

## ISLAMIC BONDS (SUKUK): ITS INTRODUCTION AND APPLICATION

*Latest information about Sukuk*

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Recent innovations in Islamic finance have changed the dynamics of the Islamic finance industry. Specially in the area of bonds and securities the use of Sukuk or Islamic securities have become increasingly popular in the last few years, both as a means of raising government finance through sovereign issues, and as a way of companies obtaining funding through the offer of corporate sukuk. Beginning modestly in 2000 with total three sukuk worth \$336 millions the total number sukuk by the end of 2006 has reached to 77 with over US\$ 27 billion funds under management. By the end of 2007 the total figure is expected to exceed US\$35 billion.

Sukuk has developed as one of the most significant mechanisms for raising finance in the international capital markets through Islamically acceptable structures. Multinational corporations, sovereign bodies, state corporations and financial institutions use international sukuk issuance as an alternative to syndicated financing.

What are sukuk? how are they structured? and how they are different from the conventional bond and the conventional securitization processes is discussed in this paper in some detail.

### **What is Sukuk**

Sukuk in general may be understood as a shariah compliant 'Bond'. In its simplest form sukuk represents ownership of an asset or its usufruct. The claim embodied in sukuk is not simply a claim to cash flow but an ownership claim. This also differentiates sukuk from conventional bonds as the latter proceed over interest bearing securities, whereas sukuk are basically investment certificates consisting of ownership claims in a pool of assets.

Sukuk (plural of word sak) were extensively used by Muslims in the Middle Ages as papers representing financial obligations originating from trade and other commercial activities. However, the present structure of sukuk are different from the sukuk originally used and are akin to the conventional concept of securitization, a process in which ownership of the underlying assets is transferred to a large number of investors through certificates representing proportionate value of the relevant assets.

### **Sukuk and Bond**

- A bond is a contractual debt obligation whereby the issuer is contractually obliged to pay to bondholders, on certain specified dates, interest and principal, whereas, the sukuk holders claims an undivided beneficial ownership in the underlying assets. Consequently, sukuk holders are entitled to share in the revenues generated by the sukuk assets as well as being entitled to share in the proceeds of the realization of the sukuk assets.
- A distinguishing feature of a sukuk is that in instances where the certificate represents a debt to

the holder, the certificate will not be tradable on the secondary market and instead is held until maturity or sold at par.

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines sukuk as being:

“Certificates of equal value representing after closing subscription, receipt of the value of the certificates and putting it to use as planned, common title to shares and rights in tangible assets, usufructs and services, or equity of a given project or equity of a special investment activity”.

**Table: Sukuk Issuance (US\$ million)**

<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Corporate Sukuk</b>	336.3	530	179.9	4537.06	5731.19	11358.89	24526.32
<b>Sovereign Sukuk</b>	0	250	800	1180	1479.35	706.5	2271.6
<b>Total Sukuk issuance</b>	336.3	780	979.9	5717.06	7210.54	12065.39	26797.92
<b>Percentage Growth</b>		131.94	25.63	483.43	26.12	67.33	122.11

Source: IFIS.

Above table shows growth in sukuk issuance from year 2000 till now. In 2000 total size of the sukuk was only US\$ 336 million with no sovereign sukuk in the market. We can see from the above table that the size of total sukuk issued in 2001 was only US\$ 336 million and in a short span of just six year the total size of sukuk has crossed US\$ 27 billion. The growth achieved in 2003 has been most impressive at 483%. In 2006 also total growth achieved by sukuk is 122%.

### Benefits and Features

- Tradable shariah-compliant capital market product providing medium to long-term fixed or variable rates of return. Assessed and rated by international rating agencies, which investors use as a guideline to assess risk/return parameters of a sukuk issue.
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- Regular periodic income streams during the investment period with easy and efficient settlement and a possibility of capital appreciation of the sukuk.
- Liquid instruments, tradable in secondary market.

### Uses of Sukuk Funds

The most common uses of sukuk can be named as project specific, asset-specific, and balance sheet

specific.

#### **a. Project-specific Sukuk**

Under this category money is raised through sukuk for specific project. For example, Qatar Global sukuk issued by the Government of Qatar in 2003 to mobilize resources for the construction of Hamad Medical City (HMC) in Doha. In this case a joint venture special purpose vehicle (SPV), the Qatar Global sukuk QSC, was incorporated in Qatar with limited liability. This SPV acquired the ownership of land parcel, that was registered in the name of HMC. The land parcel was placed in trust and Ijara-based Trust Certificates (TCs) were issued worth US\$700 million due by October 2010. The annual floating rate of return was agreed at LIBOR plus 0.45 per cent.

#### **b. Assets-specific Sukuk**

Under this arrangement, the resources are mobilise by selling the beneficiary right of the assets to the investors. For example, the Government of Malaysia raised US\$ 600 million through Ijara sukuk Trust Certificates (TCs) in 2002. Under this arrangement, the beneficiary right of the land parcels has been sold by the government of Malaysia to an SPV, which was then re-sold to investors for five years. The SPV kept the beneficiary rights of the properties in trust and issued floating rate sukuk to investors.

Another example of Asset-specific sukuk is US\$250 million five-year Ijara sukuk issued to fund the extension of the airport in Bahrain. In this case the underlying asset was the airport land sold to an SPV.

#### **c. Balance Sheet-specific Sukuk**

An example of the balance sheet specific use of sukuk funds is the Islamic Development Bank (IDB) sukuk issued in August 2003. The IDB mobilised these funds to finance various projects of the member countries. The IDB made its debut resource mobilization from the international capital market by issuing US\$ 400 million five-year sukuk due for maturity in 2008.

### **Types of Sukuk**

Sukuk can be of many types depending upon the type of Islamic modes of financing and trades used in its structuring. However, the most important and common among those are ijarah, shirkah, salam and istisna. Among the fourteen eligible sukuk identified by the AAOIFI, following are more common:

#### **1. Mudaraba Sukuk**

These are investment sukuk that represent ownership of units of equal value in the Mudaraba equity and are registered in the names of holders on the basis of undivided ownership of shares in the Mudaraba equity and its returns according to the percentage of ownership of share. The owners of such sukuk are the rabbul-mal. (AAOIFI). Mudarba sukuk are used for enhancing public participation in big investment projects.

**Salient Features:**

Following are the salient features of mudarba sukuk:

- I. Mudarba sukuk (MS) represent common ownership and entitle their holders share in the specific projects against which the MS has been issued.
- II. The MS contract is based on the official notice of the issue of the prospectus which must provide all information required by shariah for the Qirad contract such as the nature of capital, the ratio for profit distribution and other conditions related to the issue, which must be compatible with shariah.
- III. The MS holder is given the right to transfer the ownership by selling the deeds in the securities market at his discretion. The sale of MS must follow the rules listed below:
  - a. If the mudarba capital, before the operations of the project, is still in the form of money, the trading of MS would be like exchange of money for money. In that case the rules of bay al-sarf would be applied.
  - b. If muqarda capital is in the form of debt then it must satisfy the principles of debt trading in Islam.
  - c. If capital is in the form of combination of cash, receivables, goods, real assets and benefits, trade must be based on market price evolved by mutual consent.
- IV. The Manager/SPV who receives the fund collected from the subscribers to MS can also invest his own fund. He will get profit for his capital contribution in addition to his share in the profit as mudarib.
- V. Neither prospectus nor MS should contain a guarantee, from the issuer or the manager for the fund, for the capital or a fixed profit, or a profit based on any percentage of the capital. Accordingly;
  - a. The prospectus or the MS issued pursuant to it, may not stipulate payment of a specific amount to the MS holder,
  - b. The profit is to be divided, as determined by applying rules of shariah; that is, an amount access of the capital, and not the revenue or the yield; and
  - c. Profit and Loss account of the project must be published and disseminated to MS holders.
- VI. It is permissible to create reserves for contingencies, such as loss of capital, by deducting from the profit.
- VII. The prospectus can also contain a promise made by a third party, totally un-related to the parties to the contract, in terms of legal entity or financial status, to donate a specific sum,

without any counter benefit, to meet losses in the give project, provided such commitment is independent of the mudarba contract.

On the expiry of the specified time period of the subscription, the Sukuk holders is given the right to transfer the ownership by sale or trade in the securities market at his discretion.

#### **Steps involved in the structure:**

- ❑ Mudarib enters into an agreement with project owner for construction/commissioning of project.
- ❑ SPV issues sukuk to raise funds.
- ❑ Mudarib collects regular profit payments and final capital proceeds from project activity for onward distribution to investors.
- ❑ Upon completion, Mudarib hands over the finished project to the owner.

#### **Mudaraba Sukuk in practice**

Shamil Bank of Bahrain raised 360 million Saudi Riyal investment capital through the Al Ehsa Special Realty Mudaraba, representing an investment participation in a land development transaction with a real estate development company in the Kingdom of Saudi Arabia. The investment objective of the Mudaraba is to provide investors with annual returns arising from participation in the funding of a land financing transaction Profits due to investors will be accrued on the basis of returns attained from investing the subscriptions.

## **2. Musharaka Sukuk**

These are investment sukuk that represent ownership of Musharaka equity. It does not differ from the Mudaraba sukuk except in the organization of the relationship between the party issuing such sukuk and holders of these sukuk, whereby the party issuing sukuk forms a committee from the holders of the sukuk who can be referred to in investment decisions (AAOIFI).

Musharaka Sukuk are used for mobilizing the funds for establishing a new project or developing an existing one or financing a business activity on the basis of partnership contracts. The certificate holders become the owners of the project or the assets of the activity as per their respective shares. These Musharaka certificates can be treated as negotiable instruments and can be bought and sold in the secondary market.

“These are certificates of equal value issued with the aim of using the mobilized funds for establishing a new project, developing an existing project or financing a business activity on the basis of any partnership contracts so that the certificate holders become the owners of the project or assets of the activity as per their respective shares, with the Musharaka certificates being managed on the basis of participation or Mudaraba or an investment agency.” (AAOIFI Standard 17, 3/6)

### **Steps involved in the structure:**

Corporate and the Special Purpose Vehicle (SPV) enter into a Musharaka Arrangement for a fixed period and an agreed profit-sharing ratio. Also the corporate undertakes to buy Musharaka shares of the SPV on a periodic basis.

- Corporate (as Musharik) contributes land or other physical assets to the Musharaka
- a & b. SPV (as Musharik) contributes cash i.e. the issue Proceeds received from the investors to the Musharaka
- The Musharaka appoints the Corporate as an agent to develop the land (or other physical assets) with the cash injected into the Musharaka and sell/lease the developed assets on behalf of the Musharaka.
- In return, the agent (i.e. the Corporate) will get a fixed agency fee plus a variable incentive fee payable.
- The profits are distributed to the sukuk holders.
- The Corporate irrevocably undertakes to buy at a pre-agreed price the Musharaka shares of the SPV on say semi-annual basis and at the end of the fixed period the SPV would no longer have any shares in the Musharaka.

### **Musharaka Sukuk in Practice**

US\$550 million sukuk transaction for Emirates airline, the seven-year deal was a structured on a Musharaka contract. The Musharaka or joint venture was set up to develop a new engineering centre and a new headquarters building on land situated near Dubai's airport which will ultimately be leased to Emirates. Profit, in the form of lease rentals, generated from the Musharaka venture will be used to pay the periodic distribution on the trust certificates.

Sitara Chemical Industries Ltd, a public limited company, made a public issue of profit-and-loss sharing based term finance certificates (TFC's) worth Rs 360 million which were subscribed in June 2002. The TFC's had a fixed life tenor of five years and profit and loss sharing was linked to the operating profit or loss of the Chemical Division of the company.

Kuwait Finance House (KFH), Liquidity Management Center (LMC) and Al Muthanna Investment Company (MIC), the mandated lead arrangers launched US\$ 125 million Lagoon City Musharaka sukuk to support the Lagoon City residential and commercial real estate development as part of Kheiran Pearl City project.

### **3. Ijara Sukuk**

These are sukuk that represent ownership of equal shares in a rented real estate or the usufruct of the

real estate. These sukuk give their owners the right to own the real estate, receive the rent and dispose of their sukuk in a manner that does not affect the right of the lessee, i.e. they are tradable. The holders of such sukuk bear all cost of maintenance of and damage to the real estate. (AAOIFI)

Ijarah sukuk are the securities representing ownership of well defined existing and known assets tied up to a lease contract, rental of which is the return payable to sukuk holders. Payment of ijarah rentals can be unrelated to the period of taking usufruct by the lessee. It can be made before beginning of the lease period, during the period or after the period as the parties may mutually decide. This flexibility can be used to evolve different forms of contract and sukuk that may serve different purposes of issuers and the holders.

### **Features of Ijarah sukuk**

1. It is necessary for an ijarah contract that the assets being leased and the amount of rent both are clearly known to the parties at the time of the contract and if both of these are known, ijarah can be contracted on an asset or a building that is yet to be constructed, as long as it is fully described in the contract provided that the lessor should normally be able to acquire, construct or buy the asset being leased by the time set for its delivery to the lessee (AAOIFI, 2003: 140-157). The lessor can sell the leased asset provided it does not hinder the lessee to take benefit from the asset. The new owner would be entitled to receive the rentals.
2. Rental in ijarah must be stipulated in clear terms for the first term of lease, and for future renewable terms, it could be constant, increasing or decreasing by benchmarking or relating it to any well-known variable.
3. As per shariah rules, expenses related to the corpus or basic characteristics of the assets are the responsibility of the owner, while maintenance expenses related to its operation are to be borne by the lessee.
4. As regards procedure for issuance of ijarah sukuk, an SPV is created to purchase the asset(s) that issues sukuk to the investor, enabling it to make payment for purchasing the asset. The asset is then leased to third party for its use. The lessee makes periodic rental payments to the SPV that in turn distributes the same to the sukuk holders.
5. Ijarah sukuk are completely negotiable and can be traded in the secondary markets.
6. Ijarah sukuk offer a high degree of flexibility from the point of view of their issuance management and marketability. The central government, municipalities, awqaf or any other asset users, private or public can issue these Sukuk. Additionally, they can be issued by financial intermediaries or directly by users of the leased assets.

### **Steps involved in the structure**

- The obligator sells certain assets to the SPV at an agreed pre-determined purchase price.

- ❑ The SPV raises financing by issuing sukuk certificates in an amount equal to the purchase price.
- ❑ This is passed on to the obligator (as seller).
- ❑ A lease agreement is signed between SPV and the obligator for a fixed period of time, where the obligator leases back the assets as lessee.
- ❑ SPV receives periodic rentals from the obligator;
- ❑ These are distributed among the investors i.e. the sukuk holders.
- ❑ At maturity, or on a dissolution event, the SPV sells the assets back to the seller at a predetermined value. That value should be equal to any amounts still owed under the terms of the Ijara sukuk.

### **Ijara Sukuk in Practice**

In December 2000, Kumpulan Guthrie Berhad (Guthrie) was granted a RM1.5 billion (US\$400 million) Al-Ijara Al-Muntahiyah Bit-Tamik by a consortium of banks. The original facility was raised to re-finance Guthrie's acquisition of a palm oil plantation in the Republic of Indonesia. The consortium was then invited to participate as the underwriter/primary subscriber of the Sukuk Transaction.

US\$350 million sukuk Trust Certificates by Sarawak Corporate Sukuk Inc. (SCSI) Sarawak Economic Development Corporation (SEDC) raised financing amounting to US\$350 million by way of issuance of series of trust certificates issued on the principle of Ijara sukuk. The certificates were issued with a maturity of 5 years and under the proposed structure, the proceeds will be used by the issuer to purchase certain assets from 1st Silicon (Malaysia) Sdn Bhd. Thereafter, the issuer will lease assets procured from 1st Silicon to SEDC for an agreed rental price for an agreed lease period of 5 years.

### **4. Murabaha Sukuk**

In this case the issuer of the certificate is the seller of the Murabaha commodity, the subscribers are the buyers of that commodity, and the realised funds are the purchasing cost of the commodity. The certificate holders own the Murabaha commodity and are entitled to its final sale price upon the re-sale of the Commodity. The possibility of having legally acceptable Murabaha-based sukuk is only feasible in the primary market. The negotiability of these Sukuk or their trading at the secondary market is not permitted by shariah, as the certificates represent a debt owing from the subsequent buyer of the Commodity to the certificate-holders and such trading amounts to trading in debt on a deferred basis, which will result in riba.

Despite being debt instruments, the Murabaha Sukuk could be negotiable if they are the smaller part of a package or a portfolio, the larger part of which is constituted of negotiable instruments such as Mudaraba, Musharaka, or Ijara Sukuk. Murabaha sukuk are popular in Malaysian market due to a more liberal interpretation of fiqh by Malaysian jurists permitting sale of debt (bai-al-dayn) at a

negotiated price.

**Steps involved in the structure:**

- ❑ A master agreement is signed between the SPV and the borrower
- ❑ SPV issues sukuk to the investors and receive sukuk proceeds.
- ❑ SPV buys commodity on spot basis from the commodity supplier.
- ❑ SPV sells the commodity to the borrower at the spot price plus a profit margin, payable on installments over an agreed period of time
- ❑ The borrower sells the commodity to the Commodity buyer on spot basis.
- ❑ The investors receive the final sale price and profits.

**Murabaha Sukuk in Practice**

Arcapita Bank, a Bahrain-based investment firm has mandated Bayerische Hypo-und Vereinsbank AG (“HVB”), Standard Bank Plc (“SB”) and WestLB AG, London Branch (“WestLB”) (together the “Mandated Lead Arrangers”), to arrange a Five Year Multicurrency (US\$, € and £) Murabaha-backed Sukuk. Sukuk will have a five-year bullet maturity and proposed pricing three month LIBOR +175bps.

**5. Salam Sukuk**

Salam sukuk are certificates of equal value issued for the purpose of mobilising Salam capital so that the goods to be delivered on the basis of Salam come to the ownership of the certificate holders. The issuer of the certificates is a seller of the goods of Salam, the subscribers are the buyers of the goods, while the funds realized from subscription are the purchase price (Salam capital) of the goods. The holders of Salam certificates are the owners of the Salam goods and are entitled to the sale price of the certificates or the sale price of the Salam goods sold through a parallel Salam, if any.

Salam-based securities may be created and sold by an SPV under which the funds mobilized from investors are paid as an advance to the company SPV in return for a promise to deliver a commodity at a future date. SPV can also appoint an agent to market the promised quantity at the time of delivery perhaps at a higher price. The difference between the purchase price and the sale price is the profit to the SPV and hence to the holders of the Sukuk.

All standard shariah requirements that apply to Salam also apply to Salam sukuk, such as, full payment by the buyer at the time of effecting the sale, standardized nature of underlying asset, clear enumeration of quantity, quality, date and place of delivery of the asset and the like.

One of the Shariah conditions relating to Salam, as well as for creation of Salam sukuk, is the requirement that the purchased goods are not re-sold before actual possession at maturity. Such

transactions amount to selling of debt. This constraint renders the Salam instrument illiquid and hence somewhat less attractive to investors. Thus, an investor will buy a Salam certificate if he expects prices of the underlying commodity to be higher on the maturity date.

#### **Steps involved in the transaction:**

- ❑ SPV signs an undertaking with an obligator to source both commodities and buyers. The obligator contracts to buy, on behalf of the end-Sukuk holders, the commodity and then to sell it for the profit of the Sukuk holders.
- ❑ Salam certificates are issued to investors and SPV receives Sukuk proceeds.
- ❑ The Salam proceeds are passed onto the obligator who sells commodity on forward basis
- ❑ SPV receives the commodities from the obligator
- ❑ Obligator, on behalf of Sukuk holders, sells the commodities for a profit.
- ❑ Sukuk holders receive the commodity sale proceeds.

#### **Salam Sukuk in Practice**

Aluminum has been designated as the underlying asset of the Bahrain Government al Salam contract, where by it promises to sell aluminum to the buyer at a specified future date in return of a full price payment in advance. The Bahrain Islamic Bank (BIB) has been nominated to represent the other banks wishing to participate in the Al Salam contract. BIB has been delegated to sign the contracts and all other necessary documents on behalf of the other banks in the syndicate. At the same time, the buyer appoints the Government of Bahrain as an agent to market the appropriate quantity at the time of delivery through its channels of distribution. The Government of Bahrain provides an additional undertaking to the representative (BIB) to market the aluminum at a price, which will provide a return to al Salam security holders equivalent to those available through other conventional short-term money market instruments.

#### **6. Istisna Sukuk**

Istisna sukuk are certificates that carry equal value and are issued with the aim of mobilising the funds required for producing products that are owned by the certificate holders. The issuer of these certificates is the manufacturer (supplier/seller), the subscribers are the buyers of the intended product, while the funds realised from subscription are the cost of the product. The certificate holders own the product and are entitled to the sale price of the certificates or the sale price of the product sold on the basis of a parallel Istisna, if any. Istisna Sukuk are quite useful for financing large infrastructure projects. The suitability of Istisna for financial intermediation is based on the permissibility for the contractor in Istisna to enter into a parallel Istisna contract with a subcontractor. Thus, a financial institution may undertake the construction of a facility for a deferred price, and sub contract the actual

construction to a specialised firm.

Shariah prohibits the sale of these debt certificates to a third party at any price other than their face value. Clearly such certificates cannot be traded in the secondary market.

#### **Steps involved in the structure:**

- ❑ SPV issues Sukuk certificates to raise funds for the project.
- ❑ Sukuk issue proceeds are used to pay the contractor/builder to build and deliver the future project.
- ❑ Title to assets is transferred to the SPV
- ❑ Property/project is leased or sold to the end buyer. The end buyer pays monthly installments to the SPV.
- ❑ The returns are distributed among the Sukuk holders.

#### **Istisna Sukuk in Practice**

Tabreed's five-year global corporate Sukuk (on behalf of the National Central Cooling Company, UAE) provided a fixed coupon of 5.50%. It is a combination of Ijara Istisna and Ijara Mawsufah fi al dhimmah (or forward leasing contracts). The issue was launched to raise funds to retire some existing debt, which totals around US\$136 million, as well as to finance expansion.

The Durrat Sukuk will finance the reclamation and infrastructure for the initial stage of a broader US\$ 1 billion world class residential and leisure destination known as 'Durrat Al Bahrain', currently the Kingdom of Bahrain's largest residential development project. The return on the Sukuk is 125 basis points over 3 months LIBOR payable quarterly, with the Sukuk having an overall tenor of 5 years and an option for early redemption. The proceeds of the issue (cash) will be used by the Issuer to finance the reclamation of the land and the development of Base Infrastructure through multiple project finance (Istisna) agreements. As the works carried out under each Istisna are completed by the Contractor and delivered to the Issuer, the Issuer will give notice to the Project Company under the Master Ijara Agreement and will lease such Base Infrastructure on the basis of a lease to own transaction.

#### **7. Hybrid Sukuk**

Considering the fact that Sukuk issuance and trading are important means of investment and taking into account the various demands of investors, a more diversified Sukuk - hybrid or mixed asset Sukuk - emerged in the market. In a hybrid Sukuk, the underlying pool of assets can comprise of Istisna, Murabaha receivables as well as Ijara. Having a portfolio of assets comprising of different classes allows for a greater mobilization of funds. However, as Murabaha and Istisna contracts cannot be traded on secondary markets as securitised instruments at least 51 percent of the pool in a hybrid

Sukuk must comprise of Sukuk tradable in the market such as an Ijara Sukuk. Due to the fact the Murabaha and Istisna receivables are part of the pool, the return on these certificates can only be a pre-determined fixed rate of return.

**Steps involved in the structure:**

- ❑ Islamic finance originator transfers tangible assets as well as Murabaha deals to the SPV.
- ❑ SPV issues certificates of participation to the Sukuk holders and receive funds. The funds are used by the Islamic finance originator.
- ❑ Islamic finance originator purchase these assets from the SPV over an agreed period of time.
- ❑ Investors receive fixed payment of return on the assets.

**Hybrid Sukuk in practice**

Islamic Development Bank issued the first hybrid Sukuk of assets comprising 65.8% Sukuk al-Ijara, 30.73% of Murabaha receivables and 3.4% Sukuk al-Istisna. This issuance required the IDB's guarantee in order to secure a rating and international marketability. The \$ 400 million Islamic Sukuk was issued by Solidarity Trust Services Limited (STSL), a special purpose company incorporated in Jersey Channel Islands. The Islamic Corporation for the Development of Private Sector (ICD) played an intermediary role by purchasing the asset from IDB and selling it to The Solidarity Trust Services Limited (STSL) at the consolidated net asset value.

**Conclusion**

The market for sukuk is now maturing and there is an increasing momentum in the wake of interest from issuers and investors. sukuk have confirmed their viability as an alternative means to mobilise medium to long-term savings and investments from a huge investor base.

Different sukuk structures have been emerging over the years but most of the sukuk issuance to date have been ijara sukuk, since they are based on the undivided pro-rata ownership of the underlying leased asset, it is freely tradable at par, premium or discount. Tradability of the sukuk in the secondary market makes them more attractive. Although less common than Ijara sukuk, other types of sukuk are also playing significant role in emerging markets to help issuers and investors alike to participate in major projects, including airports, bridges, power plants etc. The sovereign sukuk issues, following Malaysia's lead, are enjoying widespread and positive acclaim among Islamic investors and global institutional investors alike.

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