The Role of Sukuk in liquidity Management in Islamic financial Institutions in Somalia: A case study from Puntland State of Somalia

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Abstract

The research findings of this article emphasizing managing on the liquidity risk in Islamic financial institutions (IFIs) in Puntland State of Somalia, through the mechanism of Sukuk Al-Ijarah. Cooperatively, it has been found that IFIs do not generally face liquidity risk in liability side, regarding to structuring current deposit products on Qard Al-Hasan, Wadiah or Mudaraba contracts. On another hand, IFIs widely structure asset side products based on Murabaha contract -as short-term instrument- and keep idle cash; this can pose liquidity risks as a result of limited tradable instruments in Islamic secondary markets and the ineffective role of the central bank in providing liquidity to IFIs. As such, there is a need to promote an active secondary market and reform the role of central banks through introducing tradable instruments. In this context Sukuk Al-Ijarah facilitates many services, such as investing excess funds in profitable investments in cases of surplus, the option of asset liquidation in case of deficit, and changing the position of assets from illiquid asset to liquid asset. Furthermore, the central bank role will be more active if it participates in Sukuk Al-Ijarah issuance in order to provide liquidity to IFIs via interest-free alternative and to solve the issue of finding suitable asset for Sukuk Al-Ijarah and promoting global acceptance instrument. It also has been found that the issue of maintenance does not undermine Sukuk Al-Ijarah as a liquidity risk management tool in IFIs. Similarly, benchmarking is non-issue because the rental return does not represent interest as long as the market price is determined by market forces (demand and supply). In this regard, there should be differentiation between targeting interest rate and demanding it, as the former is allowed while the latter is prohibited.

Keywords: Sukuk Al-Ijarah, Liquidity management in IFIs, Tradability, Prohibition, Central bank and secondary markets.