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# Contribution of Legislative Infrastructure for Participative Banking to Activating Real Financial Inclusion in Algeria

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**Abstract---**This study aims to explore the extent to which the legislative structure of Participative banking contributes to real financial inclusion in Algeria. Most previous literature has focused on studying the positive impact of Participative banks on financial inclusion. The study contributed to uncovering the key to expanding the concept of Participative banking through legislation based on the availability of guarantees for all parties involved in financial transactions, particularly Regulation No. 18-02, Regulation 20-02, and the Monetary and Credit Law 23-09. The study demonstrated how these laws contributed to expanding the scope of real financial inclusion (deposits), given the extensive exploitation of these laws by private banks in terms of the number of branches and even the percentage of financing in the form of deposits. It was found that there is a significant correlation between bank deposits and the size of branches, reflecting the interconnectedness, responsiveness, and widespread use of all available Participative banking services, thus achieving the goal of real financial inclusion through the legislative infrastructure.

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## 1. **Introduction**:

Based on the role played by financing (in all its forms, whether direct through the financial market or indirectly through financial and banking intermediary institutions) in stimulating factors of production and achieving optimal employment of available resources. Based on the premise that the full employment of available resources is central to achieving optimal economic growth, this can only be achieved by stimulating the investment multiplier and reducing unemployment across various factors of production. Considering that most studies indicate that many economic agents who desire to invest are hindered by financing issues, particularly the nature of financing, which enhances trust between the financing provider (the financial services provider) and the recipient (the consumers or recipients of financial services).

Our problematic therefore revolves around: Does the legislative infrastructure of Participative banks contribute to the dissemination of financial services, increasing the rate of real financial inclusion, and increasing rates of utilization?

As a preliminary conception of our problem, we propose the following hypothesis: Participative banks significantly contribute to enhancing financial inclusion and the effectiveness of real banking intermediation;

The importance of the study stems from the imperative to bring financial products and services closer to citizens. The need for these products has become as great as the need for other essential supplies. Accordingly, the importance of the subject emerges from multiple dimensions. From the perspective of the citizen or consumer of financial services, it enables them to satisfy their desires and needs for financing (whether financing consumption, investment, or exploitation). It also motivates them to choose alternatives that suit their preferences and inclinations in terms of savings. This is true for the household sector. For the business sector, this can increase economic returns. Participative banking also supports the transition to a more equitable distribution of wealth and attempts to align growth in real assets with growth in monetary and financial assets, thus reducing inflation rates. The importance of the topic also emerges in examining the attractive factors inherent in Participative financial products, which stimulate appetite among various economic agents, even from a marketing perspective. Many customers who deal with conventional banks fear that other citizens will learn that they deal with them, given the negative perception they have of them, given that they engage in usury (which is forbidden by Sharia). The extent to which the ease and speed of access to Participative financial services contributes to the consumer appetite for these types of services and those eager to acquire them is highlighted in the literature. Many definitions of financial inclusion have been presented, all of which focus on bringing financial services closer to the maximum number of segments, particularly those deprived of financial services. This is achieved by facilitating their integration into the formal market and benefiting from various financial services related to transfers, deposits, withdrawals, insurance, etc., through secure and reliable channels that ensure greater protection for all parties to transactions, in accordance with frameworks, rules, and regulations. This also includes the benefits of allowing freedom, ease, and speed of access to all financial services in a fair and transparent manner. We note in our study that adopting the bank account ownership indicator does not represent a true indicator of financial inclusion. We find that many economic agents have dormant and inactive bank accounts. Therefore, this does not achieve the goal of financial inclusion, which aims to increase the velocity of money circulation, thus reducing the cost of alternative opportunities among economic agents. In this study, we consider the goal we seek to achieve to be real financial inclusion, not nominal financial inclusion (based on bank account ownership).

As for previous studies, most studies at the local level have focused on superficial theoretical aspects, without delving into the true impact of establishing Participative banks or Participative banking windows on increasing the composite index of financial inclusion. This is with the exception of a few studies, such as:

- A study entitled "The Role of Participative Finance in Promoting Financial Inclusion: A Case Study of a Sample of Customers at Al Baraka Bank and Al Salam Bank Algeria", prepared by Duraid H and Gharib A (2021), The study aimed to identify the Participative finance system as one of the potential channels through which to expand the scope of financial inclusion. This can be achieved by attracting the largest possible number of segments of society and its institutions. This study targeted a sample of customers at Al Baraka Bank and Al Salam Bank in Algeria, relying on a questionnaire. The study concluded with several findings, perhaps the most prominent of which is that Participative finance is one of the most important mechanisms for finding solutions that facilitate access to and use of financial services and products, particularly for groups voluntarily excluded due to religious or cultural beliefs. This study subsequently produced a number of recommendations, perhaps the most important of which is the need to enhance financial education and keep pace with financial technology. - A study by the Secretariat of the Council of Arab Central Banks and Monetary Authorities Governors entitled: "The Impact of Participative Financial Services on Financial Inclusion in Arab Countries," prepared by Rami Yousef Obaid in 2019. This study addressed the critical importance of Participative banking services in promoting financial inclusion and highlighted the vital and significant role of Participative financial services and their uses in enhancing access to finance in Arab countries. The Participative financial services industry has received increasing attention in recent years in the context of policies promoting financial inclusion, given that these services represent an important window through which access to finance can be expanded. In light of the above, and to enhance the role of Participative financial institutions in achieving financial inclusion, attention must be paid to developing Participative financial institutions to enhance financial stability by attracting large segments of society to engage with the formal financial sector.
- A study entitled: "The Impact of Participative Finance on Financial Inclusion in the Arab Region," prepared by Jamal Al-Juwaini and Abdel Karim Qandouz, for the Arab Monetary Fund's Issue No. 8/2021. The study used cross-sectional time series data models to analyze the relationship between Participative finance and financial inclusion in sixteen Arab countries based on two financial inclusion indicators: ATMs and bank branches, and taking into account two auxiliary variables: domestic credit to the private sector and GDP per capita, during the period from 2011 to 2019.

The results are generally consistent with expectations and show that the financial inclusion index measured by ATMs responds to changes in the Participative Financial Development Index (IFDI), domestic credit to the private sector, and per capita GDP in the Arab countries under study. The IFDI and domestic credit to the private sector have almost identical effects on the financial inclusion index measured by ATMs. The results also show that the IFDI and domestic credit to the private sector do not affect the financial inclusion index measured by bank branches in the Arab countries under study. In contrast, the financial inclusion index responds to changes in per capita GDP.

Based on the role played by financing (in all its forms, whether direct through the financial market or indirectly through financial and banking intermediary institutions) in stimulating factors of production and achieving optimal employment of available resources. Based on the premise that the full employment of available resources is central to achieving optimal economic growth, this can only be achieved by stimulating the investment multiplier and reducing unemployment across various factors of production. Considering that most studies indicate that many economic agents who desire to invest are hindered by financing issues, particularly the nature of financing, which enhances trust between the financing provider (the financial services provider) and the recipient (the consumers or recipients of financial services),

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## 2. Literature review

As for previous studies, most studies at the local level have focused on superficial theoretical aspects, without delving into the true impact of establishing Participative banks or Participative banking windows on increasing the composite index of financial inclusion. This is with the exception of a few studies, such as:

- A study entitled "The Role of Participative Finance in Promoting Financial Inclusion: A Case Study of a Sample of Customers at Al Baraka Bank and Al Salam Bank Algeria", prepared by Duraid Hanan and Gharib Al Tawoos (2020), The study aimed to identify the Participative finance system as one of the potential channels through which to expand the scope of financial inclusion. This can be achieved by attracting the largest possible number of segments of society and its institutions. This study targeted a sample of customers at Al Baraka Bank and Al Salam Bank in Algeria, relying on a questionnaire. The study concluded with several findings, perhaps the most prominent of which is that Participative finance is one of the most important mechanisms for finding solutions that facilitate access to and use of financial services and products, particularly for groups voluntarily excluded due to religious or cultural beliefs. This study subsequently produced a number of recommendations, perhaps the most important of which is the need to enhance financial education and keep pace with financial technology.
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banking services in promoting financial inclusion and highlighted the vital and significant role of Participative financial services and their uses in enhancing access to finance in Arab countries. The Participative financial services industry has received increasing attention in recent years in the context of policies promoting financial inclusion, given that these services represent an important window through which access to finance can be expanded. In light of the above, and to enhance the role of Participative financial institutions in achieving financial inclusion, attention must be paid to developing Participative financial institutions to enhance financial stability by attracting large segments of society to engage with the formal financial sector.
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It is worth noting that most studies in Algeria have not shed light on the legislative aspect of economic and financial studies, despite it being key to declaring political intent to launch an Participative banking project. This is despite all the literature that has demonstrated its importance for economic growth (Nasiha Osmanović & et al., 2022) and poverty (Junaidi, 2024). However, there is a study by (Kazak, Hasan; Burhan Uluyol; Ahmet, Tayfur Akcan; Mustafa İyibildiren;, 2023) that demonstrates the similarity of the role of Participative and contractual commercial banks.

The legislative development of Participative banking is closely linked to the national regulatory bodies that grant licenses to Participative financial institutions. For example, in Kuwait, the Central Bank issued the first Participative bank license in 1977, and subsequent licenses were not granted until 2004. This regulatory openness is crucial to the establishment and growth of Participative banks, as evidenced by the varying timelines and regulatory environments across countries, which impact the overall development of the Participative banking sector (Gheeraert, 2014). A study by Gheeraert (2014) found strong empirical evidence that the development of Participative banking in Participative countries leads to greater banking sector growth, measured by private credit or bank deposits relative to GDP. The study also revealed that Participative banking complements conventional banking in Participative countries when both systems coexist, with the Participative sector reaching a moderate proportion of the total banking sector. A study by Luqman N et al. (2024) indicates that Participative banking syndication plays a crucial role in financing large-scale strategic projects, particularly in infrastructure development in Aceh Province, following the issuance of Law No. 11 of 2018 on Participative Financial Institutions. The study confirms that the implementation of syndication is consistent with Sharia principles, supported by relevant fatwas and regulations, and emphasizes the importance of ongoing supervision by the Sharia Supervisory Board to ensure compliance and prevent violations during the financing process.

In Iran, the legislative development of Participative banking began with the enactment of the Interest-Free Banking Law in August 1983, which required banks to convert their operations to Sharia compliance within one year. This represented a significant shift, as the banking system was nationalized and restructured between 1979 and 1982. A coherent model of Participative banking was implemented in separate phases, with the second phase (1982–1986) focusing on formalizing Participative banking practices (O'Sullivan, 2020).

Kabiru and Wan Hakimah (2020) emphasized that improving the development of Participative banking can enhance financial inclusion in OIC member states. Policymakers are encouraged to focus on legislative frameworks that support the growth of Participative banking, which can facilitate access to formal financial systems for currently excluded groups. The study highlights the positive impact of Participative banking on financial inclusion, suggesting that legislative developments can contribute to achieving this goal.

Ahmad and M. Kabir (2007) highlight the lack of a clearly defined regulatory and supervisory framework for Participative banks in Bangladesh, which hinders their effective operation in accordance with Shariah principles. They emphasize the need for an independent banking law specifically for Participative banks to provide the necessary legal support and guidance. Performance metrics indicate that, although Participative banks exhibit better asset quality compared to public commercial banks, they lag behind private commercial banks in terms of net write-offs and net income after distribution. This indicates that Participative banks face unique operational challenges and performance characteristics that distinguish them from conventional banking institutions.

In a study by Borhan (2014), the legislative development of Participative banking in Malaysia included the issuance of the Participative Banking Act (IBA) in 1983, which aimed to define "Participative banking" in line with conventional banking practices while ensuring compliance with Shari'ah principles. In addition, the Banking and Financial Institutions Act (BAFIA) of 1989 further regulated Participative banks, allowing them to engage in commercial activities.

This is prohibited for conventional banks. These legislative frameworks have facilitated the growth of Participative banks in Malaysia and enhanced their operational soundness.

In Indonesia, the legislative development of Participative banking began with the recognition of dual banking systems through Law No. 10 of 1998, which provided a clearer legal framework for Participative banks. This was preceded by discussions among Participative scholars since 1968, leading to the establishment of Bank Muamalat Indonesia in 1992. Subsequent fatwas from organizations such as the Indonesian Ulema Council (MUI) affirmed the prohibition of bank interest, strengthening the legal and operational foundations for Participative banking in the country (Yusuf, 2012).

A study by (Abdulai & Haruna , 2024) found that legal institutions positively impact financial inclusion and strengthen the relationship between financial development and inclusion. Strengthening contract enforcement, protecting property rights, and reducing corruption are essential factors for achieving sustainable financial inclusion in sub-Saharan Africa. Data from WDI for 41 sub-Saharan Africa countries between 2000-2020.

In (Heng, 2015)'s study, Bolivia's new financial services law aimed to promote financial inclusion through credit quotas and interest rate caps. However, it led to an increase in average loan sizes and a decrease in the number of borrowers, suggesting potential negative effects on financial inclusion. Thus, the legislation played a controlling role in the development of the financial inclusion index by controlling credit and interest rates. In a research paper by (Mostafa, Salah Eldin, & ElSherif , 2023) does not specifically address the impact of laws on financial inclusion. However, it emphasizes the importance of financial literacy and government initiatives to enhance awareness, which can indirectly relate to legal frameworks supporting financial inclusion in the MENA region. A study by (Saha, Jie, & Kazuo, 2023) focused on opportunities for low-income individuals rather than the legal frameworks that affect access to financial services. (Park & Rogelio, 2018) discusses transforming the rule of law to avoid multicollinearity with financial inclusion, noting that legal frameworks can impact access to and use of financial services, and thus affect overall financial inclusion outcomes across different economies. A research paper by (Abor, Richard , Elikplimi, & Lei , 2024) indicates that high-quality institutions, including laws and regulations, directly improve financial inclusion. They also represent channels through which foreign direct investment positively impacts financial inclusion, particularly in poor and developing countries. (Siaw F et Al, 2023)'s study suggests that simple administrative requirements and streamlined licensing regulations promote financial inclusion, particularly in economies with high economic freedom. This regulatory environment enables financial institutions to operate efficiently, ultimately contributing to improved financial stability in sub-Saharan Africa. (Thathsarani, Wei, & Grsrc, 2021) Emphasizes government intervention to improve access to financial services, which can be influenced by legal frameworks, thereby facilitating financial inclusion and supporting economic growth.

## 3. Variables of study

Banks are generally defined as financial institutions that perform the function of financial intermediation without interfering in the conduct of the business under which they grant credit. Banks are solely dependent on the customer's ability to repay, according to ratios that reflect their creditworthiness. The bank then recovers the loan amount, including the interest due, without taking into account the nature or scope of the financed activity. This neutralizes or disassociates the results represented by outputs (actual production) from inputs (factors of production). This means that there is no proportional relationship between the contribution to inputs and the flow of outputs. This prevents the equitable redistribution of wealth. Participative banks offer a range of financial products and services that are compatible with the preferences of a broad audience, based on their ideological, cultural, and customary backgrounds. This is driven by the imperative to maximize the optimal use of financial resources and the need to provide financial products and services that balance Sharia credibility with economic efficiency. This is intended to bridge the gap and unleash entrepreneurial behavior among many who wish to realize their ideas while feeling comfortable with financial transactions. This also aims to alleviate the cycle of exclusion and financial deprivation suffered by many residents of remote areas (most of whom are known for their adherence to the principles of Sharia), who prefer to bear higher financing costs or refrain from adopting financing formulas that contradict their beliefs, and to cope with their unemployment resulting from a scarcity of financing. Participative windows are defined as those operations within conventional financial services institutions (which may be a branch or a specialized unit of that institution) that provide both fund management (investment accounts), financing, and investment services that comply with Shari'ah principles. In principle, these windows are independent in terms of Shari'ah-compliant financial intermediation, as the funds are invested in Shari'ah-compliant assets. Therefore, the windows raise a number of supervisory issues that are largely similar to those raised by institutions whose services are largely limited to Participative financial transactions. The term "window" may also be used to describe an institution that invests funds in Shari'ah-compliant assets without specifically accepting those funds for Shari'ah-compliant investment purposes (Participative Financial Services Board, 2007, p. 21).

An "Participative banking window" refers to a structure within a bank or financial institution that is exclusively responsible for Participative banking services and products. The "Participative banking window" must be separate from the other structures of the bank or financial institution. Financially independent: The accounting of the "Participative banking window" must be completely separate from the accounting of other structures of the bank or financial institution. This separation must, in particular, allow for the preparation of all financial statements dedicated exclusively to the activity of the "Participative banking window." The accounts of customers of the "Participative banking window" must be separate from other customer accounts (Bank of Algeria Report, 2020). Here, the Participative banking system emphasizes the necessity of avoiding suspicions related to the mixing of usurious money resulting from interest-bearing loans with money deposited for real investment purposes, free from all suspicion. Perhaps the most prominent difference between conventional and Participative banks revolves around the inability of Participative banks to grant cash loans, given that they finance real production and seek actual investment, rather than relying on illusory monetary growth independent of the real aspect, and directing deposited funds specifically for investment purposes consistent with Participative law. In general, the majority of studies have indicated in their recommendations the need to establish legislative frameworks in the form of real infrastructure, which is of paramount importance to ensuring the integration of the largest segments of society into the formal market.

## 4. Digital Financial Inclusion and its Requirements

### 4.1 Financial Inclusion and Digital Financial Inclusion

Financial inclusion is defined as providing consumers with a range of financial products and services at competitive prices and expanding the circle of beneficiaries, while attempting to reduce financial exclusion (financial deprivation, which early studies have begun to address). It also takes into account the integration and inclusion of various segments by facilitating access to financial services at a lower cost, in a shorter time, and of higher quality.

Numerous studies have confirmed the critical impact of financial inclusion on many variables, such as unemployment. The impact of financial inclusion on poverty has been highlighted in the Egyptian experience, embodying the primary objective of the research in examining the impact of financial inclusion on poverty reduction. The study concluded that financial inclusion helps improve living conditions, develop means of earning income, reduce unnecessary costs, and enhance the ability to save. Financial inclusion helps reduce gender gaps. Individuals residing in environments with diverse opportunities and capabilities. Financial inclusion supports local financial development by integrating the poor and vulnerable groups through innovative financing models and alternatives that integrate regions and local groups suffering from financial exclusion into the development process. Financial inclusion contributes to the economic empowerment of women, and there is a direct relationship between financial inclusion (number of ATMs, number of borrowers, and number of deposits) and poverty reduction. Therefore, it is necessary to strengthen the financial infrastructure, develop financial services and products that meet the needs of all segments of society, provide financial protection to customers, and work to spread financial literacy and target specific segments (Abdulghani, 2022).

With regard to operational risk protection systems, central banks play a role in supporting and ensuring the success of these changes by establishing all mechanisms that protect consumers and the reputation of the banking sector. To this end, it is important to remember that we are accustomed to managing traditional risks such as credit, liquidity, various rates, etc., while operational risks related to technology and innovation require vigilance and the implementation of appropriate systems. Implicitly acknowledging the need to provide consumer protection systems and the reputation of the banking sector, given the connectivity of networks, the Governor of the Bank of Algeria stated in his speech: "This ambitious agenda can seem complex, as the transition to a banking ecosystem highly connected to national and international networks requires complete mastery of modern technologies. This, of course, requires technical resources and, above all, human resources that live up to expectations. Regarding this last point, our region is fortunate to have undeniable human capital, which is now attracting labor market attention" (Talib, 2022).

### 4.2 Digital Financial Inclusion Requirements

Priorities must be identified to enhance economic growth and facilitate access to financial services for all citizens. These include:

Digital Financial Inclusion (DFI) is essential to enhancing access to financial services, especially for marginalized groups. It includes the provision of formal financial products through digital channels, which significantly reduces economic vulnerability and enhances financial resilience. The following sections identify the key requirements for effective digital financial inclusion.

**- Access to Digital Services**

In terms of infrastructure development, reliable internet and mobile phone networks are critical to enabling access to digital financial services, especially in rural areas (Fu, 2024).

Devices are also essential to help integrate those operating outside the formal market. Ensuring that low-income households have access to smartphones or other digital devices is crucial to participating in digital financial inclusion (Inoue, 2024).

**- Financial Education and Financial Literacy**

Training Programs: Initiatives to improve financial literacy can enable users to effectively utilize digital financial services, improving their financial decision-making (Fu, 2024).

- Targeted Awareness: Educational resources tailored to different population groups, particularly those in rural areas and those with limited income, can facilitate a better understanding and use of digital financial inclusion (Sun and Jie, 2024).

**- Regulatory Framework**

Supportive policies: Governments must establish regulations that foster innovation while protecting consumers and ensuring the security and reliability of digital financial services (Afjal, 2023).

Collaboration with fintech firms: Encouraging partnerships between traditional financial institutions and fintech firms can enhance service delivery and expand financial inclusion (Afjal, 2023).

While development finance institutions offer numerous benefits, challenges remain, such as digital knowledge gaps and regulatory barriers. Addressing these issues is critical to maximizing the potential of digital financial services to promote economic development and reduce poverty (Inoue, 2024; Li, Yanzhao; Ju-e, Guo; Wenjun, Zhu;, 2024).

## 5. The legislative framework accompanying Participative banks and experience of the National Bank of Algeria

### 5.1 The legislative framework accompanying Participative banking in Algeria

According to Regulation No. 18/02 dated 26 Safar 1440 AH corresponding to November 4, 2018 AD, which includes the rules for practicing banking operations related to participatory banking by banks and financial institutions, the legislator gave the green light to begin dealing with participatory financing formulas, naming and explaining each one in Article 2. In order to ensure legal, financial, and Sharia oversight (Article 5) of financial products under financing or investment, the legislator subjected them to oversight bodies according to their jurisdiction (Article 3) of the system. Article 5 also emphasized the independence of the participatory finance window, emphasizing the independence of customer accounts within the participatory finance window, while emphasizing profit sharing within pre-determined pricing (Article 8), within the framework of data unification, and referring to the subject of the contract, which revolves around investing deposits in the bank's investment portfolio and, consequently, the participatory relationship (Article 9).

Regulation 20-02, dated 20 Rajab 1441 corresponding to 15 March 2020, which specifies banking operations related to Participative banking and the rules for their practice by banks and financial institutions, has been revised and defined. It has also defined and regulated the concept of financing formulas previously adopted in Regulation 18-02, while emphasizing the financial independence of windows and not mixing their capital with banks. It also indicates that products are subject to various types of oversight and pre-determined pricing, with the necessity of establishing the relationship on the basis of profit and loss sharing. Perhaps what distinguishes Regulation 20-02 is the adaptation of the organizational structure of Participative banking windows to be consistent with the nature of Participative banking, as stated in Article 18 thereof.

It was also confirmed (Official Gazette No. 43) in Article 71 of the Monetary and Credit Law 23-09 dated 3 Dhu al-Hijjah 1444 corresponding to June 21, 2022, the continuity of dealing with participatory banking with the change of the term to Participative banking, which is carried out by specialized institutions or through banking windows that enjoy financial independence (Article 72). The legislator also advised in Article 73 of the Monetary and Credit Law the necessity of subjecting Participative banking products, before marketing them, to Sharia supervision (Sharia Supervisory Board) and banking supervision (Bank of Algeria).

### 5.2 Initiatives taken by the monetary authorities (in the form of laws, decrees, and instructions)

- Perhaps the first and most important initiative of the monetary authorities, represented by the Bank of Algeria, as the bank of banks and the state's highest authorized body, is to define the regulatory framework specifying the methods and mechanisms for conducting and settling banking transactions.
- Regulation No. 20-20 02 of Rajab 20, 1441, corresponding to March 15, 2020, which repeals the provisions of the previous regulation, which defined banking operations related to Participative banking and the rules for their practice by banks and financial institutions. Its articles define the various initially proposed formulas (commonly used formulas) and emphasize the necessity of subjecting various products to licensing from the Central Bank prior to their launch. The Central Bank is responsible for protecting all parties involved in financial transactions, as well as ensuring Sharia credibility through the Sharia Supervisory Board, which ensures their compliance with the principles of Sharia. Article 16 states:

The bank or financial institution must submit a file to the Bank of Algeria requesting prior authorization to market Participative banking products. This file shall consist, in particular, of the following documents: - A certificate of conformity with Sharia provisions issued by the National Sharia Authority for Fatwas for the Participative Financial Industry; - A product description; - An opinion from the bank or financial institution's compliance officer, in accordance with the provisions of Article 25 of Regulation No. 11-08 of Muharram 3, 1433 (corresponding to November 28, 2011) mentioned above; - The procedure to be followed to ensure the administrative and financial independence of the "Participative banking window" from the rest of the bank or financial institution's activities, in accordance with the provisions of Articles 17 and 18 below. On January 18, 2022, the Bank of Algeria signed a memorandum of understanding for cooperation and coordination with the Accounting and Auditing Organization for Participative Financial Institutions (AAOIFI), based in Bahrain, which sets Participative finance standards. This comes as part of their efforts to promote Participative banking and the Participative finance market in Algeria and strengthen ties between the two organizations.

Under this agreement, both parties aim to work together in areas of mutual interest that support the development of the Participative finance industry in Algeria. This includes the effective exchange of information, the implementation of joint capacity building programs in Algeria related to the Accounting and Auditing Organization for Participative Financial Institutions (AAOIFI) standards, and the hosting of events and activities to raise awareness of Participative finance in the local market for various stakeholders, including professionals working in the regulatory and supervisory fields in banks and financial institutions, as well as academics, Sharia scholars, and others. The Bank of Algeria's agreement with AAOIFI covers the possibility of accreditation and recognition of AAOIFI's standards by the Participative banking and finance industry in Algeria, in addition to benefiting from capacity building programs.

## 6. Applied Methodology

First, it is necessary to detail the various dimensions of financial coverage for the population, including:
- Accessibility: Regarding licensing, i.e., the possibility of launching the marketing of certain banking products and services, particularly Participative ones, licenses for Participative finance products have witnessed significant growth, increasing from 49 in 2020 to 89 by the end of October 2020. The banking network has witnessed remarkable growth over the past three years. This is evident in the number of opening licenses granted by the Bank of Algeria, which increased from 60 in 2019 to 78 in 2021. As for other new products, the majority of licenses issued by the Bank of Algeria relate to electronic payments and digital transactions, as they constitute part of the range of practical products on the market. For example, 83 of the 117 products approved by the Bank of Algeria relate to digital banking products and services, representing over 70% (Talib S., 2022).

- Use aspect: Regarding the External Bank of Algeria, circulating liquidity in the economy exceeding 17 billion dinars was mobilized after opening more than 9,200 accounts at this service's windows distributed across the country, through the launch of 10 banking products that match their preferences. He revealed the launch of three other products, including the purchase of cars manufactured in Algeria at reasonable prices, in an effort to meet the demands of all bank customers. The 2023 strategy focuses on diversifying Participative banking services by offering new products to customers and meeting their needs across the Bank of Algeria's various branches. The number of branches has reached 66, the most recent of which was the Mostaganem branch in 2022 (Latrach, 2022).

**6.1 The Applied Aspect and Practical Framework of the Study**

The Gulf Cooperation Council countries accounted for 90% of the total Participative banking assets in Arab countries, estimated at $603 billion, at the end of 2017. The Director General and Chairman of the Board of Directors of the Arab Monetary Fund emphasized the importance and role of financial inclusion in addressing the economic challenges that impact economic growth, by mobilizing resources to increase investment rates and create new job opportunities. He praised the growing interest in issues related to enhancing financial inclusion among policymakers in Arab countries, which will help address the challenges of poverty and unemployment and establish social justice. He also commended the efforts of Arab central banks and monetary institutions, in terms of their continued commitment to improving financial inclusion and access to quality and affordable financial services, giving them appropriate importance and priority within the framework of economic policies. He also highlighted the importance of promoting a culture of responsible financing in banking, leveraging modern financial technologies in the provision of financial services, and developing legislation, regulations, and regulatory frameworks that help improve the spread of financial and banking services and encourage innovation in this field. He also highlighted efforts to improve sound infrastructure systems for the financial and banking system, encourage the development and expansion of non-banking financial services, and develop policies and programs that enhance transparency in financial and banking transactions. The Arab Monetary Fund also highlighted the "Buna" platform for Arab payments, which was recently completed and aims to provide innovative services in accordance with international standards and the latest practices and technologies. He also highlighted the platform's role in encouraging the development of digital financial services in the Arab region and linking Arab countries with trading partners (Al-Hamidi, 2021).

The adoption of Participative banking windows since the launch of Participative financial products and services several years ago has allowed the opening of 66,217 bank accounts by 2022, acquiring 49 billion dinars in bank deposits and financing products worth 5 billion dinars, a total of 5,400 billion centimes. This is pending the launch of the legal framework regulating Participative sukuk, with the inclusion of a chapter dedicated to Participative banking for legal consolidation, as part of the amendment to the Money and Credit Law.

The number of Participative windows has increased, reaching 294 windows at the end of August 2022 across public and private banks.

In terms of financial inclusion, from the insurance perspective, Takaful insurance has allowed the establishment of two public companies specializing in this type of insurance and the opening of five windows within conventional insurance companies, pending the issuance of Participative sukuk during the coming year. Kassali (2022) pointed to the importance of Participative banking in attracting parallel market funds, supporting the national economy, rebuilding trust between citizens and various financial institutions, and bringing transparency to all banking operations and transactions.

There are signs of developing a legal and regulatory framework for Participative bonds over the coming year to provide a favorable environment for the growth and development of Participative financial products in Algeria.

The Minister took the opportunity to encourage banking executives to redouble their efforts to promote Participative banking products across all provinces of the country, attracting the largest number of citizens to benefit from Participative banking services and achieving the principle of financial inclusion (Kassali, 2022).

For his part, the Governor of the Bank of Algeria, Saleh Taleb, stated that the Participative banking file marked a decisive step in reviving, stimulating, and strengthening Participative banking. Since the issuance of this system, the bank has received more than 20 applications for prior authorization to market various Participative products, submitted by 11 banks. This number, he confirmed, is expected to rise, noting that the applications complying with applicable legal provisions have been approved within reasonable timeframes. He added that the Bank of Algeria has deployed significant resources to process the submitted applications in record time, despite the circumstances imposed by the COVID-19 pandemic. This is in line with its commitment to the success of this project, which is of great national economic importance, given that Participative banking helps attract the monetary mass in circulation outside the formal banking system.

Talib noted that his body's approach to reviewing applications is the same as that of other credit approvals, without discrimination. This requires that the bank or financial institution obtain a certificate of conformity for its products to be marketed in accordance with Sharia law, issued by the National Sharia Authority for Fatwas for the Participative Financial Industry.

The number of banks operating in Algeria at the end of March of this year reached 20, including 6 government banks and 14 private banks, the latter divided among local, Arab, and foreign banks. The total number of domestic branches of Algerian banks reached 1,328. The Algerian banking sector employs approximately 35,000 employees.

Also, banks in Algeria are divided into 17 commercial banks and 3 Participative banks. As for the breakdown by local or foreign ownership, there are 7 local banks and 13 foreign banks. State-owned banks control the largest share of banking activity in Algeria, accounting for approximately 80 percent of banking sector assets, 85 percent of loans, and 90 percent of deposits (Banking Union, 2022). Accordingly, the percentage of Participative windows reached 22.13 percent of the total banking branches affiliated with national and foreign banks.

## 7. Results

An Analytical Study of the Impact of Participative Banking Legislation on Financial Use
Based on data from the Central Bank, we studied the impact of the introduction of Participative banking in the form of Participative bank branches, starting with Regulation 02/20 and, prior to it, Law 18/01, which gave the green light to adopt the concept of Participative banking.

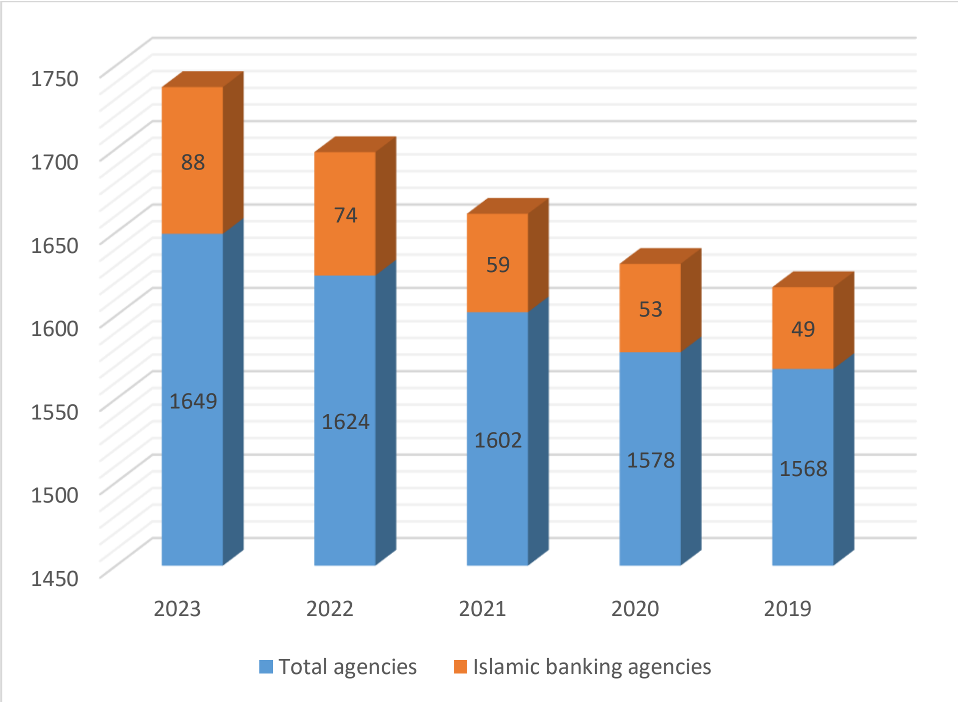


Figure (01): Illustrates the development of banking agencies.
Source: Prepared by the researchers based on the Bank of Algeria's 2023 report

Based on the fact that true intentions are translated into actions, and implementation is achieved by taking the necessary measures, and in response to the requirements of the banking sector and the broad audience targeted by financing and investment operations, the Algerian legislator adopted the proposal related to Participative banking, despite its concerns about this initiative due to its concern to protect all contracting parties. This increases the ambiguity of Participative financial transactions, which are largely based on ethical transactions. The figure above shows the monetary authorities' adoption of the concept of Participative banking, which opens up prospects for foreign investment in this regard.

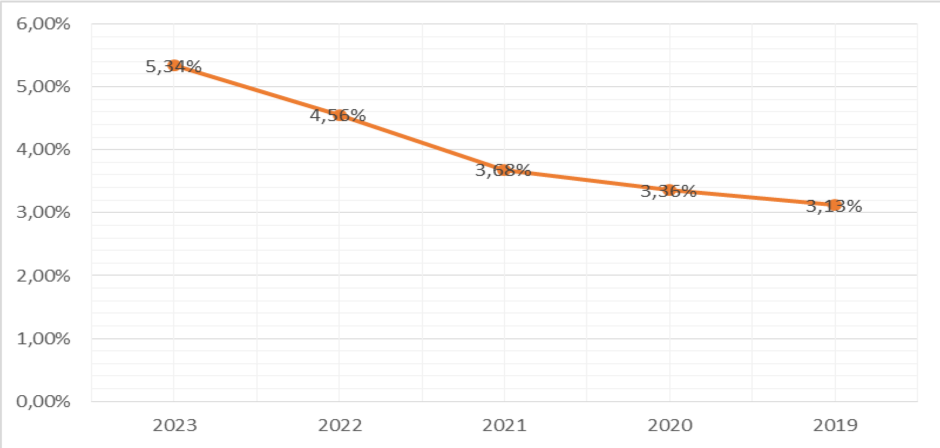

Figure (2) shows the evolution of the share of Participative banking agencies by number of banks.
Source: Prepared by researchers based on the Bank of Algeria's 2023 report.

Figure (2) shows an increase in the share of Participative banks, and consequently, growing interest in the concept by monetary authorities. This, in turn, increases the financial supply compliant with Participative Sharia (based on fatwas issued by the Sharia Supervisory Board regarding the permissibility of financial transactions under consideration). This, in turn, increases availability to ensure optimal use by ensuring diversification of financial services according to their nature and in response to the preferences of financial service consumers. To answer the question: Which of the banking sectors (public or private) was the first to adopt the concept of Participative banking? We prepared the following figure.

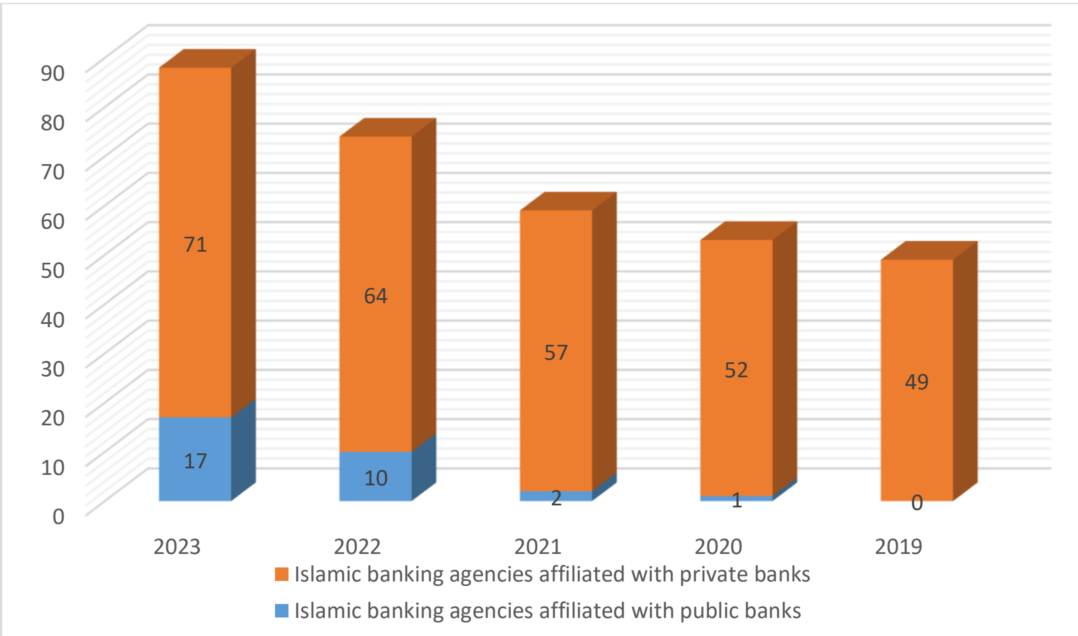

Figure No. (03): Shows the distribution of Participative banking agencies
Source: Prepared by researchers based on the Bank of Algeria's 2023 report.

From the above figure, it is clear that the issuance of legislation regulating the operation of Participative banks has whetted the appetite of the private sector to open banking agencies, which will stimulate investment there. Consequently, the private sector has a majority and precedence over the public sector in adopting the idea.

In order to understand the public's response to financial products and services following the issuance of legislative texts regulating them, which provided greater facilitation for compliance with Sharia oversight bodies, particularly with regard to not mixing capital between contractual agencies and agencies operating in Participative banks.

Table No. (01): Shows the development of the share of deposits for Participative banks

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| Total Deposits | 12484,9 | 14530,4 | 14917 |
| Total Deposits in Participative Banks | 443,9 | 553,8 | 678,2 |
| Deposit Ratio for Participative Banks | 3,56% | 3,81% | 4,55% |

Source: Prepared by researchers based on the Bank of Algeria report for 2023

From the above figure, it is clear that there has been a response in terms of an increase in the volume of deposits placed by Participative banking customers compared to the total volume of deposits. Consequently, the availability of Participative banking agencies and windows has resonated with the Participative banking community.

The correlation coefficient was calculated (due to insufficient observations, which prevented us from studying the impact of opening Participative banking agencies or windows on the growth in deposit volume). It was estimated at 91.70%. This indicates a broad response to the opening of Participative banking agencies, especially after Regulation No. 02/20, especially given the stability of other variables that could affect deposit volume.

**Conclusion**

In this article, we addressed the effects of the legal framework for Participative banks on increasing financial inclusion in Algeria, reviewing the most important studies that addressed the impact of Participative banks on financial inclusion, particularly in countries where the majority of the population is Muslim. Perhaps one of the most important requirements for increasing financial inclusion rates is the legislative infrastructure, which is key to launching and implementing the initiative, while regulating and framing its transactions to serve all contracting parties. Therefore, we addressed the experiences of various legislative countries, various initiatives, and the most important Law 01/18 and Regulation 02/20, which organized, framed, and contributed to the increased expansion of Participative banks and their share of availability (through the opening of bank branches). In this study, we note that there was a response through usage (through an increase in the percentage of deposits), which explains its small proportion due to the large percentage of Sonatrach deposits within the total deposits. Therefore, providing the legislative infrastructure through organizing and framing the work of Participative banks contributed to the activation of true financial inclusion.

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