

## The Role of Islamic Finance Instrument (Sukuk) in Boosting the Economic Development

Abdelkhleg M. Elkormagi, Hazianti binti Abdul Halim and Rusliza Binti Yahaya  
Faculty of Management and Economics, Universiti Pendidikan Sultan Idris,  
Tanjung Malim, Malaysia

**Abstract:** Now a days, banking sector involves in every financial transaction that any country would like to do, resulting that the banking industry is totally changed based on the global forces. The worldwide requires many changes to follow up with the technologies and innovations that the globe faces regarding financial services. This study is highlighting the modern orientation of the globe toward the Islamic banking, finance fundamentals and contemporary issues.

**Key words:** Islamic banking, economic development and issues, technologies, regarding, contemporary, sector

### INTRODUCTION

Since, the mid-1980s and following globalization, the institutionalization of financial markets and the development of derivative markets, there has been an overlap in the conventional intermediation between financial intermediaries and markets. In this context, the new approach of financial intermediation dwells on the role of financial intermediaries in reducing participation costs and risk management rather than in asymmetric information (Allen and Santomero 1997; Farook and Annsari 2018). However, in Islamic finance as noted by Allen *et al.* (2005) Islamic banks do not play an important role in capital markets. The implication of Islamic banks in the Sukuk market is still less developed. Islamic banks are notably buyers rather than Sukuk issuers.

In the financial world, the Tunisian economy shifted from an “overdraft economy” to a “liberalized overdraft economy” despite the promotion measures of the market. The Tunisian financing system has been dominated by the classical intermediation (credits-deposits) since banks are both the greatest collectors of savings and privileged credit suppliers. Until 2011, the non-bank financial sector accounted for about 20% of all financial system assets (Anonymous, 2012). The funds raised by the Tunisian Stock Market which was founded in 1969, represented only 2% of the GDP in 2011. Nevertheless, the IMF report in 2012 underlined significant opportunities to increase the supply of equity and fixed-income products and promote long-term institutional investments in Tunisia. In this respect, the relationships between Islamic banks and the Sukuk markets can be important.

Since, the revolution in 2011, Tunisia has tried to invest heavily in infrastructure as a means of providing economic stimulus in the short-run and to lay the foundations for economic growth. Although, banks cannot finance such projects due to the required important funds which are beyond their ability, the Sukuk constitute a viable solution to infrastructure and projects financing. For example, the Islamic Development Bank used the Sukuk to finance infrastructure projects in the medium and long-run in Morocco, Egypt, Senegal and Malaysia.

**Islamic finance:** The Islamic finance term conveys several thoughts that consist of to the Islamic regulation, tenets and requirements, the various observations approximately the Islamic handling an account idea framed an alternate spot the various pupils and researchers. Correctly, the distinct definitions depended on the capacities, targets and sporting activities of the Islamic banks, a number of those definitions have exact as takes after:

The knowledge of building up the general business enterprise of Islamic banks particular within the most important passage of the 15 article inside the that means of Islamic bank as 'Islamic banks implied in this Regulation those banks or foundations that their essential law and their tenets expressly specific the conserving fast to the requirements of Sharia and now not to good deal in enthusiasm, taking and giving. While Dr. Ahmed Al-Najjar the pioneer of Islamic coping with an account in Egypt characterized the Islamic banks as a budgetary framework that point the advancement paintings inside the gadget of Islamic regulation, follow all profound fine that came in

the extremely good legal guidelines and attempts to redress the potential of capital in most people and the improvement of social shape Al-Najjar. The that means of the Islamic Bank within the “economic components of cash, dealing with an account and international change” for “Mubarak and Youni” that: budgetary foundation long gone for pooling property and reserve funds from every one of the people who might prefer now not to control Reba (top class) and in a while paintings to make use of them in various fields of financial motion and moreover giving distinctive retaining cash administrations to customers as in step with Islamic Sharia and bolster the locations of engaging in monetary and social advancement within the institutio’. The established order of Islamic saving money and safety that established in 1990 characterized the Islamic coping with an account as a meeting of economic physical games that observe the Islamic law and its practices via. building up the Islamic financial matters in which those recognitions assembles to form Islamic banks to offer an option premise to Muslims albeit Islamic maintaining money isn’t always confined to Muslims (Anonymous, 1995).

In recent Malaysian study by Mariadasa and Murthy (2017) found that the Islamic banking has become one of the fastest growing industry in Malaysia and conventional banks have to compete with Islamic banking to maintain their market share. They are quite competent in the banking sector and it plays a big role among the service industry in Malaysia today (Mariadas and Murthy 2017).

#### **RELATIONSHIP BETWEEN THE FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH**

Determining the relationship between the financial development and economic growth took many level of investigation. The first level relies on investigating the relationship from a general perspective which focused on the studying the financial development entirely, i.e., by using all the components. The second level tries to investigate deeply through using one of the financial system components such as studying the relationship between the stock market development and economic growth (Levine and Zervos 1996; Arestis *et al.*, 2001; Caporale *et al.*, 2004; Enisan and Olufisayo 2009; Vazakidis and Adamopoulos 2009). Furthermore, other studies concentrated on the relationship between the intermediaries and the, economic growth (Apergis *et al.*, 2007; Klein and Olivei 2008; Hasan *et al.*, 2009). The third level of investigation concerns about the relationship between the contracts and economic growth (Allen *et al.*, 2005; Acemoglu *et al.*, 2006; Klein and Olivei 2008).

Since, the initial emergence of the Islamic banking concept, it tried to overcome the misperception about the Islamic banking concept objectives. Is often, people linking the Islamic banking concept to the level of commitment of the Islamic law, thinking that the Islamic banking concept came to meet Muslims needs only while in the other side, the Islamic banking concept in general, comes to fill the conventional concept defects through the Islamic approach. The previous successive financial global crisis has highlighted the deficit from the conventional side, it has clearly emerged in poring over credit (Rizvi *et al.*, 2015).

#### **CONCLUSION**

The lack of many previous studies that investigated the relationship between the financial development and economic growth the noticeable lack of depth in measuring the development component influence, most of these studies didn’t consider the finance sources of developing the financial market sector. Financial market instruments such as issuing stocks, bonds issuing and financial intermediaries which form an important source in mobilizing financial markets, although, bond markets are the second resource of financing for businesses, a large body of the literature has largely neglected this key vector of the external finance. Only a handful of recent papers paid special attention to the linkages between debt market and growth.

In conclusion, as result of the rapid growth of the Islamic banking and finance during the last decade, most of the economic studies have paid much attention toward identifying the real role of this type of banking industry. The majority studies (Tabash and Dhankar, 2014; Abduh and Omar, 2012; Farahani and Sadr, 2012; Farahani and Dastan, 2013; Grassa and Gazdar, 2014) have showed a positive and significant impact of developing the Islamic banks financing on the economic growth. Where many emerging economies that adopt the Islamic banking and financing witnessed a notable improvement in the economy growth as well as the causality showed an importance impact in the long and short-run.

#### **REFERENCES**

- Abduh, M. and M.A. Omar, 2012. Islamic banking and economic growth: the Indonesian experience. Intl. J. Islamic Middle Eastern Finance Manage., 5: 35-47.
- Acemoglu, D., P. Aghion and F. Zilibotti, 2006. Distance to frontier, selection and economic growth. J. Eur. Econ. Assoc., 4: 37-74.

- Allen, F. and A.M. Santomero, 1997. The theory of financial intermediation. *J. Banking Finance*, 21: 1461-1485.
- Allen, F., J. Qian and M. Qian, 2005. Law, finance and economic growth in China. *J. Financial Econ.*, 77: 57-116.
- Anonymous, 1995. Islamic banking. Industrial Investment Bank of India, Mumbai, India. [http://www.islamic-banking.com/what\\_is\\_ibanking.aspx](http://www.islamic-banking.com/what_is_ibanking.aspx)
- Anonymous, 2012. Tunisia: Financial system stability assessment. International Monetary Fund, Washington, D.C., USA. <https://www.imf.org/external/pubs/ft/scr/2012/cr12241.pdf>
- Apergis, N., I. Filippidis and C. Economidou, 2007. Financial deepening and economic growth linkages: A panel data analysis. *Rev. World Econ.*, 143: 179-198.
- Arestis, P., P. Demetriades and K. Luintel, 2001. Financial development and economic growth: The role of stock markets. *J. Money Credit Bank*, 33: 16-41.
- Caporale, G.M., P.G.A. Howells and A.M. Soliman, 2004. Stock market development and economic growth: The causal linkage. *J. Econ. Dev.*, 29: 33-50.
- Enisan, A.A. and A.O. Olufisayo, 2009. Stock market development and economic growth: Evidence from seven sub-Sahara African countries. *J. Econ. Bus.*, 61: 162-171.
- Farahani, Y.G. and M. Dastan, 2013. Analysis of Islamic banks' financing and economic growth: A panel cointegration approach. *Int. J. Islamic Middle Eastern Fin. Manage.*, 6: 156-172.
- Farahani, Y.G. and S.M.H. Sadr, 2012. Analysis of Islamic bank's financing and economic growth: Case study Iran and Indonesia. *J. Econ. Cooperation Dev.*, 33: 1-23.
- Farook, S. and R. Al Ansari, 2018. Sukuk-Unlocking the Potential for Economic Development. In: *Islamic Capital Markets and Products: Managing Capital and Liquidity Requirements under Basel III*, Archer, S. and R.A.A. Karim (Eds.). John Wiley & Sons, Hoboken, New Jersey, USA., ISBN:9781119218807, pp: 48-70.
- Grassa, R. and K. Gazdar, 2014. Financial development and economic growth in GCC countries: A comparative study between Islamic and conventional finance. *Intl. J. Soc. Econ.*, 41: 493-514.
- Hasan, I., P. Wachtel and M. Zhou, 2009. Institutional development, financial deepening and economic growth: Evidence from China. *J. Banking Finance*, 33: 157-170.
- Karim, D.R.A., 2012. Islamic finance: An alternative funding source for the African Development Bank. *Afr. Dev. Bank*, 3: 1-8.
- Klein, M.W. and G.P. Olivei, 2008. Capital account liberalization, financial depth and economic growth. *J. Intl. Money Finance*, 27: 861-875.
- Levine, R. and S. Zervos, 1996. Stock market development and long-run growth. *World Bank Econ. Rev.*, 10: 323-339.
- Mariadas, P.A. and U. Murthy, 2017. Factors influencing the adoption of Islamic Banking in Malaysia. *Intl. J. Bus. Manage.*, 12: 187-193.
- Rizvi, S.A.R., S. Arshad and N. Alam, 2015. Crises and contagion in Asia pacific-Islamic v/s conventional markets. *Pacific Basin Finance J.*, 34: 315-326.
- Tabash, M.I. and R.S. Dhankar, 2014. Islamic finance and economic growth: An empirical evidence from United Arab Emirates (UAE). *J. Emerging Issues Econ. Finance Banking*, 3: 1069-1085.
- Vazakidis, A. and A. Adamopoulos, 2009. Stock market development and economic growth. *Am. J. Applied Sci.*, 6: 1932-1940.