

THE CONCEPT OF ISLAMIC BANKING AND ITS ESSENCE IN THE BANKING SYSTEM OF UZBEKISTAN

Karimova Aziza Mahomadrizoevna
Senior Lecturer, PhD,
Samarkand Institute of Economics and Service

Ubaydullayev Bekhruz Sodirovich
Student, Samarkand Institute of Economics and Service

ABSTRACT:

The Islamic financial sector today is one of the fastest growing sectors in the world and includes innovative financing mechanisms. The development of this network is especially important for Muslim-majority countries. This article discusses the essence and features of Islamic banking, the rules of operation, the main financial instruments of Islamic finance. In connection with the urgent need for banking sectors based on Islamic law and solving the problems of opening such banks in Uzbekistan, proposals are made for the establishment of Islamic banks in the Republic of Uzbekistan.

Keywords: Islamic banking, commercial bank, financing, mudaraba, musharaka, murabaha, Islamic legal norms, Islamic finance instruments

INTRODUCTION:

Anyway, in the last century, every 32 years, the total number of adherents of Islam has doubled. But if earlier it was customary to consider Islam as an element of the antique East, then since the middle of the last century the world has been observing the Islamization of Europe – a unique phenomenon that world history has not yet known. We must be aware that over the past centuries, religion has begun to perform somewhat different functions. In previous centuries, religion should have been understood as a worldview and specific actions

based on the belief in the existence of a God or gods, i.e. some kind of supernatural. At present, world religions, and primarily Islam, are a method of political and socio-cultural identification, which makes it possible to claim the benefits of modern civilization, to determine "a place in the sun." And their main function is integration and regulation in a society divided by enmity and inequality.

ANALYSIS OF USED LITERATURE:

Many foreign scientists have worked on issues in the field of studying Islamic banking. In particular, Ibadov E., Shmyreva A. Baidaulet E., Walters A., Imamnazarov J., R.I.Bekken, Kurochkina I.G., Z.Iqbal, A.Mirakhor., Bekkin R.I., Aliskerov M.S., Kalimullina M.E., who carried out a number of works on the development of Islamic finance and banking in different regions the world, including in the countries of Central Asia.

RESEARCH METHODOLOGY:

This study was conducted using the methods of scientific abstraction, analysis and synthesis, as well as using the analysis of economic literature.

MAIN PART:

Islamic banking is a segment of the financial industry characterized by a number of features: prohibition of interest-bearing loans, transactions with uncertainty, investments in alcohol production, processing and sale of pork, gambling, etc. It is based on transactions with

goods or assets, and not with money as such.

The term "Islamic banking" is used in research to characterize banking activities according to the principles of Sharia, according to which all forms of interest, investments in business that are contrary to Islamic values, speculative transactions, as well as contracts, according to which the ownership of goods depends on the occurrence of a predetermined uncertain event in the future, are prohibited [6]. At the same time, Islamic banking has the same goals as traditional banking: to earn money for a banking institution by borrowing capital in accordance with Islamic law, but its main principle is based on the distribution of risks (profit sharing, custody, joint venture, financing "costs plus", rent), and not the transfer of risk.

Considering the essence of Islamic banking, E. Ibadov and A. Shmyreva examined the principles by which Islamic banking functions, and also studied the tools of Islamic finance [2].

One of the prominent researchers in the field of Islamic finance in the Central Asian region, E. Baidalet describes the essence and mechanisms of the Islamic finance system. He particularly notes the current situation with Islamic finance in Central Asian countries, including the trend of development of Islamic finance in Uzbekistan.

A. Walters (2013) describes the initial experience of the development of Islamic financial institutions in the republics of Central Asia [8].

As for Uzbek researchers in the field of Islamic finance, it should be noted the work of J. Imamnazarov, who conducted an analysis of the current situation on the introduction of Islamic finance instruments in Uzbekistan [10].

Islamic banking is in demand primarily in Muslim countries. The bulk of potential customers of these banks are concentrated in South, South-East and Central Asia and Africa. In addition, such organizations can be found in

Europe, the USA and Australia.

The development of Islamic finance is one of the priorities in Uzbekistan, which is among the Muslim countries. According to the State Statistics Committee of Uzbekistan, the permanent population of the country exceeded 35 million people on January 1, 2022. In Uzbekistan, where the majority of the country's population are Muslims, whose number can vary from 85 to 96%, there is a great demand for this type of financing. As Mirziyoyev noted, "the time has come to create a legal framework for the introduction of Islamic financial services in our country. It will be attended by experts from the Islamic Development Bank and other international financial organizations".

The functions of banks in the Islamic model do not differ from the traditional one (they ensure the operation of payment systems and act as financial intermediaries). But Islamic banking is a financial system based on the principles of Sharia law. The two fundamental principles of Islamic banking are the separation of profit and loss and the prohibition on the collection and payment of interest by creditors and investors. And the main areas of activity are trade, rent and partnership.

Next, let's look at the rules by which Islamic banking operates. (Fig. 1)

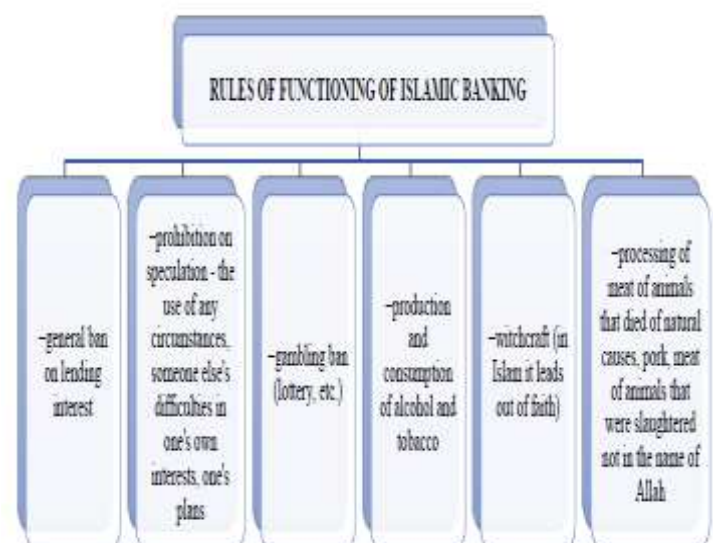


Fig. 1. Rules of functioning of Islamic banking [2]

Islamic finance is a term that reflects financial business that does not contradict Sharia principles. Traditional finance, in particular, the conventional banking business, relies on raising funds, as well as financing the population and entrepreneurs. Therefore, the relationship of a banker with clients is always a relationship of a debtor and a creditor. The main aspect of the work of a traditional bank is the percentage prohibited by Shariah.

The most important aspect of how a traditional bank works is that money creates money, or interest in money. This practice is considered usury (in Arabic "riba") and is contrary to the principles of Islamic finance. Money is never accepted as a commodity. Instead, Islamic law consistently treats money as a medium of exchange, a measure of value, and a unit of account. Money by itself cannot create money, so the link between money and profit must be established as an alternative to interest.

So, the above indicates that in the Islamic financial system, first of all, "riba" is prohibited. This is any pre-determined rate, which depends on the terms and amount of the loan. Such a ban is explained by Muslim laws on social justice and equality. Islam encourages profit-making, but condemns the use of interest for profit-making purposes. After all, such activity does not lead to the creation of a product and does not increase the welfare of society.

That is why Islamic banks are primarily engaged in trading, leasing and monetary transactions, as well as investment activities. Islamic banks cannot receive deposits and provide debts in order to receive interest. The essence of the relationship between Islamic banks and their clients differs depending on various financial instruments or contracts.

The conducted research shows that there are about 400 Islamic banks in the world today. They are located in 75 countries of the world. According to the Islamic Finance Development

Report 2020, global Islamic finance assets increased by 14% to \$3.374 trillion. US dollars. This is less than the 15% growth in 2019, but it is an achievement given the COVID-19 pandemic. In 2019, the number of commercial Islamic banks worldwide amounted to 428 banks. According to Ernst & Young, despite the fact that Islamic banking manages only a fraction of Muslim banking assets, it is growing faster than banking assets as a whole. For example, in 2009-2013 its growth rate was 17.6 %.

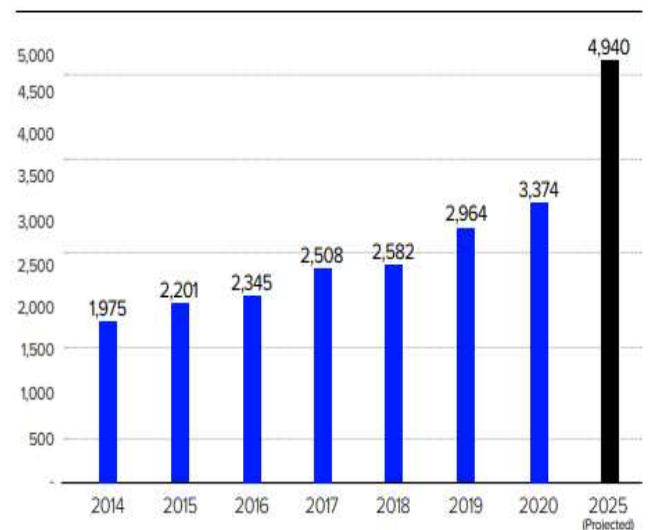


Fig. 2. Islamic finance assets Growth (2014-2020, USD billion)

As a result of numerous scientific studies and practical actions in 1975, the Islamic Bank of Dubai and the Islamic Development Bank became the first Islamic banks to see the light. Gradually, Malaysia became one of the research centers in the field of Islamic finance, and educational institutions such as the International Educational Center for Islamic Finance (INSIF) and the International Academy for Sharia Studies in Islamic Finance (ISRA) began their activities. Islamic finance began to spread widely and arouse interest in Western countries. As a result of the fact that the population and business representatives in the Gulf countries have a good understanding of the

essence of Islamic finance products, the demand for such products has also increased. The main thing was that in these countries there was a huge amount of free funds (resources).



Рис. 3. Member states (green) and observers (blue) of the Organization of Islamic Cooperation. Syrian membership temporarily suspended (red)

So, as part of our study, we will consider the main financial instruments of Islamic finance.

Risk Sharing. Since the bank does not charge interest for lending money, it becomes, in fact, an investor, not a lender. Thus, the owner of the capital and the entrepreneur share the risks associated with the implementation of the project.

Money is Potential Capital. They become real capital when they are invested in production activities. In ordinary banks, money is a commodity, in Islamic banks, money is a measure of value.

Prohibition of Speculative Behavior. In this regard, any gambling is prohibited, as well as work with derivative financial instruments (derivatives), since transactions with them are characterized by significant risk.

The principle of non-infringement of contracts. According to the rules of Islamic banking, the fulfillment of contractual obligations is the most important for the parties to the transaction. This reduces the risks for all participants.

According to various estimates, about 15-20% of the population of Uzbekistan do not use the traditional credit system for religious reasons. According to the survey, which was attended by 2,235 business representatives and about 5,000 people, 38% of business entities and 56% of individuals do not use traditional bank lending services because of their religious beliefs.

There are no laws regulating Islamic financial products and services in Uzbekistan yet. The current banking and tax legislation is not adapted for banks operating according to the principles of Islamic law, as well as software systems for banks.

According to experts, in order to introduce Islamic finance products, Uzbekistan needs changes to the current banking legislation, tax and civil codes. It is important to train personnel in this area and improve the literacy of the population. Experts in the sphere agree that the Islamic finance system will provide an additional opportunity to activate the economy and trade by attracting free funds to the real sector of the economy.

According to the estimates of the Islamic Development Bank, Islamic banking can attract up to \$ 10 billion annually to Uzbekistan if the necessary legislative norms appear.

The Central Bank of Uzbekistan plans to develop a draft law on non-bank credit institutions, which will include the concept of "Islamic finance". The draft law "On non-bank credit institutions and microfinance activities" developed by the Central Bank in the new version provides for the provision of services by microcredit organizations based on the principles of Islamic finance. The document is

currently under consideration by the Legislative Chamber of the Oliy Majlis.

Along with this, the government created an interdepartmental working group on the organization of Islamic finance - it was headed by the Ministry of Investment and Foreign Trade. International experts were involved in the working group in cooperation with the Islamic Development Bank.

Today there are 30 commercial banks, 137 leasing and more than 30 insurance companies operating in Uzbekistan, 10-12 of which are ready to continue their activities on the principle of the "Islamic window" and have started practical work in this direction.

In 2018, the Government of Uzbekistan appealed to the Islamic Corporation for the Development of the Private Sector (ICD) with a request to provide advisory assistance for the launch of Islamic windows in several banks of the republic. ICD is at the final stage of launching Islamic windows in two Uzbek banks: Asia Alliance Bank and Trustbank. A number of commercial banks in Uzbekistan have started preparing to provide financial services based on Islamic banking by organizing Islamic windows in addition to their traditional banking activities. Seven more Islamic windows will be launched by the beginning of 2022. In particular, these are "Qishloq Qurilish Bank", "Agrobank", "Turon Bank" and "Kapitalbank".

Islamic finance in Uzbekistan is represented by the projects of the Islamic Bank for the development of the private sector, which has been cooperating with banks for a long time. In 2018, the Bank of Uzbekistan for the first time made a deal within the framework of Islamic trade finance. The International Islamic Trade and Finance Corporation (ITFC), which is part of the Islamic Development Bank Group, and Asia Alliance Bank have signed an agreement on trade finance based on the murabaha principle.

Islamic finance will play an important role in the development of the country's

national financial sector. In particular, an important place is occupied by the introduction in Uzbekistan of new promising directions for the development of the securities market, alternative instruments of the Islamic financial securities market, increasing the investment attractiveness of the state, as well as Islamic financing of banking products.

A landmark event for the world of finance in Uzbekistan was the annual meeting of the Board of Governors of the Islamic Development Bank, which was held in Tashkent from September 1 to 4, 2021. The meeting mainly discussed ways to solve the current economic problems caused by the pandemic and mechanisms to promote comprehensive economic recovery both in the member countries and at the global level.

Within the framework of the annual meeting of the Board of Governors of the Islamic Development Bank Group, which was held in Tashkent on September 3-4, 2021, the Islamic Development Bank and the Republic of Uzbekistan signed a grant agreement in the amount of US\$ 265,000 to provide technical assistance to Uzbekistan and to create a legal framework for Islamic banking and finance.

The agreement provides for the development of the necessary regulatory, supervisory and Sharia guidelines, awareness raising and capacity building for Islamic banking in the country. It is hoped that the attraction of technical assistance from the Islamic Development Bank will give an additional impetus to the acceleration of work on the development of a regulatory framework for the activities of Islamic financial institutions in Uzbekistan.

CONCLUSION:

Thus, Islamic finance is a new financial sector in Uzbekistan. In this regard, both the population and commercial banks have developed different ideas, based only on

theoretical knowledge and experience in other countries. The development of a sound regulatory framework should create a favorable environment for the activities of Islamic financial institutions. This may lead to an increase in the inflow of investments from Muslim countries.

Winning people's trust in Islamic finance will naturally contribute greatly to the development of not only the field of Islamic finance, but the entire financial system. The Deputy Chairman of the Upper House of the Parliament of Uzbekistan, Mr. Safoev, admitted that the population of Uzbekistan has about 10 billion US dollars, which are stored outside the banking system [7]. Most people don't put their money in banks or take out bank loans because of bank interest, which is forbidden by Islam. The functioning of Islamic financial institutions in the country could also attract local investment in these institutions and make this money work.

We are firmly convinced that the further development and prosperity of Islamic financial institutions in Uzbekistan will have a positive impact on improving the country's image in the Islamic world. Therefore, the launch of "Islamic windows", which are the first step in the field of Islamic finance, based on the principles of full Islamic financing, will further increase the country's achievements in the financial sphere.

REFERENCES:

- 1) R.I.Bekken. "Islom iqtisodiy modeli va zamon", "O'zbekiston" Toshkent 2019 y.
- 2) Ибадов Э. С., Шмырева А. И. Некоторые аспекты деятельности исламских банков // Идеи и идеалы: Журнал. — 2013. — Т. 1, № 3(17). — С. 73-78.
- 3) Калимуллина М.Э. Стандартизация исламских финансовых сделок // Актуальные проблемы российского права. 2017. № 3. С. 75–80.
- 4) Беккин Р.И., Алискеров М.С. Особенности исламского финансового сектора в России на современном этапе и перспективы его роста // Актуальные проблемы российского права. 2017. № 4. С. 60–64.
- 5) Z.Iqbal, A.Mirakhor. "An Introduction to Islamic Finance". John Wiley & Sons (Asia) Pte. Ltd. Published 2011y
- 6) Курочкина И.Г. Специфика исламской финансовой модели в условиях глобализации // Ученые записки Крымского инженерно-педагогического университета. 2018. № 2 (60). С. 135–139.
- 7) «У населения есть 10 млрд долларов», — Сodik Сафоев <https://upl.uz/economy/19675-news>
- 8) Wolters, A. (2013) Islamic Finance in the States of Central Asia: Strategies, Institutions, First Experiences. PFH Research Papers no. 01, 2013, PFH Private Hochschule Göttingen, page 17.
- 9) Исламский банкинг: особенности и интересные факты. PaySpace Magazine. <https://psm7.com/analytics/islamskij-banking-osobennosti-i-osnovnye-otlichiya-ot-tradicionnyx-bankov>
- 10) Jakhongir Imamnazarov, LANDSCAPING ANALYSIS OF ISLAMIC FINANCE INSTRUMENTS IN UZBEKISTAN, 2020.
- 11) Anvarovich, N.E. (2022). SOME PROBLEMS IN DETERMINING CREDITWORTHINESS INDIVIDUALS AND WAYS TO SOLVE THEM. Innovative Technologica: Methodical Research Journal, 3(01), 28-33.
- 12) Niyozov, Z. D., Karimova, A. M., Malikova, D. M., Togaev, S. S., & Alimova, N. K. (2019, March). THE INTRODUCTION OF INNOVATIONS IN THE SPHERE OF PROVISION OF SERVICES OF UZBEKISTAN IN THE CONDITIONS OF TRANSITION TO DIGITAL ECONOMY. In International Scientific and Practical Conference "Innovative ideas of modern youth in science and education" (pp. 376-378).
- 13) Anvarovich, N.E. (2022). Transformation of the Banking Sector in Uzbekistan in the Context of Covid-19 Corona virus Pandemia. Academic Journal of Digital Economics and Stability, 13, 76-85.