

Prospects of Islamic Financing in Uzbekistan: Implementing Sukuk Bonds Based on Malaysia's Experience

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Annotation: This article examines the prospects for developing Islamic financing in Uzbekistan, with a focus on the potential implementation of sukuk bonds drawing from Malaysia's experience. The study analyzes the principles of Islamic finance, the legal and financial foundations of sukuk, and the mechanisms for integrating these instruments into the national economy. Additionally, the paper provides recommendations for enhancing the legal framework for Islamic financial instruments in Uzbekistan. The research findings include proposals aimed at diversifying the financial market and improving the country's investment climate.

Key words: islamic finance, sukuk, Uzbekistan, Malaysia's experience, bonds, investment, financial market.

In the current context of globalization and economic integration, the diversification of financial systems is recognized as a crucial factor in ensuring stable economic growth and attracting foreign investment. From this perspective, the Islamic finance system, as an alternative to the conventional financial model, has achieved significant growth in global financial markets over the past decades and continues to strengthen its position in international financial standards and practices. One of the key instruments of Islamic finance—**sukuk bonds**—is currently being employed as an alternative financing tool not only in Muslim countries but also in developed jurisdictions such as the United Kingdom, Germany, South Korea, and others.

Today, Malaysia is acknowledged as one of the world's leading countries in the development of the sukuk market. Its legal and institutional model is regarded as a noteworthy experience worthy of study and replication by other countries. In this regard, the introduction of sukuk bonds in Uzbekistan presents a timely opportunity to diversify the domestic financial market, facilitate integration into international capital markets, and strengthen overall economic stability. This initiative aligns with the multiple proposals of the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, to implement Islamic financial services within the national financial system—thus reaffirming the importance of this direction.

Accordingly, this article examines the legal, economic, and institutional foundations for introducing sukuk bonds in Uzbekistan based on the Malaysian experience. It analyzes existing opportunities and constraints and proposes recommendations for the development of Islamic finance. The theoretical and practical significance of the research is directly linked to the diversification of the financial market, the creation of new investment opportunities, and the reinforcement of Uzbekistan's position in the international financial system.

Notably, President Shavkat Mirziyoyev has repeatedly emphasized the importance of introducing Islamic finance in Uzbekistan. In his address to Parliament on December 29, 2020, he highlighted that the time had come to establish a legal framework for Islamic financial services in the country.[1] Furthermore, at the Arab-Islamic Summit held on November 11, 2024, the President addressed matters of economic cooperation and financial integration in the Islamic world.

These statements serve as indicators of the growing commitment to developing Islamic finance in Uzbekistan. In addition, during the President's official visit to Malaysia, negotiations took place on February 5 at the Perdana Putra Government Complex with Prime Minister Anwar Ibrahim. Discussions focused on strengthening trade, economic, and investment cooperation, giving further impetus to the development of this sector in Uzbekistan.[2]

To better understand the nature of Islamic finance and sukuk bonds, it is important to note that sukuk are Shariah-compliant securities that, unlike conventional bonds, do not involve interest (riba). The main types of sukuk and their investment advantages include:

- **Ijara Sukuk** – based on leasing physical assets;
- **Murabaha Sukuk** – structured on cost-plus sale agreements;
- **Musharaka and Mudaraba Sukuk** – structured on profit-sharing partnerships.

The so-called "golden era" of Islamic finance development began in Malaysia in the 1980s. Unlike Gulf countries, Malaysia passed a special law in 1983 aimed at establishing and developing an Islamic banking system, thereby initiating active engagement in this sector. Over time, Malaysia became one of the leading centers for both the academic and practical aspects of Islamic finance. This is evidenced by institutions such as the **International Centre for Education in Islamic Finance (INCEIF)** and the **International Shari'ah Research Academy for Islamic Finance (ISRA)**. [3] Today, Malaysia's capital market is recognized as one of the most developed financial markets in Asia. Moreover, Malaysia was the first country to issue sukuk in global financial markets, marking an important milestone in history. By the early 1990s, Islamic finance emerged as a young but notable participant in international financial markets.

Key factors contributing to the development of Malaysia's sukuk market include a strong legal framework, effective regulatory institutions, and strategic government support. The **Islamic Financial Services Act (IFSA 2013)**, the **Central Bank of Malaysia (BNM)**, and the **Securities Commission of Malaysia** effectively govern this system. [4] IFSA 2013 is the primary legal instrument regulating the activities of Islamic financial institutions in Malaysia. It consolidated previously existing regulatory documents into a single act. Additionally, investor attraction is supported through tax incentives and legal protections, active use of sukuk in infrastructure financing, and government subsidies and grants allocated to Islamic finance institutions—further solidifying Malaysia's leadership in the sukuk market.

The Malaysian experience clearly demonstrates that sukuk bonds serve as a vital source of financing for both public and private sectors. In fact, 47% of global sukuk issuance in 2020 originated from Malaysia. [5]

Uzbekistan should draw lessons from this experience by developing a legal framework for the sukuk market, strengthening Islamic financial institutions, and creating favorable conditions for investors. This approach would not only promote investment but also contribute to diversifying the national economy.

Countries such as Turkey, the United Kingdom, Indonesia, and neighboring Kazakhstan have already adopted Malaysia's model of sukuk and Islamic finance. For instance, Turkey developed its Islamic financial services sector using Malaysia's banking and sukuk model and issued its first sovereign sukuk in 2012. The United Kingdom became the first European country to issue government sukuk in 2014. The **London Stock Exchange** is now one of the major global Islamic financial hubs alongside Malaysia. [5] Kazakhstan issued its first sukuk bonds in 2012 and established the **Astana International Financial Centre (AIFC)**, modeled on Malaysia's experience, with a focus on developing Islamic finance and the sukuk market. [6]

In order to develop Uzbekistan's Islamic finance market and integrate more fully into the global capital market, it is vital to adopt Malaysia's experience in sukuk market development. Establishing a dedicated legislative framework, ensuring Shariah compliance, developing sukuk market infrastructure, and expanding international cooperation could position Uzbekistan as a regional center for Islamic financial services. This would improve the country's investment climate and create new opportunities for financing large infrastructure projects.

To this end, the following proposals are put forward:

- Adopt a specialized law regulating sukuk and other Islamic financial instruments, modeled after Malaysia's **IFSA 2013**;
- Establish a dedicated sukuk trading platform under the **Tashkent Stock Exchange** and the **Central Bank**;
- Encourage sukuk-based financing in the private sector, particularly by developing instruments suitable for small and medium enterprises;
- Explore the application of **blockchain technologies** for sukuk trading and monitoring.

It is imperative for the Government of Uzbekistan and financial sector stakeholders to actively work in this direction by studying international experience and continuously improving the national financial market. The introduction of sukuk bonds can promote the development of Islamic financial products, making Uzbekistan not only a more attractive platform for international investors but also a key regional hub for Islamic finance.

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