

DOI <https://doi.org/10.30525/978-9934-26-277-7-8>

## **INCREASING THE VOLUME OF FOREIGN INVESTMENTS THROUGH ISLAMIC FINANCIAL INSTRUMENTS**

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### **Introduction.**

World experience shows that it is possible to actively finance many large projects, especially aviation and green economy, through Sukuk. The introduction of Sukuk allows the effective use of free funds in the hands of the population and the implementation of projects that have stopped due to financial problems.

A Sukuk is a financial certificate that is issued in Islamic countries for representing the share of ownership in a portfolio of existing or eligible assets. It provides the investor proof of ownership in an underlying asset and various financial obligations while conducting trade and other commercial activities. Islamic law prohibits the lending of money with interest payments, thereby forbidding the use of conventional bonds for financial transactions. As an alternative, Sukuk is used, which does not represent any debt obligation as the issuer uses the proceeds from the certificate to purchase an asset, of which the investor also receives partial ownership<sup>1</sup>.

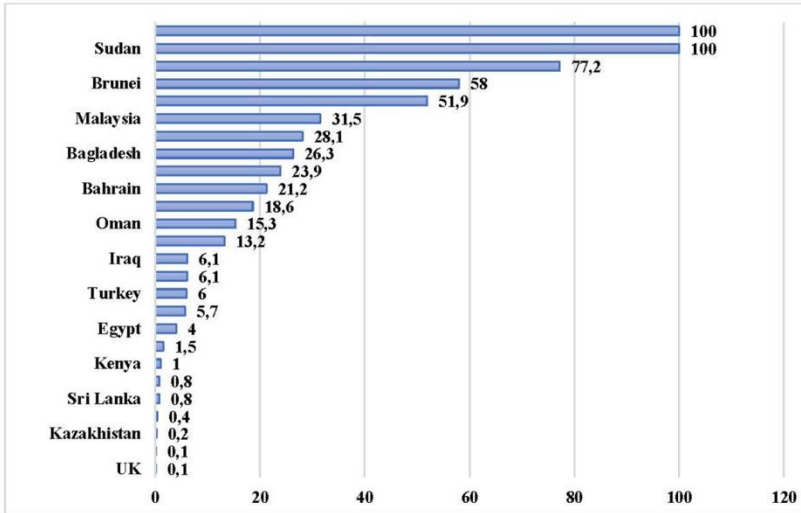
### **Analysis and results**

After Islamic banks, the largest and fastest-growing financial sector in the Islamic finance market is Sukuk securities. By the end of 2021, the global assets of Islamic finance reached 3.374 trillion dollars with an

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<sup>1</sup> <https://www.imarcgroup.com/sukuk-market>

average annual growth of 13%, of which 767 billion dollars correspond to the current Sukuk securities market. According to analysts' calculations, the global Sukuk financial sector will reach 1.98 trillion US dollars by 2027 with an average annual growth of 17%. Financing large projects, industries, and businesses through Sukuk is becoming an increasingly important tool in the Persian Gulf and South Asian countries.



**Chart 1.1. Islamic Banking share in total banking assets by Jurisdiction<sup>2</sup>**

Notably, the number of jurisdictions where Islamic banking has achieved domestic systemic importance 17 remained at 15, the same as in 4Q'20. Collectively, these 15 jurisdictions accounted for a 91.8% share of the global Islamic banking assets and for 82.7% of global -outstanding of at end-4Q'21. The Islamic banking sector experienced an increase in domestic market share in 29 countries. While both Iran and Sudan maintained 100%

<sup>2</sup> <https://islamicmarkets.com/publications/ifsbs-islamic-financial-services-industry-stability-report-2022>

domestic market shares, five jurisdictions monitored recorded declining market shares<sup>3</sup>.

Sukuk are certificates of equal nominal value, which confirm an indivisible share of ownership of tangible assets, services, and assets of a certain project (definition of the AAOIFI organization).

Each introduced sukuk must be based on an asset of value, which in turn avoids interest (usury). There are several types of sukuk financial structures, such as ijaarah sukuk, murabaha sukuk, mudaraba sukuk, musharakah sukuk, salam sukuk, istishna sukuk, and hybrid sukuk.

Through Sukuk, economic, social, and environmental projects can be financed by attracting local and foreign investors. The fact that Sukuk is based on assets and asset creation leads to the creation of assets and services in the economy, increasing income. Its direct creation of real assets and targeted use attract local and foreign investors as a safe financial system.

Table 1

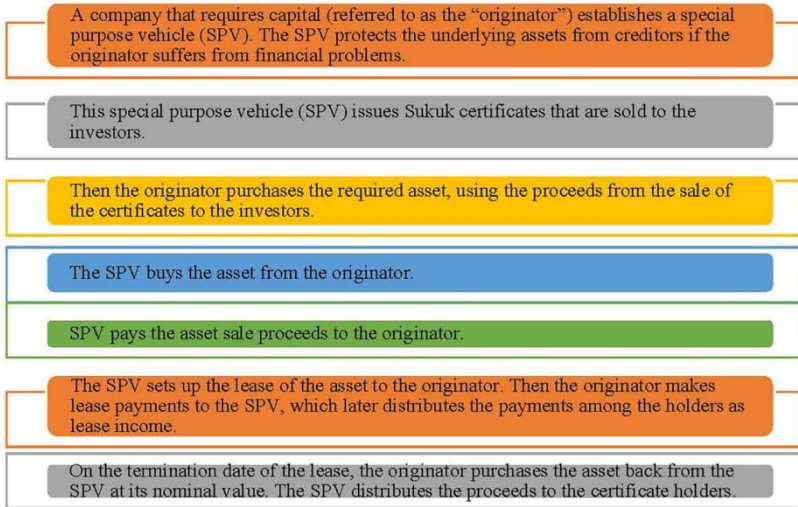
**Differences between Islamic and conventional bonds<sup>4</sup>**

	<b>Sukuk</b>	<b>Bonds</b>
Ownership	Partial ownership of the asset	Debt obligation
Compliance	Complies with Sharia	Complies with country/region of issuance
Pricing	Based on the value of the underlying asset	Based on issuer's creditworthiness

The development of Sukuk improves corporate governance and ensures openness and transparency of companies' reports. In turn, the development of the capital market reduces the state's demand for foreign loans and the budget deficit.

<sup>3</sup> <https://islamicmarkets.com/publications/ifsb-islamic-financial-services-industry-stability-report-2022>

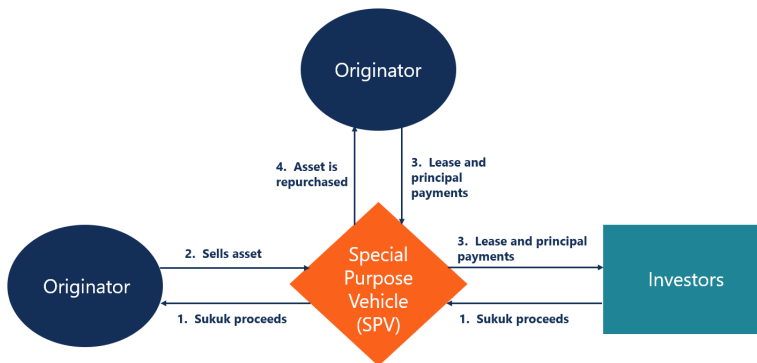
<sup>4</sup> <https://corporatefinanceinstitute.com/resources/wealth-management/sukuk/>



**Pic. 1. Common steps in the emission process<sup>5</sup>**

Sukuk does not represent a Upon its issuance, the issuer sells certificates to investors. Then, the issuer uses the proceeds from the certificates to purchase the asset, and investors receive partial ownership of the asset. The investors are also entitled to part of the profits generated by the asset.

The unique nature of Sukuk requires a specific issuing process for the financial instrument.



<sup>5</sup> <https://corporatefinanceinstitute.com/resources/wealth-management/sukuk/>

Aviation is a huge system that accounts for \$3.5 trillion in global GDP, creates about 88 million jobs, and delivers about 60 percent of the world's tourists to their destinations. The aviation sector provides economic growth, creates jobs, and facilitates international trade and tourism. It is a rapid transport network that ensures the flow of investments and ideas.

Ensuring the continuity of the industry's activities is carried out with the provision of financial resources, and the development of new aircraft and infrastructure. Today, financing through the introduction of sukuk securities is becoming one of the most preferred mechanisms for the financing of the aviation industry, especially for the purchase of new aircraft, and the formation of working capital.

Islamic aircraft leasing financing is used by international airlines, including Etihad Airlines, Saudi Arabian Airlines, Air Arabia, Emirates, Malaysian Airlines, Turkish Airlines, and many of the world's largest aircraft leasing companies.

In 2012–2013, the Malaysia Airways holding company issued \$785 million worth of sukuk securities. Purchased six new Airbus A380 and two new Airbus A330 aircraft through the issuance of securities for a total of \$1.67 billion. The company applied to the Malaysian Securities Commission to create a sukuk wakala program of up to \$1.2 billion in 2021.

In 2004, Bahrain issued its first \$250 million leased sukuk securities with a 5-year term to finance the expansion of the airport area. In 2013–2015, Emirates airline company introduced wakalah and ijaarah sukuk with a ten-year term. Through the introduction of these sukuk issues, 4 new Airbus A380-800 aircraft were purchased and deployed to generate working capital.

Air Arabia purchased a total of 29 of the 44 Airbus A320s it ordered in 2007 using an Islamic financing sukuk arrangement.

Green sukuk are investments in renewable energy and other environmental assets. Green sukuk's assets include environmental trends such as the creation of solar, wind, and biogas energy, and the production of electric cars.

Financing projects aimed at meeting the needs and demands of people by saving natural resources, ensuring a safe ecology, and creating renewable energy resources has become a topical issue today.

In recent years, the financing of infrastructures using the opportunities of green sukuk has become popular in the countries of the world.

During 2017–2020, Indonesia, UAE, Malaysia, and Saudi Arabia issued a \$9 billion green sukuk.

In 2020, during the outbreak of covid-19, green sukuk worth \$2.56 billion were issued globally, and in 2021, \$1.57 billion were issued.

The first green sukuk was issued in 2017 by renewable energy group Tadau Energy, raising US\$59 million to finance a solar power plant in Malaysia. This year, along with Malaysia, Indonesia has shown leadership by issuing the world's first sovereign green sukuk and the world's first retail green sukuk.

The Gulf states are working on financing sustainable (decarbonization) projects, including opportunities for green sukuk. For example, Saudi Arabia plans to produce 50 percent of its electricity from clean sources by 2030. The UAE aims to increase the share of clean energy in total energy by 50% by 2050. Bahrain plans to increase renewable energy to 250 MW by 2025. One can observe many other sectors that are currently being financed through sukuk securities, a product of Islamic finance.

Uzbekistan is one of the countries that widely implement economic, social, and ecological reforms. Funding sources, perfect legislation, and the financial literacy of the population play an important role in the implementation of these reforms.

Although there are effective aspects of attracting external debt for the creation of infrastructures, there are also high economic risks. Therefore, the formation of projects that attract domestic and foreign investors and the development of financial instruments will ensure an increase in the flow of investments to the country.

In creating an innovative and inclusive financial system, the constant cooperation of ministries and agencies with the private sector and experts plays an important role in achieving the goals faster and more efficiently.

President Shavkat Mirziyoyev stated in his address to the Supreme Assembly in December 2020 that the time has come to introduce Islamic finance in Uzbekistan. The introduction of Islamic finance in Uzbekistan will lead to the diversification of the financial market, the development of an inclusive financial market, an increase in sources of financing, and an increase in investments. As a result, opportunities for financing transport and logistics, energy, construction, mining and metallurgy, private sector, and other sectors will arise through the introduction of sukuk securities, which are products of Islamic finance.

For example, from sukuk securities:

- Installation and financing of solar panels in Surkhandarya, Kashkadarya, Bukhara, Navoi, Khorezm, and Jizzakh regions,
- When installing wind power plants in windy areas of Karakalpakstan, Tashkent region, Bukhara, and Navoi regions,

- in the construction of toll roads Tashkent-Nukus, Tashkent-Andijan, Tashkent-Surkhandarya,
- can be used to finance projects such as the purchase of high-speed trains, and new airplanes.
- Targeted and correct channeling of free funds available in the hands of the population and entrepreneurs through Sukuk not only expands the income opportunities of the population and entrepreneurs but also enables the start of projects that are struggling to find a solution due to financial problems. provides.

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