

## **Role of Law in the Development of Islamic Financial Technology and Its Impact on Development Financing in Algeria**

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### **Abstract:**

Islamic financial technology represents an emerging sector that combines digital innovation with adherence to the principles of Sharia. In this context, the role of law becomes central in achieving a balance between the two. This raises the following question: To what extent does the legal framework contribute to the development of Islamic financial technology that ensures compliance with Sharia principles and strengthens its role as an effective financing mechanism for development in Algeria? The importance of this study lies in highlighting the pivotal role of law. The study ultimately concludes that a legal framework consistent with the principles of Islamic Sharia is an essential condition for development.

**Keywords:** Islamic financial technology; law; crowdfunding; development; Islamic Sharia.

**JEL Classification:** K22; O16; G21.

### **Introduction:**

Islamic financial technology is among the most prominent fields of contemporary research, as it represents an intersection of technological innovation and Islamic principles in the economic sphere. The digital revolution has produced profound transformations in the financial services industry worldwide, which, in turn, have been reflected in Islamic services through the emergence of Islamic FinTech as a promising sector seeking to reconcile technical efficiency with the principles of Islamic Sharia.

However, this sector faces a weak and complex legal environment that oscillates between legal frameworks and Sharia reference points, as well as additional challenges arising from divergent juristic interpretations. Moreover, the rapid development of financial technology applications, such as those based on artificial intelligence, blockchain, and digital currencies, further complicates ensuring that the legal system keeps pace with these developments.

From this standpoint, the following principal question may be posed: To what extent does the legal framework contribute to the development of Islamic financial technology in a manner that ensures its conformity with the principles of Sharia and enhances its role as an effective mechanism for financing development in Algeria?

**Research objectives:** We seek to achieve several objectives, including the following:

- to determine the importance of Islamic financial technology in financing development;
- to clarify the coherence between law, regulatory frameworks, and the provisions of Islamic Sharia;
- to identify the legal challenges involved in regulating Islamic financial technology in Algeria;

**Significance of the Research:** This study derives its significance from the need to highlight the following:

- The pivotal role of law in regulating and developing the Islamic financial technology sector is to ensure Sharia compliance and enhance confidence in financial transactions.
- How do modern legal frameworks serve as instruments for encouraging innovation and supporting digital transformation in the Islamic financial technology sector?
- When effectively regulated, the contribution of Islamic financial technology is to mobilise financial resources and direct them toward development projects.

**Research Methodology:** Reliance has been placed on both descriptive and analytical methods, which are among the scientific approaches appropriate for presenting the theoretical aspects of the subject and analysing its content.

## **Section One: The General Framework of Islamic Financial Technology**

### **First Requirement: The Concept of Islamic Financial Technology**

Financial technology, in general, is defined as financial products and services that rely on technology to improve the quality of traditional financial services, as this technology is characterised by being less costly, easier to use, and more accessible to a greater number of individuals.<sup>1</sup>

Islamic financial technology integrates Islamic finance with technology, with its products adhering to the principles of Sharia and delivered through innovative digital channels, leveraging modern technologies to provide more advanced, transparent services.<sup>2</sup>

### **Second Branch: The Importance of Islamic Financial Technology in Financing Development**

The importance of Islamic financial technology in achieving development is reflected in the following points:

- The shift toward Islamic financial technology aims to remove hardship and facilitate transactions for users by easing access to Islamic banking services.<sup>3</sup>
- financial technology, particularly its Islamic form, can contribute to the achievement of broader objectives, namely, the diversification of economic activity and the attainment of financial stability;<sup>4</sup>
- Islamic financial technology serves as an instrument for developing and expanding the Islamic finance sector, providing mechanisms for applying its principles in the digital age. It facilitates the establishment of business ventures, while crowdfunding is a rapid, low-cost way to raise funds worldwide.<sup>5</sup>
- Islamic financial technology promotes financial inclusion in accordance with the principles of Sharia, thereby supporting social justice and expanding access to financing for excluded groups through digital solutions while helping reduce financial exclusion and channel savings toward development projects.<sup>6</sup>

- Islamic financial technology enhances efficiency and transparency in financing by accelerating procedures and reducing bureaucracy while ensuring transparency and the traceability of funding through modern technologies.<sup>7</sup>

## **Second Requirement: The Characteristics and Tools of Islamic Financial Technology**

### **First Branch: The Distinctive Characteristics of Islamic Financial Technology**

Islamic financial technology is characterised by several features, the most important of which are as follows:

- Islamic financial technology is founded on compliance with the provisions of Sharia, including the prohibition of riba, gharar, and unlawful activities, and on reliance on real assets and the principle of profit-and-loss sharing.<sup>8</sup>
- transparency and accountability, as the use of a technology such as blockchain enables the secure, transparent tracing of all financial operations, thereby enhancing trust and reducing corruption.<sup>9</sup>
- Islamic financial technology promotes financial inclusion by enabling diverse groups to access Sharia-compliant financial services, thereby advancing social justice and meeting the needs of those who avoid conventional services because they do not conform to Sharia.<sup>10</sup>

### **Second Branch: The Tools of Islamic Financial Technology**

The tools of Islamic financial technology are as follows:

1. **Crowdfunding:** Individuals or institutions raise funds for their projects through electronic platforms by appealing to the public in the form of donations, loans, or investments in return for a commission charged by these platforms on the amounts collected.<sup>11</sup>
2. **Peer-to-Peer Lending (P2P):** This is a system that enables lending between individuals via electronic platforms, in which the applicant selects the appropriate

- lender. This model has experienced rapid growth since its inception in 2005, accompanied by a substantial increase in global financing volume.<sup>12</sup>
3. **Blockchain and Smart Contracts:** Blockchain is a decentralised, immutable digital ledger that enhances transparency and security in financial transactions, which is consistent with the principles of Islamic finance. It also helps reduce uncertainty and provides a reliable, auditable record that strengthens the level of trust between transacting parties.<sup>13</sup>
  4. **Digital Sukuk:** Digital sukuk represents a development in Islamic finance that combines traditional sukuk with modern financial technology, leveraging technologies such as blockchain and smart contracts to modernise issuance, trading, and management processes in a manner consistent with the provisions of Islamic Sharia.<sup>14</sup>
  5. **Islamic Electronic Wallets (E-Wallets):** An electronic wallet is a digital system or application that securely stores payment information and passwords. It is also known as a digital wallet or mobile wallet.<sup>15</sup>

## **Section Two: The Legal Impact of Islamic Financial Technology on Development Financing in Algeria**

### **First Requirement: Law between Conformity with Sharia and Support for Innovation in Islamic Financial Technology**

#### **First Branch: The Coherence between Law, Regulatory Frameworks, and the Provisions of Islamic Sharia**

The harmony between law and regulatory frameworks and the principles of Sharia provides a fundamental basis for the success of Islamic financial technology, ensuring adherence to justice and fairness, preventing exploitative practices, and ensuring the efficiency of financial services within a legal and ethical framework consistent with Sharia.<sup>16</sup>

Among the most prominent mechanisms for ensuring compliance with Sharia provisions in financial technology is the activation of specialised Sharia boards comprising Sharia scholars with financial expertise. These boards undertake the review and approval of products and

services to verify their conformity with Sharia and to grant certificates of Sharia compliance, as is the case in Algeria, through the National Sharia Board for Fatwas for the Islamic Finance Industry.<sup>17</sup> It regulates banking operations in Islamic banking and establishes rules governing their practices for banks and financial institutions while obliging them to establish an internal Sharia supervisory board. However, the new Monetary and Banking Law 23-09 was introduced to regulate and develop this field within a more modern regulatory framework.<sup>18</sup>

For this reason, financial technology companies must ensure that their investment products are based on genuine economic activities and generate real value for consumers rather than merely facilitating gains founded on random speculation.<sup>19</sup>

The role of regulatory bodies goes beyond merely imposing compliance with Sharia; it also extends to creating an environment conducive to the growth of Islamic financial technology through a regulatory approach that balances the facilitation of the application of Sharia provisions with the encouragement of innovation, thereby contributing to the development of innovative financial solutions that meet the needs of the Muslim consumer.<sup>20</sup>

### **Second Branch: Law as a Catalyst for Innovation in Islamic Financial Technology**

Compliance with the principles of Sharia in Islamic financial technology is essential, as well-designed legal frameworks can encourage innovation by providing clear guidance that reduces uncertainty and enables the development of new financial products and digital technologies within an organised framework that supports economic development.<sup>21</sup>

One instrument for stimulating innovation in Islamic financial technology is the regulatory sandbox. This experimental environment allows companies to test new products and services under regulatory supervision without being fully subject to compliance requirements. This makes it possible to develop innovative solutions while ensuring their conformity with the principles of Islamic Sharia and to explore the uses of modern technologies such as blockchain, artificial intelligence, and digital currencies within an organised framework.<sup>22</sup>

In addition, laws that emphasise transparency in commercial practices require compliance with clear information and disclosure obligations regarding fees, risks, and terms. Article 01

of Law No. 02-04<sup>23</sup> provides that “The purpose of this law is to determine the rules and principles of transparency and integrity in commercial practices ...” This is further reinforced by Executive Decree No. 13-378, which specifies the conditions and procedures for informing the consumer, thereby contributing to the creation of a fair competitive environment on the basis of product quality and innovation rather than the exploitation of regulatory loopholes. Moreover, the increasing volume of financial transactions prompts legislators to strengthen the regulatory aspect in light of the growing competition between financial technology companies and traditional financial institutions.<sup>24</sup>

With respect to digital currencies and blockchain technology, regulatory authorities may cooperate with Islamic finance scholars to establish a regulatory framework that ensures the use of these technologies in a manner consistent with the provisions of Sharia, as is the case in Indonesia, where they were regulated under Regulation No. 27 of 2024 (POJK 27/2024),<sup>25</sup> which governs the trading of digital financial assets, including cryptocurrencies, as well as the Ministry of Finance Regulation No. 50 of 2025 (PMK 50/2025), concerning the tax framework applicable to cryptocurrency trading transactions.

## **Second Requirement: Legal Challenges in Regulating Islamic Financial Technology in Algeria**

### **First Branch: Technological Developments and Legal Challenges in Algeria**

Technological developments have brought about a major transformation in the financial industry, and the Islamic financial technology sector has not been an exception. Technologies such as blockchain, artificial intelligence, and digital currencies have created broad opportunities for innovation in Islamic banking; however, they also raise legal challenges regarding their compatibility with the ethical and Sharia frameworks of Islamic law.<sup>26</sup>

Among the most significant challenges hindering Islamic financial technology services in Algeria is the lack of an appropriate legal framework. With the enactment of Law No. 23-09, the Algerian legislature, for the first time, incorporated Islamic banking into the law governing the banking sector in Algeria and granted it a legal framework, given that it had previously

operated outside the legal framework of Ordinance No. 03-11 concerning money and credit. Article 68 of Law No. 23-09 states that "Banking operations include ... banking operations relating to Islamic banking ..."

Regulation No. 20-02 concerning banking operations relating to Islamic banking is regarded as merely a general framework, as it is confined to providing simple definitions of its products while referring to the application of the provisions of the repealed Ordinance No. 03-11 concerning the Law on Money and Credit, which is inconsistent with the specific nature of Islamic banking.<sup>27</sup>

### **Second Branch: The Absence of a Legal Framework for Islamic Financial Technology in Algeria**

The Bank of Algeria is the sole authority empowered to issue currency under Article 02 of Law No. 23-09 concerning the Monetary and Banking Law, and it is exclusively entrusted with issuing legal tenders. Algeria has entered the world of digital currencies pursuant to the same article, which provides that "... it may take a digital form and shall be called the central bank digital currency (the Algerian digital dinar)." Hence, a robust legal framework must be established to enable Algeria to implement it in practice, as this would constitute a positive step.

With respect to virtual currencies, Algeria prohibited their circulation pursuant to the Finance Law of 2018,<sup>28</sup> Article 117 provides the following: "The purchase, sale, use, and possession of virtual currency are prohibited in Algeria. Virtual currency is used by internet users and is characterised by the absence of physical support such as coins and banknotes and by payment transactions via cheque or bank cards. Any violation of this provision shall be punished in accordance with the laws and regulations in force." The Algerian legislature also criminalised this act under Article 06 bis of Law No. 25-10,<sup>29</sup> amending and supplementing Law No. 05-01 concerning the prevention of money laundering and terrorist financing and combating them, which states, "It is prohibited to issue, purchase, sell, use, possess, trade in, promote, or create or operate platforms for the trading of virtual assets, which are considered property, proceeds, funds, other assets, or any other equivalent value:

- as a means of payment or recognition thereof as currency,
- as a means of investment,
- the prohibition includes activities related to the mining of virtual currencies.”

Article 31 bis of the same law provides the following: “Without prejudice to the more severe penalties provided for in the legislation in force, any person who violates the provisions of Article 6 bis of this law shall be punished by imprisonment from two (2) months to one (1) year and by a fine ranging from 200,000 DZD to 1,000,000 DZD, or by one of these two penalties.”

Despite the Algerian legislature’s endeavour to establish a digital legal environment in keeping with modern developments in banking transactions through Monetary and Banking Law No. 23-09, which recognised Islamic banking, subjected it to the supervision of the Bank of Algeria and authorised the establishment of digital banks and the creation of a central bank digital currency (the Algerian digital dinar), the regulatory framework remains under development.<sup>30</sup> concerning the special conditions for licensing the establishment, accreditation, and operation of digital banks and the variety of Islamic finance products introduced by Regulation No. 20-02, such as murabaha, mudaraba, musharaka, ijara, istisna, and salam, in addition to Article 179 of the Finance Law for the year 2025.<sup>31</sup>

In addition to Law No. 15-04,<sup>32</sup> which lays down the general rules relating to electronic signatures and certification, and Law No. 18-05<sup>33</sup> concerning electronic commerce, both of which enable Islamic banks to provide electronic banking services, neither keep pace with contemporary global developments in financial technology. This is due to a gap between the Algerian legal framework and the requirements of digital transformation, which limits the effectiveness of digital transformation in Islamic financial services and affects Islamic digital financial inclusion.

### **Conclusion:**

In light of the above, it is evident that Algeria is taking delayed steps in Islamic banking, as the legal challenges it faces stem from a weak legal environment and the absence of an independent digital legal framework to support Islamic financial services.

On this basis, the following findings have been reached:

- Conformity with the principles of Islamic Sharia is an essential condition for success; however, the legal framework constitutes a major obstacle, and this complexity is further increased by rapid technological development.
- There are new challenges in ensuring compatibility between the law and the principles of Islamic Sharia in the context of emerging technologies such as blockchain, artificial intelligence, and digital currencies.
- The law enables the dissemination of digital financial instruments accessible to broad segments of society, including marginalised groups, thereby strengthening the role of Islamic financial inclusion in development.
- A clear legal framework provides a secure environment in which financial technology companies can develop new products without fear of legal conflict.

Hence, the following recommendations may be drawn:

- A comprehensive legal framework must be established to secure clear, coherent legislation regulating the use of Islamic financial technology while permitting renewal and innovation, preserving Sharia controls, and protecting consumers.
- Investment in Islamic digital infrastructure, such as digital sukuk and Sharia-compliant electronic wallets, should be encouraged to enhance the sector's capacity to mobilise financial resources for development.

### **Endnotes:**

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