



Book Review: Forward Lease Sukuk in Islamic Capital Markets

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The expansion of the Islamic capital market has intensified the demand for innovative Shariah-compliant financial instruments capable of supporting large-scale development projects. Sukuk have emerged as a central mechanism for capital mobilization within Islamic finance, offering alternatives to conventional bonds based on asset ownership and risk-sharing principles. Among various sukuk structures, forward lease sukuk (*ijārah mawsūfah fī al-dhimmah*) represent an innovative yet underutilized instrument that allows financing based on non-existent assets. This article provides a comprehensive conceptual and analytical review of forward lease sukuk by synthesizing the key arguments presented in *Forward Lease Sukuk in Islamic Capital Markets: Structure and Governing Rules*. The discussion covers theoretical foundations, structural mechanisms, Shariah governance, legal and regulatory issues, market challenges, and future prospects. The article argues that forward lease sukuk constitute a resilient and flexible financial instrument with significant potential to enhance Islamic capital market depth, particularly in infrastructure and project finance.

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INTRODUCTION

The Islamic capital market (ICM) has become a critical pillar of the global Islamic financial system, complementing Islamic banking and *takaful* in facilitating resource mobilization and economic development. As Muslim-majority and non-Muslim countries alike seek ethical and asset-based financial alternatives, sukuk have gained prominence as Shariah-compliant investment certificates representing ownership interests in tangible assets, usufructs, or services. Unlike conventional bonds, which are debt-based instruments with guaranteed interest payments, sukuk are grounded in Islamic legal principles that prohibit *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling).

The Islamic Capital Market constitutes an integral component of the Islamic financial system, facilitating the mobilization and allocation of long-term funds through Shariah-compliant financial instruments. Unlike conventional capital markets, which are predominantly interest-based and speculative in nature, the Islamic capital market operates under the principles of Islamic law (Sharia), emphasizing ethical investment, real economic activity, and equitable risk sharing. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines the Islamic capital market as a market in which all financial activities, instruments, and transactions comply with Shariah principles, including the prohibition of *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling).

From a functional perspective, the Islamic capital market performs similar roles to its conventional counterpart, such as capital formation, price discovery, and liquidity provision. However, its distinguishing feature lies in the requirement that financial claims must be linked to underlying tangible assets or productive economic activities. This asset-based or asset-backed nature ensures a strong connection between financial transactions and the real economy, thereby promoting financial stability and social justice.

The operational framework of the Islamic capital market is grounded in several fundamental Shariah principles. First, the prohibition of *riba* eliminates fixed or predetermined returns, requiring investors to share both profits and risks. Second, the avoidance of *gharar* restricts contracts characterized by excessive ambiguity or asymmetric information, thus enhancing transparency and fairness. Third, the prohibition of *maysir* limits speculative behavior and short-term trading motives that do not contribute to real economic value creation.

In addition, Sharia mandates that investments must be directed toward *halal* economic activities, excluding sectors such as alcohol, gambling, pornography, and conventional financial services. These principles collectively ensure that Islamic capital market activities align with the objectives of Sharia (*Maqasid al-Shariah*), particularly the preservation of wealth, justice, and public interest (*maslahah*).

Despite the rapid growth of sukuk issuance worldwide, the market remains heavily concentrated in a limited number of structures, particularly *ijarah*, *murabahah*, and *musharakah* sukuk. One structure that remains relatively underexplored is forward lease sukuk (*ijarah mawsufah fi al-dhimmah*), which allows leasing arrangements for assets that do not yet exist at the time of contract execution. The book by [Lahsasna, Hassan, and Ahmad \(2018\)](#) represents one of the most comprehensive scholarly treatments of this instrument, addressing its theoretical foundations, structural design, Shariah governance, and market implications.

This article aims to extend and systematize the insights from the book into a coherent academic article, contributing to the literature on Islamic capital market innovation. By doing so, it highlights the strategic relevance of forward lease sukuk for infrastructure financing, manufacturing, and long-term development projects.

Sukuk and the Islamic Capital Market Framework

Sukuk are commonly defined as certificates of equal value representing undivided ownership shares in tangible assets, usufructs, services, or investment activities. According to AAOIFI standards, sukuk holders are entitled to returns generated by the underlying assets and bear corresponding risks. This distinguishes sukuk fundamentally from conventional bonds, where investors merely hold debt claims against the issuer.

The reviewed book emphasizes that sukuk should not be perceived as “Islamic bonds” in a superficial sense, but rather as asset-backed or asset-based instruments rooted in Islamic commercial jurisprudence (*fiqh al-mu‘amalāt*). Ownership, risk-sharing, and asset linkage are the defining characteristics that give sukuk their Shariah legitimacy.

[Lahsasna et al. \(2018\)](#) provide a detailed comparison between sukuk and conventional financial instruments. Unlike bonds, sukuk do not guarantee principal or return, as profits depend on the performance of the underlying assets. In contrast to shares, sukuk ownership is typically limited to specific

assets or projects rather than the issuing company as a whole. Sukuk also differ from conventional securitization, as they avoid trading pure debt and emphasize asset-backed structures.

These distinctions are crucial in understanding why sukuk are considered ethical and Shariah-compliant investment vehicles. The requirement that returns be linked to real economic activity aligns sukuk with broader objectives of Islamic finance, including justice, transparency, and socio-economic development.

Typology of Sukuk and the Centrality of Ijarah

Sukuk can be broadly classified based on the underlying Shariah contracts, including *ijarah*, *mudarabah*, *musharakah*, *istisna'*, *salam*, and *murabahah*. Among these, *ijarah* sukuk have emerged as the most widely accepted and frequently issued structure due to their relative simplicity, predictable cash flows, and high Shariah acceptability.

The book situates forward lease sukuk within the broader family of *ijarah* sukuk, while highlighting their unique characteristics. Unlike standard *ijarah*, which involves leasing an existing asset, forward lease sukuk allow the leasing of an asset that will be delivered in the future, provided that its specifications are clearly defined.

Forward lease sukuk are theoretically grounded in the permissibility of *ijarah* and *istisna'* contracts under Islamic law. *Istisna'* allows manufacturing or construction of an asset according to agreed specifications, while *ijarah* governs the leasing of assets or usufructs. By combining these contracts, forward lease sukuk enable financing during the construction phase and income generation during the operational phase.

The book argues that this hybrid structure reflects the flexibility of Islamic commercial law and its capacity to accommodate modern financing needs without compromising Shariah principles.

Forward Lease Sukuk: Concept and Structural Design

Forward lease sukuk (*ijarah mawsufah fi al-dhimmah*) are investment certificates representing ownership in the usufruct of an asset that is to be delivered in the future. The defining feature of this structure is that the leased asset does not exist at the time of sukuk issuance, making it particularly suitable for project financing.

The issuance process typically involves a Special Purpose Vehicle (SPV) that issues sukuk certificates to investors. The proceeds are used to finance asset

construction under an *istisna'* contract. Upon completion, the asset is leased to an end user under a forward *ijarah* arrangement, generating rental income for sukuk holders.

The book provides detailed illustrations of these phases, emphasizing the importance of contractual clarity and risk allocation at each stage.

Shariah Governance and Legal Framework

Shariah compliance is a central concern in forward lease sukuk structures. The permissibility of leasing future assets is contingent upon precise asset descriptions, absence of excessive uncertainty, and proper allocation of risks. The authors highlight key Shariah maxims such as *al-ghurm bil-ghunm* (no reward without risk) and *al-kharaj bi al-daman* (entitlement to benefit is accompanied by liability).

The book also references AAOIFI standards and Shariah pronouncements that guide sukuk issuance, stressing that sukuk holders must bear ownership-related risks to legitimately earn returns. Forward lease sukuk require comprehensive legal documentation, including trust deeds, lease agreements, construction contracts, and purchase undertakings. Regulatory frameworks in jurisdictions such as Malaysia have played a pivotal role in facilitating sukuk innovation by providing clear guidelines and tax incentives. However, the book notes that legal enforceability and regulatory harmonization remain challenges, particularly in cross-border sukuk issuances.

Issues, Challenges, and Market Acceptance

Despite their theoretical robustness, forward lease sukuk face challenges related to differing Shariah interpretations, legal complexities, and risk management. The combination of *istisna'* and *ijarah* contracts increases structural complexity, which may discourage issuers seeking simpler alternatives.

The book identifies limited market familiarity and conservative investor preferences as key reasons for the relatively low adoption of forward lease sukuk. Nevertheless, existing case studies demonstrate that when properly structured, forward lease sukuk can achieve both Shariah compliance and commercial viability.

Lahsasna et al. (2018) provide several case studies illustrating the application of *ijarah* and forward lease sukuk in real-world contexts. These cases highlight best practices in structuring, risk mitigation, and Shariah governance, reinforcing the practical relevance of the instrument.

CONCLUSION

Forward lease sukuk represent a sophisticated and flexible financial instrument within the Islamic capital market, capable of bridging the gap between Shariah principles and modern project financing needs. By enabling financing based on future assets, they expand the scope of sukuk beyond traditional structures and contribute to the resilience of Islamic finance. The book *Forward Lease Sukuk in Islamic Capital Markets* offers a foundational contribution to this field, and this article reinforces its relevance by contextualizing its insights within broader academic and policy debates.

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