

Islamic Sukuk as a mechanism to develop Islamic banking finance .

BENAISSA Selma*

Laboratory for economic studies on industrial zones in light of the new role of the university , Mohamed El- Bashir El-Ibrahimi University, Bourdj bouariridj

selma.benaissa@univ-bba.dz

BOUAFIA Samir

Laboratory for economic studies on industrial zones in light of the new role of the university , Mohamed El- Bashir El-Ibrahimi University, Bourdj bouariridj

samir.bouafia@univ-bba.dz

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Abstract:

This study aims to highlight the role of Islamic Sukuk in supporting and developing Islamic banking finance as an alternative to conventional finance. Islamic Sukuk is a tool for financing economic activities and projects in the Islamic world. The importance of Islamic Sukuk in promoting Islamic banking finance and expanding the base of investors who want to deal with these Islamic products as an alternative to ordinary capital products that do not comply with the principles of Shari'ah, namely stocks and bonds. This study has highlighted the effective role of Islamic capital products in the development of Islamic banking finance, especially Islamic Sukuk.

Keywords: Islamic capital products, Islamic banking finance, Islamic Sukuk.

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* BENAISSA Selma, email : selma.benaissa@univ-bba.dz

I. INTRODUCTION

Islamic capital is one of the key elements in the development and promotion of the Islamic economy, as it helps to provide the necessary financing for projects and investments in accordance with Islamic rules and values. Islamic capital products that play a prominent role in the development of Islamic finance include Islamic Sukuk, Islamic Shares, Islamic Bonds and various Islamic mutual funds.

Islamic capital products, especially Islamic Sukuk, play a vital role in the development of Islamic finance by providing a legitimate and effective means of financing projects and investments and enhancing trust among investors, banks and regulators. Thanks to innovations and developments in the field of Islamic capital, we can expect further growth and development in various capital products and their applications in various sectors of the economy.

Islamic Sukuk is an innovative embodiment of the Shari'ah-compliant financing model for projects and investments, as it is based on the principles of partnership and profit and loss sharing. Islamic Sukuk is an effective means of attracting Islamic financing from investors, banks and financial institutions, helping to provide the necessary funding for projects of all sizes. The importance of issuing Islamic Sukuk comes as a means of promoting Islamic banking activities and developing the Islamic economy, as it plays a prominent role in promoting economic growth and developing the Islamic banking sector. Therefore, we will try to answer the following question:

How does Islamic Sukuk contribute to the development of Islamic banking?

Sub-questions:

In order to capture the various aspects of the topic, the following sub-questions were asked:

- What are Islamic Sukuk?
- What is the concept of Islamic banking finance?
- What is the impact of Islamic Sukuk on Islamic banking finance?

Hypotheses of the study:

The research hypotheses were formulated as follows:

- Islamic Sukuk is a legitimate alternative to stocks and bonds.
- Islamic banking finance is the provision of wealth in kind, cash or otherwise to another person who will dispose of it in return for a profit.
- Islamic Sukuk is one of the capital products that can effectively contribute to the development of Islamic banking finance.

Objectives of the study:

This study aims to achieve a number of objectives, which can be summarised as follows:

- To highlight the theoretical dimensions of both Islamic banking finance and Islamic Sukuk.

- To highlight the impact of Islamic Sukuk on the development of Islamic banking finance.

Methodology of the study:

Due to the nature of the topic, the descriptive approach was used to describe the study variables, namely Islamic Sukuk and Islamic banking finance, and the analytical approach was used to analyze the various concepts related to the study topic.

Structure of the study:

In order to answer the question posed and achieve the objectives of the study, we tried to cover all aspects of the topic by dividing the research into:

- Sukuk.
- Islamic banking finance.
- The role of Islamic Sukuk in the development of Islamic banking finance.

1. Islamic Sukuk

Islamic banks face a number of challenges that hinder their work and limit the possibilities of their development, one of these challenges is the issue of liquidity in Islamic banks due to their limited resources, so Islamic Sukuk will be the outlet for these issues, as the definition of Sukuk, its conditions, characteristics and types will be addressed.

1.1. Definition of Islamic Sukuk:

Islamic Sukuk are financial instruments issued by the issuer in exchange for funds contributed to the project by investors. These sukuk are considered to be ordinary shares in the capital, equal in value and negotiable. Owners have specific rights and obligations according to investment and trading rules agreed in Islamic principles. (Naima Brody, 2013)

1.2. Basics about sukuk:

The basics are as follows:

1.2.1 Shari'ah condition and controls for Islamic Sukuk:

These terms are:

-they are based on the principle of participation in profits and losses, and are issued ;

-It is not allowed to exchange the same money for more or less;

- It is not allowed to sell the debt for less than its present value.

1.2.2 Characteristics of Sukuk:

Perhaps the most important of these features: (Abdelkader Khaddaoui Mustafa, 2009, p. 7)

- Documents issued in the name of their holders, of equal value, evidencing the rights of their holders to the assets and benefits they represent.
- These documents are considered as joint shares in the ownership of certain assets or benefits to be provided and do not constitute a financial obligation of the issuer to the holders of the documents.
- They are issued in accordance with specific Shari'ah contracts between the parties concerned, taking into account the Shari'ah controls in the process of issuing and trading them, in addition to determining the return on them.
- Sukuk trading is based on the legal conditions and controls for trading assets, benefits and services.

1.3.Types of Islamic Sukuk:

There are three divisions of sukuk types, which are as follows: (Kamal Tawfiq Hattab, 2003, p. 13)

.13.1 Islamic Sukuk based on Partnership Agreements:

In which the relationship between the issuer of the Sukuk and the holder of the Sukuk is a partnership relationship:

a. Sukuk Mudaraba (Mudaraba):

These are securities offered for subscription on the basis that the issuing company manages the business on the basis of Mudaraba, representing the Mudaraba factor and the Sukuk holders represent the owners of the capital. Mudaraba Sukuk take many forms such as absolute Mudaraba Sukuk, restricted Mudaraba Sukuk, gradual Mudaraba Sukuk and convertible Mudaraba Sukuk.

b. Musharaka Sukuk:

These policies represent equal values and are issued to use the subscription proceeds for a specific investment project. Ownership of the project is vested in the policyholders and these policies are managed under the Musharaka contract, whereby one of the partners is appointed as an agent to manage them as the representative of the investment. The bank finances the project with a sum of money, while the client provides another sum, making them owners of a share in the company's capital. Profits are shared according to income, while losses are shared according to each party's share of the capital.

c. Sukuk of Mazara'ah, Mugharaka and Maqasha'ah:

- Sukuk Mazara'ah:

Basically, the landowner gives the land to someone who will cultivate it or work on it, and they share the harvest, and the cultivation is a kind of participation where one of the partners participates with money or one of the elements of wealth, which is the land, and the second element of labor on the part of the other partner.

- Sukuk Al-Masqaha:

In the same sense, Masqa'ah is defined as the payment of a tree to a person who fixes it for a known portion of its fruit.

- Sukuk Al-Mugharasah:

The issuer of this sukuk is a landowner who wants to plant trees, and the subscribers are the planters, and the proceeds of the subscription are the cost of planting the trees, and the sukuk holders get a share in the land and the planting.

1.3.2 Sukuk based on sales contracts:

These include Murabaha, Salam and Istisna'a Sukuk:

a. Murabaha Sukuk:

Murabaha is a contract between the seller and the buyer on the price of the commodity, taking into account the original price of the commodity, so Murabaha is a contract between two parties, the seller, the Islamic bank, and the buyer, the customer, on the purchase of certain goods, so that the bank buys these goods at the request of the customer, and after owning them, sells them to him at their price, in addition to the reasonable profit agreed upon by the two parties.

b. Salam Sukuk:

Sukuk al-Salam represent joint interests in the capital used to purchase goods to be received in the future, marketed to customers and realised from the sale of the goods. These Sukuk are only traded after the capital has been converted into goods and received prior to sale, as the Sukuk represents co-ownership of these goods. Salam Sukuk is an effective means of raising funds for governments, companies and individuals engaged in agricultural, industrial or commercial production, as the producer can finance production operations by realising profits from the sale of goods at a later date..

c. Sukuk Al-Istisna'a:

Sukuk are a means of raising funds for the construction of buildings or the manufacture of equipment or machinery required by a specific organisation, in excess of the actual cost of construction. The rights of sukuk holders are the amounts they paid for the sukuk plus realised profits, which are the difference between the cost of producing the products and the price at which they are sold..

1.3.3 Sukuk based on Ijarah contracts:

They are represented in both Benefit and Lease Sukuk and Services Lease Sukuk:

a. Benefit Sukuk:

These are equivalent documents issued by the owner of an existing asset for the purpose of leasing its benefits, the rent of which is recovered from the subscription proceeds and becomes a benefit owned by the Sukuk holders.

b. Leasehold Sukuk:

These are ownership sukuk of an asset, which can be land, real estate or machinery. The owned property is leased as it generates a return specified in the lease agreement, so they are sukuk of equal value, the sum of which represents the value of the leased object.

c. Services Ijarah Sukuk:

Issued for the purpose of providing a service, the other party is remunerated from the proceeds of the subscription, and these services become the property of the sukuk holders, making them equivalent documents..

The following chart summarizes the types of Islamic Sukuk mentioned above:

Figure (1): Types of Islamic Sukuk



The source : Prepared by the researchers based on the above.

2. Islamic Banking Finance:

Islamic banking is one of the most important pillars of Islamic finance as it provides Shari'ah-compliant financial instruments and products. Therefore, in this axis, we will deal with the concept of Islamic finance and then refer to its origins and development, as well as the formulas of Islamic banking finance.

2.1. Fundamentals of Islamic Banking:

Here we will review both the concept as well as the emergence and development of Islamic banking.

2.1.1 The Concept of Islamic Banking

Islamic banking has many definitions, some of which can be listed as follows:

Banking was known even before Islam, so Islam came and regulated banking through specific laws in the Holy Qur'an, the Sunnah of the Prophet (peace be upon him) and the Hadith, and the work of the Prophet (peace be upon him) and the Companions in regulating banking hand to hand, like for like, on the recognized and accepted innate rule, and this service grew very significantly. It was one of the most important needs of the Islamic societies to find a banking apparatus that operates in accordance with the provisions of the Islamic Shari'ah and preserves and invests its funds, in addition to providing the necessary financing for investors away from the suspicion of usury. (Bank of the Republic, 2024)

The Kuwaiti Finance House defines it as follows: "Islamic banking is one of the approved forms of banking that complies in its rules with the teachings of Islamic law regarding financial transactions, for example, in Islamic banking it is not permissible to carry out buying and selling operations by adopting a usurious

interest rate between traders, but replaces this pattern with what is known as the profit margin ratio, as Islamic banking regulates the investment process in accordance with the provisions and principles of Islamic law in this regard." (Kuwait Finance House, 2024)

It is also defined by the Dubai Islamic Bank: "It is banking based on the inclusion of Shari'ah principles in the regulations and laws of the banking sector." (Dubai Islamic Bank., 2024)

We can say that Islamic banking is a financial system based on Islamic law in the organization of financial and commercial relations. Islamic banking differs from conventional banking in many aspects, including the prohibition of usury, speculation and illegal risk taking in its transactions. It also aims to achieve economic and social justice and promote equality among individuals and societies.

2.1.2 The emergence and evolution of Islamic banking:

The emergence of Islamic banks dates back to March 12, 1975, the date of the establishment of the first bank in Dubai. This bank achieved economic and social development, followed by the opening of banks and investment companies to reach about twenty by the end of 1983, including the following:

- Faisal Islamic Bank of Egypt: Opened in Cairo in 1976.
- Faisal Islamic Bank of Sudan: Established in Khartoum in April 1977.
- Kuwait Finance House: Established in 1977.
- Jordan Islamic Bank for Finance and Investment: Established February 22, 1978 in Amman.
- International Islamic Bank for Investment and Development: Established in Egypt, specifically in Cairo, in 1980.
- Dar Al Mal Islamic Bank: Established in 1981.

After that, Islamic banks spread all over the world, as they were not limited only to the countries of the Islamic world, and among the most important motives for the spread of Islamic banking we can find: The increase in the number of Muslims, which exceeded 1.5 billion Muslims, the financial crisis of 2008, and the development of Islamic financial engineering.

2.2. Characteristics of Islamic Banking

The main characteristics of Islamic banking are as follows (Ibrahim Abdul Latif al-Obeidi, 2015, pp. 17-18)

- Prohibition of dealing in interest.
- Preservation of human values and morals.
- Participation in profit and loss.
- Linking economic development with social development.
- Prohibition of activities prohibited by law.

2.3. Islamic Banking Financing Formulas

The main financing formulas in Islamic banks are as follows:

2.3.1 Company based formulas:

a. Mudaraba contract:

It is defined as: A type of participation between the owner of money and the owner of expertise in which the first provides money and the second provides expertise and they share the results of the project in agreed proportions (Monzer Kahf, without year, p. 139): "A man gives money to a man to trade with it on a known part of the profit taken by the worker, any part agreed upon as a third, a quarter or a half" (Ibn Rushd El Hafid., 1983, p. 236)

This financing formula was divided into

-In terms of mudaraba parties: It is divided into simple mudaraba and complex mudaraba.

- In terms of duration: It is divided into limited duration and continuous speculation.

- In terms of ownership of money: It is divided into mixed and non-mixed mudaraba.

- In terms of disposition: It is divided into absolute mudaraba and restricted mudaraba.

b. Musharaka:

It is the financing operations carried out by the method of participation to employ funds, based on the provision of financing by the bank to the client without requiring a fixed interest rate, but it is shared in the expected output, whether profit or loss. (Institute for Economic Studies, August 2011, p. 123)

There are two basic types of participation:

-Continuous participation: In which participants agree on how to finance and operate the project, and each participant's share of the profits is based on the percentage of their participation in the capital.

-Decreasing Musharaka, which ends in ownership.

2.3.2 Formulas based on turnover:

a. Murabaha Contract:

Defined as: "a contract of sale with capital and a known profit, the description of which is that the seller mentions to the buyer the price at which he bought the commodity and fixes a profit" (International Federation of Islamic Banks. , 1982, p. 329). It is also defined jurisprudentially as: "a sale with known capital and profit" (Ibn Qadama. , 1978, p. 102)

b. The Treaty of Peace:

It is defined as: "a sale in which the capital is advanced and the appraiser is delayed for a term" (Ahmed Suleiman Haddawneh, 2008, p. 90). defined by jurists as: "the sale of a thing described in the dhimma for a commodity soon to be given". (Nazih Hammad, without year, p. 7)

c. Istisna'a Contract:

It is a sales contract similar to the Ijara contract and can finance small manufacturers and artisans. Certain goods are identified and small manufacturers and artisans are assigned to develop their business according to a specific program to meet the needs of the market. According to this formula, the financial, technical, technical, marketing and other problems of small manufacturers and artisans are eliminated .(Ahmed Abdul Rahman Yusri, 2000)

d. Supplementary Ijara Contract:

It is a new technique introduced by Islamic banks, which is the process of acquiring assets by the bank at the request of the customer to transfer the ownership of the asset to the lessee after the end of the Ijara contract .(Khalidi Khadija, 2004)

-Lease agreement with a promise to donate the leased property upon completion of all rental installments, provided that the donation is a detailed contract.

- The lease with the promise to sell the leased property upon completion of the fulfillment of all rental installments for a nominal amount.

2.3.3 Ijara formula:

It is defined as: "A contract for a permissible and known benefit that takes little by little for a known period of time from a known or described eye or a known work" .(Ahmed Mohamed Al-Assal, Fathi Ahmed Abdulkarim, 1985, p. 173)

Ijara means "the possession of permissible benefits for a specified period of time in exchange for a known material consideration" (Wahba al-Zuhaili, 2002, p. 562). Ijara consists of two parties, the owner of the asset, the lessor, and the user or beneficiary of the asset, the lessee, as this formula does not aim to own the leased asset to the lessee, but rather to allow the use of the asset for the lessee and to use it or with it in exchange for the price of the benefit, i.e. the agreed rental value for a specified period of time, after which the asset returns to the owner.

The various financing formulas can be summarized in the following figure

Figure (2): Islamic Banking Financing Formulas



The source : Prepared by the researchers based on the above.

3. The role of Islamic Sukuk in the development of Islamic banking finance.

The issuance of Sukuk is one of the most important means of promoting the growth of the Islamic economy. It plays an important role in developing and enhancing the infrastructure of Islamic banking, thereby contributing to economic growth.

3.1. The role of Sukuk in activating long-term investment in Islamic banking:

Islamic banks have focused on short-term financing and neglected long-term financing that contributes to financing economic projects that are lacking in Islamic countries (Abdelkader Zitouni, December 2-1, 2010., p. 17)

Sukuk can provide long-term and medium-term financing by utilizing the funds deposited with them in the form of long-term investment sukuk. Therefore, banks must make a change in funding methods and the Sukuk mechanism is the best way to stimulate long-term investment by activating both participation and speculation. In order to accommodate the conditions and requirements of the investment activity, three factors are available, which are: Retail, monetization and trading. The following is a breakdown of the three characteristics:

3.1.1 Liquefaction function

The securitization process allows the investor to recover the capital through the monetization of the sukuk, which represents his financial stake, while the project remains intact without liquidation. As long as there is an opportunity to recover the capital at the right time, quickly and easily, and at the lowest possible cost, the Islamic bank will never be afraid to enter the investment fields, and there are other advantages of the monetization feature, which are as follows:

- Directing banks' investments towards profitable activities, without the need to liquidate existing investments that achieve average returns.
- Providing liquidity when needed, knowing that the abundance of liquidity has a great impact on the bank's activity and stability.
- Allocating large sums and investing them in projects with high returns.

3.1.2 Segmentation function:

Through the process of securitization, the size of the assets or investment opportunities to be financed is determined, after which the required capital is divided into shares with varying monetary values that correspond to the available capabilities of different individuals, thus providing them with the opportunity to participate in Islamic banks in their development investments, even if with a small amount of liquidity - and the Islamic bank, in return, obtains the required funding to implement its real investments.

So it is a real opportunity for the successful financing of large investment projects with high economic feasibility, and from the characteristic of fragmentation:

- The value of the share of capital becomes acceptable and accessible to the largest possible number of small investors and savers.
- The possibility of selling the offered share or covering as much of the offered share as possible.
- The possibility of obtaining the required financing in cash.

3.1.3 Trading feature:

The need to adapt and modify the initial contracts applied in Islamic banks, which are observed to have low liquidity and poor tradability, which hinders the transfer of ownership of emerging projects at once to another party easily and quickly, nor can he transfer part of that ownership to another party, or that ownership to multiple parties to make it available for buying and selling, which calls for invoking the trading feature, which is available in the Sukuk process, which begins with identifying the investment opportunities to be financed and estimating their cost, so that Sukuk can be issued to represent common shares in the assets of the specific project. investment opportunities to be financed and estimate their cost, then issuing Sukuk - representing common shares in the assets of the specific project - and offering them to the investing public to deal in buying and selling, whereby any investor can then buy a share of the investment project by purchasing the instrument representing that share, and the Islamic bank can then recover the money used in the project and move between investment opportunities available in the market easily and quickly.

3.2. The role of Islamic Sukuk in the development of Islamic banking:

Sukuk is one of the most important financing instruments that Islamic banks can invest in as an alternative to traditional securities that are not compatible with Islamic banking, as Islamic banks can provide the opportunity for a conscious choice of the purposes, areas and projects to which the proceeds of sukuk resources are allocated, and Islamic sukuk also provide an appropriate framework between the central bank and Islamic banks in the following is a review of both

the advantages that sukuk provides to banking as well as its role in providing an appropriate framework between the central bank and these Islamic banks.

3.2.1 Advantages of Sukuk for Islamic banking:

These include: (Khaled Mohammed Boody, 2003, p. 15)

- By investing in Sukuk, Islamic banks can improve the management of their assets and liabilities and help them in the process of harmonizing the sources of funds since Sukuk can be traded and monetized at any time, and thus Sukuk is a liquidity management tool that performs the functions of traditional securities but in a Shari'ah-compliant manner .(Salah Bassam Mahmoud Fayyad, Ali Abdulkarim Mohammed Al-Ababneh, November 13-12, 2013, p. 28)

- Utilizing financial instruments that can be issued by government authorities instead of traditional instruments such as treasury bills and government bonds, which are not compatible with the nature of Islamic banking. Through the mechanism of Sukuk, Islamic banks can invest in government-issued Sukuk, thus enabling Islamic banks to obtain income returns by investing in the balance of the monetary reserves at the Central Bank (Abdullah Khalid Amin, Al-Tarad Ismail Ibrahim, 2011, p. 336).

- Islamic Sukuk can be used in open market operations conducted by government authorities as one of the indirect monetary policy instruments, and Islamic banks can participate by investing in these instruments as an alternative to the conventional securities used by the government in implementing this monetary policy, which Islamic banks cannot invest in due to their illegality .(Salah Bassam Mahmoud Fayyad, Ali Abdulkarim Mohammed Al-Ababneh, November 13-12, 2013, p. 30)

- Some criticize Islamic banks for not diversifying their investments and not making long-term investments. Therefore, investing in Islamic Sukuk can help Islamic banks to achieve long-term investments, the possibility of planning cash flows and clarity of cash flows from these investments. Sukuk provide Islamic banks with new investment channels instead of overfunding, in addition to the ability to liquidate these investments at any time if the Islamic banks need to do so. Islamic banks can receive guaranteed cash flows that generate income, as well as the possibility of capital gains through the sale of these sukuk at more than their face value.

- Investing in Islamic Sukuk allows Islamic banks to find investment channels through which they can generate income returns without affecting their capital adequacy ratio. In addition, investing in government-issued sukuk can help improve their capital adequacy ratio while benefiting from the income generated by these investments without having to return this portion to the investor as non-performing cash balances.

- Islamic banks are looking for highly liquid investments so that they are always ready to return people's money quickly, and this is what investing in Sukuk can achieve for Islamic banks, which are characterized by the possibility of

monetizing them at any time. The use of the Islamic Sukuk mechanism in Islamic banks to attract savings will lead to an interaction between banking and investment in driving the development process, creating a more efficient and effective financial and employment structure, minimizing the risks to which these banks are exposed, and providing long-term resources to finance long-term investments without burdening the resource structure of Islamic banks.

3.2.2 The role of Islamic sukuk in providing an appropriate framework between the central bank and Islamic banks:

However, Islamic banks suffer from being subject to monetary policy tools that are not based on the principles of Islamic law, and this has complicated the relationship between the central bank and Islamic banks. The following is a presentation of two central bank policies and the role of sukuk in providing alternatives: (Abdelkader Zitouni, December 25-26, 2010, pp. 9-10)

a. Politics is the last resort for liquidity:

Central banks are the lenders to commercial banks in case of liquidity shortage, but Islamic banks cannot legally benefit from these loans because they are usurious, and to overcome this issue, an alternative must be found. In this regard, tradable Islamic Sukuk can be a suitable alternative as these Sukuk are the intermediary between central banks and Islamic banks. When Islamic banks need liquidity, they sell the sukuk in their possession to central banks instead of offering them in the market to be sold directly or later by central banks.

b. Open market operations:

This tool has no effect on Islamic banks and financial institutions because the assets they possess do not include bonds dealt by the central bank, and as a solution to this, a number of researchers and banking institutions have developed a number of sukuk whose purposes include using them as an alternative to usurious government bonds dealt in the money markets to control the size of the money supply, such as: When the central bank wants to increase the money supply, it goes to buy sukuk owned by the bank, financial institutions and individuals, at or above the market value of these sukuk, and pays the value of these sukuk in cash, and the recipients of these bales deposit them in banks, and the process of credit generation takes place when commercial banks receive these deposits.

3.3. The role of Islamic Sukuk in the management of liquidity in Islamic banks:

Liquidity management is one of the most important challenges facing Islamic banks and financial institutions, and the most prominent of these issues and challenges are liquidity surplus, liquidity deficit at times and other issues due to several reasons such as the lack of an appropriate and supportive environment, the incompatibility of the instruments offered in the market and their harmony

with the Shari'ah data, and the existing regulations and control of central banks with systems that often do not support the philosophy of Islamic banking. (Mustafa bin Nasser Al-Naabi, April 17-16, 2018, p. 6)

Therefore, it is necessary to search for mechanisms and tools that are compatible with the principles of Islamic law to manage liquidity, through which Islamic banks can manage their liquidity and diversify their investments .(Zeitouni Abdelkader, 2017, p. 211)

3.3.1 Liquidity Management in Islamic Banks:

It is necessary for there to be an effective liquidity management by the Islamic bank so that there is neither a surplus of liquidity in its interest nor a deficit, and the reality has proven that most Islamic banks suffer from a surplus of liquidity due to the lack of ready investment opportunities to invest the funds as soon as they are deposited, and here the taskeek process which represents a legitimate investment tool in which banks can invest their surplus funds and some of their assets to address the expected liquidity deficit or emergency deficit. Nevertheless, Islamic banks still face several difficulties in the area of liquidity management, which are mainly presented below .(Hakim Baradia, Abdelkrim Kendouz, 2014, p. 19)

Islamic banks are more akin to investment banks because they deal heavily in physical assets, which makes it difficult for them to monetize these assets.

-The limited and shallow money market and interbank market, as required by Islamic law, is the main source of liquidity risk.

- The absence of short-term liquidity instruments in which Islamic banks can invest a portion of their liquidity, as well as the absence of the repurchase agreement or overnight lending mechanism.

- Islamic banks are generally subject to the same control and supervision rules that govern the business of conventional banks, and as a result, the laws do not allow these banks to contribute to the capital of companies beyond their ownership rights. The imposition of a legal reserve ratio on investment deposits, despite the fact that they are not obligated to return them in full to their owners, as well as their inability to turn to the central bank for liquidity.

- Shari'ah restrictions on the sale of debt securities, which constitute an important part of Islamic banks' assets.

3.3.2 The Role of Sukuk in Managing Excess Liquidity in Islamic Banks

Sukuk plays an essential role in achieving balance when there is surplus liquidity, as it is considered one of the most prominent means by which Islamic financial institutions can benefit from it by investing this surplus in subscribing to various Sukuk, and these Sukuk are based on Shari'ah contracts, and utilizing them through secondary markets, capital markets, etc. The success of liquidity management in Islamic banks requires the provision of highly effective financial instruments that combine profitability, diversity and responsiveness to different maturities.

In the event of excess liquidity, Islamic banks can purchase such instruments from their supply in accordance with their treasury management policies. Here, Islamic banks are able to generate attractive returns through the yield on these instruments (Mustafa bin Nasser Al-Naabi, April 17-16, 2018, p. 20).

3.3.3 Addressing Liquidity Shortfalls through Sukuk:

In the framework of profit and loss sharing, the bank cannot recover its funds until the project reaches the production stage, so Islamic banks, like other Islamic financial institutions, are exposed to the problem of liquidity shortage, but in the case of Sukuk, these investments can be sold in the secondary market and obtain the necessary liquidity. Therefore, it can be said that in case of liquidity shortage, banks can monetize some of their long-term investment projects such as Istisna'a projects, Ijarah and Ijarah to Ownership projects, Musharaka and Musharaka to Ownership projects, and others, thus obtaining the necessary liquidity in accordance with the provisions and principles of Islamic Shari'ah.

3.3.4 Advantages of Sukuk in Liquidity Management in Islamic Banks:

One of the characteristics and advantages of Sukuk is the control of surplus and deficit liquidity of Islamic banks through the method of Sukuk, which is characterized by efficiency and effectiveness due to its ability to manage the liquidity available to the Islamic bank rationally and efficiently .(Abdelkader Zitouni, December 2-1, 2010., p. 16)

Securitisation seeks to address the liquidity problem by monetising illiquid assets for trading in the financial markets, for reinvestment and to expand their operations and activities without the need to raise capital or deposits.. Sukuk enable banks and financial institutions to efficiently manage their liquidity through the following features

- The variety of investment instruments available for investment.
- Diversification in terms of maturities and instruments available for investment.
- Avoidance of maturity mismatches between assets and liabilities.
- The existence of Takaqeeq helps Islamic banks and financial institutions to utilize excess liquidity and thus compete in the local and international financial markets.
- The existence of Takaqeeq instruments, their diversity and multiple maturities will help deepen and develop the secondary market for trading financial instruments in Islamic countries.

II. Methods and Materials:

Through analyzing the impact of Islamic bonds on the growth of the Islamic banking sector and project financing, the study can provide

valuable insights into enhancing this sector and bolstering its role in the economy, by employing Islamic bonds more effectively through:

- Studying the challenges and opportunities related to Islamic bonds and their influence on Islamic banking.
- Analyzing the factors affecting the evolution of Islamic bonds.
- Evaluating the performance and impact of Islamic bonds in project financing.

III. Results and discussion :

After highlighting the contribution of sukuk to the development of the Islamic banking system, a number of conclusions were drawn:

- The Islamic Sukuk is a new financing instrument that operates within the framework of Islamic economic thought because the source of this financing instrument is based on Islamic Shari'ah.
- Sukuk plays an important role in meeting financing and investment needs.
- Sukuk and other Islamic products expand the range of Islamic financial instruments in the market.
- Sukuk is a central tool in the activity of banks by developing the structure of resources and utilization.
- Sukuk has an investment and financing role that reduces the liquidity problem.
- The Islamic Sukuk mechanism provides an appropriate supervisory and regulatory framework for Islamic banks by providing them with financial and monetary instruments in accordance with Shari'ah.

IV. Conclusion:

From the above, it can be concluded that Islamic capital products in general and Islamic Sukuk in particular contribute significantly and effectively to the development of Islamic banking finance by activating long-term investment, managing liquidity whether surplus or deficit, providing an appropriate framework between the central bank and Islamic banks, and developing banking business in general.

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