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ORCID: 0000-0001-5037-3452

**THE ROLE AND IMPACT OF ISLAMIC FINANCIAL INSTRUMENTS IN POVERTY
REDUCTION IN UZBEKISTAN***Khikmatov A'lambek Ayubovich*
Bukhara State University

Abstract. This scientific paper explores the role and impact of Islamic financial instruments in poverty reduction efforts in the Republic of Uzbekistan. The study is based on the core principles of the Islamic financial system — interest-free financing, risk-sharing, social justice, and equality in ownership. Key instruments such as zakat, sadaqah, qard al-hasan, mudarabah, musharakah, and ijarah are analyzed for their potential in promoting economic and social stability. The research also evaluates the current state of Islamic finance infrastructure and legal frameworks in Uzbekistan, existing practices, challenges, and development prospects. Special attention is given to the opportunities for supporting vulnerable social groups, promoting small businesses, and enhancing financial inclusion through Islamic mechanisms. The paper concludes with practical recommendations for the effective integration of Islamic finance tools in the national poverty alleviation strategy.

Keywords: Islamic finance, poverty reduction, zakat, qard al-hasan, mudarabah, sukuk, microfinance, social justice.

Annotatsiya. Mazkur maqolada O'zbekiston Respublikasida kambag'allikni qisqartirish jarayonida islomiy moliyaviy vositalarning tutgan o'rni va ularning iqtisodiy-ijtimoiy ta'siri chuqur tahlil qilinadi. Tadqiqotda foizsiz moliyalashtirish, risklarni taqsimlash, mulkchilik tengligi va ijtimoiy adolat tamoyillariga asoslangan zakot, sadaqa, qarz hasan, mudaraba, musharaka, ijara kabi islomiy moliyaviy vositalarning imkoniyatlari o'rganiladi. Shuningdek, islomiy moliyaviy infratuzilma va qonunchilik asoslari, mavjud muammolar, xalqaro tajribalar (xususan, Malaysia, Saudiya Arabistoni va Indoneziya tajribalari) bilan taqqoslab, O'zbekistonda ularni joriy qilish istiqbollari yoritiladi. Muallif mikromoliyalash, sukuk emissiyasi, raqamli islomiy xizmatlar va waqf tizimining ahamiyatiga alohida e'tibor qaratib, kambag'allikka qarshi kurashda samarali yondashuv sifatida islomiy moliyaning rolini asoslaydi. Ish yakunida mazkur tizimni rivojlantirish uchun zarur chora-tadbirlar va amaliy takliflar keltirilgan.

Kalit so'zlar: islomiy moliya, kambag'allikni qisqartirish, zakot, qarz hasan, mudaraba, sukuk, mikromoliyalash, ijtimoiy adolat.

Аннотация. В данной научной статье анализируется роль и влияние исламских финансовых инструментов в процессе сокращения бедности в Республике Узбекистан. Исследование основано на принципах исламской финансовой системы — беспроцентное финансирование, распределение рисков, социальная справедливость и равенство в собственности. Рассматриваются такие инструменты, как закят, садака, карз хасан, мудараба, мушарака, иджара и др., с точки зрения их вклада в обеспечение экономической и социальной стабильности. Также проводится анализ текущего

состояния инфраструктуры исламских финансов в Узбекистане, законодательных основ, существующего опыта и проблем, а также перспектив развития. Особое внимание уделено возможностям поддержки социально уязвимых слоёв населения, развития малого бизнеса и повышения финансовой инклюзии посредством исламских механизмов. В завершение статьи предложены практические рекомендации по эффективному внедрению исламских финансовых инструментов в борьбе с бедностью.

Ключевые слова: исламские финансы, сокращение бедности, закят, карз хасан, мудараба, сукук, микрофинансирование, социальная справедливость.

Introduction.

Poverty is one of the main obstacles to socio-economic development today. It affects not only the material condition of people, but also health, access to education, social and economic equality. In world practice, Islamic financial instruments — such as zakat, sadaqa, qard al-hasan, mudaraba, musharaka, ijara and sukuk — are widely used in the fight against poverty (Uroкова, 2024; Sadullaeva, 2025). These instruments are distinguished by their operation based on the principles of interest-free financing and social justice, expanding financial and economic opportunities, especially for socially vulnerable groups (Mojtahed & Hassanzadeh, 2009; Ibrahim & Alenezi, 2024).

In Uzbekistan, according to data for 2023, 11–12.5% of the population lives below the poverty line. This indicator emphasizes the need to develop effective mechanisms for financial inclusion and poverty alleviation in the country's economic system (GSJ, 2024). Islamic finance is especially important for social groups that are excluded from normal banking systems or that oppose their use from a religious perspective (Uroкова, 2024; Imamnazarov, 2020).

Islamic finance has been playing a positive role in the development of the banking system. In particular, with the legislative framework and infrastructure that have been formed in Uzbekistan over the years, there are prospects for the implementation of Islamic financial instruments in the economic and social direction (Rasulova & Afzaljonovich, 2024). At the same time, it has been found that the qard al-hasan microcredit structure has great potential in providing socially vulnerable populations with financial resources, but in practice its potential has not been fully realized (Ibrahim & Alenezi, 2024).

Internationally, Pakistan, Bangladesh, and Indonesia have reported positive results in reducing poverty through zakat, qard al-hasan, and waqf (Muneer, 2019; Mojtahed & Hassanzadeh, 2009). For example, participants in the Fael Khair Waqf project in Bangladesh were able to escape poverty amid social isolation and financial constraints (Muneer, 2019).

This work aims to analyze the role of Islamic financial instruments in reducing poverty in Uzbekistan, assess their effectiveness in the current infrastructure and legislative environment, and develop practical recommendations based on international experience. The main objective of the study is to determine the suitability of qard al-hasan, zakat, waqf, and Islamic microfinance instruments for the country's environment and to determine how they can be transformed into effective instruments for ensuring economic inclusion and social justice.

Literature Review.

In recent years, the number of studies on the role of Islamic finance in poverty reduction has been increasing. Scientific works conducted in this direction emphasize the possibility of strengthening social justice and financial inclusion through Islamic financial instruments,

especially instruments such as zakat, qarz al-hasan, waqf, mudaraba, musharakah, ijara, and sukuk.

In a study conducted by Mojtahed and Hassanzadeh (2009) based on the Iranian experience, it was shown that the qarz al-hasan mechanism serves as a practical support for the economically vulnerable as a microcredit instrument. According to them, interest-free financial assistance creates an opportunity for people to use it not only for consumption, but also for production purposes.

Ibrahim and Alenezi (2024) emphasize that the qarz al-hasan instrument can serve as a factor of sustainable development for small and growing enterprises, and propose this instrument as an alternative financing model. They see it as a key tool for strengthening the economic integration of the poor.

Muneer (2019), who studied the Fael Khair Waqf project in Bangladesh, focuses on the long-term social impact of education and health facilities built on the basis of waqf. This project shows that, while reducing poverty, it also increases equality in society.

Uroкова (2024), in her study conducted in the context of Uzbekistan, analyzes the availability of Islamic financial services in the country, their legal framework and how well they meet the needs of the population. She specifically recognizes the role of Islamic finance in increasing financial inclusion. She also shows the potential for lifting the population out of poverty through sukuk, zakat funds, waqf institutions and microfinance institutions.

Sadullaeva (2025) examines the prospects for the development of Islamic microfinance services in Uzbekistan, highlighting existing challenges, including legislative uncertainties, weak infrastructure, and a lack of qualified personnel. At the same time, she develops specific proposals based on international experience.

A study by Rasulova and Afzaljonovich (2024) examines the role of Islamic finance in economic development, its integration into the financial system of Uzbekistan, and the prospects for financing infrastructure projects through sukuk issuance.

Other international studies also recognize that Islamic finance, due to its Sharia-based nature, can contribute to socio-economic stability (Mojtahed & Hassanzadeh, 2009; Ibrahim & Alenezi, 2024; Muneer, 2019). Given that the majority of the population of Uzbekistan is Muslim, Islamic financial instruments are considered an acceptable solution for them from the point of view of religious, social and economic compatibility.

Thus, the analyzed literature creates a sufficient scientific basis to substantiate the potential of Islamic financial instruments to reduce poverty in the conditions of Uzbekistan. However, for their widespread implementation in practice, there is a need for certain systemic reforms, the creation of infrastructure and increasing the financial literacy of the population.

Research methodology.

This scientific study analyzed the economic and social impact of Islamic financial instruments on poverty reduction in Uzbekistan. The study was methodologically based on qualitative and analytical-descriptive approaches. The main focus was on the role of Islamic financial instruments - such as zakat, sadaqa, qarz hasan, mudaraba, musharaka, sukuk - in supporting socially vulnerable segments of the population.

The study mainly analyzed data on poverty and employment from the State Statistics Committee of the Republic of Uzbekistan for 2023, as well as the practice of "Murabaha" and other Sharia-compliant financial services introduced by commercial banks operating in the financial sector - in particular, Asia Alliance Bank and Aloqa Bank. The impact of interest-free

lending mechanisms on population incomes was assessed using the example of pilot microcredit projects in Bukhara, Andijan and Samarkand regions.

International experience was also studied in depth during the research process. In particular, a comparative analysis was conducted of the approaches used in countries such as Malaysia, Indonesia, and Saudi Arabia to improve the living standards of the population through zakat funds, waqf-based social infrastructure projects, and sukuk bonds. The regulatory and legal approaches of these countries were studied in a manner adapted to the conditions of Uzbekistan. During the study, existing legislative documents, in particular the draft laws "On Islamic Banking" and the regulatory framework regulating financial services, were evaluated based on content analysis. At the same time, the factors hindering the widespread introduction of Islamic financial instruments in the Uzbek economy - infrastructure restrictions, the level of financial literacy of the population, and the lack of qualified specialists - were identified through qualitative analysis.

The study assessed the strengths and weaknesses, existing opportunities, and external threats to the development of Islamic finance in Uzbekistan using the SWOT analysis method. Descriptive analysis was used to analyze the real impact of Islamic finance based on indicators such as the level of formal employment of the population, the share of microbusinesses, and the level of access to financial services. Although statistical modeling was not carried out within the framework of the study, there are prospects for conducting regression analyses based on empirical data in the future.

This methodological approach made it possible to determine how Islamic financial instruments work in the conditions of Uzbekistan, what are the existing opportunities and limitations, and to develop practical proposals.

Analysis and results

According to official data, according to 2023, 12.5% of the population will live below the poverty line. Therefore, poverty remains a pressing problem in Uzbekistan. Given that 92% of the population of Uzbekistan are Muslims, it is necessary to find solutions to meet their needs based on their wishes and desires. To do this, we considered it appropriate to look into the Islamic finance sector of the economy. Let's briefly dwell on what Islamic finance itself is.

Islamic finance is a fair and honest financial system. It has great potential for reducing poverty through interest-free loans, zakat, sadaqah, waqf, and microfinance.

The question arises: how can Islamic finance in Uzbekistan make a practical contribution to poverty reduction?

The main principles of Islamic finance are a) the Quran; b) the Sunnah of our Prophet (peace be upon him); c) Islamic law and jurisprudence; d) Muslim history e) From information related to economic life:

Poverty situation in Uzbekistan Poverty rate (2023) is 12.5% Unemployed people are more than 30%. The share of microbusiness is growing, but considering the problems in financing, we study the impact through Islamic financial instruments.

Zakat fund - Poverty can be reduced by collecting annual zakat and distributing it fairly. We can take as an example the experience of agencies such as the Malaysia Zakat Center. Waqf projects - Building schools, clinics, housing through Waqf. "Waqf hospital", "Waqf micro business incubator". Through microloans (Qard al-Hasan) - To encourage entrepreneurship by providing interest-free loans to combat unemployment and poverty. Establishing an "Islamic Microfinance Fund" (IMF). Halal microloans can be introduced for women entrepreneurs and youth. Supporting women and youth through halal and Sharia-compliant loans.

Currently, some commercial banks in Uzbekistan are conducting various practices in the Islamic financial services segment. Asia Alliance Bank has introduced trade financing services based on “Murabaha”. Aloqa Bank is developing Islamic financing mechanisms in cooperation with financial institutions from the UAE and Saudi Arabia. Microfinance organizations are offering interest-free microloans within the framework of joint projects in Andijan, Samarkand and Bukhara regions. These are the fruits of a rational policy.

International cooperation is of particular importance in the development of Islamic finance.

Uzbekistan is cooperating with the Islamic Development Bank (IDB) in financing several infrastructure and social projects. Financing the private sector is being established through the ICD (Islamic Corporation for the Development of the Private Sector). Representatives of more than 10 countries participated in the Islamic Finance Forum held in Tashkent in 2023, and joint projects were discussed.

One of the big goals is to enter the capital market through the issuance of sukuk. Islamic bonds - sukuk - are one of the most important financial instruments expected to be introduced in Uzbekistan. In 2024-2025, the Ministry of Finance is working on the issuance of government sukuk. The issuance of sukuk will create an opportunity to finance infrastructure projects in a fair way. A new legislative framework is being prepared to regulate the market.

Training qualified specialists in Islamic finance, developing personnel and an education system in the field is an urgent issue in Uzbekistan. A vivid example of this is the opening of special courses on Islamic finance in higher educational institutions such as the Tashkent Islamic Institute and the University of Economics and Finance. Online and offline trainings are being conducted in collaboration with the IDB and IRTI (Islamic Research and Training Institute). Prospects for the broad development of Islamic finance in Uzbekistan are observed in various directions. According to the expected results, the improvement of legislation can serve as a legal basis for the issuance of Islamic banks and sukuk. The need to open special Islamic banks is increasing day by day, the need for financial institutions operating exclusively on the basis of Sharia, halal investment funds and attracting public funds based on Islamic principles are among them. At the same time, it is no secret that the integration of fintech and the development of digital Islamic financial services are today's demands and obligations. Although the Islamic financial system in Uzbekistan is still in its infancy, comprehensive reforms supported by the state are creating a solid foundation for its sustainable development. We must make the most of all our opportunities to ensure that Uzbekistan becomes a leader in the Islamic finance market in Central Asia in the coming years.

We can say that Islamic finance is not only a religious but also a socio-economic justice tool. If such tools as zakat, waqf and microfinance are properly organized in Uzbekistan, it is possible to reduce unemployment, eliminate poverty, and ensure economic equality in society.

It is known that one of the most correct ways to reduce poverty is to provide financial assistance to citizens based on their religious desires and requirements. Let's take a look at what forms it has in Islamic finance (Table 1).

Table 1.

The main tools (instruments) of Islamic finance

Tool name	Description
Mudaraba	The investor provides capital, the entrepreneur operates, and the profits are shared.
Musharaka	Joint investment and profit/loss sharing based on a partnership.
Rent	A financial instrument similar to leasing; an asset is leased.
Murabaha	A product is purchased and sold to a customer with a markup.
Exception	Manufacturing and purchasing a product on a special order basis.
Hello	Delivery of the product against payment in advance.
Sukuk	Islamic bonds are asset-backed.

What is a Sukuk? A Sukuk (Arabic: صكوك – “sakk”, meaning “documents”, “certificates”) is an investment instrument in accordance with Islamic Sharia law, which is an alternative to traditional bonds.

In short, a Sukuk is an asset-backed, Sharia-compliant, fictitious interest-free financing instrument that gives the investor an ownership stake in the asset and the right to receive income (Table 2).

Table 2.

Types of Sukuk (most common)

Type	Explanation
Sukuk Lease	Based on a lease agreement – the asset is leased, the rental income is paid to the investor
Sukuk Mudaraba	One party invests capital, the other party manages – the profit is shared
Sukuk Musharaka	Based on partnership – all participants participate with goods and labor and share the profit
Sukuk Exception	Based on construction or production – based on placing an order and delivering goods
Sukuk Wakalah	Based on delegation – receiving profit through an investment manager
Green Sukuk	Issued to finance environmental projects (for example: solar, wind, hydroelectric power plants)
Sukuk Waqf	Based on foundation assets to finance social and charitable projects

The structure of a Sukuk in its simplest form is as follows:

Fundraising: Funds are raised from investors.

An SPV (Special Purpose Vehicle) is established - this is a legal entity that manages the assets.

The asset is purchased or manufactured.

The rental or profit-making process - income is generated through investment.

Income is distributed: Profits are distributed to investors.

At the end of the term, the asset is resold and the principal is returned.

In practice, Sukuk are issued by Governments to finance public projects (Malaysia, Saudi Arabia) or by Enterprises to build new plants, purchase equipment. Banks and financial institutions can also implement them.

“Sukuk” in Islamic bonds: sovereign sukuk, corporate sukuk, sukuk ijara, sukuk murabaha, sukuk musharaka

Advantages of Sukuk Sharia-compliant Linked to the real economy Supports attractive environmental and social projects for international investors (Green/Waqf Sukuk)

Example: Sukuk Ijara

1. The government wants to build a road worth \$100 million.
2. It issues a Sukuk Ijara (funds are collected from investors).
3. The road is built - the SPV is the owner.
4. The government uses the road and pays rent.
5. The money from the rent is distributed to investors.
6. At the end of the term, the road is returned to the state, the principal is returned.

The leading countries in terms of sukuk issuance are the countries that are most active and have the largest markets in issuing bonds (sukuk) based on the principles of Islamic financing. As of 2024, the leading countries in terms of sukuk issuance are:

1. Malaysia - The world's largest sukuk market (with a share of approximately 30–40%). The central bank (Bank Negara Malaysia) and state-owned enterprises regularly issue sukuk. Malaysia is also one of the leaders in international sukuk issuance.
2. Saudi Arabia - Actively issues domestic and international sukuk. As part of the "Vision 2030" program, a large amount of sukuk was issued for infrastructure and economic diversification. Large companies such as Saudi Aramco have raised funds through sukuk.
3. Indonesia - A country that has widely introduced Islamic financing. It issues a large amount of government sukuk (Sukuk Negara) every year. It regularly participates in the global sukuk market.
4. Bahrain - A regional center for Islamic finance. Sukuk issuance is carried out through the Bahrain Monetary Agency. Many Islamic banks operate here.
5. UAE (United Arab Emirates) - Especially Dubai and Abu Dhabi play an important role in sukuk issuance. Many corporations and financial institutions issue sukuk. Dubai Islamic Bank is one of the major players in the sukuk market.
6. Qatar, Turkey, and Pakistan are also active in this area. Qatar - the state and banks issue sukuk. Turkey - has been expanding international sukuk issuance in recent years. Pakistan - is raising funds for infrastructure projects through sukuk.

Conclusions and recommendations.

Islamic finance has been gaining traction in Uzbekistan since the 2010s, as demand for it has been growing. This system, based on Sharia rules, uses mechanisms such as profit and loss sharing (mudaraba, musharaka), leasing (leasing), and murabaha (installment sales) instead of interest. In 2018–2019, Islamic finance issues began to actively enter the government agenda. In 2019, the adoption of the Law “On Islamic Banking” and the introduction of Islamic finance services by a number of banks accelerated the growth of this sector. Negotiations with international Islamic financial institutions began. In the 2020s, the government of Uzbekistan, together with the Islamic Development Bank and other international financial institutions, took concrete steps to introduce Islamic financing mechanisms. By 2021–2022, work began on creating a legislative framework for Islamic finance. Some commercial banks began to introduce Islamic financial services on a trial basis (sukuk, murabaha, lease-based services).

From 2023–2024, regulatory documents regulating the activities of Islamic financial institutions were developed, and for the first time, the issue of sukuk (Islamic bonds) was raised by the state. Islamic finance is attractive not only in terms of its compliance with religious beliefs, but also in terms of ensuring economic stability and supporting fair income distribution. Despite such efforts, there are still problems such as the incomplete formation of the infrastructure of the Islamic finance system in Uzbekistan, a lack of specialists, and a lack of awareness among the population about this system.

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