



THE ROLE AND IMPORTANCE OF ISLAMIC SECURITIES IN INNOVATIVE DEVELOPMENT IN THE COUNTRIES OF THE WORLD

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Abstract: This article provides information on the essence of Islamic securities, which are taking their place as a new financial instrument, their place in the economy, and their importance in the economy of the world countries. Also, information on the volume of issuance of Islamic securities, annual growth trends, and volume is presented. In particular, the analysis of the actual situation of Islamic securities – sukuk issued in times when the population was Muslim, but also non-muslim, is given. A scientific conclusion is presented on the introduction of Islamic securities and the efficiency that can be achieved through it.

Key words: Islamic finance, Islamic securities, financial market, sukuk, bond, stock.

There are a variety of Islamic religious obligations like zakat (compulsory alms giving), sadaqa (voluntary alms giving) and waqf/awqaf (charitable endowments) that could contribute to social finance – these are not Islamic finance instruments per se but are included in this analysis. Commercial Islamic banking transactions use instruments such as murabaha (cost-plus financing of a non-interest-bearing loan), which accounts for a large share of Islamic financing, ijara (leasing), muda-rabah (capital and labour partnership) and musharaka (profit- and loss-sharing partnership). Islamic fixed income, known as sukuk, has been increasingly used in different parts of the world, although not all forms are used for social impact.

Overview of Islamic finance terms:

Instrument	Description
Zakat	Alms-giving in Islam which is obligatory on all Muslims who meet certain wealth criteria. One of the five pillars of Islam.
Sadaqa	Voluntary alms-giving in Islam.
Waqf /Awqaf	Endowment on the property is made to religious, educational, or charitable causes.
Sukuk	Islamic asset-based financial certificates can be compared to conventional bonds (which are debt-, equity, or quasi-equity based).
Musharaka	Joint enterprise or partnership where partners share profits and losses.
Murabah	Receivables created are trade receivables from the cost-plus sale, often structured to deliver similar economic outcomes as a loan.
Mudarabah	Partnership contract where delegated authority is given to an agent to carry out trades and transactions. Money is provided by one party and expertise/labor from the other.

The Global Islamic Finance Market was worth US\$ 2.2 billion in 2021 and is anticipated to reach the valuation of US\$ 3.02 billion by 2027 and is predicted to register a CAGR of 10.2% during 2022-2027.

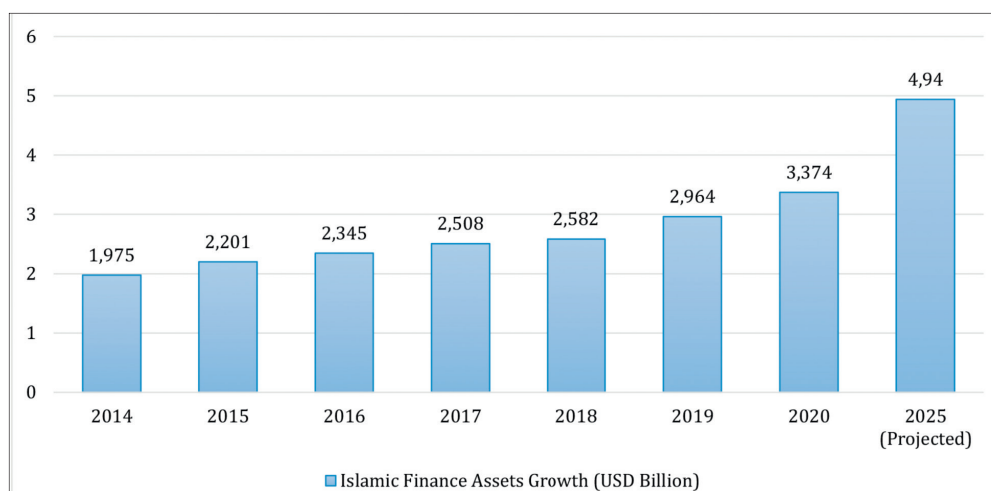


Chart 1. Islamic Finance Assets Growth (2014-2025, USD Billion)

The most important indicator in the analysis of the dynamics of the growth of Islamic finance assets (2014-2025, billion dollars) is the clear evidence that the assets of Islamic finance continue to grow steadily, taking their place in the financial market as a new financial instrument. It can be seen that the value of assets in 2014 was worth 1.978 billion USD worldwide. Six years later, by 2020, it was worth \$3.374 billion. In 2020, despite the global pandemic situation, we will see an upward trend in the market value of Islamic finance assets, and it is estimated that by 2025 this figure will reach 4,940 billion US dollars. Of course, in order to achieve such result, Islamic finance has already taken its place in the financial market of many countries, not only with the Muslim population but also with the non-Muslim population, showing its importance with annual efficiency indicators.

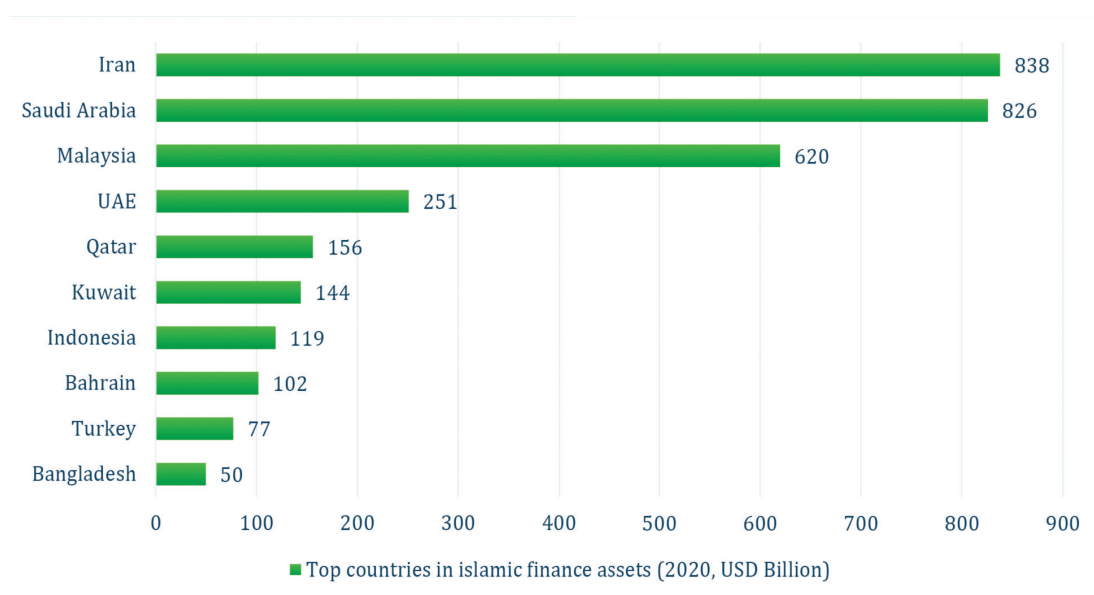


Chart 2. Top Countries in Islamic Finance Assets (2020, USD Billion)

Among leading countries in terms of Islamic finance assets (2020, billion US dollars), countries with a predominantly Muslim population have a high index. Despite the impact of the pandemic that has gripped the world, in 2020, it can be seen that Islamic financial assets have actively participated in financing and market relations. In particular, among the top three, Iran – 838 billion, Saudi Arabia – 826 billion, and Malaysia, which has not lost its leadership over the years, have been developing Islamic finance with 620 billion US dollars, proving that Islamic financial assets are a necessary instrument in the financial market.

As for the new software development of Islam in world finance, Islamic securities – sukuk, a new instrument in its composition, should be recognized. In different countries, sukuk has a different appearance according to the demands of society and the economy, and therefore, its definition and support are produced under different conditions. Some scholars interpret it as a debt financing instrument, securitization of other assets. In addition, you can find his participation in private capital.

Sukuk is becoming a vital instrument used by both sovereign and corporate actors for resource mobilization (World Bank and Islamic Development Bank Group, 2017). Specifically, sukuk and other forms of Islamic financing could help respond to the current needs in infrastructure and help finance large-scale programs in partner countries. It is noteworthy that current financial shortage in many developing countries in these areas is large.

World experience shows that it is possible to finance actively many large projects, especially aviation and green economy, through Sukuk. The introduction of Sukuk allows the effective use of free funds in the hands of the population and the implementation of projects that have stopped due to financial problems.

ISLAMIC FINANCE STANDS ITS GROUND AMID THE PANDEMIC STORM

The IFDI 2021 indicator score looks at key metrics that shaped the pandemic year of 2020 for 135 countries. While there were movements in scores and ranking among countries and different indicators, the overall global IFDI indicator score improved slightly to 11.0 for 2021 from 10.8 for 2020. If anything, this nudge-up indicates the continued strength and development of Islamic finance industry despite the unprecedented challenges caused by the pandemic for most of 2020.

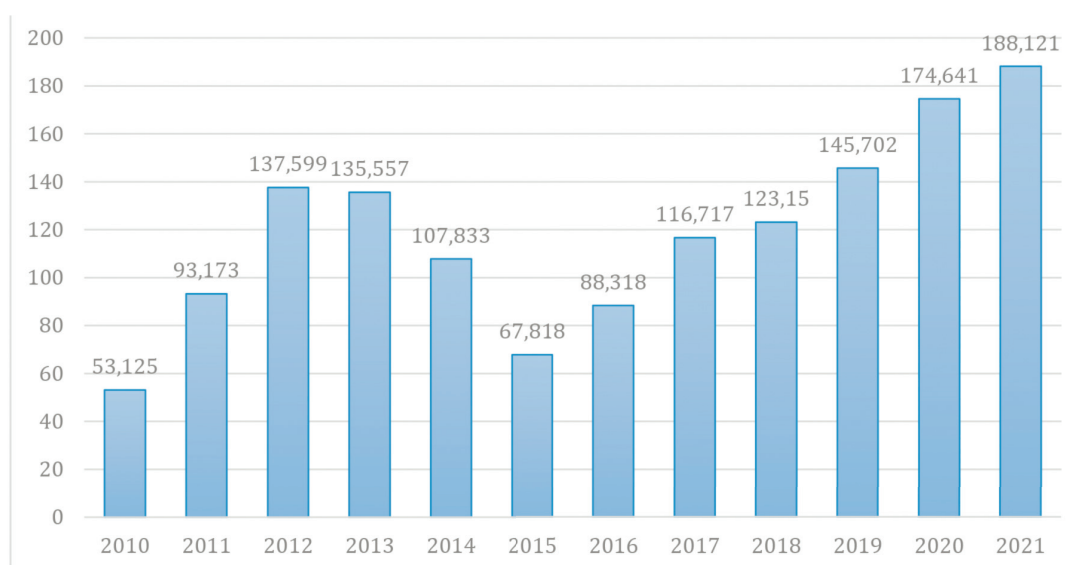


Chart 3. Total global sukuk issuance (USD, millions)

Total global issuance (long term & short term) amounted to USD 188.121 billion in 2021 which is, yet again, the highest value of yearly Sukuk issuances to date. As illustrated in Chart 3 below, global Sukuk issuance has shown a single-digit of around 7.72% percentage or USD 174.641 billion in 2020 to USD 188.121 billion in 2021. The steady issuance volume during 2021 was mainly due to sovereign Sukuk issuances from Asia, GCC, Africa and, certain other jurisdictions while Malaysia continues to dominate the Sukuk market though share of countries like Indonesia, UAE, Saudi Arabia and few others increased with good volume.

According to the information presented on the total global sukuk issuance volume (million dollars), we can say that the volume of sukuk issuance worldwide has increased by nearly 3 times over the past 11 years. In 2010, a total of 53.125 million US dollars worth of global sukuk was issued, and in one year almost twice as much was issued, corresponding to 93.173 million US dollars. During next two years, a significant increase in the volume of issuance was observed (2012-2013, 137,599 and 135,557 million US dollars, respectively). By 2014-2015, the growth rate began to decline sharply. When comparing the period 2015-2021, it can be seen that in 6 years, it has increased in value by 3 times, and it can be seen that the largest volume was issued compared to the first years (2015-2021, 67,818 and 188,121 million US dollars, respectively). Even during the global pandemic and in the following years, we can see the increase in the volume of sukuk issuance as an economic instrument. This means that the countries of the world are able to strengthen their position in the financial market, even in the time of testing.

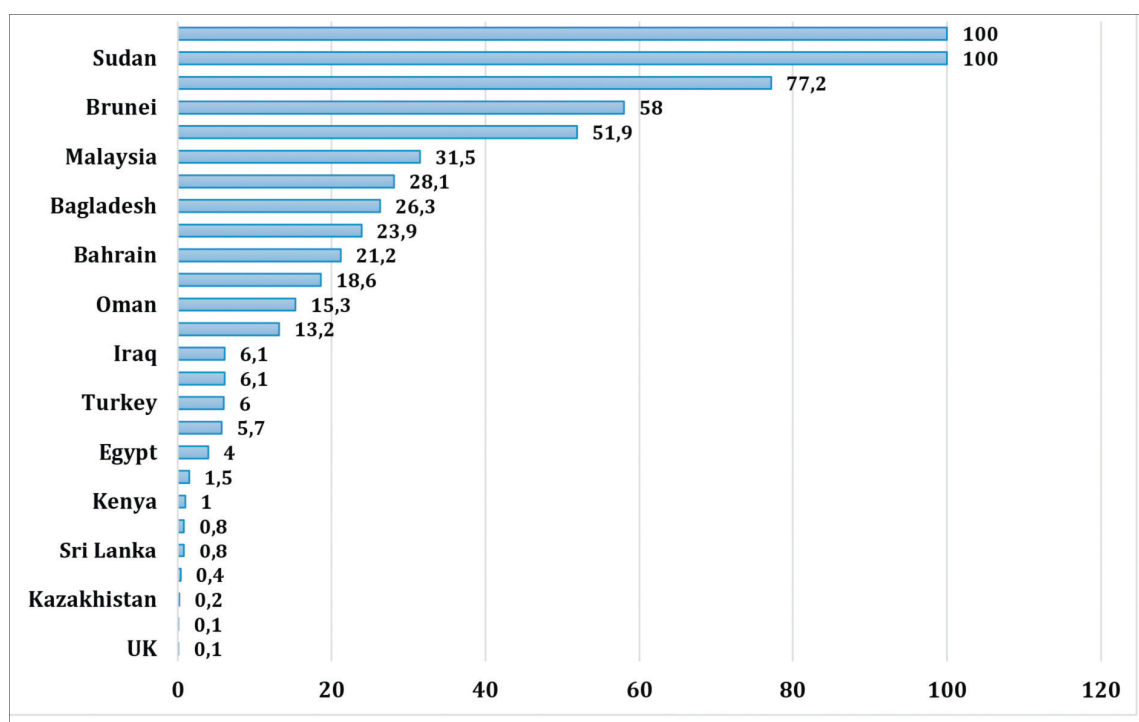


Chart 4. Islamic Banking share in total banking assets by Jurisdiction

During 2020 there were no Non-Local Currency Sukuk issued in a jurisdiction by a foreign issuer nor was there any Formosa Sukuk issuance. A few milestones achieved in the international Sukuk market in the year 2021 are as follows:

- a) Saudi Aramco, USD 3 billion, Hybrid Sukuk;

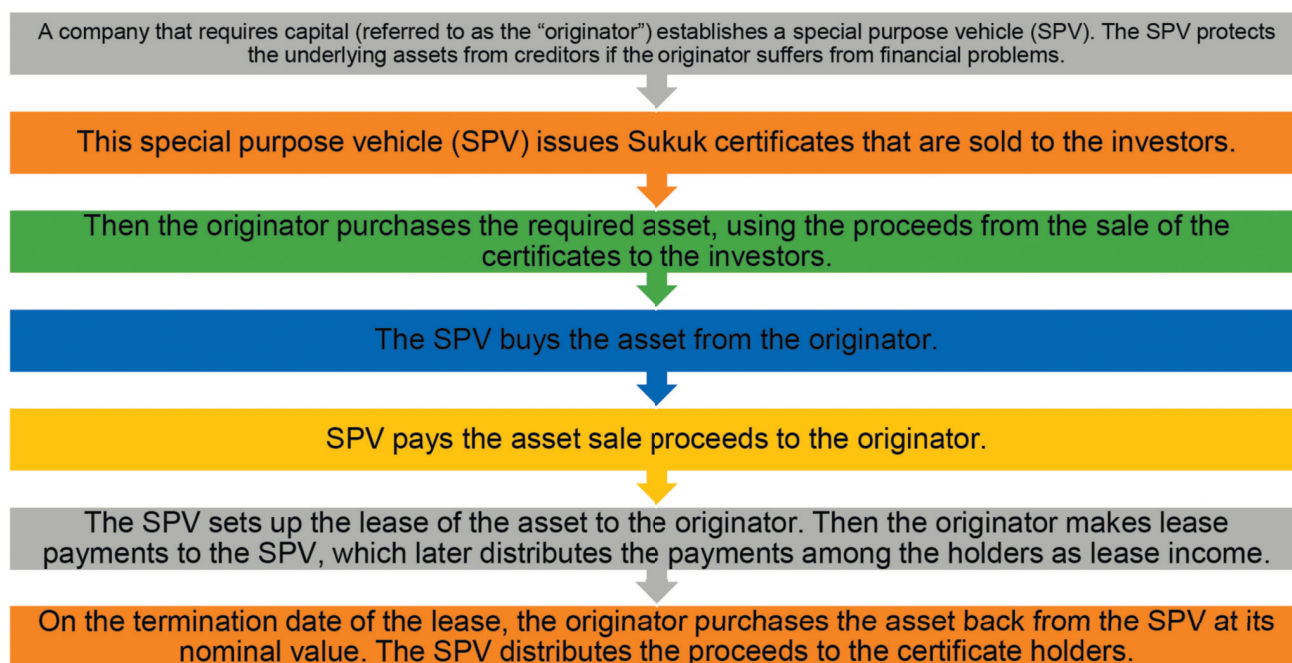
- b) Islamic Development Bank – Sustainability Sukuk, 2.5 billion, Hybrid Sukuk;
- c) Government of Saudi Arabia, USD 2 billion Hybrid Sukuk;
- d) Government of Sultanate of Oman, 1.7 billion, Sukuk Al Ijarah;
- e) Government of Malaysia (Sustainability Sukuk) USD 1.3 Billion, Sukuk Al Wakalah;
- f) The Saudi National Bank, USD 1.2 billion, Sukuk Al Mudharabah;
- g) Government of Indonesia Sukuk USD 1.2 billion Sukuk Al Wakalah;
- h) Ahli United Bank, USD 600 million, Sukuk Al Mudharabah;
- i) Kuveyt Turk Katilim Bankasi – Sustainability Sukuk, USD 350 Million, Hybrid Sukuk.

Notably, the number of jurisdictions where Islamic banking has achieved domestic systemic importance¹⁷ remained at 15, the same as in 4Q'20. Collectively, these 15 jurisdictions accounted for a 91.8% share of the global Islamic banking assets and for 82.7% of global – outstanding of at end-4Q'21. The Islamic banking sector experienced an increase in domestic market share in 29 countries. While both Iran and Sudan maintained 100% domestic market shares, five jurisdictions monitored recorded declining market shares.

The development of Sukuk improves corporate governance and ensures openness and transparency of companies' reports. In turn, the development of the capital market reduces the state's demand for foreign loans and budget deficit.

Sukuk does not represent a debt obligation. Upon its issuance, the issuer sells certificates to investors. Then, the issuer uses the proceeds from the certificates to purchase the asset, and investors receive partial ownership of the asset. The investors are also entitled to part of the profits generated by the asset.

The unique nature of Sukuk requires a specific issuing process for financial instrument.



Pic. 1. Common steps in the emission process

Aviation is a huge system that accounts for \$3.5 trillion in global GDP, creates about 88 million jobs, and delivers about 60 percent of the world's tourists to their destinations. The aviation sector provides economic growth, creates jobs, and facilitates international trade and tourism. It is a rapid transport network that ensures the flow of investments and ideas.

Ensuring the continuity of the industry's activities is carried out with the provision of financial resources, and the development of new aircraft and infrastructure. Today, financing through the introduction of sukuk securities is becoming one of the most preferred mechanisms for the financing of the aviation industry, especially for the purchase of new aircraft, and the formation of working capital.

Islamic aircraft leasing financing is used by international airlines, including Etihad Airlines, Saudi Arabian Airlines, Air Arabia, Emirates, Malaysian Airlines, Turkish Airlines, and many of the world's largest aircraft leasing companies.

In 2012–2013, the Malaysia Airways holding company issued \$785 million worth of sukuk securities. Purchased six new Airbus A380 and two new Airbus A330 aircraft through the issuance of securities for a total of \$1.67 billion. The company applied to the Malaysian Securities Commission to create a sukuk wakala program of up to \$1.2 billion in 2021.

In 2004, Bahrain issued its first \$250 million leased sukuk securities with a 5-year term to finance the expansion of the airport area. In 2013–2015, Emirates airline company introduced wakalah and ijaarah sukuk with a ten-year term. Through the introduction of these sukuk issues, 4 new Airbus A380-800 aircraft were purchased and deployed to generate working capital.

Air Arabia purchased a total of 29 of the 44 Airbus A320s it ordered in 2007 using an Islamic financing sukuk arrangement.

Green sukuk are investments in renewable energy and other environmental assets. Green sukuk's assets include environmental trends such as the creation of solar, wind, and biogas energy, and the production of electric cars.

Financing projects aimed at meeting the needs and demands of people by saving natural resources, ensuring a safe ecology, and creating renewable energy resources has become a topical issue today.

In recent years, the financing of infrastructures using the opportunities of green sukuk has become popular in the countries of the world.

During 2017–2020, Indonesia, UAE, Malaysia, and Saudi Arabia issued a \$9 billion green sukuk.

In 2020, during the outbreak of covid-19, green sukuk worth \$2.56 billion were issued globally, and in 2021, \$1.57 billion were issued.

The first green sukuk was issued in 2017 by renewable energy group Tadau Energy, raising US\$59 million to finance a solar power plant in Malaysia. This year, along with Malaysia, Indonesia has shown leadership by issuing the world's first sovereign green sukuk and the world's first retail green sukuk.

The Gulf states are working on financing sustainable (decarbonization) projects, including opportunities for green sukuk. For example, Saudi Arabia plans to produce 50 percent of its electricity from clean sources by 2030. The UAE aims to increase the share of clean energy in total energy by 50% by 2050. Bahrain plans to increase renewable energy to 250 MW by 2025. One can observe many other

sectors that are currently being financed through sukuk securities, a product of Islamic finance.

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