HSR London International Conference on Multidisciplinary Academic Research
(HSR-ICMAR) 2026
https://houghtonstreetreview.com/index.php/conference

DEVELOPMENT OF A HYBRID (TRADITIONAL AND ISLAMIC FINANCE) FINANCING MODEL FOR FINANCING SMALL BUSINESSES IN UZBEKISTAN

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https://doi.org/10.5281/zenodo.21331902

Abstract. The thesis substantiates a hybrid model of small-business financing for Uzbekistan that combines the conventional and the Islamic financial tracks within a single ecosystem. The 2026 law introducing Islamic banking created a dual-track legal reality in which conventional banks may operate “Islamic windows” under Central Bank licensing and a tax-neutral regime. The proposed model rests on five blocks: a dual-track institutional supply; format-neutral state support (interest subsidy versus mark-up compensation); shared digital infrastructure with unified scoring; client-level routing with the parallel use of separate contracts, contract purity being preserved within each track; and common oversight through the Islamic Finance Council and disclosure. The model widens financial inclusion, including the religiously excluded segment of entrepreneurs, and intensifies competition between the two tracks.

Keywords: small business, hybrid financing model, Islamic finance, Islamic window, murabaha, ijara, financial inclusion, Uzbekistan.

INTRODUCTION

Small business generates more than half of Uzbekistan’s GDP — 54.3 per cent in 2024 — and state policy aims to raise the sector’s share to 55 per cent, expand its exports to USD 12 billion and create 1.5 million permanent jobs; within the support programmes, loans of up to UZS 300 million and collateral-free loans of up to UZS 150 million for certain categories have been introduced [13]. Yet the conventional credit channel, however much it expands, cannot reach the whole sector: according to a study cited during the parliamentary debate, 60 per cent of business entities are unwilling to use interest-based services for religious reasons, while the introduction of Islamic banking is estimated to unlock up to USD 5 billion of resources for business annually [3]; a 2020 joint UNDP survey had found 61 per cent of enterprises ready to use Islamic services if offered [9].

The law signed on 27 March 2026 and effective from 29 June 2026 turned this into a dual-track legal reality [1]: Islamic banking is conducted under a Central Bank licence, conventional banks may open “Islamic windows”, the permitted operations span deposit-, trade-, lease- and partnership-based contracts, and tax neutrality has been ensured [6]; Islamic services will initially be introduced in at least three state-owned banks [4], a five-member Islamic Finance Council is being formed, and the reform is expected to attract at least USD 1 billion of foreign capital [5]. The global background reinforces the case: Islamic finance assets reached USD 5.98 trillion in 2024 and are projected at USD 9.7 trillion by 2029 [7], with Islamic fintech transactions expected to grow from USD 198 billion to USD 341 billion over 2024/25–2029 [8].

In these conditions, the practical question is not “conventional or Islamic”, but how the two tracks should be combined so that every viable small enterprise obtains financing in the format it can accept. The aim of this thesis is to develop a hybrid (traditional and Islamic) financing model for small business in Uzbekistan: to define its architecture, its supporting blocks and the sequence of its implementation.

The theoretical basis of the Islamic track is the risk-sharing paradigm of Z. Iqbal and A. Mirakhor [14], which shifts credit assessment from collateral to project quality — a property of direct value for small business; M. El-Gamal's warning against merely formal compliance ("shariah arbitrage") [15] defines the quality constraint of any hybrid design. National empirical evidence includes A. Asadov's demand studies (94.9 per cent of respondents in a 2023 survey intended to buy sukuk if offered; residents of the regions display higher demand than the capital), the lessons of Kazakhstan and Kyrgyzstan, where legal frameworks alone did not produce fast market growth, and the ICD's USD 40 million small-business facility with four Uzbek banks in 2021 [9]. The digital preconditions are documented by M.Z. Maxmudova: the share of mobile-banking users rose from 4.5 per cent in 2015 to 58.7 per cent in 2024 [10], while the IMAN platform's growth from a USD 1 million seed round in 2022 to more than USD 6 million raised and a million-plus user base proved the local viability of Islamic digital products [11]. What the literature lacks is a model that treats the two tracks jointly, as one small-business financing ecosystem; this thesis addresses that gap.

Methodologically, the study combines content analysis of the 2020–2026 regulatory documents, comparative analysis of the instruments of the two tracks, the case-study method and a systemic approach to model design. All quantitative indicators are drawn from primary published sources referenced in footnotes; the data are current as of 6 July 2026. Since official statistics on the national Islamic finance segment are not yet compiled, market indicators rely on international reports and companies' publicly disclosed data.

By a hybrid model we mean the coordinated coexistence of the conventional and the Islamic tracks within a single small-business financing ecosystem: shared state support, shared digital infrastructure and common oversight, with routing at the level of the individual client. Hybridity here operates at the level of the ecosystem and of the client's portfolio — not of the individual contract: each contract remains pure within its own track, which is a strict requirement of Shariah governance [15]. The architecture of the model is presented in Figure 1.

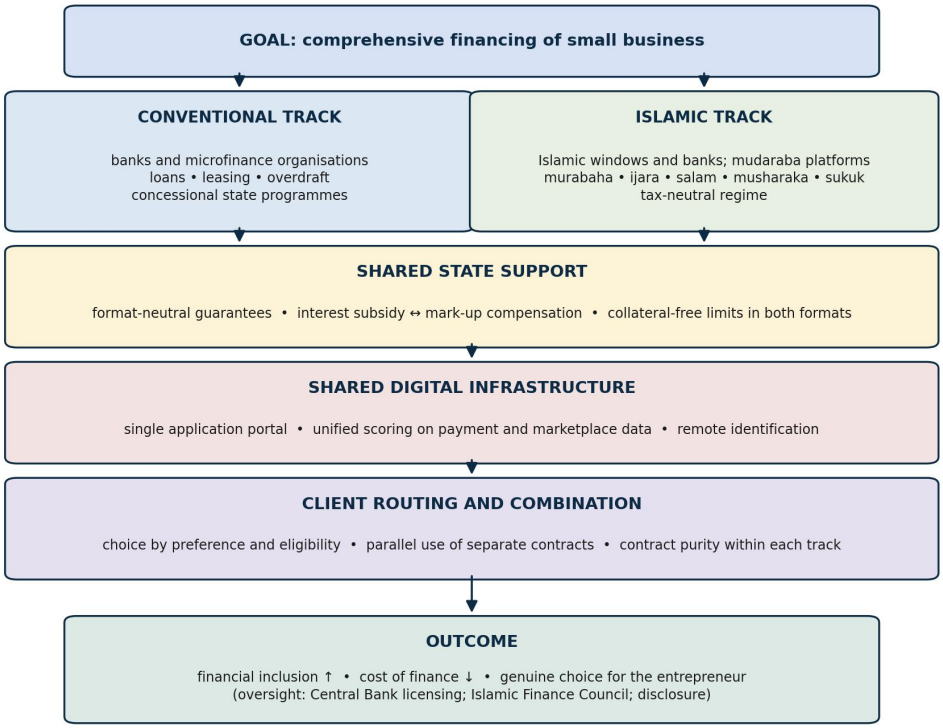


Figure 1. Architecture of the hybrid model of small-business financing
Source: author's elaboration

The institutional block builds on the "Islamic window" construction embedded in the 2026 law: the same banking group serves both tracks under a single Central Bank licensing regime, with segregated funds and accounting, while the Islamic Finance Council exercises Shariah oversight [1; 4–6]. The two tracks are complementary rather than duplicative: their instruments answer the same structure of small-business needs in different formats (Table 1), so the entrepreneur's choice is driven by preference and eligibility, not by gaps in supply.

Table 1. Complementarity of conventional and Islamic instruments for small-business needs

Small-business need	Conventional instrument	Islamic counterpart
Working capital	credit line, overdraft	murabaha; salam (advance financing of future delivery)
Fixed assets	investment loan, leasing	ijara with a subsequent purchase right
Growth capital	subordinated loans, venture financing	musharaka, mudaraba (profit-and-loss sharing)
Trade and sales support	consumer credit at the point of sale	halal instalments (murabaha BNPL)
Larger projects	bonds, syndicated loans	sukuk, including retail digital sukuk

Source: author's elaboration on the basis of [14; 15] and the regulatory acts [1; 2]

The state-support block rests on the principle of format neutrality. The guarantee and compensation instruments of the existing programmes — collateral-free limits, concessional terms [13] — should be available identically in both tracks: an interest subsidy on the conventional side corresponds to partial coverage of the mark-up on the Islamic side, and guarantee mechanisms are adapted to murabaha and ijara structures. Without this mirroring, the hybrid tilts towards the conventional track and the religiously excluded segment remains outside state policy, whatever the law says.

The digital block converts two shelves of products into one pipeline: a single application portal, remote identification and unified scoring based on payment and marketplace data serve both tracks, cutting transaction and monitoring costs — the very costs that historically made risk-sharing contracts expensive for the mass segment [14]. The readiness of the rails is documented: 58.7 per cent mobile-banking penetration [10] and a million-plus user base attracted by the IMAN platform [11; 12]. The routing block then lets the client choose the track — or lawfully combine separate contracts across tracks (for example, a conventional overdraft alongside an ijara for equipment) — which covers the full structure of needs without mixing formats inside any single contract.

Implementation is sequenced in three steps: (1) during 2026 — adoption of the Central Bank's bylaws and a regulatory sandbox for Islamic fintech, launch of the model in the "Islamic windows" of the three state-owned banks [4]; (2) 2027 — extension of format-neutral guarantees and compensation to the support programmes [13] and connection of mudaraba platforms to the shared digital rails; (3) 2027–2028 — a pilot of small-denomination retail digital sukuk and full coverage of the regions, where demand is strongest [9]. Oversight throughout combines Central Bank licensing, the Islamic Finance Council, a public fatwa register and mandatory compliance disclosure [5; 6].

The hybrid model turns the 2026 reform from a parallel experiment into a systemic upgrade of small-business financing. Its expected effects are threefold: financial inclusion widens by drawing in the religiously excluded segment — up to 60 per cent of business entities [3]; competition between the two tracks for the same client presses the cost of financing down; and new pools of resources, including household and diaspora savings channelled through mudaraba platforms and sukuk, are mobilised for the sector [9; 11].

The principal risks are equally clear: merely formal Shariah compliance would undermine trust in the Islamic track [15]; delays in the bylaws or the absence of format-neutral state support would tilt the model back towards the status quo; and regional digital divides [10] would limit its reach. The lesson of Kazakhstan and Kyrgyzstan — where legislation alone did not create fast-growing markets [9] — indicates that the decisive factor is the pace and quality of implementation. For Uzbekistan, 2026–2027 is therefore the window in which the hybrid model must move from design to operation.

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