suits the bank because it gets a return with a guarantee of getting its money back;
- Mudharaba provides the institution with its financial needs in the appropriate quantity and at the appropriate time and avoids exposure to the problems of individual investors in the case of private speculation and the problems of high borrowing costs in the case of usurious banks;
- Musharaka is a form of financing in cash and in kind for the project, which provides it with sufficient financing at no cost, and achieves a return represented by a portion of the profit. Since the company's capital becomes common, the project does not need to provide a guarantee to obtain financing for later periods. All of these advantages help the small project to emerge into existence and continue if it is serious, despite its high risk for the financing bank.

4.The Suitability of Islamic Finance for SMEs

Due to those formulas islamic banks can be the pioneers in financing small and medium-sized enterprises, mainly if they are applied accurately, they would be able to attract a wide segment of financing seekers who find it difficult to deal with traditional financing institutions which propose formulas conflict with their principles derived from Sharia.

For exemple Musharaka is a form of financing for **SMEs** that can be used by the Islamic bank, according to which it becomes a partner with them in management and work according to what is stipulated in the company's contract in terms of the nature of the work, its limits, the duration of the contract, and the percentage of distribution of profits. As for the loss, it is borne according to the proportions of the invested capital.

The participation financing formula provides a new opportunity to finance **SMEs** and eliminate loan problems and the subsequent problems of interest rates,

guarantees, and delayed payment. It also leads to a fair distribution of responsibility and risks between the bank and the institution.

The Murabaha formula allows **SMEs** greater flexibility in financing. The commodity to be financed is purchased by the bank from the market based on the institution's request and is placed at its disposal in exchange for agreeing on a profit margin to be added to the purchase price, and payment is made according to the agreed upon period. Also, this formula provides the organization with financial savings that it can use in other affairs.

The lease contract is very suitable for helping **SMEs** to obtain their fixed capital needs without affecting the hopeful capital or burdening them with interest in the case of lending, **SMEs** are able to pay rent for buildings, offices, or machinery, but are unable in most cases. Rather, most of them are purchased, and it is beneficial for these institutions that the owner of these buildings, equipment, machines, etc., will not be responsible for their maintenance.

Islamic banks in the field of leasing can play a major role in financing **SMEs** businesses, especially in assets that are in dire need of them, by adopting a specific strategy aimed at achieving a reasonable profit from these operations, and helping to finance and develop these institutions at the same time.

4.1. The Extent to which Islamic Banks contribute to Financing SMEs in Algeria

The experience of Islamic banks here in Algeria is still in its infancy, so it faces many difficulties that prevent it from achieving its desired goals. Among the most important of these obstacles is the relationship of Islamic banks with the Bank of Algeria, which does not differentiate in its transactions and laws between traditional banks and Islamic banks.

4.2. The Nature of the Relationship Between Islamic Banks and the Central Bank

The relationship between Islamic banks and central banks is characterized by complexity, because this relationship varies according to different models and environments across the world. Given the nature of this relationship, three models of this relationship now emerge on the scene, which we present as follows:

4.2.1. Integrated Original Relationship

This relationship arose in countries that converted banks into Islamic banks, including the central banks themselves. In other words, this relationship represents a model in which Islamic banks operate under a complete Islamic banking system, and under the supervision of a central bank that is supposed to be Islamic as well like in Pakistan, Iran and Sudan, although the central banks of these countries have not yet

completely eliminated some usurious transactions in their work, as well as in the operations of Islamic banks that fall under their supervision¹¹.

4.2.2. A Special Relationship

This relationship arose in countries that paid special attention to Islamic banks, issuing their own laws defining their relationship with the central bank, which makes the path clear for every Islamic bank that is established. In this relationship, consideration should be given to helping the Islamic bank to achieve its goals and avoiding falling into forbidden usury. Among the countries in which these laws were issued are the United Arab Emirates and Turkey¹².

4.2.3. An Exceptional Relationship

This relationship arose in countries that established Islamic banks with exceptional laws alongside traditional commercial banks, these laws remained the ones that governed the relationship between Islamic banks and central banks, and that laws are based on the global banking system, Islamic banks have made great efforts to obtain some exceptions to get rid of the interest (usury) system which is imposed by central banks on traditional commercial banks in terms of giving, receiving, and facilitating. An example of this is Islamic banks in Egypt, Jordan, and Bahrain, as well as Algeria¹³.

4.3. Al Baraka Bank of Algeria's Contribution to Companies' Capital

Law No. 10-90 on money and loans stipulates that the total contribution of banks and financial institutions in companies' capitals must not exceed half of their funds, i.e. the bank's funds¹⁴, but this law was not an obstacle for Al Baraka Bank of Algeria, since the bank's total contributions to the capital of companies inside Algeria amounted to 356,994,000 DZD, distributed as follows:

Table 7 : Al Baraka Bank of Algeria's contribution to companies' capital.

Company Name	Percentage of the bank's contribution to the company's capital (%)	Amount (DZD)
Automated cash company and automatic relations between banks	3.9	1 000 000
Interbank training company	10	10 000 000
Al Baraka and Al Aman Insurance and Reinsurance Company	20	96 000 000
Al Baraka Real Estate Development Company	10	50 000 000
Contribution to the Real Estate Management Services Company	99.997	199 994 000
Total		356 994 000

Source: Documents of Al Baraka Bank of Algeria.

Since the private capital of Al Baraka Bank of Algeria amounts to 2,420,787,000 DZD, the bank's total contributions represent 14.75% of the bank's capital, that is to say the bank is far from the specified ceiling.

5. Some Financial Indicators of Al Baraka Bank of Algeria

Al Baraka Bank is the first foreign public-private mixed capital bank, it was created in March 1990, and it began its activity in September 1991. Its shareholders are the Bank of Agriculture and Rural Development BADR Algeria with 44 .10% and Al Baraka Banking Group with 55.90%. It now has 30 agencies, the number of employees (all functions combined) reached 944 executives at the end of 2015.

5.1. Basic financial statements of Al Baraka Bank of Algeria

Table 8: Basic data of Al Baraka Bank of Algeria.

	2022	2021	The difference in value	%
Caisse , central bank, treasury,ccp	127 478 107	132 848 962	- 5370855	- 4
Depts on Financial institution	574 898	725 373	- 150 475	-26
Depts on customers	131 506 406	139 499 026	7 992 620	-6
Current taxes	1 170 806	1 347 704	-176 898	-15
Differed taxes	358 261	274 634	83 627	23
tangible assets	10 766 134	8 677 566	2 088 568	19
Other taxes	3 364 009	2 484 487	879 522	26
Intan,gible assets	11 188	15 789	- 4601	41
Wallet accounts	1 749 626	1 747 756	1870	0.1
adjustment accounts	22 842	61 130	- 38 288	29
Total assets	277 002 276	287 682 429	- 10 680 150	-4

Source : <https://www.albaraka-bank.dz/>(consulted on 02/october/2024).

5.2. Asset accounts

Table 9: Development of Al Baraka Bank's balance sheet assets for the years 2021/2022
(The unit is in Algerian kilodinars)

	2022	2021	The difference in alue	%
Caisse , central bank, treasury,ccp	127 478 107	132 848 962	- 5370855	- 4
Depts on Financial institution	574 898	725 373	- 150 475	-26
Depts on customers	131 506 406	139 499 026	7 992 620	-6
Current taxes	1 170 806	1 347 704	-176 898	-15
Differed taxes	358 261	274 634	83 627	23
tangible assets	10 766 134	8 677 566	2 088 568	19
Other taxes	3 364 009	2 484 487	879 522	26
Intan,gible assets	11 188	15 789	- 4601	41
Wallet accounts	1 749 626	1 747 756	1870	0.1
adjustment accounts	22 842	61 130	- 38 288	29
Total assets	277 002 276	287 682 429	- 10 680 150	-4

Source : <https://www.albaraka-bank.dz/>(consulted on 02/october/2024).

From the table above, we notice that the bank's assets decreased by 4% in 2022 compared to 2021. We also notice that there is a decrease in debts to financial institutions and customers by -26% and -6%, and this is due to their repayment of some debts to the bank. We also notice an increase in tangible assets by 2 088 568 KDZ, which represent 19%. We also note that there is an increase in wallet accounts with a value of 1870 KDZ, or 0.1%.

5.3. Liability accounts

Table 10: Development of Al Baraka Bank's balance sheet liabilities for the year 2021/2022.
The unit is in Algerian kilodinars.

	2022	2021	The difference in	
Debts towards financial institutions	58 184	47 803	10381	18
Customer accounts payable	180 922	197 969	-17 046 548	-9
Debts represented by a bond	45 212	41 254	3 958 032	9
Other liabilities	12 236	11 402	834 898	7
Current taxes (liabilities)	1 670 209	1 568 756	101 453	6
Adjustment accounts	3 602 294	3 138 789	463 505	13
capital	20 000	20 000	0	0
Funds for general banking risk	2 910 924	3 229 788	-318 864	-11
Provisions for risk and charge	1 035 887	935 788	100 162	10
Regular reservation	894 672	894 672	0	
réserves	4 417 837	2 963 084	1 454 753	33
Carried forward(+/-)	18 105	20 988	-2883	-16
profit	4 022 156	4 257 197	-235 041	-6
Total of liabilities	287 682	287 682	- 10 680 153	-4

Source : <https://www.albaraka-bank.dz/>(consulted on 02/october/2024).

Through the table above, we notice that Al Baraka Bank's budget liabilities decreased by 10,680,153 KDZ, or by 4%, in 2022 compared to 2021, as we note that there is a 9% decrease in customer accounts receivable, offset by an increase of the same percentage in the debt account represented by bonds, where it increased. With a value of 3 953 032KDZ, We also note that there is an increase of 18% in the debt account towards financial institutions, with a value of 10,381 KDZ. We also note an increase in the provisions for risks and costs by 10% compared to a decrease of 11% in the account of the General Banking Risk Fund. We also note a decrease in the profit of year 2022. With a value of 235 041 KDA, which represent 6%, as the profit of year 2021 was 4 257 197 KDZ compared to 4 022 156 KDZ in 2022.

**Table 11: Development of off-balance sheet accounts for Al Baraka Bank
(The unit is in Algerian kilodinars)**

	2022	2021		%
Obligations granted	41 431 936	55 088 892	-13 656 956	-33
Financing obligations to financial	0	0	0	0
Financing obligations to customer	34 146 341	47 813 164	-13 666 823	-40
Guarantee obligations to order	243 452	269 899	-26 447	-11
Guarantee obligations to order	7 042 142	7 005 830	36 312	0.5
Other obligations	0	0	0	0
Received obligations	6 680 646	11 543 984	-4 863 338	-73
Guarantee obligations received	6 680 646	11 543 984	-4 863 338	-73
Other obligations received	0	0	0	0

Source : <https://www.albaraka-bank.dz/>(consulted on 02/october/2024).

From the table above, we notice that there is a decrease in the percentage of obligations granted by 33% in the year 2022 compared to the year 2021, where the year 2021 was 55 088 892 KDZ compared to 41 431 936 KDZ in the year 2022, meaning a decrease of 13 656 956 KDZ. As for the obligations received, they also witnessed a significant decrease by 73%. where in 2021 it was 11 543 984 KDZ and in 2022 it became 6 680 646 KDZ.

Al Baraka Bank of Algeria faced several difficulties at the beginning of its activity, and this was due to poor management at the time, which caused officials to renew management. The bank experienced an improvement in performance at the beginning of the year 1993, and by looking at the profits it achieved in 1994, and comparing them with the profits achieved at Other banks in the same year and from the criterion of the return ratio of private funds, Al Baraka Bank of Algeria is considered as the most profitable bank in Algeria¹.

the market share of Al Baraka Bank in Algeria is about 2% of the total market and 14% of the private market. Recognizing the need to strengthen its presence in a market where demand for Shari'a-compliant banking services is increasing.

Table 12: the products offered by Al Baraka (Million A.D)

year	2012	2013	2014
Moudarabah	211 226	25 393	31 832
Mousharaqa	5	64	55
Mourabaha	10 020	4476	2891
Ijara	16 516	22 990	31 515
Sale salam	5 300	6 316	8 821
Istisna'a	981	755	710
total	53 947	59 997	75 827

Source : <https://www.albaraka-bank.dz/>(consulted on 02/october/2024).

¹ : Mohamed seddik hafid (CEO of the Al Baraka bank of Algeria), Interview with the daily EL OUMA, N°45 of 01/17/1995.

Concerning the products offered by the bank, we note that the main products of the bank are Moudarabah and Ijara, in fact, they represent a significant part of the total funding mobilized. Concerning Moudaraba, we record a share of nearly 42% of the total products for the year 2014 compared to 39% and 43% for 2012 and 2013. As for Ijara, it reached a share of 41% at the end of 2014, and 30%, 38% for the years 2012 and 2013. We also note that Mourabaha experienced a remarkable decrease during this period until reaching a rate of 3% in 2014

In its development policy, Al Baraka is closely involved in the financing of SMEs and more specifically in microfinance. According to the bank, financing SMEs represents more than 60% of total financing granted to businesses.

6. RESULTS AND DISCUSSION

Islamic banks have a major role in financing small and medium enterprises through the various financing formulas they provide, most of those interested in Islamic financing believe that it is more efficient than traditional financing, whether in terms of guarantees or the period taken to obtain financing and other features that indicate the efficiency of the Islamic financing system.

The various employment tools that Islamic banks have come up with and derived from Islamic Sharia are considered as a new and pioneering experience in the banking field from a theoretical standpoint. They can also be adopted as an alternative method to those financing methods used in traditional banks that rely primarily on interest, these methods can brought about a qualitative shift in the field of investment and investment of funds.

7. CONCLUSION

Finally, we can say that the experience of Islamic banks here in Algeria is still in its infancy, so it faces many difficulties that prevent it from achieving its desired goals. Among the most important of these obstacles is the relationship of Islamic banks with the Bank of Algeria, which does not differentiate in its transactions and laws between traditional banks and Islamic banks, *on the other hand, marketing and administrative obstacles*, the shortage of trained manpower, institutional obstacles on the part of government legislation, and the lack of these projects on an integrated accounting system.

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