THE ROLE OF ISLAMIC FINANCING FOR INFRASTRUCTURE INVESTMENT PROJECTS IN TERMS OF DEVELOPMENT NEW UZBEKISTAN

Saydirasulov Laziz,
Doktoral student of Research Center for "Scientific Foundations and Problems of the Development of the Economy of Uzbekistan"

The Islamic financing industry has been impacted by the COVID-19 pandemic[1], but several institutions have adapted to the situation. To address the challenges posed by the pandemic, Islamic financing for infrastructure investment projects have implemented changes such as increased usage of digital platforms for transactions and customer communication, the introduction of new financing structures like social impact bonds and sukuk issuances to support healthcare infrastructure and medical research, and the receipt of government support through stimulus packages. The pandemic has also brought about new risks such as health risks and market volatility for investors and financiers. Nonetheless, the Islamic financing industry has demonstrated resilience and adaptability through measures taken to support customers and ensure uninterrupted operations.

Islamic financing for infrastructure investment projects can play a significant role in developing a new Uzbekistan by promoting sustainable economic growth and development through the principles of shariah[2]. As Uzbekistan continues to undergo economic reforms and open up its economy to foreign investors, islamic financing can provide an alternative source of funding for government projects and private businesses.

Islamic financing and conventional financing are two distinct approaches to financing. Islamic financing and conventional financing differ in several ways[3]. Here are some of the key differences:

1. Prohibition of riba. Islamic financing prohibits riba (usury), while conventional financing involves interest-based transactions. In Islamic financing, profit and loss sharing (PLS) arrangements are used to generate returns, while in conventional financing, interest-based transactions such as loans, mortgages, and bonds are used.
2. Concept of avoiding haram activities. Islamic financing avoids investing in businesses that deal with alcohol, gambling, or other prohibited activities, while conventional financing does not have such restrictions.
3. Social responsibility. Islamic financing promotes ethical and socially responsible financial practices, while conventional financing focuses primarily on profit maximization.
4. Financing structures. Islamic financing uses unique financing structures such as mudarabah, musharakah, and ijara, while conventional financing uses traditional structures such as loans, bonds, and equity.
5. Documentation. Islamic financing requires documentation that complies with shariah principles, while conventional financing uses standard legal documentation.

Islamic financing aims to adhere to Islamic principles and provide financial products and services that are ethically and socially responsible. In contrast, conventional financing prioritizes profit maximization and may involve interest-based transactions as well as investments in activities that are forbidden in Islamic finance.

Islamic financing for infrastructure investment projects are based on Shariah principles and include various types such as musharakah, mudarabah, murabaha, ijara, sukuk and istisna[4].

Musharakah is a partnership between two or more parties, where all partners contribute capital and share profits or losses in accordance with a pre-agreed ratio.

Mudarabah is a profit-sharing partnership between a capital provider (rab al-maal) and an entrepreneur (mudarib). The entrepreneur manages the project and the profits are shared according to a pre-agreed ratio, while the capital provider assumes the financial risk.

Murabaha is a type of sale where the seller discloses the cost of the item and then adds an agreed-upon profit margin. The buyer pays the cost plus the profit margin over a specified period of time.

Ijara is a lease-based financing arrangement, where the lessor purchases an asset and leases it to the lessee for a specific period, at an agreed-upon rent. At the end of the lease term, the lessee has the option to purchase the asset.

Sukuk is islamic bonds that generate returns based on the profits of an underlying asset or project. Sukuk holders are entitled to a share of the profits or losses of the asset or project.

Istisna is an important contract in Islamic finance that can be utilized in infrastructure projects, particularly in the construction and development phases. Istisna is a type of contract where one party (the developer or manufacturer) agrees to manufacture or construct a specific asset or project and deliver it to the other party (the financier or purchaser) at a predetermined price, which may include a profit margin.

These projects provide an alternative to conventional interest-based financing.

SWOT analysis is a strategic planning tool that helps identify the strengths, weaknesses, opportunities, and threats of a particular project or organization. In the case of islamic financing for infrastructure investment projects, the SWOT analysis is as follows:

Strengths:

- Islamic financing for infrastructure investment projects promote ethical and socially responsible financial practices.
- The industry is growing with increasing demand for shariah-compliant financial products and services.
- Islamic financing is typically asset-based, providing greater financial stability and security compared to conventional financing.

Weaknesses:

- Islamic financing for infrastructure investment projects may have a limited product range compared to conventional financing.
- There is a lack of standardization in Islamic finance, leading to differences in financial products and structures.
- Islamic financing requires skilled scholars who are knowledgeable in both shariah and finance, which can be a challenge to find and retain.

Opportunities:

- There is a growing demand for shariah-compliant financial products and services.
- Globalization presents an opportunity for islamic financing for infrastructure investment projects to expand their reach and appeal to a broader range of consumers and businesses.
- There is potential for innovation in islamic finance, with the development of new products and structures to meet the evolving needs of consumers and businesses.

Threats:

- Limited awareness and understanding of Islamic finance among consumers and businesses can limit its appeal.
- Regulatory challenges may create barriers to entry and expansion in some jurisdictions.
- Islamic financing may face competition from conventional financing, which has a more established market presence and a broader range of products and services.

SWOT analysis of islamic financing for infrastructure investment projects can help identify areas for improvement and opportunities for growth in the industry.

The development of islamic financing for infrastructure investment projects can play a significant role in ensuring the development of a new Uzbekistan. Here are some ways in which the mechanism of islamic financing can be improved to achieve this goal:

1.Encouraging the establishment of islamic financial institutions. The establishment of Islamic financial institutions in Uzbekistan can provide a new platform for islamic financing. This can help to increase the availability of shariah-compliant financial products and services, which can attract local and foreign investors who seek to invest their money in accordance with islamic principles.

2.Creating an enabling legal and regulatory environment. The Uzbekistan government can create an enabling legal and regulatory environment to facilitate the development of islamic financing. This can include establishing clear regulations and guidelines for islamic financial products, as well as providing tax incentives and other support measures for islamic financial institutions.

3.Promoting awareness and education. The government and other stakeholders can promote awareness and education about islamic financing to raise public understanding of its benefits and encourage its adoption. This can include seminars, workshops, and other outreach activities to educate potential investors and promote the use of islamic financial products.

4.Encouraging innovation and entrepreneurship. Islamic financing can provide opportunities for innovation and entrepreneurship, which can help to stimulate economic growth and development. The Uzbekistan government can encourage the development of innovative Islamic financing products and services, as well as support entrepreneurship and start-up activities through Islamic financing.

5.Collaboration and partnership. The Uzbekistan government can collaborate with international islamic financial institutions and other stakeholders to share knowledge and best practices, as well as to attract foreign investment. This can help to build the capacity of local islamic financial institutions, improve the quality of shariah-compliant financial products, and enhance the credibility of the islamic financial sector in Uzbekistan.

The development of islamic financing for infrastructure investment projects in Uzbekistan can provide a new platform for economic growth and development. By improving the mechanism of islamic financing and promoting its adoption, Uzbekistan can attract new investment and support the development of a vibrant and sustainable economy.

Islamic financing for infrastructure investment projects can have a positive impact on government growth in several ways. Firstly, they provide an alternative source of funding for government projects that can diversify revenue sources and reduce dependence on interest-based financing. This can improve financial stability in uncertain economic conditions. Secondly, by adhering to shariah principles, islamic financing for infrastructure investment projects can avoid investments in activities that are harmful to society and promote investments that promote social welfare and economic development. This promotes sustainable economic growth and development.Thirdly, the growth of Islamic financing for infrastructure investment projects can create new job opportunities and promote entrepreneurship, which contributes to economic growth and development. This can improve the overall quality of life and reduce poverty and unemployment. Lastly, the growth of Islamic financing for infrastructure investment projects can promote the development of the financial sector, including the development of new financial products and services and the expansion of financial inclusion to underserved populations.

In conclusion, the growth of islamic financing for infrastructure investment projects can contribute to government growth by promoting economic development, financial stability, and socially responsible financial practices.

REFERENCES:

1. https://doi.org/10.3390/joitmc7010085
2. www.isdb.org/news/isdb-and-uzbekistan-sign-us-3967-million-financing-agreements-to-boost-infrastructure-rural-development-and-early-childhood-education

3. https://www.imf.org/external/themes/islamicfinance/
4. Zarqa M. A. (1997). Istisna' financing of infrastructure projects. Islamic Economic Studies, 4(2), 69-70