



OPPORTUNITIES FOR THE DEVELOPMENT OF ISLAMIC FINANCE IN UZBEKISTAN

Jasmina Jasurovna Bakhtiyorova

Student of Samarkand Branch of Tashkent State
University of Economics, Samarkand, Uzbekistan

Abstract:

This article discusses the role of Islamic finance in the world financial system, the main concepts of Islamic finance and their application in Uzbekistan, and the work being carried out to develop Islamic finance in Uzbekistan. The article analyzes the basic principles of Islamic finance, its application in international practice, as well as the opportunities for the development of this area in the economic system of Uzbekistan. Attention is paid to the prospects and problems of Uzbekistan in the development of Islamic finance, and also makes proposals for the effective development of the Islamic finance system in the country.

Keywords: Islamic finance, Islamic banking, musharakah, mudarabah, murabahah, riba, investment.

Introduction

Uzbekistan is a historically Islamic state, and Islamic finance also plays an important role in the country's economic life. In recent years, the government of Uzbekistan has been taking a number of strategic measures to develop Islamic finance and integrate it into the global financial system. Islamic finance is a financial system organized on the basis of Islamic religious principles, which reflects an interest-free system, investments and loans that comply with Sharia, as well as social responsibility.

It is worth noting the significant emphasis on the development of the Islamic finance sector in the address of the President of Uzbekistan to the Oliy Majlis on December 29, 2020. On the same day, the Head of State announced the need to create a legal framework for the introduction of Islamic financial services and announced that he planned to involve experts from international organizations, in particular the Islamic



Development Bank, in this direction.¹ These statements by the President create an important foundation for the development and modernization of Islamic finance in Uzbekistan. This is of great importance not only in supporting economic growth, but also in ensuring a fair and stable financial system in society.

Currently, the role and opportunities of Islamic finance in the economy of Uzbekistan are growing. Islamic banks and financial institutions are one of the new sectors developing in the country. At the same time, many advantages of Islamic finance are being seen, including interest-free financial services, creating a convenient and fair financial environment for the population, and ensuring economic stability. The development of Islamic finance in Uzbekistan can play an important role not only in economic areas, but also in ensuring social justice in society. The main objective of this study is to analyze the current state of Islamic finance in Uzbekistan, its development opportunities and practical significance.

Literature review on the topic

Islamic finance directly connects the financial sector with the real economy and is slightly different from conventional finance, in which usury, interest-based income are prohibited, and risk is shared on a partnership basis, and investors can receive a certain share of the profit as a reward for this risk. Islamic finance does not invest in gambling, alcohol sales, arms sales, or ethically problematic businesses. Islamic finance is implemented through the rules of Sharia. Mufti Muhammad Taqi Usmani² writes in his work "Introduction to Islamic Finance": ...every financing in the Islamic system creates real assets....It is known that interest-based financing does not always create real assets, therefore, the money supply through loans allocated by financial institutions usually does not correspond to the real goods and services produced in society, because loans create artificial money, through which the volume of the money supply is increased by the same amount. This discrepancy between the money supply and the production of real assets causes or exacerbates inflation. Since financing in the Islamic system is asset-backed, it is always matched by the corresponding goods and services.³

¹ <https://islommoliyasi.uz/uz/shavkat-mirziyoyev-islom-moliyasi-xizmatlarini-joriy-qilish-vaqti-keldi/>

² Mufti Muhammad Taqi Usmani-professor of Karachi Islamic University of Pakistan.

³ An introduction of Islamic Finance, Mufti Muhammad Taqi Usmani, p-14.



Kazakh economist Ye. Baidaulet notes that one of the important aspects of Islamic financing is the implementation of financial transactions based on real (real) assets.⁴ In the conventional capitalist financial system, banks and financial institutions only buy cash and monetary obligations and make a profit from them.

S. Abrorov notes that in Islamic finance, based on the rules and conceptual principles of Sharia, Islamic financial instruments have been developed instead of financial instruments used in the traditional financial system and contrary to Islamic principles. These instruments can be divided into four main groups: profit and loss sharing, debt, lease and mutual guarantee.⁵

Based on the considerations made in B. Juraev's research, the following basic principles of Islamic finance can be listed:

Transactions should not contain activities involving *riba* (interest), *ghara'r* (uncertainty) and *maysir* (random game), that is, they should be free from such practices;

Business should have an ethical basis, since Islam has religious restrictions, which mean that economic relations are based on high ethical standards;

Financial activities should be based only on real assets, that is, financial transactions and relations should be related only to real material values;

Zakat (charity, donation) — indicates that participants in economic relations are responsible for fulfilling their social obligations to society, which emphasizes the social aspect of Islamic finance.⁶

The following points reflect some famous scholars and their opinions on Islamic finance:

M. Umer Chapra — One of the world's leading scholars on Islamic finance, Chapra emphasizes that the Islamic financial system is aimed at protecting the moral and spiritual values of man. He believes that an interest-free, fair, and Sharia-compliant system of Islamic finance helps to ensure economic equality and stability in society.⁷ Chapra also notes that Islamic finance emphasizes social responsibility and is aimed at increasing the welfare of society.

⁴ Y.A.Baydaulet. *Islomiy moliya asoslari*, H.Hasanov «O'ZBEKISTON» NMIU, 2019 y. 432b.

⁵ Аброров С. Ўзбекистонда сукук — исломий қимматли қоғозларни жорий этиш истиқболлари. PhD илмий даражасини олиш учун дисс. автореферати, Тошкент 2020 й. 19 б.

⁶ Жўраев Б. Ўзбекистонда ислом молиясини жорий этиш зарурияти ва уни ривожлантириш имкониятлари. Иқтисодий фанлари бўйича фалсафа доктори (Doctor of Philosophy) диссертацияси автореферати. — Т.: 2023. — 11 б.

⁷ Chapra M. U., Whaples R. *Islamic economics: what it is and how it developed* //EH. Net Encyclopedia. — 2008.



Muhammad Akram Khan – Explaining the essence of Islamic finance, he emphasizes the need for financial services to be fair and sustainable in this system. Khan argues that Islamic finance is free from interest and errors (gharar), and that any financial transaction must involve real assets.⁸ This, he argues, distinguishes Islamic finance from other economic systems and ensures its sustainability.

Rodney Wilson – sees Islamic finance as a system necessary to ensure economic stability and social justice. He examines the characteristics of Islamic banks and financial institutions and how they can assume social responsibility.⁹ Wilson also discusses the specific principles of Islamic finance, in particular how an interest-free system can contribute to economic success and sustainable growth.

Analysis and Results

It can be said that an event of historical significance took place on December 29, 2020. In his address to the Oliy Majlis, the leader of our country said, "The time has come to create a legal framework for the introduction of Islamic financial services in Uzbekistan. Experts from the Islamic Development Bank and other international financial organizations will be involved in this," he said.¹⁰

In recent years, the share of Islamic finance in the financial sector in the world has been increasing significantly. We can see it becoming popular not only in Islamic countries but also in non-Islamic countries. Professor Sharrofiddin Ashurov¹¹ said: The Islamic Finance Development Report 2024 provides a detailed analysis of the global Islamic finance sector, highlighting its growth, challenges and future directions. Total industry assets will reach \$4.9 trillion in 2023, representing a growth rate of 11 percent. This expansion was mainly driven by the Islamic banking account, which showed a 12 percent increase over the previous year to \$3.6 trillion. The sukuk market also showed significant progress with a growth rate of 9 percent and reached \$863 billion, highlighting its important role in sustainability-oriented investments.¹² According to data of ICD -LSEG Islamic Finance report 2023, the total assets of

⁸ Khan M. A. An introduction to Islamic economics. – International Institute of Islamic Thought (IIIT), 1994. – T. 15.

⁹ Wilson R. Islamic banking and finance //The Middle East and North Africa. – 1992. – T. 321. – C. 180-84.

¹⁰ <https://islommoliyasi.uz/uz/shavkat-mirziyoyev-islom-moliyasi-xizmatlarini-joriy-qilish-vaqti-keldi/>

¹¹ ¹¹ Associate Professor Dr. Ashurov Sharofiddin-International Islamic University Malaysia, IIUM Institute of Islamic Banking and Finance (IiBF), Faculty Member.

¹² https://www.linkedin.com/posts/ashurov-sharofiddin-37437716a_summary-of-the-islamic-finance-development-activity-7280794454226038784-VeN8



Islamic finance will grow by 11% in 2022 to 4.5 trillion US dollars¹³, and in 2027, the total assets of Islamic finance are forecast to reach 6.667 trillion US dollars.¹⁴

Islamic finance directly connects the financial sector with the real economy and is slightly different from traditional finance, in which usury and interest are prohibited, and the risk is shared on a partnership basis, and investors can receive a certain share of the profit as a reward for this risk. Islamic finance does not invest in gambling, alcohol sales, arms sales, or ethically problematic businesses. Islamic finance is implemented through Sharia rules. Mufti Muhammad Taqi Usmani¹⁵ in his work "Introduction to Islamic Finance" writes as follows: ...every financing in the Islamic system creates real assets.... It is known that interest-based financing does not always create real assets, so the supply of money through loans issued by financial institutions does not usually correspond to the real goods and services produced in society, because loans create artificial money, by which the size of the money supply is increased by the same amount. This gap between the money supply and the production of real assets causes or exacerbates inflation. As financing in the Islamic system is backed by assets, it is always matched with related goods and services.¹⁶

In Uzbekistan, where more than 90 percent of the population is a believer in Islam, getting money from banks on the basis of an interest deal creates problems. According to the 2019 data of ADB, 64% of small business entities finance themselves through various informal ways, such as using personal savings, borrowing from family or relatives.¹⁷ This indicator is also related to Uzbekistan, because a large part of the economy of Uzbekistan is made up of small business entities. Self-financing sometimes takes a long time or poses a problem for projects that require large amounts of money.

In Islamic finance, contracts such as Musharaka, Mudarabah, Murabaha, Ijara, Salam, and Exclusion are used. These contracts can be used in Uzbekistan as follows:

Musharaka is an Arabic word that literally means division.¹⁸ This is a partnership agreement in which risk, profit and loss are shared between the partners. After investing on the basis of musharak, the investor also takes a certain risk. If the

¹³ https://solutions.lseg.com/IslamicFinance_ICD_LSEG#form13146

¹⁴ https://solutions.lseg.com/IslamicFinance_ICD_LSEG#form13146

¹⁵ Mufti Muhammad Taqi Usmani-professor of Karachi Islamic University of Pakistan.

¹⁶ An introduction of Islamic Finance, Mufti Muhammad Taqi Usmani, p-14.

¹⁷ https://www.undp.org/sites/g/files/zskgke326/files/migration/uz/ENG_Landscaping-IF-in-Uzbekistan_final.pdf

¹⁸ An introduction of Islamic Finance, Mufti Muhammad Taqi Usmani, p-17



business makes a loss, each investor will suffer a loss in the share of his investment, if he sees a profit, then he will receive an agreed share of the profit as a reward for the risk, and this is not considered riba (interest). This contract can be used in cases of lending operations of banks in Uzbekistan.

Mudoraba is a type of partnership in which one partner gives money to another to invest in a commercial enterprise. The capital comes from the first partner who is called "rabb-ul-mal" and the management and work is done by the second one who is called "mudarib".¹⁹ In this case, the second partner receives a certain amount of money for running the business without making any investment. If the business fails, all the financial losses will be on the shoulders of the owner, and the mudarib can only lose the time or labor he spent. If the business fails due to the mudarib's fault, then the mudarib is responsible for the damage. This type of contract can be used to attract deposits to banks.

In the Murobaha contract, one party buys the desired product of the other party and sells it to the other person by placing a certain amount of money on its price. In this case, the original price of the purchased goods and the money added to its price should be clearly stated. This type of contract can be used to get mortgage services or many other goods in installments.

In recent years, a lot of work has been carried out on the application of Islamic finance in Uzbekistan. In 2003, Uzbekistan became a member of Islamic Development Bank. In the last few years, the development of Islamic finance has intensified in Uzbekistan.

The decision of the President of the Republic of Uzbekistan dated March 5, 2019 "On measures to further expand and deepen partnership with the foundations of the Islamic Development Bank Group and the Arab Coordination Group" was adopted, and it was decided to attract the advisory assistance of the Islamic Corporation for the Development of the Private Sector to the banking sector of the Republic of Uzbekistan within the framework of the development of the infrastructure of Islamic financing.²⁰ "Islamic windows" have started working in Trust Bank and Silk Road Banks. Applications based on Islamic finance such as "Iman.pay", "Imaninvest" have started working. Iman.uz started selling goods based on the Murobaha contract. AlHuda

¹⁹ An introduction of Islamic Finance, Mufti Muhammad Taqi Usmani, p-31

²⁰ https://trustbank.uz/uz/press_center/news/trastbank-ning-islom-shariatlari-asosida-moliyaviy-xizmat-ko-rsatadigan-trast-muamalat-kompaniyasi-o/



CIBE successfully organized "CIS Islamic Banking and Finance Forum" in Tashkent, Uzbekistan on May 2, 2019.²¹

On September 13, 2024, the UNDP in cooperation with the Islamic Finance National Agency under the Presidential Administration and the Islamic Development Bank held a roundtable discussion on the topic "Introduction of Islamic finance in Uzbekistan: opportunities and tasks" in order to facilitate the exchange of views between the main state bodies during the discussion of the draft law "On the capital market in Uzbekistan". The event was attended by representatives of more than 30 main interested organizations, including the Ministry of Economy and Finance, the Central Bank, the Ministry of Investments, Industry and Trade, the Ministry of Justice, the Religious Affairs and Tax Committee under the Cabinet of Ministers, the Chamber of Commerce and Industry, leading "Think Centers" and others.²² These reforms encourage the development of Islamic finance in Uzbekistan.

Conclusion

The development of Islamic finance in the economy of Uzbekistan, its specific features and importance are increasingly growing. A financial system based on Sharia, interest-free banking services, innovative financial instruments aimed at ensuring social justice - all this contributes to the expansion of Islamic finance in the country and the creation of a favorable financial environment for the population. The rise of Islamic finance on a global scale also opens the way for Uzbekistan to expand its capabilities and integrate with the international financial market.

There are also some problems in the process of developing Islamic finance in Uzbekistan. These include the insufficient development of legal and regulatory documents on Islamic finance, the lack of experienced specialists, as well as the limited knowledge and understanding of the public in this area. However, necessary measures can be taken to solve these problems.

The following proposals were developed during the study:

1. Improving the legislative framework: It is necessary to develop and strengthen legal and regulatory documents on Islamic finance in Uzbekistan. This should include, in

²¹ <https://alhudacibe.com/pressrelease142.php>

²² <https://www.undp.org/uzbekistan/press-releases/undp-cooperation-islamic-development-bank-supports-government-uzbekistan-developing-enabling-environment-islamic-finance>



particular, regulating the activities of Islamic banks and financial institutions, introducing Sharia-compliant investment instruments and creating their regulatory and legal framework.

2. Exchange of experience and training: It is necessary to study the experience of leading countries in the field of Islamic finance and train their specialists through training courses. This will help increase the efficiency of the financial system and further develop Islamic finance globally.

3. Providing information to the public: It is important to conduct wide information campaigns among the population of Uzbekistan about the benefits of Islamic finance and its role in the economy. It is also possible to increase the population's confidence in this system by explaining the possibilities of using Sharia-compliant financial services.

4. Development of innovative financial instruments: It is necessary to introduce new financial instruments and services based on Islamic finance in the economy of Uzbekistan. This includes, for example, the development of interest-free loans, sukuk and other products specific to Islamic finance.

5. Developing international cooperation: Strengthening international cooperation in the field of Islamic finance, in particular, strengthening ties with Islamic finance specialists, banks and financial institutions, is important. This will accelerate Uzbekistan's integration into the international financial system and have a positive impact on the country's economic development.

At the same time, through the development of Islamic finance, Uzbekistan will have the opportunity to strengthen economic stability, create fair and beneficial financial services for the population. This will help the country build a more solid economic foundation.

References

1. An introduction of Islamic Finance, Mufti Muhammad Taqi Usmani.
2. <https://islommoliyasi.uz/uz/shavkat-mirziyoyev-islom-moliyasi-xizmatlarini-joriy-qilish-vaqti-keldi/>
3. https://www.linkedin.com/posts/ashurov-sharofiddin-37437716a_summary-of-the-islamic-finance-development-activity-7280794454226038784-VeN8
4. https://solutions.lseg.com/IslamicFinance_ICD_LSEG#form13146



-
5. https://www.undp.org/sites/g/files/zskgke326/files/migration/uz/ENG_Landscaping-IF-in-Uzbekistan_final.pdf
 6. https://trustbank.uz/uz/press_center/news/trastbank-ning-islom-shariatlari-asosida-moliyaviy-xizmat-ko-rsatadigan-trast-muamalat-kompaniyasi-o/
 7. <https://alhudacibe.com/pressrelease142.php>
 8. <https://www.undp.org/uzbekistan/press-releases/undp-cooperation-islamic-development-bank-supports-government-uzbekistan-developing-enabling-environment-islamic-finance>