THE ROLE OF GOVERNANCE AND CULTURE ON THE SUKUK MARKET IN THE ISLAMIC FINANCE PRACTISING COUNTRIES

NAFEZ FAYEZ AHMAD HERSH

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by

NAFEZ FAYEZ AHMAD HERSH

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LIST OF ABBREVIATIONS

IFP countries	Islamic Finance Permitting countries
GDP	Gross Domestic Product
GIEI	Global Islamic Economy Indicator
IFDI	Islamic Finance Development Indicator
ISI	Islamic Sukuk Industry
IFIs	Islamic Financial Institutions
ICM	Islamic Capital Market
MNC's	Multinational Corporations
HCD's	Hofstede Cultural Dimensions
IFA	Islamic Finance Approach
IEA	Internal and External Approach
CIFA	Cultural Islamic Finance Approach
3 P's	Products, Procedures and Practices
AAOIFI	Accounting and Auditing Organizations of Islamic Financial Institutions
IFSB	Islamic Financial Services Board
ESG	Environmental, Social, and Governance
GCC	Gulf Council Cooperation
ICG	Islamic Corporate Governance
FDQ	Financial Disclosure Quality
SSB	Shariah Supervisory Board
GMM	Generalized Method of Moments
DIF-GMM	Difference GMM
SYS-GMM	System GMM
FEM	Fixed Effect Model

PERANAN TADBIR URUS DAN BUDAYA KE ATAS PASARAN SUKUK DALAM KALANGAN NEGARA YANG MENGAMALKAN SISTEM KEWANGAN ISLAM

ABSTRAK

Walaupun kewangan Islam dan sukuk berkembang baik selama 45 tahun, dan merangkumi negara-negara yang penduduk Islamnya minoriti, pembangunannya di beberapa buah negara tidak disokong oleh sistem tadbir urus yang hebat dan mantap. Melalui kajian ini, budaya telah dicadangkan sebagai kaedah seterusnya untuk meningkatkan industri sukuk. Menggunakan data dari tahun 2012 sehingga 2019 dan merangkumi 45 negara yang membenarkan sistem kewangan Islam, kesan tadbir urus ke atas kewangan Islam, budaya ke atas kewangan Islam, dan kedua-dua tadbir urus dan budaya ke atas industri sukuk dikaji, dengan menggunakan panel moment teritlak (GMM). Pertama, keputusan memberikan bukti yang menyokong bahawa dimensi tadbir urus mempunyai impak yang signifikan dan positif ke atas pembangunan industri kewangan Islam. Kedua, keputusan GMM yang dinamik menunjukkan kewujudan kesan yang signifikan dan positif dimensi budaya seperti pendidikan, kesedaran dan orientasi masa ke atas kewangan Islam. Akhir sekali, walaupun tadbir urus tidak mempunyai sebarang impak ke atas industri sukuk, budaya mempunyai impak statistik yang signifikan dan positif ke atas sukuk. Dalam kajian ini, dicadangkan agar peraturan kewangan moden digunakan berdasarkan tadbir urus korporat dan Shariah untuk meningkatkan lagi kerangka kerja berperaturan industri

Sukuk di seluruh dunia. Selain itu, peranan budaya dalam aspek pendidikan dan kesedaran kewangan akan membantu negara membangun dengan jayanya. Oleh kerana sukuk adalah satu instrumen pasaran modal jangka panjang, pembuat dasar perlu membangunkan strategi-strategi dan pengembangan kajian berdasarkan produk, dasar, dan prosedur dalam perjalanan kelestarian industri pada masa yang akan datang.

THE ROLE OF GOVERNANCE AND CULTURE ON THE SUKUK MARKET IN THE ISLAMIC FINANCE PRACTISING COUNTRIES

ABSTRACT

Despite being greatly progressive for more than 45 years, covering even Muslim minority countries, the development of Islamic finance and sukuk in some countries is not supported by well-established governance. Through this study, culture has been proposed as the next possible means to improve sukuk industry. Utilizing data from 2012 to 2019 and covering 45 Islamic finance permitting countries, the effect of governance on Islamic finance, culture on Islamic finance, and both governance and culture on the sukuk industry are examined by using generalized method of moments (GMM) estimators. Firstly, the results provide supportive evidence that the governance dimensions have a significant and positive impact on the development of the Islamic finance industry. Secondly, the dynamic GMM results indicate the existence of a significant and positive effect of cultural dimensions such as education, awareness, and time orientation on Islamic finance. Finally, while governance has no significant impact on the sukuk industry, culture has a statistically significant and positive impact on sukuk. In this study, it is suggested to adopt modern financial regulations based on corporate and Shariah governance to enhance the regulatory framework of the Sukuk industry across the globe. Aside from that, the cultural role of education and financial awareness will help countries succeed. As sukuk is a long-term investment instrument,

it is vital for policymakers to develop long-term strategies and expand research based on products, policies, and procedures in the journey toward future industry sustainability.

CHAPTER ONE

INTRODUCTION

1.1 Overview of Study

Recent studies reveal that the spread of Islamic banking and finance is occurring rapidly in international financial markets due to the industry's development work and its global competition with conventional banking. According to Dinar Standard (2020), total industry assets were estimated at USD 2.88 trillion in 2019 with a cumulative annual rate of 5.0% and comprised 1462 full-fledged Islamic financial institutions and windows. The Islamic finance industry will contribute, with assets expected to reach USD 3.69 trillion by 2024. In addition, the global Islamic finance assets are distributed among five sectors: Islamic banking (USD 2026 billion), sukuk (USD 538 billion), Islamic funds (USD 137 billion), and others (USD 179 billion), which include the takaful industry and other Islamic financial institution activities (Dinar Standard, 2020). Figure 1.1 shows the Islamic finance asset growth (2012-2019) and the projected asset growth in 2024 as follows:

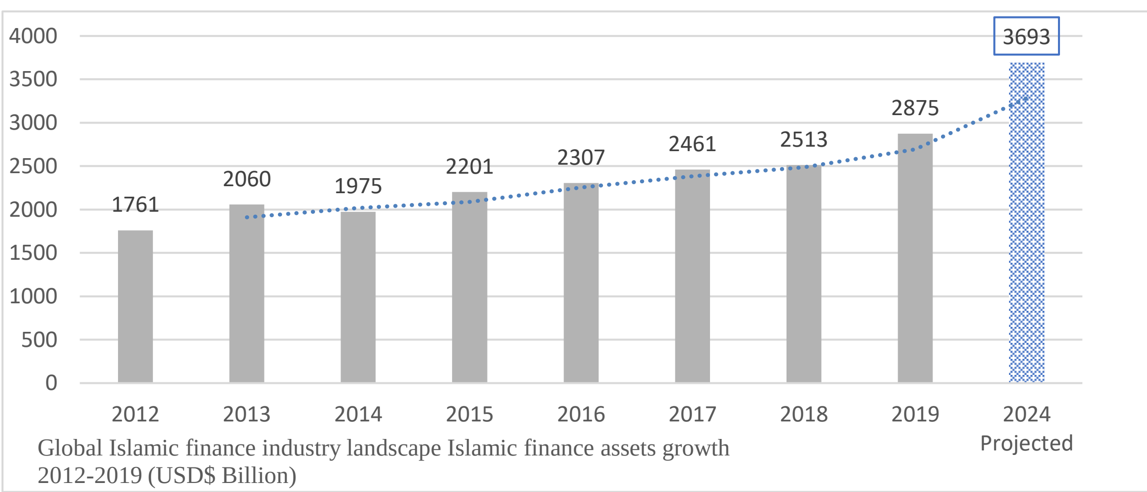

Figure: 1.1: Islamic finance assets growth between 2012 and 2019
Source: Dinar Standard (2020).

Islamic finance is defined as financial activity that adheres to the principles of Islamic law, or Shariah. According to Shariah, the acceptance of increased money in consideration for an extension of the maturity term of a loan, which is also known as "riba" or "usury," is prohibited. Thus, any form of riba should be avoided in the Islamic banking system (Hassan and Ahmad, 2007). Capital markets, generally known as sukuk and bonds in particular, provide a sustainable and solid economy. Traditional bonds are now one of the world's most important financial instruments, and they have some significant advantages over other instruments. Bonds have some other features, such as being less risky, especially treasury bonds (risk-free) with fixed payments at each maturity. These instruments also provide tax advantages because the interest payment is treated as a tax-admissible expense (Faerber, 2009). Indeed, the bond is a long-term and well-developed financial debt product that allows investors to redeem the bond before its maturity date and call it again.

Islamic bonds present genuine transactions through macroeconomic activities by increasing GDP, reducing the information gap, and declining speculation. A sukuk also ensures an equitable distribution of wealth throughout society and distributes profits at a predetermined maturity. In a comparison between the two instruments, Firstly, sukuk holders claim undivided beneficial ownership in the underlying assets, while a bond is a contractual debt obligation whereby the issuer is contractually obliged to pay to bondholders, on certain specified dates, interest, and principal (Khalil, 2011).

Second, in the event of sukuk, sharing profit is dependent on results. While bond investors are concerned with a defined amount of interest and principal, even if the entrepreneur loses money (Haider and Azhar, 2010). In summary, capital market instruments have a great effect on improving aspects of macroeconomic factors such as increasing gross domestic product (GDP), decreasing inflation, reducing unemployment, and accelerating the economic cycle in countries. Capital markets are an essential part of the financial industry in terms of raising cash for long-term investment. Through cross-sectional risk sharing, they provide opportunities for the diversification of risk.

Long-term investments are made possible by a succession of short-term contracts in the form of tradable securities, which allow investors to enter or exit the market through trading. As a result, they add liquidity to illiquid assets. The secondary markets can provide ongoing pricing of assets, avoiding arbitrage and inefficiencies (Ali, 2008). Sukuk promotes value creation through capital-market operations, enables effective capital allocation across private sector business lines, controls budgetary finance, attracts international investors, and builds a robust and deep capital market (COMCEC, 2018). The Arab Gulf countries still have well-diversified corporate sukuk issuances, driven by Islamic banks, investment funds, and government-related entities. To illustrate, Saudi Arabia has expanded into other corporate sectors such as real estate, chemicals, food, industrial, and oil and gas (COMCEC, 2018). The growth of the sukuk market contributes to the boosting of the real economy and the socio-economic development of society (Al-Amine, 2008).

In addition, the experiments with sukuk issuances were widely used in Sudan, Turkey, and Malaysia, assisting in the economic revolutions of these countries. For example, during the embargo on Sudan, the issuance of sukuk helped the government finance its deficit, increase its growth level, and maintain the stability of the Sudanese pound exchange rate by issuing different local sukuk (Al-Hersh, 2010). Diversifying sukuk structures was critical to increasing Turkey's sukuk issuance for infrastructure projects. As of end-June 2017, a steady pipeline of sukuk issuance by the public and private sectors supported Turkey’s USD 1.6 billion contribution to total global sukuk issuance. In 2001, Turkey felt the brunt of the financial crisis when its public debt hit a peak of 77% of GDP while the inflation rate came in at a record 68.5%. The Turkish government has consequently implemented strategic economic reforms to combat its rising public debt and inflation. As of the end of 2016, the gross public debt had more than halved to 32%, while its inflation rate had been brought down to only 8.5%. Through sukuk issuances, Turkey improved the management of its public debt by optimising borrowing costs and extending the maturities of debt issues, which enabled Turkey to lighten its debt burden (COMCEC, 2018).

The Malaysian market has provided many innovative tools in money market products such as bank Negara money notes, Islamic accepted bills, Islamic negotiable instruments, Murabaha interbank investment, and negotiable Islamic debt certificates, in addition to capital market products such as sukuk issuances (Lahsasneh and Shaiyad, 2014). The area of the Islamic capital market is growing fast and needs more development in different aspects. One of these aspects is product innovation, which can contribute to the overall progress of society (Ali, 2008). A sukuk is a strategic tool for countries (actual projects). Some countries that used sukuk in the economic revolution, such as Malaysia, Indonesia, Turkey, and the GCC, benefited in terms of infrastructure projects, support for the national economy, employment, and attracting external cash flows, which reflected positively on the aspects of the economic life of these countries, while some countries that issued traditional bonds instead of sukuk were still hostage to the dictates of the International Monetary Fund and foreign aid, resulting in the absence of real development for these countries. As a result, the sukuk is a strategic weapon and a national security instrument to attract investments and the movement of capital to the issuing countries, whether they are Islamic or non-Islamic, and this is the key difference that non-Islamic countries should pay attention to if they plan to issue sukuk. Indeed, non-Islamic countries can also attract investment from Islamic countries through sukuk issuances.

Furthermore, developing a regulatory framework and corporate governance regime can make greater contributions to the development of capital markets in Muslim countries. According to Ibrahim (2008), through other essential elements such as trust, culture, customs, norms, and regulations, a well-organised, integrated, and interconnected Islamic securities market has the potential to become a regional centre for Islamic finance and build a regulatory framework. In other words, culture is important. Some academics have discovered a link between the growth of banking, capital markets, and culture. (Stulz and Williamson, 2003). Academic contributions on economic and financial issues have recently increased, adding significant value to literary studies in this field. However, cultural finance is still a developing field that requires additional contributions and updates (Nadler and Breuer, 2017).

The topic of culture in international business management is one of the most important and relevant topics in management science due to the importance of this field of study in the modern management used by business organisations in developed countries. International management plays a vital role in organisations' competitiveness over other organisations because of the rapid developments, the prevalence of the concept of globalisation, and their response to the complex modern environment characterised by dynamism and continuous change (Al-Hersh, 2008). Cultural dimensions are one of the foundations and pillars of international comparative business management. Many multinational corporations (MNC's) are considered prominent actors in the area of MENA countries, with a considerable market share in various industries (Mellahi et al., 2011). The importance of building an efficient capital market helps MNC's to enter the Middle Eastern financial markets and increase their revenues while reducing costs, which leads to economic growth in the country.

Hofstede and Hofstede (2005) define culture as "the collective programming of the mind that distinguishes the members of one group or category of people from others." They argue that the layers of national culture are symbols, heroes, and rituals. These elements go under "practices" and can be observed by other viewers and insiders with an understanding and interpretation of culture. Furthermore, culture includes norms, values, attitudes, and behaviours that are relevant to work and organisations (Tayeb, 1997). The other layer of culture reflects the "right" and "wrong" equation, whereas norms appear in rules, procedures, or on an informal level, such as social control (Trompenaars and Turner, 1998). Thus, culture has a high impact on the performance of people through practises and products that are the main components of Islamic capital markets. Furthermore, cultural contexts have a significant impact on emerging financial markets. The isomorphism of western institutions to the Islamic financial market without considering cultural and religious differences may discourage Muslims from investing in and dealing with these institutions. Furthermore, cultural dimensions can increase trust, which in and of itself can lead to successful financial market development in Libya (Abdussalam, 2014). The management literature research indicated the significance of national culture in several disciplines of study, such as strategy, organisational development, human resource management, and accounting, with less attention given to banking and finance. In Islamic capital markets within the banking and finance field, no studies were found that consider the role of cultural dimensions and factors in Islamic sukuk markets. Based on the preceding discussion, this study emphasises the significance of developing the Islamic capital market by developing a context framework of governance and cultural factors on the one hand, Islamic capital markets on the other, and investigating the role of governance and national culture on Islamic sukuk markets.

1.2 Background of Study

1.2.1 Global Islamic Economy

Table 1.1: GIEI for selected Islamic countries

Country	GIEI	Islamic Finance	Halal Food	Media	Muslim-friendly travel
Malaysia	1	1	1	2	1
Saudi Arabia	2	2	8	9	7
UAE	3	3	3	1	2
Indonesia	4	6	4	4	4
Jordan	5	4	13	11	5
Bahrain	6	5	11	5	10
Kuwait	7	7	12	6	12

Source: Dinar Standard (2020).

There is no doubt that Islamic banking and finance have made tremendous progress in global markets these days. According to Table 1.1, Malaysia has still led the industry for the past eight years, followed by Saudi Arabia, the UAE, Indonesia, Jordan, Bahrain, and Kuwait. The value of outstanding sukuk in Saudi Arabia increased by 20%, making it the second highest sukuk value among the examined countries, propelling Saudi Arabia to second place in 2020. The United Arab Emirates dropped one place, moving to third place. Malaysia ranked first in GIEI, and for most sectors, Jordan ranked fifth among the top 10 countries on the Global Islamic Economy Indicator (GIEI) score, fourth in Islamic finance, and fifth in Muslim-friendly travel (Dinar Standard, 2020). The GIEI offers a comprehensive picture of countries that are currently best positioned to address the multi-trillion-dollar global halal economic opportunity. In other words, GIEI is a comparison of the leading national ecosystems for supporting the development of Islamic economic enterprise activity in relation to their size. Furthermore, the GIEI is a weighted composite index that evaluates the overall development of the Islamic economic sector by analysing the performance of its constituent sections in relation to its broader social commitments. It is made up of 49 metrics organised into main components for each of the main sectors of the Islamic economy, such as Islamic finance, halal food, Muslim-friendly travel, modest fashion, media, and halal pharmaceuticals (Dinar Standard, 2020).

1.2.2 Global Islamic banking and finance

The industry's formative years were created in 1975, when Dubai Islamic Bank started the journey of Islamic finance globally. Dubai Islamic Bank was established as the first modern commercial Islamic bank in the world and is considered a leader in the Global Islamic Finance Report (GIFR, 2020). For more than 45 years, Islamic finance has made great progress in all fields and indicators. Furthermore, Islamic finance is experiencing a remarkable expansion, plays a vital role in the global ethical economy, and provides a superb foundation around the globe.

Table 1.2: Countries and IFDI score in 2019.

IFDI Index (*IFDI*) > 50	
Country	*IFDI*
Malaysia	93.50
Indonesia	71.58
Bahrain	66.66
United Arab Emirates	65.55
Saudi Arabia	64.13
Jordan	53.30
Pakistan	51.06

IFDI Index (*IFDI*) < 50					
Country	*IFDI*	*Country*	*IFDI*	Country	IFDI
Oman	44.68	Tunisia	21.26	Kyrgyzstan	8.23
Kuwait	42.91	Palestine	21.13	Algeria	7.78
Qatar	38.03	Kenya	21.09	Bosnia and Herzegovina	7.27
Brunei Darussalam	35.54	Iraq	16.68	Australia	6.55
Maldives	33.76	Morocco	16.64	Senegal	5.73
Nigeria	32.08	Egypt	15.38	Luxembourg	5.36
Sri Lanka	29.58	Afghanistan	13.87	United States	4.25
Syria	28.22	Singapore	12.78	Azerbaijan	3.95
Bangladesh	27.49	Lebanon	12.21	Switzerland	3.17
Iran	26.16	Gambia	12.02	Canada	3.08
Turkey	25.01	Libya	11.83	France	1.54
Sudan	24.55	United Kingdom	10.91	Germany	1.25
Kazakhstan	21.78	Yemen	10.36		

Source: Refinitiv (2020).

The indicator of Islamic finance development (IFDI) is a weighted aggregate index that assesses the overall development of the industry sectors by giving an aggregate performance of all its components in accordance with Islamic principles. The IFDI is expressed in values ranging from 1 (the worst) to 100 (the best). Table 1.2 provides a list of Islamic finance-permitting countries and the score of the Islamic finance development indicator. Malaysia has the highest IFDI score (93.50), followed by Indonesia (71.58), Bahrain (66.66), the UAE (65.55), Saudi Arabia (64.13), Jordan (53.30), and Pakistan (51.06), while Germany has the lowest score (1.25). Furthermore, quantitative development covers the fields of industry such as banking, takaful, other IFIs, sukuk, and funds. Furthermore, the total global Islamic banking assets are estimated to be around two trillion dollars (ICD Refinitiv, 2019). According to Figure 1.2, countries such as Malaysia, Indonesia, and some GCC countries still lead the Islamic banking industry with a percentage of 49% of the total Islamic banking assets. The total global takaful assets are around 51 billion USD, and these countries represent 64% of the global takaful assets. In terms of the sukuk industry, the total assets of sukuk reached USD 538 billion, and the five countries represented 86% of the global sukuk industry (ICD Refinitiv, 2019).

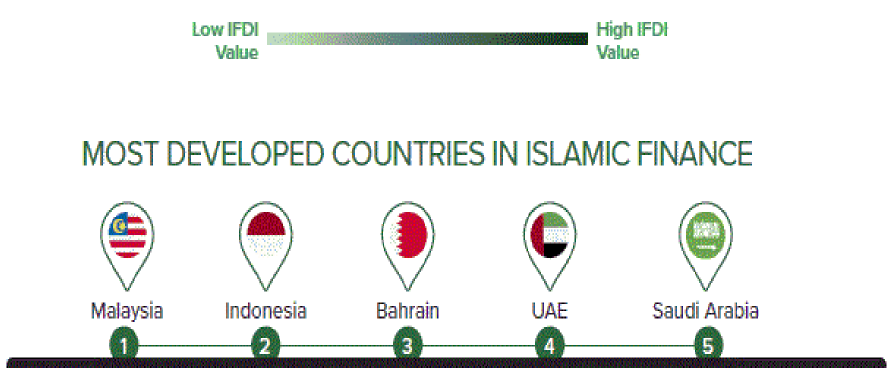

Figure: 1.2: Leading Countries in Islamic Finance.
Source: Dinar Standard (2020).

Table 1.3 illustrates the total assets of each sector in Islamic finance, the governance indicator, and cultural measurements such as long-term orientation (LTO) and education score for countries in 2019 and depicts the comparison performance for the main selected countries in the Islamic finance development indicator (IFDI).

Table 1.3 IFDI, assets of Islamic Finance Sectors, Governance and Culture in the selected countries in 2019

Country	Rank	Governance Indicator	Corporate Governance	Hofstede Model [b] LTO	Education	Islamic Banking Assets[a]	Sukuk Assets[a]	Takaful Assets[a]	Others IFI Assets[a]	Funds Assets[a]
Global						1,992.849	538.193	50.926	152.791	140.472
Malaysia	1	86.40	59.66	41	169.81	232.76	241.98	10.00	54.06	31.66
Indonesia	2	67.20	35.36	62	200.00	34.94	57.46	2.71	0.80	3.23
Bahrain	3	87.60	59.27	-	104.80	85.79	8.65	0.42	0.69	0.01
United Arab Emirates	4	78.64	64.62	-	106.80	180.07	39.30	2.72	11.08	0.99
Saudi Arabia	5	40.65	42.22	36	43.67	443.35	117.94	16.51	16.92	34.69
Jordan	6	50.96	50.09	16	108.66	11.73	0.47	0.14	0.13	0.01
Pakistan	7	73.75	50.30	50	82.82	20.80	3.32	0.49	0.38	1.72
Oman	8	66.20	53.94	-	65.24	12.40	5.15	0.34	-	0.02
Kuwait	9	63.47	33.48	-	20.12	115.15	5.99	0.09	9.82	1.29
Qatar	10	62.70	59.70	-	14.38	112.74	20.42	1.12	9.23	0.39
Brunei Darussalam	11	50.70	13.09	-	45.12	7.94	0.35	0.41	2.06	0.09
Maldives	12	70.05	71.77	-	42.04	0.28	-	0.01	0.04	-
Nigeria	13	59.89	37.92	13	21.48	0.69	0.81	-	-	-
Sri Lanka	14	41.95	71.65	45	64.18	0.63	-	0.03	0.15	-
Syria	15	45.09	59.46	30	29.61	2.07	-	0.02	-	-

Note: [a] In billion US dollars. [b] long term orientation score in Hofstede culture Model
Source: Refinitiv (2020).

Islamic finance is experiencing unprecedented growth, and the industry plays a vital role in the global ethical economy, providing a solid framework for all sectors in both Muslim and non-Muslim countries. Malaysia, Bahrain, the United Arab Emirates, and

Saudi Arabia continue to lead the market, but dramatic changes in the leaderboard are likely as more countries place strategic economic priority on the Islamic economy. For example, according to the IFDI indicator, Indonesia advanced to second place and Jordan to sixth place. Moreover, new players entered the race, such as Pakistan, Oman, Kuwait, Qatar, Brunei, the Maldives, Nigeria, Sri Lanka, and Syria.

1.2.3 Global Sukuk Markets

Despite the exceptional stress caused by the coronavirus epidemic, sukuk issuance volumes in 2020 are likely to be similar to those in 2019. Sukuk supply is projected to expand to accommodate increased finance demands as market circumstances improve further. Furthermore, sovereigns are projected to continue to be the largest contributors to overall sukuk volumes as they confront growing fiscal deficits and significant borrowing needs. Issuance from financial institutions and corporations is also set to increase as they face challenging business conditions and take advantage of lower funding costs (Fitch Ratings, 2020).

1.2.3(a) Sukuk Markets by volume and issuances

In sukuk global markets, the number of sukuk issuances and historical volume are the key drivers of the growth of the Islamic capital market. The number of sukuk issuances represents the total number of sukuk issued, whereas the sukuk volume represents the size of the industry and the depth of the market. In recent years, based on Figure 1.3, the number of sukuk issuances has surged from 805 issuances in 2010 to 922 issuances in 2016. The increase gradually continued until it reached 1706 issuances in 2020, which reflects a significant increase in the number of issuances from all countries, especially those that occupy the forefront in this aspect, including Malaysia, the Arab Gulf countries, Turkey, and Indonesia. According to the estimate by Refinitiv (2020), the value of sukuk issuance rose by 4.4% in the first nine months of 2020 over the same period of 2019.

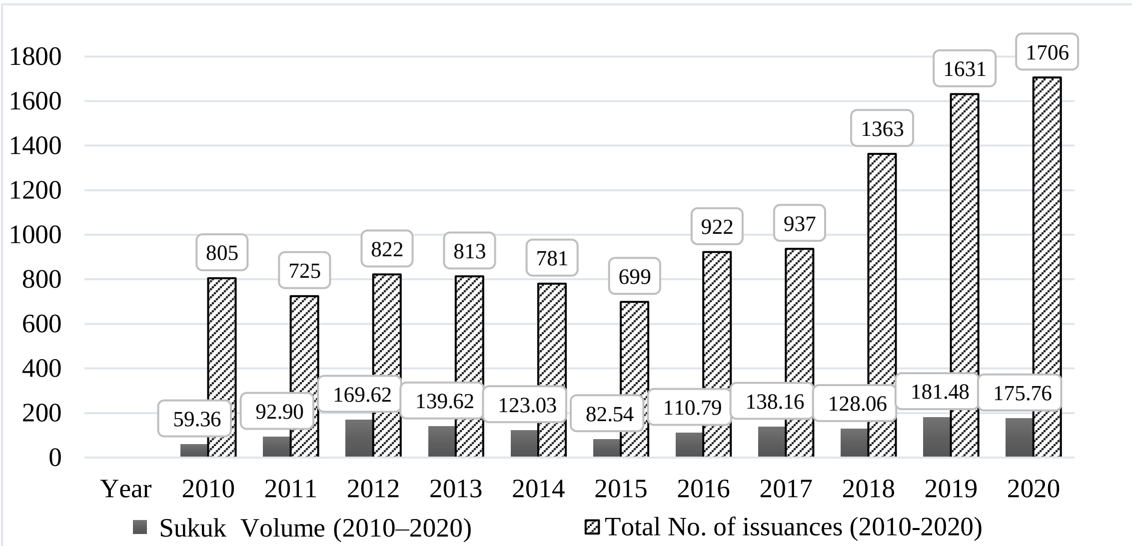

Figure: 1.3: Volumes and No. of sukuk issuances in global markets
Source: Bloomberg (2020).

In addition, issuances are expected to surpass the 2019 total and reach a level of USD 175 billion. Issuances picked up by the end of the first half of 2020, driven largely by sovereign sukuk as governments launched stimulus packages to soften the economic impact of the pandemic and the resulting collapse in oil prices and issued debt to shore up their finances. Furthermore, total sovereign issuance increased by USD 29.15 billion to USD 83.2 billion in Q3 2020 as governments sought to reduce fiscal deficits and reach a broader investor base. Indeed, countries have historically relied heavily on the observed volume of sukuk issuances. The total volume of sukuk increased from only 59.36 USD billion in 2010 to 181.48 USD billion and 175.76 USD billion in 2019 and 2020, respectively.

This reflects the growing volume of sukuk issuances in global markets and the importance of sukuk as a focal instrument in the Islamic capital market. Figure 1.3 depicts the sukuk market by volume and the number of issuances between 2010 and 2020. Saudi Arabia was the major issuer of sovereign sukuk, with a total of USD 9.96 billion issued during the latest quarter, putting it ahead of the Malaysian government with a cumulative issuance of USD 5.4 billion. In addition, following 6- and 2-year hiatuses, the governments of the UAE and Oman authorised sovereign issuances totaling USD 1 billion and USD 519 million, respectively (Eikon, 2020).

1.2.3(b) Sukuk Markets by Leading Countries

Table 1.4: Sukuk issuances by top countries (in billion USD)

	2017	2018	2019	2020	Share in 2020
Malaysia	45.18	55.96	66.18	43.81	25%
Saudi Arabia	31.76	22.40	28.59	23.03	13%
Indonesia	14.27	12.40	27.65	52.08	30%
Turkey	2.60	4.50	13.478	13.96	8%
Kuwait	0.75	9.27	11.41	8.76	5%
UAE	0.50	0.50	9.275	1.50	1%
Iran	-	-	8.067	-	0%
Bangladesh	39	-	5.184	-	0%
Bahrain	2.946	3.09	3.797	6.73	4%
Qatar	3.728	2.409	4.796	-	0%

Source: Refinitiv (2020) and Bloomberg (2020).

According to Table 1.4, Malaysia and Indonesia still lead the sukuk issuances and the industry, as Malaysia and Indonesia occupied more than half of the issuances, with a rate of 30% (Indonesia) and 25% (Malaysia) in 2020, followed by Saudi Arabia with around 23 billion USD and a percentage of 13%. Indeed, Turkey came next with a percentage of 8%, followed by Kuwait (5%), Bahrain (4%), and the UAE (1%) (Refinitiv, 2020; Bloomberg, 2020).

1.2.3(c) Sukuk Markets by IFP Countries

One of the most important instruments in the Islamic finance sector is the sukuk. According to Table 1.5, sukuk contributes 19% of the whole industry (around 0.538 trillion out of a total of 2.880 trillion). Concerning sukuk contributions for Islamic financing, the total amount of issued sukuk reached USD 181.480 billion in 2019, and the total outstanding sukuk value reached USD 538.193 billion. This demonstrates the worldwide expansion of sukuk. Table 1.5 summarises the sukuk industry for the IFP (Islamic Finance Permitting) countries in 2019 based on global ranking, sukuk score, issued sukuk, and outstanding sukuk.

Sukuk issuances represent the new issuances for the year, whereas outstanding sukuk represent the existing sukuk from previous years until now. Furthermore, the outstanding sukuk may influence the issuance of the sukuk because some issuers are unable to issue new sukuk while still having current and unmatured issuances. The sukuk market can be classified into three groups. The first group is the active countries in the sukuk market, which includes ten countries in terms of issuances and twelve in terms of outstanding sukuk, such as Malaysia, Indonesia, Turkey, Iran, Bangladesh, Pakistan, and some Arab Gulf countries, representing 93% of the outstanding sukuk in terms of the top ten countries (see Tables 1.5). The second group includes eight countries with a small (poor) sukuk market, including Brunei, Gambia, the United Kingdom, Jordan, Morocco, Nigeria, Senegal, and the United States of America. The third group represents 27 countries that have no issuances in 2019 in terms of sukuk issuance.

Table 1.5: Sukuk indicators in the IFP countries in 2019

	IFDI Rank	Sukuk score	Issued Sukuk (In Million USD)	Outstanding Sukuk (In Million USD)
Global	-	3.31	181,480	538,193
Malaysia	1	159.16	66,180	241,985
Indonesia	2	25.86	27,650	57,464
Bahrain	3	12.96	3,797	8,648
UAE	4	21.80	9,275	39,304
Saudi Arabia	5	36.61	28,590	117,943
Jordan	6	0.45	-	471
Pakistan	7	0.82	-	3,323
Oman	8	5.45	119	5,153
Kuwait	9	14.25	11,410	5,989
Qatar	10	24.61	4,796	20,419
Brunei	11	2.73	786	353
Maldives	12	0.18	-	-
Nigeria	13	12.64	-	810
Bangladesh	16	32.97	5,184	4,203
Iran	17	4.54	8,067	13,737
Turkey	18	21.04	13,478	13,807
Morocco	26	0.08	-	104
Gambia	32	21.51	22	15
UK	34	1.01	500	1012
Senegal	50	0.20	-	311
U.S.A	59	0.10	-	50

Source: Refinitiv (2020).

Governance is the focal point of a healthy Islamic finance industry and solid infrastructure. Strong governance and regulations will support the legitimacy of Islamic financial operations. Governance is measured by regulations, corporate governance, and Shariah governance (ICD Refinitiv, 2019). The products offered by Islamic financial institutions are unique, necessitating a tailored regulatory approach to ensure that IFIs compete on an equal footing with mainstream financial organisations. Therefore, regulations support the infrastructure issues in ICM; hence, the regulation indicator can measure governance. The European Central Bank defined corporate governance as the "procedures and processes according to which an organisation is directed and controlled" (ICD Refinitiv, 2019). Corporate golvernance indicators can measure this issue (ethics).

Borrowing and short selling are major Shariah compliance issues (Ali, 2008). Hence, a Shariah governance indicator can represent the commitments and practises in the sukuk market and enhance the trust issue in ICM.

On the other hand, Greif (1994), from which he derives an institutional economics principal-agent model, demonstrates that a specific culture is a necessary (non-market) trading mechanism if a market is to function properly. Culture refers to tribes or ethnic groups in anthropology, nations in political science and sociology, and organisations in sociology and management (Hofstede, 2011). Education is a component of culture. However, it is critical to recognise that modern education's success depends on cultural factors. Culture and education are inextricably linked through a complex two-way cause-and-effect chain (Minkov, 2011). Cultural awareness is a key component of cultural competence. It is the most important factor because, without it, it is impossible to acquire the attitudes, skills, and knowledge required for culture (NCCC, 2021). Cultural awareness entails understanding states of mind, both your own and those of others. Genuine self-awareness recognises that we follow specific mental cultural programmes (Trompenaars and Turner, 1998).

The dimension of long-term versus short-term orientation refers to the relationship between past, current, and future actions, or challenges. Short-term-oriented countries typically have little to no economic development, whereas long-term-oriented countries continue to develop and reach a high level of prosperity (Hofstede, 2001). Quantitative development indicators can measure the long-term orientation of an industry, as the indicator represents the strategies, growth expansion, and market performance of that industry.

1.2.4 Culture and Governance value added in Islamic Finance and Sukuk

Culture consists of norms, values, attitudes, and behaviours (Trompenaars, 1993; Tayeb, 1997), and it is known that one of its components is education and knowledge, which determine and direct the behaviour of individuals and societies. Governance is the basis for the health of both the financial sector and the Islamic finance industry. In addition, culture and governance are two levels in the institutional model of Williamson (2000), who clarifies that cultural factors may influence economic behaviour both indirectly and directly. Studies on how culture works have recently gained prominence. For example, the development of stock markets and their legal and contractual regulations, such as corporate governance systems, has become critical (Breuer and Quinten, 2009).

From an Islamic religious perspective, corporate governance is driven by faith-based rationalism and the social welfare criterion. Also, Islamic governance requires relatively stronger mechanisms than conventional finance. To illustrate, Islamic law improves corporate governance practise by improving the processes of accountability, transparency, and disclosure, ensuring responsibility and fairness, and protecting the rights of stakeholders. Therefore, Islamic corporate governance requires company directors to perform their duties within their responsibilities, satisfying the needs of the stakeholders and Allah. Hence, education as a component of culture in the Islamic world should be holistic (Larbsh, 2015). Therefore, it is necessary to consider the role of these factors (culture and governance) in industry and the sukuk sector, as they can distinguish and support the development of the Islamic finance industry.

Furthermore, some societies that share characteristics with advanced levels in cultural elements, such as education and long-term orientation, have witnessed remarkable progress in the Islamic finance and sukuk industry (see Table 1.3). Indeed, the same can be observed for governance elements such as governance indicators and corporate governance, which can lead to a flourishing Islamic finance and sukuk sector operating in accordance with best practises and in a way that ensures its continuity and sustainability, as well as no deviation from the right path.

1.3 Problem Statement

Islamic finance consists of five main sectors: Islamic banking, sukuk, takaful, funds, and others (ICD Refinitiv, 2019). In comparison to the evolution of the Islamic finance industry, total assets give us a better understanding of the problems in the selected countries. Total assets measure the depth and extent of volume in each sector of the industry. Thus, total assets can be considered a main indicator of market failure or the gap in markets. Furthermore, the IFDI ranks each country because it is a weighted index that calculates the healthy status and development of the Islamic finance industry. Only five countries still lead the market, and the others still have poor indicators in one or more sectors. For example, Bahrain (the third-ranked country) is poor in some sectors, such as takaful, funds, and other IFIs. In addition, although Jordan is ranked sixth, it suffers from poor assets in sukuk, takaful, and other sectors. Countries ranking from 6 to 10 are mostly weak in all sectors except Islamic banking, whereas countries ranking from 11 to 15 are poor in all five sectors as well. This reveals to us the importance of further research and investigation into Islamic finance in the selected countries, given the weaknesses in the

Islamic finance sectors. Several elements have been discussed in previous research as the main influences affecting the Islamic finance sector and sukuk markets. These factors can be summarised as follows: economic development (GDP), qualified human resources, and modern technology (Askari et al., 2009); regulatory challenges, product information, and governance (Errico and Sundararajan, 2002; Wilson, 2007; Ibrahim, 2008); innovations; Shariah-compliant financial products (Haron and Nursofiza, 2008; Hesse et al., 2008); issues related to products, regulations, and practises (Ali, 2008); and various Shariah, legal, and economic issues (Al-Amine, 2008). Because of the similarities in scope, accountability for product regulation, corporate governance for procedures, and Shariah governance for practises are combined within the overall governance framework (ICD Refinitiv, 2019).

The governance model in the Islamic financial system monitors the performance of IFIs and protects the interests of all stakeholders (Iqbal and Mirakhor, 2011). Governance underpins the health and prosperity of Islamic finance. Most studies find a positive relationship between corporate governance and Islamic finance (Hashim et al., 2015; Ahmed, 2017) and a positive relationship between corporate governance and sukuk (Abulgasem et al., 2015; Qizam and Fong, 2019; Ashraf et al., 2020). With a deep and introspective look at Table 1.3, the governance indicator did not show this fact. To clarify, countries such as Bahrain and the UAE have high governance indicators, but they are still weak in some sectors. In addition, Saudi Arabia has a moderate governance indicator (40.65) but a deep market in all sectors. Moreover, countries such as Pakistan and the Maldives have a high governance score (73.75 and 70.05, respectively), but they are weak in all sectors.

Therefore, it is important to study the effect of governance on the Islamic finance industry and revisit the governance issue again for the following reasons: Firstly, it is considered the basic component that forms the building blocks of the infrastructure of the Islamic finance industry in general and sukuk in particular. Secondly, to the best of this study's knowledge, it is the first study to examine the effect of the combined governance indicators, namely regulation, corporate governance, and Shariah governance, on the industry, which has never been tested before using secondary data and can help us in the process of exploring Islamic finance in the selected countries by presenting suggested recommendations. Hence, this brings up the question of what is the effect of governance on the Islamic finance industry in the Islamic finance permitting (IFP) countries?

Although some countries, such as Pakistan, the Maldives, Nigeria, and Jordan, have high governance and regulation indicators, they are still behind the leading countries in Islamic finance. This may direct us to other factors, such as cultural dimensions. For example, Abdussalam (2014), Ibrahim (2008), and Stulz and Williamson (2003, 2001) highlighted the theoretical role of some cultural issues such as culture, norms, and religion in financial markets and Islamic finance. In contrast to the conventional finance domain, which is primarily guided by value-free principles, Islamic finance operates on a value-based system. Practising Islamic finance means that all transactions should comply with the rules, standards, and principals of Islam (Sharia commitment), which are directly related to religiosity. Bitar et al. (2017) find that Islamic banks are more financially sound under Sharia versus secularly governed societies. As religion is a component of culture, it is important to consider culture in Islamic finance due to the intricate interplay between culture and religiosity.

According to Aggarwal and Goodell (2014), finance just recently seems to have discovered the impact of national culture, particularly via the impact of individualism on market momentum and the impact of uncertainty avoidance on transaction costs. Hence, there is much opportunity for further investigation of the impact of national culture on finance. Cultural aspects are considered in the creation and issuance of financial products in this young and rapidly growing subdomain. Cultural finance provides investment opportunities that are consistent with the Muslim faith and according to Shariah rules (Breuer and Quinten, 2009). New contributions have been made to a new field of finance known as "cultural finance," which is expected to close the research gap on how international divergence and cultural values affect financial concerns. As a result, cultural finance might considerably supplement behavioural finance results (Breuer and Quinten, 2009).

The improved understanding of the importance of cultural values in financial issues will allow corporate decision-makers to explicitly consider cultural aspects. An obvious relationship is clear between culture and actual behaviour, as is the empirical confirmation of the effect of culture on behaviour shapes, demonstrated in the impact chain of culture. To illustrate, educational culture is the transmission of the values and knowledge of societies. Value is the first element in the impact chain of culture. Attitude awareness can build a positive attitude (the second element). Both education and awareness, as cultural dimensions, can drive behavioural change (the third element). For example, if we educated people about Islamic finance, they would have the knowledge and value of Islamic finance. Meanwhile, that leads to the positive attitude of knowing halal and haram. Hence, the behaviour on the ground will be shaped by dealing with Islamic finance, not conventional finance. In summary, although the culture index is not limited to some dimensions such as education, awareness, and long-term orientation, the impact chain of culture can be seen on the Islamic finance industry through these focal elements.

One research field in finance in which the relevance of cultural aspects is immediately evident can be illustrated by Islamic banking or Islamic finance (Iqbal and Mirakhor, 2007). According to Table 1.3, the long-term orientation based on the Hofstede model shows us that Pakistan and Sri Lanka have a higher score (50 and 45, respectively) than Malaysia (41); nevertheless, they are still behind and weak in most sectors. Moreover, the LTO score is absent for most countries. This is the first study to construct a new index of culture because no empirical studies were found concerning the impact of culture on Islamic finance and the sukuk industry.

Moreover, the results of model-theoretical investigations into the influence of behavioural deviations in areas of finance could be used as an instrument for concluding the potential modelling of cultural finance. It is expected to contextualise a new model in the Islamic finance industry based on cultural aspects and human perspectives. Thus, the industry can be characterised as a "global industry," and culture also plays a dominant role beyond religiosity. The Islamic finance industry exceeded its infancy and started competing strongly with conventional finance in several countries. Islamic finance has recently spread globally, even in non-Muslim countries, and culture influences economic outcomes in the industry (Gheeaert, 2008). In the scope of IFP countries, no studies have been performed that address the cultural perspective and its influence on Islamic finance. Hence, the study examines the impact of culture on the Islamic finance industry in the IFP countries?

The rapid growth of Islamic finance in the IFP countries is expected to show progress in the number of sukuk issuances and the volume of sukuk. Surprisingly, most of the IFP countries indicate they are the weakest in the sukuk market. Volume and the number of sukuk issuances are considered indicators for the growth of the sukuk market. Nevertheless, it does not necessarily mean the evolution of Islamic finance and sukuk markets, which means the necessity to search for other important factors for sukuk and capital markets. Although most of the selected countries are major players in the Islamic finance industry, these countries combined are still the weakest in the markets for Islamic sukuk issuances. According to Table 1.4, only ten countries are active, as they account for 93% of the total global volume of outstanding sukuk. These ten countries have given Islamic finance special importance and support at all levels, especially government support. It is also characterised by political and economic stability. Most of them have natural resources, such as the Arab Gulf states, which have the largest global reserves of oil, while some of them have witnessed unprecedented economic revolutions, such as Malaysia, Turkey, and Indonesia. The other countries, whether they are poor in the sukuk market or lack sukuk issuances, account for only 7% of the whole industry. The combination of religion in business and cultural perspectives in Islamic finance is critical, just as religion, with its behaviours and deeds, affects the cultural system and leads to excellence and leadership in the business world (Ratten et al., 2017).

The latest developments in several aspects point out the importance of the improvement of the financial market from a cultural perspective. Cultural finance is a pure field of research but still lacks general theoretical contributions that should be resolved. However, cultural values such as language and Islamic rules are taken into consideration