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ORGANISATIONAL AND LEGAL FOUNDATIONS FOR THE DEVELOPMENT OF ISLAMIC FINANCE IN UZBEKISTAN

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Abstract. This article examines the organisational and legal foundations for the development of Islamic finance, international standards governing Islamic financial institutions, Islamic finance principles, as well as regulatory developments within Uzbekistan's national legal framework. The study also explores opportunities for the further development of Islamic finance within the national economy. Based on the findings, the article highlights the importance of strengthening Islamic financial infrastructure, enhancing the legal and regulatory framework, and incorporating relevant international standards to support the sustainable development of the sector. The analysis provides a basis for formulating conclusions and practical recommendations aimed at improving the institutional environment and supporting the effective functioning of the Islamic financial system.

Keywords: Islamic finance, Islamic banking, Islamic banking window, Governance of compliance with Islamic finance principles, AAOIFI, IFSB, sukuk, takaful, murabaha, mudarabah, prudential supervision, institutional model.

Аннотация. В статье рассматриваются организационно-правовые основы развития исламских финансов, международные стандарты, регулирующие деятельность исламских финансовых институтов, механизмы шариатского управления и надзора, а также изменения в национальной нормативно-правовой базе Узбекистана. Исследуются возможности дальнейшего развития исламских финансов в национальной экономике. На основе полученных результатов подчёркивается значение укрепления инфраструктуры исламских финансов, совершенствования нормативно-правовой базы, а также внедрения соответствующих международных стандартов для обеспечения устойчивого развития отрасли. Проведённый анализ служит основой для формирования выводов и практических рекомендаций, направленных на совершенствование институциональной среды и повышение эффективности функционирования исламской финансовой системы.

Ключевые слова: исламские финансы, исламский банкинг, исламское банковское окно, шариатское управление, AAOIFI, IFSB, сукук, такафул, мурабаха, мудараба, пруденциальный надзор, институциональная модель.

INTRODUCTION

The introduction of Islamic finance mechanisms in Uzbekistan is becoming increasingly relevant in the context of diversifying the financial sector, expanding access to financial services for individuals and business entities, and attracting international investment resources. The year 2026 marked an important stage in the legal and institutional development of Islamic banking in the country. Specifically, the Law of the Republic of Uzbekistan No. ZRU-1126 of 27 March 2026, "On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan Aimed at Introducing Islamic Banking in Uzbekistan", entered into force on 29 June 2026. The Law establishes a dedicated licensing mechanism for Islamic banks and Islamic banking windows, a two-tier framework for governance and oversight of compliance with Islamic finance principles, and provisions aimed at ensuring tax neutrality [1]. According to the Central Bank of Uzbekistan, Islamic microfinance has been introduced as an initial stage in the development of the sector, with relevant institutions offering financial products compliant with Islamic finance principles.

Furthermore, the Central Bank of Uzbekistan, in cooperation with the Islamic Financial Services Board (IFSB), developed a national roadmap for the development of the Islamic finance industry for 2026–2030, which was subsequently approved by the Cabinet of Ministers [11]. Alongside Islamic banking, the roadmap covers capital market development, takaful, professional training, and institutional capacity building. Accordingly, the introduction of Islamic finance in Uzbekistan should be examined not merely as the provision of murabaha or ijara products by banks, but as a broader process involving the establishment of an interconnected legal, institutional, supervisory, and market infrastructure.

In the first quarter of 2026, four microfinance institutions provided Islamic financing services totalling UZS 11.2 billion, representing an increase of UZS 9.8 billion, or an eightfold rise, compared with the corresponding period of the previous year.

In terms of product composition, murabaha accounted for 69% of the total Islamic financing services provided during the first quarter of 2026, while mudarabah represented 19% and Islamic ijara services accounted for the remaining 12%.

The development of the Islamic finance system is also relevant to the implementation of the priority objectives established by Decree No. PF-21 of the President of the Republic of Uzbekistan, dated 16 February 2026, "On Additional Measures for the Consistent Continuation of Reforms and Their Advancement to a New Stage within the Priority Areas of National Development until 2030" [2].

LITERATURE REVIEW

Several studies conducted by Uzbek researchers on Islamic finance have focused on assessing the demand for Islamic financial services among individuals and business entities.

A. Abdullaev, J. Juliana, and G. Bekimbetova examined the opportunities for introducing Islamic finance in Uzbekistan through a large-scale survey. Their findings indicated considerable interest in Islamic financial services among individuals and business representatives who preferred not to use conventional credit products for religious reasons.

A. Asadov, R. Zayniddinov, and R. Yildirim investigated entrepreneurs' intentions to use Islamic financial services by employing partial least squares structural equation modelling (PLS-SEM). The authors found that business support, perceived accessibility of financial services, levels of awareness and knowledge, and religious factors had statistically significant effects on entrepreneurs' intentions to use Islamic finance.

In her 2026 study, N. Aminova analysed the development of Islamic finance in Uzbekistan in relation to the legal environment, financial inclusion, Governance of compliance with Islamic finance principles, tax incentives, and the development of the sukuk market. The author emphasised the importance of considering Islamic finance not only in terms of banking products but also within the broader framework of financial market infrastructure.

Among international scholars, S. M. Hasanuz Zaman examined the conceptual foundations and definition of Islamic economics, providing a theoretical perspective relevant to the study of Islamic financial principles [12].

Auwal Adam Sa'ad and his co-authors examined financial crises and challenges of economic governance from the perspective of Islamic finance principles, discussing the potential contribution of Islamic financial principles to strengthening financial risk management and economic stability [15].

Among international financial institutions, the Asian Development Bank (ADB) has examined the conceptual foundations of Islamic finance and the Islamic economy. Its research emphasises the relationship between Islamic financial practices, the Islamic worldview, and ethical principles, while also discussing the fundamental Islamic finance principles governing Islamic financial activities.

RESEARCH METHODOLOGY

The study employed abstract-logical reasoning, generalisation, comparison, analysis and synthesis, and systems analysis. Statistical data on Islamic financial services and products were analysed and compared. Based on the findings, conclusions and practical recommendations were developed.

Analysis and Results

One of the fundamental distinctions between Islamic finance and the conventional financial system is the prohibition of interest (riba). To provide a clearer understanding of the economic rationale underlying this prohibition, it is useful to examine how interest-related transactions are reflected in economic indicators. Economic agents may generate income through productive activities and commercial transactions that contribute to economic value creation. In trading activities, income may arise from the difference between the acquisition cost of goods and the revenue generated from their subsequent sale, reflecting the commercial returns associated with such transactions.

The additional monetary value associated with capital or money arises from the terms of financial agreements concluded between the parties. Such arrangements may also involve transactions in financial instruments that are not directly associated with payments for goods and services. Under Islamic financial principles, interest stipulated on a loan is generally classified as riba, irrespective of whether the borrowed funds are used to finance underlying economic activities. Certain financial transactions primarily involve the redistribution of financial claims among economic agents, while their contribution to the creation of additional goods and services and broader economic growth depends on the nature of the underlying economic activities.

Another practice widely used in conventional finance is compound interest, whereby additional interest is calculated on previously accrued but unpaid interest and added to the principal debt. This practice is also

prohibited under Islamic financial principles insofar as it involves the accumulation of *riba*. According to the International Monetary Fund, total global debt stood at slightly above 235% of global GDP in 2024 [14]. This indicator highlights the considerable scale of global indebtedness and provides a broader context for examining financial structures and their economic implications.

The Islamic financial system extends beyond Islamic banking operations and also encompasses Islamic capital markets, Islamic insurance (*takaful*), and Islamic investment funds.

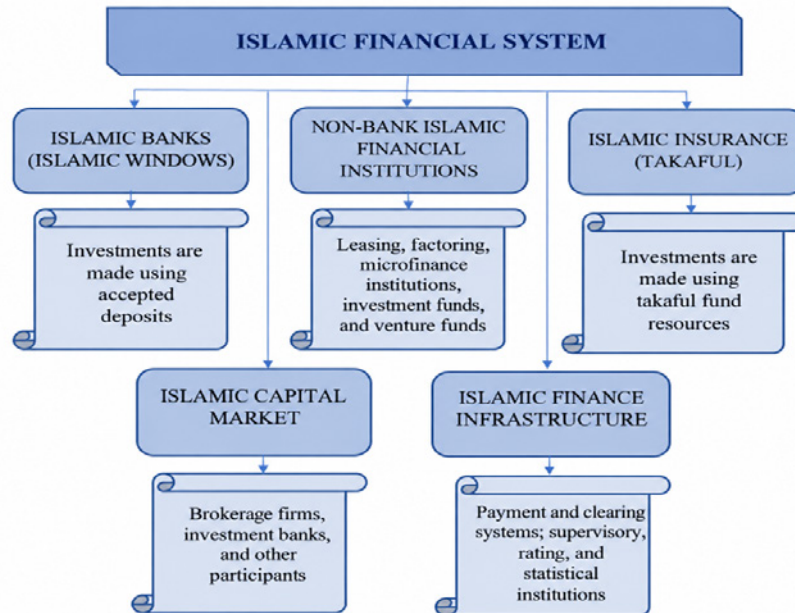


Figure 1. Structure of the Islamic Financial System¹.

Based on the information presented in Figure 1, it can be concluded that the effective functioning of Islamic banks, Islamic banking windows established within conventional banks, and *takaful* operators requires a well-developed Islamic capital market and supporting Islamic financial infrastructure.

The classification of the Islamic financial system according to the types of financial contracts is illustrated in the following figure.

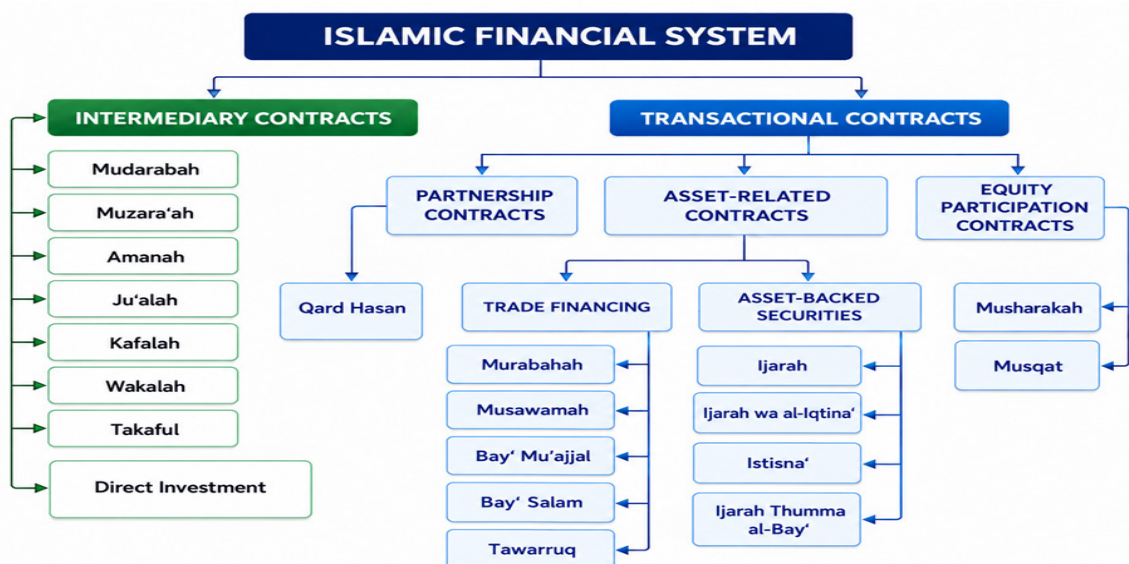


Figure 2. Forms of Transactional and Intermediation Contracts².

¹ Source: Compiled by the author based on Trunin et al. (2009).

² Baydaulet E. A. Islomiy moliya asoslari [Fundamentals of Islamic Finance] / Translated by Botirxo'ja Jo'rayev. — Tashkent :

The institutional structure of the Islamic financial system comprises Islamic banks, non-bank Islamic financial institutions, Islamic insurance (takaful) operators, Islamic capital markets and their participants (brokers, investment banks, and other intermediaries), and Islamic financial infrastructure, including payment systems, systems for screening compliance with Islamic finance principles, trading and clearing systems, and online business infrastructure. It also encompasses institutions supporting market liquidity and economic security, regulatory authorities, organisations responsible for overseeing financial reporting standards, rating agencies, statistical information providers, and research and educational institutions.

The institutions and market participants forming the Islamic financial system contribute to establishing its organisational and legal foundations and creating the necessary conditions for its effective and sustainable functioning.

Islamic banks are financial institutions that operate in accordance with Islamic finance principles, particularly the prohibition of interest (riba), the use of contract-specific arrangements for allocating profits and risks, and financing activities linked to underlying assets, goods, services, or permissible economic activities.

Table 1. Comparison between Islamic and Conventional Banks³

Comparison Criteria	Islamic Banks	Conventional Banks
Sources of Income	Income generated through profit-sharing arrangements or transactions involving real assets	Interest income, fees, and other banking income
Risk Distribution	The allocation of profits and risks depends on the type and terms of the Islamic financing contract	Banks bear credit risk, while borrowers are responsible for fulfilling contractual repayment obligations
Linkage to Real Assets	Financing transactions are generally linked to underlying real assets	Financing transactions are not necessarily linked to real assets
Financing Instruments	Murabaha; Musharakah; Mudarabah; Ijara; Salam; Istisna	Loans; Overdrafts; Interest-based leasing; Bonds
Customer Relationship	Partnership, seller–buyer, or lessor–lessee relationship, depending on the contract	Lender–borrower relationship in lending transactions

Based on the information presented in the table above, one of the key distinctions between Islamic and conventional banks is the prohibition of interest-based (riba) income in Islamic banking. Under Islamic financial principles, financing activities are intended to be linked to real economic transactions and underlying assets, thereby promoting a closer relationship between the value generated through financed activities and the growth of bank capital. This approach may contribute to strengthening the relationship between financial returns and underlying economic activities, while supporting a more balanced assessment of financing risks and capital growth. Furthermore, by promoting a closer alignment between the value created through financed activities, clients' repayment capacity, and banks' financial returns, Islamic financing mechanisms may contribute to mitigating the risk of non-performing financing.

Non-bank Islamic financial institutions (NIFIs) are financial institutions other than banks that provide financial services in accordance with Islamic finance principles and their associated compliance requirements..

Table 2. Types of Non-Bank Islamic Financial Institutions⁴

No.	Type of Institution	Main Characteristics	Applicable Contracts	Differences from Conventional Non-Bank Financial Institutions
1	Islamic Insurance (Takaful)	Risk coverage based on mutual assistance and solidarity among participants	Wakalah, Mudarabah	Risks are shared among participants through a collectively owned fund rather than being fully transferred to the insurer

O'zbekiston, 2019. — 432 p.

³ Source: Prepared by the author based on information obtained from online sources.

⁴ Source: Prepared by the author based on information obtained from online sources.

2	Islamic Leasing (Ijara)	Financing through the leasing of tangible assets	Ijara, Ijara Muntahia Bittamleek	Interest-based financing is avoided, and the underlying asset is acquired and owned by the lessor
3	Islamic Microfinance Institutions	Providing financial support to small businesses and individuals in accordance with Islamic finance principles	Murabaha, Ijara, Qard Hasan	Non-interest-based financing through trade, leasing, partnership, and benevolent loan arrangements in accordance with Islamic finance principles
4	Islamic Investment Companies and Funds	Management of investments in assets compliant with Islamic finance principles	Musharakah, Mudarabah, Sukuk	Investment restrictions based on Islamic finance principles, including limitations on non-permissible sectors and speculative activities
5	Sukuk Issuance Infrastructure (Special Purpose Vehicles and Other Entities)	Issuance of asset-linked investment certificates	Ijara Sukuk, Musharakah Sukuk	Investment returns are linked to underlying assets or economic activities rather than conventional interest-bearing debt
6	Islamic Fintech and Payment Institutions	Provision of payment solutions and financial technology services in accordance with Islamic finance principles	Wakalah, Service Contracts	Compliance requirements under Islamic finance principles concerning interest, permissible transactions, and contractual transparency

The information presented in the table above indicates that various non-bank Islamic financial institutions operate through asset-based financing, investment intermediation, mutual risk-sharing arrangements, and other financial services compliant with Islamic finance principles. Depending on their business models, these activities may contribute to economic value creation, investment development, and capital formation.

The Regulation “On the Procedure for the Provision of Islamic Financing Services by Microfinance Institutions” was approved by Resolution No. 23/4 of the Board of the Central Bank of the Republic of Uzbekistan, dated 19 July 2024, “On Approval of the Regulation on the Procedure for the Provision of Islamic Financing Services by Microfinance Institutions”, and registered with the Ministry of Justice of the Republic of Uzbekistan on 26 July 2024 under Registration No. 3536 [3]. Under this regulation, microfinance institutions are authorised to provide Islamic financing services through instruments such as Islamic ijara, murabaha, salam, and mudarabah.

Regulatory oversight of the Islamic financial system is based on two complementary pillars: prudential (financial) supervision and Supervision of compliance with Islamic finance principles.



Figure 3. Regulatory Bodies of the Islamic Financial System⁵.

As illustrated in Figure 3, the regulatory and supervisory framework of the Islamic financial system can be divided into two main levels: international and national regulatory and standard-setting bodies. In certain countries, including Malaysia and the United Arab Emirates, specific national regulatory frameworks have been established for Islamic banks. These frameworks may differ from international regulatory standards and requirements, reflecting the particular legal, institutional, and financial characteristics of each country.

Table 3. Responsibilities of Boards Supervising Compliance with Islamic Finance Principles and Other Regulatory Bodies⁶

Financial Supervision	Supervision of compliance with Islamic finance principles
Central Banks and Regulatory Authorities	Supervisory Board for Compliance with Islamic Finance Principles
Capital adequacy	Compliance with Islamic finance principles
Liquidity and risk management	Issuance of fatwas and Audits of compliance with Islamic finance principles
Prudential reporting and regulatory compliance requirements	Approval of Financial products compliant with Islamic finance principles

The table above illustrates the distinctions between financial supervision and Supervision of compliance with Islamic finance principles and identifies the regulatory bodies responsible for their implementation. Although their functions and responsibilities differ substantially, the institutional capacity of these regulatory

⁵ Source: Prepared by the author based on information obtained from online sources.

⁶ Source: Compiled by the author based on IFSB standards [13].

bodies, the clear definition of their mandates, and their adherence to the scope of their respective authority play an important role in ensuring the effective functioning of the Islamic financial system.

CONCLUSIONS AND RECOMMENDATIONS

In conclusion, although Boards overseeing compliance with Islamic finance principles and national regulatory authorities differ in their functions and responsibilities, their activities are complementary and play an important role in ensuring the effective functioning of Islamic financial institutions. The legal and conceptual foundations of the Islamic financial system are derived from Islamic jurisprudence governing financial and commercial transactions (Fiqh al-Muamalat). Its principal sources include the Holy Quran, the Sunnah (Hadith), Ijma (scholarly consensus), and Qiyas (analogical reasoning).

In many countries, the legal framework governing Islamic finance has been integrated into national legislation, either through amendments to existing banking laws or through the adoption of separate legislation regulating Islamic financial activities.

In Uzbekistan, the development of the legal and institutional foundations for introducing Islamic finance is being pursued with reference to international experience, including cooperation with the Islamic Development Bank (IsDB).

Based on the findings of the study, the following recommendations are proposed to support the effective legal and institutional development of the Islamic financial system in Uzbekistan:

Development of the legal framework. Continue developing and improving legislation that supports the operation of Islamic finance alongside the existing conventional financial system, particularly Islamic banking. Such a framework should protect the legitimate interests of Islamic financial institutions and their customers, strengthen public confidence, and create favourable conditions for fair competition between Islamic and conventional financial institutions.

Strengthening institutional infrastructure. Establish and develop the institutional infrastructure necessary to identify and mitigate potential risks within the Islamic financial system, reduce risks faced by market participants, and ensure compliance with its fundamental principles, including the prohibition of non-permissible (haram) activities, excessive uncertainty (gharar), and interest (riba). Particular attention should be given to transparency, the availability of financial choices, and the protection of the legitimate interests of Islamic finance participants.

Development of professional human capital. Establish a systematic approach to training qualified specialists in Islamic finance based on the professional competencies required in the sector. This should include the implementation of government-supported educational and training initiatives, as well as specialised programmes developed with direct government participation.

Enhancing supervision of Islamic banking windows. Drawing on international experience, develop a comprehensive supervisory framework for Islamic banking windows established within conventional commercial banks. Such a framework should ensure substantive compliance with Islamic finance principles, maintain a clear distinction between Islamic and conventional financial products, strengthen operational transparency and customer protection, and safeguard customers' religious and financial preferences.

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