

The Legal Framework for Regulating Islamic Sukuk in Algeria: An Analytical Reading in Light of the Banking Reforms for the Period 2020-2025

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Abstract:

This study addresses a highly important topic, namely the legal framework governing the issuance of Islamic sukuk in Algeria, in light of the series of banking and legislative reforms witnessed by the country during the period 2020-2025, as part of its orientation towards diversifying sources of financing and activating Islamic finance instruments. The study concluded with a set of recommendations aimed at activating the legal framework, strengthening the institutional environment, and encouraging coordination among stakeholders to ensure a genuine launch of the Islamic sukuk market in Algeria.

Keywords: Islamic Sukuk, Legislative Environment, Banking Reforms, Financial Market.

Jel Classification Codes: G18.G21

1. INTRODUCTION

The world has witnessed fundamental shifts in the financing and investment systems in recent decades, prompting many countries to adopt alternative models that align with the requirements of sustainable development and consider the ethical and Sharia dimensions of financial transactions. In this context, Islamic sukuk have emerged as a modern financial instrument representing a qualitative leap in the Islamic capital market, providing a financing mechanism compliant with the provisions of Islamic Sharia, based on assets and profit-and-loss sharing, away from usurious interest.

In the Islamic world, many countries have made significant strides in developing the sukuk market, such as Malaysia, Saudi Arabia, the UAE, and Jordan, where legislative and institutional environments have been harnessed to enable these sukuk to play their role in mobilizing financial resources, financing major development projects, and diversifying fiscal policy tools.

In Algeria, official interest in Islamic banking has increased since 2020, with the beginnings of banking and financial reforms aimed at diversifying financing instruments and achieving greater financial inclusion, including the inclusion of Islamic sukuk in Law 20-02. However, the reality of implementation raises several questions about the readiness of the legal, institutional, and economic framework to activate this instrument, especially in the absence of a specific law, weak infrastructure for Islamic finance, and the hesitation of market actors.

This leads us to pose the following question as the problem of this study:

To what extent can the legal framework and banking reforms in Algeria during the period 2020-2025 be considered sufficient to activate the Islamic sukuk market and make it a genuine tool for development financing?

To answer the problem posed, the following hypothesis was formulated:

The banking and legal reforms initiated by Algeria since 2020, despite their importance, are still insufficient on their own to activate the Islamic sukuk market, due to the absence of a specific and

comprehensive sukuk law, the lack of a supportive institutional framework, and the weakness of Islamic financial culture among market actors.

The objectives of the study: This study aims to:

- Define the conceptual framework of Islamic sukuk in terms of their characteristics, mechanisms, types, and distinction from traditional financial instruments;
- Analyze the legal and regulatory framework for Islamic sukuk in Algeria during the period 2020-2025, focusing on relevant legislation, especially finance laws and banking reforms;
- Assess the readiness of the legal and economic environment to activate the Islamic sukuk market as an alternative financing tool, providing a critical reading supported by indicators;
- Propose practical and legislative recommendations that would support the development of the sukuk market in Algeria, in line with the requirements of the national economy and the standards of Islamic Sharia.

Importance of the Study: This study is of great importance as it addresses a strategic topic that intersects with Algeria's efforts to diversify financing instruments and activate the Islamic capital market, amid deep economic and structural transformations witnessed by the national economy since 2020. Examining the legal framework for Islamic sukuk is an essential entry point for understanding the extent of the readiness of the legislative and institutional system to absorb this type of financial instrument, which has become an effective means of financing major development projects in a number of Islamic and non-Islamic countries. The importance of this study also stems from its integration of legal analysis and critical study of reality, allowing for a comprehensive scientific vision regarding the prospects for activating the Islamic sukuk market in Algeria and opportunities for its development within a banking environment undergoing reform.

Study Methodology: This study relies on a combination of analytical and descriptive approaches. In the theoretical part, we addressed various theoretical concepts related to the topic, while in the applied part, we conducted a critical analysis of the readiness of the legal and economic environment to activate the Islamic sukuk market in Algeria.

Study Plan: The study is divided into three parts. The first deals with various theoretical concepts related to the topic, the second addresses the evolution of the legal framework for Islamic sukuk in Algeria (2020-2025), and the third part is dedicated to conducting a critical assessment of the readiness of the legal and economic environment to activate the Islamic sukuk market in Algeria.

2. The Conceptual Framework of Islamic Sukuk:

Islamic sukuk emerged as an alternative to traditional bonds, which feature interest, and are considered among the most important sources of financing for various economic agents, especially the government and the banking system.

2.1 Definition of Islamic Sukuk, Their Characteristics, and Issuance Objectives:

Islamic sukuk result from the process of securitization and are characterized by a set of features that enable them to achieve a range of objectives at different levels.

2.1.1 Definition of Islamic Sukuk:

Islamic securitization has been defined as "a process through which the ownership of assets, usufructs, or both is divided into units of equal value, issued in the form of securities representing them.(Ben alDhaif & Rabea, 2011, p. 09)

It is noted that this definition does not take into account the Sharia aspect in issuing these sukuk, such as their issuance according to known Sharia contracts.

The International Islamic Fiqh Academy defined securitization (Islamic *tawreeq*) as "The issuance of documents or financial certificates of equal value representing common shares in the ownership of existing assets (tangible assets, usufructs, rights, or a mixture of tangible assets, usufructs,

cash, and debts) or to be established from the subscription proceeds, issued according to a Sharia contract and governed by its provisions." (Bin Ammara , 2011, p. 255)

This definition shows that Islamic securitization is the process through which Islamic sukuk are generated according to Sharia contracts and are governed by their provisions.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defined investment sukuk as "Certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs, services, or in the assets of a particular project or specific investment activity, after the receipt of the value of the sukuk, closing the subscription, and commencing their use for the purpose for which they were issued." (Boubrima, 2018, p. 89)

The Islamic Financial Services Board (IFSB) defines Islamic sukuk (Islamic bonds) as "Certificates that represent proportional undivided ownership rights in a tangible asset, or a pool of predominantly tangible assets, or a business venture (such as a project). These assets must be Sharia-compliant in nature and use, according to the principles of Sharia." (Suleiman & Bin Zaid, 2014, p. 03)

Thus, Islamic sukuk are securities of equal value that certify ownership rights to an undivided share in tangible assets of a specific project or a set of investment projects, public or private, issued according to a Sharia contract and governed by its provisions. In this form, they ensure a balance between the real economy and the financial economy, as an Islamic sukuk cannot be issued unless there is a specific project or existing investment activity.

2.1.2 Characteristics of Islamic Sukuk:

According to the Sharia standards issued by AAOIFI, the characteristics of Islamic sukuk are as follows (Gharaya, 2016, p.10):

- They are documents issued in the name of their owner or to the bearer in denominations of equal value to prove the rights and financial obligations they represent;

- They represent an undivided share in the ownership of assets designated for investment, usufructs, services, or a mixture thereof, including intangible rights, debts, and cash, and thus do not represent a debt upon the issuer to the holder;
- They are issued according to Sharia controls regulating their issuance and trading, and are issued based on a Sharia contract;
- Their trading is subject to the conditions for trading what they represent;
- Their owners share in the profit according to the agreement specified in the issuance prospectus, and they bear the loss in proportion to what each owns of the sukuk.

Among their other characteristics is that they are issued against tangible assets, which reduces the gap between the financial side and the real side, in addition to their diversity according to each formula of Islamic financing (Ijara, Murabaha, Mudaraba, Musharaka, etc.).

Also, the relationship between the various parties dealing with sukuk is not a debtor-creditor relationship, which distinguishes them from traditional bonds.

2.1.3 Objectives of Issuing Islamic Sukuk:

The process of issuing Islamic sukuk aims to achieve a set of objectives, including the following (Maati Allah & Shariyaq, 2012, p.03):

- **Mobilizing necessary resources from investors to finance investment projects:** Islamic sukuk contribute to raising the necessary capital for financing by offering sukuk according to Islamic financing formulas in the securities market, so that the subscription proceeds become the project's capital.
- **Providing the necessary liquidity to expand and develop the project base:** After converting the financial assets of governments and companies into Islamic sukuk, they are offered in the market to attract savings to finance long-term investment projects.
- **Improving the credit rating of institutions and companies issuing sukuk:** This is achieved by improving the creditworthiness and financing structure of the institutions issuing sukuk, as they require the

credit rating of the portfolio independently from the institution, thus raising its credit rating.

2.2 Types of Islamic Sukuk

There are several types of Islamic sukuk, which can be distinguished based on the criterion of tradability in the securities market as follows:

2.2.1 Tradable Islamic Sukuk: These include the following (Bin Ammara , 2011, p. 256) :

- **Mudaraba Sukuk:**

These are "an investment instrument based on the division of Mudaraba capital, by issuing ownership certificates for the Mudaraba capital on the basis of units of equal value and registered in the names of their owners as they own common shares in the Mudaraba capital and what it transforms into, according to each owner's share."

Types of Mudaraba sukuk include unrestricted Mudaraba sukuk, restricted Mudaraba sukuk, continuous Mudaraba sukuk, limited or gradually redeemed Mudaraba sukuk, Islamic investment certificates, and investment deposit certificates.

- **Musharaka Sukuk:**

Musharaka sukuk are defined as "Certificates of equal value issued to use their proceeds in establishing a project, developing an existing project, or financing an activity based on a Musharaka contract. The project or the assets of the activity become owned by the sukuk holders within the limits of their shares, and the sukuk are traded on the basis of partnership, or on the basis of Mudaraba, or on the basis of agency for investment."

- **Ijara Sukuk:**

Ijara sukuk are considered the first type of sukuk to be issued, representing about 80% of all sukuk to date. Ijara sukuk are defined as "Certificates of equal value upon issuance and indivisible, tradable by commercial means, representing undivided shares in the ownership of leased tangible assets, or the ownership of usufructs or services from a specific asset or described in liability."

Types of Ijara sukuk include sukuk of ownership of leased assets, sukuk of ownership of usufructs, and sukuk of ownership of services.

2.2.2 Non-Tradable Islamic Sukuk :

This type of sukuk is not tradable in the securities market and is considered as investments held until their maturity date. They cannot be traded because they are based on debts. They include the following (Gharbi & Jablahi, 2018, p. 138):

- **Istisna'a Sukuk:**

These are "an agreement between two parties where the first party contracts with the second party for the manufacture of products or the construction of civil engineering projects (bridges, roads, building power plants, water desalination, etc.), whereby the first party pays the amount specified in the contract, and usually the second party contracts on its side with specialized factories or contracting companies to implement the project according to the specifications determined by the first party."

- **Murabaha Sukuk:**

These are "Certificates of equal value issued for the purpose of financing a Murabaha commodity, whereby the latter becomes owned by the sukuk holders. The process of issuing Murabaha sukuk is only possible in the primary market, specifically in the case of the high value of the asset and the Murabaha project. However, their trading in the secondary market is contrary to Sharia, because the sale in Murabaha may be deferred and thus it is considered a debt, and the sale of debt is not permitted by most jurists. But there are some opinions that permit the trading of Murabaha sukuk but within a portfolio the majority of which consists of other assets such as Ijara, Musharaka, or Mudaraba contracts."

2.2.3 Other Non-Tradable Sukuk: Among these sukuk are the following (Shaban, 2013, p. 30):

- **Muzara'a Sukuk:**

These are bonds representing common ownership of agricultural land linked to a Muzara'a contract with an agricultural production company that specifies the rights and obligations of both parties. This is done by the company (issuing the sukuk) purchasing a set of lands for reclamation,

contracting with an agricultural company to cultivate them, and determining the profit share with it.

In return, this company (issuing the sukuk) issues Muzara'a sukuk and offers them for subscription. Thus, it recovers the value of the lands and their equipment, and the bondholder is entitled to a return based on the land's yield, which increases and decreases according to the season, while the company issuing the sukuk undertakes management and supervision and takes an agreed-upon percentage of the profits.

- **Musaqat Sukuk:**

These represent "Certificates of equal value issued to use the subscription proceeds in irrigating fruit trees and caring for them based on a Musaqt contract, and the sukuk holders get a share in the fruit."

- **Mugharasa Sukuk:**

These are "Certificates of equal value issued to use their proceeds in planting trees and the works and expenses required for this planting based on a Mugharasa contract, and the sukuk holders get a share in the land and the planted trees."

- **Salam Sukuk:**

These are "Documents issued by the seller of the Salam commodity, or the financial institution acting on his behalf, to receive the price of the Salam at the time of contracting from its proceeds. They are subscribed to by the buyers of the Salam commodity with the intention of selling this commodity after receiving it at a higher price and distributing the price among them, or selling a commodity through a parallel Salam of the same type and specifications as the Salam commodity before receiving the Salam commodity at a higher price and receiving the price from the buyer at the time of contracting and distributing it to the owners of Salam sukuk, then delivering the Salam commodity after receiving it or procuring another commodity from the market and delivering it to him. After closing the subscription and allocating the sukuk, they represent an undivided share in the Salam commodity, which is a commodity debt."

3. Evolution of the Legal Framework for Islamic Sukuk in Algeria (2020-2025):

Since 2020, Algeria has witnessed gradual shifts at the legislative level aimed at integrating Islamic finance instruments into the national financial system, as part of a strategic vision to diversify financing sources, especially in light of the economic pressures imposed by the COVID-19 pandemic and fluctuating oil prices. Although Islamic sukuk have not received a sufficient share of reforms compared to other instruments, the period 2020-2025 witnessed the issuance of a number of legal and regulatory texts directly or indirectly related to sukuk.

3.1 Institutional Recognition of Islamic Banking as a Starting Point for Regulating Sukuk

In 2020, Algeria began taking practical steps to integrate Islamic banking into its financial system, as part of a broader vision to diversify financing instruments and sources. Law No. 20-02 dated March 15, 2020, defining banking operations related to Islamic banking and the rules for their practice by banks and financial institutions, came as the first regulatory text opening the way for traditional banks to open windows offering financial services compliant with Islamic Sharia. (Bank of Algeria, 2020)

Although this law did not directly address Islamic sukuk, it is considered the cornerstone for the state's official recognition of Islamic banking as part of the national banking system. This law included conditions for opening Islamic windows, the nature of products that can be offered (such as Murabaha, Ijara, Mudaraba, Musharaka, investment accounts), which is a main entry point for preparing the legal and practical environment for issuing sukuk in the future.

This step shows a change in the stance of the financial authorities towards Islamic banking, moving from a phase of hesitation to a phase of gradual adoption, while considering regulatory and Sharia aspects. This structural change in the state's economic orientation came as a result of several factors, most importantly:

- The financial challenges facing the Algerian economy and the necessity to search for alternative financing tools;
- The successful experiences of Islamic and non-Islamic countries in adopting Islamic sukuk as a tool to attract capital;
- The growing societal demand for financial products compliant with the provisions of Sharia.

3.2 Regulations Issued by the Bank of Algeria Regarding Islamic Finance

As a complementary step to Law 20-02, the Bank of Algeria issued Instruction No. 03-2020 dated April 2, 2020, to frame Islamic banking at the level of commercial banks. This instruction defines the products related to Islamic banking and specifies the procedures and technical characteristics for their implementation by banks and financial institutions, precisely defining the conditions and procedures to be followed by banks wishing to offer Islamic banking products. (Bank of Algeria, 2020)

This instruction indicates that banks must provide:

- A detailed administrative and technical file on the nature of the Islamic products to be offered;
- Clarification of risk management mechanisms and Sharia compliance;
- Establishment of an internal Sharia supervisory body to ensure the compliance of financial products with the provisions of Sharia.

It is noted that the instruction established a general framework that allows in the future dealing with more complex financial instruments such as sukuk, through the development of Sharia bodies and internal governance in financial institutions.

Among the most prominent developments was the decision to establish the National Sharia Authority for Fatwa on Islamic Banking at the level of the Bank of Algeria, whose tasks include:

- Issuing Sharia fatwas regarding Islamic financial products;
- Reviewing and approving contracts and models used in providing Islamic services;

- Providing an opinion on the extent of compliance of new financial products, such as sukuk, with the provisions of Islamic Sharia.

This framework of regulation and Sharia supervision effectively paves the way for the practical application of sukuk, provided that the appropriate legislative environment is available.

3.3 The Monetary and Credit Law 23-09 Dated June 21, 2023

The Monetary and Banking Law is the regulatory mechanism governing the management and operation of the Bank of Algeria and defining its powers and operations. This law is one of the most prominent milestones in the path of framing Islamic finance, as it came to fill many gaps that previous texts suffered from, especially in light of the development of financial transactions and the diversity of financing instruments. Among the most prominent provisions of the law (Bank of Algeria, 2023) are:

- Expanding the tasks of the Bank of Algeria to include supervising banks that offer financial products compliant with Islamic Sharia;
- Referring to the necessity of diversifying financing instruments and opening the way for alternative instruments;
- Enabling banks to develop new financial products based on non-traditional financing contracts.

Through this law, it is noted that the legislator has come to consider Islamic instruments, including sukuk, as part of the possible solutions to support the financial system and finance public and private projects. Thus, it is considered a step towards the official recognition of Islamic banking products, making it necessary to develop specific regulatory texts for sukuk detailing:

- Sovereign sukuk and private sukuk;
- Methods of issuance and pricing;
- The role of regulatory and supervisory authorities.

3.4 Article 179 of the Finance Law for the Year 2025: The First Official Codification of Sovereign Sukuk

Article 179 constituted a turning point in the legal framework related to Islamic sukuk in Algeria, as it came for the first time in an explicit and clear

formulation allowing the Public Treasury to issue what is known as "sovereign sukuk," which are bonds representing usufruct rights to assets owned by the state, directed to citizens and institutions as a tool for participating in financing public projects of a commercial nature.(Finance Law , 2025, Art. 179)

Article 135 of the same law stipulated that these sukuk are subject to a tax exemption system for a period of five years, including both: Total Income Tax (IRG) and Corporate Profits Tax (IBS), as well as registration fees and real estate advertising tax.(Finance Law, 2025, Art. 135)

Thus, Article 179 is considered the first explicit legal text mentioning sukuk by name, ending the legislative ambiguity that characterized the previous stage. However, it still lacks a specific law or executive decree detailing the type of sukuk, their structures, parties, and liquidation methods. Despite this positive step, the actual application still faces several challenges:

- Absence of detailed executive regulations organizing the issuance process;
- Establishing a secondary market for trading sukuk and linking it to the stock exchange;
- Setting accounting and Sharia standards compatible with AAOIFI standards;
- Training legal and financial personnel on structuring and managing sukuk.

4. Critical Assessment of the Readiness of the Legal and Economic Environment to Activate the Islamic Sukuk Market in Algeria

Despite the recorded preliminary legislative steps, such as those included in Article 179 of the Finance Law for 2025, the transition from the level of legal text to an actual and integrated sukuk market requires the availability of a cohesive legal, economic, and institutional environment.

4.1 The Reality of the Legal Environment for Islamic Sukuk in Algeria

Despite the growing interest in Islamic sukuk as an alternative financing tool compatible with Sharia principles, the legal framework still suffers from the absence of a comprehensive law regulating the issuance and trading of sukuk. The laws have been content with referring to the possibility of resorting to sukuk without providing the necessary regulatory texts or clarifying the nature of the contracts used and governance mechanisms. This situation creates legal ambiguity that deters investors and financial institutions from taking the initiative.

A legislative comparison between Algeria and other Arab countries shows the extent of the disparity in the readiness of legal frameworks for issuing and trading sukuk, reflecting the gap in activating this market between Algeria and leading countries.

Table No. 1: Legislative and Regulatory Comparison of Islamic Sukuk between Algeria and Selected Arab Countries (2025)

Country	Name of Specific Sukuk Law	Year of Law Issuance	National Sharia Body
Algeria	Article 179	Finance Law 2025	National Fatwa Authority for Islamic Financial Industry
Saudi Arabia	Saudi Capital Market Authority	2010	Sharia Authority at the Saudi Central Bank
UAE	Securities and Commodities System	2004	Higher Sharia Authority
Jordan	Jordanian Islamic Finance Sukuk Law No. 30	2012	Fatwa and Sharia Research Council at the Central Bank of Jordan
Malaysia	Islamic Securities Law	2004	Sharia Advisory Council

Source: Prepared by the researcher based on:

- Saudi Capital Market Authority (CMA) website: <https://cma.org.sa>
- UAE Securities and Commodities Authority website: <https://sca.gov.ae>
- Jordanian Official Gazette, Islamic Sukuk System, No. 30 for the year 2012, and the Jordanian Fatwa website: <https://alftaa.jo>
- Bank Negara Malaysia - Shariah Advisory Council (SAC), IFSA-2013: <https://www.bnm.gov.my/sac>

Analysis:

Through the table, we observe a fundamental difference between the Algerian experience on one hand, and the experiences of leading countries

in the field of Islamic sukuk such as Saudi Arabia, Malaysia, the UAE, and Jordan on the other. This difference can be analyzed through:

- **Legislative Dimension:** Absence of a law in Algeria versus the existence of integrated frameworks in the compared countries. The data shows that Algeria is still in a preliminary stage, as it had not issued a specific sukuk law until 2025, but was content with including Article 179 within the Finance Law, an article that authorizes without regulating, meaning it lacks detail and does not establish an independent legal framework.
- In contrast, we find that Jordan issued a specific and independent law for Islamic sukuk in 2012 (Law No. 30), Malaysia included sukuk in the Islamic Securities Law of 2004 and strengthened it with the Islamic Financial Services Act (IFSA) in 2013. As for Saudi Arabia, it regulates sukuk through the regulations of the Capital Market Authority since 2010, reflecting the maturity of its legal framework.
- **Regulatory Dimension of Markets:** It appears that all the compared countries possess an organized market for trading sukuk, whether within traditional stock exchanges or special markets for Islamic debt instruments, which allows for their listing, valuation, and resale. In contrast, Algeria lacks an active financial market, and there is no trading platform or specific regulation for sukuk within the market financial bodies (COSOB or the Bank of Algeria). Consequently, the absence of a real trading market prevents the development of sukuk as an integrated financing and investment tool, making it closer to a suspended legal project than an effective economic instrument.
- In conclusion, it is evident that Algeria, despite announcing its intention to enter the Islamic sukuk market, is still institutionally and legislatively far from the countries that have developed mature sukuk markets. The difference lies not only in the legislative timing (delay in issuance) but also in the absence of legal structures, the limited mandate of the Sharia body, and the integrated institutional framework, making

any potential sukuk issuance in Algeria fraught with regulatory challenges and market confidence issues.

4.2 The Extent of Maturity of the Algerian Economic and Financial Environment to Adopt an Islamic Sukuk Market

Despite Algeria's adoption of a reformist discourse in the field of Islamic banking since 2020, the economic and financial environment is still not mature enough to accommodate an actual and growing sukuk market.

4.2.1 The Extent of Development of the Algerian Financial Market:

Despite the establishment of the Algiers Stock Exchange for more than two decades, its development remains limited compared to capital markets in other countries, as the number of listed companies does not exceed 8. Founding investors and foreign investors do not participate effectively, which directly affects the opportunities for listing and trading alternative financing instruments such as Islamic sukuk.

Table No. 02: Comparison of Financial Market Performance Indicators in Each Country until 2023

Indicator	Algeria	Saudi Arabia	Malaysia	UAE
Number of Listed Companies	8 companies	254 companies	982 companies	152 companies
Size of Islamic Debt Instruments Market	0	\$33 billion	\$300 billion	\$21.7 billion
Percentage of Islamic Finance of Banking Activity	2.4%	33%	36.4%	17.3%

Source: Prepared by the researcher based on:

- Bourse d'Algérie (2023) <<https://www.sgbv.dz/fr/statistiques/>>
- Islamic Financial Services Board (IFSB) Stability Report 2023: <<https://www.ifsb.org>>
- Sukuk Market Watch: <<https://www.saudiexchange.sa/en/ourmarkets/sukuk-market-watch>>
- Securities Commission Malaysia (SC) - Sukuk Statistics 2023: <<https://www.sc.com.my>>
- Dubai International Financial Centre (DIFC) Report 2023: <<https://www.difc.ae>>

Analysis:

Through the table, we observe regarding the number of companies listed on the stock exchange, Algeria does not exceed 8 companies on the national

stock exchange, reflecting the weak depth of the financial market and its inability yet to absorb complex investment instruments like sukuk. In contrast, both Malaysia and Saudi Arabia have wide listing bases, providing a solid institutional structure for structuring and trading sukuk.

Regarding the size of the Islamic debt instruments market, Algeria had not issued any sukuk until 2023, showing a complete absence of primary and secondary markets. In contrast, Malaysia is a global leader with a market size of nearly \$300 billion, supported by a strong regulatory structure and a network of Sharia and financial institutions.

Regarding the percentage of Islamic finance of total banking assets, we find Algeria at only 2.4%, which is very low compared to regional and international standards, while Saudi Arabia at 33% and Malaysia at 36.4% show a deep integration of Islamic finance within the banking system, making sukuk a natural extension of this environment.

In summary of the table, we find that Algeria is still in a foundational structural position that does not yet allow for building an integrated sukuk market. The weak number of listed companies, the absence of an Islamic debt instruments market, and the low percentage of Islamic finance all confirm the need for deep economic, banking, and structural reforms.

4.2.2 The Level of Financial Inclusion and Confidence in the Banking Sector:

The development of Islamic finance and financial inclusion in Algeria during the period 2020-2023 shows a gradual shift towards establishing Islamic banking as one of the components of the Algerian financial system. This trend has been supported by regulatory reforms and government attention, especially after the issuance of System 20-02 by the Bank of Algeria.

Table No. 03: Evolution of Islamic Finance and Financial Inclusion Indicators in Algeria (2020-2023)

Indicator	2020	2021	2022	2023
Number of Islamic Bank Accounts	9 897	26 209	66 217	715 886
Number of Islamic Banking Agencies	53 agencies	59 agencies	74 agencies	88 agencies
Volume of Islamic Finance of Total Financing	340.0 billion DZD	444.7 billion DZD	554.8 billion DZD	680.1 billion DZD

Source: Prepared by the researcher based on the Bank of Algeria report 2023: <<https://www.bank-of-algeria.dz/>>

Analysis:

- Through the table, the number of Islamic accounts saw a large leap from less than 10 thousand in 2020 to more than 715 thousand in 2023. The increase in the number of Islamic banking agencies was relatively slower, indicating a gap between the growth in demand and geographical supply. This expansion expresses a cultural shift in the behavior of users, which enhances the feasibility of developing investment financial products. The volume of Islamic financing doubled over four years with an annual growth rate of 26%. This development reflects the growing demand for Sharia-compliant financing and the transition of Islamic banking from the margin of the market to a structural component in Algerian banks.
- The data also shows a noticeable development at two integrated levels: quantitative and structural. On one hand, Islamic financing doubled from 340 billion DZD in 2020 to 680 billion DZD in 2023, indicating increasing user confidence in Sharia-compliant banking products and the transformation of these products from secondary services to main financial tools in public banks. On the other hand, Islamic bank accounts recorded an increase of more than 700 thousand accounts, indicating a wide acceptance of Islamic banking by different societal groups.
- However, this quantitative expansion, although a positive indicator, does not hide the limited diversity in Islamic financial products. The

majority of financing granted falls within the framework of traditional formulas like Murabaha, without transitioning to advanced investment financing tools such as Islamic sukuk.

- Although Algeria has succeeded in mainstreaming Islamic finance, this success is still within the framework of commercial financing and does not keep pace with the required progress in Islamic investment instruments. Despite the environment being ready from a societal and transactional standpoint to experiment with the first issuances of Islamic sukuk, the matter remains contingent on completing the legal framework, activating the role of the National Sharia Authority, and establishing a trading platform for Islamic debt instruments. Also, enhancing financial inclusion by integrating the unbanked population represents a fundamental step towards expanding the base of sukuk investors in the future.

4.2.3 The Incentive and Regulatory Environment for Activating the Islamic Sukuk Market in Algeria:

- The incentive and regulatory environment is the backbone of any sukuk market, as it represents the framework that determines the state's readiness to attract investors and activate Islamic debt instruments. In Algeria, despite the inclusion of sukuk in the Finance Law of 2025 (Article 179), their practical activation remains contingent on the level of maturity in the incentive and regulatory system.
- Tax Incentives: For the first time, the Finance Law of 2025 included in Article 135 an explicit and specifically directed incentive text for Islamic sukuk, including exemption from Total Income Tax (IRG) and Corporate Profits Tax (IBS) for a period of five years starting January 1, 2025, for sovereign sukuk issued by the Public Treasury or traded in an organized market. They are also exempt from registration fees and real estate advertising tax for a period of five years starting January 1, 2025, for sovereign sukuk issued by the Public Treasury or traded in an organized market.

- These tax privileges reflect a gradual shift in the state's vision towards Islamic finance instruments and an attempt to make Islamic sukuk a competitive alternative to bonds or bank loans. However, these incentives remain theoretical unless they are effectively activated through clear executive decrees and instructions directed to financial and tax administrations.

5. Conclusion:

The analytical study of the legal framework for regulating Islamic sukuk in Algeria in light of the banking reforms for the period 2020-2025 shows that the Algerian experience is still in the establishment phase, where sukuk have been included in legal texts but without the crystallization of an integrated legal and legislative framework regulating them precisely and comprehensively, as is the case in many leading Islamic countries.

Although Algeria has adopted banking reforms since 2020 that support Islamic finance, the absence of a specific sukuk law, weak human resources, unreadiness of the technical infrastructure, and the absence of an effective secondary market are all factors that constrain its ability to launch an active and transparent market for Islamic sukuk, especially in light of the current economic and financing challenges.

Findings: Through this study, the following results can be reached:

- Islamic sukuk are a Sharia-compliant financing tool that align with the provisions of Islamic Sharia and enjoy flexibility in terms of structural formulation, making them suitable for financing major development projects;
- Sukuk are fundamentally different from traditional bonds in terms of ownership, risk, and return, as they represent common shares in real assets, usufructs, or services;
- International experiences have proven that the success of the sukuk market depends on the availability of an independent and specialized legal framework, in addition to the existence of a supreme national Sharia body that supervises the structuring and approval of sukuk;

- Algeria did not record any actual issuance of sovereign, banking, or private sukuk during the period 2020-2025, despite repeated announcements of the intention to launch the market;
- The study revealed weakness in the readiness of the technical and legislative infrastructure to manage the issuance and trading process according to transparency standards and Sharia compliance;
- The lack of coordination between the Ministries of Finance and Religious Affairs and the Bank of Algeria weakens the state's ability to develop an integrated and convincing Sharia-compliant financial product for both domestic and international audiences.

Recommendations:

- The necessity of issuing a specific and separate law to regulate Islamic sukuk in Algeria, including precise definitions, issuance structures, securitization stages, and Sharia and regulatory controls;
- Including Islamic sukuk in the Financial Market Law with clear provisions regarding their listing and trading on the Algiers Stock Exchange to enhance their liquidity and transparency;
- Launching specialized training and capacity-building programs in Islamic banking, targeted at public sector personnel in banks, companies, and regulatory bodies, to form a human resource base capable of effectively managing the sukuk market;
- Developing the digital and technical infrastructure within financial institutions to enable them to manage issuance, pricing, and trading operations according to international standards in the sukuk market;
- Granting tax and fiscal incentives to sukuk issuers and investors that are not limited to public institutions to encourage their engagement in this market;
- Benefiting from leading international experiences in regulating and managing sukuk, through cooperation with institutions such as the Islamic Development Bank and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

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