

RESEARCH ARTICLE

Islamic Sukuk and their Developmental Role in the Economy – The Malaysian and Indonesian Experience as a Model"

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Abstract:

This study aims to analyze the role of Islamic sukuk as an effective tool for achieving sustainable economic development, focusing on the pioneering experiences of Malaysia and Indonesia. The Study's methodology relied on a descriptive-analytical approach to review the theoretical framework of sukuk, evaluate their contributions to development, and identify the challenges they face.

The study concluded that success in developing the sukuk sector depends heavily

on a strong governmental will, the establishment of an integrated legislative and regulatory framework, in addition to innovation in financial products, it also revealed a significant opportunity for Algeria to benefit from sukuk in financing vital projects such as infrastructure and renewable energy.

Keywords: Islamic banks, Sukuk, Islamic finance, Malaysia's, Indonesia's

JEL Classification Codes: G24 ;O11 ;F36 ;P
Islamic bonds also have importance at the macroeconomic level, as they can be used to finance budget deficits, stimulate financial markets, and fund development projects. They also contribute to achieving sustainable development and help realize Sharia objectives. Malaysia and Indonesia are leading examples in this field.

This study poses a central question: "To what extent have Islamic bonds contributed to economic development in Malaysia and Indonesia? And to what extent can Algeria benefit from these experiences?"

1. Introduction:

Islamic bonds (Sukuk) play a significant role in achieving economic development in many countries. They serve as a financing tool for development projects and infrastructure, as they are compliant with Islamic law (Sharia). Sukuk are characterized by their diverse types, such as Musharakah, Mudaraba, Salam, and others, opening up broad investment opportunities. This has strengthened the position of Islamic bonds as a primary financing instrument.

This central question is divided into the following sub-questions:

- What is the theoretical framework of Islamic bonds, including their concept, types, and characteristics?
- How have Islamic bonds (Sukuk) contributed to economic development in Malaysia and Indonesia?
- What are the most prominent challenges facing the development of Islamic bonds?
- What is the potential for Algeria to benefit from the Malaysian and Indonesian experiences in the field of Islamic bonds?

Study Hypotheses

Main Hypothesis: Islamic bonds contribute effectively to economic development by providing a Sharia-compliant financing mechanism for infrastructure and development projects.

Sub-Hypotheses:

- The Malaysian and Indonesian experiences are a leading model that can be utilized to enhance the role of Islamic bonds;
- Algeria's adoption of Islamic bonds as a financing tool can help diversify funding sources and address the budget deficit.

Study Objectives

This study aims to:

- Identify the current state of the Islamic bond industry globally and the extent of its development;
- Examine the experiences of Malaysia and Indonesia in using Islamic bonds;

- Evaluate the feasibility of adopting Islamic bonds in Algeria as a tool for economic development;

- Gain a detailed understanding of Islamic bonds through data collection and analysis.

Significance of the Study

The significance of this study stems from several aspects:

- It highlights Islamic bonds (Sukuk) as a modern financing tool and provides a comprehensive theoretical framework for their concept and types;
- It reviews two pioneering experiences (Malaysia and Indonesia), offering a practical model that other countries, including Algeria, can utilize in developing their Islamic finance sectors;
- It underscores the role of Islamic bonds in achieving sustainable development, financing major projects, and stimulating financial markets.

Study Methodology:

The study adopted a descriptive-analytical approach to provide a comprehensive overview of Islamic bonds by describing their theoretical framework and pioneering experiences, and analyzing their economic impact and challenges.

First Axis: The Theoretical Framework of Islamic Sukuk

1. The Concept of Islamic Sukuk

Sukuk represent certificates or securities of equal value or usufruct of a tangible asset, or the profit from a specific service or investment activity. Sukuk originated following a resolution by the Islamic Fiqh Academy in Saudi Arabia in 1988, and the first real

transaction based on Islamic securities took place in Malaysia in 1995 (**Elloumani, 2025**). The process of issuing Islamic sukuk is also called securitization, and was initially referred to by the terms securitization and securitization. This approach is based on Shariah Standard No. (17) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The International Islamic Fiqh Academy defined securitization as "the issuance of financial documents or certificates of equal value representing common shares in the ownership of existing assets (tangible assets, usufructs, rights, or a mixture of tangible assets, usufructs, and debts), which will be created from the proceeds of the subscription, and issued according to a Shariah contract and subject to its rulings." It can be said that they are documents of equal value representing common shares in the ownership of tangible assets, services, or assets of a specific project or investment activity, after the value of the sukuk has been collected, the subscription period has closed, and they have begun to be used for their intended purpose (**Tarfaya & Qwaideri, 2023, p. 74**). The Islamic Financial Services Board (IFSB), based in Malaysia, defined sukuk as: "Certificates, each sukuk representing an ownership right to a common percentage in tangible assets, or a diverse group of tangible and other assets. These assets may be in a specific project or investment activity, in accordance with the provisions of Sharia." . (**Aijouli, 2019, p. 316**)

Therefore, it can be said that Islamic sukuk are financial instruments representing shares in the ownership of an asset or investment project. They differ from conventional bonds in that their return is based on profit and loss, not on a fixed interest rate, thus making them

compliant with the provisions of Islamic Sharia.

2. Stages of the Securitization Process

The securitization process takes place through multiple stages and overlapping steps that may not follow a uniform sequence. Each sukuk structure has its own specific steps. In general, these stages can be summarized as follows:

2.1. Asset Collection Stage: This stage represents the phase in which the asset owner gathers their various assets, such as different types of loans and leased properties, into a securitization portfolio, intending to liquidate them by selling them to investors after converting them into investment instruments.

2.2. Asset Transfer Stage: From the originator to the special purpose vehicle (SPV).

2.3. Asset Securitization Stage: In this stage, the SPV undertakes the following procedures: (**Sara Zaitri, 2020, p. 357**)

- Reconvert and dividing the assets into units to meet the needs of investors in the economic sphere, such as separating the loan unit;
- Converting the assets into equal-value, tradable instruments with a fixed periodic return;
- Selling the instruments to investors.

2.4. Sukuk Redemption Stage: This means replenishing the loans or bond value through annual payments from the depreciation fund. This is achieved through:

- Distributing the project's proceeds to the sukuk holders in a single payment;

- Liquidating the project, which involves selling it and converting it into cash, after which each sukuk holder receives their share.

3. Characteristics of Islamic Sukuk

Islamic sukuk are characterized by several features, which can be explained as follows: **(Elham, 2021, p. 207)**

- Sukuk are issued in equal values to enable investors to own equal shares in specific assets or projects;
- Sukuk grant the holder ownership rights to a portion of the assets or holdings for which they are issued, whether tangible assets, usufruct rights, services, or a combination thereof;
- Their issuance and trading are governed by Sharia principles and rules, ensuring they are free from usurious transactions;
- The return on sukuk is based on the principle of profit and loss sharing, where the sukuk holder bears the risks in proportion to their ownership in the project;
- Most types of sukuk can be traded in financial markets, providing liquidity for investors.

4. Types of Islamic Sukuk:

Classify sukuk according to There are multiple criteria, but in this study, the focus will be on the classification based on the return criterion, according to Shariah Standard No. 17 issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

4.1. Fixed-Return Sukuk

Islamic sukuk are primarily classified according to return into two types: **(Zamouli Henda, 2021, p. 201)**

4.1.1. Tradable Sukuk: These include three types:

- Mudaraba Sukuk: These are securities of equal value issued to finance a specific investment. The capital becomes a shared asset between the sukuk holders and the underwriter, who jointly bear potential losses and receive a share of the agreed-upon profits.

- Ijara Sukuk: Also known as leasing sukuk, this is a Shariah-compliant financial instrument and represents an alternative to conventional bonds. It is issued in equal values by the owner of the leased asset, granting its holders ownership of this asset and the right to receive its rental income.

- Musharaka Sukuk: These are sukuk of equal value representing projects or activities issued by an investment agent appointed as a mudarib (manager) to manage the investment on behalf of the sukuk holders in exchange for a share of the profits. A percentage of profits.

4.1.2. Non-tradable Sukuk: These include three types:

- Salam Sukuk: These are Sukuk representing ownership in capital used to finance the purchase of a commodity to be received in the future. They cannot be traded until the commodity is received;

- Istisna' Sukuk: These are securities issued to finance the manufacturing of a product with specific specifications, where the manufacturer commits to delivering it within an agreed-upon timeframe;

- Murabaha Sukuk: These are issued to finance the purchase of a specific commodity, and this commodity becomes the property of the Sukuk holder.

4.2. Variable Return Sukuk

- **Muzara'a Sukuk:**
These are equal-value certificates used to finance agricultural projects. Sukuk holders are entitled to a share of the agricultural output according to the terms stipulated in the contract.
- **Musaqat Sukuk:**
These are also equal-value certificates employed in financing agricultural projects. Holders receive a portion of the crop yield as specified in the contractual agreement.
- **Investment Agency (Wakala bi al-Istithmar) Sukuk:**
These are equal-value certificates issued on the basis of partnership, representing projects or activities managed by an appointed agent (Wakeel) who is responsible for investing the funds on behalf of the Sukuk holders.
- **Islamic Green Sukuk:**
These are conventional Sukuk instruments specifically dedicated to financing environmentally friendly projects, such as renewable energy and energy efficiency initiatives. They comply with both green bond principles and Shariah requirements.
- **Sustainability Sukuk:**
The proceeds of these Sukuk are allocated to financing a combination of green and social projects that comply with Shariah principles, in accordance with sustainability bond guidelines.
- **Social Sukuk:**
These Sukuk are used to finance or refinance Shariah-compliant social projects and adhere to the principles of social bonds (Bank, 2024).

Axis Two: The Relationship between Islamic Sukuk and Economic Development

1. The Role of Sukuk in Financing Economic Development

The economic role of Islamic Sukuk can be summarized as follows (Brahim & Qasham, 2020, p. 446):

- **Financing major development projects:**
Sukuk contribute to mobilizing savings for financing large-scale infrastructure projects, such as roads and bridges. This instrument is particularly suitable for long-term financing.
- **Risk sharing and profit realization:**
Sukuk enable the distribution of risks among all stakeholders through the principle of profit-and-loss sharing, ensuring that each party receives a fair share of the actual profits generated by the project.
- **Macroeconomic support:**
Governments can use Sukuk to cover public budget deficits, while central banks may employ them to absorb excess liquidity in the market, thereby helping to combat inflation.
- **Supporting Islamic banks:**
Islamic Sukuk play a vital role in enhancing the efficiency of Islamic banks by helping them match assets and liabilities, provide necessary liquidity, diversify funding sources, and improve profitability and financial positions (Mostafa & Saadia, 2017, p. 73).
- **Financing public budget deficits:**
Budget deficits occur when public expenditures exceed government revenues due to rising needs. Islamic Sukuk represent a suitable alternative for financing such deficits compared to conventional financial instruments, which may increase public

expenditures and generate inflationary pressures. Sukuk offer several advantages, including (Abbas, 2025, p. 54):

- Reducing budget deficits and lowering government financing needs, thereby freeing resources for allocation to other sectors;
- Attracting funds from outside the banking system and the informal sector into the formal economy;
- Enhancing liquidity management within the national economy, contributing to financial stability.

2. Development of Islamic Sukuk in the Global Economy

Islamic Sukuk issuances are no longer a controversial topic globally; rather, they have become a preferred and highly competitive financing instrument among both Muslim and international investors. Sukuk have experienced significant development and have become the primary choice for financing large-scale infrastructure projects in money and capital markets. They have maintained their attractiveness and capacity to support economic stability, even amid challenges posed by the monetary policies of major central banks such as the U.S. Federal Reserve and the European Central Bank, owing to their economic efficiency and adherence to Shariah principles (Hafidh & Henda, 2021, p. 201).

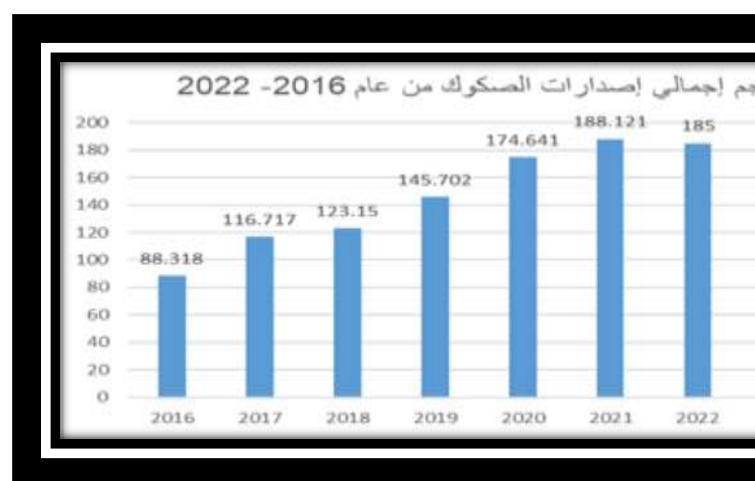
The total outstanding global Sukuk reached **USD 742.3 billion in 2022**, while total Sukuk issuances amounted to **USD 185.0 billion** in the same year. In 2021, outstanding Sukuk totaled **USD 695.1 billion**, with global Sukuk issuances (both long-term and short-term)

reaching **USD 188.121 billion**. Issuances amounted to **USD 174.641 billion** in 2020, **USD 145.702 billion** in 2019, **USD 123.150 billion** in 2018, **USD 116.717 billion** in 2017, and **USD 88.318 billion** in 2016.

The five leading countries in Sukuk issuance are **Malaysia, Saudi Arabia, Indonesia, Turkey, and Kuwait**, which together accounted for **90% of total issuances in 2021**, driven mainly by the recovery of issuances in Malaysia and Indonesia.

The factors contributing to the decline in Islamic Sukuk issuances in recent years include reduced liquidity and increased funding costs, urgent financing needs, regulatory requirements, and the outbreak of the COVID-19 pandemic.

Figure (1): illustrates the total volume of Sukuk issuances in billion U.S. dollars during the period 2016–2022.



Source : Farid Ahmad Heravi & Ashurov Sharofiddin : Issuing Sukuk and its Role in Economic Development in Afghanistan, International Journal of Al-Turath In Islamic Wealth and Finance, vol4, No2, 2023,p38.

Third Axis: Challenges of Developing Islamic Sukuk and Future Visions

1. Challenges of Developing Islamic Sukuk

Despite its importance, the sukuk market faces major challenges that hinder its growth. One of the most prominent of these challenges is the lack of standardization. Sukuk structures (such as ijara (leasing) and musharaka (profit-and-loss sharing partnership)) vary based on Sharia principles, creating difficulty in comparison and evaluation for investors and reducing their attractiveness. A second challenge is weak liquidity, as the sukuk market lacks an active secondary market compared to conventional bonds. This makes it difficult for investors to sell their sukuk before maturity, limiting the investment's appeal. To overcome these obstacles, efforts must be made to standardize and enhance secondary market activity, which will unlock the full potential of the sukuk market (**Zaman, 2025**). Some of these challenges are summarized below:

- Sharia Differences: Sukuk face criticism and doubts regarding the compliance of some issuances with Sharia, which affects investor confidence and reduces demand.

- Lack of a Legislative Framework: There is no unified legal and regulatory framework governing sukuk issuances and resolving Sharia disputes, causing ambiguity in the market.
- Rating and Supervision Costs: Issuing sukuk requires a credit rating from international agencies and consultations from institutions such as the International Monetary Fund. These procedures are costly and reduce expected returns for investors.

- Lack of Transparency: Some issuances suffer from a lack of transparency, necessitating a credit rating to mitigate risks and increase investor confidence.

- Shortage of Qualified Personnel: The Islamic finance industry suffers from a shortage of trained and qualified human resources to handle sukuk, posing a threat to operational processes and hindering the sector's growth.

2. A Future Vision for Developing Islamic Sukuk

Faced with the challenges confronting global financial markets, Islamic sukuk have emerged as a robust and sustainable financial model. Future projections indicate increasing global demand for them, not only in Islamic countries but also in the West. To capitalize on this opportunity, sukuk must be developed through several key pillars, the most important of which are:

- Enhancing Documentation, Disclosure, and Supervision: This requires ensuring full compliance with Sharia principles in all transactions and providing investors with transparent and complete financial information and data. This full disclosure enables savers to make informed investment decisions based on the true financial health of institutions. Consequently, market confidence increases and oversight is strengthened, protecting investors' funds and supporting the stability and growth of the sukuk market.

- Establishing an efficient Islamic financial market: A specialized Islamic financial market should be established, enabling financial institutions to market their products and secure the necessary liquidity. This market should be deep and broad to facilitate the monetization of sukuk, attract a wider investor base, and ensure fair pricing of financial products, thus contributing to the optimal allocation of resources.

- Providing integrated information centers: It is essential for the Islamic financial system to have reliable information centers that provide accurate data on investment opportunities, company performance, market prices, and competitors. This information helps decision-makers make sound financial decisions and enhances overall market efficiency.

- Excellence in serving the community: Islamic banks should offer innovative sukuk that leverage concepts such as zakat, waqf, and sadaqah to finance charitable and benevolent sectors. This approach allows banks to excel in serving the community and meeting its developmental and social needs, thus enhancing their positive role in the economy and society. (Amara, 2011, pp. 258-259)

Fourth Axis: Pioneering Experiences in Islamic Sukuk

Malaysia and Indonesia are among the most prominent countries that have successfully adopted Islamic sukuk. They began using sukuk in the 1980s and have become one of the largest sukuk markets in the world. Their successful experiences have contributed to the development of a strong legal and regulatory framework for the sukuk market.

1. The Malaysian Experience:

Malaysia is a leading country in Islamic financial markets, having gained this position after implementing reforms at the local level. Islamic sukuk are considered among the important securities due to the significant role they play in financing and supporting various types of investment projects. (Fatna, 2017, p. 61)

First: The Development of Sukuk Issuance in Malaysia:

Malaysia has become a major destination in the developed world economy, attracting the attention of Muslim and foreign investors in the sukuk sector. Malaysia is a global leader in this field, particularly in financing infrastructure projects for both the public and private sectors.

This leadership stems from strong government support for Islamic finance, which encourages companies and institutions to utilize the sukuk market to secure necessary funding. Statistics show that Malaysia has consistently ranked first globally in sukuk issuance for several years. According to data, its issuances between 2016 and 2021 accounted for approximately 48% of total global issuances, underscoring its leadership and significant influence in this market.

Table (1): Shows the total global issuance volume for Malaysia

Years	2016	2017	2018
Total global issuance volume	88	116.7	123.2
Malaysia's issuance percentage	41.1	51	41

Source: Farid Ahmad Heravi & Ashurov Sharofiddin: Issuing Sukuk and its Role in Economic Development in Afghanistan, International Journal of Al-Turath in Islamic Wealth and Finance, vol. 4, No. 2, 2023, p. 37.

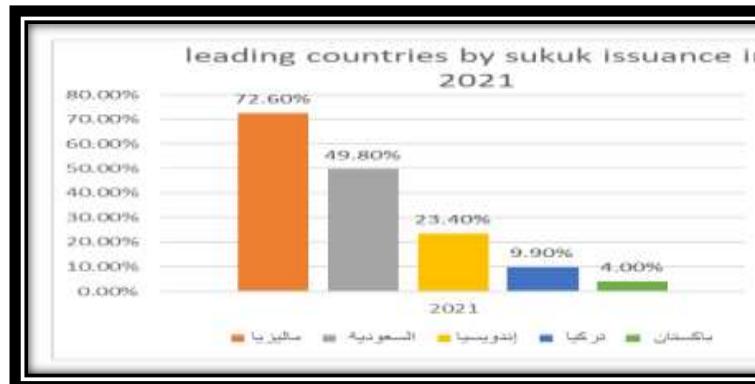
Second: The volume of Islamic bond issuance in Malaysia:

Malaysia maintained its dominance in the global sukuk market, accounting for 50.5% of global sukuk issuance, followed by Saudi Arabia (19.9%), during the first half of 2018.

Malaysia maintained its position as the world's largest issuer of sukuk, with a 41% market share, up from 33% a year earlier. It issued US\$22.4 billion worth of sukuk during the period, a 9% increase compared to the first half of 2017. This increase reflected a surge in corporate issuance across a wide range of sectors, as well as a rise in the volume of short-term Islamic treasury bills issued by the Central Bank of Malaysia.

The Malaysian domestic sukuk market continues to serve as a vital platform for government entities and corporations to raise long-term funds to meet their economic, commercial, and infrastructure development needs. In the first half of 2018, government and corporate sukuk issuances reached RM99.36 billion, representing 52.02% of total bond issuances, compared to RM79.01 billion in the first half of 2017. The total outstanding sukuk stood at RM818.41 billion, or 59.59% of total outstanding bonds, compared to RM718.41 billion in the first half of 2017 (**Zian, The Reality of Issuing and Trading Islamic Sukuk – The Malaysian Experience as a Model, 2020**). This is in line with the National Economic Transformation Program, which aims to transform Malaysia into a high-income country by 2020, and also seeks to increase Islamic banking assets to 40% of the total financial industry by 2020. (**Maryam, 2021**) Malaysia was the leading country in sukuk issuance globally in 2021, accounting for 72.6% of total issuances. Saudi Arabia came in second with 49.8%, followed by Indonesia with 23.4%, then Turkey with 9.9%, and finally Pakistan with 4.0%. (**Sharofiddin, 2023**)

Figure 2: Represents the leading countries in Islamic sukuk issuance



Source: Farid Ahmad Heravi & Ashurov Sharofiddin: Issuing Sukuk and its Role in Economic Development in Afghanistan, International Journal of Al-Turath in Islamic Wealth and Finance, vol. 4, no. 2, 2023, p. 38.

2. Indonesia's Experience:

Indonesia ranks third globally in terms of total cumulative sukuk issuances, with a value of **\$98.91** billion between **2001** and **2019**. Although it doesn't rank first, it is considered a pioneering and successful experience in this field. The total issuance of Islamic bonds (Sukuk) in Indonesia during the period mentioned can be summarized in the following table:

Table No. (2): Total Islamic Bonds in Indonesia during the period 2014-2019

Years	2015	2016	2017	2018	2019
Value	3.85	14	21	16.4	19.51

Source: Nashashda Shahrazad: Arab and International Experiences in Developing the Use of Sovereign Sukuk, Al-Ibdaa Magazine, Volume 12, Issue 1, 2022, p. 289.

Regarding Islamic bond issuances in Indonesia, the table shows that 2016 witnessed a significant leap, with the volume of issuances increasing from \$3.58 billion to \$14 billion, more than fourfold. This growth

continued in 2017, reaching \$21 billion, the highest value recorded during the study period, \$7 billion more than the previous year.

However, 2018 saw a decline in issuances, reaching \$16.4 billion. The market recovered and rebounded in 2019, registering \$19.51 billion. (Shahrzad, 2022, p. 289)

2. Financing Indonesia's Budget Deficit Through Islamic Bonds (Sukuk) During the Period 2008-2020

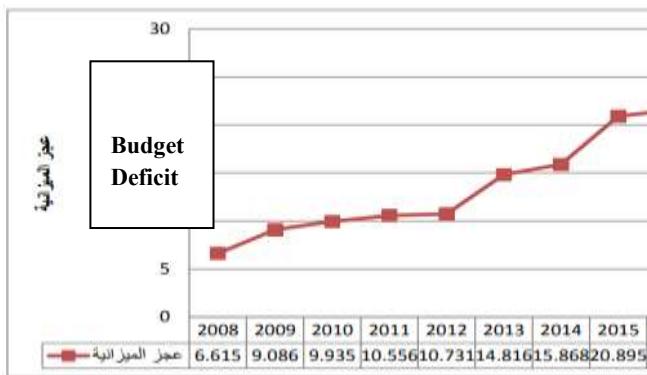
In 1997, Indonesia faced a severe crisis that led to a significant depreciation of the Indonesian Rupiah against the US dollar, exacerbating government spending and increasing the size of its external debt and debt servicing costs. All these factors contributed significantly to the worsening budget deficit of the Indonesian government. The period from 2008 to 2020 generally saw fluctuations in the budget deficit, but the period from 2008 to 2012 witnessed a remarkable degree of stability due to the Indonesian government's adoption of a fiscal policy aimed at boosting economic growth and increasing infrastructure spending. This period also saw a sharp rise in global oil prices, which positively impacted the Indonesian economy. Furthermore, the sources of financing the budget deficit during this period consisted of issuing currency, external debt, and government securities. In 2008, the issuance of Islamic bonds (sukuk) reached a value of US\$0.32 billion, and this value continued to increase until it reached US\$3.9 billion in 2012. Conversely, the period from 2016 to 2020 witnessed a significant increase in the budget deficit, reaching approximately US\$25.9 billion, with a considerable increase in the volume of Islamic bonds, estimated at US\$25.7 billion during 2020. The credit rating agency Moody's Investors Service stated that the value of

Indonesian sukuk issuance (Islamic debt securities) would increase to US\$27 billion in 2020, compared to US\$16 billion in 2019, as the government sought to finance its efforts to combat the COVID-19 pandemic. (Samia, 2022, p. 210)

Therefore, it can be said that the problems resulting from the COVID-19 pandemic led to a more than 40% increase in sovereign sukuk issuances in 2020 compared to 2019. The Director of Islamic Finance at the Indonesian Ministry of Finance, Dwi Arianti Hediningsih, said on Wednesday, August 12, 2020: "Sukuk issuance for 2020 will be higher than it was in 2019, as the government will need to finance the expanded state budget and the National Economic Recovery Program (PEN)." Ministry data shows that the government issued a total of \$16.34 billion in local sukuk starting from August 3, 2020, while sukuk issuance in 2019 amounted to \$17.82 billion. In July 2020, the government also issued global sukuk consisting of three tranches to help finance losses resulting from the COVID-19 crisis, estimated at \$2.5 billion. Subscriptions to the issuance exceeded expectations.

The issuance of Indonesian sukuk reached \$16.66 billion, 6.7 times the target set, reflecting the strong appeal of Indonesian sukuk to foreign investors.

Figure 3: Development of the Indonesian Budget Deficit during the period 2008-2020



Source: Jadini Samia: Sovereign Sukuk as a Mechanism for Reducing the Budget Deficit in Indonesia during the period (2008-2020), Journal of Economics and Finance (JEF), Volume 8, Issue 1, 2022, p. 211.

3. Indonesia's Sovereign Sukuk Issuance to Finance Budget Deficit in the First Quarter of 2021:

Due to its need to finance the 2021 budget deficit, the Indonesian government plans to issue bonds and sukuk worth US\$83.30 billion – a 2.5% increase from last year's US\$81.22 billion in bonds and sukuk. 30% of the 2021 issuance will consist of at least US\$25 billion in international sukuk, US\$0.96 billion in non-tradable domestic sukuk issued twice monthly, and cash-linked retail sukuk. The actual issuance amount will depend on the government's deficit financing needs.

Unlike last year, in 2021 the sukuk will be sold through an online platform, as domestic investors are accustomed to purchasing domestic sukuk online, and this platform facilitates the sale of government debt amidst the COVID-19 pandemic. The Indonesian government anticipates GDP growth of 5% in 2021 and a budget deficit of 5.7% of GDP. The World Bank, on the other hand, projects Indonesia's GDP growth of 4.4% in 2021 in its

January 2021 World Economic Outlook report. (Samia, 2022, p. 212)

These countries have successful experiences in using Islamic bonds (Sukuk) to finance various economic and developmental needs, and can serve as a source of inspiration and learning for other countries considering adopting this financial instrument.

Fifth: The extent to which Algeria can benefit from the application of Islamic bonds and enhance economic development:

One of the priorities of the Algerian state is to support economic and social development through development programs on which it spends substantial sums. This necessitates the search for other means of economic growth, which in turn leads it to seek financial resources to cover its various expenditures, namely the issuance of Islamic bonds.

This latter option is available through the issuance of Islamic bonds. 1. Islamic Bonds in Algeria

Despite the growing importance of Islamic bonds (sukuk) as a global tool for financing investment and economic development, this instrument remains absent from the Algerian financial market, both at the governmental and private levels.

This absence comes at a time when previous attempts by the Algerian government to mobilize domestic savings have failed. In 2016, the government launched "Economic Growth Loan Bonds" with interest, but these did not gain widespread public acceptance due to the perceived "usury" associated with interest, resulting in a resounding failure to achieve their objectives.

In contrast, Islamic bonds represent an ideal solution for Algeria. They are more suitable

and effective in attracting financial resources from both domestic and international markets, particularly as they can attract billions of dollars circulating outside official channels (estimated at around \$40 billion), in addition to household savings, thus contributing significantly to boosting GDP.

Sukuk are characterized by their diverse structures, such as murabaha, ijara, and musharaka, providing considerable flexibility to finance a wide range of development projects, especially large-scale infrastructure projects. It is also a low-risk instrument because it is linked to real assets, and it provides a rewarding return for investors without falling into the prohibited practice of usury (riba).

Furthermore, Algeria can issue international sovereign sukuk to attract foreign capital, especially from Gulf and Asian countries with financial surpluses, thus providing an effective alternative to external borrowing. This instrument could also be a catalyst for revitalizing the Algiers Stock Exchange, which has suffered from stagnation since its inception. (**Sonia and Mounira, 2019, p. 12**)

2. Challenges and Success Factors of the Islamic Sukuk Industry in Algeria

The adoption of Islamic sukuk in Algeria faces several challenges that require addressing for this experiment to succeed. These challenges are highlighted in key points, while specific factors are proposed to ensure its success.

2.1. Key Challenges to Adopting Islamic Bonds in Algeria

The most prominent challenges facing Algeria in adopting Islamic bonds can be summarized

in the following points (**Tariq & Saleh, 2024, p. 174**):

- The political leadership lacks the necessary courage to make effective decisions aimed at activating Islamic finance instruments, such as sukuk. This absence constitutes a major obstacle to launching these initiatives;
- The legal nature of Islamic bonds requires specific legislation tailored to their various types and contracts to avoid falling into Sharia-related pitfalls;
- There is insufficient information about sukuk and Islamic financial products. This lack of information hinders their understanding and acceptance by investors and the public, thus affecting their ability to achieve success in the market;
- Financial institutions face a severe shortage of qualified personnel in the field of Islamic finance transactions. This shortage impedes the effective development and implementation of Islamic financial products;
- There is no effective cooperation or strategic partnership with specialized international Sharia bodies. This isolation prevents benefiting from global expertise and best practices, limiting the ability to develop a robust Islamic financial system.

2.2. Key Factors for the Success of Islamic Bonds in Algeria

To ensure the success of Islamic bonds and their effective role in the Algerian financial market, a supportive environment must be provided, based on three main pillars:

- Developing a comprehensive legislative and regulatory framework: It is essential to enact specific legislation and laws that precisely regulate the securitization process, while clearly defining the powers of judicial bodies

to guarantee the protection of the rights of bondholders.

. This framework aims to emphasize the complete legitimacy of these financial instruments, preventing confusion or imitation with conventional bonds and strengthening investor confidence;

- Establishing a culture of Islamic investment: It is essential to build comprehensive financial awareness about Islamic instruments. This requires intensive awareness campaigns targeting various economic actors, along with integrating Islamic finance concepts into academic curricula at universities and educational institutions. This approach contributes to creating a generation of investors and financial analysts knowledgeable in this field;

- Relying on specialized Sharia expertise: Available Sharia expertise should be utilized, such as that of the High Islamic Council, to ensure that sukuk comply with the principles of Islamic law. This collaboration gives sukuk strong Sharia credibility, a crucial factor in attracting investors who wish to invest according to Islamic principles.

2. Algeria: Efforts and Promising Prospects for the Islamic Banking Sector:

Among the projects that could be envisioned as being financed using Islamic sukuk are, for example: (**Malak & Boukhari, 2021, p. 176**)

3.1. Investing in the tourism sector (establishing a tourist resort): Tourism is one of the fastest-growing industries in the world, and Algeria is well-positioned to capitalize on it. This trend has become a near-practical reality following the establishment of the investment company "A.O.M." listed on the Algiers Stock Exchange. This company specializes in studies of tourist destinations

and the development and operation of thermal tourism projects. It is seeking to issue its first equity bonds in the form of sukuk (Islamic bonds) worth 2.5 million bonds with a nominal value of 1,000 Algerian dinars each. This follows its fulfillment of the legal requirements and the approval of the Stock Exchange Operations Regulation and Supervision Commission in July 2020 and the certification of the High Islamic Council in September 2020. The process now awaits approval from the Ministry of Finance before being offered for subscription through banks and financial institutions.

3.2. Establishing industrial, agricultural, or import/export projects: The state conducts feasibility studies for these projects, announces them, and issues bonds of equal value, the total of which equals the required project capital. If all the bonds are sold, the state acts as the investment manager, sharing in the profits at a predetermined percentage specified in the prospectus. If any bonds remain unsold, the state takes them, becoming both a partner and investment manager. The funds raised from the bonds are used to establish the project or acquire industrial production equipment. A portion of the proceeds is exported, or the necessary goods and materials are imported and then sold to companies and institutions on installment plans, generating profits distributed according to the percentage allocated to each bond.

3.3. Investing in the agricultural sector (revitalizing and reclaiming uncultivated land): The agricultural sector is crucial for achieving economic development, as it contributes to self-sufficiency and exports. Algeria imported \$2.415 billion worth of food in 2020. To enable this sector to play its essential role in eliminating dependency, it can be financed through Islamic bonds (Sukuk).

These instruments mobilize existing but untapped savings held by individuals. An Islamic bank or agricultural company, for example, can issue Sukuk after conducting a feasibility study for the project. Once the cost is determined, the company divides it into equal units, represented by Sukuk, which are then offered for subscription and trading.

Conclusion:

This study concluded that Islamic bonds are an innovative and effective financial instrument that has proven its ability to achieve sustainable economic development. A review of the pioneering experiences in Malaysia and Indonesia revealed that success in this field depends on strong political will, a comprehensive legislative and regulatory framework, and innovation in Sukuk products that align with market needs. Despite the challenges facing the sukuk sector, such as differing Sharia principles and the lack of a unified legislative framework, it remains a vital tool for financing major development projects and addressing budget deficits.

In the Algerian context, the study demonstrates significant potential for utilizing Islamic bonds (sukuk) as a tool to diversify funding sources, particularly in vital sectors such as infrastructure, agricultural investments, tourism investments, and small and medium-sized enterprises (SMEs). Achieving this objective requires concerted efforts to establish a conducive legal and Sharia-compliant environment, develop human resources, and provide incentives for issuers and investors.

Therefore, the study recommends that Algeria learn from the Malaysian and Indonesian experiences. It also recommends:

- Establishing independent legal bodies to serve as authorities for issuing fatwas (religious rulings) related to sukuk;
- The government should amend existing banking and financial laws to remove obstacles to sukuk issuance;
- Proposing specific types of sukuk that Algeria can begin with, such as ijara sukuk for financing infrastructure projects and sovereign sukuk for financing budget deficits.
- Launching awareness campaigns targeting investors and the private sector, in cooperation with banks and universities, to increase awareness of sukuk and their advantages.
- The possibility of using green sukuk to finance renewable energy projects in Algeria;

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