

ISLAMIC FINANCING IN UZBEKISTAN: CURRENT TRENDS, CHALLENGES AND PROSPECTS

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Abstract: This paper examines the development of Islamic financing in Uzbekistan, a country undergoing significant financial reforms. It explores the institutional, legal, and market developments that have shaped the Islamic financing landscape, analyzes current challenges, and discusses future opportunities. The study aims to contribute to the academic and policy-oriented discourse on integrating Shariah-compliant financial instruments into Uzbekistan's conventional financial system.

Keywords: Islamic financing, Uzbekistan, Shariah-compliant, Murabaha, Sukuk, financial reform

Introduction. Islamic financing has emerged as a viable alternative financial system rooted in Shariah principles that prohibit interest (riba), excessive uncertainty (gharar), and unethical investments. With Uzbekistan's majority-Muslim population and ongoing economic liberalization, interest in Islamic financing has grown significantly. This study investigates the institutional and legal foundations, market dynamics, and prospects for Islamic financing in Uzbekistan.

The development of Islamic financing in Uzbekistan is also influenced by the broader trends in the global Islamic financial services industry. As of 2024, Islamic financial assets globally surpassed USD 3.5 trillion, with leading markets in the Middle East, Southeast Asia, and increasingly in Central Asia. Uzbekistan's strategic location, young population, and religious demographics make it a natural candidate for growth in this sector.

Literature review. Scholars have highlighted the rise of Islamic financing globally, particularly in countries like Malaysia, Saudi Arabia, and the UAE. Theoretical frameworks emphasize risk-sharing, ethical investing, and social justice. In Central Asia, research on Islamic financing is nascent, though studies suggest substantial demand and cultural alignment. Existing Uzbek literature is limited but growing, focusing on adaptation challenges and regulatory gaps.

Contemporary Islamic financing literature includes works by Siddiqi (2006), Chapra (2008), and Khan (2010), who emphasize the socio-economic justice embedded in Shariah-compliant financing. They argue that Islamic financing promotes financial inclusion and ethical standards that are often absent in conventional systems. In Uzbekistan, emerging studies by local scholars such as Nazarov (2024) delve into the compatibility of Islamic financing with the nation's transition economy. However, a comprehensive regulatory framework remains a key gap noted in most analyses.

Main part. Uzbekistan currently lacks a comprehensive Islamic financing law. However, the government has initiated several reforms:

- Presidential decrees supporting Islamic financing development;
- Establishment of the Center for Islamic Banking and Finance under the Ministry of

Finance and Economics;

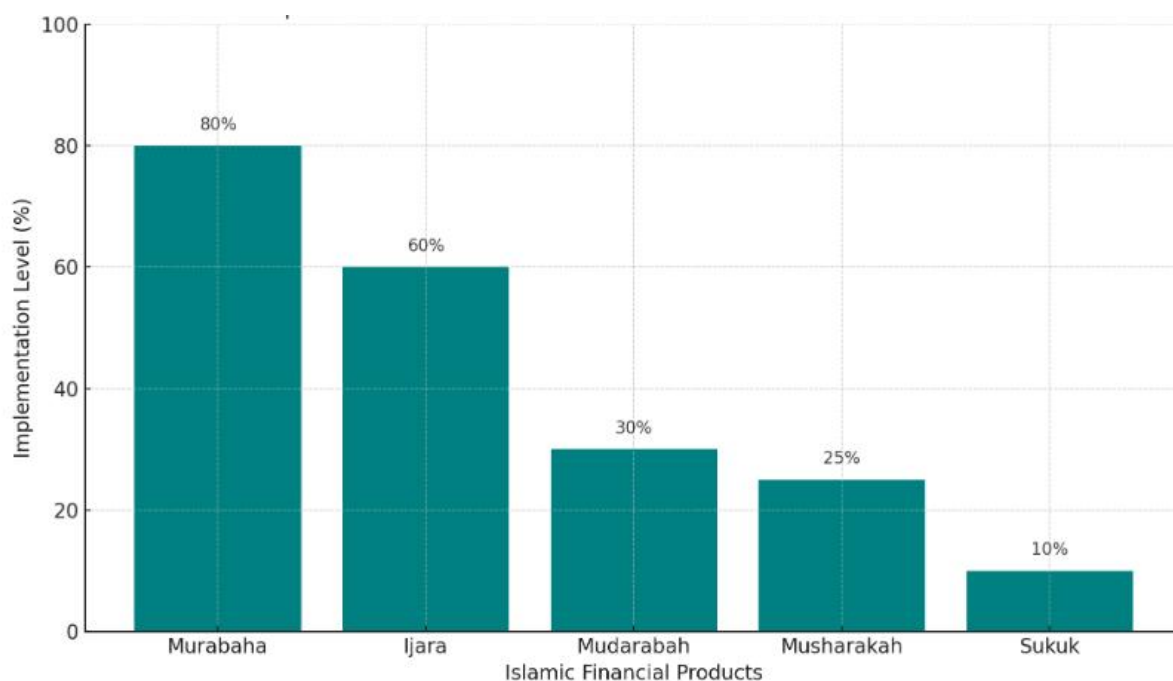
- Cooperation with international institutions such as the Islamic Development Bank (IsDB); In 2022, the Ministry of Justice of Uzbekistan began drafting preliminary regulations for Islamic financial institutions. The absence of a dedicated Islamic financial regulatory authority poses significant implementation challenges. A unified Shariah board at the national level could ensure compliance and harmonize practices across institutions.

The role of the Central Bank of Uzbekistan is also pivotal. Currently, it regulates all banking activities under a secular law framework, which complicates the implementation of Shariah-compliant contracts. Efforts are underway to establish a sandbox environment where banks can test Islamic financing products without violating existing laws.

While full-fledged Islamic banks are not yet operational, several Shariah-compliant products have been introduced in pilot programs:

- Murabaha (cost-plus financing): Used primarily for trade finance and consumer goods;
- Ijara (leasing): Applied in real estate and equipment financing;
- Mudarabah (profit-sharing): Considered for SME development programs;
- Musharakah (joint venture): Suitable for equity-based projects, especially in agriculture;
- Sukuk (Islamic bonds): Under consideration for financing infrastructure projects;

In 2021, the Islamic Corporation for the Development of the Private Sector (ICD) partnered with local financial institutions to test the feasibility of sukuk issuance in Uzbekistan. These instruments are particularly attractive due to their asset-backed structure and alignment with public infrastructure needs.



Picture 1. Implementation level of islamic financial products in Uzbekistan¹

The bar chart titled “Implementation Level of Islamic Financial Products in Uzbekistan” illustrates the varying degrees to which different Shariah-compliant financial instruments have been introduced or piloted within the Uzbek financial system. The data suggests that Murabaha is the most implemented product, with an estimated 80% level of adoption. This is likely due to its simplicity, ease of integration with conventional banking practices, and strong demand for trade and consumer financing.

¹ Done by author

Ijara, or Islamic leasing, follows with a 60% implementation level. It has found practical application in asset financing, particularly through institutions like Taiba Leasing, which focus on providing Shariah-compliant leasing services to small and medium-sized enterprises (SMEs). In contrast, Mudarabah and Musharakah, which are equity-based profit-and-loss sharing instruments, show lower implementation levels at 30% and 25% respectively. These products are still in the experimental or pilot phase and face challenges such as legal uncertainties, a shortage of trained personnel, and limited public awareness.

Finally, Sukuk, or Islamic bonds, has the lowest implementation level at 10%. Although plans exist for sovereign sukuk issuance to finance infrastructure projects, practical implementation has not yet occurred due to the absence of a supporting legal and regulatory framework.

Overall, the chart highlights that while some Islamic financing products are gaining momentum in Uzbekistan, especially debt-based instruments like Murabaha and Ijara, others—particularly those requiring more complex legal and institutional arrangements—are still in early developmental stages.

To illustrate the global growth trajectory of Islamic financing, here's a line chart depicting the total assets from 2019 through 2024:

- 2019–2023: The Islamic financing industry experienced steady growth, with total assets increasing from \$2.88 trillion in 2019 to approximately \$3.3 trillion by the end of 2023. This growth was driven by factors such as increased demand for Shariah-compliant financial services, expansion of Islamic banking, and rising sukuk issuances.
- The industry is estimated to reach around \$3.69 trillion in total assets by 2024, reflecting continued growth momentum.

Islamic Banking: Constitutes approximately 70% of total Islamic financing assets, with significant contributions from countries like Saudi Arabia, Iran, and Malaysia. **Sukuk Market:** Global sukuk issuance is expected to hover between \$160 billion and \$170 billion in 2024, supporting asset growth. **Takaful (Islamic Insurance):** The takaful industry accounts for about 2% of global Islamic financing assets, with expectations of growth from \$33.14 billion in 2024 to \$51.75 billion by 2028. **Digitalization and Fintech:** The adoption of digital technologies and fintech solutions is enhancing accessibility and efficiency in Islamic financial services, contributing to market expansion. The Islamic financing industry continues to exhibit robust growth, driven by strong demand for Shariah-compliant products, supportive regulatory environments, and technological advancements. With projections indicating assets reaching approximately \$3.69 trillion in 2024, the sector is poised for further expansion in the coming years.

Surveys and pilot studies show increasing demand for Islamic financial services, especially among SMEs and rural populations. However, general awareness of Islamic financing remains low. Educational campaigns and university-level courses are gradually filling this gap.

The National Bank of Uzbekistan has conducted pilot projects and customer satisfaction surveys indicating strong interest in interest-free loans and ethical investment instruments. A 2023 study by the Uzbekistan Banking Association found that over 65% of the population would prefer Islamic financial products if they were available.

Universities like Tashkent State University of Economics and the University of World Economy and Diplomacy have begun offering specialized courses and certifications in Islamic financing. International collaborations with institutions such as INCEIF (Malaysia) and Durham University (UK) have also been instrumental in building local academic capacity.

Challenges include:

- Lack of dedicated Islamic banking law;
- Shortage of trained professionals and Shariah scholars;
- Weak integration with global Islamic financial markets;
- Low financial literacy among the population.

Additionally, the duality of law creates a grey area for enforcement. For example, the legal enforceability of Islamic contracts like mudarabah and musharakah is unclear under existing civil

codes. The lack of standardized documentation and dispute resolution mechanisms further exacerbates the situation.

On the human capital side, there is a critical shortage of Islamic financing experts who understand both Shariah and Uzbek legal contexts. Existing professionals are often trained in conventional banking with limited exposure to Islamic jurisprudence. Developing bilingual curricula and cross-border training programs is essential.

The government's financial sector reform plan (2020–2025) explicitly supports Islamic financing. Opportunities include:

- Issuing sovereign sukuk for infrastructure;
- Developing Islamic microfinance for rural development;
- Partnering with international Islamic banks;
- Promoting fintech-based Islamic financial services.

Microfinance, in particular, represents a high-impact opportunity. Islamic microfinance models such as Qard al-Hasan (benevolent loans) and Musharakah can provide vital capital to rural entrepreneurs who are traditionally excluded from conventional banking.

Fintech innovations, such as mobile-based Shariah-compliant savings apps and blockchain-based smart contracts for sukuk, are also emerging. Uzbekistan's young, tech-savvy population is well-positioned to adopt such innovations.

Uzbekistan can also benefit from regional cooperation. Countries like Kazakhstan and Kyrgyzstan have made significant strides in Islamic financing and can serve as regional models. Participation in global forums such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) can accelerate the country's regulatory harmonization.

Taiba Leasing Established in 2021, Taiba Leasing was Uzbekistan's first fully Shariah-compliant leasing company. It offers Ijara-based equipment leasing for SMEs and agricultural businesses. In its first year, it financed over USD 2 million in assets with default rates below 2%.

In 2022, ICD signed a Memorandum of Understanding with the National Bank of Uzbekistan to develop Islamic banking windows. The pilot Murabaha scheme facilitated the purchase of industrial equipment for local manufacturers.

The Ministry of Finance and Economics, in collaboration with the IsDB, is preparing to launch a sukuk bond to fund part of the Tashkent-Andijan highway. This would be the first sovereign sukuk in Uzbekistan, backed by real estate assets along the route.

Comparisons with other emerging Islamic financing markets reveal important insights:

- Malaysia: Strong legal framework and government support have enabled a diverse Islamic financing ecosystem
- Pakistan: Mixed success due to regulatory ambiguities, but successful in retail Islamic banking
- Kazakhstan: Launched the Astana International Financial Centre (AIFC) with a dedicated Islamic financing court and legislation

Uzbekistan can learn from these models by establishing a dedicated Islamic financing authority, encouraging public-private partnerships, and fostering international linkages.

Policy recommendations:

- Draft and adopt a comprehensive Islamic financing law;
- Establish a national Shariah board under the Central Bank;
- Develop certification programs in Islamic financing in partnership with international universities;
- Launch public awareness campaigns through media and educational institutions;
- Facilitate sukuk issuance through regulatory guidance and pilot projects;
- Encourage fintech innovation for greater financial inclusion.

Islamic financing in Uzbekistan is at an early yet promising stage. With legal reform, capacity building, and strategic partnerships, the country can build a robust Islamic financial ecosystem. This development can contribute to inclusive growth, financial deepening, and alignment with

the ethical values of the majority population. The way forward requires coordinated efforts from the government, regulators, academia, and private sector. By embracing the principles of risk-sharing, ethical investment, and social justice, Uzbekistan has the potential to become a regional hub for Islamic financing in Central Asia.

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