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FOREIGN EXPERIENCE IN THE IMPLEMENTATION OF ISLAMIC FINANCE

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Abstract: Islamic banking, which is based on the principles of the Islamic economic system, is not limited to serving Muslim communities but aims to promote justice, transparency, and public welfare in accordance with Shariah principles. Today, Islamic finance has evolved far beyond a theoretical concept into a global financial industry supported by a well-developed legal framework, institutional infrastructure, and innovative financial instruments. While Islamic finance remained largely a theoretical discipline until the first half of the twentieth century, it began to develop in practice from the 1960s and has since become an integral component of the financial systems of many countries. This article provides a comparative analysis of the experiences of the United Kingdom, Malaysia, Bahrain, and Kazakhstan in implementing Islamic finance. Furthermore, it evaluates the legal, institutional, prudential, and practical factors that can be adapted for the development of Islamic finance in Uzbekistan and proposes recommendations for their effective integration into the national financial system.

Keywords: Islamic finance, Islamic banking, Uzbekistan, United Kingdom, Malaysia, Bahrain, Kazakhstan, international experience, ESG, Shariah governance, retail products, corporate products, Islamic financial services, prudential regulation.

Introduction. Studies conducted by international financial institutions show that Islamic banks play an important role in expanding financial inclusion. In particular, according to analyses by World Bank experts, Islamic financial services contribute to involving in banking services those segments of the population that have remained outside the conventional banking system because of their religious beliefs. This means, especially for Muslim customers who do not consider the payment of interest acceptable, that Islamic banks create a Shariah-compliant and safe financial alternative. At the same time, researchers of the International Monetary Fund emphasize that Islamic banks are largely free from systemic weaknesses characteristic of the conventional banking system, such as a high level of leverage, excessive reliance on short-term wholesale financing, and the use of complex and risky financial instruments. The high capital adequacy of Islamic banks and their non-participation in speculative derivative transactions present them as relatively more stable and resilient financial institutions in relation to financial instability and external fluctuations.

Islamic financial institutions are found in more than 130 countries; particularly large participants are concentrated in Bahrain, Kuwait, Saudi Arabia, Iran, and Malaysia. In recent years, the entry of Western banks into the market through "Islamic windows" has continued; indexing and benchmarking (e.g., DJIM -Dow Jones Islamic Market Index) have increased transparency and attracted international investors.

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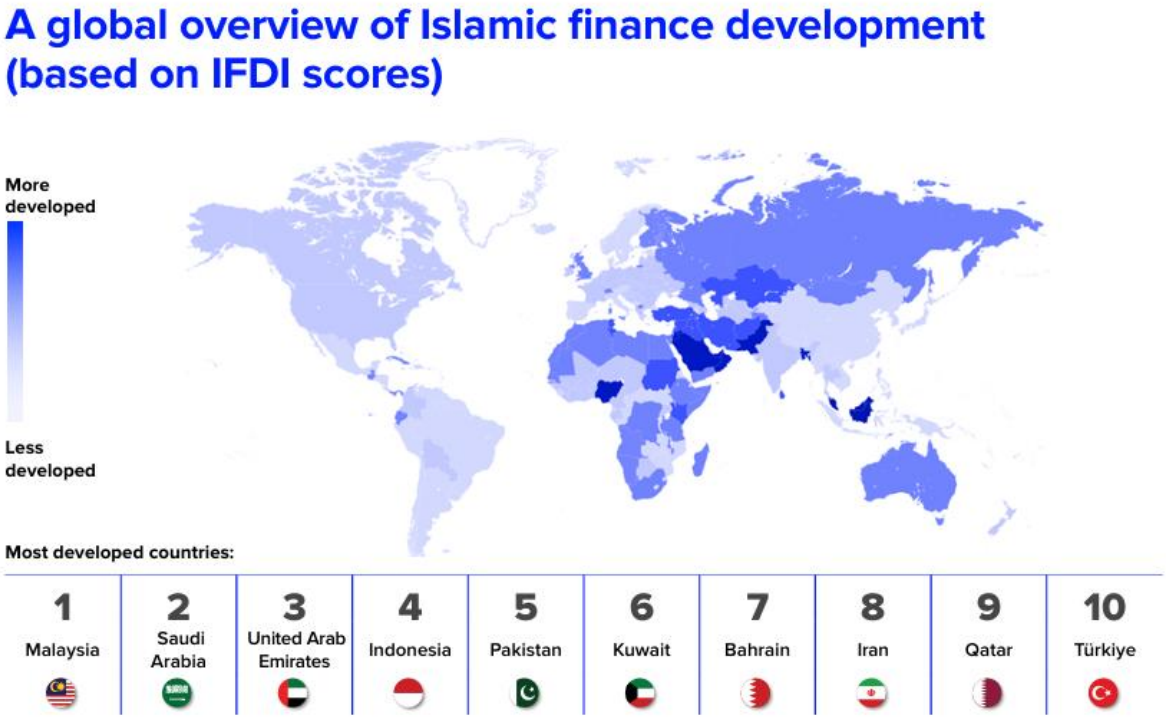


Figure 1. Global description of the development of Islamic finance [1].

The development of the Islamic finance sector mainly depends on the level of knowledge and awareness regarding its advantages and operating mechanisms. Among the countries that recorded the highest results in the knowledge and awareness category of the IFDI (Islamic Finance Development Indicator) are the largest centers of the sector - Malaysia, Saudi Arabia, and the United Arab Emirates (UAE). Indonesia is in the leading position in knowledge, which has been caused by the broad participation of the population through the country's retail sukuk market. Pakistan, Kuwait, and Bahrain are among the advanced countries in awareness. Azerbaijan has also achieved significant progress in this direction - this was stimulated by the active coverage of the topic of Islamic finance during the holding of the COP29 climate conference in Baku. At the same time, the Maldives and Hong Kong have also identified the development of human-resource capacity in the field of Islamic finance as a priority direction in recent years, and they are implementing a number of education and professional development initiatives in this regard.

Global indicators of the Islamic finance ecosystem. The 2025 IFDI (Islamic Finance Development Index) expanded from 136 countries to 140. IFDI (Islamic Finance Development Index) consists of 5 major components:

- Financial performance
- Governance
- Sustainability
- Knowledge
- Awareness

Financial performance indicator - in analyzing this indicator, Islamic financial institutions, Islamic funds, and Sukuk were analyzed as sub-indicators. The financial performance indicator

[1] Islamic Finance Development Report 2025, (LSEG & ICD, 2025).ICD – LSEG Islamic Finance Development Report 2025.

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assesses the growth rates of assets, the number of institutions, and instruments in different sectors of the Islamic finance industry. The five leading countries from the previous year - Malaysia, Saudi Arabia, Iran, the UAE, and Indonesia - respectively retained their positions. However, there were changes within the Top-15. For example, Bangladesh recorded a decline due to investigations related to Islamic bank depositors and weaknesses in corporate governance. Tanzania, in turn, rose in the ranking due to the emergence of new Islamic finance institutions among the population, sukuk issuance, and expansion of the takaful sector.

Governance indicator - in analyzing this indicator, as a sub-indicator, regulation-the quality of legal arrangements for Islamic finance sectors and Shariah governance and transparency are assessed based on the number of Shariah scholars, their activities, and how transparent the financial statements of companies are.

Sustainability indicator - as the main indicators, the amount of funds allocated for charity, zakat and qard al-hasan, the number of ESG (Environmental, Social, Governance) sukuk, the number of ESG (Environmental, Social, Governance) Islamic funds, and the sustainability reporting index were analyzed. The coverage of the sustainability indicator in Islamic finance is the lowest, with scores available in only 60% of countries across all IFDI directions. The least widespread indicators under this indicator are ESG Islamic funds, followed by ESG sukuk, and they are found only in certain markets. Although the five countries showing the highest results in this direction retained their positions in last year's ranking, the UAE and Jordan exchanged places, which was caused by an increase in the allocation of sustainability- and socially-oriented funds by institutions located in the UAE.

Knowledge indicator - in analyzing this indicator, indicators such as the number of institutions offering training courses in Islamic finance, the number of institutions offering bachelor's/master's degrees in Islamic finance, the number of published scientific articles, and the number of Islamic finance journals were analyzed. Knowledge and awareness are key factors in increasing literacy in the field of Islamic finance. Education and scientific research in Islamic finance bring professional personnel, innovations, and deep scientific views into the sector.

Awareness indicator - in analyzing this indicator, indicators such as the number of offline Islamic finance events, the number of online events, and the number of news and media reports on Islamic finance were analyzed. Through mass media, online and offline events, society's interest in Islamic finance increases. This, in turn, increases demand for the sector. For example, after Azerbaijan hosted COP29 (Conference of the Parties), the UN's 29th international conference on climate change, a sharp increase was observed in Islamic finance events and media coverage.

Formation of Islamic finance in the United Kingdom

The United Kingdom is one of the countries among Western nations that recognized the Islamic finance system at the earliest stage. The process, which began with the first murabaha-based transactions in the 1980s, moved to an institutional stage from the 2000s. In 2004, the first fully-fledged Islamic bank - Islamic Bank of Britain (Al Rayan Bank) - began operating. In 2014, the United Kingdom became the first in Europe to issue sovereign sukuk, turning London into a center of Islamic capital markets. The Islamic finance system is regulated on the basis of the Financial Services and Markets Act (2000). HM Treasury adopted a regulatory package between 2003 and 2010 that eliminated double taxation on Islamic transactions. Banking activities are supervised by the FCA (Financial Conduct Authority) and the PRA (Prudential Regulation Authority).

In the United Kingdom, Islamic finance developed not through a separate "Islamic Banking Law," but on the basis of the principle of adapting it to the existing general financial legislation. These are:

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– Financial Services and Markets Act 2000 (FSMA) – the main regulatory basis for all banks and investment institutions; Islamic banks are licensed within the framework of this act.
– Due to amendments introduced into tax legislation, the elimination of secondary "stamp duty" and other additional taxes in ijara- and musharaka-based transactions has been ensured.

The following can be cited as the main Islamic finance products in the United Kingdom: Retail banking products: Islamic mortgages (diminishing musharaka + ijara structures), consumer loans, deposit and investment accounts, Shariah-compliant cards. Corporate products and capital markets: numerous international sukuk listings on the London Stock Exchange, green sukuk, Islamic investment funds, REIT (Real Estate Investment Trusts) - real estate investment funds. Chambers Global's "Islamic Finance - UK" review prepared for 2025 emphasizes the expansion of the retail Islamic banking segment, especially the growing demand for home financing products. This demand is being formed not only by the needs of the Muslim population residing in the United Kingdom, but also by broader groups of customers interested in ethical and sustainable finance.

In 2021, the assets of Islamic banks in the United Kingdom were around 7.5 billion dollars, accounting for 0.3% of global Islamic banking assets and 85% of Islamic banking assets in Europe. As of 2025, 5 fully-fledged Islamic banks and "Islamic windows" of more than 20 conventional banks operate in the United Kingdom. LSEG–ICD IFDI reports note that the United Kingdom is the leader in Islamic finance among Western countries and is within the global TOP-20. As a special hub for Islamic finance, the country plays an important role in attracting foreign investors, especially capital from the Middle East and Southeast Asia.

The United Kingdom's rise to a high level in Islamic finance is related not to a religious factor, but to legal flexibility, London's status as an international financial center, tax neutrality, state political support, and professional services infrastructure. Islamic finance in the United Kingdom was developed not as a separate "religious finance," but as alternative finance, that is, a model alternative to conventional finance but operating on equal terms with the general financial system. Many transactions in Islamic finance are based on the purchase and sale of real assets. For example, in home financing, the bank first purchases the property and then provides it to the customer on the basis of a marked-up price or lease. Under an ordinary tax system, this could be regarded as two property transfers, resulting in the payment of stamp duty (SDLT-Stamp Duty Land Tax) twice[2]. The United Kingdom eliminated precisely this problem and placed Islamic financial products on an equal footing with conventional mortgages. The guidance of the United Kingdom tax and customs authority indicates that, in cases of alternative financing of an asset, if the conditions are met, only one stamp duty payment (SDLT- Stamp Duty Land Tax) arises[3]. Previously, in Islamic mortgages, particularly home financing based on Murabaha or diminishing Musharaka, the property moved twice:

I. seller → bank or financial institution;
II. bank or financial institution → customer.

Under the ordinary procedure, these were two separate purchases and sales of property, and stamp duty (SDLT-Stamp Duty Land Tax) could arise twice. The United Kingdom government adapted this to the economic essence of Islamic finance: the principle was introduced that if a transaction is in substance equivalent to home financing, it should be treated like a conventional mortgage. For this purpose, through the Finance Act 2003, stamp duty (SDLT-Stamp Duty Land Tax) reliefs for

[2] HMRC, Stamp Duty Land Tax Manual: Alternative Property Finance. gov.uk.

[3] GOV.UK, Stamp Duty Land Tax: Reliefs and Exemptions.

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alternative financing of assets were introduced. Later, through the Finance Acts 2005, 2007 and 2009, the tax treatment of alternative financial returns, sukuk, and other Islamic instruments was brought closer to that of conventional interest-bearing debt or bonds. In the documents of the United Kingdom tax and customs authority and the government, this approach is explained as creating equal tax conditions for "alternative finance" products[4]. That is, the United Kingdom Ministry of Finance did not provide a separate privilege for Islamic finance, but created tax neutrality: even if, according to Shariah requirements, an asset passes twice, if its economic substance is one financing operation, it should not be subject to tax twice. Since sukuk is also an asset-based Islamic security, it was difficult to tax it like an ordinary bond. The United Kingdom introduced the concept of Alternative Finance Investment Bonds (Alternative Finance Investment Bonds -AFIBs), placing sukuk on an equal tax footing with conventional securities. The 2007 regulatory document noted that sukuk should be taxed equally with "instruments equated to conventional securities."[5] As a result of this approach, in 2014 the United Kingdom became one of the first Western countries to issue £200 million of sovereign sukuk[6]. London was already a financial center where international banks, law firms, audit companies, the stock market, investors, and rating agencies were concentrated. Therefore, Islamic finance did not start from zero in the United Kingdom; it developed within the existing financial infrastructure. United Kingdom government documents identify London as an important center for Islamic finance outside the Muslim world. The United Kingdom regarded Islamic finance not only as a means of serving the Muslim population, but also as a means of attracting international investment, increasing London's competitiveness, and strengthening relations with Middle Eastern capital. According to TheCityUK report, the United Kingdom is recognized as the leading Islamic finance center in the West; in 2021, UK-based Islamic funds had assets of $19.6 billion and there were 37 active funds[7].

Uzbekistan should first of all adopt the principle of tax and legal neutrality from the United Kingdom experience. If murabaha, ijara, musharaka, mudaraba, and sukuk transactions are economically similar in practice to conventional loans or bonds, they should not face an excessive tax burden. Likewise, in Uzbekistan, in Islamic home financing or financing of business assets, the asset passes to the customer through the bank. If each transfer is taxed as a separate purchase and sale, Islamic finance will become more expensive than conventional credit. The experience of the United Kingdom shows that, in such a case, it is necessary to introduce in legislation a special tax regime for "alternative finance" or "Islamic financing transactions." In addition, if Uzbekistan wants to develop the sovereign and corporate sukuk market, a legal basis that places sukuk on an equal footing with ordinary bonds is necessary. The creation in the United Kingdom experience of the Alternative Finance Investment Bonds (Alternative Finance Investment Bonds -AFIB) model for sukuk can serve as an important example for Uzbekistan.

Formation of Islamic finance in Bahrain

[4] HM Treasury / HMRC, Tax Simplification for Alternative Finance.

[5] UK Statutory Instrument Explanatory Memorandum, 2007.

[6] GOV.UK, Government issues first Islamic bond, 2014.

[7] TheCityUK, The UK remains the leading Western hub for Islamic finance, 2022.

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Bahrain is one of the countries in the Persian Gulf region where the Islamic finance system was formed earliest and is institutionally most developed. The practice of Islamic banking in the country began in 1979 with the establishment of Bahrain Islamic Bank. At the next stage, especially from the 1990s, Bahrain became a center for the development and coordination of international Islamic finance standards. The main reason for this is that the headquarters of the Accounting and Auditing Organization for Islamic Financial Institutions (Accounting and Auditing Organization for Islamic Financial Institutions - AAOIFI) is located specifically in Bahrain. This organization develops Shariah, accounting, auditing, and corporate governance standards for Islamic financial institutions, and today these standards are applied in practice in many countries[8]. The Islamic finance system in Bahrain is regulated by the Central Bank of Bahrain (Central Bank of Bahrain -CBB). The "CBB Rulebook Volume 2 – Islamic Banks" developed by the Central Bank of Bahrain is considered one of the most detailed regulatory frameworks governing the activities of Islamic banks. This regulation sets separate requirements on licensing, capital adequacy, liquidity management, risk management, Shariah supervision, transparency, and financial reporting standards[9]. In addition, the activities of takaful and retakaful companies are supervised through the "Takaful and Retakaful Rulebook," while sukuk issuance is jointly regulated by the CBB and Bahrain Bourse.

An important aspect of Bahrain's experience is that AAOIFI standards are widely applied in the activities of Islamic financial institutions in the country. This presents Bahrain not only as a regional financial center but also as a country exporting global Islamic finance standards. In particular, the centralization of the activities of Shariah boards and their operation on the basis of a single standard has played an important role in increasing investor confidence. Islamic finance products in Bahrain are highly diversified. Islamic banks finance corporate and retail customers through murabaha, musharaka, mudaraba, ijara, tawarruq, and trade-financing instruments. Murabaha products, in particular, are the most widely used instrument in financing consumer loans and trade operations. According to the Islamic Financial Services Board (Islamic Financial Services Board-IFSB), murabaha operations in Bahrain and other Persian Gulf countries constitute the main share of Islamic bank assets[10]. Ijara-based financing is more commonly used in infrastructure, transport, and real estate projects and, because it is linked to real assets, is regarded as an instrument that is resilient to crises. The sukuk market is also an important component of Bahrain's financial system. Sukuk issuances based on ijara, wakala, and murabaha are regularly carried out by the government and large corporations. In particular, it was noted that in 2025 the Government of Bahrain placed 7-year wakala/murabaha/ijara sukuk worth 1.25 billion US dollars on the international financial market. This issuance served to diversify the state debt portfolio and finance the budget deficit. According to statistical data of the Central Bank of Bahrain, the share of Islamic bank assets in the country's banking system increased from 1.8 percent in 2000 to more than 25 percent as of June 2024. Fitch Ratings analyses assess Bahrain's Islamic finance industry as a "mature and well-diversified system" and note that total assets exceed 30 billion US dollars. At the same time, nearly 90 percent of the country's sukuk are rated, which indicates high investor confidence[11].

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[8] Accounting and Auditing Organization for Islamic Financial Institutions. (2024). *AAOIFI Shari'ah Standards and Governance Framework*. Manama: AAOIFI.

[9] Central Bank of Bahrain**.** (2024). CBB Rulebook Volume 2: Islamic Banks. Manama: Central Bank of Bahrain.

[10] Islamic Financial Services Board**. (**2024). Islamic Financial Services Industry Stability Report 2024**.** Kuala Lumpur: (IFSB).

[11] Fitch Ratings. (2024). Bahrain Islamic Finance Industry Outlook 2024**.** London: Fitch Ratings.

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Bahrain's experience is also of important practical significance for Uzbekistan. First, for the development of the Islamic finance market in Uzbekistan, it is considered appropriate to gradually integrate AAOIFI and IFSB standards into national legislation. This creates a unified legal and Shariah basis for banks and investors. Second, the broad introduction of murabaha instruments in financing small businesses and trade operations in Uzbekistan can provide a significant economic effect. This is because trade, import, and production activities account for a high share in the country. Third, the use of ijara and sukuk instruments in financing infrastructure and housing projects serves to reduce the burden on the state budget. In particular, "green sukuk" and sovereign infrastructure sukuk may be important instruments in developing Uzbekistan's capital market.

Table 1.

Analysis of foreign countries on the implementation of Islamic finance.

Country	Legal framework	Main products	Characteristic of development stages
United Kingdom	FSMA 2000, FCA/PRA regulation, Tax Amendments	Ijara, Murabaha, Halal mortgages, Sukuk	First in the West, a global Islamic capital market center
Bahrain	CBB Rulebook, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	Sukuk, Wakala, Mudaraba, Musharaka	Regional center, strong liquidity instruments
Kazakhstan	Islamic Banking Law (2009), AIFC Regulations	Murabaha, Ijara, Sukuk	First in the CIS, slow but consistent growth

Formation of Islamic finance in Kazakhstan

Among Central Asian countries, Kazakhstan is one of the countries that began developing the Islamic finance system institutionally and legally at the earliest stage. The country is seeking to develop Islamic finance not only within banking services, but also through the capital market, sukuk instruments, Islamic investment vehicles, takaful, international financial centers, and special legal regimes. The main feature of the Kazakhstan model is that the state has formed a clear strategic approach aimed at the gradual integration of Islamic finance into the national financial system. The first systematic legal reforms on Islamic finance in Kazakhstan were implemented in 2009[12]. In particular, the Law "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Issues of the Activities of Islamic Banks and the Organization of Islamic Finance," adopted on 12 February 2009, created the legal foundation of Islamic finance in the country. Through this law, Islamic banks were officially recognized, a legal basis was provided for Shariah-compliant financial contracts such as murabaha, musharaka, mudaraba, and ijara, and interest-free deposit products and sukuk issuance mechanisms were introduced. These reforms made Kazakhstan one of the first countries in the CIS to form special legislation on Islamic finance. At subsequent stages, Kazakhstan paid particular attention to expanding Islamic finance instruments. From 2015, additional legal mechanisms were formed regarding takaful, tawarruq, wakala-based financial services, and

[12] Law of the Republic of Kazakhstan No. 133-IV on Amendments concerning Islamic Finance, 2009.

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possibilities for issuing sovereign sukuk[13]. In recent years, measures have also been implemented in the country to liberalize Islamic finance infrastructure, such as allowing the operation of Islamic windows, expanding opportunities for branches of foreign Islamic banks, strengthening requirements for the activities of Shariah boards, and introducing a separate accounting procedure. This also serves to expand the market for Islamic financial services through conventional banks.

Al Hilal Islamic Bank Kazakhstan plays an important role in the formation of Islamic finance practice in Kazakhstan. This bank, which began operations in 2010, was established with the participation of capital from the United Arab Emirates and is considered the first fully-fledged Islamic bank in the country[14]. Later, Zaman Bank also began operating on the basis of an Islamic banking model. At present, although the number of fully-fledged Islamic banks in Kazakhstan is limited, the number of market participants is expected to increase through the introduction of the Islamic windows model.

The Astana International Financial Centre (AIFC) has particular strategic importance in the development of Islamic finance in Kazakhstan. Launched in 2018, AIFC, as a separate jurisdiction based on the principles of English common law, serves to develop capital markets, asset management, private banking, and Islamic finance directions[15]. The main advantages of the Astana International Financial Centre (AIFC) include an independent regulator — the Astana Financial Services Authority (AFSA), tax incentives, a favorable legal environment for international investors, sukuk listing rules, a Shariah board, and specialized infrastructure for Islamic finance. In this respect, the Astana International Financial Centre (AIFC) serves to position Kazakhstan as a regional Islamic finance center[16].

Kazakhstan is trying not to limit Islamic finance only to the banking sector, but also to actively develop the capital market. In December 2024, the first domestic ijara sukuk in the country's history was issued on the Astana International Exchange (AIX) platform. In addition, in 2025 it was announced that Tayyab Finance had developed a sukuk program of up to 20 billion tenge, that is, approximately 39 million US dollars. It is planned to direct these funds to retail financing and Islamic auto-financing programs. This shows that the sukuk market in Kazakhstan is being formed gradually.

In practical terms, Islamic finance products in Kazakhstan are mainly directed toward corporate customers and small and medium-sized business entities. Murabaha, ijara, and mudaraba instruments stand out as the most widely used forms of financing. Analyses prepared by the Astana International Financial Centre (AIFC) emphasize that commodity murabaha, mudaraba, and ijara instruments are leading in Kazakhstan in terms of market share, and that annual demand for these products from corporate customers is estimated at around 760 billion tenge. At the same time, existing financing capacities are not sufficient to fully meet this demand.

In supporting small and medium-sized businesses, programs implemented in cooperation among the Damu Entrepreneurship Development Fund, Al Hilal Bank, and Kazakhstan Ijara Company are of significant importance. Through these programs, SME entities are obtaining the opportunity to finance equipment, vehicles, and production capacities under Shariah-compliant conditions based on

[13] AIFC. (2024). Islamic Finance Country Report:Kazakhstan.isdbinstitute.org.

[14] Salaam Gateway. (2023). Islamic finance in Kazakhstan: Progress and future prospects. Salaam Gateway. https://salaamgateway.com/story/islamic-finance-in-kazakhstan-progress-and-future-prospects?utm_source.

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murabaha and ijara. This demonstrates the practical potential of Islamic finance in supporting the real sector, particularly entrepreneurship.

The 2024 Kazakhstan Islamic Finance Country Report, prepared jointly by the Islamic Development Bank Institute (IsDBI) and the Astana International Financial Centre (AIFC), provides a detailed analysis of the dynamics of the Islamic finance market, the regulatory environment, consumer demand, and market potential in Kazakhstan. The report notes that Kazakhstan ranked 22nd in the Islamic Finance Country Index. This shows that there are positive shifts in the country in developing Islamic finance infrastructure, training personnel, and expanding the market. Nevertheless, the Islamic finance market in Kazakhstan still remains at an initial and growth stage. The share of Islamic bank assets in the overall banking system remains low and is estimated at less than 0.5 percent. The main reasons for this are identified as insufficient public awareness and financial literacy regarding Islamic finance, the limited range of products, a shortage of qualified specialists, the small number of Islamic financial institutions, and the dominant position of the conventional banking system. At the same time, the future potential of the Kazakhstan market is assessed as high. According to data from the Astana International Financial Centre (AIFC), the potential of Islamic retail financing in the country is estimated at around 7.7 billion US dollars, while the Islamic deposit market is estimated at around 5.5 billion US dollars. These indicators mean that Islamic finance in Kazakhstan is still a market that has not been fully opened and has the potential to develop at high rates in the future.

Kazakhstan's experience is also of important practical significance for Uzbekistan. First of all, carrying out gradual and systematic legislative reforms on Islamic finance, introducing the Islamic windows model, forming the sukuk market, developing Shariah audit and governance standards, and establishing Islamic finance platforms on the basis of international financial centers are relevant directions for Uzbekistan.

Conclusion. The experience of Bahrain, Kazakhstan, and the United Kingdom shows that the successful implementation of Islamic finance depends not on the religious composition of the country, but on a thorough legal framework, effective institutional governance, a Shariah supervision system, and regulatory mechanisms compliant with international standards. In these countries, Islamic finance has been developed not as an alternative to the conventional financial system, but as a financial direction that complements and diversifies it. As a result of analyzing these foreign experiences, it was determined that improving a special regulatory and legal framework, establishing Shariah governance institutions, expanding the types of Islamic financial products, training qualified personnel, and strengthening cooperation with international organizations are important factors for developing Islamic finance in Uzbekistan. This serves to increase the competitiveness of the country's financial market, attract investment, and ensure financial inclusion.

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