THE ROLE AND PROSPECTS OF ISLAMIC FINANCE IN ATTRACTING FOREIGN INVESTMENT TO UZBEKISTAN'S ECONOMY

Qadamboyeva Charos Masharip qizi
Independent researcher
charosmasharipovna777@gmail.com
ORCID: 0009-0006-5537-6103

Abstract

This conference paper examines the economic significance, financing mechanisms, institutional opportunities, and development prospects of Islamic finance in attracting foreign investment to Uzbekistan's economy from scientific-theoretical and practical perspectives. The study analyzes the distinctive features of Islamic finance compared to the conventional financing system, including asset-based financing, profit-and-loss sharing, close integration with real economic activities, and the principles of investment risk sharing. Furthermore, the potential of financial instruments such as sukuk, murabaha, musharakah, mudarabah, and ijarah in attracting foreign capital is assessed. The paper substantiates promising directions for diversifying investment sources, financing infrastructure projects, expanding access to financial resources for small and medium-sized enterprises, and accelerating integration into international financial markets through the development of Islamic finance in Uzbekistan. Based on the research findings, scientific and practical recommendations aimed at the gradual integration of Islamic financial instruments into the national financial system have been developed.

Keywords: Islamic finance, foreign investment, investment attractiveness, sukuk, murabaha, musharakah, mudarabah, Islamic banking, financial diversification, economic growth.

Introduction

The acceleration of international capital flows in the global economy, increasing competition for investment resources, and growing demand for alternative financing mechanisms in financial markets are strengthening the economic significance of Islamic finance. Islamic finance is a system of financial relations operating in accordance with Sharia principles, in which restrictions on interest-based lending, the implementation of transactions linked to real assets, the equitable distribution of economic risks, and the transparency of financial activities play an important role. These characteristics create the need to study Islamic finance not only as a form of financing based on religious principles but also as an alternative economic mechanism for mobilizing capital in the international investment market.

Increasing investment activity in Uzbekistan's economy, modernizing production, developing transport and energy infrastructure, expanding the financial capabilities of business entities, and diversifying sources of foreign capital are among the most pressing tasks. In this process, the use of international Islamic financial instruments may contribute to enhancing the country's investment potential. In particular, expanding cooperation with Islamic financial institutions established in the Middle East and Southeast Asia creates opportunities to attract new investors, long-term financial resources, and innovative investment mechanisms to Uzbekistan's economy.

From this perspective, the main objective of the study is to determine the role of Islamic financial instruments in attracting foreign investment to Uzbekistan's economy, theoretically substantiate their economic efficiency, and develop promising directions for their application within the national investment environment.

Research methodology

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The study employs systematic analysis, comparative economic analysis, scientific abstraction, induction and deduction, an institutional approach, and economic modeling methods. The main instruments of Islamic finance are compared with conventional investment mechanisms, and their functional characteristics in attracting foreign capital are identified. Furthermore, the activities of international Islamic financial institutions, the principles of investment risk sharing, and opportunities for their application in Uzbekistan's economy are analyzed conceptually. To avoid confusing quantitative calculations with actual statistical observations, hypothetical investment scenarios are used.

Analysis and results

Islamic finance has emerged as an important component of international investment relations, offering alternative financing opportunities to conventional bank loans and capital markets. The economic essence of this system is characterized by directing financial resources toward real economic activities, conducting asset-based transactions, and distributing investment risks among contractual participants. The main advantage of Islamic finance in attracting investment is its ability to expand the range of financial instruments available to investors while creating additional forms of capital access for enterprises. However, the economic efficiency of these instruments directly depends on their contractual structure, financing costs, legal protection of investors, and project profitability.

Islamic finance possesses considerable economic potential globally. According to the Islamic Financial Services Board (IFSB), the total assets of the global Islamic financial services industry reached USD 3.88 trillion in 2024, representing an increase of 14.9 percent compared to the previous year. In 2025, this figure amounted to approximately USD 4.4 trillion. This demonstrates the expanding scale of Islamic finance in international capital markets.

Table 1

Growth of Total Assets in the Global Islamic Financial Services Industry

Year	Total assets (trillion USD)
2024	3.88
2025	4.4

Source: IFSB reports for 2025 and 2026. The figure for 2025 is approximate.

Based on these statistical data, the absolute increase in Islamic financial assets during 2024–2025 amounted to approximately USD 0.52 trillion. The relative growth rate is calculated as follows:

$G = [(4.40 - 3.88) / 3.88] \times 100\% \approx 13.4\%$

The calculation indicates that the global Islamic finance market expanded by approximately 13.4 percent within one year. This growth substantiates the need to explore opportunities for diversifying international investment sources in Uzbekistan. At the same time, the growth of global Islamic financial assets does not automatically imply an increase in foreign direct investment inflows into Uzbekistan. This requires an appropriate legal environment, a portfolio of investment projects, financial infrastructure compliant with international standards, and investor confidence.

The institutional foundations for developing Islamic finance in Uzbekistan have entered a new stage in recent years. In particular, legislation providing for the licensing of Islamic banks and Islamic banking windows, a two-tier Sharia compliance supervision system, and relevant taxation approaches entered into force on June 29, 2026. According to the Central Bank, the national roadmap for 2026–2030 includes 39 measures. This process is creating institutional conditions for transforming Islamic finance from a collection of individual financial products into an integrated financial ecosystem.

When assessing the economic impact of Islamic finance on attracting foreign investment, it is important to examine its main financial instruments separately. In particular, sukuk enables the

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mobilization of resources from international capital markets, murabaha facilitates the financing of trade and production activities, while musharakah and mudarabah contribute to the development of investment partnership relations. The ijarah instrument is particularly important for financing production assets intended for long-term use.

Table 2

Economic Opportunities of Islamic Financial Instruments in Attracting Foreign Investment

Financial instrument	Economic mechanism	Investment opportunities for Uzbekistan
Sukuk	Financing through securities linked to assets or projects	Attracting international capital for infrastructure, energy, and transport projects
Murabaha	Purchasing goods and reselling them at an agreed markup	Financing the purchase of industrial equipment and raw materials
Musharakah	Contributing capital and distributing profits and losses according to agreed rules	Establishing joint ventures with foreign investors
Mudarabah	One party provides capital, while the other provides management and entrepreneurial activities	Developing startups, innovative projects, and entrepreneurship
Ijarah	The use of assets in exchange for payment or through a leasing mechanism	Financing vehicles, machinery, and production equipment

Source: Systematized by the author based on the economic characteristics of Islamic financial contracts.

The data presented in the table demonstrate that Islamic financial instruments expand opportunities for utilizing investment resources across various sectors of the economy. In particular, sukuk is considered a promising instrument for financing public and corporate projects. Its main economic advantage lies in the possibility of linking investors' funds to specific assets or projects. In Uzbekistan, it is advisable to consider opportunities for financing renewable energy, highways, logistics centers, and public utility infrastructure through sukuk.

Cooperation with the Islamic Development Bank is particularly important when assessing the practical impact of Islamic finance on Uzbekistan's economy. According to official information from September 2025, the portfolio of joint projects between Uzbekistan and the Islamic Development Bank Group exceeded USD 5 billion, with more than 40 percent of investments allocated to the private sector. This portfolio covers transport, infrastructure, housing, energy, healthcare, and education.

Based on this indicator, the structural composition of the project portfolio can be assessed. If the lower threshold of the total portfolio is taken as USD 5 billion, the value of projects attributable to the private sector exceeds USD 2 billion, since its share is greater than 40 percent. This calculation reflects the structural potential of the existing portfolio; however, it would be incorrect to interpret this amount as

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the volume of foreign investment entering the country within a single year. Furthermore, approved project portfolios, actually disbursed funds, and foreign direct investments differ from one another.

The Islamic Development Bank's cooperation with Uzbekistan is also reflected in specific investment projects. In particular, a financing agreement worth USD 160.25 million was signed in 2025 to develop the education system. Furthermore, in September 2025, financing amounting to USD 192 million was approved for the modernization of the 4R40 highway in the Jizzakh region. These projects demonstrate the participation of international Islamic financial institutions in developing Uzbekistan's infrastructure and human capital.

To quantitatively assess the prospects for attracting foreign investment through Islamic finance, a hypothetical scenario analysis was conducted. It was assumed that an additional USD 100 million, USD 250 million, and USD 500 million in international financing would be attracted annually through new Islamic financial instruments. It was envisaged that 80 percent of the financing would be directed toward real investment projects, while the remaining 20 percent would be allocated to liquidity, operational expenses, and other financial needs.

Table 2

Hypothetical scenarios for attracting additional international capital through islamic finance

Indicator	Conservative	Baseline	Optimistic
Capital attracted, million USD	100	250	500
Share allocated to real projects, %	80	80	80
Funds allocated to real investments, million USD	80	200	400
Financial reserves and other needs, million USD	20	50	100

Source: Author's hypothetical scenario calculations. The values presented in the table are neither official forecasts nor observed results.

The calculation is performed using the following expression:

$I_r = K_j \times \alpha$

Where I_r represents funds allocated to real projects; K_j represents attracted international capital; and α represents the coefficient of allocation to investment projects.

According to the baseline scenario:

$I_r = 250 \times 0.8 = 200$ million USD

According to the results, if an additional USD 250 million in international capital is attracted through Islamic financial instruments and 80 percent of it is allocated to real projects, USD 200 million in investment resources may be directed toward the production and infrastructure sectors of the economy. Under the optimistic scenario, this indicator reaches USD 400 million. These calculations reflect the potential investment opportunities of Islamic finance but do not constitute an exact forecast of economic growth. The actual outcome depends on the additionality of attracted capital, project profitability, import composition, domestic value added, and other macroeconomic factors.

Another important factor determining the development prospects of Islamic finance in Uzbekistan is the creation of a favorable institutional environment for international investors. This requires

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establishing unified approaches to Sharia compliance, improving financial reporting standards, ensuring the legal protection of investment transactions, achieving tax neutrality, and increasing the liquidity of Islamic financial instruments in the capital market. The negotiations conducted by the Central Bank of Uzbekistan with Malaysian financial institutions and international partners in 2026 confirm the relevance of these directions.

At the same time, certain economic and institutional constraints must be considered in the development of Islamic finance. In particular, the shortage of qualified specialists, limited availability of Sharia-compliant liquidity instruments, insufficient information about new financial products, complexities in assessing investment risks, and inadequate development of secondary market infrastructure may hinder the expansion of this sector. Therefore, introducing an Islamic finance system requires not only offering financial instruments but also jointly developing banking supervision, corporate governance, risk management, digital technologies, and professional personnel training systems.

The proposed integrated mechanism for attracting foreign investment through Islamic finance in Uzbekistan represents a comprehensive approach aimed at strengthening the national financial system, expanding international investment cooperation, and ensuring sustainable economic development. The mechanism consists of five interconnected components: developing the legal and institutional environment, strengthening cooperation with international Islamic financial institutions, introducing Islamic financial instruments, allocating foreign capital to real economic projects, and achieving positive economic outcomes. Establishing a favorable legal and institutional framework through licensing, tax neutrality, compliance with international standards, and investor protection creates the necessary conditions for attracting foreign capital. Furthermore, cooperation with international Islamic financial institutions, including investment funds, Islamic banks, and international capital markets, facilitates access to alternative financing sources and strengthens Uzbekistan's integration into the global financial system. The introduction of financial instruments such as sukuk, murabaha, musharakah, mudarabah, and ijarah provides opportunities to mobilize investment resources and direct them toward strategically important sectors, including industry, energy, infrastructure, agriculture, and entrepreneurship.

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Figure 2. Proposed conceptual mechanism for attracting foreign investment through Islamic finance.

The analysis of the proposed mechanism also identifies several institutional challenges, development opportunities, and strategic priorities that determine the future prospects of Islamic finance in Uzbekistan. The main challenges include a shortage of qualified specialists, limited availability of Sharia-compliant liquidity instruments, insufficient awareness of Islamic financial products, complexities in investment risk assessment, and the underdevelopment of secondary market infrastructure. Addressing these challenges requires strengthening the institutional and regulatory framework, improving professional training systems, developing digital financial services, and expanding cooperation with international financial organizations.

Particular attention should be given to increasing the liquidity of Islamic financial instruments, modernizing transport and logistics infrastructure, and establishing an effective monitoring and evaluation system for investment projects. From an economic perspective, the gradual integration of Islamic finance into Uzbekistan's financial system can create additional opportunities for attracting international investment, supporting small and medium-sized enterprises, stimulating employment, and enhancing export potential.

The scientific and practical significance of the proposed mechanism lies in the fact that Islamic finance is interpreted not as an individual banking product but as an interconnected management process extending from attracting international capital to assessing its real economic efficiency. In this context, alongside increasing investment inflows, it is important to regularly monitor performance indicators such as the profitability of financed projects, new jobs, production volume, export potential, and economic value added.

Conclusion and recommendations

The conducted scientific-theoretical and economic analyses demonstrate that Islamic finance has significant prospects as an additional financial mechanism for attracting foreign investment to Uzbekistan's economy. The expansion of global Islamic financial assets, Uzbekistan's investment

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cooperation with the Islamic Development Bank, and institutional changes in national legislation are creating an economic foundation for developing this direction. In particular, opportunities to finance large infrastructure projects through sukuk, expand partnership relations with foreign investors based on musharakah and mudarabah, and meet the capital needs of business entities through murabaha and ijarah are of particular importance.

According to the research findings, in order to increase the efficiency of attracting foreign investment through Islamic finance in Uzbekistan, it is advisable to develop the legal and institutional infrastructure of the sukuk market, expand investment cooperation with international Islamic financial institutions, increase the range of Islamic financial services offered by commercial banks, establish a risk management system compliant with international standards, and train qualified specialists in Islamic finance.

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