



Article

Islamic Principles of Finance: Features and Prospects of Their Use in Central Asia

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Abstract

This study examines the implementation of Islamic financial mechanisms in Kyrgyzstan, Kazakhstan, Uzbekistan, and Tajikistan, with the aim of evaluating the effectiveness of existing regulatory frameworks and recommending measures to strengthen Islamic finance in the region. The methodological foundation includes a systematic review of legal and policy documents, a comparative analysis of international best practices, and statistical data on Islamic banking development between 2015 and 2024. The findings reveal increasing interest in Islamic financial instruments across Central Asia; however, their wider adoption is constrained by underdeveloped legislation, limited market infrastructure, a shortage of professionals trained in Sharia-compliant finance, and low levels of public awareness. Drawing on the successful experiences of Malaysia and Gulf countries, the study proposes reforms focused on modernizing legal frameworks, investing in human capital development, and improving financial literacy. Specific opportunities for expansion are highlighted in the creation of Sharia-compliant products for small and medium-sized enterprises, such as murabaha for trade finance and ijara for equipment leasing, as well as in microfinance initiatives supporting agriculture and takaful (Islamic insurance) schemes for risk management. In addition, the study emphasizes priority areas for integration, including the establishment of digital platforms for retail Islamic products, the development of infrastructure for corporate sukuk issuance, and the promotion of a regional hub for Islamic financial technologies. Overall, the research concludes that while challenges persist, targeted reforms can accelerate the growth of Islamic finance in Central Asia and enhance its contribution to sustainable economic development.

Keywords: banking system, halal investments, international cooperation, monetary relations, religious law

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Introduction

The global transition to renewable energy sources has become a key driver of sustainable economic development and a vital response to environmental challenges. Rising prices for conventional energy sources prompt enterprises to seek alternative energy supply solutions. This issue is particularly relevant for small and medium-sized enterprises (SMEs), which face the dual challenge of optimizing energy costs and reducing their carbon footprint.

A review of the scientific literature indicates that the topic of alternative financing for renewable energy projects is gaining increasing importance. Fayziev (2024) explores the challenges of financing renewable energy initiatives, particularly the limited availability of traditional bank loans for SMEs. He identifies restricted access to finance as a significant barrier to adopting green technologies. He underscores the need to explore alternative financing mechanisms tailored to the needs of SMEs.

In this context, Kooli et al. (2022) propose an innovative model of productive Islamic financial mechanisms. Their research examines the potential of Islamic financial instruments to support various sectors of the economy, highlighting the creation of specialized financial tools adapted to different categories of businesses. Special emphasis is placed on hybrid financial instruments that combine debt and equity financing features.

Moreover, Alshater et al. (2022) and Rabbani et al. (2020) highlight the crucial role of integrating FinTech into Islamic finance. This integration enhances access to finance, improves transparency, and incorporates ethical principles into investment processes. Such approaches are particularly relevant for Central Asian countries, where Islamic finance already shows promising results across different economic sectors. The study by Kuanova et al. (2021) further demonstrates the significant potential of Islamic social finance. This model can provide targeted support for environmentally sustainable and socially beneficial regional projects, such as renewable energy initiatives.

In a systematic review, Harahap et al. (2023) emphasize that Islamic law and financial practices are highly compatible with the principles of sustainable development. The authors found that instruments such as *mudaraba*, *musharaka*, and *waqf* can effectively finance significant social and environmental projects, including renewable energy initiatives.

In their work on Islamic finance and sustainable development, Hassan et al. (2021) examine various approaches to financing environmentally sustainable projects. They stress that financial accessibility is a critical prerequisite for successfully

implementing such initiatives and propose using Islamic financial instruments to support sustainable development goals, including promoting renewable energy.

Sarkhanov & Huseynli (2022) conducted an econometric analysis of the relationship between renewable energy consumption and economic growth in Kazakhstan and Kyrgyzstan. Their findings reveal a positive correlation between the two variables, underscoring the importance of renewable energy development in stimulating economic growth in Central Asia. In a separate study, Temirbaeva et al. (2024) investigated the use of renewable energy and energy supply in rural areas of Kyrgyzstan. Despite the country's significant potential for renewable energy, the study highlights that deployment in rural regions remains limited due to financial constraints and underdeveloped infrastructure.

Methodology

The study covers four Central Asian countries, Kyrgyzstan, Kazakhstan, Uzbekistan, and Tajikistan, selected based on the presence of operational Islamic financial institutions and the existence of a legislative framework regulating Islamic banking (Regulation No. 2017-P-12/23/1-(NPA) ..., 2017; Zhuratovich & Turdalievich, 2024). The chosen study period of 2015-2024 allows for a comprehensive analysis of the formation and development of Islamic banking in the region, encompassing significant legislative changes and institutional transformations.

The empirical foundation of the study is based on statistical data from the central banks of the respective countries, including current regulations and provisions issued by the National Bank of the Kyrgyz Republic, particularly the Regulation No. 2017-P-12/23/1-(NPA) *"On the Licensing of Banking Activities"* (2017). Additional sources include statistical bulletins from the Central Bank of Uzbekistan and analytical reviews from the National Bank of Tajikistan for 2015-2024.

The study also reviewed current legislation on banks and banking activities, focusing on laws specifically regulating Islamic finance in the selected countries. Special attention was given to the regulatory provisions governing the establishment and operation of Islamic banks, requirements for their activities, and the supervisory framework applicable to Islamic financial institutions (Regulation No. 2017-P-12/23/1-(NPA) ..., 2017).

The paper analyses the current financial statements of Islamic financial institutions, including the annual report of EcoIslamic Bank (Kyrgyzstan) (2023), the financial statements of Al Hilal Bank (Kazakhstan) (2025), and the financial statements of Trustbank (Uzbekistan) (2023). Documents of international organizations were also utilized: reports of the Islamic Development Bank, analytical materials from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and research by the Islamic Financial Services Board (Zhuratovich & Turdalievich, 2024).

To assess the effectiveness of regulatory mechanisms for Islamic finance and develop proposals for their improvement, an integrated methodological approach was applied, comprising several stages of analysis.

At the first stage, a theoretical analysis of scientific literature on Islamic banking (2015–2024) was conducted, including the works of both foreign and local researchers. It included fundamental studies on the principles of Islamic finance, recent research on the development of Islamic banking across various regions, and academic publications focused on regulating Islamic financial institutions.

At the second stage, a comparative analysis of the legislative frameworks for Islamic banking in the studied countries was carried out based on the following criteria: the existence of a dedicated law on Islamic finance, specific provisions within general banking legislation, the presence of a national-level Sharia council, special tax regimes applicable to Islamic finance, and the regulation of Islamic insurance. The analysis was grounded in current regulatory documents, including licensing provisions for banking activities and laws on Islamic finance and banking operations (Regulation No. 2017-P-12/23/1-(NPA) ..., 2017). It enabled the evaluation of different models of supervision and the specific features of implementing Islamic financial products.

The third stage involved a statistical analysis of key quantitative indicators of Islamic banking development, based on annual reports of Islamic banks (EcoIslamic Bank, 2023; Al Hilal Bank, 2025; Trustbank, 2023). It included an examination of asset dynamics (USD 320 million in Kyrgyzstan, USD 210 million in Kazakhstan, USD 180 million in Uzbekistan, USD 65 million in Tajikistan), the structure of financial products (murabaha: 60-75%, ijara: 15-25%, musharaka: 5-12%), asset quality indicators (Non-Performing Financing (NPF): 3.2-4.5%, reserve coverage: 118-130%, capital adequacy: 17.1-19.2%), and return on equity (ROE: 9.5-14.2%) for the period 2015-2024.

The systems approach employed at all stages of the study ensured a comprehensive assessment of Islamic banking development, identification of interrelationships between key factors, and detection of systemic issues. It provided a basis for developing well-substantiated proposals to improve regulatory mechanisms for Islamic finance in the region's countries.

Results

Legal Framework and Current Status of Islamic Finance in Central Asian Countries

Islamic finance is based on the principles of Sharia and includes various types of financial transactions that comply with Islamic law. The main types of transactions used in Islamic finance include the following: Murabaha is a form of trade financing in which the bank purchases goods at the client's request and resells them at an agreed markup. Ijara is the Islamic equivalent of leasing, involving the transfer of the right to use an asset in exchange for rent (Musayeva et al., 2024). Musharaka is a partnership arrangement whereby the bank and the client jointly finance a project and share profits

and losses (Mishchenko & Mishchenko, 2016). Mudaraba is a trust-based financing method in which one party provides capital and the other manages it. Sukuk are Islamic financial certificates (often compared to bonds), backed by tangible assets. Takaful functions as Islamic insurance, founded on mutual assistance and shared responsibility (Al-Ababneh et al., 2025; Kerimkulov et al., 2015).

A comparative analysis of the legal framework for Islamic finance in Central Asian countries shows that the most developed legislative infrastructure exists in Kyrgyzstan and Kazakhstan, where special laws on Islamic finance are in force, Sharia councils operate at the national level, and special tax regimes have been introduced (Table 1). In contrast, Uzbekistan and Tajikistan regulate Islamic finance mainly through isolated provisions within their general banking legislation, while developing a specialised legal framework remains ongoing.

Table 1. Comparative Characteristics of the Legal Framework for Islamic Finance in Central Asian Countries (2024)

Criteria	Kyrgyzstan	Kazakhstan	Uzbekistan	Tajikistan
Special law on Islamic finance	Available	Available	Unavailable	Unavailable
Certain norms in banking legislation	Available	Available	Available	Available
The presence of a Sharia council at the national level	Available	Available	Unavailable	Unavailable
Special tax regimes for Islamic finance	Available	Available	Unavailable	In development
Regulation of Islamic insurance	Available	Available	Unavailable	Unavailable

Source: compiled by the authors based on Regulation No. 2017-P-12/23/1-(NPA) "On the Licensing of Banking Activities" (2017), EcoIslamic Bank (2023), Al Hilal Bank (2025), Trustbank (2023)

The development of the legal framework for Islamic finance in the region is characterised by varying degrees of maturity. In Kyrgyzstan, early support from international organisations and strong political will enabled a comprehensive legislative system, including special tax regimes and regulation of Islamic insurance. Uzbekistan has gradually integrated Islamic financial instruments into its banking system, as reflected by only introductory provisions in the current banking legislation.

Tajikistan remains at the initial stage of forming its legal framework, focusing on developing specific legislation and tax regimes for Islamic finance. In Tajikistan, the development of Islamic finance has been taking place within the framework of a pilot project launched in 2019 with the participation of the Islamic Development Bank (Shoev et al., 2023). Special legislation on Islamic finance is currently under development.

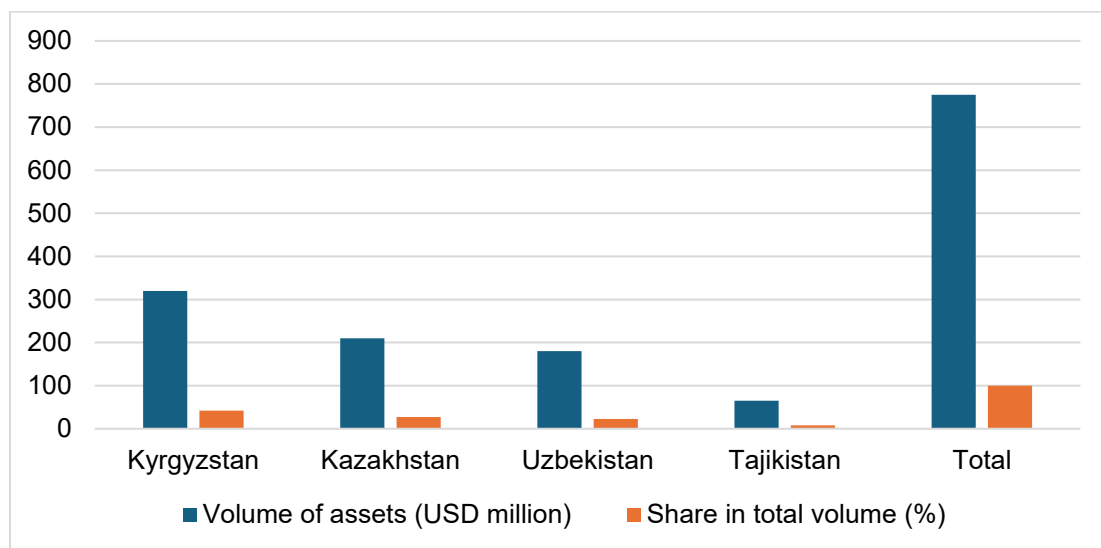


Figure 1. Structure of Islamic Financial Assets in Central Asian Countries (2024)

Source: compiled by the authors based on EcoIslamic Bank (2023), Al Hilal Bank (2025), Trustbank (2023), National Bank of the Kyrgyz Republic (2024)

Based on the data presented in Figure 1, the structure of Islamic financial assets in the Central Asian countries is characterized by significant uneven distribution. As of 2024, the largest volume of assets is concentrated in Kyrgyzstan (USD 320 million, accounting for 42% of the total), which is explained by the earlier introduction of Islamic banking in the country and the presence of a comprehensive legislative framework (National Bank of the Kyrgyz Republic, 2024).

Kazakhstan demonstrates steady growth in Islamic banking, ranking second with assets of USD 210 million (27% of the total). According to Al Hilal Bank (2025), this progress has been facilitated by creating an effective regulatory environment and actively developing Islamic financial products.

Uzbekistan holds third place with assets of USD 180 million (23% of the total). This figure was achieved relatively quickly due to the consistent development of the regulatory framework and the growing interest in Islamic financial instruments (Trustbank, 2023). The smallest volume of assets is observed in Tajikistan, USD 65 million (8% of the total), which is associated with the country's initial stage of Islamic banking development (EcoIslamic Bank, 2023).

The total volume of Islamic financial assets in the region reached USD 775 million, indicating significant potential for further growth. The Islamic financial sector in the Central Asian countries faces several key challenges. These include the insufficient development of regulatory frameworks in certain countries, a limited range of financial instruments, a shortage of qualified specialists knowledgeable in Islamic finance, a relatively low level of public financial literacy regarding Islamic financial products, as well as competition from conventional banks (Zhuratovich & Turdalievich, 2024; Yudina et al., 2022).

However, given the growing interest in Islamic financial products and increasing support from government agencies, further development of this sector in the region can be confidently predicted.

Comparative Analysis of the Activities of Islamic Financial Institutions in Kyrgyzstan, Uzbekistan, and Tajikistan

An analysis of the activities of Islamic financial institutions in Central Asian countries reveals different approaches to implementing Islamic financial products. According to the central banks of the region, the most successful experience in implementing Islamic banking is observed in Kyrgyzstan and Kazakhstan (Regulation No. 2017-P-12/23/1-(NPA) ..., 2017), where a full-fledged system of Islamic financial institutions is in operation (Table 2).

Table 2. Comparative Performance Indicators of Islamic Banks in Central Asian Countries (2024)

Indicator	EcoIslamic Bank (KG)	Al Hilal Bank (KZ)	Trustbank (UZ)
Assets (USD million)	320	210	180
Loan portfolio (USD million)	260	165	140
Number of branches	30	25	15
Number of clients (thousands)	120	95	60
ROE (%)	14.2	13.1	9.5

Source: compiled by the authors based on EcoIslamic Bank (2023), Al Hilal Bank (2025), Trustbank (2023)

According to bank reports, a distinctive feature of Islamic banking development in the region is the dominance of the retail segment. The primary clients of Islamic banks are small and medium-sized enterprises (SMEs) and individuals who prefer financial services aligned with Sharia principles. The structure of the financial products used is shown in Table 3.

Table 3. Composition of Islamic Financial Products by Country (Percentage Share of Total Portfolio)

Product	Kyrgyzstan	Kazakhstan	Uzbekistan
Murabaha	65	60	75
Ijara	20	25	15
Musharaka	10	12	5
Other	5	3	5

Source: compiled by the authors based on EcoIslamic Bank (2023), Al Hilal Bank (2025), Trustbank (2023)

According to the annual reports of Islamic banks, a key factor contributing to their success is the quality of risk management and adherence to Sharia standards. At the same time, each country has developed its own approach to regulating these aspects of Islamic banking, as evidenced by the analysis of key asset quality indicators (Table 4).

Table 4. Asset Quality Indicators of Islamic Banks (2024)

Indicator	EcoIslamic Bank (KG)	Al Hilal Bank (KZ)	Trustbank (UZ)
NPF (%)	3.2	3.4	4.5
Reserve coverage (%)	130	128	118
Capital adequacy (%)	19.2	18.8	17.1

Source: compiled by the authors based on EcoIslamic Bank (2023), Al Hilal Bank (2025), Trustbank (2023)

According to reports from the leading Islamic banks in the region (EcoIslamic Bank, 2023; Al Hilal Bank, 2025), a key feature of their development is a strong social orientation. Islamic banks actively support small businesses, microfinance initiatives, and agricultural development (Tleubayev et al., 2024; Taranova et al., 2024). In Kyrgyzstan, a significant portion of Islamic financing is allocated to farms and agricultural cooperatives. In Kazakhstan, Al Hilal Bank is developing specialized programs to finance the halal industry, while in Uzbekistan, Trustbank focuses on financing the manufacturing sector and trade.

The integration of digital technologies into Islamic banking also deserves special attention. As noted in annual reports, all regional central Islamic banks invest in mobile applications and online services. EcoIslamic Bank (2023) has launched the EcoBank Mobile application, Al Hilal Bank (2025) offers the Al Hilal Online digital platform, and Trustbank (2023) is advancing Islamic digital banking through its Trust Islamic application. These developments enhance accessibility to Islamic financial services and attract new customer segments, particularly younger users.

An analysis of the practices of Islamic financial institutions shows that they successfully compete with conventional banks by offering unique products and adopting a more client-oriented approach. For example, Islamic banks often provide more favorable conditions in trade financing by sharing risks with clients. Furthermore, there is a trend towards expanding their product range, from basic murabaha and ijara to more complex instruments such as musharaka and mudaraba.

The issue of personnel development is significant for the growth of Islamic banking in the region (Lailieva et al., 2025; Porkodi et al., 2024). According to leading institutions (EcoIslamic Bank, 2023; Al Hilal Bank, 2025; Trustbank, 2023), Malaysia's success in developing Islamic finance is attributed mainly to its comprehensive system for training specialists. The Malaysian model includes active cooperation with international Islamic universities, establishing specialized training centers at central banks, certification programs for Sharia audit professionals, and internship opportunities at leading Islamic financial institutions.

Central Asian countries are successfully adapting this experience through various initiatives. For example, Al Hilal Bank (2025) is establishing regional centers for Islamic financial education and implementing dual degree programs in partnership with Malaysian universities. EcoIslamic Bank (2023) focuses on developing a professional certification system, while Trustbank (2023) regularly organizes internships for banking specialists in leading Islamic financial centers.

Overall, a comparative analysis of the activities of Islamic financial institutions in Central Asia reveals a steady trend of growth and development in the sector. At the same time, each country demonstrates distinct approaches to expanding Islamic banking, shaped by local contexts and market needs.

A key aspect of Islamic banking is its risk management system (Arifaj et al., 2024; Poprozman et al., 2025). Unlike conventional banks, Islamic financial institutions develop specific risk assessment models tailored to the characteristics of Sharia-compliant contracts. Risk evaluation methods are used for contracts such as musharaka and mudaraba, where the bank acts as a partner rather than a creditor. These methods include mechanisms for monitoring the intended use of funds and overseeing the implementation of financed projects.

In the broader development of the Islamic financial market, there is a notable trend toward establishing interbank liquidity management mechanisms. Islamic banks in the region are introducing short-term placement instruments that comply with Sharia principles, contributing to more efficient asset and liability management.

Problems and Prospects for the Development of Islamic Banking in the Region

According to the leading Islamic banks in the region (EcoIslamic Bank, 2023; Al Hilal Bank, 2025; Trustbank, 2023), the development of Islamic banking in Central Asian countries faces several significant challenges. Foremost among these is the underdeveloped legislative framework. Despite the adoption of individual regulations governing Islamic financial transactions, there remains a pressing need to establish a comprehensive legal foundation for the functioning of Islamic financial institutions. The harmonization of tax legislation to accommodate the specific characteristics of Islamic financial products is particularly urgent (Makhazhanova et al., 2022; Tynaliyev et al., 2024).

Another critical issue is the shortage of qualified specialists in Islamic finance and modern banking technologies. Current educational programs are insufficient to meet the growing demand for skilled personnel. Simultaneously, the technological advancement of Islamic banking requires substantial investment in digital solutions tailored to the specific requirements of Sharia-compliant financial products, as existing banking information systems are not always capable of effectively managing complex Islamic instruments.

According to annual reports (EcoIslamic Bank, 2023; Al Hilal Bank, 2025), the Islamic banking market in the region has considerable growth potential. Increasing demand for financial services that align with Sharia principles creates favorable conditions for expanding Islamic financial institutions.

The most promising development areas include Islamic microfinance for supporting small businesses, the implementation of digital platforms for retail Islamic products, the issuance of corporate sukuk for infrastructure financing, the creation of Islamic insurance (takaful) products, and the expansion of Islamic project financing in the real sector.

Realizing the full potential of Islamic banking requires a systematic approach to market infrastructure development (Iskakov & Ruziyeva, 2014; Yudina et al., 2025). It includes enhancing legislation on Islamic finance, establishing comprehensive training systems for personnel versed in Sharia standards, creating specialized rating agencies, and developing a secondary market for Islamic securities. The social role of Islamic banking also merits special attention: Islamic financial institutions are increasingly involved in financing educational programs, healthcare initiatives, and environmental projects.

The study by Li & Li (2022) highlights the potential for creating a unified digital platform for trading Islamic financial instruments. The analysis indicates that implementing such a platform could significantly enhance the efficiency of the Islamic finance market and reduce transaction costs by 35-40% using blockchain technologies.

The International Atomic Energy Agency (2023) underscores the critical role of international organizations in developing the necessary infrastructure for Islamic finance by promoting the harmonization of standards and facilitating the exchange of best practices. The successful integration of Islamic finance into various sectors of the economy, particularly agriculture, requires a nuanced understanding of local economic conditions, as demonstrated in the experience described by Contrepoints (2001). An analysis of corporate governance practices in Islamic financial institutions by Kinstellar (2023) highlights the importance of balancing stringent regulatory requirements with the need for innovation. The study found that Islamic financial institutions are increasingly active in financing socially important projects and supporting vulnerable population groups.

Baily & Elliot (2013) stress the importance of considering these specific features of Islamic finance when undertaking structural reforms in the financial sector. Their analysis revealed that Islamic banks allocate an average of 2.5% of their profits to social programs, significantly higher than the 0.8% allocated by conventional banks.

The emphasis on ethical investment principles and the prohibition of speculative transactions provides Islamic banks with additional opportunities to contribute to the sustainable development of the region's financial system. Moreover, the study shows that Islamic banks demonstrate greater resilience to market fluctuations due to their balanced risk-sharing models and focus on financing the real economy.

In corporate governance, Islamic banks in the region show a growing commitment to transparency and implementing international standards. Nonetheless, further enhancement of internal control systems and risk management mechanisms remain necessary. A key area for development is the advancement of corporate social responsibility practices and the integration of sustainable development principles into the strategic planning of Islamic banks.

The Islamic insurance sector (*takaful*) holds significant growth potential. At present, this segment is underdeveloped mainly across Central Asian countries, despite increasing demand from both individuals and businesses. The development of

takaful could play a vital role in expanding financial inclusion and offering additional protection mechanisms for participants in Islamic financial transactions (An et al., 2024).

Another promising direction lies in fostering collaboration between Islamic finance and the broader Islamic economy, particularly the halal industry. Creating comprehensive financial solutions tailored to enterprises operating in the halal sector could be a powerful catalyst for expanding Islamic banking in the region (Makhazhanova et al., 2024; Niyazbekova et al., 2023). It is especially pertinent in enhancing the export potential of Central Asian countries to Muslim-majority markets.

Deepening engagement with leading global Islamic financial hubs is strategically important in international cooperation. Partnerships with institutions in Malaysia, the United Arab Emirates (UAE), and other advanced Islamic financial markets can facilitate the transfer of best practices and technologies while attracting investment to the region.

According to annual reports of Islamic banks in the region, the existing infrastructure for professional training, which currently includes 30 branches in Kyrgyzstan, 25 in Kazakhstan, and 15 in Uzbekistan, is insufficient to meet the rising market demand for qualified personnel. In response, specialized educational programs are being developed in collaboration with international centers for Islamic financial education.

Islamic banks in the region continue to demonstrate sustainable growth, as evidenced by the performance indicators of leading institutions: the return on equity (ROE) stands at 14.2% for EcoIslamic Bank, 13.1% for Al Hilal Bank, and 9.5% for Trustbank. These outcomes reflect an integrated financial model that combines traditional Islamic principles with contemporary ones.

Discussions

In risk management, Islamic banks must develop more advanced risk assessment models that reflect the specific characteristics of Sharia-compliant contracts. Choudhry (2022) highlighted that conventional credit risk assessment approaches are unsuitable for Islamic financial products, particularly in musharaka and mudaraba contracts. The study revealed a low level of non-performing financing (NPF 3.2-4.5%), aligning with the findings of Hernawati et al. (2021), who noted that effective risk management in Islamic banks requires a tailored approach to the evaluation of problematic assets and the formation of reserves. Reservation coverage (118-130%) and capital adequacy ratios (17.1-19.2%) obtained during the study further confirmed this trend.

Another key factor in the development of Islamic banking has been the enhancement of financial literacy among the population. According to Daly & Frikha (2014), understanding Islamic finance principles remains relatively limited even in countries with predominantly Muslim populations. The current study supports this

observation, identifying low public awareness of Islamic financial products as a significant barrier to regional sectoral development.

These results align with the conclusions of Aziz (2007), who underscored the critical role of educational initiatives and information campaigns in fostering Islamic banking and the importance of the social mission of Islamic financial institutions.

The product structure identified in the study, murabaha (60-75%), ijara (15-25%), and musharaka (5-12%), indicates limited diversification. This finding is consistent with the observations of Getzen & Kobernick (2022), who stressed the need for developing specialized Islamic financial instruments. Bhalla (2002) examined the role of Islamic finance in promoting the real sector and confirmed the potential of targeted Islamic financial products to stimulate economic growth. The results of the current study support this thesis, as the return on equity (ROE) of Islamic banks, ranging from 9.5% to 14.2%, reflects a competitive performance level.

The issue of standardization in Sharia supervision and audit remains relevant. Shoev et al. (2023) noted that differences in interpreting Sharia norms across countries create additional challenges for developing cross-border transactions. The present study confirms these findings, revealing significant disparities in the region's regulatory environments governing Islamic banking.

Venardos (2012) emphasized that the absence of specialized trading platforms restricts Islamic banks' investment and liquidity management capabilities. The findings of this study align with that conclusion, highlighting the uneven development of market infrastructure across Central Asian countries.

Islamic banks are actively financing international trade, particularly with countries in the Middle East and Southeast Asia (Fitriasari et al., 2024; Shtal et al., 2018). This trend is consistent with the observations of Shinkafi et al. (2020), who underlined the need for effective liquidity management mechanisms that remain compliant with Sharia principles. Hassan et al. (2020) stressed the importance of building a sustainable financial system based on Islamic principles. The results of this study support this view, demonstrating greater resilience of Islamic banks during periods of economic instability.

In terms of regulation, this study's findings align with those of Vernimmen et al. (2022), who identified a direct relationship between the development of a legislative framework and the growth of Islamic financial institutions. It was clearly reflected in the higher growth rates of Islamic banking in Kyrgyzstan and Kazakhstan, where more developed legal infrastructures were established.

Regarding technological development, the digital transformation of Islamic banking observed in this study supports the conclusions of Mirzaev & Khoshimov (2024), who pointed out the need to integrate traditional Islamic principles with modern financial technologies.

Beik & Nursyamsiah (2022) emphasised the need for a comprehensive approach to developing educational infrastructure in Islamic finance, consistent with this study's findings on the shortage of qualified specialists in the region. The results also

support the conclusions of Iqbal & Mirakhor (2011), who stressed the importance of creating a holistic ecosystem for Islamic banking. In Central Asia, the development of specialized educational programs and research centers was particularly significant.

Islamic banks actively financed international trade, particularly with Middle Eastern and Southeast Asian countries. It contributed to attracting foreign investment and integrating the regional economy into the global financial system. It laid the groundwork for further international cooperation in Islamic finance. Shinkafi et al. (2020) noted that financial inclusion in Islamic banking requires effective liquidity management mechanisms compliant with Sharia principles. This study confirmed these findings and highlighted the successful implementation of innovative liquidity tools in regional Islamic banks. Hassan et al. (2021) highlighted the importance of building a resilient financial system rooted in Islamic principles. This study's findings showed that Islamic banks in the region exhibited greater stability during periods of economic uncertainty, mainly due to their risk-sharing business model and the prohibition of speculative transactions.

In terms of regulation, ensuring a balance between adherence to Islamic principles and the demands of the modern financial market was found to be essential. Research by Vernimmen et al. (2022) demonstrated a direct link between the strength of the legislative framework and the growth of Islamic financial institutions. This study found that banks in the region had made significant progress in developing specialized supervisory and reporting mechanisms, though further harmonization was still required. Shirazi et al. (2022) pointed out that the successful integration of Islamic finance in Kazakhstan required adaptation to local conditions, an insight supported by this study's findings, which revealed the limitations of simply replicating international standards. Instead, implementing tailored regulations and requirements that reflect the nature of Islamic financial products, and the specific regional context was identified as essential.

In technological development, observations on the digital transformation of Islamic banking aligned with the study by Mirzaev & Khoshimov (2024), who highlighted the need to integrate traditional Islamic principles with modern financial practices. The results of this study demonstrated that Islamic banks in the region had successfully implemented digital solutions, indicating their growing technological maturity. The development of human resources was of particular importance. As Beik & Nursyamsiah (2022) noted, a comprehensive approach to building educational infrastructure in Islamic finance is essential. This study confirmed a direct relationship between the quality of human capital and the performance of Islamic banks (ROE ranging from 9.5% to 14.2%), supporting the authors' conclusions on the pivotal role of educational programs.

Hendawi et al. (2024) emphasized the importance of international cooperation for the sustainable development of Islamic finance. The present study supported these findings, demonstrating the need for new forms of engagement with global financial centers and forming an integrated Islamic banking system at the regional level.

Regarding product line management, the study's results were consistent with the findings of Kamdzhlov (2020), who noted a trend toward creating hybrid financial instruments. The analysis of Islamic banks' product portfolios confirmed the successful adaptation of traditional Islamic financial instruments to local contexts, which aligns with the conclusions of earlier research.

Parwoni & Usmonjon (2024), in their analysis of the effectiveness of Islamic banks in Uzbekistan, noted their positive impact on the economy due to a balanced approach to risk management. The present study's findings confirm these conclusions, demonstrating the potential of Islamic banking as a driver of economic development in the region. The asset quality indicators identified in the study (NPF 3.2-4.5%, reserve coverage 118-130%) support the authors' assertions regarding the advantages of the Islamic risk management model. Brenner & Brenner (1990) observed a growing interest in Islamic financial products among many clients. The asset growth dynamics of Islamic banks in the region, reaching a total of USD 775 million, confirm this trend, indicating a stable demand for financial services aligned with the ethical and religious principles of the population.

Usmani (2021) highlighted the advantages of the Islamic banking model in economic instability. The results of this study support this view, demonstrating greater resilience of Islamic banks to market fluctuations, which is attributed to the foundational principles of Islamic finance and its close connection with the real economy.

These findings also align with the conclusions of Iqbal & Mirakhor (2011), who emphasized the importance of creating a comprehensive ecosystem for Islamic banking. In the context of Central Asia, the study revealed that the development of specialized educational programs and research centers is of particular significance, requiring a holistic approach to institutional infrastructure development.

Conclusions

The study on the features and prospects of using Islamic financing principles in Central Asia has led to several significant conclusions.

The analysis revealed that Islamic banking in the region is demonstrating sustainable growth, as evidenced by the increase in the total assets of Islamic financial institutions to USD 775 million in 2024. Of this amount, Kazakhstan accounts for USD 210 million (27%), Kyrgyzstan, USD 320 million (42%), Uzbekistan, USD 180 million (23%), and Tajikistan, USD 65 million (8%). The study confirmed the significant influence of institutional factors on the development of Islamic finance in the region. Notably, the most developed legislative infrastructure has been established in Kyrgyzstan and Kazakhstan, where special laws on Islamic finance are in effect, Sharia councils operate at the national level, and special tax regimes have been introduced.

The analysis identified the main barriers to the development of Islamic banking, which are reflected in the performance indicators of leading Islamic banks: return on equity (ROE) ranges from 9.5% to 14.2%, non-performing financing (NPF) from 3.2%

to 4.5%, and capital adequacy from 17.1% to 19.2%. However, the structure of the product portfolio remains insufficiently diversified, with murabaha dominating (60-75% of the portfolio).

The study demonstrated significant potential for the further development of Islamic finance in the region, supported by the growth in the client base (from 60,000 to 120,000 clients at leading banks) and the expansion of branch networks (15-30 branches). Importance is placed on the development of regional cooperation and the harmonization of standards among countries.

The study results can be applied in formulating strategies for developing Islamic banking in the region, improving regulatory frameworks, and creating new Islamic financial products. The main limitation of the research lies in the insufficient availability of long-term statistical data across all countries, which hampers a comprehensive assessment of the effectiveness of various Islamic banking development models. Promising directions for future research include the development of a methodology to evaluate the performance of Islamic financial institutions and analyzing the impact of digitalization on the growth of Islamic banking in the region.

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