

ISLAMIC FINANCE AND BANKING IN UZBEKISTAN

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Abstract: *This scientific article examines the differences between Islamic banking products and types of services from traditional banking services, as well as their advantages and the main reasons for the growing interest. Information is also provided on the first steps towards the development of the Islamic banking services market in Uzbekistan.*

Keywords: *Islamic banking, Islamic finance, mudoraba, musharaka, traditional lending, Islamic window, silence, rent.*

Despite the fact that professing Islam make up the majority, the Islamic financial sector in Uzbekistan is still practically undeveloped compared to neighboring Central Asian countries, although the country has huge potential in the development of this sphere. This is done by large international financial organizations (the Islamic Development Bank Group, the International Finance Corporation, the Asian Development Bank, etc.) recognized by experts.

This was stated by the President of the Republic of Uzbekistan Sh.Mirziyoyev also noted in his Message to the Oliy Majlis dated December 29, 2020, that “the time has come to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial organizations will participate in this.”[1]

Islamic finance is a financial system that takes place in the global economy, based on Islamic principles, which are widely implemented today even in developed countries, and has incorporated innovative financing mechanisms. This system is based on the principles of justice, equality and social responsibility and is designed to provide financial services consistent with Islamic values and beliefs.

In modern conditions, the segment of Islamic finance on a global scale is one of the fastest growing: during the recession of banking speculative activity, the profits of Islamic institutions grow by 15-20% per year, and assets by more than 20%, and the annual turnover of global banking assets of the Islamic world for 2020 is estimated at more than 1300 billion dollars [2].

The rather intensive development of Islamic banking is due to the increased demand and significant accumulation of financial resources by Muslim states. Given that the financial markets of Arab countries are actively developing, and there is competition between Western companies to attract foreign investors, it can be argued that the growth trend of Islamic banks will continue. This sets the stage for a broader analysis of the activities of Islamic banks, as well as for determining their access to financial markets.

As a result of the research conducted within the framework of this topic, it is possible to analyze the definitions given by scientists about the Islamic Bank, and to create a definition of Islamic banking and Islamic banking.

Islamic banking services are a set of banking services provided to individuals and legal entities on the basis of Islamic Sharia, organized in the form of a separate division or branch at commercial banks.

Islamic banking is a commercial organization that opens and maintains bank accounts, makes payments, raises funds for deposits, finances individuals and legal entities, as well as other banking services in accordance with Islamic Sharia."Sharia (the code of laws of the Islamic religion) requires that these transactions be legal. That is, it finances socially safe production projects sanctioned by Sharia and prohibits the payment or receipt of interest on any transactions (Bashir, Hassan, 2004).

There is a growing interest in Islamic finance in Uzbekistan today. Uzbekistan is an important state in Central Asia with a population of more than 35 million people, 95 percent of the population are Muslims. It is not only rich in gas, oil and other natural resources, but has also been one of the centers of science and Islam for a long time.

The results of a study by the Chamber of Commerce and Industry of Uzbekistan with UNDP (United Nations Development Program) showed that 38% of the surveyed business representatives and 56% of individuals do not receive loans from traditional banks because of their religious beliefs. Thus, there is a demand for financial institutions that follow the rules of Islam. According to the estimates of the Ministry of Investment and Foreign Trade, the introduction of Islamic finance will bring more than \$200 million in additional profit to the budget.

In Uzbekistan, currently, the main cash flows of the population flow to banks only through debts. For example, if there are investments in money management, then they can be directed to partnership, exclusion, salami trading, murobahu, etc. other products (products) of Islamic finance.

In 2021, the Central Bank planned to draft a bill on non-bank credit institutions, which would include the concept of Islamic finance. This was announced by the Central Bank at a press conference in aoka on January 11, 2021.

This proposal was announced by Shavkat Mirziyoyev in his address to Parliament on December 29, 2020. The Head of State instructed the central bank to consider a draft law on non-bank credit institutions by February 1, 2021 in order to create a legal framework for strengthening competition in the financial market, as well as the introduction of Islamic financing mechanisms.

Despite the fact that professing Islam make up the majority, the Islamic financial sector in Uzbekistan is still practically undeveloped compared to neighboring Central Asian countries, although the country has huge potential in the development of this sphere. This is done by large international financial organizations (the Islamic Development Bank Group, the International Finance Corporation, the Asian Development Bank, etc.) recognized by experts. However, in recent years, some work

has been carried out in this direction in cooperation with international financial organizations[2].

Among them: the Islamic Development Bank (Isdb) and the organizations belonging to its group, in particular the Islamic Corporation for the Development of Private Networks (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Institute of Islamic Studies and Training (Irti), have invested more than 2 billion US dollars in the development of Islamic finance to date in the country. It is focused on financing purposes based on Islamic financial principles.

In addition, several higher educational institutions in Uzbekistan have begun to prepare their educational programs taking into account disciplines related to Islamic finance. Also, in accordance with the current legislation, business representatives began to offer Islamic financial services.

A number of Islamic leasing companies operate in Uzbekistan.

So, in 2019, the first “ mutual” Islamic insurance company began operating in the country. The e-murabaha platform (a financial product based on the murabaha trade deal) has been developed, which is one of the first not only in Uzbekistan, but also in the CIS countries. The first Islamic financial company IsBF (Islamic Business and Finance) has been established, the main activity of which is to provide consulting services in this area, the Telegram page and the Islamic Finance website have been launched in order to increase the literacy of the population in the field of Islamic finance.

On the other hand, leasing companies such as taiba lizing and Al-malk Capital continue to provide rental products based on Islamic principles to small and medium-sized businesses.

Significant work has also been done in the field of education. A number of trainings on Islamic finance have been held in Uzbekistan, books on Islamic finance have been published in Uzbek.

These include books by Malaysian professor Sudin Aaron “Islamic finance and the banking system: philosophy, principles and practice”, Kazakh economist Ueglan bidaulet “Fundamentals of Islamic Finance” and Russian Rinat Bekin “Islamic Economic Model and Modernity”.

Also, given the high demand for Islamic financial services in the country, the ICB advisory group is currently working on opening Islamic windows in 6 commercial banks in Uzbekistan, including Kapitalbank, Trastbank, aziya Alliance Bank, Agrobank, Killer Construction Bank and Silk Road Bank. These windows are expected to be launched in early 2021. In addition, work is underway to open Islamic windows in Alokabank, Halk Bank, Universal Bank and Davr Bank.

To sum up, we can say that, as we have already said, Islamic finance has come into play in recent years in the vast space of the traditional financial system and legal systems of our country. That is, Islamic banking and financial institutions enter into direct competition for customers with the traditional banking and financial system,

which works smoothly and efficiently. This situation has shifted the focus of the Islamic financial system from the creation of unsurpassed and comprehensive offers to the “reverse adaptation” (reverse engineering) of traditional financial products, that is, traditional lawyers and Islamic bankers have comprehensively studied traditional banking and financial products and have begun to create Islamic products that give customers a similar financial result from a mathematical point of view. Therefore, the turning point and the main problem for the industry is the development and activation of the real economy, a fair and effective distribution of financial resources among economic entities, as well as a clear understanding of the true goals and objectives of increasing financial coverage of socially vulnerable segments of the population by creating a financial system alternative to the traditional banking system and making a worthy contribution to the development of our country purposefulness.

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