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SUKUK: FUNDAMENTAL PROPERTIES AND PERSPECTIVES OF DEVELOPMENT IN KAZAKHSTAN

The emerging and rapidly developing Islamic capital market has become an integral part of the modern financial system, providing not only Islamic but also traditional financial institutions with new market instruments for the efficient mobilization of resources and optimal allocation of assets. Sukuk, being a unique Islamic security, gives rise to discussions regarding its fundamental properties and functions, however, continues to demonstrate its dynamic development in secondary markets, which makes it the object of close attention for the economic practice of Kazakhstan, where approximately 60% of the population adheres to one degree or another Muslim faith.

In the proposed article, the authors set a goal to make a theoretical review that allows us to clarify the features of sukuk in the context of Shariah principles, compare them with the parameters of traditional bonds to identify similar and distinctive characteristics between them, and also determine the prospects for the development of sukuk in the Republic of Kazakhstan, as one of the alternative financial instruments. It is important that the use of Islamic securities allows us to adhere to the trend of the 17 UN SDGs, as well as contribute to the development of infrastructure projects, the construction and modernization of which has been updated in Kazakhstan in recent years.

Key words: sukuk, financing, investment, sustainable development, Islamic financing.

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Сукук: Қазақстандағы дамудың іргелі қасиеттері мен перспективалары

Дамып келе жатқан және қарқынды дамып келе жатқан исламдық капитал нарығы тек исламдық емес, сонымен қатар дәстүрлі қаржы институттарын ресурстарды тиімді жұмылдыру және активтерді оңтайлы орналастыру үшін жаңа нарықтық құралдармен қамтамасыз ететін заманауи қаржы жүйесінің құрамдас бөлігіне айналды. Сукук бірегей ислам бағалы қағазы бола отырып, оның іргелі қасиеттері мен функцияларына қатысты пікірталастар туғызады, дегенмен қайталама нарықтарда өзінің қарқынды дамуын көрсетуді жалғастыруда, бұл оны Қазақстанның экономикалық тәжірибесі үшін жіті назар аударатын объекті етеді, мұнда шамамен 60% халықтың бір дәрежеде мұсылмандық сенімін ұстанады.

Ұсынылған мақалада авторлар сукуктың ерекшеліктерін шарифат негіздері контекстінде нақтылауға, олардың арасындағы ұқсас және ерекше белгілерді анықтау үшін дәстүрлі облигациялардың параметрлерімен салыстыруға мүмкіндік беретін теориялық шолу жасауды мақсат етіп отыр. Балама қаржы құралдарының бірі ретінде Қазақстан Республикасындағы сукукты дамыту перспективаларын анықтау. Исламдық бағалы қағаздарды пайдалану БҰҰ-ның 17 SDG тенденциясын ұстануға мүмкіндік беретіні, сондай-ақ соңғы жылдары Қазақстанда құрылысы мен жаңғыртылуы жаңартылған инфрақұрылымдық жобаларды дамытуға үлес қосуы маңызды.

Түйін сөздер: сукук, қаржыландыру, инвестициялар, орнықты даму, исламдық қаржыландыру.

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Сукук: фундаментальные свойства и перспективы развития в Казахстане

Зародившийся и бурно развивающийся Исламский рынок капитала стал неотъемлемой частью современной финансовой системы, предоставив не только исламским, но и традиционным финансовым институтам новые рыночные инструменты для эффективной мобилизации ресурсов и оптимального распределения активов. Сукук, являясь уникальной исламской ценной бумагой, порождает дискуссии относительно своих фундаментальных свойств и функций, одна-

ко, продолжает демонстрировать свое динамичное развитие на вторичных рынках, что делает ее объектом пристального внимания для хозяйственной практики Казахстана, где примерно 60% населения в той или иной мере придерживается мусульманской веры.

В предложенной статье авторами поставлена цель сделать теоретический обзор, который позволяет уточнить особенности сукук в контексте принципов Шариата, сравнить их с параметрами традиционных бондов для выявления между ними сходных и отличительных характеристик, а также определиться с перспективами развития сукук в Республике Казахстан, как одного из альтернативных финансовых инструментов. Немаловажно, что применение исламских ценных бумаг позволяет придерживаться тренда 17 ЦУР ООН, а также способствовать развитию инфраструктурных проектов, сооружение и модернизация которых актуализировалась в Казахстане в последние годы.

Ключевые слова: сукук, финансирование, инвестиции, устойчивое развитие, исламское финансирование.

Introduction

The novelty for the paper is considered under the rapid growth of Islamic financial institutions in the traditional Muslim countries of the Persian Gulf, North Africa, and the Asia-Pacific region and the corresponding growth of the market for various types of Islamic securities – sukuk – as instruments for raising and placing capital following the instructions of Sharia. Attracted by the high dynamic rise of the global sector of Islamic Finance (on average about 15% per year), the Governments of Great Britain and Hong Kong also pay great attention to the development of Islamic Finance and the Islamic Financial Instruments market in their countries. In the terms of Kazakhstan's financial market the importance of the chosen topic is due to the Kazakhstan's goal to the leadership and the regulator of the financial market to actively develop the Islamic finance sector in Kazakhstan, which operates in parallel with traditional finances, and to stimulate the issuance of sukuk Islamic securities by Kazakh issuers. On February 12, 2009, on the personal initiative of the President of the Republic of Kazakhstan, the Parliament adopted Law of the Republic of Kazakhstan (hereinafter referred to as RK) No. 133-IV "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Organization and Activities of Islamic Banks and the Organization of Islamic Financing." Based on the adopted Law, relevant amendments were made to the basic legislative acts of the Republic of Kazakhstan regulating the activities of the financial sector: to the Civil Code of the Republic of Kazakhstan and the Law on Banks and Banking Activities in the Republic of Kazakhstan, defining the principles of functioning of Islamic banks in the Republic of Kazakhstan and financial instruments used by Islamic banks in their activities. The most important legislative

change directly related to the topic of the article is the introduction into the Law of the Republic of Kazakhstan of July 2, 2003 "On the Securities Market" of articles defining Islamic securities and describing the procedure for issuing, circulation, and repayment of Islamic securities in the Republic of Kazakhstan. For instance: Article 1, subclause 42-43: Islamic securities – issue securities which terms of issue followed by Islamic financing principles, warranted the right to own an joined share in tangible assets and/or the right to dispose of assets and revenues from their use, services or assets of specific projects for the financing of which these securities were issued. In addition to these legislative changes, the Government of the Republic of Kazakhstan, by its decree No. 371 of March 29, 2012, approved the Roadmap for the Development of Islamic Financing until 2020. The roadmap describes the spheres of economy and education that need changes for the development of Islamic finance in Kazakhstan. The roadmap also includes activities aimed at developing the Islamic securities market, for instance, Section 2 "Development of Islamic financial infrastructure" includes paragraph 3.2 "Short-term liquidity market support for Islamic financial institutions"; Section 5 – Clause 5.4 Issue of State Islamic Securities; Section 6 – Item 6.1 Definition of relevant industrial projects and organization of the issuance of Islamic securities for them.

Today, despite the presence of the main legislative framework for Islamic finance since 2009, only two small Islamic banks and several Islamic leasing companies have opened and are functioning in Kazakhstan. Also, not a single issue of sukuk by Kazakh issuers were carried out, but the issue of sukuk by the State Development Bank of Kazakhstan in the domestic Malaysian market, denominated in local ringgits.

The lack of activity of Kazakh issuers in the use of sukuk is largely due to their lack of knowledge

about this financial product, understanding the advantages of using sukuk as a tool for raising capital from Islamic financial institutions, and the threats held by the complex organizational structure of sukuk. This gap is intended to some extent to eliminate this article, the purpose of which is to analyze the main parameters of sukuk structures to find out the following assumption: whether the

presence of sukuk has a positive impact on the quality of the portfolio if used as a diversification tool. Also, whether there are similar characteristics between sukuk and bonds, making these instruments homogeneous variety of financial instruments, or sukuk have alternative characteristics distinguishing from bonds, which determines the belonging of these financial instruments to different asset classes.

Achievement of the specified goal is performed through solutions of the following tasks:

- description of the definition of sukuk and the history of sukuk;
- consideration of the basic Sharia regulations for commercial and financial transactions;
- sukuk structure's exposure;
- comparative analysis between bonds and sukuk;
- SWOT – analysis of sukuk in terms of prospects in Kazakhstan.

Additionally, as a major object of research and an independent financial instrument, sukuk in Kazakhstan has not yet been deeply studied, which also determined the relevance of the topic of this article.

Methodology

The scientific methods used in this study are a theoretical review and generalization of existing methodological approaches to the study of the fundamental properties and types of sukuk, as well as comparative and SWOT analysis, which made it possible to critically comprehend the potential of these securities from the point of view of the peculiarities of the development of the national economy of Kazakhstan.

The conceptual basis for studying the current state of the Islamic securities industry was the conclusions of modern Islamic scholars and foreign experts in the field of Islamic finance, as well as practical instructions and recommendations for the use of Islamic financial instruments developed by such international Islamic organizations as the International Islamic Fiqh Academy of the Organization of the Islamic Conference (IIFA); Organization for Accounting and Auditing in Islamic

Financial Institutions (AAOIFI); International Shariah Research Academy for Islamic Finance (ISRA).

The information base of the study consists of materials from analytical reports of news agencies Thomson Reuters, Zawya, Bloomberg, a subsidiary of the financial company of the Islamic Development Bank The Islamic Corporation for the Development of the Private Sector (ICD) and data from analytical studies of the consulting company EY (Ernst & Young).

Literature review

Sukuk is an Arabic word that is plural of Sakk, which means a legal, legal document, act, check, or receipt. In Western terminology, the word sukuk has become a stable expression for defining the Islamic equivalent of a traditional bond (bond) or otherwise Islamic bond. Also in practical use, you can find the use of the term “Sukuki” as a plural for Islamic bonds, which is incorrect, since the word sukuk in Arabic is already a word for the plural. The correct usage for singular would be Saqq but for plural sukuk. In the Middle Ages, during the period of the so-called classical Islam, Saqq (many Sukuk) was, by its practical purpose, a related document with a European check and meant any document representing a contract or evidence of the transfer of property rights, obligations or money committed under the instructions of Sharia. Sukuk were widely used in Muslim countries of that period to transfer financial obligations arising from trade and other commercial transactions.

The international organization “Organization for Accounting and Audit in Islamic Financial Institutions” (AAOIFI) in its Sharia Standard No. 17 on Islamic securities sukuk defines sukuk as Investment Sukuk to indicate their difference from other securities of shares and bonds. The official definition is as follows: “Equivalent value certificates representing indivisible shares of property of tangible assets, the right to use property and services or ownership of assets in certain projects or special investment activities. However, this possession comes into force after payment of the sukuk value, closing the subscription, and using the funds for, sukuk (Accounting and Auditing Organization for Islamic Financial Institutions, 2003).

In general definition, sukuk are receipts certifying ownership, where each receipt represents part of the property in a base asset or investment project, such as a speedway, development project, or sets of base assets (factory entities or vehicles

involved by Ijara financial institutions). In other words, the underlying asset is purchased or financed in such a way that each investor contributes a certain amount of money equivalent to the price of the asset or business of the enterprise, and in return becomes the owner in proportion to its contribution through the possession of the Sukuk amount of the corresponding value. Additionally, in this context, sukuk are close in their properties to stocks. Meanwhile, Islamic sukuk securities are a financial instrument used to raise investment capital. Accordingly, in structuring a sukuk, the principles defined by Islamic norms and regulations on business transactions, financial transaction and other obligations and transactions apply. Islamic finance and Islamic investment are the norms and provisions of Islamic law, better known as Sharia (Arabic script). Rules of behavior for Muslims based on the Quran and Sunnah, these rules are based on the principles of morality, justice, equality and impartiality. Indeed, Sharia extends its influence to the economic banking and financial activities of a Muslim (AIFC, n.d.).

In a framework of legal and regulatory issue of Sukuk there should be a strong legal base and Sharia supervisory council under the auspices of governmental institutions. From the view of many market practitioners Sukuk has been seen as a similar to bond, consequently they are treated as a securitization of assets process. Many developed and developing countries has developed their jurisdiction and legislative base to introduce Sukuk and also protect investors with higher clarifications (Ghezal et al., 2022).

Additionally, in previous studies of Fauziah, Nurwahidin and Huda explained several risks and problems faced by obligors concerning issuance of sukuk. The first is the price level, risks arising when the value of the proposed sukuk issuance differs from the value of assets. In the case of the project, the second burden of sukuk costs that must be paid will increase. It may be too late to complete the contract from the end date. The third credit risk that will occur because there is no pre-financing to overcome the differences in the cycle. During the paying of funds and issuance of sukuk. Finally, market risk depends on the rate of return. The Sukuk that fixes the yield will reduce the income of the sukuk when there is an increase market returns (Fauziah et al., 2021).

Islamic finance is based on the following fundamental principles and rulings of the Shariah regarding the financial and business activities of Muslims

1. There are only two ways to earn income: trading goods (produced by the seller himself or purchased from others) and providing services.

2. The prohibition of income from usury is riba (Arabic for growth or increase).

3. The seller can only sell goods that he owns, i.e. that he owns and can physically reach.

4. The principle of participation in risk. Income can only be generated as a result of business activities that are inherently risky. This means that the income or part of it cannot be guaranteed and the entrepreneur must bear the commercial risk.

If we talk about different types of sukuk, then they are structured based on various types of trade and investment transactions, the parameters and methods of conclusion of which are regulated by the regulations of Sharia. And in this context, sukuk to a greater extent has properties close to bonds. For example, Sharia Standard AAOIFI No. 17 "Investment Sukuk" lists the following types of sukuk:

1. Ownership certificates of the leased (leasing) asset.

2. Certificates of ownership of rights to use other people's property and income from it (usufruct):

- a) Certificates of ownership of rights to use other people's available assets and income from them.

- b) Certificates of ownership of rights to use other people's detailed future assets and income from them.

- c) Certificates of ownership of the services of the agreed party. d) Certificates of ownership of agreed services in the future.

3. Certificates of Salam.

4. Istisn Certificates.

5. Murabah Certificates.

6. Musharak Certificates:

7. Certificates of Muzar'a (land lease for grain crops).

8. Musak certificates (lease of land for growing fruit-bearing trees in exchange for irrigation of this land).

9. Mugaras certificates (lease of virgin land for cultivation).

For comparison, let's consider the main types and parameters of bonds, which will allow us to further analyze comparable characteristics of sukuk and bonds.

Bond (lat. Obligatio – obligation; Bond – a debt obligation; type of security) or in the professional language of financiers' "bond" is an issue debt security, as a rule, having a certain maturity and an exact maturity date. A bond is a debt security that entitles its owner or holder of a security to the

financial requirement of the issuer of such a security. The financial requirement of the bondholder is expressed in the right to receive from the bond issuer its declared nominal value and income in the form of interest in the specified period. The financial requirement provides some protection to the bondholder if the issuer is unable to meet its debt obligations and cannot pay the nominal value of the bond at the maturity date. Thus, the bondholder is required to recoup its investment from the issuer's assets through a legally approved matrix to meet the requirements of the issuer's creditors. Bonds bear a certain resemblance to traditional bank deposits in terms of their financial parameters. When depositors deposit money in a bank, they are essentially putting their own money in the bank. For this service, the bank pays the deposit or a predetermined interest rate. Similarly, an investor or holder who purchases a bond lends money to the issuer for a set period of time in exchange for interest income. On the maturity date of the bond, the bond holder receives the face value of the bond and the final coupon from the issuer, similar to how bank depositors receive their deposits back from the bank on the maturity date. However, the only significant difference between deposits and bonds is that the bondholder can sell the bond at the current price to other potential investors in the secondary market before the maturity date. Deposits cannot be sold to other investors. Of course, there is a virtual opportunity to sell certificates of deposit issued by banks for invested deposits, but such private securities do not have a well-developed secondary market and it is often difficult to find interested investors (Linciano et al., 2021).

Modern financial institutions have invented and introduced many different types of bonds in the global bond market to meet the individual needs of issuers and the requirements of potential investors. To optimize the comparison between bonds and sukuk, the main types of bonds are indicated. Depending on the method of income generation, there are coupon bonds and discount bonds. In coupon bonds, the bond holder receives income in the form of annual interest or coupons.

In terms of the bond issue, the issuer undertakes to pay the bond holder a coupon equal to the agreed annual interest rate once or twice a year at a fixed frequency. This type of income is known as coupon income. Discount bonds allow bondholders to receive income in the form of the difference between the initial issue price of the bond and its face value, i.e. the redemption price paid by the issuer when the bond is redeemed. A discount bond is called a zero-

coupon bond. Such a bond issuer offers potential bondholders at a price below nominal, that is, at a discount. Discount bonds are issued, as a rule, with a short circulation period of up to a year, since the discount is set at the initial sale of the bond and cannot be changed during the circulation period. For this reason, discount bonds cannot have a floating rate and do not allow the holder to avoid losses in the event of an increase in market rates.

A fixed-rate Bond is distinguished by the type of interest rate of income (when the bond interest rate is set on the initial issue date and does not change during the maturity date) and Floating Rate Bond (where the rate is tied to another baseline generally accepted market indicators, such as inflation, the international money market benchmark LIBOR, EURIBOR, MIBOR, or the Central Bank's refinancing rate of the issue currency. Accordingly, the amount of the floating interest rate on the bond is revised on the agreed regular basis once a quarter or every six months and changes depending on the change in the base indicator).

Bonds are also classified by issuer type and divided into Corporate Bonds when the issuer is a private corporation, a legal entity in the form of a joint stock company or limited liability company) and State or sovereign bonds and municipal or quasi-sovereign bonds (issued by central, federal state institutions or local municipal authorities. Sovereign bonds in terms of the probability of default of the issuer are less risky compared to corporate bonds).

Separately, it is possible to distinguish convertible bonds, the terms of issue of which give the holder the right to convert or exchange the nominal amount of the issuer's bonds for the shares of this issuer according to the ratio specified in the prospectus for issuing bonds within a specified time. Being bonds, convertible bonds have all the characteristics of a fixed-income security (even in the case of a floating coupon rate, the issuer stipulates a minimum rate level below which the coupon will not fall). But convertibility into stocks also gives such bonds the properties inherent in stocks (Chang et al., 2022).

In their study, Rhada Boujlil, M. Kabir Hassan and Rihab Grassa aim to answer the following question: what factors influence the choice of sovereign bond issuers such as countries to issue ordinary bonds or sukuk? To answer this question, the authors use a dynamic panel data (DPD) model and sample 745 cases (143 governments sukuk and 602 government bonds) issued by 16 Islamic countries observed over the period 1995-2015. As a result, the authors conclude that the higher the economic level of a country and the higher its GDP level, the

more desirable it is to issue sovereign sukuk. This is because the sustainable economy of such countries holds great potential for the spread and development of new debt instruments such as sukuk. (Rhada, M. Kabir, & Rihab, 2020).

According to a study by Boujlil R, Hassan M, Grassa R (2020), the authors conclude that market and investor reactions to sukuk and bond issues differ significantly, i.e., negative reactions to the first type respectively. This result is confirmed on the basis of the Malaysian market event study methodology. The authors define this by the excessive demand for Islamic investment certificates and the adverse selection mechanism that motivates sukuk issuance by low-quality borrowers (Boujlil et al., 2020).

Çakır and Raei (2021) argue that sukuk are indeed different from regular bonds. The authors evaluate the advantages of government sukuk issuance in terms of risk mitigation compared to alternative instruments. Using a sample of sovereign sukuk and Eurobonds from the same issuer, the

authors match and compare the value at risk (VaR) of a net portfolio of Eurobonds including both instruments. The results show that VaR decreases when sukuk are applied to bond portfolios, providing diversification benefits to investors (Çakır & Raei, 2021).

Consequently, as a unique financial instrument with the same basic characteristics as equities, sukuk also serves as a source of investment financing for the issuer and an indicator of the quality of the bond.

Analysis and findings

In general, implementation of sukuk by government agencies as issued securities mostly brings them closer to bonds. Additionally, qualitative differences between sukuk and bonds should also be noted.

To sum up, there are five important differences between sukuk and traditional bonds shown in Figure 1.

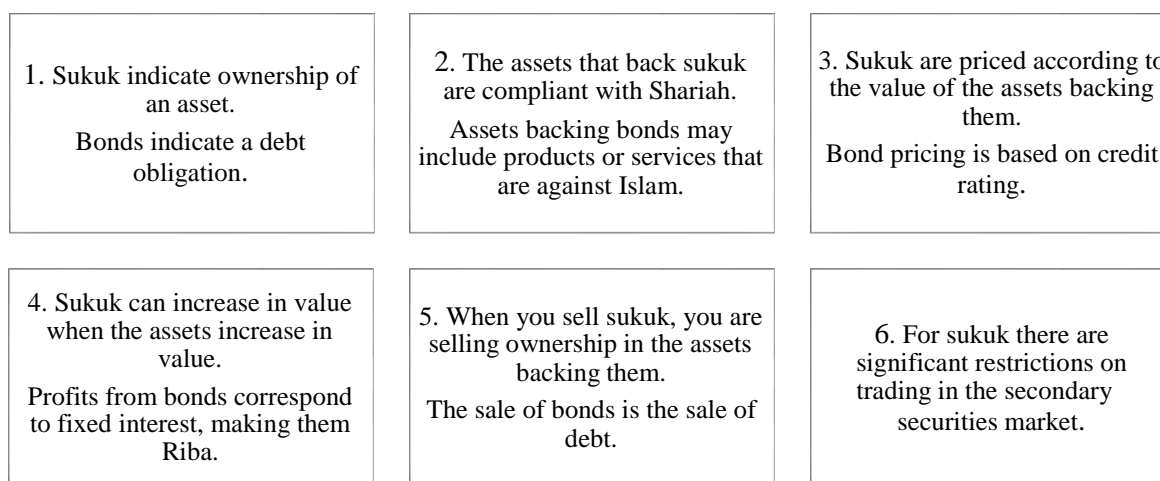


Figure 1 – 5 differences between sukuk and traditional bonds.

Note: compiled by the authors

The main advantage of a sukuk over a traditional bond is that its value increases in relation to the asset backing the sukuk security. If the value of the asset rises, the ownership value of the asset backing the sukuk also rises. Bonds do not have this feature. It is not possible to finance the principal debt with bonds, and any increase in income from bonds is a direct result of fixed interest rates rather than a tangible increase in value or efficiency.

This is not to say that bonds and sukuk are not similar. Both can be converted into cash by selling them on the secondary market. Depending on the

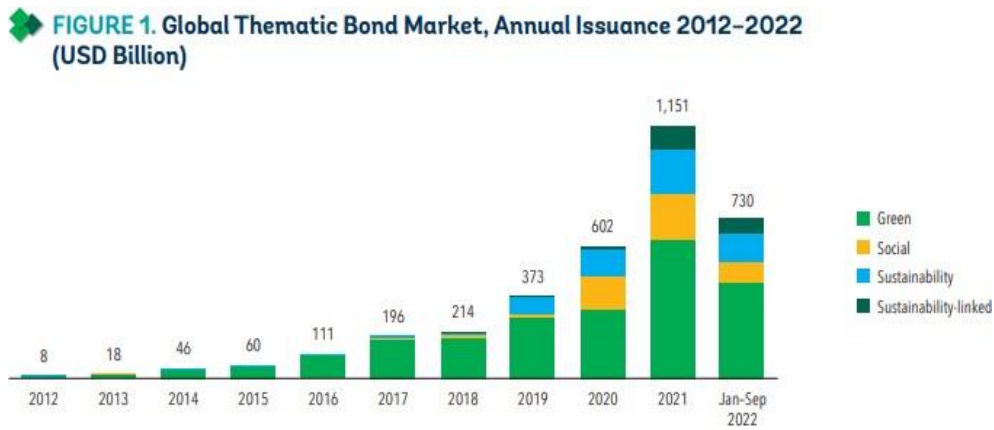
strength of their backing, both bonds and sukuk can be ranked by rating authorities. There are also similar differences in the design and issuers of bonds and sukuk, giving consumers a range of options when considering these instruments (Hassan et al., 2022).

To compare the dynamics of the sukuk market, instead of traditional bonds, we offer thematic ones. This approach, according to the authors, is because thematic bonds and sukuk are more comparable to each other both in terms of duration of existence and in terms of purpose.

Thematic bonds are fixed-income securities issued in the capital markets to attract project financing and activities related to specific areas, such as climate change, education, housing, ocean and marine conservation, and other sustainable development goals. Thematic bonds include: green, social, sustainable, and sustainability-oriented bonds (World Bank, 2022).

As far as we know, the goals and principles of Islamic Finance and its instruments have much of a common ground with the sustainable development goals, which is an important factor for their prospects.

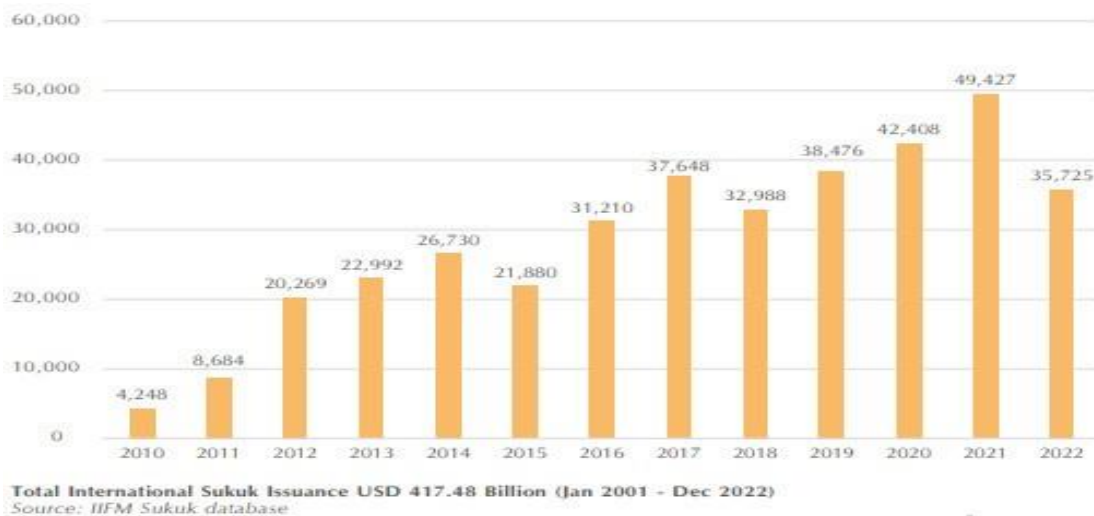
The thematic bond market has grown significantly since the World Bank first issued labeled green bonds in 2008. The total amount of bonds associated with thematic marking reached 3.5 trillion US dollars in September 2022, with green bonds making up the largest part (64 percent). New issues reached a record \$1.1 trillion in 2021, up from \$8 billion in 2012 and \$602 billion in 2020. Moreover, visually, we can see a sharp increase in these bonds in the period 2019-2020, which in our opinion cannot but be associated with a pandemic that has affected the values of the global market and people in general. (Figure 2).



Source: World Bank, based on data from Bloomberg 2022.

Figure 2 – Global Thematic Bond Market, Annual Issuance 2012-2022 (USD Billion).

Note: based on the source from Bloomberg, 2022.



Total International Sukuk Issuance USD 417.48 Billion (Jan 2001 - Dec 2022)
Source: IIFM Sukuk database

Figure 3 – Total International Sukuk Issuance (Jan 2001- Dec 2022), (USD Billion)

Note: based on the source of IIFM Sukuk database.

Below is an illustration of the overall production of sukuk over the past 12 years. Total international sukuk issues totaled US \$35.725 billion in 2022, representing a significant decrease of US \$13.70 billion or a negative -27.72% from 2021 levels of US \$49.427 billion. The issue volume in 2022 recorded a reduction in issues, mainly due to a reduction in long-term issues of sukuk, while the issue of short-term sukuk had a slight decrease.

The pandemic turned out to be a favorable period for sukuk markets. The release took place at record levels in 2020 and 2021, as governments used debt markets to finance post-Covid-19 recovery programs, attracting their low borrowing costs. But with the beginning of 2022, the economy began to show signs of recovery, and there were new global risks and economic conditions for the sukuk market that had to be faced. Namely, due to politically unstable situations, the price of oil has become more volatile upward, which caused inflation and an increase in interest rates. According to the IMF, such changes can dramatically change the dynamics of the market (International Islamic Financial Market, 2023).

The above trends show us a positive and rather rapidly growing growth dynamics of both thematic bonds and sukuk, given the fact that 10 years ago they did not have such weight in the world securities market. Such indicators indicate high demand from investors, that is, the market is moving in a new direction for itself (Figure 3).

Moreover, it is important to note the current picture of the placement of sukuk in the market

in Kazakhstan. After all, Kazakhstan is the most promising space for the development and expansion of IF tools, especially sukuk. Several main points support this reasoning:

1. The intention is to expand the possibilities for the development of Islamic financial instruments, which is supported by the message of the first President of the country. Moreover, Kazakhstan aims to become the Regional Islamic Financial Hub as a gateway for the rest of Central Asia
2. The presence of AIFC, which actively promotes the equality of IF.
3. Ambitious infrastructure plans. After all, it is sukuk that can be used as an invocation financing tool.

Unfortunately, Kazakhstan could not boast of a developed stock market, but the trend is moving in a positive direction. For example, below is the illustration of the round of trading on AIX for the previous year. More bonds are preferred. Since we are talking in this article about the similarity of sukuk and bonds, we can assume that sukuk has the potential to take a significant place in this market. Moreover, the prerequisites have already been made by the initial placement of QIIB sukuk was carried out on the London Stock Exchange (LSE) in the amount of \$500 million with an annual fixed coupon of 4.264% per annum. Further, in 2022, the first exchange notes meeting the requirements of Sharia were listed on AIX (Figure 4) (AIX Presents its Results for 2022, 2023).



Figure 4 – AIX Traded Value (USD Million)
 Note: based on the source of the Astana International Exchange

If we talk about the national context, then in the modern economy of Kazakhstan, sukuk is a financial instrument with important potential for various sectors, including financing infrastructure projects and attracting investments. Sukuk, as an innovative and ethical financial instrument, can contribute to the development of the economy and strengthen the financial ties of Kazakhstan with world markets. However, before proceeding with their widespread implementation, it is necessary to carefully assess the factors that may affect the success of this process (Kuanova, Sagiyeva, & Shirazi, 2021).

Using the SWOT analysis, let's try to assess the prospects for sukuk in the context of the Kazakh financial system (Table 1). It should be emphasized that several Kazakh authors conducted a SWOT analysis of the prospects for the development of Islamic finance in Kazakhstan as a whole.

For example, L. Kuanova highlighted the following strengths: stability, which is ensured by the nature of the development of the real economy,

state and international support; and legislative and regulatory framework with an attempt to implement crisis resilience in the traditional financial system. Among the weaknesses, the author highlights a lack of professionals, a low level of awareness of the population and business, distrust and misunderstanding of the real situation for personal gain, as well as economic and financial development. As external factors that provide additional opportunities for the sustainable development of Islamic finance, L. Kuanova defines: stimulating real production, diversifying sources of financing, and social advantages. As threats to the external environment and the country – a threat to the image of the country, Islamophobia, the difference in mentality, and the lack of an attractive investment climate (Kuanova, 2022). Similar arguments in their studies are distinguished by the authors N.P. Kurash, S.B. Makysh, G.K. Kantoreva, speaking about the prospects and development of Islamic windows in traditional banks of the country (Kurash, Makysh, & Kantoreva, 2022).

Table 1 – SWOT- analysis of fundamental properties of sukuk from the point of view of the financial market of Kazakhstan

<p>Strengths:</p> <ol style="list-style-type: none"> 1. Sharia Compliance: Sukouk is aligned with the Islamic financial system, attracting global investors from the Middle East. 2. Increased support from the state: amendments were introduced to the basic legislative acts of the Republic of Kazakhstan that control the activities of the financial sector 3. AIX Platform: The exchange operates within a regulatory environment based on the principles of English common law, thereby creating a reliable investment environment. 4. The predominant population of the Republic of Kazakhstan is people who adhere to the Islamic religion: over 70% are Muslims. 	<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Lack of experience and expertise: Kazakhstan may need additional time to develop an expert base and understand sukuk, which can slow down implementation. 2. Limited understanding of investors and the population: people in Kazakhstan may not understand sukuk enough, which limits the demand for this financial instrument. 3. Regulatory and legal aspects: Additional efforts and resources are needed to develop regulatory and legal frameworks that comply with sukuk standards and international laws in the main territory of the Republic of Kazakhstan. 4. Low level of financial literacy: People have no trust in Islamic funding tools.
<p>Opportunities:</p> <ol style="list-style-type: none"> 1. Diversification of financial instruments: the use of sukuk allows Kazakhstan to diversify its financial market and provide investors with additional potential for placing capital, as well as reducing dependence on traditional sources. 2. Attracting foreign investment: The introduction of sukuk can attract foreign investment and contribute to strengthening the financial ties of Kazakhstan with other countries. 3. Promoting infrastructure and projects in the green project sector: Sukuk can be used to finance both infrastructure projects, which contributes to the development of the social level of the country, as well as environmental projects 	<p>Threats:</p> <ol style="list-style-type: none"> 1. Global financial crises: Global economic crises can affect sukuk demand and lead to lower investor interest. 2. Regional instability: Geopolitical and economic instability in the region can affect the investment and interest of Kazakh Islamic financial instruments. 3. Competition with other financial centers: Kazakhstan competes with other financial centers offering sukuk, and must compete for investment and investor attention.
<p>Note: compiled by authors</p>	

Our SWOT analysis demonstrates the main strengths and weaknesses, growth prospects, and risks within the framework of the development of sukuk in the Republic of Kazakhstan.

In conclusion, we concluded that the possibilities of the development of sukuk in the Kazakhstan market are added to its risks and weaknesses.

As for the weaknesses, in our opinion, they do not carry the long-term. In the person of some financial organizations, voluntary financial coverage is carried out among the population. Of course, it would be very productive if more information was provided to people at the university and company level.

Since we have identified more external factors by threats, it makes sense to emphasize strong sides and opportunities to remain resistant to them.

One of the firm strengths is increased support from the state. As previously written in the present work, a road map was developed at the direction of the Present, which focuses on the development of Islamic finance in the republic. Also, the AIFC special territory provides great support, since it is there that the country's main specialists in Islamic finance are focused. Moreover, the implanting population of people adhering to the Islamic religion cannot be singled out as one of their main ones. As world experience shows, when choosing financial instruments, investors and other market players will prefer what is closer to their moral principles.

Since diversification thanks to sukuk can significantly reduce the dependence of many enterprises on traditional types of loans. It is also worth noting the main driver that should affect the development of sukuk is that they can be used as

intended for long-term infrastructure projects. After all, it is the level of infrastructure development that is one of the main indicators of the level of the country's economy.

Conclusion

As a result of this study, we came to the general conclusion that sukuk is today one of the most innovative and promising tools for Kazakhstan to finance long-term infrastructure projects since the state does not have enough cheaper and alternative financing. This tool can also be used to achieve and support sustainable development goals.

By its very nature, sukuk is very interesting and has yet to fully realize its potential as a financial instrument that combines the principles of the Islamic financial system with the flexibility of modern markets. With its distinct structure, its compliance with ethical and socially responsible investment requirements, and its ability to finance real assets as explained in some parts of the paper, sukuk has the potential to change the global financial landscape and promote sustainable development and economic growth.

Given the age of technology, another important factor is that sukuk have increasingly utilized innovative technologies such as blockchain and digital platforms in recent years. This feature has increased the efficiency and market access of sukuk.

Moreover, sukuk are not geographically restricted and can be issued and traded in different parts of the world. This expansion of the global market creates opportunities for developing financial relations and attracting foreign investments.

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