

## OPPORTUNITIES TO USE THE EXPERIENCE OF TURKIYE IN ISSUING ISLAMIC SECURITIES - SUKUK IN UZBEKISTAN

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### ABSTRACT

The purpose of this article is to study the experience of the development of the Islamic finance system in Turkiye, in particular, the history of the development of Islamic finance (participation finance), the formation of the infrastructure for the establishment of the Islamic capital market, and the analysis of the obstacles to the development of the Islamic capital market and the reforms carried out in order to eliminate them. A quantitative approach was used to achieve these objectives. Also, directions of using Turkiye's experience in Uzbekistan were considered.

**Keywords-** Islamic finance industry, regulatory framework, Islamic financial institutions, sukuk, ijara (lease), wakala, murobaha

### 1. INTRODUCTION

Islamic finance is seen as a rapidly growing part of the global financial industry and has already become a global phenomenon. The process of accepting Islamic finance into their financial portfolio is expanding year by year, not only in Muslim countries, but also in countries where Muslims are a minority.

By the end of 2022, the total assets of this network amounted to 4.5 trillion US dollars and is growing by an average of 15-20% per year. Also, today, 47 countries around the world have created a legal framework for the application of Islamic financial relations, and in these countries there are about 1,600 Islamic financial institutions offering a wide range of financial services.

The President of the Republic of Uzbekistan Sh.M. Mirziyoyev emphasized at the opening ceremony of the 43rd session of the OIC FAM Council, "The Islamic world has enormous economic, investment potential, and energy resources. Proper use of them, expansion of international trade-economic, financial, investment cooperation of the member states of the Organization of Islamic Cooperation, organization of transport routes connecting our countries will allow to achieve high indicators of economic development, and this will ultimately serve as a basis for the development of all other areas.

Attracting the funds of existing banks, investment funds and companies operating in Muslim countries based on Islamic financing to Uzbekistan will lead to an increase in the flow of foreign investments to the country. This shows the relevance of our scientific article to study the problems of issuing sukuk in Uzbekistan, to study the experience of Turkiye, which has made great progress in the development of Islamic finance, and to consider the possibilities of its introduction in Uzbekistan, to develop a scientific conclusion and recommendations on this issue. This study not only helps to fill the literature on the study of Islamic finance in Turkiye, mainly sukuk, and based on the results of this study, suggestions for implementing the experience of this country in Uzbekistan can be used as a roadmap for further research in this field.

### 2. LITERATURE REVIEW

Along with the rapid growth of Islamic finance, the interest of many specialists, scientists and researchers in this field is also increasing, and many scientific researches are being conducted worldwide on this financial industry.

Many foreign, CIS and Uzbek scientists have conducted scientific research on Islamic finance. For example, from foreign scholars (Shaykh Muhammad Taqi Usmani, 2011) in his introductory book to Islamic finance, he provided basic information about the principles and rules of Islamic finance with special reference to the methods of financing used by Islamic banks and non-banking financial institutions, and today it is used all over the world. This book is widely used among scientists, experts and researchers of this field. In addition, scientists from the CIS countries (E. Baudavlat, 2019) explained Islamic finance using high potential and modern research methods in the book called Islamic finance basics. Mokina L.S., (2017) conducted scientific work on Islamic securities as a source of financing investment projects and the prospects of their placement in the Russian financial market, revealed the essence of Islamic securities (sukuk), the difference from traditional securities, the Russian capital market and analyzed the situation and presented his scientific and practical proposals and conclusions on the prospects of introducing sukuk. In addition, the book "Islamic economic model and time" by R.I. Bekkin (2019), which is one of the valuable literature on Islamic economy and finance among the CIS countries. In this book, not only the theoretical aspects of Islamic economy and finance are revealed, but also its practical aspects are studied on the example of several selected countries, in particular, the experience of Turkiye has been studied.

In addition, Uzbek scientists and researchers are conducting scientific research aimed at the obstacles to the development of Islamic finance in Uzbekistan and solutions to overcome them. For instance, one of the Uzbek research scientists (Kh. Khasanov, 2017) in his article entitled Ethical (Islamic) financing system as an innovative financing tool, analyzed the

advantages of the Islamic financing system, its role as an innovative financing product, as well as its practical aspects, analyzing the practices of Uzbekistan and the CIS countries have been also researched. Moreover, (S.Z. Abrorov 2020) conducted a scientific research work focused on the prospects of introducing sukuk Islamic securities in Uzbekistan, including studying the experience of Malaysia, which has achieved high achievements in this direction, and gave his suggestions and recommendations aimed at introducing sukuk in Uzbekistan. Furthermore, (G. Irgasheva, 2023) defined the directions of using Malaysian experience in the development of Islamic finance in Uzbekistan. However, research on Islamic finance has been carried out by a small number of researchers in Uzbekistan, and scientific research focused on the study of the Islamic financial system of Turkiye and the development of the Islamic capital market as well as the implementation of this country's experience in the national economy is rare. Therefore, the purpose of this article, as we have mentioned above, is to determine the directions for the introduction of Islamic securities-sukuk in Uzbekistan based on the experience of the country under study. The method and the object used in my scientific research are not observed in the works of the above-mentioned articles and show the different aspects of our scientific work.

### 3. METHODS

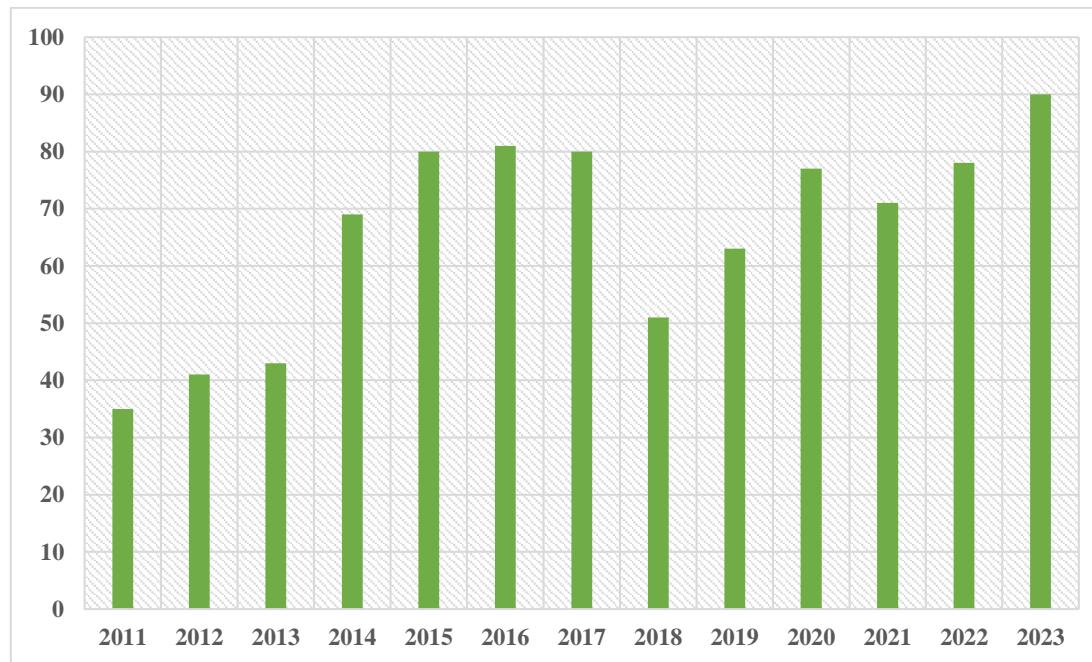
Quantitative research method was widely used in our article. Also, methods such as systematic and comparative analysis, graphic representation, expert assessment, and economic statistics were effectively used.

Based on the results of quantitative data, this study aims to investigate the development practice of the Islamic finance industry in Turkiye, including the history of its establishment, obstacles to development, measures taken by the government, and the possibilities of using the experience of this country in Uzbekistan.

### 4. RESULTS AND DISCUSSION

Since 1984, Islamic finance has been active in Turkiye, and Special Finance Houses (SFH) were the first Islamic finance institutions, which were transformed into Participatory Banks in 2005 by the new banking law. Although more than 95% of the population is Muslim, participating banks account for only 7-8% of the total market share of the banking sector. Compared to many Arab countries and Malaysia, the use of Islamic banking and finance products in Turkiye started very late, as Islamic banking was introduced in the country in the 1980s. However, as a result of the support of the country's government and leadership and the growing need for Islamic banking and financial services in the country, as a result of efforts to develop this sector, it began to develop rapidly since 2005.

To date, Turkiye ranks 9th in the world in terms of total assets of the Islamic finance industry (Figure 1), and ranks 8th in terms of Islamic banking assets. Also, extensive work has been done to develop a legal and regulatory framework to support the Islamic finance industry in Turkiye, and in particular, the adoption of the Participating Bank Law in 1983 has provided a solid foundation for Islamic banking practices.



**Figure 1.** Turkiye, total Islam finance assets amount in the period 2011-2023

Recent economic development and a number of regulatory changes have accelerated the growth of the Islamic finance sector in Turkiye. For example, sovereign sukuk and participation bank sukuk were issued, Islamic private pension and takaful (Islamic insurance) companies were established. In Turkiye, the Islamic finance industry is supervised and regulated by the

Banking Regulation and Supervision Agency (BRSA) and the Capital Market Board (CMB). Currently, the number of participating banks in the country has reached 6 (Table 1).

**Table 1.** Brief information about participating banks (as of June 2022)

Name of the bank	Established date	Legal status	Paid capital ( Paid-in capital ), ( billion ( TRY))	Capital ( billion ( TRY))	Assets ( billion ( TRY))
Albaraka Turk	22.11.1983	Private	2.5	7.2	131.7
Kuwait Turk	22.01.1988	Private	4.6	20.9	329.6
Turkiye Finance	28.12.2005	Private	2.6	8.9	141.8
Ziraat Katilim	29.05.2015	State	2.6	8.2	151.6
Vakif Katilim	26.02.2016	State	9.6	14.9	142.3
Emlak Katilim	27.02.2019	State	1.0	3.2	59.6
Golden Global *	15.10.2019	Private	0.2	0.2	0.7
Total			23.1	63.4	957.3

\* As an investment bank.

Interest-free financing was recognized in the financial system for the first time in 2005 when it was reflected in the legislation as participating banks of SFHs. Important events such as the establishment of participation insurance companies, the establishment of the legal basis for lease certificates (sukuk), according to the SPK Communiqué, the issuance of the first lease certificate in international markets by the private sector and the issuance of the first national currency lease certificate by the sovereign were also carried out during the Prudential Development stage.

Participating banks operate in accordance with the Law "On Banks". In the form of Law No. 5411, there are no separate legal documents specific to participation banks. According to Law No. 5411, participating banks can perform almost all activities performed by depository banks. Regarding the third article of the law, in accordance with the Regulation published in the "Official Gazette" No. 3 of 25.01.2019, participating banks can collect funds through current and participation accounts and finance them by sales (murobaha), ijara, partnership (mushoraka and mudoraba), wakala and other methods, and this 30666 numbered in the form. Moreover, the amendment to Article 77 of the Law "On Banks" in 2020 No. 5411 opened the way for participating banks to carry out business activities based on cooperation with the real sector. Another amendment to the same article exempted participating banks from Article 57, which restricts the purchase and sale of real estate if the financing is provided through interest-free financing methods.

Uniformity was ensured in the internal control and control structures of the participating banks with the provisions of the Protocol on compliance with the principles and standards of interest-free banking, published in the Official Gazette No. 30888 of 09/14/2019.

Based on the decision of the Council, Decision No. 7736 issued by the BRSA in 2018 in order to define professional principles and standards for the activity of the Participation Bank, the Centralized Advisory Council began to operate within the TKBB in 2019. The board sets standards for products and services offered by participating banks. The Board has published four standards (Kafala Standard, Murobaha Standard, Tawarruq Standard and Share Certificate Issuance and Trading Standard).

Participating capital market products were first regulated in Turkiye in 2010 with the Declaration on the Principles of Leasing Certificates and Asset Leasing Companies. The statement described the lease sukuk as "a certificate of ownership-based lease." In 2012, the Capital Market Law No. 6362 introduced the definition of participation capital market products into law for the first time.

Secondary regulation related to taxation and market practices was introduced after 2016, following legislative changes aimed at developing the legal framework and infrastructure of capital market products. In this regard, tax incentives and regulations have largely removed the barriers to issuing rental certificates. Later, participation-based repo and reverse repo markets were established in 2018.

In 2021, the market share of leased certificates expanded with the adoption of the decision of the Capital Market Council to allow the holding of leased certificates in the portfolio of debt securities umbrella funds.

In February 2022, CMC published guidance on Green Debt Instruments, Sustainable Debt Instruments, Green Lease Certificates and Sustainable Lease Certificates for green bonds and green lease certificates that are used only to finance

or refinance favorable green projects. In the following months, the TKBB Advisory Board published two manuals on the rules for identifying companies to be included in participating indices and the securities clearance procedures.

Islamic capital markets have grown rapidly since the world's first global corporate sukuk was issued in 2001.

Participation capital markets in Turkiye have been operating since 2008, which is much earlier than the emergence of participation banking in 1984 and the launch of the Participation 30 index.

In recent years, the market share of rental certificates (sukuk) in capital markets has been increasing in Turkiye. Lease certificates were first mentioned in the legislation in 2010 in the Communication "On lease certificates and the principles of activity of asset leasing companies" published by the Capital Market Council (CMC).

According to the statement, it is allowed to issue rental certificates only on the basis of ownership (lease agreements). Later, SPK issued another statement in 2013, which allowed the issuance of lease certificates based on management contract (wakala), trade (murabaha), partnership (mudaraba, musharakah) and engineering, supply and construction (istono).

After these regulations, lease certificates were issued through asset leasing companies (ALCs) with joint stock company status.

In this regard, in 2010, the first leasing certificate was issued by the participating bank in international markets and amounted to 100 million US dollars. In 2011, various facilitating changes were made to the tax regime for issuing lease certificates. After tax changes in 2012, it issued its first leasing certificates of USD 1.5 billion (sovereign) in the international markets and USD 1.6 billion in the domestic market.

Between 2010 and 2021, 17.8 billion dollars, 4 billion euros and 2 billion MYR leasing certificates were issued in the domestic and international markets. The total volume of gold-based leasing certificates since 2017 was 197.9 tons.

**Table 2.** Debut themed ijara (lease) certificates in Turkiye

Sector	Sukuk issuer	Issued amount	Release date	Payment date	Contract	Theme
Renewable energy	Zorlu Energy Electric Üretim A.Ş.	50,000,000 TRY	3.06.2020	2.06.2021	Wakala	Stable
Renewable energy	Zorlu Energy Electric Üretim A.Ş.	45,000,000 TRY	22.04.2021	17.09.2021	Wakala	Depends on BRM
Participating bank	Kuwait Türk Katılım Bankası A.Ş.	350,000,000 US	16.09.2021	16.12.2031	Murobaha and Wakala	Stable
Investment bank	Turkiye Kalkınma ve Yatırım Bankası A.Ş.	50,000,000 TRY	12.10.2021	10.01.2022	Wakala	Social
Participating bank	Turkiye Emlak Katılım Bankası A.Ş.	51,800,000 TRY	10.11.2021	11/16/2022	Wakala	Green
Construction	TVF IFM Gayrimenkul ve İnşaat Yönetimi A.Ş.	600,000,000 TRY	24.12.2021	22.12.2023	Istisna	Green

As a reflection of the deepening of the lease certificate market in Turkiye since 2010, in 2020, the first sustainable lease certificates with a value of TRY 50 million were issued by a company operating in the energy sector. In September 2021, the participating bank issued the first stable secondary subordinated lease certificate in international markets, amounting to USD 350 million. Later, in November 2021, another participating bank issued Turkiye's first green leasing certificate based on the cooperation agreement in the amount of 52 million TRY.

The latest green lease certificate for 2021 is worth 600 million euros and was issued by the project company in December under the exclusive contract of Istanbul Financial Center (Table 2).

## 5. CONCLUSION

Based on the results of our research, we have seen that the development of Islamic finance (participation finance) in Turkiye has been studied in several stages, and at each stage, systematic work has been carried out to eliminate obstacles to the development of Islamic finance. We have also studied in detail the Turkish experience that has been implemented and is planned to be implemented in order to establish the Islamic capital market in Uzbekistan. As a result of our research, we have developed our own scientific and practical proposals and conclusions for the introduction of Islamic securities - sukuk in Uzbekistan.

In order to effectively introduce sukuk issuance in Uzbekistan, before issuing sukuk, the Ministry of Economy and Finance of the Republic of Uzbekistan should conduct a survey and analyze the results in order to see the society's demand for ijara, istisna and wakala sukuk in precise numbers. Based on the results of the analysis, they will be able to make a decision on issuing sukuk.

In order to make it easier for issuers, to develop a manual that covers all aspects of lease (ijara), istisna and wakala sukuk issuance, operation and extinguishment, and also briefly cover the global experience of sukuk issuance, and present this manual to investors by printing it in electronic or printed form may lead to an increase in confidence and an increase in the number of investors.

The issuance of sukuk by the SPV selected by the Ministry of Economy and Finance is the development of Islamic securities aimed at creating new opportunities for the stock market of Uzbekistan, increasing the efficiency of the existing system based on the experience gained, improving the image of Uzbekistan in the world Islamic financial market, and further expanding the scope of investment attraction with the help of sukuk can be seen as an aid for developing a long-term strategy.

Based on the conclusions presented in this article, our prospective work on the remaining issues continues and will be presented in our future articles.

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