

## THE WAYS OF DEVELOPING ISLAMIC FINANCE IN UZBEKISTAN

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**Annotation:** This article discusses the use of Islamic financial instruments in commercial banks of the country, as well as the analysis of its advantages and improvement of development prospects. The article also presents the existing problems in the prospects of using Islamic financial instruments in the activities of commercial banks of the country, as well as the author's approaches and suggestions for their solution.

**Keywords:** Islamic finance, commercial banks, musharaka, sukuk, mudoraba, murobaha, financing, islamic banks, islam windows

In recent years, the concept of the Islamic financial system has become firmly entrenched in the vocabulary of financiers in many countries. Indeed, in various countries, even in countries where the majority of the population is not Muslim, including United States and The United Kingdom, this financial institution is developing steadily as an alternative financing system to traditional banking services. Therefore, the study of Islamic banking is a topical issue in the global economy. It is interesting and useful to know that there are alternative forms of financing traditional banking system. In this regard, in the Address of the President of Republic of Uzbekistan to the Oliy Majlis on December 29, 2020 it is said that: "It is time to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Bank and other international financial institutions will be involved".<sup>1</sup>

The emergence of the Islamic banking system in Egypt in the 1960s was a global event, but for more than half a century the industry has been developing steadily. In recent years, the concept of the Islamic financial system has become firmly entrenched in the vocabulary of financiers in many countries. Indeed, in various countries, even in countries where the majority of the population is not Muslim, including United States and The United Kingdom, this financial institution is developing steadily as an alternative financing system to traditional banking services. Therefore, the study of Islamic banking is a topical issue in the global economy. It is interesting and useful to know that there are alternative forms of financing traditional banking system. With an annual growth rate of 15-20 % , Islamic bank has expanded its horizons around the world and has offices in more than 75 countries. The Republic of Uzbekistan became a member of the Islamic Development Bank (IDB) in 2003. During this short-term partnership, the IDB Group's portfolio in Uzbekistan has grown significantly, largely due to active cooperation with the Government. This is a number of priority national investment programs of the Republic of Uzbekistan.

This is Uzbekistan that was reflected in the approval of founding for projects. Currently, the IDB's portfolio in Uzbekistan is the largest in Central Asia (more than \$ 1,8 billion). The main difference between Islamic finance and traditional financing is that Islamic finance involves profit and loss sharing as well as real asset-based financing. In other words, Islamic finance is based on partnership. At the same time, Islamic banks can inspect the facility, purchase equipment, goods, raw materials or lease them at the request of the customer. Funding is based on trade practices. Money is seen as a medium of exchange, i. e. it is forbidden to lend money itself as an interest or as a loan in exchange for any benefit/profit. If we compare the lease or the purchase of a car with a traditional lease, which is an alternative to the Islamic lease, the traditional bank first concludes a lease agreement with you, then 25% or another amount prepayment at the discretion of the bank, then the customer buys a car with salon increases. It then calculates a premium fee of 25% per annum( as an example) and provides you with a monthly payment schedule with the same payment for 3 years. If the payment is delayed, a commission will be charged as a penalty and it will be included in the profit. The Islamic Bank, on the other hand, signs a car purchase agreement with the salon at your request, makes payments, and then leases

<sup>1</sup> The Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to Oliy the Majlis <https://president.uz/en/lists/view/4057>. December 29, 2020.

it to you on the condition that it eventually transfers the ownership right for a certain period of time with a profit on it. Delays in the payment are prohibited, but this is allowed to be included in the contract as a disciplinary measure to avoid abuse. However, unlike the traditional banking system, if this fine is applied, it will not be used for profit and it will be used for charity. As you can see, in the first case it is a traditional bank is giving you money at interest, and in the second case, the Islamic bank is making a profit by renting out its property to you. The Islamic Development Bank Group includes a number of organizations, including the Islamic Corporation for the Development of the Private Sector (HSRIK) and the International Islamic Trade and the Finance Corporation (IFCC). By the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No.596 of December 21, 2004, Uzbekistan became a member of HSRIK cooperating with local commercial banks and entrepreneurs. In particular, financing lines have been allocated to commercial banks through the Murobaha (premium sales) financing method. From these lines entrepreneurs operating in Uzbekistan, enterprises operating in manufacturing, services, processing and other sectors of the economy will use them to further develop their activities. To date, HSRIK has established cooperation with 15 commercial banks and 2 leasing companies, and to date has provided \$ 285 million to banks. Separation of financing lines is approved. In addition, short-term (one year repayable) trade financing lines are provided to entrepreneurs by HISMK in cooperation with several local banks. In this case, the Murobaha method of financing is used, mainly for the purchase of raw materials and equipment. The cost of the projects approved by HISMK was \$ 82 million. As mentioned above, with the help of local banks, a number of projects are being implemented through the Murobaha method, and a number of private and joint-stock companies are also offering term sales or leasing-based services that comply with Islamic principles. For example, Toiba leasing, established under the auspices of HSRIK. The company has launched a Leasing (Islamic Leasing) service for customers, which allows customers to return the money through an interest-free Leasing Agreement, the purchase of equipment on a periodic basis with the payment of the company's premium. Under similar conditions, Uzbek Leasing and a number of private entrepreneurs have launched the sale of cars, real estate and household appliances on a fee basis. The Islamic Development Bank has also been financing government projects on a lease, installment, and sale basis. However, Uzbekistan does not have Sharia-complaint financing methods by local commercial banks. The main reason for this is the lack of legislation in Uzbekistan required for Islamic finance, and this existing legislation does not provide for this system to work the presence of imbalances. About 90 percent of Uzbekistan's population is Muslim, and this fact alone speaks volumes about the growing interest in Islamic finance and banking in Uzbekistan. We know that Islam forbids usury, that is, making money by giving interest, while the traditional banking system relies on interest. A bank based on Islamic principles for religious groups who do not want to use interest, credit and similar banking services. It is safe to say that the provision of services will be a great impetus for the growth of the Uzbek economy and domestic investment. The introduction of this system in Uzbekistan will serve as a basis for attracting savings and unused funds to the banking system, reducing the weight of the shadow economy and development of entrepreneurship. One of the main criteria for the introduction of the Islamic banking in Uzbekistan is the Central Bank of the Republic of Uzbekistan. In addition, training in Uzbekistan in this field began in 2018 at the International Islamic Academy of Uzbekistan, but in 2019 there was no admission in this area. This itself leads to a shortage of staff in there are very few or no qualified candidates for Sharia councils. It is also important to increase the literacy of the population, as people who do not have sufficient knowledge of Islamic finance may not understand the difference between traditional financing and misinterpret it.

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