

## The Role of Islamic Sukuk in Financing Public Deficit and Infrastructure- Malaysia Project as a Model –

**Toualbia Nihad**

FSEG, University of Larbi  
Tébessi, Tebessa, Algeria  
[Nihad.toualbia@univ-tebessa.dz](mailto:Nihad.toualbia@univ-tebessa.dz)

**Metarref Aouatef \***

FSEG, University of Badji  
Mokhtar Annaba Algeria  
[ametarref@yahoo.fr](mailto:ametarref@yahoo.fr)

**Bahloul Latifa**

FSEG, University of Larbi  
Tébessi, Tebessa, Algeria  
[latifa.bahlou@uvin-tebessa.dz](mailto:latifa.bahlou@uvin-tebessa.dz)

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### **Abstract:**

Islamic Sukuk are regarded as one of the Shariah-compliant financial instruments, notably, in the last three decades where their market has witnessed a significant expansion due to provision demands of economic development and financing of the government budget deficit. This research aims to provide an overview of the Islamic Sukuk concept in general, and of the role of this sukuk in financing budget deficits, in general and infrastructure projects, in particular, specifically in Malaysia, considering that this country has a pioneer experience in this field. It concludes that there is an innovation possibility in the Islamic Sukuk formula on the ground that it could help avoid foreign financing risks, contribute to domestic financial market development, finance major projects, and address budget deficits. The descriptive and analytical approaches are used in this study, to collect, analyze, classify, and present the topic related data and information.

**Keywords:** Islamic Sukuk, Islamic, financing public deficit, infrastructure projects, Budget deficit.

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\* correspondent author

## **Introduction:**

In the last few years, Islamic finance resources have become widespread not only in the Arab, Muslim nations but they have also reached the western non-Islamic ones. "Islamic Sukuk" are regarded as the most prominent financial Islamic instrument where they are used to attract savings and fund-raising in order to fund public and private projects, that will be beneficial in achieving economic development. They also enable people to contribute to supporting the needs and requirements of economic development and allow governments to finance budget deficits and important infrastructure projects.

In this context the following question arises:

**to what extent do the Islamic Sukuk contribute to financing the infrastructure projects and the budget deficit in Malaysia?**

- **Aim of the Study**

The aim of this research is to define the conceptual framework of Islamic Sukuk, and highlight the Malaysian experience, in using them as a tool for financing the infrastructure projects and the budget

deficit in order to benefit from and to underline the need for funding through Islamic Sukuk.

- **Research Methodology and Instrumentation**

In order to achieve the research goal and to have full knowledge of all aspects of the study, a descriptive research method was used to introduce the

needed theoretical concepts. An analytical method was used to examine the practical study through collecting data, information, and facts related to the topic, all of this by examining, analysing and then disaggregating books, reports, and scientific papers.

- **Research Hubs**

The research problem is processed through the following three hubs:

- First Axis: a conceptual framework of Islamic Sukuk
- Second Axis: contribution of Islamic Sukuk in financing the infrastructure projects and the budget deficit

Third Axis: Islamic Sukuk uses in financing the infrastructure projects and the budget deficit in Malaysia.

### **Firstly. Conceptual Framework of Islamic Sukuk**

Islamic sukuk are financing formulas that did not exist previously, as their source is the jurisprudence of transactions in Islamic law, and accordingly this axis is devoted to presenting their conceptual framework, types and methods of issuance.

#### **1. Definition of Islamic Sukuk:**

**1.1. Syntactically:** it is a legal document that proves that someone is an owner or proprietor of something, or a document acknowledging the received money.

**1.2. Semantically:** according to Accounting and Auditing Organization for Islamic financial institutions in its book titled "legitimate criteria for Islamic Financial Institutions" Islamic Sukuk are defined as: "documents of equal value that represent common shares in notables ownership, Benefits, services, or certain investment activity, and after collecting Sukuk value, and ending the subscription, the use for what it was issued starts." (Jalel Eddabagh, 2012, P52)

#### **2. Types of Islamic Sukuk:** Islamic Sukuk differ according to certain criteria:

**2.1. Continuity:** Islamic Sukuk are divided into, time-bounded Sukuk, i.e. a year, two years or more..."; permanent Sukuk where the investment activity is a continuous basis; Sukuk can be declining where a part of it can be recovered annually, it can also be increasing and growing where the revenue would be reinvested.

**2.2. Maturity:** Islamic Sukuk are divided into short-term ones that range from three to six months and it doesn't exceed one year; mid-term Sukuk ranging from one to three years; and long term Sukuk for more than three years. Issuing Sukuk was originated to be for a specific period of time, if this period did end, they should be recovered. The recovery is done through project stock net distribution gradually on Sukuk owners, or through project liquidation and typesetting (i.e. selling it and converting it into money) where each one gets its fair share. It can also be done by making some of the owners have the

project, whereas the others leave with the promise of ownership. (Mohamed Ali, 2014, P43).

### 2.3. Issuer:

- a) **Governmental Sukuk:** refers to Sukuk issued by the government, and their outcome is used in the provision of goods and public services in addition to the exploitation of natural resources, it is also used by the government as a mean of mobilizing savings, as well as encouraging investment in certain sectors according to the development program. Governmental Sukuk include Sukuk al-Ijara (tenancy), Istisna'a, Salam, al-Musharaka (participation) and al qard al Hassan (the appropriate loan) Sukuk.

**Corporate Sukuk:** are Sukuk issued by private companies to provide financial resources to fund the fixed and

- b) working capital needs and they vary from profit al-Musharaka (sharing) Sukuk, absolute and restricted al-Mudharaba Sukuk, to al-Istithmar (investment) Sukuk.
- c) **Banking Sukuk:** Sukuk issued by Islamic banks differs from al Mudarabha Sukuk, al-Musharaka, al-Ijara, Istisna'a, Salam, Murabaha, al-Mutajara to goods and securities, such Sukuk are made to fund the investment transaction. Moreover, banks can manage the processes of issuing such Sukuk for the other's benefit like al Ijara governmental Sukuk, taking into consideration the fact that banks can subscribe to a part of its resources in these Sukuk. These Sukuk are characterized by their ability to mobilize different types of savings considering the diversity of their deadline, value, purposes, and returns. (Adhem Ibrahim, 2014, PP 86-87)

**2.4. Areas of Employment (according to the formula):** types of Islamic Sukuk differentiate according to the Islamic funding-formulas on one hand, and on the other hand according to the nature of the asset represented as a designated Sukuk, in case the Sukuk were used to get liquidity. The different formulas can also be synthesized together to get new ones without any prejudice to provisions of Islamic Shariah, notably the most used division is the one of "The Audit Authority of Islamic Financial Institutions", where it was divided into two main groups "Sukuk

issued for funding purposes" and "Sukuk issued for investment purposes" where each of these groups include different types of Islamic Sukuk: ( Laaraba & Hamou, 2017, PP 70-71)

- a) **Sukuk al- Mudharaba:** they are regarded as the process of dividing the capital into equal shares, which are represented by one or several parties, and they are introduced as Sukuk with an unspecified but expected financial return, which is done by reading the activity of the issuer through past years budgets and market indices.
- b) **Sukuk al-Ijara:** refer to documents of equal-value that represent common quotas in a notables' property, benefits or services in a gainful investment project, for the purpose of converting these assets and benefits, which are related to Ijara contract (loan), into securities with Tradable Sukuk in secondary markets.
- c) **Sukuk al-Musharaka:** they are issued to fund or develop a certain project, where it would become owned by the Sukuk holders within their shares, and it would be managed by appointing one of the partners
- d) **Sukuk al-Salam:** they are issued to collect the capital of the Salam, where the Salam's goods will be owned by the Sukuk holders.
- e) **Sukuk al-Istisna'a:** they are issued to use the subscribing outcome in manufacturing the goods, where they will become owned by the Sukuk holders.
- f) **Sukuk al- Murabaha:** they are issued to fund the procurement of Murabaha goods, where they will become owned by the Sukuk holders. In this process, the seller is regarded as the source of the Murabaha Sukuk, the subscribers are the buyers of the products, and the subscription outcome is the purchasing cost of these goods, in addition to that the Murabaha commodity is owned by the Sukuk holders who are also entitled to the price of selling it.
- g) **Sukuk al-Musaqat:** they are defined as documents of equal value, issued so that the outcome will be used in the process of watering, caring for fruit trees, moreover the Sukuk holders will have their share of fruits as it was mentioned in the agreement.
- h) **Sukuk al-Muzara'ah:** they are defined as documents of equal value, issued so that the subscribing outcome will

be used to fund a certain project on the Muzara'ah (farming) basis, where the Sukuk holders will have their share of the crop as it was defined by the contract.

- i) **Sukuk al-Mugharasa:** they are defined as documents of equal value, issued so that the outcome will be used in the tree-planting process including all the work and funding based on Mugharasa contract, where the Sukuk holders will have their share of the land and the plants.
- j) **Sukuk wikala al-Istithmar:** are defined as documents that represent projects or activities. They are managed by an assigned agent based on the Agency's investment contract.

### 3. Taskik Measures and Parties

#### 3.1. Taskik Measures

Taskik can be defined as: "the process of asset transfer that is legally accepted to financial Sukuk where the income and asset are separated from their originator, in addition to being tradable in the financial market provided that they are replaced, mostly, with fixed deadlines coupled with a limited or unlimited return that is not risk-free". The main Taskik features are: (Fath Erahmane, 2008, PP 2-3)

- Can be a time-bound framework
- Separated financial liability, i.e.; theoretically means the presence of the special purposes vehicle or entity S.P.V
- Being risk-free is not proved by determining return value in advance, but with its remoteness from the fixed-class bonds;
- The assets in question have to be legally accepted, and predominant;
- The ability to trade in the financial market, whenever the legally required conditions are provided;

The Taskik (securitization) process can have two basic directions; the first one is related to the existence of one or group of a produced asset, under which Sukuk are issued for a specific period of time, and in return, a sharing process is the expected benefits of this asset or asset performance. Additionally, the second basic direction is related to financing a certain investment idea related to issuing tradable financial Sukuk where its outcome is used to finance projects and specific investment instruments provided that the Sukuk holders have the expected investment's benefits which represent: al- Mudharaba, wikala, restricted Musharaka.

Correspondingly, the most important banking, financial and commercial assets amenable to Taskik are:

- Transferred and fixed assets income-generating real estate whether it's leased or running on a particular project.
- Investments based on sharing-principles.
- Different sales protection, al- Murabaha, al-Salam, al-Istisna'a, where some of the scholars required their entry in Taskik with the face value, resulting in the benefits for the original Musakak (doer), where current resources will be received instead of future ones.
- Commercial and residential complexes, and all the operations based on al-Ijara formula.
- Financing operation by using al- Mudharaba formula, al-Musharaka based on Partnership in the expected benefits, can also be a place for Taskik operations and other assets that meet the legitimate regulations.
- Assets based on usurious are excluded, and the ones that have specific benefits, along with the legally forbidden assets.

### 3.2. Intervening Parties in Taskik Processes

- A. The Originator:** refers to the originating entity or company of the securitization portfolio which is called the starter or the originator of securitization, it refers to the assets owner, first seller, or a financial rights portfolio sold and received in cash. the resources might differ from private sectors like banks, and listed companies, to public and charity sectors.
- B. Issuer (Sukuk manager):** refers to the manager of the owned assets owned by the Sukuk holders, it is generally concerned with the special purposes vehicle or entity S.P.V which handles the issuing process and all the necessary measures in the Taskik process, for a specific wage or commission in the prospectus where the relation between this entity and the Sukuk holders is based on the paid agency basis.
- C. Investors (Sukuk owners):** refers to the holders of varied documents, regarded as assets whether notables, benefits/ services, or a mixture of some or all of them.
- D. Investment trustee:** refers to the financial intermediaries that protect the Sukuk holders' interests and supervise its manager. Moreover, the investment trustee keeps the documents and warranties which is based on the agency's paid contract set out in the prospectus.

**E. International Rating Agencies:** refers to specialized agencies that make assessments to demonstrate the creditworthiness and financial viability of financial releases, that would be introduced in the capital market, with its guarantee, and risk determination proportion ( Cheriak & Moata Allah, 2012, PP 244-245)

**Secondly. dependence on Islamic Sukuk in financing the infrastructure projects and the budget deficit**

Islamic investment Sukuk have many characteristics that make them capable of financial intermediation which contributes to development, notably, with the need for financial intermediation that arises from disparity of individuals in knowledge, skill, and wealth. As an illustration, a money owner who doesn't know how to increase or grow his fortune gets in touch with a person who has skills and commercial experiences but doesn't have money. The need for a different party that acts as a mediator arises in such circumstances to satisfy both parties for a certain price or profit. Henceforth Islamic Sukuk can do such a thing which can be illustrated as follow:

**• Islamic Sukuk role in collecting financial resources and financing investment projects:**

Collecting and mobilizing savings of various categories is one of the Islamic Sukuk characteristics because of its variation from short, medium to long deadlines, coupled with the varied categories in terms of financial values, in addition to varied purposes, the varied methods of return accessing, and the possibility of secondary market trading of the obtained liquidity.

Equally important, Islamic Sukuk do not have the interest rate risk features since it is not dealt with it in the first place, inflation risks also are not a problem because not only the Sukuk are not exposed to it but can actually get positively affected by it, for the simple reason they represent real assets in form of objects and services which prices arise according to the general price level. In this case, the Sukuk revenues would grow high for the objects and services assets. Furthermore, Islamic Sukuk include channeling the gathered resources to real investment areas, which is seen as an easy process because of their varied nature that suits different economic sectors, since each version fund a certain sector ( Cheriak & Moata Allah, 201, PP 252-255).

**• Islamic Sukuk role in funding the infrastructure projects**

Islamic Sukuk meet the states' requirements in funding the infrastructure projects in which their building requires substantial



capital, instead of depending on treasury bonds and public debt. As an illustration, governments can issue al-Ijara Sukuk to finance public interest projects like financing bridges, airports, roads, dams building ... etc.

In this case, the government, who is regarded as the lessee from the Sukuk holders, i.e. the owners of such state leased property, will provide those projects for citizens' use and benefits.

Al-Ijara Sukuk can also be used in financing housing and real estate development programs, since the Islamic exchange with its varied tools and methods can lead government projects, and efficient fund programs at low costs and different deadlines.

- **Islamic Sukuk role in addressing the budget deficit and solving the indebtedness problem**

Islamic Sukuk enabled the individual popular participation to meet the required financing needs of the general budget support that represents the financial program, which is expected to be implemented by the government to realize economic and non-economic goals. Under such circumstances, huge amounts of cash are needed to finance these economic programs and fix the existing budget deficit, issuing al-Musharaka Sukuk is an option that can be used by the government to do so, and investing its revenue in the income-generating projects like power plants, ports... etc.

The budget deficit can also be financed through issuing al- Mudharaba Sukuk in profitable projects where they are financed without the owners' (Sukuk buyers') participation in the investment and administrative decision-making process of the project. The government can also face budget deficit by issuing Sukuk al-Ijara or Sukuk loan Hassan.

Equally important, the Sukuk role in solving the indebtedness problem (external, internal debt, or even usury loans), is related to the government's ability in converting those loans into public service ownership Sukuk presented as education, health, and transport services where citizens' usurious loans are exchanged for the governments corresponding to Sukuk services value provided by the state in the future, as well as the ability to exchange these loans with Sukuk al-Istisna'a (production) of goods by the state, consequently, the owners will get goods worth what they previously provided.

**Thirdly Axis. Islamic Sukuk uses in financing infrastructure projects and budget deficit in Malaysia**

After the international financial crisis in 2008, the Islamic Sukuk had developed significantly and became prominent in supporting

the economy and mobilizing savings. Malaysia is regarded as one of the leading countries in this sector for the simple reason of owning the biggest Islamic financial markets.

### **1. The development of the Islamic capital market in Malaysia overview**

In the early 1990s, the company *Shell MDS SDN BHD* started issuing and presenting the Islamic Sukuk for the first time in a local market in 1990, which led to the development of the Islamic capital market in Malaysia. After that, many Islamic financial instruments have been produced, this situation led to deepening and entrenching the use of such instruments in the Malaysian capital market; in conjunction with the Malaysian finance ministry, the Malaysian Securities Commission established a committee to study the market activities and transactions with certain fundamental steps. In 1994 the Islamic capital market (ICMD) was created, and by the end of the same year with the intention of studying the Islamic financial instruments a legitimate committee was created IISG, and after a year it became the Legal Advisory Committee SAC.

### **2. the extent of the Islamic capital market in Malaysia**

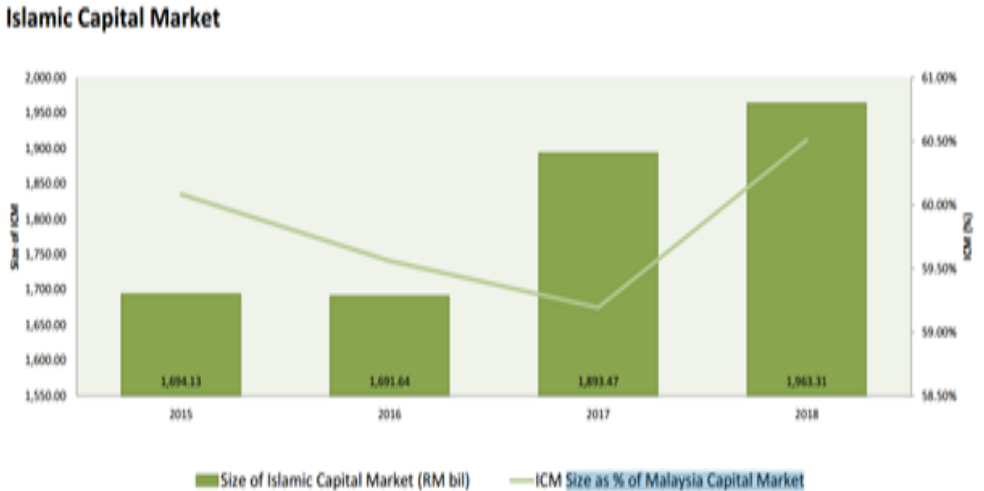
The Malaysian Islamic capital market is regarded as the infrastructure organizations' core of the Islamic banking and financial industry. Notably, the main aim of such a market is addressing the practical and legitimate challenges when issuing the Islamic Sukuk, through finding long and short term financial Islamic tools. This is done for the purpose of facing the challenges that are associated with the Islamic capital market development specifically since it focuses on the Islamic Sukuk role in market development.

The constant development of the Islamic capital market in Malaysia is seen as a natural phenomenon since it had a major effect on the economic domestic financing. By the end of 2016, the market included a total market-share value, which is compatible with the provisions of the Islamic Shariah, of 30.56 R.M billion, and the total existing of the Islamic Sukuk was of 661.08 R.M billion.

Another key point is worth mentioning, the High Commission issued an updated list of securities compatible with the Islamic Shariah that was agreed on by the legitimate Advisory Council on 25th November 2016. The updated list included a group of 672 of securities compatible with the Islamic Shariah, in addition to 34 new securities, whereas 30 of them were excluded from the previous list in May 2016. By the end of December (same year), the securities represented 74.23% of 904 bonds

listed in the Malaysian stock-market (Report, 2016, p197). In December 2017, the Malaysian financial market share was 59.46% of the total Malaysian capital market, where the securities market value compatible with the Islamic Shariah was estimated 1.133.83 R.M billion in the Malaysian stock exchange, at the same time, the total of the securities market value in the Malaysian stock exchange was of 1,906.84 R.M billion. Consequently, the Malaysian SEC is predicting that the extent of the Islamic capital market will continue its expansion annually at 10.6% rate, so that it would be 1 trillion in 2020, in addition to that the Islamic Sukuk market-share will expand at an average annual growth of 16.3% in the same period of time (Bultin, 2015, P26). Moreover, in 2019 the Islamic banking sector in Malaysia is expected to reach 296.29 USD billion i.e. the equivalent of a market share of 17.96% of the total insurance premiums in 2019 which means 5.51 USD billion. In fact, Malaysia has one of the biggest Sukuk markets with a 67% rate of the pioneer international Sukuk in the Islamic economy (Bultin, 2015, P24). The extent of the Islamic capital market in Malaysia can be identified through the following figure:

**Figure N°01: The extent of the Islamic capital market in Malaysia as a percentage of Malaysia's financial market (2015-2018)**



**Source:** the official website of the Malaysian Securities Commission  
<https://www.sc.com.my>

Depending on the previous figure (1) the Islamic capital market in Malaysia was growing steadily throughout the period of (2015-2018). This development is an expected result of the financial Islamic tools increasing demand, not to forget the costumers increasing confidence in the Islamic finance since it is regarded as an ethical financial system especially with the successive crises in the capitalist financial system. As it is illustrated in figure 1 the Islamic Malaysian financial market represents the largest share of Malaysia's financial market; where its size rate is ranging between 60.2% in 2015, 59.3% in 2017 and 60.5% in 2018 due to the market crucial importance given by the Malaysian government through the taken measures while changing legislation, legal obstacles reduction on the Islamic financial transactions which plays an important role in Supporting the Malaysian infrastructure projects and development.

- **Islamic Sukuk issuing by the Malaysi**
- **an government**

The government issuances are regarded as "The Government Investment Certificate (GIC)" released in 1983. These certificates known also as "Government Investment Issues (GII)" are the first bank-free interest certificates of the Malaysian Government, that were developed on the Sukuk loan Hassan principle to support the Islamic banking in Malaysia, so that the government would get the appropriate development projects funding, the certificate outcome revenue is not pre-determined, which gives all of the Malaysian Islamic banks, and all the other financial entities in the Malaysian financial and banking system the ability to invest money and funds in the different sectors taking into consideration the Islamic Shariah principles with a period of 1 to 5 years as a deadline.

Currently, the Malaysian central bank is issuing new governmental investments based on profits, according to the forward selling principle as an additional tool that helped in developing the Malaysian government Sukuk following the Islamic Shariah rules in the Malaysian financial market (Fetni, 2014, p3).

### **3. Malaysian Islamic Sukuk contribution in financing infrastructure projects of Malaysia and the world**

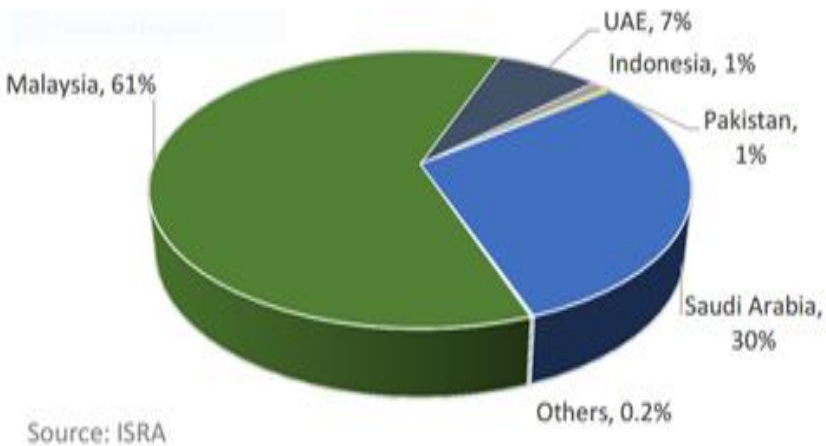
Malaysia was committed to implementing a national action plan in 1997 during the Asian financial crisis, where certain actions were taken namely: imposing severe restrictions on its monetary policy; extensive powers were given to the central bank to implement the emergency plan to face capital flight and bring in the foreign exchange.

Consequently the Malaysian financial crisis did end in just two years, and this experience was seen as a successful one in terms of facing the economic crisis and achieving the renaissance development.

The development process in Malaysia was of accurate planning and long-term perspective, where the Malaysian government refused to adopt the expenditures reduction process neither of the infrastructure projects nor of its types of equipment since that was the stable way of the economic growth in the following years (The Malaysian development experience and the lessons learned from it in Arabic, 2015, PP 1362-1364) .

More than 73.1 USD billions is the Islamic Sukuk value which was issued to fund the infrastructure projects from more than 10 countries in the (2002-2015). Furthermore, in 2013 the World Bank estimated the infrastructure investments total global value of 17 trillion (Nik & Nik , 2015, PP1-4).

**Figure N°02: Islamic Sukuk contribution rate in financing global infrastructure projects during (2012- 2015)**



**Source:** NikMouhamed, Nik Musa, Previous reference, PP: 01-04

Figure 2 illustrates that the Islamic Sukuk market funding the infrastructure project during (2012-2015) where Malaysia is at the forefront by 61%, followed by Saudi Arabia with 30% and then UAE with a rate of 7%. Malaysian dominance in this case is due to conducting the economic transformation program, in addition to the

increased spending to achieve the economic and social development goals by 2020. Moreover, Malaysia is always seeking to attract new investors by providing the transparency mechanism in the market working and creating a secondary trading market.

**4. Top funded infrastructure projects Through Malaysian Islamic Sukuk**

Islamic Sukuk issued by the Malaysian government contributed in funding different developed sectors of the country, where many big infrastructure projects were achieved, and the most important projects were realized between (2010- 2015), it can be clarified in the table below:

**Table N°01: Top funded infrastructure projects Through Malaysian Islamic Sukuk**

<i>issuance objectives</i>	<i>governing law</i>	<i>project period</i>	<i>Sukuk version</i>	<i>profit rate (%)</i>	<i>funding sector</i>	<i>issuing value</i>	<i>resources</i>	<i>data / project</i>
<i>first governmental issuance, first Islamic sukuk stated in RM, issuing outcomes are designed for funding the highway construction</i>	<i>Malaysian law</i>	<i>25- 05 years</i>	<i>al- Musharaka</i>	<i>- %3.9 %5.75</i>	<i>transport</i>	<i>30.4 RM billion</i>	<i>PLUS (Projek Lebuhraya Ultra-Selatan Berhad )</i>	<i>The North-South Highway Project</i>
<i>first Islamic Sukuk of fixed income listed in Malaysian stock market for individual investors all the net proceeds are designed for capital and operational expenditure for the express-train project</i>	<i>Malaysian law</i>	<i>15- 07 years</i>	<i>al- Murabaha</i>	<i>- %3.62 %4.04</i>	<i>construction</i>	<i>300 million USD</i>	<i>Dana Infra National behad</i>	<i>express-train project</i>
<i>-first mixed innovative Sukukin the world, biggest permanant Sukuk issuance by Malaysian entity with 1 billion RM size overextending anticipation (5.5 billion subscribing process)</i> <i>- the airoport building process by mixed Sukuk was rewarded by 4 international rewards:</i> <i>*islamic funding award in 2015, as the best mixed sukuk in the companies</i> <i>* Mayden cauromoney award for Islamic funding innovation in 2015</i> <i>*pioneer market award for 2015</i> <i>* League Ram award</i>								<i>big airoport project</i>

**Source:** by the study researchers based on the following reports:

-Nik Mouhamed, Nik Musa, Previous reference, p: 07.

-Insights: Sukuk-Growing relevance in infrastructure development, rapport of MIFC (Malaysia International Islamic Financial Centre), 18-October-2013, PP: 3-4.

In the light of the previous information, Malaysia had developed Islamic Sukuk designed specifically to meet the investors' needs, which lead to the appearance of different Sukuk namely: first international Sukuk for sustainable investment and responsibility (SRI) issued in

2015 by the government agency "Gazana"; "green Sukuk" for funding environment-friendly projects in 2017.

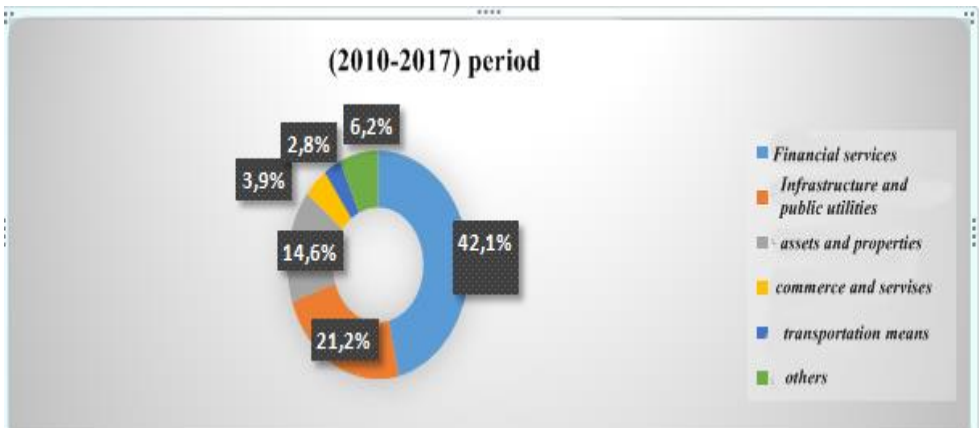
It is expected that the Sukuk issuance will increase in the next two years, due to preferential tax transactions application, and Sukuk fees issuing of the investment and infrastructure projects SRI related in (2016- 2020).

### 5. Malaysian financing Sectors by the Islamic Sukuk for companies

Islamic Sukuk issuance in Malaysia had contributed in collecting the needed funds for the economic growth since its first appearance in 1990, it became a new tool used by both the government and private companies to satisfy investments and development needs.

The following figure clarifies the Malaysian financing Sectors by the Islamic Sukuk for companies' rate between 2010 and 2017:

**Figure N°03: The Malaysian Financing Sectors by the Islamic Sukuk for Companies' Rate in (2010-2017)**



**Source:** by the study researchers based on Mohad Razlan Mohamed, Malaysian Bond & Sukuk Market an Overview, An ACRAA Conference: Showcasing Asian Bond Markets: Opportunities and Risks, 23 April 2018, Manama-Bahrain, p:09.

The previous figure 3 clarifies that the most heavily-issue sector of Islamic Sukuk in Malaysia is the financial one with a rate of 42.1% followed by the infrastructure and public utilities with 21.2%, then assets and properties 14.6%, after that commerce and services sector with 3.9%, and the transportation means sector 2.8% finally the other sectors with 6.2% rate.

**6. Islamic Sukuk Contribution in the Malaysian Budget Deficit Financing**

Islamic Sukuk issued by the Malaysian government contributed to the deficit financing for years, the following table points out the Malaysian Budget Deficit Financing value of the last four years:

**Table N°02: Malaysian Budget Deficit Financing value (2014- 2017)**

<b>Years</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Government revenue</b>	220,6	219,1	212,6	219,7
<b>Government expenditure</b>	259,1	257,8	252,1	260,8
<b>Budget deficit</b>	(38.5)	(38,7)	(38.5)	(41,1)

**Source:** by the study researchers based on Murjan Muhammad and others, The Role of Sukuk in Islamic Capital Market, Rapport has been commissioned by the COMCEC Coordination office to the International Shari’ah Research Academy for Islamic Finance and RAM Rating, February 2018, Ankara, Turkey,p: 79.

Table 2 clarifies that the Malaysian endured budget deficit had increased yearly in the last four years (2014- 2017) ranging between 38.5 in 2014 to 41.1 in 2017.

Historically speaking, a significant part of the Malaysian budget deficit was financed through the Islamic capital market instruments, and taking into consideration the large 2017 budget deficit, it is concluded that the Malaysian government will remain committed to supporting the issuance of Islamic securities to finance its budget deficit ( Mujan & Others, 2018, P78).

Despite the different taken procedures to reduce the budget deficit during the economic transforming, Malaysia found out that the options to increase debts for financing development projects are reducing and the debt-service ratio was increasing annually where it reached 12% in 2016 which resulted in reducing the Malaysian government’s size to be able to raise more debt for both operating and developing expenses. Furthermore, the public debt to GDP ratio has



nearly surpassed 55% which is lower than in most of the developed countries, and its increasing will have no direct impact on the Malaysian economy, henceforth, some of the public sector debts were transferred to private companies by the government <sup>1</sup>.

**Conclusion:**

Throughout this research, it is clarified that the Islamic Sukuk issuance value in Malaysia is regarded as an important financial tool, though it was used as one of the effective means in mobilizing the financial resources, covering the financing requirements of the infrastructure projects, in order to relieve the general budget, financing the budget deficit and even the indebtedness problem. Furthermore, depending on the previous data the following results were reached:

- Even though there is a big resemblance between the traditional securitization process and the Islamic Sukuk Taskik process, there is a fundamental difference between in both of their concepts and processes, since the Islamic Sukuk depend on the Islamic Shariah rules which are absent in the traditional securitization process.
- Islamic Sukuk are characterized by diversity and innovation form, which provide flexibility to fit both private and public uses and provide budget for the appropriate project.
- Islamic Sukuk differentiate according to their financing contracts, the trading ability, period of time, and the currency used.
- Islamic Sukuk help preventing the risks of foreign financing, through the determination of foreigners' participation rate from the total issuance value, while issuing Sukuk which would help in maintaining the investment decision.
- Islamic Sukuk are an effective tool in providing the appropriate funding for different development projects, especially the big ones such as airports, ports, roads... etc. and with the urgent need to seek new alternatives for the development budget projects financing but away from the governments' budget.

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<sup>1</sup> Yong kong, "Infrastructure financing in Malaysia" , Nomura Journal of Asian Markets, 2017, p. 28.

Islamic Sukuk can also be used as a project development financing tool along with other financing instruments.

- Islamic Sukuk deal with the government funding deficiency, where the private-sector surpluses are encouraged to be channeled to finance the budget deficits provided that they are introduced to banks and individuals to compete with the other uses of cash assets.
- Islamic Sukuk enable the development of the local financial market since they are very popular as it was clarified in Malaysia's issuances, because of their advantages and characteristics which make them a target for even small savers.
- Malaysia created a new legitimate alternative for the traditional capital market, by providing Islamic financial services in general including the Islamic Sukuk in particular for financial entities, private companies, Muslim and non-Muslim investors, local and foreigners wishing to obtain financing or investment according to the Shariah principles and provisions.
- Different Types of Islamic Sukuk were issued by the Malaysian government to fund the infrastructure projects; it is regarded as the pioneer country in issuing such Sukuk with the local currency, where most of its investments' sectors were in the infrastructure projects, public services and facilities, financial services and real estate depending on varied formula structure Sukuk.
- The attention directed to Islamic Financial market including the financial Sukuk by the Malaysian government, in addition to the facilities, and legal procedures to develop this market, is done to change it to an International Centre for the International Islamic capital to be a model for all of the Muslim and non-Muslim investors, financial intermediaries, and companies.
- The Malaysian Islamic Sukuk experience demonstrated the accessibility of such Sukuk as contributed elements in the budget deficit financing through their use in supporting the development budget of the development projects.

Finally, the following suggestions are made with regards to the previous results:

- The efforts of all Arab and Islamic countries must be combined, and the doctrinal as well as the scientific aspects should be coordinated in order to evaluate the positive as well the negative aspect of the Malaysian and Sudanese experiences since they were pioneers in this field. This evaluation would then allow a

better grasp of what is, actually, beneficial for all countries that would take the Malaysian and Sudanese experiences as a reference.

- the Islamic Sukuk experience requires a legal backup and educated citizens about this instrument i.e. defining it, identifying its trading methods, areas of use... etc. to promote and reinforce the idea of Islamic Sukuk, in addition to using the awareness and motivational media campaigns before the actual use of such instruments.
- The necessity to familiarize all of the officials, government, and financial institutions in general with the Islamic Sukuk nature and the Taskik process.
- Before proceeding to the use and the experiment of the Islamic Sukuk, staff must be trained in this field, to facilitate the Islamic Sukuk supervision and the management processes through the opening and expanding of the Islamic financial industry fields in general and the Islamic Sukuk in particular at the universities and institutes level, since the development and the success of such a field is the result of human competence, qualification, and resources.
- A pilot plan of Islamic Sukuk issuance must be conducted as a first experiment and the results of such a plan must be evaluated by shedding the lights on by its success as well as its failures.
- The disclosure must be made in all the Islamic Sukuk processes, trades related, Statistical reports, and all developments and events in such a field. Coupled with, Creation of indicators to measure the Islamic Sukuk performance to clarify everything for the investors, i.e. providing transparency which is the best success factor that activates the trading market and positively affects the issuance markets.
- Synchronize the Islamic Sukuk application and use with the private sector integration in conducting, funding, and managing the development projects as a partner or contributor by adopting a partnership strategy between the two sectors.
- Using the incentive taxation of the private companies issuing the Islamic Sukuk in all economic sectors as an encouragement for these companies, as the development of the Islamic Sukuk market, and also to provide technical support to Sukuk exporters.
- Establishing Research institutions that Work in cooperation with a doctrinal body, where the funding of such institutions is the

Government and private companies' responsibility, and its purpose is developing and inventing the Islamic Sukuk products, in coordination with the current different economic developments.

- Encouraging further studies on Islamic Sukuk use as a tool of financing the budget deficit, through financing development products that are supposed to be financed by governments from the public budget, in addition to analyzing and evaluating the countries' experiences in order to improve the Islamic Sukuk use in various domain.

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