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### STRUCTURAL DYNAMICS OF ISLAMIC MICROFINANCE WITHIN UZBEKISTAN'S DUALISTIC FINANCIAL SYSTEM



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**Abstract.** *This study analyzes the structural integration of Islamic microfinance into Uzbekistan's dualistic financial system following the 2024 CBU regulatory reforms. Using empirical data from the Central Bank's 2024 Annual Report, the research evaluates the distribution of Shariah-compliant instruments through the lens of "Incremental Implementation" theory.*

*The results identify a profound contractual concentration: Murabaha dominates the market with a 99.34% share (1,117.0 million UZS), while Ijarah accounts for only 0.66%, and participatory models (Musharaka) remain unused. This "contractual skew" indicates that while the system successfully mobilizes dormant capital, it remains focused on retail consumption rather than production-based risk-sharing.*

*The study concludes that to achieve the "Uzbekistan – 2030" goals, the ecosystem must transition from trade-based installments to digitalized equity models. "Fintech-ization" is identified as the key driver for diversifying the dualistic model and supporting sustainable SME growth.*

**Keywords:** *Islamic Finance, Uzbekistan, Dualistic Financial System, Murabaha, Microfinance, CBU, Financial Inclusion, Fintech.*

**Annotatsiya.** *Ushbu tadqiqot 2024-yilda Markaziy bank tomonidan amalga oshirilgan tartibga solish islohotlaridan so'ng O'zbekistonning dualistik moliyaviy tizimiga Islom mikromoliyalashtirishining tarkibiy integratsiyasini tahlil qiladi. Markaziy bankning 2024-yilgi yillik hisobotidan olingan empirik ma'lumotlardan foydalangan holda, tadqiqot shariatga mos keladigan vositalarning taqsimlanishini "Oldindan amalga oshirish" nazariyasi nuqtai nazaridan baholaydi.*

*Natijalar chuqur shartnomaviy konsentratsiyani aniqlaydi: Murabaha bozorda 99,34% ulush (1 117,0 million so'm) bilan hukmronlik qiladi, Ijara esa atigi 0,66% ni tashkil qiladi va ishtirokchi modellar (Musharaka) ishlatilmayapti. Ushbu "shartnomaviy qiyshiqlik" shuni ko'rsatadiki, tizim uxlab yotgan kapitalni muvaffaqiyatli safarbar qilsa-da, u ishlab chiqarishga asoslangan tavakkalchilikni taqsimlashdan ko'ra chakana iste'molga qaratilganligicha qolmoqda.*

*Tadqiqot "O'zbekiston – 2030" maqsadlariga erishish uchun ekotizim savdoga asoslangan to'lovlardan raqamli kapital modellariga o'tishi kerak degan xulosaga keladi. "Fintechizatsiya" dualistik modelni diversifikatsiya qilish va KO'Bning barqaror o'sishini qo'llab-quvvatlashning asosiy omili sifatida aniqlangan.*

**Kalit so'zlar:** *Islom moliya, O'zbekiston, Dualistik moliyaviy tizim, Murabaha, Mikromoliya, Markaziy bank, Moliyaviy inklyuzivlik, Fintech.*

**Аннотация.** В данном исследовании анализируется структурная интеграция исламского микрофинансирования в дуалистическую финансовую систему Узбекистана после регуляторных реформ Центрального банка Узбекистана 2024 года. Используя эмпирические данные из годового отчета Центрального банка за 2024 год, исследование оценивает распределение инструментов, соответствующих шариату, с точки зрения теории «поэтапного внедрения».

Результаты выявляют глубокую концентрацию договорных обязательств: мурабаха доминирует на рынке с долей 99,34% (1 117,0 млн сумов), в то время как иджара составляет всего 0,66%, а модели участия (мушарака) остаются неиспользованными. Этот «контрактный перекосяк» указывает на то, что, хотя система успешно мобилизует неиспользуемый капитал, она по-прежнему ориентирована на розничное потребление, а не на распределение рисков на основе производства.

В заключение исследования говорится, что для достижения целей «Узбекистан – 2030» экосистема должна перейти от торговых платежей к цифровым моделям долевого участия. «Финтехизация» определена как ключевой фактор диверсификации дуалистической модели и поддержки устойчивого роста МСП.

**Ключевые слова:** исламские финансы, Узбекистан, дуалистическая финансовая система, мурабаха, микрофинансирование, ЦБУ, финансовая инклюзия, финтех.

### **Introduction**

The global financial landscape is currently witnessing a significant shift toward ethical and alternative finance models, driven by the need for greater financial resilience and social responsibility. In the Republic of Uzbekistan, this evolution is intrinsically linked to the "Uzbekistan – 2030" Strategy, which prioritizes the diversification of the financial market and the enhancement of financial inclusion. Despite the robust growth of the conventional banking sector, a substantial portion of the population remains outside the formal economy due to religious and ethical preferences. This "participation gap" has necessitated the formation of a dualistic financial system, where Shariah-compliant instruments operate alongside traditional interest-based banking.

The transition to a dualistic model is not merely a regulatory adjustment but a structural transformation of the alternative financial ecosystem. As highlighted in the Central Bank of Uzbekistan (CBU) Annual Report (2024), the legal authorization for Non-Bank Credit Organizations (MFOs) to provide Islamic financial services marked a critical milestone. Between August and December 2024, the sector mobilized approximately 1.1 billion UZS through various Shariah-compliant contracts. However, the initial phase of this integration shows a heavy reliance on trade-based instruments, raising questions about the long-term structural dynamics and the maturity of the market.

Contemporary scholarship, notably Kamali (2023) and Hassan & Rabbani (2022), suggests that the success of such systems depends on the balance between "debt-like" instruments (e.g., Murabaha) and "equity-based" models (e.g., Musharaka). In the Uzbek context, the current dominance of Murabaha—accounting for nearly the entire volume of Islamic microfinancing—reflects a "path dependency" common in emerging markets. This study aims to analyze the factors influencing this structural skew, evaluate the role of

fintech-led innovations in accelerating the shift toward a more diversified, and stable alternative financial ecosystem. By synthesizing CBU empirical data with international academic frameworks, the research provides a strategic roadmap for the sustainable development of the dualistic model in Central Asia.

### *Methods*

The methodology of this research is grounded in a descriptive and analytical evaluation of the emerging Islamic microfinance landscape in Uzbekistan. To ensure empirical validity, the study primarily utilizes quantitative data extracted from the Central Bank of the Republic of Uzbekistan (CBU) Annual Report for the 2024 fiscal year. Specifically, the research conducts a structural analysis of the figures presented in the report's statistical sections regarding the volume of Shariah-compliant services. By isolating the performance data from August to December 2024, the study establishes a baseline for the development of the national dualistic financial system. This dataset serves as the primary evidence for evaluating the mobilization of alternative capital within the country's newly established regulatory framework.

To interpret the structural distribution of these financial flows, the study employs a comparative framework that categorizes Islamic contracts based on their underlying economic nature. The total volume of 1.1 billion UZS is disaggregated into trade-based, leasing-based, and equity-based instruments to identify the presence of contractual concentration. This classification is essential for determining whether the alternative financial ecosystem is fulfilling its role of providing diversified financial solutions or merely replicating conventional credit patterns. By calculating the market share of each instrument, the study identifies the specific areas where institutional capacity and consumer demand are most aligned, as well as the sectors that remain underdeveloped.

The analytical depth of the research is further enhanced by integrating contemporary theoretical models of Islamic financial development. The study applies the Digital Islamic Finance Maturity Model to assess the influence of technological integration on contract selection. Furthermore, the analysis is viewed through the lens of the "Objectives of Shariah" (Maqasid) framework as articulated in recent scholarship from 2023 to 2025. This allows for a critical assessment of how the current dominance of Murabaha aligns with the socio-economic goals of the "Uzbekistan – 2030" Strategy. By synthesizing official regulator data with these academic frameworks, the methodology provides a rigorous foundation for discussing the transition from a trade-centric model to a comprehensive, risk-sharing financial architecture.

### *Results*

The empirical data provided by the Central Bank of Uzbekistan (CBU) for the 2024 fiscal year reveals the initial footprint of the Islamic microfinance sector within the national dualistic financial model. Following the regulatory activation in August 2024, the market demonstrated a rapid mobilization of Shariah-compliant capital, reaching a total volume of 1,124.4 million UZS by December 2024. This initial capitalization indicates a high latent demand for interest-free financing products, successfully integrating a previously unbanked segment into the formal financial ecosystem during the first five months of pilot implementation.

However, the structural composition of this growth exhibits an extreme contractual concentration toward trade-based instruments as evidenced by the statistical reporting. Murabaha (cost-plus-sale) emerged as the absolute market leader, accounting for 1,117.0 million UZS, which represents approximately 99.34% of the total Islamic microfinance volume. In sharp contrast, Ijarah (Islamic leasing) reached only 7.4 million UZS, contributing a marginal 0.66% share to the overall portfolio. Notably, the CBU reporting indicates zero utilization of participatory or equity-based instruments such as Mudaraba and Musharaka during this period, despite their availability within the normative-legal framework.

These findings, derived from the data in the CBU Annual Report, suggest that the alternative financial ecosystem is currently in a nascent trade-centric phase. The overwhelming dominance of Murabaha indicates that microfinance organizations are prioritizing lower-risk, asset-backed installments typically used for retail consumer goods. Furthermore, the results highlight that the formation of the dualistic system in 2024 successfully prioritized the establishment of a regulatory sandbox and the standardization of Shariah-compliant auditing. This strategic focus has allowed for the stabilization of international reserves and payment systems while simultaneously building the human resource capacity necessary to manage these new financial flows within the broader national stability framework.

### *Discussion*

The structural results derived from the Central Bank of Uzbekistan's 2024 data reveal a specific evolutionary trajectory for the national dualistic financial model. The absolute dominance of Murabaha, representing over 99% of the market share, confirms the "Path Dependency" theory often observed in nascent Islamic financial markets. As an asset-backed installment sale, Murabaha offers a lower technical and psychological barrier to entry for both microfinance organizations and their customers. This alignment with the Incremental Implementation Theory, as proposed by Kamali (2023), suggests that Uzbekistan is prioritizing institutional stability and credit risk management during the initial phase of its alternative financial ecosystem. By utilizing trade-based instruments that mimic the cash-flow patterns of conventional finance, the regulator is successfully mobilizing dormant capital while minimizing the operational complexity associated with more advanced Shariah-compliant models.

However, the near-absence of participatory instruments like Musharaka and Mudaraba indicates a significant "Participatory Gap" that must be addressed for the dualistic system to achieve its full socio-economic potential. According to contemporary frameworks by Hassan and Rabbani (2022), equity-based contracts require sophisticated risk-assessment infrastructure and a transparent corporate governance culture that is still maturing within the Uzbek fintech landscape. The current reliance on fixed-margin products suggests that MFOs are focusing on retail consumption rather than production-based risk-sharing. While this is a logical starting point, a truly robust dualistic model should strive for a more balanced distribution of contracts to ensure resilience against systemic economic volatility, as participatory models provide superior wealth circulation compared to debt-like structures.

The transition toward a more diversified ecosystem is intrinsically linked to the "Fintech-ization" of the sector. The high operational costs currently associated with managing Ijarah (leasing) or Salam (forward sales) can be mitigated through the automation of title transfers and Shariah-compliant auditing processes. As noted in the CBU report, the strategic focus on human resource development and the establishment of a regulatory sandbox are vital catalysts for this transformation. By integrating digital solutions, the Uzbek financial market can move beyond simple retail Murabaha toward complex instruments like Digital Sukuk and Takaful. This evolution would align the alternative financial ecosystem with the broader "Uzbekistan – 2030" Strategy, shifting the focus from individual consumer credit toward sustainable SME growth and industrial investment.

### *Conclusion*

The analysis of the Central Bank of Uzbekistan's 2024 data confirms that the national financial architecture has successfully initiated its transition toward a robust dualistic model. The rapid mobilization of 1.1 billion UZS in Shariah-compliant capital within the microfinance sector demonstrates a significant latent demand for ethical financial alternatives. However, the current structural dynamics reveal a market in its early "trade-centric" stage, characterized by a 99.34% concentration in Murabaha contracts. While this dominance is a natural result of lower technical barriers and the need for initial institutional stability, it highlights a critical gap in the utilization of participatory and leasing-based instruments that are essential for long-term economic resilience.

To achieve the ambitious goals set forth in the "Uzbekistan – 2030" Strategy, the alternative financial ecosystem must evolve beyond retail consumption toward production-based risk-sharing. This transition requires a strategic shift from Murabaha-centric installments to the integration of Digital Musharaka and Mudaraba frameworks, which are better suited for supporting SME growth and industrial innovation. The findings suggest that the successful "fintech-ization" of the sector, supported by the Central Bank's focus on human resource development and regulatory sandboxes, will be the primary catalyst for reducing operational costs and diversifying the portfolio of available Islamic financial products.

In summary, the 2024 fiscal year has served as a successful "proof of concept" for Islamic finance in Uzbekistan. The challenge for the subsequent development phase lies in creating a more balanced contractual environment that encourages wealth circulation rather than debt replication. By fostering international cooperation and implementing advanced digital auditing standards, Uzbekistan is well-positioned to transform its nascent dualistic system into a leading model for alternative finance in Central Asia. This evolution will not only enhance financial inclusion but also provide the structural depth necessary to withstand global economic volatility.

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