

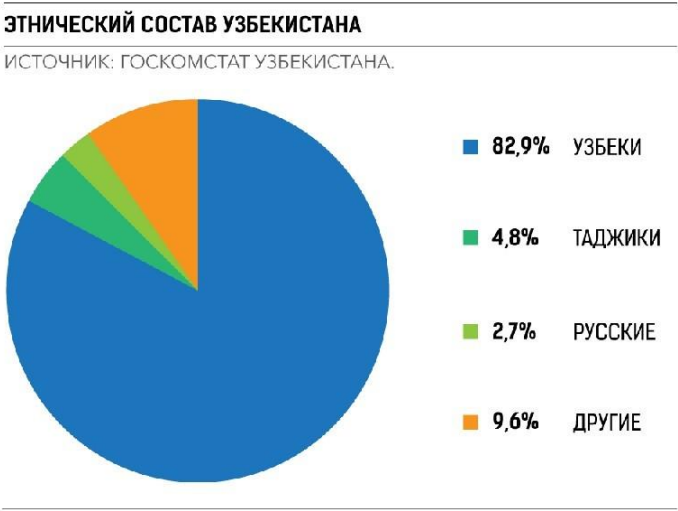
# PROBLEMS AND OPPORTUNITIES FOR THE DEVELOPMENT OF ISLAMIC BANKING

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ABSTRACT	KEYWORDS
In recent years, Muslim countries have accumulated a significant amount of finances. In order to attract them to the economy of Uzbekistan, it is necessary to make some amendments to the legislation to create conditions for the development of Islamic banking.	Islamic banking, Islamic finance, banking sector, instalments, bank.

## Introduction

According to Article No. 1, in the first section of state sovereignty, Uzbekistan is a sovereign, democratic, legal, social and secular state with a republican form of government. This principle of the separation of state power and religion says that no authorities have the right to interfere in the activities of religious organizations if they do not contradict the law. It should be noted that the main part of the population of Uzbekistan is Muslims. But few people know about the existence of Islamic banking and finance. In the Muslim religion, there are laws that affect the financial system. In this regard, such a phenomenon as Islamic banking has appeared in the world and Uzbek economy. Islamic banking is banking activities that comply with the principles of Sharia and its practical application through the development of the Islamic economy. A more correct term for Islamic banking is financial activity based on the principles of Sharia. The main goal of the creation and development of the Islamic banking and financial system is to reach the population and businesses that do not use the services of the traditional banking and financial system due to their religious beliefs.



## Analysis of Literature on the Topic

In the works of the author Andrey Zhuravlev and Alexander Bychkov, which analyzes the conceptual foundations of Islamic economics and how religious and ethical prescriptions and prohibitions form the features of Islamic banking. The paper reveals in detail the forms in which an Islamic bank attracts resources and places money in assets.

## Research Methodology

The main features of the Islamic banking system are contained in the following principles:

- A ban on loan interest. The receipt of interest is considered as usury and is prohibited by the Koran.
- Prohibition of speculation. It is not allowed to use someone's difficulties to your advantage. Unacceptable, among other things, is the type of earnings that became possible due to political problems.
- A ban on competitive games, including lottery games.
- A ban on the investment of funds in businesses whose activities are contrary to the Muslim faith, for example, in companies producing alcohol and tobacco products; witchcraft-related companies; with the processing of meat from animals that have not been slaughtered in the name of Allah, and it is not allowed to invest in the development, production and sale of weapons.

Despite such a number of restrictions, American banks have found a way to make a profit from their activities. Bankers issue funds exclusively for the development of business and instead of a loan interest, they take a part of the profit from the borrower. Profits for Islamic banks also come from the direct sale of various goods in installments at an inflated cost. Moreover, according to Sharia, it is impossible to make a profit simply from investing funds in the growth. Earned income is recognized as legitimate only if the overall well-being has increased as a result of the activity, the added value has increased.

Thus, the object of Islamic banking operations is not money, but a real asset – a good or service. In order to receive a loan from a Muslim bank, it is important for the client to have a good public reputation. This is what plays a key role in the issuance of funds, and not the credit history and solvency of the borrower as in Uzbek banks. There is also no interest for deposits. The depositor brings money to the Muslim bank, the bank uses these funds as a loan - it finances the business, and then shares the profit from the investment with the depositor. In addition to all of the above, there is a Sharia council in Islamic banks – a religious committee, which is an internal monitoring tool that is created to control the bank's actions in accordance with the laws of the Koran. The importance of the development of the Islamic banking system in Uzbekistan is increasing every year.

The active development of the Muslim banking system is due not only to the growing demand for services that do not contradict the laws of the Koran, but also to the accumulation of financial resources by the Arab states (according to explicit estimates, in 2020 the volume of finances managed under the rules of the Shariyat reached \$3 trillion, and by 2024 it may exceed \$3.7 trillion). Due to the fact that the economic markets of Muslim countries are actively developing, there is a competitive struggle among foreign countries to attract these investments. Therefore, it can be argued that the growth trend of Islamic banks will continue.

At the moment, Uzbekistan has the opportunity to take advantage of all the advantages of Islamic banking due to the fact that there are no competitors in this matter yet. Despite the fact that it is believed that Islamic finances are not threatened by the crisis due to the structure of the internal system, before

and during the implementation of financial operations, there is a double assessment of the severity of risk – first by risk managers, and then by Sharia experts. High-risk operations are not carried out. The Islamic Finance Institute is more careful in the selection of investment projects, since it does not have a legitimate opportunity to recover its invested funds, penalties and delays, fully sharing the risks with the recipients of monetary resources. In case of failure of the project, the bank does not have the right to demand back its funds and also does not have the right to impose penalties. However, pledge and surety are widely used in investment protection in Islamic banks. Thus, the implementation of alternative, including Islamic, financial instruments in the economy of Uzbekistan necessitates the harmonization of banking legislation and regulations of the Bank of Uzbekistan for the management of banking risks, effective implementation of banking operations and transactions in the integration processes of forming a single market of banking services.

In this regard, public law measures and contractual and legal forms of organizing banking activities will become the most important factor in ensuring the financial stability of credit institutions and banking security. In addition, the problem is the low awareness of the population about the financial products of Islamic banking, which mistakenly assumes the possibility of their application according to the religion of customers and even a radial orientation, although the client of an Islamic bank can be any capable person who is ready to cooperate on the principles and values that are the basis of this system. The model of Islamic banking for Uzbekistan is a promising direction for the development of the bank sphere. It opens up opportunities for cooperation with the countries of Central Asia and the Arab countries, and also makes it possible to put into circulation the funds of millions of Muslims whose religious beliefs do not allow them to use the services of ordinary banks.

Deputy Chairman of the Central Bank of Uzbekistan Behzod Khamraev at a meeting of the Senate of the Oliy Majlis on May 18 answered on the question of the introduction of Islamic financing in the banking sector of the country.

The “Uzbekistan-2030” strategy sets the task of introducing the criteria and procedures of Islamic financing in at least three commercial banks and the formation of a legislative framework for Islamic finance.

"There is a procedure there, but the adoption of a provision on Islamic financial services was expected. This provision has been developed by the Central Bank, now it must undergo state registration. After its adoption, work will begin in this area," said the deputy head of the Central Bank.

Behzod Khamraev reported that 12 banks in Uzbekistan, including Agrobank, Uzpromstroybank, Microcreditbank, Ipak Yuli Bank and others, provide murabahah services at the expense of the credit lines of the Islamic Corporation for the Development of the Private Sector. Trustbank's subsidiary Trast Muamalat provides Islamic leasing services.

Murabah, as mentioned above, is a buy-and-sell financing transaction in which a bank purchases a commodity from a broker and sells it to the client under the agreement of murabahah at a pre-agreed markup, which is calculated as a lump sum or as a percentage of the value of the trade. After signing the murabahah contract, the client sells the trade to a broker of a third party, with the bank acting as an intermediary.

The draft resolution of the President, submitted for discussion in May 2018, planned to create an infrastructure of Islamic banking and finance in Uzbekistan. The document outlined the introduction of a ban on remuneration in the form of interest (ribo), the sharing of profits and losses with the entrepreneur according to the shares of participation in the project, the development of regulatory legal

acts on the implementation of insurance activities (takaful), leasing activities (ijarah), activities of on transactions with valuable securities (sukuk) and other operations based on the principles of Islamic finance.

However, there are certain problems of implementing this system. Difficulties and contradictions arise with the legislation and the tax base of banks. Also, the lack of awareness of the population about the possibilities of Islamic banking creates a false impression of the system itself among potential consumers. There are also certain risks of the system itself, in case of failure of the project, the bank does not have the right to demand the return of its funds and also does not have the right to impose penalties. Nevertheless, many experts consider Islamic banking to be a more stable and fairer financial model that stimulates the construction of long-term partnerships between investors and recipients of funds.

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