



THE ROLE OF ISLAMIC FINANCE ORGANIZATIONS IN THE DEVELOPMENT OF ECONOMIC SECTORS IN UZBEKISTAN

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ABSTRACT	KEY WORDS
The article reflects the content of Islamic finance, the areas of activity of Islamic finance organizations, and the possibilities of increasing the efficiency of economic sectors through the development of Islamic finance in Uzbekistan.	Islamic finance, IDB, financing methods, SWOT analysis, "Uzbekistan 2030" strategy.

Introduction

In recent years, interest in Islamic finance products has significantly increased in new Uzbekistan, which is why scientific research is being conducted in this area. The adopted strategy "Uzbekistan - 2030" sets a number of tasks to accelerate reforms in the banking system, increase the size of the banking services market, and develop competition in the sector.

In particular, Goal 50 of the Strategy sets forth the following: to increase the annual lending volume in the banking and financial system to \$40 billion, to increase bank deposits by 4 times, to privatize banks and retain 3-4 banks under state control, to attract at least 4 large, reputable foreign banks to the banking market, to improve the standards and control framework by introducing internationally recognized minimum standards and requirements for banks, to introduce Islamic finance criteria and procedures in at least 3 commercial banks, and to form the legal framework for Islamic finance [1].

Before integrating this system into the current banking and financial system in the country, a comprehensive assessment of its impact on the well-being of the population and business development is required .

Material and Methods

The article uses scientific abstraction, induction and deduction, and economic analysis methods such as factor analysis, comparative analysis, SWOT analysis.

"Islamic banking and finance" is an important component of Islamic economics or the Islamic economic system, which primarily represents the relationship between financial institutions and customers. The concept of "Islamic economics" entered the economic system in the middle of the last century.

The problems of Islamic economics and finance have been studied in the works of foreign scholars Abu Yusuf, A. Mirakhor, H. Ahmad, M. Iqbal, T. Usman, M. Qaradogiyi[2].

Among the scientists from the CIS countries, LR Syukiyainen, VV Pavlov, A.Yu. Zhuravlev, E.N. Miroshnik, RI Bekkin, AA Kazakov, RR Vakhitov, BF Mulyukov, AM Chumakova and others[3] conducted research on Islamic economics, Islamic financial law, the activities of Islamic banks, and Islamic financial products.

Russian researcher A. Zhuravlyov describes Islamic economics as "a system of Muslim views on the mechanisms and principles of organizing the economic activities of society ," while R. Beckin describes it as "an economic system that complies with the principles and norms of Muslim jurisprudence."

Uzbek researcher J.Imomnazarov defines Islamic economics as “ Islamic economics – the production, exchange, and distribution of material and intangible goods (including services) and consumption to do Islam religion based on the requirements " implementation "[4].

Results and Discussion

Islamic financing in the Republic of Uzbekistan There is no separate legislation on Islamic Development Bank and projects financed in our country by the Islamic Corporation for Private Sector Development It is implemented in accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 371 dated August 27, 2003 “On the membership of the Republic of Uzbekistan in the Islamic Development Bank” and the Resolution of the Republic of Uzbekistan No. 371 dated December 21, 2004 “On the membership of the Republic of Uzbekistan in the Islamic Corporation for the Development of the Private Sector”. According to them, the Government of Uzbekistan adopted the articles of agreement on the establishment of the IDB and the ICSD.

Currently, the bank offers the following financing options to its customers:

- murabaha;
- mushoraka;
- ijara;
- financing lines based on murabaha.

These financing methods use contracts provided by the Islamic Development Bank or the Islamic Development Bank of Uzbekistan. This financing is aimed at legal entities, and there are no Islamic financing services and products for individuals in Uzbekistan, nor are there any Islamic products and services offered to legal entities, other than the products and services mentioned above, such as Islamic insurance or deposits, etc.

A SWOT analysis of the development of Islamic finance in Uzbekistan is presented, which examines the strengths and weaknesses, opportunities and threats to the development of the sector (Figure 1).

Figure 1. SWOT analysis of the development of Islamic finance in Uzbekistan

Strengths	Opportunities
<ul style="list-style-type: none"> – Support from the head of state – To finance the economy of Uzbekistan – IDB from the group additional funds attraction to do – Targeted use of loan funds and effective use – Islamic banks in the world the absence of bankruptcy and the mechanisms stability – In the Republic of Uzbekistan 2018 "Active Entrepreneurship, innovative ideas and technologies "Year of support" to be declared 	<ul style="list-style-type: none"> – Sources of financing, especially for small and medium-sized businesses diversification – Real production in Uzbekistan encouragement – Middle East and S. East Asia investment from countries funds raised in case Economy of Uzbekistan direct benefits for – Islamic financing successfully implementing secular Uzbekistan as a state rise in prestige – Adequately covered by traditional financing availability of a financing market (small and medium-sized businesses, agricultural sector) – The main population of Uzbekistan Since a large part of them are Muslims, they are not allowed to use these financial products. expectation of stable demand – Islamic finance principles help reduce social inequality and strengthen social justice – access to financial services will expand due to the emergence of alternative financial products – Increasing support from Western countries for the development of this industry – Expansion of the platform for providing services and positive acceptance of the network rebranding process – The opportunity to introduce tools and methods that are successfully applied worldwide within the country's public and private corporate sectors in order to reduce the burden of usurious debt and financially strengthen enterprises that can become the basis of the country's system
Weaknesses	Threats
<ul style="list-style-type: none"> – The lack of flexibility and adaptation of local tax and banking legislation to the nature of Islamic financing – Lack of experienced staff working with Islamic products – Low financial awareness: lack of awareness of the population and businesses about Islamic financing products and other standards – Dependence of subsidiary Islamic financial institutions on the activities of central institutions – Diversity of sects in Muslim countries – The complexity of borrowing from an Islamic bank. Islamic financial products are based on the principle of profit and loss sharing, which requires documentary transparency and a thorough analysis of the borrower's solvency – Lack of confidence among the population in completely new financial products – Lack of consistency in current legislation – Serious problems with the taxation of Islamic financial products – Lack of general access to these services. 	<ul style="list-style-type: none"> – Risk of fraud. The emergence of a fake Islamic finance institution will lead to a loss of public confidence in Islamic finance in general – Islamophobia. There are various misconceptions about the industry's links to terrorism and extremist organizations. – Mentality and cultural differences (lack of acceptance of Islamic principles at the consumer level) – Risk of competition from mutual insurance societies and microfinance institutions offering traditional financial services – The lack of a realistic investment climate in the eyes of large Islamic investors, and the unwillingness to officially recognize the existing facts – Not enough attention is being paid to the active implementation of these services. – Resistance from private shareholders of local commercial banks due to misunderstanding.

Source: Author's development

Islamic finance is a new direction for the Uzbek economy, and there is a need for it from both the business and the population. The emergence of alternative financing products will help expand the population's access to financial services.

However, existing expectations can be seriously distorted due to the lack of experience and knowledge of potential clients in the field of Islamic finance, as well as insufficiently developed banking and financial legislation. There are also risks associated with regulating Islamic financial products in the context of the lack of uniform interpretation of Sharia norms in Muslim countries and the lack of qualified specialists in the field of Islamic finance.

The Islamic Development Bank plays a significant role in the development of Islamic finance in Uzbekistan. Uzbekistan joined the IDB in September 2003 during the bank's annual meeting in Almaty. In 2004, Uzbekistan became a member of the Islamic Corporation for the Development of the Private Sector. The IDB representative office in Uzbekistan began its activities in Tashkent in October 2006. Currently, Uzbekistan is considering joining two other organizations within the IDB group. These are the Islamic Corporation for Investment and Export Credit Insurance (ICIEC) and the International Islamic Trade Finance Corporation (ITFC).

The amount of projects approved by the Islamic Development Bank Group for Uzbekistan is more than 2.1 billion US dollars, of which 304 million US dollars are allocated to the Islamic Development Bank Group and 1.82 billion US dollars to the IDB.

In terms of financing methods, the first place is taken by the exception (build on demand), while the second and third places are occupied by murabaha (sale in installments) and ijara (leasing). As can be seen, construction-oriented projects constitute the main part of financing, that is, this includes the reconstruction of irrigation networks, road construction, construction of schools, colleges and other projects.

The financing instrument used by the HSRIK is mainly Murabaha, with more than 70% of it coming from bank financing lines, while the remaining 30% is direct financing. These private sector projects have contributed to the development of various sectors of the economy, in particular, pharmaceuticals, healthcare, construction materials production, textiles, food industry, agriculture and other sectors.

Taiba Leasing, a company established by the CRC in 2010 with a charter fund of \$5 million, has also been providing its Sharia-compliant leasing (rental) services to representatives of the private sector.

To date, more than 200 projects have been financed. The main share of projects (45.4%) falls on the construction and construction materials production sector, light industry (14.87%), transport services (4.96%) and food production (4.95%) occupy 2nd, 3rd and 4th places, respectively. The share of the remaining sectors is 29.8% in total and less than 4% individually (Table 1).

Table 1. ITBG portfolio for Uzbekistan in terms of financing methods

Financing methods	Projects		
	Number	million I. d.	million dollars
Technical support	5	0.8	1.1
Credit	3	22.2	32.5
Special assistance operations	8	1.4	1.9
Installment sale	11	292.4	446.0
Exception	12	616.7	909.3
Joint financing lines	3	29.4	45.0
Capital	1	3.2	5.0
Leasing	11	275.7	412.1
Trade finance	19	199.6	292.6
Total	73	1 441.4	2 145.5

Source: Author's development

Looking at the projects approved for financing by the Islamic Development Bank Group by sector, the largest investment is in the agriculture and rural development sector, which accounts for almost 30% of the IDBG portfolio. It is followed by energy with a share of 25%, followed by transport (16%) and finance (13%).

Despite being the last CIS country to join the IDB and the CISRC, Uzbekistan is the first in the region in terms of the portfolio of both organizations. Accordingly, the corporation was able to finance trade projects before Uzbekistan's membership in the organization, and to date, ITFC has provided a Murabaha financing line to Asia Alliance Bank, Trustbank and Kapitalbank (Table 2.).

Table 2. IDB and HSRIC financing portfolio for Uzbekistan by sector

Sector	Project								
	ITBG(total)			Also					
				IDB			XSRIC		
	Number	million ID	million dollars	Number	million ID	million dollars	Number	million ID	million dollars
Education	12	52.3	78.6	5	51.1	77.0	0	0.0	0.0
Finance	17	189.3	279.7	4	29.6	45.1	10	151.8	223.0
Health care	9	81.0	118.5	3	53.0	78.3	5	27.8	40.0
Industry and mining	9	41.1	61.1	2	13.7	20.0	7	27.4	41.1
Information and communication technologies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation	4	228.6	348.0	4	228.6	348.0	0	0.0	0.0
Energy	8	350.0	533.1	8	350.0	533.1	0	0.0	0.0
Agriculture	8	436.8	632.6	8	436.8	632.6	0	0.0	0.0
real estate	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0
Water supply, strategy and urban services	2	61.7	92.9	2	61.7	92.9	0	0.0	0.0
Others	4	0.7	1.0	4	0.7	1.0	0	0.0	0.0
Total	73	1 441.4	2 145.5	40	1 225.5	1 828.0	22	207.0	304.1

Source: Author's development

"Uzbekistan-2030" strategy stipulated the formation of a legal framework and the introduction of procedures for Islamic finance in the country [8].

According to the Central Bank, a draft law on Islamic finance has been prepared in Uzbekistan, and regulations have been developed. Practical work has begun on ¹introducing relevant amendments to the current legislation .

According to information, 12 banks, in particular Agrobank, Sanoatqurilishbank, Mikrocreditbank, and Ipak Yuli Bank, are providing Mubara services through credit lines for private sector development [9]. Also, "Trust Adalat" LLC under Trustbank provides Islamic leasing, that is, leasing and mubaraha - loan-based sales transactions, and " Hamkorbank " also provides Islamic leasing services.

¹Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025". May 12, 2020

To develop small and medium-sized businesses, the Silk Road Bank attracted \$2 million in 2006, \$5 million in 2010, and \$14 million in 2017 from the Islamic Development Corporation.

Since July 2018, two more banks: Trustbank and Infinbank, have established financial cooperation with the Islamic Development Corporation. Soon, the Islamic Development Corporation signed agreements on Sharia-compliant financial issues with six institutions in Uzbekistan: Kapitalbank, Asakabank, Turonbank, Hamkorbank, Uzsanoatqurilishbank, and Asia Alliance Bank.

Cooperation between Uzbekistan and the IDB began in 1991 when the bank approved the issue of allocating grants by the IDB for the reconstruction of a number of historical monuments, such as the Mir-Arab Madrasah in Bukhara and the Dar ul-Hadis Madrasah in the Imam Al-Bukhari Memorial Complex [9]

At the 28th meeting of the ITB Group held in Almaty on September 2-4, 2003, a decision was made to admit the Republic of Uzbekistan as an equal member of the ITB.

June 30, 2022, the IDB Group has approved financing for 116 projects in Uzbekistan with a total volume of 2,602.8 million USD, of which 55 (1,077.7 million USD) are already completed projects. 61 projects (1,525.1 million USD) are currently active (Table 3)[10].

Table 3 The amount of funds allocated by the IDB to the Republic of Uzbekistan, by direction

No.	Route/network name	Number of projects	Total allocated funds (in million US dollars) as of 30.06.2022
1	Agriculture	9	702.4
2	Finance	54	653.5
3	Health care	15	413.2
4	Transportation	4	348.1
5	Energy	5	203.1
6	Water, Sanitation, Urban Services	3	93.1
7	Education	11	78.4
8	Industry/Mineral Resources Extraction	9	59.9
9	Other	5	51.0
10	Information and communication	1	0.1
	Total:	116	2,602.8

Source: This table was compiled by the author based on information provided by the Islamic Development Bank's office in Uzbekistan.

As of June 30, 2022, more than \$1,790.70 million in financial agreements had been signed and entered into force, and more than \$1.3 billion had been disbursed .

Conclusion

As can be seen, Uzbekistan's cooperation with Islamic financial institutions is mainly carried out by the Islamic Development Bank, its group of financial institutions, and the Arab Coordination Group.

At the same time, the projects being implemented and planned to be implemented within the framework of this cooperation are aimed at developing infrastructure (these infrastructure projects are determined by the Government of Uzbekistan and the IDB). As for projects related to the private sector, that is, business projects, are currently being implemented only through local banks, through the Islamic Corporation for the Development of the Private Sector and the International Islamic Trade Finance Corporation. This means additional costs for entrepreneurs, since the local bank in the middle is also an institution that organizes financing and, naturally, charges a fee from the client for this. In order to work directly with the private sector, such as the European Bank for Reconstruction and Development and the International Finance Corporation, that is, to finance business projects using Islamic financial products and instruments, certain conditions must be created in the country, and first of all, a legal framework must be developed. However, unfortunately, so far, relevant laws on Islamic finance and banking have not been developed in Uzbekistan, that is, a legal framework has not been formed. However, amendments to the relevant laws and the adoption of new laws on the implementation of the Islamic banking and financial system in Uzbekistan would increase cooperation with private Islamic banks and other Islamic financial institutions, and most importantly, the possibility of attracting investments from them. In particular, it would be possible to finance investment projects of private enterprises through cooperative financial products such as *musharaka* and *muzarab*, provide mortgage services to the population by opening *exemption lines*, finance the purchase of means of production through *murabaha* or *lease products*, provide private farms with working capital through *salam*, and thereby develop agriculture. After all, today the country's commercial banks are sufficiently developed and they have the opportunity to attract financial resources from foreign Islamic banks even without state guarantees.

In order not to lag behind globalization and innovative changes taking place in the world, it is recommended that the government of Uzbekistan develop a roadmap for the development of the Islamic finance or partnership-based banking industry. This roadmap should include improving existing legislation (amendments and changes to the legislation on banking, taxation, securities), conducting promotional activities, developing Islamic finance infrastructure, developing international cooperation and the public sector, developing the Islamic financial services market, conducting scientific and educational work, and working with investors. At the same time, it is advisable to determine the responsible agency and deadlines for each action to be taken.

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