Channeling Asset-Managed Sukuk Towards SMEs Financing: Sukuk Mudaraba Prototype Applied To A French SME

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Abstract — **Asset-managed sukuk is a pure innovation that we prototyped in the French market where SMEs financing is a national priority due to the bad economic conditions. This paper aims at presenting the result of the research and structuring exercise over a prototype for a Mudaraba Sukuk which is being proposed to the market, hoping to open the doors to more project finance type sukuk issuance, especially for (small) Euro denominated ticket.**

We discuss how the main issues arisen to SMEs financing such as opacity of information, lack of historic track-record, adverse selection in the theoretical framework of asymmetry of information can be resolved using an incentivized scheme of asset management along with a strong security package that holds ownership access rights in the hands of investors.

Key words : Islamic Finance, sukuk, asset management, SME, asset finance, France study

I. Introduction

The history of the epic Lehman Brothers' crash as a conventional bank is much well known and reported than the crash occurred in the Sukuk market in the year 2007-2008. The latter is not due to a single player fading away on the pile of its debt but it represents the systemic impact of a statement and a later clarification from the global standards' setting body in the Islamic Finance world, the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions).

AAOIFI's previous president of the Sharia Council[1], a well-respected scholar in the market, declared in a statement in November 2007 that some "85 per cent of outstanding sukuk had failed the Shariah-compliance test on the basis that they were 'asset-based' rather than 'asset-backed' with the guaranteed return of the face value of the sukuk on maturity and in the absence of a transfer in asset ownership to sukuk holders". This statement had many impacts, first on the volume of Sukuk issuance in the market and second, on the juridical validity of sukuk which became unstable. In effect, this statement surprises the whole Islamic finance market and triggered a backlash on all Sukuk structures that were mere copy of their conventional counterparts. Later on, in February 2008, AAOIFI issued a guidance statement on accounting for investments and amendment in FAS 17. Summary of important issues raised in this guideline are:

- Sukuk issuances have to be backed by real assets, the ownership of which has to be legally transferred to sukuk holders in order to be tradable;
- Sukuk must not represent receivables or debts, except in the case of a trading or financial entity selling all its assets or a portfolio with a standing financial obligation, in which, some debts owing by third parties, incidental to physical assets or usufruct, are unintentionally included;
- The manager of the sukuk is prohibited from extending "loans" to make up for the shortfall in the return on the assets, whether acting as a mudarib (investment manager), or sharik (partner) or wakil (agent);
- Guarantees to repurchase the assets at nominal value upon maturity with the exception of Ijarah sukuk structures are also prohibited; and
- Closer scrutiny of documentation and subsequent execution of the transaction is required by Shariah Supervisory Boards.

Maurer (2010 [1]) investigated this controversial issue and concluded that for some, Usmani's declaration was a much needed corrective because of bad market practice due to the excesses of sukuk issuances and structured financing vehicles too close to conventional bonds. To others, it was an overreaction, born of impatience with the pace of development of Islamic financial institutions and markets, and a too optimistic view of the state of Islamic finance that needs to depend less on the globally interconnected and interdependent conventional world.

From this date, Islamic finance academics and practitioners came to be more thoughtful on issuing sukuk on the basis of the ethics of Islam which is among the objectives of Islamic banking and finance, and is also one of the greatest means of establishing Islamic economies in society. This would be possible only if the tools used to develop and structure sukuk are in consonance with the fundamental principles which distinguish Islamic economic systems from others. The basic concept behind issuing sukuk is for the Sukukholder to share in the profits of commercial enterprises. If sukuk are issued on this basis, they will play a major role in development of Islamic

[1] Pr. Taqi Usmani, speech on *Sukuk and their Contemporary Applications*, 2007

banking and finance and thereby contribute significantly to the achievement of the noble objectives sought by Islam.

In practice though, if Sukuk are clearly not defined as conventional shares or bonds, they are somehow defined according to the AAOIFI standard norm number 17 as "certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity". This is unfortunately not a language that financial markets use, and practitioners[2] have difficulties in scoping to what extent sukuk can or should be considered as equity or debt products. There is probably a missing gap between general standards such as AAOIFI ones and more practical guidelines driven by professional associations such as the Loan Market Association (LMA).

If Sukuk have reached the point to be a necessary liquidity tool for the Islamic financial system, it poses still many challenges in their structuring and usage. They can be in numerous formats[3], but are perceived by the market depending on their risk profile and their financial nature. Indeed, they are categorized on the one hand, from a legal and Islamic structuring level as asset-based (corporate risk and recourse to the originator) or as asset-backed (project risk with recourse to the underlying asset protected against the issuer's bankruptcy risk). As part of the fixed income family, sukuk requires tradability for their liquidity, which depends on their underlying assets together with the Islamic contractual relationships performed at the asset origination phase (sales, leasing or partnership Islamic type contracts). On the other hand, from a risk and finance structuring level, sukuk fall easily in the comparison with asset backed securities (ABS), profiled in terms of rating as secured or unsecured financing with senior ranking in the sense that a claim can be done on the assets directly or over the guarantor's balance sheet liabilities, where the original assets stand.

Our intention in this paper is not to redesign a new sukuk structure or to argue whether Sovereign Sukuk are as performant as conventional bonds but rather, to study the different applications of sukuk as we believe not enough has been made on the ground to democratize the access of innovative and risk sharing instrument in favor of SMEs. We aim at introducing more transparency and clear cut nature of sukuk where investors understand the risk sharing purpose while issuers are channeled in a simpler execution mode with aligned asset management guidelines.

As the overall market is evolving towards more ambitious structures such as perpetual or hybrid sukuk, or even trying to replicate the features prevailing in European jurisdictions such as Covered Bond or EuroBond, we developed a simple yet ambitious experimentation of a SME Sukuk as close as the partnership format required by Islamic ethics. We aim at exploring a third path, aside from the existing asset-based and asset-backed options, rendered in the form of an asset-managed sukuk. The case we are detailing in this paper uses the cash flow to be generated from the project as a device which can be asset-managed by independent specialists and not the issuers' related entities in order to move away from potential conflict of interest. Regardless of the size of the originator, it can be a SME as we like it to be, the attractiveness of such sukuk stand in the robustness of the project cash flow and the capacity of the third party to ensure the proper execution of the business plan using an incentivized profit sharing ratio model in the true spirit of mudaraba agreement. We use simple yet innovative agreement through asset management mandates in a mudaraba setup rather than plan vanilla asset-based Sukuk that replicates conventional risk return profile.

The paper is organized as follows. We discuss asset securitization features and comparison with the Islamic version in section 2 and 3. In section 4, we analyze whether securitization can be applicable to SMEs needs and under which conditions. Our experimentation on a real case for a French SMEs is used in section 5 to highlight the features of such asset-managed sukuk along its challenges. We conclude in section 6 on to how new avenues can be explored by market participants for SMEs financing alternatives.

II. Asset securitization: a risk management and funding device

Securitization is the transformation of an illiquid asset into a security, this is a broad definition accepted by the economic literature. This process of creating securities can be done for public or private markets from an individual portfolio or from multiple portfolios of assets (type of assets that we will develop later). Asset securitization, more precisely, is a structured finance technique that consists of taking credit to be provided directly to market institutional investors rather than through financial intermediaries. The rationale behind securitization is quite simple. It is based on the assumption that assets are, in certain conditions, worth more off the balance sheet of the creditors than on it (Giddy, 2001)[4].

But the way securitization is done has evolved over the years. One can undisputedly say that the financial crisis of 2008 has changed both the way conventional and Islamic securitizations are performed. We will discuss in detail one after each other the conditions in which these processes work, highlighting their positive impact in terms of funding and risk management.

A. What is the value proposition of securitization?

Securitization transfers financing from the firm to capital markets. It is clearly one of its best value propositions to act as a disintermediation from the financial intermediaries such as banks or credit institutions. The whole question is to evaluate the nature of this transfer and the potential shortcomings in terms of asymmetry of information and conflict of interests from the parties involved in the process.

[2] The author is a market practitioner who has structured the first SME sukuk in France (listed on Bloomberg, 2012)
[3] AAOIFI suggests more than 14 types of sukuk depending on their underlying contracts

[4] Presentation on the securitization process, Stern School of Business, NYU, I. Giddy

By engaging in securitization, both conventional and Islamic institutions are looking for debt refinancing alternatives, thanks to capital markets which have proven their capacity to efficiently allocate funds to assets' exposures. Research conducted by IMF staff (Čihák and Hesse, 2008 [2]; Hesse, Jobst and Solé, 2008 [3]; Jobst, Kunzel, Mills and Sy, 2008 [4]) show that securitization serves as a refinancing mechanism to diversify external sources of asset funding and to transfer specific risk exposures.

According to the authors, asset securitization converts regular cash flows from a diversified portfolio of illiquid present or future receivables (liquidity transformation and asset diversification process) of varying maturity and quality (integration and differentiation process) into negotiable capital market paper ("tranches") issued by either the originator of the securitized assets/receivables or a non-recourse, single-asset finance company ("special-purpose vehicle" (SPV)). So these tranches are contingent claims on a designated portfolio of securitized assets, which can be "divided into different slices of risk to appeal to a range of investors" (Wighton, 2005 [5]).

Issued debt securities differ in seniority and risk exposure ("stratified positions"), whose subordination creates leveraged investment on the performance of securitized assets ("reference portfolio"). Both investment return (principal and interest repayment) and losses associated with the underlying reference portfolio are allocated among the various tranches through prioritized contractual repartitioning according to subordination (Telpner, 2003 [6]).

This risk sharing mechanism sustains a fine-tuned security design of customized debt securities with optimal mean-variance properties. Hence, issuers of asset-backed securities improve overall market efficiency by offering marketable financial claims on securitized asset exposures at merchantable quality (Kendall, 1996 [7]).

From a broader economic perspective as asserted by the IMF research team, the evolution of efficient securitization markets has served to mitigate disparities in the availability and cost of credit in primary lending markets by linking singular credit facilities to the aggregate pricing and valuation discipline of the capital markets.

B. Risk management and information transparency

Issuers are enablers of asset risks diversification through disintermediated debt refinancing. The economic reasoning of securitization is based on the ability of issuers as profitable enterprises to maximize shareholder value as the principal goal of economic activity. Management decisions evaluate the economic impact of different business ventures on shareholder value. Financial activities within business entities have to use their expertise and funds into the execution of business plans that can be understood by capital markets which are the ultimate source of capital.

There are benefits of the securitization to the originators as well as investors and how it could mitigate the risks in the capital market which are as follows:

For originators:

- Transforming relatively illiquid assets into liquid and tradable capital market instrument.
- Cheaper financing cost due to higher rating via credit enhancement.
- Allows diversification of financing sources.
- Facilitates removal of assets from the organization's balance sheet.
- Reduces cost of finance if SPV is serving as multiple originators by pooling assets.

For investors:

- Provides a variety of products choices at better spread that attract a diversified investor profile.
- Variety and flexibility of credit, maturity and payment structures and terms via securitization techniques that allow investment products to be tailored to specific needs.
- Pooling of diversified assets with heterogeneous risk mitigates' earning risk.
- Undivided ownership of the assets is an added protection.

For capital markets:

- The existence of secondary securitization markets facilitates benchmark purposes.
- Facilitates and encourages efficient allocation of capital.
- Enables reduction of risk within the banking system.

Securitisation confers upon issuers mainly financial advantages related to more competitive capital management through efficient asset funding. Further objectives of securitisation might also include active balance sheet restructuring, market-oriented risk management of credit risk and diversified liquidity.

According to the IMF research, Risk Management is a transmission and control mechanism, which encapsulates different approaches by firms which choose between the risk-return profiles of alternative (investment) strategies to maximize shareholder value. Asset securitisation is one operational means of risk management, which allows issuers to reallocate, commoditise and transfer different types of risks (e.g. credit risk, interest rate risk, liquidity risk or pricing risk) to capital market investors in return for some fair market price. While banks and other financial institutions view securitisation as a way to alleviate the regulatory capital charges for credit exposures of similar risk ("optimisation of regulatory capital"), non-financial entities would employ securitisation primarily for the liquidity management of existing trade receivables. And this is a pressuring demand from the SMEs, whether it relates to existing or future trade receivables, as we will see later.

C. Capital structure choice and incentive problems in asset securitization

Asset securitisation might also redress conflicts of interest between creditors and shareholders in the capital structure choice of firms concerning possible agency costs from "underinvestment" (Myers, 1977 [8] and 1984 [9]) and "asset substitution" (Jensen and Meckling, 1976 [10]) due to excessive levels of debt or the presence of non-value maximising investment behaviour respectively. Benveniste and Berger (1987 [11]) show that securitisation tranches resemble secured debt, whose agency costs may be lower than for unsecured debt. Similar to secured debt, securitisation allows issuers to appropriate partial debtholder wealth by carving out a defined pool of assets to satisfy securitised debt claims, which do not capture gains from the firm's future investments. This prioritisation of debtor claims potentially alleviates underinvestment and renders existing debt less inhibitive on the realisation of new investment opportunities. As a consistent consequence of the thinking about the capital structure choice, issuers, large or small companies, with high agency costs of debt and/or low growth prospects should be more likely to engage in asset securitisation.

Analysing the effects of asset securitisation on the capital structure decision as a funding choice under asymmetric information holds also true. Under the pecking order theory (Myers and Majluf, 1984 [12]) issuers with severe information asymmetry problems would prefer to issue secured debt (i.e. asset backed), which carries lower agency cost, because investors receive their repayment directly from a diversified pool of asset exposures insulated from the issuer (Shyam-Sunder and Myers, 1999 [13]). The trade-off theory would restrict this choice only to cases where the marginal benefit of debt outweighs the associated amount of agency and financial bankruptcy cost. Hence, under the pecking order and trade-off theory, asset securitisation is the refinancing instrument of choice for issuers looking to commoditize their asset book, but issuers who are suffering from high agency costs of asymmetric information.

The complex security design of securitised debt also suggests superior information of issuers about the true valuation of securitised debt. Hence, rational investors would form negative beliefs about the actual quality of securitised assets and expect the adverse selection of securitised debt with poor reference portfolios similar to the lemons market problem famously proposed by Akerlof (1970 [14]). Since investors assume all (or most) transactions to be of poor quality, they request a reservation utility in the form of a lower selling price and/or higher return ("underpricing") as compensation for the anticipated investment risk of a disproportionately large share of poor transactions in the securitisation market. Recognizing the asymmetric information, issuers suppress the pecuniary charge associated with the lemons premium by soliciting increased transparency about the true value of securitised assets through signalling and screening mechanisms. Commonly issuers commit additional internal and external resources to a securitisation transaction, such as reserve funds, variable proceeds from excess spread as well as second loss positions and liquidity facilities, as a costly signal of asset quality.

Asset securitization is generally performed through two techniques, which is a good way to understand where Islamic securitization stands in this perspective, subject of our next section.

An asset-backed bond (ABB) is a debt obligation collateralized by a reference portfolio of on-balance-sheet assets of the originator. ABBs are over-collateralized as a form of credit enhancement, i.e., the value of securitized assets exceeds the notional value of issued debt obligations. As opposed to pass-through transactions, the cash flows from the reference portfolio are not dedicated to investors, who have no direct ownership rights to them. Frequently, the underlying reference portfolio is reconfigured, with a residual claim held by the issuer/originator. A pass-through payment structure conveys direct ownership of investors in a reference portfolio of off-balance-sheet assets, which are similar in maturity and quality. The originator services the portfolio, makes the collections and passes them on, less servicing fee, to investors—without reconfiguration of the cash flows. A pay-through bond combines security features of both a pass-through and an ABB. One can argue that the originator's role is yet to be asserted in the true spirit of Islamic finance regarding transparency and avoidance of uncertainty providing ground to conflits of interest (gharar).

III. ISLAMIC SECURITIZATION: AN ENFORCED RISK-SHARING DEVICE

Securitization is probably one of the most important financial innovations that occurred in the last part of the previous century. The economic development of the conventional financial markets relied for a great part on securitization, which introduced a fundamental change in the banking industry. Indeed, it allows banks and also non-financial firms to access a great liquidity management tool for a better use of their assets tied in their balance sheet. With the new funds raised off the sale of the loans, they can increase new lending. At the same time, risk transfer has increased significantly due to securitization. In fact, as illustrated by the subprime crisis, there was a pressure for the banks to gear up their loan origination capacity and the distribution of their risk: soon after the loan has been granted, it is packaged into a bundle of other mortgages, given a risk assessment by a rating agency and sold out through Asset Backed Securities.

Securitization has somehow shaped a new type of banking called the Originate To Distribute (OTD) model, where relationship with the customer is reduced in favor of a transaction-based bank where its main proceeds come from the fees they earn originating and packaging loans.

This OTD model is not free of risks as the subprime and general financial markets crisis has shown. The main issue stands from the incentives that the lender is given, in order to properly screen and monitor borrowers, since it is going to get rid-off the credit risk as soon as possible.

On a different perspective, Islamic Finance has grown up on the tenets of some moral background that favors risk sharing principles (al-Ghunm bi al-Ghurm) and transparency prescription (gharar).

Other principles such as the prohibition of interest-bearing activities (riba), speculation (maysir) and the obligation to engage in entrepreneurship type of investment away from bad faith behaviors (alcohol, pornographic, casino, etc.) have led Islamic financial institutions trying to replicate the conventional finance via more complex structural arrangements of contingent claims (Mirakhor and Iqbal, 1988 [15]).

Although both Islamic and conventional finance are in substance equivalent to for-profit finance and yield the same lender and investor pay-offs at the inception of the transaction, they differ in legal form and might require a different valuation due to dissimilar transaction structures (and associated legal enforceability of investor claims) and/or security design (Jobst, 2006 [16]). Most importantly, Islamic finance substitutes a temporary use of assets by the lender for a permanent transfer of funds to the borrower as a source of indebtedness in conventional lending. Retained asset ownership by the lender under this arrangement constitutes entrepreneurial investment which is the key towards both SMEs finance and Islamic Finance. The financier receives returns from the direct participation in asset performance in the form of state-contingent payments according to an agreed schedule and amount. This is a main pillar of Islamic finance techniques which pose challenges to be applicable in the different jurisdictions or banking system too much geared towards collateral-based debt, and it is especially true for SMEs looking for Islamic finance alternatives.

A. Adapting the Principles of Islamic Finance to Securitization

Since most Islamic financial products are based on the concept of asset backing, the economic concept of asset securitization is particularly adaptable to the basic requirements of Islamic finance. Islamic securitization refers to the process in which ownership of the underlying assets is transferred to a large number of investors in the form of instrument, namely sukuk. The ownership of the securitized assets is transferred to a separate entity that is set up for dual purpose of managing the assets on behalf of the sukukholders and for issuance of the investment certificates. The contractual rights attached to sukuk determine the mutual ownership and benefits of the securitized assets for the individual investors who subscribe to the sukuk. The sukuk holders earn any revenue generated by the project in the form of sale or leasing agreements (Murabaha, Ijara, Salam, Istisna) and/or capital appreciation of the assets involved through partnership-based agreement (Mudaraba, Musharaka, Wakala bil Istithmar).

Islamic securitization transforms bilateral risk sharing between borrowers and lenders in Islamic finance into the market-based refinancing of one or more underlying Islamic finance transactions (Hesse, Jobst and Solé, 2008 [3]). In its basic concept, originators would sell existing or future revenues from lease receivables (asset-based), sale-back profit (debt-based at nominal value) or private equity from a portfolio of Islamically acceptable assets (asset-backed) to a special purpose vehicle (SPV) which refinances itself by issuing unsecured securities to market investors, most of the time represented by a trustee or an outside manager. The investors assume the role of a “collective financier” whose entrepreneurial investment does not involve guaranteed, interest-based earnings.

Islamic securitization must confer upon investors clearly identifiable rights and obligations in securitized assets in order to ensure direct participation in the distribution of risk and reward of the contractual agreements with limited risk mitigation. Hence, from a procedural and substantive perspective, Islamic securitization would need to involve the conversion of uncertain, business related proceeds of direct investment in real economic activity compliant with the Islamic ethics.

Based on the requirements set out by Islamic Scholars, the conventional pass-through payment structure (i.e., equity participation) of traditional securitization seems to be closest to the strict interpretation of Islamic principles, which require the transfer of a minimum level of ownership to ensure direct investor participation in the business risk associated with the performance of a dedicated collateral pool of securitized assets. If the pass-through transaction removes the securitized assets from the originator’s balance sheet (off-balance sheet), ownership conveyance through true sale should satisfy the required criteria from Islamic law to compute the exclusive dedication of cash flows from the underlying asset to establish the linkage of ownership interest to identifiable economic activity.

B. Sukuk as a way to approach asset securitization

Sukuk are not new for the international capital markets anymore with all major institutions looking to grasp a share of this growing market. Over the last few years, sukuk have evolved as a viable form of capital market-based Islamic structured finance, which reconciles the concept of securitization and principles of the shariah law on the provision and use of financial products and services in a risk-mitigation structure subject to competitive pricing (El-Qorchi, 2005 [17]). Sukuk are not only issued by entities from the Islamic world but also from the non-Islamic, the latest participants on the launch list being The UK, Luxembourg, South-Africa, Senegal, following multinational companies initiated by Shell in the 1990s, GE in 2009 and the latest international banks such as HSBC, Société Générale, etc.

According to Moody’s[5], due to the nature of sukuk, all transactions are likely to involve a set of underlying assets. Both parties – the issuer and the investors – share the risks in the transaction. Where investors enjoy asset-backing, they benefit from some form of security or lien over the assets, and are therefore in a preferential position over other unsecured creditors. In other words, in the event that the issuer were to default or become insolvent, the sukuk holders would be able to recover their exposure by taking control of, and ultimately realizing the value, from the underlying assets. In such a case, the transaction may achieve a higher rating, compared to the unsecured issuer rating of the originator, subject to certain conditions.

Where the transaction is asset-based (which has been the case for the vast majority of bank Sukuk so far), the originator undertakes to repurchase the assets from the issuer at maturity of the Sukuk, or upon a pre-defined early termination event, for an amount equal to the principal repayment. In such a

[5] Understanding Moody’s Approach to Unsecured Corporate Sukuk, Special Comment, 2007

repurchase undertaking, the true market value of the underlying asset (or asset portfolio) is irrelevant to the sukuk holders, as the amount is defined to be equivalent to the notes. In this case, investors in sukuk rely wholly on the originator's creditworthiness for repayment. This class of skuk is identical to unsecured lending from a risk perspective and hence attracts a similar capital charge as reminded by Moody's.

Further, if we refer to Moody's analysis for such structures, Sukuk ratings comply to the following methodology:

- Asset-Backed Sukuk, for which the ratings are primarily dependent on a risk analysis of the assets;
- Unsecured (Repurchase) Sukuk, for which ratings are primarily dependent on the riskiness of the borrower/sponsor/originator/lessee.

C. Sukuk as a tool to structure return out of risk profiling

The requirement of a direct linkage between identifiable assets and investors' funds under Islamic law belies the commercial interest of establishing a legal separation of assets from the bankruptcy estate of the asset originator.

From a market practitioner's point of view, we distinguish between the two structures of sukuk contracts that convey shariah-compliant asset ownership to investors: either (i) asset originators themselves issue notes backed by existing Islamic assets, or (ii) the originator sells Islamic assets (and/or the proceeds thereof) to an unaffiliated SPV, which issues notes with a put/tender feature to fund the acquisition of assets. The notes are funded by the proceeds from the underlying assets paid to the SPV as part of the repurchase obligation by the asset originator. Depending on the claim-generating asset type of Islamic finance, the SPV acquires ownership rights on either (i) existing assets within a lease-purchase or sale-repurchase agreement, or (ii) future assets as equity investor, and structures the anticipated cash flows from these assets into sukuk payment obligations of different risk and maturity. These obligations entitle investors to a pro rata ownership in the SPV and the proceeds generated from the net revenue of a loan, a lease or an investment project. The amount of debt issued is limited to the value of assets held by the SPV.

So far, research studies (Jobst, 2006 [16]) indicate that many sukuk issues have utilized sovereign guarantees to redress the prohibition of credit enhancement or any other form of provision that mitigates business risk. While tranche subordination can be replicated by the combination of sale-leaseback contracts in conformity to Islamic law, other forms of credit enhancement in conventional securitization, such as over collateralization, reserve and spread accounts ("excess spread"), and the retention of equity claims appear more difficult to implement within the limits of shariah compliance. If the issuer acts as residual claimant and retains undistributed cash flows generated from securitized assets as excess spread, the transaction would not qualify as a complete pass-through structure with full ownership by investors and might be deemed incompatible with shariah principles. Instead, under the tenet of direct participation in underlying business risk Islamic investors would need to contribute own income to fund a reserve account to cover possible losses.

Securitisation is commonly understood as an important risk management tool, mainly because its inherent differentiation and integration process (risk restructuring) allow issuers to reduce their cost of investment funding by segregating the risk exposure of a designated pool of assets. However, the conversion of balance-sheet risk into marketable securitised debt involves refined and complicated financial structures, which affect how credit (or asset) risk, market risk, liquidity risk and operational risk. The degree of investment risk in asset securitisation stems from two areas, namely (i) the characteristics and performance of existing and/or future receivables and other financial assets as sources of payments to the securitisation transaction (collateral level) as well as (ii) the allocation and distribution of payments from securitised assets to holders of the various tranches of issued debt securities (security level) in accordance with specific payment priorities and loss tolerance levels.

When investors are looking at securitisation transactions such as Sukuk deals, they are concerned with the credit (or asset) risk of fully and timely repayment of securitised assets in the underlying reference portfolio. Although credit risk transfer by means of structured finance debt obligations lies at the core of risk management through securitisation, there is a host of further credit risk contingencies beyond the collateral level, such as the servicing function of securitised assets, the payment of administrative fees to the SPV, the transfer of payments from debtors to investors and counterparty risk. Issuers apply structural provisions to mitigate credit risk, such as (internal or external) credit enhancement and risk sharing mechanisms (through the subordination of issued debt securities) to attain a desired credit risk profile for issued debt securities.

The Islamic securitization market is still plagued by illiquidity due to limited depth and breadth, which inhibits efficient price discovery and information dissemination (Archer and Karim, 2002 [18]). Although the commoditization of illiquid asset exposures through securitization facilitates the disciplining effect of capital markets on risk management, the lack of information from private sources about securitized assets in many sukuk impairs fair market valuation. Moreover, the distribution for smaller corporate deals has often been restricted to one "buy-and-hold" investor in the past, while the prevalence of sovereign guarantees has made asset risk incidental to counterparty risk and credit support mechanisms sponsored by sovereign goodwill, hampering market maturity and investor sophistication. Beyond this economic and market maturity challenges, it is important as well to see if Islamic securitization, in one form or another, can be an alternatives to smaller entities in the long run, part of the mission of Islamic finance to serve the real economy.

IV. SMEs FINANCING AND ALTERNATIVES: IS SECURITIZATION AN APPROPRIATE RESPONSE?

As a short introduction to this section, it is important to recall that SMEs (Small and Medium Enterprises) are at the heart of European industrial R&D and innovation. Far from being the left over from business entities, they are a vibrant and innovative part of the European economy. SMEs account for 99% of all firms in Europe, approximately two thirds of total private sector employment and play a disproportionately important role in generating employment.

In France and as elsewhere, there has been lengthy debate on whether the banks are still providing enough credit to SMEs during this time of recession. On the one side, banks argue that new capital adequacy requirements such as Basel II and III are a putting strain on their capacity to allocate loans to riskier and smaller corporates like SMEs. On the other side, governments are thriving to provide liquidity and guarantees to the market in order to sustain the origination of credit to smaller players that cannot have a direct access to capital markets.

The question comes then to whether SMEs can tap into alternative sources of funding, from non-financial institutions or from institutional investors directly. To this end, many academic and government-led research have been conducted, probably the most comprehensive report has been done at the European commission level with the latest SME Loan Securitization initiative[6].

From this perspective, it is understood that banks do not lend to SMEs to support the economy but make a complex calculation of the profitability of their SME business, especially in relation to their other activities. In these calculations there are multiple parameters such as origination, credit assessment and servicing costs (Kraemer-Eis et al, 2010 [19]). However, the degree to which banks can transfer their assets (market liquidity) is a fundamental driver for banks' asset allocations and lending decisions. Acknowledging that SME loans are amongst the least liquid assets in all of the European countries, the SME loan securitisation has been launched in order to ease the current situation.

A. *European Commission's approach to SMEs financing*

The European Commission and especially the European Investment Fund, SMESec "creates indirectly a secondary market for SME loans, combined with funding for the originator: a bank acting as the originator extends loans to its SME customers, bundles them together in a pool and sells the portfolio to capital market investors through the issuance of notes by a special purpose vehicle backed by such a loan portfolio (asset-backed securities)" (Kraemer-Eis et al, 2010 [19]).

What was true for securitization in general as discussed earlier, is true for SMEs as well. Securitization of SME loans is the most efficient means to enhance access to debt finance by SMEs: by transferring their credit risk to the capital markets in an effective manner, banks achieve capital relief and free up capacity for new loans to SMEs. Again, the question is what is meant by transfer of risk which would need to comply to Islamic rules if Islamic funding is to be call upon to be allocated to European SMEs. In short, any initiative has to have features of a risk sharing instrument which means to engage not only the liabilities side of the security but the asset side as well, in effect, sharing the tangible underlying assets that provide the necessary ground for any claims and the substance of the profit share. Risk sharing is the new mantra for the financial world, whether we are ready or not, it is collective challenge to overcome its fair assessment within acceptable level of transparency and costs.

B. *Information asymmetries and transaction costs for SMEs*

Information asymmetries are a key determinant of the problems experienced by SMEs in accessing funding, as they are the basis for a structural hesitancy of providers of SME finance. Transaction costs first and foremost tend to magnify the impact of information asymmetries in financial transactions, thereby aggravating the conditions faced by smaller firms.

Asymmetric information is a more serious problem in SME financing than in banking activities of larger firms. OECD (2006 [20]) states that "the entrepreneur has access to better information concerning the operation of the business and has considerable leeway in sharing such information with outsiders. However, the entrepreneur is also likely to have less training/experience in business than those in a larger company, although more adapted to operating in an uncertain environment. Hence, it may be difficult for the outside provider of financing to determine whether the entrepreneur is making erroneous decisions or for the outsider to understand the business adequately. In addition, the entrepreneur may have incentives to remain opaque, not only in dealings with financiers, but also with outsiders such as regulators and tax authorities."

The literature on information asymmetry suggests three ways to reduce it: a firm's ability to signal its credit worthiness (including an institutional assessment or rating by an independent agency and the provision of collateral), a strong relationship between lender and borrower (proximity), and through due diligence/lenders' examination (screening). Small enterprises, young companies or start-ups by definition have no track record, often only limited collateral, and no long standing relationship with lenders. One could even simplify that: the smaller the company, the bigger the information asymmetry and thus the higher the transaction costs in relative terms (Pelly and Kraemer-Eis, 2011 [21]).

Moreover, the use of collateral increases the cost of lending (from the perspective of the borrower, e.g. legal and administrative cost), and the collateral may be worth more to the borrower than to the lender. Credit guarantee mechanisms are intended to address these market failures as they reduce the financial loss of the lender in case of default of the borrower (OECD, 2013 [22]).

SME loans are, in principle, less homogenous than residential mortgages (with regard to size, legal forms, collateral etc.) and the underwriting criteria are less standardised. On the other hand, SME loans are typically

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6 SME loan securitisation (SMESec) www.eif.org/EIF_for/sme_finance/index.htm accessed on May 10th, 2014

thoroughly analysed by credit experts and systems (e.g. most banks apply detailed quantitative internal rating methodologies on top of more qualitative assessments). Moreover, banks normally use a relationship banking approach and know their customers very well, thus enabling them to manage the risk of the customer over the long term in contrast to the more automated lending decisions seen in the mortgage and credit card markets. This distinguishes the European initiative SMESec from those other securitised asset classes.

In order to restore confidence in this market and to revive primary market activities, greater standardisation and transparency is needed, as well as the avoidance of overly complex structures. Due to the challenges that the SME ABS market has been facing since the crisis, financial institutions have been seeking alternative means of funding SME loans. In Germany, Commerzbanks' issuance of a structured SME covered bond has attracted quite a lot of coverage and renewed the discussion of the participation of SME loans in the covered bond space, although this is a topic of hot debate at the moment.

Moreover, in France a scheme is under discussion and development under the lead of the Bank of France to help banks to package SME loans into tradable securities via a special purpose vehicle (SPV). The approach combines elements of securitisation (i.e. French Fonds Commun de Titrisation (FCT) rules) and the covered bonds law (i.e. Societiés de Financement de l'Habitat (SFH)), in order to boost SME funding (Sanderson, 2013 [23]).

These transactions can help to support SME financing via funding advantages for the originating banks, and it might well be that in many countries legislators are going to introduce covered bonds legal frameworks. Achieving the same for Islamic Securitization would be a great step forward.

C. Direct lending funds to SMEs and asset management of SMEs portfolio

Given the sustaining credit crunch that is impacting heavily the SMEs, regulators and market professionals have been looking to banking alternatives to propel other forms of financing to this sector of economic activity. As a consequence of this context of prolonging European banking crisis, and the consequent changes in banking regulation and structures, a new asset class called SMEs direct lending is emerging. Report from Eurocredit Exchange[7] suggests that SMEs direct lending is Europe's newest and most exciting real asset class and has the potential to become one of the largest.

The structure of the debt tends to be bilateral loans secured on the operational businesses, with either a single lender or club of lenders participating. In broad terms, there are three typical types of structures most prevalent:

- Lending alongside a bank: an institutional tranche with either a longer tenor or bullet structure alongside a bank's senior secured, covenanted, amortising loan tranche. Alternatively an institution provides similar bank-type financing directly.
- Replacement of bank: unitranche or stretched senior product. Higher total commitment, higher leverage, additional covenant headroom and more flexible use of proceeds. A bank normally provides a super-senior revolving facility or perhaps a "first out" piece.
- Junior or subordinated lender: mezzanine or with an equity kicker or preferred equity.

Direct-lending can have three distinct advantages over the traditional bank lending offer, namely longer term-financing, as well as more flexibility in both the structure (e.g. senior, mezzanine, unitranches and even equity contributions, non-amortising, greater covenant headroom) and in the use of proceeds (e.g. growth, acquisition, capex and dividend recaps). Direct-lenders are also often willing to explore industry sectors and geographical jurisdictions that the main banks are now more reluctant to lend to. Naturally such flexibility may come at a higher cost to the borrower but this generally reflects an appropriate price and compensation for the higher respective risk.

Direct-lending funds often have long lock-ups of committed capital, i.e. 5-10 years, and can therefore provide longer term financing (especially to levered corporates) than most banks (as a bank's capital requirement is a direct function of tenor and credit quality). Private placement bond investors can envisage even longer tenors, especially Pension schemes and Insurance Funds looking to match long-term liabilities. As the tenors are longer for these loans, and Direct-lenders are hold-to-maturity lenders, then respective borrowers and lenders become highly aligned to the long-term success of the business. Borrowers with access to more flexible, longer-term financing from non-bank institutional lenders can benefit from a more stable business outlook and greater operational flexibility. Direct-lenders do not require a borrower to have an official credit rating which represents a significant cost saving compared to the public corporate bond market.

On the supply side, there are some growing advantages for long term institutional investors to allocate funds to SMEs over competing asset classes for different reasons:

- It exhibits less volatile asset pricing
- It enables increased diversification of corporate exposure
- It provides better management of the illiquidity risk premium

With the expertise of asset management team specialized in SMEs investment, funders such as insurance and pensions companies, can gain exposure to better risk-adjusted portfolio return, increased diversification of risks to corporate exposure (compared to existing large cap public bond and equity capital markets), lower pricing volatility (held at amortised cost) and be able to match direct-lending assets to liabilities in a more stable and transparent manner. This is a typical model setup in France with Asset Managers specialized in SMEs debt origination such as Acofi AM or Tikehau AM.

[7] http://eurocreditexchange.com/wp-content/uploads/2014/01/MM-Direct-Lending-Overview-Jan-2014.pdf accessed on May 14, 2014

V. SMEs ALTERNATIVES FINANCING IN FRANCE: PROTOTYPE OF A LOCAL SUKUK ISSUANCE

SMEs financing issues in France are not new, different initiatives have spawn around from market professionals in order to come to adequate and accessible solutions.

In an attempt to structure a Mudaraba-based partnership financing instrument specifically for SMEs, called a "hybrid sukuk model", we achieved to launch the first private sukuk in the French market in 2012 (Patel, 2014 [24]). We demonstrated that, this setup makes transaction costs incrementally insignificant and as such, it does provide a credible alternative to conventional loans which are increasingly costly and inaccessible to smaller SMEs or entrepreneurs due to the credit crunch.

In short, this first model was neither an equity partnership where the capital investors take most if not all power and upside gain nor a pure collateral-based debt with a pre-defined interest rate disconnected to the performance of the project. But it is a true value-sharing instrument between an entrepreneur (Mudarib) with its expertise and business idea, and investors (Rab al maal) committing to a participative debt funding component (sak) completely modeled on the business plan and potential value of the underlying assets making it truly a risk sharing transaction. It is not a win-lose situation as for a classical lender to borrower relationship but a participative financing method dependent on the success of the project to generate the necessary cash-flow that gives a chance to the entrepreneur to grow and be successful with a performance shared with its capital partners (sukuk holders).

But this experience allows us to reflect on a broader perspective, and especially for SMEs that may not be able to provide tangible assets as collateral or a capital structure for quasi-equity financing. Indeed, we had to face many demands from French SMEs looking to working capital finance, trade finance, on a short to medium term needs with increasing size of capital allowance. We are detailing the salient points of our experience in the following case study. As background information, it is a meeting with an international scholar during the World Islamic Economy forum in Dubai in November 2013 and a page in the report published by Zawya Reuters at this event called "Air Time Sukuk" being proposed by international scholars in Asia that triggered the idea to prototype a new innovative sukuk SME structure in the French market.

A. Case Overview

In the late 2014, we have been approached by entrepreneurs looking to build on their trading operations between Europe and North Africa in the telecom business. The SME has a successful track record dealing with major international suppliers and clients in a niche sector but has to limit its purchasing capacity due to delay in payment from its customers. Working capital needs and receivables trading were the key business elements of this candidate for a new sukuk structure. In effect, the solution was to cover the funding gap for the timeframe when cash is submitted to the supplier in exchange of goods and the clients' payment cycle time which is ranging from 30 to 60 days.

To this end, after a long analysis of its business model and cash flow generation in the Telecom industry, we devised a kind of reverse factoring model in order to use investors' money to make the trading purchase done on robust ground as we will explain later. Sharing the profit obtained when the payments will be received from the customers on a yearly basis is at the core of the structuring exercise, again inspired by what has been called Air time Sukuk by market practitioners (best examples with Mobily in Saudi Arabia, 2008; Etisalat in UAE, 2010; Celcom in Malaysia, 2012).

Below is the process followed to structure this SME Mudaraba Sukuk in a form of Participating Bond in French law which has gotten approval from French Sharia Scholars and has been attracting potential interests from French speaking countries (France, Luxembourg and North Africa).

The Issuer is a French "Société par Actions Simplifiée", i.e. a limited liability company whose shares are held entirely by the Sponsor. Its sole object and activity is to finance the working capital needs of trading activities for which the shareholders of the Sponsor have particular expertise and wish to finance on a limited recourse basis.

For this purpose, the proceeds of the issuance of the Participating Bonds will be made available by the Issuer (the Mudarib) to a Commissioning Agent (legal name for the Wakil but in practice for our research discussion the Asset Manager) on a revolving basis under the terms of the Investment Agreement (Wakala) for the latter to purchase services from the suppliers and on-sell them, acting in its own name but on behalf of the Issuer, to the clients. One fundamental characteristic which is part of the whole transparency and tracking of the Mudaraba operations is that the agent will be entitled to make a cash call to the issuer to pay services to a given supplier only if at or prior to that time, there is an order from a client for a price that is higher than that payable to the relevant supplier. In this case, each cash call with the known buy and sell price will make the basis of the cash flow that will constitute the Mudaraba asset in order to compute the profit share between the Mudarib and the Investors (Rab al Maal).

In effect, amounts received from the Agent by the issuer under any operations on a dedicated bank account in any given year shall be applied as the cash waterfall as follows:

- First as payment of the relevant amount of commission and all other operating expenses of the issuer which are then due and payable;
- Second to the credit of Reserve Account 1, which is a bank account that collects all the expected remuneration until the credit balance of such account is equal to the yearly required amount;
- Third to the credit of Reserve Account 2, which is another separate bank account allowing to collect the aggregate of the required balance of that account (i.e. the nominal investment amount from the Sukukholders);

The Participating Bonds will carry the right to an expected remuneration equal to say 10 % per annum of the principal payable on each anniversary of the date of the issuance (this remuneration is derived from the profit sharing ratio set in the mudaraba agreement which is the essence of the Islamic structure). Should the proceeds of the trading operations not allow for the full payment of the expected remuneration in a given year, the Sukukholders will be entitled to receive a sum equal to the amount of gross profit margin received by the issuer during that year and credited to reserve account 1. Provided that no event of default has occurred and is continuing, payment of the shortfall will be carried over to the next date for payment of Expected Remuneration and will not attract late interest or penalties. If an Event of Default has occurred and is continuing, the Bondholders will be entitled to accelerate the repayment of the Participating Bonds and all sums owed in that respect.

B. *Structuring constraints from legal and sharia aspects*

Structuring such an ambitious product for a SMEs not familiar with structured finance required a robust financial and risk analysis with all necessary contracts setup to be agreed by the parties. The tenor of the Participating Bonds has been derived in order to procure enough capital flows for the issuer while securing the project risks from the investors' point of view. On top of the business planning and cash flow detailed analysis, there is a comprehensive security package that ensures that cash invested by the Sukukholders or the receivables arising out of the use of such cash is at all times secured for the benefit on the investors.

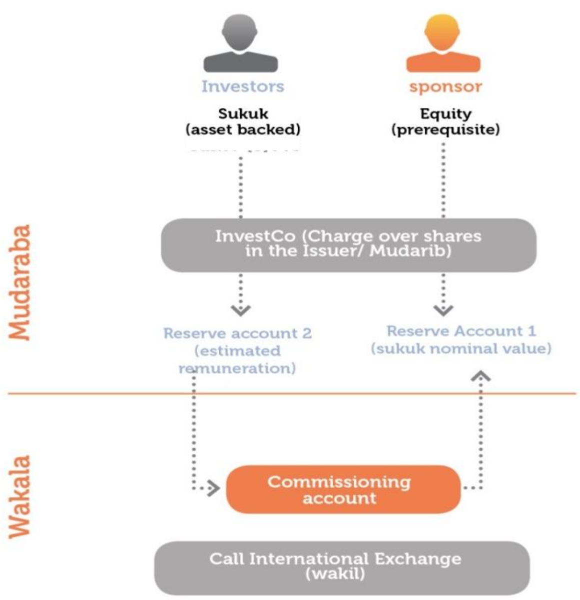
This list of security interests for the benefit of the Sukukholders is the result of long discussions between the parties including the Sharia Scholars in order to achieve a fine balance between acceptable risk sharing engagements and yet suitable to conform to the required form and substance of validation from Islamic laws:

- The shares in the issuer (SPV) are charged to the benefit of the Sukukholders so as to ensure, as much as possible, the transfer of the project as a going concern in the event of realization and that no change of control can effectively occur at that level;
- The proceeds of the issuance will be paid into the reserve account 2 which will be secured to the benefit of the Bondholders. Any payment of the principal of a trading operation from a client will also be made by the commissioning agent into Reserve Account 2 shortly upon receiving such payment.
- The client receivables of the commissioning agent against the client and the claim of the issuer against the investment agent for payment of the sums invoiced by the latter to the clients and, more generally, all claims of the issuer against the commissioning agent under the Wakala agreement will also be secured in favor of the Sukukholders so that in effect the principal of the Participating Bonds is always secured be it in the form of cash in Reserve Account 2 or in the form of the above mentioned receivables;

The capacity of the Issuer to fulfil its obligations towards the Sukukholders relies on receiving sufficient amount of margin out of the trading operations, which involves:

- Credit risk over the Operators which is mitigated by the credit quality of the existing Operators and the criterion for replacement or under consumption (acceptability to factoring companies);
- Performance risk taken on the commissioning agent which is mitigated by the fact that it is managed and controlled by managers with a strong track record in telecom trading and the priority awarded to the expected remuneration on the results of the first Trading Operations each year
- Operational risks regarding the process for the Trading Operations that a given client would withdraw a purchase order at a time where the commissioning Agent has made a cash call on the Issuer and has paid the corresponding Services to a supplier. Assumption of that risk is necessary in order for the structure to receive approval from the scholars committee.

The Sukuk certificates will carry the right to an expected remuneration payable on each anniversary of the date of the issuance. Should the proceeds of the telecom operations not allow for the full payment of the expected remuneration in a given year, the Sukukholders will be entitled to receive a sum equal to the amount of gross profit margin received by the issuer during that year and credited to reserve account 1. Provided that no event of default has occurred and is continuing, payment of the shortfall will be carried over to the next date for payment of Expected Remuneration and will not attract late interest or penalties. If an Event of Default has occurred and is continuing, the sukukholders will be entitled to accelerate the repayment of the Sukuk and all sums owed in that respect as shown in figure 1 below.



C. Shifting sukuk from traditional banking towards direct web-based funding

In this case, the mudaraba format of sukuk has been chosen to raise funds for different reasons. Mudaraba firstly, is part of the participating contracts that are praised by Islamic ethics as it truly engage parties in sharing risks before sharing profits eventually. Sukuk Mudaraba secondly, allow dividing the mudaraba capital (formed by cash from the investor and expertise from the operator) into equal value units representing shared ownership, each unit from the investors' capital is registered under a sukuk holder's name, which collectively reflect the common asset in mudaraba capital. Sukuk owners acquire a defined proportion of the project profit, which is set out in the sukuk issuance documentation (prospectus). Mudaraba sukuk neither yield interest nor entitle owner to make claims for any definite annual interest. This means that mudaraba sukuk are like shares with regard to vary returns, which are accrued according to the profits made by the project. This feature is not really specific to Islamic Finance as it is increasingly used in risk sharing finance which is especially getting more ground and appeal in the Crowdfunding dynamics. New types of loans are emerging among the different crowdfunding categories, not so for equity-based platforms but rather for reward-based or Profit/Revenue-sharing platforms[8]. In effect, all this is reflecting a new direction of finance towards asset and project finance facilitated by third parties (asset management or crowdfunding platform) that execute a trust mandate on behalf of investors.

Moreover, the other challenge in this case was to cope of the nature of the SMEs environment with lack of information, higher transaction costs and costs of risks. The approach from the beginning was to develop a first experiment that leverages structured finance and technology platform (called "fintech") and exploring new structure such as an asset managed Sukuk class developed on a web-based platform that originates, underwrites and allocates funds from pool of investors to different targets, capitalizing on the variant options of structured financing/ securitization offered by Islamic Finance. The key aspect here regarding SMEs and the latency of these business operations is to leverage technology to automate and simplify the whole process in order to gain respectively, speed and reduced operational costs.

Islamic securitization for Project Sukuk provides clear benefits to corporates but implies many impediments for smaller ventures. Our trial solution and its further developments consist of building a platform that is structured around few key features:

- An alternative to bank financing for small firms by creating the condition of a « covered pool sukuk » based on project finance techniques (true sale of assets pledged against secured business cash flow) that mutualises risks and rewards benefits;
- The pricing of such project financing should reflect not the credit scoring of the borrower but the rating of the underlying assets with their cash flow risk profile using project finance techniques in addition to the crowd sentiment of the business rationale of the project (issuers incur an obligation to repay Sukukholders who, but these payments are variable and are a function of the revenues or profits of the project);
- Transaction costs, thanks to technology, are incrementally reduced while process efficiency brings value to all parties especially investors who can have better transparency enabling better personal and trust relationships on a recurring basis (access to all information, anytime, anywhere, any device).

Eluding on the dynamics of crowdfunding, it would be very interesting to see its evolution over the years and how Islamic Finance can mold itself in this new alternative finance. Islamic Finance can not only be part of the (r)evolution but more importantly, it can drive the risk-sharing model which is at the heart of its ethics. The potential of these new ways of financing, less opaque, less virtual, less disconnected to economic activities can provide great potential for SMEs and entrepreneurs all over. It can turbocharge the resurgence of the cooperative model, in a digital format this time, and it can enable the decentralisation of global corporate control which today is concentrated in few transnational financial institutions because of their banking monopoly and their power of creating money.

It can also be instrumental in implementing lending marketplace such as the success of Lendingclub in the US or Funding Circle in the UK. Going back to our prototype facilitating working capital, it is interesting to note many initiatives are addressing the funding gap of invoices from SMEs with such platforms as Market Invoice in the UK or Finexkap in France, all new FinTech actors that are speeding to disintermediate the factoring and reverse factoring business.

As we are wrapping up this paper, a new article on Reuter[9] announces that Tawreeq, based in Dubai and Luxembourg, is aiming to give smaller firms a funding alternative to bank loans, which can be cumbersome and costly for most. The idea is to provide an Islamic trade receivables financing platform catering to the Gulf region's small businesses, with plans to tap the capital markets to fund the venture. "Conventional factoring is more a form of discounting bills, while our model is about the collaboration of buyers and suppliers to offer complete cash-flow solutions." This is definitely a great move towards better solutions for SMEs leveraging the securitization techniques to trade receivables. But the challenge is not merely channeling invoices against cash after an interest charge over its payments but more profoundly, rethinking the supply chain of finance and trade, by engaging financial institutions (i.e. direct investors, asset managers…) in the trade process, within

[8] The rise of future of finance, The UK Alternative Finance Benchmarking Report, Liam Collins, Nesta
Richard Swart, University of California, Berkeley, Bryan Zhang, University of Cambridge, December 2013

[9] http://www.reuters.com/article/2015/01/27/islamic-finance-factoring-idUSL6N0V503E20150127 on 28 Jan. 2015

the buying and selling cycle while sharing the risks and the profits. Asset-managed platforms are a great start.

VI. Conclusion: cooperation towards sukuk mandates carried out by independent asset managers

There have been some clear lessons learnt from the financial crisis which impacted substantially the securitization market. For instance, a study conducted by BearingPoint[10] asking market participants for an evaluation of selected measures to resurrect the securitisation market, highlighted some key messages:

- The focus of future securitization deals will be on receivables from the real economy, especially for SMEs (78%), but no longer on the repackaging of securitisation tranches.
- In order to resurrect the securitization market, transparency, standards and less complex transaction structures are required (84%).
- An essential prerequisite for a functioning securitisation market is the supervision of the rating agencies (73%).

In the case of Islamic securitization via partnership-based sukuk as discussed in this paper, it has great potential for promoting risk-sharing thereby increasing mobilization of savings and investment, hence spurring growth which leads to enhanced welfare. Sukuk are very convenient vehicles of transferring some of this liquidity to people capable of employing it into productive projects as exemplified by crowdfunding platforms. A diverse spectrum of investment vehicles serves persons with different perceptions of risks and returns, again the different crowdfunding models are pleading towards this trend. In this regard, Islamic securitization based on partnership principles have directed towards risk sharing due to wealth creation, to be shared between both fund providers (investors) and fund users (sukuk issuers), while both bear the risks involved and the resulting loss.

If asset-based Sukuk does not hold real assets and asset-backed Sukuk are difficult to perform the true sale of assets given legal and tax constraints, a third option is possible through this third way we called asset-managed Sukuk. The underlying assets are originated not from financial intermediaries but by asset-managers directly on behalf of investors. This is the virtue of the direct lending model, making all this much more practical, starting from local investors and reaching out to international investors.

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