Journal DOI: 10.36713/epra0412 ISSN: 2277–7741

International Journal of
Asian Economic Light (JAEL) – Peer Reviewed Journal
SJIF Impact Factor (2026): 8.835 Volume: 14 | Issue: 5 | May 2026

COMPARATIVE ANALYSIS OF NATIONAL ISLAMIC FINANCE MODELS: INSTITUTIONAL ASPECTS AND THEIR ADAPTATION FOR THE FINANCIAL MARKET OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT
This article provides a comparative analysis of national Islamic finance models with particular emphasis on the institutional experience of the Gulf Cooperation Council countries and Southeast Asia. The study examines the structural features of Islamic finance markets, the dominance of debt-based instruments such as Murabaha and Ijarah, the role of Sukuk in capital market development, and the limited application of profit-and-loss-sharing contracts such as Musharakah and Mudarabah. Special attention is paid to the institutional differences between Malaysia's centralized regulatory model and the more decentralized Shariah governance practices historically observed in the Gulf countries. The article argues that for Uzbekistan, direct replication of the Gulf model would not be fully appropriate due to the country's secular legal framework and the existing dominance of conventional banking.
KEYWORDS: *Islamic finance, Malaysian model, GCC countries, dual financial system, Shariah governance, Sukuk, Murabaha, Ijarah, AAOIFI standards, Uzbekistan financial market.*

INTRODUCTION

In the context of increasing global macroeconomic instability, Islamic finance has emerged as one of the most dynamic and resilient segments of the international financial system. Initially perceived mainly as a religiously oriented alternative to conventional finance, Islamic finance has now developed into a systemically important part of the global economy. Its principles are based on the prohibition of interest, known as *riba*, the avoidance of excessive uncertainty or speculation, known as *gharar*, and the exclusion of financing activities considered socially harmful under Shariah principles.

Unlike conventional finance, which is largely based on lending relationships and interest-bearing debt, Islamic finance emphasizes asset-backing, risk-sharing, ethical investment, and the linkage between financial transactions and real economic activity. This makes it particularly relevant for countries seeking to diversify their financial systems, mobilize long-term investment resources, and promote inclusive economic growth.

The relevance of this topic for Uzbekistan is especially significant. The country is actively modernizing its financial market, improving banking regulation, expanding capital market instruments, and searching for new sources of domestic and foreign investment. In this process, Islamic finance can become an important additional mechanism for attracting savings, supporting entrepreneurship, financing infrastructure projects, and increasing access to financial services among groups of the population that prefer Shariah-compliant financial products.

However, the introduction of Islamic finance cannot be reduced to the mechanical adoption of individual financial products. It requires the formation of an appropriate institutional environment, including legal norms, regulatory standards, Shariah governance mechanisms, accounting rules, supervisory procedures, and human capital development. International experience shows that national Islamic finance models differ substantially from one another. Although they share a common Shariah foundation, their institutional structures, regulatory approaches, product preferences, and legal interpretations vary significantly.

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The purpose of this article is to conduct a comparative analysis of the main national models of Islamic finance, focusing on the Gulf Cooperation Council countries and Malaysia, and to identify the most appropriate institutional framework for adapting Islamic finance to the financial market of Uzbekistan.

Theoretical Foundations of Islamic Finance

Islamic finance is based on a set of principles derived from Islamic commercial jurisprudence, or *fiqh al-muamalat*. The most fundamental principle is the prohibition of *riba*, which refers to interest or predetermined return on lending. In Islamic finance, money is not treated as a commodity that can generate income by itself; instead, profit must be linked to real economic activity, trade, investment, or asset ownership.

Another important principle is the prohibition of excessive uncertainty, or *gharar*. Financial contracts should be transparent, clearly defined, and free from excessive ambiguity regarding the object of the transaction, price, delivery, or obligations of the parties. This principle is intended to protect contractual fairness and reduce speculative behavior.

Islamic finance also prohibits *maysir*, or gambling-like speculation, as well as investment in sectors that are considered harmful or unethical, such as alcohol, gambling, and certain other prohibited industries. As a result, Islamic finance has a strong ethical and socially responsible dimension.

From an economic perspective, Islamic finance is often associated with the idea of risk-sharing. In theory, contracts such as Musharakah and Mudarabah embody this principle most clearly. In Musharakah, both parties contribute capital and share profits and losses according to agreed terms. In Mudarabah, one party provides capital while the other provides entrepreneurial effort, and profits are shared according to a pre-agreed ratio.

However, in practical banking operations, Islamic financial institutions often rely more heavily on debt-like instruments such as Murabaha and Ijarah. This reflects the need for predictable cash flows, risk management, regulatory compliance, and operational simplicity. Therefore, one of the key institutional challenges of Islamic finance is the gap between its theoretical ideal of risk-sharing and the practical dominance of trade-based and lease-based financing.

Global Structure of the Islamic Finance Market

The global Islamic finance industry demonstrates a clearly bipolar structure. Two macro-regions dominate the market: the Gulf Cooperation Council countries and Southeast Asia, particularly Malaysia. Together, these two regions account for the overwhelming majority of Islamic financial assets worldwide.

The Gulf countries, especially Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain, and Oman, represent the capital-intensive model of Islamic finance. Their Islamic finance systems have developed in close connection with oil revenues, sovereign wealth funds, large corporate projects, and strong demand for Shariah-compliant banking services. Saudi Arabia is one of the largest Islamic banking markets in the world, while the United Arab Emirates has become an important center for Islamic financial innovation and international investment structuring.

In the Gulf model, Islamic banking is deeply embedded in the financial system. The market is characterized by large Islamic banks, strong capital availability, substantial liquidity, and active use of financing instruments such as Murabaha, Tawarruq, Ijarah, and Sukuk. However, historically, Shariah governance in many Gulf countries has been relatively decentralized, with individual banks relying on their own Shariah supervisory boards.

The second major center is Southeast Asia, with Malaysia occupying a leading position. Malaysia has developed one of the most sophisticated and institutionally advanced Islamic finance ecosystems in the world. Unlike the Gulf model, which is strongly capital-driven, the Malaysian model is more regulatory, institutional, and innovation-oriented. Malaysia has created a dual financial system in which Islamic and conventional finance operate in parallel under the supervision of a strong central regulatory authority.

Malaysia is also one of the global leaders in the Sukuk market. Sukuk instruments are actively used not only by corporations but also by the government for infrastructure financing, liquidity management, and capital market development. In addition, Malaysia has invested heavily in Islamic finance education, Shariah research, legal standardization, and financial technology.

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Thus, the global Islamic finance market can be understood as a competition and interaction between two broad paradigms: the Gulf model, which is capital-rich and market-driven, and the Malaysian model, which is institutionally structured and regulation-oriented.

Main Islamic Banking Products and Their Market Demand

Although Islamic jurisprudence provides a broad variety of contractual forms, the practical structure of Islamic banking products is relatively concentrated. The most widely used instruments are debt-based or asset-based contracts that provide predictable returns and manageable risks.

Murabaha is the most common Islamic banking product. It is a cost-plus sale contract in which the bank purchases an asset and sells it to the client at a marked-up price payable immediately or in installments. In practice, Murabaha is widely used for working capital financing, trade finance, consumer finance, and business purchases. Its popularity is explained by its simplicity, predictability, and similarity to conventional credit from the perspective of cash-flow management.

In the Gulf countries, a special form of Murabaha known as Tawarruq has become particularly widespread. Tawarruq is often used to provide liquidity to clients through a sequence of commodity transactions. Although it is considered Shariah-compliant by many scholars and institutions, it has also been criticized for resembling conventional lending in economic substance. This illustrates one of the key debates in modern Islamic finance: the tension between formal Shariah compliance and substantive adherence to the risk-sharing spirit of Islamic economics.

Ijarah, or Islamic leasing, is another important instrument. Under Ijarah, the bank purchases an asset and leases it to the client for an agreed period. It is widely used in housing finance, vehicle finance, equipment leasing, and infrastructure-related transactions. Ijarah is particularly effective because it is asset-backed and relatively easy to structure within modern financial systems.

Sukuk represent one of the most important instruments in Islamic capital markets. Often described as Islamic bonds, Sukuk are not debt obligations in the conventional sense, but certificates representing ownership or beneficial interest in underlying assets, projects, usufructs, or investment activities. Sukuk can be used by governments, corporations, and financial institutions to raise medium- and long-term funding. Malaysia has achieved particular success in using Sukuk for public infrastructure and sovereign financing, while Gulf countries have used Sukuk extensively for corporate and investment purposes.

Profit-and-loss-sharing contracts, such as Musharakah and Mudarabah, are theoretically central to Islamic finance, but their practical share remains limited. Their relatively low usage is explained by several factors, including information asymmetry, moral hazard, difficulties in monitoring business performance, weak accounting transparency, and higher risk for financial institutions. Nevertheless, these instruments remain important for Islamic microfinance, venture financing, small business development, and entrepreneurship support.

For Uzbekistan, the product structure of Islamic finance should be introduced gradually. At the initial stage, Murabaha, Ijarah, and Sukuk may be more practical due to their operational clarity and lower regulatory complexity. In later stages, Musharakah and Mudarabah can be developed for entrepreneurship, small business financing, and venture-type investment models.

Institutional Differences Between the Malaysian and Gulf Models

The most important distinction between the Malaysian and Gulf models lies in Shariah governance and regulatory architecture. Although both models are based on Islamic principles, their institutional implementation differs significantly.

Malaysia follows a centralized Shariah governance model. The Central Bank of Malaysia, Bank Negara Malaysia, has established a Shariah Advisory Council whose decisions are binding for Islamic financial institutions and courts. This creates legal certainty, reduces interpretive fragmentation, and strengthens investor confidence. In such a system, Islamic financial products are developed within a unified regulatory and jurisprudential framework.

The Malaysian model is also supported by a comprehensive legal infrastructure. The Islamic Financial Services Act of 2013 created a separate legal foundation for Islamic finance and clearly distinguished Islamic financial activities from conventional ones. This legal clarity has played a crucial role in the development of Malaysia's Islamic banking, Takaful, and Sukuk markets.

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In contrast, many Gulf countries historically relied on a decentralized Shariah governance model. Individual Islamic banks established their own Shariah supervisory boards, which reviewed and approved products independently. This allowed flexibility and product innovation, but it also created the risk of inconsistency. A financial product approved by one Shariah board could be rejected by another, even within the same region. Such differences could create uncertainty for investors, regulators, and clients.

In recent years, several Gulf countries have moved toward greater centralization. For example, the United Arab Emirates and Oman have introduced more centralized Shariah governance mechanisms to reduce fragmentation and improve regulatory consistency. However, compared with Malaysia, the Gulf model remains more diverse and less uniform.

There are also differences in legal interpretation. Gulf countries are often associated with more conservative interpretations, while Southeast Asian jurisdictions, particularly Malaysia, have shown greater flexibility in certain areas of Islamic commercial law. One example concerns the trading of debt-based instruments on secondary markets. Malaysian scholars have historically adopted a more permissive approach to some forms of debt trading in order to support liquidity, whereas many Middle Eastern Shariah authorities have taken a more restrictive position.

These differences are not merely theological; they have direct economic and institutional consequences. A centralized and flexible model may support standardization and market development, while a decentralized model may allow diversity but create uncertainty. Therefore, Uzbekistan must carefully choose which elements to adopt and how to adapt them to its legal, institutional, and financial environment.

Relevance of Islamic Finance for Uzbekistan

Uzbekistan has a significant potential for the development of Islamic finance. The country has a large population, growing demand for alternative financial services, an expanding private sector, and substantial infrastructure financing needs. At the same time, a portion of the population and business community may be reluctant to use conventional interest-based financial products due to religious or ethical considerations. Islamic finance can help mobilize these underutilized savings and integrate them into the formal financial system.

The development of Islamic finance may also support financial inclusion. Small and medium-sized enterprises, individual entrepreneurs, farmers, and households may benefit from Shariah-compliant financing products if they are designed in a practical and accessible way. Instruments such as Murabaha and Ijarah can support trade, equipment purchases, agricultural machinery, vehicles, and housing finance. In the longer term, Musharakah and Mudarabah can support partnership-based financing for entrepreneurship.

Another important area is infrastructure finance. Uzbekistan has substantial needs in transport, energy, water, urban development, logistics, and social infrastructure. Sukuk can become an important mechanism for mobilizing long-term investment for such projects. Sovereign Sukuk issuance could also help diversify the government's financing instruments and attract investors from the Middle East and Southeast Asia.

Furthermore, Islamic finance can strengthen Uzbekistan's integration into international financial markets. By adopting recognized standards and establishing a reliable regulatory framework, the country could attract capital from Islamic banks, investment funds, sovereign wealth funds, and institutional investors from GCC countries and Malaysia.

However, Islamic finance development requires careful institutional design. Without legal certainty, qualified specialists, Shariah governance, accounting standards, and regulatory clarity, Islamic finance may remain fragmented and limited. Therefore, Uzbekistan needs a strategic and phased approach.

Optimal Institutional Model for Uzbekistan

For Uzbekistan, direct replication of the Gulf model would not be optimal. Uzbekistan is a secular state with an established conventional banking system, a civil law tradition, and a financial market that is still developing. Therefore, the introduction of Islamic finance should not disrupt the existing financial architecture. Instead, it should complement and diversify it.

The Malaysian dual financial system appears to be the most appropriate model for Uzbekistan. This system allows Islamic and conventional finance to operate in parallel under a unified regulatory framework. Such an approach

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is especially relevant for countries where conventional banking is already dominant but where there is growing demand for Islamic financial products.

The first institutional priority should be the creation of a centralized Shariah Supervisory Board under the national financial regulator. Such a body would provide unified interpretations, approve general standards, reduce legal uncertainty, and prevent contradictory product approvals by individual institutions. A centralized Shariah board would also strengthen public trust and increase confidence among foreign investors.

The second priority should be the development of a legal framework for Islamic banking, Islamic windows, Sukuk issuance, Takaful, and Islamic microfinance. At the initial stage, Uzbekistan may allow conventional banks to open Islamic windows under strict regulatory requirements. This would reduce entry barriers and allow the gradual development of the market without requiring the immediate creation of a large number of fully Islamic banks.

The third priority should be human capital development. Islamic finance requires specialists who understand both modern finance and Shariah principles. Uzbekistan's universities, banking academies, and professional training institutions should develop educational programs in Islamic banking, Sukuk, Takaful, Shariah audit, and Islamic financial law. Cooperation with Malaysian institutions such as INCEIF could be especially useful.

The fourth priority should be the adoption of internationally recognized standards. While the Malaysian model may provide the institutional framework, Uzbekistan should also take into account AAOIFI standards, especially to attract investors from the Middle East. This hybrid strategy would combine Malaysia's regulatory clarity with the investment expectations of Gulf investors.

The fifth priority should be the gradual introduction of Islamic capital market instruments. Sukuk should be introduced carefully, starting with sovereign or quasi-sovereign issuances backed by infrastructure or public assets. This would create a benchmark yield curve and provide a foundation for future corporate Sukuk issuance.

Proposed Synergistic Strategy for Uzbekistan

The most effective strategy for Uzbekistan is not to choose exclusively between the Malaysian and Gulf models, but to synthesize their strongest elements. Such a synergistic model should be based on the following principles.

First, the regulatory architecture should follow the Malaysian approach. This means a centralized supervisory framework, legal clarity, standardized Shariah governance, and parallel development of conventional and Islamic finance. This model is suitable for Uzbekistan because it minimizes institutional uncertainty and allows gradual integration.

Second, the investment instruments should be compatible with Gulf market expectations. Since GCC countries represent a major source of Islamic capital, Uzbekistan must ensure that its Sukuk structures and investment products are acceptable to Middle Eastern investors. For this purpose, AAOIFI standards should be carefully considered.

Third, Islamic finance should be linked to real-sector development. Products should not merely replicate conventional credit in Islamic form. They should support trade, manufacturing, infrastructure, agriculture, small business, and socially important projects. This would allow Islamic finance to contribute to inclusive and sustainable economic growth.

Fourth, the development of Islamic finance should be phased. The first stage may include legal recognition, regulatory standards, Islamic windows, basic banking products, and education. The second stage may involve Sukuk issuance, Takaful, and Islamic microfinance. The third stage may focus on advanced investment products, venture financing, and integration with international Islamic capital markets.

Fifth, public awareness should be strengthened. Many potential clients may not fully understand how Islamic finance differs from conventional banking. Therefore, transparent communication, educational campaigns, and consumer protection mechanisms are essential.

Challenges and Risks

Despite its potential, the development of Islamic finance in Uzbekistan may face several challenges. The first challenge is legal adaptation. Existing civil, tax, banking, and securities legislation may not fully recognize Islamic finance contracts. For example, Murabaha involves asset purchase and resale, which may create taxation or ownership transfer issues if the legal framework is not adjusted.

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The second challenge is regulatory capacity. Supervisors must understand the specific risks of Islamic finance, including Shariah non-compliance risk, asset ownership risk, displaced commercial risk, and profit-sharing investment account risks. Conventional supervisory tools may need to be adapted.

The third challenge is a shortage of qualified professionals. Islamic finance requires expertise in banking, law, accounting, risk management, Shariah standards, and capital markets. Without adequate training, product development and supervision may remain weak.

The fourth challenge is public trust. If Islamic finance products are perceived as merely conventional loans under different names, confidence may be undermined. Therefore, transparency and genuine Shariah compliance are essential.

The fifth challenge is liquidity management. Islamic banks cannot freely use conventional interest-based money market instruments. Therefore, Shariah-compliant liquidity tools, including short-term Sukuk, commodity Murabaha facilities, and central bank instruments, should be developed.

Addressing these challenges will require coordination among the Central Bank, Ministry of Economy and Finance, capital market regulators, commercial banks, academic institutions, and international Islamic finance organizations.

CONCLUSION

Islamic finance represents a promising direction for the diversification and modernization of Uzbekistan's financial market. International experience shows that there is no single universal model of Islamic finance. The Gulf countries provide a capital-rich and investment-oriented model, while Malaysia offers a highly institutionalized, centralized, and legally structured model. Each has its advantages and limitations.

For Uzbekistan, the Malaysian dual financial system appears to be the most suitable institutional reference point. It allows the coexistence of conventional and Islamic finance, provides regulatory clarity, and supports gradual market development. At the same time, Uzbekistan should not ignore the investment potential of the Gulf countries. Therefore, the optimal strategy is a hybrid model: Malaysian-style centralized regulation combined with AAOIFI-compatible investment instruments attractive to Middle Eastern investors.

The establishment of a centralized Shariah Supervisory Board, the adoption of a clear legal framework, the introduction of Islamic windows, the development of Sukuk markets, cooperation with international educational institutions, and the gradual expansion of Islamic financial products can create a strong foundation for the development of Islamic finance in Uzbekistan.

If implemented consistently, Islamic finance can contribute to financial inclusion, mobilization of domestic savings, attraction of foreign investment, infrastructure development, support for entrepreneurship, and sustainable economic growth. Therefore, the adaptation of national Islamic finance models to Uzbekistan should be viewed not only as a financial innovation, but also as a strategic component of the country's long-term economic modernization.

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