Financing Infrastructure Projects with Application of Sukuk

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Abstract: Purpose: The current study seeks to examine the key roles of sukuk for financing infrastructure projects in OIC countries and suggest for steps toward building a vibrant sukuk market capable to support infrastructure projects for attainment of inclusive growth.

Design/methodology/approach: For obtaining the objectives of the study, it applies descriptive qualitative research method based on secondary data. The paper reviews relevant literatures and uses necessary chart to explain the pertinent issues.

Findings: The study identifies great potentials of financing infrastructure projects through use of sukuk in OIC and non-Muslim majority countries which include rising trend of GDP and trade in OIC countries, success of Islamic banking, rising Muslim population, robust growth of halal industry, presence of tech-savvy young people in large number, huge gaps in physical and social infrastructures, excess liquidity in Gulf regions, growing demand for Shariah financial services for diversification of investment and increasing role played by government, regulatory agencies and multilateral bodies.

Research limitations/implications: The major limitation of this study lies in the use of secondary data only. Future research may consider mixed method techniques to provide insightful information for necessary policy directions. In particular, data collected from stakeholders of sukuk through structured questionnaire may add significant value to policy directions.

Originality and value: The study points out potentials of sukuk as infrastructure financing tool and offer policy directions for promoting sukuk market in OIC countries. Attention of research on sukuk is less compared to Islamic banking and hence the present study is an attempt to fill the gaps on research of sukuk.

Keywords: Infrastructure, financing projects, Sukuk, Muslim majority countries.
JEL classification: G0, G1, G15, G28, H54, O1, O2, Z12.

1. INTRODUCTION

A modern economy has to produce many products and services to cater for a wide range of demands of a different class of consumers with various choices and tastes. The growth of an economy depends on quality infrastructure. The modern financial system's key role lies in mobilizing funds for financing productive activities and services, including infrastructures, toward keeping the wheel of the economy moving forward. Projects adopted to improve the living standard of the people need huge funds, which government funds, conventional banks and capital markets support. Developing countries, Muslim-majority countries in particular, face challenges in financing infrastructure projects due to limited fiscal space, weak financial systems, low levels of foreign loans, and high cost of servicing debt. Given this, Sukuk, an Islamic Shariah-compliant investment tool, has emerged as a vital alternative in Muslim majority and minority countries to finance physical and social infrastructure projects.

Better and quality infrastructure plays a crucial role in economic growth by raising the productivity of human and physical capital. It helps the economy by providing access to

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roads, improving education, reducing production costs, facilitating local and foreign investment private investment, and improving jobs and income levels (IFC, 2012). According to McKinsey (2016), in order to achieve the SDGs, sustainable infrastructure projects will require investments totaling US$93 trillion from 2015 to 2030. The energy sector will receive the majority of these funds (US$40 trillion, or 43%), followed by the transportation sector (US$27 trillion, or 29%), the water and waste sector (US$19 trillion, or 20.4%), and the telecommunications sector (US$7 trillion, or 7.5%). According to estimates, the budget gap will range from US$ 39 trillion to US$ 51 trillion for the time period. Conventional funding sources such as government funds, conventional banks and capital markets are inadequate to fill the infrastructure gaps. Sukuk side-by-side conventional sources can meet the infrastructure inadequacy.

Most Muslim-majority countries need more funding sources for physical and social projects due to low fiscal surplus, weak financial systems, low foreign loans, and high cost of servicing debt. Most Muslim countries are not in a position to address these objectives through public investments or even standard bank funding because financing infrastructure projects often involve a long-term and significant expenditure. Sukuk can help cash-hungry Muslim-majority countries to finance physical and social projects towards inclusive growth, job creation, and poverty reduction.

Sukuk has emerged as a viable financing tool in Muslim-majority countries of Southeast Asia, the Middle East, South Asia, Africa, and non-Muslim countries like Singapore, Hong Kong, the UK, and Germany. Islamic capital market products, sukuk, continues to grow, and its assets are estimated at USD 930.3 billion in 2021, accounting for 30.5% of the global Islamic financial industry's assets (IFSB, 2022). Malaysia occupies the top position among sukuk outstanding (42%), followed by KSA (25%), Indonesia (15%), Turkey (3%), UAE (7%), Pakistan (2%), Qatar (2%), Kuwait, Bahrain and Oman (1%). Outstanding sukuk of major sectors include sovereign (54%), corporate (20%), quasi-sovereign (17%), and financial sectors (8.6%) (IFSB, 2022).

The primary objective of the current paper lies in examining the key sukuk structures for financing infrastructure projects and suggestions for building a vibrant sukuk market capable of supporting infrastructure projects for attaining inclusive growth. Broad objectives include (i) the concept of sukuk and its major structures suitable for financing projects; (ii) examining Ijarah sukuk as one of the preferred sukuk for financing projects; (iii) investigating the potentials of the Sukuk Market in Muslim-majority countries and exploring challenges faced by Sukuk Market and (iv) providing commendations for building a vibrant sukuk market. The paper applies a descriptive qualitative research method based on secondary data.

The following is how the remaining text of the paper has been arranged: The second section after the introduction is with a literature review; the third section is about sukuk and its importance in project financing. The fourth section focuses on major types of Sukuk based on Shariah Contract; the fifth section analyses Sukuk al Ijarah as one of the most popular sukuk in project financing. The sixth section focuses on the Potential and Challenges for Sukuk as an infrastructure financing tool, and finally, the seventh section concludes with policy options.

2. LITERATURE REVIEWS

There is a growing practice of applying sukuk in financing infrastructure projects in Muslim majority and minority countries. Against this background, researchers and academicians have created enthusiasm for running studies on sukuk.

Said et al. (2013) looked at macroeconomic factors that affected the development of the unique structure of sukuk in Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar, Indonesia, Malaysia, Brunei, Pakistan, and the Gambia between 2003 and 2012. The paper demonstrates how the sukuk market has evolved to economic and macroeconomic causes, the global financial crisis, the financial system, the institutional environment, the legal foundation, and social considerations. The empirical findings show that the sukuk market is positively influenced by macroeconomic parameters such as GDP per capita, economic size, trade openness, and percentage of Muslims. The financial crisis, however, has a very detrimental impact. The development of the Sukuk market is highly influenced by the regulatory quality, suggesting that nations with better-rated regulations have a larger Sukuk market.

According to Kusuma and Silva (2014), the promotion of sukuk markets is hampered by several major problems, including standardization of structures and practices, investor protection issues regarding governance and insolvency regimes, and market liquidity. Additionally, it offers suggestions for expanding domestic sukuk markets and accessing the global market. The authors advise governments to create domestic sukuk markets using the same approach used to create conventional bond markets.

Lackmann, B. (2015) examines different types of sukuk and Japanese companies' interest in its use in project financing in Malaysia. The paper also cited causes behind the growth of the sukuk market, including the increasing number of Muslim and non-Muslim investors, higher demand for project financing, rising investment by sovereign wealth funds, growing number of sovereign sukuk issues, and implementation of Basel III.

Using the GMM method, Smaoui and Khawaja (2017) empirically explore the structural, financial, developmental, institutional, and macroeconomic factors that influenced the growth of the Sukuk market in 13 countries between 2001 and 2013. The results show that structural, financial, and institutional factors highly impact the Sukuk markets. A larger economy, a higher percentage of Muslims in the population, a stronger investment climate, and lower levels of corruption are all variables that favor the sukuk market. In contrast, the growth of the Sukuk market is negatively impacted by a bigger interest rate differential.

The effectiveness of green sukuk as a significant tool for funding clean energy and resilient infrastructure projects as well as shorter-term energy efficiency projects is examined by Aassouli et al. (2018). According to the authors, creating green sukuk can support environmentally friendly initiatives, enhance livelihoods, and aid Islamic finance in achieving its moral goals. The report provides policymakers with a road map for developing a green sukuk market in Sub-Saharan Africa.

The performance of sukuk and conventional bonds used for government funding in Indonesia from 2014 to 2017 is measured and contrasted in Alimuddin and Nurleni (2020) study. Data Envelopment Analysis (DEA), the Value at Risk (VaR) approach, and the paper use efficiency ratio are all dependent on secondary data. The findings indicated that sukuk has low efficiency and low risk whereas bonds have high efficiency and high risk. According to the Efficient Portfolio Frontier analysis, an efficient portfolio exists at a risk level of 0.14%, and the ratio of 60% Sukuk financing to 40% bond financing has a profit rate of up to 369.31%, indicating that the Sukuk financing portfolio is in a better position than the bond financing portfolio.

Using an exploratory research approach, Bala and Olarewaju (2022) evaluate sukuk as a solution to Nigeria's infrastructure deficit. Citing the recent 346% over-subscription of recently ended sukuk deals, the authors argue that Nigeria can use sukuk to compensate for its infrastructure shortfall. The analysis concludes that while external loans have typically had a detrimental impact on Nigeria's economy, Sukuk can be a feasible choice for financing significant infrastructure investments in Nigeria.

Smaoui et al. (2021) studied the effects of sukuk on infrastructure development in 15 rising nations between 1997 and 2018. The study employs a novel infrastructure development index regressed on Sukuk market development and other institutional, macroeconomic, and market-related variables. The outcome demonstrates how a thriving Sukuk market helps to enhance the nation's infrastructure. However, a bigger banking system and a more well-capitalized stock market have little impact on infrastructure growth. Additionally, education and per capita GDP favorably impact infrastructure development, whereas inflation has a negative one.

3. CONCEPT OF SUKUK AND ITS SIGNIFICANCE IN PROJECT FINANCING

The plural form of the Arabic word sakk is sukuk. Sukuk, which in Arabic means "legal instrument," "deed," or "check," mostly refers to the Islamic Shariah-compliant alternative to a traditional interest-bearing bond. Sukuk is an absolute asset-backed instrument representing both ownership of the asset and a claim to the income from the underlying asset. Islamic Shariah forbids charging interest; hence Sukuk is created by preventing interest accumulation and completely adhering to Islamic principles.

The use of sukuk is not a recent phenomenon in Islamic civilization; its first application took place in Damascus, Syria in the 7th century. Then Islamic communities used sukuk as ‘paper or deed’ to present financial commitments that originate from trade and other economic transactions. In modern era, the Islamic FIQH Academy of the Organization of Islamic Countries (OIC) suggested to issue sukuk in 1988 and issuance of sukuk started first in Muslim majority countries and later in non-Muslim majority countries (Zulkhibri, M., 2015).

3.1. Definition of Sukuk

The Islamic organizations like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) defined ‘Sukuk’.

Investment Sukuk is defined as "certificates of equal value representing undivided shares in ownership of tangible assets, usufructs, and services or (in the ownership of) the assets of particular projects, special investment activity’ by Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Islamic Financial Services Board (IFSB), which is based in Malaysia define sukuk as ‘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 Mudarabah)’.

Clearly, Sukuk refers to investment certificates, similar to conventional bond which evidence undivided ownership in tangible assets, usufructs and services or investment in the assets of particular projects or special investment activity that complies with the principles of Islamic Shariah.

3.2. Sukuk vs. conventional Bonds

Despite having certain similarities and both being financial assets used to finance projects, conventional bonds, and sukuk differ in some keyways (Nabi et al., 2016):

- In contrast to sukuk, which is an equity instrument with no interest or debt commitment, a conventional bond is a financial instrument with a contractual debt obligation for a specific length of time and a set or fluctuating interest rate.
- The traditional bondholders are entitled to interest payments, principal repayments, and cash flows resulting from the issuer's contractual commitment on predetermined dates. If the issuer suffers a loss, these bondholders are not affected. Holders of Sukuk are entitled to ownership of the underlying asset. They have the right to benefit from the underlying real or tangible asset (partnership, lease, or sale), and they are responsible for any losses that may occur.
- In contrast to sukuk, which base their face value on the market value of the underlying asset, conventional bonds base their face value on the issuer's creditworthiness..
- Bondholders typically are not impacted by the costs associated with the financed project, whereas holders of sukuk are impacted by the costs associated with the underlying asset. The investor's return on investment will be lower the more expensive the underlying asset is.
- Sukuk will not be marketable on the secondary market and must be held until maturity if it reflects debt obligation in any case. The secondary market is where asset-backed sukuk is traded. However, although having a financial obligation, the conventional bond can be traded on the secondary market.

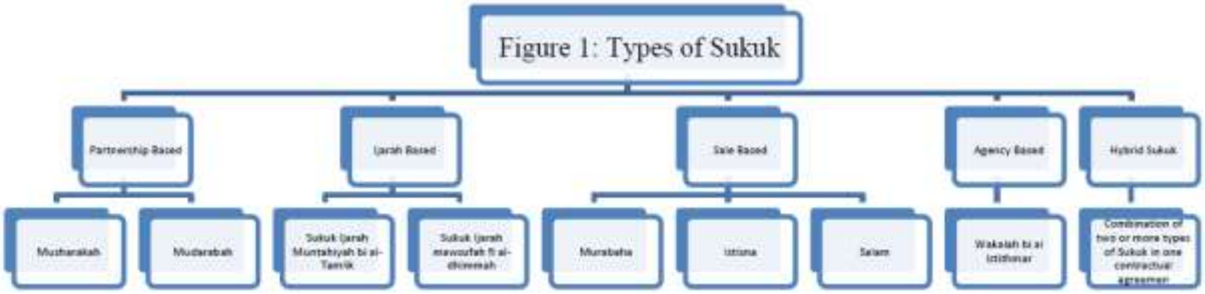


Fig. (1). Types of Sukuk.

Source: Compiled by the authors.

- Any asset, company, or project that complies with local laws and regulations may be financed with conventional bonds. Sukuk, on the other hand, only finances properties, businesses, or projects that adhere to Islamic Shariah.
- Both traditional bonds and sukuk may be negatively impacted by market and financial risks, which can also have an adverse effect on how competitively an asset is priced. However, because of its special characteristics, sukuk are intrinsically more exposed than conventional bonds because they must take into account a different risk, namely the risk of Shariah compliance. Shariah compliance risk is the possibility of asset value decline brought on by the issuers' failure to uphold their fiduciary duties for Shariah compliance.

3.3. Major Players Involved in Shark Issuance

Originator: It refers to the beneficiary of the issuance of sukuk. Initially, it is more viable for the government to originate Sukuk. Corporate originators may come later when the Sukuk market is matured, and the Sukuk floatation cost is reduced. Sukuk is attractive to those who possess substantial tangible assets on their balance sheets and are interested in expanding funding through the securitization of those assets.

Special purpose vehicle (SPV): SPV is created to manage the issuance of sukuk. Either separate entities or Islamic banks and investment banks can work as SPV.

Investors of sukuk: The investors of Sukuk are central banks, Islamic banks, private commercial banks and non-bank financial institutions. Initially, the investors of the Sukuk certificate are confined to institutional players until many individual investors participate in the Sukuk market. Sukuk can be traded in the secondary market only at face value of the sukuk or at the market value of the underlying asset. It depends on the type and structure of the sukuk.

Other players include the issue manager, trustee, obligor, Shariah board, rating agency, accountant, auditor, etc.

3.4. Significance and Strength of Sukuk as an Infrastructure Financing Tool

Sukuk has unique features to promote GDP via project financing. For this, Sukuk is heavily applied in infrastructure financing in Muslim-majority countries like Malaysia, Indonesia, Pakistan, KSA, UAE, and Qatar and non-Muslim majority countries like the United Kingdom (UK), Germany, Singapore and so on (COMCEC, 2018; IFSB, 2022).

Green Sukuk as an alternative financing tool is gaining popularity among national and international policymakers, investors and academicians to promote sustainable development projects (Piratti & Cattelan, 2020; Fahad, M., & Areeba Khan, A. K., 2022). A green Sukuk complies with both Shariah and green principles, which can attract green investors and Shariah-compliant investors, non-green investors, and conventional finance investors to finance green projects (Abdulkareem, I. A., Mahmud, M. S., &Abdulganiyy, A., 2021).

By financing social projects like reducing poverty and providing shelter, health and education services among the poor, Sukuk can promote social development. Social sukuk such as waqf sukuk and cash waqf sukuk can bring hope in the lives of millions of the poor both in Muslim and non-Muslim majority countries.

It is clear that sukuk can be used in financing projects including green projects, accelerating social development, and managing the liquidity and capital adequacy of Islamic banks.

4. MAJOR TYPES OF SUKUK BASED ON SHARIAH CONTRACT

As the global sukuk market is expanding daily, different types of sukuk are emerging to meet the growing demand per customers' choice and need. Types of sukuk have been developed based on the underlying Shariah contracts. In general, sukuk can be classified based on different Shariah contracts such as partnership, Ijarah(lease), sale and agency-based contracts (Fig. 1).

4.1. Partnership

Mudarabah sukuk: This agreement between the party providing the funds and the other party (the entrepreneur), allowing the entrepreneur to carry out business ventures on a profit-sharing basis by previously agreed-upon predetermined ratios (participation or trust financing). If there are losses, only the fund provider is responsible for them.

Musharakah sukuk: This is frequently used in equity financing and is quite similar to the Mudarabah contract. The

Musharakah structure mandates that both partners contribute funding to the projects in case of failure. Additionally, the amount each party loses will be proportional to how much they invested.

4.2. Lease based Sukuk

Ijarah sukuk: Ijarah Sukuk is a type of financial lease that combines a leasing structure with a right for the lessee to acquire the asset at the end of the lease term. The agreement will determine whether the rental prices are fixed or fluctuating. Investors receive the cash flow from the leased assets through principal and coupon payments. An effective medium- to the long-term mode of financing is offered by Ijarah Sukuk. The principal categories of Ijarah sukuk include the following.

Sukuk al Ijarah muntahia bit tamleek (**ownership transferred at the end of lease):** It represents a type of ijarah in which ownership is given to the lessee following a predetermined time frame. After the parties' ijarah agreement is signed, the leased asset's usufruct becomes immediately available.

Sukuk al ijarah mawsufah fi al-dhimmah (Forward Ijarah sukuk): Based on particular guidelines, the leased asset's usufruct becomes available in the future.

4.3 Sale based Sukuk

Murabahah sukuk: One of the most popular methods for Islamic short-term financing is the murabahah approach (cost-plus financing). Its foundation is the conventional idea of purchase financing. The Islamic financial institution obtains the necessary products or equipment from a third party, acquires title to them, and sells them to its client at cost plus an acceptable profit..

Salam sukuk: Salam Sukuk is a term used to describe a sale in which the seller agrees to provide the buyer with a specified good at a later time in exchange for an advance payment made in full right away. The buyer may purchase the assets by making an advance payment at a reduced cost and selling them after delivery as a form of financing. The salam sukuk varies from the istisna'a sukuk in that the assets' purchase price must be fully paid for and the delivery date must be determined.

Istisnasukuk: Istisna sukuks are certificates of equal value that are issued to raise money. Construction and manufacturing financing has employed this kind of sukuk for the advance funding of real estate development, significant industrial projects, or massive equipment like turbines, power plants, ships, or aircraft. The Islamic financial institution purchases title to the asset and finances the manufacturer or the contractor during the asset's construction. Immediately after completion, either transfers the asset's ownership to the developer under a contract for deferred payment or, conceivably, leases it to the developer under an Ijarah sukuk.

4.4 Agency Based Sukuk

Wakalah bi al-Istithmar-A principal (the investor) appoints an agent (the wakeel) to invest funds provided by the principal into a pool of investments or assets, and the wakeel lends its expertise and manages those investments on behalf of the principal for a specific amount of time in order to produce an agreed-upon profit return.

4.5. Hybrid Sukuk

Hybrid sukuk: A hybrid sukuk is a sukuk that combines two or more different sukuk into one legal document. It has a more complicated structure and necessitates complete Shariah conformity. It offers a more diverse portfolio in a single contract. The assets could, for instance, be made up of istisna, murabah, and ijarah. The first hybrid sukuk was issued by the Islamic Development Bank (IDB) for $400 million. The assets were made up of 31% murabahah, 66% al-ijarah sukuk, and 3% al istisna sukuk.

The decision and selection of a specific sukuk structure are influenced by a number of variables, such as the issuer's economic goals, the availability of assets, the amount of debt the company is carrying, the issuer's credit rating, the legal environment, and the structure's tax implications. Additionally, AAOIFI has published Shariah requirements for many sukuk forms. Based on the nature and characteristics of the issued Sukuk, some of this Sukuk are categorised as tradable and others as non-tradable (Nabi et al., 2016).

5. SUKUK AL IJARAH IS ONE OF THE MOST POPULAR MODES IN PROJECT FINANCING

SukukalIjarah represents the certificate of ownership of the underlying real asset, which can be traded in the secondary market. Sukuk al-Iijarah holders receive cash flow as a rental basis for the stipulated time frame. The holder of the sukuk earns profit from the real asset and bears the cost of maintenance and damage to the real asset. Sukuk al-ijarah is one of the widely used sukuk in project financing. During 2001-2021, the Sukuk Al Ijarah is historically the favorite structure of international sovereign issuers, with a share of 47.00 percent (IIFM Sukuk Report, 2022).

5.1. Features of Sukuk al ijarah:

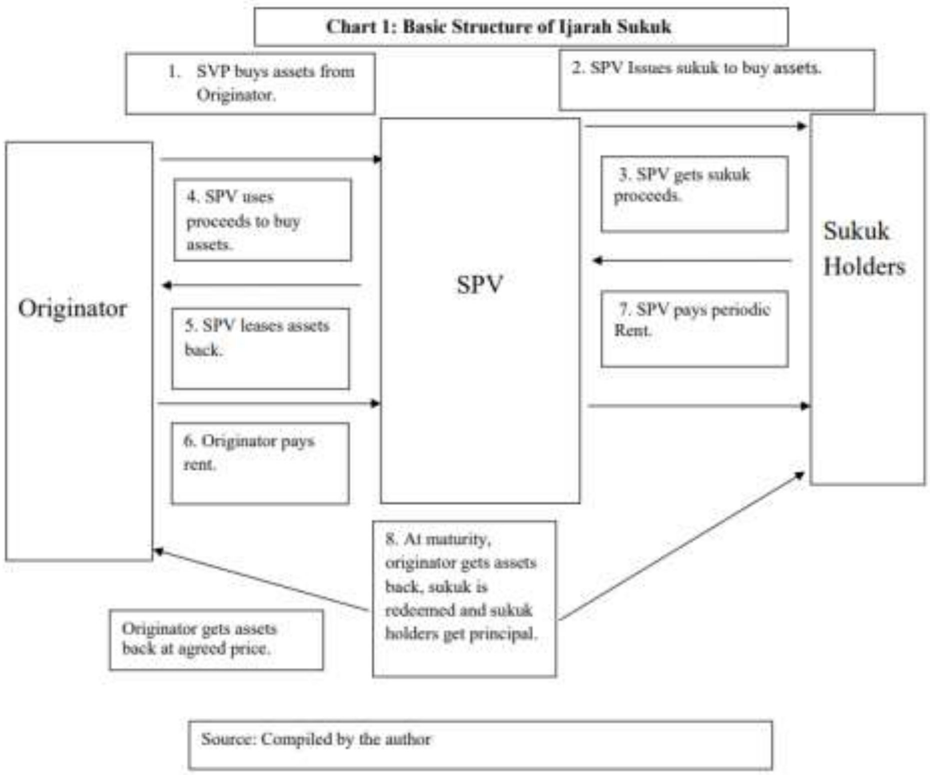
The contract must stipulate an agreed rate of rentals for an agreed period.

- The contract must contain an underlying real asset. The asset's value may be equivalent to the principal amount only or to the principal plus rentals. The leased asset must have a valuable use. An asset without its usufruct cannot be leased.
- Any liability related to the use of the asset will be subject to the liability of the Originatororiginator.
- The Originatororiginator will not be permitted to use the asset other than for the stated purpose.
- In case of any partial damage or loss of the asset, the sukuk al ijarah contract will continue to survive with respect to that asset.
- One of the attractive features of ijarah sukuk is that it can be traded in the secondary market.
- Redemption of the sukuk will depend on the type of the sukuk. If the sukuk is asset-backed, the redemption will be only at the market value of the

underlying asset. But if the sukuk is asset-based, the redemption will be done at a pre-determined price.

5.2. Basic Structure of an Ijarah Sukuk (Chart 1)

1. The Originatororiginator (Beneficiary of Sukuk) forms a Special Purpose Vehicle (SPV) to manage the Ijara Sukuk.
2. The SPV purchases an asset from the Originatororiginator.
3. The SPV issues sukuk to investors i.e. sukuk holders, to buy an asset from the originator.
4. SPV gets Sukuk proceeds to buy the asset from the Originatororiginator.
5. SVP lease the assets back to the originator.
6. Originator pays rent to SPV.
7. SPV pays periodic rent to sukuk holders.
8. At maturity, sukuk is redeemed, Originatororiginator gets the asset back and sukuk holders get principal.



6. POTENTIALS AND CHALLENGES FOR SUKUK AS INFRASTRUCTURE FINANCING TOOL

There is great potential for financing infrastructure projects through sukuk in OIC and non-Muslim majority countries. Key factors which show bright prospects for sukuk market:

- Rising trend of GDP and trade in OIC countries
- The success of Islami banking in both Muslim and non-Muslim majority countries
- Rising Muslim population
- Robust growth of the halal industry
- Presence of tech-savvy young people in large number
- Huge gaps in physical and social infrastructures
- Excess liquidity in Gulf regions
- Growing demand for Shariah financial services in non-Muslim majority countries for diversification of investment
- The increasing role played by government and regulatory agencies, multilateral bodies including IMF, WB, ADB, ECB, IDB, and industry players to develop Islamic financial markets domestically and globally.

However, economic, legal, and regulatory challenges stand in promoting sukuk for project financing.

I. **Shortcomings in the legal framework:** Most Muslim-majority countries lack the required legal framework for sukuk, which is a major constraint for its promotion. An unambiguous legal and regulatory framework is required to issue sukuk and its management and accounting procedures.

II. **Lack of skilled human resources**- The paucity of skilled human resources are limiting factor in issuing sukuk. There is a lack of adequate specialized personnel having thorough expertise in sukuk. Most countries have a low number of Shariah experts who can provide necessary advice in issuing sukuk from the viewpoints of Shariah.

III. **Absence of fiscal incentives:** Tax incentives catalyze increasing interest in the sukuk issue in Malaysia (Hussin et al., 2012). Currently, there is a lack of tax incentives for sukuk in most countries. Including tax incentives in existing fiscal policies may induce public and corporate sectors to issue sukuk and attract both institutional and individual investors to invest in sukuk.

IV. **Awareness programs-**To introduce and promote any financial product in any economy, awareness is essential. Regarding the cost-benefits of sukuk, there exist understanding gaps among policymakers, business owners, and general investors in various nations. Since sukuk is a novel instrument and the majority of those affected are familiar with conventional bonds, mobilizing support for its introduction is a significant hurdle in the new jurisdiction.

7. POLICY OPTIONS AND CONCLUSIONS

Policy Options

Sukuk can be a practical option for funding significant infrastructure projects in OIC nations if the right governmental measures are taken to overcome the issues. Countries must take the following actions to promote sukuk to fully realize its potential.

I. **Developing legal and regulatory framework:** In issuing sukuk, there needs to bring about changes in the legal and regulatory framework which can pave the way for the issuance of sukuk. Securities and Exchange Commission may issue 'Guidelines on Sukuk' addressing key issues such as eligibility of issuing sukuk, eligibility for becoming issuer, SPV, trustee and guarantor, responsibilities of issuer, trustee and guarantor, role of rating agencies and other supporting institutions, transparency among all the related parties, how to execute the sales of sukuk and real asset, trading in the secondary market, and Shariah rulings, principles and concepts to be complied with the issuances of sukuk.

II. **Standardization of sukuk:** Sukuk transactions must be standardized and streamlined in terms of legal documentation and Shariah norms due to the legal ambiguities, conflicts, and divergences that result from them.

III. **Islamic Shariah Governance:** The Shariah governance framework provides a proper structure based on the Islamic Shariah principle for the issuance of sukuk and its overall management. Such a framework helps strengthen the investors' confidence. It is also imperative to develop Islamic Shariah governance framework for the issuance of sukuk, its management and accounting procedures.

IV. **Fiscal incentives:** There should be a favorable tax framework that is conducive to the issuance of sukuk. As sukuk are asset-back, double taxation should be avoided to attract investors and establish a sukuk market.

V. **Human resource development: U**ndertaking effective programs to develop human resources for handling the sukuk market is a must. These programs should include intensive training programs on Islamic capital markets, the introduction of a diploma and master's program in Islamic finance at the college/university level.

VI. **The firm commitment of policymakers and entrepreneurs:** Policy makers should have firm commitment to introduce sukuk in any economy. As sukukcan be a viable tool in raising funds for physical and social infrastructure projects, policy makers should give top priority to float sukuk in respective jurisdiction. Similarly, corporate sector should come forward to pave the way for sukuk market development.

VII. **Exploring international experiences on sukuk:** Countries which have no or low experience in issuing and managing sukuk, they can explore the experiences of Malaysia, Bahrain, UAE and other countries in issuing and managing sukuk. If needed, they can also seek technical assistance on issuance of sukuk from IDB, AAOIFI, and IFSB. So, exploring international experience can provide necessary guidelines and insights for successful issuance of sukuk.

CONCLUSIONS

As per classification of World Bank, most Muslim majority countries fall in categories of either lower or upper middle-income country and 700 million Muslim people live under poverty line. Obviously, they need to raise GDP growth to reduce poverty rate further and achieve other sustainable development goals (GDP). To this end, they must remove gaps in infrastructures by accelerating investments. However, they encounter serious challenges in mobilizing the resources necessary to expand infrastructure services aiming at promoting inclusive GDP growth. Following insufficient supply of funds from traditional sources, they can adopt sukuk as a viable option for raising funds domestically and globally to implement infrastructure projects.

There exist many factors for financing infrastructure projects through use of sukuk in OIC and non-Muslim majority countries which include rising trend of GDP and trade in OIC countries, success of Islamic banking, rising Muslim population, robust growth of halal industry, presence of tech-savvy young people in large number, huge gaps in physical and social infrastructures, excess liquidity in Gulf regions, growing demand for Shariah financial services for diversification of investment and increasing role played by government, regulatory agencies and multilateral bodies. Key challenges in using sukuk for project financing include shortcomings in the legal framework, lack of skill manpower, poor Shariah governance framework, absence of fiscal incentives and presence of few Shariah complaint instruments.

The great success of Islamic banking, rising Muslim population, growing GDP and demand for Shariah financial services have already created a field for vibrant sukuk market. But the emergence of a strong sukuk market would depend on how quickly Muslim majority and minority countries can create necessary legal and regulatory framework, develop skilled manpower and provide fiscal incentives to bring all parties altogether to encourage promotion of the sukuk market.

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