

PROBLEMS AND PROSPECTS OF INTRODUCING “GREEN” SUKUK IN UZBEKISTAN

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Abstract

This article based on data from the World Bank and official national sources, a comparative analysis has been conducted on the structure, terms, yields, and allocation of proceeds of green bonds and sukuk in international practice. These findings provide an important theoretical and practical foundation for the development of the green sukuk market in Uzbekistan.

The results of the study indicate that, despite the significant potential of green sukuk to attract capital and finance environmentally sustainable projects, several challenges remain in their implementation. In particular, risks such as greenwashing, the high cost of financial instruments, currency mismatches, and the insufficient development of the regulatory and legal framework constitute major barriers.

The experience of Uzbekistan and developed countries demonstrates that properly structured and institutionally supported green sukuk, in compliance with Sharia principles, can serve as an effective instrument for mobilizing investment.

In conclusion, it should be emphasized that the successful introduction of green sukuk in Uzbekistan requires the deepening of institutional reforms, ensuring transparency, improving the regulatory framework in line with international standards, and integrating this instrument into the country’s public financial policy.

Keywords: Green sukuk, green economy, public–private partnership (PPP), Developing countries; Special Purpose Vehicle (SPV), ESG investment; Greenwashing; Public debt; SDG bonds; Sustainability-linked finance, Climate Bonds Initiative.

Introduction

In recent years, the country has undertaken a series of comprehensive and systematic measures aimed at deepening structural transformations, modernizing and diversifying key sectors of the economy, and ensuring balanced socio-economic development across regions.

Within the framework of these reforms, particular attention has been given to the advancement of the “green economy.” In this regard, a regional ministerial conference involving European and CIS countries was convened, focusing on the enhancement of the regulatory and legal framework, as well as the development of effective policy mechanisms to support green economic transformation. Special emphasis was placed on promoting innovative green investments through strengthened public–private partnership (PPP) arrangements.



At the same time, analytical assessments indicate that, in the context of ongoing climate change, there exist complex and interrelated challenges in achieving an efficient, resource-saving, and environmentally sustainable economic system.

Specifically, the acceleration of industrialization processes and rapid population growth are significantly increasing the demand for natural and economic resources. This, in turn, exacerbates anthropogenic pressure on the environment and contributes to the growth of greenhouse gas emissions.

Furthermore, a number of structural constraints persist, including low levels of energy efficiency, inefficient utilization of natural resources, slow technological renewal, and the limited participation of small and medium-sized enterprises in the implementation of innovative solutions within the green economy framework. These factors collectively hinder the attainment of the country's strategic national objectives in the field of sustainable development.

In addition, the absence of a coherent long-term strategy restricts the implementation of systematic and coordinated measures aimed at facilitating the transition to a green economy and the widespread adoption of green technologies.

Under these circumstances, there is a growing need to adopt innovative approaches and to utilize advanced financial instruments to support infrastructure development across various sectors of the economy. One of the most promising instruments in this regard is Sukuk.

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Sukuk are defined as certificates of equal nominal value representing undivided ownership shares in tangible assets, usufructs, services, or specific investment projects.

In contrast to conventional debt instruments, Sukuk embody ownership interests in underlying assets or financed ventures. Accordingly, the returns generated by Sukuk are derived not from interest payments, as in the case of bonds, but from the income generated through the utilization of assets or the profitability of the financed project.

Literature Review

Recent academic and institutional literature indicates that the development of Islamic finance in Uzbekistan has gained momentum, particularly after the economic reforms initiated in 2017. However, the historical roots of Islamic finance in the country date back to its accession to the Islamic Development Bank in 2003, which marked the beginning of structured engagement with Sharia-compliant financial mechanisms. Since then, significant financial resources have been allocated to sectors such as infrastructure, agriculture, and education, mainly through instruments like ijara, murabaha, and istisna .

Despite this early engagement, the domestic Islamic finance ecosystem remains underdeveloped. Empirical studies reveal that although actual usage of Islamic financial services is still limited, latent demand is considerably high. Surveys conducted by national and international organizations show that a substantial proportion of the population refrains from conventional banking due to religious considerations, while a majority express willingness to adopt Islamic financial products if they become available. This demonstrates the presence of unmet demand, which could be strategically addressed through instruments such as sukuk.

From a capital market perspective, sukuk is often identified as one of the most promising Islamic financial instruments for Uzbekistan. It is considered a hybrid financing tool that combines features of both equity and debt while complying with Sharia principles. Unlike conventional bonds, sukuk is asset-backed and involves risk-sharing mechanisms, which enhances its attractiveness for both issuers and investors. Literature suggests that sukuk can play a critical role in mobilizing long-term capital without increasing conventional debt burdens, making it particularly relevant for developing economies.

International experience further reinforces the potential of sukuk. Countries such as Malaysia, Saudi Arabia, and Indonesia have successfully developed large and liquid sukuk markets, supported by strong legal frameworks and institutional capacity. Empirical research confirms that sukuk issuance has a positive impact on macroeconomic indicators such as GDP growth and capital formation, particularly in emerging markets. However, the success of these countries is largely attributed to well-established regulatory systems, investor confidence, and government support.

In contrast, the Central Asian region, including Uzbekistan, remains at an early stage of sukuk market development. Comparative studies of neighboring countries such as Kazakhstan and Kyrgyzstan highlight important lessons. While Kazakhstan established a legal framework and issued sovereign sukuk, the market did not develop further due to limited follow-up activity. Similarly, Kyrgyzstan introduced legal provisions but experienced delays in actual issuance. These cases illustrate that regulatory readiness alone is insufficient without strong market demand and institutional commitment.

The literature also identifies several structural barriers hindering the development of Islamic finance and sukuk in Uzbekistan. These include the absence of a comprehensive legal framework, low financial literacy regarding Islamic finance, and a shortage of skilled professionals. Additionally, underdeveloped capital markets and limited financial infrastructure further constrain growth. Studies emphasize that these challenges must be addressed simultaneously to ensure the successful introduction of Islamic financial instruments.

Another critical gap in the literature relates to the lack of empirical research on factors influencing demand for sukuk specifically. While general demand for Islamic finance has been explored, there is limited analysis of investor behavior, preferences, and motivations regarding sukuk investments. This gap is particularly significant for policymakers, as understanding demand-side dynamics is essential for designing effective financial instruments and regulatory policies.

In conclusion, existing literature highlights both strong potential and significant challenges for the development of sukuk in Uzbekistan. While international experience provides valuable guidance, the local context requires tailored policy interventions. Therefore, further empirical research focusing on demand determinants and market readiness is essential to support the introduction of sukuk and, more specifically, green sukuk in Uzbekistan.

Methodology

This study adopts a qualitative and comparative research design to investigate the problems and prospects of introducing green sukuk in Uzbekistan. The research is primarily based on



secondary data analysis, utilizing reports from international financial institutions such as the World Bank, International Monetary Fund, and Islamic Development Bank, along with national statistical data, policy documents, and academic literature.

The methodological approach consists of three main components. First, a comparative analysis is conducted between green bonds and green sukuk, focusing on their structural characteristics, yield mechanisms, maturity profiles, and allocation of proceeds. This enables the identification of key differences and similarities between conventional and Sharia-compliant sustainable financial instruments.

Second, a descriptive analytical method is applied to assess Uzbekistan’s institutional and market readiness for green sukuk issuance. Key indicators examined include the regulatory and legal framework, financial market development, investor demand, and the role of public–private partnerships (PPP) in financing green projects.

Third, the study incorporates a risk assessment framework, evaluating major challenges associated with green sukuk implementation. These include greenwashing risk, high issuance costs, currency mismatch, and insufficient transparency. The analysis also considers ESG (Environmental, Social, Governance) principles and their compatibility with Islamic finance structures.

The research follows a cross-sectional approach, analyzing data from recent years to reflect current trends in global and domestic financial markets. Additionally, the study integrates a theoretical framework combining sustainable finance theory and Islamic finance principles, particularly emphasizing Sharia compliance, asset-backing, and risk-sharing mechanisms.

Overall, this methodology provides a comprehensive and multidimensional evaluation of green sukuk as a financial instrument and its applicability in Uzbekistan’s evolving financial system. The classification of Sukuk into various types based on their underlying structures and functional purposes is of critical importance for their effective application in practice, particularly in the context of selecting appropriate financing mechanisms for investment projects.

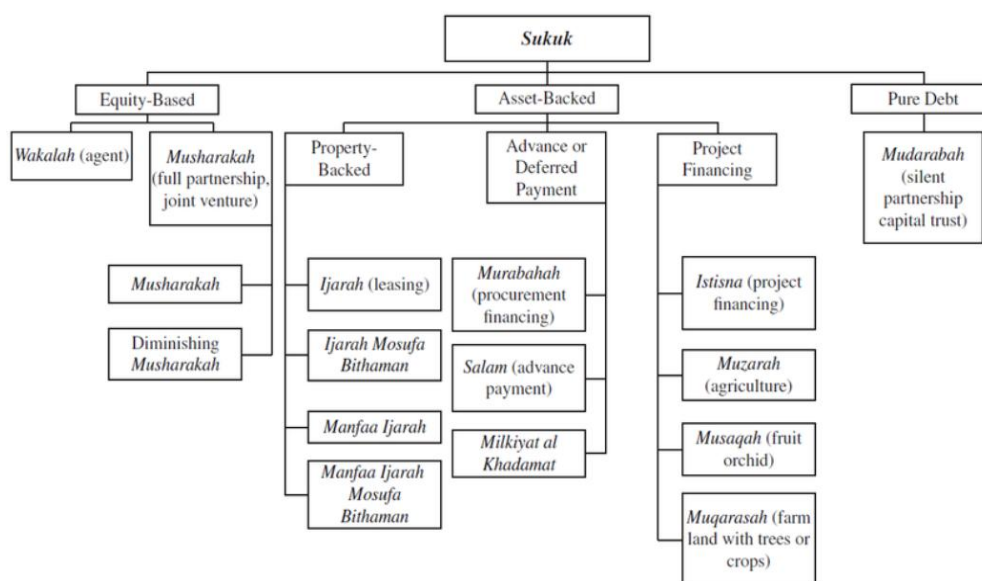


Figure 1. Classification of sukuk contracts on their financial characteristics

The picture presents a structured classification of Sukuk instruments based on their underlying financial principles and asset linkage. Broadly, Sukuk are divided into equity-based, asset-backed, and pure debt categories, reflecting different risk-sharing and financing mechanisms. Equity-based Sukuk, such as Musharakah and diminishing Musharakah, emphasize joint venture participation and profit-and-loss sharing, aligning closely with Shariah principles of risk distribution. Asset-backed Sukuk rely on tangible assets, including property-backed and leasing (Ijarah) structures, ensuring that financial transactions are supported by real economic activity. Instruments like Murabahah and Salam further illustrate trade-based and advance payment financing models. Meanwhile, project financing structures such as Istisna highlight their application in infrastructure and development sectors. Pure debt Sukuk, represented by Mudarabah, involve capital provision with profit-sharing but limited managerial involvement. Overall, the scheme demonstrates that Sukuk instruments integrate ethical finance, asset tangibility, and diversified contractual forms, making them a viable alternative to conventional interest-based securities in Islamic financial markets.

Moreover, given the structural and operational complexity of Sukuk transactions, which require a high degree of transparency and precision, the establishment of a Special Purpose Vehicle (SPV) is generally considered essential. The SPV serves as a dedicated entity that facilitates the efficient management of both the underlying assets and the associated financial operations.

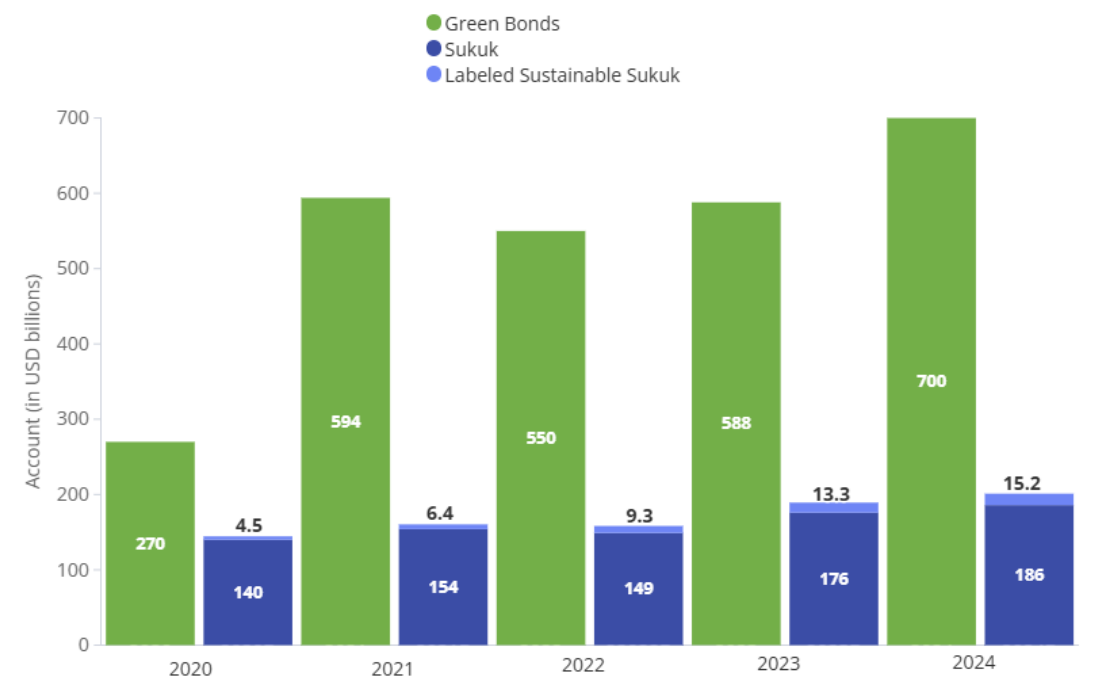


Figure 2. Green bonds and Sukuk Issuance Volumes¹

The chart illustrates the global growth trends of green bonds, sukuk, and labeled sustainable sukuk over the period from 2020 to 2024, measured in USD billions. Overall, the data

¹ <https://blogs.worldbank.org/en/allaboutfinance/state-of-the-sukuk-market-and-prospects-for-growth>



demonstrates a clear upward trajectory across all three financial instruments, reflecting increasing global interest in sustainable and Sharia-compliant financing.

Green bonds dominate the market throughout the entire period, rising significantly from 270 billion USD in 2020 to 700 billion USD in 2024. Although there is a slight decline observed in 2022 (down to 550 billion USD from 594 billion USD in 2021), the general trend remains strongly positive, indicating resilience and continued expansion of the green finance sector.

Sukuk instruments also show steady growth, increasing from 140 billion USD in 2020 to 186 billion USD in 2024. Despite minor fluctuations, such as a small dip in 2022, the overall pattern suggests consistent development in Islamic finance markets.

Labeled sustainable sukuk, while much smaller in scale, exhibit the fastest relative growth, rising from 4.5 billion USD in 2020 to 15.2 billion USD in 2024. This indicates a rapidly emerging niche within sustainable finance, highlighting growing alignment between environmental objectives and Islamic financial principles.

In conclusion, the chart reflects a strong global shift toward sustainable financial instruments, with particularly promising prospects for the expansion of green and sustainable sukuk markets.

Conclusion

The findings of this study confirm that green sukuk represents a **highly promising financial instrument** for supporting sustainable development in Uzbekistan. By combining the principles of Islamic finance with ESG-oriented investment strategies, green sukuk offers a unique opportunity to mobilize long-term capital for environmentally sustainable projects.

However, the study also identifies several critical challenges that may hinder its successful implementation. These include the absence of a well-developed regulatory framework, limited financial market infrastructure, insufficient institutional capacity, and risks such as greenwashing and currency volatility. These barriers highlight the need for a coordinated and strategic approach to financial sector reform.

International experience demonstrates that countries with strong legal systems, transparent governance, and active government support have been more successful in developing green sukuk markets. Therefore, Uzbekistan can benefit from adopting best practices from leading sukuk markets such as Malaysia and Indonesia while adapting them to local conditions.

From a policy perspective, the successful introduction of green sukuk requires:

- strengthening the legal and regulatory framework in line with international standards
- enhancing transparency and ESG reporting mechanisms
- developing institutional capacity and financial expertise
- promoting public-private partnerships (PPP) in green project financing
- increasing public awareness and investor confidence

In conclusion, green sukuk can become a strategic tool for sustainable finance in Uzbekistan if supported by comprehensive reforms, effective governance, and integration into national economic policy. Its development will not only contribute to environmental sustainability but also strengthen the country's position in global financial markets.



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