

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN  
AZERBAIJAN STATE ECONOMIC UNIVERSITY  
INTERNATIONAL CENTER FOR MASTERS AND DOCTORS**

**MASTER'S DISSERTATION  
on the topic  
“SUKUK AS ISLAMIC CAPITAL MARKET INSTRUMENT”**

**Karimov Umid Nabi**

**BAKU – 2021**

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

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**MASTER'S DISSERTATION**

**on the topic**

**“SUKUK AS ISLAMIC CAPITAL MARKET INSTRUMENT”**

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**BAKU – 2021**

## **Elm andı**

Mən, Kərimov Ümid Nəbi and içirəm ki, “Sukuk as Islamic capital market instrument” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

# “SUKUK BİR KAPITAL BAZARI ALƏTİ OLARAQ”

## XÜLASƏ

**Tədqiqatın aktuallığı:** Tədqiqat mövzusunun aktuallığı ehtiyacla əlaqədardır. Azərbaycan bazarı beynəlxalq qiymətli kağızlar bazarı üçün vəsait toplayaraq investisiyalarda.

Ehtimal olunan sukuk aktivlərini artırma növlərindən biri - müəyyən bir qaynaq üçün hüquq sahiblərinə hesabat verən bir İslam pul sənədi alətləri (torpaq, icarə haqqı, mübadilə fəaliyyətindən pul axınları).

**Tədqiqatın məqsədi:** İslam Sukukunun verilmə proseduru, bazarda dövriyyəsinə və üstünlüklərini və mənfi cəhətlərini təhlil edin. Sukuk və ənənəvi istiqrazlar arasındakı fərq də araşdırma məqsədi daşıyır. Sukuk uzunmüddətli maliyyələşdirmə üçün ən geniş yayılmış və geniş istifadə olunan kapital bazarı vasitədir.

**Tədqiqat metodları:** Tədqiqat dialektik və formal məntiq prinsiplərindən, analiz və sintez metodlarından, induksiya və deduksiyadan, təsnifat metodundan və sistemli bir yanaşmadan istifadə ediləcəkdir.

**Tədqiqat məlumat bazası:** Tədqiqat BVF, Dünya Bankı, İslam maliyyə qurumlarının mühasibat və audit təşkilatı, elmi, metodiki, təhsil nəşrləri, məlumat kitabları, konfranslar, forumlar, konqres materialları, analitik agentliklərin məlumatları idi.

**Elmi yenilik elementləri:** sukuk qiymətli kağızlarının investisiyaların cəlb edilməsi vasitəsi kimi nəzəri konsepsiyalarının inkişafı ilə yanaşı sukukun Azərbaycan bazarına gətirilməsi üçün tövsiyələrin hazırlanması ilə əlaqələndirilir.

**Tədqiqat məhdudiyyətləri:** Bir çox şirkətin sukuk istiqrazlarının London Fond Borsasında yerləşdirilməsinə baxmayaraq, bu anda çox yaygın deyil və əsasən bir neçə müsəlman ölkəsinin birjalarında satılır.

**Elmi yenilik və praktik tədqiqat nəticələri:** Elmi yenilik elementləri investisiyalar cəlb etmək üçün bir vasitə kimi sukuk qiymətli kağızlarının nəzəri konsepsiyalarının inkişafı ilə yanaşı sukukun dünya bazarına çıxarılması üçün tövsiyələrin hazırlanması ilə əlaqələndirilir.

**Tədqiqat nəticələrinin tətbiqi sahələri:** İstifadə olunmuş mənbələrin uyğunluğu və adekvatlığı təkliflərin vəziyyətinə gətirilməsindədir. Hazırlanan metodoloji tövsiyələr tədqiqat mərkəzləri tərəfindən istifadə edilə bilər və təklif olunan tövsiyələr elmi əsaslı uzunmüddətli strateji proqramların hazırlanması üçün yeni imkanlar açır.

*Açar sözlər: İslam Maliyyəsi, sukuk, kapital bazarı, istiqrazlar, İslam bankçılığı.*

# “SUKUK AS ISLAMIC CAPITAL MARKET INSTRUMENT”

## SUMMARY

**The relevance of research:** The relevance of the research topic is due to the need for Azerbaijani market in investments by raising funds for international securities market.

One of the types of raising assets possibly sukuk - an Islamic monetary instrument reporting rights holders for a particular resource.

**Purpose of the study:** Analyze Islamic Sukuk issuance procedure, its turnover in the market and advantages and disadvantages. The difference between Sukuk and traditional bonds are also aim of research.

**Research methods:** The research will use the principles of dialectical and formal logic, methods of analysis and synthesis, the method of classifications, as well as using a systematic approach.

**Research information base:** Research was the materials of the IMF, the World Bank, the Organization accounting and audit of Islamic financial institutions, scientific, methodological, educational publications, reference books.

**Elements of scientific novelty:** are associated with the development of theoretical concepts of sukuk securities for attracting investments.

**Research limitations:** Despite the fact that the sukuk bonds of many companies are listed on the London Stock Exchange, they are not very common at the moment and are mainly traded on the stock exchanges of several countries.

**Scientific novelty and practical research results:** Elements of scientific novelty are associated with the development of theoretical concepts of sukuk securities as a tool for attracting investments.

**Areas of application of the research results:** The developed methodological recommendations can be used by research centers, and the proposed recommendations open up new opportunities for developing scientifically based long-term strategic programs.

*Keywords: islamic Finance, sukuk, capital markets, bonds, islamic banking.*

## **ABBREVIATIONS:**

<b>AAOIFI</b>	The Accounting and Auditing Organisation for Islamic Financial Institutions
<b>ASEAN</b>	Association of South-East Asian Nations Middle East & North Africa
<b>CAGR</b>	Compound Annual Growth Rate
<b>GCC</b>	Gulf Cooperation Council
<b>IDB</b>	Islamic Development Bank
<b>IIFM</b>	International Islamic Financial Markets
<b>IFSB</b>	Islamic Financial Services Board
<b>IFSI</b>	Islamic financial services industry
<b>MENA</b>	Middle East & North Africa
<b>SPV</b>	Special Purpose Vehicle

## CONTENT

<b>INTRODUCTION.....</b>	<b>8</b>
<b>CHAPTER I. THE ESSENCE OF THE ISLAMIC ECONOMY AND ISLAMIC FINANCE SYSTEM AND THEIR PLACE IN THE ECONOMIC SYSTEMS OF COUNTRIES.....</b>	<b>11</b>
1.1. Theoretical Origins and Basic Prerequisites for the Development of Islamic economic doctrine.....	11
1.2. Islamic capital market instruments.....	17
<b>CHAPTER II. ASSESSMENT OF RESILIENCE OF THE ISLAMIC FINANCIAL SYSTEM.....</b>	<b>31</b>
2.1. Islamic capital market development review.....	31
2.2. Islamic banking in assets.....	40
<b>CHAPTER III. SUKUK AS PERSPECTIVE ISLAMIC FINANCE INSTRUMENT .....</b>	<b>45</b>
3.1. Conventional bonds and advantages of Islamic Sukuk.....	45
3.2. Challenges in the Sukuk issuance.....	54
3.3. Development of Sukuk investment worldwide.....	59
<b>CONCLUSIONS AND OFFERS .....</b>	<b>66</b>
<b>LIST OF USED LITERATURE .....</b>	<b>74</b>
<b>ATTACHMENT .....</b>	<b>79</b>
List of tables .....	81
List of pictures .....	81
List of charts .....	82
List of diagrams .....	82



## INTRODUCTION

**The relevance of the research topic:** is due to the need for Azerbaijani market in investments by raising funds for international securities market. One of the types of raising assets possibly sukuk - an Islamic monetary instrument reporting rights holders for a particular resource (land, rental pay, monetary streams from exchange activities). Today, the sukuk market is an appealing apparatus financing not just in nations living as indicated by Sharia law, yet additionally in nations of the West. Along these lines, in 2016, the absolute yield of sukuk was USD 74.8 billion, and the aggregate sum of assets raised added up to USD 350 billion and as indicated by the gauge of S&P Global Ratings for 2017 will add up to in any event \$ 60 billion. Western agents analyze sukuk and customary securities, fortifying the expression "Islamic securities" in the worldwide monetary network. Over the years, China's economic policy has been aimed at keeping the yuan undervalued. Protecting the currency from speculation also helped to keep Chinese exports safe. This task was the central foundation of the PRC's economic development model, which gave it a trade advantage. The sukuk market draws in backers and financial specialists not just from the partaking nations GCC and Southeast Asian nations, yet additionally the worldwide monetary network in the entirety. Along these lines, sovereign sukuk are given by South Korea, Africa, Luxembourg, USA, Great Britain, Hong Kong, Japan and different organizations furthermore, the nation's information banks additionally issue Islamic bonds.

**Object and subject of research:** The research object is the sukuk securities market. The subject of the research is methodological provisions, methods of using sukuk.

**The purpose of this research:** Analyze Islamic Sukuk issuance procedure, its turnover in the market and advantages and disadvantages. The difference between Sukuk and traditional bonds are also aim of research. Sukuk is most common and widely used capital market instrument for long term financing. We will see in detail

what Sukuk is and what its basic characteristics are. We will also analyze how Sukuk is issued by the corporations and how it is operated. The difference between Sukuk, traditional bond and share will also be made for better understanding of the concepts. To achieve this goal

1) consider the history of the formation of Islamic finance and securities in particular, as well as the features of sukuk as a tool for attracting investment;

2) consider the experience of foreign countries in introducing sukuk to their own markets;

3) substantiate the most promising type of sukuk and develop measures aimed at creating favorable conditions for the use of this type of sukuk in Azerbaijan.

**Research limitation:** Despite the fact that the sukuk bonds of many companies are listed on the London Stock Exchange, they are not very common at the moment and are mainly traded on the stock exchanges of several Muslim countries (Malaysia, the UAE, Saudi Arabia, Indonesia, etc.). There is a limited amount of data and statistics for this.

**Scientific and practical significance of results:** The theoretical and applied significance of the results of the final qualifying work lies in the possibility of applying its theoretical provisions and methodological developments for the development of the sukuk market as an alternative tool for attracting investment.

**Knowledge degree of the problem:** The hypothetical and methodological establishments of the examination were made by crafted by analysts working in the field of lighting S.K. Iskakova, J. A. Natif, M. T. Usmani, I. Vardi, M.F. Khan, M.K. Hassan, et al. Sukuk statistical surveying is done by the IMF, the World Bank Group, the Islamic Development Bank Group, Bookkeeping and Auditing Organization for Islamic Financial Institutions, Institute of Islamic Banking and Insurance, International Center for Islamic Finance Education, Credit Rating Services (Standard and Poor's, Moody's), Information Systems (Reuters, Bloomberg)

**Research limitations:** Islamic capital market is a tremendous field. This investigation will just concentration at the rudiments qualities of Islamic capital market and Sukuk. We are thinking about just a single Islamic capital market instrument for example Sukuk, in light of the fact that it covers practically 90% of Islamic capital business sectors. Absence of monetary specialists in Islamic capital market. There is no shortage of monetary specialists who have aptitude of conventional monetary framework. Yet, in Islamic capital business sectors each exchange must be as per the Islamic law, so the one must be very much aware of the Islamic law. There are absence of monetary specialists who know about both for example customary monetary framework and the Islamic law.

**Theoretical and methodological basis of dissertation research:** The works of scientists in the field of theory financial market, securities market, Islamic financial system and sukuk market. The research was carried out using the principles of dialectic and formal logic, methods of analysis and synthesis, induction and deduction, method classifications, as well as using a systematic approach and techniques graphic interpretation.

**The information base of the dissertation:** Research was the materials of the IMF, the World Bank, the Organization accounting and audit of Islamic financial institutions, scientific, methodological, educational publications, reference books, materials of conferences, forums, congresses, data from analytical agencies.

**Elements of scientific novelty** are associated with the development of theoretical concepts of sukuk securities as a tool for attracting investments, as well as the development of recommendations for the introduction of sukuk in the Azerbaijani market.

**The method of research:** The research will use the principles of dialectical and formal logic, methods of analysis and synthesis, induction and deduction, the method of classifications, as well as using a systematic approach.

# **CHAPTER I. THE ESSENCE OF THE ISLAMIC ECONOMY AND ISLAMIC FINANCE SYSTEM AND THEIR PLACE IN THE ECONOMIC SYSTEMS OF COUNTRIES**

## **1.1. Theoretical Origins and Basic Prerequisites for the Development of Islamic economic doctrine**

The undertaking needs to coordinate with a scholarly build (an Islamic monetary framework) with an idea that exists in place of reality in various structures (the social market economy). against this, no advanced state inside the Muslim world has for all intents and purposes carried out an Islamic public economy, maybe except for Sudan and Iran. The monetary frameworks that exist today are pretty much orderly headways of frameworks introduced as a mainstream sign subsequent to acquiring autonomy in continuation of, or in an incredibly (progressive) overcome provincial time frameworks.

Indeed, even the instructional exercise order of Islamic financial matters, which looks to join mainstream monetary speculations or (neoclassical) models with lessons from Islamic way of thinking and law, could likewise be a similarly new wonder. The most punctual distributions during this field didn't start from researchers at driving Islamic colleges inside the Arabic center of the Islamic world, but instead from scholastics in Asia. The endeavors of Indian Muslims, starting inside the 1930s, to make a Muslim state on the past domain of British India following Britain's withdrawal led to serious discussions about an Islamic public economy – or rather, banter about an economy for an Islamic State. Albeit the new territory of Pakistan was made in 1947 as such a "Muslim country state" in pieces of previous British India, it actually had a terribly common character and a lot of inquiries on the proper monetary framework had still not completely been replied. The constitution of 1958 transformed the state into the "Islamic Republic of Pakistan," yet this didn't stop conversations about financial strategies that had been happening since the 1940s. All things being

equal, it strengthened them. Individuals were attempting to search out their own way, a way among Capitalism and Communism, which could likewise drive forward monetary turn of events. The greater part of the essential compositions on Islamic financial aspects (until the 1960s), which are reproduced as yet referred to now, were composed against this backdrop. Similar conversations additionally happen inside the Arab world in regard to the withdrawal of European pioneer and obligatory forces from the center of the 1950s onwards – without the setting of establishing an "Islamic" state (Volker Nienhaus, 2020).

References to Islamic lessons and, especially, to law parts of Shariah were frequently just superficial or corrective and served more to legitimize and assemble than give an applied establishment. During this beginning stage, numerous models had communist characteristics: the models of "Islamic Socialism" were upheld a redistributive state, which vigorously controlled the economy. In this way, they differentiated distinctly from free enterprise free enterprise. Nonetheless, for the preeminent part they didn't address private responsibility for methods for creation – a monster distinction contrasted and "pagan" Communism. These models could likewise be portrayed as varieties of Market Socialism. References to Islamic lessons and, explicitly, to the law vendor parts of Shariah were regularly just quick or restorative and served more to legitimize and assemble than give a theoretical establishment. With the proceeded "academification" of literature, the expanding contribution of specialists in shariah and more exceptional global conversations about Islamic financial aspects, it's become certain that predominant control of the economy doesn't really accept that things and a market-based framework, which winning mentalities are progressively moving towards a serious economy with an express that fundamentally tries to prove money related security, appropriate rivalry, and an essential foundation (transport, instruction, medical care, overall set of laws). Such a state should give specific consideration to making sure that pay and abundance don't turn out to be too focused, particularly in more unfortunate nations, and start projects to battle

destitution. Absurd decade, public obligations (both of society and furthermore the state) have expanded to incorporate shielding supportable financial movement and securing the climate. At last, the state ought to make ideal system conditions for a private economy in accordance with the necessities of Islam, something which could have specific ramifications. The common tenet of Islamic financial aspects today are regularly summed up as follows:

Islam passes on an inspirational perspective on this life regularly and offers a steady benefit framework for monetary exercises especially.

Islamic monetary morals shows impressive cover with Western-Christian insights inside the area of individual morals. Extraordinary significance is credited to individual accomplishment. People are required to make money through their own work. An individual's own accomplishment (physical and scholarly work) is that the premier huge reason for honestly acquiring material merchandise and riches. Costs ought to be simply, which proposes that they should be upheld serious business sectors. Restraining infrastructure and accumulating lead to a misuse of other market members and can be crushed.

Neither individual human abilities nor characteristic assets should lie inactive superfluously, and it's illegal to squander or wantonly misuse assets.

Truly obtained abundance ought not be acclimated augment the quest for an individual's own needs (in this life): extravagance is disapproved of; Islam lectures balance; and furthermore the work of excesses for social points is worthy.

The penniless have their own case to fortitude from the local area, which is institutionally ensured and upheld the Quran: Muslims are needed to pay zakat, for example an over two percent demand on resources or a five or portion demand on farming produce, which is used for explicit (social) purposes. this is regularly frequently a commitment for the individual, thus the cases of the destitute ought to be fulfilled by the local area or the general public (and really at that time by the express); this could be sensibly very much like the standard of subsidiarity.

Since Allah has made the results of this world accessible to any or all or any masses, disparities inside the appropriation of pay and abundance should not be permitted to turn out to be excessively extraordinary. In the event that requirements be, the state should intercede with restorative measures to battle neediness.

People, as God's caretakers of the planet, just reserve the option to utilize creation. they need to not dispense enduring harm consequently and should consider the authentic case of people in the future in the thing they're doing. This guideline gives ascend, in addition to other things, to an aggregate responsibility for sustainable assets (regular assets, yet additionally water) and, all the more as of late, a commitment to shield the climate.

Islamic law perceives private responsibility for methods for creation. Nationalization and state control of the economy are just reasonable in remarkable conditions. Land and capital become gainful just as elements of creation when joined with work. Accordingly, pay will not be gotten from just possessing area or capital. Financing, rent, and different agreements, which assign returns and dangers to the proprietors of things of creation, should meet specific standards of equity. Costs ought to be simply, which proposes that they should be upheld cutthroat business sectors. Imposing business model and accumulating lead to a misuse of other market members and can be crushed.

Practices and game-plans that have withdrawn and other harming outcomes are prohibited, consequently suggesting that markets and rivalry should control which restraining infrastructures ought to be forestalled.

Moreover, all exchanges, where one gathering benefits at the value of another – simultaneously likewise with betting and theoretical exchanging , are prohibited. The target of money related arrangement is to prove solidness of the worth level. Monetary strategy should safeguard the harmony between charge incomes and public consumption so as that the public spending adjusts in general. The state should give an essential foundation (counting a legal framework) and specific public merchandise,

and it should forgo interceding in serious business sectors. Basically, this rundown contains all the climate that comprise a social free enterprise economy, which are summed up inside the Konrad-Adenauer-Stiftung's distribution named "Rules for Prosperity, Social Justice and Sustainable Economic Activity."

Zakat could likewise be a toll paid by Muslims, whose abundance surpasses a specific exclusion remittance, and it's utilized for social purposes, subtleties of which are begun inside the Quran. The demonstration of paying zakat is one in everything about principal central strict obligations for a Muslim. Islamic financial aspects underscores that zakat addresses the penniless' case to partake in the public arena's riches and, all things considered, is at the center of the Social Security framework. The zakat framework is additionally coordinated by the state if, for instance, Muslims neglect to play out their installment obligations satisfactorily on a deliberate premise. In contrast to tax collection, the state will not utilize zakat incomes for a definitive financial plan. All things considered, they will just be acclimated help entitled beneficiaries for the necessities began inside the Quran. All things considered, there is a necessity to rethink and explain these real uses and beneficiaries considering ongoing turns of events. furthermore, the structure inside which the zakat reserves are estimated to be utilized (for example as immediate money related exchanges or to back establishments which supply advantages to the entitled beneficiaries) should even be resolved. The case of zakat shows the rule of realistic administrative advancement which, from one perspective, permits adaptable acclimations to be made to the framework noticeable of most recent marvels or changed conditions. That isn't the situation, in any case: the idea of evaluation for zakat set somewhere near the Prophet was changed by his nearby replacements moreover on the grounds that the duty rates.

For the essential caliphs, the zakat rules of the Prophet were obviously not considered perpetual standards given by God, yet only a statement of (revisable) enactment which relied on specific conditions, a specific period, and a specific spot. Such practical enactment didn't look to see all around material and ageless standards;



rather, it intended to determine specific issues. The commonsense enactment of the Prophet thus the main caliphs didn't deliver all inclusive standards; rather it gave analogies upheld past cases to aid new, singular cases. There still be food items that makers don't should pay zakat. Business analysts see this absence of consistency as tricky from the point of perspective on non-segregation or reasonableness.

The Prophet recorded the following resources (and kinds of revenue), which were to be dependent upon zakat installments (premise of appraisal):

1. camels, sheep, and cows,
2. gold, silver, and coins,
3. wheat, grain, dates, and grapes,
4. covered fortune.

It is indistinct whether he additionally imposed zakat on nectar and ancient rarity. At the point when one in everything about essential caliphs needed to frame your psyche up whether zakat was likewise payable for ponies, for instance, he just arrived at an interest that particular case and left open whether or not different creatures, similar to goats or jackasses, ought to try and be dependent upon zakat. Later appointed authorities augmented gathering to incorporate rice inside the rundown of produce subject to zakat. In this manner, they put together their choice with respect to a perception that every one articles during this gathering initially covered groceries; accordingly, rice – as a food item – ought to try and be incorporated. However, it's curious to the down to earth administrative advancement that a decision is reached uniquely for a particular case (rice), yet no speculation or proposition of the guideline utilized in arriving at that choice is made – for example that each one staples should get subject to zakat. Hence, there still be food things that makers don't should pay zakat. Financial experts see this absence of consistency as tricky from the point of perspective on non-separation or reasonableness.

## **1.2. Islamic capital market instruments.**

Islamic account has grown fundamentally over the course of the years to turn into a clear a piece of the global monetary set-up. The value of Islamic monetary resources overall expanded from USD 150 billion inside the mid-1990s to about USD 2.51 trillion by end-2018, drove by the Islamic financial area and in this way the worldwide sukuk market . Also, in 2019, it's assessed to claim arrived at the high figure of USD 2.88 trillion. Regardless of the considerable development of the past couple of years, Islamic money actually represents a relatively little portion of world account, and remains for the most part confined in chosen spaces of the globe, especially inside the Near East and much Eastern Asia.

The development of the Islamic money industry has for the most part been driven by the resulting factors:

- plentiful liquidity streams from the reusing of petrodollars produced by high oil costs throughout the long term;
- the dynamic pretended by certain locales round the world to advertise the occasion of Islamic monetary business sectors in their particular nations;
- a developing Muslim populace and in this manner the connected more appeal for Shari'ah-agreeable items;
- an expanded insight that Islamic account can uphold endeavors to advertise worldwide monetary steadiness;
- the indisputable certainty that multilateral associations (for example the IMF) further as assortment of national banks have started off broad investigations/research activities to take a gander at possibilities for Islamic account inside their separate monetary alliances/areas.

Islamic account has just made considerable advances inside the most recent decade. The Islamic financial framework, especially, has been developing at a supported rate, in spite of being at a beginning stage. Islamic banks took care of around USD 1.78 trillion (gauge) in resources at the tip of 2019, and have encountered a pace

of development of 15-20% consistently throughout the most recent five years. Islamic financial keeps on overwhelming the world Islamic account industry, addressing about 80% of all out Islamic monetary resources. Iran, four noticeable Gulf States (for example Saudi Arabia, the United Arab Emirates, Kuwait, and Qatar), besides as nations in South-East Asia represent a significant number of the Islamic financial market.

Islamic banking has become the quickest developing fragment of the global public economy. The internationalization of Islamic money makes it a possibly extra methods by which intermediation can occur round the globe opposite cross-line monetary streams. Going to Europe, Islamic account keeps on being at a sensibly undeveloped stage, however assortment of things would will in general help its further turn of events:

- government motivators and hence the actions acquainted with make a climate helpful for a developing and flourishing Islamic account industry;
- the developing Muslim populace inside European wards;
- the expanded accentuation on elective monetary arrangements inside the wake of the ecu monetary emergency;
- the significant craving for pulling in liquidity from developing business sectors.

Up until now, Islamic banks have benefitted from an interest driven specialty market that is quickly developing. Notwithstanding, with the huge number of Islamic banks effectively present and furthermore the developing revenue from ordinary establishments during this developing business sector, the business is getting profoundly serious. Ordinary monetary foundations are progressively understanding the value of Islamic financing methods and are starting to consolidate these into their current financing practices or opening up independent "Islamic windows".

The Islamic money industry has built up a huge scope of Shari'ah-agreeable monetary items. to affirm that they meet this determination, they make utilization of

agreements adequate under customary Islamic legitimate teaching and furthermore adjust regular monetary agreements so they suits the fundamentals of the Shari'ah. There are two fundamental kinds of item: benefit and misfortune sharing instruments (PLS) and increase contracts; and monetary endorsements that are practically similar to securities, which are alluded to as "sukuk". for a couple of instruments, there's an open conversation on whether they are Shari'ah-agreeable.

Islamic regulation considers PLS agreements to be nearer to the directs of the Shari'ah. Being upheld hazard support, they're halal (Shari'ah-consistent), yet in addition desirable over different styles of agreements. the first utilized agreements are those of archaic beginning, to be specific those including mudarabah and musharakah. The musharakah contract was utilized in the middle Ages to work with the joint responsibility for (sharika al-milk) or of a banner undertaking (sharikat al-'aqd). it's an acknowledge which two gatherings concur on the capital offers that both give to a venture. The two players are included inside the execution and the board of the undertaking and benefits are isolated with regards to the terms concurred inside the agreement. Then, misfortunes are assigned with respect to the capital contributed. Under a mudarabah contract, the proprietor of capital (rabb al-mal; the bank or the client) offers cash to the candidate (mudarib; the business person or the bank inside the instance of aberrant financing), who is focused on dealing with the amount given with a view towards making a benefit. This, thus, will be split between the gatherings on a rate premise, as spread out in the agreement: it's a portion of absolute pay and, all things considered, no fixed aggregate. the indistinguishable activity likewise can be utilized for backhanded financing: the specialist who has gotten the capital can finish up a mudarabah contract with an outsider which will at that point put it in profitable exercises (twofold level mudarabah). Mudarabah contracts are normally utilized for the administration of common assets and furthermore the organizing of sukuk.

The contrast between the 2 types of agreements is that, under a mudarabah contract, capital is entirely given by the bank, which likewise pays for misfortunes,

while, with a musharakah contract, the two players partake monetarily inside the task. In addition, inside the previous case, the administration of the undertaking is inside the sole obligation of the mudarib, while it's common inside the last case. moreover, the resources bought with the speculation stay the property of the bank under a mudarabah contract, while their possession is shared inside the situation of a musharakah contract. By and by, the work of a musharakah contract is confined in light of the fact that it's, essentially, a drawn out instrument, while the vast majority of the stores gathered by Islamic banks have a transient development. Its restricted dispersion is furthermore somewhat on account of the shortage of help appeared by independent companies, which are hesitant to have outside impedance in their business the executives. Both of those devices are reasonable for financing joint endeavors and furthermore for project financing. There likewise are assortments of non-participatory financing (these don't include any PLS), which are most much of the time utilized by and by, especially for individual credit extension and short and medium-term financing: the preeminent mainstream include murabahah (deal term) and ijarah (renting) contracts. Agreements of this sort, which are classified "exchange based" or "resource based" contracts, involve an expense or an increase on the value of the items that are purchased with the assets provided. during this case, the compensation doesn't unequivocally check with the worldly measurement and is hence viewed as the pay for a promotion administration (on account of a murabahah contract) or for the use of a nice (on account of an ijarah contract). Be that as it may, the incomes created by the agreement tend, truth be told, to duplicate individuals who are ordinary of a standard credit.

These tasks are for the most part identified with circuitous styles of security, similar to the responsibility for items hidden the exchange. The murabahah contract is that the one most normally utilized. Under this, one gathering purchases a resource and offers it to the contrary party at the following value, which is coordinated finish of the agreement and is payable at the top. the ensuing agreements are comparable:

- entrance 'al-mu'ajjal – moment offer of a resource correspondingly for the installment of money (made completely or by portions) sometime not too far off;
- entrance 'al-salam – conceded offer of a resource with an immediate installment of the worth in question;
- entrance 'al-istisna' – equivalent to the sound 'al-salam contract, however including a particular item (modern merchandise that haven't yet been finished);
- entrance murabahah (or tawarruq) – the client goes into a murabahah exchange with a bank, mentioning it to get a chosen item (for example metals). In the other normal style of non-PLS contract, for example the ijarah (renting) contract, a festival (generally the bank) buys a thing and leases it to the contrary party (the customer). Under shariah law, the rent is venerate the offer of the right to utilize the decent against the installment of an expense, set at the time the agreement is closed and connected with the manner in which the pleasant will be utilized (along these lines, the addition of the bank contemplates the outcomes accomplished by utilizing the rented resource). the seller and accordingly the purchaser should concede to the increase. the thing of the agreement should have a genuine utilization and hence the client should have the option to appreciate it. Responsibility for basic resource stays with the bank: this bears the opportunity identified with loaning products for the length of the agreement. A few styles of ijarah contract (for example the ijarah waiqtina contract) incorporate the appropriate of extreme buy and license for the exchange of responsibility for stock. At last, there's likewise financing liberated from charge (qard hasan), which is intended for individuals or organizations in monetary troubles, and is just a sort of noble cause. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) characterizes "sukuk" as authentications of equivalent worth addressing unified offers related with the possession (and not obligation) of substantial resources, usufruct and administrations or to the responsibility for resources of specific undertakings or a unique venture action, stretching out even to legally binding rights, which are held in trust for sukuk-holders. To be Shari'ah-objection, sukuk should be

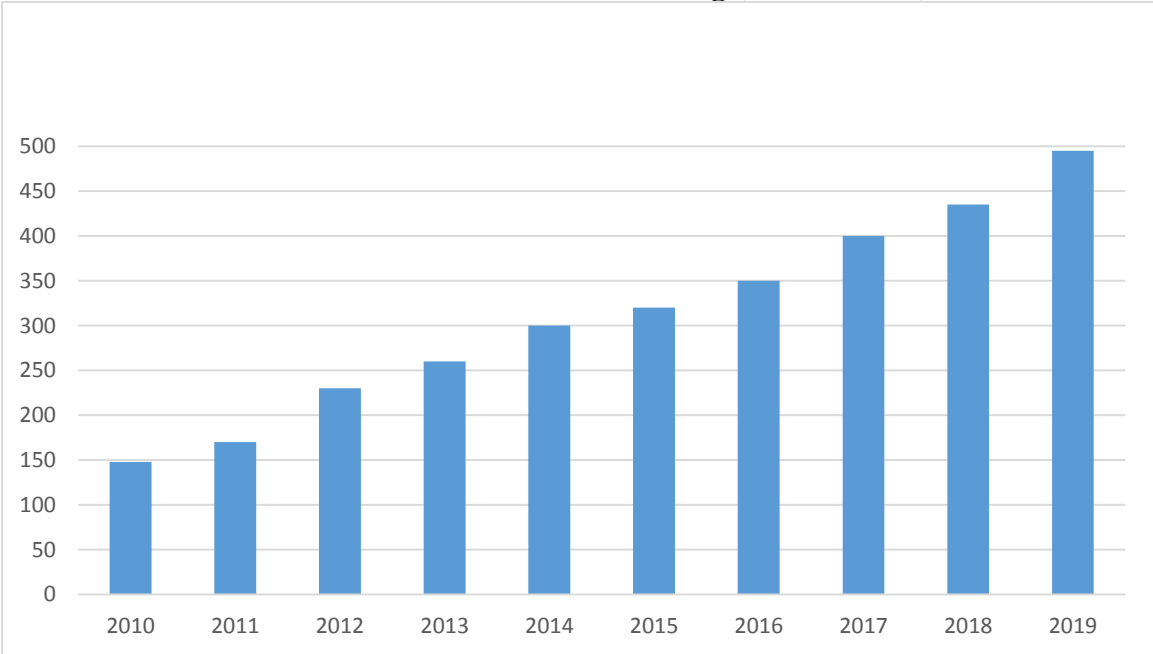
fit for being possessed and sold legitimately, as per the standards of the Shari'ah. Lately, Islamic financial backers with a straightforward inclination for speculations that utilization reserves per their strict convictions have progressively bought in to sukuk issuances. Indeed, the developing inclination for Shari'ah-consistent ventures among Muslim populaces has been a key development driver for the world sukuk market and for Islamic money as a whole and has been converted into the occasion of completely fledged organizations, as Islamic banks, Islamic protection administrators and Islamic asset supervisors.

Since 1990, the Islamic capital market has grown quickly across the world, from South-East Asia to the GCC locale and to Europe, turning into a global commercial center for raising support exercises. This solid development has been driven by the ascent inside the profit of oil sending out nations coming about because of an expansion in worldwide oil costs. Taking an interest establishments incorporate multilateral associations, similar to the planet Bank and consequently the Islamic Development Bank (IDB), correspondingly as both Islamic and standard corporate elements. The Islamic capital market is an essential a piece of the Islamic public economy. It empowers the productive activation of assets and an ideal designation thereof, in this way supplementing the monetary go-between part of Islamic foundations inside the venture cycle. Albeit this market capacities comparably to the standard capital market, any monetary plan it works with ought to be in accordance with the Shari'ah standards summed up before. As of now, Islamic value, Islamic securities (sukuk), Islamic assets and Islamic land venture trusts (REITs) are offered as options in contrast to customary instruments (Filippo di Maur, 2013).

The sukuk has become a vital vehicle for worldwide raising money and venture exercises that create huge cross-line streams. As at end-2019, the value of remarkable worldwide sukuk bested USD 543 billion. Malaysia, Qatar, the UAE, Kingdom of Saudi Arabia and Indonesia highlight among the nations that are at the bleeding edge of development inside the sukuk essential market.

As of now, there are four significant sukuk-posting homes, to be specific the London protections market, the Bursa Malaysia (in Kuala Lumpur), NASDAQ Dubai and furthermore the Luxembourg financial exchange. The London financial exchange is that the biggest trade for sukuk postings: this offers the beneficial thing about serious affirmation and posting costs, being the sole significant posting scene that doesn't charge a yearly expense to the guarantor. During 2019, the trade pulled in sukuk issuance, bringing the aggregate sum of capital over USD 42.2 billion. Sukuk have been an especially quickly developing fragment of the market and, after Islamic banking, address the second-biggest resource class inside the Islamic account industry.

**Chart 1: Amount outstanding (total amount)**



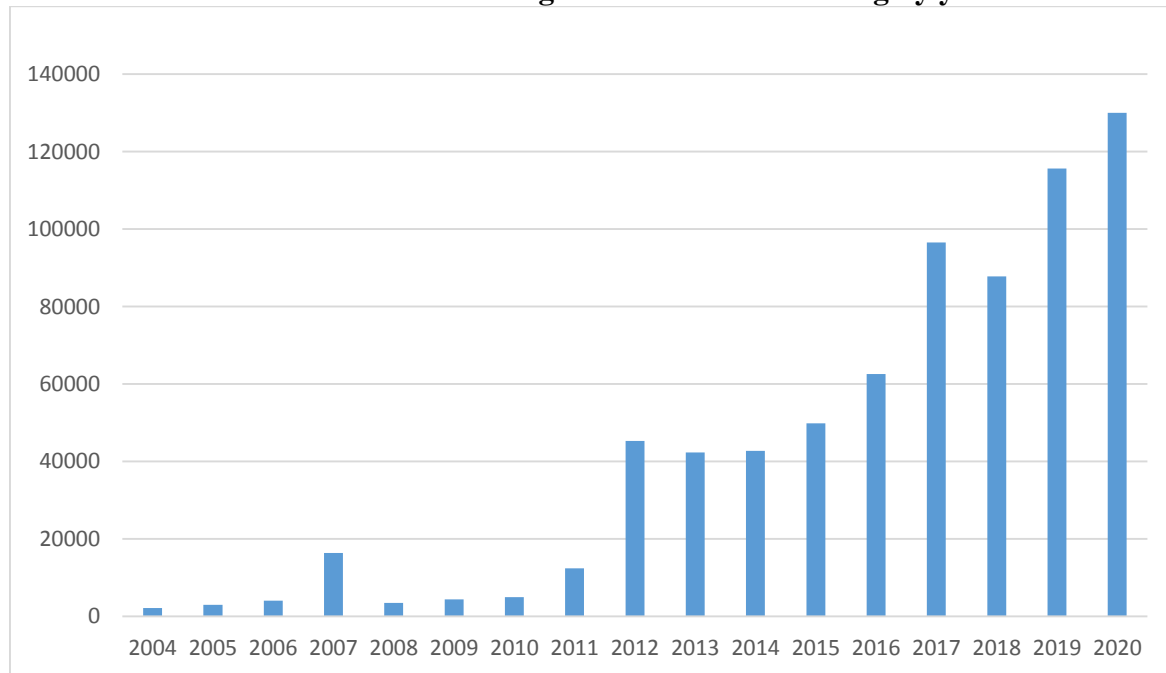
**Source:** Malaysia International Islamic Financial Centre Estimates, 2019 (<http://www.mifc.com>).

In the midst of a record number of worldwide sukuk issues somewhere in the range of 2012 and 2018, extraordinary sukuk outflows in 2018 came to \$ 490.78 billion, up from \$ 434.80 billion of every 2017, which is clear demonstrates developing revenue in Sukuk, albeit the organic market hole still can't seem to be crossed over, yet the marking empowering. Another fascinating certainty: the extent of sukuk with



a more drawn out length increments, particularly beginning from 2015, when there was a change in the present moment sukuk market.

**Chart 2: Total global Sukuk outstanding by years**



**Source:** IIFM sukuk database, 2018 (<https://www.iifm.net/sukuk-reports> ).

### **1.3. Features and place of Islamic bonds (Sukuk) in the Islamic financial system**

The development of Islamic banking gave impetus to the further development of a halal financial product - Islamic securities. Sukuk have become an expected tool for Islamic investors. The massive opening of Islamic banks and "Islamic windows" in traditional banks, as well as the increase in assets, required competent liquidity management without violating Sharia norms. Islamic bonds provided an opportunity for joint investment and exchange of participation interests between investors.

The term "sukuk" is of Arabic origin. In the singular, it is used in the form "sakk", which means "check", "certificate" or "payment procedure". The first mention of sukuk dates back to the 12th century, and this certificate contained information

about the amount to be paid, the date and the names of the issuer and recipient. Later, sakk was used as a security tool to avoid the transportation of funds over dangerous terrain, and thus became widespread. European merchants took over the idea of a promissory note and adapted it to fit their financial system.

Pakistan was the first country to issue the modern Islamic debt instrument. In 1980, following the amendments to the Banking Institutions Act 1962, and the adoption of accompanying regulations governing the transition to the Islamic banking model and its further operation, Pakistan issued the first securities based on the Mudaraba agreement. In fact, the introduction of these participation certificates into circulation became the starting point for the development of the Islamic securities market. In 1988, sukuk received international legislative approval by the Fiqh Islamic Academy Council in Jeddah.

In 1990, some of the first sukuk were issued by Shell MDS Sdn Bhd in Malaysia. Over the next ten years, no new issuers of sukuk were observed, with the exception of Malaysia. Beginning in 2000, a number of countries began to actively issue sukuk, which required standardization of the issue and compliance with Sharia norms. In 2003, AAOIFI issued Shariah Standard No. 17 Sukuk.

To describe the methodology for issuing sukuk involves participants in the procedures:

- Originator (the company that made the decision to issue Islamic securities);
- SPV (Specialized Financial Company or Specialized Project Finance Company);
- Organizer (consultant, credit institution in charge of the entire issue process);
- The Board of Trustees (represents the interests of sukuk holders from the moment of purchase of securities by investors until their complete redemption);
- Sukuk holders (investors - holders of sukuk certificates);
- Sharia Council (issues an opinion on the certification of the conformity of papers

Islamic norms);

- Legal and tax consultants engaged in the development of transactions, as well as the organization "Due Diligings" (conducting a comprehensive analysis of the company's activities from the point of view of financial experts, auditors and lawyers, preliminary preparation for a detailed report on the state of the enterprise), in other words, an audit report.

After a potential sukuk issuer has conducted an internal analysis of the company's creditworthiness and assessed the risks associated with the issue, the company appoints an issuer organizer. The organizer of the issue, as a rule are credit institutions and their subsidiaries operating in the debt markets, as well as investment banks. The organizer is an intermediary between the issuer and investors, coordinating practically the whole process .

The functions of the issue organizer include :

- advising the issuer on issues related to the issue of securities;
- development of parameters and conditions for the issue of securities, taking into account the interests of the issuer;
- preparation of documents for the issuer to obtain approvals and permits from state authorities and the central bank when registering a securities issue;
- preparation of a memorandum on the issue of securities;
- identification of agents, securities and issue syndicate;
- organization of admission of sukuk to the securities market, selection of a trading platform;
- preparation, approval and submission of the necessary documents for interaction with all parties to the transaction;
- other services required for the issue and placement of securities.

The organizer and the issuer enter into an agreement for the provision of services for the placement of securities. As with the selection of issuers, the issuer must meet the following criteria:

- successful experience of functioning in an investment bank;
- detection in the region of the issuer and unexpected agents (regarding the quasi-sovereign and sovereign issue);
- the presence of positive ratings.

The first stage - after an agreement between the organizer and the originator, the parties determine the type of sukuk that the borrower will release. The process of determining the participants in the transaction, the list of drawing up the necessary documents (contracts, agreements, memoranda, decisions, etc.) depends on the choice of the type of security. Determining the structure of the issue proceed to the second stage - the establishment of the SPV, the technical issuer of securities. The process of creating a specialized company allows the assets to be segregated, thus the originator's assets are securitized. The establishment of a specialized company in general cases occurs within the framework of the legislation of the country in the territory of which the issuer is registered. If necessary, at this stage, the organizer engages tax and legal consultants. The third stage - the supreme governing body of a specialized company makes and approves a decision on the issue of securities . The decision to issue securities contains the following data:

- the full name of the issuer, its location;
- the date of the decision on the placement of securities;
- date of approval of the decision to issue bonds;
- type, category (type) of sukuk;
- the rights of the owner, secured by the security;
- conditions for the placement of Islamic securities;
- an indication of the number of equity securities in this issue of securities;
- other information, including information on security of securities.

The fourth stage - the organizer, together with consultants, prepares a prospectus for the issue of securities (loan documentation, product presentation, as well as

statistical and analytical documents on the issuer's activities) and profitability for further provision of materials to investors and credit agencies.

The fifth stage is the process of assigning a credit rating. A credit rating can be either a company or a debt instrument to facilitate the issuance of the latter. At this stage, the organizer consults the issuer on the rating of the rating. When attracting agents inside the country, it is sufficient to assess the national agencies, when entering the international market - the conclusion of international rating agencies (Moody's, S&P, Fitch).

The sixth stage is the conclusion of the Shariah Council for compliance with the principles of Islamic law.

The issuer provides detailed information on the structure of the transaction, reporting on the availability of *riba* and *garar*. In addition to these documents, the council must provide documentation describing the intended use of funds received from the issuance of *sukuk*. The composition of the Shariah Council is represented by specialists with Islamic legal and economic education. If the organizing bank operates in accordance with Islamic principles of financing, then the council is included in the structure of the bank and issues an opinion on the legality of the issue. If the bank is traditional and Islamic finance products are niche, then independent Islamic experts are involved.

The seventh stage is the final conclusions of legal and tax consultants, preparation of reports for potential investors.

The eighth stage is a preliminary consideration of the documents required for state registration of the securities issue by the registering authority (Bank of Russia) .

The ninth stage is the state registration of the issue of securities and the prospectus for the issue of securities by the registering authority .

The tenth stage is the listing procedure. The organizer submits an application for the inclusion of securities in the listing of the exchange chosen by the issuer. These can be specialized Islamic exchanges.

Eleventh stage - meeting with investors (Road Show). The issuer and the organizer hold meetings with investors, make a presentation of the company and product, and answer questions from investors. Within this stage the organizer and investors determine the yield range for the securities, taking into account the baseline (yield on US sovereign securities, Russian Eurobonds, other interest rates), the issuer's credit rating, and the premium for entering the issuer's first entry into the debt or new market. Investors provide the organizer with applications for the purchase of securities indicating the volume and expected yield within the range.

The twelfth stage - placement of bonds by open or closed, which is more applicable to the issue of sukuk, as well as the settlement of the transaction.

Thirteenth stage - formation and state registration of the report on the results of the issuance of sukuk. Thus, the approximate implementation period for the sukuk emission project is 24 weeks (about 6 months). Since the specificity of sukuk does not allow the use of loan interest, the determination of profitability is based on:

- Base benchmark (yield on sovereign bonds, Eurobonds or LIBOR rate);
- Sovereign credit rating of the country where the issuer is located and directly, the issuer itself;
- Premiums for entry (at the first structural issue or entry into the international debt market, the issuer sets a fair level of return, taking into account the risk premium).

Considering the procedure for issuing sukuk, determining the approximate transaction costs and timing of the project, we can proceed to the selection of sukuk (Picture 1, Attachment 1, p. 75).

1. The parent company sells its assets to the Private company at an "x" value.
2. Private company issues n-limited number of Sukuk and sells them on the securities market in exchange for an asset with an value of "x".
3. Private company receives the amount of "x" from the sale to investors
4. Private company Parent company pays the same amount

5. In the next stage, a lease agreement is concluded between the Private company and the Parent company and the right to dispose of the asset (use the lease) passes to the Parent company.

6. Parent company pays rent several times a year under the agreement, on the basis of which the income of Private company is formed and from it a fixed dividend is paid to investors.

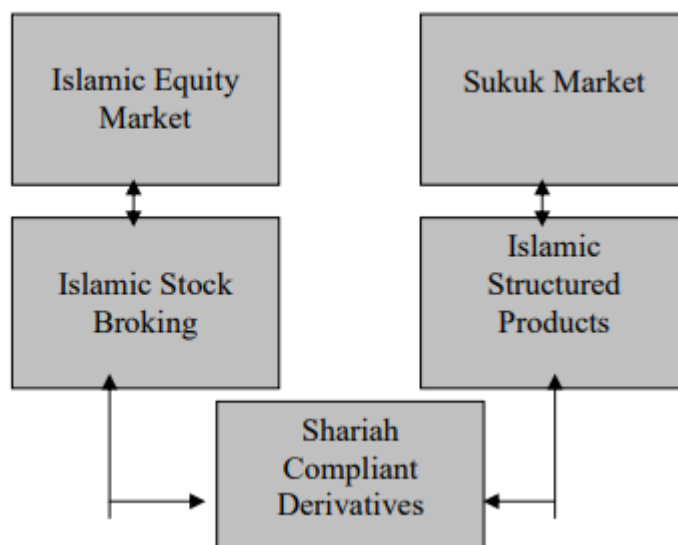
## CHAPTER II. ASSESSMENT OF RESILIENCE OF THE ISLAMIC FINANCIAL SYSTEM

### 2.1. Islamic capital market development review

Islamic capital market alludes to the capital market where every one of the exchanges, tasks and exercises are conveyed according to Islamic laws (Shariah). Islamic capital market comprises of two fundamental parts, financial exchange and security market. Anyway the ruling part is the last part. Today biggest Islamic capital business sectors are Malaysia, U.A.E., Kuwait and Qatar (Haroon, 2008: p.15).

There are different products of Islamic capital market. The following diagram presents a general overview of the Islamic capital market:

**Picture 2: General overview of the Islamic capital market**



Source: [www.ifsb.org](http://www.ifsb.org)

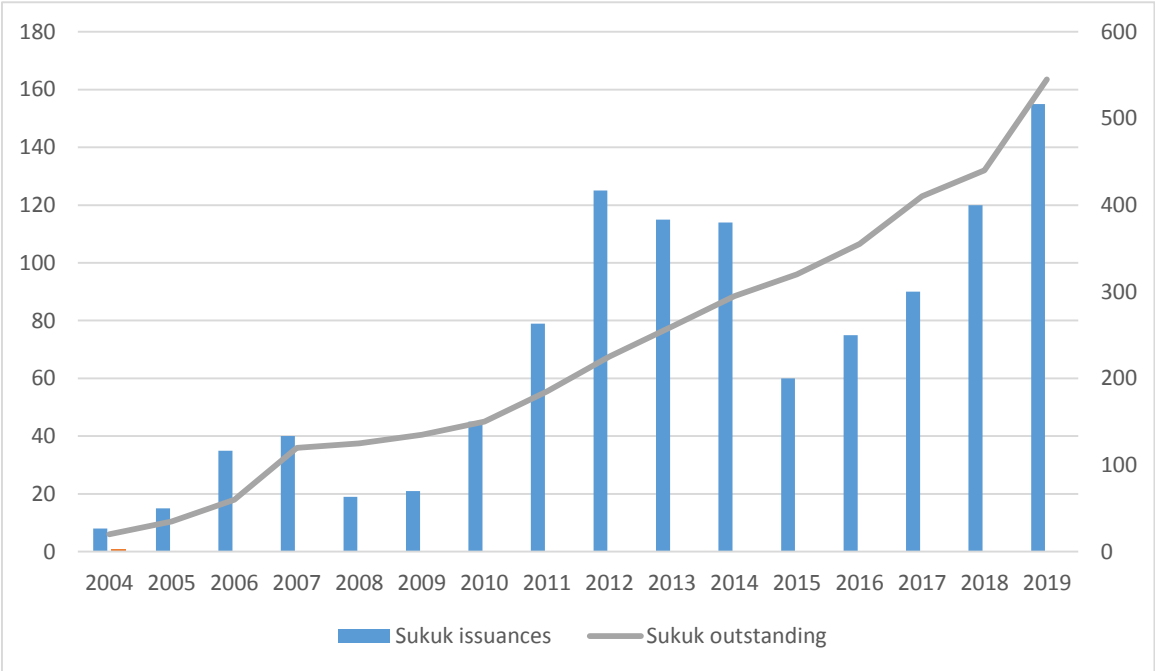
Sukuk are the most significant and most conspicuous components of Islamic capital market. It contributes around 90% to the Islamic capital market. In Sukuk market following three sorts of financing is completed:

- Islamic asset-based financing;
- Islamic equity based financing;
- Islamic asset-backed securities;



The solid development in the sukuk market was upheld essentially by expansions in issuance from Malaysia, Saudi Arabia, Qatar and Turkey. The hearty issuance in 2019 imprints the fourth continuous year of extension of the sukuk market. It likewise addresses a general development in sukuk exceptional over the most recent a long time (from 2004 to 2019) by a CAGR of 26%, making it the quickest developing section in the IFSI.

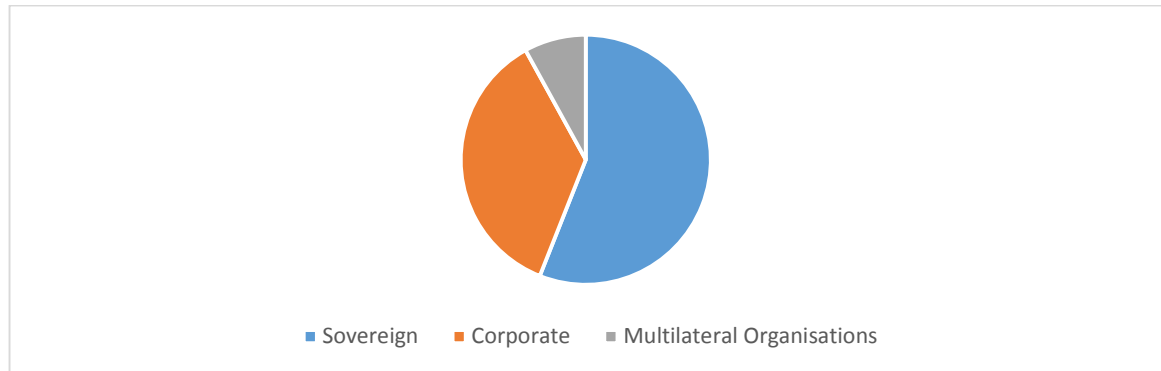
**Chart 3: Global Sukuk Issuances and Sukuk Outstanding Trends.**



**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators, 2019 (<https://www.bloomberg.com/>)

Sovereign guarantors keep on driving the sukuk market. Steady with past patterns, sovereign and government-related backers stay the biggest guarantors by esteem, making up over portion of the yearly worldwide issuances in 2019. Following a slight compression in by and large sovereign issuances in 2018, the development in issuances reflects, partially, the by and large better financing conditions combined with the expanding portion of sukuk in monetary deficiency financing in numerous locales, especially GCC nations and Turkey. While the entirety of the significant sovereign guarantors got back to the market, no new sovereigns made issuances in 2019.

**Diagram 1: Sukuk Issuances by Issuer Type**



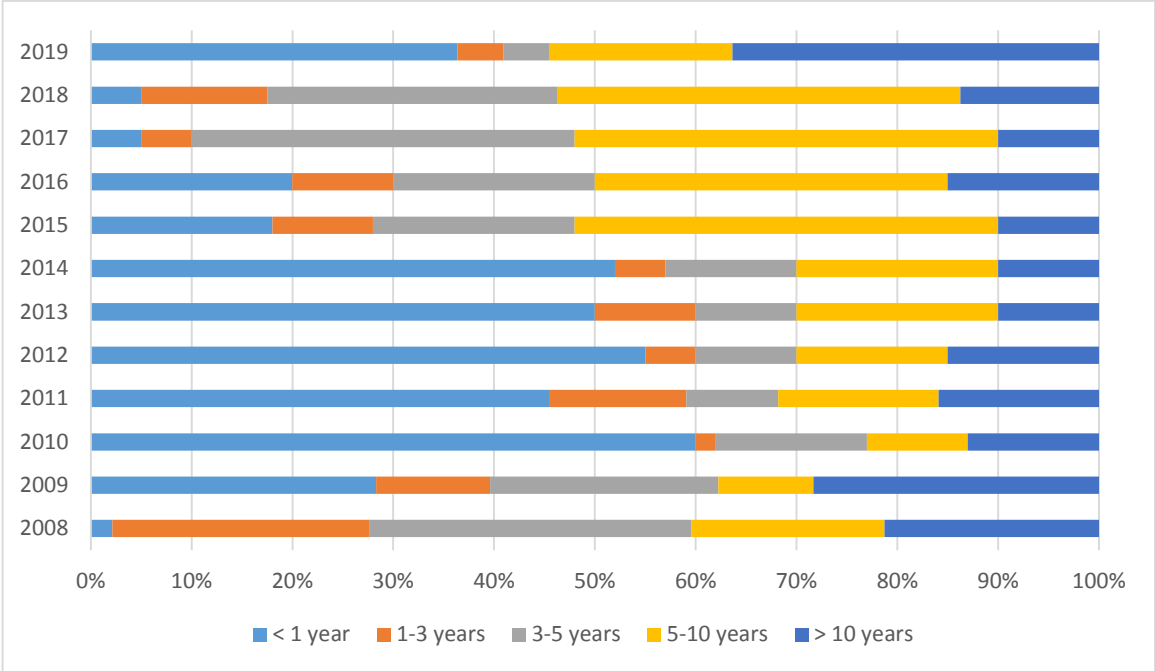
**Source:** Bloomberg, 2019 (<https://www.bloomberg.com> )

Short-term sukuk issuances for liquidity the board have expanded, which can help close the hole in the accessibility of Shariah-consistent transient instruments in numerous locales. The restricted accessibility of Shariah-agreeable transient monetary instruments for IIFS has been a vital test in numerous locales regarding empowering a productive and powerful liquidity the board. The interest for Shariah-agreeable momentary liquidity the executives instruments has kept on being high, both at the public and worldwide levels. Be that as it may, present moment sukuk issuances had been on a declining pattern since 2015, which showed a remarkable inversion in 2019, with a few nations giving present moment sukuk of short of what one year for liquidity the executives, notwithstanding USD-named momentary issuances by the International Islamic Liquidity Management Corporation. This is a positive pattern towards upgrading the limit of IIFS to oversee liquidity stuns after some time to advance monetary strength.

The shift towards sukuk with longer developments may make pockets of weakness in nations with high obligation levels. All things considered, gave sukuk with longer developments than those with lower levels. Given a continuous change in net issuance action towards the long finish of the range after some time, weaknesses may emerge in nations that have higher obligation levels and high renegotiating needs if potential drawback chances appear that can trigger rollover chances. The stretching developments of sovereign sukuk remarkable implies that more than 60% will develop

in the following five years and 80% in the following 10 years, expanding the renegotiating needs medium term (European Central Bank, 2017).

**Chart 4: Maturity Trend of All New Issuances**



**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators (<https://www.bloomberg.com/europe> )

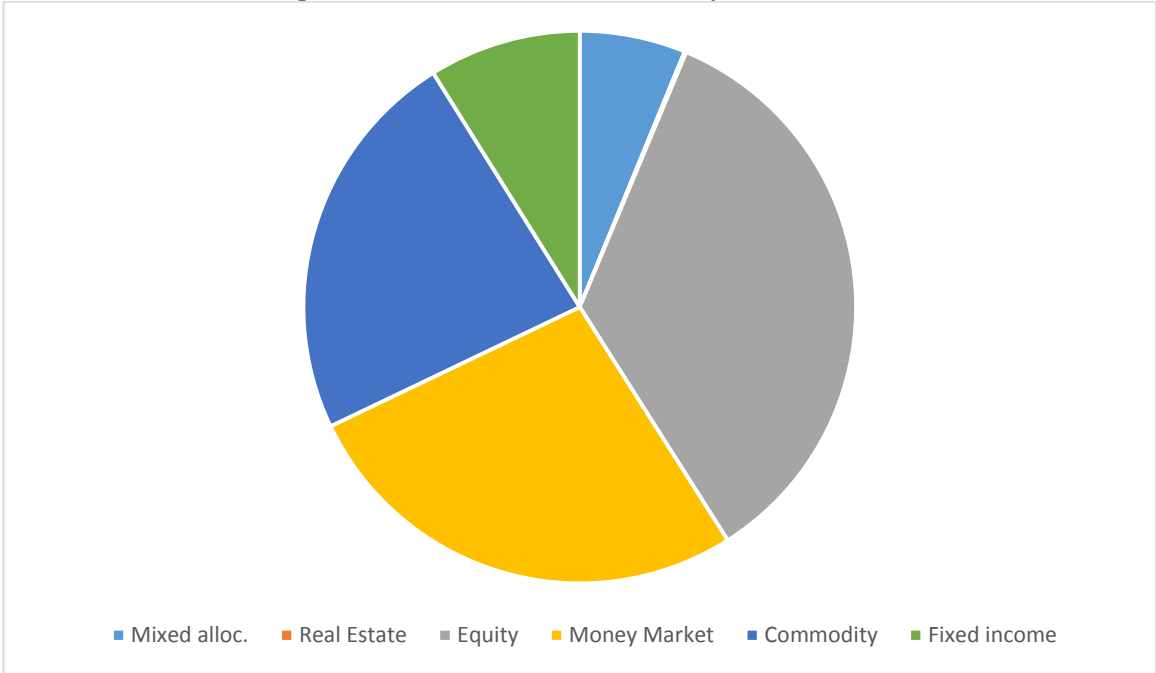
*Islamic Funds*

Islamic funds demonstrated positive development regarding the complete worth of resources under administration, recuperating from the more slow development saw lately. The development in complete worth of AuM may have been upheld by the solid development in value markets, just as by an expansion in normal size of assets, while the absolute number of Islamic assets expanded from 1,489 out of 2018 to 1,545 out of 2019 (Chart 5, Attachment 2, p. 75).

The relative importance of Islamic funds has grown as their number and the worth of resources under administration have kept on expanding. Islamic assets normally have less weaknesses because of the prerequisite to conform to Shariah standards. This implies that less secure kinds of assets, for example, multifaceted investments or stable net resource esteem currency market reserves are not a component of the ICM inferable from the Shariah limitations identified with them. Nonetheless, monetary

soundness dangers can in any case emerge in the Islamic supports fragment, even without influence or ensured returns. Islamic assets are as of now fundamentally thought across value, currency market and item resource classes. At the individual nation level, notwithstanding, especially in center business sectors, there has been a shift towards more noteworthy enhancement across the diverse resource classes. The general portion of complete AuM in product and currency market-centered Islamic supports saw an increment in 2019, while the portion of assets with a value center contracted marginally. This shift might be because of the greater unpredictability disparity markets because of proceeding with worldwide vulnerability, which likewise prompted an expansion in streams to the overall security of currency market-centered assets by hazard unwilling retail financial backers, especially after the sharp auction in the securities exchange toward the finish of 2018.

**Diagram 2: Islamic Fund Assets by Asset Class**

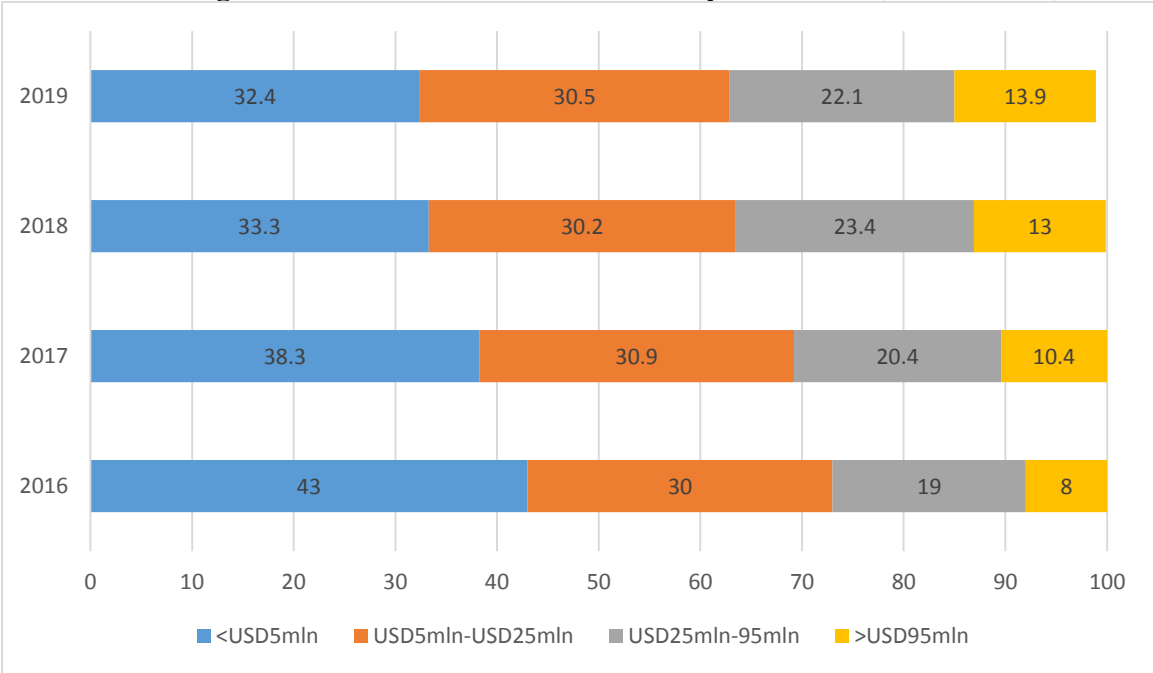


**Source:** Bloomberg, 2019 (<https://www.bloomberg.com/europe> )

There has been a consistent and continuous expansion in the size of Islamic assets after some time. This can improve a portion of the current difficulties looked by Islamic assets because of restricted scale. Nonetheless, Islamic assets remain

extensively more modest in scale contrasted with ordinary assets and are probably not going to represent any foundational chances. While Islamic assets don't raise major monetary strength worries in the flow climate, one concern is that a drawn out time of low loan costs can bring about a quest for yield that lead store administrators to put resources into resources that are less fluid. Compelling liquidity hazard the executives by reserves is progressively significant within the sight of a few disadvantage chances, to stay away from monetary weight on Islamic assets in case of an abrupt liquidity deficiency and unpredictability spike (Fabrice Collard, 2012).

**Diagram 3: Number of Islamic Funds by Asset Size (USD million)**



Source: Bloomberg, 2019 (<https://www.bloomberg.com/europe> )

*Islamic Equities*

Islamic equity markets rebounded in 2019, posting the most grounded execution since the GFC in 2009. Following feeble returns in 2018 because of a precarious auction in December, value markets recuperated in 2019, with the S&P Global 1200 Sharia Index acquiring 32.6%, while its traditional comparator, the S&P Global 1200 Index, acquired 28.2%.

Despite transient market volatility during the year due to fears of a global economic slowdown, a disruptive trade war or a hard Brexit, and the instability of oil costs, worldwide value markets finished 2019 at a record high, helped by rate cuts by national banks which lightened downturn fears alongside facilitating of exchange pressures towards the year's end.

**Picture 3: Ten-Year Historical Performance**



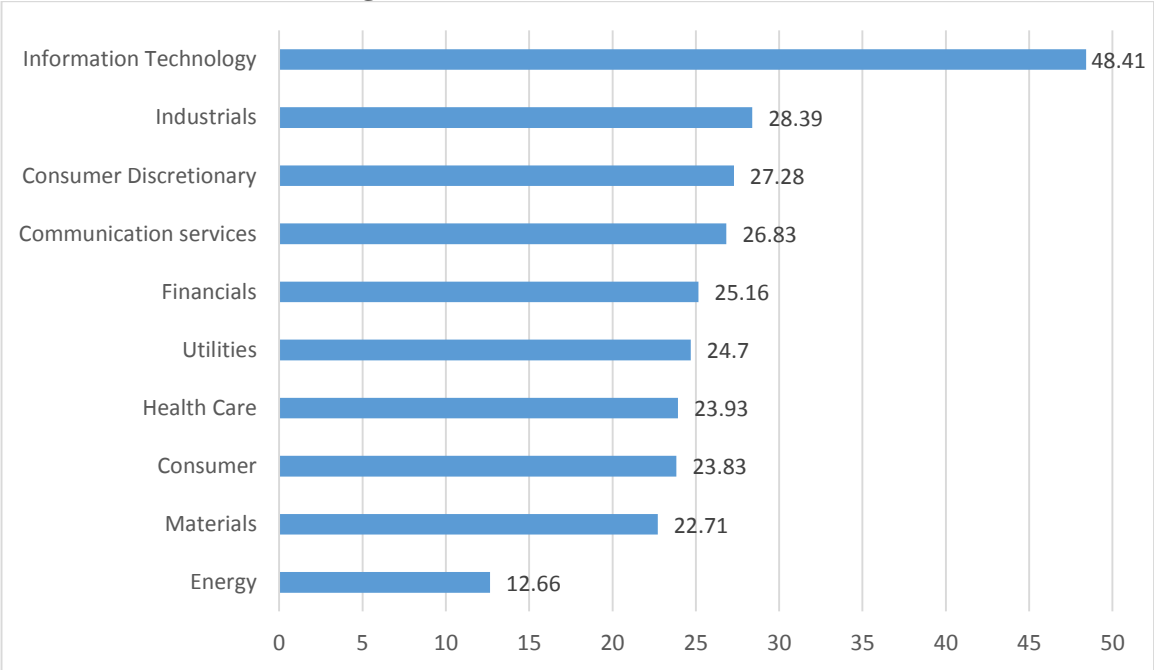
Source: Bloomberg, IFSB, 2019 (<https://www.bloomberg.com/europe> )

While Islamic indices also had a higher relative openness to the industrials and medical services areas, the differential openings across these and different areas were a lot more modest than in the innovation and monetary area portions and in this manner didn't altogether affect execution.

In general, two factors might be answerable for driving the presentation of Islamic records higher than regular partners: (a) the general exhibition of the Sharia-consistent constituents inside an Islamic list in contrast with the bigger arrangement of constituents addressed in the ordinary file, because of the prohibition of exceptionally utilized or obliged firms in Islamic lists; and (b) the differential openness to specific areas because of the screening and execution of those particular areas.

Sector-wise, while the technology sector to which Islamic indices had higher openness had fundamentally better execution in 2019, the exhibition across all areas was positive, with twofold digit gains in 2019, in contrast with generally horrible showings toward the finish of 2018 across practically all areas.

**Diagram 4: S&P 1200 Sector Performance**

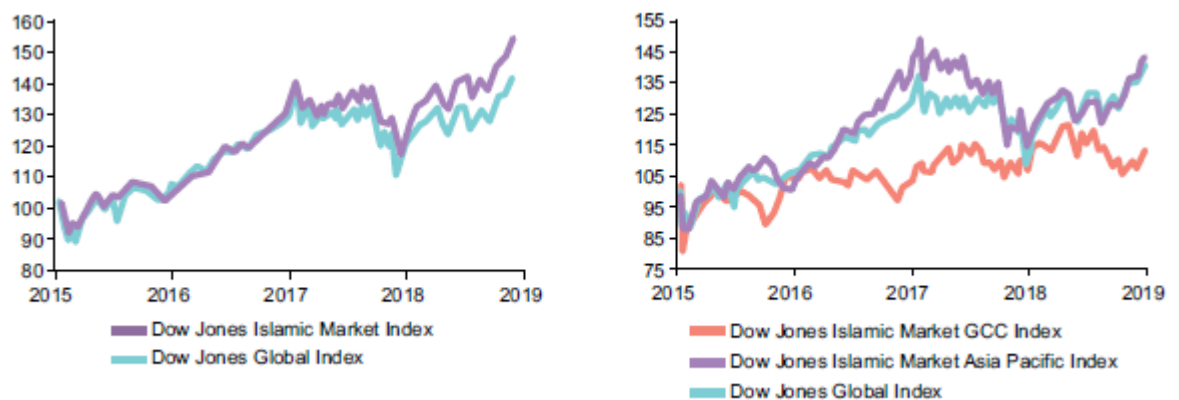


**Source:** Standart and Poor, 2019 (<https://www.spglobal.com/spdji/en/indices/equity/sp-global-1200-industrials-sector/>)

The global equity markets rebounded in 2019, as market conclusion improved fundamentally towards the year's end. Synchronized money related approach facilitating by national banks across both progressed and arising economies assisted with containing the disadvantage dangers to worldwide viewpoint and added to a facilitating of monetary conditions internationally. Upheld by ideal worldwide conditions, Islamic value showcases in everyday had solid additions in 2019, in spite of the fact that there were provincial contrasts in execution and market unpredictability. Developing business sector and Asia-Pacific Islamic records had positive twofold digit gains toward the finish of 2019. In any case, both experienced unpredictable execution as of late. Components that have added to instability in these

two business sectors remember changes for financial strategy, expanded approach vulnerability and weakening conditions for worldwide exchange. Notwithstanding, in 2019, value streams for the most part endured transient unpredictability, fundamentally because of exchange strains, which improved towards the end of the year. Regardless, further acceleration of exchange pressures actually stays a significant danger factor for developing business sectors and the Asia-Pacific locale in 2020.

**Picture 4: Returns of Equity Indices across Countries and Regions**



**Source:** Bloomberg, IFSB, 2019(<https://www.bloomberg.com/> )

The performance of Islamic equities in core Islamic finance markets is likely to be weaker as a result of the COVID-19 outbreak and encourage debilitating of the worldwide development viewpoint. The affect of the COVID-19 flare-up on worldwide budgetary markets is likely to moreover be reflected within the Islamic value markets through expanded advertise instability in 2020. The oil cost war and fears of retreat come about in a turbulent to begin with quarter for worldwide value markets in 2020, with the probability of recuperation of markets depending on the length and seriousness of the flare-up and the coming about affect on worldwide economies.



## 2.2. Islamic banking in assets

The Islamic financial services market is developing at a rapid pace: in the period from 2014 to 2019, the normal yearly development of worldwide Islamic monetary resources was 18.82%. The main positions are involved by Islamic banks, at present gathering from 900 billion to 1 trillion dollars, or over 90% of Islamic monetary resources. The worldwide monetary emergency has addressed benefits of the western monetary framework. Simultaneously, conventional monetary establishments instruments actually win. It is essential that even in the monetary business sectors of Muslim nations, the portion of Islamic relies upon normal is moderately little (under 20% of banking resources of Muslim nations and about 1% of worldwide financial resources).

Unlike traditional banks, financial intermediation of Islamic banks is depends on the portion of benefit (misfortune) from exchanges with genuine resources. Islamic the bank gives and draws in assets on explicit conditions: financing costs on the two credits and stores are not permitted.

Islamic banks are the largest part of the Islamic financial system represented in the form of financial institutions providing banking services.

As an element of the Islamic financial system, Islamic banks should complete their work as per the standards of Sharia property relations - Muslim common law, which can't however influence their exercises. Consequently, significant highlights of Islamic banks follow, including:

- Prohibition of the use of credit interest in operations;
- Influence of haram / halal concepts on objective decisions contributing;
- A ban on participation in activities related to "gambling, financial game ";
- The ban is imposed on transactions with a huge portion of garar (risk, uncertainty);

- All Islamic banks are required to be assessed with uncommon free oversight bodies - Sharia Supervisory Boards;

Considering the development of Islamic banking, one ought to take note of that at this stage on the planet there are in excess of 350 Islamic financial organizations in excess of 60 nations. As indicated by the IFSB, the complete resources of Islamic banks are at present around \$ 1.99 trillion.

#### *Trends in Islamic banking*

The number of jurisdictions with a systemically important Islamic banking sector increased marginally, from 12 in 2018 to 13 in 2019. In any case, except for one locale that accomplished a minimal decay, all others recorded an expanded portion of Islamic financial resources comparative with their all out financial area resources. In total, these purviews possibly represent a bigger portion of the worldwide Islamic financial resources, at 91.4% in 2019, contrasted with 91.0% in 2018.

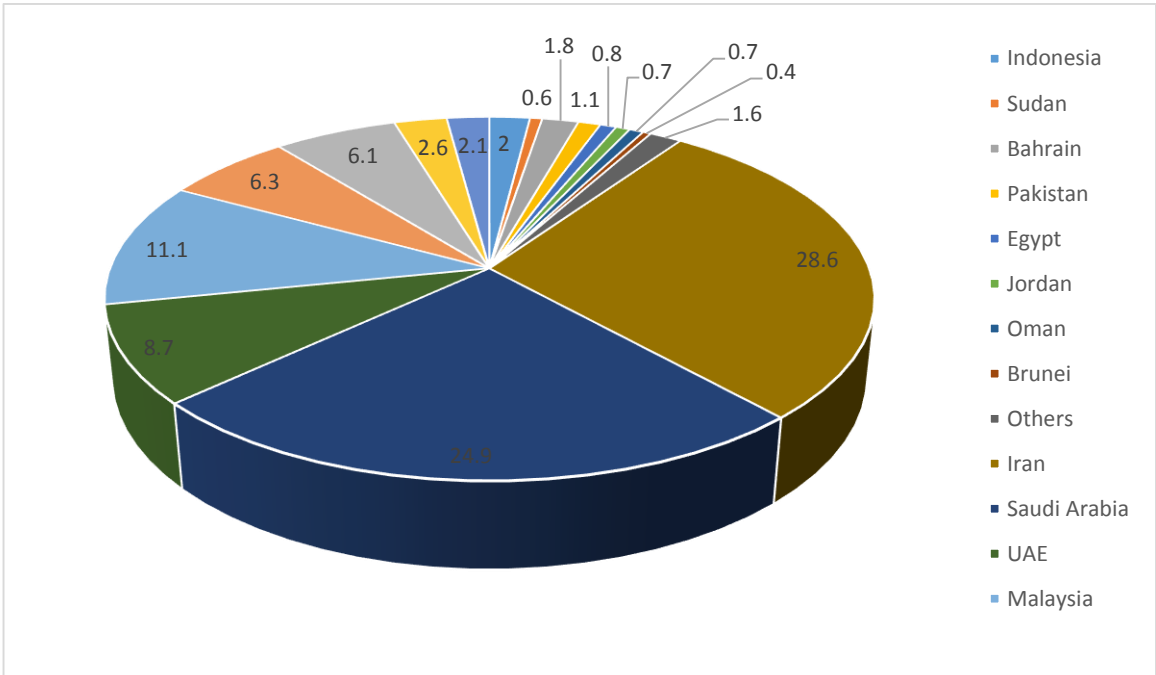
The Gulf Cooperation Council (GCC) region still accounts for the biggest portion of the worldwide Islamic financial resources, at 45.4%. It is trailed by the Middle East and South Asia (MESA)<sup>3</sup> locale and the South-East Asian area, with portions of worldwide IFSI resources of 25.9% and 23.5%, individually. Notwithstanding consolidating the portions of North African and Sub-Saharan African nations, the portion of the African locale in the worldwide worth of Islamic financial remaining parts peripheral at 1.6%. Regardless, the possibilities for digging in Islamic banking in the area appear to be splendid given the different endeavors and activities being made keeping that in mind.

The global Islamic banking segment in 2019 experienced an improvement of y-o-y assets growth by 12.7% [2018: 0.9%], with total assets as at 3Q19 amounting to USD 1.77 trillion [2Q18: USD 1.57 trillion]. The growth recorded is because of an improvement in the Islamic financial resources in certain wards, particularly the GCC area which saw critical consolidations of Islamic banks to fortify seriousness, pull in stable stores and upgrade proficiency. The effect of the conversion standard on the

ostensible resources of the Islamic financial fragment in the specific time of announcing has been negligible, contrasted with the circumstance detailed as at 2Q18. Regardless, the Islamic financial portion recorded a three-year consistent decrease in a lot of worldwide IFSI worth, to 72.4% [2Q18: 76.0%] particularly as the ICM area supported force.

In terms of the top jurisdictions for Islamic banking assets, Iran at 28.6% (2Q18:32.1%), Saudi Arabia 24.9% (2Q18: 25.1%), Malaysia 11.1% (2Q18: 10.8%), UAE 8.7% (2Q18: 9.8%) and Kuwait, which remains at 6.3%, are the top five. The other countries in the top 10 Islamic banking jurisdictions, in order of size, are Qatar, Turkey, Bangladesh, Indonesia and Bahrain.

**Diagram 5: Share of Global Islamic Banking Assets (%)**



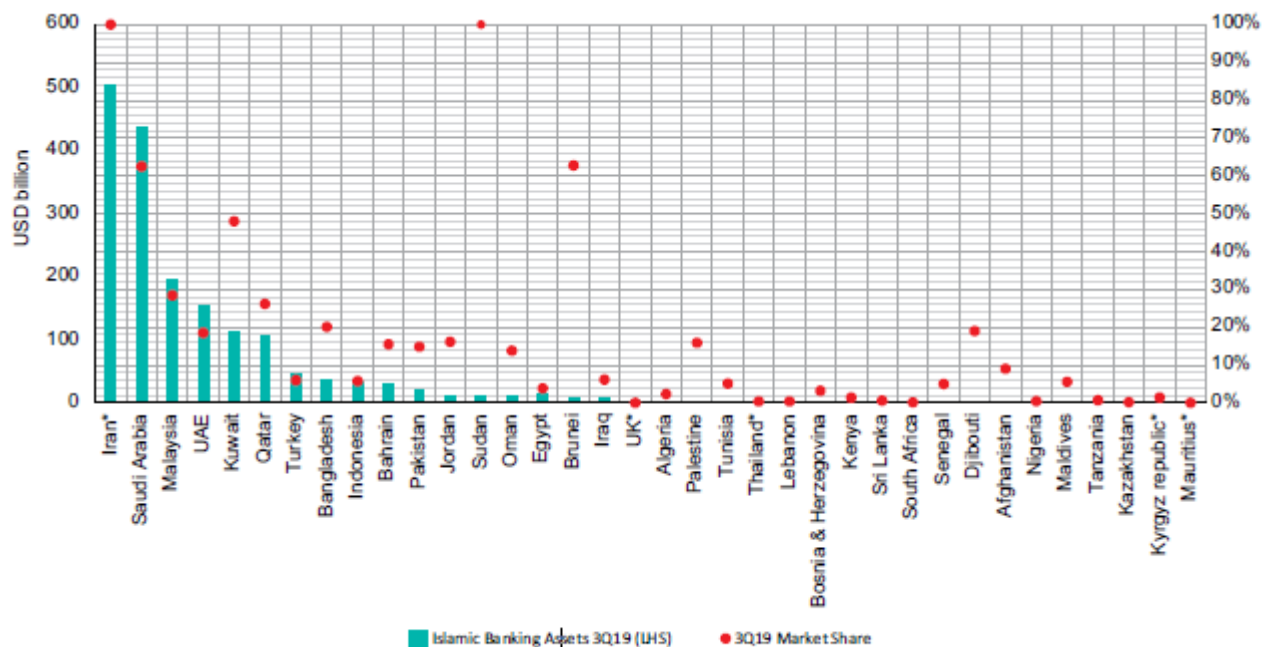
Source: IFSB Secretariat Workings, (3Q19) (<https://www.ifsb.org/secretariat.php> )

The aggregate US dollar value of global Islamic banking assets increased by 12.7% in the year to 3Q19 (y-o-y) amidst vulnerability in the worldwide economy. Albeit the effect of the deterioration in swapping scale is negligible contrasted with 2018, it keeps on influencing the development of the Islamic financial industry in 2019

through diminished portion of worldwide Islamic financial resources of nations with devaluing monetary standards.

The foregoing expectation of resilience is based on the y-o-y growth of Islamic financial resources in 2019 particularly in the arising economies: Saudi Arabia (8.7%), Turkey (21.0%), Malaysia (10.4%) and Indonesia (7.3%). Steady with 2018, most of nations made huge Islamic financial piece of the overall industry acquires comparative with regular banking in 3Q19. An outstanding model in such manner is Saudi Arabia, which accomplished a 69.0% (2Q18: 52%) Islamic financial piece of the overall industry due to (among different reasons) higher infiltration of the Islamic financial windows and a steady administrative climate that lines up with the economy broadening vision of the Saudi Arabia government.

**Picture 5: Islamic Banking Assets and Market Share**



\* Where 3Q19 data were not available, the latest available figures were used.

Source: PSIFs, IFSB Secretariat Workings, (3Q19) (<https://www.ifsb.org/secretariat.php>)

Within the positive trajectory of Islamic banking development, worldwide Islamic financial resources are determined to decrease somewhat, to USD 1.74 trillion, by end-4Q1926. Topographical convergence of Islamic financial resources stays

generous and like what was accounted for as at 2Q18, with 91.5% of these resources in nations wherein the Islamic monetary area is considered fundamentally significant. The main 10 Islamic financial wards by resource size<sup>27</sup> represent 94.1% of the worldwide Islamic financial industry, somewhat higher than its 93.7% level detailed in 2Q19, while the best five nations – specifically Iran, Saudi Arabia, Malaysia, the UAE and Kuwait – represent over 79% of the business' resources internationally.

The majority of the analysed countries showed sensible development levels in the key Islamic financial pointers. Resources, in neighborhood monetary forms, showed sound development rates in numerous locales. Trade rates keep on influencing the worldwide worth of the business, and patterns from earlier years keep on common as trying monetary conditions and dependence on the oil area in specific wards sway on the advancement of the financial area as a rule, both regular and Islamic.

## **CHAPTER III. SUKUK AS PERSPECTIVE ISLAMIC FINANCE INSTRUMENT**

### **3.1 Conventional bonds and advantages of Islamic Sukuk**

#### *Conventional Finance*

Firms need to have a sufficient measure of cash for capital uses, working capital and different uses with a definitive point is to build their investor's worth. The wellspring of financing can be produced from inner income, which is the tasks of a firm. Another wellspring of financing that are accessible to firms are either by gaining value through the selling of stocks or by expanding obligation through getting.

Stock represent an equity responsibility for firm and normally have two sorts, which are basic stock and favored stock. The term favored implies that the investors have an inclination over normal stock over the installment of the profits and resource allotment during a liquidation occasion. Favored stock has no rights for casting a ballot, in contrast to the regular stock.

Common stock contrasts from favored stock as far as the option to cast a ballot. The investors choose chiefs who accordingly recruit the administration to convey the company's operational movement. Subsequently, investors drive the organization through the capacity to choose the chiefs. Basic investors likewise have the chance of a profit installment, where the chiefs will choose the sum.

When facing the decision to borrow money, firms customarily have two choices, either get from the bank or giving obligation protections called notes, debentures or bonds. Obligation protections are at first alluded to got obligation, where certain resources are swore as security for reimbursement of the obligation. In any case, it isn't unprecedented to allude to all sort of obligation protections as bond.

As the name implies, obligation is something that must ultimately be paid. In the idea of bond the bondholders will acquire two kind of incomes. The primary income that is gotten by the bondholders are intermittent installments as a coupon. The

subsequent income, and it will be gotten at the development date, is the last installment that is the first acquired sum.

The risks and benefits related to equity ownership and debt ownership are different. The fundamental attribute of value is that it addresses a possession and is a leftover case. This implies that investors are less focused on than bondholders. For instance during a liquidation cycle, the bondholders will be focused on to get continuing from the deals of company's resource while the investors will get the rest, assuming any. Then again, this likewise implies that despite the fact that there is a danger for an investor to lose everything if the organization fails, there is additionally no furthest cutoff for the expected increase from value.

Bonds are not always have a fixed-rate interest. Securities can be sold with a fixed-rate, skimming rates or even with no rate by any means (a zero-coupon security). A skimming rate security have a flexible coupon installment. The rates are generally attached to a benchmark, for example, the Treasury bill. The cost of the bond will change each time the benchmark change, for the most part with a slack.

In a zero-coupon bond, the bondholders don't get incomes like a normal bond. As a substitution, the zero-coupon bonds are sold at a profound rebate from standard. The cost of the bond will continuously move to standard, and in the long run develops at standard. The last cost of a zero-coupon security is determined to copy all the income that would have been gotten if the security produces an interest.

The debt securities are tradable, and the two borrowers and loan specialists meet in the fixed-pay markets to exchange these protections. Securities have an alternate level of liquidity on the grounds that many are not routinely exchanged. Therefore, securities regularly have liquidity premium that influence the pace of return of bonds.

A conventional bond is a debt instrument which promises to pay the bearer periodic interest in return for an immediate loan, until such time as the credit entirety is reimbursed. Bonds have four classifications of backer (the borrower): Sovereign governments, neighborhood governments, supranational bodies like the World Bank,

and organizations. A bond will consistently incorporate a 'term to development', ordinarily somewhere in the range of two and thirty years, at which time the chief total is reimbursed. Remembered for a bond can be what are known as 'installed choices'. Instances of these incorporate a call include, through which the guarantor can present the date of development, a put highlight, through which the bondholder can present development, or a convertible security arrangement, through which the bondholder may trade the security for a predetermined measure of value (shares) in the responsible organization. For the reasons for this exposition it isn't important to clarify further the reasoning behind these embeddable alternatives.

The interest rate is one of the factors that affect bonds' price movement. In the event that the loan fee goes up, the yield for securities should change in accordance with being higher than the financing cost. Due to the reverse connection among yield and cost, when the securities yield goes up the cost will go down.

Speculation and excessive risk are prohibited in the Islamic Finance, nonetheless the trading of Sukuk is still possible. However, there are various perspectives on the tradeability of Murabaha Sukuk. The Islamic researcher In Malaysia permits Murabaha Sukuk to be exchanged, yet this training is taboo in the Middle East . Not just on Murabaha Sukuk, there is basically no auxiliary exchanging the GCC locale for the financial backers will in general hold this instrument until development.

A general approach to comparing Sukuk and bonds is fundamental to provide guidelines for firms and investor in understanding the instruments and their choices of the available options. Credit risk is introduced first as the financial backers have the likelihood to lose the periodical incomes as well as the chief sum. The premium danger and swelling hazard are explored a while later as it impacts numerous parts of the securities, including cost and yields. The cash hazard is dissected last as it won't influence financial backers that rigorously put resources into the homegrown market, yet just influence financial backers with global openness.



During the financial crisis, Sukuk are not unsusceptible to default either. There are various defaults on Sukuk that was accounted for, going from organizations in the U.S., United Arab Emirates, to Malaysia. One default that got significant consideration, both in light of the worth and the gatherings in question, is a possible default of Dubai-based Nakheel.

Normally when a company cannot pay the promised cash flow to the bondholders (a default), the bondholders will receive a claim on the firm's assets and cash flow. The bond's terms will figure out what is on the line for the bondholders just as their need during the cases. A got bond for instance unmistakably states explicit insurance, like property, that go about as security for the bonds. In the event that the organization fails, the bondholders have a lawful right to the predefined guarantee. Another sort is senior unstable and junior unstable bonds. As the name suggests, the bonds are not straightforwardly attached to a particular resources, yet to the overall cases of the organization. On the off chance that the business fails, the holder of senior unstable bonds will have higher need to the organization's resource and income than the holder of junior unstable bonds.

The originator of Nakheel Sukuk is Nakheel Holdings 1 which was a subsidiary of a public sector company Dubai World. Hence, the rating offices gave the Sukuk status as a sovereign bond since it was given by a public area organization. This status is reinforced by the high appraisals given to the Sukuk by Moody's (A1) and Standard and Poor's (A+). This Sukuk structure depends on Ijara manfaa in which bondholders purchase the leasehold interest of the essential resources without moving the title of the resources for them. This implies the Sukuk holders just had cases to the surge of pay created by the resources however not on the actual resources. At the point when the organization was approaching installment of the Sukuk on December 2009, Dubai World declared that it look for the banks to have a stop arrangement. This news brought stun as it was accepted that the Dubai government would not let their organization goes into default, in any event, when the Sukuk has a disclaimer that

invalidate such assurance. The issue additionally misrepresented when it was tracked down that the neighborhood law is lacking to deal with a possibly unpredictable chapter 11 continuing. There was no obvious sign between every one of the lenders, either customary leasers or Sharia-consistent, of who had prevalent cases of the Nakheel's resources . The default is deflected without a second to spare with a bailout from the public authority of Emirate of Abu Dhabi.

Unlike the Nakheel Sukuk, the other Sukuk are not fortunate enough to receive a bailout from the government. East Cameron Partners, for example, was the main U.S. organization that defaulted on its Sukuk, anyway the Sukuk holders rights on the organization's resources are gotten through a created overall set of laws of the U.S.

In view of the above clarification, customary bonds gives more affirmation to the financial backers as the guidelines about the testaments are broad and has effectively settled. In contrast to the customary bonds, Sukuk is as yet youthful and there are still less case that can be utilized as a kind of perspective by the specialists. With the opportunities for the organizations to deliver their own sort of Sukuk structures, the public authority has should work more in realigning guidelines of Sukuk with the guidelines of existing monetary instruments.

The interest rate is one of the elements that influence bonds' value development. In case the financing cost goes up, the yield for protections ought to adjust to being higher than the advance expense. By virtue of the contrary association among yield and cost, when the protections yield goes up the expense will go down.

Speculation and excessive risk are prohibited in the Islamic Finance, regardless the exchanging of Sukuk is as yet conceivable. Notwithstanding, there are various perspectives on the tradeability of Murabaha Sukuk. The Islamic researcher In Malaysia permits Murabaha Sukuk to be exchanged, however this training is prohibited in the Middle East . Not just on Murabaha Sukuk, there is basically no optional exchanging the GCC district for the financial backers will in general hold this instrument until development.

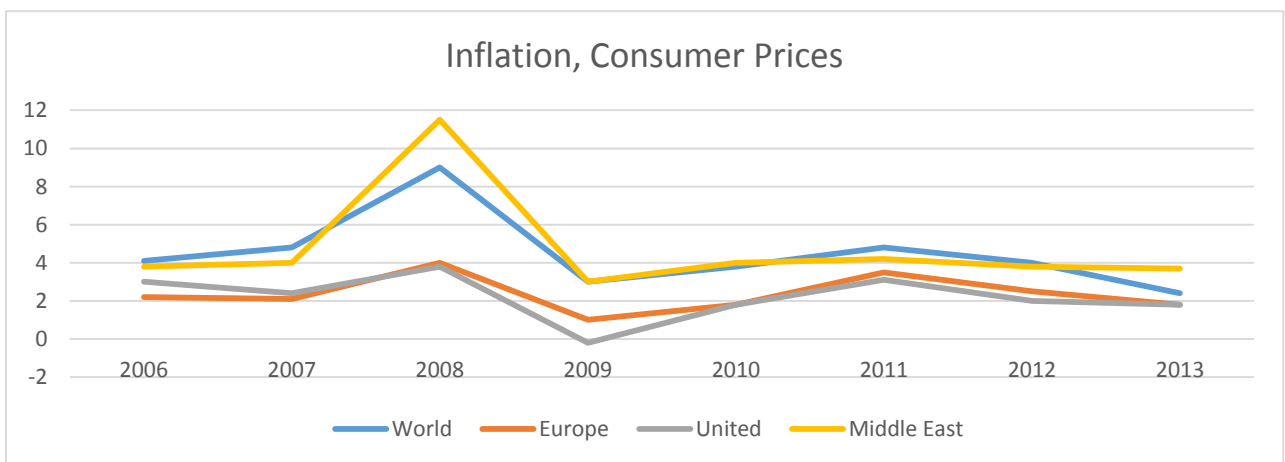
are fluctuating which implies that the market of Sukuk is existing. During the portion of 2015 until mid 2016 when the U.S.

A rise in inflation will cause the nominal rate to also to rise to compensate the real rate of interest, and this and this is known as the Fisher impact .Next figure shows that the world's swelling during 2015 flooded from around five percent in the earlier year to around nine percent. While not as high as the world's swelling, the expansion in the U.S rose 99 premise focuses from 2.85 percent in 2014 to 3.84 percent in 2015.

With the inflation rise, the yield of Sukuk and security subsequently needs to move likewise to keep the buying power unblemished. During 2015 when world's swelling soar, the cost of bonds and Sukuk was falling. This shows that the yield of securities and Sukuk increased to protect the genuine pace of interest of the bondholders.

The above explanation provides an understanding that Sukuk are additionally influenced by similar powers as traditional bonds. From the point of view of the organizations, change of the loan fee and swelling will have an effect on the coupon for the bonds offered, and thus influencing association's getting cost. Instead of regular bonds, Sukuk depend on a benefit sharing plan, this implies that the organizations won't have an expanded expense of acquiring. The Sukuk financial backers then again are as yet influenced from the value variances.

**Diagram 6: Inflation, consumer prices (annual %)**



**Source:** PSIFIs, IFSB Secretariat Workings, 2015 (<https://www.ifsb.org/secretariat.php> )

In April and May 2015 two of Sukuk issuers powerhouse, Malaysia and Indonesia, issued a USD-denominated sovereign Sukuk. In mid-April, the Malaysian government provided a USD 1.5 billion double tranche Sukuk that was parted into USD 1 billion 10-year tranche and USD 500 million 30-year development (Wong, 2015a). The public authority of Indonesia sticks to this same pattern in the 22nd of May by giving USD 2 billion Sukuk, world's biggest at any point single-tranche Sukuk (Wong, 2015b; Ministry of Finance, 2015). The Indonesian Sukuk earned significant requests demonstrated with oversubscription of 3.4 occasions and was exchanged better than average in the early exchange (Ministry of Finance, 2015; Wong, 2015b). Both sovereign Sukuk pulled in global assets from a different geographic area, with 41% of the Indonesian Sukuk financial backers are from the Middle East, 21% from the U.S., 16% from Europe, 12% from Asia (ex-Indonesia) and just 10% from homegrown financial backers (Ministry of Finance, 2015). For the Malaysian 10-year Sukuk, Asian financial backers (ex-Malaysia) was recorded to have purchased 22% of the Sukuk, Middle East 25%, U.S. 10% and Europe 16% (Wong, 2015a).

The above example shows that both the financial backers and guarantors of Sukuk are presented to the global money variance. Figure underneath shows that the dollar is in an upturn against the Malaysian Ringgit. That implies the homegrown purchasers of Sukuk will have higher buying power in light of the fact that for every one dollar they can get more ringgit. In contrast to traditional money, hazard the executives in Islamic account, for example, cash supporting, is under a magnifying glass for its likelihood to abuse the Sharia consistence (Ahmad and Halim, 2014; Visser, 2009). Regardless, there is as yet a likelihood to support the money hazard as the market for subordinates as of now exists in various Islamic nations, like Malaysia and Turkey (Picture 6, Attachment 4, p. 76).

Sukuk are well suited for smart management of risk. Uncertainty is a major piece of venture. Islamic protections can be given with fluctuating levels of hazard and yield, permitting financial backers to pick a portfolio most appropriate for their danger the

board profiles. Note that hazard in sukuk is more hard to control misleadingly than is the situation in different kinds of protections. This is on the grounds that the worth and hazard of sukuk is constantly identified with genuine resources with provable, substantial worth, instead of on fake control of obligation and FICO scores.

*Conclusion: Conventional bonds vs Sukuk*

Sukuk adhere to an Islamic view of finance, staying away from Riba (creating cash from cash, for example interest or usury), bonds are protections that are very Riba because of the way that they have a fixed interest.

There are five important differences between sukuk and traditional bonds:

1. Sukuk indicate ownership of an asset. Bonds demonstrate an obligation commitment.

2. The assets that back sukuk are compliant with Shariah. Resources backing bonds may incorporate items or administrations that are against Islam.

3. Sukuk are estimated by the worth of the resources backing them. Bond valuing depends using a loan rating.

4. Sukuk can increment in esteem when the resources expansion in esteem. Benefits from bonds relate to fixed interest, making them Riba.

5. At the point when you sell sukuk, you are selling possession in the resources backing them. The offer of bonds is the offer of obligation.

Sukuk are backed by tangible assets, as opposed to by obligation. Sukuk possession shows responsibility for resource that has esteem. Albeit, a bond may likewise demonstrate this, the genuine meaning of a security basically shows an obligation commitment. At its root, the connection between the guarantor of a bond and the shopper is altogether different from the connection between the backer of sukuk and the buyer of sukuk. On account of a bond, the customer is going about as the loaner and the bond backer as an advance beneficiary. For this situation, the credit has a fixed interest, consequently being Riba. In sukuk, the buyer is buying a resource that has esteem instead of partaking in a certain advance understanding.

Another important difference between bonds and sukuk is that the resources associated with sukuk declarations follow all laws of Islam. On account of bonds, the bond testament might be sponsored by resources that are not consistent with Shariah, which might be packaged along with different kinds of resources without the customer's information. The customer of sukuk is guaranteed that the worth of the authentication compares to resources that are in the public great and not identified with exercises or items that are against Islam.

Although some may argue that the differences between sukuk and bonds are just details, these distinctions make a difference to Muslims. Truth be told, the act of benefitting from cash alone, to the detriment of profitability and genuine individuals has been one of the drivers for a considerable lot of the financial issues that have tormented the world somewhat recently. Interest and fake expansion of costs dependent on obligation instead of on genuine worth is the principle motivation behind why air pockets structure, burst, and afterward lead to downturns and sorrows. Sukuk, in contrast to securities, are evaluated by the genuine market worth of the resources that are backing the sukuk declaration. Bond estimating depends on the credit score of the guarantor. This is vital on account of securities since when you sell a security on the optional market, you are really selling the obligation in the hidden credit relationship. The offer of a sukuk on the auxiliary market is just the offer of proprietorship in the resource.

The main advantage of sukuk over traditional bonds is that their worth expansions in relationship to the resources backing the sukuk endorsement. Assuming the resource brings up in esteem, the worth of the responsibility for resource, supported by the sukuk, increments. Bonds don't have this trademark. It is absurd to expect to bring the fundamental obligation up in a security and expansion in income from a security is the immediate consequence of the fixed interest as opposed to in any sort of substantial expansion in worth or profitability.

This is not to say that bonds and sukuk are not comparative absolutely. Both can be transformed into cash by selling them on the auxiliary market. In view of the strength of their sponsorship, the two bonds and sukuk can be positioned by positioning foundations. There is likewise comparative fluctuation in bond and sukuk plans and guarantors, permitting buyers to have an assortment of choices when investigating these monetary instruments.

Differences between bonds and sukuk can also be depicted as a table below.

**Table 1: Difference between bonds and sukuk**

Sukuk	Bonds
Sukuk indicate ownership of an asset	Bonds indicate a debt obligation
The assets that back sukuk are compliant with Shariah	The assets that back sukuk are compliant with Shariah
Sukuk are priced according to the value of the assets backing them	Bond pricing is based on credit rating
Sukuk can increase in value when the assets increase in value	Profits from bonds correspond to fixed interest, making them Riba
When you sell sukuk, you are selling ownership in the assets backing them	The sale of bonds is the sale of debt

**Source:** <https://www.semanticscholar.org/paper/GROWTH-AND-PROSPECT-OF-SUKUK-IN-MALAYSIAN-MARKET%3A-A-Ahmad-Ripain/2e458ea027005ae28fa0a401955b9807801a3253>

### **3.2 Challenges in the Sukuk issuance**

Total sukuk issuances expanded by more than 24% underattractive worldwide financing conditions for backers . The solid development in the sukuk market was upheld essentially by expansions in issuance from Malaysia, Saudi Arabia, Qatar and Turkey. The powerful issuance in 2019 imprints the fourth sequential year of extension of the sukuk market. It likewise addresses a general development in sukuk exceptional over the most recent a long time (from 2004 to 2019) by a CAGR of 26%, making it the quickest developing section in the IFSI.

Sovereign issuers keep on driving the sukuk market. Steady with past patterns, sovereign and government-related guarantors stay the biggest backers by esteem, making up over portion of the yearly worldwide issuances in 2019.

Following a slight contraction in overall sovereign issuances in 2018, the development in issuances reflects, to some degree, the for the most part better financing conditions combined with the expanding portion of sukuk in monetary shortage financing in numerous locales, especially GCC nations and Turkey; sukuk renegotiating needs in purviews like Malaysia; and expanding sukuk issuances for liquidity the board purposes, including by Indonesia, Kuwait, Bahrain and others. While the entirety of the significant sovereign backers got back to the market, no new sovereigns made issuances in 2019.

Corporate sukuk issuances have shown an upward development direction as of late, an inversion from the by and large lower issuance rates noticed truly. The turnaround of the descending pattern noticed for corporate sukuk issuances from 2012 to 2015, and the consistent development of the market since 2016, has been upheld by underlying changes across administrative and legitimate structures in numerous nations. These are notwithstanding more expansionary money related arrangements internationally, just as a steady acknowledgment of sukuk as a reasonable long haul subsidizing hotspot for non-monetary organizations in certain locales. More grounded corporate issuances were seen specifically in purviews that have more settled administrative structures or a market framework that upholds Islamic money and sukuk issuance, which empowered corporates in those locales to exploit the lower expenses of financing in 2019 by giving sukuk. Besides, the issuance of administrative capital sukuk by Islamic banks has additionally been one of the critical drivers of corporate sukuk issuances, most eminently from Islamic banks in the UAE and Qatar. Nonetheless, corporate issuances are additionally to a great extent impacted by monetary conditions, and keeping in mind that the increment in issuances has been by

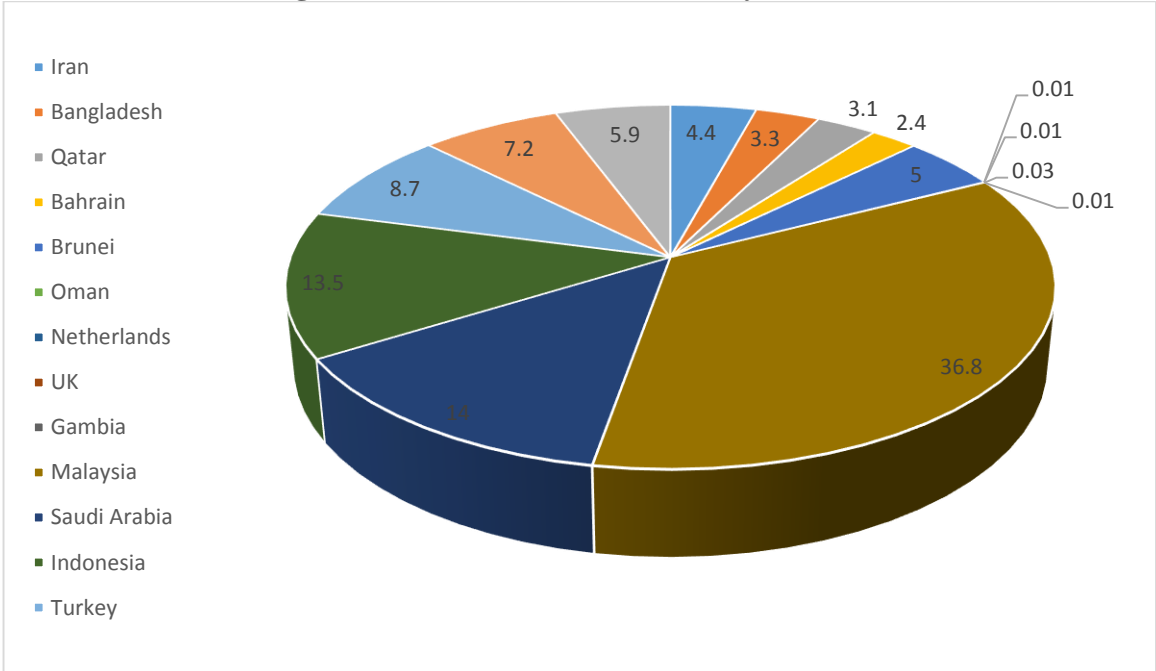


and large upheld by good financial conditions, a financial decline will probably influence the corporate sukuk issuance pattern.

While the overall development across the worldwide sukuk market includes a sizeable number of top notch investmentgrade issuances, more accommodative financing conditions may likewise energize issuances with lower credit quality because of the quest for yield, just as longer developments from non-monetary area corporates. The last will require nearer observing since they are more defenseless against the effect of a worldwide monetary decline.

While the general expansion in corporate sukuk issuances has added to more prominent variety of guarantors and gives a positive advancement in supporting the common requirement for more noteworthy liquidity and extending of the sukuk market, the general attributes of worldwide sukuk issuances, including the nature of backers and any likely weaknesses and dangers of default, ought to be firmly observed with regards to the current drawback hazards and the delicate worldwide monetary viewpoint.

**Diagram 7: Total Sukuk Issuances by Domicile**

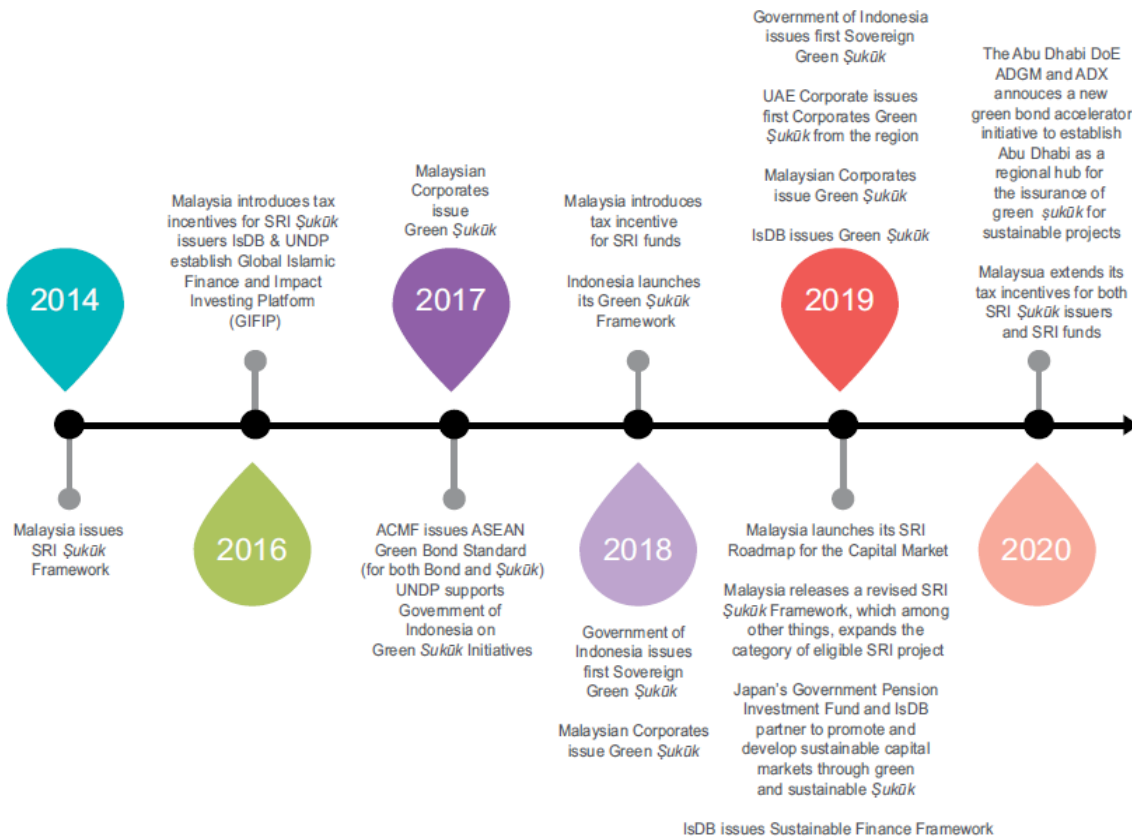


**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators, 2019 (<https://www.bloomberg.com/>)

In terms of sectoral distribution of sukuk issuances, both the public authority and monetary areas were the predominant backers. Issuances in 2019 were driven to a great extent by guarantors from sovereign/government-related elements and corporates in the monetary area, with any remaining areas representing about 6% of all out issuances. Across areas, various new issuance patterns and creative financing systems are additionally arising. This incorporated a blockchainbased microfinance sukuk issuance from Indonesia, as well as a few green sukuk issuances from sovereign, multilateral and corporate backers (Diagram 8, Attachment 3, p. 76).

Sukuk are likely to going to turn into an inexorably reasonable wellspring of subsidizing to connect the environment financing hole. Huge monetary speculations are required for the worldwide economy to progress to low-fossil fuel byproducts, diminish ozone depleting substance focuses to safe levels, and assemble the strength of weak nations to environmental change. Since consenting to the Paris Arrangement in 2016, numerous nations have joined activities for more noteworthy dependence on sustainable power into their change plan. The Association of South-East Asian Nations (ASEAN) and the Gulf Cooperation Council (GCC) have both set focuses to put resources into environmentally friendly power. To meet these speculation targets, numerous nations have set up or are currently creating systems that will work with the issuance of green bonds and sukuk to fund environmentally friendly power projects or other environment financing destinations. While the green sukuk market at present makes up just a little extent of issuances contrasted with the by and large sukuk market, the developing worldwide need to fund environment alleviation projects and socially capable speculations (SRIs) is probably going to give more freedoms and motivating forces to the development of green sukuk later on.

**Picture 7: Timeline of Developments, Initiatives and Green Sukuk Issuances**



**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators, 2020 (<https://www.bloomberg.com/>)

Looking ahead, the sukuk market could fill altogether in the close to term, as key Islamic capital business sectors keep on upgrading the issuance guidelines and structures and fortify administrative prerequisites. With worldwide yields approaching unsurpassed lows and expanding worries over easing back worldwide development, sovereign guarantors could tap the sukuk market for subsidizing needs particularly if oil costs stay moderate or turn lower.

While the sukuk market's help will keep on coming basically from financial backers situated in the Muslim world, it is normal that sukuk will pull in the consideration of a portion of the world's biggest and most critical institutional financial backers in the U.S., Europe, and Asia, as many may see sukuk as a viable method to put resources into probably the quickest developing areas of the world.

### **3.3 Development of Sukuk investment worldwide**

In September 2019, sukuk issuance bobbed back and is required to keep a drawn out development pattern. The normal development is owing to different elements. To start with, request is expanding for Sharia-consistent resources in the Islamic world, which holds investable excess that should be put to profitable use. Moreover, financial backers are getting more acquainted with sukuk structures as more points of reference and normalization occur. At long last, sukuk are seen by certain legislatures as an engaging instrument for advancing turn of events and framework financing. Market breakdown: Over the years, more than 66% of the worldwide sukuk have been given in Malaysia, trailed by issuances in the Gulf Cooperation Council (GCC) district. Malaysian sukuk are transcendently given in neighborhood money on the homegrown market. Also, the Malaysian market is a well known decision for unfamiliar guarantors, which mirrors the country's endeavors to advance the neighborhood sukuk market by building great administrative system. Interestingly with Malaysian experience, issuances from the GCC area are transcendently in the U.S. dollar-named global market . The inclination can be inferable from financial backer premium in hard money designated instruments and the stake of neighborhood monetary standards in the GCC area to the dollar. Notwithstanding, as homegrown business sectors in the GCC area create, this pattern may change in the medium term. Other than Malaysia and the GCC locale, sukuk are extending as a financing apparatus in business sectors like Indonesia, Pakistan, and Turkey. As of late, various generally customary business sectors, like Hong Kong, China; Luxembourg; South Africa; and the Joined Kingdom have given their first sukuk. Different business sectors may follow after accordingly.

Governments represent a bigger portion of sukuk issuances, however corporate sukuk address 40% of the general market and have started to lead the pack in the drawn out fragment. Governments are especially prevailing in the momentary market. Present moment sukuk are seen as fundamental for extending and advancement of the Islamic

interbank market and is given in numerous nations by national banks to help money related arrangement execution. The Central Bank of Bahrain is a conspicuous model, through an ordinary issuance program for present moment sukuk in Bahraini dinars. In the long haul sukuk market, corporate issuances got and have started to lead the pack since 2012. In GCC nations, especially, corporate backers are definitely more dynamic than sovereigns, somewhat as a result of the solid financial situation of certain nations around there, and accordingly governments don't really require subsidizing from the capital business sectors (Ketut Ariadi Kusuma, 2014).

Regardless of the development, the improvement of sukuk markets has been blocked by a few elements. The absence of normalization of sukuk constructions and practices, issues encompassing indebtedness and financial backer security, and absence of liquidity are main points of contention blocking the development of sukuk advertises and are wellsprings of significant discussions among partners, strategy producers, and market players the same.

As an instrument emerging from a strict foundation, sukuk face a test coming from various translations of Sharia standards. In one market, Sharia consistence might be founded on the types of the exchanges (i.e., regardless of whether the sukuk depend on recognizable resources or exchanges), while in others consistence is chiefly dictated by the plan (i.e., whether the design clings to the soul of hazard sharing). In the last mentioned, structures that endeavor to accomplish similar monetary result as traditional bonds are thusly considered to misshape the standards.

Justice Usmani's 2015 assertion caused to notice the various methodologies existing in the market identifying with the understanding of Sharia standards. Until 2015, numerous sukuk had been given with moderately free translation of Sharia standards, trying to take after traditional securities. A principle analysis by Justice Usmani is that numerous sukuk structures suggest a return ensured by an obligor (e.g., future acquisition of venture at a foreordained value connected to its standard worth), which nullifies the point of the benefit or hazard sharing soul of Islamic account. In

response to this assertion, the volume of sukuk issuances dependent on mudharaba or musyaraka structures dropped altogether in the GCC area. A comparable analysis stretches out to a construction dependent discounted and the market has been calling for normalization of satisfactory designs and practices. Notwithstanding an all inclusive idea of Sharia and AAOIFI rules, explicit subtleties of exchanges and their designs rely upon the real translation and choice of the pertinent Sharia sheets. The business, in its endeavors to discover ways for exchange constructions to consent to Sharia standards while being worthy to financial backers, has delivered a few imaginative exchanges. Despite the fact that advancement is by and large great, exchange structures are only here and there tantamount. This shows in higher exchange costs (for organizing, financial backer investigation, and so on), which isn't steady of industry development.

Recently, a a huge, persistent exertion has been made to normalize sukuk. Standard-setting bodies and joint activities have been set up to address normalization issues blocking the development of the market. These incorporate AAOIFI, International Islamic Financial Markets (IIFM), the International Islamic Liquidity Management Corporation (IILM), and the Islamic Financial Services Board (IFSB). Notwithstanding these endeavors, general and peaceful accord on numerous Sharia issues has not been accomplished, despite the fact that proof is seen of combination in a portion of the issues. In certain nations, how much guidelines ought to be set up at a public level (e.g., by setting up a focal Sharia board) has not been completely settled.

One space of discussion is whether financial backers have a lawful privilege to the resources in case of default or bankruptcy of the obligor. By and by, by and large lawful responsibility for sukuk hidden resources isn't moved from the originator to the responsible SPV due to legitimate and burden limitations related with an exchange of the resource title (either government resources or private resources). This is a typical element of resource based constructions. Accordingly, in case of default, sukuk

financial backers don't consequently assume responsibility for the resources; all things considered, the financial backers have plan of action to the originator.

Regardless of whether the sukuk financial backers have senior case over the resources is as yet liable to discuss. Such uncertainty over responsibility for in a sukuk structure is additionally a subject of analysis by researchers who take a more "perfectionist" position in the Islamic money reasoning. In this way of thinking, an assetbacked structure, where the resources give a layer of security to the financial backers and there is no apparent assurance from the obligor, would address an all the more genuinely sukuk. Agreement over the satisfactory design (resource based or resource upheld) would help characterize sukuk's development direction. As of now, the two constructions are applied with relative adaptability relying upon the ways of thinking received by the separate business sectors. From a financial backer security viewpoint, resource sponsored sukuk would likely be credit preferred<sup>17</sup> and would eliminate most questions as to consistence against Sharia standards of having genuine basic resources backing the venture.

Be that as it may, this design would restrict the development and utilization of sukuk, especially by sovereign guarantors, as a result of limitations against move of government resources, which a resource upheld construction would require. The inverse is likely valid for resource based sukuk, which would work with more issuances however the inquiries of worldwide agreeableness would remain. Absence of normalization hampers liquidity. Sukuk are organized items that commonly will in general have restricted liquidity. However, in sukuk, this issue is exacerbated by the absence of normalization of the construction. As individual sukuk are not quickly similar, fungibility is low. Financial backers' choices to supplant sukuk from one guarantor with another, for a credit reason or something else, are not direct like in customary protections. Various translations on Sharia passability make market division, making the market basically more modest than it as of now is. The absence of normalization additionally makes it more hard to value the protections.

The liquidity of sukuk is additionally compelled by the way that sukuk tradability likewise relies upon their constructions, following Sharia standards. A portion of the constructions, for example, salam, are not qualified for exchanging—since, supposing that exchanged, they address obligation against settlement ahead of time, which is conflicting with Sharia standards. Different constructions, for example, istisna and murabaha, may not be tradable besides at face esteem. Tradability of mudharaba and musyaraka relies upon explicit construction. These imperatives make another layer of configuration challenge for sukuk and for market improvement for the most part.

An apparent short stock of sukuk drove a portion of the purchase and-hold conduct of sukuk financial backers.

At present, the market is in the condition of abundance interest, and along these lines financial backers will in general clutch the sukuk. Thusly, the absence of auxiliary market exchanges influences valuation of financial backers' portfolios on the grounds that dependable market costs are not promptly accessible.

Sukuk are creating as a worldwide resource class, supporting improvement with the interest of a wide scope of guarantors and financial backers independent of strict direction. On the interest side, cooperation of non-Islamic financial backers that treat both ordinary instruments and sukuk as a feature of their investable pool of items is developing. For instance, European and U.S. institutional financial backers, particularly protection and mutual funds, are known to be dynamic financial backers in global sukuk situations. In Malaysia, the biggest sukuk market to date, ordinary financial backers effectively put resources into either or both sukuk and customary protections relying upon hazard and return advertised.

On the stockpile side, other than elements from nations with huge Muslim populace, nonIslamic guarantors are progressively tapping the sukuk markets. These incorporate government substances, partnerships, and multilateral monetary organizations (see table 3). The majority of the global issuance has so far been by government or semi government substances in light of the size and financial backer



certainty, especially given the issues related with the design and resource proprietorship.

Albeit the initial a few backers were substances from nations with lion's share Muslim populace, like those in the Middle East (e.g., Bahrain, Kuwait, Saudi Arabia) and Southeast Asia (e.g., Brunei, Indonesia, and Malaysia), guarantors from non-Islamic nations or locales have likewise come into the image (e.g., Germany, Hong Kong (China), Luxembourg, South Africa, and the United Kingdom), and a few others are in the pipeline (e.g., the Republic of Korea).

Development of the sukuk market has been generous, yet huge difficulties remain. The general market faces requirements because of absence of normalization, worries over financial backer assurance, and tight liquidity driven chiefly by discontinuity. The Islamic monetary industry is dynamic, and progress is being made quickly, for instance, through crafted by standard setting sheets like AAOFI, IFSB, IIFM, IILM, multilateral associations, and different partners, public and private. To completely misuse the capability of sukuk, an all encompassing methodology is expected to work with the improvement of homegrown business sectors and admittance to the global business sectors. For nations with pools of Islamic reserve funds and the presence of a homegrown Islamic monetary environment, the improvement of homegrown business sectors is a characteristic decision. This paper offers a way to deal with survey limitations and fabricate a plan of changes to create homegrown sukuk markets. The methodology considers interesting qualities of sukuk and depends on grounded systems utilized by worldwide improvement offices and specialized help suppliers to help the advancement of homegrown security markets. In the interim, for some nations the worldwide business sectors are as of now more available given the minimum amount of worldwide Islamic financial backers. The paper recognizes key arrangement issues in getting to the global sukuk markets.

Strategy producers occupied with sukuk advancement could exploit the adequate worldwide experience worked for the improvement of homegrown security markets,

in view of the few normal and commonly strong viewpoints in the plan for sukuk and traditional instruments. Multilateral organizations have a significant part in scattering global experience and supporting approach producers in the execution of these plans. Enormous spaces of future work remain. For instance, albeit the paper distinguished that the advancement of the currency markets is significant for more dynamic sukuk market, a standard answer for the plan of reasonable currency market instruments for the sukuk market is as yet a work in progress. The equivalent applies to subsidiary items. Also, the paper distinguished that rating is a significant test for likely backers in getting to the global business sectors, yet an expansive arrangement of credit improvement arrangements is a subject of a future examination. In any case, this paper can be a platform for future work by multilaterals and different establishments in regions, for example, approaches for administrative and administration structures for sukuk, jobs of multilateral foundations or governments in explicit sukuk exchanges (e.g., credit improvement, ensure supplier), and plan of sovereign sukuk issuance methodology with regards to sovereign obligation the executives and market advancement.

## CONCLUSIONS AND OFFERS

The pertinence of examining the hypothetical ideas of sukuk as a device for pulling in speculation, just as the improvement of a strategy for utilizing these protections by guarantors has been affirmed in the system of this work.

As part of this work, we found out that Sukuk is an Islamic financial certificate, the so-called equivalent of a bond in the Western financial system. Islamic bonds gained their popularity in the 1990s when Malaysia issued its first sukuk. Currently, sukuk is used by both Islamic corporations and government organizations. Sukuk has become such a popular form of loan that it has a significant share of the global bond market.

The differences between sukuk and standard bond can be considered:

Sukuk is actually an alternative to conventional bonds. The two products are very different, but the term “bond” is often used in reference to sukuk to illustrate the fact that 1) sukuk offers recurring payments like a bond, and 2) sukuk allows investors to diversify their portfolios in the same way as bonds. The modern sukuk has emerged as a tool to fill the vacuum that has emerged in the global capital market. Many Muslim investors wanted to balance their stock portfolios with debt products. Since sukuk is an asset-backed financial instrument and not a debt security, which is actually prohibited under Islamic investment principles, it can satisfy the demand of Muslim investors. Thus, sukuk has become an integral part of investment portfolios. Economists' analysis suggests that sukuk and bonds do not correlate over longer periods of time. Because of this, sukuk is increasingly seen as an alternative asset class to stocks and bonds. Each sukuk has a denomination based on the value of the underlying asset. The investor can pay this amount or (as with a regular bond) buy it at a premium or discount at the market price. Future cash flows from the underlying SPV asset are paid to the sukuk holders. Sukuk can be backed by existing assets or assets that will appear in the near future. Investors who purchase bond sukuk are

rewarded as a share of the profits generated from the asset. Unlike regular bonds, sukuk does not legally pay interest.

Sukuk is issued with a specific maturity. When the maturity date falls, the borrower repurchases the assets from the SPV. However, sukuk does not guarantee a refund to its owner. The sukuk owner may or may not receive his investment. This is because certificate holders share the risk of the underlying asset. If the project or business on the basis of which the sukuk is issued is not profitable, the owner of the sukuk will also suffer a loss. While sukuk is usually redeemed based on net asset value or at a price agreed upon at the time the sukuk was issued, some sukuk provide buyback guarantees to investors.

The advantages of sukuk include:

Sukuk structuring is a rigorous process overseen by several bodies that carefully review each proposed issue to check if the financial instrument is in line with Islamic principles. Funds raised through sukuk must not fund activities prohibited by Sharia law. As a result, the sukuk structuring process has a built-in due diligence component, which is an advantage for investors. In addition, sukuk is well suited to socially oriented investors, as the legal framework provides a high degree of confidence that the money will be used for a specific purpose.

To comply with the fundamental principles of Islam, funds raised through the issuance of sukuk should apply to investments in predetermined assets or specific activities. There is a potential promoting advantage for guarantors dynamic in Islamic markets, ought to they be looking for ventures in those markets. The financial specialist base spoken to by Islamic compliant financial specialists is still generally undiscovered and there has customarily been critical neglected request for items such as sukuk. There is potential for hybrid into other specialty monetary markets, such as the broader ethical investment advertise, that will give a reputational advantage.

There are several main types of sukuk.

Sukuk-mudarabah. These are investment sukuk, which confirm the proportional participation in the capital of the Mudarabah, are registered in the name of the holders on the basis of the indivisible title to the share in the capital of the Mudarabah and the right to income from them in proportion to the participation. The owners of these sukuk are called "rabbul-mal". Sukuk Mudarabah is used to encourage public participation in large investment projects.

Sukuk musharakah. According to the wording of AAOIFI, this type of sukuk consists in the acquisition of ownership in the capital of a musharak. It differs from sukuk mudaraba only in the organization of the relationship between the issuing party and the sukuk holders, with the issuing party creating a committee of sukuk holders that can make investment decisions. This type of sukuk are used to accumulate funds for starting a new project, developing an existing project or financing business activities under cooperation agreements. Holders of securities become owners of the project or assets in proportion to their equity participation. Musharak certificates can be considered negotiable instruments and must be traded on the secondary market.

Sukuk ijarah. This type of sukuk means ownership of equal shares in the rented real estate or usufruct (right of use) in relation to real estate. Such sukuk give their owners the right to own this property, receive rent and dispose of their sukuk in a way that does not infringe on the tenant's rights, that is, they are freely tradable securities. The owners of such sukuk take upon themselves all expenses for the maintenance and current repair of real estate and compensation for damage, if necessary.

Sukuk murabahah. In this case, the issuer of the certificate is the seller of the murabaha product, the subscribers are the buyers of this product, and the funds raised are used to pay for the cost of the product. The holders of the certificate are the owners of the murabaha product and are entitled to its final price from the resale of the product.

With a record number of global sukuk releases between 2012 and 2020, 2020 was a record year.

The pace of development has been rather unstable over the past 3 years. The reasons may be the instability of the global world economy. Overall growth rates decreased by 14% (outstanding increased by 48%).

During the time spent tackling the primary issue, it was tracked down that the Islamic monetary framework has an assortment of halal items. The arrangement of the advanced Islamic economy was dynamic, similar to the development pace of the Islamic business. The rise of associations directing the Islamic area added to the unification of systems for the presentation of accomplice items into the market, just as more serious mix into the worldwide monetary market. Examination of Islamic protections prompted the decision that sukuk is another financing instrument. The total yield of sukuk in 2020 was USD 130 billion. In contrast to customary protections, sukuk are inseparably connected to the hidden resource, which is fit for producing benefits. A significant perspective when giving sukuk and finishing up agreements is the accessibility of documentation affirming the exchange of responsibility for resource that isn't identified with exercises precluded in Islam (creation of liquor, pork, erotic entertainment, club, and so forth) By and by, the most mainstream are the accompanying concessions to the premise of which sukuk are given:

- Mudaraba (exacting organization), with 8% and 5% presence in the global and homegrown business sectors, individually;

- Musharaka (straightforward association), with a 9% presence in the global sukuk market;

- Ijara (leasing), with a 33% and 16% presence in the global and homegrown business sectors, separately;

- Murabaha (sale at a premium), with 38% and 2% presence in the worldwide and homegrown business sectors, individually;

- Salam (sale and purchase with delayed delivery), with a 2% presence in the worldwide sukuk market.

The investigation of the Islamic protections market made it conceivable to uncover that the issue of sukuk is created by Islamic nations, yet in addition by mainstream ones with a Western model of the financial framework. Thought of the experience of these nations prompted the accompanying ends:

- Analysis of the experience of acquainting sukuk with the business sectors of Great Britain, Luxembourg, USA, Turkey and Kazakhstan permits us to make a decision about the chance of bringing Islamic protections into the business sectors of nations with a Western financial framework;

- Implementation and variation happens in two territories: charge and authoritative. The presentation of Islamic items permitted these nations to open extra wellsprings of financing during the monetary emergency, which is one of the significant parts of the dependability of the Islamic monetary framework. Thus, toward the finish of 2016, Luxembourg pulled in 11 billion euros by giving sukuk, the UK gave Ijara sukuk for 200 million pounds in 2014, and 25 Islamic banks work in the United States as of March 2017. Additionally, the United States is the principal non-Islamic nation to issue corporate sukuk in 2009 with an issue of USD 500 million.

Investigation of the security market, macroeconomic pointers of the country, relations with Islamic nations, just as the computation of likely clients of accomplice banking made it conceivable to shape various variables affirming the possibilities of executing accomplice banking and giving sukuk by guarantors.

The principle course of the advancement of the homegrown market is the authoritative rearrangements of the issuance methodology, which opens the route for new guarantors to the market and essentially decreases the issuance costs. Today, the advancement of the security market is viewed as a need region for the improvement of the monetary market putting resources into agricultural nations, where the yield on protections is higher than in evolved nations. The foundation of financial and strategic relations with MENA nations will assist with drawing in assets from these nations, and

the making of items dependent on Sharia will make a great picture of the country as a solid accomplice on the planet local area.

Since the particularity of sukuk doesn't permit the utilization of loaning interest, one of the significant inquiries is to decide the yield, which can be determined as follows:

- based on the benchmark (yield on sovereign securities, Eurobonds or LIBOR rate);
- based on the sovereign credit rating of the country where the issuer is located and directly, the issuer itself;
- based on the exit premium (at the initial underlying issue or section into the global obligation market, the guarantor sets a reasonable degree of return, considering the danger premium).

For the execution of the venture for the presentation of sukuk and association bargains when all is said in done, it is important to complete the accompanying arrangement of exercises:

- development of uniform norms and administrative system, just as lawful guideline in the field of Islamic account;
- advancement of a settlement system for Islamic protections, equations for computing benefit, considering the global act of giving sukuk;
- production of a foundation for Islamic money (Islamic windows, banks, insurance agencies);
- production of prosperity a good assessment of the populace about the techniques, instruments of Islamic financial activities;
- preparing staff in the abilities of working in the Islamic area, pulling in Sharia specialists for participation in the association;
- transformation of bookkeeping projects to work with Islamic items.

The main factors that influenced the development of Islamic financial institutions include the rapid growth of oil revenues in the Middle East states, an increase in the



Muslim population in the world, the consequences of the global financial crisis, an increase in the role of social investments, the adoption of a new financial direction by Western countries, as a result of the use of these mechanisms. traditional banks and their clients.

We expect that sukuk will advance and energize Muslim and conventional investors around the world to Muslim financing structures and, thus, will be instrumental in extending and developing the markets of Islamic bonds, especially within the rising countries. Indeed, sukuk give an important research agenda for end of the. In spite of the fact that our consider gives a one of a kind for existing writing investigate system, it as it were mostly covers a few of the imperative focuses with respect to sukuk worldwide development. There's more work to be done and these themes can be extended upon in encourage ponders. We will address imperative themes for future investigate that could be considered, such as a advancement of bound together sukuk estimating show or analyzing particular for sukuk hazard administration rebellious.

As the experience of individual countries (Azerbaijan, Russia, etc.) shows, the successful development of Islamic financial institutions, first of all, is hindered by the lack of legislation in the country providing for their activities. The development of Islamic finance in the country without a proper legal framework leads to the fact that Islamic financial institutions are in a less advantageous position compared to traditional ones and offer only a small number of Islamic financial services, mainly those that are similar to traditional ones, respectively, activities Islamic financial institutions in such an environment is limited.

There are a number of international Islamic financial organizations operating in the world designed to regulate and develop the Islamic finance industry, including developing standards, expanding the range of Islamic financial services, developing recommendations for effective supervision, etc. The experience of Kazakhstan and Kyrgyzstan has shown that cooperation with key organizations of the Islamic world

and their support contributed to the integration of Islamic financial institutions into the economies of these countries.

In modern conditions, our country is interested in the inflow of foreign investment into the country's economy, the largest banks and companies that, under the conditions of sanctions, cannot attract financing from Western countries. The development of Islamic financial institutions with the support of the state will make it possible to use all the advantages to attract investments also from the countries of the Middle East and Southeast Asia in order to overcome the recession and enter the trajectory of sustainable economic development.

“Fundamentals of an Islamic Economic System compared to the Social Market Economy”

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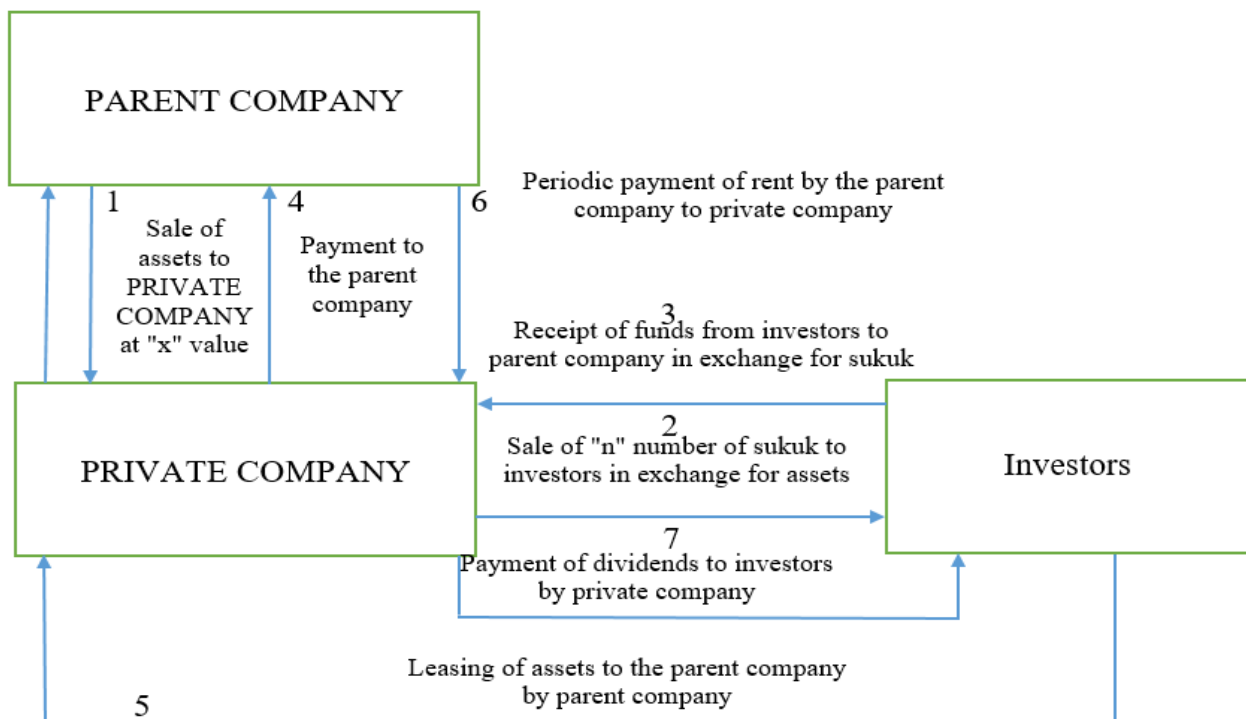
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## ATTACHMENT

Attachment 1

Picture 1: Sukuk Lease securities issue principle.

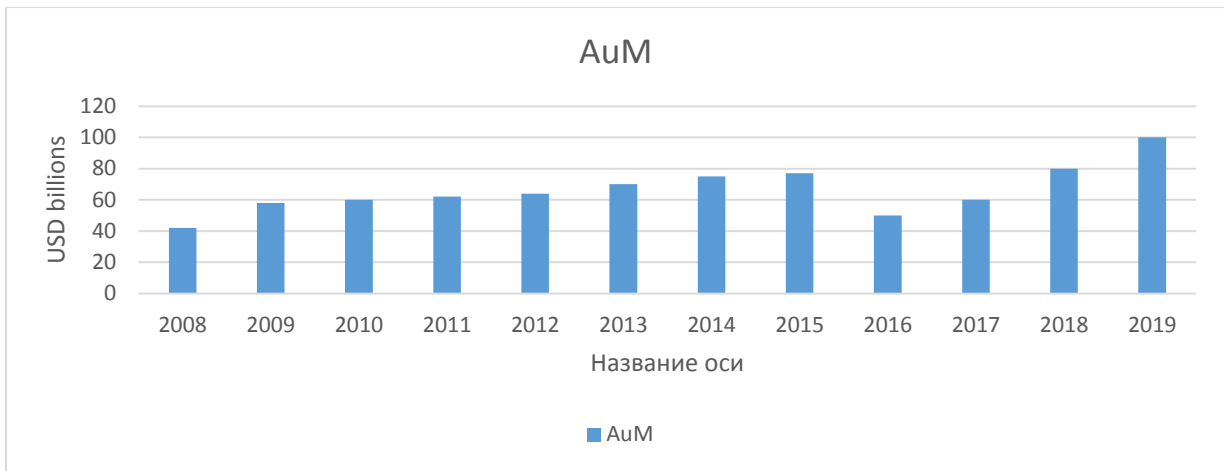


**Source:** compiled by the author on the basis of an electronic resource ([https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/sukuk/#:~:text=The%20unique%20nature%20of%20Sukuk,process%20for%20the%20financial%20instrument.&text=This%20special%20purpose%20vehicle%20\(SPV,the%20certificates%20to%20the%20investors\)](https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/sukuk/#:~:text=The%20unique%20nature%20of%20Sukuk,process%20for%20the%20financial%20instrument.&text=This%20special%20purpose%20vehicle%20(SPV,the%20certificates%20to%20the%20investors)) ).

Attachment 2

Chart 5: Growth in Assets under Management

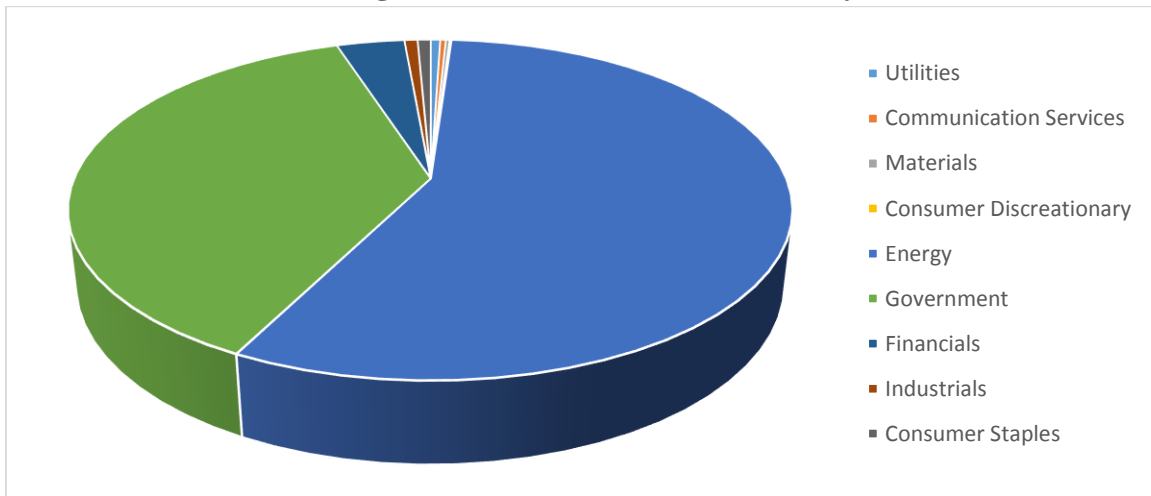




**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators, 2019 (<https://eikon.thomsonreuters.com/index.html>).

Attachment 3

**Diagram 8: Global Sukuk Issuances by Sector**



**Source:** Thomson Reuters Eikon, Bloomberg and data received directly from regulators, 2019 (<https://eikon.thomsonreuters.com/index.html>).

Attachment 4

**Picture 6: Malaysian Ringgit per 1 U.S. Dollar**



Source: Bloomberg, 2015 (<https://www.bloomberg.com/quote/USDMYR:CUR> ).

### List of tables

<b>Table 1:</b>	Difference between bonds and sukuk.....	54
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### List of pictures

<b>Picture 1:</b>	Sukuk Lease securities issue principle.....	29
<b>Picture 2:</b>	General overview of the Islamic capital market.....	31
<b>Picture 3:</b>	Ten-Year Historical Performance.....	37
<b>Picture 4:</b>	Returns of Equity Indices across Countries and Regions.....	39
<b>Picture 5:</b>	Islamic Banking Assets and Market Share.....	43
<b>Picture 6:</b>	Malaysian Ringgit per 1 U.S. Dollar.....	51
<b>Picture 7:</b>	Timeline of Developments, Initiatives and Green Sukuk Issuances.....	58

## List of charts

<b>Chart 1:</b>	Amount outstanding (total amount).....	23
<b>Chart 2:</b>	Total global Sukuk outstanding by years.....	24
<b>Chart 3:</b>	Global Sukuk Issuances and Sukuk Outstanding Trends.....	32
<b>Chart 4:</b>	Maturity Trend of All New Issuances.....	34
<b>Chart 5:</b>	Growth in Assets under Management and Number of Islamic Funds.....	34

## List of Diagrams

<b>Diagram 1:</b>	Sukuk Issuances by Issuer Type.....	33
<b>Diagram 2:</b>	Islamic Fund Assets by Asset Class.....	35
<b>Diagram 3:</b>	Number of Islamic Funds by Asset Size (USD million).....	36
<b>Diagram 4:</b>	S&P 1200 Sector Performance.....	38
<b>Diagram 5:</b>	Share of Global Islamic Banking Assets (%).....	42
<b>Diagram 6:</b>	Inflation, consumer prices (annual %).....	50
<b>Diagram 7:</b>	Total Sukuk Issuances by Domicile.....	56
<b>Diagram 8:</b>	Global Sukuk Issuances by Sector.....	57