



Challenges to Mobilizing Islamic Finance for Long-Term Investments

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An Overview



Sukuk market is a financial engineering innovation; can complement conventional instruments and attract new investors.

Main Challenges:

- Divergent theory and practice, creating product and legal ambiguity
- Instrument complexity
- Market concentration

Outline

- Principles and Instruments
- Recent trends
- Financial stability aspects
- Policy line
- Market feedback

Sukuk Markets: Principles and Instruments



- **Principals impacting Sukuk:**

Contractual agreements must be clear to all parties, do not involve excessive risk or speculation; all interest is prohibited, so return must be linked to performance of underlying assets; principal is not always guaranteed.

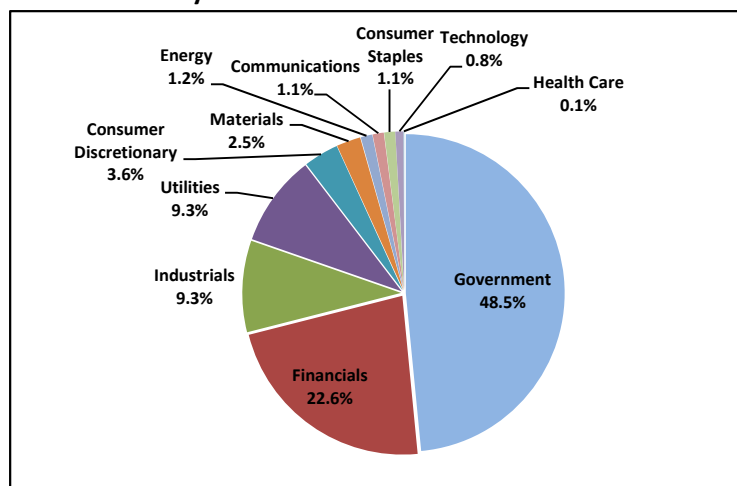
- **Benefits:**

- Mitigate excessive risk-taking; restricting leverage;
- Promotes investment in real sector;
- Attract different investor base.



Sukuk Markets: Recent Trends

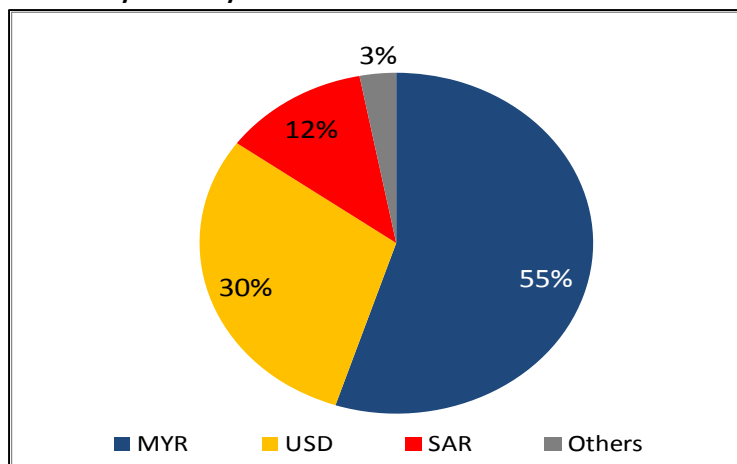
Sukuk Issuers by Sectors



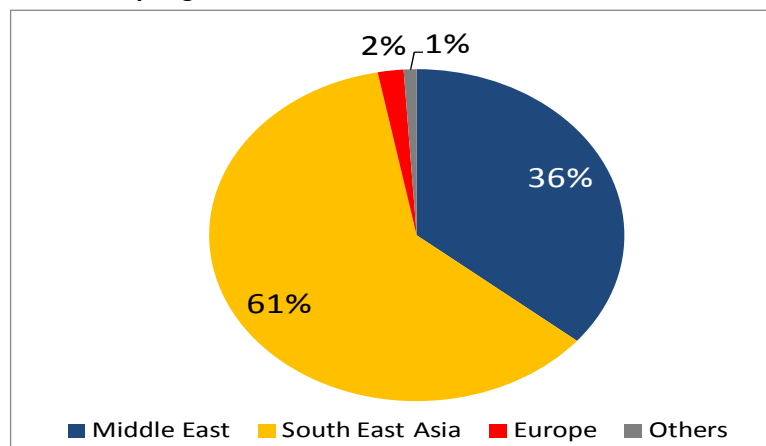
Global Sukuk Issuance & Outstanding (In billions of U.S. dollar)



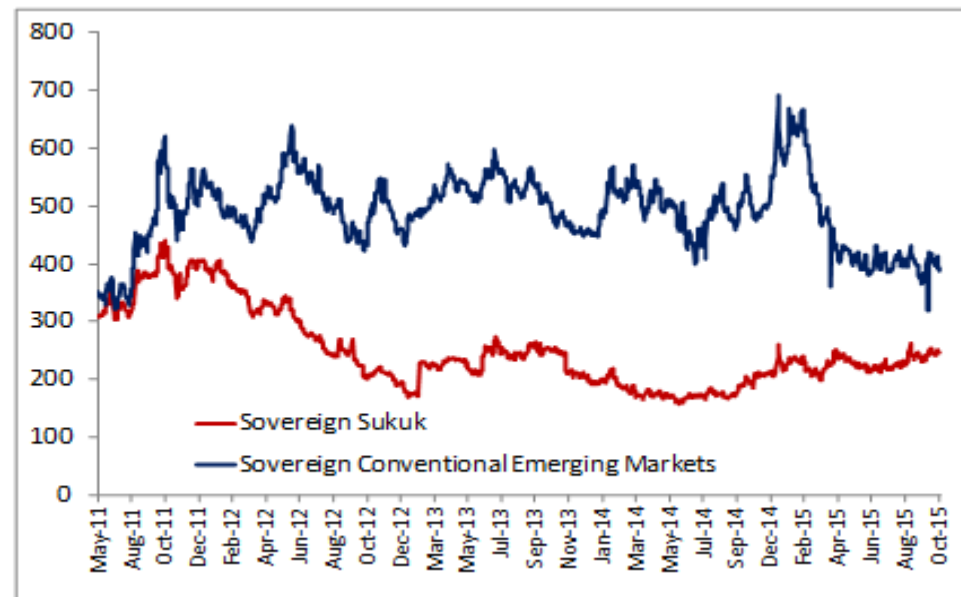
Volume by Currency



Volume by Region

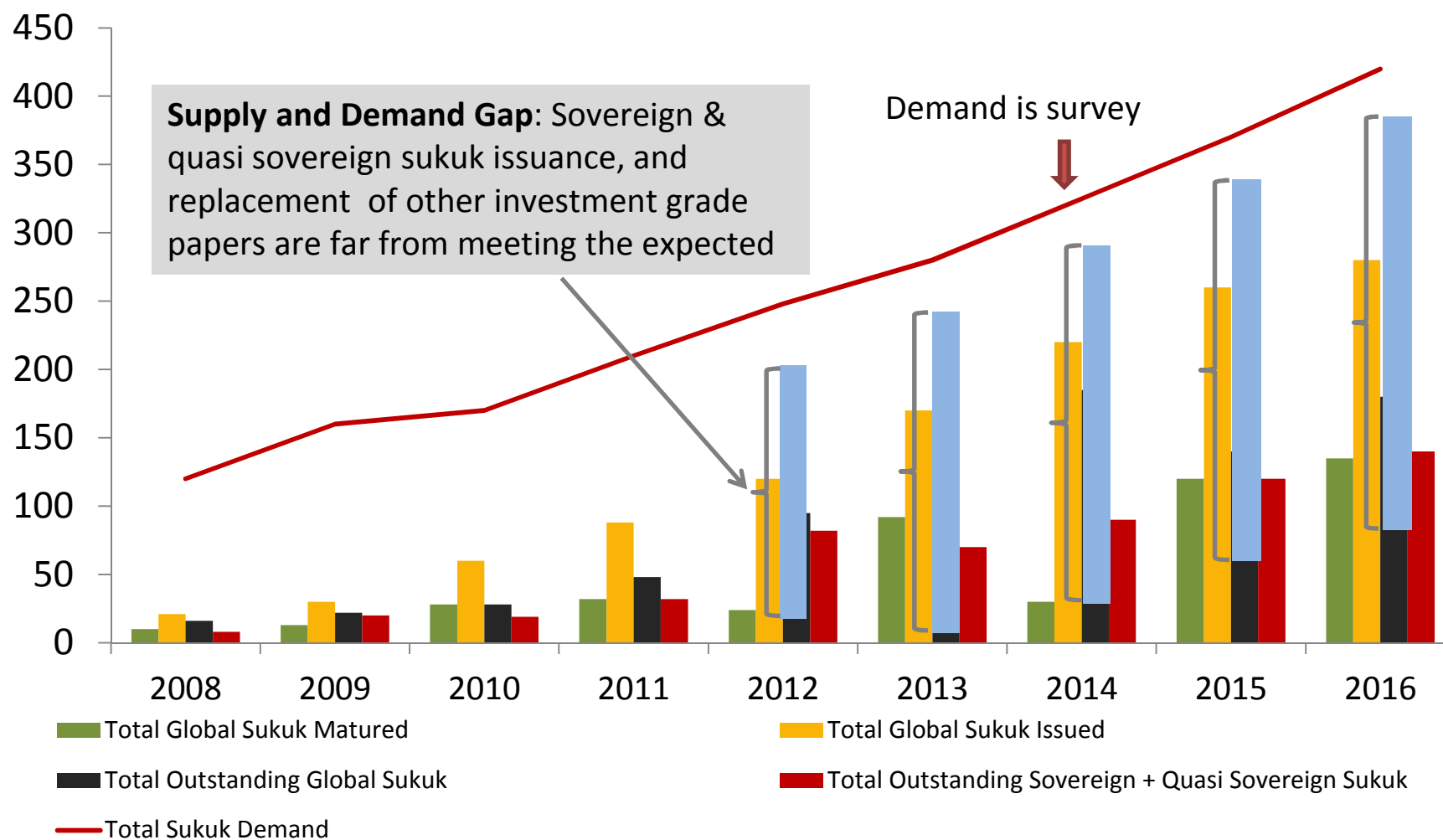


Sovereign Sukuk Vs. Conventional bond





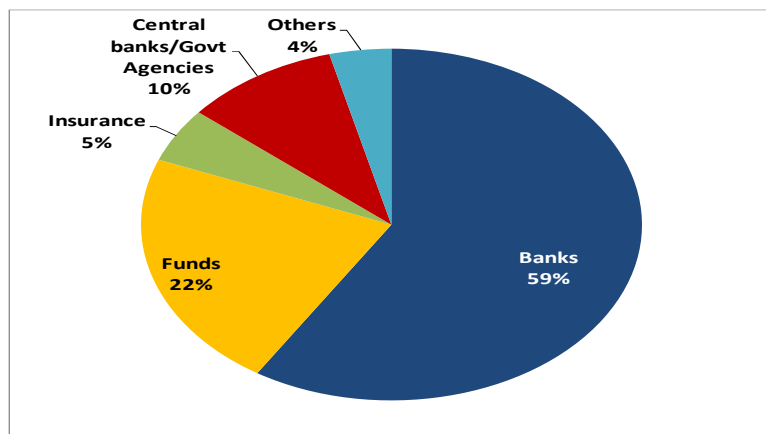
Sukuk Demand and Supply Levels 2012-2016



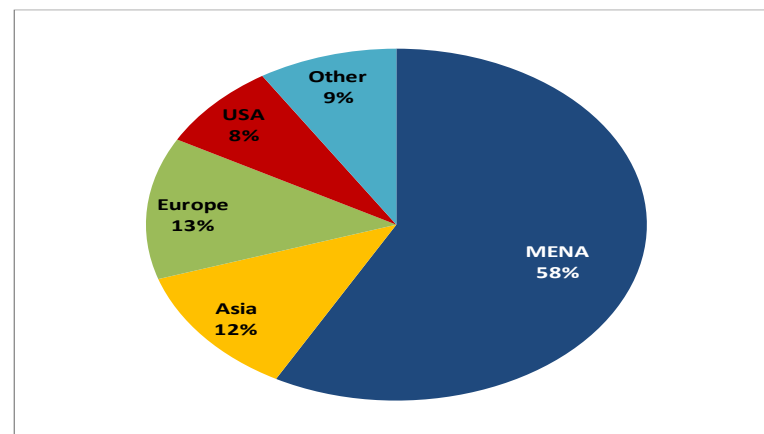


Recent Sovereign Sukuk Investor Base: Turkey vs Malaysia

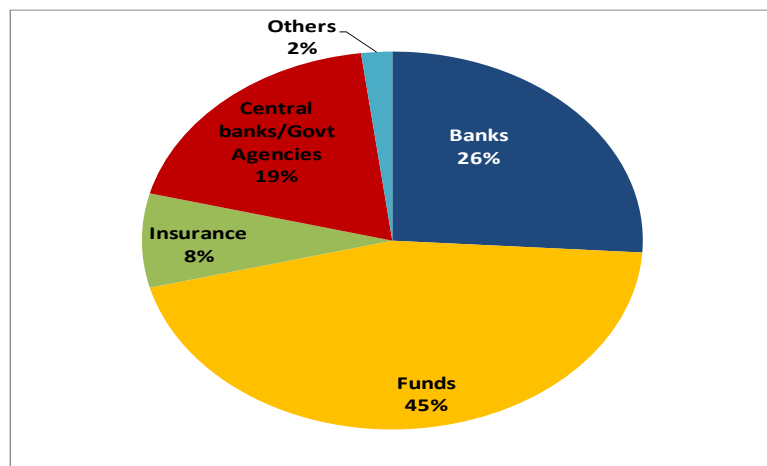
Sovereign Sukuk Investor Base: Turkey 2013



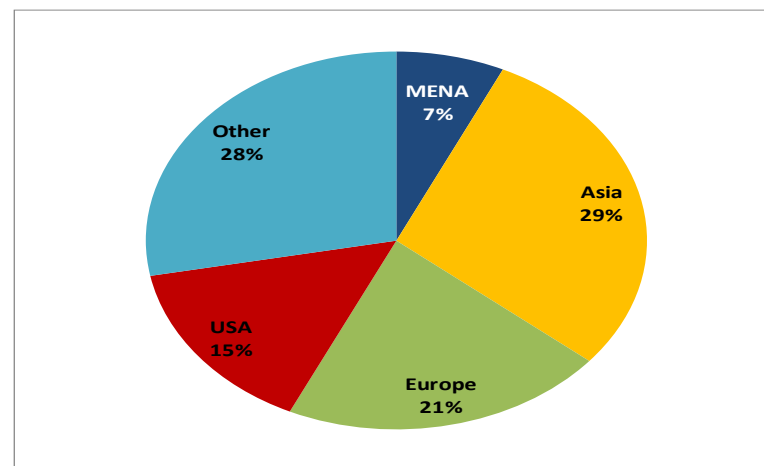
Sovereign Sukuk Investors by Geography: Turkey 2013



Sovereign Sukuk Investor Base: Malaysia 2011



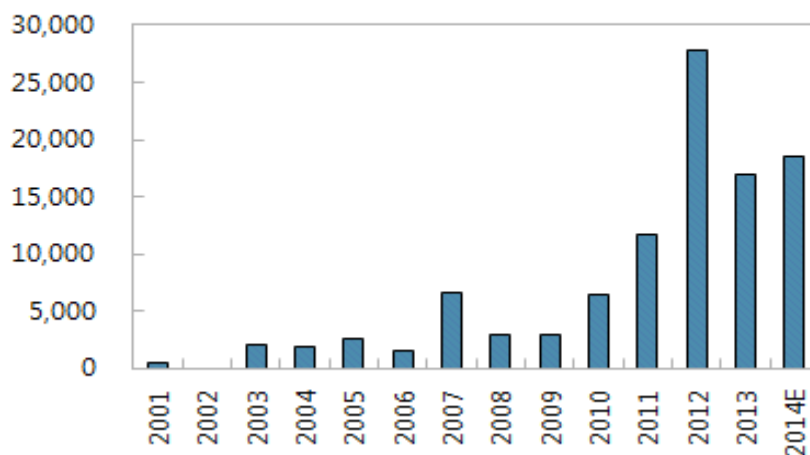
Sovereign Sukuk Investors by Geography: Malaysia 2011



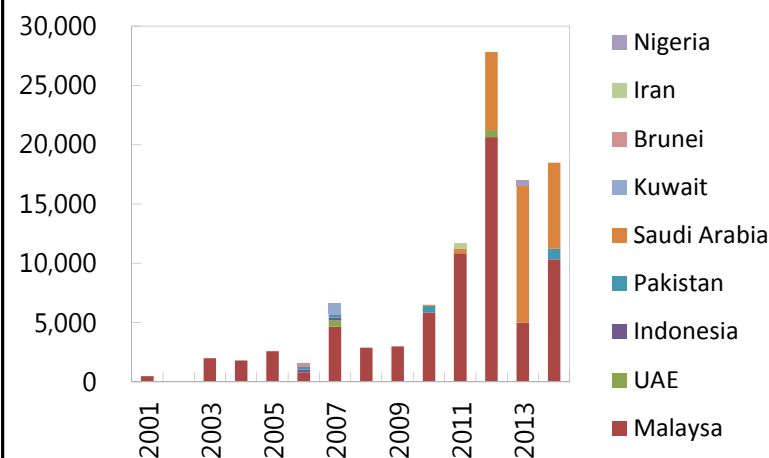


Sukuk Market: Long-Term Infrastructure Financing

Total Infrastructure Sukuk Issuance
(\$US in millions)



Infrastructure Sukuk Issuance by Country
(\$US in millions)



Sukuk Markets: Challenges and Financial Stability Aspects



- Market practice diverged from principles, posing stability risks:
 - Sukuk issued as asset-based rather than asset-backed
 - Uncertainty over legal frameworks for debt restructuring and investor rights
- **Key challenges:**
 - Implementing true securitization;
 - Concentration risk: currency, regional, and sector (real estate)
 - Instrument complexity and lack of standardization
 - Lack of shari'a compliant risk management tools

Sukuk Market: Policy Guidance



- *Support growth as a complimentary market segment that should be integrated into a broader capital market strategy:*
 - Situate Sukuk in a broader capital market strategy
 - Updating/extending legal, regulatory, and supervisory framework to include Sukuk instruments; ensuring consistency between conventional and Sukuk segment
 - Developing industry standards; transparency and disclosure requirements
 - Building capacity and skilled human resources

Sukuk Market: Feedback



Market feedback:

- Secondary market remains Illiquid
- Market fragmentation
- Sukuk are issued as senior unsecured debt
- Lack of appropriate regulatory framework
- Narrow investor base; prefer public guarantee



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Thank you!

