

HUMANİTAR VƏ İCTİMAİ EMLƏR

HUMANITIES AND SOCIAL SCIENCES

DOI: <https://doi.org/10.36719/2789-6919/54/9-22>

Bahi Nawel

Cheikh Larbi Tebessi University

PhD in Economics

<https://orcid.org/0009-0007-7357-2455>

n.bahi@univ-tebessa.dz

Farid Aimene

Mohamed Cherif Messaadia University

Doctor of Economics

<https://orcid.org/0009-0004-3037-0923>

a.farid@univ-soukahras.dz

Daas Mossaab

Cheikh Larbi Tebessi University

PhD in Economics

<https://orcid.org/0009-0001-0227-2101>

mossaab.daas@univ-tebessa.dz

The Role of Islamic Financial Engineering in the Development of Financial Products Designed to Meet the Challenges of Sustainable Development – Islamic Sukuk as a Model

Abstract

This scientific study explores the role of Islamic financial engineering in addressing sustainable development challenges through Islamic financial products. Using a descriptive analytical approach, it concludes that Islamic finance provides stable financing, reduces inflationary effects, and directs investments toward societal benefits, fostering sustainable development.

Keywords: *Islamic financial engineering, Islamic financial products, Islamic Sukuk, sustainable development*

Bahi Navel

Cheikh Larbi Tebessi Universiteti

iqtisad üzrə fəlsəfə doktoru

<https://orcid.org/0009-0007-7357-2455>

n.bahi@univ-tebessa.dz

Farid Aimene

Mohamed Cherif Messaadia Universiteti

iqtisad üzrə elmlər doktoru

<https://orcid.org/0009-0004-3037-0923>

a.farid@univ-soukahras.dz

Daas Mossaab

Cheikh Larbi Tebessi Universiteti

iqtisad üzrə fəlsəfə doktoru

<https://orcid.org/0009-0001-0227-2101>

Mossaab.daas@univ-tebessa.dz

Davamlı inkişaf çağrışlarına cavab vermək üçün nəzərdə tutulmuş maliyyə məhsullarının inkişafında İslam maliyyə mühəndisliyinin rolü - İslam sukuku bir model kimi

Xülasə

Bu elmi tədqiqat İslam maliyyə mühəndisliyinin İslam maliyyə məhsulları vasitəsilə dayanıqlı inkişafın problemlərini həll etmədəki rolunu araşdırır. Deskriptiv analitik yanaşmadan istifadə edərək, İslam maliyyəsinin sabit maliyyə təmin etdiyini, inflyasiya təsirlərinin azaldığını və investisiyaların cəmiyyətin faydası üçün yönəldildiyini, dayanıqlı inkişafı təşviq etdiyini nəticə olaraq qeyd edir.

Açar sözlər: İslam maliyyə mühəndisliyi, İslam maliyyə məhsulları, İslam sukuk, dayanıqlı inkişaf

Introduction

Sustainable development represents a new opportunity for the quality of economic growth and how to distribute its benefits to all layers of society, not just a process of economic expansion, but also came to impose itself as a practical concept of the multiple problems that challenge humanity, such as eradicating poverty, changing unsustainable patterns of production and consumption, protecting and managing the natural resource base and preventing environmental degradation for economic and social development.

Today, the adoption of sustainable development has become an essential element in the plans of countries and companies, especially with regard to internal laws governing investment projects, and access to funds, especially in light of the financial turmoil and crises in global financial markets – which were mainly caused by usurious transactions – and the resulting decline in the standard of living and poor social and economic conditions alike, which led to the need to search for new financial instruments and products that have the lowest cost, lowest risk and highest return away from usurious benefits, which is what came from Islamic financial engineering that focuses on the element of innovation and development to introduce Islamic financial products that combine legitimate credibility and economic efficiency, which makes them the most capable of directing investments towards areas that lead to sustainable development.

In this particular context, this intervention comes in an attempt to answer the following problem:

How can Islamic financial engineering through its financial products contribute to meeting the challenges of sustainable development?

To answer the problem, the intervention was divided into four sections as follows:

The first axis: Theoretical rooting for sustainable development.

The second axis: Generalities about Islamic financial engineering.

The third axis: The role of Islamic financial engineering and its products in facing the challenges of sustainable development.

The fourth axis: The development of the Islamic Sukuk industry and its importance in achieving sustainable development.

Research

The first axis: Theoretical rooting for sustainable development:

1. What is sustainable development?

1.1. Definition of sustainable development. The Brundtland Commission defined sustainable development as: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Amari, 2008, p. 13).

As for the World Bank, the sustainability model is capital, and it defines sustainable development as "those that are concerned with achieving continuous parity that ensures that the same current opportunities are available to future generations by ensuring the stability of comprehensive capital or its continuous increase over time (Al-Ayb, 2011, p. 12).

The World Commission on Environment and Development defined it as: "Development that meets the basic needs of all and expands the opportunity for society to satisfy their aspirations for a better life, and spreads values that encourage consumption patterns within the limits of the environmental potential that society reasonably aspires to achieve (Miftah, Omari, 2012, p. 12).

1.2. Characteristics of sustainable development: A set of essential characteristics of sustainable development are (Al-Ayb, 2011, p. 10): The first characteristic: that sustainable development represents a process of transformation from one generation to another, and this means that this development must occur over a period of time of not less than two generations and therefore the equivalent time ranges from 22 to 25 years. The second characteristic is the level of measurement. Sustainable development is a process that occurs at several different levels (global, local, regional). However, what is considered sustainable at the national level does not necessarily have to be so at the global level. This geographical contradiction is due to the mechanisms of transformation, through which the negative results of a particular country or region are transmitted to other countries or regions. The third characteristic: Multiple domains are a common third characteristic, where sustainable development consists of at least three domains – economic, social and environmental – which lie specifically in the interrelationships between those domains. Although sustainable development can be defined according to each of those domains individually, the importance of the concept lies in identifying the interrelationships between those domains. The fourth characteristic: One of the characteristics of sustainable development is to meet the necessary and basic needs of food, clothing, education, health services and everything related to human life. The fifth characteristic: It is an integrated development based on coordination and integration between policies for the use of resources, investment trends, technological choice and institutional form, which makes them all work with understanding and regularity.

1.3. Sustainable Development Goals. The sustainable development process aims to (Samar, 2017): Bringing about a set of radical changes in a particular society, with the aim of providing that society with the ability for continuous self-growth at a rate that includes the increasing improvement in the quality of life for all its members, in the sense of increasing the society's ability to respond to the basic needs and emerging needs of its members in a way that ensures an increase in the degree of satisfaction of that need through the continuous rationalization of the exploitation of available economic resources, and the good distribution of the return of that exploitation. In essence, development is a process of social change that may lead to structural changes, which necessarily requires organization and coordination between the various aspects of development to help society in its reintegration process. Development suits every society and presupposes not only the ability to choose a pattern of development but also to ensure that pattern. Development is a cooperative process, and this does not mean that the national effort alone can achieve complete independence, but development is necessarily cooperative, requiring coordination and integration between one country and cooperation between the group of developing countries and with an additional contribution from developed countries. Development is an integrative process that links different population, community, productive and service sectors as well as the integration of national supply and demand. Development depends on the conscious participation of all members of society in setting and defining its objectives and implementation programs. Development is based on innovation and creativity to meet the real needs of the population with regard to the technology used, its development and rooting for the benefit of society.

2. Dimensions and principles of sustainable development.

2.1 Dimensions of Sustainable Development: Sustainable development includes a number of key dimensions (Hassoun, Dawai, Khudair, 2015, pp. 343-344):

- The economic dimension: Economic development involves three basic elements: making changes in the economic structure and structure, redistributing income in favor of the poor class, and paying attention to the quality of goods and services produced and giving priority to those basics.
- The social dimension: Social development means increasing the ability of individuals to exploit the available energy to the maximum extent possible, in order to achieve freedom and well-

being. The social dimension is the characteristic dimension of sustainable development, as it represents the human dimension, which makes growth of means of social cohesion and the process of development in political choice. Social development includes many aspects, including: equality in distribution, popular participation, and cultural diversity.

– Environmental dimension: Concern for the environment is an essential pillar of development, in order to preserve natural resources from depletion and degradation for the benefit of the rising generation and future generations. The principles of sustainable development call for attention to the issuance of legislation on the protection of the environment and energy sources, how to rationalize the use of non-renewable resources, not to exceed the capacity of renewable resources to renew themselves, and not to exceed the capacity of the ecosystem to absorb waste.

2.2. Principles of Sustainable Development: Sustainable development is based on a set of basic principles, which are as follows (Center for Scientific Production, 2005, pp. 83-85):

– Using the systems method in preparing and implementing sustainable development plans: The systems method is a prerequisite for preparing and implementing sustainable development plans, due to the fact that the human environment is a subsystem of the total system, and therefore sustainable development works through this method to achieve subsystems in a way that leads to the balance of the Earth's environment in general. This method is an integrated method that aims to preserve the lives of communities in all economic, environmental and social aspects without negative adverse effects between these aspects. One of the environmental problems associated with economic development, for example, is the agricultural policies applied in many countries of the world, which mainly affect soil degradation.

– Popular participation: achieving sustainable development requires providing an appropriate form of decentralization that enables official, popular and civil bodies and the population in general to participate in the preparation, implementation and follow-up of their plans. This concept is called development from below.

The role of local governments can be summarized as follows:

- Limit the increase in global warming.
- Management and treatment of environmental, commercial and industrial waste.
- Reducing the emission of gases that affect the ozone layer.
- Reducing consumption of oil derivatives.
- The principle of dynamic optimization of economic resources.
- The principle of the longevity of economic resources, and the strategic planning of these resources.
- The principle of ecological balance and biodiversity.
- The principle of preserving the attributes and characteristics of nature, as well as the identification and development of production, investment and consumption structures.

3. Challenges of sustainable development. There are some obstacles that prevent the adoption of sustainable development plans and programs, perhaps the most important of which are the following (Yousfawi, Makhloifi, 2017, pp. 121-122):

– Lack of financial resources: The low status of infrastructure in many countries and the difficulty of finding the necessary sources of financing to achieve sustainable development.

– Debt: It represents one of the most important obstacles to the success of sustainable development plans and leads to a negative impact on poor communities in particular, and the international community in general, where debt and its service burdens constitute a great burden on the economies of countries.

– Population inflation: Irrational, especially in the cities of developing countries, deteriorating living conditions in informal areas and increasing demand for resources and health and social services.

– Limited natural resources and their misuse: their continued depletion to support current production and consumption patterns, which increases the depletion of the natural resource base and hinders the achievement of sustainable development.

- Lack of modern technologies: the technical expertise necessary to implement sustainable development programs and plans.

The second axis: Generalities about Islamic financial engineering.

1. The essence of Islamic financial engineering.

1.1 Definition of Islamic financial engineering (Miftah, Omari, 2012, p. 231): Financial engineering is the design, development and equipping of innovative financial technologies and the formulation of practical solutions to financial problems.

As for Islamic financial engineering, it is defined as a set of activities that include the design, development and implementation of both innovative tools and processes, in addition to formulating creative solutions to financing problems, all within the framework of the directives of Islamic Sharia. Its products are characterized by combining legitimate credibility and economic efficiency, as they are most compatible with Sharia, which calls for getting out of the jurisprudential dispute. This definition is the same as the aforementioned definition of financial engineering, but it added to it the need to abide by Islamic law. Accordingly, the fields of Islamic financial engineering are:

- Creating new financial instruments.
- Innovating new financing mechanisms.
- Innovating new solutions for financing management.
- The innovations referred to above, whether in financing tools or operations, should be Sharia-compliant, while staying as far as possible from jurisprudential differences, which will distinguish them from Sharia credibility.

The person in charge of development and innovation in traditional financial engineering is sufficient to have experience in financial transactions and operations, while the person in charge of Islamic financial engineering is required to be familiar with the purposes of Sharia and the jurisprudence of Islamic transactions in addition to his experience and understanding of financial operations.

1.2. Characteristics of Islamic Financial Engineering. Islamic financial engineering is characterized by a set of characteristics, the most important of which are: (Yousfawi, Makhloifi, 2017, pp. 21-22).

– Real innovation instead of imitation: The diversity available in Islamic financial products is considered real and not formal as in the tools of financial engineering, as each of the tools of Islamic financial engineering has a contractual nature and characteristics that distinguish it from other tools, whether it is related to the risks of guarantees or pricing, and this is from the point of view that what is meant by financial engineering is what meets the real interest of economic dealers in the markets and not just a fictitious contract, and this confirms the added value of innovation.

– Islamic law instead of positive legislation: Islamic financial engineering is concerned with Islamic legislation, through which it derives various principles and foundations in the design of financial products, in accordance with the provisions of Islamic law and away as much as possible from the existing jurisprudential differences. The basis of Islamic financial engineering is the principle of risk sharing, that is, burden sharing between various parties, not the principle of preventing risks and transferring them to other parties, which is the basis of financial engineering. The primary goal of Islamic financial engineering is to manage liquidity through the use of funds in financing operations, while the goal of traditional financial engineering is to manage risk by finding financial instruments that lead to quick profit and less risk.

2. Objectives and Principles of Islamic Financial Engineering.

2.1. Objectives of Islamic Financial Engineering: Islamic financial engineering seeks to achieve the following objectives:

– Providing high quality Islamic financial products that are considered as a legitimate alternative to traditional financial products that are characterized by legitimate credibility. Achieving economic efficiency, financial engineering products can increase economic efficiency by expanding investment opportunities in risk sharing, and reducing transaction costs.

- Achieving rewarding returns for investors and diversifying sources of profitability contribute to the revival of the economy by benefiting from capital that is reluctant to participate in projects funded by usury. Assist in managing and achieving alignment between returns, risk and liquidity of companies and financial institutions.
- Assist in the development of protected and global capital markets through the creation of Islamic securities.
- Providing stable and real financing from resources already in the economic cycle, which reduces inflationary effects.
- Providing innovative legitimate solutions to financing problems.
- Minimizing investment risks.

2.2. Principles of Islamic Financial Engineering: There are four special principles of Islamic financial engineering, which can be mentioned below: (Boukhouni, Hiba, 2016, pp 25-27).

- Market Awareness: By market awareness, we mean that the needs required by the market are known to those who innovate and develop instruments and securities in addition to achieving mutual consent between all parties, because financial engineering aims to meet the different needs of all economic agents while benefiting all these agents.
- Disclosure: Disclosure is intended to indicate the transactions that can be performed by those tools that are innovated or developed in order to fill the gaps that manipulators or speculators can implement to use these tools to achieve goals that were not originally intended or to circumvent usury or gambling, noting that adherence to Islamic law, i.e. the advantage of the Sharia credibility of Islamic financial engineering, constitutes in this regard a safety valve because of the discipline of the rules of Islamic law.
- Capability: We mean the ability to have a capital capacity that enables purchasing and dealing. To abide by the Islamic Sharia in dealing: Thus, not dealing with prohibited tools and transactions such as: selling the sample, usury and gharar.

The third axis: The role of Islamic financial engineering and its products in facing the challenges of sustainable development.

1. The role of Islamic financial engineering in the development of financial products.

1.1. The importance of developing Islamic financial products: The importance of product development in the Islamic financial industry is as follows: (Boukhouni, Hiba, 2016, pp 8-10).

- Diversifying the sources of profitability of the financial institution.
- Avoid obsolescence of existing products to maintain growth.
- Reducing investment risks by diversifying its formulas and sectors.
- Supporting the competitive position of the financial institution in the market.
- Increasing the expertise of the institution and the continuity of its vitality.

Islamic financial institutions need a portfolio of financial tools and products that allow them sufficient flexibility to respond to the various requirements imposed by economic variables. There is no single product that meets these requirements. Hence the need for financial engineering according to the Islamic approach. A group of researchers and veterans specializes in designing and creating financial instruments that combine legitimate credibility with economic efficiency.

1.2. Islamic financial engineering approaches used to develop its financial products: Islamic financial engineering can have several approaches, which vary according to the methods that can be used by Islamic financial institutions in establishing this engineering, but they often do not deviate from the following two approaches: (Yousfawi, Makhloifi, 2017, pp. 127-128).

1.2.1. Simulation approach: It means that the required result is predetermined from the product of Islamic financial engineering, which is usually the same result achieved by the traditional product, and regardless of the legitimate judgment of these products, as it raises a lot of controversy, the methodology it follows is based on imitation and simulation of traditional financial products.

1.2.2. The approach of originality and innovation: This approach aims to develop Islamic financial products by searching for the actual needs of customers and working to design products

suitable for them, provided that they are compatible with the principles of Islamic financial engineering, that is, creating an Islamic financial engineering industry. This approach requires continuous study of customer needs and working to develop the technical methods necessary for them, in order to ensure the economic efficiency of financial products. It also requires setting clear foundations for an Islamic financial engineering industry independent of traditional financial engineering.

There is no doubt that this approach is more expensive than imitation and simulation, but in turn it is more feasible and more productive, as the cost is often high at the beginning of application and then decreases. On the other hand, this approach preserves the originality of Islamic financial institutions, and allows them to benefit from the products of the traditional financial industry as long as they meet the requirements of Sharia credibility. This also helps to complete the knowledge system of the Islamic financial industry.

2. *Islamic Financial Engineering Products:*

2.3. *Financing Products:* The most important of these products are as follows: (Obaid, Jaaz, 2015, pp. 110-111).

2.3.1. *Bank Tawarruq:* Tawarruq is defined as "owning assets at a deferred price and then selling them at a current price to others who bought from it, and Tawarruq is related to paper, and it is so called because the buyer who buys the reputation does not mean the reputation, but rather the paper, which is silver, that is, he wants money, not reputation." Tawarruq is a financing mechanism through which the Tawarruq (the money seeker) can buy a reputation at a deferred price, and then sell it at a current price to a party other than the one from which it was previously purchased, and thus the Tawarruq may obtain the necessary financing by selling the immediately owned reputation, provided that he pays its deferred price as agreed. As for bank securitization, it is the financing mechanism through which the Islamic banking customer buys a reputation from the latter on a term basis, provided that he sells it immediately to a party other than the first seller, so that this financing formula is a mechanism for a crop to obtain the cash liquidity that the customer needs.

2.3.2. *Ijarah described in the Liability:* The Ijarah described in the Liability is considered among the financial products adopted by Islamic financial institutions to meet certain needs, and it has been defined as one of the contracts: "in which the lessor is obligated to provide a benefit that is fully described – in terms of peace – whether it is an in-kind benefit such as the lease of a described car or the benefit of a person such as sewing and education, and it is not a condition that the lessor is the owner of the benefit at the time of the contract, but it is added to the future to be owned for implementation."

2.3.3. *Negotiable certificates of deposit:* Negotiable certificates of deposit are securities issued by banks in exchange for investment deposits deposited with them, as they are based on speculation as the holder is speculative, and they give the holder the right to obtain profit before the maturity date of the security and in the agreed proportions, and they also give him the right to sell it in order to obtain the liquidity he needs during its maturity period.

This type of bank certificate contributes to:

- Providing a long-term source of financing in Islamic banks, which gives them the ability to achieve their economic and social goals.
- Relieving Islamic banks of the burden of idle balances without operation, which represents a burden on net profits for operating deposits, by linking resources to uses.
- Achieving the desire of the owners of funds to have the ability to recover their funds in a short period of time without affecting the ability of Islamic banks to direct these funds to long-term investment projects.
- It gives money owners the opportunity to choose the activity that suits their desires.
- Helps to provide Islamic financial markets if widely used.

2.4. *Islamic financial derivatives:* (Abdel Haq, Bani Amer, 2014, pp. 27-28). Financial derivatives were created for the purpose of hedging and risk management, which are financial instruments whose value depends on the price changes of another financial asset called the underlying instrument (Sous-

jacents). They are called derivatives because they are financial contracts whose value is derived from the current prices of the financial or in-kind assets under contract (such as stocks, bonds, foreign exchange...), with the aim of avoiding the risks of the expected change in the prices of those assets. These are futures contracts, futures contracts, option contracts and swap contracts.

A forward contract is a contractual agreement between the seller and the buyer to exchange a certain asset at a future date at a specified price and quantity when the contract is concluded. As for future contracts, they are legal (official) contracts that are traded in regulated markets to confirm an undertaking to deliver to the buyer or receive from the seller, for an agreed quantity and quality of a specific investment asset at a specific time and place in the future. All estimates are made according to market expectations at the time of delivery. Options are contractual agreements under which the seller (the issuer of the option) grants the right but not the obligation to the buyer (the subscriber of the option) to sell or buy a financial instrument at a predetermined price on a specified future date or at any time during the time period ending on that date. A swap contract is an agreement between two or more parties to exchange a series of cash flows during a future period.

Islamic economists have not allowed dealing in financial derivatives, but through the use of Islamic financial engineering, alternatives can be found that are subject to Sharia controls, and the need for Islamic financial derivatives arises despite the jurisprudential dispute it raises in two aspects:

- The first aspect: The need for Islamic financial institutions to adapt to the reality of the global financial system, which is characterized by fluctuations in prices, including interest rates, prices of stocks and bonds, and prices of goods and services. This calls for taking positive action towards these fluctuations instead of Islamic financial institutions and even other business institutions incurring losses as a result of risks that were in no way caused by them.

- The second aspect: Preserving the authenticity of Islamic financial institutions and ensuring their competitiveness requires adopting new innovations and adapting them to the controls of the Islamic financial industry or finding legitimate alternatives that achieve the same advantages as those achieved by traditional tools.

The development of Sharia-compliant Islamic financial derivatives has become an urgent necessity for Islamic finance. One of the aspects of Sharia-compliant futures contracts is peace contracts. As for future contracts, they have been adapted within the framework of the Istisna 'contract. The purchase option has also been adapted within the framework of the sale of the deposit, where the person enters into the necessary contract and stipulates for himself the right to terminate his will within a known period, which provides an opportunity to hedge in obtaining a commodity from which it is hoped to profit. He has the right to offer the option to another party during the term of the contract without having to be associated with profit because that drops the option. The deposit is considered part of the price of the commodity paid by the buyer to the seller as compensation for his imprisonment of his commodity, as it falls within the price agreed upon in the contract in the case of implementation and is a right for the seller if the buyer waives his right to implement. As for the put option contract, it is an obligation, guarantee or guarantee. The owner of the securities who pays the commission in exchange for having the right to sell in the agreed period, protects his property (from securities) by buying an obligation from the other party to guarantee these securities by buying them if the first party wishes.

3. The importance of Islamic financial engineering in achieving sustainable development.
Research and development, which are the subject of financial engineering, complement the knowledge system of Islamic economics and keep pace with developments in financial sciences. Therefore, the presence of knowledge of Islamic financial engineering helps to find the administrative cadres required by Islamic banking, which combines Sharia knowledge and Islamic banking experience. This importance is represented in: (Miftah, 2012, p. 235). Most of the existing financing tools are those that were developed centuries ago, and they were concerned with the needs of societies at the time, but the financing needs of individuals and institutions at the present time are constantly increasing and affect the rights of subsequent generations, which requires finding what meets those financing needs within the framework of commitment to halal and Islamic Sharia controls in order to

take into account the coverage of the needs of future generations, and here the importance of Islamic financial engineering in achieving this. Take advantage of developments in global markets and try to benefit from them instead of taking neutral positions towards them, and this serves the technological dimension, which represents an important aspect in sustainable development. Ensuring the continuity of the Islamic financial system as a whole while benefiting all its parts while preserving its authenticity by adhering to the Sharia controls that guide its course.

Lifting the embarrassment and hardship of Muslim dealers who deal in financial contracts with their modern developments, and in order for Islamic jurisprudence to have a strong presence in the economic arena, as financial transactions, even if the purposes of those involved in them, do not go beyond the meanings of acquiring, requesting livelihood, developing money and eliminating worldly and other needs, but the characteristic of its means is development and change according to place and time, current conditions, and customs, etc., and this requires not to close the door of diligence in adapting existing contracts or developing them or finding other novelties because of this hardship and embarrassment for people. If we consider jurisprudential adaptation as part of financial engineering, it may be the basis for the development of many financial contracts in order to move away from what is not permissible in Islamic law. The nature of the work of the institutions that conduct financial contracts, especially the banking work that operates according to the financial intermediation model with its various mechanisms, requires the development of new developments attached to them or new ideas that enable them to be applicable, given that many traditional financial contracts cannot be dealt with by banks. *The fourth axis: The development of the Islamic Sukuk industry and its importance in achieving sustainable development.*

1. What are Islamic financial instruments:

1.1. The concept of Islamic Sukuk: Sukuk are defined as: documents of equal value representing common shares in the ownership of notables, benefits, services, or private investment activity, after collecting the value of the Sukuk, closing the subscription door, and starting to use them in what they were issued for (Taqi Al-Din, Lutfi, 2016, pp 49-51). It is also defined as: the conversion of sharia-accepted assets into financial instruments that are separated from the originator and are negotiable in a financial market, provided that their place is often private, with specified deadlines with an unspecified return, but not free of risk. Islamic Sukuk expands the financing activity of Islamic banks, through which some income-producing assets such as Ijara Sukuk are securitized. It also enables investors to enter large and strategic projects and obtain profits in legitimate ways, in addition to the possibility of easily liquidating them in the secondary market.

1.2. Characteristics of Islamic Financial Instruments: Islamic Sukuk is a security with characteristics that distinguish it from other traditional securities because of some of the sublime features that it possesses resulting from the Sharia law that governs it, but this does not mean that it is completely different from traditional securities, but the difference lies in the essence and structure, and among the characteristics that are unique to Islamic Sukuk from others: (International Islamic financial Market, 2016, p. 05).

Islamic Sukuk is a security based on Sharia principles and controls, representing common ownership in assets without ownership of the disposal, based on the principle of vesting profit and bearing loss, bearing the burdens of ownership, the instrument is a security to prove the right, the absence of the guarantee of the speculator, agent or partner, Islamic Sukuk are issued by an entity that owns or wishes to own assets, representing an efficient investment instrument, issued in equal and indivisible categories and with different and varying terms, negotiable in principle.

1.3. Types of Islamic Sukuk: Islamic Sukuk vary according to the mechanisms of their issuance, which are carried out according to Islamic financing formulas, and they can be classified as follows: (International Islamic financial Market, 2017, p. 2).

1.3.1. Mudaraba Sukuk: *Mudaraba Sukuk:* represent negotiable securities and are offered on the basis that the issuing company manages the work according to the nature of the mudaraba, in which the owners represent the owners of the capital while the investor represents the mudaraba worker, and their owners obtain a common percentage of the profit, and they meet the conditions of the mudaraba

contract of offer and acceptance, and the information of the capital and the profit percentage, and among the finest of these Sukuk we find: commercial mudaraba sukuk, agricultural mudaraba Sukuk...etc.

1.3.2. Musharaka Sukuk: They are documents of equal value issued to use their proceeds in the establishment of a project, the development of an existing project, or the financing of an activity. The project or the assets of the activity become the property of the Sukuk holders within the limits of their shares. Sukuk are managed by appointing one of the partners or others to manage them.

1.3.3. Salam Sukuk: This formula allows the bank to buy from the customer at a price in the case of a commodity described in the deferred delivery to a specific date and has different uses in financing, the most important of which is related to the financing of agricultural and industrial activity and production, by providing the cash necessary for agriculture or industry.

Salam Sukuk are short-term bonds that represent an investment process by which the seller of the commodity or asset is oil, for example, and the buyer in the form of a salam (brokerage company, banks or those with whom the government spends, in his capacity as manager of the Islamic Salam Sukuk portfolio, and the buyer or holders of the Sukuk, where the portfolio collects the value of the Sukuk from the buyer and pays the price of the commodity now to the government and receives the commodity or its value later.

1.3.4. Agricultural Sukuk: They are documents of equal value issued for the purpose of agricultural financing, and their holders have a share in the resulting crop.

1.3.5. Musaqah Sukuk: They are those whose purpose is to water and care for fruit trees and whose owners receive a share of the fruits.

1.3.6. Mugharasah Sukuk: They are documents of equal value issued for the use of their proceeds in planting trees and in the works and expenses required by this planting on the basis of the Mugharasah contract, and the Sukuk holders shall have a share in the land and planting.

1.3.7. Istisna 'Sukuk: They are documents of equal value issued for the use of the proceeds of subscription in the manufacture of a commodity and the manufacturer becomes the property of the Sukuk holders. Istisna 'Sukuk are like peace Sukuk, but their price may be postponed, and the sale in both cases is still in the custody of the manufacturer or seller in peace, so these Sukuk are considered non-salable or non-tradable in the event that the Sukuk is issued by one of the parties, the seller or the buyer, as they are investments held until their maturity date.

1.3.8. Murabaha Sukuk: They are documents of equal value issued to finance the purchase of the Murabaha commodity, and the Murabaha commodity becomes owned by the holders of the Sukuk. These Sukuk are based on the principle of Murabaha, which produces a debt owed by the issuer of the Sukuk. When the Sukuk becomes the judgment of the debts, it is not permissible to trade it at a higher or lower value than its value, because debts are settled by the like.

1.3.9. Ijara Sukuk: They are securities of equal value that are negotiable and represent the ownership of leased property, benefits or services and take the provisions of Islamic jurisprudence as their main reference.

2. The development of the Islamic Sukuk industry in the world for the period (2001-2016): The Islamic Sukuk industry in the world has developed significantly during the past recent years, as it has witnessed an accelerated growth in the volume of Sukuk issues, with a total value of \$856 billion during the period from January 2001 to December 2016, as shown in the following table:

Table 01: Value of Total Issuances of Islamic Sukuk in the World for the Period (2001-2016)
 (Unit: Million USD)

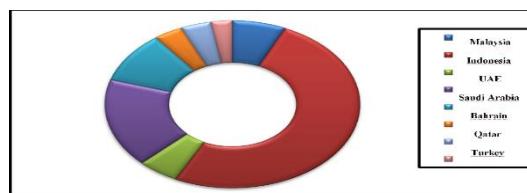
Years	Total Issuance Value	Years	Total Issuance Value
2001	1172	2010	53125
2002	1371	2011	93573
2003	7207	2012	137599
2004	9465	2013	135870
2005	14008	2014	108300
2006	33607	2015	60693
2007	50041	2016	88279
2008	24337	Total	856718
2009	38070		

Source: Prepared by the researchers based on: International Islamic financial Market, 2016, p. 5; International Islamic financial Market, Sukuk Report, 2017, p. 2.

According to the previous table, it is noted that the value of issuances did not exceed one and a half billion dollars in 2001, and then gradually began to rise to reach about 50 billion dollars in 2007, but by 2008 and as a result of the global financial crisis, the value of Sukuk issuances witnessed a significant decline to reach 24 billion dollars, but quickly rose again to witness record issues in 2012-2013, reaching their maximum value estimated at about 137 billion dollars in 2012, while the Sukuk market slowed down in 2014 to more than \$100 billion of issuances, 2015 also witnessed a significant decline in issuances to only \$60.6 billion of Sukuk, a significant decrease of 43% compared to 2014, due to the uncertainty in the global financial system, the sharp decline in oil prices, which had an impact on the issuance of Sukuk to some extent, in addition to the strategic decision of Bank Negara Malaysia (BNM) to stop issuing short-term investment sukuk and shift the focus to liquidity management in Islamic banks – but this does not. It can be considered a weakness in the Sukuk market. This cannot be considered a weakness in the Sukuk market, but a change in strategy. However, the entry of other issuers such as energy production companies, small enterprise entities and others kept the Sukuk market active, as it rose in 2016 to \$88.27 billion (International Islamic financial Market, 2017).

Among the top issuing countries, Malaysia occupies a leading position in the market and the dominant player, with a market share of 65.4% as of 2016, followed by the United Arab Emirates (8%), Saudi Arabia (7%), Indonesia (5%), Bahrain (3%), Qatar (3%) and Turkey (2%), as shown in the following figure:

Figure 1. Ratios of Islamic Sukuk issues in the world by countries for the period (2001-2016).



Source: Prepared by Researchers International Islamic financial Market, 2017, pp. 22-26.

It is also noted that the number of countries that issue Sukuk annually increases – directly or indirectly – which in turn leads to the continued progress of the Sukuk market (Al-Hunaiti, 2015, p. 34). Another encouraging development is that the number of issuers around the world recognize

Sukuk as a viable alternative source of financing infrastructure development, project financing, capital adequacy, budget requirements and others.

3. The Importance of Islamic Sukuk in Achieving Sustainable Development. The spread of Islamic Sukuk and the racing of the world to issue them has marked the beginning of a new phase in which the transition is made from the paper economy and credit markets to the real economy, which is linked to goods and services. Through Sukuk, the financial savings in the hands of individuals, which are unemployed in carrying out their economic function and developmental role, are mobilized, leading to their investment in the agricultural, industrial and commercial fields, which reflect the extent of progress and underdevelopment in the country. Based on what has been mentioned among the types of Islamic Sukuk and their advantages, it is clear that the process of demonetization provides several advantages that can be summarized as follows: (Al-Hunaiti, 2015, pp. 159-160).

- Equity processes help in harmonizing the sources and uses of funds, which contributes to reducing the risks of asymmetry between the terms of resources and their use.
- Securitization increases the facility's ability to increase its activity without the need to increase its capital.
- Equity operations provide various investment opportunities for individuals, institutions and governments in a way that enables them to manage their liquidity profitably.
- Securitization operations help in GDP growth without the need for additional investments.
- Expropriations increase the degree of deepening of the financial market.
- It does not deal with debt, but encourages and stimulates the circulation of ownership instruments widely, and is developed from investment formulas, whenever it serves the real exchange of goods and services, which leads to linking the real economy with the financial economy.
- Reducing inflation, through the contribution of these tools to provide the liquidity and long-term financing necessary to create new investment opportunities.
- They offer a good channel for investors who want to invest their surplus money, and at the same time want to get their money back easily when they need it, because these instruments are supposed to have a secondary market in which to sell and buy.
- Providing enormous opportunities to repay the deficit in the state budget by providing real resources that do not negatively affect the general level of prices and thus enable it to finance basic development projects inexpensively.
- The diversity and multiplicity of investment instruments, there are types based on donations, charity and charity, and methods of financing based on participations (charitable and investment instruments), and this provides more opportunities and areas for financing small and medium enterprises.
- Investment instruments are based on feasibility studies from an economic point of view, and on halal from a legal point of view. This means that projects, when studied, are subject to Islamic priorities of necessities, needs and improvements, which achieves an optimal allocation of resources.
- Investment instruments contribute to eliminating the problem of unemployment, increasing the level of employment and operating idle funds, as these instruments fulfill the wishes of investors and savers alike.
- Islamic Sukuk are a tool that can be exploited to finance infrastructure and development projects and mega projects that require large capital to be established, thus achieving benefits for both the issuer and the investor.

Conclusion

Results of the study. Through this study, a number of results were reached, the most important of which are: Financial engineering products can increase economic efficiency by expanding investment opportunities in risk sharing and reducing transaction costs.

Islamic financial engineering attracts capital that is reluctant to participate in usurious projects by creating Islamic financial products characterized by legitimate credibility, which in turn contributes to the revival of the economy.

Islamic Sukuk provide stable and real financing from resources already in the economic cycle, which reduces inflationary effects and achieves a balance between the financial and real economy departments.

The diversity available in Islamic financial products is real and not formal as in the tools of financial engineering, as each of the tools of Islamic financial engineering has a contractual nature and characteristics that distinguish it from other tools, whether it is related to the risks of guarantees or pricing, and this is from the point of view that what is meant by financial engineering is what meets the real interest of economic dealers in the markets and not just a fictitious contract, and this confirms the added value of innovation. Islamic financial engineering, through its financial products, enables directing funding to invest in areas that benefit society, and this is the most important advantage of Islamic finance in the field of sustainable development. Money is the money of society, and from this point of view, it must be directed to serve all members of society by establishing projects that do not harm the present or future society, and no party can claim to bear the loss alone and thus act in a way that achieves the benefit alone, even if harm is caused to others. The investor, in the event of loss, does not lose any capital, and the financiers do not lose more than the money they contributed to the investment subject of loss, and as long as this is the case, it can be said that Islamic finance is directed to activities that do not harm to society, and there is no harm if funding is directed to those activities.

Recommendations of the Study. Depending on the findings, the following set of recommendations were proposed: Giving confidence in the outputs of Islamic financial engineering and giving it legitimacy and credibility, by unifying the legal fatwas that relate to it and obliging Islamic financial institutions to comply with the decisions issued by jurisprudential councils.

Adopting innovative financial models and products that enjoy legitimate credibility and economic efficiency, as they represent great growth opportunities for Islamic financial institutions, and the latter gain through these models' competitive advantages that enable them to compete with the products of their traditional counterparts.

Relying on Islamic financial engineering effectively in creating a variety of the strongest, most successful and legitimate financial instruments, in order to re-purify and pump halal funds by the Islamic financial market and finance constructive and successful projects, which leads to the efficient use of economic and human resources to ensure that the needs of society are met in the present and the future fairly.

The need to establish an Islamic financial market that enjoys all elements and innovative financial products in order to reduce risks and stimulate growth and economic stability as one of the pillars of achieving sustainable development.

References

1. Amari, A. (2008). The Problem of Sustainable Development and its Dimensions. *International Forum on: Sustainable Development and Useful Efficiency of Available Resources*, on 07/08 April, Farhat Abbas University, 13.
2. Al-Ayb, A.R. (2011). *Controlling the overall performance of the economic institution in Algeria in light of the challenges of sustainable development*. PhD thesis, specialization of economic sciences, Farhat Abbas University.
3. Al-Hunaiti, H.M.H. (2015). The Role of Islamic Sukuk in Economic Development - A Case Study. *Journal of Administrative Studies Sciences*, 42(2), 159–160.
4. Abdel Haq, A., Amer, Z.B. (2014). The Role of Islamic Sukuk in Financing Infrastructure Projects - Case Study of the Project to Expand the 8 May 1945 International Airport in Setif. *International Conference on: Products and Applications of Innovation and Financial Engineering between Traditional Financial Industries and the Islamic Financial Industry*, on 05-06 May, 27–28.

5. Boukhouni, A., Hiba, A. (2016). Islamic Financial Engineering Products: Reality and Prospects. *International Forum on: Islamic Financial Engineering between Sharia Controls, Profit Entitlements and Development Objectives*, 27-28 April, 25–27.
6. Center for Scientific Production. (2005). *Sustainable Development in the Arab World. Between Reality and Hope*. Studies Series, 11th Edition. King Abdulaziz University.
7. Hassoun, A.M., Dawai, M.S., Khudair, I.A.R. (2015). Sustainable Development Concept, Elements and Dimensions. *Diyala Magazine*, 67, 343–344.
8. International Islamic financial Market. (2016, March). *Sukuk Report*. 5th Edition.
9. International Islamic financial Market. (2017, July). *Sukuk Report*. 6th Edition.
10. Miftah, S., Omari, R. (2012). Islamic financial engineering and its role in achieving sustainable development. *An international forum on: The elements of achieving sustainable development in the Islamic economy*, on 03/04 December, University of Ouargla, 12.
11. Obaid, S., Jaaz, A.H. (2015). The Financing Role of Islamic Banks (Sukuk Financing), Malaysian Experiment. *Journal of Economic Sciences*, 38(10), 110–111.
12. Taqi Al-Din, H., Lutfi, B. (2016). *The Role of Financial Engineering in the Development of Islamic Financial Banks' Products - A Study of a Sample of Innovative Islamic Financial Products for Some Islamic Financial Institutions during the Period 2010-2012*. Master's Memorandum, Banking Finance Specialization, Al-Arabi University, 49–51.
13. Samar, Kh.M.G. (2017). *Obstacles to Sustainable Development in the Countries of the Islamic World - An Analytical Study Applied to the Arab Republic of Egypt*. Research Paper, Shaqra University.
14. Yousfawi, S., Makhlofi, A. (2017). The Role of Islamic Financial Engineering in the Innovation of Islamic Financial Products. *Al-Bashaer Economic Journal*, III (1), 121–122.

Received: 03.10.2025

Approved: 12.01.2026