



EFFECTIVE WAYS TO ORGANIZE INVESTMENT COMPANIES BASED ON SERVING ISLAMIC FINANCIAL SERVICES IN COMMERCIAL BANKS

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Abstract

The article discusses the history and development of the Islamic Finance, as well as the main directions for organizing investment companies based on serving Islamic financial services in commercial banks of the Republic of Uzbekistan.

Keywords: Islamic finance, Islamic banking, European Banking Union, Islamic financial products, Islamic financial institutions, Banking system, Shariah.

Introduction

It is well known that today, in the world and in Uzbekistan, Islamic finance is one of the rapidly developing sectors. The reason for this is the changes in people's mindset, self-awareness, and, consequently, the growing demand for Islamic finance. This is because Islamic finance attracts people with its convenience, clarity, and transparency. Today the Islamic finance sector is one of the fastest-growing industries in the world, encompassing innovative financing mechanisms.

The main difference between Islamic financial institutions and traditional financial institutions lies in the fact that Islamic finance involves profit and loss sharing and is based on real assets. In other words, Islamic finance is based on partnership. Such institutions can, upon customer request, build or lease objects to them. The financing is based on trade transactions. In contrast, in the traditional banking system, the execution of trade transactions by banks is considered difficult from a legislative perspective, as it is hindered by taxation and regulatory documents related to banking activities. "The comparison with the European conventional banking system and differences Relations with conventional banks are difficult because of the characteristics of Islamic finance and banking activities exercised in the EU context



according to different rules for the financial intermediary, above all, considering the management of the risk, to the rules of vigilance and to the regulation of competition. For the intermediary from the Islamic discipline, the implementation of transparency depends essentially on the respect of conduct provided by the supervisory authorities and by the Shariah guarantee committee for an ethical control, while the informative obligations depend on the discretion of the bank with inevitable problems of transparency and certainty of the rules. However, the IFSB has contributed significantly to improving relations with the conventional banking system”, - writes Sandra Antoniazzi in her article “Islamic Banks and the European Banking Union: An Overview of Critical Issues and Perspectives”.¹

The characteristics of Islamic financial instruments are based on the following descriptions:

- a) The absence of usury (riba);
- b) The creation of real added value;
- c) Being based on ethical and moral principles;
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- d) Backed by real assets;
- e) Profit and loss sharing, equity participation;
- f) Both parties being equally informed.

Ibrahim Varde classifies Islamic financial products based on the legal, financial, economic, and political relationships that arise from the use of such instruments. Accordingly, he distinguishes products such as Murabaha, Mudarabah, Istisna, Salam, Tawarruq, and Ijna, which are based on sale transactions.

The second group includes products based on leasing (Ijarah).

The third group consists of products based on profit and loss sharing and equity participation (Mudarabah and Musharakah).

The activities of Islamic banks are based on the following fundamental principles:

- money should not generate money, meaning capital growth cannot occur through pure monetary circulation;
- the earnings of investors must be linked to investments in trade and production;
- the relationships between the parties in the transaction should be based on partnership;
- money is not considered a commodity; it is merely a measure of value.

Islamic banks carry out their activities within two types of banking systems:



1. A system fully compliant with Islamic jurisprudence (fiqh) principles (e.g., the banking systems of Pakistan, Sudan, and Iran).
2. A dualistic system where Islamic banks operate alongside traditional banks, with their activities regulated separately by state authorities.

Investment accounts can be divided into three categories:

- the first category includes deposits based on the duration, such as deposits with a holding period of 3 months, 6 months, 9 months, etc.;
- the second category consists of notification-based deposits, where clients notify the bank before withdrawing their deposit;
- the third category includes deposits for specific projects or purposes. Notification-based investment deposits are available in Bangladesh, Jordan, and Bahrain;
- Investment accounts for specific projects are available in most countries, except for Iran, Kuwait, Pakistan, and Turkey.

In Malaysia, Islamic banks provide financing to meet the working capital needs of their corporate clients, and this project financing is based on principles such as mudarabah, musharakah, murabaha, bay muajjal, and ijarah. Banks also provide private financing to individuals for the purchase of homes, buildings, consumer goods, etc.

In Europe, for several years now, there has been a significant growth of interest in Islamic finance and banking for investment companies, Islamic bond products and other credit collection instruments. Very significant was the position of the Financial Service Authority which, in 2004, issued an authorization to operate to the Islamic Bank of Britain and to the first European Islamic Investment Bank.

The modern system of regulation and supervision of the Islamic financial services industry is carried out by the following international financial institutions:

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

Islamic Financial Services Board (IFSB);

International Islamic Financial Market (IIFM);

General Council for Islamic Banks and Financial Institutions (CIBAFI);

International Islamic Centre for Reconciliation and Arbitration (IICRA);

Islamic International Rating Agency (IIRA);

International Islamic Liquidity Management Corporation (IILM).



The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is a non-profit international Islamic organization that develops standards for accounting, auditing, governance, ethics, and Shariah regulations for Islamic

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Financial institutions and the industry as a whole. AAOIFI was established in 1990 based on an agreement between the Islamic Development Bank (Saudi Arabia), Al Baraka (Bahrain) banking group, Dar Al Mal Al Islami (Switzerland), Al Rajhi (Saudi Arabia) Bank and Investment Corporation, Kuwait Finance House (Kuwait), and Buhari Capital (Malaysia), and was registered in the Kingdom of Bahrain in 1991.

The Islamic Financial Services Board (IFSB) was established in 2002 in Kuala Lumpur with the active participation of the IMF, IDB, the Bahrain Monetary Agency, the Central Bank of Malaysia, and other central banks. The IFSB began its operations in March 2003. Today, the IFSB is an international organization that establishes standards covering the activities of the banking, capital market, and insurance sectors through the issuance of rules and standards that ensure and strengthen the stability and resilience of the Islamic financial services industry. These standards serve as a foundation for the Islamic financial industry.

Islamic finance in Iran. Iran is one of the few countries that has instituted shariah-compliant banking nationwide and does not have a conventional banking sector. The process of Islamization of the banking system in Iran had gone through two phases. In the first phase (1979-82), the banking system was nationalized, and reorganized. However, internal and external developments in this phase did not allow the policymakers to build an adequate plan for the Islamization of the banking system. The second phase began in 1982, and lasted until 1986. In this phase, the law of usury-free banking (i.e. no interest) was passed in 1983, which went into effect on March 20, 1984 (Hassani, 2010). The law described 14 types of operations applicable to assets and liabilities. The banks were allowed to buy debt instruments, supported by real assets, for a period of one year. The Islamic banking system of Iran has the following features:

Characteristics of bank liabilities. According to the law of usury – free banking in Iran liabilities incurred by the banks are basically of two kinds, as follows: qharz- al-hassanh deposits current and savings deposits. These are similar to those of conventional banks except that they cannot earn any return. Current qharz al-hassanh deposits are like demand deposits or current account in conventional banks. This



account from the point of view of customers is simply a means of making transactions and payments. The other type of gharz al- hassanh is saving account. In this account, depositors are offered non-fixed prizes and bonuses in cash or kind. Other incentives for this kind of account are that the banks exempt depositors from the payment of fees or commissions, and give priority in the use of banking facilities. Qharz al- hassanh deposits are the main sources of gharz-al hassaneh loans.

Islamic banking product in Iran Mudarabah: The law of usury –free banking in Iran provides various modes of operations for financing the contracts between banks and customers. The modes are as follows: Mudarabah (profit- sharing): banks provide initial capital to the commercial sector, both individual and traders who engage in trade and business. By previous agreement the profit from undertaking are divided at the end of the contract.

Musharakah (partnership). The law recognizes two different form of partnership, namely civil and legal partnership. The first, i.e. civil partnership, is a project specific partnership for short and medium periods.

Direct Investment. Banks can undertake to invest directly in any economic activity for a long period.

Murabahah: Banks are authorized to purchase raw materials, machinery, equipment, spare parts, and other needs of enterprises in industry, farming, mining and services and resell them by short term installments.

Salaf (purchase with differed delivery). Banks can purchase goods from productive enterprises in order to provide them with working capital. Thus, instead of lending money, the bank buys part of the future products at an agreed price which must not exceed the market price of the product at the time of the contract.

Ijarah be shart-e-tamlik (lease-purchase). In this mode of financing banks buy real property or other assets needed by enterprises or individuals and lease the assets to them. The price of the asset is determined on a cost-plus basis. The ownership of the property is transferred to the lessees at the end of the contract.

Jualah (transaction based on commission). This is a project undertaking by the bank (or customer) to pay a specific sum in return for a service as specified in the contract. Jualah is one of the short term facilities which may be granted for the expansion of production, commercial and service activities. The service to be performed and the fee to be charged must be determined at the time of contract.



Gharz –al – hassaneh (benevolent loan). This is a non-commercial facility without any expectation of profit. Gharz –al – hassaneh loans are usually made to small producers, farmers and small-scale businesses and the people who are unable to find financial sources for their personal needs. The ability of banks to grant this loan depends on the gharz –al – hassaneh saving deposits.

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List of large Islamic Banks in Iran

1. Bank Melli
2. Dubai Islamic Bank
3. Emirates Islamic Bank
4. Kuwaiti Turkish Banking Firm
5. Bank Saderat Iran

Bank Saderat Iran (BSI) ("Export Bank of Iran") is an Iranian multinational banking and financial services company headquartered in Tehran, Iran. It is Iran's largest bank. It was founded in Tehran in 1952 and has more than 3500 offices and branches in more than 10 States. The head office of the bank is located in the city of Tehran.

Saderat Bank Tashkent opened within the framework of economic and trade cooperation between Uzbekistan and Iran and has been operating on the territory of Uzbekistan since 1999. The Bank opened on the basis of complete foreign investment and carries out all banking services in the territory of Uzbekistan. One of the main tasks of the bank is to provide services to trade operations between Iran and Uzbekistan and create opportunities for customers in this field.

The Development of Islamic Financing in the Republic of Uzbekistan. Islamic financing for project implementation in Uzbekistan began in 2004, which is linked to Uzbekistan's membership in the Islamic Development Bank (IDB) in September 2003. In 2004, the IDB used "ijara" and "murabaha" contracts to finance projects in the energy and healthcare sectors. However, the IDB started its operations in Uzbekistan in the early years of independence, and this was evident through the implementation of grant projects under its program to support Muslim communities in non-member states. Indeed, the direction of Islamic financing through waqf (endowment) began to spread in Central Asia from the time Islam was introduced to the region, and waqf



documents dating back to the time of our ancestor Amir Timur have been preserved to this day.

On July 26, 2024, the decision on the approval of the relevant regulation of the Central bank board of the republic of Uzbekistan "Procedure for the provision of services related to Islamic financing by micro financial organizations" was registered by the Ministry of Justice of the Republic of Uzbekistan with the number 3536.

In 2010 International Finance Corporation - shareholder of Hamkorbank, beginning of cooperation with the Asian Development Bank, with the Islamic Corporation for the Development of the Private Sector.

In 2017 JSCB Hamkorbank and Islamic Corporation for Private Sector Development (ICD) signed a financing document.

In 2018 a memorandum of understanding was signed between the Islamic Corporation for the Development of the Private Sector and JSCB "Hamkorbank".

Source: <https://www.hamkorbank.uz/>

On May 2, 2024 within the framework of the III-Tashkent International Investment Forum, Uzpromstroybank and the International Islamic Trade and Finance Corporation signed an Agreement on training bank employees in the field of Islamic finance. In accordance with the agreement, the International Islamic Trade and Finance Corporation will provide practical assistance to Uzpromstroybank employees in improving their skills by organizing training courses on the basics of Islamic finance, project financing in accordance with the rules of Islamic finance, and the introduction of new types of Islamic services for clients. Source: <https://www.sqb.uz/>

In January 2023, "Trustbank" JSC "Trust Muamalat" LLC started its activities. "Trust Muamalat" LLC specializes in the implementation of the strategy of expanding financial services by implementing effective "Murabaha (Nasiya Trade)" and "Ijara (Leasing)" operations within the framework of the current legislation, as well as expanding cooperation with international Islamic financial institutions. "Trust Muamalat" LLC, a subsidiary leasing company of the private joint-stock bank "Trustbank", is engaged in the study and introduction of financial products that meet the requirements of Sharia. It should be noted that the long-term successful cooperation of "Trustbank" with the Islamic Development Bank (ITB) group allows "Trust Muamalat" LLC to attract financing lines of ITB corporations. This, in turn, encourages financing of individuals, small and medium business projects, expansion of their activities and creation of new jobs. Source: <https://www.trustbank.uz/>



In 2023 Uzum Group and the Islamic Corporation for Development of the Private Sector (ICD) signed a Memorandum of Cooperation. The ICD Private Sector Forum – PSF 2023 was held on May 11-13, 2023 in Jeddah, Saudi Arabia. During the Forum, JSCB “Kapitalbank”, member of Uzum group of companies - the largest ecosystem of e-commerce and financial technologies in Uzbekistan, and the Islamic Corporation for Development of Private Sector (ICD) signed Memorandum on Cooperation, aimed at expanding cooperation between the two organizations and exploring opportunities for financing small and medium enterprises (SMEs) in Uzbekistan. Mutually beneficial cooperation in this direction will contribute to the growth of entrepreneurial activity, employment and sustainable social and economic development of the Republic. Source: <https://www.kapitalbank.uz/>

All services related to Islamic finance in Uzbekistan, in terms of commercial banks. As of April 1, 2025

Banks	Service type	Essence		Purpose
HamkorBank	Murabaha	Islamic leasing	For any purpose not violating the norms of Islam	For business development
Ipak Yuli Bank	Murabaha	Islamic financing		Development of the private sector
Trustbank	Murabaha	Islamic leasing (Trust Muamalat LLC)		Trading operations
SanoatQurilishBank (SQB)	Murabaha	Islamic financing		

Table 1. Services related to Islamic finance in Uzbekistan, in terms of commercial banks

Source:

<https://ipakyulibank.uz/legal/kreditlar/help/islomiy-banking>

- <https://sqb.uz/uz/business/islamic-trade-finance/?srsltid=AfmBOooTkFGCQXAACUreH0cSduhhYbQhwWCL-maVR1uWjysuwlxRxWK5>
- <https://www.hamkorbank.uz/>
- <https://www.trustbank.uz/>



In conclusion, it can be said that all products in the world should serve humanity. Islamic finance, with its all-encompassing convenience and appeal, is a clear example of this. It should also be emphasized that every effort made must ease the lives of humanity. I believe that a bank based on Islamic finance will bring these efforts to fruition.

Considering the above, it is necessary to develop the corresponding legislation and legal framework for the introduction of partnership-based or Islamic financing in the Republic of Uzbekistan. This, in turn, will create a foundation for additional capital inflow into our country and offer alternative financing mechanisms.

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