

THE ROLE AND IMPORTANCE OF ISLAMIC FINANCING IN POVERTY REDUCTION IN UZBEKISTAN

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Abstract: This article analyzes the importance of Islamic finance in Uzbekistan and its integration into the financial system. The principles of Islamic finance based on Sharia rules and their contribution to socio-economic stability are studied. For Uzbekistan, Islamic finance is gaining great importance not only as a new financial instrument, but also as a means of ensuring financial inclusion for the poor in the country. The article covers the current situation, development prospects and main problems of Islamic finance.

Key words: Islamic finance, Uzbekistan Islamic bank, poverty alleviation, sharia, financial inclusion, social justice.

Аннотация: В данной статье анализируется важность исламских финансов в Узбекистане и их интеграция в финансовую систему. Изучены принципы исламских финансов, основанные на правилах шариата, и их вклад в социально-экономическую стабильность. Для Узбекистана исламские финансы приобретают большое значение не только как новый финансовый инструмент, но и как средство обеспечения финансовой доступности для бедных слоев населения в стране. Статья охватывает текущую ситуацию, перспективы развития и основные проблемы исламских финансов.

Ключевые слова: исламские финансы, исламский банк Узбекистана, сокращение бедности, шариат, финансовая доступность, социальная справедливость.

INTRODUCTION

Islamic finance is founded on principles that ensure not only financial stability but also promote environmental and social responsibility. Central to this system is the belief that humans are trustees (khalifah) of Allah's resources and must maintain a universal balance (al-Meezan) by avoiding wastefulness (Israaf) and extravagance (tabzeer). It encourages a balanced (Wassatiyah) approach to life, including business and consumption. Islamic finance strictly prohibits interest (riba) and gambling, enforcing ethical financial practices through Shariah-based moral screening to uphold social justice, harmony, and solidarity (Al Adel wal Ihsan). The Maqasid al-Shariah framework integrates religious, social, economic, and environmental goals to safeguard the well-being of current and future generations.

Islamic finance operates under Shariah-compliant practices that prohibit usury (riba) and excessive uncertainty (gharar), emphasizing social justice and sustainable development over mere profit maximization. This system favors interest-free loans, entrepreneurship-supporting investments, and social welfare initiatives, thereby contributing to a more equitable and resilient economy.

The importance of Islamic finance is increasingly evident not only for Muslim communities but also as a growing global financial instrument for various sectors of the world economy. Today, Islamic finance occupies a significant portion of the global financial market, and its scope continues to expand annually. For example, in 2022, assets owned by Islamic finance exceeded \$3.5 trillion in total financial assets [1, p. 15].

Islamic finance plays an important role as a means of ensuring financial inclusion in Uzbekistan. For the underprivileged and those without access to financial services, Islamic finance is aimed at reducing poverty and ensuring social stability [2, p. 35].

Core Islamic finance products include Ijara (leasing), Murabaha (trade financing), and Islamic leasing services provided through banks and microfinance institutions.

Islamic Leasing:

- In 2023, specialized leasing companies (such as Uzbekleasing) managed an Islamic leasing portfolio of approximately USD 30 million.
- The main instrument is Ijara (operating lease or financial lease structured in accordance with Islamic principles).

External financing through the IDB and ICD:

- A total of over USD 500 million has been approved under various programs (2019–2023).

Includes:

- Water supply and infrastructure projects (approximately USD 300 million)
- Lines of credit for SMEs (over USD 200 million)

Since 2020, significant attention has been given to the development of Islamic finance in Uzbekistan's economy. During this period, state programs have been developed to attract local investments and support entrepreneurship through Islamic financial instruments. The activities of Islamic banks and financial institutions are being established, which helps to deliver financial resources to all segments of the population in the country [1, p. 6].

One of the main objectives of the Islamic finance system is to provide financial support to low-income segments of the population. To achieve this goal, interest-free financial instruments such as *Qard al-Hasan* have been developed. Under this arrangement, the bank provides a loan to the client based on a loan agreement, and the client, in turn, undertakes the obligation to repay the loan on time. *Qard al-Hasan* is offered as financial assistance to individuals facing economic difficulties. This instrument is aimed at ensuring social justice and promoting financial inclusion for all segments of the population [3, p. 48].

The expansion of Islamic finance in Uzbekistan can play a significant role in providing financial services to the most vulnerable segments of the population. This not only expands opportunities for low-income groups but also has a positive impact on the country's economy [2, p. 7].

Islamic finance is considered one of the financial systems successfully applied in many countries. For example, Malaysia, Indonesia, the UAE, and Saudi Arabia are leading countries in the field of Islamic finance. In these countries, Islamic finance is integrated with the global financial system, thereby ensuring economic stability and social justice [4, p. 63].

Uzbekistan can also take direction from international experience in developing Islamic finance. For example, Malaysia's successful experience in the field of Islamic finance can serve as a model for Uzbekistan. In Malaysia, the Islamic finance system has not only ensured financial inclusion within the country but also strengthened its position in the international financial market [4, p. 68].

Attracting international investments is of great importance for the expansion of Islamic finance in Uzbekistan. Cooperation with international Islamic financial institutions, including implementing various projects for attracting investments and expanding financial services, can be carried out. Through collaboration with the Islamic Development Bank and other international Islamic financial organizations, the financial system in Uzbekistan can be further developed [1, p. 45].

From 2019 to 2023, more than \$200 million was attracted in Uzbekistan through the Islamic Development Bank and ICD (Islamic Corporation for the Development of the Private Sector) credit lines for financing SMEs, trade, and infrastructure. In 2022, a \$100 million agreement was signed with the ICD to provide Islamic financing to the private sector.

By 2022–2023, the ICD (Islamic Corporation for the Development of the Private Sector) allocated over \$175 million in capital and credit lines to Uzbekistan. In the country, the ICD portfolio includes financing through “Hamkorbank”, “Asaka” Bank, and “Uzsanoatqurilishbank” (for Islamic window operations).

As of 2023, the total portfolio of Islamic products through the Windows amounted to approximately 50–60 million US dollars.

There are a number of challenges hindering the widespread adoption of Islamic finance as a means of financing in Uzbekistan:

1. One of the main factors hindering the expansion of Islamic finance in Uzbekistan is the lack of sufficient legal and financial foundations. Legal regulations and financial mechanisms need to be developed to promote the growth of Islamic finance. This process requires cooperation between specialists in the financial sector and government institutions [2, p. 72].

2. Low awareness about Islamic finance — the lack of information and knowledge about the Islamic finance system is also one of the factors hindering its expansion. Many segments of the population do not have complete information about the benefits of Islamic finance and how to use it. Therefore, it is necessary to implement a number of initiatives to increase awareness about Islamic finance [5, p. 88].

To increase awareness about Islamic finance, it is essential to strengthen education and information efforts. Enhancing knowledge in this field and widely promoting the benefits of Islamic finance among the population can help achieve financial inclusion. Special attention should also be given to the training of specialists in the field of Islamic finance [2, p. 75].

In conclusion, it can be emphasized that the development of Islamic finance in Uzbekistan plays an important role in ensuring financial inclusion, reducing poverty, and achieving social justice. Islamic finance is viewed not only as a financial tool but also as a means aimed at promoting economic stability and social well-being in the country. By utilizing development prospects and international experience, the role of Islamic finance in Uzbekistan is expected to grow further in the future.

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