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Global Experiences in Islamic Finance an Insight for Uzbekistan

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ABSTRACT

This article provides an insight into the global experiences in Islamic finance and identifies opportunities and challenges for its integration in Uzbekistan. The study employs a qualitative approach, including a review of literature and analysis of secondary data sources. The findings highlight the growing global interest in Islamic finance, driven by its ethical principles and potential for financial inclusion. However, the lack of enabling regulatory framework, skilled human resources, and awareness among stakeholders pose significant challenges to its integration in Uzbekistan. The article recommends policymakers to take appropriate measures to create a conducive environment for the development of Islamic finance in the country.

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1. INTRODUCTION

Islamic finance has emerged as a rapidly growing sector in the global financial industry, offering an alternative to conventional finance based on interest-based transactions. With its emphasis on ethical and socially responsible investing, Islamic finance has gained significant popularity in many countries, including Muslim-majority nations and non-Muslim countries alike (Archer & Karim, 2017)[1]. The global Islamic finance industry is estimated to be worth around $2.88 trillion in 2020, with growth projected to continue in the coming years (IFSB, 2021)[2].

Uzbekistan, like many other countries, is looking to tap into the potential benefits of Islamic finance to promote economic growth and financial inclusion. The country has taken steps to develop its Islamic finance industry, including the establishment of the Islamic Finance and Capital Market Development Agency and the introduction of regulations on Islamic banking and finance (Kholmatov, 2021)[3]. However, the introduction of Islamic finance in Uzbekistan poses significant challenges, including a lack of awareness, regulatory frameworks, and necessary infrastructure.

Therefore, there is a strong case for Uzbekistan to effectively integrate Islamic finance into its financial system. By doing so, the country could potentially benefit from increased financial inclusion, diversification of the financial sector, and improved economic growth. However, to do this, Uzbekistan will need to address the challenges facing the Islamic finance industry, such as the lack of awareness, regulatory frameworks, and necessary infrastructure. This article aims to provide insights and recommendations for Uzbekistan to effectively integrate Islamic finance into its financial system, drawing on global experiences in Islamic finance.

Islamic finance has gained significant attention and popularity in recent years, with its ethical and socially responsible investment principles attracting a wide range of investors. The Islamic finance industry has experienced rapid growth, with assets under management estimated at $2 trillion globally (Mohd Ariff & Rosly, 2012)[4]. The industry has been resilient during financial crises, as observed during the 2008 global financial crisis, and has become a mainstream financial system in several countries worldwide.

Numerous studies have highlighted the positive impact of Islamic finance on economic growth, financial stability, and financial inclusion. Siddiqui and Hasan (2020)[5] found that Islamic finance can contribute to financial stability and economic growth, while Khan and Ahmed (2019)[6] highlighted the role of Islamic finance in promoting financial inclusion and reducing poverty.

In recent years, several countries have successfully integrated Islamic finance into their financial systems. Islamic finance has played a significant role in the development of the financial sector in countries such as Malaysia, Saudi Arabia, and the UAE. Malaysia, for example, has become a global hub for Islamic finance, with a comprehensive regulatory

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[1] Archer, S., & Karim, R. A. A. (2017). Islamic finance: A growing force in the global financial industry. Journal of Islamic Accounting and Business Research, 8(2), 166-179.
[2] IFSB. (2021). Islamic Financial Services Industry Stability Report 2021. Islamic Financial Services Board.
[3] Kholmatov, B. (2021). Challenges and Opportunities of Islamic Banking and Finance in Uzbekistan. Journal of Islamic Monetary Economics and Finance, 7(1), 93-114.
[4] Mohd Ariff, M., & Rosly, S. A. (2012). Islamic banking and finance in theory and practice: A survey of the state of the art. Journal of Islamic Banking and Finance, 29(3), 69-85.
[5] Siddiqui, A., & Hasan, M. K. (2020). The contribution of Islamic finance to financial inclusion and economic growth: Evidence from Malaysia. Journal of Islamic Accounting and Business Research, 11(3), 565-580.
[6] Khan, F., & Ahmed, H. (2019). Financial inclusion and poverty reduction through Islamic finance: A review of the literature. Journal of Islamic Accounting and Business Research, 10(1), 2-20.

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framework and a range of Shariah-compliant financial products and services (Haron & Ibrahim, 2019)[7]. In Malaysia, Islamic finance has contributed to financial stability and economic growth, as well as increased financial inclusion for underserved communities (Siddiqui & Hasan, 2020)[8]. Saudi Arabia and the United Arab Emirates (UAE) have also developed thriving Islamic finance industries, with supportive regulatory frameworks and a strong demand for Shariah-compliant financial products and services. In the UAE, Islamic finance has played a key role in diversifying the country's economy and attracting foreign investment (Elgari, 2021)[9]. These countries have implemented supportive regulatory frameworks and diversified their financial sectors, leading to significant economic growth (Obaidullah & Khan, 2008)[10].

The United Kingdom has also been promoting the development of Islamic finance through tax and regulatory incentives, including the introduction of Islamic bonds (sukuk) and the establishment of the UK Islamic Finance Council (Wilson, 2017)[11].

To promote the development of Islamic finance in Uzbekistan, the country could learn from the experiences of other countries that have successfully integrated Islamic finance into their financial systems. These experiences show that supportive regulatory frameworks, diversification of financial products, and financial literacy initiatives are critical to the growth of the Islamic finance industry. Additionally, collaboration between stakeholders, including regulators, financial institutions, and academics, is necessary for the successful integration of Islamic finance (Haron & Ibrahim, 2019)[12].

In summary, Islamic finance has gained significant popularity and has become a mainstream financial system in several countries worldwide. The industry has a positive impact on economic growth, financial stability, and financial inclusion. Uzbekistan has taken steps to develop its Islamic finance industry, but challenges such as a lack of awareness, regulatory frameworks, and necessary infrastructure must be addressed to promote its growth. To effectively integrate Islamic finance into its financial system, Uzbekistan can draw on the experiences of other countries and implement supportive regulatory frameworks, diversify financial products, and promote financial literacy initiatives.

3. METHODS

Islamic finance has emerged as a rapidly growing sector in the global financial industry, offering an alternative to conventional finance based on interest-based transactions. With its emphasis on ethical and socially responsible investing, Islamic finance has gained significant popularity in many countries, including Muslim-majority nations and non-Muslim countries alike (Archer & Karim, 2017)[13]. The global Islamic finance industry is estimated to be worth

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[7] Haron, S., & Ibrahim, S. H. (2019). Islamic finance: The Malaysian experience and its prospects. Journal of Islamic Accounting and Business Research, 10(4), 549-567.

[8] Siddiqui, M. N., & Hasan, M. N. (2020). Islamic finance in Malaysia: Current state and future prospects. Journal of Islamic Accounting and Business Research, 11(1), 2-16.

[9] Elgari, M. A. (2021). The development of Islamic finance in the United Arab Emirates. International Journal of Islamic and Middle Eastern Finance and Management, 14(1), 97-111.

[10] Obaidullah, M., & Khan, T. (2008). Islamic finance: An introduction. Thunderbird International Business Review, 50(4), 293-310.

[11] Wilson, R. (2017). Islamic finance in the UK: Regulation and challenges. Journal of Banking Regulation, 18(1), 22-32.

[12] Haron, S., & Ibrahim, K. (2019). The development of Islamic finance in Malaysia: Issues, challenges and future prospects. Journal of Islamic Accounting and Business Research, 10(2), 141-159.

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Islamic Finance

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Numerous studies have highlighted the positive impact of Islamic finance on economic growth, financial stability, and financial inclusion. Siddiqui and Hasan (2020)[17] found that Islamic finance can contribute to financial stability and economic growth, while Khan and Ahmed (2019)[18] highlighted the role of Islamic finance in promoting financial inclusion and reducing poverty.

In recent years, several countries have successfully integrated Islamic finance into their financial systems. Islamic finance has played a significant role in the development of the financial sector in countries such as Malaysia, Saudi Arabia, and the UAE. Malaysia, for example, has become a global hub for Islamic finance, with a comprehensive regulatory framework and a range of Shariah-compliant financial products and services (Haron & Ibrahim, 2019)[19]. In Malaysia, Islamic finance has contributed to financial stability and economic growth, as well as increased financial inclusion for underserved communities

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In summary, Islamic finance has gained significant popularity and has become a mainstream financial system in several countries worldwide. The industry has a positive impact on economic growth, financial stability, and financial inclusion. Uzbekistan has taken steps to develop its Islamic finance industry, but challenges such as a lack of awareness, regulatory frameworks, and necessary infrastructure must be addressed to promote its growth. To effectively integrate Islamic finance into its financial system, Uzbekistan can draw on the experiences of other countries and implement supportive regulatory frameworks, diversify financial products, and promote financial literacy initiatives.

4. RESULTS AND DISCUSSION

In recent years, interest in the Islamic financial system, which is developing rapidly and reliably maintaining the global financial position, has been increasing. New Islamic banks, insurance companies, and investment funds are being established, and even in non-Muslim countries, this system is gaining momentum.

Islamic finance is an inclusive field; its ideals are not unique to Islam, nor is its practice confined to Muslims. Just as monotheism is not exclusive to Islam, the ideas underlying “Islamic finance” and “Islamic economics” – including the prohibition of riba and the pursuit of economic justice – are not necessarily exclusive to Islam. Similar dos and don’ts are found in other religions, including the other two Abrahamic faiths, Judaism and Christianity, that predate Islam. The practice of Islamic finance is also not exclusive to Muslims. Non-Muslims are also participating in Islamic finance in different capacities, including as entrepreneurs,

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[20] Siddiqui, M. N., & Hasan, M. N. (2020). Islamic finance in Malaysia: Current state and future prospects. Journal of Islamic Accounting and Business Research, 11(1), 2-16.
[21] Elgari, M. A. (2021). The development of Islamic finance in the United Arab Emirates. International Journal of Islamic and Middle Eastern Finance and Management, 14(1), 97-111.
[22] Obaidullah, M., & Khan, T. (2008). Islamic finance: An introduction. Thunderbird International Business Review, 50(4), 293-310.
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[24] Haron, S., & Ibrahim, K. (2019). The development of Islamic finance in Malaysia: Issues, challenges and future prospects. Journal of Islamic Accounting and Business Research, 10(2), 141-159.

business partners, professionals, investors, customers, and thought leaders (Usman Hayat and Adeel Malik 2014)[25].

The growth of Islamic banks in Muslim and non-Muslim countries is increasing, and Islamic finance, especially banking, has become one of the fastest growing financial sectors in the world today. Currently, there are more than 500 Islamic banks worldwide. The main centers of Islamic banking are mainly located in the Middle East and Asia: Iran, Kuwait, Saudi Arabia, and the United Arab Emirates, as well as in Malaysia and Indonesia.

While Bahrain was previously considered the "capital" of the Islamic finance system, Malaysia has taken this leadership role in recent years. Currently, both traditional banks and Islamic banks are operating in Malaysia's banking system. The first Islamic financial institution in Malaysia was established in 1963, known as the Pilgrims Fund Corporation (now Tabung Haji), which is responsible for collecting, managing, and investing the funds of Muslims who intend to perform the Hajj pilgrimage. This organization has been very successful and played a significant role in the establishment of the first Islamic bank in Malaysia in 1983. Malaysia is considered the most advanced country in the Islamic finance sector due to its complete legal framework for Islamic finance and banking, the size of its Islamic banking sector, the volume of the Sukuk market (Islamic bonds), its programs for education and training in Islamic finance, and the overall infrastructure of Islamic finance. The Bursa Malaysia exchange is considered the world's largest exchange for Sukuk listings.

According to the "Money gate" report on the best and largest Islamic banks in the world for 2022, "Al Rajhi Bank" of Saudi Arabia and "Dubai Islamic Bank" of the United Arab Emirates took the top places. "Kuwait Finance House" was among the top three.[26]

Table 1. The best and largest Islamic banks in the world in 2022.

Rank	Name of Bank	Country	Assets USD million	Net income USD million
1	Al Rajhi Bank	Saudi Arabia	97.298	12.943
2	Dubai Islamic Bank	UAE	60.899	8.566
3	Kuwait Finance House	Kuwait	58.515	6.236
4	Alinma Bank	Saudi Arabia	32.398	5.677
5	Qatar Islamic Bank	Qatar	42.088	5.334
6	Abu Dhabi Islamic Bank	UAE	34.085	4.826
7	Bank Rakyat	Malaysia	25.846	4.322
8	Masraf Al Rayan	Qatar	26.723	3.647
9	Bank AlJazira	Saudi Arabia	19.460	2.997
10	Maybank Islamic	Malaysia	54.459	2.534

Al Rajhi Bank of Saudi Arabia tops the list of the largest Islamic banks in the world with assets valued at 97.298 USD million and a net income of 12.943 USD million. Dubai Islamic Bank comes in at number two with assets worth 60.899 USD million and a net income of 8.566 USD million. Kuwait Finance House takes the third spot with assets valued at 58.515 USD million and a net income of 6.236 USD million. Alinma Bank is ranked fourth with assets worth 32.398 USD million and a net income of 5.677 USD million. Qatar Islamic Bank has assets worth 42.088 USD million and a net income of 5.334 USD million, making it the 5th largest Islamic bank in the world in 2022. Abu Dhabi Islamic Bank has assets worth 34.085 USD million and a net income of 4.826 USD million, putting it in 6th place on the list. Bank Rakyat takes

[25] Usman Hayat and Adeel Malik: “Islamic Finance: Ethics, Concepts, Practice”. 2014.
[26] https://money-gate.com/largest-islamic-banks-in-the-world/

the seventh spot with assets worth 25.846 USD million and a net income of 4.322 USD million. Masraf Al Rayan is ranked eighth with assets worth 26.723 USD million and a net income of 3.647 USD million. Bank AlJazira comes in at number nine with assets worth 19.460 USD million and a net income of 2.997 USD million. Maybank Islamic is ranked tenth with assets valued at 54.459 USD million and a net income of 2.534 USD million.

The increasing number and income of the world's Muslim population, the stability of the Islamic financial system compared to conventional financial systems, the interest of the world's peoples in Islamic banks and, in general, the Islamic religion, and a number of other factors have made the importance of the Islamic financial system grow day by day. Islamic finance institutions have begun operating not only in the Middle East and Asia, but also in other non-Muslim countries, even in Western and North American states. For example, in the US, JP Morgan, The Bank of Whittier, American Finance House, Standard Chartered Islamic Banking, and others provide financial services that comply with Sharia requirements. In the UK, Islamic Bank of Britain, European Islamic Investment Bank, HSBC, Halal Mortgages, and other commercial banks provide financial services that comply with Sharia requirements. The issuance of Sukuk bonds by countries such as the UK, Hong Kong, and South Africa, as well as the $500 million capital raised by non-Muslim countries through Sukuk bonds issued by Goldman Sachs investment bank in the US, indicates the growing interest of non-Muslim countries in Islamic finance.

In 2013, during the 9th World Islamic Economic Forum (WIFE) held in London, former British Prime Minister David Cameron stated, “Today our ambition is to go further still. Because I don't just want London to be a great capital of Islamic finance in the western world; I want London to stand alongside Dubai as one of the great capitals of Islamic finance anywhere in the world. Some countries have a tendency to look inward, raise the drawbridge and refuse to recognize how the changing world will affect their future success. But Britain will not make that mistake”.[27]*Islamic Banking Share in Total Banking Assets by Jurisdiction (%) (2021)*[28]

[27] https://www.theguardian.com/money/2013/oct/29/islamic-bond-david-cameron-treasury-plans

[28] ISLAMIC FINANCIAL SERVICES INDUSTRY STABILITY REPORT 2022. Published by: Islamic Financial Services Board.

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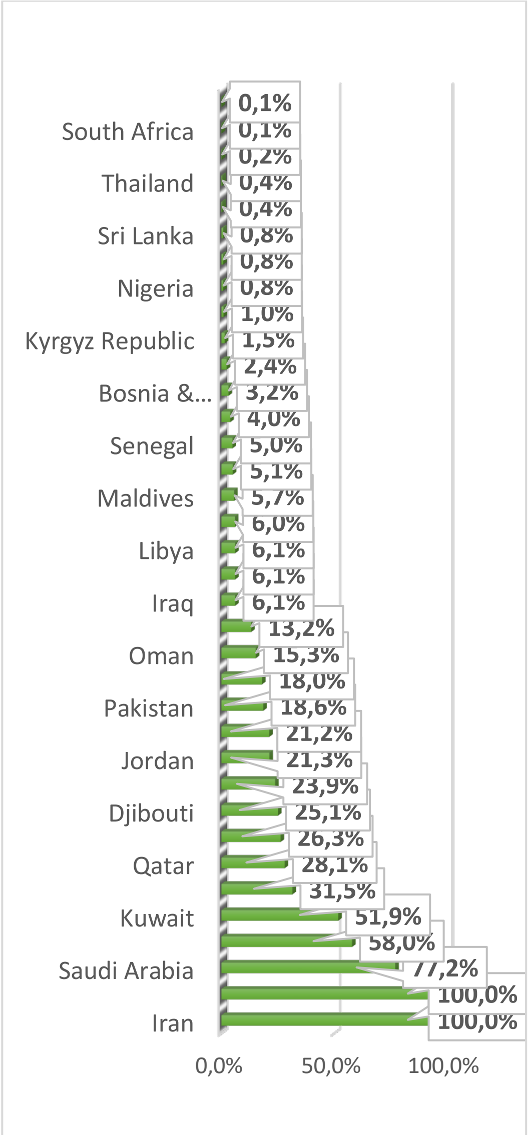

The Islamic Banking Share in Total Banking Assets by Jurisdiction (%) (2021) is a report that shows the percentage of Islamic banking assets in relation to total banking assets in different countries around the world. According to the report, the countries with the highest percentage of Islamic banking assets are Iran and Sudan, with 100% of their total banking assets being made up of Islamic banking. Saudi Arabia follows closely behind with 77.2%, and Brunei with 58%. Other countries with high percentages include Kuwait at 51.9%, Malaysia at 31.5% and Qatar at 28.1%. The countries with the lowest percentages include Kazakhstan at 0.2%, South Africa at 0.1%, and the UK at 0.1%.

According to "The Banker" report, in 2021, the Middle East and Central Asian countries were among the fastest-growing regions in terms of assets in accordance with Sharia law.[29]

Table 2. Fastest growing regions by sharia-compliant assets.

Rank	Country	Sharia-compliant assets ($m)	Year-on-year % change
1	Middle East	935,407	15.16
2	Central Asia	113	12.66
3	Asia-Pacific	347,994	5.58

[29] https://www.thebanker.com/Markets/Islamic-Finance/The-Banker-s-Top-Islamic-Financial-Institutions-2022?ct=true

4	North America	1104	3.52
5	Africa	12,881	-3.61

According to the data provided, the Middle East ranks first with Sharia-compliant assets of $935,407 million in 2021, which represents a year-on-year growth of 15.16%. Central Asia ranks second with $113 million in Sharia-compliant assets and a year-on-year growth of 12.66%. Asia-Pacific ranks third with $347,994 million in Sharia-compliant assets, showing a year-on-year growth of 5.58%. North America ranks fourth with $1,104 million in Sharia-compliant assets and a year-on-year growth of 3.52%. Finally, Africa ranks fifth with $12,881 million in Sharia-compliant assets, but with a year-on-year decrease of 3.61%.

The above chart shows that Central Asian countries are also joining the ranks of countries where Islamic finance is being introduced and developed at a slow pace. Islamic banks have been established in Tajikistan, Kazakhstan, and Kyrgyzstan, which are neighboring countries of Uzbekistan. Considering their ethnic composition, geographical location, and language similarities, comparing them can be a useful tool for learning from their experiences in implementing Islamic finance in Uzbekistan.

Comparing the experience and performance of Tawhid bank in Tajikistan with upcoming Islamic banks in Uzbekistan can provide valuable insights for the development of the Islamic finance industry in Uzbekistan. Tawhid bank was the first Islamic financial institution established in Tajikistan, and it has been operating for over two decades, gaining valuable experience and knowledge about the challenges and opportunities of operating in a country with a predominantly Muslim population. By examining the development of Tawhid bank in Tajikistan, Uzbekistan can gain insight into the regulatory framework, market demand, and other factors that are critical for the success of Islamic banking in the country. The comparison can also help identify the best practices and strategies that Tawhid bank has implemented to overcome the challenges and capitalize on the opportunities in Tajikistan.

The “Tawhid” bank established in Tajikistan is considered the country's first Islamic financial bank. The bank was founded on August 24, 1999, as the “Entrepreneurship Development and Support Joint-Stock Commercial Bank” and was re-established under the name “Sohibkorbank” on May 22, 2002. Since its inception, the bank has been recognized as an active, reliable, and steady participant in the country's financial services market. In July 2019, the bank changed its name to "Tawhidbank" and has been operating as the first Islamic bank in Tajikistan since September 16, 2019.

According to the results of 8 months of 2022, Tawhidbank earned 13,65 million somoni of net profit. The Bank's assets amounted to 238.6 million somoni. The liquidity ratio of the NBT: K2.1 as of 31/08/2022 amounted to 106,99% (with a regulatory minimum of 40% for Islamic banks). Capital adequacy ratio K1.1 - 56,0% (with the NBT's regulatory minimum of 12%). The balance of the financing portfolio amounted to 61,8 million somoni and increased by 224%. The balance of the bank's deposit portfolio for the reporting period is 64,02 million somoni. Term deposits mudaraba showed an increase of 14,9 times, compared to 2021. Positive ROA (Return on Assets) and ROE (Return on Equity) indicators amounted to 5,7% and 11,5%, respectively. Earnings per share (EPS) increased by 9,2 p.p. compared to 2021 and reached 16.07% in 2022. The bank's client base has a growing trend for both corporate and retail clients and has reached almost 30,000. Compared to the same period of last year, growth was demonstrated by 2,3 times.[30]

[30] https://tawhidbank.tj/files/en/Bank%20results%20310822.pdf

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The comparison can highlight the areas where Uzbekistan's upcoming Islamic banks can potentially excel and differentiate themselves from Tawhid bank, given the differences in the market, regulatory environment, and other factors. This could include innovative product offerings, technology adoption, or other areas where Uzbekistan can leverage its unique strengths and competitive advantages.

Overall, while there are some differences between the experiences of Tawhid Bank in Tajikistan and the future Islamic banks in Uzbekistan, both institutions are part of the wider trend of Islamic finance growth and development in Central Asia. As such, they will likely face similar opportunities and challenges as they seek to establish themselves in their respective markets.

The Islamic banking sector saw a significant improvement in profitability in the year 2021, according to the latest rankings. Out of the 204 banks evaluated, only a small number of them recorded an annual loss, with a significant number reporting pre-tax profits exceeding 100 million USD. This demonstrates a shift towards better financial performance in the sector. It is also worth noting that sharia-compliant banks have consistently shown higher profitability compared to conventional banks. The return on assets (ROA) for sharia-only institutions in the 2021 rankings was 1.43%, which is nearly double the ROA of the global banking industry. This highlights the strong financial performance of the Islamic banking sector and its potential for continued growth and success in the future.

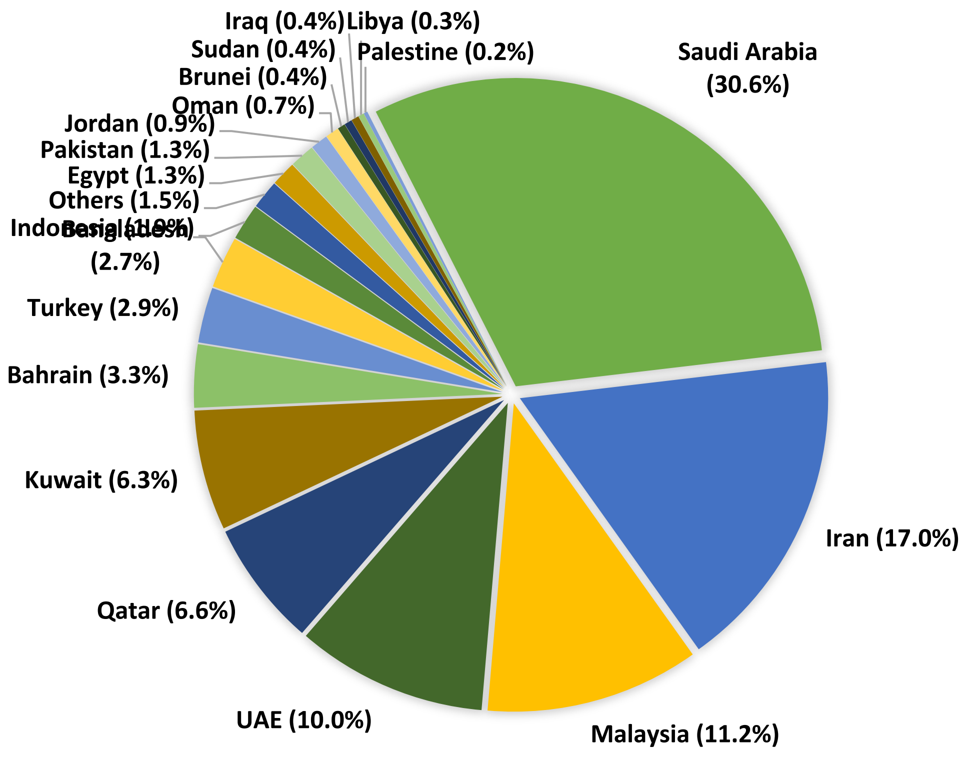

Figure 2. Jurisdiction Share of Global Islamic Banking Assets (%) (2021)

The above data shows the share of global Islamic banking assets by jurisdiction, as of 2021. According to the report, Saudi Arabia holds the largest share of global Islamic banking assets at 30.6%, followed by Iran with 17.0%. Malaysia, UAE, and Qatar also have a significant share of the global Islamic banking assets at 11.2%, 10.0%, and 6.6% respectively. Together, these top five jurisdictions account for 75.4% of global Islamic banking assets. Other notable

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jurisdictions with a significant share of global Islamic banking assets include Kuwait, Bahrain, Turkey, Bangladesh, and Indonesia. They also hold a significant share of assets, ranging between 6.3% to 1.9%. The remaining share of global Islamic banking assets is distributed among Egypt (1.3%), Pakistan (1.3%), Jordan (0.9%), Oman (0.7%), Brunei (0.4%), Sudan (0.4%), Iraq (0.4%), Libya (0.3%), Palestine (0.2%) and other countries.

According to experts in the field, the Islamic financial system is expected to continue to grow at a significant pace in the coming years. The increasing number of new organizations joining the Islamic financial institutions and the growing number of states adopting Islamic financial laws indicate the broad prospects of this system.

Opportunities and Challenges

Islamic finance can provide significant opportunities for Uzbekistan, including attracting investment from the Middle East and tapping into the vast Muslim consumer market. Furthermore, it can promote financial inclusion and equitable financial services for all segments of the population. Additionally, Islamic finance can provide a way for Uzbekistan to tap into the vast Muslim consumer market, estimated to be worth trillions of dollars

Several studies have highlighted the opportunities and challenges of Islamic finance in various countries. For example, Miah et al. (2019)[31] examined the growth and development of Islamic finance in Bangladesh and identified several challenges, including the lack of awareness and understanding of Islamic finance among the general public and the shortage of skilled human resources. In contrast, Iqbal and Mirakhor (2007)[32] discussed the opportunities presented by Islamic finance, such as promoting economic growth, financial stability, and social justice.

However, there are also challenges that need to be addressed in order to fully integrate Islamic finance into the Uzbekistan financial system. One of the challenges is the lack of understanding of Islamic finance among the general public, which could hinder the demand for Islamic financial products (Khan & Mirakhor, 2017)[33]. The shortage of skilled professionals with knowledge and experience in Islamic finance is another challenge that needs to be addressed (Majeed & Rehman, 2019)[34].

In summary, while Islamic finance presents significant opportunities for Uzbekistan's economic growth and financial inclusion, there are also challenges that need to be addressed. Learning from the experiences of other countries and implementing supportive regulatory frameworks, diversified financial products, and financial literacy initiatives can help Uzbekistan successfully integrate Islamic finance into its financial system.

5. CONCLUSION

In conclusion, the integration of Islamic finance into Uzbekistan's financial system presents both opportunities and challenges. While there are significant potential benefits, such as

[31] Miah, M. D., Islam, M. A., Islam, R., & Karim, M. A. (2019). Growth and Development of Islamic Finance in Bangladesh: Opportunities and Challenges. South Asian Journal of Social Sciences and Humanities, 2(4), 247-262.
[32] Iqbal, M., & Mirakhor, A. (2007). Economic impact of Islamic finance and development. Islamic Finance: Innovation and Growth, 51-65.
[33] Khan, T., & Mirakhor, A. (2017). Islamic finance: challenges and opportunities. Islamic Development Bank Group.
[34] Majeed, S., & Rehman, A. (2019). Challenges and Opportunities for Islamic Finance Education in Pakistan. Journal of Islamic Banking and Finance, 36(2), 66-74.

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attracting investment from the Middle East and tapping into the vast Muslim consumer market, there are also obstacles that need to be addressed.

Islamic finance in Uzbekistan faces significant challenges, particularly in terms of the regulatory framework and the dominance of conventional banking. As noted by Nugmanova and Khodjaeva (2021)[35], the regulatory framework for Islamic finance is still in its early stages of development and requires further refinement to ensure compatibility with existing legal and regulatory frameworks. Additionally, as highlighted by Azamov and Karimov (2020)[36], the conventional banking industry dominates Uzbekistan's financial system, which may lead to resistance to the introduction of Islamic finance.

To successfully integrate Islamic finance, policymakers must take a proactive approach to create a supportive environment for the industry. This includes the development of a comprehensive regulatory framework, the cultivation of a skilled workforce with expertise in Islamic finance, and the promotion of awareness and understanding among stakeholders. Additionally, partnerships with established Islamic finance institutions can help to overcome challenges and facilitate knowledge sharing and capacity building.

By implementing these measures, Uzbekistan can unlock the potential of Islamic finance to promote economic development and financial inclusion. The lessons learned from the experiences of other countries can inform Uzbekistan's approach to Islamic finance and help to create a sustainable and vibrant Islamic finance industry.

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