

RESEARCH ARTICLE

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The role of Islamic Sukuk in financing development projects: Presenting leading experiences

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Abstract:

This study aims to highlight the role of Islamic sukuk as an effective instrument for financing development projects, relying on the descriptive-analytical approach through presenting the concepts related to Islamic sukuk and analyzing the reality of the experiences of pioneer countries that have adopted sukuk in financing various development projects. The study concludes that Malaysia, Saudi Arabia, and Sudan are successful and leading countries in the Islamic sukuk industry, as they have effectively utilized sukuk to provide the necessary financing to support development projects. Furthermore, the study reveals an urgent need to adopt Islamic sukuk in Algeria, particularly in light of the massive development projects that require financing compatible with the nature and operational principles of Islamic sukuk. Accordingly, the study recommends that Algeria benefit from these experiences by developing an appropriate legislative, regulatory, and institutional framework that would enable the adoption and activation of Islamic sukuk and direct

them toward supporting the path of economic development.

Keywords: Islamic Sukuk; Financing; Development Projects

JEL Classification Codes: G23; G20; O22.

1. Introduction:

Islamic sukuk have become one of the most important modern financial instruments adopted by countries and institutions to enhance development financing, owing to their ability to mobilize savings and channel them toward real, asset-backed investment projects in a manner consistent with the objectives of Islamic Sharia. This instrument has emerged prominently in the experiences of countries such as Malaysia, Saudi Arabia, Sudan, and the United Arab Emirates, where it has contributed to financing strategic projects related to infrastructure, energy, transportation, and public services. As a result, Islamic sukuk have come to represent a financing model capable of supporting sustainable development plans. In light of the needs of the Algerian economy and the challenges associated with financing large-scale projects, Islamic sukuk appear

as a promising option for transforming the financial system toward more effective, efficient, and economically responsive alternatives.

1.1. Research Problem :

Based on the above, the following research problem can be posed :

What role do Islamic sukuk play in financing development projects ? And how can Algeria benefit from leading international experiences in this field to integrate Islamic sukuk into its financial market in a way that ensures the diversification and expansion of financing sources and the achievement of sustainable development ?

1.2. Research Hypotheses: To answer the research problem, we propose the following main hypothesis:

The success of Islamic sukuk in financing development projects depends on the availability of an appropriate legislative and regulatory environment, as well as on drawing lessons from international experiences that have demonstrated the ability of sukuk to finance infrastructure projects efficiently and at a lower cost compared to conventional financing mechanisms.

1.3. The importance of the study: The importance of this study stems from the growing significance of Islamic sukuk in the economy as a financing instrument capable of providing the necessary funding through various maturities and structures that meet the needs of financed projects. In addition, development projects represent a missing link in many economies, as most countries seek to ensure adequate and sustainable financing for such projects.

1.4. Study Objectives: This study aims to:

- Clarify the concept, characteristics, and economic importance of Islamic sukuk.

- Analyze the experiences of four leading countries in issuing sukuk and financing their investment projects.
- Highlight Algeria's motivations for adopting this financing instrument and its potential advantages.
- Identify the challenges hindering the local integration of Islamic sukuk.
- Propose the necessary requirements and recommendations for activating Islamic sukuk in the Algerian financial market.

1.5. Study Methodology: This study adopts the descriptive-analytical approach by examining the theoretical concepts related to Islamic sukuk, in addition to employing the comparative approach to analyze international experiences in the sukuk industry and compare them with the situation of the Algerian financial market, in order to assess the applicability of these experiences to financing development projects in Algeria.

I. The Theoretical Framework of Islamic Sukuk

Islamic Sukuk are distinguished by being free from interest, unlike traditional bonds which depend on a fixed interest rate and are considered prohibited interest, because they are done by exchanging present cash for future debt with an increase, which made the latter impermissible in Islamic law, and encouraged the emergence of Sukuk as a legitimate alternative instrument in the Islamic economy.

1. Definition of Islamic Sukuk

There are numerous technical definitions of Islamic sukuk, but they all address the same concept. Some of these definitions are as follows:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines sukuk as: "Documents of equal value representing common shares in the ownership of assets, usufructs, services, or the assets of a

specific project or investment activity, after the sukuk's value has been collected, the subscription period has closed, and it has begun to be used for its intended purpose¹.”

Munther Qahf defines them as: “The use of income-generating assets as collateral or a basis for issuing sukuk, which are themselves considered financial assets².”

As for Ashraf Dawaba, he defined Islamic Sukuk as: “Documents of equal value representing common shares in specific assets that are permissible under Islamic law, issued according to Islamic financing formulas, and on the basis of profit and loss sharing and adherence to Sharia principles³.”

2. General Characteristics of Islamic Sukuk

Islamic Sukuk possess unique characteristics that make them attractive to Sharia-compliant investors. They offer significant flexibility in meeting the diverse needs of various projects and economic sectors while maintaining adherence to Sharia principles. The most important distinguishing characteristics of Islamic Sukuk can be summarized as follows:

¹ Accounting and Auditing Organization for Islamic Financial Institutions, Sharia Standards, Manama, 2017, p417.

² Munther Qahf, Lease Bonds and Leased Assets, Jeddah, Saudi Arabia: Islamic Research and Training Institute (Islamic Development Bank) ,2000, p34.

³ Ashraf Muhammad Dawaba, Islamic Bonds: Between Theory and Practice, First Edition, Cairo, Egypt, Dar Al-Salam, 2009 ,p 20.

2.1 By Nature and Legal Form⁴:

- These are financial instruments of a uniform value, issued in the holder's name. These instruments represent an ownership share for their holder in the assets or holdings upon which the instruments are based;

- They represent a common share in the ownership of assets allocated and directed towards investment, whether tangible assets, usufruct rights, services, or a combination thereof, along with intangible rights, debts, and cash. They do not represent a debt owed by the issuer to the holder;

- They are issued based on a Sharia-compliant contract, with Sharia-compliant regulations governing their issuance and trading.

2.2. According to profits and generated returns⁵:

- Holders of sukuk benefit from its profits according to the terms specified in the issuance document, and in return, they bear losses proportionate to their respective shares in these sukuk;

⁴ Azhar Alam, Ririn Tri Ratnasari, Isnani Latifathul Jannah and Afief El Ashfahany (2023). Development and evaluation of Islamic green financing: A systematic review of green sukuk. Environmental Economics, 14(1), 62.

⁵ Afifatun Ni'mah et al., Determinants of Corporate Bond and Sukuk Ratings in Indonesia, Journal of Islamic Monetary Economics and Finance, 6(3), 2020, p 689.

- The financial return from sukuk is considered legitimate profit, not prohibited interest.

2.3. According to compliance with Sharia requirements:

- It is subject to the provisions of Islamic Sharia in general, and it is traded by any means of trade that are permissible in Sharia and law.

2.4. According to Economic Importance:

An analysis of the characteristics of this instrument from an economic perspective

- Islamic Sukuk are an effective tool used to develop financial markets in order to serve the objectives of financial banking, as well as to provide Islamic banking and investment services that satisfy the choices and desires of savers¹.

Therefore, based on the unique characteristics of Islamic Sukuk compared to other financial instruments traded in the traditional financial market, particularly stocks and bonds, we have decided to create a table highlighting the most important fundamental differences between these instruments, as follows:

Table (01): Key Differences Between Islamic Sukuk, Stocks, and Bonds

| Comparison points | Islamic Sukuk | Stocks | Bonds |
|--------------------|---|--|--|
| Nature of the tool | It does not represent a debt owed by the issuing entity, but rather expresses an undivided share in the ownership of specific assets related to the project or activity being financed. | It represents an ownership stake in the company. | It represents a debt owed by the source. |
| Guarantee | Ensuring ownership rights in related assets or projects, while establishing a structure that strengthens the associated safeguards. | Not guaranteed | Unsecured, except in certain cases that include guarantees such as mortgages or secured debt instruments |

¹ Shawaqfeh, G, The Role Of Islamic Sukuk "Bonds" In Providing Government Investment Needs, International Journal Of Business And Management Review, 7(2), March, 2019, P 16.

reveals a number of features that make it a preferred option in Islamic and global financial markets. These are summarized below:

- Islamic Sukuk (Sukuk) are an effective investment and financing tool that contributes to achieving economic and developmental goals. They are among the most widely used mechanisms for enhancing liquidity management and economic development in societies.

| | | | |
|-----------------------|--|--|-------------------------------------|
| Principal and returns | The principal amounts and returns or profits are not guaranteed by the issuers | Not guaranteed by the issuers | Guaranteed by the issuers |
| Trading | Trading in Islamic Sukuk is based on the actual ownership of the bondholders in the assets or projects associated with them. | Selling shares in companies | Bonds are tradable debt instruments |
| Purpose | Issued by government agencies or companies, the funds are invested in real assets or Sharia-compliant projects | Shares and bonds can be issued for general financing purposes without the requirement to adhere to Islamic Sharia principles | |

Source: Islamic Financial Services Board report on capital adequacy requirements for sukuk, securitization and real estate investments, January 2009, p 31.

3. The Importance of Islamic Sukuk in Financing Economic Sectors

Islamic sukuk play a vital developmental role in the economy, serving as an effective tool for mobilizing capital, which enables the financing of major projects and infrastructure in a Sharia-compliant manner. Through this section, we will clarify the financing role that the various types of Islamic sukuk contribute, highlighting their significant importance in supporting the overall economy.

3.1. Instruments Based on Sales Contracts: Below, we will examine the role of financial instruments based on sales contracts, namely Murabaha, Istisna', and Salam bonds, as well as the sectors they finance.

3.1.1. Murabaha Sukuk and the Sectors Financing Them:

The proceeds from sukuk issued under the Murabaha structure are used to purchase and hold goods before selling them to the investor at an agreed-upon profit. This makes this mechanism an effective tool for

financing large-scale projects compliant with Sharia principles. Murabaha sukuk financing encompasses several key sectors, most notably: the transportation sector, for example, financing the purchase of ships and aircraft; the infrastructure sector, through financing the construction of dams, power plants, and other essential facilities; and the equipment and supplies sector¹, which covers financing heavy machinery and technical equipment. These sukuk are also used in the household sector to meet individual needs, such as financing the purchase of cars, furniture, and electrical and electronic appliances.

3.1.2. Istisna'a Sukuk and the Sectors Financing Them:

Istisna'a sukuk serve as an effective Islamic financing instrument for funding infrastructure and essential services projects. These sukuk primarily support three key sectors: the transportation sector, by financing the manufacturing of land, air, and sea transport vehicles, such as buses, airplanes, and ships; the education sector, by financing the construction and equipping

¹ Duku, Muhammad, Sukuk Murabahah: A Mechanism to Fund Infrastructure Projects in Nigerian Tertiary Institutions, Airlangga International Journal of Islamic Economics and Finance ,6(1), 2023, p16.

of educational institutions, ranging from schools to universities and research centers, including both academic and sports facilities; and the healthcare sector, by financing the establishment and outfitting of medical facilities and integrated hospitals. In addition, Istisna'a sukuk are utilized in the construction sector to finance various types of buildings, including residential complexes, commercial buildings, hotels, and others¹.

3.1.3. Salam Sukuk and the Sectors Financing Them:

Salam sukuk play a crucial role in stimulating various economic sectors, particularly agriculture, industry, and trade. Their significance is especially evident in the development of these sectors, specifically: the agricultural sector, by increasing national income through boosting agricultural production and providing necessary financing for purchasing inputs, especially for small-scale farmers with limited resources; the commercial and industrial sector, by financing the pre-production and export stages of high-demand goods through pre-purchase and resale at higher prices; and the crafts and small business sector, by supporting artisans and small producers through the provision of production inputs in exchange for a share of their products for resale².

3.2. Instruments Based on Participation Contracts

Through this section, we will explore the role played by financial instruments based on participation contracts, represented by participation sukuk, mudaraba, and agricultural sector sukuk (including musaqah, mugharasa, and muzara'a), as well as the sectors they finance

3.2.1. Participation Sukuk and the Sectors They Finance:

Participation-based financing encourages Islamic banks and financial institutions to engage in development projects with good returns and profits. Issuing participation sukuk contributes to financing numerous projects, including infrastructure projects such as roads, bridges, water and electricity networks, and other infrastructure projects; development projects such as urban, industrial, and agricultural development projects; government facilities such as schools, hospitals, and government buildings; and other commercial or investment projects aimed at generating financial returns³.

3.2.2. Mudaraba Sukuk and the sectors financed through them:

Mudaraba sukuk are an ideal financing tool for projects that generate regular income or revenue. These sukuk are particularly well-suited for financing major development projects, such as infrastructure projects like power and solar power plants and ports, and large industrial projects, such as the petrochemical sector, supply chains, and the construction of large factories for

¹ Tuti Nadhifah, Heni Risnawati, & Muhammad Dzulhilm Yazid, "Development of Sukuk Musyarakah and Sukuk Istishna Products: Legal Aspects and Potential Implementation in Indonesia", UNCANG : Journal of Sharia Banking and Islamic Finance , 3(4),, 2025, 65.

and Practical Applications, Dar Al-Masirah, Amman, 2007, p200 .

³ Mohamed Sila, "Musharakah Sukuk and Its Rulings in Islamic Jurisprudence", Journal of Islamic Economic Studies 2, no. 2, 2022, p 43.

² Mahmoud Hussein Al-Wadi, Hussein Muhammad Samhan, Islamic Banks: Theoretical Foundations

manufacturing electrical cable insulation compounds, among other sectors.

3.2.3. Agricultural sector sukuk and the sectors financed through them:

The contracts for musaqah (irrigation), mugharasa (planting), and muzara'a (share-cropping) are specific to the agricultural sector. They serve as legal and economic building blocks for multi-party and diverse investment arrangements within agriculture. Islamic banks can utilize these contracts to invest their surplus liquidity, leveraging their extensive legal, Sharia, and financial expertise. These contracts contribute to¹:

- Revitalizing agricultural lands and increasing their production;
- Raising national output and income;
- Reducing rural migration and encouraging a return to rural areas;
- Increasing the value of collateral held by banks, as they can accept agricultural land as collateral;
- Improving the management of confiscated collateral, as banks can invest in this land instead of selling it at low prices;
- Achieving profitable returns for banks through investment in agricultural land.
- This approach strengthens the role of Islamic banks in agricultural and economic development, improves their financial performance, and contributes to sustainable rural development.

3.4. Ijara Sukuk and the Sectors Financed Through Them :

Islamic banks and financial institutions utilize lease-based sukuk as an innovative financing tool to meet the needs of their clients. This instrument allows clients to access large and costly assets, such as bridges, airports, dams, roads, and other infrastructure projects, as well as ships, aircraft, and heavy industrial machinery, without bearing the burden of full ownership. Through this approach, institutions and projects can employ these assets in productive activities while maintaining financial flexibility.

II. Leading Country Experiences in Utilizing Islamic Sukuk for Financing Investment Projects

The experiences of leading countries in issuing Islamic sukuk serve as important practical models for understanding how these financial instruments can be employed to finance investment and development projects. These experiences have demonstrated the ability of sukuk to provide sustainable, Sharia-compliant financing while sharing risks between investors and issuers, thereby enhancing project stability and promoting economic growth.

This review aims to analyze the mechanisms and structures employed, identify the sectors that benefit the most, and extract lessons that Algeria can leverage to develop its sukuk market. The study highlights key experiences from Malaysia, the United Arab Emirates, Saudi Arabia, and Sudan, with a particular focus on major investment projects financed through sukuk and their impact on

¹ Mahmoud Hussein Al-Wadi, Hussein Muhammad Samhan, Islamic Banks: Theoretical Foundations and Practical Applications, Dar Al-Masirah, Amman, 2007, p205.

supporting infrastructure, public services, and sustainable development.

1. The Malaysian Experience:

Malaysia's experience in the field of Islamic sukuk represents a pioneering and globally inspiring model. The country has successfully developed a sophisticated Islamic financial market encompassing a wide range of Sharia-compliant financing instruments. Sukuk have emerged as a strategic tool for financing major development projects, including vital infrastructure and large-scale investment initiatives such as highways, railways, and airports, thereby contributing to economic growth and promoting long-term investments.

Within this context, the review will examine key projects financed through sukuk in Malaysia, focusing on how these instruments are employed to achieve developmental objectives while leveraging the financial flexibility and innovation they offer. The subsequent section will highlight the most prominent sukuk-financed projects. **Key Projects Financed through Islamic Sukuk in Malaysia:** The following are some of the most notable projects in Malaysia that have been financed using sukuk¹:

1.1. High-Speed Rail Project: The high-speed rail project was financed through the issuance of Murabaha sukuk worth USD 300 million by Dana Infra National Berhad, with maturities

ranging from 7 to 15 years. This issuance is notable for being the first fixed-income sukuk listed on the Malaysian stock exchange, which allowed for the expansion of the individual investor base and contributed to covering the project's capital and operational expenditures.

The project aims to enhance Malaysia's rapid transit network and promote sustainable development by improving infrastructure and facilitating the movement of people and goods, thereby supporting the national economy and increasing the efficiency of the country's transport sector.

1.2. North–South Expressway Project: This project represents one of the largest infrastructure initiatives financed through Islamic sukuk in Malaysia. Sukuk Musharakah worth MYR 30.4 billion (approximately USD 8 billion) were issued, marking the first government sukuk and the first sukuk denominated in Malaysian Ringgit. The issuance was managed by Projek Lebuhraya Ultra-Selatan Berhad (PLUS) with maturities ranging from 5 to 25 years. The proceeds were allocated to develop the expressway connecting northern and southern Malaysia, thereby enhancing national infrastructure and improving connectivity between states². The project aims to improve Malaysia's road network and infrastructure, facilitating traffic flow, supporting domestic trade, and boosting the national economy by linking major industrial and commercial areas³. It

¹ Nik Mouhamed, N, Role of Islamic Finance In Infrastructure Financing, Bank Negara Malaysia, Kuala Lumpur, 2015, p 5,6.

² Green Islamic Sukuk as a Tool for Financing Various Projects: The Malaysian Experience as a Model,

Lex Localis – Journal of Local Self-Government, 23(8), 2025.

³ Medani Ahmed, Infrastructure Financing Through Islamic Sukuk: Case Studies in Malaysia, Finance and Business Economics Review, 3(2), 2–19, 2019.

highlights the successful use of Islamic sukuk as an innovative tool for financing large-scale national development projects.

1.3. Kuala Lumpur International Airport Project: The project relied on an innovative ten-year sukuk issuance valued at MYR 1 billion (approximately USD 263.16 million), which included a temporary transfer of airport ownership to sukuk holders during the financing period, reverting to the government upon maturity. This issuance is recognized as the world's first hybrid sukuk of its kind and the largest perpetual issuance by a Malaysian company¹. It has received multiple international awards, reflecting Malaysia's leadership in Islamic financial innovation.

1.4. Sarawak Medical Centre Project: To develop the healthcare sector in the state of Sarawak, the construction of the medical center was financed through the issuance of eight tranches of Istisna' sukuk totaling MYR 425 million (approximately USD 111.8 million). This financing enabled the effective construction and equipping of the center.

The project serves as a clear example of using Islamic sukuk to support healthcare infrastructure and improve the quality of medical services. It demonstrates how Islamic sukuk can be employed to finance projects aimed at developing the healthcare sector and

enhancing medical services in Malaysia².

1.5.Libeharia-Shah Alam Expressway Project:

The 57.5 km expressway project was financed through a combination of Mudaraba and Ijara Sukuk totaling US\$212.1 million, through Islamic Bank Berhad and Investment Bank Berhad. Projek Lintasan Bhd undertook the project under a 40-year concession agreement encompassing design, construction, operation, and maintenance. This multi-sukuk issuance enabled the project to be financed through various phases and provided a Sharia-compliant financing structure.

1.6.Klang Valley Mass Rapid Transit (MRT) Project:

This is one of Malaysia's most important urban transport projects, aiming to develop an integrated rail network in the Klang Valley to improve transport services and reduce congestion. The Malaysian government utilized Islamic Sukuk to finance this project through a specially established company, DanaInfra, employing a commodity Murabaha structure. The total financing raised amounted to approximately RM2.5 billion across several tranches, including the issuance of sukuk in 2013 and 2014 with varying values and maturities ranging from 7 to 15 years. This financing approach enabled the provision of long-term

¹ The Role of Sukuk in Infrastructure Development:

A Systematic Review of Global Experiences and Lessons Learned, Economics Studies and Banking Journal-DEMAND, 2023.

² Munir Al-Akak , Islamic bonds and their role in financing the health sector, Al-Bahith Journal for Legal and Human Studies , n 67, 2024 , 143.

resources at a reasonable cost, while ensuring compliance with Sharia principles.

2. The UAE Experience:

The United Arab Emirates (UAE) is a leading country in the adoption of Islamic finance instruments, having embraced Islamic Sukuk (sukuk) as a strategic tool to support sustainable development initiatives and finance critical infrastructure. These instruments have enabled the UAE to attract investment and foster the growth of major projects across various sectors, including renewable energy, sustainable transportation, logistics, and seaports.

In this context, this section reviews the most significant projects financed through sukuk in the UAE, with a focus on their role in promoting sustainable development, encouraging financial innovation, and providing Sharia-compliant financing solutions, **Key Sukuk-Financed Projects in the UAE:** The following section highlights some of the leading projects in the UAE that have been financed through sukuk instruments.

2.1. Marjan Island Tourism Project:

The Marjan Island project is one of the most prominent tourism and cultural landmarks in the Emirate of Ras Al Khaimah, aiming to strengthen the emirate's position as a global tourist destination. Located in the waters of the Gulf off the coast of Ras Al Khaimah, the project includes the construction of

luxury resorts, international hotels, and advanced recreational facilities designed to attract tourists and investors from around the world¹.

To finance this ambitious project, the Ras Al Khaimah Investment Authority issued sukuk worth USD 325 million under an investment agency structure. These sukuk were listed on the Dubai International Financial Exchange, allowing the authority to raise the required funds to cover the costs of constructing and developing the project².

2.2. Dubai International Airport Expansion Project:

This project: This project is one of the key initiatives undertaken by the Dubai government to develop the aviation sector and its associated infrastructure, in response to the rapid growth in passenger and cargo traffic. In 2006, the Dubai government, through the Department of Civil Aviation, signed an agreement with six Islamic banks under the management of Dubai Islamic Bank to issue Ijarah sukuk worth USD 1 billion. The proceeds from these sukuk were fully allocated to finance the airport expansion project, which included upgrading facilities and infrastructure to increase capacity and improve services for passengers and airlines³.

2.3. Green Financing Fund – Dubai Electricity and Water Authority (DEWA):

In 2017, DEWA, in collaboration with National Sukuk Company, launched a

¹ Emirates News Agency link:
<https://www.wam.ae/ar/article/hszc1gcf>

² Radi Abdel-Maqsood Mahdi Hassan Al-Najjar, The role of Islamic bonds in financing infrastructure projects (international experiences), Scientific Journal of the Colleges of Commerce Sector, n26, 2021, p64.

³ Taher Braknia and Khaled Babouridour, Islamic Sukuk in Infrastructure Project Financing: The Malaysian and UAE Experience, National Conference entitled: Islamic Finance as a Tool for Achieving Financial Stability and Economic Development in Algeria, April 16-17, 2022, University of Prince Abdelkader, Constantine, 2022, p14.

green financing fund valued at USD 653.5 million, including a Sharia-compliant arm. This initiative represents one of the most significant efforts in sustainable finance, supporting clean energy projects, improving energy efficiency, and promoting innovation in environmentally friendly infrastructure. The fund serves as a cornerstone in positioning the UAE as a leading hub for Islamic green finance.

2.4. ADIB Green Sukuk Issuance: In July 2023, First Abu Dhabi Bank (FAB) issued green sukuk worth USD 285 million, marking the first public issuance of green sukuk denominated in Emirati Dirham. The sukuk has a three-year tenor, and its proceeds are used to finance diverse environmental projects, including solar and wind energy, sustainable infrastructure development, energy efficiency improvements, as well as clean water and waste management projects. This issuance reflects the growing interest of the UAE banking sector in financing sustainable projects¹.

2.5. DP World Projects under Sustainable Finance Framework:

DP World issued green sukuk worth USD 1.5 billion with a ten-year maturity to support projects aimed at promoting clean transport, developing environmentally friendly logistics buildings, and improving energy efficiency in its facilities. The proceeds are directed towards initiatives that use renewable energy and reduce emissions, in line with Dubai's Clean Energy Strategy 2050, while promoting sustainable economic growth in the global logistics sector².

3. The Experience of the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia is considered one of the leading countries that have adopted Islamic sukuk as a strategic financing instrument to support major development projects, particularly in the fields of infrastructure, the energy sector, and the financial sector. Sukuk have contributed to financing modern airports, electricity projects, and transportation networks, reflecting their ability to meet large-scale financing needs in a manner compliant with Islamic Sharia. In this context, the most important projects financed through sukuk in the Kingdom will be presented, highlighting the impact of this experience on enhancing investment and achieving sustainable economic development.

Major Projects Financed through Islamic Sukuk in Saudi Arabia:

This section reviews some of the projects financed through sukuk in the Kingdom.

3.1. King Abdulaziz International Airport Project in Jeddah

The King Abdulaziz International Airport expansion project in Jeddah represents one of the most prominent examples of using sukuk to finance large-scale infrastructure projects in Saudi Arabia. The General Authority of Civil Aviation issued sukuk worth USD 3.9 billion to finance the construction and expansion works of the airport. These sukuk were guaranteed by the Ministry of Finance, which enhanced investor confidence and increased the attractiveness of the issuance. This

¹ Radhia Lassoud, Green Islamic Bonds: A Promising Model for Islamic Finance – A Review of Some International Experiences, Noor Journal of Economic Studies, Volume 6, Issue 01, 2020, p. 292.

² LSEG Data & Analytics, Green and sustainability Sukuk Update 2023: FINANCING A SUSTAINABLE FUTURE. UK, 2023, p 10.

financing contributed to the development of one of the largest airport projects in the region by providing advanced infrastructure capable of accommodating the growing number of passengers and strengthening the Kingdom's capabilities in the air transport sector.

In addition, the Saudi Electricity Company, the largest energy service provider in the Middle East, issued three sukuk tranches during the years 2007, 2009, and 2010, with a total value exceeding SAR 19 billion (approximately USD 5 billion). The first issuance amounted to SAR 5 billion, while the second and third issuances exceeded SAR 17 billion each. These sukuk were offered exclusively in the domestic market. The third issuance witnessed strong demand, with subscription requests exceeding three times its value, reflecting high investor confidence. The proceeds from these sukuk were directed toward developing and upgrading the electricity network infrastructure and enhancing its operational capacity to ensure sustainable and efficient energy supply¹.

III. The Economic and Financial Need for Issuing Islamic Sukuk in Algeria

1. Motivations for Algeria's Adoption of Islamic Sukuk in Financing Investment Projects

There are several compelling economic and financial reasons that call for accelerating the implementation of Islamic sukuk in Algeria. The most important of these motivations include the following²:

- Financing through Islamic sukuk is generally considered more equitable and efficient than conventional loan-based financing. It is based on the principle of sharing risks and returns between the government and investors, while relieving the public sector from the burden of fixed interest payments. This approach reduces financial pressure and provides greater flexibility, making sukuk a more suitable financing option for government investment projects. In contrast, conventional borrowing requires the government to repay both the principal and interest to lenders, regardless of the actual profitability of the financed projects, without any obligation for lenders to share in profits or losses.
- Islamic sukuk financing has also recorded notable success in several Arab and Islamic countries, where it has been used to fund large-scale development projects. Prominent examples include the expansion of Dubai International Airport in the United Arab Emirates, the construction of power generation facilities in Malaysia, the development of healthcare centers in Sudan, and the expansion of King Abdulaziz International Airport in Jeddah, Saudi Arabia. These successful experiences provide strong incentives for the Algerian government to adopt Islamic sukuk as a Sharia-compliant and effective alternative for financing major investment projects.
- Moreover, conventional financing instruments periodically issued by the Algerian government have not achieved the desired results. This shortcoming is largely

¹ Salwa Malak, Islamic Sukuk as a Mechanism for Financing Economic Development: A Study of International Experiences, PhD Dissertation in Economic Sciences, Mohamed El Bachir El Ibrahimi University, Bordj Bou Arreridj, pp. 74–75, 2023.

Development Projects in Algeria in Light of the UAE Experience », Journal of Financial, Accounting, and Administrative Studies, vol. 8, no 1, 2021, p 434.

² Abdelghani Mahlak, et Tayeb Boulahia, « Islamic Sukuk, an Alternative for Financing Economic

due to the reluctance of a wide segment of Algerian society to engage with interest-based financial instruments that conflict with Islamic Sharia principles. In this context, Islamic sukuk emerge as a promising Sharia-compliant alternative to treasury bonds and public debt instruments, with the potential to enhance the mobilization of financial resources in support of national development plans.

- Furthermore, the decline in global oil prices since June 2014 has led to a significant reduction in Algeria's public revenues, given that hydrocarbons account for approximately 98% of total export earnings. This downturn has resulted in a budget deficit estimated at around 3.4 billion Algerian dinars, as well as the suspension of several development projects that were initially scheduled for implementation. Consequently, the Algerian government has been compelled to adopt austerity measures and to seek alternative sources of financing outside the hydrocarbon sector in order to ensure macroeconomic stability and sustain long-term development efforts.

2. Advantages of Adopting Islamic Sukuk in the Algerian Financial Market

In light of the widespread adoption and global success of Islamic sukuk following the 2008 financial crisis, as well as their contribution to achieving development objectives across various sectors, the integration of this financial instrument into the Algerian financial market has become an urgent necessity. Islamic sukuk offer several economic and financial advantages, which will be discussed in the following sections.

2.1. At the Macroeconomic Level

- **Contribution to Economic Development, Particularly Through:**

➤ **Financing Economic and Investment Projects:** The Algerian state and its national institutions have significant opportunities to diversify their sources of financing through the use of Islamic sukuk. These instruments represent an effective alternative to conventional interest-based borrowing, allowing each entity to select the type of sukuk most appropriate to the nature of its activities and its financial capacity.

➤ **Improving Liquidity Management:** Islamic sukuk play a central role in open market operations by providing efficient solutions to economic challenges. They contribute to controlling inflation, enhancing exchange rate stability, and stimulating economic growth, owing to their ability to efficiently mobilize real assets while avoiding the risks associated with conventional banking debt¹.

➤ **Financing Small and Medium-Sized Enterprises (SMEs):** SMEs, in their various forms, require diversified financing sources that are compatible with the nature of their activities in order to cover operational costs throughout all stages of development. Islamic financial instruments in general, and sukuk in particular, constitute a relevant source of short-, medium-, and long-term financing for these enterprises.

▪ **Mobilization of Untapped Financial Resources:** The development of the Islamic sukuk industry within the Algerian economy represents one of the most effective mechanisms for mobilizing savings and dormant financial resources. As a Sharia-compliant instrument, sukuk provide the state with a legitimate alternative to meet its financing needs while reducing reliance on

¹ Abdelwahab Sekhri, « Leading International Practices in the Islamic Sukuk Industry and Prospects in Algeria », *Jeel Scientific Research Journal*, no. 81, 2021, p 49.

oil revenues, which are characterized by high volatility¹.

■ **Financing the Budget Deficit:** Sovereign sukuk constitute a strategic option for Algeria to contain and reduce the budget deficit. This category of Sharia-compliant financial instruments has demonstrated its effectiveness in several countries, notably Sudan, by contributing to the diversification of public financing sources².

■ **Promoting Social Development:** Islamic sukuk contribute to the financing of vital social projects, such as healthcare and educational infrastructure. The implementation of these projects improves citizens' quality of life, creates employment opportunities across various sectors, and actively contributes to reducing unemployment, particularly among young people.

2.2. At the Level of the Securities Market

The introduction of Islamic sukuk in their various forms (such as musharakah, mudarabah, ijara, and others) contributes to the revitalization of the securities market through³:

- **Increasing transaction volumes**, thereby improving market liquidity and attracting new investors;
- **Channeling savings toward productive investment**, by encourag-

ing households to prioritize financial market investments over traditional placements;

- **Enhancing transparency**, as sukuk issuances are subject to strict accounting and legal standards that ensure clarity of operations;
- **Stimulating competition among companies**, through the diversification of financing instruments;
- **Diversifying financing sources**, thereby reducing exclusive reliance on banks and supporting sustainable corporate growth.

2.3. At the Level of Islamic Banks

Islamic sukuk contribute to enhancing the efficiency and performance of Islamic banks through⁴:

- Improving their capacity to mobilize the required liquidity and to effectively manage surplus funds;
- Strengthening profitability and financial soundness, as sukuk issuance represents an investment mechanism that does not directly affect balance sheet items or equity capital;
- More efficient management of credit risk, as securitized assets generally involve limited risk;

¹ Saida Harfouch, « The Role of Islamic Financial Instruments in Achieving Economic Development: A Case Study of Sudan, Malaysia, and Algeria », University of Algiers 3, 2017, p. 240.

² Ahmed Belkheir, « Islamic Sukuk and the Importance of Their Application in the Algerian Economy », Journal of Economic and Financial Research, vol. 5, no. 2, 2018, p. 368.

³ Harfouch, The Role of Islamic Financial Instruments in Achieving Economic Development, p. 240, op. cit.

⁴ Mustafa Al-Arabi, et Saadia Hamo, « The Role of Islamic Sukuk in Financing the Economy, Malaysia as a Model », Al-Bashaer Economic Journal, vol. 3, no. 1, 2017, p. 73.

- Better integration of Islamic banks into the international financial system through the expansion of sukuk trading in domestic and international markets.

3. Fundamental Conditions for the Introduction of Islamic Sukuk in the Algerian Financial Market

The introduction of Islamic sukuk in Algeria requires the establishment of an integrated legal and regulatory framework, involving revisions to monetary and banking legislation, commercial law, and tax regulations, in line with Sharia principles and international financial market practices.

3.1. Establishing a Legal and Regulatory Framework Specific to Sukuk

The development and innovation of Islamic financial instruments have become an imperative, particularly in light of the growing demand for these products amid the global trend toward ethical investment. Accordingly, the following measures are required¹:

- Adoption of a law governing the issuance and trading of Islamic sukuk in accordance with Sharia principles and international financial standards;
- Official announcement of the launch of the legal and regulatory framework for the Islamic sukuk market in 2023, with the objective

¹ National Social Insurance Council, Algeria, "Launch of the Legal Framework for Islamic Sukuk in 2023," retrieved November 18, 2025, from : <https://cna.dz/>

² Law No. 23-09, dated June 12, 2023, containing the Monetary and Banking Law, Official Gazette of Algeria, no. 43, 2023.

of promoting financial inclusion and developing the Islamic finance industry.

3.2. Revision of Monetary and Banking Law

- Incorporation of Islamic financing contracts into the legal framework by replacing the term "credit" with "financing"²;
- Establishment of a central Sharia supervisory authority responsible for ensuring compliance of sukuk issuance operations.

3.3. Revision of Commercial Law³

- Integration of Islamic financial institutions within the framework of commercial companies;
- Legal classification of sukuk as undivided ownership shares in real assets, distinct from conventional bonds.

3.4. Revision of Tax Legislation⁴

- Alignment of the tax treatment of Islamic sukuk with that of conventional loans in order to avoid double taxation;
- Proposal of temporary tax exemptions on returns from listed sukuk to encourage their issuance and trading.

³ Manal Mansour, « Islamic Financial Products as a Requirement for Activating the Algerian Financial Market, with Reference to the Case of Malaysia », PhD Thesis in Economic Sciences, Tipaza, University Center of Mersli Abdellah, 2024, pp. 269, 270

⁴ Mohamed Ghazal, Integrating Sukuk into the Algerian Legal Environment, A Critical Study of Current Laws and Regulations, Journal of Legal and Economic Research, vol. 6, no. 2, 2023, p. 208.

3.5. Introduction of Islamic Sukuk as a New Financial Instrument¹

- Utilization of sukuk for financing infrastructure projects and strategic investments;
- Inclusion in the 2025 Finance Law of provisions enabling the Ministry of Finance to issue sovereign sukuk, with technical support from the Islamic Development Bank;
- Granting authorization to “AOM Invest” as the first SME to issue Islamic sukuk in Algeria, with a value of 200 million Algerian dinars.

4. Financing Investment Projects in Algeria through Islamic Sukuk

The use of Islamic sukuk to finance major development projects in Algeria represents a strategic option aimed at diversifying financing sources and reducing dependence on the hydrocarbon sector. In this context, sukuk emerge as a particularly suitable instrument for financing infrastructure, transportation, and energy projects.

4.1. Proposed Financing of the High-Speed Railway Project (Algiers–Tamanrasset)²:

The High-Speed Rail Project connecting Algiers to the far south of Algeria, passing through the Chlef region, represents a major infrastructure investment estimated at approximately USD 6 billion. The project aims to alleviate congestion between northern regions and emerging economic centers in the south, facilitate travel for citizens,

and provide a more cost-effective alternative to air transport. It is also expected to contribute to the development of areas along its route.

The railway spans a total of 2,006 kilometers, with trains reaching a maximum speed of 220 km/h, reducing travel time to approximately 12 hours. The project includes several key sections under construction, such as the Ghardaïa–El Menia section (230 km) and the Laghouat–Ghardaïa section (265 km), in addition to other segments with defined completion timelines. According to the detailed project plan, the maximum train speed will be 220 km/h for passenger transport and 100 km/h for freight, enhancing the efficiency and flexibility of transportation within Algeria and effectively linking the southern and northern regions.

This project contributes to improving domestic mobility and strengthening north-south connectivity, facilitating the movement of goods and passengers between regions, promoting internal integration, creating new economic opportunities, and highlighting Algeria’s strategic position as a hub connecting Europe and Africa.

4.2. Sukuk Suitable for Financing the Project (Istisna^c and Mudaraba)

The development of transportation infrastructure in Algeria is a key element for achieving economic growth and promoting sustainable development. As part of the government’s efforts to establish a modern and comprehensive transportation system, the country aims to attract foreign investment, strengthen the tourism sector, and

¹ Radio Algeria, “Algiers Stock Exchange: Granting a License to Issue Islamic Investment Sukuk, July 3, 2024,” retrieved 18/02/2025, from <https://news.radi-algerie.dz/ar/node/48146>

² Ennahar Online, (April 5, 2024), “12 Hours from Algiers to Tamanrasset by Train at 220 km/h,” retrieved 20/02/2025, from : <https://www.en-naharonline.com/12>

create widespread employment opportunities. This development encompasses a network of railways, highways, ports, airports, and other infrastructure projects, including the High-Speed Rail Project linking Algiers to Tamanrasset in the far south, passing through the Chlef region. Given the scale and developmental objectives of this project, it can be financed through Istisna' and Mudarabah sukuk, which represent ideal instruments for funding major infrastructure projects. Istisna' sukuk allow for covering construction and development costs, while Mudarabah sukuk provide a framework for sharing the returns generated by the project, ensuring profits for investors¹.

4.3. Proposed Financing Mechanism through Istisna' and Mudaraba Sukuk

The financing of the project is carried out through the following stages:

- Establishment of a Special Purpose Vehicle (SPV) responsible for issuing the sukuk and overseeing project implementation;
- Issuance of istisna' sukuk representing undivided ownership shares in the project under construction;
- Upon project completion, conversion of the financing mechanism into mudaraba sukuk for the operational phase, with gradual distribution of profits according to ownership shares;
- Appointment of a supervisory authority to ensure compliance with contractual obligations;
- Listing of the project on the financial market to enhance transparency and liquidity, followed by the redemption of sukuk at maturity.

Conclusion:

International experiences demonstrate that Islamic sukuk are an effective tool for financing large-scale development projects by mobilizing substantial resources, ensuring transparency, and mitigating risks through their linkage to real assets. To implement this mechanism in Algeria, a comprehensive legal and regulatory framework is required, alongside a centralized Sharia supervisory authority, development of the local financial market, and capacity building for financial institutions, while leveraging international expertise. This approach would support the financing of development projects and achieve sustainable development, thereby confirming the research hypothesis.

Results :

The study reached the following key findings:

- International experiences (Malaysia, Saudi Arabia, Sudan, UAE) have proven that Islamic sukuk are an effective instrument for financing large-scale development projects, particularly those based on assets with stable returns.
- Sukuk help mobilize significant financial resources and encourage private sector participation in infrastructure projects.
- Using sukuk enhances transparency and reduces risks compared to conventional debt, due to their linkage to tangible assets.

¹ Souad Terfaya, « The Role of Islamic Financial Engineering in Financing Investment Projects », PhD Thesis in Economic Sciences, Faculty of Economic, Commercial, and Management Sciences, Laghouat University, 2025, p. 222.

- The Algerian financial market remains limited, with a shortage of financial instruments, particularly Islamic ones.
- Algeria has strong incentives to adopt sukuk, but faces legal, regulatory, and institutional challenges that hinder their implementation.
- Introducing sukuk requires comprehensive legislative updates, including monetary, commercial, and tax laws, as well as the establishment of a centralized Sharia supervisory authority.

Recommendations:

Key recommendations include:

- Accelerate the establishment of a comprehensive legal and regulatory framework for issuing and trading Islamic sukuk.
- Strengthen the capacities of financial institutions and banks in Islamic financial innovation.
- Establish an independent centralized Sharia supervisory authority to oversee sukuk issuances.
- Expand the investor base through exemptions and guarantees that encourage sukuk subscription.
- Develop the capital market and enhance its role in project financing, reducing over-reliance on bank financing.
- Leverage international partnerships, particularly with Islamic financial institutions, to provide technical support for Algeria's sukuk framework.