



AN OVERVIEW OF SUKUK ISSUANCE AND THEIR CONTRIBUTION IN ECONOMIC EMPOWERMENT

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ABSTRACT

As one of the most popular financial instruments under Islamic finance, Sukuk can easily create and ensure economic empowerment if properly mobilized and structured. That is what the Islamic finance theory has shown; Sukuk has a considerable ability to playing a notable role in curbing poverty and creating a proper environment for vulnerable populations, thus, enabling them to shift from being a social burden to a development booster. Sukuk offers viable alternative funding sources to deliver and provide critical infrastructures. Concretely, governments cannot fully fulfill their socio-economic role and create the appropriate necessary environment for economic activity. This situation implies, theoretically, that Sukuk can be used to fulfill governments' needs and supply the needed funds to create a good environment and a better livelihood. However, their use as an effective means of economic empowerment is still shyly expanding and widening. This paper studies to what extent does Sukuk issuance serve the objectives of Islamic finance and insures its empowering and financial equality and support goals, through a theoretical overview regarding the scope of their use as an economic empowerment tool and an overview of the multiple experiences of Southeast Asian countries (Malaysia and Indonesia) and international financial institutions in using Sukuk for

this role. We will present an overview of actual international cases in which Sukuk has been successfully mobilized to accomplish economic empowerment. Then we will face the impact of these experiences on the effect in combating poverty and empowering vulnerable populations that are awaited from Sukuk issuances. Our study will be completed by an investigation of the various barriers and key challenges impeding and obstructing a larger issuance, capable of bringing more enhanced empowering effect and of setting Sukuk and Islamic finance in general in its natural position: leading the economy for better achievements and bettering the livelihoods of the population.

Keywords: Economic Empowerment; Islamic Finance; Overview; Sukuk.

INTRODUCTION

The success that Sukuk has achieved, by being issued in Muslim and non-Muslim countries, is what to be proud of. Thomson Reuters' study predicts Sukuk issuance to reach \$237 billion in 2018. Nevertheless, this success has not shown the real impact of Islamic finance as a real system which basic goals are: poverty alleviation and prosperity creation amongst deprived communities. 3 to 4 people in the world are disadvantaged; they do not have access to finance, to training, to high return opportunity market, to institutions, to capacity building, to infrastructure, and all kinds of empowering tools that will make them productive and, the Muslim world is the most affected area.

Islamic finance, as a system that lives and works for poverty alleviation and community empowerment in order to save the poor's dignity while breaking the cycle of poverty, is still not well demonstrated. The actual practice of Islamic finance deprived this system of its central purposes, and several of the traditional Islamic economic institutions (waqf, zakat...) were long forgotten to be revitalized and to be put into collaborations with other Islamic financial instruments in order to achieve those goals.

Thus, Islamic finance should attach its activity to the one solution that has gained more emphasis lately: economic

empowerment, because giving money out to the poor is no more the best solution for lifting people out of poverty.

Believing in the huge contribution that Islamic finance would provide to economic empowerment, the governor of the state bank of Pakistan said: “the fact that Islamic Finance cannot solve all the problems in the world, makes therefore advised to focus on the four listed areas for maximum impact (Sukuk, awqaf, zakat, and micro-finance).”

It is in this aspect that we present this paper. The present article demonstrates that Islamic finance and, more specifically, Sukuk, can be used as an economic empowerment enabler. It shows various structures that might be created out of Sukuk and used in empowering the poor.

Various studies have investigated Sukuk issuance; yet, no common research has ever studied the specific use of Sukuk for the economic empowerment of disadvantaged communities, nor has any previous investigation been led in order to collect and display various Sukuk structures that might be used for empowering the impoverished populations or that have already been issued in several countries around the world.

The paper seeks, through a theoretical overview, to understand the basic content of Sukuk emissions and the scope of their use as an economic empowerment tool. It also provides several past experiences that may have a huge positive impact on future Sukuk issuances for economic empowerment; it shows both the successful examples that are to be replicated in other areas and also helps predict the problems and challenges that might impede the success of coming emissions.

FROM FINANCING TO EMPOWERING: SUKUK AND ECONOMIC EMPOWERMENT

ECONOMIC EMPOWERMENT IN ISLAMIC FINANCE

Islamic Finance as an Economic Empowerment Vehicle

There is much potential of Islamic finance in promoting economic empowerment as a system; the Islamic Development Bank (IDB, 2015) argues that Islamic finance helps in stimulating economic

activity and entrepreneurship towards poverty and inequality alleviation, ensures financial and social stability, and promotes comprehensive human development and fairness for all (K. Musari, 2016).

“The primary purpose of the Islamic economic system via Islamic finance is to achieve a moral economic system which should have an increasing effect on wealth creation while poverty, income inequality and unemployment are reduced.”

Assisting the poor is a pillar of Islam; and, the common purpose is of substantial importance compared with the individual interest. Islamic finance does not only offer simple donations that will ultimately serve day-to-day needs and leave the poor in his perpetual poverty. It is one of Islam’s fundamentals to encourage economic activity, good business that changes and betters the community’s lives, and enables prosperity.

Sukuk as an Economic Empowerment Tool

Sukuk can be structured in different ways using the 17 or more Islamic modes of financing. Furthermore, these structures can be adjusted to serve the specific needs of any vulnerable population. It could be Salam Sukuk for farmers, diminishing Musharakah with farmers, sovereign Sukuk for building irrigation infrastructure and taking part of the harvest products; this latter part could be used in the case of the Climate-smart project launched by the Iraqi government, which is about bringing weather systems or stations to farmers to enable them the implementation of precision agricultural practices and to better their production through information from growing season to harvest.

Thus, in the coming sections, we will provide different types of Sukuk and detail how Sukuk is used in the economic empowerment of vulnerable populations.

Waqf Sukuk

The practice of waqf has long been a subject of discussion. The properties made available by the Waqif (or the donator of the waqf

property) are used exclusively as service providers to the targeted community or section of the community.

The issuance of waqf-sukuk became an innovative instrument to maintain, expand, and enlarge the properties and to achieve the social and economic benefits of economic empowerment.

“Waqf-Sukuk” or “Endowment Sukuk” is Sukuk issued by using waqf assets and properties as underlying assets.

For instance, waqf is considered, from an Islamic economic viewpoint, a real institution supporting and providing economic assistance to communities; thus, when connected to Islamic finance through its combination with Sukuk, it will offer broader opportunities and unlock new growth perspectives and will also bring a more valuable impact on vulnerable populations.

Waqf-Sukuk for Infrastructure

The need for infrastructure projects is exponentially growing, and addressing this need is a crucial component of the growth and the empowerment of populations in any country.

“The culture of waqf should be revived among the Umma of Islam in our current day as the need for social development through socio-economic infrastructure is a primordial need for the population. In fact, as our needs are exponential but resources follow an arithmetic growth, we need to shift towards a sustainable economic model. Therefore, merging waqf and financing through sukuk seems to be the ideal solution for this problem.”

Recently, several countries have attempted to revitalize waqf properties in order to generate additional revenues for the socio-economic betterment with the sustainable development of the Muslim community

“Singapore is one of the pioneering countries in the revitalization of waqf properties, in terms of both practice and development of institutional infrastructure.” (S. Nagaoka, 2014)

Sukuk for Microfinance

“Both microfinance and Islamic finance share the same goals and objectives to some extent. Both aim to reduce poverty and income disparities, and encourage equitable distribution of income and sustainable income growth for the poor.” (M. A. Suleman, 2011)

Suleman Muhammad Ali (2011) suggests an interesting scheme for this purpose, through using Sukuk issuance. He states that:

“The interested government with a specific goal of poverty alleviation can set up a separate microfinance special purpose entity (SPE) which shall collect funds from investors through Sukuk issuances. Funds generated through issuances of Sukuk shall be used to provide financing to micro-enterprises on the basis of profit-sharing modes of Musharakah or Mudarabah by the SPE.”

Waqf-Sukuk for Micro and Nano finance

The structure of waqf-sukuk can be integrated into nano finance programs to effectively alleviate absolute poverty through qardhul hassan or Mudarabah and Musharaka contracts. Mudarabah waqf-sukuk, musharakah waqf-sukuk, cash-waqf-sukuk can be schemed to make it easier for the very poor with very low income and very low enterprises to break out of the poverty cycle (M. A. Suleman, 2011).

Sukuk issuance based on waqf properties is also an option for Islamic Micro Finance Institutions (IMFIs) to finance micro-business or Small and medium enterprises (SMEs) owned by poverty-stricken populations.

The experience of the association of farmers group in Indonesia (that will be presented with further details in this paper) has shown the potential of waqf-sukuk and their ability to be an Islamic “Nano finance” instrument providing funds to the very impoverished strata of society (K. Musari, 2016). Here the collaboration between waqf and sukuk provides another solution for the economic empowerment of vulnerable communities. They are again an innovative means to support micro-businesses and enable them to get low-cost funds to finance their activities.

Cash-waqf Sukuk

In addition to utilizing Islamic finance for raising funds to revitalize waqf properties, a new idea of creating a linkage between cash waqf (waqf nuqud) and Sukuk (S. Nagaoka, 2014). Through its schemes (mudaraba, musharaka), it can generate revenues for the socio-economic development of the Muslim community (Lahsasna, 2010 & ÇizakÇa, 2011). Although this idea has not yet been implemented, it implies a great potential for collaboration between waqf and Islamic finance in the contemporary world.

What is yet more interesting in this proposition is the enabling of cash-waqf-sukuk to serve another mission. Rather than solely contributing to capital redistribution, this structure can also be used as a tool for capital accumulation.

The Islamic bank can be entrusted to issue cash-waqf-sukuk and/or collect cash/e-waqf from the public via waqf institutions (Johari & Yusof, 2013). Once such deposits are made, the bank can disburse the cash, which is dedicated to nano finance to meet the emergency needs of the very micro-society through Islamic cooperatives.

Overview of Sukuk Issuance Opportunities

We have seen throughout this paper that Sukuk is an interesting enabler of economic empowerment, whether structured in combination with other Islamic social instruments or on its own. Thereby, various experiences have been launched in economic empowerment programs using this specific Islamic financial instrument.

There exist numerous best practices in the world and multiple examples of the successful combination of Sukuk issuance for poverty alleviation and the empowerment of disadvantaged communities.

Cooperative Sukuk in Indonesia

Indonesia gives a remarkable experience of the use of Sukuk for cooperatives' support and community empowerment.

The Cooperative of Association of Farmers Group in Indonesia has implemented Sukuk as a micro-financing means.

Cooperative Sukuk is the local wisdom of Indonesian farmers (K. Musari, 2016); it is a means for managing the lack and excess of liquidity and distributing the fund to one of the most contributing sectors.

‘Guyub Santoso’ or the association of farmer groups, operates in the field of cocoa commodity, starting from breeding, maintaining, marketing, and improving the quality of the sale proceeds of cocoa beans for local markets and export.

Cacao is one of the plantation products well known in Indonesia and on which an important part of the national economy depends. However, the potential of this activity has not been fully explored due to many barriers, amongst which lack of financial resources is on the top of the list for many banks, including Islamic banks, which are not willing to finance this agricultural activity.

It is under these circumstances that an association of 16.000 members of the Cacao farmers group in the provincial capital of East java “Blitar” has established a cooperative entity that issued Sukuk certificates based on the Mudarabah contract (K. Musari, 2016).

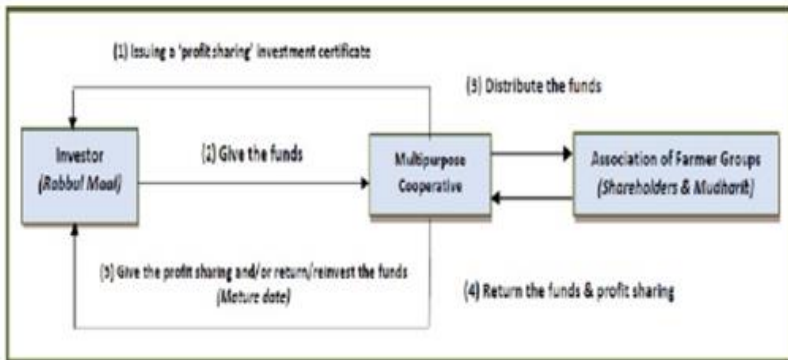


Figure 1: The structure of Mudaraba Sukuk by the association of farmer groups- Indonesia (K. Musari, 2016)

This instance shows the practical use of Sukuk as a small micro-financing instrument that allowed the provision of critical working capital for “non-bankable” Indonesian farmers. It is a successful model of combining Sukuk and nano-finance by using this

Islamic financial instrument for mobilizing funds to the very needy society.

It is a profitable way of enabling farmers to benefit from investors' funds through the profit-loss sharing structures of Mudarabah Sukuk and thus overcoming the difficulties in banking financing and avoiding the high interest-based loan. Also, through cooperative investment with other people, this same structure has enabled the strengthening of farmer's networks and the provision of intensive coaching.

Waqf-Sukuk in New Zealand

The experience of New Zealand is much unique from all the others; its success has enabled the Waqf institution to thrive in New Zealand and thus urged many other Muslim minority countries like Australia, Canada, and United Kingdom to replicate its model.

It is an experience that has evolved from simple income generation from waste products of sheep and cows resulting from sacrificial events (Qurban) to Waqf-Sukuk issuance as a means of mobilizing funds to create farms in New Zealand in order to help to boost the growth of livestock industry through the creation of farms.

“Through waqf-sukuk, Respati (2014a, 2014b, 2014c) explains that this institution raises funds to buy the farm and sheep that will be expected to supply 100-220 thousand sheep per year. Millions of sheep are estimated to be slaughtered every year during the Muslim holiday of Eid al-Adha. Instead of simply distributing their meat to the poor, Awqaf New Zealand aims to create a sustainable cycle out of the process by using all parts of the animal to produce revenue that goes back to the poor.” (K. Musari, 2016)

The initiative to develop the livestock industry is based on the desire to make zero waste of sheep. Some of the meat is canned for future distribution by aid agencies. The wool and skin go to refugees (along with training, sewing machines, and medical insurance) to make relief blankets (sold back to aid agencies at low cost). In the future, Awqaf New Zealand plans to use the bones to make halal gelatin and, possibly, the blood for fertilizer.

“For the investor of waqf-sukuk, they would not get profit sharing. If they buy waqf-sukuk and has helped establish 10 farms, their name will be immortalized and memorialize in the name of farms.”

This income generation farms have made great use of the combination of the Islamic waqf institution and Sukuk.

Vaccine Sukuk

Reliable healthcare is often out of reach for poor households. Even when clinics or providers are nearby, their costs are often prohibitive. When poor people need treatment, out-of-pocket expenses often make safe, reliable care unattainable.

The World Bank Treasury has brought both Sukuk issuance and health assistance together by helping the International Finance Facility for Immunization (IFFIm) issue two Sukuks (sometimes referred to as “Islamic bonds”) in less than a year.

The IFFIm has issued in 2014 in its inaugural Sukuk, raising US\$ 500 million for children’s immunization in the world’s poorest countries. The “Vaccine Sukuk” brought the concept of socially responsible investing in the Sukuk market.

“This marked the first time most Sukuk investors had ever considered investing in something that provided both economic and social returns—it paid a competitive rate of return while supporting the immunization of more children in developing parts of the world.”

IFFIm Chair René Karsenti said: “The funds will be used to protect children near and far – in countries like Yemen and Mali to Afghanistan and Indonesia – from deadly diseases.”

Through the “Vaccine Sukuk,” the involved international financial and social institutions have managed to fund one of the costliest operations for poor communities. This case is by far the most innovative structure of Sukuk that enabled both investors and the poor communities to benefit from the immunization program.

It has altered a situation of lack of immunization funds and a weak health system into an opportunity serving both poor communities and international investors.

It is noteworthy to point out that the Sukuk was oversubscribed, which means investors are eager to fund projects combining both empowerments of poor communities and revenue making.

Thus, this statement shows the heavy potential and the large number of opportunities on the market that are ready to be seized.

Malaysia's Sukuk for infrastructure:

According to ISRA (International Shariah Research Academy for Islamic Finance) figures covering the period 2012 to 3Q 2015: *“Malaysia has extensive experience in using Islamic financial instruments to support infrastructure development—the data shows 61% of the world's infrastructure Sukuk was issued out of Malaysia.”*

Moreover, the world's bank Global Infrastructure Investment Index 2016 ranks Malaysia as the second most attractive destination for infrastructure investment in Asia and fifth globally.

Malaysia has raised, by the availability of infrastructure, the attraction of foreign direct investments (FDI) and has further accelerated the rate of economic development and ability of economically empowering the impoverished population (A. B. Nor' Aznin *et al.*, 2012). Also, Malaysia has seen the launch of the first green Sukuk in the world on June 27, 2017.

These are Sukuk, which proceeds are used to fund a specific environmentally-sustainable infrastructure project, such as the construction of renewable energy generation facilities (F. Hadad-Zeros, 2017), which are of great use to needy Malaysian communities.

Malaysia has an impressive record of utilizing Sukuk in infrastructure development (M. Parker, 2017); the country was the first ever to issue retail Sukuk to finance a light rail extension project in Kuala Lumpur.

Indonesia Sukuk for infrastructure, a success story:

In the case of Indonesia, ever since its inaugural Sukuk debut in the international market during 2009, the country has become the largest Sukuk issuer globally in terms of USD outstanding amount.

Of importance, in line with the country's Long-Term Development between 2015 and 2019 plans (S. B. M. Hasan, 2018),

there have been several successful infrastructure projects financing through Sukuk issuances. The projects mainly focused on energy, telecommunications, transportation, agriculture, manufacturing, housing, etc.

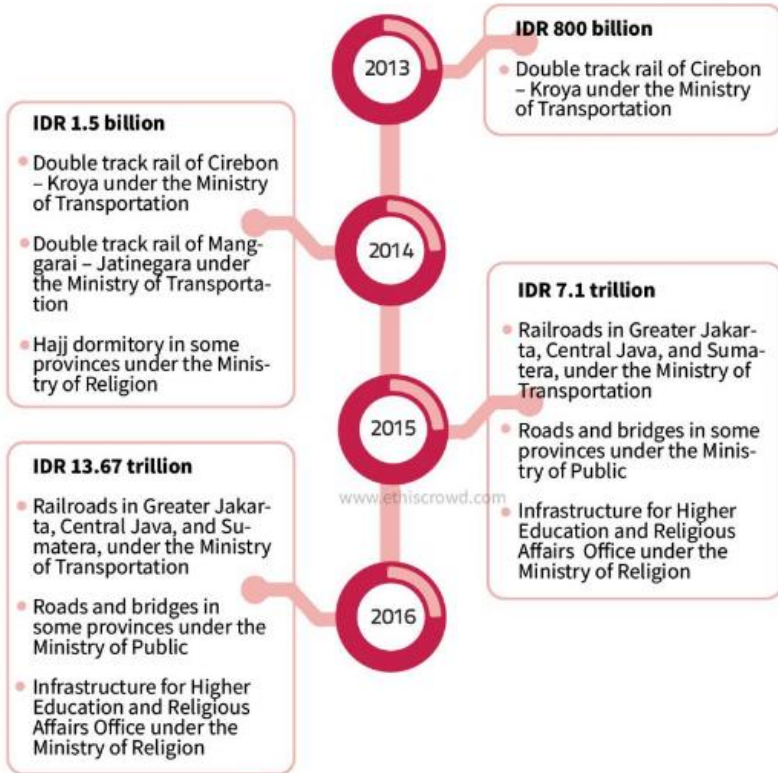


Figure 2: Infrastructural projects financing through Sukuk - Indonesia

Indonesia’s use of Sukuk products in infrastructure financing has helped build critical infrastructures like railways and roads. Sukuk is becoming more relevant in infrastructure financing today. Such alternative funding enables developing countries to avoid the debt trap in financing development infrastructure. By making at least a portion of these Sukuk in small denominations, financial inclusion

becomes possible as retail investors too could participate (S. B. M. Hasan, 2018).

Sukuk Market Challenges

One of the key impediments is actually related to the legal and regulatory constraints preventing private sector involvement in Sukuk issuance in OIC countries. In the OIC countries' jurisdiction, it is impossible to get satisfactory legal opinions, which means no ratings. The lack of a widely respected and considered rating is one of the most important challenges that hinder the whole development of Sukuk issuance, thus, the advancement and improvement of the use of Sukuk in economic empowerment, through infrastructure. For example, some markets do not have the regulatory framework to address Islamic finance, and frequently deals do not adhere to Shariah-compliant deals.

Experts and policymakers concluded during the 1st annual Islamic finance conference that far-reaching legal and regulatory changes are required across jurisdictions to allow better and more Sukuk issuance use in the provision of infrastructure.

Prof. McMillen identified the legal and regulatory constraints impeding private sector involvement in Sukuk issuance. In several jurisdictions, it is impossible to get satisfactory legal opinions, which means no financial rating. In his conclusions, he highlighted the need to emphasize private sector *ṣukūk* issuances to bring the private sector into infrastructure financing. This need to emphasize private sector Sukuk issuances to bring the private sector into infrastructure financing that is considered much considerable and of great urgency. Still, this is not considered the only challenge. The time-wasting concern over asset-backed and asset-based Sukuk given that in reality, no real transfer of assets happens in sovereign Sukuk. Thereby, the issue should be studied, discussed, and closed once and for all. Islamic finance is not poor of structures that make it in need of any inspiration from conventional finance. Islamic finance is complete; it only needs advanced focus to extract its hidden potential. "Islamic finance should create and shape its Sukuk structures from inception rather than making piecemeal amendments to principles designed for interest-based finance." (Prof. McMillen, t.t.)

It is this ignorance of the hidden possibility and the inherent potential of Sukuk that sets barriers and prevents a wider issuance. It is the lack of knowledge of the much collaboration possible between the wide range of Islamic financial instruments and the goals of poverty alleviation and human empowerment that are highly related to what Islam wants for humanity.

“The full potential of Islamic finance products has not yet been explored, sometimes for questionable political reasons. Islamic finance products should be considered by non-Muslim providers and users, where they are competitive and offer positive externalities in promoting sustainable development. For example, Sukuks (often called Islamic bonds) could potentially generate a large amount of money for infrastructure investment and simultaneously promote greater links between the financial sector and the real economy”.

Other challenges exist yet have little to no relation with what we previously explained. Governments in the Muslim world are often too rich to need to issue large amounts of Sukuk, as in the case of the Gulf oil producers, or too financially constrained to be able to issue much, as in North Africa.

Islamic banks in Sudan and South Africa should invest in Mali, Niger, and Chad, based on the overall socio-economic needs of customers, while the continent and rich countries should also float Sukuk funds for the needy regions, a role that the IDB and AFDB can play jointly with other financial organizations.

CONCLUSION

The use of Sukuk has grown popular as a funding tool for different sectors and to appeal to different funding needs: business, infrastructure, social support. As announces the statement of Tariq Cheema: *“The Islamic finance is to invest in changing people’s lives otherwise you can call it anything such as alternative finance but not Islamic, the redefinition of Islamic finance is a necessity for selling sharia-compliant products is not enough, and it is not the essence of the real Islamic finance.”*; Islamic finance and its most popular financial instrument should prevail in the funding of more economically empowering projects.

Hence, if governments, international Islamic financial organizations, and business organizations do not engage in a more

holistic vision rather than just focusing on the financial benefits, people will start to question the primary purpose of Islamic finance if it only meets aspects of Shariah compliance without addressing poverty needs.

Thereby, venturing into the field of Islamic finance and creating innovative collaborations between its financial instruments, Islamic microfinance, and other Islamic social instruments is of urgent necessity and is mean to achieving the purpose of existence of any Islamic financial system or bank. It is an area on which governments of Muslim countries must focus. The present paper attempts to build on past experiences of Sukuk issued for improving community livelihoods through economic empowerment, to leverage the wealth and the models available to eradicate poverty for Muslims and the world at large.

This paper has shown that in order to achieve economic sustainability and poverty alleviation, the collaboration of waqf and sukuk can be a funding source to get low-cost fund to finance the economic empowerment. Also, the overview of the successful examples can be an inspiration to revive the waqf-based economic empowerment and to duplicate the successful models in other areas.

In the area of waqf, with the excessive available waqf assets and cash, Sukuk issuance can therefore be used to finance the development of waqf properties or using them to be an underlying asset. The integration of Sukuk and waqf in a single structure is an interesting development that is worth pursuing (K. Musari, 2016).

However, an additional intensive effort is still needed to be done. Underdeveloped Countries with high poverty rates should be supported in order to benefit from Sukuk as an economically empowering tool. Several African countries would need to use Sukuk to solve its infrastructural poverty challenge, and international financial institutions must provide support following the world bank initiative to support the issuance of vaccine Sukuk. Thus, it is in its ability also to promote infrastructure Sukuk for African countries to fund power generation and transmission, road construction, water supply, and sanitation systems, and also cooperative Sukuk and nano-finance Sukuk.

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