

**EMERGING PATHWAYS OF ISLAMIC MICROFINANCE IN UZBEKISTAN:
POLICY, PRACTICE AND PROSPECTS**

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Over the past two decades, the introduction of Islamic finance has become one of the important directions of state policy in Uzbekistan. The country’s accession to the Organization of Islamic Cooperation in 1996 and to the Islamic Development Bank (IsDB) in 2003 marked the beginning of formal cooperation with international Islamic financial institutions. Since then, a number of projects have been launched, particularly in support of small and medium enterprises, but the lack of a comprehensive regulatory framework delayed the full integration of Islamic finance into the national financial system [1]. Only after 2016, with a wave of institutional and economic reforms, did the focus on Islamic finance intensify.

During the presidency of Shavkat Mirziyoyev, a series of initiatives were undertaken to create a legal basis for Islamic finance. In 2018, for the first time, the concept of establishing a national Islamic banking and finance infrastructure was introduced at the policy level. A year later, cooperation with the IsDB and Arab Coordination Group was expanded through government resolutions [2]. In 2020, the President’s address to Parliament emphasized the need to launch Islamic financial services and attract foreign investment via sukuk issuance [3]. As a result, in 2021, the Central Bank drafted the “Law on Non-Banking Credit Organizations and Microfinance Activities,” which was subsequently approved by the Senate in 2022 [4]. The most significant milestone came in July 2024, when the Central Bank formally adopted regulations on “The Procedure for Providing Islamic Financial Services by Microfinance Institutions.” The regulation requires all MFIs offering Islamic products to establish a Shariah Supervisory Board or engage one on an outsourcing basis. Importantly, MFIs remain fully responsible for managing risks associated with compliance [5].

The regulation authorizes the use of widely recognized Islamic financial contracts, including murabaha (cost-plus financing), ijara (leasing), salam (advance purchase), musharakah (equity partnership), and mudarabah (profit-and-loss sharing) [6][7]. Between August and December 2024, the total volume of Islamic microfinance services reached 1.1 billion UZS, representing only 0.008 percent of total credit disbursements in the sector (14.4 trillion UZS). Of this, 1.1 billion UZS was issued under murabaha and 7.4 million UZS under ijara contracts [1]. While these figures remain modest, they demonstrate the beginning of Shariah-compliant practices in Uzbekistan’s microfinance sector.

Several MFIs have already entered the market with Islamic products. One of the earliest institutions registered in 2024 introduced a portfolio of products based on Shariah principles. Its offerings include murabaha, ijara, salam, mudarabah, and musharakah, with maturities ranging from 6 to 60 months and expected returns between 20-30 percent. The minimum financing amount is set at 5 million UZS. To ensure Shariah compliance, the institution has established a supervisory board composed of domestic and international experts [1]. Another microfinance company founded in the same year launched similar products, including murabaha for deferred sale, ijara muntahia bittamlik (lease-to-own), mudarabah, musharakah, and salam. Like its peer, it operates under the oversight of a Shariah council consisting of professionals with backgrounds in banking, auditing, and Islamic jurisprudence. This reflects global best practices, where Islamic MFIs typically institutionalize governance through supervisory boards to maintain credibility and compliance [8].

Despite promising developments, Islamic microfinance in Uzbekistan remains at an embryonic stage. The market share of Shariah-compliant microfinance services is negligible compared to total credit. The main challenges include limited public awareness and financial literacy regarding Islamic finance, high expected return rates (20-30 percent) that may limit outreach to low-income clients, lack of diversified products beyond murabaha and ijara, and the need for capacity building among staff and regulators.

One of the most pressing issues is the limited knowledge of Islamic financial principles among the population. For many clients, the distinction between conventional and Islamic products remains unclear, which makes them hesitant to trust new services. This knowledge gap is also evident among practitioners: many staff members of microfinance institutions require additional training in the operational details of Shariah-compliant contracts. Without consistent awareness campaigns and professional development programs, Islamic microfinance will remain a niche rather than a mainstream option.

Another challenge relates to the pricing of Islamic financial products. Although murabaha and ijara are permissible alternatives to interest-based loans, the effective rates applied by local institutions (often between 20 and 30 percent) make them less affordable for the poorest households. The risks excluding exactly those segments of society that microfinance is designed to serve. To overcome this barrier, regulators and practitioners need to explore blended finance models, the integration of zakat and waqf funds, or concessional financing schemes that could reduce the cost of Shariah-compliant credit.

On the other hand, opportunities for growth are substantial. Uzbekistan has a young, predominantly Muslim population that is increasingly aware of ethical finance. The establishment of a regulatory framework provides confidence for both domestic and international investors. By gradually introducing a wider range of contracts, such as mudarabah for entrepreneurship and musharakah for cooperative ventures, microfinance

institutions could move beyond short-term consumer credit and support sustainable business activities. Drawing on successful experiences from Indonesia, Bangladesh [9] and Turkey [10], Uzbekistan could develop a hybrid model that combines Shariah compliance with innovative delivery channels, digital finance, and community-based approaches.

The introduction of Islamic financial services by microfinance institutions in Uzbekistan represents a significant milestone in diversifying the financial sector. While the scale is still small, the establishment of a regulatory framework and the launch of the first Shariah-compliant microfinance products demonstrate the country's readiness to integrate Islamic finance into its development strategy. Going forward, greater emphasis is required on public awareness, training, and product innovation to ensure that Islamic microfinance contributes meaningfully to financial inclusion and poverty reduction in Uzbekistan.

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