

Sukuk Issuance in the Emerging Markets-A Relative Evaluation

Mohamed Khudari, Noriza Mohd Saad

Abstract: *The Sukuk market in Malaysia runs parallel with the conventional bonds market and provides investors with investment options whereby the market trading is open to all. Indeed, Malaysia has proven itself as a center of choice for foreign corporations to issue Sukuk as well as to invest in these areas, as it offers one of the most diverse (in terms of types of securities, tenures, asset classes, structures, issuers and risk profiles), innovative and sophisticated array of investment choices in the global market. Thus, the objectives of this study are to investigate the significant mean different of amount Sukuk issue between Malaysia and across emerging market economies. The secondary data will be utilized to achieve the study objective for almost 10 countries that issue Sukuk from 2000 until 2015. The data then will be analyzed by using ANOVA or post Hoc test comparison as well as Levene's test. The results prove that Malaysia is a leader in the Sukuk market in terms of largest Sukuk issuer and Sovereign Sukuk and there is a significant mean different between Sukuk issuance by Malaysia and other countries.*

Index Terms: *Emerging markets, Levene's test, Malaysia, SovereignSukuk*

I. INTRODUCTION

Sukuk, commonly known as Islamic certificates or securities, play an increasingly significant role in the Islamic Capital Market (ICM) as it allows investors to share the profits derived from the asset or activity that has been financed. The issuance of Sukuk was response to the demand of issuers and investors in Muslim countries as an alternative mode for their financing and investment needs that complies with Shari'ah requirements. The growth of Sukuk as a financial instrument has predominantly been driven by Muslim countries, such as Malaysia and those that make up the Gulf Cooperation Council (GCC). The combination of a large Muslim population and a well-structured Islamic banking system based on common principles among the Muslim community, notably Shari'ah, has enabled these countries to issue almost all the Sukuk to date in a global market that is now worth more than USD100 billion a year [1].

Sukuk is becoming an important asset class for investors from both conventional and Islamic backgrounds. By the same token, it is also attracting the attention of sovereign, multilateral and corporate issuers worldwide, thus further increasing the numbers embracing the principles of Islamic finance.

Revised Manuscript Received on September 22, 2019.

Mohamed Khudari, College of Graduate Studies, Universiti Tenaga Nasional, Jalan IKRAM-UNITEN, 43000 Kajang, Selangor, Malaysia

Noriza MohdSaad, College of Business Management & Accounting, Universiti Tenaga Nasional, Kampus Sultan Haji Ahmad Shah, 26700 Muadzam Shah, Pahang, Malaysia

The Sukuk market is also seen as a way to channel the world's growing pool of Shari'ah compliant capital to be used to promote sustainable and equitable economic development. As of 2017, the global Sukuk market was worth more than USD116.7 billion, and it continues to drive the growth and development of Islamic finance [1]. As illustrated in Fig. 1 the global Sukuk issuance has increased from USD 87.9 billion in 2016 to USD 116.7 billion in 2017, an impressive jump of around 32% in volume. The increase in volume during 2017 was mainly due to sovereign Sukuk issuances by Saudi Arabia coupled with steady issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continue to dominate the Sukuk market though share of countries like Indonesia, United Arab Emirates (UAE) and to some extent from Turkey increased as well [1].

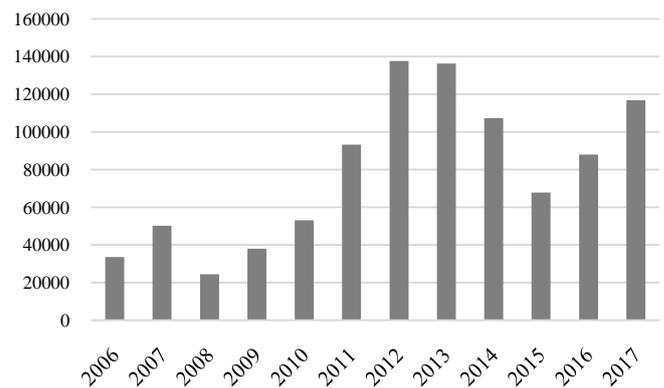


Fig. 1 Total Global Sukuk Issuance (2006-2017) in USD Millions

New Sukuk markets are opening up in a number of countries, such as Morocco, Nigeria, Oman, and South Africa, while Tunisia is finalizing regulations to allow Sukuk to be issued. The Sukuk sector is the fastest growing segment of the global Islamic financial industry, with a compound annual growth rate (CAGR) close to 20 percent in between 2010 and 2014 [2]. The issuance of Sukuk has increased rapidly, there is still potential for further growth. Malaysia held about 65 percent of global Sukuk issuance in terms of market share, while the Middle East and North Africa (MENA) accounted for 23.7 percent. Saudi Arabia, the second-most-active Sukuk market, accounted for 10.3 percent, followed by Indonesia 5.4 percent, UAE 5 percent, and Turkey 3.6 percent. In Addition to, Malaysian ringgit (MYR) denominated issues topped the charts in value, with 60 percent of total global issuance, at USD68.4 billion [1].

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The high percentage recorded by Malaysia Sukuk issuances gives it a dominant position in Sukuk by the size of issuance denominated by Malaysian Ringgit. Malaysia also has the highest total Sukuk market capitalization in the global market with approximately MYR657 million [2]. As at December 2013, the market capitalization of Shari'ah compliant securities listed on Bursa Malaysia was valued at MYR1029.62 billion whereby Malaysia holds a dominant position in the global Sukuk market for about 69 percent and 67 percent leading the issuances by domicile and currency respectively [3].

Sovereign issuances dominated the global Sukuk market, with USD 439 billion, or more than 60 percent of total issuances in 2004–2014 (see Table I). Malaysia held about 80 percent of sovereign Sukuk issuance in 2004-2014, which gives it a dominant in Sukuk issuance and also has the highest number of issuance (1388 issuance).

Malaysia is not only the market leader due to being the largest Sukuk issuer but also because it is a pioneer in the field. In the year of 2000 it issued MYR724 million in the region compared to other countries. Most countries started to issue Sukuk in 2006 such as Bahrain (MYR1004 million), Cayman Islands (MYR953 million), Qatar (MYR270 million) and Indonesia (MYR81 million). In the year 2014, the dynamic progress of the ICM supports the growing demand for Islamic financing that encourages most of the countries to issue Sukuk including new ones like France, Kazakhstan, Kuwait, Nigeria, Oman, Switzerland and Yemen [2].

Table. I Sovereign Sukuk issuance (2004-2014)

Country	No. of issuance	Amount (USD Million)
Bahrain	226	12545
Gambia	401	194
Malaysia	1388	351494
Pakistan	17	7669
Brunei	113	6093
Turkey	7	6900
Hong Kong	1	1000
Luxembourg	1	272
Indonesia	65	21890
South Africa	1	500
Senegal	1	200
UK	1	340
Qatar	17	19655
Nigeria	1	71
Germany	1	123
Singapore	5	193
UAE	11	6855
Yemen	2	250
Sudan	26	2868

Source: Zawya, IFIS (2014)

Consistent with the Islamic Finance Information Services (IFIS), Sukuk market continues to enjoy a year on year increase despite a slowdown in the rate of growth [4]. However, a drop in the number of Sukuk issued in Southeast Asia mainly resulted from a fall in Malaysian corporate medium-sized issuance. Despite this, Malaysia remains the world's leader in Sukuk issuance by both volume and value.

However, bond investment for both Islamic and conventional showed a decreasing trend from quarter 3, 2008 until latest empirical data to quarter 2, 2009. This is probably due to the economic recession in 2008 and Malaysia taking a proactive action to avoid huge debt and mitigate risk through monitoring firm's leverage level [5].

II. LITERATURE REVIEW

It was stated that the growing role of Islamic finance in mobilizing and channeling funds to productive investment activities across borders contributes to more efficient allocation of funds across borders and facilitates international trade and investment [6]. The more recent developments in Islamic finance are the growing significance of the Sukuk market to become an increasingly important component of the development of the global Sukuk market. There has been growing interest in the issuance of Sukuk by corporations, sovereigns and multinational corporations where the Sukuk demand significantly exceeds the supply.

As a consequence, there are many researches on the issuance of Sukuk and on the development of economic sectors using Sukuk [7], while other studies investigated the influence of economic and financial factors on Sukuk issuance. As in [8] the study investigated the influence of macroeconomic factors and financial factors on the construction of sovereign, corporate and international Sukuk in the most Sukuk issuer's countries. The study found that there is no evidence that macroeconomic factors affect sovereign and corporate Sukuk, while there is a clear evidence that macroeconomic factors affect international Sukuk. While there is a clear evidence that financial factors play a significant role in enhancing the development of Sukuk types (sovereign, corporate and international).

Also, there has been a stress on the vast potential of the Sukuk market in the economic development process, in its role in ensuring financial stability and its role in promoting greater financial integration in the global financial system. This is similar to [9] who also stressed the importance of the Sukuk market. He argues that the application of the forward lease is an innovation developed elsewhere, but was made possible in the Sukuk space to Malaysia's progressive steps to define the broad Sukuk structures, and grow it with new hybrid concepts. Also [10] mentioned that Malaysia has been developing a more extensive capital market after the Asian financial crisis to ensure a more resilient financial system. He also said that Malaysia is a matured market as indicated not only by the market share but also by the number of issuances.

In addition, the Malaysian ringgit remains the most common currency for Sukuk issuance, followed by the dollar. [11] said that the issuance of Sukuk by corporates and public sector entities amid growing demand for alternative investments. As the Sukuk market continues to develop, new challenges and opportunities for sovereign debt managers and capital market development arise. [12] said that the growth of Islamic Private Bond (IPDS) in



Malaysia has been very encouraging since the first issue in 1990. In 2001, the issuance of IPDS constituted 43 percent of total PDS issued compared to 34 percent in 2000. With its continued strong presence, we can expect IPDS to take up a larger share than conventional PDS in 2002. Thus, from the aforementioned studies, this study raises the following research questions:

1. Is there any significant mean different for amount of Sukuk issuance between Malaysia and across emerging market economies?
2. Is there any significant mean different for sovereign Sukuk issuance between Malaysia and across emerging market economies?
3. Is there any significant mean different for Sukuk issuance for industry purpose between Malaysia and across emerging market economies?

III. METHODOLOGY

The objective of this research is to study the significant mean different for amount of Sukuk issue across world issuer. The study employs aggregate data of Sukukissuance in 10 largest issuer in world emerging market economies (as shown in table II).

The sample period is from 2000 to 2015 on annual basis

which is based on data availability. The data collected from Bloomberg software. The main variable is the amount of Sukuk issuance in these 10 countries based on the purpose of using these Sukuk in different sectors. The researcher classify them into four groups as follows: (energy, infrastructure, agriculture and food, and banking and financial service).

Fig. 2 shows the distribution of Sukuk into these four groups. It is clear that the large division of Sukuk (52 percent) is used in banking and financial service. The data descriptive is summarized in table II.

To meet the research objectives, this study uses ANOVA/Post-Hoc test comparison and Levene’s Test to study the mean different if Sukuk issue between Malaysia and across emerging market economies. ANOVA/Post-Hoc test comparison and Levene’s test are utilized to test the significant mean difference between these Sukuk issuer countries based on (a) the size or amount of Sukuk issued, (b) the issuance of sovereign Sukuk, (c) the issuance of Sukuk that covering the four industry groups. The ANOVA/Post-Hoc test comparison evaluates the different between the means of more than two independent or unrelated groups (Malaysia and emerging market economies).

Table. II Descriptive Statistics of Sukuk (2000-2015) in USD Millions

	N	Minimum	Maximum	Mean	Std. Deviation
Sovereign Sukuk	40	184.00	31560.00	3508.3750	5654.01316
<u>Total Sukuk issuance by country:</u>					
Bahrain	10	72.00	1284.00	512.6000	403.86444
Cayman Islands	20	111.00	7185.00	2185.3500	1942.06963
Indonesia	24	9.00	5421.00	803.6250	1697.65700
Jersey	8	9.00	4445.00	1342.5000	1382.48658
Malaysia	58	6.00	31560.00	3064.6034	5396.63158
Pakistan	9	11.00	2352.00	498.3333	790.07769
Qatar	5	270.00	4000.00	1934.0000	1515.00165
Saudi	13	270.00	6807.00	2009.6154	1833.17391
Singapore	9	37.00	336.00	137.2222	96.54504
Turkey	7	11.00	3100.00	1652.4286	1267.78979
UAE	6	120.00	1185.00	566.8333	461.03380
<u>Total Sukuk issuance that are covering industry:</u>					
Energy	27	14.00	5000.00	1077.8519	1545.35370
Infrastructure	34	9.00	6807.00	1476.0588	1784.70695
Agriculture and Food	16	10.00	1215.00	212.3750	301.03375
Banking and Financial services	52	6.00	12340.00	1732.0962	3054.17360

Table. III Test of Homogeneity of Variances and ANOVA

	Test of Homogeneity of Variances				ANOVA	
	Levene’s Statistic	df ₁	df ₂	Sig	F-value	Sig
Amount of Sukuk issued	30.198	1	167	0.000	11.191	0.001
Sovereign Sukuk issuance	21.884	1	38	0.000	14.180	0.001
<u>Sukuk that are covering industry</u>						
Energy	0.021	1	25	0.886	0.035	0.853
Infrastructure	0.168	1	32	0.685	0.336	0.566
Agriculture and food	2.101	1	14	0.169	1.681	0.216
Banking & financial services	41.3	1	50	0.000	8.816	0.005



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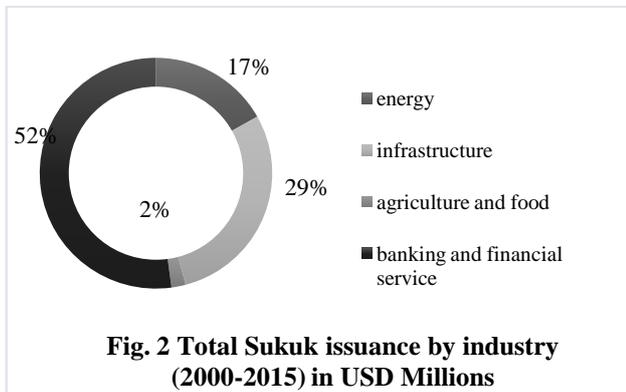


Fig. 2 Total Sukuk issuance by industry (2000-2015) in USD Millions

The t-value evaluates whether the mean value of the test variable from one group differs significantly from the mean value of the test variable for the second group. With respect to the comparing in a number of observations for the first and second group, it can be considered equal if the larger group is not more than 1.5 times larger than the smaller group [13]. However, it is important to test the assumption of homogeneity of variance by Levene's test (Levene, 1960) before testing for their independent sample t-tests, where the null hypothesis assumes no difference between the two group's variances as follows:

$$H_0: \sigma_1^2 = \sigma_2^2$$

$$H_a: \sigma_1^2 \neq \sigma_2^2$$

Where;

σ_1^2 = is the variance for the amount issues of Sukuk in Malaysia, and

σ_2^2 = is the variance for the amount issues of Sukuk across emerging market economies.

If the f-value for the Levene's result is not significant, the assumption is met or not violated. It means that the equal variances assumed the result is appropriate to be used. However, in the case that f-value is significant, the equal variances are therefore not assumed and the alternative hypothesis is accepted [14].

IV. RESULTS AND DISCUSSION

The test of homogeneity of variance by Levene's test for both variables of the amount of Sukuk issued across world issuer and the amount of sovereign Sukuk issuance is shown in table III. It is failed to reject the null hypothesis at the 0.05 significance level since the value of the Levene's test statistic is less than the critical value. I conclude that there is insufficient evidence to claim that the variances are not equal. As a consequence, based on ANOVA results the variance of the amount of Sukuk issuance in Malaysia is different than that across emerging market economies for both testing variables (Sukuk issued and sovereign Sukuk). In this concern Malaysia has evolved into one of the world's most advanced and leading Islamic capital markets.

The results of Levene's test, also, indicates that the issuing Sukuk that are covering the banking and financial services has a significant different between Malaysia and the other emerging market economies, while there are no significant different between Malaysia and the other emerging market economies in regarding the other industry

groups. As a result, the Sukuk market in Malaysia uses the most Sukuk issued to cover banking and financial services more than other countries.

In conclusion, Malaysia's Sukuk market has grown leaps and bound and remain as the world leader in terms of market share and sovereign Sukuk issuance. As at end-2016, Malaysia recorded a 41.1% (USD29.9 billion) share of total global Sukuk issued. Sukuk market serves as an important and attractive platform for government and entities to raise long-term funds for various economic, business and infrastructure development needs. Furthermore, this study will be a guideline by all emerging economies sectors or firms especially those who have issued Sukuk either local or foreign towards amount issues across world Sukuk issuer. As well, from the regulators point of view, such as central bank and securities commission, the study helps them to monitor the development of Sukuk issuances as represented by level of amount issued by each country not only in Malaysian capital Sukuk market but also other issuer countries.

ACKNOWLEDGEMENT

This research is supported by the Innovation and Research Management Centre (iRMC) at the Universiti Tenaga Nasional (UNITEN).

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