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Comparative Studies between Islamic and Conventional Bonds: A Critical Review of Literature

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Comparative Studies between Islamic and Conventional Bonds: A Critical Review of Literature

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Abstract

This aim of this study was to investigate the comparison between Islamic bonds (Sukuk) and conventional bonds and identify the research gaps existing with regards to the objective. The findings of the study revealed that: Islamic financial system, unlike the conventional financial system is based and guided by Shariah Law and Islamic teachings and principles. In Kenyan economy, there is a material population, of about 11% who are Muslim, and this has enhanced the appetite for Islamic financial products. While investor's reactions to the announcement were seen to be neutral when conventional bonds are announced, in a few cases, they were slightly negative when Sukuk was announced. However, earlier research done in Indonesia shows that averagely the Yield to Maturity in Sukuk was significantly higher than in conventional bonds. In terms of the relationship between bonds returns, risk and performance, there was seen to be a clear relationship between the facets and performance of the conventional and Sukuk bond as compared to the volatility which is persistently lower in Sukuk. Sukuk reacts less to conditional volatility to market shocks than conventional bonds. The studies reviewed adopted event study design, quantitative research design, descriptive research design and systematic literature review.

Keywords: *Comparative Studies, Islamic Bonds, Conventional Bonds*

1. Introduction

1.1 Background of the Study

The world is evolving, and the financial system has not been left behind. There has been global need to bridge the gap in the financial system, which has been created by difference in the beliefs, culture, social and political factors. Conventional bond may not be sufficient to fund the expanding economies due to its limited application on the type of investors that are considered. In Kenya, there has been slow implementation of Shariah compliant Securities. FCB is investing in methodology and approaches of developing and promoting Sukuk in Kenya (First Community Bank, 2020). The activities undertaken by FCB involves working closely with Kenyan Government in creating laws and regulatory framework for Sukuk offering (First Community Bank, 2020). Various sectors of the economy have been receiving tremendous growth and this creates demand for additional new product which will provide funds. Introduction of Sukuk will create an additional source of financing in private and public sector. Sukuk is an

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Islamic compliant bond (based on Shariah contracts) which provide additional capital for Government and investors (ISRA, 2017) while Conventional bonds are guided by the legal framework of a specific country.

Islamic bonds also known as Sukuk which is Shariah compliant, can be traced back to the first century meaning it is as old as Islam itself (ISRA, 2016). In the 7th century according to the Islamic calendar “Hijri” Umayyad issued sukuk al Badal (exchange) to soldiers and public servants which could be redeemed before or upon maturity (Jamaldeen, 2012). In 1963, the first Islamic financial institution was introduced in Malaysia for Muslim Pilgrims Saving Corporation to assist them in saving for Hajj pilgrimage to Mecca and Medina. This evolved into Pilgrim Management and Fund Board also known as Tabung Haji in 1969, which brought about the Islamic Fiqh Academy in Feb 1988, and passed a resolution number 30 (3/4) on sukuk. Similarly, in 1970 the Jordanian Government issued the first ever shariah compliant certificates which were also known as Muqaradah “bonds”. East Cameron Partners (ECP), in 2006, issued sukuk worth USD 165.67 million which matured in 13 years period becoming the first sukuk in the USA to be issued and was rated by the Standard and Poor index as Musharakah and backed by oil and gas assets (Rahman, 2014). The history of Sukuk performance signals that there is a promising upward trend in the Islamic finance Industry.

Sukuk can be broadly categorised as being asset based (Recourse), asset backed (Non-recourse), blended asset (Combine Shariah & other assets) & asset light Sukuk (Partnership). These can further be subdivided into fourteen different types of sukuk but only seven have been implemented: Ijara (lease), Musharakah (partnership), Murabahah (cost plus sale), Mudarabah (profit sharing), Salam (forward contract), Istisnah (manufacturing/production) & wakalah (investment agencies). Conventional bonds are based on interest and principal issued by a variety of institutions. Conventional bonds are issued by corporates and government (ISRA, 2017).

1.1.1 Islamic Bond

A bond is a certificate representing financial obligation between the issuer and the holder (ISRA, 2017). Islamic bond, also sukuk is defined as a certificate of equal value which represents undivided share in ownership of assets of projects, tangible assets, or special investment activities (Accounting and Auditing organisation for Islamic Financial Institutions(AAOIFI), 1999). Islamic Financial Services Board (2009) described sukuk (Islamic bond) as a certificate that represents the holder’s percentage ownership in an undivided fraction of an underlying firm asset, where the assets rights and obligations are taken by the holder. Securities Commission Malaysia (2012) defines Sukuk as certificate of an equivalent value of undivided ownership or investment in the assets using principles and concepts of Shariah, supported by the Shariah Advisory Council (SAC).

Sukuk is associated with various positive attributes, Islamic economists have printed Sukuk as a channel for Islamic Banking Institution to raise funds for their projects, it helps to raise liquidity position of an institution by providing various Islamic profits (Ahmed, 2011) Sukuk provides investors with various profits in the capital market which are Shariah compliant while boosting standards of living in Islamic society and consequently developing these societies economies (ISRA, 2016). Sukuk provides a smart way of risk management by pooling resources from various investors through ownership sharing and proportionate distribution of risk according to capital contribution. Sukuk also allow investors to design the portfolio according to their special needs based on Islamic teachings for instance Ijarah Sukuk and Musharakah Sukuk.

1.1.2 Conventional Bonds

Conventional bonds are corporate debt security issued by firms as tradeable assets (Godlewski, 2016). A conventional bond is therefore a fixed income security representing a loan made to a borrower (usually corporate, banks or government) by an investor. A bond could be viewed as an agreement between the lender and borrower, where the agreement comprise information on details of the debt and its payments (Al-Jarhi, 2017). Conventional bonds are instruments of debt for both firms and government where an investor lends funds to either a corporate or government for a specified duration, at a variable or fixed interest rate (Jhetam, 2017).

Bonds are used by corporates, counties, local municipalities, and sovereign governments to fund investments and operations. Bondholders are debt holders, or creditors of issuer. Details of a bond comprise of the end date when the loan principal is due to be paid to the bond owners and the details included are terms for interest payment (fixed and variable) by the borrower. Bonds have advantages (importance) such as improved liquidity, relatively low volatility, legal protection, and various term structures (Godlewski, 2016). Some of the indicators as according to Financial Sector Development Indicators can be summarized with respect to the market size, accessibility into the market, efficiency and how stable the bonds market is specifically on return on investment, institutional structures, and regulations.

1.1.3 Comparisons between Islamic and Conventional Bonds

Sukuk and bond market is considered liquid. Islamic and conventional bonds are considered as innovative financial instruments aimed at providing liquidity to investors. Nafis Alam (2013) argue that Sukuk are structured in such a way that they yield returns from an underlying asset while conventional bonds generate income from payment of interest payment (Riba), which is against shariah principles. In Sukuk, asset ownership is pegged on extent of investment made, but Sukuk holder also determine the share asset returns they are entitled to, while convectional bonds represent a debt obligation to debt holders and consequently there is no ownership in the business or asset held (Jamaldeen, 2012). Maturity of Sukuk corresponds to the term of the underlying activity/project while conventional bonds create a lending relationship of money, which implies a contract based solely on monetary returns (Jhetam, 2017). (Raei, 2007) argues that Sukuk is structured carefully to offer diversification advantages which end up reducing a portfolio risk.

Issuer of sukuk shall be involved in business transactions which are adherent to Shariah while a conventional bonds issuer is not restricted in its business transactions (Jhetam, 2017). Sukuk issues attract a broad investor base from both sets of investors Islamic (Takaful companies, Islamic banks & asset management companies) while on other hand, conventional bonds are only able to tap conventional bond investors (Marzban, 2008).

Performance of sukuk and conventional bonds is considered different. Sukuk is considered to have a better performance than conventional bonds. For instance, in Malaysia Islamic Sukuks have a market share of 54% while conventional bonds have 39% (Ramasamy, Munisamy & Helmi, 2011). In 2013, Fathurahman and Fitriati noted that Sukuk have greater average returns than conventional bonds. Performance of bonds was measured by average yield (Yield to Maturity).

Risk nature of Sukuk and conventional bonds is different. Sukuk is considered less risky than conventional bonds since its based on strict sharia principles. This assumption is echoed by Ramasamy et. al. (2011). Ramasamy et al (2011) established that Sukuk have less of a risk compared to conventional bonds. Sukuk and conventional bonds are exposed to various risks. Nanaeva (2010) states that conventional bonds are exposed to interest rate risk, risk of default and inflation risk while Sukuk is exposed to risk of rate of return, risk of default and foreign exchange risk.

1.2 Research Problem

Sukuk differs from interest-based securities as their implementation is based on the principles of sharia. There are several Sukuk types, varying based on on the type of contract or agreement. These include Sukuk mudaraba, istisna, ijara, musharaka, and ' (Fathurahman, & Fitriati, 2013). In a conventional bond, it is issued by the sovereign or corporation to obtain financial resource. Conventional and Islamic bonds is mainly distinct with regards to returns, asset ownership and debt obligation.

Various studies have been done with regards to conventional bonds and Islamic bonds, among them: Godlewski (2016) researched on a stock/share market view on Sukuk in comparison to conventional bonds. The study provides contextual gap as a similar study can be done in a different setting apart from Middle East. Fathurahman, & Fitriati (2013) compared the outcome of return on Islamic bonds (sukuk) and traditional bonds in Indonesia. This study presents us with a methodological gap as the same study can be an explorative study to establish the viability of sukuk investment in Kenya.

Fathurahman, and Fitriati (2013) compared return on Islamic bonds (sukuk) and traditional bonds in Malaysia. The study presents a contextual gap whereby this study can be replicated in a different country. Hassan, Paltrinieri, Dreassi, Miani and Sclip (2018) examined factors that determine co-movement dynamics of Islamic bonds (sukuk) and traditional bonds. The study presents a contextual gap whereby this study can be replicated in a different country. Khartabiel, Abu-Alkheil, Ahmad & Khan (2020) explored the wealth effect on announcement of traditional (conventional) bond and Islamic based Sukuk announcements. There exists a methodological gap in the study as a similar study can be replicated based on qualitative data to determine perceptions of investors on performance of sukuk and conventional bonds.

Therefore, a similar study can be carried in a different context with a different measure of risk such as beta and Sharpe ratio. Mustafa (2014) studied the impact of Islamic bonds (Sukuk) on Bank of Khartoum (2001 - 2012) financial performance. The findings reveal that the issuance of 5-year maturity Ijara sukuk of Bank of Khartoum did not have a significant influence on financial performance. The reviewed studies above present the opportunity to assess the comparison between conventional bonds and sukuk. Hence the research questions will be what is the comparison between the Islamic bonds and conventional bonds?

1.3 Research Objectives

i. The study aimed to assess the comparison between Islamic bonds (Sukuk) and conventional bonds.
ii. To align the research gap with the existing objectives.

2. Literature Review

This section will mainly review theoretical literature, which comprise of economic theory of supply, demand and price determinations, transactions cost theory and capital market theory.

2.1 Theoretical Review

Theories to support the study will be economic theory of supply, demand and price determinations, transaction cost theory and capital market theory.

2.1.1 Economic Theory of supply, demand, and Price Determinations

According to Nelson (2013) the theory of law of supply and demand elaborates the transaction of sellers of a product and the consumers of that good. The theory explains what influences the association between the product availability and the product desire (/our demand) for that product has on its price. Usually, lower prices are associated with higher demand, while low prices leads to a fall in supply of products.

The theory of Demand and supply is key factor in the comprehending economic system and its function. The amount of goods and services demanded is the quantity consumers plan to buy over a specified period, and at a given price. It is evident therefore from both the definition and brief history of the law of demand and supply can be likened to a large extent to the Sukuk Market.

Sukuk was earlier categorised as asset based and participation based where in asset based Sukuk, an underlying asset was used to provide predictable returns to the investors. Examining the conditional correlations and volatility shows that correlation between Sukuk's and bond's returns is based on changes in macroeconomic and market conditions, with Sukuk returns being less volatile (Hassan, Paltrinieri, Dreassi, Miani & Sclip, 2018), in participation based sukuk, returns were based on a formula for sharing of losses and profits in an underlying investment (IFSB-2, 2005).

The 2008 global financial (credit) crisis and the issue of ownership in Sukuk asset brought about another broad classification of Sukuk into asset-backed and asset-based Sukuk (Abdullah, 2012). Asset-based Sukuk according to IFSB number 2 of 2005 occurs where the underlying assets offer fully forecasted yield to the Sukuk (Islamic bonds) holders such as Salam, Istisnah and Ijarah.

The originator embarks on repurchasing the asset from the issuer when Sukuk matures at an agreed time. The holders do not have special rights over the assets, and all have to rely on the originators credit worthiness (Moss, 2010). Asset backed Sukuk arises where the originators sell the income generating assets to SPV under a legal sale. In this case, the originator cannot clawback the asset upon bankruptcy thus allowing the investor to enjoy bankruptcy remoteness.

2.1.2 Transaction Cost Theory

This theory was introduced by (Coase, 1937) and states that every transaction involves a cost. Such costs include search and information costs as well as bargaining and decision cost. These costs influence the decisions between firms when making an investment decision. While when making decisions from within the firm, decisions are made based on profit maximizing price. Therefore, when coming up with an investment asset, there are factors considered such as costs associated and expected return. This theory was later modified by Williamson (1975) by arguing that firms aim for low transactions costs to economic growth.

The relevance of theory to the research is that it will guide some of the costs considered when introducing Islamic and conventional bonds in the market. Islamic and conventional bonds are innovative financial instruments aimed at providing liquidity and return to investors. Godlewski, Turk-Ariss and Weill (2013) argue that Sukuk are structured in such a way to yield returns from an underlying asset while conventional bonds generate income from payment of interest which is against shariah principles.

2.1.3 Capital Market Theory

Capital Market is used to explain the examination of securities in terms of trade-off between the yield sought by investors and the associated inherent risks. The capital market theory is a framework that seeks to price assets, mostly shares. Historically, the first group to use a fully fielded capital market were the Dutch. The capital market included stock and bond market to fund publicly traded firms.

Starting in 1950, modern finance was developed and in the decades thereafter refined, all the way until 1980, ending up in finance theory now having a unified framework. Flexible pricing models were established and applied widely in capital markets. Additional impact on finance theory was caused by the establishment of option markets. (Laubscher, 2001). Efficient markets hypothesis, development of portfolio theory, capital asset pricing and others led to major advancements in modern theory. With reference (Harrington, 1988) and (Van Horne, 2005) major capital markets theories as well as pricing models were then developed.

2.2 Empirical Review

This part contains empirical literature review which will raise insight on the study topic. The section is subdivided into two sections; the first is the review of empirical studies and the other one is summary of empirical literature review whereby summary of the chapter and knowledge gaps will be highlighted.

Godlewski, Turk-Ariss and Weill (2013) researched on a stock/share market perspective on Sukuk vs. conventional bonds. The study's objective was to assess investors response to announcements of Islamic bonds (sukuk) and traditional bond issues. The study design was an event study. Data was gathered from Bloomberg for the period between 2002 to 2009. This was sampled to 77 sukuk issues and 93 conventional bond issues. Data was also analyzed via descriptive statistics and presented variable averages. The study's outcome showed that share/stock market is neutral towards traditional bond announcement but negatively/inversely responds to sukuk issues announcement. This outcome was as a result of an increase in demand for Islamic investment certificates. Fathurahman and Fitriati (2013) compared the outcome of return on Islamic bonds (sukuk) and traditional bonds in Indonesia. The study was to examine the ratio between yields on sukuks and conventional bonds. A quantitative research design was adopted. Secondary data was obtained for 243 bonds which was obtained from Indonesian Stock Exchange (IDX) and the Indonesian bond pricing (IBPA). Descriptive statistics was used to investigate the data and showcased in terms of standard deviation, mean, skewness, and kurtosis. Testing was also done via coefficient of correlation, statistical independent t-test and covariance of the portfolio. The results of the analysis show that a significant difference in the average of the Islamic bonds (sukuk) and traditional bonds. Sukuk's average yield to maturity (YTM) was significantly higher than conventional bonds.

Fathurahman and Fitriati (2013) compared return on Islamic bonds (sukuk) and traditional bonds in Malaysia. The objectives were: to assess the performance of the public listed firms; to determine the association between the bond yield to maturity (YTM) and Sukuk yield. A quantitative research design was adopted. The population was sampled to 970 issuance Islamic and conventional bond for a period of 8 years, that is, from 2002 to 2009. The study findings generated via multivariate regression and T-test, showed that there exists a substantial direct association of traditional bond facets with performance.

Hassan, Paltrinieri, Dreassi, Miani and Sclip (2018) examined the factors that determine co-movement dynamics of Islamic bonds (Sukuk) and traditional bonds. The aim of the study was to ascertain the correlation and the nature of volatility of Sukuk and traditional bonds in the United States, Europe, and emerging markets. Dynamic conditional correlation was measured through a multivariate GARCH model and correlation matrix. The study relied on secondary data, this included everyday figures for 6 corporate bond indices from Bloomberg Professional services between 2010 to 2014. Information on sukuk instruments was gathered from markets such as London stock exchange, Nasdaq Dubai, and Bursa Malaysia. The findings of the analysis showed that Islamic and traditional bonds reflect minimal response of conditional volatility/risk to higher persistence and market shocks; secondly, investment bonds issues in U.S and EU are more volatile than Islamic bond returns. Thirdly, sukuk (Islamic bonds) returns and leading bond markets are propelled by varying macroeconomic and market situations.

Khartabiel, Abu-Alkheil, Ahmad and Khan (2020) explored the wealth effect on announcement of traditional (conventional) bond and Islamic based Sukuk announcements. The study sought to assess the reaction of the share price to issuance announcements of 237 Sukuk against 231 conventional bonds issued in 12 financial bond markets for the period 2005 to 2018. Secondly, to assess the issuance statement on investor wealth in pre, during, and post crisis. The research adopted an event study. A multiple regression equation was used to evaluate the data collected. The analyzed data revealed an insignificant response of the market for the announcements of traditional (conventional) bonds and sukuk prior to financial crisis of 2008. While there was a significant negative market reaction in the period of the crisis. In the post-crisis period, there was a significant positive market reaction for sukuk. The positive reaction was attributed to awareness and increased need for Islamic financial products.

Boujlil, Hassan and Grassa (2020) sought to investigate issuance choices for sovereign debt: sukuk vs conventional bonds. The study sought to establish factors and determinants that affect the decision of a government to use sovereign Sukuk against conventional bonds. It adopted a descriptive research design where they sampled 143 of the sukuk and 602 of the conventional (traditional) bonds. Data ranged from 2000 to 2016. The analyzed data revealed that more countries that have strong financial prospects, established better credit quality, and established financial markets offer sovereign Sukuk instead of conventional bonds. Further, the choice by a government for sovereign debt is induced by primarily macroeconomic factors on a national financial level and specific events. Nations with established financial markets, and sustainable financial positions are likelier to issue sukuk over conventional bonds as a development approach and a way to spread investment risks in their financial markets.

Puspa (2020) compared global sukuk and conventional (traditional) bond indices. The study adopted an approach of Value-at-Risk. A portfolio's VaR comprises of sukuk and conventional bond index based on established and upcoming bond markets and sukuk. The period covered was from 2011 to 2017. The Value at Risk approach was used to determine any changes in VaR amount. The findings showed that VaR of Sukuk indices are relatively much less than those of bond indices. VaR portfolio is likely to reduce by 30% to 50% by combining Sukuk index with each bond indices.

Mustafa (2014) conducted a study on the impact of Sukuk on of Bank of Khartoum (2001 - 2012) financial performance. The study covered the period 2001 to 2012. This data was analyzed through financial ratios like leverage, liquidity and profitability ratios. To establish whether there is a significant influence of Ijara sukuk on performance the paired sample t-test was employed. The outcome revealed that the issuance of 5-year maturity Ijara sukuk of Bank of Khartoum had no substantial influence on financial performance. Liquidity performance of bank of Khartoum experienced a negative outcome after Ijara sukuk was issued. The study determined that there was no meaningful effect on the issuance of Ijara sukuk on financial performance.

Roukiane and Marzouki (2018) sought to compare maturities and dynamic volatility of Sukuk and Conventional Bond Index in Morocco. The study retrieved sukuk stock index from the DOW JONES index family. Further data on daily closing price data for the period between January 2014 to April 2017 from BLOOMBERG database. The information gathered was subjected to diagnostic tests such as Granger causality test and heteroskedasticity. Volatility was checked through GARCH model, EGARCH model. The data was also analyzed via descriptive statistics and presented through mean, median data points, skewness and std deviation. The study findings showed that Sukuk (Islamic bonds are generally less volatile than traditional bonds.

Ibrahim and Mustapha (2020) reviewed Sukuk with relation to development of Nigeria's petroleum infrastructure. The study was based on the objectives: to provide an overview of sukuk issued; to determine the role of sukuk in building modular refineries; and to establish the process flow through issuance of sukuk. The study adopted a systematic literature review which involved looking at different articles and textbooks with information of sukuk. The context of the study focused on refining of Gasoline, kerosene, and Diesel. The outcome of the analysis showed that investing a sum of N151billion on sukuk would result on in the production of 2.2 billion liters of gasoline, 1.1 billion liters of diesel, and 204 million liters of kerosene per annum with a total gross sale of N126 billion. Therefore, investment in Sukuk adequately contributed to the expansion and establishment of new refineries.

3. Summary, Conclusions and Recommendations

This section will present a summary of discoveries on the comparison of Sukuk and conventional bonds. This will be followed by making conclusions, recommendations, and Limitations. Finally, knowledge gaps will be identified based on studies identified.

3.1 Summary

Islamic financial system, unlike the conventional financial system is based and guided by Shariah Law and Islamic teachings and principles. Sukuk is one of the many financial products offered by Islamic Banking Institutions (IBIs), majorly as a source of debt financing to cover for the investor's financial inadequacy when funding big projects. It's structured in a way that ensures all the Islamic principles are adhered to while trading in the debt facility.

The issue of charging interest on the debt is prohibited in Islamic teachings. This is covered by distributing returns amongst the originator and investor. These returns are distributed proportionately depending on the percentage of contribution towards the underlying asset. A material percentage in Kenyan population, of about 11%, are considered Muslims, and this has enhanced the appetite for Islamic financial products.

Investors reactions to the announcement; are seen to be neutral when conventional bonds are announced, but become negative when Sukuk is announced, however earlier research done in Indonesia shows that averagely the Yield to Maturity in Sukuk was substantially higher than in conventional bonds.

In terms of the relationship between bonds returns, risk and performance, there was seen to be a clear relationship between the facets and performance of the conventional and Sukuk bond as compared to the volatility which is persistently lower in Sukuk. Sukuk have less of a reaction to conditional volatility to market shocks than Conventional bonds.

Shariah compliance and Islamic teachings and jurisprudence has guided the reaction to the Sukuk market by the investors, this is seen to have grown a lot since post 2008 financial crisis which is attributed to increased awareness. Countries have also established strong credit controls to boost issuance of sovereign Sukuk bonds like is seen in Malaysia, Dubai, and Indonesia. Generally, introduction of Sukuk has helped to improve the infrastructural developments like petroleum infrastructure in Nigeria.

3.2 Conclusions

Empirical literature review on the comparative study between Sukuk (Islamic Bonds) and conventional bonds reveals the following: from the stock market perspective, the outcome reveal that the stock/share market does not react to announcement of conventional bond assurances whereas with the announcement of Sukuk issuances, the market react negatively. With regards to the volatility linkages and dynamic correlations of stocks and Sukuk in the US and EU markets, both Islamic and traditional bonds reflect minimal response of conditional volatility/risk to higher persistence and market shocks. Also, during financial crisis, volatility linkages between market indexes and Sukuk (Islamic bonds) for the region are higher.

Further, as for the stock/share market volatility and Sukuk bond yields, the results show that Sukuk yields exhibit a significance dependence with regards to stock market volatility. In addition, the nature of dependency between Islamic bond yield and stock/share market volatility are symmetric and associated with the equal intensity. Finally, from the shareholders wealth perspective, results indicate that there is an immaterial disparity in the Malaysian stock/share market to fixed rate Islamic bond (Sukuk) and to fixed rate traditional bond issuances for general duration and pre-crisis. On the other hand, the results also reveal a meaningful variation in the Malaysian stock/share market response to fixed rate Sukuk in comparison to fixed rate convectional bond issuances after the financial crisis.

3.3 Recommendations

The study makes recommendations based on the study findings. Bond facets such as size of issuance, bond rating and coupon rate have a positive relationship with performance. Therefore, to enhance firm performance, listed firms or firms that issue bonds should increase size of issuance, improve its bond rating and coupon rate.

Nations that seek to open and invest in Sukuk (Islamic bonds) should first ensure that they have a well-established financial market, enhanced credit quality and strong financial prospects. Sukuk is considered to have much less volatile market returns as compared to conventional bonds. Therefore, this should guide investors who are risk takers and want to invest in the long-term bonds to consider Sukuk.

The results of the study showed that the stock market doesn’t react to conventional bond issue announcements, but reacts negatively to announcement of Sukuk issues. Therefore, investors should consider seeking for alternative investment when Sukuk bond is issued.

3.4 Knowledge Gaps Identified

The study provides contextual gap as the studies were done in Malaysia, Indonesia, Europe, United States, Sudan, Morocco, Nigeria, and Middle East. As a similar study can be done in a different setting/country or securities exchange.

This study presents us with a methodological gap. The studies reviewed adopted event study design, quantitative research design, descriptive research design and systematic literature review. Therefore, a similar study can be conducted through an explorative research design to establish the viability of Sukuk investment in Kenya. A similar study can be replicated based on qualitative data to determine perceptions of investors on performance of Sukuk and conventional bonds.

The varying legal business environment in terms of the culture, varying legal system and lack of standardization may cause different outcomes in the application of Sukuk in different settings. Therefore, there is need for a similar study in different setting.

3.5 Limitations of the Study

This research is a review of previous studies conducted across the globe thus the conclusion is based on the findings of the various studies selected. Therefore, there was a risk of selecting a non-authentic research paper. This was addressed by relying on published research papers that was considered credible.

The study topic on comparison of conventional bonds and Islamic bonds (Sukuk) has scarce or no local academic literature. The limited research was specifically on Islamic bonds (Sukuk). Scarcity of literature on local studies led to the over-reliance on global and regional studies carried on different contexts in those countries with regards to legal framework and cultural bias.

There is also a diverse view among researchers and regulators regarding basic principles of how the Islamic finance should be interpreted in the context of Sukuk. The varying view among researchers has led to unstandardized application of the shariah principles. The data available varies from jurisdiction to jurisdiction depending on the social, economic and market circumstances.

3.6 Suggestions for Further Studies

Since there is no conclusive resolution on the reaction of the stock market to announcements of conventional bonds and Islamic bonds (Sukuk), further studies should attempt to clearly distinguish the reaction of securities market with regards to conventional bonds and Sukuk.

Previous studies in this area have focused on performance of Sukuk and conventional bonds. There is need for introducing moderating variables such as macro-economic factors in the study. This will establish the moderating effect of the selected macro-economic factors on the performance of Sukuk and conventional bonds. Further empirical analyses should incorporate these variables.

Considering the study findings, the literature reviewed established the main factors that should be met to invest in Sukuk as a country. These factors comprise of better credit, established financial markets and strong financial prospects. Therefore, a study can be done to establish the existence comprise of better credit, established financial markets and strong financial prospects.

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