

Islamic Sovereign Sukuk as an Innovative Mechanism for Financing Economic Development: An Analysis of the Sudanese Experience

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Received: 01/03/2026

Accepted: 02/08/2026

Published: 05/10/2026

Abstract:

This study aims to analyze the role of sovereign Islamic **Sukuk** as an innovative financial instrument capable of mobilizing resources and directing them toward financing economic development. It focuses on the Sudanese experience, which stands out as a prominent example of the practical application of issuing government **Sukuk** compliant with Sharia principles. The study begins by outlining the conceptual foundations, characteristics, and financing mechanisms of sovereign **Sukuk**, subsequently analyzing their contribution to financing the general budget deficit, managing liquidity, and funding infrastructure projects as well as productive and service sectors.

The study employs a descriptive-analytical approach, supplemented by an inductive method to trace the evolution of Sudan's experience with government **Sukuk** issuance and to analyze its various models—specifically Government Musharaka Certificates (**Shahama**), Government Investment **Sukuk** (**Sarh**), **Ijara** certificates, and other instruments utilized to finance development activities and projects. The Sudanese experience demonstrates a diversity of government **Sukuk** structures and applications, ranging from liquidity management and deficit financing to the allocation of resources toward health, education, water, agriculture, and infrastructure sectors.

The study concludes that the effectiveness of sovereign **Sukuk** in supporting development is not merely a function of their capacity to mobilize funds; rather, it also depends on the quality of the institutional and legislative framework, the efficiency with which issuance proceeds are allocated, and the existence of effective mechanisms for governance, Sharia oversight, and risk management. The Sudanese experience also highlights the importance of diversifying Sukuk structures and linking them to real assets and projects, thereby enhancing their capacity to support economic development and achieve greater financial sustainability.

Keywords: Islamic sovereign Sukuk, economic development, government Sukuk, Sudan, liquidity management, financial resources.

Introduction:

In recent decades, the Islamic financial industry has witnessed remarkable growth in terms of volume, the diversity of its instruments, and the scope of their application. It has expanded beyond traditional Sharia-compliant banking activities to encompass capital markets and modern financing and investment instruments. Islamic **Sukuk** stand out as one of the most prominent of these instruments, offering the potential to mobilize savings and channel them toward financing economic activities and investment projects. Their intrinsic link to tangible assets, usufruct, or real economic activities has accorded them increasing importance within the Islamic finance ecosystem.

The economic significance of **Sukuk** has clearly strengthened in recent years; the total volume of outstanding global **Sukuk** surpassed the US\$1 trillion mark by the end of 2025, reaching approximately US\$1.015 trillion, while total global issuances for the same year amounted to nearly US\$262.9 billion. Sovereign issuances alone accounted for approximately 52.3% of total global **Sukuk** issuances, reflecting the growing role of governments in utilizing this instrument within public finance policies and financial resource management.

This development is particularly significant given the rising financing needs of nations—especially developing economies—and the challenges they face regarding infrastructure project financing, investment stimulation, economic diversification, and fiscal deficit financing, alongside the ongoing search for funding sources more closely linked to the real economy. In this context, sovereign Islamic **sukuk** have emerged as a key instrument for governments to mobilize domestic and external resources, manage liquidity, and finance public projects, while offering investment opportunities compliant with Sharia principles. Recent market trends confirm the continued dominance of the sovereign and quasi-sovereign sectors over a significant share of issuances, reflecting the market's close link to public financing and development policies.

The importance of sovereign **sukuk** extends beyond merely securing funds for public expenditure; when efficiently designed and utilized, they can help broaden the investor base, mobilize untapped savings, deepen capital markets, diversify fiscal and monetary policy tools, and link financing to assets and projects that yield economic and social returns. However, realizing these benefits depends on several factors, most notably the efficiency of the legislative and institutional framework, the quality of the underlying assets, the effectiveness of governance and Sharia oversight, the existence of a liquid secondary market, and the capacity of public authorities to channel issuance proceeds into productive development activities.

In this regard, the Sudanese experience offers a compelling case study, given the country's early leadership in utilizing government-issued Islamic financial instruments for a variety of purposes. The institutional experience clearly took off with the establishment of the Sudan Financial Services Company in 1998. It subsequently evolved through the issuance of a diverse range of government instruments—including Central Bank participation certificates, government participation certificates (**Shahama**), government investment **Sukuk** (**Sarh**), Central Bank of Sudan **Ijara** certificates (**Shihab**), and other structures—utilized for liquidity management, budget financing, and the funding of development projects.

The Sudanese experience also involved channeling the proceeds of certain **Sukuk** into various development sectors—such as infrastructure, health, education, water, agriculture, and irrigation. This makes the experience a suitable case study for examining the relationship between Islamic finance instruments and state development policies, moving beyond a perspective focused solely on financial funding. Data indicates that a portion of

Sukuk proceeds was directed toward these sectors, alongside their use in financing deficits and managing liquidity.

However, evaluating the success of sovereign *Sukuk* in financing development requires moving beyond a descriptive approach—which merely outlines *Sukuk* types and issuance volumes—toward a deeper analysis. This analysis must assess their capacity to efficiently mobilize resources, link them to real investment, and generate sustainable economic and developmental impacts, while also identifying the institutional, financial, and Sharia-related challenges that may constrain their effectiveness. Accordingly, this study seeks to analyze sovereign Islamic *Sukuk* as an innovative financing mechanism for economic development. It does so by analytically examining the Sudanese experience, identifying the nature of the instruments employed and their financing and developmental objectives, and assessing their contribution to resource mobilization, liquidity management, and the financing of public projects. Ultimately, the study aims to derive key lessons and the determinants governing the effectiveness of sovereign *Sukuk* as a tool for financing economic development.

In light of the foregoing, the following question arises:

To what extent have Islamic sovereign *sukuk* contributed to mobilizing financial resources and financing economic development in Sudan, and what are the key factors determining the effectiveness and sustainability of this experience?

Significance of the Study

The significance of this study stems from the growing importance of Islamic sovereign *sukuk* as a financing instrument that combines adherence to Sharia principles with the capacity to mobilize financial resources and channel them toward development-oriented projects and programs. The study also derives its importance from the increasing need for nations—particularly developing economies—to diversify funding sources and reduce reliance on conventional debt instruments, while seeking mechanisms more closely linked to the real economy.

Furthermore, the study's significance lies in the selection of the Sudanese experience, which stands out as an early and distinctive example of the use of Islamic government *sukuk*. Sudan has employed a diverse range of instruments—including Government Musharaka Certificates (*Shahama*), Government Investment *Sukuk* (*Sarh*), *Ijara* certificates, and others—to manage liquidity and finance both budget deficits and development projects. The original article examined these instruments and their purposes in detail, providing a solid foundation for re-analyzing them from a modern perspective.

The study also holds practical significance by aiming to distill key lessons from the Sudanese experience and identify factors that enhance the effectiveness of sovereign *sukuk* in fostering economic development, thereby offering valuable insights for economies seeking to develop their own sovereign *sukuk* markets.

Study Objectives

This study primarily aims to analyze the role of Islamic sovereign *Sukuk* in financing economic development by examining the Sudanese experience. This primary objective encompasses several sub-objectives, namely:

- Clarifying the conceptual framework of Islamic sovereign *Sukuk* and outlining their key characteristics and financing mechanisms.
- Highlighting the role of sovereign *Sukuk* in mobilizing financial resources and financing development projects.

- Tracing the origins and evolution of the sovereign *Sukuk* experience in Sudan.
- Analyzing the main types of government *Sukuk* and certificates utilized in Sudan, as well as the purposes behind their issuance.
- Examining the contribution of sovereign *Sukuk* to liquidity management, budget deficit financing, and the funding of infrastructure projects and economic and social sectors.
- Assessing the strengths and challenges associated with the Sudanese experience.
- Deriving key lessons to inform the future development of sovereign *Sukuk* as a tool for financing economic development.

Study Methodology:

The study employs a descriptive-analytical approach—deemed most suitable for the subject matter—by presenting concepts related to Islamic sovereign *Sukuk*, their characteristics, and their financing roles, followed by an analysis of the Sudanese experience in issuing government *Sukuk* and utilizing them for development financing.

Additionally, the study utilizes an inductive approach to trace the evolution of sovereign *Sukuk* in Sudan, examine key issued models and their intended purposes, and analyze data and reports concerning resource mobilization and the financing of the budget and development projects. To achieve the study's objectives and address the research questions, the following areas will be examined:

- Section One: The theoretical framework of Islamic *Sukuk*.
- Section Two: The importance and role of Islamic *Sukuk* in achieving economic and social development.
- Section Three: Sudan's experience in financing development projects through Islamic *Sukuk*.
- Section Four: The evolution of the Islamic *Sukuk* industry in Sudan (2015–2024): Current status and challenges.

Section One: The Theoretical Framework of Islamic Sukuk.

1- The Concept of Islamic Sukuk:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)—based in Bahrain—defined Islamic Sukuk (in Shari'ah Standard No. 17) as "certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs, or services, or in the ownership of the assets of a particular project or specific investment activity; this applies after the collection of the Sukuk proceeds, the closing of the subscription period, and the commencement of their utilization for the purpose for which they were issued" (1). 2- Types of Islamic Sukuk:

Islamic Sukuk can be categorized as follows (2):

First: Tradable Sukuk: These are Sukuk representing undivided shares in the ownership of tangible assets or usufructs that can be traded. They include:

1- **Mudaraba Sukuk:** Defined by the Islamic Fiqh Academy as "an investment instrument based on fractionalizing Mudaraba capital by issuing ownership certificates—in equal-value units registered in the holders' names—representing undivided shares in the Mudaraba capital and its underlying assets, proportionate to each holder's ownership share."

2- **Musharaka Sukuk:** These are "equal-value certificates issued to utilize the proceeds for establishing a project, developing an existing one, or financing an activity based on a Musharaka contract; the project or the activity's assets become the property of the Sukuk holders in proportion to their shares." Musharaka Sukuk differ from Mudaraba Sukuk only in the structuring of the relationship between the issuing entity (the sponsor) and the Sukuk holders.

3- **Ijara Sukuk:** These are " ...equal-value certificates representing undivided shares in the ownership of the usufruct of durable assets linked to *Ijarah* (leasing) contracts, or representing an equivalent number of described service units to be provided by the issuer to the certificate holder at a future date. *Ijarah* certificates may be issued based on *Ijarah* or production-sharing arrangements, and they may represent a share in government assets.

4- ***Muzara'ah* (Sharecropping) Certificates:** Equal-value certificates issued to utilize subscription proceeds for financing a project based on a *Muzara'ah* contract; certificate holders acquire a share in the crop as specified in the contract.

5- ***Musaqat* (Irrigation/Orchard Care) Certificates:** Equal-value certificates issued to utilize proceeds for irrigating, maintaining, and caring for fruit-bearing trees; certificate holders acquire a share in the fruit as agreed upon.

6- ***Mugharasah* (Planting) Certificates:** Equal-value certificates issued to utilize subscription proceeds for planting, maintaining, and caring for trees; certificate holders acquire a share in the land and the planted trees as agreed upon in the contract.

Secondly: **Non-tradable Certificates:** These are certificates that may not be traded because they are based on debt; anything of this nature is ineligible for trading. These certificates include:

1- ***Salam* Certificates:** The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defined *Salam* certificates in Shari'ah Standard No. (17) as: equal-value certificates issued to mobilize *Salam* capital, whereby the *Salam* commodity becomes... ..owned by the Sukuk holders. *Salam* Sukuk represent the sale of a commodity for deferred delivery against an immediate price payment; the commodity due for deferred delivery constitutes a tangible-based debt (*dayn 'ayni*) that cannot be sold or traded.

2- ***Istisna'a* Sukuk:** These are certificates of equal value issued to utilize subscription proceeds for the manufacturing of a commodity, with the manufactured good becoming the property of the Sukuk holders. In essence, *Istisna'a* Sukuk are similar to *Salam* Sukuk, as they represent the sale of a commodity for deferred delivery against an immediate price payment; the commodity due for deferred delivery constitutes a tangible-based debt that cannot be sold or traded by either the seller or the buyer.

3- ***Murabaha* Sukuk:** According to Sharia Standard No. (17) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *Murabaha* Sukuk are certificates of equal value issued to finance the purchase of a *Murabaha* commodity, with the commodity becoming the property of the Sukuk holders. These Sukuk are issued by the party promising to purchase specific goods at a specified profit

margin—either directly or through a financial intermediary—after the seller has acquired ownership and possession of the goods. The proceeds are intended to cover the costs of purchasing, transporting, and storing said goods. Sellers of the *Murabaha* goods subscribe to these Sukuk after acquiring ownership and possession of the goods through the financial intermediary, who executes these contracts on behalf of the Sukuk holders. Murabaha.

Second Axis: The importance and role of Islamic *Sukuk* in achieving economic and social development.

The issuance of Islamic *Sukuk* facilitates the mobilization of the necessary resources to finance investment and development projects of various scales; thus, *Sukuk* play a significant and effective role in driving economic and social development through:

1- Contributing to Economic Development:

1-1- The Role of Islamic Sukuk in Mobilizing Financial Resources:

Islamic Sukuk are distinguished by their ability to pool and mobilize savings from various segments of society. This capability stems from the diversity of their maturities (short, medium, and long-term), financial denominations, underlying purposes, and return mechanisms, as well as their liquidity—derived from their tradability (or lack thereof) in secondary markets. In addition to these features, Islamic Sukuk are immune to interest rate risk, as they do not involve interest-based transactions. Furthermore, they are not exposed to inflation risk; rather, they are positively affected by inflation. This is because Sukuk represent real assets—in the form of tangible goods and services—whose prices rise alongside the general price level, thereby increasing the returns on the Sukuk linked to those assets(3).

1-2- The Role of Islamic Sukuk in Financing Budget Deficits:

Islamic Sukuk pave the way for broad public participation in meeting economic development needs, fostering a sense of complete belonging among citizens regarding their country's development. They achieve this by addressing the financing requirements necessary to support the general budget—which demands substantial capital to implement both economic and non-economic programs—and by covering existing budget deficits(4).

1-3- The Role of Islamic Sukuk in Financing Infrastructure Projects:

Islamic Sukuk meet national needs for financing infrastructure and vital projects, offering an alternative to relying on treasury bonds and public debt associated with interest (*riba*). For instance, governments can issue *Sukuk al-Ijarah* (leasing-based Sukuk) to finance public-interest projects—such as bridges, airports, roads, dams, and other infrastructure—undertaken for the public good rather than for profit. In this arrangement, the government acts as the lessee, while the Sukuk holders effectively serve as the owners of the assets leased to the state; the government then makes these projects available for public use and benefit. Furthermore, *Sukuk al-Ijarah* linked to services can be used to finance projects in key sectors such as education, healthcare, telecommunications, and transportation, while *Sukuk al-Ijarah* linked to usufruct (benefits) can be utilized to finance housing and real estate development programs (5). 1-4- The Role of Islamic Sukuk in Financing Investment Projects:

Focusing on internal sources to secure financial resources—and linking them to genuine developmental purposes—is an optimal choice, particularly for developing countries. Islamic Sukuk serve as an effective instrument in this regard, as they are capable of simultaneously achieving two objectives: mobilizing resources and ensuring their allocation to tangible investment sectors. The primary challenge facing the Islamic financial industry lies not merely in the capacity of financial innovations to mobilize capital, but in the manner in which

these resources are utilized to bridge the gap between the capital raised and the intended developmental goals. Consequently, the efficiency with which funds raised through Sukuk are deployed is just as critical as the capacity to mobilize them in the first place. Islamic Sukuk are diverse enough to suit various economic sectors; for instance, **Murabaha** Sukuk are well-suited for commercial activities, while **Salam** Sukuk are ideal for financing agricultural projects, extractive industries, and artisans. Meanwhile, **Istisna'a** Sukuk are utilized to finance the construction sector. Despite the importance of these structures in financing investment projects, **Musharaka** Sukuk remain the most suitable option for financing all types of investments—whether long-, medium-, or short-term. ...suitable for all types of economic activities—commercial, industrial, agricultural, and service-oriented—due to the flexibility of their provisions and their applicability across various sectors. The same applies to **Mudaraba** Sukuk; however, they differ from **Musharaka** Sukuk in that they separate project management from project ownership (6).

2- Contributing to the achievement of social development:

2-1- The role of Islamic **Sukuk** in achieving a fair distribution of wealth: Islamic **Sukuk** serve as a means for the equitable distribution of wealth, enabling all investors to benefit from the actual profits generated by a project at a fair rate. Consequently, wealth is distributed more widely rather than remaining concentrated among a select few wealthy individuals—a key objective of the Islamic economy (7). 2-2- The Role of Islamic Sukuk in Addressing Unemployment: Islamic investment Sukuk contribute to eliminating unemployment, increasing employment levels, and mobilizing idle capital. They satisfy the needs of both investors and savers; the **Mudaraba** (profit-sharing) model, for instance, serves as a significant incentive for the unemployed—who lack capital—to engage in productive work, thereby contributing to the financing and success of economic development. The **Musharaka** (partnership) model encourages capital owners to collaborate on investment ventures, particularly those whose own funds are insufficient to cover their investment costs. Similarly, an agricultural landowner can reach an agreement with a cultivator to farm and irrigate the land in exchange for a share of the produce—an arrangement facilitated by **Muzara'a** (sharecropping) and **Musaqat** (irrigation partnership) Sukuk. Furthermore, **Ijara Muntahiya bi-Tamlik** (lease-to-own) Sukuk encourage workers to strive diligently, enabling them to transition from the status of lessee to that of actual owner. **Qard Hasan** (benevolent loan) Sukuk also play a role in boosting employment and sustaining the development process by providing necessary liquidity to investors (8). Finally, the **Murabaha** (cost-plus-profit) and **Salam** (forward sale) models cater to the diverse needs of various market participants, including artisans, small-scale agricultural producers, and industrialists. ...and new contractors who lack sufficient experience and financial solvency, by financing operating expenses and other capital expenditures (9).

Third Pillar: Sudan's Experience in Financing Development Projects through Islamic Sukuk.

Sudan's experience stands as a pioneering and significant example of utilizing government Islamic financial instruments to mobilize resources, manage liquidity, and finance both the national budget and development projects. The transition toward the Islamization of the Sudanese banking system began in the mid-1980s, and the institutional framework for Islamic banking was subsequently strengthened by the 1991 Banking Regulation Act and the establishment of the Higher Sharia Supervisory Board in 1992. This process helped create a banking and Sharia-compliant environment conducive to developing financial instruments aligned with the principles of Islamic Sharia.

As part of efforts to develop non-interest-based instruments for liquidity management and public financing, Sudan began introducing government Islamic instruments in 1998. These included Central Bank *Musharaka* (partnership) certificates—used in open-market operations for liquidity management—and government

Musharaka certificates known as "Shahama," which aimed to mobilize resources for the general budget without relying on traditional debt instruments. This development marked a crucial starting point for establishing a market for government securities compliant with Islamic Sharia principles.

The Sudanese banking system subsequently underwent several transformations. Following the signing of the Comprehensive Peace Agreement in 2005, a dual banking system was adopted—featuring Islamic banking in the North and conventional banking in the South—until the secession of South Sudan in July 2011 led to a return to a banking system based entirely on Islamic banking principles in Sudan. In 2021, Sudanese authorities once again announced a move toward developing a dual banking system—combining Islamic and conventional banking—aimed at expanding access to finance and attracting investment. This necessitates viewing the Sudanese banking system, in light of recent studies, as one that has undergone successive institutional transformations rather than as a static model since the 1990s.(10)

1- Mechanism and requirements for issuing Islamic *Sukuk* in Sudan.

1-1- Establishment of Sudan Financial Services Company Limited (11): As part of efforts by the Central Bank of Sudan and the Ministry of Finance to innovate new monetary instruments for managing liquidity in the national economy—specifically for use in open-market operations as alternatives to conventional tools—financial instruments based on Sharia principles were devised, characterized by flexibility and practicality. To facilitate this, the Sudan Financial Services Company Limited was established. It was tasked with acting on behalf of the Central Bank of Sudan and the Ministry of Finance to issue and manage government *Sukuk*, contribute to the state's economic and social development projects, assist in national-level liquidity management, and finance the general budget deficit. To this end, both the Ministry of Finance and the Central Bank of Sudan transferred their assets in banks they wholly or partially owned to the company. The company's ownership structure was set at 99% for the Central Bank of Sudan and 1% for the Ministry of Finance and National Economy. It was registered with the Registrar General of Companies in 1998 under the Companies Act of 1925, with an authorized capital of 10 million dinars at the time. 1-2- Types of Sudanese Government Sukuk:

The Sudan Financial Services Company has issued several financial instruments that operate in accordance with Sharia principles (12):

1-2-1- The First Generation of Government Sukuk:

First: Central Bank Participation Certificate (Shamam): This is a participation certificate that enables the holder to share in the Central Bank of Sudan's ownership of shares in commercial banks. The certificate is created by inventorying the Central Bank of Sudan's equity holdings, determining their value, and subsequently subdividing them into participation certificates of equal value. These certificates are issued based on the principle of profit and loss sharing regarding the underlying assets. The Central Bank utilizes them for liquidity management within the economy through open-market operations; however, they are tradable exclusively among banks.

Second: Government Participation Certificate (Shahama): These are Sukuk based on the *Musharaka* (partnership) model, issued by the Ministry of Finance and National Economy on behalf of the Government of Sudan and marketed through the Sudan Financial Services Company Ltd. and authorized brokerage firms. They are tradable among the general public, banks, and institutions. Their purpose is to finance the general budget deficit by enabling the Ministry of Finance to borrow from real financial resources, thereby reducing reliance on borrowing from the Central Bank. Key features of this certificate include high returns, low risk, and a short maturity period ranging from six months to one year. (13)

1-2-2- The Second Generation of Government Sukuk (Newly Introduced Islamic Securities):

First: Government Investment Ijarah Sukuk (*Sarh*): These are certificates issued based on the *Mudaraba* structure—financial *Sukuk* grounded in Islamic Sharia principles. They are issued by the Ministry of Finance and managed and marketed in the primary market through the Sudan Financial Services Company. The proceeds from these *Sukuk* are used to finance infrastructure projects as well as the health, education, and water sectors across Sudan's various states.

Second: Central Bank of Sudan Ijarah Certificates (Shihab): These are issued based on the Islamic *Ijarah* (leasing) structure and traded between the Central Bank of Sudan and commercial banks. Their issuance aims to enable the Central Bank to manage liquidity within the banking system and the national economy, while providing investment opportunities that generate commercial profit for the holders of these *Sukuk*. (14)

Third: Foreign Currency Collective Investment Certificates (Shumoukh): These certificates offer investors the opportunity to invest in a fund financing the import of strategic goods, in accordance with Islamic financing structures. Their issuance aimed to enable the Central Bank of Sudan to manage the country's foreign currency resources and generate rewarding returns for investors in foreign currency.

Fourth: Khartoum Petroleum Refinery Asset Ijarah Certificates (Shama): These certificates are issued based on the Islamic *Ijarah* structure to mobilize resources from investors—utilizing the Sharia-compliant *Wakalah* (agency) contract—to purchase the refinery's assets and lease them to the Ministry of Finance under an operating lease, thereby generating rewarding returns for investors.

Fifth: Sudanese Electricity Transmission Company Asset Ijarah Certificates (Nour): The Nour certificates aim to issue financial instruments (*Sukuk*) that provide profitable investment opportunities for holders by securitizing the assets of the Sudanese Electricity Transmission Company and offering them to investors. Additionally, they aim to secure adequate foreign currency resources for the state and foster the development of the country's investment fund industry. (15)

Sixth: Sudanese Electricity Distribution Company Asset *Ijara* Certificates (SHASHA): The SHASHA certificates aim to issue financial instruments (*Sukuk*) to provide investment opportunities that generate returns for holders. This is achieved by securitizing the assets of the Sudanese Electricity Distribution Company and offering them to investors, thereby generating state revenue and fostering the development of the investment fund industry in Sudan.

Seventh: Ministry of Finance and National Economy Building Asset *Ijara* Certificates (BURJ): The issuance of *Ijara* certificates based on the Ministry of Finance and National Economy building (BURJ) was initiated in implementation of the state's fiscal policies outlined in the 2014 general budget.

1-3- Operational Mechanism of Sudanese Government *Sukuk*: Sudanese government *Sukuk* vary depending on the parties involved in the contractual process, the issuance structures for each type, and the purpose of issuance. The following table illustrates the operational mechanism for each type of these *Sukuk*

Table (01): Contractual relationship in Sudanese government Sukuk and the purpose of their issuance.

The purpose of its issuance	Contractual Relationship (Format)	Contracting Parties			Tenure	The instruments
		The third party	The Second Party	The First Party		

Liquidity Management in the Economy (Open Market Operations)	Participation Structure	Central Bank of Sudan	The Company (Fund Manager)	Investors (Banks)	1998–2004	Smell
Financing the budget deficit	Participation Structure	Ministry of Finance	The Company	Investors	1999–Present	Nobility
Financing infrastructure projects and the health, education, and water sectors across Sudan's various states.	- Restricted Mudaraba	Ministry of Finance (Beneficiary of the financing)	Sudan Financial Services Company (Mudarib)	Investors (Capital Providers)	2003–Present	Statement
Managing liquidity within the banking system and providing investment opportunities that generate profit for Sukuk holders.	-Agency Agreement)Between the investor and the company(-Based on the purchase and leasing of the asset (Between the company and the bank(	The Bank)Seller and Lessee of the Asset(	The Company	Investors	2005–Present	Meteor
Financing the import of goods in accordance with the provisions of Islamic Sharia.	-Sharia-compliant Mudaraba Contract)Between the investor and the company(-Restricted Mudaraba Contract)Between the company and banking sector units(	The entities within the banking system are the beneficiaries of the financing.	The Company	Investors (Investment Certificate Holders)	From 10/2009	Majesty
It generates rewarding returns for its investors.	-Paid Agency Agreement (Between the investor and the company) -Based on the purchase and leasing of the asset (Between the company and the ministry)	Ministry of Finance)Seller of the asset and lessee under an operating lease)	(Mudarib)	Investors	to	Beauty mark
Providing profitable investment opportunities for	-Restricted Mudaraba Contract (Between investors and the Company)	Ministry of Finance (Seller of the asset	The Company (Agent)	Investors	10/2010	Light

Sukuk holders, in addition to securing adequate foreign currency resources for countries.	-Based on the purchase and leasing of the asset)Between the Company and the Ministry(	and lessee under an operating lease)				
Providing investment opportunities that generate returns for Sukuk holders, in addition to securing financial resources for the State.	-Mudaraba Contract (Between investors and the company) -Based on the purchase and leasing of the asset (Between the company and the Ministry)	Ministry of Finance (Seller of the asset and lessee under an operating lease)	The Company (Mudarib)	(Provider of Capital)	From 2010	Screen

Source: Prepared by the researcher based on information from the 2014 Annual Report of Sudan Financial Services Company Ltd.

-2Evaluation of Sudan's experience with government *Sukuk* and lessons learned:

The Sudanese experience has proven successful and distinctive in the realm of sovereign Islamic government *Sukuk*, as it succeeded in achieving its intended objectives, namely: (16)

-1-2Liquidity Management: To develop liquidity management tools, the Sudanese Ministry of Finance—through the Central Bank of Sudan—introduced Central Bank Certificates (*Shamam*) in June 1998 and Government Participation Certificates (*Shahama*) in the final quarter of the same year. Subsequently, Government Investment Certificates (*Sarh*) were introduced in 2003, followed by Central Bank of Sudan *Ijara* (Leasing) Certificates (*Shihab*) in September 2005. By utilizing these instruments within the framework of open market operations, the country was able to reduce inflation rates, optimize resource utilization, stabilize exchange rates, boost economic growth, and rely on real resources rather than borrowing from the banking system. 2-2- Financing the General Budget Deficit: Sudanese government *sukuk* played a significant role in financing Sudan's general budget deficit for 2014. Government Participation Certificates (*Shahama*) contributed 1,611.6 million pounds, representing an estimated 36% share, while Government Investment *Sukuk* (*Sarah*) contributed 173.1 million pounds, or 4% of total domestic financing for 2014. Table (11) illustrates the respective contributions of *Shahama* and *Sarah* to financing the budget deficit during the period from 2009 to 2014.

Table (02): Contribution of Sudanese government *sukuk* to financing the general budget deficit during the period from 2009 to 2014. (Million Sudanese Pounds)

Years						Item
2014	2013	2012	2011	2010	2009	
4416.9	6456.5	7653.4	9121.2	7586.1	4895.5	Total budget deficit
870.9	1073.2	268.3	55.7	706.6	910.9	Net external financing
3546	5383.2	5385	9065.5	8292.7	3984.6	Net domestic financing

1611.6	738.7	1886.3	1687.5	2020	749	Shahama contribution to domestic financing
173.1	495.7	501.2	521.5	1662	95	Sarh contribution to domestic financing

Source: Central Bank of Sudan reports for the years 2009, 2010, 2011, 2012, 2013, and 2014. 2-3- Economic and Social Returns of Sukuk Projects:

-1-3-2Economic Returns of Sukuk Projects:

a- Proceeds generated from the issuance of Government Investment Sukuk ("Sarh"): Total proceeds collected by the end of 2014 amounted to 4,066.78 million pounds. The following figure illustrates the trend in proceeds collected from the issuance of Government Investment Sukuk ("Sarh") during the period from 2003 to 2014.

It is observed that the proceeds generated and collected from the issuance of Government Investment Sukuk grew from 60 million pounds in 2003, reaching a peak in 2005 with a subscription volume of 619.51 million pounds. Subsequently, the figures gradually declined to 196.91 million pounds in 2008, before rising again to 500 million pounds in 2010. Subscription levels remained relatively stable over the following two years. In 2013, the Sudan Financial Services Company Ltd. did not issue any Government Investment Sukuk ("Sarh"); however, the company resumed issuance in 2014 with a value of 482.9 million pounds. These funds were used to cover the company's obligations toward the Ministry; thus, all resources utilized during 2014 represented allocations for projects that were either deferred or currently under implementation. b- Expenditure on the implementation of development projects: Government investment *sukuk* (SARH) have contributed to supporting various economic sectors by providing tangible resources to finance development projects in the country. This was achieved by mobilizing domestic savings and channeling them into projects across diverse sectors—whether service-oriented or productive—as illustrated in the following two tables.

Table (03): Sectoral breakdown of government investment *sukuk* issuances during the period from 2010 to 2012.

2012		2011		2010		Item
%	Sum	%	Sum	%	Sum	
%68	148.88	%69.3	87.7	%28.67	786.39	Services (water, health, education)
%9	20.13	%11	13.9	%23.28	638.66	Basic infrastructure
%14	31.27	%2.6	3.3	%8.37	229.57	Agriculture and productive projects
%0	0	%7.5	9.5	%4.73	129.87	Other projects (developmental)
%0	0	%0	0	%30.6	839.28	Cash flows to the Ministry of Finance
%0	0	%0.5	0.6	%1.47	40.47	Information technology
%9	20.47	%9.1	11.5	%2.85	78.34	Other
%100	220.75	%100	126.5	%100	2742.58	Total

Source: Annual reports of Sudan Financial Services Company Ltd. (2010, p. 47), (2011, p. 41), (2012, p. 42)

Table (04): Sectoral breakdown of government investment sukuk issuances during the period from 2013 to 2014 (in thousand pounds)

2014		2013		Item
%	Sum	%	Sum	
%9.5	812.9	%83.8	5544.4	Health
%0	0	%12.2	858.8	Education
%0	0	%1.5	116.8	Water
%18.5	1591.25	%1.1	69.3	Agriculture
%0	0	%1.4	89.6	Productive Projects
%0	0	%0	0	Miscellaneous
%0	0	%0	0	Infrastructure
%0	0	%0	0	Electricity Sector
%72	6183.18	%0	0	Irrigation
%100	8587.33	%100	6678.9	Total

The preceding table reveals a shift in the sectoral allocation strategy for Sukuk projects during 2014, prioritizing the agriculture and irrigation sectors over others. The irrigation sector secured the lion's share—accounting for 72% of total mobilized resources—followed by the agriculture sector at 18.5%. Conversely, allocations to the health sector declined significantly, dropping from 83.8% in 2013 to 9.5% in 2014.

C- Indicators of Economic Return:

The economic impact is evident in the scale of projects actually implemented, which include (12):

1- Support for strategic projects: This includes financing the residential complex at the Merowe Dam, the water station for the new Khartoum Airport, and student housing projects across various states; funding the water desalination network in Port Sudan; consolidating and electrifying the White Nile projects (Al-Malaha); financing the Al-Debba Bridge and the electricity transmission line (Dongola-Wadi Halfa); supplying vocational training equipment; and executing civil works for the foundations of transmission towers crossing the White Nile in the Northern State (specifically in the towns of Jarra, Sai, and Badin). 2- Health Sector: Supporting programs to localize medical treatment domestically (Phases I and II) through dialysis centers in the capital and states, and the National Health Laboratory (via the provision of advanced diagnostic equipment). This also includes establishing surgical complexes and supplying specialized equipment to federal and state hospitals—examples being the construction of the Heart Center, the renal surgery hospital, and the National Cancer Institute facilities in Wad Madani—as well as establishing health units in rural areas.

3- General and Higher Education Sector: Funding the construction of schools and classrooms across various states and supplying textbooks, in addition to providing advanced technical laboratories for technical colleges and supplying computers with their peripherals.

- 4- Water Sector: Providing funding for projects to mitigate the effects of drought and desertification by drilling and installing hundreds of wells and constructing water networks. This also includes building dams and excavating water reservoirs (*hafeers*), which helped resolve water scarcity issues in several states.
 - 5- Agriculture and Irrigation Sectors: Supporting irrigation infrastructure, supplying agricultural machinery to various states, supporting the Agricultural Renaissance project, and funding greenhouse projects and farm rehabilitation initiatives.
 - 6- Livestock Sector: Providing vaccines and medicines for veterinary supplies, establishing veterinary quarantine facilities, and funding projects for nomadic communities.
 - 7- Infrastructure Sector: Providing funding for the construction of asphalt roads and securing solar energy systems across various states.
 - 8- Industrial Sector: Funding the rehabilitation of the textile sector at the Kosti, Ed Dueim, and Singa factories.
 - 9- Media and Communications Sector: Support was provided for the infrastructure of the National Radio and Television Corporation and the Sudan News Agency (SUNA) through the provision of radio transmitters and advanced technical equipment, placing Sudan among the ranks of developed nations in this field.
 - 10- Machinery and Equipment Sector: Integrated excavation equipment was provided to several states, facilitating the construction of dams and roads and the digging of water reservoirs (*hafirs*), in addition to the provision of brick-making machinery.
 - 11- Other Areas: Supporting the private sector by involving it in the implementation of various projects.
- 2-3-1- Social Impact of *Sukuk* Projects (13):
- 1- Achieved stability for rural communities by providing essential services, such as digging water reservoirs and wells and constructing health and educational facilities.
 - 2- Restored investor confidence in partnering with the state for investment.
 - 3- The funding for these projects was sourced from local public resources, representing a contribution by local investors to development financing.
 - 4- Project implementation created job opportunities, thereby contributing to the fight against youth unemployment.
 - 5- It fostered the principles of transparency and operational activity through open, competitive bidding and the stimulation of the local labor market; the *Sukuk* projects for 2010 were executed by a significant number of local contractors and companies—estimated at 860—while approximately 72 companies carried out the projects in 2011, and around 48 local companies did so in 2012; in 2013 and 2014, the *Sukuk* projects were executed by six contractors.
 - 6- It enabled local companies to build expertise through the execution of projects in accordance with the required terms and specifications.

Fourth Pillar: Evolution of the Islamic Sukuk Industry in Sudan (2015–2024): Current Status and Challenges

Between 2015 and 2024, the Islamic Sukuk industry in Sudan underwent varied developments; on one hand, these reflected the country's accumulated expertise in utilizing Islamic financial instruments, while on the other, they mirrored the impact of the economic and political imbalances the nation experienced during this period. The use of government Sukuk—specifically Government Musharaka Certificates (Shahama), Government Investment Sukuk (Sarh), and Ijarah Certificates—persisted as a means to mobilize financial resources, manage liquidity, and finance portions of the budget deficit and public projects. Empirical studies confirm that the Sudanese experience was distinguished by a multiplicity of Sukuk structures and diverse applications, positioning it as one of the most prominent examples in the Arab world and Africa within this field.

During the initial years of this period (2015–2018), the Sudanese government and the Central Bank of Sudan continued to rely on Sukuk and Islamic securities within the government financing framework. The Central Bank of Sudan's 2015 annual report highlights the continued activity of Government Musharaka Certificates, noting their role as a vital tool for mobilizing resources from banks, institutions, corporations, and individuals, as well as their use in liquidity management operations. Subsequent official reports further indicate that the market for Islamic government securities remained an integral part of the monetary and fiscal policy framework throughout this phase. Econometric analysis conducted by Tamma and Bouenbaou using data from Sudan for the period 2000–2019 confirms the existence of a long-term causal relationship running from Islamic *Sukuk* to per capita GDP, demonstrating a positive impact of *Sukuk* on economic growth—albeit one that requires time to become clearly evident. This finding supports the view that the developmental

significance of *Sukuk* extends beyond the provision of immediate liquidity to potentially fostering investment and economic activity over the long term.

Furthermore, a recent study on the developmental and financing role of Islamic *Sukuk* in Sudan between 2012 and 2022 reveals that the state utilized a variety of *Sukuk* instruments to finance investment projects and infrastructure, as well as to cover the general budget deficit. The study concluded that while the majority of issuances were directed toward government financing needs—with *Sukuk* continuing to contribute to certain development projects—the outcomes fell short of expectations due to the economic and political conditions the country experienced (14).

Regarding the budget deficit, several studies have confirmed that government *Sukuk* have emerged as a key instrument for domestic financing in Sudan. A study by Qawi Saeeda indicates that the multiplicity of Sudanese issuances—such as *Shahama*, *Sarh*, *Shihab*, and *Shama*—helped generate financial resources to cover the deficit, serving as an alternative to certain traditional financing instruments. Similarly, recent studies highlight that *Shahama* certificates and *Sarh* *sukuk* remained key instruments in Sudan's experience of financing part of the public treasury's needs.

Regarding liquidity management, the role of Sudanese *sukuk* extended beyond budget financing; they were also utilized as monetary policy tools. A study by Hanni and Touati demonstrated that government *sukuk*—including Government Participation Certificates, Government Investment Certificates, and *Ijara* (leasing) certificates—provided Sharia-compliant instruments for managing the liquidity of Islamic financial institutions. However, the effectiveness of these instruments remained contingent upon market depth, the regularity of issuances, and the existence of an active secondary market (15).

The year 2015 also saw the development of *Ijara*-based instruments; the Supreme Sharia Supervisory Board approved the prospectus for "Shihab 2"—structured around the ownership of Central Bank of Sudan assets and their subsequent lease-back to the Bank—following a Sharia review. This underscores the continued innovation in government *sukuk* structures beyond 2014.

During the 2019–2021 period, the *sukuk* industry faced a more complex economic environment characterized by high inflation, currency depreciation, and widening fiscal imbalances, all of which impacted the efficiency of liquidity management and domestic financing instruments. The International Monetary Fund (IMF) has indicated that Sudan needed to develop a deeper market for government securities, enabling the central bank to employ more effective market-based tools for liquidity management and to reduce reliance on direct monetary financing of the government.

Sudan's 2021 budget reaffirmed the move to revitalize deficit-financing instruments based on collateral and *Sukuk*, while working to refine these mechanisms and address associated shortcomings. This serves as official evidence that *Sukuk* remained a component of the Ministry of Finance's strategy to identify alternative sources for financing the budget deficit during the economic reform phase (16).

Concurrently, this period witnessed a significant institutional shift toward adopting a dual banking system that accommodates the operations of both Islamic and conventional banks. This transition posed new challenges for the *Sukuk* industry, necessitating the design of instruments suited to a more diverse financial landscape, as well as the development of legislation, regulatory frameworks, and liquidity markets to facilitate the coexistence of Islamic and conventional instruments (12). Furthermore, Sudan's Supreme Sharia Supervisory Board highlighted the extensive institutional debate surrounding this transition and its implications for the Islamic banking system.

Recent empirical studies also point to a lack of sufficient utilization of *Sukuk* in certain sectoral areas. A study by Tabidi and Atouli, which examined real estate financing in Sudanese commercial banks between 2010 and 2022, concluded that the use of *Sukuk* in real estate financing remains low, despite their potential to attract savings and provide sources of investment funding; the study recommended expanding the issuance of specialized *Sukuk* and fostering a culture of investment in them.

With the outbreak of armed conflict in Sudan in April 2023, the *sukuk* industry entered a completely different phase; the war directly impacted the banking system, financial institutions, and the state's ability to mobilize resources and manage financial markets. Banking infrastructure suffered damage and economic activity declined, shifting priorities in 2023 and 2024 toward maintaining financial system operations and providing liquidity and essential financing for key goods and sectors, rather than expanding into new *sukuk* issuances (17).

Consequently, the challenge during 2023–2024 was no longer solely about the efficiency of the *sukuk* instruments themselves, but rather the macroeconomic environment in which they operate. The conflict led to heightened sovereign risk, reduced cash-flow predictability, and diminished investor confidence—alongside soaring inflation and exchange rate volatility—all of which constrain the natural expansion of any *sukuk* market. Therefore, available data from this period must be interpreted with caution, as the regularity of issuances and official statistics were affected by the exceptional circumstances the country endured.

Overall, the 2015–2024 period demonstrates the continued role of Islamic *sukuk* within Sudan's financing and institutional framework; however, the industry did not evolve at a consistent pace throughout this period. While the initial phase was characterized by the continued issuance and use of instruments such as "Shahama," "Sarh," and "Shihab," subsequent years saw mounting economic and political pressures; the outbreak of war in 2023 further severely constrained market activity. Consequently, bolstering the future role of Sukuk requires restoring economic stability, organizing regular government issuances, broadening the investor base, revitalizing the secondary market, enhancing governance and transparency, and linking issuance proceeds to productive and developmental projects that are measurable and subject to evaluation.

Key Challenges Facing the Islamic Sukuk Industry in Sudan

The primary challenges facing the industry during the period under review can be summarized as a lack of macroeconomic stability, high inflation, and exchange rate volatility—factors that impacted the real return on Sukuk and their investment appeal. Furthermore, a weak secondary market and limited trading activity resulted in low liquidity for certain instruments, while a heavy reliance on Sukuk to cover fiscal deficits diminished their direct role in financing productive and developmental projects.

The industry also faces institutional challenges, including the lack of regular issuance schedules and the need for greater transparency and disclosure regarding the underlying assets and projects. There is also a need to diversify issuance structures and maturities to suit the requirements of various investor categories. Additionally, the transition to a dual banking system in 2021 necessitated the development of more flexible regulatory and supervisory frameworks to ensure the continued viability of Islamic finance instruments within a changing financial landscape. The armed conflict ongoing since 2023 remains the greatest challenge facing the Sudanese *Sukuk* market at present; developing an effective financial market requires an environment of political and institutional stability, a banking system capable of functioning regularly, and investor confidence in the state's ability to meet its obligations. Consequently, revitalizing the *Sukuk* industry in Sudan is closely linked to the processes of reconstruction and the restoration of financial and economic stability.

Conclusion

Sovereign Islamic *Sukuk* have emerged as increasingly important financing instruments for economic development. They offer the capacity to mobilize savings and channel them toward financing projects and real assets, while also contributing to the diversification of public funding sources, providing suitable tools for liquidity management, and reducing over-reliance on certain traditional financing methods. However, the effectiveness of these instruments is not merely a function of their issuance; rather, it depends heavily on the soundness of the institutional, legislative, and Sharia-compliant frameworks, as well as the efficient allocation of the proceeds toward productive and developmental uses that yield economic and social returns.

The Sudanese experience has demonstrated distinct characteristics in this field, given the country's pioneering role in innovating and utilizing a diverse range of government Islamic *Sukuk* and certificates—such as the "Shahama" government participation certificates, "Sarh" government investment *Sukuk*, and the Central Bank of Sudan's "Shihab" *Ijara* certificates, among others. This diversity has helped broaden the scope of *Sukuk* applications to include liquidity management, budget deficit financing, and the mobilization of resources for infrastructure projects and various economic and social sectors.

An analysis of the evolution of the Islamic *Sukuk* industry in Sudan between 2015 and 2024 reveals that the industry did not follow a linear or static path; instead, it was significantly influenced by the changes occurring within the country's economic, political, and financial environments. The early years of the period were characterized by the continued use of Islamic government securities as instruments for financing and liquidity management. In contrast, subsequent years saw escalating economic imbalances—specifically rising inflation, currency depreciation, and widening fiscal deficits—which impacted market efficiency and the attractiveness of investment instruments.

The study also revealed that the challenges facing Islamic *Sukuk* in Sudan stem less from the nature of the financial instrument itself and more from the operating environment. Factors such as a weak secondary market, limited liquidity, irregular issuance, high sovereign risk, and a need for greater transparency, disclosure, and governance have constrained the ability of *Sukuk* to realize their full financing and developmental potential. These challenges have been further exacerbated since the outbreak of armed conflict in 2023, which disrupted economic and banking activities; consequently, maintaining the continuity of the financial system and ensuring the provision of financing for essential sectors and commodities became key priorities for the authorities throughout 2023 and 2024.

Thus, the Sudanese experience confirms that sovereign Islamic *Sukuk* can serve as an effective mechanism for financing development, provided they are deployed within an integrated economic vision. Rather than being limited to covering recurrent financing needs or budget deficits, they should be more closely linked to specific, assessable productive and investment projects, thereby ensuring that funds are channeled into the real economy and generate sustainable developmental impacts. Consequently, restoring and strengthening the future role of Islamic *Sukuk* in Sudan requires ensuring greater economic and institutional stability, rebuilding confidence in the financial system, developing the secondary market, broadening the investor base, and enhancing Sharia-compliant oversight and governance. It also entails diversifying *Sukuk* structures and linking future issuances to projects in reconstruction, infrastructure, agriculture, energy, health, and education. In this context, Sudan's accumulated experience in *Sukuk* issuance could serve as a vital foundation for rebuilding a more efficient market aligned with economic development goals—provided that the imbalances revealed by past experience are addressed.

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