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Introduction

Islamic sukuk constitute one of the most dynamic and innovative financial instruments in the field of Islamic finance. Over the past two decades, they have experienced exceptional growth, emerging as the fastest-expanding segment within the Islamic financial industry. According to World Bank estimates, the global issuance of sukuk reached nearly USD 5 trillion by 2015, demonstrating their increasing significance as both a financing mechanism and an investment opportunity.

The appeal of sukuk lies in their unique ability to provide investors with returns while remaining fully compliant with Sharia principles. Unlike conventional bonds, sukuk do not represent interest-based debt obligations; rather, they embody partial ownership in assets, projects, or investment ventures. This feature not only ensures legitimacy under Islamic jurisprudence but also enhances stability by linking returns to real economic activity. Importantly, sukuk emerged as resilient instruments during the global financial crisis of 2008, when conventional debt markets experienced severe volatility and loss of investor confidence.

The global success of sukuk has also reinforced their role in securitization practices and in mobilizing capital for both private and public sector projects. Sukuk are now widely recognized as parallel investment instruments to conventional bonds, attracting diverse investors ranging from individuals and corporations to sovereign states across both Muslim-majority and non-Muslim countries.

In Algeria, efforts to align with these global developments have been gradual. The introduction of **Regulation No. 18-02 of November 4, 2018** permitted conventional banks to establish Islamic “windows,” thereby opening limited avenues for Sharia-compliant transactions. Later, **Regulation No. 20-02 of March 2020** expanded the scope of Islamic finance by approving eight Sharia-compliant products. However, this regulation excluded sukuk, despite referencing Sharia-based contracts such as partnership (*musharakah*), leasing (*ijarah*), and speculation (*mudarabah*), which form the structural basis for sukuk issuance. The omission of sukuk represents a critical gap in Algeria’s Islamic financial architecture, limiting the country’s ability to mobilize capital for development projects and attract investment through Sharia-compliant channels.

Research Problem

With the increasing global significance of Islamic finance and the demonstrated resilience of sukuk during periods of financial instability, many countries have integrated sukuk into their economic strategies. Algeria, while having shown interest in Islamic banking, has yet to incorporate sukuk within its financial system. The issuance of sukuk remains absent from Algeria’s regulatory framework, even though the instruments could serve as vital tools for economic diversification, infrastructure financing, and attracting foreign capital.

Thus, the research problem can be articulated as follows:

What are the primary obstacles preventing the issuance and circulation of Islamic sukuk in Algeria, despite the country’s orientation toward Islamic banking?

Research Hypothesis

To provide a provisional response to the research problem, the following hypothesis is proposed:

- The absence of Islamic sukuk issuance in Algeria is primarily attributable to the lack of a comprehensive legal, legislative, and regulatory framework that governs their structuring, circulation, and investor protection.

Research Objectives

The study aims to achieve the following objectives:

- To define the concept of Islamic sukuk and classify their principal types.
- To examine the historical evolution and regulatory development of Islamic banking in Algeria.
- To identify and analyze the major challenges hindering the adoption of sukuk in Algeria.
- To propose practical recommendations that would facilitate the integration of sukuk into Algeria's financial system.

Structure of the Study

The research is organized into four main sections:

- **Section One:** The concept, definitions, and characteristics of Islamic sukuk.
- **Section Two:** The evolution and current status of Islamic banking in Algeria.
- **Section Three:** The legal, institutional, and regulatory obstacles to sukuk issuance in Algeria.
- **Section Four:** Policy recommendations and prospects for the implementation of sukuk in Algeria.

Section One: The Concept of Islamic Sukuk

1. Definition of Islamic Sukuk

The term “sukuk” has been defined by numerous scholars and institutions, with slight variations in wording but a common convergence in meaning. The most prominent definitions include:

- **Badran (2014, p. 168):** “Equal-value, fixed-term financial instruments issued in accordance with Islamic financing contracts. They entitle their holders to proportional ownership in assets, revenues, or profits and losses of an existing or future investment project funded by the sukuk proceeds. They are tradable, redeemable, and subject to specific conditions.”
- **Mansour (2009, p. 10):** “Certificates of specific financial value issued by an institution in the names of subscribers, in return for their paid-in capital. The proceeds are invested directly or through a third party. Sukuk are tradable instruments, and holders share in investment outcomes according to issuance terms.”
- **AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions):** “Equal-value documents representing undivided shares in tangible assets, usufructs, services, or in the ownership of a specific project or investment activity, after subscription funds have been collected and deployed for the intended purpose.”
- **Dawabah (2010, p. 178):** “An investment tool that fragments capital into equal shares by issuing sukuk certificates registered in the names of holders, who thereby acquire undivided ownership rights in both the capital and its outcomes.”

From these perspectives, a comprehensive definition can be formulated:

Islamic sukuk are equal-value units registered in the names of their holders, representing undivided shares in assets, projects, or investment activities, and granting proportional rights to profits and losses in accordance with Sharia principles.

2. Characteristics of Islamic Sukuk

The essential characteristics of Islamic sukuk can be summarized as follows:

1. **Ownership-Based Instruments:** Sukuk represent undivided ownership in assets, usufructs, or projects, unlike conventional bonds which merely represent debt obligations of the issuer (Safia, 2009, p. 13; Al-Bahloul, p. 28).
2. **Sharia Compliance:** Their issuance, trading, and returns must be structured through Sharia-compliant contracts such as *ijarah* (leasing), *musharakah* (partnership), or *mudarabah* (profit-sharing).
3. **Equal Value Certificates:** Sukuk are issued in equal denominations, each carrying a specified nominal value, ensuring fairness and standardization among holders (Mohammed, 2013, p. 28).
4. **Profit and Loss Sharing:** Sukuk holders are entitled to participate in profits generated by the financed asset or project and bear losses in proportion to their ownership shares.
5. **Tradability:** Sukuk can generally be traded in secondary markets, provided that Sharia conditions (such as the presence of tangible underlying assets) are satisfied.
6. **Transparency:** All terms and conditions are disclosed in the sukuk prospectus, ensuring compliance with Sharia requirements and investor protection.

3. Objectives and Significance of Islamic Sukuk

3.1 Objectives

The primary objectives of Islamic sukuk extend beyond serving as financial instruments; they are designed to fulfill both economic and ethical purposes in line with Sharia principles. According to Dawabih (2009, p. 27), the main objectives include:

- **Mobilizing liquidity for development:** Sukuk facilitate the securitization of government or corporate assets into tradable units, thereby attracting individual and institutional savings to finance long-term investments.
- **Financing investment projects:** Sukuk enable the issuance of capital through different Islamic financing structures in capital markets, where subscription proceeds form the equity base of the project.
- **Enhancing capital market depth:** By introducing new investment tools, sukuk contribute to the diversification of financing channels, reducing reliance on conventional debt instruments.

3.2 Significance

The significance of sukuk is multi-dimensional, encompassing economic, financial, and social aspects. As highlighted by Atiyoui (2015, p. 709) and Badran (2014, p. 170), sukuk play the following roles:

- **Financing large-scale projects:** Sukuk provide an effective mechanism to fund infrastructure and development projects that exceed the financial capacity of a single institution.
- **Investment opportunities:** They offer investors a secure channel to deploy surplus funds while maintaining liquidity, as sukuk can be traded or redeemed when necessary.
- **Liquidity management:** Islamic banks and financial institutions employ sukuk as efficient tools to regulate cash flows and ensure stable financial operations.
- **Equitable wealth distribution:** By linking returns to real economic activities, sukuk promote fairness and social justice, distributing profits in proportion to actual project outcomes.
- **Cost efficiency:** Compared to conventional borrowing, sukuk often involve lower intermediation costs and reduced risks, while still offering competitive returns.
- **Risk resilience:** Sukuk are not directly tied to the credit rating of the issuing entity, as they are typically backed by specific assets or cash flows, providing stronger security for investors.
- **Capital market development:** They expand and diversify Islamic capital markets by increasing the range of tradable instruments and attracting both domestic and international investors.
- **Development financing in Muslim countries:** Sukuk address the inadequacies of conventional instruments in mobilizing savings for development purposes.
- **Policy instrument for central banks:** Sukuk provide a Sharia-compliant tool for monetary policy, enabling liquidity absorption and inflation control.

4. Fundamental Differences Between Sukuk and Other Financial Instruments

4.1 Sukuk vs. Shares

Although both sukuk and shares represent forms of ownership, they differ in their nature, risk, and governance implications:

- **Risk profile:** Sukuk are generally considered low-risk instruments due to their asset-backed structure, whereas shares are high-risk securities subject to market fluctuations.
- **Ownership nature:** Sukuk holders are financiers with ownership rights in the underlying project or assets, while shareholders represent equity partners in a corporation's capital.
- **Duration:** Sukuk are issued for a fixed term with maturity (redemption), while shares are perpetual instruments unless the company is liquidated.
- **Governance rights:** Shareholders participate in corporate governance through voting rights and representation in decision-making. Sukuk holders, by contrast, do not exercise direct managerial control but may appoint a *mudarib* (investment manager) or rely on a Sharia supervisory board to ensure compliance with issuance terms.

4.2 Sukuk vs. Bonds

The differences between sukuk and conventional bonds are fundamental, reflecting the divergence between Islamic finance and conventional finance (Al-Anazi, 2015, p. 436; Badran, 2014, pp. 169–170):

- **Nature of relationship:** Bonds represent debt obligations of the issuer toward bondholders, creating a creditor–debtor relationship. Sukuk, in contrast, represent undivided ownership in the assets or projects being financed, establishing a partnership relationship.
- **Return mechanism:** Bonds yield fixed or variable interest payments, which are classified as *riba* (usury) and therefore prohibited under Islamic law. Sukuk do not provide fixed interest; instead, returns are based on actual profits generated by the underlying assets or projects. Losses are shared proportionally by sukuk holders.
- **Liquidation rights:** In case of liquidation, bondholders have priority to recover the principal and interest owed. Sukuk holders, however, are entitled only to their proportional share of the residual assets after all liabilities are settled. This reflects their ownership rights rather than creditor claims.

5. Sharia Principles Governing Islamic Sukuk

The issuance and trading of sukuk must strictly adhere to Sharia rules and principles to ensure legitimacy. According to Khattab (2009, pp. 21–23) and AAOIFI standards, the following conditions apply:

- **Genuine ownership:** Tradable sukuk must represent actual ownership rights of holders in tangible assets, usufructs, or services that can be lawfully transacted in accordance with Sharia (Standard No. 17 on investment sukuk).
- **Prohibition of debt securitization:** Sukuk cannot merely represent receivables or debts, except when included incidentally as part of a broader asset portfolio. Sharia strictly prohibits issuing sukuk backed solely by debt (Standard No. 21 on financial papers).

Conditions for Sukuk Trading

- **Asset-backing:** Sukuk may be traded and redeemed if they represent undivided shares in tangible assets, usufructs, or services after the subscription period has closed.
- **Currency rules:** Before project commencement, currency exchange rules apply (spot settlement for same or different currencies, in accordance with Sharia). If sukuk are liquidated into receivables or sold for deferred payment, the rules of debt trading apply.
- **Methods of transfer:** Sukuk may be traded through any recognized method permitted by Sharia, including registry transfers, electronic systems, or physical delivery in the case of bearer sukuk.

- **Leasing-based sukuk (ijarah):** Sukuk backed by leased assets (or assets promised to be leased) can be traded from issuance until maturity, once holders acquire ownership rights.
- **Service-based sukuk:** Sukuk for service ownership may be traded only after the service has been delivered by the issuer, representing the right to collect service fees.
- **Partnership and mudarabah sukuk:** These may be traded after the subscription closes, sukuk are allocated, and business activities commence.
- **Agricultural sukuk (muzara'a and musaqat):** Such sukuk may be traded after subscription closes and cultivation begins, provided that holders are owners of the land involved.

6. Islamic Securitization Methods

Islamic securitization, as the foundation for sukuk issuance, can take two principal forms (Bazina, 2016, pp. 51–52):

6.1 Simple or Direct Securitization

In this model, sukuk are issued to mobilize financial resources that are then directed toward establishing a specific investment project, such as infrastructure or public utilities. Sukuk are offered in the primary market under an Islamic financing contract, and subscription proceeds constitute the project's capital base.

6.2 Structured or Indirect Securitization

Structured securitization involves transforming existing income-generating projects or assets into liquidity. Here, tangible or intangible assets are converted into equal-value units represented by sukuk, which are subsequently offered in the financial market to attract investment.

7. Types of Islamic Sukuk

Islamic sukuk take several forms, depending on the underlying Sharia contract. The most common types include (Adnan, 2013, pp. 239–241):

7.1 Mudarabah Sukuk

These are securities offered for subscription where sukukholders provide the capital, and the issuing institution manages the project as mudarib (manager). Profits are distributed according to pre-agreed ratios, while losses are borne by investors. For example, Shamil Bank of Bahrain issued mudarabah sukuk valued at SAR 360 million.

7.2 Musharakah Sukuk

Equal-value certificates issued to finance or establish projects on a partnership basis. Sukukholders collectively own the project and may manage it directly or through mudarabah contracts. A notable case is Emirates Airlines' USD 550 million sukuk to finance the construction of a corporate building.

7.3 Murabaha Sukuk

Murabaha sukuk finance the purchase of goods under a cost-plus-sale arrangement. Sukukholders acquire ownership of the asset, which is later sold on deferred-payment terms. For instance, Arcapita Bank in Bahrain issued a USD 200 million multi-currency murabaha-backed sukuk.

7.4 Salam Sukuk

These sukuk represent ownership of capital in a salam contract, used to finance goods to be delivered at a future date. Profits are realized when the goods are resold after delivery. Salam sukuk are non-tradable until the capital has been converted into goods.

7.5 Istisna Sukuk

Issued to finance the manufacture or construction of specific assets, with ownership vested in sukukholders. For example, a shipping company may issue istisna sukuk to build vessels. Contracts may be structured directly or through parallel istisna agreements with banks as intermediaries.

7.6 Ijarah Sukuk

Ijarah sukuk securitize lease-based financing and entitle holders to rental income proportional to their contributions. These certificates represent undivided ownership in leased assets or services. Types include:

- **Sukuk of usufruct ownership:** issued by an asset owner for leasing its usufruct, with subscription proceeds representing rental income.
- **Sukuk of service ownership:** issued to finance services, entitling sukukholders to corresponding fees.

Ijarah sukuk are widely used by governments and banks for medium- and long-term financing. For example, in 2002, the Central Bank of Bahrain issued USD 100 million government-backed ijarah sukuk with a five-year maturity.

8. The Reality of Islamic Banking in Algeria

Algeria integrated Islamic banking into its financial system through Law No. 90-10 on Money and Credit, which opened the sector to private and foreign banks, including Islamic banks. Algeria was therefore among the pioneering countries in North Africa to experiment with Islamic finance, earlier than several neighboring states. Initially, the system relied on two Islamic banks: **Al Baraka Bank** and **Al Salam Bank** (Fatima Zahra, 2022, p. 269).

8.1 Al Baraka Bank

Al Baraka Bank, a subsidiary of the Al Baraka Banking Group (ABG) headquartered in Bahrain, was inaugurated on May 20, 1991, and began operations on September 1 of the same year. It was the first bank established under the Money and Credit Law of April 14, 1990. Its ownership structure includes the Algerian partner—the Bank of Agriculture and Rural Development (44%)—and ABG as the foreign partner (56%).

8.2 Al Salam Bank

Al Salam Bank was launched on October 20, 2008, as the second Islamic bank in Algeria, with a capital of DZD 72 billion (approx. USD 100 million). At its inception, it was the largest private bank in Algeria, offering a wide range of services for both corporate clients and individual customers.

8.3 Islamic Windows in Conventional Banks

In addition to fully fledged Islamic banks, several conventional private banks established Islamic “windows,” including:

- Arab Gulf Bank (AGB) in 2009,
- Housing Bank for Trade and Finance Algeria in 2016,
- Trust Bank in 2018.

8.4 The Legal Framework of Islamic Banking in Algeria

The Bank of Algeria formalized Islamic banking under Article 17 of Regulation No. 20-02 dated March 15, 2020. The regulation defined Islamic “windows” as units within conventional banks or financial institutions exclusively dedicated to Islamic products and services. Importantly, each Islamic window must maintain financial independence from other departments of the bank.

The regulation also listed permissible Islamic banking operations, including:

- deposit and investment accounts based on *mudarabah*,
- *murabaha* and *ijara* contracts,
- financing through *musharakah* and *istisna*,
- Islamic savings and current accounts,
- other Sharia-compliant instruments approved by the Sharia Supervisory Board of the bank.

6. Islamic Securitization Methods

Islamic securitization may take two principal forms (Bazina, 2016, pp. 51–52):

6.1 Simple or Direct Securitization

In this model, sukuk are issued to mobilize financial resources, which are then directed toward establishing a specific investment project, such as infrastructure or public utility projects. Sukuk are offered in the primary market under an Islamic financing structure, and subscription proceeds constitute the project's capital.

6.2 Structured or Indirect Securitization

This method involves issuing sukuk to convert existing projects or assets into liquidity. It transforms income-generating tangible or intangible assets into equal-value units represented by sukuk, which are subsequently offered in the financial market to attract funds.

7. Types of Islamic Sukuk

The most common types of Islamic sukuk include (Adnan, 2013, pp. 239–241):

7.1 Mudarabah Sukuk

These securities are offered for subscription, whereby the issuing company manages the venture on the basis of **mudarabah**. Sukuk holders act as capital providers, while the issuer assumes the role of **mudarib** (manager). They may take various forms—commercial, industrial, or agricultural. A well-known example is the sukuk issuance by Shamil Bank of Bahrain, valued at SAR 360 million.

7.2 Musharakah Sukuk

These equal-value certificates are issued to finance or establish projects on the basis of partnership. Sukuk holders collectively own the project, while management may follow either a partnership or *mudarabah* model. For instance, Emirates Airlines issued a USD 550 million sukuk to finance the construction of its new corporate headquarters.

7.3 Murabaha Sukuk

These sukuk represent certificates of equal value issued to finance the purchase of goods under a **murabaha** arrangement. The process typically involves:

- A purchase promise submitted to the bank specifying the asset;
- The bank acquiring the asset and issuing *murabaha* sukuk equivalent to its purchase value;
- Sukuk holders acquiring ownership of the asset;
- The asset being sold on deferred payment terms to the purchaser, with the bank acting as an agent on behalf of sukuk holders.

For example, Arcapita Bank in Bahrain structured a USD 200 million multicurrency *murabaha*-backed sukuk.

7.4 Salam Sukuk

These sukuk represent ownership in the capital of a **salam** contract, typically used to finance the purchase of goods to be delivered in the future. Sukuk holders earn profits upon resale of the goods after delivery. Importantly, salam sukuk cannot be traded until the capital has been converted into goods.

7.5 Istisna Sukuk

Istisna sukuk are equal-value certificates issued to finance the manufacture or construction of assets. The manufactured asset becomes the property of sukuk holders. For example, a shipping company seeking to expand its fleet may issue istisna sukuk to finance shipbuilding, either directly or through parallel istisna contracts arranged by a bank. Profits are distributed among sukuk holders, with the bank receiving a management fee or a share of returns.

7.6 Ijarah Sukuk

These sukuk securitize lease-based financing, entitling holders to rental income proportional to their contributions. They represent undivided ownership in leased assets or services. Subcategories include:

- **Sukuk of usufruct ownership:** issued by an asset owner for leasing usufruct rights, with proceeds representing rental income.
- **Sukuk of service ownership:** issued to finance specific services, with sukuk holders entitled to the related fees.

Ijarah sukuk are widely applied by Islamic governments to finance medium- and long-term assets, particularly in infrastructure and public services. Islamic banks also employ them to mobilize resources for development projects. For instance, in August 2002, the Central Bank of Bahrain launched USD 100 million government-backed sukuk with a five-year maturity. Similarly, Arcapita Investment Group and the International Leasing and Investment Company in Jeddah issued Saudi sukuk worth USD 390 million to finance a new investment project.

8. The Reality of Islamic Banking in Algeria

Algeria formally integrated Islamic banking into its financial system through **Law No. 90-10 on Money and Credit**, which opened the sector to both private and foreign banks, including Islamic banks. Algeria was thus among the pioneering countries in the region to introduce Islamic banking, preceding several neighboring states. Initially, two Islamic banks were authorized to operate: **Al Baraka Bank** and **Al Salam Bank** (Fatima Zahra, 2022, p. 269).

8.1 Al Baraka Bank

Al Baraka Bank is a subsidiary of the Bahrain-based **Al Baraka Banking Group (ABG)**. It was inaugurated on May 20, 1991, and began operations on September 1, 1991, as the first Islamic bank established under the 1990 Money and Credit Law. Its ownership structure comprises a 44% share held by Algeria's Bank of Agriculture and Rural Development and a 56% share held by ABG.

8.2 Al Salam Bank

Launched on October 20, 2008, Al Salam Bank became the second Islamic bank to enter the Algerian market. With an initial capital of DZD 72 billion (approximately USD 100 million), it was the largest private bank in Algeria at the time of its establishment, providing services for both corporations and individual clients.

8.3 Islamic Windows in Conventional Banks

In addition to full-fledged Islamic banks, Algeria authorized Islamic banking "windows" in several conventional banks:

- Arab Gulf Bank (AGB) in 2009;
- Housing Bank for Trade and Finance Algeria in 2016;
- Trust Bank in 2018.

8.4 Legal and Regulatory Framework

The **Bank of Algeria** reinforced the institutionalization of Islamic banking through **Regulation No. 20-02 of March 15, 2020**, particularly Article 17, which defined the conditions for establishing Islamic banking windows within public banks. According to the regulation, such windows are autonomous units dedicated exclusively to Islamic financial services, with full financial independence from the bank's other departments.

The regulation also specified permissible Islamic financial operations, summarized as follows:

- **Murabaha (Cost-Plus Financing)** – the bank sells a specified asset at cost plus a pre-agreed margin.
- **Musharaka (Partnership)** – joint participation in capital or commercial operations for profit generation.
- **Mudaraba (Profit-Sharing)** – the bank provides capital, while the entrepreneur provides labor, with profits shared accordingly.
- **Ijara (Leasing)** – the bank leases movable or immovable assets to clients for a specified period in return for rent.
- **Salam (Forward Sale)** – the bank pays in advance for commodities to be delivered in the future.
- **Istisna (Manufacturing/Construction Contract)** – the bank finances construction or manufacturing projects according to agreed specifications.
- **Deposit Accounts** – funds deposited for safekeeping with repayment guaranteed upon demand.
- **Investment Accounts** – fixed-term deposits invested in Sharia-compliant financing for profit-sharing.

All Islamic banking products require prior authorization from the Bank of Algeria and must obtain a **Sharia compliance certificate** issued by the **National Sharia Board for Islamic Finance**. In addition, every bank is obliged to establish an internal **Sharia Supervisory Board**, approved by the National Sharia Board and composed of at least three members appointed by the General Assembly. These boards are tasked with ensuring compliance of all operations and products with Sharia principles.

8.5 Prior Authorization for Marketing Islamic Banking Products

To obtain prior authorization for marketing Islamic banking products, banks and financial institutions must submit a comprehensive file to the **Bank of Algeria**, which includes:

- A **Sharia compliance certificate** issued by the National Sharia Board for Islamic Finance;
- A **descriptive sheet** detailing the product model;
- The **opinion of the bank's Sharia compliance officer**;
- A **procedure** ensuring the administrative and financial independence of the Islamic banking window from the bank's other operations.

Following the issuance of **Regulation No. 20-02** on March 15, 2020, which defined Islamic banking operations and their regulatory framework, the **Algerian National Bank (BNA)** launched its first Islamic banking window on August 4, 2020. This marked the establishment of the first Islamic banking window in a public bank offering Sharia-compliant financial products.

By 2021, the number of Islamic banking windows in public banks had increased to approximately 106, distributed among:

- **BNA:** 59 windows
- **Algerian Popular Credit Bank (CPA):** 31 windows
- **National Savings and Reserve Fund (CNEP):** 16 windows

According to the latest statistics released by the Minister of Finance, by August 2022, the number of Islamic banking windows in public banks reached **294**, serving **66,217 accounts**. Total deposits amounted to **49 billion Algerian dinars**, while financing reached **5 billion dinars**.

9. Advantages of Adopting Islamic Sukuk in Algeria

The adoption of Islamic sukuk in Algeria could provide multiple benefits for the national economy, including:

9.1 Contribution to Economic Development

Islamic sukuk can finance large-scale development projects, such as infrastructure, bridges, and roads, by mobilizing financial resources. They are considered highly effective for ensuring investment funds are allocated to genuine economic opportunities. Moreover, the diversity of sukuk structures allows them to be adapted across different sectors (Ben Flami & Oukil, 2022, p. 76).

9.2 Contribution to Financing the Budget Deficit

Following the decline in oil prices since mid-2014, Algeria's public budget deficit rose to nearly **15% of GDP in 2016**. Sovereign and government-issued sukuk could enable broad public participation in financing development projects, alleviating the fiscal deficit by covering financing needs and supporting the national budget (Chariak, 2017, p. 282).

9.3 Contribution to Liquidity Management

Islamic sukuk play a critical role in macroeconomic liquidity management by absorbing excess liquidity, providing stable and genuine financing for the state, and serving as a Sharia-compliant monetary policy instrument (Ben Flami & Oukil, 2022, p. 76).

9.4 Contribution to the Development of the Stock Market

Integrating sukuk into Algeria's stock market could yield several benefits (Bouhlef & Hamdi Bacha, 2018, p. 32):

- Supporting and expanding national investment by directing financial resources toward high-impact projects;
- Providing Sharia-compliant instruments for investors seeking ethical investment options;
- Enhancing equity in income distribution through participation-based financing;
- Utilizing forward-like contracts such as Salam and Istisna to diversify investment instruments.

10. Challenges to Implementing Islamic Sukuk in Algeria

Despite their potential, several obstacles hinder the introduction of Islamic sukuk in Algeria:

10.1 Monetary and Credit Law

Current legislation, including **Law 90-10** (1990), **Ordinance 03-11** (2003), and **Law 23-09** (2023), does not contain provisions for Islamic finance, particularly sukuk. Even Regulation 20-02 (2020) does not explicitly address sukuk (Bada & Ghazal, 2021, p. 39).

10.2 Commercial Code

The Algerian Commercial Code recognizes securities issued by joint-stock companies (shares and bonds) but does not provide legal recognition for sukuk (Bada & Ghazal, 2021, p. 40).

10.3 Tax Law

Sukuk based on sale-based contracts (e.g., deferred sales, Salam, Istisna) may face unfavorable tax treatment due to ownership transfer requirements.

10.4 Securitization of Mortgage Loans

Law No. 06-05 (2006) on mortgage securitization conflicts with Sharia-compliant sukuk structuring, which requires tradable ownership units representing investment stakes (Ben Flami & Oukil, 2022, p. 77).

10.5 Civil Law Challenges

Although Islam is the state religion (Article 02 of the Constitution), the French-inspired Civil Code governs civil relations. Islamic finance contracts, including sukuk, lack specific recognition.

10.6 Capital Market Regulations

Legal and procedural delays in the development of Algeria's stock exchange and Securities Commission have hindered sukuk implementation (Bada & Ghazal, 2021, p. 45).

10.7 Lack of Sharia Standards for Sukuk Listing

Although the **National Sharia Board** exists, Regulation 20-02 does not address sukuk listing procedures. Approval from the Securities Commission is required, creating regulatory overlap (Ghazal, 2020, p. 11).

10.8 Absence of Islamic Insurance (Takaful)

Algerian legislation has historically restricted insurance to conventional models. Although Executive Decree No. 09-13 allowed mutual insurance companies, the development of Sharia-compliant Takaful institutions remains limited (Bada & Ghazal, 2021, p. 47).

11. Conclusion

Interest in Islamic banking has grown significantly in Algeria, evidenced by recent legislation promoting its development. However, the legal framework for issuing and trading sukuk remains incomplete. Key findings include:

- Issuing sukuk in Algeria requires specific legislation accounting for both Sharia and economic considerations.
- Sukuk issuance could revitalize and stimulate the Algerian stock market.
- Sukuk offer diverse structures, providing flexibility for different sectors and projects.
- Sukuk mobilize savings and promote investment consistent with faith-based principles.
- Sukuk finance the economy through genuine investment in new projects.

Recommendations

Based on the findings, the following measures are recommended:

- Introduce political will to incorporate sukuk into the Commercial Code and enable their trading on the stock exchange.
- Amend Regulation 20-02 to expand the range of Islamic banking products.
- Promote sukuk as a viable alternative to conventional bonds before issuance.
- Establish specialized institutes to train human resources in Islamic banking and finance.

Findings

- The adoption of Islamic sukuk in Algeria is hindered by the absence of a comprehensive legal, legislative, and regulatory framework.
- Regulations currently governing Islamic finance in Algeria (Reg. 18-02 of 2018 and Reg. 20-02 of 2020) exclude sukuk despite referencing Sharia-based contracts that underpin them.
- Institutional capacity is limited, with banks and financial practitioners lacking the necessary expertise in structuring and managing sukuk.
- Public awareness of sukuk as a financing and investment tool remains low, reducing demand and investor interest.
- Integrating sukuk could significantly contribute to financing Algeria's development projects, reduce reliance on conventional debt, and attract both domestic and international investors.

Ethical Considerations

This study was conducted in accordance with academic research ethics, ensuring objectivity, integrity, and respect for intellectual property. All sources used in this research have been appropriately acknowledged, and no data manipulation has occurred. The research does not involve human or animal subjects, thereby minimizing ethical risks.

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Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this paper.

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