

RESEARCH ARTICLE

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THE ROLE OF ISLAMIC SUKUKS IN FINANCING THE ECONOMY

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Abstract

This research seeks to introduce Islamic sukuk as a financing tool and present their reality in the Malaysian Islamic securities market. Its goal is to show how these sukuk contribute to financing the Malaysian economy by analyzing and presenting the experience. The central problem in this research is the extent to which they contribute to funding the economy. Regarding Islamic Sukuk, Malaysia is regarded as the leader in Islamic financial engineering and capital markets. The descriptive analytical technique was used to accomplish the study's goals by gathering and analyzing data relevant to the study's topic.

Keywords Islamic finance; Islamic sukuk; Islamic financial engineering; Islamic stock market; Malaysia.

INTRODUCTION

One of the most notable products of Islamic financial engineering, Islamic sukuk, has gained rapid popularity and is now the most rapidly expanding tool in the Islamic finance market. They serve as a conduit for a variety of financing options for both individuals and businesses looking to avoid usury in their Islamic financial transactions and find financing that fits their social and professional needs. Additionally, they have features that improve the chances of integrating the Islamic financial market with global markets. Regarding Islamic sukuk issuance, the Malaysian stock market is unrivaled on a worldwide scale.

RESEARCH PROBLEM

It is well-known that developing a country's economy and its sectors necessitates a substantial and sustained infusion of capital. Since banks alone cannot afford to finance medium- to long-term

investments, the financial markets step in as the best alternative, demonstrating their significance in this domain. There was a need to seek out Islamic financing instruments, such as Islamic Sukuk, as a suitable substitute for conventional bonds after the instability of traditional financial markets demonstrated the futility of using their usury-based tools to fund projects and the economy. In light of the above, we have chosen to bring up the following issue:

How much impact may Islamic Sukuk have on the economy's funding needs? Where does Islamic sukuk fit into Malaysia's financial landscape, given the country's history as an Islamic finance and sukuk issuance trailblazer?

RESEARCH OBJECTIVES

Our research aims to accomplish the following:

1. Determining what Islamic Sukuk are and how they work as a funding source.

2. Describe the Islamic sukuk market in Malaysia and its functioning. Discuss the function of Islamic sukuk in funding the Malaysian economy.

RESEARCH HYPOTHESES

To address the issue and its subquestions, we have developed a set of working hypotheses to guide our research. These are:

1. Islamic sukuk are a significant source of funding for the economy.
2. Islamic Sukuks are more effective than traditional bonds for funding the Malaysian economy.
3. Islamic sukuk boosts economic metrics in Malaysia.

RESEARCH IMPORTANCE

Islamic Sukuk was one of the many forms of funding that saw expansion around the turn of the millennium, which is why this study is significant.

LITERATURE REVIEW

Islamic Sukuks and their financing role in the economy

Regarding funding projects, Islamic Sukuks are high on the list of priorities. Quotas provide several benefits and a legal framework for customers seeking funding without engaging in usurious operations. The supply-leading concept and the Islamic securities-economic growth link The interpretation of McKinnon (1973) and Shaw (1973) is in line with the principle of financial exploitation, which states that finance improves economic development. This means that financial channels of investments and capital securities markets can boost economic growth. This is based on the "Supply-leading hypothesis" of Schumpeter's theorem (Schumpeter, 1934). According to Hafnida and Abdullah (2016), several empirical studies have confirmed this idea. One problem with this theory is that it needs to hold up when applied to emerging countries, according to

Adeyeye et al. (2015). In contrast, several empirical studies, such as Tabash and Dhankar (2014), Mitsaliyandito et al. (2017), and Al Fathan and Arundina (2019), have shown that Islamic securities (ṣukūk) markets contribute to economic growth, lending credence to the supply-leading theory.

The concept of Islamic sukuk

The term "Islamic securitization" is defined by the Islamic Jurisprudence Academy of the Organisation of Islamic Cooperation as follows: "the issuance of a common ownership interest in assets (objects, benefits, rights, or a mixture of documents or financial certificates of equal value representing subscription shares, issued by a Sharia contract or to be created from the proceeds of Assets, benefits, money, debts that exist and take its rulings."

The process of converting a collection of assets that do not generate much money into instruments that can be traded on financial markets and sold there while accounting for trading rules is also known as Sukuk. Following the previous definition, Islamic Sukuks are investment instruments that adhere to Sharia rules and are issued in line with Islamic finance formulae. These instruments take the form of equal-value papers that reflect common shares in the capital, which may be products, benefits, services, or projects.

Islamic sukuks include the following characteristics:

1. It is a legal instrument that establishes the owner's entitlement to financial responsibilities and rights by being issued in the owner's or bearer's name in denominations of equal value.
2. As mentioned in the prospectus, it has a nominal value.
3. Signifies a shared stake in assets that can be used for investment or trade.

4. Based on a legally binding agreement.
5. The idea is to divide the gains and losses so everyone may benefit. In this case, the sukuk owner shares profits with everyone else, as outlined in the prospectus.
6. In theory, most instruments are negotiable, but he takes a loss proportional to his holdings in practice.
7. A its indivisible nature means that the instrument cannot be divided in any way with respect to the business.

1.2. Types of Islamic Sukuks

Based on their legitimacy, Islamic instruments come in various forms.

An explanation of the instrument's foundation and the nature of the interaction among the several parties involved. Here are the most significant kinds of devices:

a. Mudaraba Sukuk: one or more parties may provide a capital split into equal shares. These are financial instruments with a predicted return that has not yet been discovered but is based on historical budgets and market indicators provided by the issuing business.

B. Ijara Sukuks: These are equal-value paper instruments that stand for shared ownership of earnings-generating assets, perks, or services in an investment project. They aim to turn the leased assets, bonuses, and benefits into tradable securities via instruments in secondary markets.

C. Participation Sukuks: These sukuks are issued to fund the start-up or development of a project. The project ultimately belongs to the sukuk holders up to the extent of their shares and is overseen by selecting a partner or other individuals for that role.

Sukuk issued to collect Salam capital: the holders of this sukuk acquire ownership of the Salam commodity. e. Istisna Sukuk: This sukuk is given to

use the subscription revenues to make a product, and the Sukuk holders eventually own the product.

Sukuks issued to purchase Murabaha commodities are known as F. Murabaha Sukuks, and the sukuk holders subsequently acquire ownership of the products. The party giving the Murabaha Sukuk is the one selling the commodity; the party subscribing to the Sukuk is the one buying the commodity; the money from the subscription covers the cost of purchasing the commodity; and the party holding the Sukuk owns the commodity, and has the right to the sale price.

g. Musaqat Sukuks: These are equal-valued papers issued to use the revenues to water, spend on, and care for fruit trees. As per the arrangement, sukuk holders will get a portion of the profits.

H. Farming Sukuk: These are identically valued papers issued to fund a project using subscription funds. By the terms of the sharecropping arrangement, the sukuk holders get a portion of the harvest.

i. based on the Al-Mugharasa contract, Al-Mugharasa Sukuk: These are documents of equal value issued to use the revenues to plant trees and cover the expenditures and effort involved in this planting. The Sukuk holders get a piece of the ground and some plants.

Y. Investment Agency Sukuks: These papers delineate endeavors or projects overseen by an agent appointed by the Sukuk holders to operate as their representative by an investment agency contract.

The role of Islamic sukuk in the economy

The macroeconomic function of sukuk: To revitalize the economy and mitigate the impact of inflationary gaps, Islamic Sukuk are widely used since they provide reliable and genuine funding for the state using resources that genuinely exist in the economic cycle. One of the most effective tools and finest formulae consistent with Sharia

requirements is sukuk. This is necessary to fund massive undertakings, such as infrastructure projects, which only some entities are adequately equipped to complete.

The role of Islamic sukuks in the economy is evident through the following:

1. Assisting in the attainment of economic development: Islamic sukuks play a role in economic development by helping to fund large-scale development projects, like oil and gas infrastructure, roads, etc., and they can also be an excellent way to finance investment projects, as they are. Since Islamic sukuks are flexible and may be used in a variety of contexts, they are appropriate for use in a wide range of economic sectors.

Second, the distribution and allocation of risks: Sukuks minimizes the shocks caused by the realization of threats by using the profit and loss sharing mechanism to correctly assign risks among the contracting parties. As with the owners of sukuks, each party is responsible for its fair share of the risks. Investment owners take on a percentage of the risk according to the quantity of their securities and the amount they contribute to the capital. The parties involved in the financing process would feel more comfortable and trusting of one another if they shared the risks.

3. Achieving a fair distribution of wealth: Islamic investment sukuks allow all investors to share in the project's actual profit in a reasonable proportion, which helps to achieve an equitable distribution of both gains and losses.

Sukuk allows for extensive public involvement by people to fulfill the funding demands required to support the general budget, which helps address the deficit in the available budget.

3.1 Sample and assortment of data

Using balanced panel data from 2000–2010, this research examines the three primary South-East Asian nations for Islamic securities issuance—Indonesia, Brunei Darussalam, and Malaysia—from Q4 2013 to Q4 2019. The Islamic Financial Services Board's database was mined for information on Islamic securities. The additional macroeconomic data was sourced from the following institutions: the IMF database, the Brunei Darussalam Ministry of Finance and Economy, the Central Bank of Indonesia, and the Central Bank of Malaysia (Negara). Because Brunei Darussalam, Malaysia, and Indonesia all use different currencies, the appropriate average exchange rates taken from the IMF database are used to convert all of the quarter's financial values to US dollars.

RESULTS

In Table No. (1) we can see that from 2001 to December 2010, a number of the top nations in the area of Islamic Sukuk issuance had significant holdings, both in terms of total issuance and value. According to the data in the table, Malaysia accounted for 51.58 percent of all Sukuk issued between 2010 and 2019. This is because, among other things, the country passed legislation establishing a supreme Sharia body linked to the Central Bank of Malaysia, whose job is to oversee the Sukuk's operational controls. Another reason is that the stock exchange in Malaysia is a popular venue for Islamic financial markets, where investors can take advantage of tax exemptions when buying and selling Sukuk.

Malaysia aims to be a worldwide liquidity collecting center; therefore, 2007 it liberalized the sukuk market, making them tradeable in any currency and from anywhere globally.

Table No. (1) Total Sukuks issued by value in different countries from 2001 to 2010.

Country	The value of the instruments	Exported in millions of dollars as a percentage of the total value %
Malaysia	115393.76	58.51
The United Arab Emirates	32202	16.33
Saudi Arabia	15351.88	7.78
Sudan	13057.713	6.62
Albahrayn	6291.69	3.19
Indonesia	4658.5	2.36

According to Ijlal Ahmed Alvi's Islamic Capital Market Overview and the Role of Sukuk, a paradigm change in Islamic finance is taking place in Africa. Kenya, March 28–29, 2011, p. 7.

In table No. (02), we can see that from 2005 to 2012, the percentage of Sukuks issued increased yearly. This trend continued until 2008 when the world feared another global financial crisis, and the proportion of Sukuks issued was lower than that of traditional usurious bonds. Later, Islamic Sukuks started doing well again, much better than the conventional bond market on the Malaysian Stock Exchange, particularly in the issuance market. The Malaysian government's initiatives,

the first of which ran from 2001 to 2004 and aimed to bolster institutions, are to thank for the country's impressive achievement. In the years 2005–2006 and 2007–2010, we saw the Islamic financial market relying on attracting foreign investments, as shown by the high issuance rate of these sukuku. This would have continued had the global crisis not occurred during this time and beyond; the second focussed on making the Malaysian stock market more open.

The second table shows the development of Islamic Sukuk as a percentage of total bonds traded on the Malaysian Stock Exchange.

	2005	2006	2007	2008	2009	2010	2011	2012
Total Islamic Sukuks (in billion ringgit RM)	71.09	78.9	40.33	43.2	121.3	42.02	43.32	43.32
Total total bonds (in billion RM)	62.66	75.83	158.8	140	57.5	63.58	112.33	103.3
Sukuk to bonds ratio the college	69.13	55.41	76.4	30.85	59.13	63.43	70.23	68.81

The evolution of trading and issuance values makes it clear that a rise in trading volume always increases issuance activities. Thus, we can conclude that there is a relationship between the two markets. The more liquidity (ease of operation and quickness) the Islamic financial market provides, the more it stands out. There was a rise in the issuance market for these instruments due to buying and selling.

The Islamic securities market has grown into a major player in Malaysia's capital market, contributing significantly to the country's economic development. As a supplementary market to the Islamic banking system and a counterpart to the conventional securities market, this market contributes to the growth and development of Malaysia's financial needs, attracting additional dealers—faithful and non-

believers. Thus, the following conclusions were drawn from our research: Malaysia has maintained its global leadership position in the development of local and international issuance operations and the growth of the Islamic capital market in terms of both the issuance and trading markets within it is evidence that the strategies implemented have been successful.

CONCLUSIONS

Here are the key takeaways from the research, including both the theoretical and practical sides; Islamic Sukuks play a significant role in the economy's financing and development by mobilizing resources and funding investment projects. They have been relied upon to finance infrastructure and other sectors. Islamic Sukuks have positively impacted Malaysia's gross domestic product and state budget, two of the most important economic indicators.

RECOMMENDATIONS

We have made several suggestions and recommendations based on our research into Islamic Sukuks and their impact on economic financing. Among these, the most important are: - Creating awareness through media and promotions of Islamic Sukuk as an alternative to conventional investment tools, appealing to funds that avoid dealing with traditional financial instruments. - Creating new features for Islamic Sukuk in Malaysia to entice investors. Lastly, the competent committees in Malaysia's Islamic securities market should reconsider specific sukuk issues that pose legal and jurisprudential concerns—striking a balance between reducing or eliminating taxes and other restrictions on Islamic instruments to attract Islamic financial institutions and others to this sector. - Creating educational institutions, training centers, and conferences to educate and train people for this industry and discuss the significance of Islamic instruments in attaining development.

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