INSTITUTIONAL BARRIERS TO ISLAMIC FINANCE DEVELOPMENT IN UZBEKISTAN: EVIDENCE FROM FINANCIAL INSTITUTIONS

Komilova Gulbadanbegim
Manager, Uzbekistan Creative Industry Park
ORCID: 0009-0008-8228-6335
E-mail: gulbadanbegimkomilova@gmail.com

Abstract

This study examines institutional barriers constraining Islamic finance development in Uzbekistan, drawing on original interviews with financial-sector stakeholders. The paper applies a focused qualitative analysis of semi-structured interviews with eight institutional stakeholders representing Shariah advisory and Islamic microfinance, Islamic windows, commercial banking, an Islamic financing company, financial analysis, and the Central Bank of Uzbekistan. Thematic analysis produced 39 codes grouped into eight themes. The institutional evidence indicates that the principal constraints are concentrated on the supply side: limited access to cheap and stable Shariah-compliant funding, incomplete legal and regulatory clarity, unresolved standardization and tax issues, weak or still-developing Shariah governance arrangements, shortages of qualified personnel and operational capacity, and limited infrastructure for more complex products. Respondents also reported that murabaha and ijara are currently easier to implement, whereas musharaka and mudaraba face audit, monitoring, prudential, transparency and resource-allocation constraints. The findings support a phased, institution-building approach in which funding infrastructure, detailed regulation, governance, human capital and liquidity mechanisms develop alongside product expansion.

Keywords

Islamic finance, institutional barriers, Uzbekistan, financial institutions, funding constraints, regulation, Shariah governance, institutional capacity.

Introduction

Islamic finance in Uzbekistan is moving from a limited and fragmented stage toward a more formal financial framework. Institutional evidence identifies the development of Islamic finance as an institutional process shaped by legislation, regulation, Shariah governance, funding capacity, operational readiness, market demand and public trust. Although demand for Shariah-compliant finance exists, the institutional evidence suggests that demand alone cannot create a functioning market. Financial institutions must be able to obtain appropriate resources, structure products, manage risks, apply accounting and prudential rules, conduct Shariah review and audit, and communicate products transparently.

This distinction is important because the study finds that the principal barriers are increasingly located on the supply side. Interview respondents repeatedly referred to a narrow funding base, legal and regulatory gaps, uncertainty over standards, insufficiently developed Shariah governance, shortages of qualified personnel, operational and IT limitations, and the absence of a fully developed ecosystem. These constraints affect both the availability and cost of Islamic products and limit the ability of institutions to diversify beyond relatively simple structures.

The purpose of this paper is therefore to identify and systematize the main institutional barriers to Islamic finance development in Uzbekistan from the perspective of financial institutions. The analysis focuses on five interrelated areas supported by the interview evidence: funding and liquidity, legal and regulatory readiness, Shariah governance, institutional and human capacity, and product implementation. The central question is which institutional constraints currently prevent market demand from being converted into a broader and sustainable supply of Islamic financial services.

Materials and methods

The research employed a mixed-method, abductive design grounded in critical realism, combining a structured SME survey, documentary analysis and semi-structured institutional interviews. For the present topic, the qualitative institutional component is the primary source of evidence because the research question concerns barriers observed inside financial and regulatory institutions.

Eight institutional stakeholders were interviewed. They included a Shariah adviser and Islamic microfinance representative (R1), representatives of Islamic windows (R2 and R3), commercial-bank representatives (R4 and R5), the head of an Islamic financing company (R6), a global finance/political-economy respondent (R7), and a Central Bank Islamic finance expert (R8). Respondents were selected purposively because they could provide practical information on regulation, financing, product implementation, governance and institutional readiness.

The semi-structured interview guide covered legal framework quality, regulatory strength and supervision, institutional capacity and Shariah governance capability, trust and governance credibility, Islamic finance supply, adoption and scaling, financial-system efficiency and strategic development. Interviews were conducted face-to-face or through direct contact. Regulatory interviews required formal institutional procedures. Participation was voluntary, respondents were coded, and the collected material was used for academic purposes.

The interview material was examined through thematic analysis. Coding was inductive and iterative: recurring statements were first identified as codes and then consolidated into broader themes. The analysis developed 39 codes and eight themes: access-to-finance barriers (T1), resource and funding constraints (T2), legal and regulatory readiness (T3), Shariah governance and oversight (T4), institutional capacity and operations (T5), product structure and implementation challenges (T6), trust,

literacy and market perception (T7), and the strategic roadmap for Uzbekistan (T8). The present paper concentrates on T2–T6 while using related evidence from T7 and T8 where it clarifies institutional effects.

Results

The first and most frequently recurring institutional barrier was the limited resource and funding base. Respondents R2, R3, R6 and R8 emphasized that market demand exists, but institutions do not have sufficient access to cheap, stable and Shariah-compliant sources of funds. A narrow resource base raises the cost of Islamic products and limits their scale. Respondents interpreted relatively high product costs primarily as a sign of an immature funding structure rather than an inherent weakness of Islamic finance. They also expected stronger competition and a broader institutional base to improve pricing conditions over time.

The second barrier concerned legal and regulatory readiness. Respondents R1, R6 and R8, with related observations from R7, described progress in the legal environment but also identified unresolved implementation issues. These included source-of-funds compliance, the relationship between AAOIFI standards, local rules and institution-level Shariah interpretations, tax treatment arising from temporary asset ownership, deferred-payment treatment, and the need for more detailed sub-legal and operational guidance. The evidence therefore distinguishes between the existence of general legal authorization and the detailed rules needed for institutions to implement products consistently.

A third barrier was the still-developing Shariah governance architecture. Respondents emphasized that Shariah compliance cannot rest on product labels or declarations. They identified Shariah compliance review, Shariah audit, a Shariah secretariat, a supervisory board and a research function as relevant institutional components. Independence was repeatedly emphasized: Shariah board members should

be protected from shareholder, director and senior-management influence and from conflicts of interest. Respondents also highlighted regular internal and external audit and transparent disclosure of Shariah decisions as mechanisms for strengthening credibility.

The fourth barrier concerned institutional capacity and operations. The interview framework and coded themes identify shortages in qualified personnel, training, certification, IT and accounting readiness, risk management, operational processes and liquidity mechanisms. These gaps are particularly important because Islamic finance requires institutions to coordinate conventional banking functions with additional contractual, Shariah, audit and ownership requirements. These results establish institutional capacity as a condition for transforming legal permission into functioning products.

The fifth barrier was product implementation. Respondents described murabaha and ijara as relatively simple and easier to control under current conditions. Murabaha was viewed as suitable for trade-related financing and ijara for asset-based financing. In contrast, musharaka and mudaraba face greater practical difficulties, including audit complexity, weak business transparency, monitoring costs, prudential requirements, lower profitability in some structures and long-term tying-up of bank resources. Respondents also associated product diversification with the maturity of governance, audit, standards and market infrastructure.

Table 1. Institutional barriers identified in the research interviews

Barrier	Evidence/theme	Main respondents	Institutional implication
Funding and resource constraints	T2	R2, R3, R6, R8	Limited cheap and stable Shariah-compliant funding restricts scale and pricing
Legal and regulatory readiness	T3	R1, R6, R8; partly R7	Detailed rules, standards harmonization, tax neutrality and source-of-funds guidance remain important
Shariah governance and oversight	T4	R1, R2, R6, R8	Independent oversight, review, audit and disclosure are required for credible compliance
Institutional capacity and operations	T5	R1, R2, R6, R8	Human capital, IT, accounting, risk and operational capacity must develop
Product implementation	T6	R2, R3, R6, R8	Complex risk-sharing products require stronger audit, monitoring and prudential infrastructure

Source: Author's analysis of semi-structured interviews and thematic coding (R1–R8).

Discussion

The findings show that the institutional barriers are mutually reinforcing rather than independent. A narrow funding base raises product costs and restricts scale; regulatory ambiguity increases implementation risk; incomplete Shariah governance creates inconsistent compliance processes; limited human and operational capacity constrains product design and supervision; and insufficient audit and monitoring infrastructure makes complex risk-sharing products difficult to implement. This explains why the

research concludes that the main constraint is not simply a lack of demand, but the readiness of the supply-side ecosystem.

The product findings reinforce this institutional interpretation. The current greater operational use of murabaha and ijara is not presented in the research as proof that more complex Islamic instruments are unsuitable for Uzbekistan. Rather, it reflects the present level of audit, monitoring, transparency, prudential and operational capacity. Risk-sharing instruments may become more feasible as the supporting ecosystem matures.

Conclusion

This study concludes that the principal barriers to Islamic finance development in Uzbekistan are institutional and supply-side in nature. Evidence from eight institutional stakeholders identifies five closely connected constraints: a limited and costly funding base; incomplete legal, regulatory, tax and standardization arrangements; a still-developing independent Shariah governance framework; shortages in qualified personnel and operational capacity; and implementation difficulties for complex Islamic financial products.

The institutional evidence indicates that these constraints should be addressed through phased institutional development. Priority areas include expanding stable Shariah-compliant funding and liquidity sources, developing detailed sub-legal and operational rules, harmonizing standards, strengthening tax neutrality, establishing independent Shariah review and audit mechanisms, improving disclosure, developing professional training and certification, and strengthening IT, accounting, risk and product-management capacity. Murabaha and ijara can remain practical entry products while more complex instruments are introduced as governance and infrastructure mature.

The findings should be interpreted within the study's qualitative scope and transition-period context. They do not provide a statistical ranking of all financial

institutions in Uzbekistan. Future research should examine how the barriers identified here change after the new institutional framework is implemented and should compare institutional readiness across a broader sample of banks, Islamic windows, microfinance organizations and regulators.

References

1. Asadov, A., & Turaboev, I. (2023). Legal Challenges Hindering the Development of Islamic Finance in Uzbekistan. Access to Justice in Eastern Europe, 1–16. https://doi.org/10.33327/AJEE-18

2. Bank Negara Malaysia. (2019). Shariah Governance Policy. Bank Negara Malaysia.

3. Bank Negara Malaysia. (2022). Financial Sector Blueprint 2022–2026. Bank Negara Malaysia.

4. Central Bank of the Republic of Uzbekistan. (2025). Annual Report 2024. Central Bank of the Republic of Uzbekistan.

5. Iqbal, Z., & Mirakhor, A. (2013). Economic Development and Islamic Finance. World Bank.