

# Islamic capital market development opportunities in Uzbekistan

12.09.2019  
Tashkent





## The IsDB Group in Brief





# Entities of the IsDB Group



## Islamic Research & Training Institute (IRTI)

- ▷ Serve as research and training arm of the IDB,
- ▷ Lead development of the Islamic Financial Services Industry (IFSI) to support socio-economic development of MCs.
- ▷ Activities: training, research, advisory, capacity building, etc.



## Islamic Corporation for the Dev. Of the Private Sector (ICD)

- ▷ Promote private sector development in Member Countries,
- ▷ Facilitate access to Islamic capital markets,
- ▷ Mobilize additional financial resources for private sector,
- ▷ Promote entrepreneurship, and encourage cross- country investments.



## The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

- ▷ Boost trade among OIC Member Countries,
- ▷ Offer Ethica;-compliant export credit insurance and re-insurance
- ▷ Provide political risk insurance to encourage investment flows.



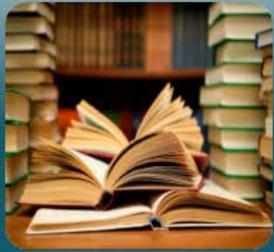
itfc

## International Islamic Trade Finance Corporation (ITFC)

- ▷ Advance trade across OIC,
- ▷ Encourage intra-trade across OIC Member Countries,
- ▷ Help businesses to better access trade finance, and
- ▷ Provide them with the necessary trade-related capacity building

# IsDB Group Products and Services

**Science &  
Technology  
Program**



**Special  
Assistance**



**Trade  
Financing &  
Promotion of  
Intra-Trade**



**Capacity  
Development  
& Technical  
Cooperation**



**Insurance of  
Investment &  
Export Credit**



**Scholarship  
Programs**



**Project  
Financing**



**Fund / Asset  
Management**



**Islamic  
Economics &  
Finance  
Research and  
Training**



**Development  
of the Islamic  
Financial  
Services  
Industry**



# IsDB Group and Uzbekistan

# Development Effectiveness in Uzbekistan - Portfolio & Contributions

Joined IDB in 2003

Joined ICD in 2004

Joined ITFC in 2019

Joined ICIEC in 2019

Total Approvals:

US\$ 2.0 B

for nearly 100 projects  
& operations

IsDB – US\$ 1.55 B

ICD – US\$ 0.36 B

ITFC – US\$ 88.0 M

Others – 13,47 M



150 Classrooms built or upgraded in primary/secondary institutions  
26 Institutions built, upgraded or equipped  
11.800 Students per year benefitted



12 Health facilities constructed/upgraded or equipped  
Over 166,000 people per year benefitting from outpatient services



Over 7,800 Housing Unit built  
Over 200 KM of Drinking Water Supply Network built



Over 590 KM of Irrigation canals built  
Irrigation on arable land improved by over 400,000 Hectares



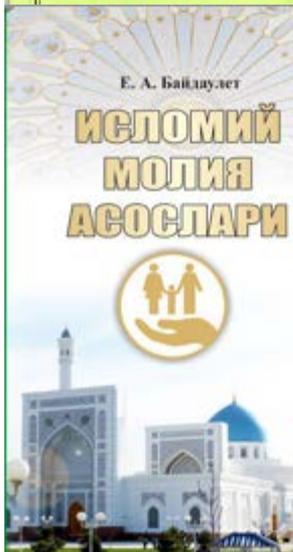
Annual capacity at airports increased by almost 200,000 passengers or tons of cargo  
100 KM of International transport corridors rehabilitated



Over 720 MW (equivalent) of Energy generation capacity installed using renewable sources  
Nearly a million (957,000) new households connected to electricity  
Over 400Km of Transmission/Distribution lines installed, upgraded or rehabilitated

# Current situation with Islamic Finance in the country

Books published in Uzbek language



Companies providing Islamic financial services for the private sector companies

- Direct Investment Fund
- Uzbek-Emirate Investment Company



Islamic Banking and Finance legislation

- Three official request are received for TA on Awqaf, Islamic Capital Market and IBF

Islamic Finance education

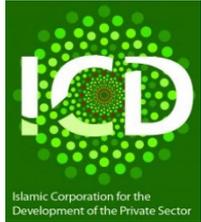


Islamic financial services for population

- Mobile phones and passenger cares through individual entrepreneurs



# Active cooperation with local Commercial banks and Leasing Companies



Line of Finance  
13 banks and 2  
Leasing companies,  
IW Agreement with 5 banks



IDB Line  
of Finance  
4 banks

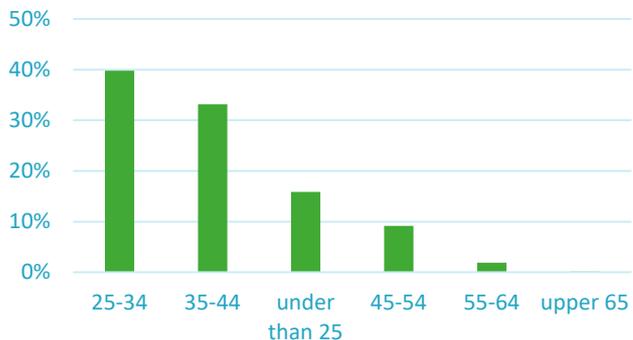


Line of Trade Finance  
5 banks



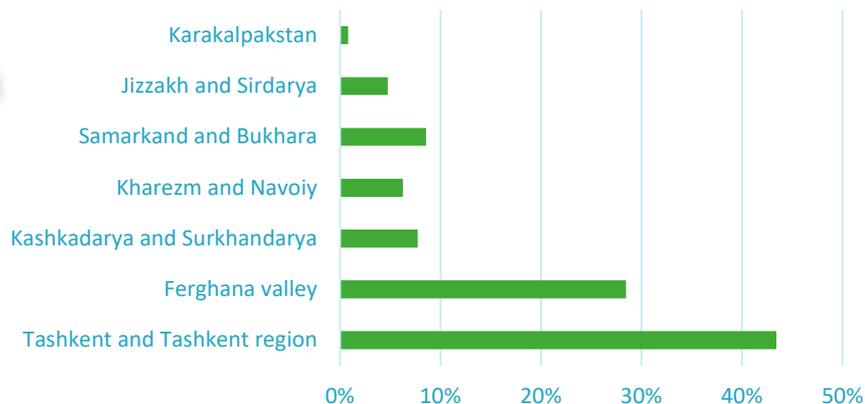
# Survey on the theme "Prospects and issues on development of Islamic Finance in Uzbekistan"

What age group do you belong to?

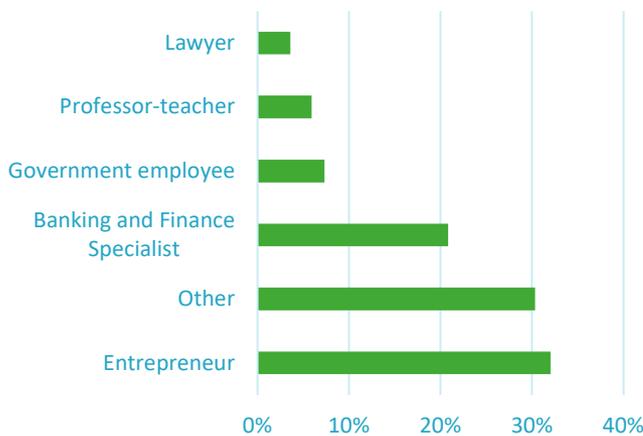


89 % 11 %

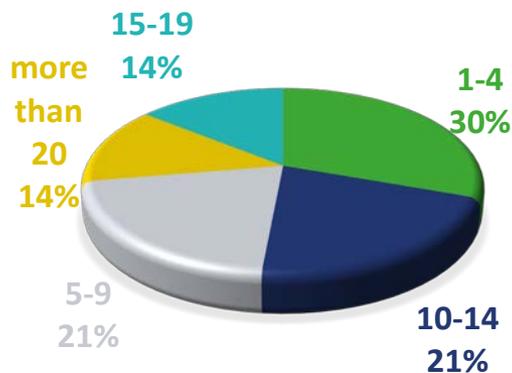
Where are you from?



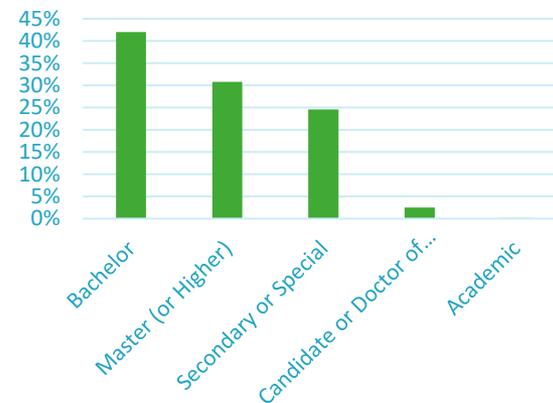
Specialty?



WORK EXPERIENCE (YEARS)?

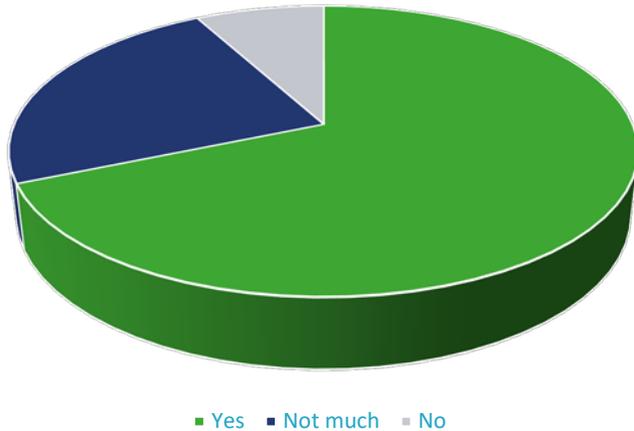


Education degree?

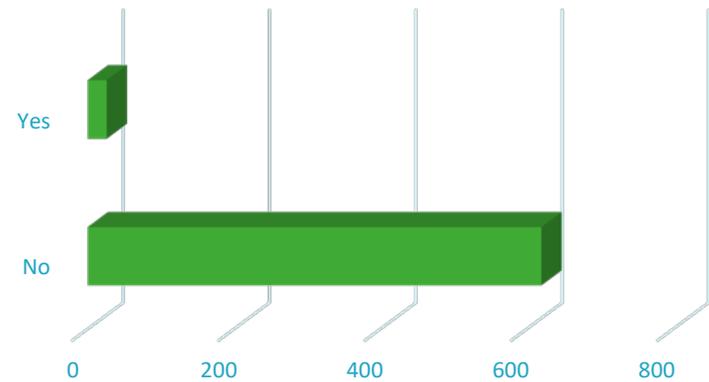


# Survey on the theme "Prospects and issues on development of Islamic Finance in Uzbekistan"

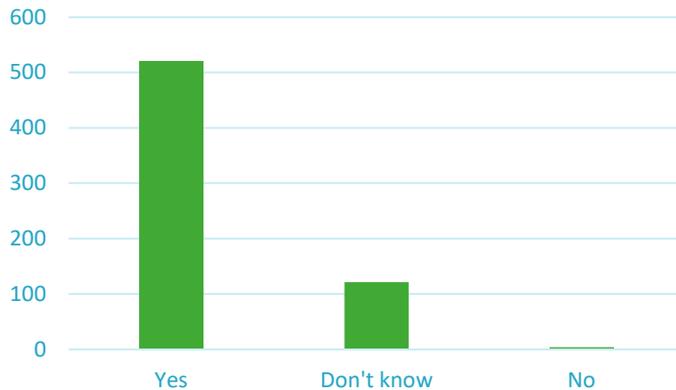
Have you ever heard about IB or IF?



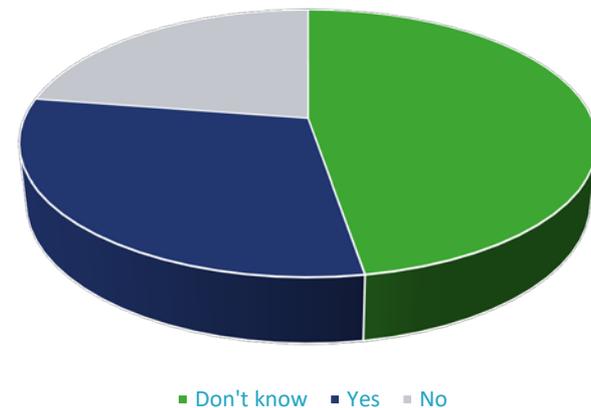
Have you been a client of IB?



Are Islamic banks more beneficial to society than traditional banks?

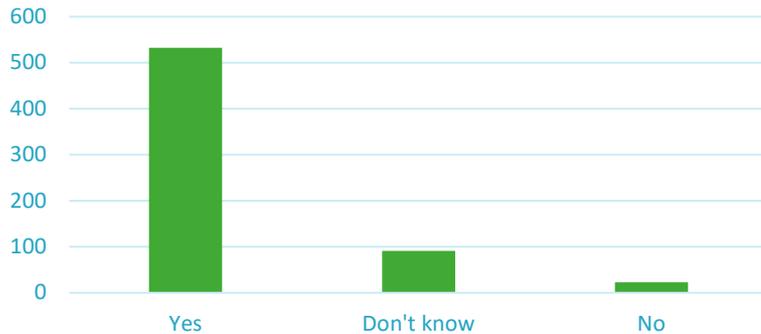


Is there any discrepancy in the legislation for establishment of IW or IB in Uzb?

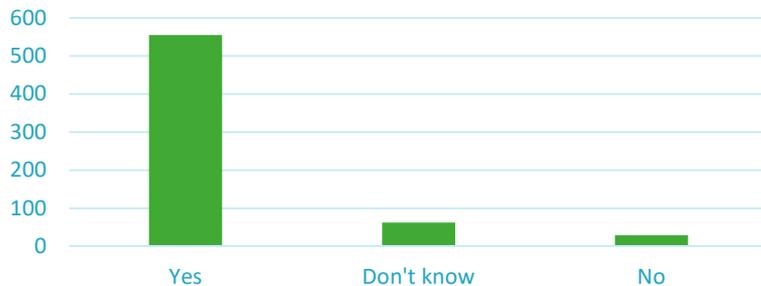


# Survey on the theme “Prospects and issues on development of Islamic Finance in Uzbekistan”

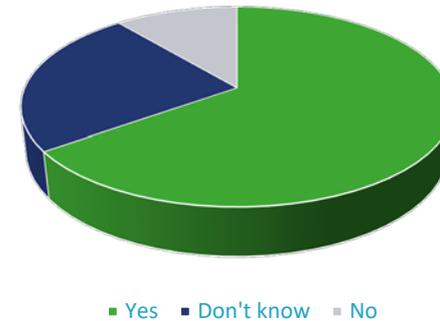
Will the introduction of the Islamic banking system in Uzbekistan contribute to the increase in foreign direct investment?



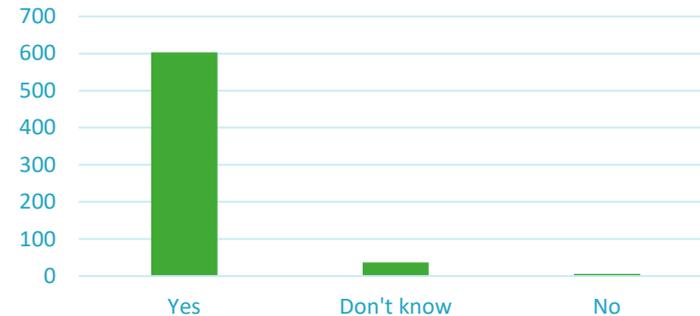
Do you think the introduction of the Islamic banking will positively contribute to the GDP growth over time?



Do you think the Government of Uzbekistan will support the establishment of Islamic Financial Organizations?



If the Islamic bank will be created in Uzbekistan, would you be a client of it?



# What is Islamic Capital Market

Islamic capital markets are platforms which allow resources to be mobilized in an efficient manner by allowing people, entities, and governments with surplus funds to transfer them to other people, entities and governments who need funds.



Islamic capital markets play a key role in the Islamic financial system in that they provide an alternative to parties who are interested in raising funds in a Shari'ah-compliant way.

What are the key components of Islamic capital markets?

The key components of Islamic capital markets are:

1. **Islamic Equity Markets**
2. **Sukuk Markets**



# What is Islamic Capital Market: Islamic equity markets

Islamic equity markets deal with Sharī'ah-compliant stocks and related instruments. They allow companies to raise equity financing through the issuance of common stocks. Investors earn returns based on the earnings of the underlying business and share its risks.

Islamic equity markets consist of:



## Islamic Unit Trusts

These are collective investment schemes that allows investors with similar objectives to pool their funds and invest in a single portfolio of securities. They invest in Sharī'ah-compliant stocks, instruments and assets.



## Islamic Exchange Traded Funds (I-ETFs)

I-ETFs are collective investment schemes that are passively managed and invest in a portfolio that closely tracks an underlying Sharī'ah-compliant stock index. Buying a unit from the ETF provides investors exposure to a basket of different stocks.



## Islamic Real Estate Investment Trusts (I-REITs)

I-REITs are essentially collective investment schemes where investors pool money together to purchase property for rental purposes and capital gain. The Islamic REIT invests in residential properties, offices and hospitals etc. and requires that tenants' activities are Sharī'ah compliant.



# Islamic capital market development opportunities in Uzbekistan: Sukuk markets

Sukuk markets are one of the fastest growing segments of the Islamic financial industry. Sukuk, the plural of the Arabic word 'Sakk', basically refers to investment certificates which are linked to an underlying asset. Through a Sukuk issuance, governments or entities are able to raise Shari'ah-compliant external capital by allowing investors to take an ownership interest in a specified underlying asset and earn income from the cash flows generated by the underlying asset.

What are the main differences between a Sukuk and a bond?

SUKUK	Contract	BONDS
Various underlying contracts		Lending-borrowing contract
<b>Tenor</b>		
Short and mid-term		Short, mid and long term
<b>Nature of Financing</b>		
Ownership in assets & their cash flows		Debt
<b>Underlying Asset</b>		
Required		Not required
<b>Recourse</b>		
To the obligations of the contract		To issuer
<b>Returns</b>		
Dependent on the cash flows		Fixed in time and amount
<b>Use of the Financing</b>		
Only in Shari'ah-compliant assets		No restriction

# Islamic capital market development opportunities in Uzbekistan: Underlying contracts for Sukuk



## Illustration of an Ījārah Sukuk

1. Originator sells asset to SPV (Special Purpose Vehicle)
2. SPV issues Sukuk certificates to investors (Sukuk Holders) in exchange for capital
3. The SPV uses the proceeds to pay the Originator for the asset
4. The SPV offers an Ījārah contract to the Lessee and leases the asset in exchange for rent
5. The SPV passes on the net amount of the rent to the Sukuk Holders
6. At the end of the Lease agreement, the asset is sold (normally back to the Originator) and the proceeds of the sale are distributed to Sukuk Holders as repayment of their investment



# Islamic Capital Market Opportunities in Uzbekistan

√ Sukuk is one of the most popular and fast growing Islamic Capital Market tools which can be beneficial for capital raising purposes.



√ Additional capital flow from Islamic banks and Financial Institutions as well as foreign companies.



√ Attraction of capital of population



√ Alternative financing products

√ GDP Growth and improvement of Investment Climate



# Thank You

