A Critical Review of the Sukuk Market

A qualitative study to identify current risks and opportunities
Dissertation submitted in part fulfilment of the requirements for the degree of Master in Business Administration MBA at Dublin Business School

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Registration number 1769590
Declaration:

I declare that all the work in this dissertation is entirely my own unless the words have been placed in inverted and referenced with the original source. A full reference section is included with this dissertation.

No part of the work has previously been previously submitted for assessment, in any form, either at DUBLIN BUSINESS SCHOOL or any other institute.
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Abstract:

Over the past few decades, Islamic financial system has witnessed a tremendous growth. One of the most creative products of this system is the sukuk, which is usually known as Islamic bonds, or Islamic debt certificates. These instruments represent one of the fastest growing products in the global investments landscape nowadays. However, despite its enormous expansion, Sukuk issuance still faces different kinds of restrictions that distract and stand in the way of the market development. This might be due to its complicated nature and the inconvenient environment of the market where the regulations haven’t support these special products nor appreciated their distinguishing features.

This research aims to explore how the sukuk could exploit the potentials within such an increasingly competitive International market. The mechanics of Sukuk structure and the background of these interesting financial instruments will be critically discussed. The research will also highlight the obstacles that have hindered the growth of Sukuk issuance in the last few years. Finally, the researcher also aims to highlight the risks, challenges and limitations of the sukuk, in the hope to support sukuk issuers in their optimizing of how to take their chances inwards the great growing investors' interest in the sukuk market, where there is a massive gab between sukuk demand and supply.

Keywords:

Sukuk, Sukuk Risk, Sukuk Challenges, Sukuk opportunities, Islamic investments, Islamic financial instruments.
Chapter 1 : Introduction

1.1 The organisation of the dissertation:

This dissertation will be divided into six main chapters where each and every chapter was set to achieve a different level of understanding to this research. The first chapter will be the introduction which is set to give the brief opening to the main research objective. The second Chapter is the “literature review” where, a review of the available published book, articles, papers and official reports relating to the research issue will be introduced. Chapter three is the “research methodology”, there an outline of how the research was carried out describing the different processes from the research plan to the data collection as well as it will explain the ethical issues and the limitations. Chapter four is the “Findings and the data analysis' where the researcher could highlights the most important parts of the primary data he collected through the research. Chapter five "Conclusion and recommendations" will follow up to introduce the researcher opinion regarding the research objective. Lastly, chapter six is the "reflective report" where the researcher has the chance to outline the learning process of how her skills development thought the course of the research project. After this chapter a final section will be added to include the list of references cited in the research as well as, it will include appendices.
1.2 **Background of the problem:**

The sukuk market has been internationally growing; some people predicted that it was just a temporary bubble while others had a strong believe in these interesting instruments. Sukuk represent a spectacular phenomenon and this due to their tremendous growth in the last 25 years, where, "In 1990, the world saw its first Sukuk. Quite strangely, it originated from a non-Islamic company, Shell MDS, although in the largely Muslim dominated country of Malaysia. It was a Ringgit denominated issue with a modest size of RM 125 million (equivalent to approximately US$30 million) and based on the principle of Bai’ Bithaman Ajil (Deferred payment sale). (IIFM, 2009). As the sukuk report stated, the sukuk from its beginning attracted attention especially that the first issuer was not a Muslim unity.

Sukuk has been considered as a phenomenon as a result of the fact that they have never existed in the modern financial system before 1990, and since their creation sukuk managed to make their way to capture a huge amount of funds and to expand their market over sees. However, nowadays sukuk issuance has been decreasing slightly for many different reasons as the figure (1) shows. While figure (2) shows how 2012 was the peak year of the sukuk issuance .Consequently, for the time being, it is required to investigate the sukuks' current position in more depth. So in the goal of being priciest, we should realize the sukuks' present status, as Malaysia International Islamic Financial Centre provided the exact volume stating: “The global sukuk market recorded a new sukuk issuances volume of USD31.14bln in 1Q14 which represented a sustained performance for the market" (MIFC, 2014).
Thus, there is an urgent necessity to discover these reasons to coop their effect on the market development, even though, some of them might be so clear. For example: the 2014 decrease could be partly due to the US Federal Reserve and its quantitative easing (QE) programme in the January of 2014 which has led to an increase in funding costs for issuers, particularly in emerging markets. (KUNA, 2014)
Although, the sukuk phenomenon have been discussed many times during the few last years. There is still a robust need to bring a deeper understanding and explanation to these complicated instruments, as much as the imperious need to interpret and analyse the current market situation to identify the influential challenges and risks, as well as to recognize the dynamic opportunities. This research is set in the goal of providing a clear comprehensive summery of the complex current situation of the sukuk.

This could be helpful for the people who are working in the current global financial system, where they should understand the general language of business, especially that sukuk represent a strong financial instruments nowadays.

The keen instance to bring clearer understanding and the special passion to discover more about these spectacular financial instruments in particular hail from the fact that these instruments are primary part of an interesting financial system (Islamic Finance) which is originally based on high ethics, and an ancient principles, that have been introduced 1400 years ago, where, 'The first ever "Islamic bond" was probably issued in 1775 by the Ottoman Empire." (Bershidsky, 2013).

Despite that this economical and financial system has been introduced more than 1400 years ago; it hadn't really been established until 1975 in Dubai and Jeddah (Ayub, 2007). Thus, it is considered to be a new system, which needs to be improved, developed and well researched, to enhance a better and deeper understanding of its complexity, so the world could get the best of it
1.3 **Interest in the subject and objectives of research:**

The researcher has a bachelor of economics with a major in banking and finance from Aleppo University where she studied Islamic finance as a module. And from the very beginning, she was keen to explore this subject. Not forgetting the researcher great passion for finance and her deep interest particularly in Islamic banking. Since this industry still has its ambiguous sides. The researcher is a self-motivated person, who has the needed desire and curiosity to conduct this research as well as, all the necessary skills, for example, collecting facts from different views, critical analyse and problem solving. The aim of this research is well determined whereas it is to explore the current possible opportunities for the sukuk development and how could sukuk overcome all the limitations, risks and challenges in nowadays fast expanding Islamic financial market in general and the faster expanding global sukuk market in particular.

1.4 **Approach to the dissertation:**

The researcher intends to achieve the objectives of the dissertation by collecting different kind of information taking in account the various considerations and the disproportionate opinions. Up-to-date books, articles academic journals, reports and publications will be used. As well as, experts' opinions will be discovered by consulting these experts to explain the enigmatic issues in which the research aims to clarify.
1.5 The scope and limitations of the research:

The biggest limitation of this research might be the time availability, where in this research the contradicted findings and data collections need extra care to be analysed properly. Another limitation will be the complexity of the research topic where the sukuk has 2 aspects: the first is religious where the sukuk are known as (Islamic bonds) and as a part of the Islamic financial system, and the other aspect is the financial aspect, where sukuk are a special financial instrument which has its own special financial characteristics. Language limitation is another obstacle the researcher might face, despite the availability of English references; the origin of these special instruments is Arabic. Thus, explaining them in different language might to some point restrict their meanings.

1.6 The major contributions of the study:

This research main objective broadly, is to give the reader a modest general insight about sukuk. Yet, the research aims to establish a new simple ascertain definition for the sukuk nature and origin, where the reader who has never heard of sukuk could perceive the substantial conception behind these exotic instruments. At the same time the researcher goal is to coop all the limitations, risks, challenges that might restrict the sukuk from exploiting their promising opportunities, mainly, by identifying and analysing these obstacles.
Chapter 2 : Literature Review

2.1 Islamic finance concept:

The first part will discuss the Islamic financial system briefly and its history from financial point of view as well from Shariah point of view, since it is necessary to understand the background and the landscape of these financial instruments. Therefore, it's dynamic to explain the main concepts, ethics, morals and principles of the Islamic financial system to consolidate a vigorous of the sukuk from its roots.

2.1.1 The history of Islamic Finance:

Islam is not only a religion that impose rules regarding the worship of God, in contrary, Islam came as a whole system to organize each and every single aspect of the life in an ethical way, Hence the rules and instructions of Islam have extended to manage even the financial part, as Islam is simply a program of life on accord with laws of nature decreed by god. (Gillian, Rice, 1999)

According to Ali "Islamic financial system is based on the Shariah. The Shariah is the body of Islamic faith and has two main sources for its instructions. The first is the Quran, which the holy book for Muslims. The most important Quotation from Quran regarding the Islamic financial system is "God has permitted trade and forbidden interest," Quran, Chapter 2 Verse 275. From this quotation, the fundamental principle of this financial system is that Interest, which called "Riba" in the Islamic dictionary, is prohibited. The second source is the Sunnah, which is the set of instructions and guides from Prophet Mohammad for the Muslims life. Beside the major prohibition in Islamic finance, which is Riba as mentioned before, there are more four main prohibitions:
1- "Riba": interest.

2- "Gharar": uncertainty or opacity,

3- "Maysar": speculation or gambling (becoming rich without effort).

4- Profit, which should be acceptable, only if it was generated from investment and by sharing risks.

5- Unethical investment from Islamic point of view: such as (alcohol, armaments, pork, gambling, etc...) " (Ali, 2010, p3)

Furthermore, Islam is not the only religion that prohibits Riba or interest, Christianity and Judaism have the principle of interest prohibition, since these realigns have strong values and morals. However, this principle is not emplaced anymore. (Martin Lewison, 1999)

The growth of Islamic banking in both Muslim and Non-Muslims country might be argued that it was due to different reasons. In spit the fact that Islamic finance existed from the very beginning of Islam and was practiced, for sure not in nowadays sophisticated way, but still it was acknowledged and desired, but not applicable after the decline of the Islamic state, and the fact that Western world became the home centre of civilization. Thus conventional and traditional banking and finance system became the core of this industry. (Aldohni, 2011)

Islamic banking and finance, has never been restricted for only Muslims as Aldohni explained;" Using the expression of Islamic Banking does not mean that this type of banking is strictly religious in a way that forbids dealing with non-Muslims. On contrary, Islamic banks have both Muslims and non-Muslims customers. Malaysia might be the optimal example"(Aldohni, 2011)
2.1.2 Islamophobia:

Since Islamic finance in its name, nature and restrictions, related to Islam, this has affected it in both negative and positive way. The negative affect, which, is related to the Islamophobia, negative opinion towards Muslims has increased after September 11 attack, Islam started to be connected to terrorism in the mind of the people who didn’t have any previous idea about Islam. Some people had formed their perspective regarding Muslims and anything relating to them based on September 11 incident.

This stereotypical way of thinking, affected Muslims in general and the Islamic banking industry, in particular. And as that president George W. Bush introduced it "money is the lifeblood of terror." This had a significant, negative impact on Islamic finance growth. However, shortly Islamic financial institution could overcome this huge obstacle by developing innovative instruments. In spite of all the efforts and the developments, the link between anything relating to Islam and Terrors is somehow still around. (Warde, 2013)

On the other hand, Muslims countries had exceptional interest in improving this system, for many reasons, one of them according to Masood was: "Interest of Islamic banking emerged in Muslim countries during the post-colonial era as a part of an effort to revive and strengthen an Islamic identity. (2011, p13)"
The Islamic banking system has witnessed remarkable expanding through the last few years, especially after the global financial crisis, where the Islamic system proved its efficiency facing this global meltdown, having in mind that this system naturally got affected by the international financial crisis, as this financial system used to have a very tiny position and was very fragile. The Islamic financial system with its ethical and high moral principles was set to form a strong economy. (Kayed & Hassan, 2011)

Islamic finance is a very sensitive complicated and up-to-date topic, due to the huge increasingly global growth of the Islamic financial system in general and the sukuk market in particular as the Figures (3,4) show.
2.2 Sukuk:

The core object of this research is defining sukuk in the simplest way. Thus is this part the sukuk will be discussed mightily to find the most straightforward explanation that could defined this intricate financial instruments, trying to cover all its hazy sides.

2.2.1 Sukuk meaning:

Sukuk (sing; Sakk) Sukuk are certificates, each of which represents the holder’s proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such an asset (IFSB.org, 2010)

Sukuk has been defined by the Islamic Development Bank as the equivalent of conventional bonds, in the Islamic Financial system. However, Sukuk, unlike conventional bonds, which only grant ownership of debt. Sukuk give the investor a share of the assets, which commensurate with cash flows and risks. Thus, the instruments adhere to Islamic financial principles, which prohibit the imposition of interest payments. (Islamic Development Bank, 2014)

The Islamic Financial Services Board gave quite an adequate definition for sukuk, where it was defined as: 'Sukuk (plural of sakk), frequently referred to as “Islamic bonds”, are certificates with each sakk representing a proportional undivided ownership right in tangible assets, or a pool of predominantly tangible assets, or a business venture (such as a muārabah). These assets may be in a specific project or investment activity in accordance with Shariah rules and principles.
And they went further to address the critical procedure of the sukuk issuance and its steps in a very plain explanation:

'Securitisation in sukuk is broadly referred to as a process of issuing sukuk involving the following steps: (a) origination of assets (in conventional finance, these are normally loans or other receivables, while in Islamic finance they are Sharī`ah-compliant assets such as the subject matter of ijārah); (b) transfer of the assets to a special purpose entity (SPE) which acts as the issuer by packaging them into securities (sukūk); and (c) issuing the securities to investors.' (IFSB, 2009, P3)

2.2.2 Sukuk different types:

This Islamic financial instrument has 14 different types. However, this research won't analyse their development, the structure or the risk of all these types, especially; that there are enough researches done to explore these different types before. However, it was important to at least define each type to give the whole picture of the current situation. The sukuk different types definitions will be introduced according to the AAOIFI (Accounting and Auditing Organization For Islamic Financial Institutions):

1. Definition of investment sukuk

Investment sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity.
2. Types of investment sukuk

Among the different types of investment sukuk are:

2/1 Certificates of ownership in leased assets

These are certificates of equal value issued either by the owner of a leased asset or a tangible asset to be leased by promise, or they are issued by a financial intermediary acting on behalf of the owner with the aim of selling the asset and recovering its value through subscription so that the holders of the certificates become owners of the assets.

2/2 Certificates of ownership of usufructs

2/2/1 Certificates of ownership of usufructs of existing assets

There are two types:

2/2/1/1 Certificates of equal value issued by the owner of an existing asset either on his own or through a financial intermediary, with the aim of leasing the asset and receiving the rental from the revenue of subscription so that the usufruct of the assets passes into the ownership of the holders of the certificates.

2/2/1/2 Certificates of equal value issued by the owner of the usufruct of an existing asset (lessee), either on his own or through a financial intermediary, with the aim of subleasing the usufruct and receiving the rental from the revenue of the subscription so that the holders of the certificates become owners of the usufruct of the asset.
2/2/2 Certificates of ownership of usufructs of described future assets
These are certificates of equal value issued for the purpose of leasing out tangible future assets and for collecting the rental from the subscription revenue so that the usufruct of the described future asset passes into the ownership of the holders of the certificates.

2/2/3 Certificates of ownership of services of a specified party
These are certificates of equal value issued for the purpose of providing services through a specified provider (such as educational benefits in a nominated university) and obtaining the service charges in the form of subscription income so that the holders of the certificates become owners of these services.

2/2/4 Certificates of ownership of described future services
These are certificates of equal value issued for the purpose of providing future services through described provider (such as educational benefits from a university without naming the educational institution) and obtaining the fee in the form of subscription income so that the holders of the certificates become owners of the services.

2/3 Salam certificates
These 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 be owned by the certificate holders.
2/4 Istisna` certificates
These are certificates of equal value issued with the aim of mobilising funds to be employed for the production of goods so that the goods produced come to be owned by the certificate holders.

2/5 Murabaha certificates
These are certificates of equal value issued for the purpose of financing the purchase of goods through Murabaha so that the certificate holders become the owners of the Murabaha commodity.

2/6 Musharaka certificates
These are certificates of equal value issued with the aim of using the mobilised funds for establishing a new project, developing an existing project or financing a business activity on the basis of any of partnership contracts so that the certificate holders become the owners of the project or the 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.

2/6/1 Participation certificates
These are certificates representing projects or activities managed on the basis of Musharaka by appointing one of the partners or another person to manage the operation.
2/6/2 Mudaraba Sukuk
These are certificates that represent projects or activities managed on the basis of Mudaraba by appointing one of the partners or another person as the mudarib for the management of the operation.

2/6/3 Investment agency Sukuk
These are certificates that represent projects or activities managed on the basis of an investment agency by appointing an agent to manage the operation on behalf of the certificate holders.

2/7 Muzara’a (sharecropping) certificates
These are certificates of equal value issued for the purpose of using the funds mobilised through subscription for financing a project on the basis of Muzara’a so that the certificate holders become entitled to a share in the crop according to the terms of the agreement.

2/8 Musaqa (irrigation) certificates
These are certificates of equal value issued for the purpose of employing the funds mobilised through subscription for the irrigation of fruit bearing trees, spending on them and caring for them on the basis of a Musaqa contract so that the certificate holders become entitled to a share in the crop as per agreement.
2/9 Mugharasa (agricultural) certificates
These are certificates of equal value issued on the basis of a Mugharasa contract for the purpose of employing the funds for planting trees and undertaking the work and expenses required by such plantation so that the certificate holders become entitled to a share in the land and the plantation. (Accounting and Auditing Organisation for Islamic Financial Institutions-AAOIFI).

2.2.3 Sukuk most famous structures:
However, the most famous and important sukuk for the time being are the Ijarah, mudaraba and morabaha, wherein Sukuk al Ijarah was the most popular amongst corporate and governments wanting to raise funds in the Islamic debt markets. Sukuk al Ijarah issues contributed 43.6% of total issues, followed by Sukuk al Musharaka at 27.5%, and then Sukuk al Mudaraba at 1.4% (Islamonline.com, 2011) Thus the following figures (5,6,7) explains these 3 main types of sukuk in more details:
Figure 5: Ijarah structure

Source: (Dubai International Financial Centre, 2009)
Figure 6: Musharaka structure

Source: (Dubai International Financial Centre, 2009)
Figure 7: Mudarabah structure.

Source: (Dubai International Financial Centre, 2009)
2.3 Sukuk as a part of the Islamic capital market:

As the sukuk being an integral segment of the Islamic capital market and where it's main objective was set to collect capital in sharia compliant way.

Ali in his paper 'sukuk and capital market' introduced the importance relationship between sukuk and the Islamic capital market: 'A ‘capital market’ is a market for issuance and sale of bonds, stocks or similar securities to raise long-term capital. The maturity of securities distinguishes debt capital markets from the ‘money market’, where trading is in short-term debt instruments with a tenor of less than one year or so. Capital markets are divided into debt capital markets and equity capital markets. The sukuk market falls into the debt capital markets area because contemporary sukuk are structured to produce a fixed-income return for sukuk holders. Capital markets are also classified into primary markets and secondary markets. In the primary market an investor buys securities which are issued for the first time. Existing securities are purchased and sold in the secondary market. Primary capital markets are important for capital development of an economy.' (Ali, 2011)
2.3.1 Sukuk secondary market:

The lack of the secondary market, as well as, the lack of short term sukuk might be one of the biggest challenges the sukuk face. These two misgiving matters were the foundation of the liquidity risk. Harvey and Cosgrave expressed their opinion regarding this issue:

'When it comes to liquidity Islamic finance faces the perennial problems of a lack of assets in which to invest and the absence of a secondary market for those assets. Liquidity and the secondary market, or the lack thereof, in the world of Islamic finance, has been an issue of much debate for many years among industry professionals. It has arguably been the single largest factor in pushing down yields on Sukuk recently and also in slowing the long-term growth of the industry. Moves by certain central banks to create a liquidity platform, such as that of the Central Bank of Bahrain’s Bai al Arboun program, have been welcome attempts to address this issue but problems persist.' (Harvey and Cosgrave, 2012)

As French explained in his article, 'A lack of short-term paper, a key instrument for liquidity management by banks, has been a significant constraint on the development of Islamic finance globally.' (French,2014) However, Islamic financial system is trying to overcome this obstacle since as he stated: 'The Malaysia-based International Islamic Liquidity Management Corp began trying to fill that gap last year with issues of three-month sukuk; it now has $1.35 billion outstanding. The Jeddah-based Islamic Development Bank aims to issue its first short-term sukuk this year. '(French,2014)
2.3.2 Sukuk Returns:

The return on sukuk has been a very controversial issue, sukuk returns being based on the binds return system, make its creditability as an interest free financial products very weak, and it contradict the concept of sharing in both cases returns and risks, since in nowadays sukuk, returns are guaranteed.

Ali explained his point of view saying: 'At a micro level, is it right to use a musharaka or mudarabah structure, but negate a genuine assumption of investment risk for one partner by its ability to ‘put’ its interest in the musharaka or mudarabah to the other partner or obligor? At a macro level, should the Islamic finance market engage in financial engineering to economically replicate conventional products? The simple response would be that there is nothing wrong with providing the same return as a conventional product in a Sharia-compliant or ethical manner.'(Ali, 2011)

To explain how sukuk returns are based on conventional returns, Abdul Karim Abdullah explained that in his paper, where he started by describing:

"'Benchmarking’ in Islamic finance is a method of predetermining the magnitude of profits paid by issuers of Islamic sukuk (certificates of investment) to investors. Benchmarking is done by linking investors’ profits to an interest rate, usually Libor (London Interbank Overnight Rate). Normally, a few basis points are added to the reference interest rate to arrive at the benchmarked profit rate.'(Abdul Karim Abdullah)

However, Abdul Karim Abdulla went further to address all the issues relating to the benchmarking stating: 'From a business point of view, benchmarking displays several
odd features. First, the amount of profit paid to sukukholders is made to depend on something other than the profits earned by the enterprise. Second, the quantum of the profit is determined even before it is confirmed whether any profits have been earned to begin with. Third, the sukukholders’ “profits” are guaranteed. Fourth, the sukukholders’ capital is also guaranteed. All four features are used widely in conventional lending. This raises a number of issues.’ (Abdul Karim Abdullah)

Abdul Karim, argued with Ali’s explanation of how this should not be a problem:’

In response to such concerns, it is generally asserted that benchmarking is used to determine “only the profit level,” and therefore the income determined this way is still profit and not interest. However, this response fails to address important issues. First, the amount of profit payable to investors is determined before it is confirmed that any profit has been earned by the sukuk assets. Second, the amount of profit to be paid to sukuk holders is determined not as a share of the total profit earned, as is the case in business practice, but as a proportion (percentage) of the capital supplied, as is the case in lending. Third, originators are legally required to guarantee both the income as well as the capital of the “investors.” Taken together, these practices constitute a significant departure from normal business practice. In business, the quantum of dividends paid to investors, if any, is determined as a proportion of total profit earned, and only after it has been confirmed that any profits have been earned in the first place. Moreover, no business ever guarantees dividends or capital to its shareholders. To do this would be inconsistent with the principle of risk sharing, which lies at the heart of the relationship between counterparties in an investment.’ (Abdul Karim Abdullah)
2.4 Sukuk Challenges:

2.4.1 Sukuk Risks:

According to ELTiby "Banks, conventional as well as Islamic, Are subject to a wide range of risks in the course of their operations. In general banking risk falls into four categories financial, operational, business, and event risk. Islamic financial institutions face a unique mix of risks and risk-sharing arrangements resulting from the contractual design of instruments based on the principles of Shariah, liquidity infrastructure, and the overall legal governance." (El Tiby, 2011, p 27)

Thus, Sukuk, as any financial instruments, have to face different types of risks. Having in mind that some of the risks are systematics, which are the same as any other financial instrument faces, and unsystematic. These unsystematic risks are related to the unique structure of the sukuk.

The unsystematic risk exposures of Sukuk from various perspectives are summarised in figure (8)
Figure 8: The risk exposures of Sukuk from various perspectives

<table>
<thead>
<tr>
<th>Originator</th>
<th>Servicer</th>
<th>Issuer</th>
<th>SPE</th>
<th>Holder</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks related to repurchase undertaking (binding promise)</strong>&lt;br&gt;The originator is obligated to make payments in respect of the sukūk or the assets in certain circumstances resulting from a breach of certain representations and warranties. The originator may need to compensate the issuer in the equivalent amount or replace the relevant assets.</td>
<td><strong>Service default</strong>&lt;br&gt;Where the underlying assets are consumer linked, there is still a dependence on the originator despite the fact that they have been sold to the sukūk SPE. The originator usually maintains the business &quot;relationship&quot; with the underlying consumers and continues to collect payments on behalf of the sukūk holders. In this capacity, the originator is referred to as a &quot;servicer&quot; and, despite satisfaction of all the regular securitisation conditions, a default of a servicer would still have an adverse effect on the sukūk performance.</td>
<td><strong>Default</strong>&lt;br&gt;If the originator fails to pay the coupon payments, the sukūk holders (or the SPE on their behalf) can declare an event of default and accelerate the principal payment obligation of the originator by compelling the originator to repurchase the asset. If the originator fails to pay the principal amount equal to the sukūk issue amount at the maturity of the lease term, the sukūk holders (or the SPE on their behalf) will have a right to take legal action against the originator. The sukūk holders (or the SPE on their behalf) may also have the right to sell or foreclose on the underlying assets.</td>
<td><strong>Bankruptcy</strong>&lt;br&gt;SPE is generally incorporated as a bankruptcy remote vehicle to mitigate bankruptcy risk.</td>
<td><strong>Liquidity</strong>&lt;br&gt;The sukūk holder will be subject to liquidity risk associated with the market, whether in the primary or secondary market.</td>
</tr>
</tbody>
</table>

Source: (Islamic Financial Services Board (IFSB), 2009, P7)
2.4.2 Financial Criticism:

2.4.2.1 Sukuk returns issue:

Despite, the prohibition of Interest in Islamic finance, profit and return on capital is allowed and encouraged; Islamic financial system is based on the concept of profit/loss sharing, to avoid "Riba" (interest or usury). As the return issue was discussed earlier in this research in (2.3.2). Since, people didn't really understand the concept of the returns on sukuk, they started to criticise its nature, which dragged the sukuk to modify and tweak its nature to gratify the investors.

As Sheng & Singh explained: 'the concern, about the efficiency of such economic system, which has no interest payments, but at the same time allows profits on capital and enterprise. Such a system, based totally on equity finance is completely viable and may, in fact, be more stable than a part- debt financed conventional system.' (Sheng & Singh, 2011, p23)

Masood went further on explaining the development of understanding this system, from a zero interest system which would mean no investment, thus no growth, to the establishment of a clear understanding of the return on capital system. Masood said "By the early 1990s it was clear that an Islamic financial system not only theoretically viable, but possessed desirable characteristics. The phenomenal growth of Islamic finance during the 1990s revealed the empirical and practical viability of the system, though again virtually everywhere it was instituted, competing systems offering conventional financial instruments co-existed with Islamic products that are Shariah compliant." (2011, p14)
As a result of the lack of explanation regarding the sukuk nature and its return, the
pervious criticisms were addressed and this pushed the sukuk to follow the bonds
return structure as mentioned in the section 2.3.2.

2.4.2.2 Sukuk complicated issuance process:

A worth mentioning fact, is that the Sukuk Issuance process, aside of its complexity,
is considered to be a very expensive process. This is a real snag in the sukuk's
development way.

Vizcaino talked about this issue using a study from the Asian Development Bank: ' costs of issuing Islamic bonds in Asia are still significantly higher than the costs of issuing conventional bonds, despite the growth of Islamic finance in countries such as Malaysia and Indonesia, a study by the Asian Development Bank found.'

Where he explained the justification: ' Lack of familiarity with complex sukuk structures can translate into higher advisory fees for prospective issuers, while investors demand higher yields because of limited trading activity in secondary markets for sukuk, the ADB said in the March edition of its Asia Bond Monitor.' However, the cost in the GCC region is more affordable as he continued: 'The average gap between issuance costs for sukuk and conventional bonds in the Gulf, the other world's other major centre for Islamic finance, is believed to be very small or non-existent - and in some cases, it has proved cheaper to issue sukuk, traders told Reuters. This is because sukuk have become mainstream in most Gulf countries, especially Saudi Arabia, and because demand from cash-rich institutional investors often exceeds supply. (Vizcaino, 2014)
2.4.2.3 Sukuk buy and hold culture:

In their paper, Harvey and Cosgrave highlighted another issue that has not been discussed enough yet: 'The logical outcome of this must surely be that Islamic investors are unable to purchase enough Sukuk. With this supply/demand imbalance, Sukukholders feel unable to trade out of a position for fear of not being able to find another Sukuk in which to invest. As a result the prevailing culture amongst Sukukholders in the Middle East is to buy and hold to maturity.'(Harvey and Cosgrave, 2012)

The buy and hold culture is another indirect responsible spark of the liquidity problem.

2.4.2.4 Sukuk sharia problems:

As Muhammad Taqi Usmani the President of the Shariah Committee of the Accounting and Auditing Organization for Islamic Financial Institutions in his paper 'Sukuk and their Contemporary Applications' summarized why 80% of sukuk are not Sharia compliant: "Today, there are many Sukuk in the market, all claiming to be Islamic Sukuk. In this brief study, I mean to shed light on the mechanisms they use and on the extent to which these comply with the precepts of Islamic jurisprudence, and its principles, and its higher purposes. The issuers of these Sukuk have expended a great deal of effort to make them competitive with the conventional bonds prevalent in today's capital markets. By endowing these Sukuk with the same characteristics of bonds, they have attempted to facilitate their acceptance in both Islamic and conventional markets.' (Muhammad Taqi Usmani, 2009)
He mainly talked about because their method for redemption incorporates and the purchase undertaking (a promise that the ‘obligor’ will redeem the sukuk by repurchasing the underlying assets at a price representing the face amount of the sukuk at maturity or following an event of default). Sheikh Usmani’s view was that this promise violated the principle of risk and profit-sharing on which such sukuk should be based.
2.5 Sukuk versus Bonds:

In spite of the fact that Sukuk in their definition uses, the world bond, when they say Sukuk are Islamic bonds. This doesn’t mean that they are similar to the bonds structure. In contrary, sukuk are very unique instruments.

Now according to the Islamic Financial Services Board: 'sukuk differ from conventional interest-based securities or bonds in a number of ways, including:

(a) The funds raised through the issuance of sukūk should be applied to investment in specified assets rather than for general unspecified purposes. This implies that identifiable assets should provide the basis for Islamic bonds

(b) Since the sukūk are based on the real underlying assets, income from the sukūk must be related to the purpose for which the funding is used.

(c) The sukūk certificate represents a proportionate ownership right over the assets in which the funds are being invested. The ownership rights are transferred, for a fixed period ending with the maturity date of the sukūk, from the original owner (the originator) to the sukūk holders.(IFSB, 2009, P3)

However, it is important to compare sukuk issuance with bonds, to understand the whole picture, Thus, Figure (9) will show the GCC issuance of both conventional bonds and Islamic bonds in the last year.
A very important point Ali made regarding comparing sukuk with bonds with any conventional instrument, he stated: 'To enhance a clear comparison, the difference between Islamic banking system and conventional system should be pointed out. While the conventional banking system have been practiced for centuries and has developed to a very sophisticated global industry, in contrast the Islamic finance is still emerging, but at the same time it is evolving rapidly. Therefore, currently, no Islamic bank has a complete set of product as in any traditional bank.'(Ali, 2010, p4)

And again, to bring a clear idea of how sukuk are different from any other conventional product 9bonds and shares, figure (10) was set to compare the main differences.
Figure 10: comparison between sukuk, bonds and shares

<table>
<thead>
<tr>
<th></th>
<th>Sukūk</th>
<th>Bonds</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature</td>
<td>Not a debt of issuer but undivided ownership share in specific assets (asset-backed or asset-based) or business ventures</td>
<td>Debt of issuer</td>
<td>Ownership share in a corporation</td>
</tr>
<tr>
<td>Assets</td>
<td>A minimum of certain percentage of tangible assets</td>
<td>Generally not required</td>
<td>Not required</td>
</tr>
<tr>
<td>Claims</td>
<td>Ownership claims on the specific assets or business venture</td>
<td>Creditors' claims on the borrowing entity, and in some cases liens on assets</td>
<td>Ownership claims on the company</td>
</tr>
<tr>
<td>Security</td>
<td>Secured by ownership rights in the underlying assets or venture in addition to any additional collateral enhancement structure</td>
<td>Generally unsecured debentures except in cases such as mortgage-backed securities, collateralised debt obligations, equipment trust certificates, etc.</td>
<td>Unsecured</td>
</tr>
<tr>
<td>Principal and return</td>
<td>Not guaranteed by issuer</td>
<td>Guaranteed by issuer</td>
<td>Not guaranteed by company</td>
</tr>
<tr>
<td>Purpose</td>
<td>Must be issued only for Shari‘ah-compliant purposes</td>
<td>Can be issued for any purpose</td>
<td>Can be offered for any purpose</td>
</tr>
<tr>
<td>Trading of security</td>
<td>Sale of ownership interest in a specific asset or venture</td>
<td>Sale of a debt instrument</td>
<td>Sale of shares in a company</td>
</tr>
<tr>
<td>Responsibility of holders</td>
<td>Responsibility for defined duties relating to the underlying assets/venture limited to the extent of participation in the issue</td>
<td>Bondholders do not have any responsibilities for the circumstances of the issuers</td>
<td>Responsibility for the affairs of the company limited to the extent of holding in the company</td>
</tr>
</tbody>
</table>

Source: (Nathif and Abdulkader, 2004, p54)
2.6 **Sukuk market development:**

Pointing out the advantages and the disadvantages of continues innovation in the sukuk structure and how its risks could be managed in a more efficient way.

2.6.1 **Sukuk expand and growth:**

Mr Jaseem Ahmed, Secretary-General of the IFSB, said, “Thanks to its inherent features and widening appeal, Islamic finance has displayed remarkable growth over the years. As far as the Islamic capital market is concerned, we have seen strong growth in Shariah-compliant securities, or Sukuk market. Sukuk issuances reached USD131 billion in 2012, a 54% increase over 2011, and are expected to reach new heights in 2013”. (IFSB, 2013)

Figure (11), will explain how Malaysia on 2011 was responsible of more than 70% of the global sukuk market. However this expected to change radically after Dubai has won to host the world expo 2020, Dubai is planning to spend more than 6 billion euros on infrastructure projects ahead for this expo. Thus, sukuk will witness a significant emerging in the GCC region and mostly in the EAU. (Bloomberg.com, 2013). Yet, it is very important to take inconsideration the previous fail of the Nakheel sukuk were they default in 2009.
2.6.2 Sukuk defaults:

Before the financial crisis many investors were convinced that sukuk are instruments which almost immune from default. However, in reality after the crash many of them has defaulted. Ali, explained: 'The sukuk market also experienced its first defaults. These included Kuwait’s Investment Dar, East Cameron Gas Company (the first sukuk issued by a US-based company) and Saudi’s Saad Trading. The media coverage surrounding those defaults paled into insignificance to the furor over the Nakheel $3.52 billion sukuk, with a Dubai World guarantee.' (Ali, 2011)

As much as it is important to highlight these defaults to avoid them in the future, it is also important to understand that the reason of these defaults was never the concept of sukuk. In contrary, as mentioned before the fact that they were not strongly structured as they should be affected their position.
2.6.3 Sukuk International regulations:

According to Aldohni" Islamic banking can be described as one of the fastest growing financial sectors. The growth of the Islamic banking has extended beyond Muslims countries to reach a number of Western countries, which led to the Internationalization of the Islamic banking." (2011)

As a result of the promising growth, The Monetary fund decided to take further steps in helping improving this system. Thus, the IMF in collaboration with the Islamic Development Bank and AAOIFI established the Islamic Financial Services Board (IFSB) an Islamic regulation unit for setting monitoring and supervision to insure stability, standardization and to provide guidance for the Islamic financial industry. This board is located in Kuala Lumpur, Malaysia (IMF, 2002)
2.7 International interest in Sukuk:

Although, Singapore is not an Islamic country, it aims to be a hub for Islamic finance, with a growing especial interest in Sukuk and Shariah-compliant real estate investment trusts. Singapore has already introduced new regulations to suit the Islamic banking system by reducing taxes for Islamic transactions, waiving of stamp duties for real-estate financing, and a 5% concessionary tax rate for Islamic financing, and there are future plans for more similar more appropriate regulations for Islamic finance. Singapore has been lately known as serious financial center competitor, threatening the word oldest global financial markets London, New York, Australia, etc. (Sukuksummit.com, 2011).

Another financial centre is competing to be the International hub of the Islamic finance, UK is planning to start issuing Islamic bonds (sukuk) in its way to attract more funds and raise capital. Especially the oil wealth, according to Aldohni;"the oil boom in the early 1970s changed the financial importance of the Gulf countries. These countries took a lead position at an international economic level due to their petroleum production." (Aldohni, 2011, p 24) Since, a high percentage of Muslim investors prefer to deal with Shariah-compliant instruments.

Aldohni highlighted that "Islamic Bank of Britain started operating in the UK market in 2004 and was the first fully fledged retail Islamic bank." (Aldohni, 2011).

Nowadays, the Prime Minister of the UK, David Cameron, said: "Today our ambition is to go further still. Because I don’t just want London to be a great capital of Islamic finance in the western world, I want London to stand alongside Dubai and Kuala Lumpur as one of the great capitals of Islamic finance anywhere in the world.” (Hutton, 2013)
The fact that many non-Islamic and Islamic countries are competing to be the global heart of the Islamic financial system, especially in issuing 'Sukuk', is a healthy indicator, since competition in general is a great indicator, which, shows how attractive is this system. But at the same time, this competition mixed with lack of standardization brings a potential risk and conclude a huge challenge. (Hutton, 2013)

Europe first issuer of Sukuk was Germany in 2004. (World Commerce Review, 2013)

Moreover, UK, Ireland, Germany, France, Canada, Australia have also introduced a new set of regulations to facilitate the growth of this financial system, since they have a desire to obtain a leading position in this rapidly growing financial market. (Sheng, 2011)

2.7.1 **Conventional Banks interest in sukuk:**

Conventional Banks started to show interest in the Islamic banking in general and Sukuk as a capital market method in particular, in their pursue to attract the petroleum market liquidity and the investors' money who are interested only in Islamic bonds, (sukuk) and other non-Muslims investors who started to lose faith in the conventional financial system after the financial crisis. The first bank was HSBC, followed by Goldman Sachs.

HSBC one of the world largest banks in 1998 established HSBC Amanah an Islamic banking business to meet the growing need of customers in Asia and the Middle East, to be Shariah-compliant part of HSBC group, HSBC has issued sukuk for the first time in the Middle east in 2010, and it continued on the successful sukuk issuance. (HSBC, 2011)
After this many conventional banks tried to enter the sukuk market as well, for example, Goldman Sachs showed huge interest in issuing sukuk in 2012. This decision faced some objections. Some scholars argued that conventional banks should not be allowed to issue sukuk since the investments might not be Shariah compliant; basically, scholars were worried that the sukuk was associated with Riba, which as mentioned before is against the Purpose of the Islamic finance. (Reuters.com, 2012)

However, these concerns don't mean that conventional banks are not allowed to issue sukuk. In contrary, the conventional banks' issuance of sukuk with respect and under the Shariah rules will help the development of the Islamic banking, will provide liquidity and will increase the awareness of the sukuk to non-Muslim investors.
Chapter 3: Research Methodology and Methods

3.1 Introduction:

The Hungarian physiologist Albert Szent-Györgyi has defined the world 'Research' in a very interesting and simple way stating that the research is to see what everybody else has seen, and to think what nobody else has thought.

However to do so, to think what nobody else has thought, is not that simple or straightforward. Thus the need for a clear structure to set a dynamic plan is vital to achieve the purpose of the research. From here the importance of a strong research methodology arise, where methodology as an English word was defined by oxford dictionary as: A system of methods used in a particular area of study or activity. Having in mind the research methodology is a plan, system and a guide to connect all your ideas and the collected data to reach to an effective conclusion.

This could backed up as Saunders, Lewis and Thornhill explained a study for Ghauri and Gronhaug states that the two phrases are important to define research “systematic way” and “to find out things.” Where “systematic way” means that your research will involve an explanation of the methods used to collect the data, will argue why the results obtained are meaning full and will explain any limitations that associated with them. While “to find things” suggests that there is a multiplicity of possible purpose for research. (Saunders, Lewis and Thornhill, 2012, p.5)
3.1.1. Research problem:

Donald and Pamela define Business research 'as a systematic inquiry whose objective is to provide the information that allow managerial problems to be solved.' (Donald and Pamela, 2005, p.4)

First of all, it is important to highlight the reason of doing this research. And since the research has a number of characteristics which distinguish the research from any other work, these characterise could be summarized to that the data collection and interpretation processes should be done systematically, as well as there should be a clear porous of this research, in other words, this research should be done in the peruse to find something as a result. (Saunders, Lewis, and Thornhill, 2012, p4)

This is the heart of the research which in other words could be addressed as the research problem. Now this research was set to explain, understand and discuss the Islamic Sukuk current position with its risks, challenges and opportunities in the global economy. The sukuk as explained before have attracted many Ambiguous views in the last decade.
3.1.2. **Research Objective:**

This research was established in the main goal of bringing a deeper understanding of these complex financial instruments sukuk. Achieving this will happen by basically breaking down the sukuk 14 different structures with the concentration on the most famous structures, analysing their distinct features and characteristics as well as comparing them with their alleged equivalent instruments in the conventional finance; bonds. Another essential objective of this research is to investigate the background of this unique financial instrument, by going through the details of their origin and history, not forgetting to highlight the important stages that led to current situation. Interestingly the vital objective is to critically evaluate the sukuk trying to discover the reasons of their limitations as well as addressing their opportunities. At least identifying the huge challenges the sukuk face nowadays in the modest hope to be somehow inspired to propose some effective answers, recommendations and maybe some solutions.
3.1.3. Research Questions:

Setting the right questions is essential to reach a wider understanding of this complicated issue. The questions were defended to three main themes:

3.1.3.1 Theme one: Sukuk characteristics:

The following questions as much as they seem simple, they have many important dimensions. The aim of these questions is to understand the sukuk complexity. These questions were asked, trying to give the reader an initial idea of these special instruments.

1. Question: What are sukuk and what are their main characteristics?
2. Question: How was the idea of sukuk generated?
3. Question: What are the different types of sukuk?
4. Question: What role the Sharia scholars took in the sukuk development process?
5. Question: What are the returns of the sukuk and how could they be attractive?
6. Question: How can we differentiate sukuk from any other conventional financial instrument, especially the bonds and shares?
3.1.3.2 Theme two: Risks, limitations and challenges:

The following questions are more focused on the challenges, limitations and risks that threaten and restrict the sukuk market.

1. Question: **What are the main Risks the sukuk hold?**
2. Question: **What is the effect of the rare issuance of the sukuk market?**
3. Question: **How the buy and hold culture and the lack of secondary market impressed the liquidity risk?**

3.1.3.3 Theme three: Opportunities and future:

The following questions target to revile the distinguished opportunities the sukuk have and to find out how could the market reaches its growth.

1. Question: **What is the reason behind the international interest in sukuk and how this could affect the market?**
2. Question: **What are the Criticisms sukuk faces?**
3. Question: **How could the sukuk market develop and improved?**
3.1.4. **Proposed methodology:**

From the previous research questions and the main objectives of the research, it has been clear that the most appropriate methodology for this research, is the Qualitative methodology.

However, to guarantee a clear understanding of the different research philosophies and approaches and to assure that most appropriate methods were chosen, since these methods will provide a strong formulation for the research design. Therefore the research 'onion' model of Sanders will be used to help structure every important detail of this complicated research by choosing the most suitable, philosophy, approach, strategy, time horizon and finally to determine the most helpful techniques and procedures for my proposed topic in particular. However each choice will be provided with an explanation of why it was taken. This is important to avoid any misunderstanding and to keep the structure as strong as possible.

And according to Saunders, Lewis and Thornhil 'In summery we agree with John and Clark (2006) who argue that the important issue is not so much whether our research should be philosophically informed, but it is how well we are able to reflect upon our philosophical choices and defend them in relation to the alternatives we could have adopt.' (2012, 128-129)
Figure 12: The research 'onion'

Source: Saunders, Lewis and Thornhill (2009, p.108)
3.2 Research Philosophy:

The research philosophy you adopt can be thought of as your assumptions about the way in which you view the world. These assumptions will underpin your research strategy and the methods you choose as part of that strategy. (Saunders, Lewis and Thornhill, 2012, p.128)

The research philosophy will be Interpretivism not positivism, having on mind the complexity of the main theme of this research which is the 'Sukuk', and as Collis & Hussey explained on the main criticism of positivism some of these criticisms were:

- Researchers are not objective, but part of what they observe. They bring their own interest and values to research.

- Capturing complex phenomena in a single measure is misleading (for example it is not possible to capture a person's intelligence by assigning numerical values.). (Collis & Hussey, 2009, p56)

Therefore the positivism philosophy was excluded of and it was decided to obtain the Interpretivism philosophy, since the main plane is to investigate the development and global growth of Islamic finance in general as well as to give extra attention and to focus on the unique Sukuk phenomena as it was called. It was explained by Saunders, Lewis and Thornhill, "The heritage of this strand of Interpretivism comes from two intellectual traditions: phenomenology and symbolic interactionism. Where phenomenology refers to the way in which we as humans make sense of the world around us. In symbolic interactionism we are in continual process of interpreting the social world around us in that we interpret the action of others with whom we interact
and this interpretation leads to adjustments in our own meaning and action."

(Saunders, Lewis and Thornhill, 2012, p137)

This philosophy will fit perfectly to the research since it will be analysing and interpreting the details of the current position of the sukuk market and how they improved by the challenge of the conventional bonds being the motivation to develop a more innovative structure. Connecting all the collected data together to conclude the main purpose of the research, this is to understand sukuk characteristics, to understand the risks facing sukuk and to provide the needed explanation in the most accurate way.

In short the definition of the Interpretivism according to Collis & Hussey "a paradigm that emerged in response to criticisms of positivism. It rests on the assumption that social reality is in our minds, and is subjective and multiple. Therefore, social reality is affected by the act of investigating it. The research involves an inductive process with a view to providing interpretive understanding of social phenomena within a particular context."(Collis & Hussey, 2012, P 57)

The previous statement will strongly support the choice of this interpretive philosophy to be the perfect philosophy for this very specific research.
3.3 Research Approach:

According to the research onion there are two main approaches inductive and deductive. And the approach of this research will be inductive approach, as according to Saunders, Lewis and Thornhill in their explanation of the inductive approach "it is Research approach involving the development of a theory as a result of the observation of empirical data." While Collis &Hussey defined it as" a study where theory is developed from observation of empirical reality; thus general inferences are induced from particular instances." (Saunders, Lewis and Thornhill, 2012, p672)

However, the inductive approach will help me looking in more depth, understanding, investigating and finally analysing the complexity of the sukuk to accomplish the target of this research.

Saunders, Lewis and Thornhill supported this choice as they explained both approaches:

"If your research starts with theory, often developed from your reading of the academic literature, and you design a research strategy to test the theory you are using deductive approach. Conversely if your research starts by collecting data to explore a phenomenon and you generate or build theory (often in the form of a conceptual framework), then you are using an inductive approach." (Saunders, Lewis and Thornhill, 2012, p. 145-146)

Moreover they went further discussing this approach saying "Research using induction is likely to be particularly concerned with the context in which such events were taking place. Therefore, the study of a small sample of subjects might be more appropriate than a large number as with the deductive approach. …, researchers in
this tradition are more likely to work with qualitative data and to use a variety of methods to collect these data in order to establish different views of phenomena" (Saunders, Lewis and Thornhill, 2012, p. 145-146)

Furthermore, According to Eriksson & Kovalainen; "In several qualitative approaches, the collection of data and its analysis are sensitive to the context aiming a holistic understanding of the issue studied." (Eriksson & Kovalainen, 2008, P 5)

This clear understanding would happen only, by observing, investigating and analysing the sequence of events in the particular issue of Sukuk I am researching.
3.4 Research Design and Research Strategy:

3.4.1 Research Design:

Your research design is the general plan of how you will go about answering your research questions (Saunders, Lewis and Thornhill, 2012, p159). And it was explained before this research will be qualitative. However, to choose the nature of this research, we have to discuss the three different natures: exploratory studies, descriptive studies, and explanatory studies.

Where Saunders, Lewis, and Thornhill defined them:

- **Exploratory study**: is a valuable means to ask open questions to discover what is happening and gain insights about the topic of interest.

- **Descriptive studies**: where the objective of them is to gain an accurate profile of events, persons, or situations.

- **Explanatory studies**: studies that establish causal relationships between variables. (Lewis and Thornhill, 2012, p171-172)

From the above definition, it is clear that this research is an exploratory study since it has the advantage of being fixable and adaptable to change. And as Saunders, Lewis, and Thornhill explained the ways to conduct this kind of research, which include a search of literature; interviewing 'experts' in the subject; conducting in-depth individual interviews or conducting focus group interviews. (Saunders, Lewis, and Thornhill, 2012, p171)
3.4.2 Research Strategy:

According to Saunders, Lewis and Thornhill a strategy is a plan of action to achieve a goal. And there are many different strategies each one of them is linked to a specific research design as some are linked to the qualitative and the others are linked to the quantitative. They have highlighted some of the different strategies:

- Experiment;  
- Narrative Inquiry.
- Survey;  
- Ethnography;
- Action Research;  
- Archival Research;
- Case study;  
- Grounded Theory;(Lewis and Thornhill, 2012, p173)

In the very beginning I was confused between the both Grounded theory strategy, and the narrative inquiry strategy. However, after a deep researching I recognised the difference between these two interesting strategies and choose the most appropriate method to my research, which is narrative inquiry.

As Collis & Hussey defined the Grounded theory "is a methodology in which a systematic set of procedures is used to develop an inductively delivered theory about phenomena." (Collis & Hussey, 2009, P 83)

Moreover, Saunders, Lewis and Thornhill introduced the 'Grounded theory ' saying that: "Grounded theory may be used loosely to incorporate methodology and method but more specifically it refers to a theory that is grounded in or developed inductively from a set of data." (Saunders, Lewis and Thornhill, 2012, P 185)
From the previous definitions, it is clear that in spite of that Grounded theory might be appropriate strategy to develop a theory regarding sukuk; I found it very hard to get a theory from the sukuk growth and its burden of potential risks. Even that, my main goal of studying 'Sukuk' in this research is to conclude if 'Sukuk' will be a better alternative of the conventional bonds, and if so, how this will be accomplished.

On the other hand, Narrative inquiry according to Saunders, Lewis and Thornhill "a narrative is a story which represent an event or a sequence of events." They continued to describe the narrative as a research strategy:" Narrative enquiry has a more specific meaning and purpose. There will be research contexts where the researcher believes that the experiences of her or his participants can best be accessed by collecting and analysing these as a complete stories, rather than collecting them as bits of data that flow from specific interview questions and which are then fragmented during data analysis." They continued explaining:" Narrative inquiry therefor seeks to preserve chronological connections and the sequencing of events as told by narrator, to enrich understanding and aid analysis." (Saunders, Lewis and Thornhill, 2012, P188)

Therefore I found Narrative inquiry to be a more appropriate strategy to my research to get a deeper understanding of the complex development of this phenomenon.
3.5 **Methodological choice:**

The research method will be mono qualitative.

Saunders, Lewis and Thornhill defined the mono method as: "Use of a single data collection technique and corresponding analysis procedure or procedure." (Saunders, Lewis and Thornhill, 2012, p675)

And as figure 13 shows, it is a much simpler method, but at the same time, it will be the most appropriate methodology for analysing the complex research topic. And since, the main purpose in to analysis, investigate and interpret the studied research topic, I will use the qualitative method as my research design.

According to Bryman & Bell "Most obviously, qualitative research tends to be concerned with words rather than numbers, but three main features were particularly noteworthy:

- An inductive view of the relationship between theory and research, where by the former is generated out of the later.
- An epistemological position described as interpretivist, meaning that, in contrast to the adoption of a natural scientific model in quantitative research, the stress is on the understanding of the interpretation of that world by its participations and;
- An ontological position described as constructionist, which implies that social properties are outcomes of the interaction between individuals rather than phenomena 'out there' and separate from those involved in its concentration. (Bryman & Bell, 2007, p402)
3.6 Time Horizon:

An important question need to be ask in designing your research, Do I want my research to be a snapshot taken at a particular time or do I want it to be more akin to a dairy or a series of snapshots and be a representation of events over a given period? This will, of course, depend on your research question. The snapshot time horizon is what called cross-sectional while the dairy perspective we call longitudinal. (Saunders, Lewis and Thornhill, 2012, p190)

The time horizon of this research would be longitudinal studies, due to the nature of the research strategy, which is focused on analysing and understanding the development of Sukuk through different periods of time according to the events' sequence. And as longitudinal studies were described by Saunders, Lewis and Thornhill : "The main strength of longitudinal research is its capacity to study change and development. This type of study may also provide you with a measure of control over some of the variables being studied." (Saunders, Lewis and Thornhill, 2012, p 190)
3.7 Research sampling techniques:

According to Uma Sekaran, Mainly there are two different types of sampling probability sampling and non-probability sampling. Where probability sampling can be either unrestricted (simple random sampling) or restricted (complex probability sampling) o nature. While the non-probability sampling fit into the broad categories of convenience sampling and purposive sampling. (Uma Sekaran, 2011,p270 & 278)

Non-probability sampling will be used in this research, since as Saunders, Lewis and Thornhill explained: "Non-probability sampling (or non-random sampling) provides a range of alternative techniques to select samples, the majority of which include an element of subjective judgment…. Objective and choice of strategy may dictate non-probability sampling …. This sample would provide you with an information-rich case study in which explore your research question and gain theoretical insight" (Saunders, Lewis and Thornhill, 2012, P 281). Thus, I will not use any sampling frame, in contrary I will use Purposive sampling technique and judgmental sampling to help me in choosing the appropriate answering the research questions by providing and enhancing deep understanding of the topic.

Purposive sampling and judgmental sampling, by choosing a very small sample with a great level of knowledge on the studied topic, this will achieve perfectly the purpose of the research. And as I choose the narrative enquiry strategy, which according to Saunders, Lewis and Thornhill "This strategy is generally associated with small purposive samples because it's intensive and time consuming nature."( Saunders, Lewis and Thornhill , 2012, p189)
However, a heterogeneous population sampling will be considered. In spite of the fact that in depth focus on the topic is needed, but at the same time I need to view the research topic from different kinds of views, basically to achieve a whole clearer view regarding this topic. According Saunders, Lewis and Thornhill: "heterogeneous or maximum variation sampling uses your judgment to choose participants with sufficiently diverse characteristics to provide the maximum variation possible in the data collected. It enables you to collect data to describe and explain the key themes that can be observed". (Saunders, Lewis and Thornhill, 2012, p 287)
3.8 Data collection tools:

Saunders, Lewis and Thornhill identified the two main data resources and by analysing both Primary and secondary data the researcher could be able to answer his research question and achieve his research objective. However they argued that the individual researcher might not have the sufficient time, money or access to collect the needed primary data by himself, but fortunately that by this time the amount of secondary data available might be sufficient to analyse and then answer the research questions. (Saunders, Lewis and Thornhill, 2012, p 304)

In this research, both secondary and primary data will be used to analyse and understand the 'sukuk' structure in depth, to accomplish a fair judgment about the risks the 'sukuk' might include.

For the secondary data, I will use books relating Islamic finance, books about the banking system in general, academic journals, up-to-date articles from credible financial resources, official reports from financial Islamic institutions and from conventional financial institutions.

Primary data will be collected from conducting in depth semi structured interviews with a selected sample of managers, who will provide me in up to date deep data regarding the research topic as well there might be interviews with academic scholars who have a significant level of knowledge in this particular topic. There might be a need to interview same criteria from conventional banks. But the focus will be more on the Islamic banks side, since there will be sufficient information and data about the conventional banks bonds, especially after the financial meltdown. This step will be made to make an appropriate judgment and a more credible result of the comparison. This will be appropriate to achieve at least one of the goals of this research, which is
to know if the Islamic bonds are less risky alternative of the conventional bonds and in what concepts.

Interviews will be held with high level managers in Islamic to understand the complex structures of the Sukuk, risks and the way to manage this risk, Academic researchers with high level of understanding of the topic from business point of view, consultants works for the Islamic banks and customers for both Islamic and conventional banks. The number of interviews might change as a result of the availability and the access to these specified criteria. Each single criterion will help in answering the research question and bring more understanding of the Sukuk's nature, structure, risks, and the up-to-date financial position.

The interviews should be audio tapped for accurate transcription, as for transcribing these interviews, I am planning to transcribe them as soon as I have them to, and to take extra care to ensure that these interviews are accurate. As Saunders, Lewis and Thornhill called this process "data cleaning" (Saunders, Lewis and Thornhill, 2012, p550)

The research interview is a purposeful conversation between two or more people requiring the interviewer to establish rapport, to ask concise and unambiguous questions, to which the interviewee is willing to respond, and to listen attentively. (Saunders, Lewis and Thornhill , 2012, p372)

As it was defined above the interesting thing about interviews is the fact that they are a two way road, in which the form and the quality of the question are the base, while the careful listening is vital to simulate and present the idea properly.
3.9 **Data Analysis method:**

Analysing the qualitative data collected will be by using the Narrative Analysis approach. Saunders, Lewis and Thornhill explained that this approach has two types of structure, one analyse the narrative using the event sequence, while the other analyse the narrative using a logical sequence. The logical sequence will be used to re-story the complex topic of this research. (Saunders, Lewis and Thornhill, 2012, p575)
3.10 Ethics:

Eriksson & Kovalainen explained the ethics; "The ethical principles, such as informed consent, the avoidance of deception, harm or risk, and Kent's universal principle of respect, treating others always as ends and never as means, all go hand in hand with the ways we see researcher related to the research topic, or knowledge production, in a more general way." (Eriksson & Kovalainen, 2008, p62)

Research that is likely to harm participant is regarded by most people as unacceptable. But what is harm? Harm can entail a number of faces; physical harm; harm to participants' development or self-esteem; stress; harm to career prospects or future employment; and inducing subjects to perform reprehensible acts. (Diener & Crandall 1978, cited in Bryman & Bell, 2007)

Bryman & Bell emphasized on the importance of protecting research participants "The issue of confidentiality and anonymity raise particular difficulties for many forms of qualitative research, where particular care has to be taken with regard to the possible identification of persons, organizations and places." Thus, this issue should be given special care to avoid any problems. As they continued to say "The issue of confidentiality and anonymity involve legal as well as ethical considerations. The right of privacy is a tenet that many of us hold dear, and transgressions of that right in the name of research are not regarded as acceptable." (Bryman & Bell, 2007, p134-139)

Additionally, In spite of the fact that this research will be viewed from a financial point of view and will be analyzed financially, there must be a huge respect to the fact that this financial system is based on a religious beliefs and principles. That should be respected as well as carefully explained.
3.11 Limitations:

The main difficulty might be in the different scholars' opinions regarding Sukuk as an appropriate Islamic financial instrument. This will compose a huge challenge, especially that I am not a Shariah expert to judge this argument.

Another vital difficulty might be the complexity of the sukuk structure, as it is in its nature a very sensitive and complex instrument, which is in its emerging period, where everything is changing rapidly.

The fact that the main language of the Islamic economy principles are Arabic (the Quran language), thus there will still be less English books regarding this topic. Especially in Kuwait from where I will be researching.

Time management problem might appear, since the research design in general is time consuming, especially which the choice of Narrative inquiry as strategy and the time horizon which is longitudinal studies. This will involve an intensive time consuming process.

As for the Personal biases that might interfere with the research and be a limitation is the fact I am Muslim and I believe in the concepts of the Islamic Finance and economy in its theoretical aspect as it might be a solution of the current financial chaos, I will carry this research in the most critical way. Since, I have a strong doubt that the theory of the Islamic banking, finance and economy is not being implemented perfectly as the perfect theory of it. In other words there is still a gap between the theory of Islamic finance and its practice, as a result of the fact that it is still emerging. Shortly, the practice of the Islamic Financial system is still immature, which needs to be developed and improved.
Finally the last problem might be with the nature of the primary data collection method, interviews, as Michael Quinn Patton explains that interview data limitation includes possibly distorted response due to personal bias, anger, anxiety, politic and simple lack of awareness since the interviews can be greatly affected by the emotional state. Documents and records also have limitations. They may be incomplete and or incorrect. (Michael Quinn Patton, 2002, p.306)
Chapter 4: Findings and Data Analysis:

Five semi structured interviews were conducted with five different points of view for better understanding and clearer information about the research. The five interviews were with high level managers, scholar and experts in the research area. Semi structured interviews were the best method to collect a quality primary data in this particular research because they will help to explore the sukuk in depth by providing important background as well as contextual material. And, as far, there is lack of studies about the complicated “Sukuk” in a critical point of view. Semi structured interviews were the best way for the interviewee to explain their thoughts through their answers. At the same time these interviews gave the researcher, a chance to relate and understand how the real market people see the current situation and how this could be improved. Not forgetting that how these interviews could highlight new key issues that may have not been considered before.

Saunders, Lewis and Thornhill defined semi structure interviews: Wide-ranging category of interview in which the interviewer commences with a set of interview themes but it prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation. (Saunders, Lewis and Thornhill, 2012, p. 681)

All the five interviewees had been given a full corporation and answered all the questions. However, all the interviews were in Arabic.

Now, as the interview were with 5 different interviewees.
The first interviewee was an Islamic scholar who has a PhD in Islamic finance from the United States and who works now as an advisor in the Sharia Supervisory Board of Kuwait. This interviewee has been in the Islamic Finance field for a very long time more than 40 years, as his father was a very famous open minded Scholar in the Islamic finance community during the start of the booming period of this unique financial system in the 70's.

The second interview was with an account manager who works in one of the biggest Islamic investment companies in Kuwait. Through the interviews, he will state that nowadays the company is dealing less with sukuk, than before the crisis, though it is one of the biggest Islamic investment companies. However, now banks in the GCC are the stronger player in the sukuk market.

So, the third interview was with a legal advisor who works in a very strong Islamic bank in Kuwait. And he used to work as an advisor for conventional banks before as well. This for sure will give him a wider point of view.

The fourth interview was with the Head of training and development in the same Islamic bank in which the legal advisor work in, this person is responsible of setting the training programmes for the new employees of the bank.

The fifth interview was with a risk manager who works in an Islamic Bank in Kuwait. This risk manager has a great passion of the sukuk. And something worth mentioning that he is just 30 years old and has worked for a conventional bank before.
The interviews were semi structured with basically three main themes:

**The first theme: Sukuk characteristics:**

The first six questions of the interviews were set to discuss the sukuk's critical nature, to bring the different interviewees' views in the hope of understanding this complex instrument.

**The second theme: Risks, limitations and challenges:**

While the next three questions (seven to nine) were set to go more in details of the challenges, limitations and risks that threaten and restrict the sukuk market.

**The third theme: Opportunities and future:**

To end up with the last three questions (ten to twelve) which are more concerned with the situation of the sukuk market nowadays and how this could be developed and improved in the goal of accomplish growth as well as to take advantage of the current emerging opportunities.

The first six questions were more focused to discover sukuk nature in more depth. Usually the interviews were started by asking questions regarding the sukuk to see how the interviewee understands them and how he explains them and their structure. Thus the first question was:
4.1 Sukuk characteristics:

4.1.1 What are sukuk and what are their main characteristics?

The scholars answer in this specific question was the most sufficient answer especially from sharia point of view since he has the strongest Sharia background from all the interviewees.

He started by saying that: 'the sukuk world has different meanings; historical genuine linguistic meaning, and other meaning related Islamic finance. The historical meaning is the right of ownership, where employees used to receive the sukuk as a piece of paper which represents their right in their salary. This historical meaning might not be essential in the describing the sukuk in its financial meaning in the Islamic system today. However it is still important to know the origin of this world, since it was the inspiration to name it Sukuk.'

He carried forward 'The sukuk started as any asset owned by multiple owners, each owner will have a percentage of this asset, most of the time the percentages are equal, this percentage will be represented with a piece of paper, and this piece is called Sak, the singular of Sukuk. The main problem is that after these years of issuing the sukuk, there is still no clear and accurate definition of the sukuk in its financial meaning. Usually whenever a new financial product enters the market and witness a remarkable growth, the law interferes to set a certain structure and regulations to organize this growth. The sukuk market is still not regulated properly. This has affected the sukuk market negatively in many ways.' However, the scholar who spent most of his life studying the Islamic finance tried to summarize the definition of the sukuk in his words saying: 'in this critical current time we can shortly define the sukuk as a temporary funding for a certain time.'
While the account manager who has a practical experience in the GCC sukuk market described the sukuk as: 'a debt instrument', giving the example that if a company is setting a new project, and they require a new finance, the account manager said: 'let's talk about a real example, Bahrain and Malaysia when they require fund they issue sukuk (Islamic bonds) but the basic idea is to have an underlining assets.'

Interestingly the legal advisor defined Sukuk saying: 'Sukuk are financial instruments which are an Islamic alternative of Bonds. He added: 'Sukuk are basically built on an asset which its ownership will be divided equally between the sukuk holders.'

After understanding the meaning of sukuk, it is necessary to discover the pedigree of the sukuk.
4.1.2 How was the idea of sukuk generated?

The risk manager has the most sufficient answer to this question, he started answering how the idea of Sukuk was generated by explaining Investments in general saying:

'Usually investments are divided between real-estate, equity, fixed income and alternative investments. These are called asset class and each asset class has its own risk which is completely different from the other. Thus, for each of these categories should have their own risk expert.'

He continued: 'talking about the fixed income which is usually defined in the market as bond, this is a huge market where lots of money was invested. However, the Islamic financial system didn't have the chance to enter this market. Since in the concept of the fixed income was a Sharia problem, where it is a clear usury and in Islamic finance from ethical point of view, Usury is prohibited.

The risk manager illustrate: 'From this point, Islamic finance started of thinking how to develop an instrument which could attract this market and to be sharia compliant. So they came up with the Sukuk, using assets to avoid the usury problem, where the sukuk issuance will be based on an asset which will generate the income in a sharia compliant way.'

Here comes naturally the question of:
4.1.3 What are the different types of sukuk?

The scholar said that: 'the most famous and common type of sukuk is Ijarah sukuk.' Giving the example of a company in which needs funds, he said: 'if they decided to get the fund through a new partner or a shareholder. The new shareholder has the right to interfere in the business management. However if the old owners prefer to keep the management under their control, and they want to collect the funds in a sharia compliant method, they can issue Ijarah sukuk.'

The account manager agreed with him stating that: 'the most popular sukuk type might be AL Ijarah sukuk which are redeemable and used to generate a higher yield than bonds, but not anymore. The problem nowadays that they are trying to link the sukuk with bonds and by that they are limiting the huge potentials the sukuk hold.'

Head of training and development explained that: 'since the contracts differ, the sukuk will differ according to these different contracts. Thus we have 14 different kinds of sukuk, and he went on describing the different kinds of sukuk using the definition of the AAOIFI which could be found in the literature review. From this point we can say that the nature of the contract which is generating the sukuk is the definer of the sukuk structure. As well the contract is usually the definer if the sukuk could be tradable or no. Since some sukuk are based on a debt contract and the debt is not allowed to be traded in the Islamic financial system.'

And finally he agreed with the scholar and the account manager saying that Al Ijarah is the most popular sukuk saying: 'AL Ijarah is the most famous structure of sukuk, since it is less controversial. Not like the Murabah and the salam which considered as debt and not allowed to be traded.'
After knowing the different sukuk types and how these types were developed by scholars, the inquiry about how the scholars affected the market development was raised.
4.1.4 What role the Sharia scholars took in the sukuk development process?

Interestingly, the scholar had the strong opinion saying that: 'looking to the scholar role, scholars have impacted the sukuk development in a negative way, since they faced all the obstacles with very superficial solutions. It is understandable that the complicated challenges the Islamic financial products faces could put them under pressure, but it is needed to find radical solutions and till then the current temporary solutions should be highlighted as temporary until the convenient solution and structure is found.'

The scholar who was personally concerned with this question, gave a very clear point of the limitation of their role in setting a stronger structure for sukuk, saying: 'The main responsible of this flute are the central banks, which should authorize and organize this huge market.'

Now the biggest contravention part from the scholar's point of view is 'the capital guarantee'. He said: 'Although it is not the only one but it is the biggest one. If the sukuk issuer didn't guarantee the sukuk, and the investors accept to sell the sukuk is their market value at the time of selling, this will be much less controversial and more acceptable.'

The legal advisor in his talk about the Sharia scholars' impacts, from his point of view he said: 'scholars have a great ethical impact on the sukuk market to guarantee justice for all parties. However their extra care to tighten up the regulation might restrict the market growth, having in mind the aggressive market of bonds.'

The head of training and development department agreed with the legal advisor since he said: 'scholars have never affected the sukuk market negatively.' And he
emphasized that the real problem is with the market itself with its rules which limit the sukuk developments, in which he agreed with scholar's point of view.

Now to bring more understanding to the sukuk, there were a need to understand the profit generated from this financial instrument.
4.1.5 What are the returns of the sukuk and how could they be attractive?

The account manager explained that the sukuk might be based on underlining assets while some might be based on the Libor benchmark: 'The difference is that the benefits are structured somehow like bonds but with sharia based rules which basically states that you can't over charge since this will be considered as Riba.'

He explained that the investor should back himself and to keep his funds in the safe side: 'It is vital to look for the issuer to guarantee your returns. Thus it is always better to go to high rated sovereign sukuk, which mostly will be governmental sukuk issued by governments.' He talked about how Hong Kong is going to Issue 500 billion sukuk and He emphasized on the importance of that the sukuk issuers have to make sure that they can make the profit before the quarterly payment and they have to make sure they can pay on the agreed date. The account manager said: 'If the payments were delayed for a few days, unlike conventional bonds, there will not any penalty required.' In his opinion this somehow makes the sukuk more attractive instruments.

Naturally all of the previous answers, will raise the next query:
4.1.6 How can we differentiate sukuk from any other conventional financial instrument, especially the bonds and shares?

The scholar started his comparison by stating that: 'most of the time the sukuk represent indebtedness, liability or obligation.'

The scholar went further to explain by saying: 'Now looking at the Islamic finance in general not only from the sukuk point of view, we could find it more stable and safer, than the conventional finance. But if we took the sukuk in specific, it is something between bonds and shares, which makes the sukuk more close to the redeemable preference shares.'

He differentiated between the sukuk and shares: 'Sukuk are similar to shares but mainly with two differences; the timing and the management interfere.'

The scholar took it more in-depth saying: 'Shares or equities represent the eternal ownership of the asset, where the ownership is not restricted in a specific time and the shareholder is not obligated to abdicate his shares, nor the company is obligated to pay him anything in exchange of his shares at any time. However, naturally the owner has the right to sell his shares in case he doesn't want this ownership anymore. On the other hand the Sukuk are restricted to a specific time (temporary), where the holder of the sukuk has to abdicate his sukuk and in return the company according to the sharia should never be obligated to guarantee paying him back the price of sukuk. Another substantial difference is that the sukuk don’t give the right to its holder to interfere with the management of the company, or the asset. You can see it as the sukuk holder is a silent funder who shares the risks as much as he shares the returns.'
As the scholar continued to explain how the sukuk are unique he came across:

'Modern sukuk, sometimes referred to as Islamic bonds, while they should be better described as Islamic investment certificates.'

In the scholar's way to analyse the confusion between sukuk and other conventional instruments, he said: 'What actually happened during the last few years, is that with the raising demand on the Islamic bonds, many financial bodies, which have no relation to the Islamic finance started to issue sukuk. These sukuk were a result of copping the bonds structure and trying to past it in a way that fits the sharia laws, but most of the time it ended up without being 100% compliant with al sharia laws.'

The account manager compared between sukuk and bonds by saying that: 'the issuance of (Islamic bonds) needs to have underlining assets unlike conventional bonds which are usually based on the company balanced sheet.'

The legal advisor spotted that: 'the main differences might be sukuk don’t deal with usury and they are based on sharia compliant contracts where the main concept of sukuk is sharing; the investors share the ownership of the property, the risks and the returns. Thus the biggest different between sukuk and bonds might be the concept of sharing in both ways. While Preference shares might be the closest conventional instruments to sukuk. The sharing difference come again since sharing in the conventional preference will be only in profits, unlike the sukuk.'

He interpreters: 'Sukuk could never replace the bonds, at least not for the current time. However, this should never affect the efforts to improve this market since it has great potentials.'
The risk manager whose answer was most focused, gave it all by saying that: 'the sukuk were never and will never be similar to the bonds. The Sukuk has much more complicated nature especially that the sukuk have different structures, and the same structure is usually issued each time in a different way.'

Now after having this deep discussion regarding the sukuk nature, it was vital understand the risks these financial holds. Thus the following three questions were asked;
4.2 Risks, limitations and challenges:

4.2.1 What are the main Risks the sukuk hold?

The scholar Saied that: 'the sukuk problem can be summarised to the fact that there are neither legal definition nor a legal central authority which standardise the structure of it. Naturally as a result of the different structures of the sukuk and the fact that sukuk are not standardised. This attracted huge arguments.' He gave the following example: 'few years ago in 2007 Taki usmani a Scholars at the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) declared that about 80% of Gulf Islamic bonds do not really comply with Islamic law. Although this statement might be exaggerated, it holds a lot of truth. 80% might not be the exact percentage but, most of the bonds, then and nowadays, are not sharia compliant, since they are copy, paste of the bonds structures, with no clear definition.'

The scholar continued to highlight his previous idea: 'The most critical condition for the sukuk which might prevent it from being sharia compliant and might generate some Riba doubts is the capital guarantee condition.' Explaining how that could put pressure on the sukuk issuers.

While the account manager started answering this question by talking about 'the collapse of the market' and here he refers to 2008 market crash, he said that: 'People lost their confidence in Islamic products after the default of many major companies.' He continued to talking: 'The main problem with sukuk that they don't have a liquid market you can't shift the debt or you don’t have the option to sell it since there are no potential buyers.' Thus the company that he works in didn't deal with sukuk in the same way as before the financial crisis.' He agreed with the scholar regarding the un-standardization problem saying: Since each and every Sukuk issuance has its own
sharia board or committee who will set the structure of these sukuk and from, the problem with the unstandardized sukuk will naturally appear because each sukuk are issued with different adjustments. However the sukuk always follow the same guidelines.'

He added: 'Not forgetting the negative role of the international regulations. Such as the IMF regulations which are making it much harder to the sukuk to compete with conventional bonds. Since most of the IMF's regulations come to the benefit of the conventional bonds, neglecting the special structure of sukuk.'

The account manager continued to count the risks in summary saying:

'The risks that face the sukuk are: The Market risk, The Interest risk and The Credit risk. While he talked about The Foreign exchange risk in more details saying: 'taking into account the foreign exchange risk faces both bonds and sukuk, but it affects sukuk in a higher level. This biggest effect come from the fact that sukuk can't use derivatives to limit it's lost, having on mind that all the GCC (Gulf Cooperation Council) members expect of Kuwait have their currencies are linked to the UD Dollar.

Another risk he explained in details was the liquidity risk, he said: 'the liquidity risk is basically related to having a good sukuk in your hands but not having the ability to utilize them, represent a great risk for its holders.'

The legal advisor talked about the Issuing process of the sukuk being more complicate than the bond issuance saying: 'the sukuk issuance needs to set a SPV which should be an independent company and this company should acquire the needed asset to issue the sukuk. The biggest risk in sukuk from a legal point of view is the depreciation of the asset.'
He agreed with the account manager saying: 'The sukuk market is still a very weak market in comparison with Bonds. Since all the regulations come to the benefit of the conventional bonds, this makes it harder to the sukuk to compete and grow.'

The head of development and training department said: 'The most important risks the sukuk face are the risks related to the contract itself. For example the risk related to Alijarah sukuk might be the risk of the tenant not paying the rent.'

He also agreed with the rest of the interviewees about the challenge the sukuk faces is the environment in which the sukuk operate, he said: 'Both the legal and the financial environment have been in the benefit of the conventional bonds from the very beginning. This made pressure on the sukuk.'

He blamed the Islamic countries regarding this issue saying: 'Islamic countries have been using the Islamic law as a reference in all the daily life issues, however, they have been ignoring the Islamic finance law. This created a huge gab, since the Islamic Banks don't have a supporter even in their home land where the low is for the benefit of the conventional banks. This surely affected the growth of the Islamic financial system in general and the sukuk in particular. And that’s why sukuk nowadays need to imitate the conventional bonds, since most of the low is for the conventional bonds interest.'

The risk manager agreed with the others and he put it all in short saying: 'Sukuk are unstandardized and this might be their main problem. Not forgetting the Liquidity problem which came as a result of their unstandardized nature and that there are no one specific unity which is responsible of organizing the sukuk market. There will always be systematic and unsystematic risks. Where the systematic risks of the sukuk are similar to the systematic risks of the bonds, but with one main difference is that
bonds assessment is for its credit while the sukuk assessment comes to the asset itself, where the depreciation of the asset might be a potential risk.'

The risk manager continued to talk about the unsystematic risks saying: 'The unsystematic risks are represented in the many ways such as the fact that there are not enough or sufficient people who understand the sukuk complicated structure, and another vital risk is the liquidity risk. The liquidity risk has two aspect the first one is that is related to the systematic liquidity risk same as the bonds, while the other one is related on the fact that there are no one functional secondary market for trading the sukuk.'

The risk manager agreed with the legal advisor, saying: 'Another risk the sukuk face is the complicated structuring process of the sukuk. It is a very expensive, long and complex process. This makes the sukuks' cost much higher than the bonds. However the huge market appetite for the sukuk makes it worth these difficulties.'
4.2.2  What is the effect of the rare issuance of the sukuk market?

The risk manager said: 'Amazingly that in spite of the stragglers and the challenges the sukuk face, the appetite for this market is quite high and not even close to be satisfied. Thus, wherever there is a sukuk issuance, it will be always oversubscribed.'

He continued to explain: 'Tell now, the main issuers for the sukuk are usually governments, where sukuk are basically issued for the big infrastructure projects.'

While the scholar agreed with him stating that: 'looking on the sukuk structure which is more debatable, and to the huge tremendous growth on the sukuk market as well the great gab between the demand and supply on the sukuk. We figure the great need to organize and solve the sukuk debate.'

The legal advisor talked about the sukuk market expanding which is part of the Islamic financial system, he said: 'We should notice the increasing demand of the Islamic institutions. The biggest prove is the Kuwait used to have 10 major banks, 5 of them Islamic while 5 are conventional. Now one of the biggest conventional banks is converting to an Islamic bank. This is a huge prove of the profitability of the Islamic system, especially in the Islamic countries and more specifically in the GCC region.' He sees that, in spite of the risk sharing in the Islamic sukuk, they still more attractive to the GCC people more than the conventional bonds.
4.2.3 How the buy and hold culture and the lack of secondary market impressed the liquidity risk?

The scholar said in his answer: 'The debt in the Islamic law is not allowed to be treaded, Thus it is the same thing to the sukuk, unless in its face value and here it will be the same as qard al Hassan.'

Qard alhassan is a 'Loan in the meaning of a virtuous loan that is interest-free and extended on goodwill basis, mainly for welfare purposes, the borrower is only required to pay back the borrowed amount. The loan is payable on demand and repayment is obligatory. But if a debtor is in difficulty, the lender/creditor is expected to extend time or even to voluntarily waive repayment of the whole or a part of the loan amount. Islam allows loan as a form of social service among the rich to help the poor and those who are in need of financial assistance.' (Institution Of Islamic Banking And Insurance, 2014)

Then he started to explain when tradability is acceptable in the sukuk market: 'The trade of debt in the Islamic finance is acceptable just and only in one condition: it should never generate profit. The trade of debt should be seen as a way of help, support or aid with no return.' He continued to say: 'Nowadays, there is an interesting phenomenon in the sukuk market that most of the sukuk holders, don’t want to trade or sell their sukuk before its mature time. As a result of the high yield the sukuk generate in comparison with the other certificates.'

To identify the distinguished opportunities the sukuk have and to find out how could the market reach its growth, the following three questions were asked:
4.3 Opportunities and future:

4.3.1 What is the reason behind the international interest in sukuk and how this could affect the market?

The scholar said: 'Most of the sukuk issuers are more interested in the raised money, more that the sharia laws. Thus they use the sukuk to attract the funds from the people who are committed to the sharia laws, such as UK, or other western countries.'

Worth mentioning that the scholar didn't restrict his statement on western countries in contrary, he meant all over the world. While the account manager saw that they 'the western countries' are not using the sukuk just to attract the Islamic unemployed funds. He said: 'In spite of all the negativity in nowadays sukuk market, Western investors and Western financial institutions still show interest in the sukuk market. This fact has two different aspects. The investor point of view which is more related to properly diversify their portfolio. As from the financial institutions point of view, it is to attract the unemployed capital of the people who believes in the Islamic instruments.'

The legal advisor agreed with him saying: 'The global interest in sukuk came to attract the unemployed money of the Muslims investors who are interested in Islamic instruments. Another factor came to the benefit of the sukuk was the financial crisis which drew the attention to the Islamic financial system in general and sukuk in particular as a way of diversification.'

The risk manager summarized it all saying: 'Now the financial crisis has for sure affected the Islamic finance system as well, in both negative and positive way. Negative way as we saw many sukuks' default during the financial crisis. While the positive might be with the global attention which was driven by the financial crisis
towards the Islamic financial system in general and the sukuk as useful financial instrument for diversification. '

4.3.2 What are the Criticisms sukuk faces?

The scholar explained the heart of the problem by telling the historical story of sukuk: 'If we look on the Islamic finance history, there was some selling structure called bai alwafa where alwafa is an Arabic word means loyalty or trust and bai means selling. If we want to buy a house and you don’t have enough money, then you can let someone else buy the house and agree with him, to rent it back to you. This is sharia compliant, However as a part of the agreement was whenever the tenant pay the house price. He can have it. This part of this kind of sales has been the argument point from the sharia side for ages. The argument point, is that this kind of sales contract is not a clear contract and it has underneath it a usury potential, when the investor get a basic payments for his investment.'

He explained that this is the same problem with sukuk, Saying that: Nowadays after ages of conflict on bai al wafa the scholars agreed that it was not sharia compliant. Looking on the sukuk structure which is more debatable, and to the huge tremendous growth on the sukuk market as well the great gab between the demand and supply on the sukuk. We figure the great need to organize and solve the sukuk debate.'

Now the biggest contravention part from the scholars' point of view as he mentioned many times before is the 'capital guarantee'. He said: 'Although capital grantuee is not the only problem with sukuk but for sure it is the biggest one.' He continued to say: 'If the sukuk issuer didn't guarantee the sukuk, and the investors accept to sell the sukuk is their market value at the time of selling, this will be much less controversial and more acceptable.'
4.3.3 How could the sukuk market develop and improved?

The scholar said: 'After studding the current situation of sukuk, it is needed to improve a stronger standardised structure to sukuk. We should not try to imitate the bonds in the sukuk structure, we should understand that the nature of the sukuk is different as well as the needs of the sukuk market. Hence we should find an effective structure that improve the sukuk market and make it stronger (more sharia compliant).'

The account manager saw that the market needs more short term sukuk and he said: 'The new proposal regarding issuing sukuk for 3 to 6 months will help the market grow since it will have a higher level of liquidity.'

The Risk manager talked about and explained the importance of the secondary market saying: 'Not ignoring the Bahrain attempt to set a platform for liquidity, but still this move needs many serious developments and improvements.'

The risk manager had a very unique point of view when he said: 'A very important point to emphasize on is that the limitation of the market development is mainly due to the lack of the well-educated and prepared people who should be responsible of the work of new developments and improvements for the Islamic financial system in general and sukuk in particular. Islamic finance needs people who are expert in sharia laws, economic law and have deep understanding of the current financial situation.'

He ended his talk by saying that: 'Dubai expo 2020 is a very important event for Dubai in general, where it will bring growth to Dubai in all aspects and the fact that the infrastructure projects will be funded by sukuk, will give a great push to the market. But at the same time we should not forget that with this decision the UAE is
taking the hard way, since the sukuk issuance process will be complicated, long and quiet expensive. ¹
Chapter 5: Conclusions:

After conducting these five interesting interviews with five different points of views, the results were almost corresponding. Since all the five interviewees answers were harmonious. Although, this could be a good sign, that all the people who are in charge of this market are aware of all the current challenges and threats. However, the lack of action, in spite this knowledge and awareness, might be the bad sign, since it is an indication of the inability to fix and support the market to achieve growth.

Sukuk proved to be very interesting financial instruments through the final years, and by this research several issues were identified, these issues need to be addressed by everyone who is interested in the development of this market. Since the first the step of curing a disease is by identifying it. Thus it is vital to clarify the obstacles for this promising instrument in which limit sukuk from expanding and devolving.
i. The need for a secondary market (allowing sukuk to be traded). The lack of secondary market for the sukuk was the main reason of the unsystematic liquidity risk, having the risk manager who has pointed this issue clearly. The research found that Bahrain platform was the good example to take it as a first step and to develop it as the risk manager answered in the question number twelve. The new idea of the short term sukuk has great potentials for partly solving the sukuk liquidity risk problem. (Harvey and Cosgrave, 2012)

However, this step as much as it might be effective, it might not be as practical as it seems. This is due to the 'buy and hold' culture. As the risk manager said 'wherever there is a sukuk issuance, it will be always oversubscribed.' The criticality of the sukuk comes from the fact, that in spite of all its problems, it still has great potentials and opportunities. Hence, the paper Dr. Muhammad Anas Zarqa made few years ago about 'istisna' financing of infrastructure projects' has an idea of that 'the sukuk from one issuance are split into tranches of different maturities, short, medium and long. Potential investors can be grouped by the maturity they choose.'(Muhammad Anas Zarqa, 1997)

This would be a perfect solution to take further to enhance the short term sukuk and at the same time it will satisfy the huge investors' appetite for sukuk. The liquidity risk is definitely the ultimate challenge the sukuk faces. However, solving this issue has even more barriers. The sharia viewpoint of the debt tradability, whereas, debt tradability is not accepted in sharia unless it is in its face value.
ii. The return on the sukuk issue is a very critical issue which has been talked about a lot, but still with no clear solution. The fact that sukuk are still linked with bonds in their returns, when the main concept of them is to avoid usury, raises many quarries. Although, scholar and Islamic finance experts distinguish between Riba and profit, where they encourage profit and prohibited Riba.

The Use of interest rate benchmarks for determining profits on Islamic sukuk, as Abdul Karim Abdullah argued in his paper, has contradicted the idea of sukuk being based on the concept of sharing. Where the returns should be taken from the profit the project generates. The fact that, the returns are guaranteed for the sukuk holders, while they should never be, Puts sukuk nature under more doubts. (Abdul Karim Abdullah) Thus there is an urgent need to breakdown. this issue, by introducing a realistic scheme for returns. A scheme in which is simple and fair.
iii. The previous issue brings the more controversial issue of the capital guarantee; this point was the most important point from the scholar point of view. And this is something very understandable. Since the main special thing about sukuk is the concept of sharing and it is being completely neglecting with this move. Islamic financial institutions have taken the easiest way regarding this issue, when they guaranteed the capital. They would justify this, by saying that they were being squeezed to do so, otherwise the investor will prefer to invest in bonds, since bonds make investors more secure about their investments. In spite, of the fact that this could be partly rational, we should never mistake or miss how this condition (capital guarantee) is metamorphosing the essence that make the people attracted to this kind of instruments and to the Islamic financial system in general.

This issue could be solved in two aspects; the first will be by raising the investors awareness of that not guarantying the capital, doesn't necessary mean that they are going to lose their capital. In contrary, selling the underlined asset in its real value and getting the real profits on it, will make the market in general more free and open. Thus their real profit will worth much more. The second aspect is to set a new scheme to price the returns as well as the restitution of their basic investments amount.
iv. Is there a real need for 14 different types of sukuk, knowing that each and every type of sukuk was made for a specific goal? This is a question that comes across several times. Having all these kinds of sukuk, with the lack of standardization problem seems so confusing. While, in the time the people who are in charge of sukuk should be focusing on setting a stronger structure, they were setting new complicated structures. This issue of having different inapprehensible structures should have an end. Especially, that the solution is very obvious and applicable. Sukuk must be standardized. Bonds have different structure as well, but the primary difference is that Bonds have a clear shape, while sukuk with its 14 structure are still struggling to find their definition as the scholar noted as well.
v. Although, all the interviewees but the scholar agreed on the positive role the scholars played in supporting the market, I could partly agree with them, to take the scholar's point of view more further. As after doing this research, it was clear that the scholars were not as tight as many people might think. In contrary, as the scholar said in his answer regarding this issue, he said that the fact that scholars are being so tolerant to the degree that inverted the main concept of sukuk in some point. As the scholars tried to help the market to grow with being more easy and fixable, this led to change the unique features of this special financial instrument. An interesting point the scholar mentioned in his own words ' It is understandable that the complicated challenges the Islamic financial products faces could put them under pressure, but it is needed to find radical solutions and till then the current temporary solutions should be highlighted as a temporary solution until the convenient solution and structure is found.' This could be the heart of the sukuk problem, since these instruments are being struggling in an inequitable market that favours the conventional instruments in its nature. This favourability comes from the fact that the rules of the market were originally made to regulate the conventional instruments, not as a result of discrimination, as many would think. So, it was never the regulations fault as well. Since, these regulations from the very beginning were not set to manage the special Islamic instruments. However, unintentionally these regulations pushed the scholars in the direction of being so permissive. The scholars' objective was to encourage the sukuk to grow in this aggressive market without being held back. This unexpected lenient of scholars, might be the first reason of the current situation. The vague, unclear boundaries made it difficult to the sukuk to
develop. Although, there were a need for the scholars' forbearance, but there were a bigger need for new set of regulations and legislations that distinguish sukuk from any other financial instruments. This could only happen, when we will have people with both strong financial background as well as strong sharia background, as the risk manager said. These people will find the 'Radical Solutions' the scholars talked about. The need for the radical solutions is essential in many accepts. As some of the problems were identified in this research, these problems need to be solved. Otherwise, the market will never take full advantage of the great available opportunities.
i. Sukuk has its own unrivalled opportunities, as the research identified the most important ones:

- Dubai expo 2020 will be a golden opportunity, with its huge infrastructure predicted spending. These infrastructures project most probably will happen using sukuk issuance to raise the needed enormous fund. As Potter in his article "Expo 2020 Win to Boost Dubai Sukuk on Spending: Islamic Finance" wrote: “The Expo would mean significant infrastructure spending,” Adnan Chilwan, CEO of Dubai Islamic Bank PJSC (DIB), said in an interview at the conference yesterday. “Raising funds would require the right financial structures and, in my mind, capital market transactions, bonds or sukuk will see a surge. The way the wind is blowing, sukuk may be the preferred route.” (Portter, Bloomberg, 2013)

- The GCC oil money, where there is a huge amount of unemployed money in which sukuk could take advantage of. As Harvey and Cosgrave put it: "the ongoing oil high prices, gives the Middle East countries huge potentials and naturally this create plenty of capital remains available to be developed. Another reason to create opportunities the increasing rise of infrastructure projects in Islamic countries is great cause for hope."(Harvey and Cosgrave, 2012 ) The research found, even the conventional financial system, started to employ sukuk issuance to peruse their goal of raising these giant unemployed funds.
The promising appetite of the western investors for sukuk as a way of diversification especially after the financial crisis, where the conventional system failed. This attracted the attention for these Islamic instruments, not forgetting how the financial crisis affected sukuk as well in somehow, as the research addressed some of the sukuk defaults. This has never influenced the western appetite, since it was clear that the default was a result of the domination of the conventional instruments with their complying rules over the sukuk. This naturally led to the default of some of the sukuk in which from the beginning were slightly shifted copies of the bonds.

All the above opportunities and much more represent motivations for the sukuk to solve their problems and to overcome the current obstacles.

At the end, all the people from all over the world share the ultimate goal of earning extra more money form their investments; however they want this money to be real. The most appealing thing about Islamic financial instruments in general is that they are based on the concept of generating real profit from investments, different from conventional financial instruments and specially derivatives, where they used to create an unrealistic profit from cycling the money it self all the way.

To conclude the Islamic financial system, needs to put strict standardized regulations for the market in general and for the sukuk in specific, and then let the market operate naturally with its real investments generating real money.
Chapter 6: Self Reflection On Own Learning and Performance:

In this coming part, I will write a summary of my learning journey during conducting this research, where I have recorded my background and personal achievement, practical obstacles I faced, detailed planning of how I utilized my abilities, skills and qualities to set strategies to face the challenges, skills I earned and developed as well as how I learned to broad all the acquired learning beyond the academic context.

6.1. My background and personal achievements:

I have completed my bachelor degree with honors in commerce and economics, where my major was finance and banking. Immediately after graduation I worked for one year as a teacher assistant for (finance, economics, and accounting) in one of the most respected Universities in Kuwait, where I gave tutoring sessions and helped the lecturers in the material preparation. This job was the perfect fit for my qualifications and passion; as well it gave me the chance to determine my future and set the goal of exploring the field of finance in more depth. However, since I have started college I set my dream not only to carry on a master degree, but also, to go further and pursue PHD degree. In spite of the great passion I have for finance. All the mentioned facts helped me to enjoy studying my MBA courses as well as it helped me to enjoy my research without facing the problems Ryan and Hellmundt found: 'as major issues of relevance of course content, use of ethnocentric perspectives and materials, and the lack of recognition of different experiences, perspectives and background knowledge. Complicated texts and course content proved problematic for students who lacked background knowledge, and lecturers reported that finding texts which provide a range of different cultural examples and perspectives is difficult.'(Ryan and Hellmundt, 2003)
6.2. Practical problems:

The lack of the practical experience might intercept my research in somehow. And the figure 14 shows, most of the MBA's graduates face this problem.

Having very different and contradicting views, this was a result of the complicated issue I was researching.

Time management problem, since I had only three months to work on my research, in addition to the fact that I have started my full time job in the second month of the research.

Figure 14: What do locally MBA lack most

Source: (Chaudhry, 2003)
6.3. My strategies to overcome the problems:

For the lack of practical experience, my great enthusiasm and positivity played the stronger rule to support me during the hard times.

Time management in the begging was something I couldn't master. However, maybe the lack of experience played the major rule in this concern, since this was the first research I do. In the last three weeks of the dissertation I started to the hard work. By working as hard as possible during these few weeks, I proved that my most appealing strength will be problem solving, Hardworking and the ability to prioritize my activities as figure () shows. And as Alexandra (2011) suggest, prioritize your activities could be useful by using the following table, where giving more attention focus the activities with label “urgent and important” and probably eliminates the activities that “neither important nor urgent” result of short on time.

Figure 15: Prioritize Activities Table

Source: (National Agents Alliance Future, 2013)
6.4. My developed Skills:

Both the lack of practical experience as mentioned before and the fact that the I have never experience preparing or doing such a research in English since the previous studies were in a Syrian university and the system was based on doing exams only, Challenged me to discover my abilities. The undertaking of such a research necessitated a significant improvement in my skills, indeed a paradigm shift, where I started to read and analyses everything I could read.

The research has well highlighted my strength points. Being a very hard worker with high enthusiasm and passion for learning but at the same time seeking perfection in every detail about work might took most of her time and thoughts, Not being a native English speaker and all the previous studies were in Arabic formed some difficulties at the beginning but getting through them happened naturally, because for me challenges are her pioneer motivators for improvement.

The fact that I am a very emotional and empathic person may be a big weakness but along with being a positive person who is able to see the opportunities in each and every problem and convert the obstacle into a chance to improve.
6.5. What has gone well in relation to each experience?

6.5.1 Introduction:

Writing the introduction and the conclusion was for sure the headrest part if this research. In which while writing the introduction you want to give the reader a board idea of the research and its importance, but at the same time you don't want to reveal so much at the beginning, so the reader will still be interested in reading the research. Having this balance between giving the main idea without burning the excitement was one of the very huge challenges I faced in writing the introduction. On the other hand, while writing the conclusion, may biggest concern was regarding being repetitive and to loss the reader attention. Trying to put all the research findings very clearly was not as simple as I expected. Expressing my own ideas clearly in a logical sequence that attracts the reader was my main goal in writing the conclusion. As I see it, the conclusion is the part where I can present my thoughts. Thus, it is the most important part for me and I tried my best to put it in the most simple and understandable form.
6.5.2 Literature Review:

I enjoyed the secondary data collection process, since I had to go through a very interesting resources and I had to challenge myself to look for the most appropriate and related ideas.

Having very different and contradicting views helped me in somehow to confirm my own opinion with confidence. Through this process I learned to be patient to understand the whole picture and not to judge (a book from its cover). Reading so much about the Islamic financial system and the sukuk, made me more aware of the importance of generating innovative ideas. Though Islamic finance is not something new, As mentioned before it existed more than 1400 years ago. Introducing it in the 70's attracted much attention, since people usually appreciate new thoughts. Thus, there is always a place for creativity in the world in general and in the financial world in particular. However, something we should learn from sukuk, is that uniqueness and being special is much more attractive than coping the existed trends. Where sukuk started to lose their flame, when, they coped with the on-going pressure.
6.5.3 Findings and Data Analysis:

The interviews were with experts in the field who has showed a great support and offered Full Corporation. However after analysing the interviews, I felt that there was a need to ask more questions to bring more clarification. Yet, I couldn't peruse any further interviews with the experts, since; I left Kuwait immediately after finishing the interviews. Though the interviewees were available to give me another chance to ask the needed further questions, but the conditions as not having enough time to conduct new interviews, nor being on the same country, made it difficult to do the second roll of interviews. However, looking to this obstacle in a positive way, I could say that I have to take my further inquiries to the next level and to conduct my PhD research around them, making my MBA dissertation the first step to conduct more in-depth research of the solutions and how the risk management of sukuk could be more affective. Another challenge I faced, after finishing the interviews, where four out of the five interviews were in Arabic, was the translating problem. Where the language formed a wall in my face, since my first language my Arabic, and before this MBA degree, all my previous studies were in Arabic. In general writing my own ideas in English was a bit hard and confirmed a limitation for me, So translating and trying to put others ideas' in English was a much harder and complicated job than I thought it would be.
6.5.4 Conclusion:

The part, in which satisfied me most was the conclusion, while the findings was the part I thought I could make a bit stronger if I had the chance and the time to ask more questions. The findings were something I from the beginning longed to achieve. I was 100% convened with my research findings, where there might be some repetitive from other researches on the same topic. Yet my research findings put the entire puzzle together clearly.

6.6. Adjustments:

One adjustment I would love if i had the chance to make to research following my reflection is the improvement of my writing style. And as Claudia, Vazquez and Ruas explained how: "Ruas and Becker (2007) argue that specialized competences publicized in the portfolios of MBA program are not the same as those that are actually valued and sought after by MBA students in their educational process and business actions. Also, students often talk about the difficulties in applying the specialized knowledge acquired during their educational journey to their management practice when they are dealing with serendipity, uncertainty, and new challenges. If the impact of MBA programs is evaluated by the transferability of syllabi into the workplace and this, in turn, attracts companies to invest in the education of their managers as a way to obtain better results, how can we explain the existence of difficulties in transferring the management capabilities and competences developed in an MBA into professional practices? Actually, it is an important question that highlights the complexity of this subject and opens the
way for the investigation of the claim for a more realistic connection between MBA program objectives and companies' corporate strategies. Two perspectives emerge from the literature that deals with this theme." (Claudia, Vazquez and Ruas, 2012)

The lack of professional practices as Claudia, Vazquez and Ruas highlighted has defiantly played a major impact on my research in general as discussed before. However, another reason of the bounded writing style was not being a native speaker nor having previous experience in writing research, where I think these might be the main causes of my un-professional writing style. I tried to improve this, by reading the research many times and each time I find something unconnected I tried to adjust it. Not forgetting the great roll my supervisor made, guiding and drawing my attention to the important details. Another thing will be the interviews, Asking more questions will be Looking back I could improve these adjustments. The only thing I could do regarding this issue is to read as much as I can and to try to write my thoughts when occur. This will be for both adjustments I wish I could do.
6.7. What have I learnt during the MBA courses:

Something vital I learned from this research is to start as soon as possible to finalize the research giving myself the sufficient time to put all the generating ideas clearly, as I am a person who gives extra attention to details. Hopefully in my next research, I will have the needed experience to manage my time more effectively.

Never the less and most importantly I learned how to utilize my personal skills and abilities in my professional career. The whole MBA experience implemented my self-confidence, as well as identified my most significant values which are:

**Personal:** Learning and teaching, achievement, advancement, affection, challenges, close relationships, excitement, friendship, growth, family, helping others, honesty, inner harmony, involvement, meaningfulness, order, organizing, freedom, reputation, responsibility, serenity and stability.

**Professional:** Competition, self-realization, efficiency, competence, cooperation, decisiveness, economic security, excellence, growth, independence, integrity, leadership, personal development, quality, responsibility, security and working with others as well as alone.

As, Claudia, Vazquez and Ruas explained: "MBA students make connections between what they learn in their management education and what they do when they act as managers in the context of corporate practice. They do not necessarily make connections between syllabus and their business actions in a linear way or for every content and experience in their educational process in MBA programs. But the student is the one who can connect knowledge and business action with practical accomplishment. And, by doing so, he/she can integrate capabilities and knowledge in a competent act to his/her professional practice." (Claudia, Vazquez and Ruas, 2012)
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Appendices:

1. APPENDIX (I)

Now as all the interviews were semi structured. The research questions were sent before the interviews, thus during the interview the interviewee answered the pre asked questions in a natural flow, where the interview was a discussion and they talked in their own way and in the exact same sequence. However in some stages, some questions outside the themes were asked, these questions were related to the sukuk and he gave his opinion

My first interviewee was an Islamic scholar who has a PhD in Islamic finance from the United States and who works now as an advisor in the Sharia Supervisory Board of Kuwait.

He started describing that the sukuk world has different meanings; historical genuine linguistic meaning, and other meaning related Islamic finance.

The historical meaning is the right of ownership, where employees used to receive the sukuk a piece of paper which represents their right in their salary. This historical meaning might not be essential in the describing the sukuk in its financial meaning today. However it is important to know the origin of this world.

Any asset owned by multiple owners, each owner will have a percentage of this asset, most of the time the percentages are equal, this percentage will be represented with a piece of paper, and this piece is called sak.

Naturally this will raise a query about the difference between shares and sukuk,


**How sukuk are different from other financial instruments?**

shares or equity represent the eternal ownership of the asset, where the ownership is not restricted in a specific time where the shareholder is not obligated to abdicate his shares, nor the company is obligated to pay him anything in exchange of his shares at any time. However the owner has the right to sell his shares in case he doesn't want this ownership anymore. On the other hand the Sukuk are restricted to a specific time (temporary).

A substantial difference is that the sukuk don’t give the right to its holder to interfere in the management of the company, or the asset.

What actually happened during the last few years that with the raising demand on the Islamic bonds, many financial bodies, which have no relation to the Islamic finance started to issue sukuk. These sukuk were a result of copy past, without being compliant with al sharia laws.

The main problem is that after these years of issuing the sukuk, there is still no clear and accurate definition of the sukuk in its financial meaning. Usually whenever a new financial product enters the market and witness a remarkable growth, the law interferes to set a certain structure and regulations to organize this growth. The sukuk market is still not regulated properly. This has affected the sukuk market in a negative way, and it has limited its growth.

However in the current time we can define the sukuk as a temporary funding for a certain time, it is similar to the shares but mainly with two differences the timing and the management interfere.
Most of the time the sukuk represent indebtedness, liability or obligation. There might be one restriction the sukuk holder could put on the sukuk issuer. Let's say you there was a company which needed to build a building, but they didn’t have the sufficient funding. Any person with extra money who would like to make a sharia compliant profit might lend the company the needed of money, by building them the needed building in an agreed price. However, if the company went to get another funding from a different investors, the investor has the right to put some restrictions to guarantee his debt. This is normal procedure which is taken in both conventional and Islamic financial transactions. So it is normal in sukuk.

**What is the age of sukuk?**

From sharia point of view there is no restrictions or certain age. But as a main principle it is temporary.

**How can we describe the return the sukuk offer to the investors?**

Naturally as a result of the different structures of the sukuk and the fact that sukuk are not standardised. This attracted huge arguments. For example few years ago in 2007 Taki usmani( check the paper) a Scholars at the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) declared that about 80% of Gulf Islamic bonds do not really comply with Islamic law. Although this statement might be exaggerated, it holds a lot of truth. 80% might not be the exact percentage but, most of the bonds, then and nowadays, are not sharia compliant, since they are copy, paste of bonds products, with no clear structure.

Nowadays, they are trying to make the sukuk as a sharia compliant copy of conventional products. Naturally if they could find a sharia compliant way, this will
be perfect. However the problem and the main twist, is that sukuk don't comply with the sharia laws most of the time. And the majority of nowadays sukuk are controversial.

The most critical condition for the sukuk which might prevent it from being sharia compliant and might generate some Riba doubts is the capital guarantee condition.

Usually sukuk are issued when the company needs to raise funds without issuing shares to avoid the dilution of ownership problem. By issuing Sukuk both parties will benefit.

**What is the most famous sukuk type?**

The most famous and common type of sukuk is Ijarah sukuk. For example, a company needs funds, if they decided to get the fund through a new partner or a shareholder. The new shareholder has the right to interfere in the business management. However if the old owners prefer to keep the management under their control, and they want to collect the funds in a sharia compliant method, they can issue Ijarah sukuk.

**How does the Ijarah structure work?**

The company which need the funds usually uses an asset, in which they put it under the trust of the SPV, and they value its' price and then start to issue sukuk in this value. The company commit to rent this asset from the sukuk holders during the sukuk period. Until now the sukuk structure is sharia compliant. Especially, that the sukuk value at the end of the sukuk period will be determined regarding the market value at that time. This structure is sharia compliant 100%. But the fact that the investors are always worried about the fact that they will get back all their money
with an extra amount of profit puts the sukuk issuers under the pressure to guarantee the sukuk. The capital guarantee condition is the controversial point.

If we look on the Islamic finance history, there was some selling structure called bai alwafa. If we want to buy a house and you don’t have enough money, then you can let someone else buy the house and agree with him, to rent it. This is sharia compliant, However as a part of the agreement was whenever the tenant pay the house price. He can have it. This part of this kind of sales has been an argument point in AL sharia for ages.

The argument point, is that this kind of sales contract is not a clear contract and it has underneath it a usury potential, when the investor get a basic payments for his investment. This is the same problem with sukuk. Now after ages of conflict on bai al wafa the scholars agreed that it was not sharia compliant.

Looking on the sukuk structure which is more debatable, and to the huge tremendous growth on the sukuk market as well the great gab between the demand and supply on the sukuk. We figure the great need to organize and solve the sukuk debate.

Now the biggest contravention part from the scholars' point of view is the capital guarantee. Although it is not the only one but it is the biggest one. If the sukuk issuer didn't guarantee the sukuk, and the investors accept to sell the sukuk is their market value at the time of selling, this will be much less controversial and more acceptable.

The point of debate is since the sukuk issuer guarantees the capital to the sukuk holder, then the price of selling actually is an asset- backed debt, and in sharia any extra amount of the debt money you pay back to the investor, is considered as Riba. Thus all the payment during the sukuk period consider as Riba.
Another point, in Islamic law it's not allowed to be treaded, unless in its face value and here it will be the same as qard al hassan. Talk about qard alhasan. Hence the trade of debt in the Islamic finance is acceptable just and only in one condition: it should never generate profit. The trade of debt should be seen as a way of help, support or aid with no return.

Another point to take in credit: If the sukuk is not a debt,

**why we need a credit rating?**

Lots of sukuk issuers are using the credit rating agencies as an international marketing strategy. However by doing that, they are confessing that sukuk are a debt certificates.

Nowadays, there is an interesting phenomenon in the sukuk market that most of the sukuk holders, don’t want to trade or sell their sukuk before its mature time. As a result of the high yield the sukuk generate in comparison with the other certificates.

We should not try to imitate the bonds in the sukuk structure, we should understand that the nature of the sukuk is different as well as the needs of the sukuk market. Hence we should find an effective structure that improve the sukuk market and make it stronger (more sharia compliant).

He proceed explaining a paper he wrote trying to explain how could sukuk be used to fund an infrastructure project with different maturity and different yields.

The sukuk types nowadays are all connected to assets (asset-backed), However all the sukuk investors are interested in an annual yield which is far from (profit/loss) sharing especially they guaranteed their capital.
The sukuk problem can be summarised to the fact that there are neither legal
definition nor a legal central authority which standardise the structure of it.

As, he sees that most of the sukuk issuers are more interested in the raised money,
more that the sharia laws. Thus they use the sukuk to attract the funds from the people
who are committed to the sharia laws, such as UK, or other western countries.

Now looking at the Islamic finance in general not from the sukuk point of view only
we could find it more stable and safer, than the conventional finance.

Now, as it was described before sukuk is something between bonds and shares, which
make the sukuk more close to the redeemable preference shares.

After studding the current situation of sukuk, it is needed to improve a stronger
standardised structure to sukuk.

Now looking to the scholar role, scholars have impacted the sukuk development in a
negative way, since they faced all the obstacles with a superficial solution. It is
understandable that the complicated challenges the Islamic financial products faces,
but it is needed to find radical solutions and till then the current temporary solutions
should be highlighted as temporary until the convenient solution and structure is
found.

However, the main responsible of this flute are the central banks, who should
authorize and organize this huge market.
2. APPENDIX (2)

The second interview was with an account manager who works in one of the biggest Islamic investment companies in Kuwait

The first question was, do you deal with sukuk?

His answer was that he used to manage money market, Islamic money market fund, structured as sharia based fund which used to has a huge portion of sukuk. However this fund is closed now since people want a higher income, and after the collapse of the market and here he refers to 2008 market crash. People lost their confidence in Islamic products after the default of many major companies. The main problem with sukuk that they don't have a liquid market you can't shift the debt or you don’t have the option to sell it since there are no potential buyers. Thus My Company didn't deal with it that much.

How can you describe sukuk?

It is a debt instrument. For example if a company is setting a new project, and they require a new finance, For examples, Bahrain and Malaysia when they require fund they issue sukuk ( Islamic bonds ) but the basic idea is to have an underlining assets unlike conventional bonds which are usually based on the company balanced sheet. However there are some sukuk which might be based on the Libor benchmark. And they have to make sure that they can make the profit in the due date before the quarterly payment, they have make sure they can pay you on the agreed date, But still if the payments were delayed for a few days without any penalty, where in conventional bonds there will be required a penalty. Another different is the benefit is
structured like bonds but with sharia based rules which basically you can't over
charged and it should be backed by some kind of asset.

**In theory It seemed a safer alternative of bonds, Is it?**

You have to look for the issuer, and the liquidity of them. Thus it is always better to
go to high rated sorvigient sukuk, which mostly eill be governmental sukuk issued by
governments, For example Hongkong is going to Issue 500 bilion sukuk.

We need more short term sukuk, the new proposal regarding issuing sukuk for 3 to 6
months will help the market grow since it will have a higher level of liquidity.

How come the sukuk is still growing in spite of the previous default of the market?

They are using the sukuk just to attract the Islamic unemployed funds.

**Risks Facing sukuk?**

Market risk, Interest risk, Credit risk, Foreign exchange rate.

liquidity risk. Having a good sukuk in your hands but not having the ability to utilize
them, represent a great risk for its holders.

However, Nowadays the risk management of sukuk is improving.

**What are the difference between the rewards of sukuk and bonds?**

This dependence on the issuer, but the fact that sukuk are assets based and sone
require penalty in the case of short term late. Make them more attractive instruments.
Sukuk are more secure than bonds. But in general they have the same risks. With the liquidity risk.

The Dubai expo 2020 effect on the financial growth in general as well in the sukuk market since they state they will use sukuk. There will be a great issuance with a very good yield which will help the market.

**How do you describe the market? Does it need more or less regulations?**

Since the market is very aggressive with the Stronger Bonds, The people who are responsible of the market regulation should make it easier to compete with the strong sukuk.

This could happen by figuring ways to establish a strong secondary market to make the sukuk a much liquid financial instrument.

However Scholars are trying to protect the Islamic instruments and to assure that these instruments are sharia compliant. However they should focus more in adjusting these instruments to make them a stronger competitor in this aggressive market.

The problem is that every Sukuk issuance has its own sharia board or committee who will set the structure of these sukuk and from here the problem with the unstandardized sukuk comes. Since each sukuk are issued with different adjustments. However the sukuk always follow the same guidelines,

Not forgetting the negative role of the international regulations. Such as the IMF regulations which are making it much harder to the sukuk to compete with conventional bonds. Since most of the IMF's regulations come to the benefit of the conventional bonds, neglecting the special structure of sukuk.
The biggest risks which are facing sukuk as he explained might be the market and liquidity risks. Having on mind the exchange risk which faces both bonds and sukuk, but it affects sukuk in a higher level. This biggest effect come from the fact that sukuk can't use derivatives to limit it's lost. Taking in account that all the GCC members expect of Kuwait have their currencies are linked to the UD Dollar.

In spite of all the negativity in nowadays sukuk market, Western investors and Western financial institutions still show interest in the sukuk market. This fact has two different aspects. The investor point of view which is more related to properly diversify their portfolio. As from the financial institutions point of view, It is to attract the unemployed capital of the people who believes in the Islamic instruments.

The most popular sukuk type might be AL Ijarah sukuk which are redeemable and used to generate a higher yield than bonds, but not anymore. The problem nowadays that they are trying to link the sukuk with bonds and by that they are limiting the huge potentials the sukuk hold.
3. **APPENDIX (3)**

The third Interview was with a legal advisor of an Islamic Bank.

He started explaining the sukuk saying: Sukuk are financial instruments which are an Islamic alternative of Bonds. The main differences might be they don’t deal with usury and they are based on sharia compliant contracts. The main concept of sukuk is sharing, where the investors share the property, risks and returns. Sukuk are built on an asset which its ownership will be divided equally between the sukuk holders.

Talking about the sukuk market expanding which are parts of the Islamic financial system, we should notice the increasing demand of the Islamic institutions. The biggest prove is the Kuwait used to have 10 major banks, 5 of them Islamic while 5 are conventional. Now one of the biggest conventional banks is converting to an Islamic bank. This is a huge prove of the profitability of the Islamic system, especially in the Islamic countries and more specifically in the GCC region.

He sees that, in spite of the risk sharing in the Islamic sukuk, they still more profitable than conventional bonds. Now the Issuing process of the sukuk is more complicate than the bond issuance. Since, the sukuk issuance needs to set a SPV which should be an independent company and this company should acquire the needed asset to issue the sukuk. The biggest different between sukuk and bonds might be the concept of sharing in both ways.

After asking him about the legitimacy of the redemption of the sukuk, he assured me that the redemption of the sukuk was never a problem neither from a sharia point of view nor a legal point of view. He emphasized on the fact the sukuk market is still a weak market in comparison of Bonds. Since all the regulations come to the benefit of
the conventional bonds, this makes it harder to the sukuk to compete and grow. 

Furthermore, sukuk could never replace the bonds, at least for now time. However, this should never affect the efforts to improve this market since it has great potentials. Preference shares might be the closest congenital instrument to sukuk. But when the share in the conventional preference will be only in profits, in sukuk it will be in both profits and losses. The biggest risk in sukuk from a legal point of view is the depreciation of the asset. Now the global interest in sukuk came to attract then unemployed money of the Muslims investors who are interested in Islamic instruments. Another factor came to the benefit of the sukuk was the financial crisis which drew the attention to the Islamic financial system in general and sukuk in particular as a way of diversification.

Finally talking about the Sharia scholars impacts, from his point of view : he sees that scholars have a great ethical impact on the sukuk market to guarantee justice for all parties. However their extra care to tighten up the regulation might restrict the market growth, having in mind the aggressive market of bonds.
4. APPENDIX (4)

The fourth interview was with Head of training and development in an Islamic bank.

Talking about the sukuk market development and growth, he said that this is rapidly changing information which could be collected from the responsible agencies. But as a general point of view this market is growing especially in the last few years this market has witnessed sharp growth especially in Malaysia which was the market leader, but not anymore after the UAE has topped Malaysia to have the biggest Sukuk issuance. However this market is still incompatible with the conventional bonds share of the market.

We can descript the sukuk as an equal ownership for an asset based contract. And since the contracts defer, the sukuk will defer according to these different contracts. Thus we have 14 different kinds of sukuk, and he went on describing the different kinds of sukuk using the definition of the AAOIFI.

From this point we can say that the nature of the contract which is generating the sukuk is the definer of the sukuk structure. As well the contract is usually the definer if the sukuk could be tradable or no. Since some sukuk are based on a debt contract and the debt is not allowed to be traded in the Islamic financial system.

We can say that Al Ijarah is the most popular sukuk since it is less controversial. Not like the Murabah and the salam which considered as debt and not allowed to be traded.
The most important risks the sukuk face are the risks related to the contract itself. For example the risk related to Alijarah sukuk might be the risk of the tenant not paying the rent.

However talking about the returns of the Islamic instruments, in theory and as it was before a while, it should be much higher than the conventional instruments. Since Islamic instruments are based on a real investments not like the conventional which are mostly just debt.

However now a days as a result of the aggressive conventional market, this made the Islamic Institutions imitate the conventional in every step, this made the Islamic financial institutions and their instruments loss their place as a very special market.

Sukuk could never be issued but through banks and high rated financial institutions. This is very important to regulate the market and to protect it. However the real problem regarding this issue is not having a unity which is responsible of the sukuk issuance in general all over the world.

Another challenge the sukuk faces is the environment in which the sukuk operate. Both the legal and the financial environment have been in the benefit of the conventional bonds. This made pressure on the sukuk. Since even the Islamic countries which use the Islamic law as a reference in all the life issues, they have been ignoring the Islamic finance law for almost a year. This created a gab, since the Islamic Banks don't have a supporter even in their home land where the low is for the benefit of the conventional banks. This surely affected the growth of the Islamic financial system in general and the sukuk in particular. And that’s why
sukuk nowadays need to imitate the conventional bonds, since most of the low is for the conventional bonds interest.

At the end he stated that he doesn't see that scholars affect the sukuk market negatively. And he emphasized that the real problem is with the market itself with its rules which limit the sukuk developments.
5. **APPENDIX (5)**

The fifth interview was with a risk manager at an Islamic bank,

He started explaining how the idea of Sukuk was generated. Investments usually are divided between real-estate, equity, fixed income and alternative investments. These are called asset class and each asset class has its own risk which is completely different from the other. Thus, for each of these categories should have their own risk expert.

Now, talking about the fixed income which is usually defined in the market as bond, this is a huge market where lots of money was invested. However, the Islamic financial system didn't have the chance to enter this market. Since in the concept of the fixed income was a Sharia problem, where it is a clear usury and in Islamic finance from ethical point of view, Usury is prohibited.

From this point, Islamic finance started of thinking how to develop an instrument which could attract this market and to be sharia compliant. So they came up with the Sukuk, using assets to avoid the usury problem, where the sukuk issuance will be used on an asset which will generate the income in a sharia compliant way.

However, the sukuk was never and will never be similar to the bonds. Especially that the sukuk have different structures, and the same structure is usually issued each time in a different way. In short the sukuk are unstandardized and might be their main problem. Not forgetting the Liquidity problem which came as a result of their unstandardized nature and that there are no one specific unity which is responsible of organizing the sukuk market.
Basically the sukuk are localized in 5 main regions: Malaysia, Indonesia UAE, Bahrain and the KSA. While the rest of the world represents a very small fraction of the sukuk market.

Amazingly that in spite of the stragglings and the challenges the sukuk face, the appetite for this market is quite high and not even close to be satisfied. Thus, wherever there is a sukuk issuance, it will be always oversubscribed.

Till now, the main issuers for the sukuk are usually governments, where sukuk are basically issued for the big infrastructure projects.

The most famous sukuk which are still acquire the biggest size of the market are, sukuk al Ijarah (the biggest) sukuk al modarabah, sukuk al morabaha, sukuk al salam (very similar to forward) and sukuk al istesnaa.

There will always be systematic and unsystematic risks. Where the systematic risks of the sukuk are similar to the systematic risks of the but one main difference is that bonds assessment is for its credit while the sukuk assessment comes to the asset itself, where the depreciation of the asset might be a potential risk.

The unsystematic risks are represented in the many ways such as the fact that there are not enough or sufficient people who understand the sukuk complicated structure, and another vital risk is the liquidity risk. The liquidity risk has two aspect the first one is that is related to the systematic liquidity risk same as the bonds, while the other one is related on the fact that there are no one functional secondary market for trading the sukuk. Not ignoring the Bahrain attempt to set a platform for liquidity, but still this move needs many serious developments and improvements.
Another risk the sukuk face is the complicated structuring process of the sukuk. It is a very expensive, long and complex process. This make the sukuk's cost much higher than the bonds. However the huge market appetite for the sukuk makes it worth these difficulties.

A very important point to emphasize on is that the limitation of the market development is mainly due to the lack of the well-educated and prepared people who should be responsible of this. Islamic finance needs people who are expert in sharia laws, economic law and have deep understanding of the current financial situation.

Now the financial crisis has for sure affected the Islamic finance system as well, in both negative and positive way. Negative way as we saw many sukuk's default during the financial crisis. While the positive might be with the global attention which was driven by the financial crisis towards the Islamic financial system in general and the sukuk as useful financial instrument for diversification.

Dubai expo 2020 is a very important event for Dubai in general, where it will bring growth to Dubai in all aspects and the fact that the infrastructure projects will be funded by sukuk, will give a great push to the market. But at the same time we should not forget that with this decision the UAE is taking the hard way, since the sukuk issuance process will be complicated, long and quiet expensive.