

PRIMARY RESEARCH

## Implementing Islamic Banking in Uzbekistan

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### Abstract

**Purpose:** This research investigates the implementation of the Islamic banking system in Uzbekistan, exploring the need, potential demand, and supply of Sharia-compliant products and services. It identifies opportunities and challenges and provides insights into overcoming them, addressing the question: why introduce an Islamic banking system in Uzbekistan?

**Research Methodology:** Using an exploratory mixed-methods approach, empirical data was collected from 400 public members and 45 professionals in Tashkent through surveys and structured interviews. Statistical methods were employed for data analysis.

**Findings:** Findings indicate a significant potential demand for Islamic banking in Uzbekistan. The research recommends revising existing legislation, Central Bank regulations, the Tax Code, Civil Code, Law on Commodities, and developing a regulatory framework for Islamic Financial Institutions (IFI) and human capital. Cooperation with the Islamic Development Bank Group and other foreign organizations is suggested to facilitate these changes.

**Practical implications:** Practical implications include providing a roadmap for regulators, policymakers, governments, and the financial industry on introducing Islamic banking in Uzbekistan. One proposed solution is the incorporation of Islamic financial instrument principles through the equitization of mortgages.

**Originality/Value:** This study is the first empirical research assessing the market for Islamic banking in Uzbekistan, complementing existing literature and addressing the gap in empirical research. It also lays the groundwork for further research in this area.

**KAUJIE Classification:** 03, J0

**JEL Classification:** J3, J4

## INTRODUCTION

This research focuses on several key aspects. Firstly, it investigates the potential demand and supply size for Islamic banking products and services. Secondly, it assesses the necessity of establishing a market for Islamic banking offerings. Furthermore, the research explores the

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primary obstacles to establishing Islamic banking in Uzbekistan and examines how the country can potentially learn from the experiences of nations that have already embraced Islamic banking. The findings derived from this study are expected to play a crucial role in unlocking opportunities, addressing challenges, and formulating policies to facilitate the dynamic growth of Islamic banking within Uzbekistan.

Islamic banking (IB) encompasses activities aligned with the principles of Islamic (Shari'ah) law. Uzbekistan demonstrated robust economic growth, with a substantial 7.4% increase in real terms, resulting in a GDP of \$69.2 billion. Given that 88% of Uzbekistan's population (32 million) adheres to Islam, the introduction of Islamic banking is deemed necessary, especially considering the absence of such a system in the country (Varielle, 2012; Tlemsani and Al Suwaidi, 2016). The question arises: Why is it essential to implement the Islamic financial system in Uzbekistan? Other nations have encountered challenges in adopting Islamic banking, with observations suggesting that despite its origin and popularity in Muslim-majority countries (Karbhari et al., 2004; Tlemsani, 2022; Marir et al., 2019; Majdalawieh et al., 2017), introducing such a system may face hurdles in non-Muslim or minority Muslim contexts.

Ahmed et al., (2013) and Tlemsani (2010) discussed problems related to confusion and lack of information in the implementation of the Shari'ah-based banking system, linking these issues to a shortage of qualified professionals. It is not uncommon for central banks to appoint individuals who lack a strong background in Islamic finance principles to oversee Islamic banking mechanisms, leading to misconceptions and ultimately hindering the development of Islamic banking.

The study aims to analyze how to implement the Islamic banking system in Uzbekistan. The main objectives are as follows:

1. Examine the size of the potential demand and supply for Islamic banking products and services among the population in Uzbekistan through primary data analysis.
2. Identifying the challenges to establishing a market for Islamic banking in Uzbekistan.

The study's main research question is 'How to implement an Islamic banking system in Uzbekistan'. The specific research questions are:

1. What is the potential market demand for Islamic banking in Uzbekistan?
2. What are the benefits of Implementing the Islamic banking system in Uzbekistan?
3. How can Uzbekistan overcome or mitigate the expected challenges to implementing the Islamic banking system alongside conventional banking?

Insights into the operations of IB are absent or very scarce in Uzbekistan. This is due to the lack of research in this specialist area. So, it can be assumed that, to date, no empirical study has focused specifically on the implementation of Islamic Banking in Uzbekistan. This shows one of the key reasons for this research and fills the research gap. The outline of this research is as follows: First, an introduction followed by the background and context of the study. Second, it focuses on the literature review. Third, an insight into theresearch design, paradigm, philosophy, sampling method, and data collection techniques used to collect data. Fourth, analysis of the results of the questionnaire collected from the members of the public and professionals. It presents the respondents' demographic characteristics, banking behavior, and potential demand for Islamic banking in Uzbekistan. Finally, we present the findings of this research and the conclusion.

## LITERATURE REVIEW

One significant research gap is the absence of empirical studies focused specifically on the implementation of Islamic banking in Uzbekistan. This research aims to fill this gap by

providing empirical data and insights into the country's potential demand, challenges, and opportunities for Islamic banking. A key feature of Islamic banking is the prohibition of *ribā* (usury), which is argued to create a more suitable economic structure and stimulate greater growth (Abduh and Omar, 2012; Hashim et al., 2022; Tlemsani and Matthews, 2021). Shari'ah-compliant products in Islamic banking align payment obligations with revenue accrual, enhancing economic stability. Tlemsani et al., (2022) and Khan (2010) argues that the reduced speculation in Islamic banking, where money exchanges and debt swaps are forbidden, lowers overall economic risk. Swartz (2013) remarked that the profit and loss-sharing mechanism in Islamic finance mirrors equity-based financing principles. (Mirakhor, 2014; Tlemsani, 2020) added that creditors' profit shares are justified on the premise that profits cannot be made without taking investment risks.

### **Role of Islamic Banking in Economic Development and Growth**

A diversified banking system that includes Islamic banks is believed to enhance financial stability and support long-term growth, as noted by Imam and Kpodar (2016). They suggested that Islamic banking can address recurring weaknesses in conventional banking, such as high leveraging, wholesale financing, and the use of complex instruments, which often lead to boom-bust cycles and financial instability. The higher capitalization of Islamic banks and their avoidance of risky investments create a capital cushion that can mitigate the negative effects of conventional banking on economic growth. This perspective is supported by Tlemsani (2010) and Mirakhor (2014), who found that Islamic banks, by avoiding risky financing options like derivatives and other opaque products, maintain higher liquidity reserves and perform better during economic downturns.

Cultural factors play a crucial role in shaping the acceptance and adoption of Islamic banking in Uzbekistan. The cultural dimensions of finance in Uzbekistan, emphasize the historical Islamic heritage and the prevalence of ethical values in economic activities. The study suggests that Islamic banking, rooted in Shari'ah principles, resonates with the cultural values of the Uzbek population.

### **Contemporary Development of Islamic Banking in Central Asia**

Central Asia, including Uzbekistan, faces specific challenges and opportunities in the context of Islamic finance. Tursunov (2021) highlights the need for legal revisions and suggests Uzbekistan's potential to become a hub for Islamic finance within the CIS countries. Mirzakhmedova (2023) underscores the importance of addressing legal, educational, and awareness-related concerns to advance Islamic finance. Consumer behaviour is a key determinant of the demand for Islamic banking products. To gain a comprehensive understanding, it is crucial to explore consumer preferences and attitudes toward Islamic finance in Uzbekistan and Central Asia. Investigating why individuals and businesses opt for Islamic banking, or conversely, prefer conventional banking due to religious convictions or other factors, will offer valuable insights into the market dynamics.

Imamnazarov (2023) assessed the significant demand for Islamic finance in Uzbekistan. A dataset of 7,200 responses was gathered from individuals, business entities, and financial institutions through a survey questionnaire and analyzed. The findings revealed that 56% of the individuals and 38% of the surveyed businesses in Uzbekistan abstain from seeking loans due to religious convictions. Additionally, more than 60% of both individuals and businesses lack a comprehensive understanding of how Islamic finance products operate.

Uktamov et al., (2021) investigated the utilization of Islamic banking products within the framework of conventional banks in Uzbekistan spanning for over two decades. The study encompassed a diverse group of participants, totaling 3,000 individuals and

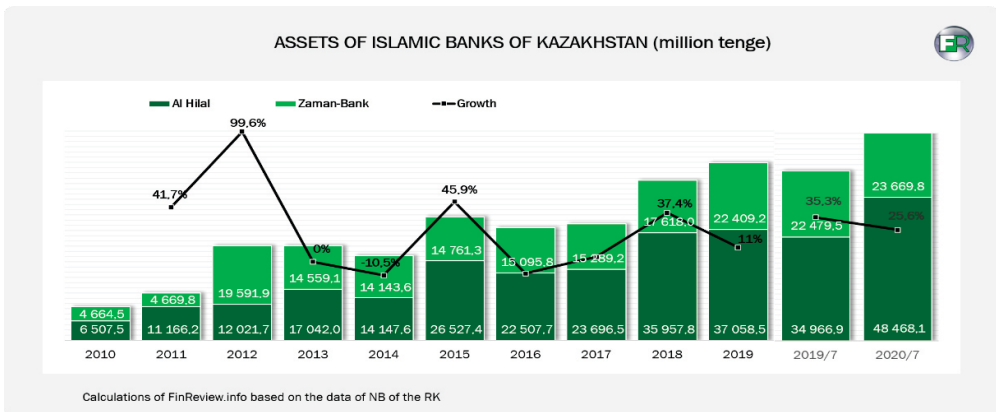
entrepreneurs hailing from all regions of Uzbekistan. Computer-based data analysis tools such as SPSS and PASW statistics were employed. The findings revealed that 61% of the entrepreneurs and 75% of the individual respondents expressed their readiness to embrace Islamic Banking services if they were introduced in Uzbekistan.

Tursunov (2021) conducted a systematic exploration of the introduction of Islamic banking services in Uzbekistan, employing a deductive approach and a descriptive research design. The research suggests the need for revisions to the existing legislation, as he posits that Uzbekistan possesses the potential to emerge as a hub for Islamic finance within the CIS countries. Nagimova (2022) investigated the economic dynamics arising from cash investments aligned with Islamic finance principles in Uzbekistan. This exploration involves the analysis of Islamic finance transactions spanning from 1991 to 2020 within Uzbekistan, data obtained from Bureau van Dijk's databases, specifically Zephyr and Orbis. The findings of the study illuminate the promising growth opportunities for Uzbekistan, particularly in connection with the entry of prominent foreign Islamic banks into the market.

Mirzakhmedova (2023) examined the regulatory landscape, market prospects, and barriers impeding the advancement of Islamic finance in Uzbekistan. By employing a comprehensive research approach that combines qualitative and quantitative methods. The findings underscore the imperative to address legal, educational, and awareness-related concerns. Sabri (2014) assessed the level of awareness and the sources of demand for Islamic microfinance among clients in Kyrgyzstan and Tajikistan. The findings from the structured questionnaire revealed that 57% of respondents in Kyrgyzstan and 44% in Tajikistan expressed a preference for Islamic microfinance over conventional options. Similarly, Boboev (2019) investigated public awareness of Islamic banking in Tajikistan. Through a structured questionnaire survey involving 493 respondents, it was discovered that 70% of them expressed a willingness to use banking services offered by Islamic banks.

Kazakhstan is recognized as a leader in the Islamic finance sector, not only in Central Asia but also among post-Soviet Union countries. Although the global financial crisis of 2008 significantly influenced the development of Islamic finance in Kazakhstan, initiatives had begun as early as the 1990s. The country's first Islamic bank, Al-Baraka Kazakhstan Bank, was established in 1991. In 1997, it was renamed Kaspi Bank and restructured as a conventional commercial bank (Tlemsani and Matthews, 2010; Khaki & Malik, 2013).

In light of Figure 1 above, it is stated that the loan portfolio has been growing with an increase of 41%; further growth is recorded in deposits and accounts opening. Figure 1 also indicates that during the post-pandemic period, instruments of Islamic banking in



**FIGURE 1.** Asset Revolution of IBs in Kazakhstan

Kazakhstan have continued to improve since 2018 with the aid of the Astana International Financial Centre (AIFC). The AIFC pursues a plan to become Kazakhstan's hub of Islamic finance. As a result, the enterprise has created the appropriate infrastructure and regulatory framework that aligns with international standards and practices.

## RESEARCH METHODOLOGY

The choice of a mixed-methods research approach in this study offers several justifications and merits. Mixed-methods research (MMR) is widely recognized in the social sciences for its adaptability and effectiveness in investigating complex phenomena (). MMR allows researchers to seamlessly integrate both quantitative and qualitative data collection methods within the same study, thereby enriching the research process. The research objectives, which encompass understanding public perceptions and identifying challenges in implementing Islamic banking in Uzbekistan, are multifaceted. A mixed-methods approach allows for a more nuanced exploration of these objectives. Quantitative surveys provide insights into broad trends and patterns, while qualitative interviews delve into the specific challenges and experiences of professionals.

The potential limitations associated with the mixed-methods approach include the complexity of data integration, resource requirements for data collection and analysis, and the need for specialized expertise in both quantitative and qualitative research methods. Additionally, the choice of a purposive sample may introduce selection bias, and the generalizability of findings from this specific context to other regions may be limited. In the context of studying the implementation of Islamic banking in Uzbekistan, this research employed an exploratory research design to elucidate and define the problem more clearly within the specific context of implementing Islamic banking in Uzbekistan. This approach lays the foundation for subsequent studies and a deeper understanding of the subject matter.

This design incorporated both qualitative and quantitative methods to collect and analyze primary data. The primary data collection methods included self-administered questionnaires and structured interviews conducted in Uzbekistan. Additionally, secondary data sources such as research publications, journal articles, textbooks, internet sources, newspapers, company information (e.g., annual reports, websites), and industry reports were utilized.

### Population and Sampling

The implications for generalizability, the use of a purposive sample, while providing valuable insights, may limit the generalizability of the findings. This is because the sample is not randomly selected from the entire population of interest. Instead, it focuses on specific individuals and professionals who are more likely to have specialized knowledge and experience in Islamic finance.

The population of interest in this research comprises members of the public and professionals working in organizations related to Islamic finance and banking. With nearly 95% of Uzbekistan's population being Muslim, this study focuses on a substantial portion of the population, which stands at approximately 22.5 million residents. However, surveying the entire population of Uzbekistan within the constraints of time and resources is impractical. Therefore, a purposive sample was selected for data collection, ensuring representation from diverse backgrounds and experiences. Achievement of the second research objective of this research, which entailed the identification of challenges associated with establishing a market for Islamic banking in Uzbekistan, a comprehensive approach was adopted. The successful attainment of this objective relied on the analysis of primary data

gathered from a diverse group of participants in Tashkent City, the capital of Uzbekistan.

This research uses structured interviews and questionnaires for data collection, primary data collection was carried out with senior representatives from various organizations. The participants included:

1. Representative Office of Islamic Development Bank (IDB) in Uzbekistan
2. Representative Office of Islamic Cooperation for the Development of Private Sector (ICD)
3. Eight Local Commercial Banks: These banks acted as agents for ICD, facilitating the utilization of Sharī'ah-compliant credit lines for private Small and Medium-sized Enterprises (SMEs) under the Muḍārabah (cost-plus financing) scheme.
4. FC Taiba Leasing LLC: A subsidiary of ICD in Uzbekistan.
5. Academics: Scholars from different universities with expertise in the field.
6. Law Firms: Legal service providers for projects initiated by the Islamic Development Bank in Uzbekistan and other financial institutions, both within the country and in neighboring nations.
7. International Auditing Companies
8. Central Bank of Uzbekistan

Ethical considerations in this research were diligently addressed. The following key points summarize the ethical management:

- Obtaining necessary approvals and consent from the different bodies linked to this research.
- Confidentiality and privacy, the confidentiality and privacy of the participants were respected, following guidelines such as the Data Protection Act 1998.
- Compliance with guidelines of the British Sociological Association's Ethical Guidelines (2004, as amended).
- Participants provided voluntary consent and they were informed of their right to withdraw from the research at any time without penalties.

### **Sampling and Data Collection**

The research employed a two-pronged approach to gather data. From a public perspective, surveys were randomly distributed among adult residents in Tashkent City, spanning the data collection period from January 2017 to January 2018. Following the recommendation of , which suggests a minimum sample size of 384 for populations exceeding one million, with a 5% margin of error and a 95% confidence level, 700 questionnaires were distributed to obtain the targeted 400 usable responses from the public.

In addition, 50 questionnaires were randomly distributed to professionals, with 45 ultimately used for analysis through statistical methods. These 45 professionals, possessing expertise in various fields such as banking, finance, academia, law, Islamic studies, and business leadership, were selected based on their extensive experience, skills, and knowledge relevant to the research subject. To maintain the integrity of data collection, interviews with professionals were conducted within the organizational settings of participating institutions. This approach was designed to create an environment conducive to open and candid discussions. The research team aimed for a response rate of at least 95% to ensure the robustness of the collected data. The authors affirm that the context of the study remained relatively constant throughout the research period.

### **Data Analysis**

The responses obtained from both the questionnaires and structured interviews underwent rigorous analysis. For quantitative data, various data analysis tools and statistical packages (SPSS), were utilized to derive meaningful insights and draw statistical inferences. In



contrast, the qualitative data obtained from the structured interviews underwent a different analytical approach. Due to the intricate and nuanced nature of the qualitative data, the authors employed software tools (NVivo) to identify common themes and phrases. Grounded theory tools were also applied to extract deeper insights and establish connections within the qualitative data.

### Public Attitudes on Islamic Banking

This section aims to present the data and discuss respondents' attitudes toward Islamic banking, focusing on their perception of Islamic banking products and services.

### People's Attitudes Towards Receiving Interest

To gauge respondents' attitudes and perceptions toward receiving interest from a bank, they were asked if accepting interest from a bank was acceptable. This inquiry aimed to determine their satisfaction with conventional banking services and the potential demand for Islamic banking products and services. TABLE 1 below presents a compelling case for the introduction of Islamic banking and finance.

**TABLE 1:** People's Attitudes towards Receiving Interest

Respondents' Receiving Interest	Frequency	Percent
Yes	90	22.5
No	202	50.5
I do not know	108	27.0
Total	400	100.0

Source: Authors' output from IBM SPSS, raw data from field survey

Table 1 reveals that 202 respondents, representing 50.5% of the sample, indicated 'No' to receiving interest from a bank. In contrast, 90 respondents, or 22.5% of the sample, answered 'Yes'. Additionally, 108 respondents, comprising 27% of the sample, responded with 'I do not know.'

From the result above, we can determine that the majority of the sample is against the idea of interest as they view it as not following their Islamic beliefs and customs. The rest of the sample, those who stated 'Yes', have seen benefits and gain from earning interest. For the ones that have answered 'I do not know', this group of people, it can be argued, are undecided in their views of obtaining interest. This can be due to a need for more knowledge concerning what can be defined as 'Interest'.

### People's Perception Towards Charging Ribā (Usury)

Receiving an increase/addition/surplus from lending money is considered ribā (usury), which is prohibited in Islam. It is seen as an unethical, unjust, immoral, exploitative way of earning money and a weapon of master destruction in a modern capitalist system. As a part of the question, respondents were also asked whether they considered charging interest for lending money as ribā.

**TABLE 2:** People's Perception Towards Considering Interest Charge as Ribā

Is Interest Charged	Riba Frequency	Percentage
Yes	212	53
I am not sure	130	32.5
No (Not Riba)	56	14
Total	398	99.5

Source: Authors Output from IBM SPSS, raw data from field survey.

The result shows that 212 people accounting for 53% of the population sample, have stated 'Yes' to the question about banks charging interest is ribā, whereas 130 people, who represent 32.5% of the total sample, have stated 'I am not sure'. Furthermore, 56 respondents making up 14%, stated 'No'. Table 2 above shows that most respondents are against the idea of banks charging interest. Much like the previous question, which asked people if they are willing to receive interest, it can be argued that 50% of respondents who answered 'No' would equally be against the idea of banks charging interest, as they would also view this against their beliefs.

In relation to Islamic banking as a system and an alternative to traditional banking methods, it was noticed that this was a major factor for many of the sample surveyed, especially concerning their attitudes regarding Interest. Therefore, many of those surveyed viewed profiting from or being charged interest by a conventional/traditional bank as 'ribā' and thus would explain why most of the sample surveyed would favor an Islamic banking method adopted and would openly advocate for its establishment. The above findings show that potential demand exists in Uzbekistan, and the size of the potential demand is significant.

In summary, the principal findings are:

1. 71.3% of the respondents wish to use interest-free banking services.
2. 81.3% of the respondents wish to utilize Islamic banking products and services if they become available in the country.
3. 53% of the respondents believe that charging interest for lending money is ribā
4. 50.5% of the respondents stated a rejection to receive or charge interest.
5. 70% of the respondents believe financing methods used to make a profit by Islamic banking are healthier than their counterparts by conventional banking.

### Professionals' Views on the Challenges of Implementing Islamic Banking in Uzbekistan

This section outlines the views and opinions of professionals in relation to what they believe to be potential challenges and solutions for implementing Islamic banking in Uzbekistan. 50 questionnaires were distributed to the professionals, including those from banking and finance professionals, academics, lawyers, business leaders and Islamic Shari'ah scholars and 45 of them were used for analysis.

### Difficulties in Implementing Muḍārabah (Profit Mark-up) in Uzbekistan

Professionals were asked to put forward their views and opinions on the questions covering this research.

**TABLE 3:** Awareness of Professionals on the Difficulties in Implementing Muḍārabah in Uzbekistan

Answers	Frequency	Percent	Valid (%)	Cumulative (%)
Yes	11	24.4	25	25
No	33	73.4	75	100
Total	44	97.8	100	
Missing answers	1	2.2		
Total	45	100.0		

Source: Authors Output from IBM SPSS, raw data from field survey.

Table 3 above shows that 33 professionals stated 'No', 11 professionals stated 'Yes', and 1 respondent did not offer an answer. The data generated disclosed that a large portion of professional respondents (75%) indicated they were not aware of the use of Muḍārabah in Uzbekistan and had faced difficulties and problems. From those who stated 'Yes', various reasons were offered to indicate problems and difficulties in using Muḍārabah. For example,



Respondent 9 (R9) cited that the current legislation does not provide the framework for Muḍārabah contracts based on trading. He also added that local banks were not entitled to carry out commercial activities that are vital for Muḍārabah transactions. R15 stated that Muḍārabah would face difficulties due to restrictions on currency conversion. Additionally, the price of Muḍārabah is relatively high. R17 stated that commercial banks do not independently offer Muḍārabah by themselves. But instead, they can offer it through a partnership with the Islamic Cooperation for the Development of Private Sector (ICD).

### Difficulties in Using Ijārah (Leasing) in Uzbekistan

**TABLE 4:** Awareness of Professionals on the Difficulties in using Ijārah in Uzbekistan

Answers		Frequency	Frequency	Valid (%)	Cumulative (%)
Valid	Yes	09	20	22.0	22.0
	No	32	71.1	78.0	100.0
	Total	41	89.1	100.0	
Missing answers		04	8.9		
Total		45	100.0		

Source: Authors Output from IBM SPSS, raw data from field survey.

While 78% of the professionals indicated that they are not aware that the implementation of Ijārah had encountered problems so far, most of those that are aware also suggested that the impediments in the application of the Islamic leasing mode also lie in the lack of legal framework which could appropriately define the product. This also reveals that the Uzbek legal framework concept mirrors much of what had been suggested through findings in Indonesia. In most cases, the government applies existing conventional law to accommodate Islamic banking products. As a result, the mismatch between the legal frameworks designed for the conventional bank system against the Islamic principles pertaining to Islamic banking products often makes for regulatory mismatches. It causes the inappropriateness of the current regulations to be adopted to regulate Islamic banking instruments. This has been evidenced by the respondents' commentary regarding the current mismatches regarding the leasing regulations that inappropriately define the Ijārah, as well as contradictions between the principles of Islamic and Uzbek law. Furthermore, as noted by R31 'Ijārah does not meet the requirement of the Law of The Republic of Uzbekistan about leasing, the main problem with this is that profit is made by charging an interest', which underlines that the greatest difficulties in the use of Ijārah is the lack of supportive and defining regulatory framework.

### Staff competency challenges for the proposed IFI in Uzbekistan

**TABLE 5:** The views of Professionals on the lack of staff competency for the proposed IFI

Answers	Frequency	Percent	Valid (%)
Yes	28	62.2	63.6
No	16	35.6	36.4
Total	44	97.8	100
Missing answers	1	2.2	
Total	45	100.0	

Source: Authors Output from IBM SPSS, raw data from field survey.

The majority of respondents (63%) suggested that there is a lack of competent staff for the proposed Islamic financial institutions in Uzbekistan. They are concerned with two factors: first, there has been a lack of Islamic banking establishments in Uzbekistan, hence the lack of

familiarity of the banking staff towards the unique nature of Islamic banking. Secondly, there are also issues regarding the lack of education of the workers and students regarding the proponents of Islamic banking. As noted by R27, study materials are scarce about Islamic banking and finance in Uzbekistan. As further outlined by R31, even in Higher Educational Institutions, Islamic banking education is only provided to Master level students and the number of hours taught is very limited. At the same time, the respondents also outlined that the lack of competent staff could be mitigated rather easily, remarking that banking specialists of conventional banks can be trained quickly, considering that Islamic bankers do not have to be religious or well-versed in Islamic jurisprudence.

### Possibility of Opening Islamic Banks and Windows

**TABLE 6:** The view of Professionals on the possibility of opening Islamic Banks and Windows

Answers	Frequency	Percent	Valid (%)	Cumulative (%)
Valid				
Yes	15	33.3	35.7	35.7
No	27	60.0	64.3	100.0
Total	42	93.3	100.0	
Missing answers	03	6.7		
Total	45	100.0		

Source: Authors Output from IBM SPSS, raw data from field survey.

Most respondents (64.3%) strongly believed that it would be infeasible for Islamic banks or windows to be opened in Uzbekistan under current market conditions. Instead of pointing out the challenges from conventional Uzbek banks and the lack of qualified human resources, the respondents are keener to point out the lack of Legal and Regulatory framework and infrastructure in the country that could be used to support Islamic banking operations in the country.

### Legal Obstacles for Setting up Islamic Financial Institutions in Uzbekistan

**TABLE 7:** The view of Professionals on the Existence of Legal obstacles to the setting up of IFI

Answers	Frequency	Per cent	Valid (%)
Valid			
Yes	29	64.4	74.4
No	10	22.2	25.6
Total	39	86.7	100.0
Missing answers	6	13.3	
Total	45	100.0	

Source: Authors Output from IBM SPSS, raw data from field survey.

Most respondents (64.4%) outlined that there are legal obstacles to setting up IFI in Uzbekistan, particularly because there are no regulations that could support the legal infrastructure for Islamic banking. Furthermore, there are also remarks that the current banking legislation in Uzbekistan needs to be more suitable to capture the operating essence and principles of Islamic banking institutions.

This outlook suggests that Uzbekistan is experiencing common problems in introducing Islamic banking. The country tends to adopt existing legal frameworks, which are suitable for regulating conventional banks. They are generally unsuitable for Islamic banking due to their inability to capture the unique operational principles of Islamic banking. Secondly, this problem could also be explained from point of view that in a secular country, most

regulations do not specifically focus on the establishment and operations of Islamic banks. This problem could be amplified by the fact that there is a limited market demand or lack of prominence of Islamic banking in the country. Furthermore, considering that the conventional regulatory framework in secular countries is not tailored to accommodate Islamic banking operations, it is common to see that the conventional legal framework contradicts the principles of Islamic banking.

### Licensing Issues under the Existing Regularity Framework

**TABLE 8:** The view of Professionals on the Capability of the Central Bank to Issue Licenses for Islamic Banks under the Existing Regulatory Framework

Answers	Frequency	Per cent	Valid (%)	Cumulative (%)
Yes	14	31.1	33.3	33.3
No	28	62.2	66.7	100.0
Total	42	93.3	100.0	
Missing answers	3	6.7		
Total	45	100.0		

Source: Authors Output from IBM SPSS, raw data from field survey.

The lack of proper legislation and regulatory framework also prompted the respondents to outline their doubt that the Central Bank of Uzbekistan will issue licences to Islamic banks under the existing regularity framework, and this is mostly caused by the fact that the current regulation in Uzbekistan is not accommodating for the establishment of Islamic banking operations. As summarized by R45, 'unlike conventional banking, Islamic Banking requires completely different sets of moral and ethical principles which need be supported by appropriate advisory and regulatory regimes.

The belief among respondents that the Central Bank of Uzbekistan is unlikely to issue licenses to Islamic banks under the current regulatory framework aligns with the challenges highlighted by and regarding the implementation of Islamic banking systems. However, one respondent (R6) proposed an alternative solution: the Central Bank of Uzbekistan could issue licenses if Islamic banking services were also regulated by a National Shari'ah Board. This board would outline the permissible Islamic banking operations, their scope, and the methodology to ensure compliance with local legislation.

### Challenges in Training Islamic Banking Experts in Uzbekistan

**TABLE 9:** Professionals' Views on the Capability of Educational Institutions to Train Islamic Banking Experts

Answers	Frequency	Percent	Valid (%)	Cumulative (%)
Yes	28	62.2	62.2	62.2
No	17	37.8	37.8	100.0
Total	45	100.0	100.0	

Source: Authors Output from IBM SPSS, raw data from field survey.

Regarding education, a significant majority (62.2%) of respondents believe that educational institutions in Uzbekistan are capable of training Islamic banking experts. Nonetheless, consistent with earlier findings about the shortage of competent staff for the proposed Islamic financial institutions (IFI) in Uzbekistan, respondents also expressed concerns that the lack of existing Islamic banking services might hinder the system's ability to attract and develop

adequately qualified human resources.

The views expressed by the respondents suggest parallels with the challenges identified in previous studies regarding the implementation of Islamic banking systems . However, one respondent (R6) proposed an alternative solution for enabling the Central Bank of Uzbekistan to issue licenses. This suggestion involves advocating for the regulation of Islamic banking services by a National Sharī'ah Board. According to this proposal, the National Sharī'ah Board would be tasked with defining permissible Islamic banking operations, determining their scope, and establishing methodologies to ensure alignment with local legislation.

Training Challenges for Islamic Banking Experts in Uzbekistan

TABLE 10: Professionals' Perspectives on the Ability of Educational Institutions to Train Islamic Banking Experts.

Answers		Frequency	Percent	Valid (%)	Cumulative (%)
Valid	Yes	28	62.2	62.2	62.2
	No	17	37.8	37.8	100.0
	Total	45	100.0	100.0	

Source: Authors Output from IBM SPSS, raw data from field survey.

Regarding education, there is a prevailing belief that educational institutions in Uzbekistan have the capacity to train experts in Islamic banking, demonstrated by the positive responses from 62.2% of the participants. However, in line with earlier findings highlighting the scarcity of qualified personnel for proposed Islamic Financial Institutions (IFIs) in Uzbekistan, respondents also expressed concerns about the shortage of Islamic banking services in the country. This shortage could potentially impede the availability of adequately skilled human resources for the system.

Government's Stance on Establishing Islamic Financial Institutions (IFIs) in Uzbekistan

TABLE 11: Professionals' Perspectives on Government Support for IFI Establishment

Answers		Frequency	Percent	Valid (%)
Valid	Yes	30	66.7	83.3
	No	6	13.3	16.7
	Total	36	80	100
Missing answers		9	20	
Total		45	100	

Source: Authors Output from IBM SPSS, raw data from field survey.

A slim majority of respondents (66.7%) are of the opinion that the Uzbekistani government will endorse the establishment of IFIs. This conviction stems from the observed rapid expansion of the Islamic banking sector and the potential for increased investment inflows into the country with the introduction of Islamic banking. For those respondents who doubt the government's support for IFI establishment in Uzbekistan, they emphasize the necessity for greater government involvement in the introduction of Islamic banking. Their concerns center on mitigating potential ideological conflicts arising from this introduction.

Government's Backing for IFI Establishment

Among the 30 professionals who anticipated government support for IFI establishment in

**TABLE 12:** Professionals' Assessment of Governmental Support Levels for IFI Establishment

Answers	Frequency	Valid (%)
Weak	5	17.2
Medium	19	65.5
Strong	5	17.2
Total	29	100.0
Missing answers	1	
Grand Total	30	

Source: Authors Output from IBM SPSS, raw data from field survey.

Uzbekistan, the majority (65.5%) perceived this support as being at a medium level. Additionally, 17.2% of respondents expressed belief in strong government support, while an equal proportion considered the support to be weak. Overall, most professionals concurred on the government's willingness to back the establishment of IFIs in Uzbekistan, thus indicating a limited necessity for remedial actions in case of inadequate government support.

The above findings show that the supply exists in Uzbekistan as follows:

1. 80% of the respondents think Islamic windows within conventional banks should be allowed in Uzbekistan.
2. 92.7% of the respondents think introducing the Islamic banking system in Uzbekistan was feasible.

## CONCLUSION

The study focused on implementing the Islamic banking system in Uzbekistan by establishing a supportive market. It comprehensively explored the enablers, opportunities, challenges, and solutions for this initiative, drawing lessons from other countries with established Islamic banking systems. Despite a large Muslim population, Islamic banking is absent in Uzbekistan. This research assessed whether there is sufficient demand and supply to initiate Islamic banking in the country. The findings indicate a substantial potential for both, but the challenge lies in creating market conditions to realize this potential. The research highlighted the government's challenges in setting up the market and provided empirical evidence supporting a positive outlook for Islamic banking. Key insights were derived from other countries' experiences with Islamic banking, offering useful guidance for Uzbekistan's policymakers. Since the research, regime changes have made Islamic banking more feasible. It is recommended to extend the research period to capture more recent data, considering the increased tolerance towards Islam in the government. The transparent procedure allows for replication and testing of predictions about the market's feasibility.

Future research should broaden its scope to include other Muslim-majority countries in Asia, such as Kazakhstan, Indonesia, and Belarus, to account for cultural and contextual variations. Comparative analyses of regulatory approaches and challenges in different regions will also be valuable. Benchmarking against successful implementations globally will provide further insights. The study acknowledges certain limitations, such as focusing on Uzbekistan's unique context, assuming substantial demand and supply based on current evidence, and relying mainly on empirical research and surveys. Future research should employ diverse methods, like case studies, to enhance robustness.

Implications for stakeholders include:

- Government: Revise the legal framework to accommodate Islamic financial institutions and collaborate with experienced international organizations like the Islamic Development Bank.

- Banks and Financial Institutions: Conduct feasibility studies, develop Sharī'ah-compliant products, and provide staff training.
- Research Community: Collaborate with local institutions, publish findings in international journals to contribute to global Islamic finance knowledge.

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