

The reality of the Islamic Sukus industry with reference to the Malaysian experience

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Abstract:

We aim through this study to highlight on the reality of the activity of Islamic financial Sukus as one of the products of Islamic financial engineering, and as one of the legitimate alternatives to traditional bonds, by addressing the experience of the Islamic financial market in Malaysia, using the descriptive analytical approach.

Among results we have reached is that Islamic Sukuks are increasingly popular and widespread worldwide. They have played an important role as a mechanism to support the activity of the Islamic financial industry by attracting a larger segment of investors who wish to deal in accordance with 'shari'a'. The Islamic financial market in Malaysia also accounts for a large percentage of the financial market in the country, and is considered a pioneering experience in this field through the development it has witnessed in this field, by providing the legal and legitimate environment that supports the activity of Islamic bonds.

Keywords: Islamic Financial Industry; Islamic Sukuks; Financial Market; Islamic investment; Malaysia.

Jel Classification Codes : G ; G2 ; G230.

ملخص:

تهدف هذه الدراسة إلى تسليط الضوء على واقع نشاط الصكوك المالية الإسلامية باعتبارها من منتجات الهندسة المالية الإسلامية وأحد البدائل الشرعية للسندات التقليدية، وذلك من خلال التطرق إلى تجربة السوق المالية الإسلامية في ماليزيا، ومن خلال المنهج الوصفي التحليلي.

من بين النتائج التي تولنا إليها، أن الصكوك الإسلامية تلقى انتشارا ورواجا عالميا متزايدا، كما أنها لعبت دورا هاما كآلية لدعم نشاط الصناعة المالية الإسلامية من خلال جذب واستقطاب شريحة أكبر من المستثمرين الذين يرغبون في التعامل وفق أحكام الشريعة الإسلامية، كما أن السوق المالية الإسلامية في ماليزيا تستحوذ على نسبة كبيرة من السوق المالي في البلد، وتعتبر كتجربة رائدة في هذا المجال من خلال التطور الذي شهدته في هذا المجال، من خلال توفير البيئة القانونية والشرعية الداعمة لنشاط الصكوك الإسلامية.

الكلمات المفتاح : صناعة مالية إسلامية؛ صكوك إسلامية؛ سوق مالية؛ استثمار إسلامي؛ ماليزيا.

تصنيف JEL : G230;G2 ;G

I. Introduction:

Islamic Sukuks (Islamic bonds) are one of the popular investment mechanisms in international financial markets, as they are financial papers that comply with the Islamic Law 'Sharia' in terms of issuance and trading, which has made them increasingly popular among investors who wish to invest in a Sharia-compliant investment, due to the important role they play in meeting the needs of institutions and governments for the necessary financing. Islamic Sukuks are also considered as one of the most important Sharia-compliant alternatives to traditional bonds for dealing in financial markets.

Malaysia is considered as one of the pioneering countries in establishing an Islamic financial market. This precedence was accompanied by growth and development that placed it among the leading countries in the field. This growth is due to the strategic vision of the Malaysian government, which contributed to making the Malaysian financial market a preferred destination for investors, and also makes it one of the experiences that can be benefited from in establishing and developing an Islamic financial market in Algeria.

So, how do Islamic Sukuks contribute to supporting the activity of the Islamic financial industry?

II. The nature of Islamic Sukuk :

There are many names given to Islamic bonds. They may sometimes be called Muqarada bonds, investment bonds or Islamic bonds. However, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) prefer to use the term Sukuk to distinguish them from other traditional financial instruments. Several definitions have been provided in this context. We will focus on the definitions provided by official bodies. They are also distinguished by several characteristics, which we will mention below:

II.1. Definition of Islamic Sukuk by official bodies:

AAOIFI defines sukuk as certificates representing equal ownership shares in tangible assets, usage rights, and services, or in assets related to specific projects or investment activities (djebbar, 2012, p. 402)

The Islamic Financial Services Board defined Sukuk as: Certificates, each of which represents ownership rights to a common percentage of tangible assets, or a different group of tangible assets and others, and the assets may be in a specific project or a specific investment activity in accordance with the provisions of Shari'ah (Benbekhti , Boulila , & Boutelja , 2019, p. 109).

The Islamic Financial Services Board described Sukuk as: Documents that signify ownership in a shared percentage of real assets, or diverse sets of real assets and related items, which can be part of a designated project or a particular investment undertaken, all adhering to Shari'ah principles (Adjouli , 2019, p. 316)

The Sharia Advisory Council of the Malaysian Supervisory Authority describes it as: Any security offered that adheres to Islamic Sharia guidelines and concepts sanctioned by the regulatory authority's advisory board (Mechraoui, 2019, p. 271)

Islamic Sukuk are documents or certificates of equal value issued and traded in accordance with the provisions of Islamic Sharia. Their primary objective is to obtain the necessary financing to carry out various development projects

II.2.Characteristics and disadvantages of Islamic Sukuk:

Islamic investment Sukuk, as a financial instrument, are distinguished by a set of characteristics that distinguish them from traditional financial instruments, through adherence to the Sharia controls in issuing and trading these Sukuk, as well as the profits achieved from them. However, they are not without defects, like other Islamic financial products, despite the characteristics that encourage investment.

II.2. 1.Characteristics of Islamic Sukuk:

the main of these characteristics are: (**Accounting and Auditing Organization for Islamic Financial Institutions, 2017, p. 471**)

-This is a document, issued to the owner or anyone holding it, in set values, to show the holder's entitlement to the financial benefits and responsibilities it signifies.

-It signifies a standard share in the ownership of invested assets like property, services, or a combination of these, along with moral rights, debts, or funds, and doesn't represent a debt owed by the issuer.

- It's created based on a Shari'ah contract and regulations governing its issue and trade.
- Its trading follows the trading rules for what it represents.
- Its owners share in profits as agreed in the issue's prospectus, and cover losses according to the number of Sukuk they possess.
- There is no guarantee provided by the managing director, agent, or managing partner. (elguettane, 2019, p. 412).

II.2. 2.disadvantages of Islamic Sukuk:

Among the disadvantages of Islamic bonds we find: (Hachlouf, Eldoufani, & Aboudjenah, 2019, p. 412)

-Sukuk predominantly represent asset ownership or lease agreements, not simply profit-sharing arrangements.

-Without a defined strategy for regaining asset or project control from the Sukuk, reclaiming those assets or projects becomes impossible.

- The unrestricted transfer of Sukuk means you may lose ultimate authority over your project upon redemption, even if you remain a partner.

II.3.Sharia guidelines for Islamic bonds:

the principals of shari'ah for Islamic bonds according to the Accounting and Auditing Organization for Islamic Financial Institutions are: (Azouz & Abidete, 2020, p. 156).

-Investment Sukuk can be offered using funds from subscriptions, based on Sharia-compliant investment agreements.

-Assets, advantages, and services can be securitized by dividing them into equal portions and issuing Sukuk corresponding to their value. Yet, debts in accounts aren't allowed to be securitized for trading.

- At its nineteenth gathering in Sharjah, the International Islamic Fiqh Academy sanctioned several legal standards connected to Islamic bonds. We present these below.: (Slimane & Ben Zid, 2014, p. 07):

-The Sukuk Manager is not allowed to offer loans or donations to Sukuk holders if the realized profit is lower than the anticipated profit.

-The fund manager functions as a trustee, and doesn't guarantee the instrument's value, unless there's a breach of duty or carelessness.

-When trading Sukuk, the specified rules must be followed. If the components remain cash, exchange regulations are applicable. If the assets are converted to debts, debt trading rules apply. If the loaned money combines cash, debts, assets, and benefits, trading in Muqarada Sukuk is permitted at the agreed price, provided the majority is assets or benefits.

-It's not permissible to redeem Sukuk at face value; redemption must be done at their market value, or at the value determined when redemption occurs.

- The permissibility statement must not be used to disguise or circumvent debt securitization and trading. This includes converting the fund's main activity into trading debts arising from goods, and manipulating some of the fund's goods for trading purposes.

II. 4. The importance of Islamic Sukuk:

The importance of issuing Islamic Sukuk in economic activity has increased as a result of many factors, the most important of which are (Slimane & Ben Zid, 2014, p. 07):

-The global trade of Sukuk signifies the Islamic financial system's wide reach, soundness, and interconnectedness.

-Sukuk attracts more investors seeking Sharia-compliant options, especially from outside the Islamic world.

-Sukuk enhance financial institutions' and companies' profits and their financial hubs by offering off-balance sheet operations with lower financing and management costs.

-Governments can use Sukuk to finance projects, including development and infrastructure endeavors.

- Companies can utilize Sukuk to fund their projects, thus helping expand their investment efforts. (Slimane & Ben Zid, 2014, p. 54).

-Contributing to liquidity management at the macroeconomic level by absorbing surplus liquidity and providing stable and real financing to the state) Using Islamic Sukuk as a monetary policy tool according to the Islamic perspective;

-Sukuk provide greater governance and transparency that promotes ethics and Justice (Madani, 2019, p. 377)

-Islamic Sukuk offer competitive pricing compared to bonds, leading to better prices (Wadi, /, p. 59)

II.5.Types of Sukuk:

AAOIFI has identified at least 14 types of Islamic Sukuk, but the most common are:

II.5. 1. Participatory Sukuks:

An offering to raise capital, in a fluctuating or fixed amount, is made by issuing instruments similar to company stock, representing ownership. This temporary investment is tied to a defined project or time frame. The certificate holder is entitled to a share of the company's net worth and profits. These instruments can be traded at a price reflecting the partnership's asset value fluctuations and the profit distribution rate. (Madi & Ladra, 2013, p. 155).

II.5. 2. Sukuks Lease:

They are financial papers that represent a share in the ownership of the benefits of an income-generating investment project. The purpose of these papers is to convert the benefits related to the leasing contract into instruments that can be traded in the secondary market (Guentagdji, 2015, p. 440).

It is considered as one of the latest products in the capital market, which has been accepted by Sharia scholars and has been in high demand by major investors and Islamic financial institutions (Cherifi & Bachnouda, 2019, p. 80)

II.5.3. Murabaha Sukuk :

Its use in financial markets is restricted due to its short-term nature, unless liquidity is required, or the conditions of the transactions are adjusted to the medium or long term, specifically for funding Murabaha activities. This concept originated with Dr. Sami Hamoud at the second Al Baraka Symposium in Tunisia in 1984, proposing an Islamic joint-stock company to engage in

diverse issuance activities via Murabaha, Ijarah, and Salam funds, starting with an issuance for a Murabaha Fund. (Nacer, Without publication year, p. 60).

However, Islamic banks should not exaggerate in issuing Murabaha Sukuk, as the Murabaha formula is a short-term formula, while the main objective of issuing and trading Sukuk is to participate in medium- and long-term investments. Islamic banks also suffer from excessive reliance on the Murabaha formula, while they are forced to diversify into different investment and financing formulas.

II.5.4. Esalam Sukuk :

They are documents of equal value issued to collect the capital of the Salam, and the Salam commodity becomes owned by the holder of the sukuk, such that the owners of the documents are - the buyer - and the issuer of the documents is the - the seller (Elyamani, 2013, p. 152).

The Salam contract is to provide the full value of the agreed upon commodity to be received in the future according to the agreed upon time and specifications (Youcef, 2014, p. 09).

Salam Sukuk provide an opportunity for the private sector to expand its activity by obtaining appropriate financing without having to resort to usurious loans.

II.5.5. Istisna'a Sukuk :

Istisna'a is an agreement where an individual purchases an item based on its eventual manufacturing. The seller must deliver the manufactured item using their own materials, according to particular specifications, and for a pre-agreed price. The issuer of Istisna'a Sukuk is the manufacturer who sells the certificate. Subscribers are the purchasers of the to-be-manufactured item, and the money raised funds the project's expenses. Certificate holders own the item upon completion and are entitled to the proceeds from its sale. The duration of Istisna'a certificates is determined by the time necessary to manufacture the item. The rights of certificate holders include the amount invested in these certificates, along with any profit earned. This profit is the difference between manufacturing costs and the selling price. (Cherifi & Bachnouda, 2019, p. 80), These Sukuks may not be traded, just like Salam instruments (Babess, 2009, p. 12).

II.5.6. Muzara'a Sukuks :

These Sukuk certificates represent equal values, released by the agricultural land's proprietor. This is for funding farming expenses within a Muzara'a agreement. The Sukuk owners share in the harvested crops based on the contract's terms. Thus, the certificates come from the landowner seeking agricultural financing. Sukuk subscribers include those farming the land, providing financial support—for example, specialized agricultural companies. The offering document will describe the land's kind, features, and size, the desired crop type, the cost of farming, the harvest-sharing method between landowner and farmer, and the growing period (Hachloul, Eldoufani, & Aboudjenah, 2019, p. 415).

AAOIFI has approved Sukuk of Muzara'a, and Standard No. 17 defines the nature of the relationship between the two parties to the contract.

II.5.7. Mugharasa Sukuk :

These are identical-value documents, designed to fund tree planting, covering all related labor and expenditures under a Mugharasa agreement. Certificate holders gain a stake in the land and the trees. Mugharasa Sukuk are created by the landowner and purchased by those doing the planting, as per the contract. Subscription funds cover tree planting costs, as outlined in the agreement. They can also be issued by the planter, owning the enterprise, and bought by landowners providing planting capital. After the subscription concludes, the sukuk is assigned, and

the contract's work starts, they can be traded. This applies whether land ownership or planting duties belong to the certificate holder.

II.5.8. Musaqah Sukuk:

These Sukuk carry equal values issued by the owner of the trees subject to the contract in order to finance irrigation and care, and the şukūk holders participate in the crops produced under the musaqah contract (Berka & Merabti, 2017).

III. The reality of the Islamic Sukuk industry and its role in supporting the Islamic financial industry:

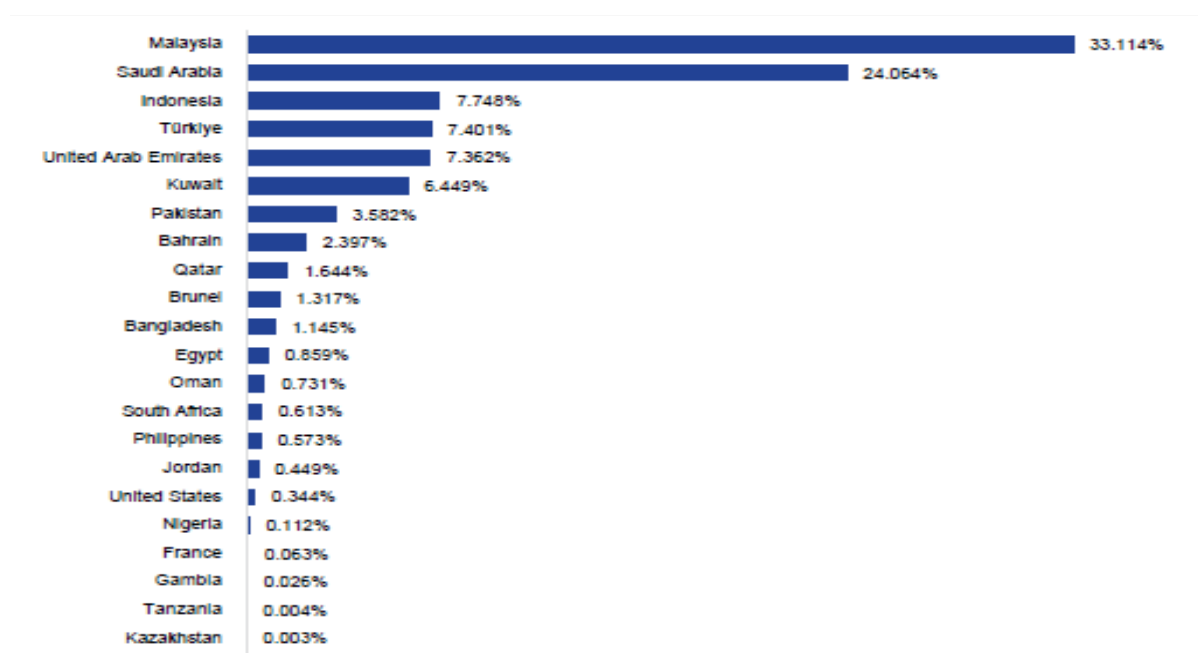
III.1 Geographical and structural distribution of Islamic bonds:

this element, we will discuss the geographical distribution of Islamic Sukuk, and then the sectoral distribution of these bonds.

III.1.1 Geographical distribution of Islamic Sukuk :

This can be explained through the following figure:

Figure (1) : Total Share of Şukūk Issuances by Domicile (2023)



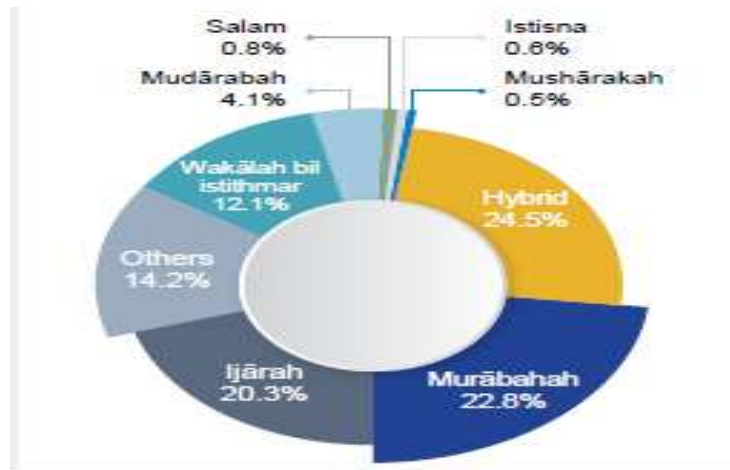
The source: (Islamic Financial Services Board, September 2024, p. 60).

The East Asia and Pacific (EAP) area led in overall şukūk issuances during 2023. The initial sovereign şukūk from the Philippines' government further boosted the area's issuance figures. The Gulf Cooperation Council (GCC) region followed, with solid corporate şukūk issuances as GCC banks and companies utilized the şukūk market in 2023; however, supply and demand mismatches persisted. Although issuance levels generally held steady, şukūk markets in many places continue to have some liquidity issues and a limited number of local investors. Institutional investors often employ buy-and-hold approaches, which hinder secondary market liquidity and accurate price determination (Islamic Financial Services Board, September 2024, p. 59).

III.1 2. Structural distribution of Islamic Sukuk :

This can be explained through the following figure:

Figure (2): Şukūk Issuance by Structure (2023)



The source: (Islamic Financial Services Board, September 2024, p. 65).

In 2023, issuers mainly employed hybrid, murābahah, and ijārah contracts. Hybrid contracts, the largest segment, were mostly utilized by EAP issuers, but also included some issuances from GCC countries. The popularity of hybrid contracts might stem from their adaptability; they can be customized to address specific financial needs while complying with Shari'ah. Overall, demand for şukūk remains healthy. Şukūk issuances have been aided by multiple factors, such as the necessity to manage budget shortfalls in certain countries, goals for funding diversification in other areas, and programs that aim to grow the Islamic finance system, including local debt markets (Islamic Financial Services Board, September 2024, p. 65).

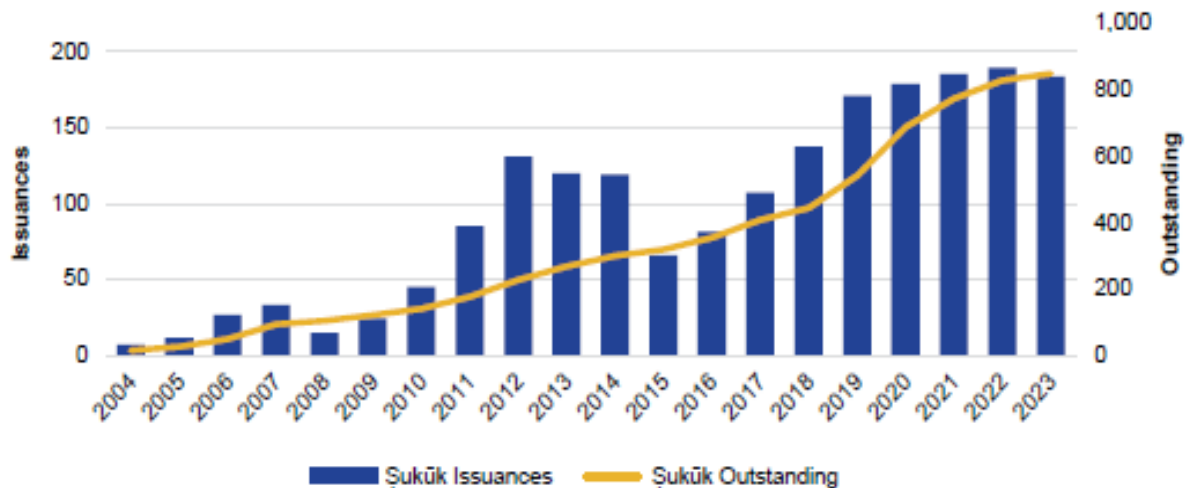
III.2. Sukuk Growth and development:

The worldwide Islamic Financial Services Industry (IFSI) assets experienced a 4% year-over-year (YoY) global increase, reaching USD3.38 trillion in 2023. This occurred even amidst a difficult macroeconomic climate marked by inflationary pressures, geopolitical conflicts, and instability within the banking sector. Islamic banking remains the biggest component of the IFSI, representing 70.21% of all global IFSI assets in 2023. Simultaneously, outstanding şukūk and Islamic funds together accounted for 29.08%, while the Islamic insurance sector made up 0.71%. Regarding regional allocation, the Gulf Cooperation Council area presently controls the biggest part of worldwide Islamic finance assets, exceeding 52.50%, followed by East Asia and the Pacific, which made up 21.80%. The Middle East and North Africa (excluding the GCC) held 12.70%, Europe and Central Asia 8.30%, South Asia 3.10%, Sub-Saharan Africa 0.70%, and other regions combined accounted for 0.90%. (Islamic Financial Services Board, September 2024, p. 08).

III.2.1. Growth and development of Sukuk issuances globally:

Islamic Sukuk are witnessing increasing growth and spread in the world, and we will explain this through the following figure:

Figure (3): Global Şukūk Issuances and Şukūk Outstanding Trends (2004-2023) USD billions



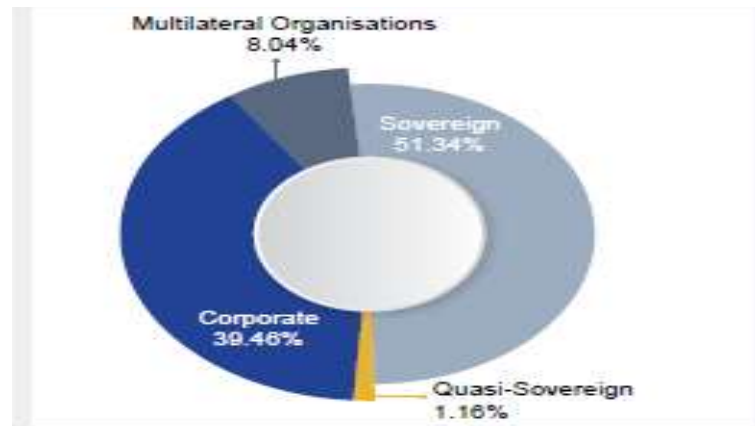
The source: (Islamic Financial Services Board, September 2024, p. 58)

Sovereign and near-sovereign bonds comprised 52.51% of overall issuances (2022: 50.41%). Positive developments were seen in the GCC, ECA, and SA areas. The EAP and GCC continue to lead in sovereign bond sales. Significantly, 2023 witnessed several first-time sovereign issuances, such as those from Egypt and the Philippines. The EAP region represented the largest area for sovereign issuances in 2023, followed by the GCC. Primary market şukūk issuances by sovereign entities remained robust in 2023, with a notable rise in the issuance value of şukūk among most major issuers, while some areas saw modest growth. However, a few jurisdictions saw a decrease, possibly due to improved fiscal health among those sovereign issuers. Corporate issuances, which represented roughly 39.46% of total şukūk issuances globally, also declined by 4.72% in terms of issuance amount from 2022. The GCC region contributed the biggest portion of corporate şukūk issuances in 2023 while issuances from the EAP area remain substantial (see Chart 2.2.1.3b). New participants in the corporate market included issuers from North America (NA) and ECA areas, the latter including Kazakhstan and France. Corporate entrants from the Sub-Saharan African region included issuers from South Africa, and Tanzania. The MENA region (excluding the GCC) showed a considerable increase in corporate şukūk issuances compared to prior years. However, a general reduction in corporate şukūk issuances was observed across all other regions compared to 2022. Şukūk issuance by multilateral institutions, such as the Islamic Development Bank (IsDB) and International Islamic Liquidity Management Corporation (IILM), made up 8% of issuances (USD 14.74 billion) in 2023. (Islamic Financial Services Board, September 2024, pp. 58-59) .

III. 2.2: Growth and development of the Islamic Sukuk market according to the issuing:

At the issuer level, the issuances varied between sovereign and quasi-sovereign sukuk, corporate sukuk, and financial institution sukuk

Figure (3): Şukūk Issuances by Issuer Type (2023) body



The source: (Islamic Financial Services Board, September 2024, p. 59).

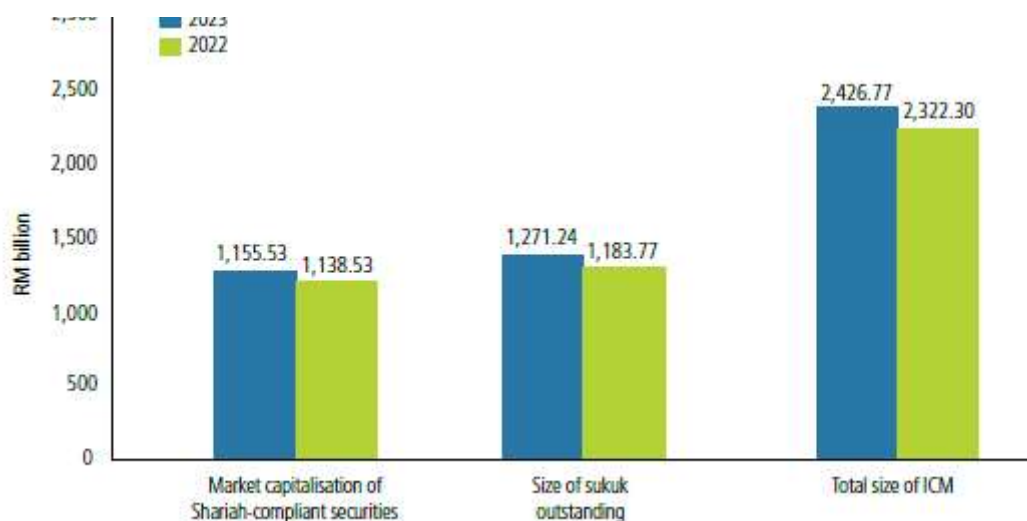
In 2023, issuers mostly utilized hybrid, murabahah, and ijarah contracts. Hybrid contracts were the most common, mainly from EAP issuers, although some came from GCC nations. The higher use of hybrid contracts may be due to its adaptability; it can be customized to fit specific financial requirements while still following Sharia law. A hybrid contract brings elements of Overall, demand for sukuk is largely unchanged. Several factors have helped sukuk issuances, like the need to cover budget shortfalls in certain countries, the goal of diversifying funding sources in others, and efforts aimed at developing the Islamic finance system and local debt capital markets. (Islamic Financial Services Board, September 2024, p. 65)

IV. The reality of Islamic Sukuk in Malaysia and prospects for Algeria to benefit from establishing an Islamic financial market:

IV.1 The emergence of the financial market in Malaysia:

Malaysia's Islamic capital market truly started in 1983. That year saw the Islamic Banking Act, which set guidelines for banking that followed Islamic principles. "Bank Islam Malaysia Berhad", the first Islamic bank in Malaysia, was set up in July 1983, followed by the Malaysian Islamic Takaful Insurance Company in 1984. But, the Islamic financial market really took off in the 1990s. In 1990, Shell MDS, a private firm, offered the first Islamic Sukuk. This prompted the issuance of many other Islamic financial instruments (Boukhari, 2017, p. 61).

However, concerns were raised by many traders, particularly Muslim investors, regarding how well the market adhered to Islamic Sharia principles. This led the Malaysian Ministry of Finance and the Malaysian Securities Commission to create a committee. Their task: to thoroughly examine the market's operations and trades. In 1999, an index was introduced to track the price fluctuations of all conventional shares that aligned with Sharia rules on the Malaysian Stock Exchange's main board. Named the Sharia Index, it assessed how these shares performed. These beneficial developments are a crucial move in establishing and structuring the Islamic capital market in Malaysia and achieving its present growth (Bouzermane & Nacer, 2017, p. 46).

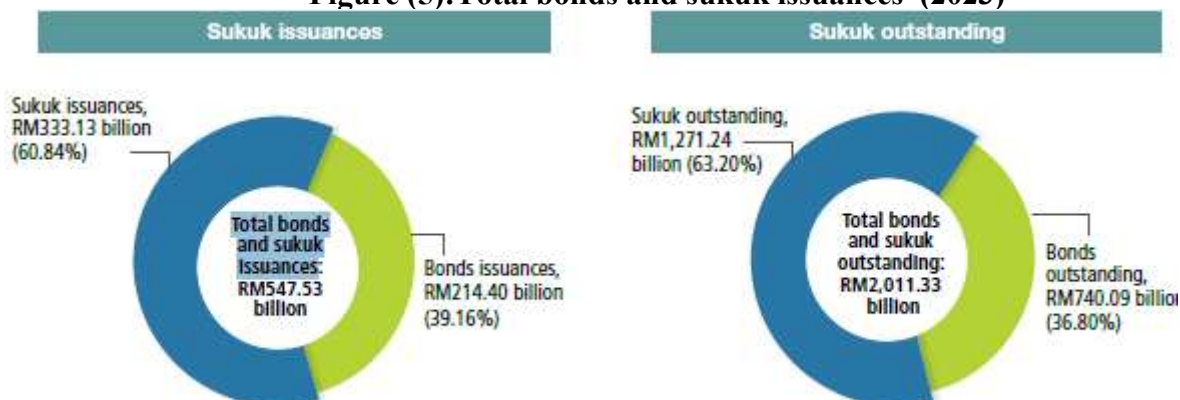
Figure (4): Development of the financial market in Malaysia

The source: (SECURITIES COMMISSION MALAYSIA, 2021, p. 226)

The Islamic Capital Market (ICM) holds a significant share, representing 63.73% of the total capital market. Showing consistent expansion, the ICM grew by 4.5% annually, rising from RM2,322.30 billion at the close of 2022 to RM2,426.77 billion by the end of 2023. The ICM encompasses Shariah-compliant securities, with a combined market capitalization of RM1,155.53 billion, and sukuk, totaling RM1,271.24 billion in outstanding amount (SECURITIES COMMISSION MALAYSIA, 2021, p. 226).

IV.2 The reality of Islamic Sukuk in Malaysia:

The Malaysian Islamic Stock Market deals in a selection of Sukuk (Islamic bonds) compliant with Islamic Sharia law, as approved by the Sharia Advisory Committee of the Malaysian Securities Commission. The key types of Sukuk are Mudarabah and Musharaka Sukuk, Sale at a Deferred Price and Murabaha. Although currently focused on Sale at a Deferred Price Sukuk and Murabaha Sukuk, even with some trading disputes, this market aims for its upcoming Sukuk to be built on Mudarabah, Musharaka, and Ijarah.

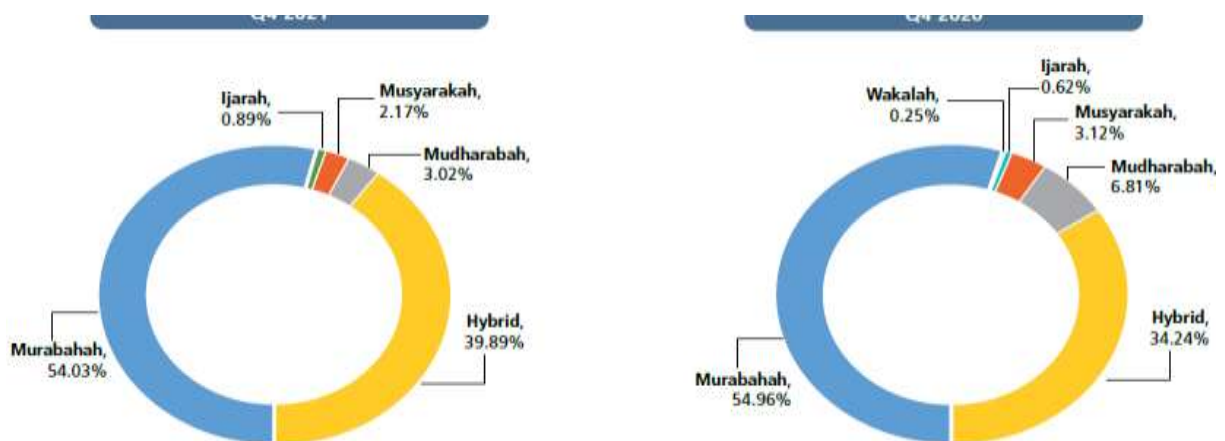
Figure (5): Total bonds and sukuk issuances (2023)

The source: (SECURITIES COMMISSION MALAYSIA, 2021, p. 228).

Within the sukuk market, corporate sukuk offerings made up 77.25% (in 2022: 81.66%) of all corporate bonds and sukuk sales. Meanwhile, the total outstanding amount of corporate sukuk was 83.96% (in 2022: 82.82%) of the entire amount of corporate bonds and sukuk still in circulation (see Table 3). The overall sukuk issuances during 2023 were 60.84% (2022: 68.23%) of all bond and sukuk sales, and the overall outstanding sukuk represented 63.20% (2022: 63.27%) of the overall total of bonds and sukuk that were still outstanding. A total of 15 companies issued SRI sukuk during 2023. This increased the total of SRI sukuk issuers to 34 since 2015. In 2023, corporate SRI sukuk offerings reached RM8.68 billion, accounting for 9.50% of total corporate sukuk issuances. In the same period, corporate SRI sukuk outstanding increased to RM26.32 billion at the end of December 2023 (in 2022: RM17.93 billion), which equals 3.75% of total corporate sukuk outstanding.

IV. 3Sukuk Issued by Shariah Principle in Malaysia:

Figure (6):Total bonds and sukuk issuances (2023)



The source: (SECURITIES COMMISSION MALAYSIA, 2021, p. 29).

IV. 4Ways to benefit from the Malaysian experience in establishing an Islamic financial market in Algeria:

An Islamic financial market in Algeria could potentially absorb the substantial "off-the-books" cash, currently estimated at \$40 billion. Economists suggest that the primary reason these funds aren't invested is the reluctance of their owners to engage with traditional banks. Establishing such a market could recapture this parallel market cash flow, bolstering liquidity and investments through official avenues. Malaysia's success in this area supports this view; their Islamic stock market is twice the size of their GDP, demonstrating its effectiveness in attracting capital for economic ventures. This market also draws in investors seeking Sharia-compliant options, due to tax benefits and other incentives. Replicating the Malaysian model could help Algeria achieve similar outcomes by setting up an Islamic financial market.

Figure (6): Ways to benefit from the Malaysian experience in establishing an Islamic financial market in Algeria.

Providing the appropriate legal and legislative framework

The legal structure for this market comes from a securities authority. This body is in charge of setting up and growing an Islamic securities market. The main job of this authority is to foster an investment environment built on clarity and safeguards for investors. Since this market is Islamic, the securities authority must have a Sharia advisory council connected to it. This council is responsible for giving Sharia guidance, ensuring all transactions are authorized under Islamic law..

Establishing a secondary market for Islamic transactions	Since interest-based bonds aren't permitted for trade in an Islamic financial market, solely relying on stocks won't be enough to build a thriving market. Thus, instruments like lease certificates, mudaraba certificates, open and closed funds, and Muzara'a certificates could be developed to offer a solid measure of the success of this planned secondary market.
Providing tax incentives to investors in this market	Tax benefits play a key role in helping the stock market grow. The Malaysian government offered a five-year tax break in the 2003 budget to cut down on the costs linked to releasing Islamic securities. This was in line with Islamic law, covering types like Ijarah, Mudaraba, and Musharaka. The 2004 budget added a five-year tax waiver on the costs related to putting out Islamic securities using the Istisna principle. Then, the 2009 budget introduced a three-year tax exemption on salaries and earnings for businesses that do insurance, distribution, and trade of Sukuk bonds issued in Malaysia, as long as the currency used wasn't the Ringgit.
Considerable gradualness, addition as needed, and no rush	The government's actions regarding the demands of Islamic finance investors and dealers stemmed from a carefully planned strategy. This strategy considered both the potential drawbacks and advantages for the entire economy and, more specifically, the finance sector. Each step was thoroughly assessed beforehand. This approach lent the government's programs and responses a trustworthiness that significantly boosted the positive influence on the prosperity of Islamic banking.
Human development and qualification of cadres	From the start, officials understood the significance of this issue. Therefore, they set up the International Islamic University and specialized training centers, along with seminars and conferences, to train and develop personnel. This would help them fulfill the banking and finance sector's requirements. Even regarding Sharia board members, rules were created to govern and improve their skills and knowledge. For example, a Sharia board member couldn't be on the board of more than one bank. This was done to attract knowledgeable individuals to serve on these boards and improve their expertise..

The source: Prepared by the authors based on : (Bouderioua, Saidj, & Hadji, 2020, pp. 24-25)

V. Results and discussion :

In this research paper, we have addressed Islamic financial markets and how they can contribute to the development of the Islamic finance industry, by addressing the case of the Malaysian Islamic financial market. We have reached the following results:

- Islamic sukus are considered one of the most important new financial products, as a legitimate alternative to traditional bonds that are prohibited by Sharia;
- Islamic Sukuk are certificates, documents, or securities that are issued and traded in accordance with specific Sharia controls;
- Sukuk play an important role in financing various projects, and also provide an important opportunity for investors wishing to invest in halal financial instruments;

The Sukuk market experienced lower annual growth during 2023, with total outstanding Sukuk rising to USD 850.0 billion in 2023, indicating a 2.45% annual increase (2022: 7.0% increase), marking the fourth consecutive year of expansion in the Sukuk market, driven by the growing

demand for this instrument, which is the most suitable alternative for financing the general budget deficit of governments;

Despite adverse geopolitical conditions, Sukuk markets in 2023 performed well compared to global bond issuances, which saw an overall decline of 17% in issuances as of Q3 2023;

Islamic Sukuks are considered a mechanism to support Islamic banking activity and the Islamic financial industry in general, as they have been able to attract investors who wish to invest in a manner compatible with Islamic law and refuse to deal with traditional financial instruments prohibited by Sharia.

VI.Suggestions:

- Activating and supporting the idea of Islamic sukuk as a mechanism to support Islamic banking activity and the Islamic financial industry in general, as a legitimate alternative to investing in traditional, classical bonds. It is also considered an effective financial tool in mobilizing savings attraction and supporting Islamic banking financing;
- The necessity of formulating a strategic vision aimed at supporting and developing the Islamic sukuk industry;
- The necessity of enacting laws and regulations that provide opportunities to develop the form and performance of investment instruments, which allows for the embodiment of new Islamic financial innovations;
- Developing research centers specialized in Islamic finance to support such innovative financial products;
- Ensuring that the provisions and principles of Islamic Sharia are observed and respected in the issuance of these sukuk, so that they may be an effective alternative to conventional bonds, in order to gain the confidence of investors who wish to invest in Islamic financial transactions, by ensuring the presence of a Sharia board;
- Benefit from successful international experiences in the field of Islamic sukuk industry, such as the experience of Malaysia, Saudi Arabia, Sudan, etc., to benefit.

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