

**PROSPECTS FOR THE DEVELOPMENT OF THE FUND MARKET THROUGH  
THE ISLAMIC FINANCIAL INSTRUMENT SUKUK AND GREEN SUKUK IN A  
DIGITAL ECONOMY**

Ahmadjonov Abdulloh Ahadjon o'g'li  
Assistant at the Department of Finance and financial technology,  
Tashkent State University of Economics

**Abstract**

Development of the stock market through Islamic securities in the conditions of the digital economy and the prospects of using green energy as an alternative option for energy resources are one of the current topics in the financial system today. Therefore, during the research, extensive work was carried out within the scope of the topic. Among other things, other research works on the topic, opinions of local and foreign scientists, scientific articles, and local normative documents on the topic were studied. In order to increase the practical significance of the scientific work, international Islamic finance and Islamic securities were studied based on statistical data in scientific journals. Based on the studied and analyzed data, Islamic securities in the development of the stock market in the digital economy. Scientific and practical conclusions and proposals have been developed on the prospects of the people.

**Keywords:** Islamic finance, Islamic securities, Islamic stock market, emerging financial markets, green energy, digital economy, financial technology, issuance, investor, sukuk, green sukuk.

**Introduction**

On January 28, 2022, as a result of the general public discussion, the Development Strategy of New Uzbekistan for 2022-2026, which was developed based on the principle of "From the Strategy of Actions to the Development Strategy" of the Decree of the President of the Republic of Uzbekistan No. PF-60 and its The state program for implementation in the "Year of glorifying human dignity and active neighborhood" was approved. [1].

A purpose is the development of the stock market in the direction of the 3rd direction of the development strategy "Advanced development of the national economy and ensuring high growth rates." Purpose 27, i.e. "Increase the turnover of the stock market from 200 million USD to 7 billion USD next year in order to increase financial resources in the economy." Thus, several steps are listed, these are: [2].

Gradual liberalization of capital movement in the Republic of Uzbekistan and privatization of large enterprises and shares in them, including through the exchange.

For instance, the completion of transformation processes in commercial banks with a state share and an increase in the share of the private sector in banking assets to 60 percent by the end of 2026.

In the Circulation of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Parliament dated December 29, 2020, it is time to create a legal framework for the introduction

of Islamic financial services in the Republic of Uzbekistan. In this regard, he stressed that experts from the Islamic Development Bank and other international financial organizations would be involved. In addition, the Central Bank was instructed to consider a draft law on non-bank credit organizations by February 1, 2021 in order to increase competition in the financial market, as well as create a legal framework for the introduction of Islamic financial mechanisms. [3]

### **Literature Review**

Afees A. Salisuab, Muneer Shaikc [4] stated the following in their article on Islamic Stock Indices and the COVID-19 Pandemic. Due to the COVID-19 pandemic, we build a single-factor predictive model for stock returns that includes an Uncertainty Index (UPE) for pandemics and epidemics. Specifically, we examine whether Islamic stocks are vulnerable or have better hedging potential compared to their conventional counterparts. Overall, we find that Islamic stocks can be used for hedging, while conventional stocks are vulnerable to uncertainties due to pandemics in different time frames. In particular, during the COVID-19 pandemic, although the hedging performance of Islamic stocks seems to be declining, it is better than the poor performance of conventional stocks. The result remains the same after controlling our model for oil prices, geopolitical risk, and economic policy uncertainty. We evaluate the predictive power of the UPE for both in-sample and out-of-sample periods by comparing the forecast performance of the UPE with the sample model. The results of the scientists show that taking UPE information into account when evaluating stocks is very important for investment decisions.

Dimitris Kenourgiosa et al. [5] "Islamic Financial Markets and Global Crises: Contagion or Distinction?" study the contagion effects of the global financial crisis (GFC) and the Eurozone sovereign debt crisis (ESDC) on the Islamic capital and bond markets. Using a sample of Islamic stock indices from various developed and emerging markets and global Islamic stock and bond (sukuk) indices, it examines the dynamics of asymmetric conditional correlation during stable and crisis periods and during two crises. The results show that there is no strong evidence of contagion between conventional and Islamic equity and bond indices, which supports the Islamic securities separation hypothesis, that Islamic securities and bonds are risk averse, especially in turbulent times. and suggest that it can be a "cushion" against instability.

Matiur Rahman [6] stated the following in his article "Islamic Banking with Reciprocity and Neutrality: A Balanced Theoretical Framework". It consists of developing a simple theoretical model based on the balance sheet for Islamic banks that incorporates the reciprocity and neutrality properties proven in large credit unions. The results show that the average expected return on securities serves as an optimal combination of Shariah-compliant securities investment and permissible lending in response to relative changes in the lending rate and deposit rate. In contrast, Islamic banks are reluctant to change their optimal mix of loans and securities unless it is caused by negative economic shocks due to increased risk. The conclusions of this paper have potential policy implications for Islamic banks and other business entities.

Sayfiddin Erdoğan and others [7] used empirical data on the relationship between capital markets and macroeconomic variables as a source of information in determining the development policy of traditional and Islamic financial systems. The purpose of this study is to investigate whether there is volatility spillover between foreign exchange markets and Islamic stock markets in three major emerging markets, namely India, Malaysia and Turkey, using daily data for the period 2013-2019. 'consisted of learning. Side effects of variability were examined using the causality test developed by Hafner and Herwartz. To examine the nature of the relationship between variables and its change over time, time-varying test statistics were estimated using moving samples. Evidence of the spread of volatility from the Islamic stock market to the currency market was seen only in the example of Turkey. They suggested that the results of the time-varying test show at least one-way spread of volatility between exchange rates and the Islamic stock market in certain periods.

Mohd Faizal et al [8] in their paper titled "Standard User Profile in Malaysian Sukuk Market" commented as follows. In recent years, special attention has been paid to the issue of sukuk default, especially after the global financial crisis that affected the world economy. This study analyzes and profiles sukuk defaulters in Malaysia. This study covers sukuk issuers from 2000 to 2010. Information on selected sukuk issuers was obtained from their annual reports from the CCM database. The study showed that the highest number of sukuk defaults occurred in 2009. The initial rating revealed a mixed result, as defaults occurred for both short-dated and long-dated instruments.

### **Research Methodology**

The article uses methods of scientific abstraction, descriptive statistics, peer review, grouping, dynamic analysis.

### **Analysis and Discussion**

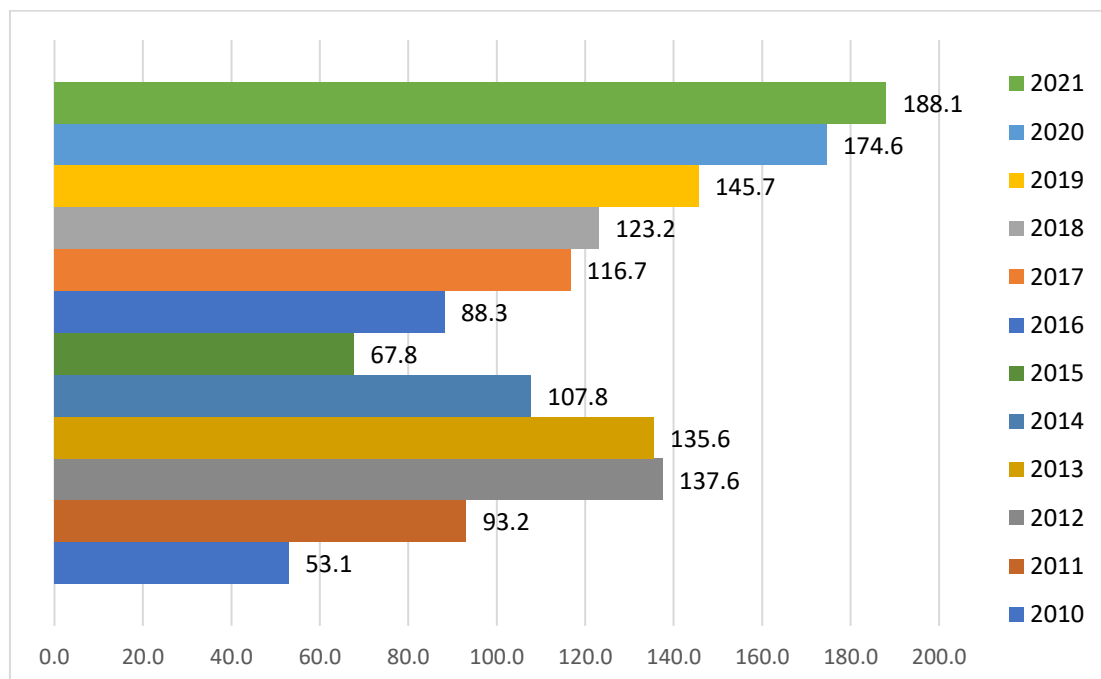
Sukuk, which is an Islamic financial instrument, is one of the types of securities that have developed rapidly in recent years, and the most attractive aspect that attracts investors is that the return on the share is parallel to the return on the project.

Although Islamic securities sukuk appeared 30 years ago as an interest-free instrument for raising capital, the development of the market dates back to 2001. The first sukuk was issued in Malaysia in 1990, and after a long break, sukuk securities began to be actively traded in 2001. To date, the financial instrument sukuk has proven its viability as an alternative means of attracting medium to long term investments and creating a huge investor base.

Sukuk means a legal document, deed and certificate in Arabic, and it is regarded as an investment certificate confirming the ownership of the tangible assets and services of a certain project, that is, the value of the corresponding share in the assets. As you know, Islamic law does not allow interest income. Based on this, the investment principles of sukuk prohibit the accrual and payment of interest. At the same time, the level of profitability of a security is directly related to the profitability of projects. Thus, a sukuk represents a share in a funded project.

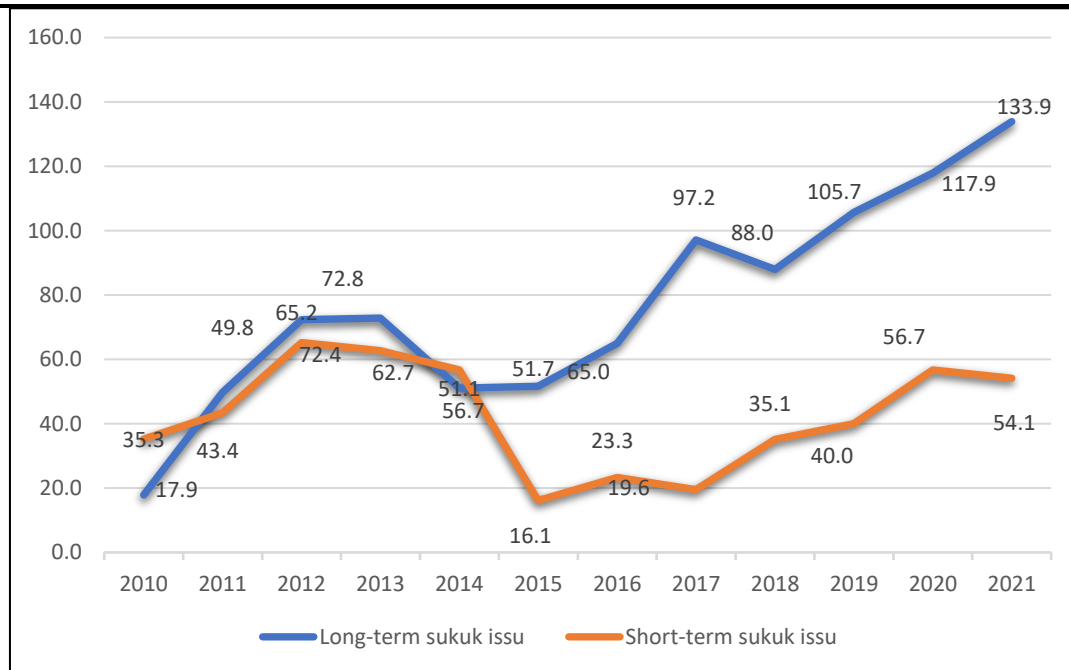
In recent years, the importance of using sukuk, an Islamic instrument, has increased. The sukuk market is developing rapidly. Investors and issuers are showing increasing interest in the implementation of new projects in this area.

According to the annual reports of the International Islamic Financial Market [9] (Figure 1), the global sukuk issuance was equal to 53.1 billion US dollars in 2010, and it increased continuously between 2011 and 2013. only 2 billion US dollars less than in 2014-2013, and 67.8 billion US dollars less in 2015 than in 2014. 2019 was 145.7 billion US dollars, showing a growth rate of 18.32% compared to 2018. By the end of 2020, the issuance of sukuk to the primary market was equal to 174.6 billion US dollars and increased by 16.5% compared to 2019, and in 2021 it was equal to 188.1 billion US dollars. Analyzing the data in the above figure, the sukuk market has been on an upward trend for the past two decades, with 2021 showing the highest level. The amount of sukuk issued between 2010 and 2021 was 1.6 trillion US dollars.



**Fig 1. Global sukuk issuance in 2010-2021, in billions of US dollars [10]**

In Figure 2 below, we can see the growth dynamics of long and short-term sukuk securities. Between 2010 and 2021, we can see that the value of long-term sukuk was 923.3 billion US dollars, and the value of short-term sukuk was 508.3 billion US dollars. By 2014, we can see that the long-term and short-term sukuk values have become very close to each other. We can see that the value of short-term sukuk in 2021 has decreased by 2.6 billion USD compared to 2020. The reason for this is the increase in the level of inflation.



**Fig 2. Issuance of long-term and short-term sukuk worldwide during 2010-2021, in billion US dollars [10]**

Currently, there are banks, state organizations and several other companies that issue sukuk in the most advanced and leading places in the world. We will consider several sukuk issues in such companies.

Kuveyt Turk is the largest Islamic finance participation bank in the Turkish banking sector and 10th overall largest bank by asset size. The bank has a stable shareholder base with Kuwait Finance House (62.24%) and Turkish General Directorate of Foundations (18.72%) among others.

In September 2021, Kuveyt Turk successfully priced its inaugural USD 350mn 10.25NC5.25 Sustainability Tier 2 Sukuk with a profit rate of 6.125%. The issuance is specific to sustainable projects wherein an amount equal to the net proceeds will be applied to finance or refinance eligible green and / or social projects in accordance with Kuveyt Türk's Sustainable Finance Framework dated August 2021 that is verified by Sustainalytics. The terms of the Sukuk appear below: (Table 1)

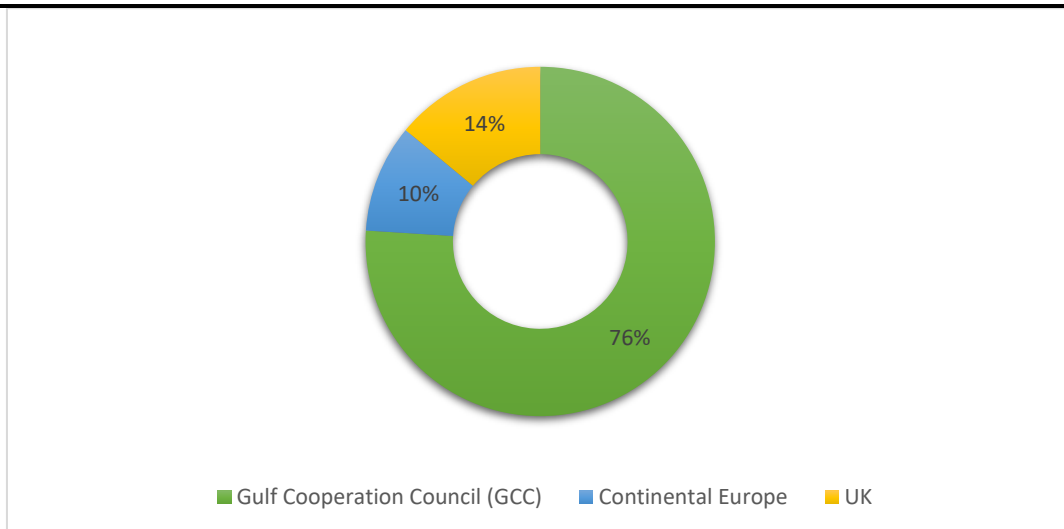
**(Table 1) Features of sukuk issued by Kuwait-Turkey Joint Bank during 2021-2031 [11]**

<b>Issuer</b>	<b>KT21 T2 Company Limited</b>
<b>Obligor</b>	<b>Kuveyt Türk Katılım Bankası A.Ş</b>
<b>Obligor rating</b>	<b>B+ by Fitch</b>
<b>Pricing date</b>	<b>09 September 2021</b>
<b>Settlement date</b>	<b>16 September 2021</b>

<b>Maturity date</b>	16 December 2031
<b>Reset date:</b>	16 December 2026
<b>Issue size</b>	USD 350,000,000
<b>Profit rate</b>	6.125% per annum payable semi-annually in arrear
<b>Benchmark yield</b>	0.793%
<b>Reoffer spread to ust</b>	5.332%
<b>Sukuk structure</b>	Sukuk based on the principles of Wakalah and Murabahah
<b>Issue type</b>	Regulation S Only
<b>Listing</b>	Euronext Dublin
<b>Governing law</b>	English Law, except subordination which will be governed by Turkish law
<b>Sole global coordinator</b>	KFH Capital Investment Company K.S.C.C.
<b>Joint structuring agents</b>	HSBC Bank plc, KFH Capital Investment Company K.S.C.C
<b>Joint bookrunners</b>	Arab Banking Corporation (B.S.C.), Citigroup Global Markets Limited, Dubai Islamic Bank PJSC, Emirates NBD Capital Limited, HSBC Bank plc, KFH Capital Investment Company K.S.C.C

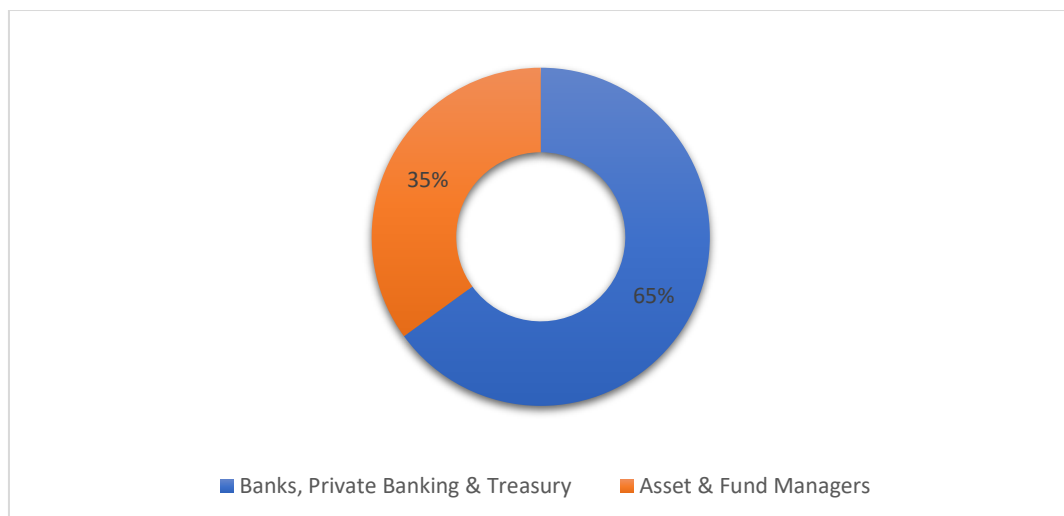
#### **Transaction highlights:**

- 1.The transaction marks the first-ever USD denominated Sustainable T2 Sukuk Issuance by a Financial Institution (FI).
  - 2.The transaction was timed in a viable window of issuance during low interest environment with 62.5bps yield compression from the wide end of IPTs.
  - 3.From a distribution viewpoint, the issuance attracted a high-quality and diversified order book of up to USD 4.4bn (12.6x oversubscribed) comprising some of the largest and most notable global EM / Islamic investors who came in early and remained in the deal despite the substantive price tightening.
- In terms of geographic location, the GCC is the clear leader with 76 percent, followed by the UK region with 14 percent. This shows that Islamic finance and Islamic securities are growing in the UK. In third place, we can see the European region with 10 percent. (Figure 3)



**Fig 3. Geographical location of investors who purchased sukuk issued by the Kuwait-Turkey Joint Bank during 2021-2031. [11]**

If we look at the types of investors who bought the issued sukuk, we can see that banks and banking institutions are in the lead with 65 percent, followed by funds with 35 percent. (Figure 4)



**Fig 4. Investors who purchased sukuk issued by the Kuwait-Turkey Joint Bank during 2021-2031**

Islamic Development Bank (IsDB) successfully priced USD 2.5bn RegS 5 Year Sustainability Sukuk at a profit rate of 1.262% p.a. payable semi-annually. The issuance was a drawdown under IsDB's USD 25bn Trust Certificate Issuance Programme and Sustainable Finance Framework and represents IsDB's third sustainable issuance in the public markets, with the last one being a COVID-19 response Sukuk in June 2020 and the previous one being their inaugural EUR 1.0bn Green Sukuk in end of 2019, both of which were led by Standard Chartered. (Table 2)



(Table 2) Features of Sukuk issued by The Islamic Development Bank [12]

<b>Issuer</b>	<b>IsDB Trust Services No.2 SARL</b>
<b>Obligor</b>	<b>The Islamic Development Bank</b>
<b>Obligor ratings</b>	Aaa/AAA/AAA (by Moody's/S&P/Fitch all stable outlook)
<b>Issue ratings</b>	Aaa/AAA/AAA (by Moody's/S&P/Fitch
<b>Pricing date</b>	24 March 2021
<b>Issue date</b>	31 March 2021 (T + 5)
<b>Tenor</b>	5 Years
<b>Maturity</b>	31 March 2026
<b>Format</b>	Regulation S Sukuk
<b>Status</b>	Senior Unsecured
<b>Currency and size</b>	USD 2.5bn
<b>Documentation</b>	USD 25,000,000,000 Trust Certificate Issuance Programme and IsDB's Sustainable Finance Framework
<b>Profit rate</b>	1.262% Fixed, Semi-annual, 30/360
<b>Listing</b>	Euronext Dublin and Nasdaq Dubai
<b>Law</b>	English Law
<b>Joint lead managers</b>	Citi, Goldman Sachs International, HSBC, NATIXIS, Societe Generale, Standard Chartered Bank and Warba Bank
<b>Co-manager</b>	Kuwait International Bank
<b>ILLING &amp; DELIVERY</b>	Standard Chartered Bank

The issuance achieved a number of key milestones including:

Largest ever deal size achieved by the IsDB

sDB's first trade for 2021, and return to the international capital markets after their last public offering in June 2020

Despite the large size, IsDB was able to price the new issue inside existing secondary market curve, in line with their pricing objectives

IsDB's third sustainable public Sukuk with the previous one being a COVID-19 response Sukuk issued in June 2020 and their inaugural EUR 1.0bn Green Sukuk priced in November 2019

The proceeds of the Sustainability Sukuk will be allocated to finance/refinance green (10%) and social development projects (90%) that are eligible under the IsDB's Sustainable Finance Framework which may include the following categories:

### Social

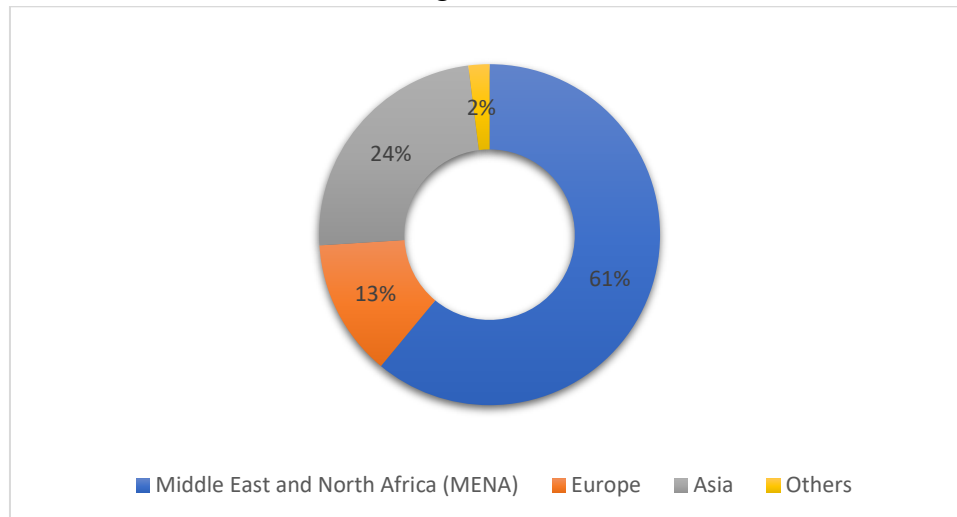
1. Employment generation / small and medium enterprise financing.
2. Affordable housing.
3. Affordable basic infrastructure.
4. Access to essential services.
5. Socioeconomic advancement and empowerment.

### Green

1. Renewable energy.
2. Clean transportation.
3. Energy efficiency.

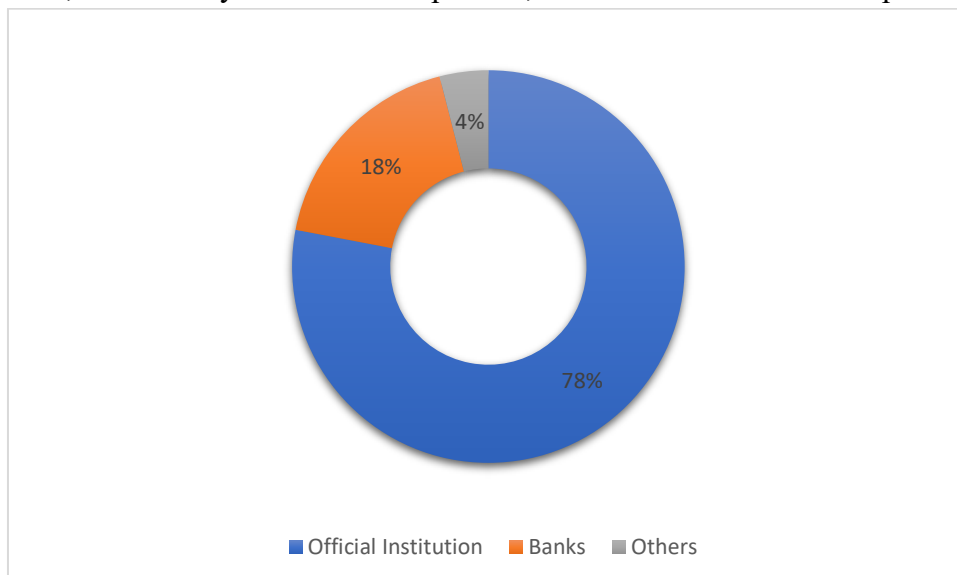


4. Pollution prevention and control.
5. Environmentally sustainable management of natural living resources and land use.
6. Sustainable water and waste water management.



**Fig 5. The Islamic Development Bank tomonidan emissiya qilingan sukukni harid qilgan investorlarni geografik joylashuvi [12]**

The main part of the sukuk issued by The Islamic Development Bank was purchased by MENA, i.e. 46 percent, respectively, Asia is in second place with 24 percent, and Europe is in third place with 13 percent. fainting. The remaining 2% belong to other regions. As the main buyer of the issued sukuk, the official institution is clearly in the lead (Figure 6), i.e. 78 percent, followed by banks with 18 percent, and other investors with 4 percent.



**Fig 6. Investors who purchased sukuk issued by The Islamic Development Bank [12]**

### **Conclusion**

Judging from all the above analysis, we can see that the issuance of Islamic securities is increasing year by year, and this, in turn, is increasing their volume in the stock markets. The above analysis, tables and pictures are based on the data collected from 2010 to the present day of the 21st century.

Judging from the data, we can see that the sukuk issue was issued 30 years ago. We can see that the first sukuk issue was made by the state of Malaysia. We can see that the issuance of sukuk between 2010 and 2021 is more than 1.4 trillion US dollars. This means that the sukuk market has had an upward trend over the past ten years, and 2021 has shown the highest level. We can see that the amount of sukuk issued during the 20-year period from 2001 to 2021 was 1.4 trillion US dollars.

From the analysis, we can see that long-term sukuk and short-term sukuk are issued. Accordingly, we can see that the amount of long-term issued sukuk is larger in terms of volume and quantity compared to short-term issued sukuk. That is, based on the data of 2021, we can see that long-term sukuk issuance amounted to 133.9 billion US dollars, and short-term sukuk issuance amounted to 54.1 billion US dollars. We can see that short-term sukuk issuance has decreased by 2.6 billion US dollars compared to 2020.

If we look at the countries of the Middle East, we can see that they are the main sukuk issuing countries. In this case, we can see that Kuwait Turk Katilim Bank issued 350 million dollars, and The Islamic Development Bank issued 25 billion dollars worth of sukuk.

Based on all the above analysis, it can be said that sukuk do not exist in Uzbekistan. From the analysis, it can be concluded that the type of financial instruments is limited in the stock market of Uzbekistan, the state participation is high and the volume of sales remains low. In order to increase the convenience of the capital market of the Republic of Uzbekistan for all categories of investors, the introduction of sukuk, which is considered an Islamic security, and the introduction of green sukuk from Islamic financial instruments will contribute to the introduction and development of alternative options for green energy, which is currently an urgent problem. we think

### **References:**

1. Address of the President of the Republic of Uzbekistan to the Parliament dated december 29, 2019.
2. Decree of the President of the Republic of Uzbekistan dated April 13, 2021 PF-6207 "On the further development of the capital market". (Decree 2021).
3. Afees A.Salisuab, Muneer Shaikc "Islamic Stock Indices and the COVID-19 Pandemic" Finance Research Letters Volume 38, 101503. 2020.
4. Dimitris Kenourgiosa, Nader Naifarb, Dimitrios Dimitrioua (2016). Islamic Financial Markets and Global Crises: Contagion or Distinction?. Economic Modelling Volume 57, Pages 36-46.
5. Matur Rahman, Islamic banking with reciprocity and neutrality: A theoretical framework based on equilibrium Journals, Economics & Statistics. Journal of Applied Finance & Banking.

- 
6. Sayfiddin Erdog'an, Emrah Ismoil Chevik (2020) Borsa Istanbul Review Volume 20, Issue 4, Pages 322-333.
  7. Mohd Faizal, Kamarudina Norlela, Kamaluddinb Siti Khadijah Ab.Mananc, Gairuzazmi Mat Ghanid (2014) Malayziya sukuk bozoridagi standart foydalanuvchi profile. Procedia - Social and Behavioral Sciences Volume 145, 25 Pages 277-285.
  8. International Islamic financial market (IIFM 2022)
  9. IIFM Sukuk report: A comprehensive study of the global sukuk market. International Islamic Financial Market, July 2022, p 192.
  10. IIFm sukuk report: Chapter 3, Selected sukuk issuances, July 2021, p 120.
  11. Islamic Development Bank Annual Report (IsDB 2021), National Commercial Bank of Saudi Arabia, page 75.