**Sukuk as Alternative for Shipping Financing: International Standard and Malaysian Practice**

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**Abstract**

Shipping is one of the world’s most internationalized industries. However, shipping companies are facing difficulties to get bank financing since the industry is notoriously risky. Nowadays, *sukuk* (Islamic bond) is recognized as alternative financing mode for conventional debt, where Malaysia is considered as the biggest market in the world. The objectives of this study therefore attempt to identify the suitable types of *sukuk* applicable in shipping financing, and examine the structure as suggested by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), in comparison to Malaysian practice. *Sukuk Murabahah, Ijarah and Istisna’* are some types in this consideration. It shows that *sukuk* may become a better alternative of financing in shipping industry. For the issuer, they may have access to a relatively competitive financial cost, and for the *sukuk* holder they may hold an instrument with lower risk.

**Keywords:** Shipping financing, *sukuk* structure, Malaysia

1. **Introduction**

Shipping is one of the world’s most internationalized industries. Shipping should not be viewed only from a narrow national perspective. Rather, it should be looked at from a broad view of world development, particularly in the international trade sector. Raths, (2010) notes that, shipping remains as the most economical and effective means to carry much of the world’s goods. Shipping service demand will always be significantly high and the demand for financing to facilitate the construction and purchase of vessels ensures shipping financing to be prominent. Akca (2007) reports that, with its 32,000 worldwide companies, shipping is one of the three most finance intensive industries in the world. About 80 billion dollar per year for financing new buildings alone. The financing of large oceangoing ships are undertaken by banks all over the world, by no means just for owners in their own country.

However, shipping companies are facing difficulties to get bank financing as the credit crisis has drastically reduced the appetite of conventional banks. The world’s economy could suffer of this lack of financing because it relies on the shipping industry to transport the world’s trade. This is so as banks are willing to finance, during boom periods, shipping loans for new buildings but by this way ‘create’ oversupply and thus depress the freight market by their own actions. Imagine that, ship values can change by up to 65 percent in a few months. Akca (2007) notes that a five year old Panamax bulk carrier, for example, could be purchased for US$ 13.5m and achieve freight rates of US$ 5,500 per day in 1999 while a similar profile vessel was worth US$ 46m and achieved freight rates in excess of US$ 46.000 per day in 2005. For this reason, the ship-owner can make, or lose millions of dollars and so can his bankers if things go badly wrong.

It shows that, some of the characteristics in the shipping business do not fit easily with the financial community’s requirements. Revenues are volatile, the assets are mobile, financial structures often lack transparency, moreover audited financial information is not always available. Recent efforts made by shipping companies to adopt more conventional financial structures, however shipping remains an idiosyncratic business to financial world (Stopford, 2003). Malaysian ship industries instead relies on Islamic finance as the answer to this problem. Professor N. Khalid of Maritime Institute of Malaysia (MIMA) commenting on the use of *syariah* financing as follow:

“….in the last two decades or so, *syariah* financing has grown in prominence in facilitating the growth in the shipping sector. Over the years, several high profile ship financing deals have been transacted using *syariah* principles. ….The increasing popularity of *syariah* financing in ship financing stands testimony to its viability as a worthy, if not more attractive, alternative to its conventional counterpart. ….The emergence of innovative and attractive financing structures based on *syariah* principles in shipping in recent years augurs well for its continued contribution to the growth of global shipping and hence global trade and the world economy. When applied and structured judiciously and creatively, *syariah* financing can no doubt stand shoulder to
shoulder, if not taller, than conventional financing in raising adequate and competitive financing in shipping.”

Syriah finance, or Islamic finance respectively, is similar to the conventional system in terms that it consist of Bank based and Market based mode of finance. For market based, it is the Islamic bond (sukuk) that have tremendous distinct characteristics that worth to examine. For illustration, the sukuk market had witnessed solid growth globally, as annual issuances almost tripled from USD45bln in 2011 to USD118.8bln in 2014. Of significance, growth was driven by both the key markets of Malaysia, Saudi Arabia and the United Arab Emirates (UAE), as well as Turkey and Indonesia. For sukuk issuer profile in 1Q2015 recorded Malaysia is leading the issuances. Issuances from Malaysia accounted for a sizeable 42.3% of total issuances, while the UAE, Bahrain and Indonesia accounted for 18.2%, 14.2% and 14.1% share, respectively. The small piece left of the market are shared among Saudi Arabia, Turkey, Gambia, Bangladesh and Brunei.

From this background, this study if focusing on the implementation of Malaysian sukuk on the shipping financing. This research will therefore attempt to: (a) Identify the types of sukuk applicable in shipping financing, and examine how its issuance is structured as suggested by International Standards of AAOIFI, (b) Examine the Malaysian sukuk implementation in shipping financing in comparison to the International Standard according to its underlying aqad (islamic contract) on a par. The research will be primarily of a qualitative in nature. The methodology adopted include examination of specific case studies to provide detailed information on the practice of sukuk financing in the ship industry. For this purpose, secondary data will be collected. Secondary data will comprise mainly materials and documents published by the respective Islamic financial services providers and corporates’ Annual Report.

2. Sukuk Structure

Sukuk or Islamic Bond, in general may be understood as a syariah compliant ‘Bond’. Sukuk can provide access to larger volumes of capital and has the potential to provide liquid investments for the investors. In its simplest form sukuk represents ownership of an asset or its usufrect. The claim embodied in sukuk is not simply a claim to cash flow but an ownership claim. This also differentiates sukuk from conventional bonds as the latter proceed over interest bearing securities, whereas sukuk are basically investment certificates consisting of ownership claims in a pool of assets. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Standards No.17 defines Sukuk as:

“...certificates of equal value representing undivided shares in ownership of tangible assets, usufrect and services or in the ownership of the assets of particular projects or special investment activity. However, this is true after the receipt of the value of the Sukuk, the closing of the subscription and employment of funds received for the purpose for which the Sukuk were issued”

Sukuk differ from conventional bonds in a number of ways, including5: (a) The funds raised through the issuance of Sukuk should be applied to investment in specified assets rather than for general unspecified purposes. This implies that identifiable assets should provide the basis for Islamic bonds. (b) Since the Sukuk are based on the real underlying assets, income from the Sukuk must be related to the purpose for which the funding is used, and (c) The Sukuk certificate represents a proportionate ownership right over the assets in which the funds are being invested. The ownership rights are transferred, for a fixed period ending with the maturity date of the Sukuk, from the original owner (the originator) to the Sukuk holders. Unlike most Middle East countries, Malaysian sukuk—previously known as Islamic Private Debt Securities (IPDS)—recognizes contract of Bai Dayn or debt trading as one of the acceptable principles for Sukuk issuances whereby syariah compliant cash receivables arising from contracts are converted into tradable debt instruments.

Sukuk can be structured in a number of ways depending on the purpose of the business, and the underlying assets required, that in turn determine the underlying aqad to which is suitable. Sukuk typically are issued through a Special Purpose Vehicle (SPV) which acts as the investors’ trustee. The investors (on becoming sukuk holder), by subscribing to the Sukuk, is funding the SPV, which then on behalf of the investors enters into a set of contracts through which the SPV will earn a syariah compliant return for the investors. The investor’s returns are derived from legal or beneficial interest in assets rather than interest-based debt obligations.


In case of ship financing, the application of sukuk could be in many forms according to its circumstance. Luxembourg Tax Authorities for instance, defines the four types of underlying aqad mainly used to finance shipping activities as follow (Raths, 2011):

a) *Murabaha*: a sale based transaction whereby an investor acquires an asset (e.g. a vessel) for further resale to a client at a cost-plus profit. This is a financing arrangement where the cost-plus profit margin of the investor is determined in advance and may apply to all types of assets.

b) *Istisna*: a method of financing the production of a good (e.g. building of a vessel) that allows advance payment for a future delivery or deferred payment for a future delivery.

c) *Ijara*: a leasing agreement by which the party contributing the capital (generally a bank) acquires an asset (e.g. a vessel) for its client and places it as his disposal in return for a rental payment for a fixed period. The bank owns the asset and transfers the usufruct to its client.

d) *Ijara-wa-Iqtina*: a similar mechanism, where the client has the opportunity to buy the asset at the end of the contract.

However, for the purpose of this study, we examine only the first three types of sukuk above. Followings are three types of sukuk structure based on its underlying aqad and its comparison to the Malaysian sukuk structure with corresponding case.

3. Sukuk al-Murabahah

Murabahah is a sale based transaction whereby an investor (as seller) acquires a specified asset or commodities for further resale to a client (as purchaser) at a cost-plus profit. It requires that the cost-plus profit margin of the investor is determined in advance and the types of assets should be tangible asset only. The delivery of the asset should be on the spot, but the payment obligation could be in deferred payment. The deferred price would typically include the cost price at which the financier had purchased the assets/commodities, plus a pre-agreed mark-up representing the profit generated from its involvement in the transaction. The payments of the deferred price from the customer may be structured as periodical payments on dates specified at the outset, thus creating an income stream for the financier for the term of the transaction.

For Sukuk al-Murabahah structure, sukuk proceeds from Investors may be applied by Issuer Special Purpose Vehicle (SPV the intermediate party act as trustee) to acquire commodities and on-sell such commodities to the Originator (issuer company) as purchaser to generate revenue from the murabaha deferred price which would be distributed to the Investors.

In AAOIFI standards no.17, the structure of sukuk al-Murabahah are as in Figure 1, and explained bellow:

1. Issuer SPV issues sukuk, which represent an undivided ownership interest in an underlying asset or transaction. They also represent a right against Issuer SPV to payment of the Deferred Price. In exchange, the Investor subscribe for sukuk and pay the proceeds to Issuer SPV (the “Principal Amount”). Issuer SPV declares a trust over the proceeds (and any commodities acquired using the proceeds) and thereby acts as Trustee on behalf of the Investors.
2. Originator (as Purchaser) enters into a Murabaha agreement with Trustee (as Seller), pursuant to which Trustee agrees to sell, and Originator agrees to purchase, certain commodities (the “Commodities”) from Trustee on spot delivery and deferred payment terms. The period for the payment of the deferred price will reflect the maturity of the Sukuk. Trustee purchases the Commodities from a third party Commodity Supplier for a Cost Price representing the Principal Amount for spot payment. In exchange, commodity Supplier makes spot delivery of the Commodities to Trustee in consideration for the Cost Price.

3. Trustee (as Seller) on-sells to Originator the Commodities upon delivery from Commodity Supplier in accordance with the terms of the Murabaha agreement. In exchange, originator (as Purchaser) makes payments of deferred price at regular intervals to Trustee (as Seller). The amount of each deferred price instalment is equal to the returns payable under the Sukuk at that time.

4. Issuer SPV pays each deferred price instalment to the Investors using the proceeds it has received from Originator.

For Malaysia case, Hubline Berhad is a company group that owns and operates around 40 vessels comprising container ships, handy-sized bulk carriers, and tugs and barges. Both the container shipping and dry bulk vessels operate in the intra-Asian region and Indian sub-continent and carry a diverse product range. During 2009, the company also extended shipping services to new routes to Guam, Saipan and the Mariana Islands. Hubline Berhad issued Murabahah Commercial Papers/Murabahah Medium Term Notes (MCP/MTMTN) to finance her vessels.

On 18 March 2002, the Company entered into agreement with Malaysian International Merchant Bankers Berhad and various parties to raise RM120 million Murabahah Commercial Papers/Murabahah Medium Term Notes (MCP/MTMTN). The MCP/MMTN are secured by a third party charge over certain vessels owned by the Group in terms of net book values of property, plant, equipment, containers and port equipment. In sum, the total value of property, plant and equipment pledged for the borrowings is RM 216,511,447.

On 17 October 2005, the Company entered into agreement with Affin Investment Bank Berhad and various parties to raise RM150 million MCP/MMTN. RM150 million has been fully issued in the form of MCP, the proceeds of which were utilised to finance the settlement of vessels and for working capital. The MCP/MMTN are secured by third party charges over certain vessels owned by the Group, as well as certain of the Company’s bank balances and deposits with licensed banks, together with assignment of contract proceeds of long-term shipping contracts and insurances of certain vessels of the Group. The net book values of property, plant and equipment pledged (together with legal assignment of contract proceeds of certain long-term shipping contracts as well as hull and marine insurances) for borrowings, in amount of RM 208,029,659.

4. Sukuk al-Ijarah

Ijarah is a leasing agreement by which the party contributing the capital (generally a bank) acquires an asset (e.g. a vessel) for its client and places it as his disposal in return for a rental payment for a fixed period. The bank owns the asset and transfers the usufruct to its client. In the Islamic finance industry, the term “ijara” is broadly understood to mean the ‘transfer of the usufruct of an asset to another person in exchange for a rent claimed from him’ or, more literally, a “lease”. Under the Sukuk Al Ijarah, the lender forms an SPV to purchase the vessel(s) from the borrower. The SPV thereafter declares a trust in favour of the investors and issues Sukuk certificates at an agreed price. The investors fund the SPV for the amount of the Sukuk issuance (i.e. “purchase price”). The SPV thereafter pays the purchase price to the borrower. The borrower, upon receipt of the purchase price, then transfers the title to the underlying vessel(s) to the SPV. This is immediately followed by the SPV leasing back the same vessel(s) to the borrower against payment of periodic rental amounts. The borrower also enters into a unilateral purchase undertaking to purchase back the SPV’s interest in the asset upon maturity or any interim date at the purchase price. Periodic lease rental payments made by the borrower to the SPV are utilised to make periodic distribution payments to the investors under the Sukuk. At maturity, the borrower buys back the SPV’s interest in the assets from the SPV at the purchase price and the Sukuk are redeemed.
In AAOIFI standards no.17, the structure of sukuk al-Ijarah are as in Figure 2, and explained bellow:

1. Issuer SPV issues sukuk, which represent an undivided ownership interest in an underlying asset or transaction. They also represent a right against Issuer SPV to payment of the Periodic Distribution Amount and the Dissolution Amount. In exchange, the Investors subscribe for sukuk and pay the proceeds to Issuer SPV (the “Principal Amount”). Issuer SPV declares a trust over the proceeds (and any assets acquired using the proceeds – see paragraph 3 below) and thereby acts as Trustee on behalf of the Investors.

2. Originator enters into a sale and purchase arrangement with Trustee, pursuant to which Originator agrees to sell, and Trustee agrees to purchase, certain assets (the “Assets”) from Originator. In exchange, Trustee pays the purchase price to Originator as consideration for its purchase of the Assets in an amount equal to the Principal Amount.

3. Trustee leases the Assets back to Originator under a lease arrangement (ijara) for a term that reflects the maturity of the sukuk. In exchange, Originator (as Lessee) makes Rental payments at regular intervals to Trustee (as Lessor). The amount of each Rental is equal to the Periodic Distribution Amount payable under the sukuk at that time. This amount may be calculated by reference to a fixed rate or variable rate (e.g. LIBOR or EIBOR) depending on the denomination of sukuk issued and subject to mutual agreement of the parties in advance. Upon:
   a. an event of default or at maturity (at the option of Trustee under the Purchase Undertaking); or
   b. the exercise of an optional call (if applicable to the sukuk) or the occurrence of a tax event (both at the option of Originator under the Sale Undertaking),

4. Trustee will sell, and Originator will buy-back, the Assets at the applicable Exercise Price, which will be equal to the Principal Amount plus any accrued but unpaid Periodic Distribution Amounts owing to the Investors. In exchange for payment of Exercise Price by Originator (as Obligor), Trustee and Originator will enter into a service agency agreement whereby Trustee will appoint Originator as its Servicing Agent to carry out certain of its obligations under the lease arrangement, namely the obligation to undertake any major maintenance, insurance (or takaful) and payment of taxes in connection with the Assets. To the extent that Originator (as Servicing Agent) claims any costs and expenses for performing these obligations (the “Servicing Costs”) the Rental for the subsequent lease period under the lease arrangement will be increased by an equivalent amount (a “Supplemental Rental”). This Supplemental Rental due from Originator (as Lessee) will be set off against the obligation of Trustee to pay the Servicing Costs. Issuer SPV pays each Periodic Distribution Amount to the Investors using the Exercise Price it has received from Originator. In addition, Issuer SPV pays the Dissolution Amount to the Investors using the Exercise Price it has received from Originator.

For Malaysian case, Alam Maritim Resources Berhad (AMRB) is example involved in investment on Ships ownership through many of her subsidiaries. It utilize MCP/MMTN and Sukuk Ijarah MTN Facility

The MCP/MMTN and Sukuk Ijarah MTN are secured by:
(i) a first legal charge over the designated accounts as defined in the Trust Deed;
(ii) third party second fixed legal charge over each of the Ijarah Assets/MCP/MMTN and Sukuk Ijarah MTN assets and assignment of all insurance thereon and charter contracts.

The features of the MCP/MMTN and Sukuk Ijarah MTN issued are as follows:

(i) The MCP/MMTN and Sukuk Ijarah MTN have a maximum principal limit of RM600,000,000. The MCP/MMTN and Sukuk Ijarah MTN were constituted by a Trust Deed Program Agreement dated 6 July 2007 between the Company and the financial institutions concerned in relation to finance the purchase of beneficial interest in the Ijarah Assets (Syariah Compliant) from subsidiaries.

(ii) The MCP/MMTN are issued at a discount with yield to maturity ranging from 3.78% to 3.85% per annum. The Sukuk Ijarah MTN are issued with yield to maturity ranging from 4.58% to 5.63% per annum (2009: 4.58% to 5.63% per annum).

5. Sukuk al-Istisna

Al istisna’a financing is a cash sales contract made against the promised future delivery of goods. Istisna’a is used for funding major construction projects. A shipbuilding contract is an ideal agreement that can be financed by means of an Istisna’a as it includes the pre-delivery financing of a ship under construction, but bears all the requirements for a Sharia’a-compliant financing structure. Sukuk Al Istisna’a are ideally utilised to fund building of new vessels or for vessels already under construction. Similar to the Sukuk Al Ijara, a special purpose vehicle (SPV) is formed by the lender and this SPV issues Sukuk certificates to interested or targeted investors to raise funds for the project. The proceeds of the Sukuk issuance are then used to pay the contractor/manufacturer under the Istisna’a contract to build and deliver the vessel/future asset. The title to the vessel, post construction, is then transferred to the SPV. The completed vessel is then either sold or leased to the borrower (who is the end buyer of the vessel) upon conditions of either deferred payment or periodic lease rental instalments. The returns gained from periodic payments made by the end-buyer are distributed to the Sukuk holders (investors) as profit. Upon maturity, the vessel is transferred to the end buyer (borrower) and the Sukuk is redeemed by the SPV and the lender(s).

![Figure 3. Sukuk al-Istisna structure of AAOIFI standard no.17](image)

In AAOIFI standards no.17, the structure of sukuk al-Istisna are as in Figure 3, and explained bellow:

1. Issuer SPV issues sukuk, which represent an undivided ownership interest in an underlying asset or transaction. They also represent a right against Issuer SPV to payment of the Periodic Distribution Amount and the Dissolution Amount. In exchange, the Investors subscribe for sukuk and pay the proceeds to Issuer SPV (the “Principal Amount”). Issuer SPV declares a trust over the proceeds (and any assets acquired using the proceeds - see paragraph 3 below) and thereby acts as Trustee on behalf of the Investors.

2. Originator enters into an istisna arrangement with Trustee, pursuant to which Originator agrees to manufacture or construct certain assets (the “Assets”) and undertakes to deliver those Assets at a
future date, and Trustee agrees to commission those Assets for delivery at such future date. In exchange, Trustee pays a price (typically by way of staged payments against certain milestones) to Originator as consideration for the Assets in an aggregate amount equal to the Principal Amount.

3. Trustee undertakes to lease the Assets to Originator under a forward lease arrangement (known as ijara mawsufah fi al-dimmah) for an overall term that reflects the maturity of the sukuk. In exchange, Originator (as Lessee) makes payments of:
   a. Advance Rental prior to the delivery of the Assets; and
   b. Actual Rental following the delivery of the Assets,
At regular intervals to Trustee (as Lessor) in amounts which are equal to the Periodic Distribution Amount payable under the sukuk at that time. These amounts may be calculated by reference to a fixed rate or variable rate (e.g. LIBOR or EIBOR) depending on the denomination of sukuk issued and subject to mutual agreement of the parties in advance.
Provided that delivery of the Assets has occurred, upon:
   a. an event of default or at maturity (at the option of Trustee under the Purchase Undertaking); or
   b. the exercise of an optional call (if applicable to the sukuk) or the occurrence of a tax event (both at the option of Originator under the Sale Undertaking), Trustee will sell, and Originator will purchase, the Assets at the applicable

4. Exercise Price, which will be equal to the Principal Amount plus any accrued but unpaid Periodic Distribution Amounts owing to the Investors. Any termination occurring prior to the delivery of the Assets will be dealt with under the istisna arrangement - with a refund and compensation amount (an “Istisna Termination Payment”) being required in order to leave Issuer SPV with a claim against Originator for an amount sufficient to cover the Dissolution Amount (taking into account that the Issuer SPV will also be required to refund Advance Rentals to the Originator (as Lessee) under the forward lease arrangement – see further below). In exchange, Payment of Exercise Price by Originator (as Obligor) or, if termination occurs prior to delivery of the Assets, payment of the Istisna Termination Payment by Originator (as Contractor).

5. Trustee and Originator will enter into a service agency agreement whereby Trustee will appoint Originator as its Servicing Agent, on and from delivery of the Assets, to carry out certain of its obligations under the forward lease arrangement, namely the obligation to undertake any major maintenance, insurance (or takaful) and payment of taxes in connection with the Assets. To the extent that Originator (as Servicing Agent) claims any costs and expenses for performing these obligations (the “Servicing Costs”) the Actual Rental for the subsequent lease period under the forward lease arrangement will be increased by an equivalent amount (a “Supplemental Rental”). This Supplemental Rental due from Originator (as Lessee) will be set off against the obligation of Trustee to pay the Servicing Costs.

6. Issuer SPV pays each Periodic Distribution. Amount to the Investors using the Advance Rental or, as the case may be, the Actual Rental it has received from Originator. In addition, Issuer SPV pays the Dissolution Amount to the Investors using the Exercise Price (or, if termination occurs prior to delivery of the Assets, the Istisna Termination Payment) it has received from Originator.

For Malaysian case, There is Tanjung Offshore Bhs. Tanjung Group is actively involved in both the upstream and downstream markets within the oil and gas industry and participates in all stages of the life cycle of the Production Sharing Contracts. In 2009 the company has issues some Islamic notes that comprise of several types of Islamic Bond such as Bai Istisna, Islamic Medium Term Notes and Ijarah. The following are some notes as reported in The 2009 Annual Reports:

Note ii - Bai Istisna’ (BIS 1)
The purpose of this term loan is to finance the construction cost of one (1) new unit of 60-M Anchor Handling Tug Supply Vessel or known as MV Tanjung Sari. The loan is repayable by 114 monthly installments with the profit rate of 4.75% per annum.

Note v – Term Loan
The term loan is to finance the property held under PN 4125, Lot No. 3801, Mukim Teluk Kalong, District of Kemaman, Terengganu Darul Iman. The term loan interest rate for the first 12 months is 3.28% per annum and repayable within ten (10) years. The said facility is secured by letter of undertaking, notice of assignment, fixed deposit and corporate guarantee from the Company.

Note vii - Ijarah (IJA 1)
The purpose of this term loan is to finance the construction cost of one new unit of 60-M Anchor Handling Tug Supply Vessel or known as MV Tanjung Biru 1. The loan is repayable by 96 monthly installments with the profit rate of 3.70% per annum.
Note viii - Ijarah (IJA 2)
The purpose of this term loan is to finance the construction cost of one new unit of 60-M Anchor Handling Tug Supply Vessel or known as MV Tanjung Biru 2. The loan is repayable by 96 monthly installments with the profit rate of 3.70% per annum.

Note ix - Ijarah (IJA 3)
The purpose of this term loan is to finance the construction cost of one new unit of 60-M Anchor Handling Tug Supply Vessel or known as MV Tanjung Dahan 1. The loan is repayable by 108 monthly installments with the profit rate of 3.70% per annum.

Note x - Ijarah (IJA 4)
The purpose of this term loan is to finance eighty two percent of the construction cost of one new unit of 60-M Anchor Handling Tug Supply Vessel or known as MV Tanjung Dahan 2. The loan is repayable by 108 monthly installments with the profit rate of 36.70% per annum. All the facilities mentioned in Note vii to x are secured by the respective vessels under financing, corporate guarantees of the Company, assignment of shipbuilding contracts and future earnings of the respective vessels.

6. Summary and Conclusion
From previous discussion we can see that the Islamic corporate financing is specific types of financial instruments that based on asset securitization. The sukuk structure suggested by AAOIFI requires tangible asset for underlying, however the characteristics of asset in ship financing bare a more risky traits. It shows that for Malaysian case, the underlying asset for sukuk issuance not simply the vessel itself but also accompanied by other assets such as corporate guarantees of the Company, assignment of shipbuilding contracts and future earnings of the respective vessels, plant, equipment, containers and port equipment, and others net book values of property.

This special feature actually gives the company and investor some advantages. For the issuer, the company could have access to a relatively cheaper financing cost. For the investors, they can hold an instrument with a lower risk. Thus, Islamic bond seems to be suitable with the shipping financing, since it can use the ship as the underlying asset. It is our consideration as the Indonesian people to boost the Maritime Industry before other countries exploit the abundance of resource lies under the deep of the sea. Indonesian people known as the majority are muslim, should have interest in using the Islamic financing to support the Maritime Industry to drive the economy and brings prosperity to the people under the light of Islamic principle.

References


