

Islamic Sukuk as a Tool for Financing the General Budget Deficit: A comparative study between international experiences and the Algerian experience

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Abstract :

This study aims to address an important topic in public finance, which understands the effectiveness of Islamic sukuk as a financial instrument compliant with Islamic law in financing the state budget deficit. This will be achieved by reviewing leading international experiences in this field, represented by Malaysia and Sudan, and comparing them with Algeria's nascent experience that officially commenced in 2025 with the issuance of the country's first sovereign Islamic sukuk. The study adopts a comparative descriptive-analytical approach and employs the case study method to derive lessons learned. It concluded that Islamic sukuk represent an effective and efficient alternative to traditional interest-based instruments and that the success of the Algerian experience is contingent upon a set of fundamental requirements, chief among them: legislative stability, stringent Sharia supervision, and the promotion of financial inclusion.

Keywords: Islamic Sukuk, budget deficit, Islamic finance, Sovereign Sukuk, Algerian experience.

JEL Classification : H63, G23, G15

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Introduction

The phenomenon of budget deficit is one of the most prominent economic challenges facing countries, as it involves an imbalance in financial equilibrium, necessitating the search for effective and sustainable financing tools. Traditionally, governments have relied on external borrowing, monetary financing, and the issuance of interest-bearing sukuk. But these methods can worsen debt and inflation and may not align with Islamic law.

In this context, Islamic sukuk have emerged as an innovative financial alternative that combines economic efficiency with Sharia compliance by linking financing to real assets instead of interest. This tool has witnessed widespread global adoption. Both Malaysia and Sudan are among the leading models in this field, with Malaysia successfully developing an advanced and diverse Sukuk market, while Sudan has relied on Sukuk as a primary tool for liquidity management and public spending financing.

As for Algeria, the issuance of sovereign sukuk in 2025 represented an important step towards diversifying funding sources, in light of economic challenges such as the worsening budget deficit, heavy reliance on hydrocarbons, and the expansion of the parallel economy. This situation makes adopting Islamic sukuk a strategic option to benefit from international experiences and adapt them to the national reality.

Thus, the following main question can be posed: **To what extent can Islamic sukuk effectively contribute to financing the general budget deficit in Algeria, in light of the lessons learned from leading international experiences?**

From this main question, a series of sub-questions arise:

- What is the conceptual and analytical framework for Islamic Sukuk and public budget deficits?
- What are the key lessons that can be drawn from leading international experiences in issuing sovereign sukuk?
- What are the basic requirements for the success of the Algerian experience in this field, and what challenges does it face?

Three hypotheses have been formulated:

- The conceptual framework of Islamic sukuk aligns with the concept of budget deficit, as sukuk are a financing tool based on real assets, contributing to enhancing financial discipline, utilising Sharia-compliant savings, and expanding the scope of financial inclusion.
- Leading international experiences in sovereign sukuk (such as Malaysia and Sudan) provide clear lessons on the importance of the legal and regulatory framework, and the structure of the Islamic financial market, for the successful use of sukuk to finance deficits in developing countries.
- The Algerian experience shows that the success of sovereign sukuk in financing the deficit depends on developing the regulatory framework, building competencies, and overcoming the challenges of legal ambiguity and weak institutional and financial expertise.

Study methodology: This study relies on the descriptive-analytical method to present the theoretical framework and analyse the statistical data related to Sukuk markets, using the comparative method to conduct a critical review between international experiences and the Algerian experience. The study also adopts the case study method to extrapolate individual experiences. Its scientific material is based on a diverse system of sources: reports from international bodies such as the International Monetary Fund, the Islamic Development Bank, and the Islamic Financial Services Board, as well as peer-reviewed academic studies and Algerian legal and legislative texts.

Study divisions: To address the problem and the posed questions, the study was divided into the following sections:

- The theoretical framework of Islamic Sukuk and budget deficit
- International experiences in using sukuk to finance budget deficits
- The Algerian experience in issuing sovereign Islamic sukuk
- Comparative study and gap analysis

I. Theoretical framework for Islamic Sukuk and budget deficit

1. Concept of Islamic Sukuk:

Islamic sukuk are defined according to Sharia standard No. (17) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) as "documents of equal value representing common shares in the ownership of assets, benefits, or services, or in the assets of a specific project or private investment activity." Thus, they fundamentally differ from traditional sukuk in that they embody actual ownership in productive assets rather than merely a debt with interest.

The Islamic Fiqh Academy defined sukuk as "Issuing equal-value documents or financial certificates representing common shares in the ownership of assets (tangible assets, benefits, rights, or a mixture of tangible assets, benefits, money, and debts) that are currently existing or will be created from the subscription proceeds and issued according to a Sharia-compliant contract and subject to its rulings." (Islamic Fiqh Academy Resolution No. 178 (19/4), 2009, p. 2140)

That is, a group of income-generating assets is converted into tradable sukuk according to regulations in financial markets and secured by these assets. It is a tool of borrowing that provides an important financing aspect due to its diversity and suitability for most commercial and investment activities (Jebalahi, 2018, p. 138).

2. The main types of sukuk related to budget financing

The types of Islamic sukuk are numerous, and their forms vary according to the underlying asset and the nature of the Sharia-compliant contract that establishes them. Regarding public budget financing, three types of sukuk occupy a central position: (Institutions, 2010, pp. 288-289)

2.1. Ijara Sukuk: They are the conversion of assets and benefits related to an Ijara contract into financial securities that can be exchanged and traded in a secondary market. Thus, they can be defined as "sukuk of equal value representing common shares in the ownership of leased assets (or benefits)." The Accounting and Auditing Organization for Islamic Financial Institutions has also permitted Ijara Sukuk, considering them as representing a share of assets, benefits, or services. Ijara Sukuk are divided into types:

a. Sukuk of ownership of leased assets: These are documents of equal value issued by the owner of a leased asset or a financial intermediary acting on their behalf for the purpose of selling them and collecting the price from the subscription proceeds, and the asset becomes owned by the sukuk holders.

b. Certificates of ownership of existing asset benefits: They are of two types as follows:

b.1. Equal-value documents issued by the owner of the asset himself or through a financial intermediary, with the purpose of re-leasing its benefits and collecting the rent from the subscription proceeds, and the benefit of the asset becomes owned by the bondholders

b.2. Equal-value documents issued by the owner of the usufruct of leased assets themselves or through a financial intermediary, with the purpose of re-leasing them

and collecting the rent from the subscription proceeds, and the usufruct of the described asset becomes owned by the bondholders

c. Sukuk of ownership of the usufruct of specified assets: These are documents of equal value issued for the purpose of leasing specified assets and collecting rent from the proceeds of the subscription, and the usufruct of the specified asset becomes owned by the sukuk holders.

d. Sukuk of service ownership from a specific party: These are documents of equal value issued for the purpose of providing a service from a specific party (such as the benefit of education), with the fee collected from the proceeds of the subscription, and those services becomes the property of the sukuk holders;

e. Certificates of service ownership from a specific source: These are documents of equal value issued to provide a service from a specific source (like education, described without naming it), and the fee is collected from the subscription proceeds, making those services owned by the certificate holders.

2.2. Participation Sukuk: These are sukuk that carry equal value, issued by the underwriter or their agent for the purpose of financing a project or projects, where the sukuk holders own those projects. Joint-stock companies and participation sukuk share similarities, but the sukuk issuer's delegation to select the projects for transfer and establishment may lead to differences (Youssef, 2014, p. 10). There are several types of sukuk participation, including:

2.3. Sukuk al-Istisna: These are documents issued by the buyer for an item that the seller is obligated to manufacture using materials from himself or the financial institution acting on his behalf. The sukuk's proceeds are used to make this item, with the goal of profiting from the difference between its manufacturing cost and selling price.

3. Definition of the General Budget Deficit:

The general budget deficit is expressed as the situation where the state's expenditures exceed its revenues, meaning when the available financial resources are insufficient to cover various aspects of public spending. This situation is considered one of the most prominent challenges facing financial policies in countries.

And it is possible to distinguish between two main forms: one is the structural deficit, which arises from deep imbalances in the economy, such as a weak production apparatus or limited sources of revenue, making the state unable to keep up with the continuous rise in expenditures.

The second type is a temporary or cyclical deficit, which is often the result of the state adopting certain economic policies, such as increasing spending to stimulate growth or addressing temporary crises. Therefore, it is an intentional deficit and not always permanent.

The method of measuring the budget deficit depends on the nature of the goal to be achieved from this process. Therefore, there are several concepts of the budget deficit, the most important of which are: (Al-Faris, 1997, p. 119).

3.1. Comprehensive deficit: It is the most common indicator, as it measures the difference between the total government expenditures (including debt interest) and the public revenues. This type reflects the size of the financial gap that the state needs to finance, often through borrowing.

3.2. Current deficit: It focuses only on current expenditures and revenues, without accounting for investment expenditures, based on the idea that investment spending contributes to building future assets and is not purely a burden on public finances.

3.3. The primary deficit: It excludes debt interest from the calculation, considering that these interests represent obligations resulting from previous policies. Therefore, this indicator provides a more accurate picture of the current financial situation of the state.

3.4. The operational or inflation-adjusted deficit: This metric takes into account the impact of inflation, where the portion of interest that compensates for the decrease in the real value of money is excluded, allowing for a more realistic measurement of the deficit.

3.5. Structural deficit: This measure is the deficit after filtering out the impact of temporary factors, and it reflects the true long-term state of public finances. This type of deficit often requires deep reforms, such as rationalising spending, improving revenues, and making structural changes to the economy.

II. International experiences in using sukuk to finance budget deficits

1. The Malaysian Experience:

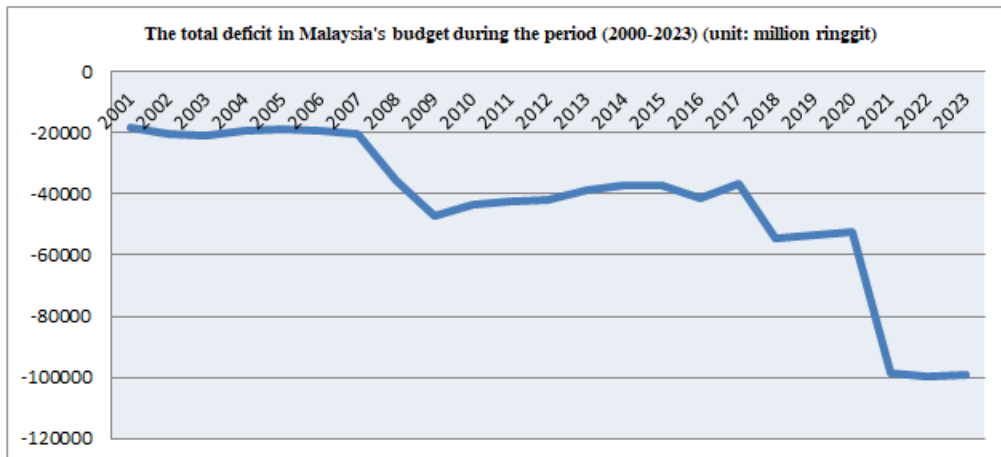
1.1. The Development of Malaysia's Overall Budget Deficit During the Period (2000-2023)

The Malaysian stock market holds an international leading position in issuing both domestic and international Islamic sukuk, thanks to the shift towards Islamic securities as an alternative to Sharia-prohibited securities and as a financing method for major projects undertaken by the Malaysian government, which require substantial amounts of expenditure. Here, Islamic sukuk in Malaysia have played a crucial role as one of the most efficient financial instruments in providing the necessary funding in large amounts for various governmental purposes and projects.

a. The Nature of the Budget Deficit in Malaysia: Malaysia is among the economically developed countries in South-east Asia and one of the largest tourist destinations thanks to its developmental and strategic plans. It is characterised by economic openness and a suitable destination for direct and indirect foreign investments. Tourism is one of the most important sources of national income for Malaysia. However, the facilities provided to support direct and indirect foreign investment, especially in the tourism sector, have led to a continuous annual increase in the consumer price index, which has presented a major obstacle to the Malaysian government. This challenge previously prompted the government to subsidise fuel, electricity, and sugar prices to achieve a balance between the supply of goods and money and to reduce the impact of inflation. An increase in the money supply at the expense of goods will lead to inflation and a budget deficit. (Sami, 2021).

Reports from the Malaysian Ministry of Finance indicate a continuous budget deficit during the period 2000–2023, as illustrated in Figure (01).

Figure 01: Development of the overall deficit in Malaysia's budget during the period (2000-2023) (unit: million ringgit)



Source: The figure was prepared based on data extracted from the website Tradingeconomics.com.
 - Metodi Tzanov, Malaysia: FinMin unveils Budget 2023 with 5.5% of GDP deficit target, <https://www.linkedin.com/pulse/malaysia-finmin-unveils-budget-2023-55-gdp-deficit-target-tzanov>
 Accessed on: Avril 02, 2026, at 19:12.

The budget deficit in Malaysia from 2000 to 2023 shows a clear upward trend, starting with relative stability before rising significantly after the 2008 global financial crisis. Despite the efforts made to control it, the deficit remained moderate to high, with a gradual deterioration in the following years due to increased public spending and economic pressures. It reached unprecedented levels during the COVID-19 pandemic, peaking at around 99.5 billion ringgit in 2022. This reflects Malaysia's use of an expansionary fiscal policy, also highlighting its ability to effectively manage the deficit through diverse financing instruments, especially Islamic sukuk.

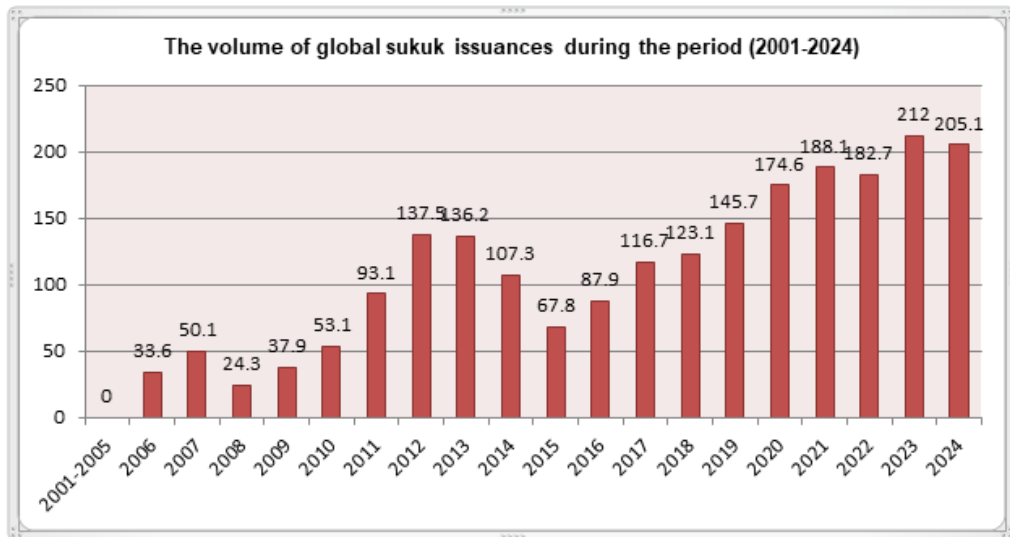
1.2. Evaluation of the performance of the Malaysian experience in addressing the general budget deficit using Islamic sukuk

Malaysia is considered one of the countries with the largest issuances of Islamic sukuk globally, making it a pioneering experience in this field. This experience has enabled it to capture the largest shares in the Islamic sukuk market, thereby benefiting from the collection of resources and funds necessary to achieve economic goals, the foremost of which is financing the budget deficit.

a. The reality of Islamic bond issuances in Malaysia compared to global issuances (2001-2023): After the global financial crisis of 2008, the demand for Islamic finance instruments, especially Islamic sukuk, increased due to their flexibility and diverse methods. Islamic sukuk issuance witnessed significant growth from 2001 to 2023, becoming a relied-upon alternative to traditional financing tools.

a.1. The global development of the Islamic Sukuk market: The global Islamic sukuk market has witnessed significant development since the beginning of the millennium, as illustrated in the following figure.

Figure 02: Development of the Volume of Global Sukuk Issuances during the Period (2001-2024)



Source: International Islamic Financial Market (IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), November 2025, 14th Edition, p12.

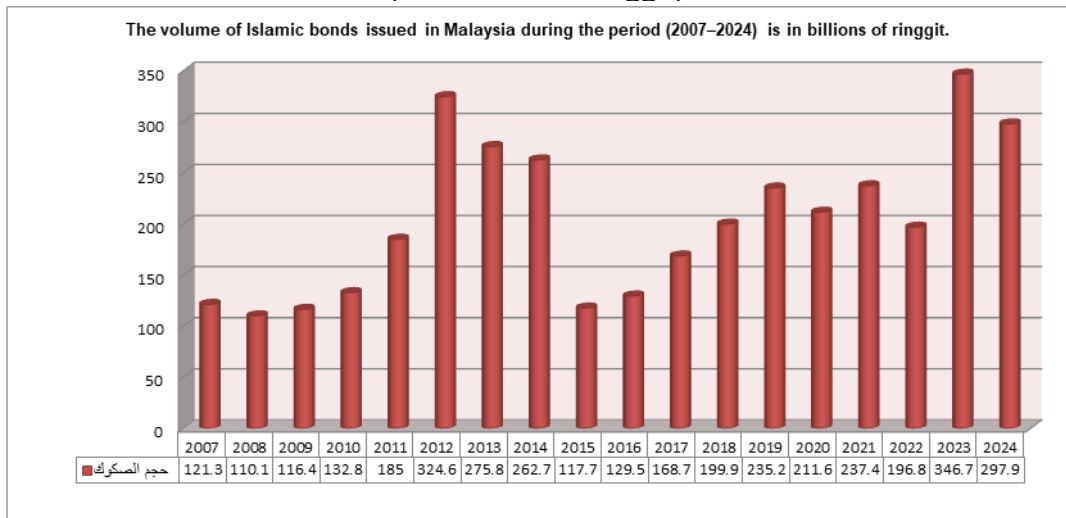
The global Islamic sukuk market has witnessed significant development since the beginning of the millennium, with issuances rising from 33.2 billion dollars during the period 2001–2005 to 50.1 billion dollars in 2007, driven by rising oil prices and economic growth in Gulf countries. However, the global financial crisis in 2008 led to a decline in issuances to

4.3 billion, before experiencing a strong recovery between 2009 and 2012, reaching 37.5 billion, due to economic recovery and the return of financial market activity.

Then, issuances began to decline during the period 2013–2015 due to a decrease in Malaysian issuances and falling oil prices. However, they resumed their upward trajectory starting in 2016, reaching a record level of 74.6 billion in 2020, supported by the diversification of financial instruments and the entry of new issuers. This growth continued to reach 212 billion dollars in 2023 ((IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), November 2025, p. 12), due to an increase in issuances, especially in Saudi Arabia and Malaysia, reflecting the growing importance of sukuk as a global financial instrument.

a.2. The growth of Islamic sukuk in Malaysia: Islamic sukuk have seen significant development in the years following the 2008 global financial crisis, having proven their effectiveness and prominent role in supporting the economy and mobilising savings. Malaysia is among the leading countries in issuing and trading Islamic sukuk, especially since it possesses the largest Islamic financial market, as shown in the following figure:

Figure 03: Size of Sukuk Issuance in Malaysia from the period (2007-2024)
(Unit: Billion Ringgit)



Source: Prepared by the researcher based on the following

- International Islamic Financial Market (IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), November 2024, 14th edition

- International Islamic Financial Market (IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), August 2023, 12th edition

- International Islamic Financial Market (IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), July 2021, 10th edition, Manama, Kingdom of Bahrain, P184), Securities commission of Malaysia Annual reports, (2007-2010)

Sukuk issuances in Malaysia experienced a volatile development during the period 2007–2024, initially affected by the global financial crisis in 2008, before witnessing a strong recovery starting in 2009, peaking in 2012 with a value of 324.6 billion ringgit, supported by financing infrastructure projects within the Economic Transformation Programme. However, issuances declined significantly in 2015 due to changes in Bank Negara Malaysia's policy, a reduction in sukuk issuances, and the impact of falling oil prices, which reflected a decrease in market size. Despite these fluctuations, Malaysia continued to maintain its leading position in the sukuk market, supported by a developed legislative framework, an active financial market, and supportive policies such as tax exemptions and market liberalisation. The diversity of sukuk and the expansion of the investor base have also contributed to reinforcing this role, allowing Malaysia to remain the largest issuer of sukuk globally, with its share reaching approximately 47.7% of total global issuances in 2023. And with a value of 76.02 billion dollars out of the total value of 159.36 billion dollars ((IIFM), Sukuk report (A comprehensive study of the Global Sukuk Market), November 2024).

b. Evaluating Malaysia's experience in financing through Islamic sukuk:

Malaysia has managed to secure the first position globally in issuing Islamic sukuk, with sukuk issuances reaching approximately 159.36 billion USD in 2023 compared to about 146.9 billion USD in 2022. Malaysia maintained the largest share in terms of volume and value, and it remains the largest issuer of domestic

sukuk with 47.70% (76.02 billion USD). Also, because of the strength of its capital market, Malaysia has kept its top spot in total sukuk issuances from 2001 to 2024, totalling about 983.83 billion USD, more than other Asian and Gulf Cooperation Council (GCC) countries. Saudi Arabia follows with 227.74 billion USD, then Indonesia with 174.28 billion USD, Qatar with 49.15 billion USD, and Pakistan with 42.58 billion USD. This is due to the efficiency of the Malaysian experience in this field, where it has achieved great success in issuing numerous government sukuk aimed at financing the state's infrastructure projects and its affiliated companies to enhance these sukuk as a financial tool. Malaysia launched the sukuk market in 1996 through the Malaysian National Mortgage Corporation (CagmasBekhad). Then, sukuk issuances followed. In 1997, the Investment Treasury Company, affiliated with the Malaysian government, issued a sukuk worth 750 million dollars for a period of five years. The issuances increased in 2004, when an Ijarah sukuk worth 350 million dollars was issued for five years to finance various development projects. An Istisna sukuk worth 425 million ringgit was issued for 3 to 10 years to establish a healthcare project, and an Istisna sukuk worth 1.13 billion ringgit was issued to finance the construction of a road extending from north to south for a period of up to 20 years. The issuances were numerous, with Kuala Lumpur Airport being a famous example of projects based on the concept of Islamic sukuk in Malaysia. sukuk with a 10-year term were issued and sold, and then the state bought these sukuk back at the same moment and for the same value to return ownership to the state. However, after 10 years, the airport's revenues went to the bondholders. During this period, the state was able to use the collected funds, amounting to 100 billion US dollars, in development projects, particularly in the field of infrastructure. (Hussein, 2019)

c. The role of Islamic sukuk in addressing the budget deficit in Malaysia: Malaysia has managed to issue numerous Islamic Sukuk, especially since it possesses, as previously mentioned, the largest market for Islamic finance. The primary goal of these issuances was to finance the construction, expansion, and development of several major infrastructure projects. Not only that, but Malaysia's experience in the field of Islamic Sukuk also enabled it to use them to finance the state's general budget deficit.

c.1. Examples of Islamic sukuk used in Malaysia: Malaysian sukuk are divided in terms of issuance into government sukuk and corporate sukuk, with government sukuk accounting for the majority of sukuk issuances compared to corporate sukuk. Among the most notable sukuk issued by the Malaysian government, we mention the following:

- **Government Investment Issues (GII):** They are medium- and long-term securities that distribute cash coupons issued by the Malaysian government to finance developmental government expenditures. Like other government securities, they are issued by the central bank, with issuance sizes ranging between 1 billion ringgit and 4.5 billion ringgit, with maturities of 3, 5, 7, or 10 years. They are currently called Government Investment Issues.

It was first issued in 1983, according to the law governing government investment

of 1983, currently known as the Government Financing Act of 1983, which allowed Islamic banks to hold liquid securities to meet liquidity requirements in accordance with Islamic Sharia principles.

Government investment sukuk are currently issued in two main forms: the Bai' al-Inah and the Murabaha; in addition to a set of other Islamic sukuk issued by the Malaysian government, which we briefly mention as follows:

- **Malaysian Islamic Treasury Bills (MITB):** Issued by the Malaysian government, these are short-term securities based on Islamic Sharia principles, with a maturity period of one year. Both Islamic and traditional financial institutions purchase these bills.

- **Sukuk Ijarah Bank Negara Malaysia:** Sukuk Bank Negara Malaysia Ijarah (SBNMI). These sukuk are issued based on the Ijarah structure (through sale and leaseback), and a special purpose vehicle is established to issue these sukuk. The first international Malaysian Ijarah sukuk was issued in 2002 with a value of 600 million dollars.

- **Savings Bonds:** It represents an additional savings tool for Malaysian citizens over the age of 56, as well as citizens who have retired for medical reasons, regardless of their age. It is issued by Bank Negara Malaysia through a number of agent banks and is structured according to Islamic Sharia principles.

- **Savings Sukuk:** It resembles the previous savings bonds, but it is available to citizens aged 21 and above. It is issued by Bank Negara Malaysia on behalf of the Malaysian government through agent banks, with a minimum amount of 1,000 ringgit and a maximum of 50,000 ringgit, and its profits are distributed on a quarterly basis.

- **Malaysian Treasury Sukuk:** The Malaysian Treasury Company has issued various types of sukuk, with Murabaha sukuk representing the core structure of the sukuk, having maturities ranging between 3, 5, 7, and 10 years. (Morshed, 2018, p. 214)

It was first issued in 1983, according to the law governing government investment for the year 1983, currently known as the Government Finance Act of 1983, which allowed Islamic banks to hold liquid securities to meet liquidity requirements in accordance with Islamic Sharia principles. (Chew Sin Yee and others, 2015) Government investment certificates are currently issued in two main forms: the sale of the sample and the Murabaha formula. (Malaysia", 2013, p. 06).

2. The Sudanese Experiment:

2.1. The budget deficit in Sudan:

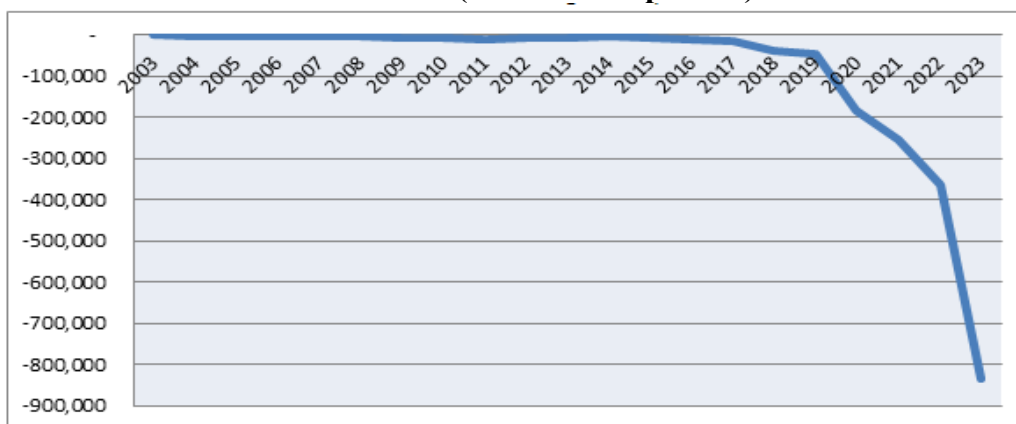
The general budget of Sudan has experienced fluctuations in its balance due to changes in public revenues and public expenditures during the period from 200

3 to 2023. This is due to numerous economic and political challenges and events that the country and the world have faced, such as the economic blockade imposed on Sudan and the repercussions of the global financial crisis since 2008. Additionally, South Sudan's secession and the economic recession resulting from the COVID-19 pandemic have negatively affected the state's total public revenues, leading to a decline in growth due to reduced economic activity, decreased exports,

rising inflation rates, and reduced foreign aid, among other factors that increased the state's budget deficit.

a. The nature of the budget deficit in Sudan: The general budget of Sudan has been suffering from a deficit that has persisted throughout the period from 2003 to 2023. Therefore, this deficit can be described as structural, as shown in Figure (01). The size of the deficit varies, and some years (from 2003 to 2008) could have addressed it. However, it has seen a sharp increase recently (2018-2023). We will attempt to analyse the main reasons behind these changes.

Figure 04: Changes in the total budget deficit in Sudan during the period 2020-2023 (unit: million pounds)



Source: The figure was prepared based on the following:

- The annual reports of the Central Bank of Sudan (2003-2019), from the official website of the ministry: <https://cbos.gov.sd>
- Report of the Ministry of Finance and Economic Planning of Sudan, "Budget for the Fiscal Year 2021", issued in December 2020, p. 06.
- Ahmed Al-Babtain, Sudan approves the 2023 budget with a 1.4% deficit of the GDP, article published on the following website: https://www.aleqt.com/2023/01/30/article_2482136.html Date accessed: 02/04/2026 at 18:29
- Hala Hamza, after 20 days of January: The implementation of the 2022 budget begins with a total deficit of 363 billion pounds, an article published on the following website: <https://alsudaninews.com/> Date of access: 02/04/2026 at 18:29

Figure (04) shows a continuous budget deficit in Sudan during the period 2003–2023 due to insufficient revenues to cover expenses, with the deficit reaching its lowest level in 2003 (326 million pounds) and peaking in 2023 (833,000 million pounds), with fluctuations in its ratio to GDP.

The continuation of this deficit is attributed to several factors, the most prominent of which are weak financial resources; increased spending on public services and infrastructure; rising social pressures due to conflicts and migration; in addition to the burdens of external debt. Political transformations, especially the secession of South Sudan and the loss of a significant portion of revenues, along with peace agreements and the repercussions of the COVID-19 pandemic, have also contributed to the worsening budget deficit.

2.2. The most important issues of Islamic sukuk in Sudan:

Sudan has been able to issue a variety of Islamic sukuk that meet Sharia conditions and requirements on the one hand and enable it to mobilise resources to finance government projects and budget deficits on the other. Additionally, they are used as a tool to control the money supply within the framework of what is known as open market policy. Below are the most important government-issued sukuk:

a. Government Participation Certificates (Shahama): It was first issued on May 8, 1999, and it consists of financial certificates or sukuk based on a participation contract. These are issued by the Ministry of Finance and Economic Planning on behalf of the Government of Sudan and marketed by Sudan Financial Services Company Limited and authorised agency companies. They are short-term certificates with duration of one year, tradable in the secondary market, representing specific shares in a special fund containing real assets. They are issued by the state in exchange for its ownership rights in several profitable institutions on behalf of the Sudanese government, based on the principle of profit and loss sharing. The purpose of issuing them is to finance the state budget deficit and reduce deficit borrowing (from the banking sector). They can be invested in by banks, financial institutions, companies, funds, or individuals.

Table No. (02): Sales of the "Shahama" Participation Certificate during the period (2010-2022):

The years	Number of certificates sold	Value (million pounds)
2010	18,904,639	9,452.3
2011	22,279,547	11,139.7
2012	25,972,660	12,986.0
2013	28,268,735	14,134.4
2014	31,545,804	15,772.9
2015	36,891,981	18,446.0
2016	41,119,261	20,559.6
2017	47,662,866	23,831.4
2018	53,684,542	26,842.3
2019	61,684,542	30,842.3
2020	69,566,067	34,783.0
2021	76,853,522	38,426.8
2022	75,495,781	37,747.8

Source: The table was prepared based on:

- The annual reports of the Central Bank of Sudan (1999-2023), from the official ministry website: <https://cbos.gov.sd>

- The Economic and Financial Review for the Fourth Quarter of 2020 issued by the Central Bank of Sudan, General Administration of Policies, Research, and Statistics, Issue 3, Volume 61, 2020, p. 46.

The Sudan Financial Services Company began issuing "Shahama" certificates with a fixed issue value of 500 pounds per certificate during the period 2000–2015. The figures in Table 01 show that the use of government participation certificates, "Shahama", has seen significant and increasing effectiveness, especially starting from 2010, and up to 2020, where it rose from 18,904,639 in 2010 to 69,566,060

certificates sold in 2020, Where it increased from 18,904,639 in 2010 to 69,566,060 certificates sold in 2020, indicating that these certificates provided a suitable alternative to interest-based sukuk. The Central Bank intervened through open market operations during the period from 1999 to 2009, where it was able to reduce the inflation rate from 476% to 8%. Between 2018 and 2019, the number of government participation certificates "Shahama" sold increased from 53,684,542 certificates worth 26,842.3 million pounds at the end of 2018 to 61,684,542 certificates worth 30,842.3 million pounds at the end of 2019, with a rate of 14.9% and 37,747.8 million pounds in 2022, indicating the increasing demand for them.

b. Government Investment Sukuk (sarh): They are financial certificates based on the principles of Islamic Sharia and structured on the basis of the Mudarabah contract. Launched in 2003, they are issued by the Ministry of Finance and Economic Planning (the entity seeking financing), while the Mudarib is the Sudan Financial Services Company Limited, and the certificate holders are the capital providers. These certificates are documents with a nominal value specified in Sudanese pounds, allowing the holder to participate in the profits from financing government projects. They are based on the restricted Mudarabah contract for resource mobilisation through leasing, Murabaha, Istisna, and Salam contracts in the field of resource allocation. These certificates finance infrastructure projects, development projects, and sectors such as health, education, and water. Thus, their objectives align with those of Shahama certificates, which aim to provide resources for financing various needs. The term of these certificates ranges between 2 and 6 years.

Table No. (03): Sales of government investment certificates “Sarh” during the period (2010-2022)

The years	Number of certificates sold	Value (million pounds)
2010	18.264.017	3.301.82
2011	19.442.477	1.944.2
2012	14.761.555	1.476.3
2013	8.413.256	841.3
2014	8.319.691	831.9
2015	9.042.101	904.2
2016	8.291.901	829.2
2017	8.195.403	819.5
2018	10.524.097	1.052.4
2019	10.524.097	1.052.4
2020	14.823.354	1.482.3
2021	14,823,543	1,482.4
2022	14,823,543	1,482.4

Source: The table was prepared based on the following:

- The annual reports of the Central Bank of Sudan (2003-2023), from the official website of the ministry: <https://cbos.gov.sd>
- The economic and financial report for the fourth quarter of 2020 issued by the Central Bank of Sudan, General Administration of Policies, Research, and Statistics, Issue 3, Volume 61, 2020, p. 47.

Sudan began issuing government participation sukuk, known as "Sarh," in 2003, allowing only limited participation from foreign investors. The aim was to mobilise savings, finance development and infrastructure projects, and diversify the country's resources to mitigate inflationary pressures. These sukuk saw a surge in demand between 2007 and 2011, before declining from 2012 onwards due to economic and political circumstances. A relative improvement was recorded between 2020 and 2022. Despite this fluctuation, the increase in the number of certificates sold, both in the "Sarh" and "Shahama" bond programmes, confirms their continued popularity and the Sudanese government's reliance on them as an effective tool for managing liquidity and financing public spending. They have contributed to controlling inflation, achieving economic stability, and reducing dependence on traditional financing, reflecting their pivotal role in funding infrastructure projects.

c. Central Bank Participation Certificates (Sham): It started in June 1998 and ended in 2004; they are certificates representing specific shares in a special fund containing real assets owned by the Central Bank of Sudan and the Ministry of Finance in banking institutions, based on the principle of profit and loss sharing, with the aim of managing and regulating liquidity. The Central Bank offers to buy these certificates from their owners when economic activity requires liquidity, and conversely, when liquidity increases, the certificates are offered for sale.

d. Central Bank of Sudan Ijarah Certificates (Shahab): It emerged as an alternative to the Central Bank's participation certificates (Shamm), as it was issued on August 30, 2005. It is a financial instrument based on lease contracts representing specific shares in a special fund. This fund contains fixed assets (buildings) owned by the Central Bank of Sudan in the capital and states. It is tradable only among banks and used to manage liquidity.

e. Ijara Certificates for Khartoum Oil Refinery Assets (Shama): Where the work on Shama certificates began on October 27, 2010, which are a medium-term investment fund created with the purpose of mobilising investors' resources through a Sharia-compliant agency contract, to be employed in purchasing the assets of the Khartoum Oil Refinery and leasing them to the Ministry of Finance on an operational lease to achieve annual returns ranging between 12% and 14%.

And. Certificates of the Foreign Currency Collective Investment Fund (Shomoukh):

These certificates are documents with a specific nominal value, issued in April 2009, with the primary aim of enabling the Central Bank of Sudan to manage the country's foreign exchange resources and create investment opportunities that yield profits for the holders of these certificates by issuing and offering them to investors.

So, it is noticeable in this variety of Islamic Sukuk that they differ according to the structures they are based on, whether they are speculative, participatory, leasing, cost-plus, manufacturing, or forward contracts, depending on the underlying assets on which these Sukuk are issued and according to the needs of the bond issuer and the investors in it;

They also vary according to the purpose of their issuance, whether to finance the budget deficit and reduce borrowing from the banking system or to use the proceeds of these sukuk to finance infrastructure projects and the health and education sectors, in addition to using them as a tool for liquidity management. Thus, these sukuk aim to provide resources to finance the state's various needs.

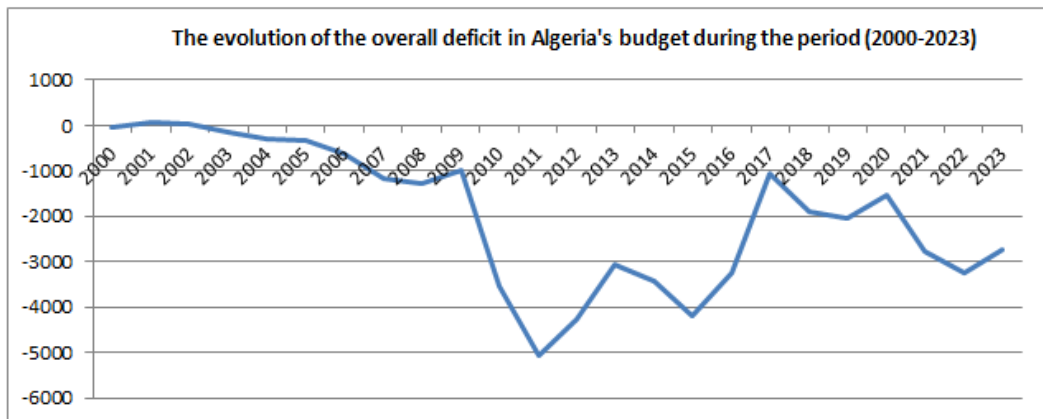
Secondly: The contribution of Sudanese government sukuk to the internal financing of the general budget deficit.

The sukuk issued by the Sudanese government has been able to contribute to financing the state's budget deficit, as it is considered part of the internal funding sources that the state relies on to cover it. They have significantly contributed to providing real financing for the general budget deficit in Sudan by using genuine local sources. Consequently, this has reduced reliance on borrowing from the central bank and foreign loans to finance the internal gap and limited the issuance of guarantees for budget financing. Additionally, the sukuk has supported the state's strategic and developmental projects in Sudan and has been used to implement monetary policy and create means and tools for managing liquidity in the country's economy in accordance with Islamic law.

The Algerian public finance embodies a state of chronic structural fragility, as government revenues are almost entirely concentrated on the hydrocarbons sector, which represents more than 93% of the country's foreign exchange earnings. The general budget deficit for 2025 reached a record level unprecedented in the country, amounting to approximately 8000 billion Algerian dinars, equivalent to about 62 billion dollars, based on unprecedented government spending exceeding 16000 billion dinars.

In the face of these challenges, the Algerian government was convinced of the necessity to attract an estimated seven billion dollars from savings trapped in the vortex of the parallel economy, along with mobilising a large segment of citizens who religiously reject dealing with interest-based financial instruments. Sovereign Islamic sukuk came in response to these intertwined necessities.

Figure 05: The development of Algeria's overall budget deficit during the period (2000-2023)



Source: Prepared by the researcher based on:

- Ministry of Finance, Directorate of Forecasts and Policies: Ministry of Finance reports are available on the website: <https://www.mf.gov.dz> Date of access: 04/05/2026

-Imad Ghazazi, Bouslam Mohamed, The Budget Deficit in Algeria: Its Causes and Financing Mechanisms, An Analytical Study for the Period (2000-2019), Journal of Studies and Researches of the Arab Journal for Research and Studies in Human and Social Sciences, Volume 12, Issue 4, October 2020, Twelfth Year, p. 617.

The development of the budget deficit in Algeria during the period 2000–2023 shows a transition of public finance from a state of near equilibrium to a continuous structural deficit. There were relative surpluses at the start of the millennium (2000–2002), with values of 68.70 billion DZD in 2001 and 26.10 billion DZD in 2002. However, a deficit started in 2003, with a value of -164.60 billion DZD. This deficit gradually worsened, reaching record levels during the period 2010–2012, peaking at -5074.16 billion DZD in 2011.

The deficit stayed high from 2013 to 2019, between 3059.82 and 2049.25 billion DZD, because oil prices fell. In the last few years (2020–2023), the deficit continued to be high even though revenues improved, hitting -3245.32 billion DZD in 2022 and then dropping to 2724.20 billion DZD in 2023, as revenues rose to 8997.33 billion DZD while spending went up

In 2024 (up to June), a significant worsening of the deficit was recorded, reaching approximately -2670.67 billion DZD, compared to -211.39 billion DZD during the same period in 2023. This deterioration was attributed to a 34.9% increase in expenditures versus a 21.2% decrease in revenues.

3. The legal and institutional framework

The legislative framework for Algerian sukuk is based on a system of integrated legal texts: most notably Article 179 of the 2025 Finance Law, which explicitly permits the public treasury to issue alternative financial instruments, including Islamic sukuk, and the 2023 Monetary and Banking Law, which established the comprehensive legal framework for Islamic finance with its three components: Islamic banking, Takaful insurance, and sukuk. Additionally, Executive Decree

No. 20-02 regulates Islamic finance activities at the level of banks and financial institutions.

The Ministry of Finance's decision on June 1, 2025, explained how the first issuance would work. It was worth 296 billion Algerian dinars, or about 2.3 billion dollars. This issuance aimed to finance movable and immovable assets fully owned by the state, with the Ijarah contract being the primary Sharia basis for the first issuance.

4. Assessment of Challenges and Obstacles

The Algerian experience in issuing sukuk faces a series of fundamental challenges that require precise diagnosis and the establishment of clear strategies to address them. These challenges can be classified into four main areas:

- The institutional and legal challenge: It lies in the absence of an independent and credible Sharia supervisory body dedicated to issuing fatwas on Islamic financial industry products. It was announced in the first issuance document that Sharia compliance would be issued by the Supreme Islamic Council, but the National Sharia Authority for Islamic Finance, which was supposed to undertake this task, still has its activities frozen, raising serious questions about the reference for fatwas and the extent to which large segments of the population accept these sukus.
- Challenge of social acceptance: Field studies and expert reports reveal that a large segment of Algerian citizens still express reservations about the legitimacy of Islamic finance products based on conflicting fatwas or due to negative experiences with some Islamic products whose actual costs exceeded those of their traditional counterparts.
- The challenge of limited impact on the deficit: Preliminary estimates indicate that the first issuance of 2.3 billion dollars only covers about 3.7% of the total budget deficit of 62 billion, meaning that sukuk currently represents a complementary tool rather than a comprehensive solution.
- Challenge of the secondary market: Algeria currently lacks an organised secondary market that allows for the trading of sukuk after their issuance, which is an essential condition for achieving liquidity and enhancing the attractiveness of this instrument for both institutional and individual investors.

5. Comparative study and gap analysis

- Elements of comparison between international experiences and the Algerian experience

The comparative analysis between the leading international experiences in the field of Islamic sukuk, represented by Malaysia and Sudan, and the emerging Algerian experience allows for the extraction of a set of essential points that reflect the differences and similarities and highlight the requirements for the success of this financial tool in the Algerian context, as follows:

- Malaysia enjoys a comprehensive and accumulated legislative framework that extends over four decades in the field of Islamic finance, supported by a solid institutional experience and continuous updates. Sudan has also accumulated considerable experience in this field, especially with the adoption of a

comprehensive Islamic financial system. In contrast, the Algerian experience is still in its early stages, as it has only been a few years since the introduction of Islamic banking and the enhancement of the legal framework associated with it, which reflects the existence of an institutional gap that requires further development and gradual progress.

The Malaysian experience is based on a developed financial market characterised by its depth and liquidity, providing an active secondary market for trading sukuk, which enhances its investment attractiveness and allows for quick liquidity. Sudan also has a financial market, albeit less developed, but it plays a role in supporting the trading of Islamic instruments. While Algeria lacks an effective secondary market for sukuk, this situation poses a challenge to expanding their use and limits their attractiveness to investors.

Both Malaysia and Sudan are characterised by a significant diversity in the types of sukuk used, including ijara, musharaka, mudaraba, istisna, and others, which provides high flexibility in financing various projects and sectors. As for Algeria, the experiment started with a single form represented by Ijara Sukuk, which is a logical choice in the initial stage. However, it requires a gradual expansion towards more diverse forms to enhance the effectiveness of the tool.

Malaysia attracts a broad and diverse base of investors, including international financial institutions and sovereign investment funds, which enhances its ability to mobilise substantial financial resources. Sudan also benefits from an investment base with a local and regional character. In contrast, Algeria's investor base remains limited, primarily comprising local actors, which diminishes the potential funding that sukuk can mobilise.

The presence of a comprehensive and unified Shariah compliance system is one of the most important factors for the success of the Sukuk experience in Malaysia and Sudan, as it contributes to enhancing investor confidence and ensuring adherence to Islamic law. As for Algeria, this aspect is still under construction, necessitating efforts to establish strong and independent Shariah supervisory institutions to enhance credibility and broaden the appeal of this instrument.

This analysis highlights that the success of the Islamic sukuk experience in Algeria is not only linked to its issuance as a financial instrument but also requires the provision of an integrated environment that includes a mature legislative framework, an effective financial market, a variety of instruments, a broad investment base, and a reliable Shariah compliance system, allowing for the benefit from leading international experiences and their adaptation to national specificity.

Conclusion:

It is evident from this study that Islamic sukuk have proven effective as a sovereign financing tool in several leading Islamic economies, particularly Malaysia and Sudan. It indeed represents a legitimate and ethical alternative to interest-based instruments, combining three complementary advantages: financial discipline through linkage to real assets, mobilisation of savings that are hesitant to enter the traditional system, and deepening financial inclusion.

On the Algerian front, there are encouraging objective elements that qualify the experience for success, foremost among them: the declared political will, the established legal framework, and the latent demand from citizens wishing to invest their savings according to Islamic principles. However, the road to tangible and substantial results is still long and fraught with challenges.

Based on the study's results and the lessons learned from comparative experiences, the research recommends the following:

- Immediate action to establish or reactivate an independent and competent Sharia board that enjoys credibility among the public, which will oversee Islamic financial industry products, including sukuk, and issue clear and reliable fatwas.

- Launch a comprehensive national financial awareness campaign that explains to Algerian citizens the Sharia-compliant and practical nature of sukuk, distinguishing them from traditional interest-bearing sukuk, with the assistance of locally trusted religious scholars.

- Accelerating the establishment of an organised secondary market for trading sukuk in coordination with the Financial Market Authority (COSOB), ensuring liquidity and enhancing the attractiveness of this instrument.

- Gradually diversifying the forms of sukuk to include participation, istisna, and speculation, thereby expanding their use in financing infrastructure projects, renewable energies, and agriculture.

- Opening up to international investors from Gulf countries and international Islamic financial institutions and offering sukuk denominated in foreign currency to attract external financial flows.

- Seeking the expertise of the Islamic Development Bank and the Malaysian Securities Commission in building institutional capacities and developing the Algerian legislative system.

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