



## **The Development of the Global Islamic Sukuk Industry: Current Reality and Future Directions (An Analytical Study for the Period 2001-2019)**

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### **Abstract:**

*This study aims to elucidate the concept and significance of Islamic sukuk, as well as to highlight the growing trend among countries toward adopting sukuk as a modern funding instrument. This is achieved through the presentation and analysis of various indicators and statistics concerning the volume and applications of this instrument in different regions of the world.*

*The study concenterprises the effectiveness of Islamic sukuk through their pivotal role in savings mobilization, investment, and infrastructure funding. Statistical analysis reveals an increasing trend in sukuk issuance, accompanied by diversification in their structures and forms. Moreover, the findings indicate that sukuk issuance has become a global phenomenon, no longer restricted solely to Islamic countries.*

**Key words:** *Islamic sukuk, sukuk issuance, Islamic finance*

## **Le développement de l'industrie mondiale des sukuk islamiques : réalité actuelle et orientations futures (Étude analytique pour la période 2001-2019)**

### **Résumé :**

*Cette étude vise à élucider le concept et l'importance des sukuk islamiques, ainsi qu'à mettre en évidence la tendance croissante des pays à adopter les sukuk comme instrument de financement moderne. Pour ce faire, elle présente et analyse divers indicateurs et statistiques concernant le volume et les applications de cet instrument dans différentes régions du monde.*

*L'étude examine l'efficacité des sukuk islamiques à travers leur rôle central dans la mobilisation de l'épargne, l'investissement et le financement des infrastructures. L'analyse statistique révèle une tendance à la hausse dans l'émission de sukuk, accompagnée d'une diversification de leurs structures et de leurs formes. De plus, les résultats indiquent que l'émission de sukuk est devenue un phénomène mondial, qui ne se limite plus aux seuls pays islamiques.*

**Mots clés :** *sukuk islamiques, émission de sukuk, finance islamique*



## **Introduction:**

The Islamic financial sector plays a vital and effective role in providing the necessary resources to establish projects that support economic growth and enhance societal welfare. This is accomplished by mobilizing savings and directing them toward investments that generate economic activity and comprehensive development. In this context, Islamic financial transactions, distinguished by their linkage to real economic activity and their resilience amid challenging environments, have attracted growing attention in recent years, particularly following the global financial crisis of 2007–2008. This crisis led to a surge in demand for Islamic funding instruments, particularly Islamic sukuk.

According to a report by Standard & Poor's, total global sukuk issuance is projected to reach USD 155 billion in 2021, driven by the return of key issuers from core Islamic finance markets (Hatim, 2021). Governments, institutional actors, and investors increasingly view Islamic sukuk as modern, alternative funding instruments to conventional debt tools. Sukuk facilitate the mobilization and aggregation of financial savings to fund development and infrastructure projects, so that supporting economic development.

This study addresses the following central research question:

**What is the current state and trajectory of the Islamic sukuk industry globally?**

To comprehensively explore this main question, the following sub-questions are formulated:

- What is meant by Islamic sukuk, and what are their key distinguishing features as a modern alternative funding instrument?
- To what extent do Islamic sukuk contribute to economic development, and what are the main barriers to their wider adoption?
- What is the current state and evolution of the Islamic sukuk industry?
- Is sukuk issuance limited exclusively to Islamic countries?

***Research Hypotheses:***

To address the central research problem, the study is grounded in the following hypotheses:

***Main Hypothesis:***

The adoption of Islamic sukuk effectively contributes to supporting economic development.

Aligned with the sub-questions, the following specific hypotheses are posited:

- Islamic sukuk are characterized by several distinctive features that facilitate their creation and expansion.
- Islamic sukuk exhibit structural diversity, rendering them among the most important funding sources for economic development.
- The use of Islamic sukuk as a funding instrument is experiencing continuous growth and expansion.
- Sukuk issuance is not confined to Islamic countries but has extended globally.



### *Literature Review:*

Given the importance of this topic and its relevance to key economic variables, it has been examined by numerous scholars from various perspectives:

- Najat Mohamed Mar'i Younes. (2020) explored the origin, concept, types, and characteristics of Islamic sukuk, focusing on their role in funding government projects and addressing budget deficits. The study highlighted Malaysia's pioneering experience and concluded that Islamic sukuk significantly impact per capita GDP, so that accelerating Malaysia's economic growth (Najat, 2020).
- Hamlah Ez al-Din et al. (2020) investigated the role of Islamic sukuk in supporting economic development, with specific reference to Malaysia (2010–2016). The study concluded that emerging economies should actively consider issuing sukuk as a strategic funding tool (Abd al-Da'im Hajjar, 2020).
- Zaidan Abdul Razzaq (2019) analyzed the importance of Islamic sukuk during 2001–2015, emphasizing their rapid dissemination and resilience during crises such as the 2008 financial crisis. The study underscored sukuk's role as an alternative investment instrument that supports economic development and noted their sensitivity to fluctuations in oil prices (Zaidan, 2019).

## **1. Theoretical Framework of Islamic Sukuk**

### **1.1. Origins of Islamic Sukuk**

Islamic sukuk first emerged as a Sharia-compliant alternative to conventional securitization, which is deemed non-permissible under Islamic law. Initially conceived to

support economic growth by funding investment projects within an Islamic legal framework, the idea of sukuk coincided with the economic crises of the 1980s. One of the earliest scholarly contributions to this concept was by Sami Hamoud, who proposed "partnership bonds" (\*Sukuk al-Muqaradah\*) in the draft of Jordan's provisional Islamic Banking Law No. (3) of 1978. Subsequent collaboration with Jordan's Ministry of Awqaf led to the adoption of partnership bonds as a Sharia-compliant mechanism for modernizing and rehabilitating waqf (endowment) properties.

This culminated in Law No. (10) of 1981, establishing Jordan as the birthplace of this financial innovation. On August 4, 1988, the Islamic Fiqh Academy issued Resolution No. (5), permitting Islamic companies to issue partnership and investment bonds. This marked the first step toward the Sharia legitimation of partnership bonds (Ismail, 2020, p. 75). In March 1990, the Academy issued a fatwa prohibiting conventional bonds and endorsing sukuk or instruments based on \*mudarabah\* (profit-sharing partnerships). Similarly, the Muslim World League ruled in January 2002 that debt-based sukuk are impermissible.

Subsequently, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), established in Algeria in 1990, issued Sharia Standard No. 17 on Investment Sukuk in May 2003. This standard defined sukuk types, characteristics, and governing Sharia principles, and set foundational guidelines for the issuance and trading of all sukuk structures developed up to that date.

Since then, Islamic sukuk have proliferated across numerous Arab and Islamic countries, including Bahrain,



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Pakistan, the UAE, Turkey, Sudan, Iran, and Qatar, as well as Western nations such as the UK and Germany.

In 2009, the Islamic Financial Services Board (IFSB) in Malaysia provided a comprehensive definition of sukuk structures, clarified associated risks for Islamic financial institutions, outlined operational requirements for sukuk issuance, and addressed credit risk management in sukuk transactions (Jaber, 2017, pp. 14–15).

## 1.2. Definition of Islamic Sukuk

- AAOIFI defines Islamic sukuk as:
  - “Equal-value documents representing undivided ownership shares in tangible assets, usufructs, services, or assets of a specific project or investment activity, following the collection of subscription proceeds, closure of the subscription process, and deployment of funds for the intended purpose” (AAOIFI, 2003).
- The International Islamic Fiqh Academy defines them as:
- “The issuance of equal-value financial certificates representing undivided ownership shares in existing or future assets, including tangible assets, usufructs, rights, or a combination thereof, financed through subscription proceeds, issued under a Sharia-compliant contract, and governed by its rulings” (International Islamic Fiqh Academy, 2009).
- More broadly, Islamic sukuk may be defined as equal-value financial instruments issued by an Islamic financial institution under a Sharia-compliant contract, representing a share in the capital of an

existing income-generating entity or a project to be established. Sukuk holders share in profits and losses and may only be used for the specific purpose for which they were issued.

### ***1.2.1. Parties Involved in Sukuk Structuring***

Sukuk issuance, like any contractual arrangement, involves parties with defined rights and obligations, categorized as primary and supporting parties (Nasser, 2014, pp. 4–5).

#### **A. Primary Parties:**

- Originator (Asset Owner): The entity owning the underlying asset or seeking liquidity, which transfers ownership of the asset to the Special Purpose Vehicle (SPV).
- Issuer (SPV – Special Purpose Vehicle): Typically, a legally and financially independent entity appointed by the originator to issue sukuk to investors, manage the underlying assets on their behalf, and undertake all necessary issuance procedures for a defined fee or commission.
- Sukuk Holders (Investors): Individuals or institutions seeking Sharia-compliant investment opportunities by purchasing sukuk during subscription. They may include banks, financial institutions, or private investors.
- Sukuk Portfolio: An investment vehicle comprising diversified assets securitized to provide the originator with required liquidity for new or expanded projects under Islamic funding principles. Returns from this



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portfolio are held in a dedicated account to settle sukuk obligations at maturity.

## **B. Supporting Parties:**

- Investment Trustee: A financial intermediary responsible for safeguarding sukuk holders' interests, overseeing the issuer's activities, and preserving relevant documentation and collateral.
- Sharia Supervisory Board: A critical supporting party that ensures sukuk structures, documentation, and operations comply with Sharia principles, so that granting them religious legitimacy.
- International Rating Agencies: Specialized agencies (e.g., the Islamic International Rating Agency in Bahrain or the Malaysian Rating Corporation) that assess the creditworthiness, financial soundness, collateral adequacy, fair pricing, and risk profile of sukuk instruments.

### **1.2.2. Stages of the Sukuk Process**

The sukuk issuance process unfolds in three main stages (Mohammed, 2016, pp. 156-157):

#### **A. Issuance Stage:**

- The originator identifies and pools the assets to be securitized into a sukuk portfolio and transfers them to the SPV.
- The SPV restructures and segments these assets into units aligned with investor preferences, converting them into tradeable sukuk.

## **B. Portfolio Management Stage:**

- The SPV manages the sukuk portfolio on behalf of investors throughout the sukuk term, collects asset-generated returns, and distributes them to investors.

## **C. Sukuk Redemption Stage:**

The final stage, in which the nominal value of sukuk is repaid to investors at the maturity date specified in the offering circular.

### ***1.2.3. Characteristics of Islamic Sukuk***

Islamic sukuk are distinguished by several key features that differentiate them from conventional bonds and underpin their legitimacy and appeal (Al-Rushood, 2012, pp. 38–39):

- A sukuk serves as a title deed proving ownership rights and is issued either in the holder's name or to bearer, in equal denominations.
- It represents an undivided ownership share in tangible assets, usufructs, or services, not a debt obligation with interest.
- Sukuk are issued by entities owning assets they wish to sell or monetize, or by entities seeking to invest subscription proceeds in new projects.
- At maturity, investors recover their principal, but the issuer does not guarantee capital repayment or returns, except in cases of negligence or misconduct.
- No capital or profit guarantees exist in Islamic sukuk.
- Sukuk are governed by Islamic Sharia, based on contracts such as "musharakah" (partnership), "Murabaha" (cost-plus sale), "Mudarabah" (profit-



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sharing), and other Sharia-compliant funding structures.

- Sukuk are tradeable and transferable through Sharia-permissible means (e.g., sale, pledge, gift).
- Sukuk may be issued for fixed or indefinite terms, depending on the underlying investment contract.
- Sukuk holders share in profits and bear losses proportionally to their ownership stakes.

#### ***1.2.4. Significance of Islamic Sukuk***

The importance of Islamic sukuk has grown significantly in recent years due to their capacity to foster economic development (Jaber, 2017, pp. 21-22):

- They complete the Islamic economic ecosystem alongside Islamic banks and takaful (insurance) institutions, easing religious concerns for investors.
- They enable governments to fund infrastructure projects without resorting to conventional treasury bonds or public debt.
- They diversify domestic revenue sources and provide funding for individuals, institutions, and public authorities.
- They offer long-term funding for small, medium, and large enterprises, so that generating employment and mitigating unemployment.
- Central banks can utilize sukuk within Islamic monetary policy frameworks to absorb excess liquidity and curb inflation.
- Sukuk enhance market transparency and improve information infrastructure by involving multiple institutions in funding processes.

- They mobilize savings and channel them into real economic investments.
- They reduce the banking sector's monopoly over funding by introducing alternative capital markets.

### *1.2.5. Types of Islamic Sukuk*

Sukuk are broadly classified based on the relationship between issuer and investors. The Islamic Financial Services Board (IFSB) categorizes them into:

#### **A. Asset-Backed Sukuk**

These provide relatively predictable returns and include:

- 1) **Salam Sukuk:** Represent a forward sale where payment is made upfront for goods described in detail and delivered at a future date. Since the asset remains in the seller's liability until delivery, such sukuk are non-tradeable and held to maturity (Al-Baqmi, 2013, p. 23).
- 2) **Istisna'a Sukuk:** Equal-value instruments issued to fund the manufacturing of a specified asset. Ownership transfers to sukuk holders upon subscription. The issuer (or its agent) commissions production according to agreed specifications and delivery timelines. Installment funding may be arranged with the manufacturer (Badran, 2014, p. 35).
- 3) **Ijarah Sukuk:** Represent undivided ownership shares in income-generating assets, usufructs, or services. These convert leased assets into tradeable securities. Proceeds are used to acquire productive assets, which are then leased back to the original user (Badran, 2014, p. 24).



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- 4) **Murabaha Sukuk:** Issued to fund the purchase of goods under a cost-plus sale contract. The financial institution acts as both sukuk issuer and seller on behalf of holders. Upon purchase, the goods become the collective property of sukuk holders, entitling them to the resale proceeds (Aisha, 2019, p. 582).

## B. Equity-Based (Participatory) Sukuk

Returns are based on profit-and-loss sharing:

- 1) **Musharakah Sukuk:** Represent ownership in an existing or new project financed through a Sharia-compliant partnership agreement. The project becomes jointly owned by sukuk holders in proportion to their shares. Musharakah can be classified by asset type (fixed vs. variable costs), purpose, term (short/long), or sector (general/specialized) (Mohammed S., 2020, p. 74).
- 2) **Mudarabah Sukuk:** Investment instruments based on capital pooling through undivided ownership units of equal value. Holders are silent partners, while the manager (mudarib) handles operations (Al-Kawshali, 2015–2016, p. 39).

Other notable sukuk types include Muzara'ah (crop-sharing), MUSAQAH (irrigation-sharing), Mugharasah (tree-planting partnership), and Islamic investment funds.

### 1.2.6. Challenges and Barriers to Sukuk Development

Despite their advantages and rapid growth, Islamic sukuk face several obstacles that hinder broader adoption (Ismail, 2020, p. 92):

**A. Lack of Transparency:** Inadequate disclosure standards and regulatory frameworks reduce investor confidence, especially when seeking international credit ratings.

**B. Absence of Harmonized Legal Frameworks:** Jurisdictional differences in Sharia interpretations and regulatory inconsistencies impede standardization.

**C. Underdeveloped Secondary Markets:** Limited liquidity and trading restrict sukuk to institutional investors, necessitating robust secondary markets.

**D. Dominance of Foreign Banks:** A shortage of qualified Islamic investment banks leads to reliance on conventional international institutions for structuring and issuance.

**E. Inadequate Infrastructure:** Deficiencies in trading, settlement systems, and performance monitoring institutions weaken market efficiency.

## **2. Contribution of Islamic Sukuk to Economic Development**

Before examining sukuk's developmental role, economic development must be defined:

- Gerald Meier (USA): "Economic development is a process whereby real national income rises over a given period."
- Baldwin: "It is the expansion of the national economy to annually employ more labor and generate a fiscal reserve for social and health initiatives."

These definitions underscore the need for funding mechanisms that support development. Islamic sukuk fulfill this role through:



## 2.1. Mobilizing Financial Savings

Sukuk aggregate savings from diverse investor groups, especially through Islamic investment funds, and offer varied maturity profiles (short, medium, long-term). Unlike conventional bonds, they are immune to interest rate risk (Brika, 2017, p. 187).

## 2.2. Funding Investment Projects

Enterprises often prioritize internal funding but turn to sukuk when expanding or launching real economic ventures. Sukuk uniquely mobilize resources and ensure their allocation to tangible investments. The real challenge lies not in resource mobilization, but in efficient utilization aligned with developmental goals.

Different sukuk types suit various sectors:

- Murabaha: Commercial enterprises.
- Salam : Agriculture, crafts, extractive industries.
- Istisna'a: Real estate.
- Musharakah: Most flexible, suitable for short-, medium-, and long-term investments across all economic sectors.
- Mudarabah: Separates ownership from management, ideal for entrepreneurial ventures. (Nasser R., 2014, p. 8)

## 2.3. Funding Budget Deficits

- Budget deficits arise when public expenditures exceed revenues. Sukuk offer a superior alternative to conventional debt, which can be inflationary and costly. Advantages include:
- Reducing pressure on the state budget.

- Attracting funds outside the formal banking sector.
- Enhancing national liquidity management. (Derbouche, 2016, pp. 251–252)

#### **2.4. Funding Infrastructure Projects**

Sukuk are ideal for large-scale infrastructure (bridges, airports, roads, dams). For example, Ijarah sukuk allow governments to lease assets from sukuk holders, who become legal owners. This eases reliance on treasury bonds and public debt (Hamid, 2018, p. 326).

#### **2.5. Job Creation and Unemployment Reduction**

By activating idle capital, sukuk increase employment. Profit-sharing models incentivize investors, while “Mudarabah” enables unemployed individuals without capital to participate. Similarly:

- Muzara’ah/Musaqah: Link landowners with laborers for shared harvests.
- Ijarah with ownership transfer: Motivates workers.
- Murabaha/Salam: Support artisans, small farmers, contractors, and industrialists. (Ahmed, 2017, pp. 160–161)

### **3. The State and Evolution of the Global Sukuk Industry (2001–December 2019)**

Global interest in Islamic finance, and sukuk in particular, has intensified in recent years. Sukuk have experienced widespread adoption, significant expansion, and rapid growth in issuance volumes globally.

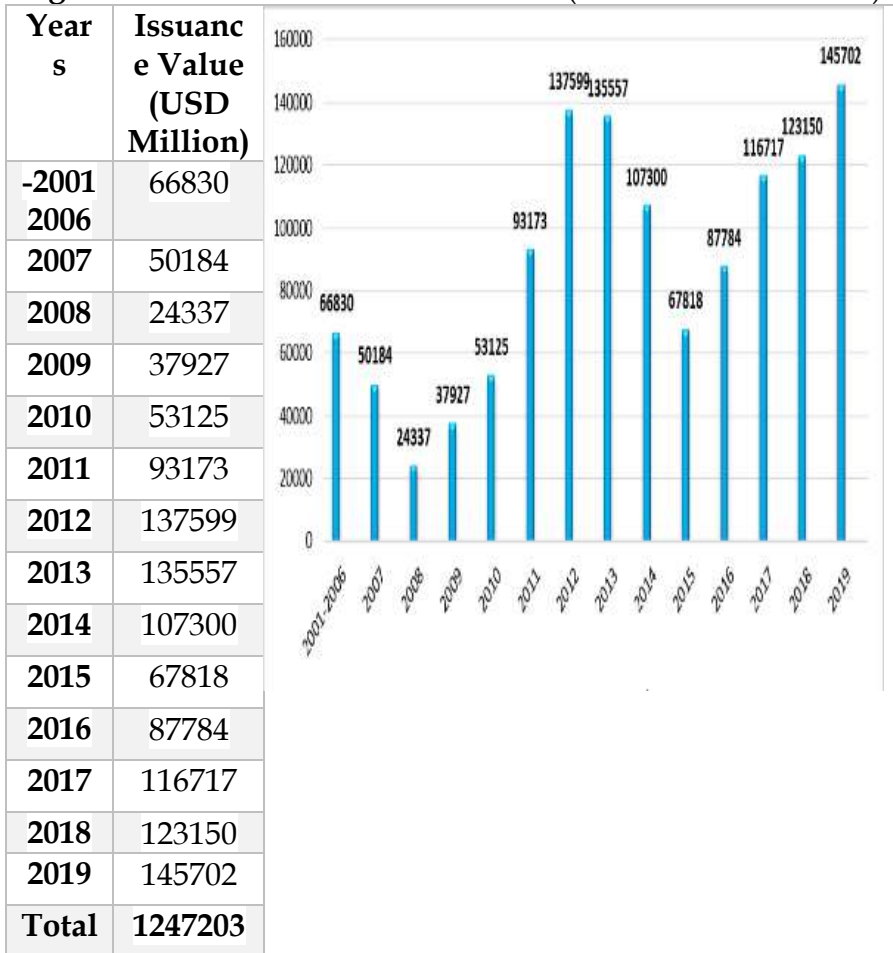
According to the International Islamic Financial Market (IIFM), total global sukuk issuance reached USD 145.7 billion in 2019.



### 3.1. Global Sukuk Issuance Volume (2001–December 2019)

Islamic sukuk dominate the Islamic capital markets, exhibiting robust and accelerating growth:

**Figure 1: Total Global Sukuk Issuance (2001–December 2019)**



**Source:** Sukuk Report, A Comprehensive Study of the Global Sukuk Market, July 2020, 9th Edition

Over the 2001–2019 period, total global sukuk issuance amounted to USD 1.247 trillion. This period included major events, notably the 2008 subprime mortgage crisis, which significantly impacted Islamic finance markets. Sukuk issuance declined by USD 25.847 billion (48.5%) between 2007 and 2008, marking the first contraction since 2002.

The crisis caused severe market distress, including soaring borrowing costs and massive investor losses due to collapsing asset and real estate prices (Othman, 2009). However, by 2009, global sukuk issuance rebounded by 55.84% to USD 37.927 billion, continuing its upward trajectory:

- 2010: USD 53.125 billion
- 2011: USD 93.173 billion (+75.38%)
- 2012: Peak issuance at USD 137.599 billion

Post-2012, issuance slowed due to economic deceleration, oil price declines, and Malaysia's suspension of short-term investment sukuk, leading to a low of USD 67.818 billion in 2015 (Zaidan, 2019, p. 113).

From 2016 onward, sukuk markets revived, reaching USD 145.702 billion in 2019. This resurgence was driven by core Islamic finance markets (Malaysia, Indonesia, GCC) shifting toward Islamic instruments and using sukuk to manage liquidity and support long-term growth (Al Bayan Economic, 2020).

### ***3.1.1. Global Sukuk Issuance by Country (2001–December 2019)***

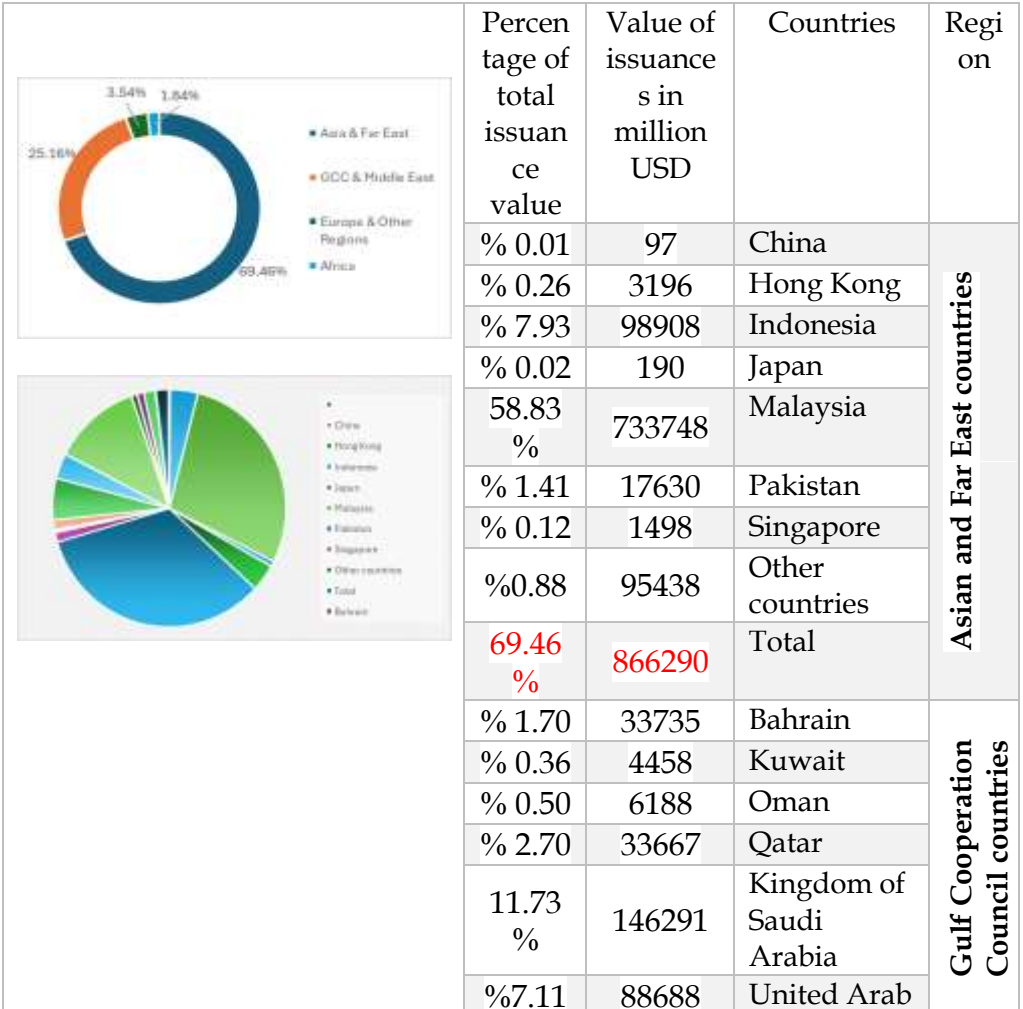
Islamic sukuk have gained great fame and very advanced ranks at both the global and local levels, whether in terms of the volume of their issuances or their locations and



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geographical spread, especially in recent years. The following data illustrates this:

**Figure 2:** Total Global Sukuk Issuance by Region and Country (2001–December 2019)



			Emirates	
	%0.06	736	Other countries	
	<b>25.16 %</b>	<b>313764</b>	Total	
	% 0.07	864	Nigeria	<b>African countries</b>
	% 0.04	500	South Africa	
	% 1.58	19646	Sudan	
	% 0.19	1947	Other countries	
	<b>% 1.84</b>	<b>22956</b>	Total	
	0.0001 %	1	France	<b>Europe and other countries</b>
	%0.02	206	Germany	
	%0.02	280	Luxembourg	
	%3.25	40544	Turkey	
	%0.14	1719	United Kingdom	
	%0.11	1367	USA	
	%0.01	77	Kazakhstan	
	<b>%3.54</b>	<b>44194</b>	Total	
	1.095 %	2515	Other countries	
	<b>%100</b>	<b>289917</b>	Grand total	

**Source:** Sukuk Report, A Comprehensive Study of the Global Sukuk Market, July 2020, 9th Edition

Sukuk issuance has expanded geographically, moving beyond Asia and the Middle East to include Africa, Europe, and the Americas. Asia & the Far East dominate with 69.46% of global issuance, led overwhelmingly by Malaysia

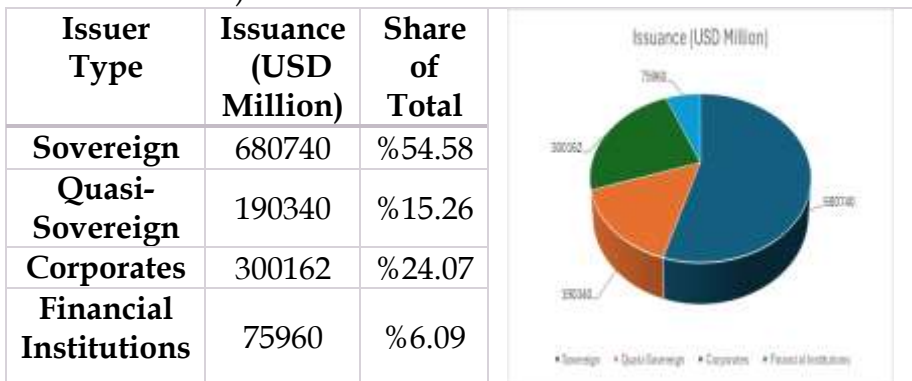


(58.83%). Saudi Arabia ranks second (11.73%), followed by Indonesia (7.93%).

### 3.2. Sukuk Issuance by Issuer Type (2001–December 2019)

Islamic sovereign sukuk are financial documents of equal value issued by government or quasi-government institutions, proving the ownership rights of the holder in state assets (Mahidat, 2017, p. 140), as illustrated in the following figure:

**Figure 3:** Global Sukuk Issuance by Issuer Category (2001–December 2019)



**Source:** Sukuk Report, A Comprehensive Study of the Global Sukuk Market, July 2020, 9th Edition

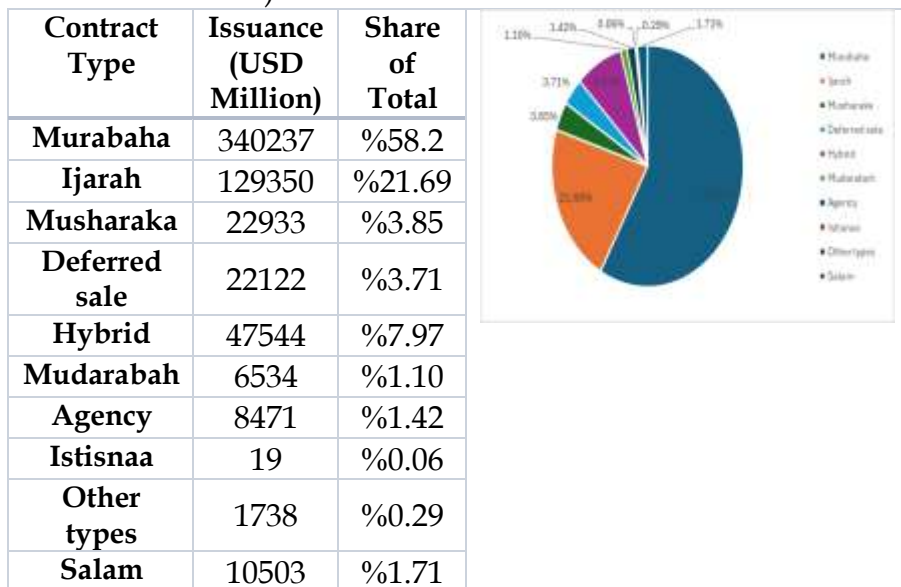
Sovereign sukuk dominated issuance (54.58%), reflecting strong government participation, particularly from Saudi Arabia, Indonesia, Malaysia, and Turkey, even amid the economic shock of the COVID-19 pandemic. Corporate issuance remained subdued in 2019 due to lockdowns and balance sheet pressures. Financial institutions issued sukuk

primarily for liquidity management and capital adequacy compliance (IIFM, 2020).

### 3.3. Sukuk Issuance by Islamic Contract Type (2001-December 2019)

Ijara, Murabaha, Salam, Mudarabah, Istisnaa, and Musharakah sukuk are among the most important primary contracts, in addition to the existence of other sukuk formats issued by some other countries.

**Figure 4:** Global Sukuk Issuance by Sharia Structure (2001-December 2019)



**Source:** Sukuk Report, A Comprehensive Study of the Global Sukuk Market, July 2020, 9th Edition

Murabaha and Ijarah dominate issuance, accounting for 79.89% of total sukuk. Murabaha’s simplicity and compliance clarity explain its 58.2% share. Ijarah is favored



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for its stable, predictable returns, appealing to both issuers and investors. In contrast, equity-based structures like Musharakah (3.85%) and Mudarabah (1.10%) remain underutilized despite their alignment with risk-sharing principles.

## **Conclusion:**

Islamic sukuk have proven instrumental for individuals and corporations in funding establishment, expansion, and real developmental investments. Their global appeal has surged, especially after demonstrating resilience during the 2008 crisis and adhering to Sharia principles of real asset backing and risk-sharing.

## **Key Findings:**

- Islamic sukuk effectively address funding gaps for institutions and governments.
- They serve as a modern instrument for socioeconomic development by mobilizing savings and funding infrastructure.
- Sukuk are adaptable across all economic sectors.
- Their global expansion reflects operational efficiency and contextual adaptability.
- Sovereign sukuk can meet large-scale national funding needs.
- Sukuk issuance is dynamic in both Islamic and non-Islamic countries.

## **Recommendations:**

- Develop standardized sukuk issuance guidelines aligned with Sharia principles.
- Establish a comprehensive legal framework governing sukuk issuance, subscription, and investment.
- Encourage Islamic (and conventional) banks to issue and diversify sukuk products.
- Create an international Islamic capital market (at least among Islamic countries) to enhance sukuk trading.
- Simplify issuance procedures, which remain more complex than conventional bonds.
- Strengthen sovereign credit quality through deep fiscal and economic reforms to attract investors and expand Islamic finance.

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