



## **MECHANISM OF STATE AND SUPRANATIONAL REGULATION IN THE DEVELOPMENT OF ISLAMIC CAPITAL MARKETS**

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<b>Article history:</b>	<b>Abstract:</b>
<b>Received:</b> 14 <sup>th</sup> October 2025 <b>Accepted:</b> 10 <sup>th</sup> November 2025	This scientific paper analyzes the key obstacles to the integration of the national market of the Republic of Uzbekistan into the international market of Islamic securities, using the example of Islamic bonds, namely sukuk. The analysis was based on current global and regional statistical data, standards and research, as well as on the current state of the regulatory framework in the Republic of Uzbekistan. Practical recommendations and development prospects aimed at reducing barriers and increasing attractiveness for international investors were proposed as a solution.

**Keywords:** Islamic securities market, sovereign sukuk, corporate sukuk, sharia compliance, international integration, regulatory barriers, financial infrastructure, institutional investors, risk and return, cross-border transactions.

### **INTRODUCTION**

At the current stage of global economic development, the task of diversifying investment and financial instruments is of particular importance, making it possible to increase the stability of markets and expand the opportunities for attracting capital. In this context, the Islamic finance sector is beginning to play an increasingly prominent role, offering alternative, ethically oriented resource mobilization mechanisms. One of the key instruments of this market is sukuk Sharia-compliant analogues of traditional bonds, which are being issued by more and more countries seeking to strengthen their financial infrastructure, increase investment attractiveness and integrate into the global Islamic financial market.

The processes of financial globalization, in which our country is actively involved, determine the increasing relevance of studying the mechanisms of integration of national financial systems into international markets, including the Islamic segment. In this regard, the purpose of this work is to comprehensively analyze the key problems and features of integration into the international Islamic securities market, consider the principles of functioning of Islamic bonds (sukuk), identify factors affecting the development of the infrastructure of the Islamic stock market, as well as assess the prospects for the participation of domestic issuers and investors in global transactions with Sharia-compliant instruments.

The object of the research is the international Islamic securities market as a special institutional system based on the principles of Sharia finance.

The subject of the study is the economic, legal and organizational conditions that ensure the integration of national financial institutions into the global sukuk market, including the possibility of attracting capital without using loan interest and the formation of alternative investment interaction schemes.

### **LITERARY REVIEW**

Modern Muslim economists such as Abdel Azim Islahi, M. M. Billah, Zamir Iqbal, Mohammed Taqi Osmani, Sidun Haron, Umar Chapra and others have made a significant contribution to the development of the theoretical and methodological base of Islamic finance. They have formed fundamental approaches to understanding the nature, principles and mechanisms of functioning of the Islamic financial system.

The theoretical aspects of the Islamic financial system are presented in detail in the work of E. A. Baydaulet «Fundamentals of Islamic Finance», a fundamental study that reveals the principles of Islamic finance, including the prohibition of riba, ethical risk allocation and features of investment behavior. A significant contribution to the development of theoretical and methodological approaches was made by R.I. Bekkin, in his work «Islamic economic model and time», analyzing the Islamic economic model and its specifics in the conditions of the modern global market. These studies are reinforced by the work of J.M.



Imamnazarov's «Improving the theoretical basis of using the opportunities of the Islamic financial system in the economy of Uzbekistan», which substantiates the need to improve the theoretical foundations of the use of Islamic finance in national economies and the adaptation of Islamic mechanisms to modern economic realities.

Important from the point of view of developing the legal and institutional aspects of the functioning of Islamic finance are studies on sukuk: among them is the work of Muhammad Taqi Usmani «Sukuk and Their Contemporary Applications», which details the structure, varieties and principles of issuing sukuk in accordance with Sharia law. A significant contribution to the empirical study of the perception of Islamic finance by various categories of economic entities was made by A. Gait and A. Worthington's article «An empirical survey of individual customers, business firms and financial institution attitudes towards Islamic methods of finance» shows that the demand for Islamic financial services is driven not only by religious factors, but also by the desire to create a more sustainable and ethical financial environment. This line of research is complemented by the work of Mahara Ginting and Nafisah Ruhana «Legal and Regulatory Framework of Islamic Banking and Finance: A Study in Singapore», which analyzes the legal foundations of Islamic banking and the regulatory regulation of Islamic finance in an international context.

Modern research on the practical aspects of the introduction of Islamic financial instruments includes the work of S.Z. Abrorov «Prospects for the introduction of sukuk - Islamic securities in Uzbekistan», which analyzes the prospects for the introduction of sukuk and the factors determining the success of the issue of Islamic securities. The work of D.Y. Khuzhamkulov and R.H. is also important. Zainiddinova «Improving the Use of Islamic Banking Services in Financing Investment Projects in Uzbekistan», analyzing the mechanisms of using Islamic banking services to finance investment projects, a key element for integration into the sukuk market.

Taken together, the studies under consideration demonstrate that the formation and integration of the Islamic securities market into the global and national financial space depends on a combination of theoretical concepts, regulatory framework, institutional factors and the level of perception of Islamic finance by market participants. All the authors emphasize the need to

harmonize Sharia principles with modern financial standards, develop the infrastructure of the sukuk market and create conditions for the effective integration of Islamic finance into the global financial system.

### **RESEARCH METHODOLOGY**

The work uses analytical reports from international organizations and rating agencies such as IFSB, S&P and Fitch, peer-reviewed research on the sukuk market, including empirical studies on Uzbekistan, as well as national regulations and reviews. Statistical data from the IFSB<sup>1</sup> and national data on macroeconomics of Uzbekistan were used to illustrate trends.

### **ANALYSIS AND RESULTS**

According to the UNDP survey, a significant part of the Uzbek population — about 68% of citizens and 60% of business representatives — express unwillingness to use traditional banking services for religious reasons. This necessitated the creation of a regulatory framework that takes into account the needs of those who prefer financial instruments that comply with Sharia principles. President of the Republic of Uzbekistan Shavkat Mirziyoyev instructed to create a legislative framework for Islamic finance back in November 2023. The bill was planned to be submitted to the Oliy Majlis by the end of 2024. Last year, the president re-announced the work on the document and estimated that its adoption would give businesses access to about \$5 billion a year, emphasizing the strategic importance of this area, and also noting that the launch of a full-fledged Islamic finance system could expand the capabilities of the private sector and ensure the inflow of significant investment resources into the national economy<sup>2</sup>.

The draft law under development provides for the creation of a comprehensive regulatory system that defines the status and operating conditions of organizations operating according to the principles of Islamic finance. The document details the basic concepts, sets out the requirements for obtaining permits, and sets out rules for conducting operations that comply with Sharia law. In addition, it is proposed to adapt tax and civil legislation, as well as adjust a number of related regulations, which will provide a structural basis for the gradual formation and integration of Islamic finance into the national financial system.

<sup>1</sup> <https://www.ifsb.org/wp-content/uploads/2024/09/IFSB-Stability-Report-2024-8.pdf>

<sup>2</sup> <https://www.spot.uz/ru/2025/10/13/islamic-finance/>



At the present stage in world practice, sukuk (سكوك Sukuk, from كص "Sakk" – "legal document, act, receipt") provides an opportunity to attract debt financing, occupying an intermediate position between the company's own and borrowed resources. According to the definition of AAOIFI (Organization of Accounting and Auditing of Islamic Financial Institutions), sukuk are certificates of equal value certifying an indivisible share of ownership in tangible assets, the right to use them and receive income, services provided, assets of a certain project or a special investment project<sup>3</sup>.

Thus, a sukuk, or property certificate, unlike bonds, is not a debt obligation of the issuer to the investor, but represents a share in an asset (project) with ownership rights (applicable as a tool for asset securitization). At the same time, sukuk, unlike stocks

and bonds, is targeted, providing non-guaranteed income from the profits that can be obtained from the use of assets (services) or a funded project. Today, sukuk can have a wide variety of forms, determined by the type of contract and the underlying asset. This reflects the fact that there is a lack of uniformity in understanding the essence of sukuk and uniform standards for the issuance, regulation and supervision of their circulation<sup>4</sup>. AAOIFI has established 14 asset classes of sukuk, however, this standard also provides for the development of various sukuk variants in accordance with the terms of issue. In general, the financing of projects by issuing sukuk compared to equity methods has a sufficient number of differences, presented in the following table 1.

Table 1.

**Distinguishing features of sukuk from equity financing**

	<b>Term</b>	<b>Financing</b>	<b>The object of investment</b>	<b>Provision of real assets</b>	<b>Profit</b>
<b>Sukuk</b>	A financial instrument that provides the holder with a certain ownership interest in a tangible asset or in an investment project.	Issue under a lease, leasing, partnership, purchase and sale agreement	The assets underlying the sukuk should not be contrary to Sharia law.	Is required	It is not guaranteed and is determined by a percentage and a floating determinant
<b>Share capital</b>	A security certifying, in compliance with the prescribed form and mandatory details of property rights	Issue of securities	The possibility of financing any assets, projects, enterprises that comply with the legislation of the country	Not required	Not guaranteed by shares. Coupon income is fixed on the bonds

The sukuk market has shown significant growth in recent years: the total volume of initial issues remains significant (about USD 193,4 billion in 2024), and the total volume of instruments in circulation is approaching USD 1 trillion (as of Q3 2025). These trends open up opportunities for issuers from developing countries,

including Uzbekistan, but at the same time emphasize the high demands on standards, infrastructure and compliance with Sharia norms from international investors. The global market is showing maturity: large issuers such as sovereigns and large corporations still dominate in volume, and the share of international and

<sup>3</sup> Sharia Standard No. 17. Sukuk / translated from English; Organization of accounting and auditing of Islamic financial institutions (AAOIFI). Moscow: Islamic Book, 2010. 41 p.

<sup>4</sup> Gafurova G.T. Assessment of the development of Islamic securities in the world as a financing tool and the possibility

of their use in Russian practice // Finance and Credit. – 2011. – № 16(448). – C. 64-73.



sustainable/green sukuk is growing. In 2023, the volume of emissions of sukuk classified as «sustainability-related» amounted to about 11,94 billion US dollars, of which the vast majority are green sukuk. This indicates a nascent niche for sustainable financing in the Islamic structure<sup>5</sup>.

For countries with Muslim populations and for States seeking to diversify the financial system, the introduction of Islamic financial products is not only a commercial but also an institutional task requiring adaptation of national legislation and regulatory practices. Uzbekistan, which is pursuing a broad program of institutional and economic reforms, considers the development of Islamic finance as a potential for attracting foreign investment, supporting small and medium-sized businesses and expanding financial services. However, the successful integration of Islamic finance into the national system is possible only if there is a consistent, understandable and compatible with international standards regulatory framework.

It is necessary to sort out the regulatory and standard discrepancies regarding the willingness to integrate into Islamic finance, in particular, the issue of sukuk, for example: Inconsistency of Sharia interpretation. Different Sharia councils (within and between jurisdictions) interpret the permissible sukuk structures in different ways, which creates legal uncertainty for international investors. Differences in national regulation, namely ownership of the underlying assets, tax regime, and protection of investors' rights, prevent the standard «shifting» of structures between jurisdictions.

In parallel, the active work of standard installers (AAOIFI, IFSB) is underway, but their implementation into national legal systems is taking place at different speeds, which supports market fragmentation. Another important barrier is infrastructure constraints. The development of the sukuk market requires not only an appropriate regulatory framework, but also a comprehensive infrastructure to ensure the issuance, placement, circulation and post-transaction servicing of Islamic securities. In Uzbekistan, it is infrastructure constraints that are currently one of the most significant barriers slowing down the launch of a full-fledged Islamic bond market. Although, according to the reports

of the Eurasian Development Bank, the total volume of Islamic finance in Central Asia in 2023 was 699 billion dollars, which is 0.01% of their global total. <sup>6</sup>

In addition, depository-clearing compatibility also slows down the development of this area. International investors expect transparent clearing and settlement procedures compatible with global depositories. For many small markets, this is not yet the case. Liquidity and secondary market. The limited secondary market of sovereign and corporate sukuk reduces the attractiveness of the issue for foreign investors.

Capital, currency and macroeconomic risks. The high volatility of local currencies and the limited possibilities of Sharia hedging of currency risks reduce the demand for foreign issues. For issuers from developing countries, this increases the cost of raising capital and investment risk. Personnel shortage is a shortage of specialized lawyers, structural engineers, auditors and members of Sharia councils with experience in international issues. Investors have low awareness of the risks and benefits of sukuk in new jurisdictions (including Uzbekistan). Empirical research shows that demand strongly depends on the level of knowledge and investment experience of potential investors.

Transaction and related costs The preparation of an international issue requires complex structuring, legal registration and verification of Sharia compatibility — all this increases the initial costs of the issuer and makes small issues economically impractical.

## **CONCLUSION**

The national context, in particular the example of Uzbekistan, confirms the importance of an integrated approach. Recent initiatives to expand the list of Islamic financial products, including the introduction of Sharia-compliant mechanisms in the microfinance sector, set an important precedent for further institutionalization and the formation of a full-fledged regulatory environment. In the future, these measures should be systematically strengthened through deeper legal certainty, increased participation of banks and non-business financial organizations, as well as increased transparency and predictability of regulatory procedures. Despite the lack of detailed statistics on the Islamic financial sector of Uzbekistan in open sources, a

<sup>5</sup> <https://www.ifsb.org/wp-content/uploads/2024/09/IFSB-Stability-Report-2024-8.pdf>

<sup>6</sup> [https://eabr.org/upload/iblock/f17/EDB\\_ISDB\\_2025\\_Central-Asia\\_Islamic\\_Finance\\_Report\\_RU.pdf](https://eabr.org/upload/iblock/f17/EDB_ISDB_2025_Central-Asia_Islamic_Finance_Report_RU.pdf)



combination of structural factors indicates a significant potential for its development. The high unmet demand from the Muslim population for Sharia-compliant financial instruments forms a stable basis for the expansion of Islamic banking and investment services. Government initiatives also indicate the formation of a favorable institutional environment. In particular, it is planned to create the Tashkent International Financial Center as a special jurisdiction designed to promote the development of the Islamic finance industry. As part of the Uzbekistan 2030 state strategy, it is planned to introduce Islamic financing mechanisms in at least three

commercial banks, which should expand the supply of Sharia-compliant products in the national financial system.

An additional impetus is provided by the measures of the Working Group on the Financial Sector under the National Council for Foreign Investors, which proposes the creation of a specialized subgroup to develop a roadmap for the development of Islamic banking, including the preparation of a relevant legislative act. All this forms the prerequisites for the progressive growth of the domestic Islamic finance market, including the sukuk segment.

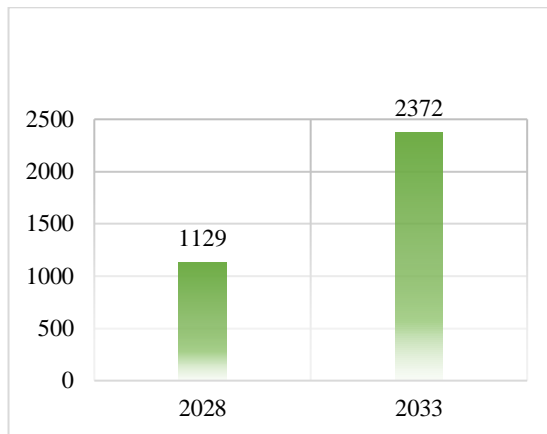


Fig. 1 The forecast for the assets of Islamic banking is \$ million.

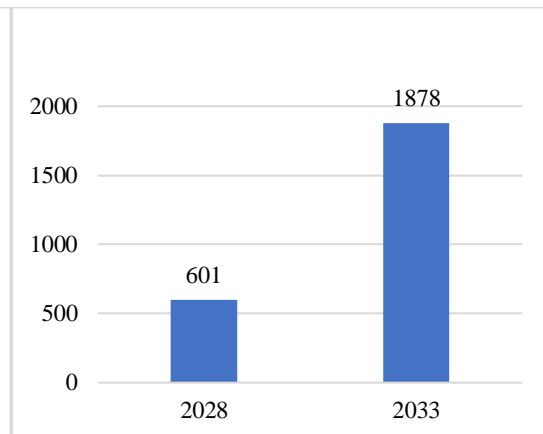


Fig. 2 Sukuk forecast in Uzbekistan million \$

According to existing estimates, Uzbekistan's Islamic banking assets may increase to \$1,1 billion by 2028 and to \$2,4 billion by 2033. Similar dynamics are expected in the sukuk market: its volume is projected to reach \$601 million in 2028 and increase to \$1,9 billion by 2033. The growth trajectory reflects the formation of a favorable institutional regime, the expectations of issuers and investors, as well as the gradual integration of national regulation with international standards (AAOIFI and IFSB). Taken together, this allows us to consider the sukuk market as one of the key drivers of the development of the Islamic financial sector in Uzbekistan in the medium term.

The integration of national markets into the international Islamic sukuk market is possible and economically justified, but requires a systematic approach: a combination of legal reforms, infrastructure creation, human resource development and active promotion of sustainable financial products. Uzbekistan has a macroeconomic and demographic base for the development of Islamic finance, but the speed of integration will depend on the quality of legal adaptation

of standards and the practical implementation of pilot programs.

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