

INNOVATION SCIENCE AND TECHNOLOGY



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ISSUE 5



Acceptance of papers **MAY, 2025**



**Acceptance of
papers**

Published monthly



Topics

economics,
technology, social
sciences



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JOURNAL **"INNOVATION SCIENCE AND
TECHNOLOGY"** HAS BEEN REGISTERED
UNDER THE NUMBER **C-5669633** BY THE
AGENCY FOR INFORMATION AND MASS
COMMUNICATIONS (AOKA) OF THE
REPUBLIC OF UZBEKISTAN, EFFECTIVE
FROM OCTOBER 9, 2024.

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The scientific electronic journal "Innovation Science and Technology" has been included in the list of scientific publications recommended for the publication of main scientific results of dissertations for the award of PhD and DSc degrees in economics and technical sciences, in accordance with the Resolution No. 370 of the Presidium of the Higher Attestation Commission of the Republic of Uzbekistan, dated May 8, 2025.

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THE ROLE OF THE ISLAMIC FINANCIAL SYSTEM IN FINANCING INFRASTRUCTURE PROJECTS



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Abstract: This article explores the role of the Islamic financial system in financing infrastructure projects, with a particular focus on Uzbekistan. As the country transitions to a market economy and pursues sustainable development, traditional financing methods alone are insufficient to meet its expanding infrastructure needs. Islamic finance through instruments such as Sukuk, Ijara, and Musharakah provides ethical, asset-backed, and risk-sharing alternatives that align with Uzbekistan's national development objectives. The study highlights global best practices and examines how Islamic finance can be effectively integrated into the country's infrastructure strategy, particularly in key sectors such as renewable energy, transportation, and healthcare.

Key words: Sukuk, Sharia-compliant, infrastructure financing, risk-sharing, Islamic banking.

INTRODUCTION

Infrastructure plays a crucial role in fostering economic growth, enhancing national competitiveness, and improving the overall quality of life. In developing countries like Uzbekistan, the need to accelerate infrastructure development has become increasingly urgent. However, the vast scale of required funding cannot be met by government budgets alone. This has prompted a strategic shift toward viewing infrastructure not only as a public necessity but also as a viable investment opportunity. Projects in sectors such as transportation, energy, telecommunications, and healthcare have demonstrated financial feasibility and can attract private capital. To effectively mobilize additional funding, the government must prioritize economically viable projects that can be structured as investments, encouraging participation from the private sector. This approach eases fiscal pressure and allows public funds to be directed toward socially necessary but less profitable projects. In this context, project financing where each infrastructure initiative is managed through a separate legal entity and financial structure offers distinct advantages over traditional corporate financing. The evolution of project financing from natural resource ventures to public infrastructure projects opens a valuable pathway for alternative financing methods. Among these methods, the Islamic financial system, with its emphasis on asset-backed and risk-sharing principles, presents a promising solution for mobilizing long-term investment in infrastructure while ensuring compliance with ethical and religious standards. This system can provide an

alternative source of funding for large-scale infrastructure projects in Uzbekistan, particularly in sectors like renewable energy, transportation, and sustainable development, where ethical and sustainable investments are increasingly prioritized.

LITERATURE REVIEW

Islamic finance has gained attention as an alternative method for financing infrastructure projects, particularly in developing countries like Uzbekistan, which face budget constraints. Unlike conventional finance, Islamic finance emphasizes risk-sharing, prohibits interest (riba), and promotes asset-backed transactions. Instruments like Sukuk, Ijara, and Musharakah have proven effective in funding large-scale infrastructure projects in countries such as Malaysia and Indonesia. In Uzbekistan, Sukuk could play a key role in financing infrastructure sectors such as transportation, energy, and healthcare. Research by Al-Mazrouei (2019) highlights the successful use of Ijara in public transportation projects in Gulf countries, which could be replicated in Uzbekistan for sustainable infrastructure financing. Moreover, Musharakah has potential in fostering public-private partnerships for long-term projects. However, challenges remain in Uzbekistan, including regulatory differences, lack of standardization, and limited public awareness about Islamic finance products. Bakar & Ahsan (2018) note these barriers as significant hurdles. Despite these challenges, the literature supports Islamic finance as a viable and ethical solution for funding Uzbekistan's growing infrastructure needs, encouraging transparency and financial discipline in large-scale projects.

RESEARCH METHODOLOGY

This study employs a qualitative research approach, utilizing secondary data analysis. Relevant academic literature, government reports, and case studies on Islamic finance and infrastructure projects in Uzbekistan are reviewed. The research aims to explore how Islamic financial instruments, particularly Sukuk, contribute to infrastructure development in the country. By examining examples from countries like Malaysia and Indonesia, the study assesses the potential and effectiveness of Islamic financing models in funding infrastructure projects in Uzbekistan.

ANALYSIS AND RESULTS

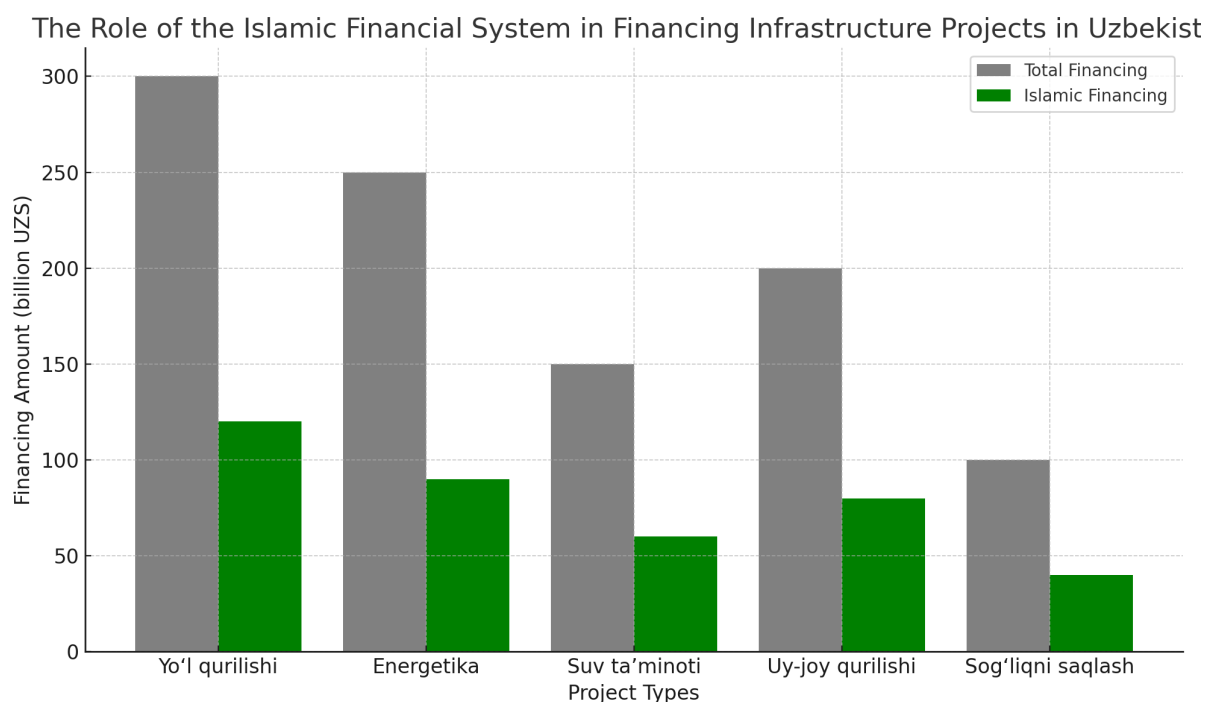
Uzbekistan, as a country transitioning towards a market economy, is actively investing in infrastructure development, particularly in energy, transportation, and healthcare. However, most of the financing for such projects still comes from traditional sources like government budgets, foreign loans, and development banks. In this regard, Islamic finance represents an untapped opportunity that aligns with both the country's development goals and its growing interest in ethical and sustainable financial instruments. Recent reforms and initiatives in Uzbekistan reflect a clear orientation toward green economy and sustainable development. With only 3% of the country's electricity coming from renewable sources (mainly solar and wind), and the majority generated from non-renewable thermal power plants, there is a growing demand for alternative financing to support clean energy projects. This aligns perfectly with Islamic finance, which encourages investment in socially beneficial and environmentally friendly ventures. Introducing Sukuk for infrastructure financing could be particularly beneficial for Uzbekistan.

For example, green Sukuk Islamic bonds issued specifically for environmental or climate-related projects can be used to finance solar energy farms, waste management systems, or green transportation networks. Countries like Indonesia and Malaysia have successfully issued such Sukuk, and Uzbekistan can follow similar models with support from international Islamic financial institutions like the Islamic Development Bank (IsDB).

Furthermore, public-private partnerships (PPP) backed by Islamic finance principles such as Musharakah or Istisna could provide a sustainable solution for long-term infrastructure needs. These contracts not only reduce fiscal pressure on the government but also promote shared responsibility, risk mitigation, and transparency.

However, for Islamic finance to be effectively implemented in Uzbekistan, several foundational steps are needed: regulatory framework laws and financial regulations need to accommodate Sharia-compliant financing mechanisms; institutional development specialized Islamic banks or windows within existing banks should be established; capacity building training for legal, banking, and investment professionals is essential to ensure proper implementation and compliance; public awareness educational campaigns are needed to build investor and stakeholder confidence in Islamic financial products.

In conclusion, Uzbekistan stands at a strategic point where integrating Islamic finance into national infrastructure policy can diversify funding sources, promote sustainable development, and attract regional and international investment. With the right support and institutional commitment, Islamic finance can become a key pillar in Uzbekistan's long-term infrastructure growth.



Picture 1. The role of the Islamic Financial System in Financing infrastructure projects in Uzbekistan.

This bar chart illustrates the contribution of the Islamic financial system to various types of infrastructure projects in Uzbekistan, such as road construction, energy, water supply, housing, and healthcare. The comparison with total financing helps assess the current and potential role of Islamic finance in national development. As the country progresses with its ambitious infrastructure plans, there is an increasing need to balance economic growth with environmental sustainability. Islamic finance, with its emphasis on ethical investments, offers a strong framework for financing green and socially responsible projects. Beyond just green Sukuk, other Islamic financial instruments such as Mudarabah (profit-sharing) and Murabaha (cost-plus financing) could also be applied to infrastructure projects. These instruments allow for flexible financing arrangements that can accommodate different types of public and private sector involvement, providing further opportunities for financing renewable energy projects, smart cities, and sustainable urban development.

In particular, Mudarabah can be used to fund joint ventures in energy projects where the profits are shared between investors and developers, fostering collaboration and ensuring that risks are distributed. Similarly, Murabaha could be used for financing the construction of infrastructure assets, where the cost of the asset is agreed upon, and the profit margin is clearly defined, ensuring transparency in financial transactions.

Moreover, the success of Sukuk and other Islamic financial instruments in countries like Malaysia and Indonesia offers valuable lessons for Uzbekistan. The establishment of green Sukuk has been particularly effective in funding renewable energy projects in these countries. For instance, Malaysia's issuance of green Sukuk has facilitated the financing of solar power plants and other environmentally friendly projects, which could serve as a model for Uzbekistan's renewable energy sector. Given Uzbekistan's commitment to increasing the share of renewable energy in its energy mix, green Sukuk could provide an attractive avenue for international investors seeking to align their investments with environmental, social, and governance (ESG) principles. In addition to energy, infrastructure in sectors such as transportation, healthcare, and education can also benefit from Islamic financing. With the government's commitment to improving infrastructure in these areas, Islamic finance provides an opportunity for funding large-scale, long-term projects with a focus on social impact. Islamic finance principles, by promoting risk-sharing and ethical investments, could help to avoid over-reliance on conventional debt financing and foster a more balanced, sustainable approach to national development.

Furthermore, the development of public-private partnerships (PPPs) in Uzbekistan through Islamic finance can play a critical role in facilitating long-term infrastructure projects. The Musharakah model, based on profit and loss sharing, encourages transparency and equitable distribution of risk, making it an ideal mechanism for involving both public and private sectors in the financing and management of infrastructure projects. PPPs backed by Islamic finance principles offer mutual benefits: the private sector gains access to ethically structured finance, while the public sector reduces its fiscal burden and ensures a steady stream of investments in key national projects.

In conclusion, the integration of Islamic finance into Uzbekistan's infrastructure development strategy could significantly enhance the country's ability to fund its ambitious growth plans, promote sustainable development, and attract international investment. With the right regulatory and institutional frameworks in place, Islamic finance has the potential to become a central pillar in the country's long-term infrastructure and economic growth. To realize this potential, it is essential to create an enabling environment through capacity building, investor education, and regulatory reforms, ensuring that Uzbekistan can fully leverage the benefits of Islamic finance in its development journey.

CONCLUSION

In conclusion, Uzbekistan stands at a pivotal moment where the integration of Islamic finance into its infrastructure development strategy offers significant opportunities. As the country seeks to modernize its infrastructure and foster sustainable economic growth, traditional financing methods, such as government budgets and foreign loans, may not be sufficient to meet the growing demand for investment in sectors like energy, transportation, and healthcare. Islamic finance, with its emphasis on ethical, risk-sharing investments and asset-backed transactions, provides a viable alternative for financing large-scale infrastructure projects.

The use of Islamic financial instruments, such as Sukuk, Ijara, and Musharakah, holds great promise in addressing the country's infrastructure needs, particularly in renewable energy and green development. Green Sukuk, in particular, offers an ideal avenue for financing environmentally sustainable projects, aligning with Uzbekistan's goal of promoting a green economy and increasing its share of renewable energy sources. Moreover, the potential of public-private partnerships (PPPs) backed by Islamic finance principles could foster long-term collaboration between the public and private sectors, ensuring that projects are financed sustainably and that risks are shared transparently.

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Proofreader: Zokir ALIBEKOV

Layout and Designer: Oloviddin Sobir ugli

2025. № 5

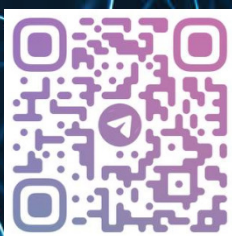
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