The role of Islamic sukuks in developing the financial market -A prospective study of the financial market in Algeria-

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Abstract:

This study aims to shed light on one of the Islamic financing instruments, which is considered a suitable solution to revitalize the Algerian financial market. This instrument is represented by Islamic sukuk, which are not yet traded in the Algerian financial market due to several legal, regulatory, economic, and Sharia-compliant obstacles. The study sought to provide solutions and recommendations for activating the use of Islamic sukuk in Algeria. The study concluded that the adoption of Islamic sukuk in Algeria opens promising prospects for the Algerian financial market in particular, as it can stimulate and develop the stagnant financial market. Additionally, it represents a suitable solution for the national economy in general, due to its ability to mobilize resources, achieve economic diversification, and realize the desired economic development.

Keywords: Islamic sukuk; Islamic finance; financial market; Algeria..

Jel Classification Codes: G20, G21, O30

1. INTRODUCTION

Islamic finance has witnessed remarkable growth, expansion, and increasing interest in recent years, positioning it as the most promising sector to lead the global financial industry and consequently, the global economy. Given the inability of traditional financing channels and tools to meet the demands of global development and investment, many countries have initiated plans and strategies to develop this industry. These efforts range from establishing legislative and regulatory frameworks and creating a conducive environment to innovating and developing financial products and services that comply with Islamic Sharia, such as Sukuk.

Many countries, both Islamic and non-Islamic, have sought to implement the Islamic Sukuk experience to benefit from its numerous advantages at the macroeconomic level, such as financing budget deficits, contributing to improving the investment climate, and revitalizing the securities market.

Algeria, today, is more in need than ever to benefit from the aforementioned advantages of Islamic Sukuk. This comes after a decline in its revenues, which relied mainly on the hydrocarbon sector, resulting in disruptions to fiscal and economic policies and, consequently, a noticeable stagnation of the Algerian financial market.

Research Problem:

Based on the preceding discussion, the research problem can be formulated as follows: To what extent can Islamic sukuk contribute to the development of the Algerian financial market?

Research Hypotheses:

Based on the main research problem, the following hypotheses can be constructed:

- Islamic sukuk are a different form of bonds than conventional interest-based bonds, and they are based on Islamic Sharia principles and controls.
- Islamic sukuk play a significant role in the development of financial markets in general and the Algerian financial market in particular.
- Islamic sukuk in Algeria face several obstacles that hinder their success.
- The success of the Islamic sukuk experience in Algeria requires the provision of several legal and Sharia requirements.

Importance of the Study:

The significance of this study lies in highlighting the crucial role of Islamic Sukuk in achieving economic development and activating the capital market in Algeria. Experts have emphasized the need for Algeria to implement the Islamic Sukuk model and leverage its numerous advantages. These benefits include diversifying financial revenues and

economic investments to reduce dependence on hydrocarbons, and achieving economic takeoff based on sound economic principles. This study aims to analyze the role of Islamic Sukuk in developing the Algerian capital market and empowering it to fulfill its intended function.

Study Objectives:

This study aims to achieve a set of objectives, including:

- Defining the concept of Islamic sukuk, and highlighting its most prominent characteristics and advantages.
- Emphasizing the importance of Islamic sukuk and its role in developing the financial market.
- Identifying the current state and performance of the Algerian financial market.
- Assessing the necessity of implementing Islamic sukuk in the Algerian financial market and benefiting from its numerous advantages.

Research Methodology:

Given the nature of the subject, a descriptive and analytical approach was adopted, which aligns with the subject's nature. This involved describing various concepts related to Islamic sukuk and analyzing the potential role of Islamic sukuk in developing the financial market in Algeria. To answer the main research question, the study was divided into the following main sections: Firstly, the theoretical aspect of Islamic sukuk; Secondly, the importance of Islamic sukuk in developing financial markets; Thirdly, the current state and performance of the financial market in Algeria; Fourthly, forecasting the Islamic sukuk industry in Algeria.

2. Theoretical Aspect of Islamic Sukuk

2.1 Definition of Islamic Sukuk:

a. **Linguistic Definition of Sukuk:** Sukuk (plural of sakk) is an Arabic term referring to a written document or instrument used for recording transactions. It is an Arabicized word derived from the Persian "jakk" and can also be pluralized as "asuk" or "sikak." (Al-Razi & Al-Sahah, 1989) The root of "sakk" in Arabic implies giving and taking; for instance, the Quranic verse "فأقبلت امرأته في صرة فصكت وجهها" (Surah Adh-Dhariyat verse: 29.) means "his wife came forward with a pouch and struck her face." (Al-Jawriya, 2009)

b. **Technical Definition of Sukuk:** Sukuk are defined as financial instruments of equal value representing undivided co-ownership interests in tangible assets related to specific projects or investment opportunities. They are designed to comply with Islamic law by paying returns – rather than interest (Al-Dulaimi & Sufyan, 2011). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines sukuk as: "Certificates of equal value representing undivided shares in the ownership of assets,

usufructs, services or the assets of a particular project or specific investment activity." (Mohamed & Wagdy, 2010) The Islamic Financial Services Board (IFSB) defines sukuk in Standard No. 7 as: "Certificates each representing a proportionate ownership interest in tangible assets, or a pool of diverse tangible assets, and may relate to a specific project or investment activity, which must be in compliance with the principles of Islamic law." (Mohamed & Wagdy, 2010) The Islamic Fiqh Council defines sukuk as an investment instrument based on dividing capital into equal shares, registered in the names of their owners, who are considered to have undivided co-ownership interests in the capital and its returns, in proportion to their ownership. Based on the above definitions, Islamic sukuk can be defined as instruments of equal value representing undivided co-ownership interests in usufructs or assets. However, the definition provided by the AAOIFI is the most comprehensive and accurate, and it is the definition adopted in this research. (Al-Jawriya, 2009)

2.2. Mechanism of Issuing Islamic Sukuk:

The process of issuing Islamic Sukuk involves several stages, during which the following must be adhered to: (Jedd & Balamoushi, 2022)

a) For investment through Sukuk, a structural and organizational framework must be prepared along with feasibility studies for the project, as well as a study of legal matters. This should include an issuance prospectus outlining the systems and regulations that define the rights and obligations of the parties involved in the investment. To instill confidence and trust in the subscribers, it is essential to carefully select the parties involved in the Sukuk, such as financial institutions and companies in need of financing.

b) Representation of Sukuk holders: This is done through the establishment of a special purpose vehicle (SPV) whose role is to represent them before other parties.

c) Offering Sukuk for subscription with the aim of raising funds that will finance the assets represented by the Sukuk.

d) Marketing Sukuk: This is done by offering Sukuk for subscription directly to the public. It may also be done through financial institutions by selling Sukuk representing tangible assets or their benefits, and then offering them to the public.

e) Underwriting the subscription: This is done by a financial institution that undertakes to provide the necessary liquidity in exchange for a profit margin. The institution acquires the Sukuk at a discount and then authorizes the issuer to sell and market the Sukuk at its true Islamic value to obtain the desired profit for the underwriter.

After these preparatory steps comes the subscription stage, which constitutes the actual contracting phase between the project owner and the investors (Sukuk holders), followed by post-subscription arrangements (Ghuddah, 2005).

It should be noted that the parties involved in the Sukuk structure include the originator, issuer, and investors. In addition, it may also include one or more credit rating agencies to rate the securities (Sukuk), and an investment bank to act as an advisor or to offer the Sukuk to investors. (Jatmiko, Ebrahim, & Smaoui, 2023)

2.3. Characteristics of Islamic Sukuk

Islamic sukuk, while similar to traditional investment instruments in many aspects of regulation and issuance, are governed by Shariah-compliant principles that distinguish them from other investment tools (Amara; Amara). The most prominent of these characteristics include:

- They are securities of equal value issued in the name of their owner to prove the owner's rights in the underlying assets.
- They represent a joint ownership share in assets dedicated to investment, whether tangible assets, benefits, services, or a combination thereof, as well as intangible rights, debts, and cash. They do not represent a debt or obligation on the part of the issuer.
- Islamic sukuk are issued in accordance with general and specific Shariah-compliant rules, terms, and conditions that govern their issuance and trading.
- Islamic sukuk are based on the principle of profit and loss sharing, with the holder bearing risks proportional to their ownership share in the project. (Gubareva, Tatiana, Zaghum, & Xuan, 2024)

2.4. Economic Importance of Islamic Sukuk:

The economic importance of Islamic sukuk can be summarized as follows (Dawaba):

- Central banks can use Islamic sukuk as a monetary policy tool to absorb liquidity and thus reduce inflation rates.
- Islamic sukuk play an active role in stimulating, developing, and improving the efficiency of the securities market by contributing to expanding the base of securities on the one hand and attracting more investors to this market on the other.
- Islamic sukuk contribute to providing the necessary liquidity to finance infrastructure and government projects outside the general budget by allowing issuing entities to issue sukuk instead of resorting to borrowing, thereby reducing the burden on the budget, especially in case of a general government budget deficit.
- Islamic sukuk contribute to the growth of gross domestic product by attracting savings, mobilizing them, and directing them towards real investment opportunities.

2.5. Types of Islamic Sukuk: Islamic Sukuk can be categorized into several types, which can be divided into two main groups (Amer, 2008):

2.5.1 Tradable Sukuk: These are Sukuk representing shared ownership in assets or benefits, hence they can be traded. They can be classified as follows:

- **Mudarabah Sukuk:** Defined by the Islamic Fiqh Council as an investment instrument based on dividing the Mudarabah capital by issuing ownership Sukuk of the Mudarabah capital in equal units, registered in the names of their owners as they own shared proportions in the Mudarabah capital and whatever it is transformed into, according to each one's ownership proportion. Mudarabah takes several forms, such as unrestricted Mudarabah Sukuk, restricted Mudarabah Sukuk, gradually redeemable Mudarabah Sukuk, fully redeemable Mudarabah Sukuk, and continuous Mudarabah Sukuk. (Hussein & Shariq , the Role of Islamic Sukuk as a Tool for Financing Economic Development Projects, 2012)
- **Ijarah Sukuk:** These are documents of equal value representing ownership of identical shared parts in the ownership of durable assets linked to Ijarah contracts or representing an equal number of units of a described service provided by the obligor to the Sukuk holder at a future time. Ijarah Sukuk can be issued in the form of Ijarah or partnership in production.
- **Musharakah Sukuk:** These are documents of equal value issued to use the proceeds of the subscription in establishing a project, developing an existing project, or an activity, and the project's assets become the property of the Sukuk holders and are managed based on the Musharakah contract. They have various forms such as perpetual Musharakah Sukuk and limited Musharakah Sukuk (badrouni, 2017).

2.5.2 Non-Tradable Sukuk: These are Sukuk based on specific debts and, therefore, cannot be traded as they lead to a postponement of the alternatives. Examples of these Sukuk include (Jedd & Balamoushi, 2022):

- **Murabahah Sukuk:** These are Sukuk of equal value issued to finance the purchase of a Murabahah commodity, and the Murabahah commodity becomes the property of the Sukuk holders.
- **Salam Sukuk:** These are Sukuk of equal value issued to collect the Salam capital, and the Salam commodity becomes the property of the Sukuk holders.
- **Istisna Sukuk:** These are documents of equal value issued to use their proceeds in manufacturing a commodity, and the manufactured commodity becomes the property of the Sukuk holders.

3. The Importance of Islamic Sukuk in Developing Financial Markets

3.1 Firstly, adding a new quantity and quality of securities:

Islamic sukuk can help financial markets overcome their limitations and weaknesses by providing a genuine addition, especially to Islamic markets. This addition is manifested in:

- **Listing company shares in the securities market:** Company shares represent a significant portion of this market, as well as its capital, which can constitute a real addition to financial markets, increasing market activity. Some scholars argue that trading shares of Islamic banks is not permissible because they often include money and debts that represent a large proportion of their investments. However, diversifying the investment activities of these banks into various activities can enable Islamic banks to overcome this issue, and this is present in Islamic sukuk. (Indraos, 2005)
- **Listing Islamic sukuk:** Islamic banks and companies play a key role in the foundations of Islamic finance by providing Islamic financial instruments that offer a different quantitative and qualitative addition to what is offered in the traditional securities market, through the reliance on sukuk of various types. This expands the scope of the securities market and also develops the liquidity aspect of this market. (Hussein, slamic Sukuk and Their Role in Financing Public Budget Deficits(presented at the International Symposium on Islamic Financial Markets between Reality and Obligation), 2019)

3.2 Secondly, the role of Islamic Sukuk in increasing the capitalization of financial markets:
Sukuk play an effective role in attracting surplus capital that is not invested or utilized in the national economy, transforming it from idle capital into employed and active capital in the economic cycle. This is achieved through the investment process undertaken by individuals and institutions in Islamic Sukuk issued in financial markets. It can be said that the role of Islamic Sukuk in increasing the capitalization of financial markets is manifested through their ability to provide liquidity in financial markets, indicating that these Sukuk are capable of attracting savings and mobilizing capital, directing it towards investment in financial markets in an appropriate manner. This is because they have gained control over financial financing in financial markets, resulting in supporting the activity of these markets, making them international financial markets that attract foreign funds from all countries. In addition, Islamic Sukuk have the ability to diversify risks due to the diversity of their issuances in financial markets.

3.2 Thirdly: Enhancing Capital Market Efficiency and Reducing the Role of Intermediation:

A financial market is considered efficient when it is capable of allocating financial resources in a robust and effective manner. The concept of efficiency here encompasses both operational efficiency and pricing efficiency. Pricing efficiency means that new information reaches market participants quickly, and stock prices reflect all available information rapidly at the time of occurrence with minimal cost. As for operational efficiency (badrouni, 2017), it refers to the presence of pricing efficiency for various financial assets, which leads to a balance between supply and demand. Conversely, pricing efficiency depends on operational efficiency, as the former cannot be achieved in the presence of high financial intermediation costs, which ultimately leads to inefficient allocation of financial resources. (Hassan, 2009)

Therefore, the role of traditional financial intermediation in financing through sukuk is reduced, as funds are transferred directly from large financial institutions to investors in the securities

market without the need for a financial intermediary. As a result, the securities market and the money market merge, which revitalizes the securities market through the trading of assets issued against the underlying assets of the sukuk.

4. Reality and Performance of the Algerian Financial Market:

Islamic finance has emerged as one of the most prominent solutions adopted by many countries to achieve financial and economic stability. It contributes to sustainable development and the advancement of numerous significant projects. It has gained widespread popularity and success in many countries, enabling them to avoid numerous financial and economic imbalances.

Given Algeria's budget deficit and the instability resulting from declining oil prices (as the Algerian economy heavily relies on hydrocarbon revenues), the country could reconsider its financial and economic policies from an Islamic economic perspective. This could involve adopting financing instruments that comply with Islamic law, such as Islamic sukuk.

4.1 Overview of the Algerian Financial Market

The establishment of the Algiers Stock Exchange was part of the economic reform program initiated in 1988, aimed at transitioning to a market economy (Law No. 88-03, 1988). Laws were enacted to support this shift, granting independence to public institutions and creating holding companies (formerly known as participation funds) tasked with holding and managing, on behalf of the state, the shares of public enterprises that were being privatized.

The motivations behind this establishment included (lahrach, 2002_2003):

- **Allowing the public treasury to resort to a new technique for collecting savings;**
- **Considering the stock exchange as a suitable framework for opening the capital of public institutions to private shareholders;**
- **Implementing the privatization of public institutions.**

4.2 Actors in the Algerian Stock Exchange

Actors are considered the main axis for the movement of the securities market, as it is impossible to create a financial market without intervening parties that work to activate and energize the stock exchange. Financial transactions, regardless of their nature, take place between two or more parties. The actors in the Algerian stock exchange are:

1. **The Securities Market Regulatory Commission (COSOB):** The tasks of the Securities Market Regulatory Commission consist of organizing and monitoring the securities market, especially by ensuring (Market Participants, Supervisory Committee):

- The protection of investors in the securities market.

- The good order and transparency of the securities market. In order to enable it to carry out its tasks, this commission has been granted the following powers:
- Regulatory authority.
- Supervisory and control authority.
- Disciplinary and arbitration authority

2. **Central Depository (Central Depository):** The role of the Central Depository was defined under Law 03-04 of February 17, 2003. The Central Depository is responsible for the following operations (Market Participants, Central Depository):

- Opening and managing current accounts for securities held in the name of account holders and securities custodians involved in transactions;
- Centralized custody of securities, facilitating their transfer between financial intermediaries;
- Executing transactions on securities for the benefit of issuing companies (dividend distributions, capital increases, etc.);
- Assigning legal identification numbers to securities accepted in its operations, in accordance with international standards;
- Publishing information related to the market.

3. **Brokers in Stock Market Transactions:** The Algerian capital market currently includes ten brokers who represent six public banks, one private bank, one private company, and two Islamic banks. These are: Bank of Agriculture and Rural Development, Local Development Bank, Exterior Bank of Algeria, National Algerian Bank, National Savings and Pensions Fund, Algerian Popular Credit, Société Générale Algérie, Tell Markers, Al Baraka Bank Algeria, and Al Salam Bank Algeria. (Market Participants, Stockbrokers)

4.3 A Study of the Size and Development of the Algerian Stock Exchange:

The measurement of the efficiency of a capital market relies on several indicators. We will attempt to study these indicators and their applications to the Algerian financial market, as follows:

1. **Number of Listed Companies on the Stock Exchange:** This indicator measures the breadth of the market, as the number of companies indicates an increase in investments, which contributes to increasing the efficiency and effectiveness of the stock exchange. It should be noted that trading on the Algerian Stock Exchange began on September 13, 1999, with three joint-stock companies: Riad Setif, Complexe Sidial, and Sonatrach. This made the Algerian Stock Exchange relatively inactive compared to other stock exchanges. Despite the passage of years, this number has not seen a significant increase. In 2022, the number of companies was only 5, as shown in the following table:

Table 1. Companies Listed on the Main Market

Company name	Sector/ category	Nominal value (DZD)	Number of Shares
Aliance Assurances	Assurances	200	9,287,217
Om Invest	Tourism	100	4,596,030
MTF Eurasie	Hotelry	250	6,000,000
Saidal	Pharmaceutical Industry	250	10,000,000
Biopharm	Pharmaceutical Industry	100	25,521,875

Source: Algerian Stock Exchange website, Official Market, Listed Companies, accessed on 17-11-2024 at 21:35 AM via the link: www.sgbv.dz/ar/?page=ligne_societe

The data presented in Table 1 reveals that only five companies are listed on the Algerian Stock Exchange, operating in the official market. This number is considered very low compared to the number of listed companies in Arab or global markets. Analysts believe that such a small number does not justify the existence and establishment of this market.

2. **Market Capitalization Rate:**

Market capitalization refers to the total value of all shares listed on the stock market at their average closing prices. This indicator reflects the total value of securities listed on the market. The market capitalization rate is calculated by dividing the market value of listed shares by the Gross Domestic Product (GDP) (Al-Daamein, 2010). Economically, the market capitalization rate is closely linked to the ability to mobilize capital and diversify risks. The higher the value of the indicator, the larger the market size, either in terms of an increase in the number of shares and listed companies, or an increase in prices reflecting the expansion of the volume of financial transactions, or both.

In Algeria, the market capitalization as a percentage of GDP has experienced fluctuations between increases and decreases during the period 2017-2022. It reached its highest value in 2022 at 86,829,422,670 DZD, as shown in the following table:

Table 2. Market Capitalization of the Algerian Stock Exchange for the period(2017-2022)

Year	Market Capitalization (Billion DZD)	GDP (Billion DZD)	Market Cap as % of GDP
2017	120,792,587	18,575.8	0.218%
2018	147,331,935	20,393.5	0.215%
2019	573,534,777	20,500.2	0.218%
2020	955,285,881	18,476.9	0.248%
2021	960,110,640	22,079.3	0.206%
2022	86,829,422	27,688.8	0.243%

Source: Compiled by the researchers based on data from the Algerian Stock Exchange website (www.sgbv.dz) and the Bank of Algeria's 2022 annual report (www.bank-of-algeria.dz), accessed on 18-11-2024 at 22:26.

Table 2 data indicates that the Algerian financial market is still undergoing a revitalization process. The market capitalization rate is remarkably low, with relatively similar and very small rate s throughout the study period. The highest rate was recorded in 2020 at 0.248%, reflecting the narrow size of the financial market. This implies that the Algerian stock exchange is unable to provide the necessary financing for the economy, thus failing to achieve its primary objective of providing financing. This can be attributed to the limited number of listed companies, low financial awareness among the Algerian population, or the avoidance of traditional financial instruments that deal with interest (riba), which is considered forbidden.

3. Trading Value Index: This index reflects the actual trading volume of subscribed shares in the market, and also indicates the liquidity of the financial market. Through it, we can gauge the liquidity in the economy as a whole (Al-Daamein, 2010). This index complements the market capitalization index, which reflects the size of the market. The following table shows the trading value on the Algerian Stock Exchange during the period 2017-2022.

Table 3. Algeria Stock Exchange Trading Value Index for the period 2017-2022

Year	Trading Value (Billion Algerian Dinars)	Trading Rate (%)
2017	302.261.260.00	0.0016
2018	206.127.271.00	0.0010
2019	248.990.023.00	0.0012
2020	78.458.464.00	0.0042
2021	127.907.601.00	0.0005
2022	138.294.131.00	0.0004

Source: Source: Prepared by the researchers based on data from the Algeria Stock Exchange website (www.sgbv.dz) and various tables accessed on 19-11-2024 at 21:43.

Table 3 clearly shows that the Algeria Stock Exchange has experienced a substantial decrease in liquidity and trading activity. The low liquidity ratio, calculated by comparing trading volume to GDP, is a strong indicator of the bourse's underperformance.

4. Share Turnover Ratio: This is the total number of shares traded divided by the market capitalization. This indicator measures the market activity and trading volume of the securities traded in it. In cases where the ratio increases, the stock exchange records an increase in its liquidity. On the other hand, in the opposite cases, the market is considered illiquid and does not encourage investment in it. The following table summarizes the development of this ratio for the Algerian financial market.

Table 4: Annual Share Turnover Ratio of the Algerian Stock Market, 2017-2018

Year	Trading Value (Billion DZD)	Market Capitalization (Billion DZD)	Share Turnover Ratio (%)
2017	302.261.260.00	120,792,587,40	0.744
2018	206.127.271.00	147,331,935,43	0.469
2019	248.990.023.00	573,534,777,44	0.556
2020	78.458.464.00	955,285,881,45	1.828
2021	127.907.601.00	960,110,640,45	0.278
2022	138.294.131.00	86,829,422,67	0.204

Source: *:* Prepared by the researchers based on data from the Algeria Stock Exchange website (www.sgbv.dz) and various tables accessed on November 23, 2024 at 22:23

As evidenced by Table 4, the share turnover ratio exhibited volatility, with a minimum of 0.204% recorded in 2022 and a maximum of 1.828% in 2020. The low turnover ratio implies a less liquid market, characterized by high transaction costs and difficulties in converting shares into cash promptly. This can be attributed to a narrow market with a limited number of market participants and a restricted range of traded securities, indicating a relatively underdeveloped and stagnant financial market in Algeria.

5. Prospects of the Islamic Sukuk Industry in Algeria:

Islamic sukuk is one of the most innovative products developed by Islamic finance engineering. It has successfully met the financing needs of the Islamic community, grounded in Islamic Sharia, offering a viable alternative to conventional bonds with fixed interest rates. Although initially issued by Islamic institutions and governments, sukuk have evolved into financial instruments comparable to bonds in the investment world. Algerian financial experts believe that issuing sukuk to mobilize savings and finance economic projects is the optimal solution to address the decline in the country's revenues due to falling oil prices.

5.1 Obstacles to the Development of the Islamic Sukuk Industry in Algeria:

The underdevelopment of the Algerian stock market can be attributed to several economic, legal, social, cultural, and regulatory obstacles. These can be categorized as follows (Zabidi & Hafouza , 2017):

- **Legal Challenges:**
  - **Monetary and Banking Law:** The absence of contracts for Islamic financing, upon which sukuk are issued, as stipulated in the Monetary and Banking Law No. 23-09 of July 21, 2023, poses a significant barrier to sukuk issuance in Algeria.
  - **Commercial Law:** Algerian commercial law does not allow the issuance of investment sukuk representing equal ownership rights without granting the holder shareholder status.
  - **Tax Law:** The issuance of Islamic sukuk based on Sharia-compliant sale contracts such as Murabaha, Salam, and Istisna, which transfer ownership of assets, may lead to unfair tax treatment compared to conventional instruments if subjected to the same tax provisions as sale contracts. This would negatively impact the competitiveness of sukuk. (Zabidi & Hafouza , 2017)
  - **Securitization Law:** Law 06/05 of February 20, 2006 on the securitization of mortgage loans is incompatible with the Sharia-compliant structure of sukuk. This law defines securitization as the conversion of loans into securities, limiting it to mortgage debts, which does not align with the Sharia-compliant structure of sukuk, which involves converting assets into tradable instruments for investment purposes. (Choudar, 2015)
  - **Securities Market Law:** The Securities Regulatory Commission has rejected the listing of sukuk under the name "Islamic bonds" on the Algerian stock exchange, citing the absence of a legal basis and the lack of special purpose vehicles, which are fundamental to these instruments (Nasser & bin Zaid, 2014).

- **Economic Challenges:**
  - **Dominance of the public sector in the Algerian economy:** The Algerian government's decision to establish the Algiers Stock Exchange was in line with the requirements of transitioning to a market economy characterized by the dominance of the private sector. However, the reality is quite the opposite, as the public sector dominates the Algerian economy to a large extent. In addition, the Algerian authorities have been slow in implementing privatization of institutions that were expected to stimulate the stock exchange, which has further hindered its growth and development.
  - **The parallel market:** The profits generated in this informal market are quite significant. Therefore, the existence of this market does not encourage families to direct their savings towards investing in securities. (Zidan, 2006)
  - **Cultural and legal challenges:**
    - **Socio-cultural barriers:** The Algerian individual tends to hold assets such as real estate or those that guarantee liquidity, security, and a guaranteed return before any other consideration. This is due to the influence of social and cultural factors rooted in the lack of trust in the financial market, the absence of a culture of investing in securities, and the fear of tax authorities.

- **Legal barriers:** The Algerian people refuse to deal in the financial market due to the type of securities, especially bonds, which are considered usurious in Islamic law. In addition, the intermediaries dealing in the financial market are commercial banks that operate on the basis of interest, all of which has led to the majority of Algerians shunning this system.

- **Regulatory challenges:**
  - **Regulatory obstacles:** Islamic sukuk face regulatory obstacles related to the absence of supervisory and regulatory bodies that are responsible for setting the general policy for Islamic sukuk, evaluating their issuance, monitoring them, ensuring compliance with the decisions issued by them, issuing a legal opinion on sukuk, and verifying the continued trading of sukuk in accordance with the principles of Islamic Sharia (Flammi & Okil, 2022).
  - **Institutional obstacles:** Algeria still does not have Islamic banks. What has been established was done partially and with the external effort of some businessmen and Islamic banks in Arab countries. This effort has not been commensurate with an effective role for the state. Algeria has also not benefited from the financing capabilities of Islamic sukuk, investment funds, and takaful insurance institutions in large-scale operations related to the completion of infrastructure and basic structure projects, and has relied entirely on rent revenues.

5.2 the benefits of adopting Islamic sukuk in the Algerian economy can be highlighted as follows:

1. **Liquidity Management:** Islamic sukuk are among the tools used within the framework of the open market, resulting in (Nasser & bin Zaid, 2014):
   - Stabilizing exchange rates and reducing inflation rates.
   - Optimizing the use of financial resources, both tangible and monetary.
   - Increasing economic growth rates and relying on real resources instead of borrowing from the banking system.
2. **Resource Mobilization:** Islamic sukuk have the ability to gather the resources needed to cover the state's financing needs, positioning themselves as a viable alternative to oil revenues, which are characterized by volatility due to fluctuating prices. Algeria can benefit from this by diversifying its economy and finances, gradually reducing its almost complete dependence on hydrocarbons.
3. **Financing Budget Deficits:** With the decline in oil prices since mid-2014, Algeria's general budget has experienced a significant increase in its deficit, reaching about 15% of GDP in 2016. In this context, Islamic sukuk can help alleviate the pressure on the state's general budget deficit. Sovereign and government sukuk enable broad popular participation by individuals to meet development needs, fill financing gaps, and support the general budget, as it requires substantial capital to implement its economic programs and bridge existing deficits. (Flammi & Okil, 2022)

4. **Contributing to the Revitalization of the Algerian Stock Market:** The opening of the Algerian stock market to Islamic sukuk will bring many benefits, including:
    - Supporting and increasing the volume of domestic investment by optimizing the use of financial resources and directing them towards investment projects that are most beneficial to society.
    - Providing Islamic financial instruments for investors seeking halal investments.
    - Contributing to achieving equity in income distribution through the principle of partnership.
    - Benefiting from salam and istisna contracts, which are closest to futures contracts. (Boukhlaf & Hamdi Basha Rabah, 2018)

Islamic sukuk can also help attract new capital to the Algerian financial market, due to their diversity in terms of maturity and activity, enabling the state to build successful economic plans and expand investment projects. Moreover, Islamic sukuk can help attract individuals' savings and inject them into the financial markets to be invested in development projects, contributing to stimulating the national economy and directly engaging society in building a strong and competitive economy based on real economic activities, which in turn leads to increased activity and efficiency in the Algerian financial market.

5.3 Requirements for Implementing Islamic Sukuk in Algeria:

The successful issuance and trading of Islamic sukuk on the Algerian Stock Exchange requires comprehensive preparation, encompassing economic, legal, administrative, and Sharia-compliant aspects (Nasser & bin Zaid, 2014). The following outlines the requirements for implementing Islamic sukuk in the Algerian Stock Exchange:

- **Genuine political will from the authorities:** A sincere commitment from the government to establish Islamic finance products, including sukuk, is essential.
- **A conducive and stable investment climate:** Given the long-term nature of sukuk investments, a supportive and stable investment environment must be in place.
- **A comprehensive legal and regulatory framework:** This involves a set of procedures, steps, and measures that provide the necessary legal umbrella for the acceptance of sukuk issuance and trading on the Algerian Stock Exchange. This includes recognizing Islamic sukuk in monetary and banking laws and enacting a specific law outlining their characteristics, regulations, issuance, and trading procedures.
- **Establishment of supporting bodies for Islamic finance:** This includes the creation of supervisory bodies to oversee the regulation of sukuk issuance and trading, ensuring adherence to legal and Sharia-compliant standards, as well as the establishment of special purpose vehicles.
- **Raising investor awareness:** This can be achieved through extensive media campaigns, organizing conferences and forums to educate the public about sukuk, their regulations, and investment methods.

- **Encouraging the establishment of Islamic banks and investment funds.**
- **Training and qualifying personnel for Islamic finance:** Developing training and qualification programs for staff working in Islamic finance on the stock exchange, in line with the vision of the exchange's management.
- **Economic and financial cooperation with other Islamic countries:** This aims to foster integration among securities markets and benefit from the experiences of leading countries.

6. CONCLUSION

Adopting Islamic sukuk in developing the financial market is a goal that any country strives to achieve. This is due to the crucial role of the financial market in driving economic development and its ability to mobilize and invest financial resources. Additionally, Islamic sukuk play a significant role in financing budget deficits and stimulating the securities market. However, Algeria has yet to embrace the concept of Islamic sukuk and benefit from its numerous advantages, including developing the Algerian financial market.

This study has examined the feasibility of implementing Islamic sukuk in the Algerian financial market and identified the requirements for such implementation. The key findings of this study can be summarized as follows:

- Islamic sukuk are a product of Islamic financial engineering and an investment tool based on Islamic Sharia principles. They contribute to mobilizing savings and necessary financial resources.
- The diversity and multiple applications of Islamic sukuk make them a valuable tool for companies, governments, and institutions to meet their financing needs.
- Islamic sukuk play a significant role in driving economic development by mobilizing resources, financing budget deficits, funding investment projects, and stimulating the securities market.
- Islamic sukuk serve as an alternative to traditional financing sources and their adoption can enhance the efficiency of the financial market.
- Algeria, like other Arab and Islamic countries, has not yet opened the door to benefit from the advantages of Islamic sukuk, despite the urgent need for them.
- The Algerian financial market is characterized by stagnation and low activity due to its reliance on traditional financing instruments.
- Islamic sukuk are the ideal solution to revitalize the Algerian financial market and stimulate its growth by enhancing market efficiency and increasing the number of listed companies.
- Several obstacles hinder the implementation of Islamic sukuk in Algeria, including a lack of political will, an absence of a legal and regulatory framework, and a weak understanding of Islamic sukuk among Algerian investors.

Based on these findings, the following recommendations are proposed:

- The Algerian government should enact a specific legal, regulatory, and tax system, as well as regulations governing the issuance and trading of Islamic sukuk.
- Efforts should be made to promote Islamic sukuk culture among Algerian society and to market them effectively.
- It is essential to train professionals in the field of Islamic sukuk and establish specialized research centers in Islamic financial transactions to conduct specialized research on Islamic sukuk.
- A conducive investment climate should be created for Islamic sukuk, starting with political stability and stable economic indicators. Efforts should also be made to establish a credible Islamic financial market.

Economic cooperation with countries implementing Islamic sukuk should be strengthened to benefit from their experiences, which would contribute to enhancing the understanding of Algerian financial markets.

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