

PROSPECTS FOR THE INTRODUCTION OF ISLAMIC FINANCE IN UZBEKISTAN

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A B S T R A C T	K E Y W O R D S
<p>This article discusses the financial operations performed by Islamic banks, the processes of working with customers, and their differences from traditional banks. Today, financial transactions in Islamic banks: deposit, credit, letter of credit, settlement, payment transactions are analyzed and scientific conclusions are formed.</p>	<p>Shariah principles, Islamic banking system, financial intermediation, Muzoraba, Mudarib, Dual banking system.</p>

Introduction

As you know, traditional banking is based on bank interest charged regardless of the performance of the borrower. An analysis of the banking and financial services market indicates the presence of an increased interest among citizens and entrepreneurs in using alternative banking and financial services that are not burdened with bank interest based on the principles of Islamic financing.

Principles of Islamic finance are standards developed and approved by international organizations (Accounting and Auditing Organization for Islamic Financial Institutions, Islamic Financial Services Council) for Islamic banking and finance, based on the principles of Shariah (Islamic law), which provide for the rejection of bank interest in favor of project investments based on the sharing of risks and equity participation of the bank and the client.

To date, the accumulated experience and knowledge of commercial banks in the field of financing small and private businesses in cooperation with the Islamic Corporation for the Development of the Private Sector (part of the Islamic Development Bank group) create positive prerequisites for conducting Islamic banking and finance, in particular, the introduction of "**Islamic window**" in Uzbekistan. However, one of the main obstacles in this area is the lack of a regulatory framework.

An Islamic window is a separate structural unit in a traditional commercial bank that provides banking services based on the principles of Islamic finance, while an Islamic bank is a bank that deals only with Islamic finance and does not provide traditional banking services.

Islamic windows are available in many major first-class banks of the world (ABN Amro, Bank of America, Barclays Plc., BNP-Paribas, Chase Manhattan, Citibank, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Lloyds Bank, Societe Generale, UBS etc.), which provide the full range of

Islamic banking services in full compliance with Sharia law, which in fact are full-fledged alternatives to traditional banking products.

Studying the experience of foreign countries (Great Britain, Kazakhstan, Kyrgyzstan, Malaysia, Tajikistan, Turkey, etc.) shows that the legislation provides for the principles of Islamic finance, and separate laws have been adopted.

Experience of foreign countries on legal regulation in the field of Islamic banking and finance

#	A country	Description
1.	Great Britain	<p>Law " On Finance" from 2005</p> <p>Chapter 5 Alternative Financing Mechanisms</p> <p><i>Introduction</i></p> <p>Section 46 Alternative Financing Mechanisms</p> <p><i>Mechanisms providing alternative financial income</i></p> <p>Section 47 Alternative Financing Mechanisms: Alternative Financial Income</p> <p>Section 49 Alternative Financing Mechanisms: Profit Sharing Returns</p>
2.	Kazakhstan	<p>Law of the Republic of Kazakhstan "On banks and banking activity in the Republic of Kazakhstan" dated August 31, 1995 No. 2444 (with amendments and additions as of 07/04/2018)</p> <p>Article 3. Banking system of the Republic of Kazakhstan</p> <p>5-1. Islamic bank - a second-tier bank carrying out banking activities provided for in Chapter 4-1 of this Law, on the basis of a license from an authorized body.</p> <p>Chapter 4-1. Features of the creation and operation of Islamic banks</p> <p>Article 52-1. Requirements for the activity of an Islamic bank</p> <p>Article 52-5. Banking and other operations of an Islamic bank</p>
3.	Kyrgyzstan	<p>Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, banks and banking activities" dated December 16, 2016 No. 206</p> <p>Article 3. Basic principles of banking legal relations</p> <p>4) use of various forms and principles of bank financing, including Islamic principles of banking and financing;</p> <p>Article 4. Islamic Principles of Banking and Finance</p> <p>Article 77. Bank</p> <p>Article 82. Issuance of a license for the right to conduct banking operations</p> <p>Article 96. Management bodies of the bank</p> <p>Article 111. Banking activity and banking operations</p> <p>Article 112. Lending</p> <p>Article 113. Investments of the bank</p>
4.	Malaysia	Islamic Financial Services Act 2013 Financial Services Act 2013)

		<p>The law provides for the regulation and supervision of Islamic financial institutions, payment systems and other relevant bodies, the supervision of the Islamic money market and the Islamic foreign exchange market to promote financial stability and compliance with Sharia and related, additional or indirect matters.</p> <ol style="list-style-type: none"> 1. On the rights, obligations and functions of Islamic financial institutions 2. Authorization rules of Islamic financial institutions 3. Requirements of the religion of Islam (Sharia) on the activities of Islamic financial institutions 4. About payment systems 5. Prudential Requirements 6. On the ownership of a financial institution, and on the transfer of ownership 7. Financial groups 8. On protecting the rights of consumers of services of Islamic financial institutions 9. Islamic securities exchange rules 10. About reporting and providing data 11. Checking the activities of Islamic financial institutions 12. Other rights of the bank 13. Application of punishments
5.	Tajikistan	<p>Law of the Republic of Tajikistan "On Islamic banking" dated July 26, 2014 No. 1108</p> <p>This Law defines the legal and organizational framework for Islamic banking in the Republic of Tajikistan and creates favorable conditions for its implementation.</p> <p>Chapter 1. General Provisions (Articles 1 - 7)</p> <p>Chapter 2. The procedure for the creation and licensing of Islamic credit organizations (Articles 8 - 21)</p> <p>Chapter 3. Capital (Articles 22 - 23)</p> <p>Chapter 4. Management of Islamic Credit Organizations (Articles 24 - 33)</p> <p>Chapter 5. Regulation of the activities of an Islamic credit organization (Articles 34 - 45)</p> <p>Chapter 6. Accounting and financial reporting (Articles 46 - 50)</p> <p>Chapter 7. Audit (Articles 51 - 53)</p> <p>Chapter 8. Confidentiality (Articles 54 - 57)</p> <p>Chapter 9. Supervision and verification (Articles 58 - 59)</p> <p>Chapter 10. Final Provisions</p>
6.	Turkey	<p>Banking Law No. 5411 of 2005</p> <p>According to the Law, banking institutions operating in the country are divided into three areas depending on the specifics of their activities:</p>

	<p>"trading", "investment" and "joint participation banks". It should be noted that the Law does not contain the words "Islam" or "Sharia". Islamic banks are called "participation banks", which operate under the rules of Islamic finance. Under the Law , joint participation banks are authorized to receive deposits using "profit and loss sharing accounts" and "special current accounts".</p> <ol style="list-style-type: none"> 1. Regulations on Associations of Financial Institutions 2. Rights and Obligations of Associations 3. Permission to establish a joint participation bank 4. Merger clause 5. Regulation on Financial Statements of Joint Participation Banks 6. Regulation on contracts 7. Regulations on the application of penalties 8. Cancellation of activity license
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A number of international institutions (**the World Bank, the Islamic Development Bank, the International Monetary Fund, the Islamic Financial Services Council and Standard & Poor's**), expressing confidence in the relevance of Islamic finance in their studies and reports , state that it has "strong potential to promote financial stability, financial accessibility and shared prosperity, as well as infrastructure development, which will create favorable conditions for the timely implementation of the Sustainable Development Goals" and "if Islamic financial principles are applied in the financial system, they can "minimize the severity and frequency of financial crises."

Based on the foregoing, in order to create alternative financing opportunities and meet the growing needs of the population and entrepreneurs, expand the range of banking and financial services offered, mobilize resources from domestic and foreign markets based on the principles of Islamic finance, it is proposed to create a legal framework for conducting Islamic banking and finance.

Necessary create an interdepartmental working group consisting of representatives of the Ministry of Economics of Finance, the Central Bank and other interested ministries and departments to study this issue and adopt a draft of the relevant regulatory legal act.

In conclusion we can state that Uzbekistan has great prospects for development of Islamic finance industry. As we have explained earlier there are both religious and economic reason to justify introduction of Islamic banking and finance products in the country. By doing so, Uzbekistan would not just satisfy the demand of the local population for such products, but can also attract many foreign investors to Uzbekistan's new investment opportunities opening up for them. Uzbekistan has all the right parameters to become Islamic finance hub for Central Asian region. The only missing link is proper legislation and infrastructure for functioning of this new industry. Proposal of the draft of the decree of the President of Uzbekistan "On the creation of the infrastructure of the Islamic banking and finances in the Republic of Uzbekistan" in May 2018 was the right step in the right direction. However, this draft should be correctly applied into the action by passing of proper legislation and formation of right infrastructure. Once, those steps are completed we can rest assured that it will not take much time to realize its economic and social benefits to the population of the country.

Moreover, we structure the core topics of Islamic economics and finance re-search and demonstrate it to be a vibrant area of research attempting to reach across the spectrum of economics and finance. The

explicit aim of integrating morality in the practice of economics and finance is quite novel in modern economics and is of wider benefit outside of just Islamic perspectives on morality, given the needs of all societies. The structure provided of Islamic economics and finance research will undoubtedly continue to evolve as research develops further, but we propose this structure as a useful starting point for charting the development of the research agenda and for new researchers interested in growing the area further.

Need incorporating Islamic financial system (formal and informal institutions) to the existing financial system and fill in the financing gap existing in Uzbekistan. Combination of formal and informal financial institutions, which is part and parcel of Islamic financial system, has high potential in funding the balanced growth in Uzbekistan. The success of Islamic financial institutions in peer countries like Indonesia and Bangladesh is commendable and worth adopting and incorporating its best practices. The presence of effective informal institutions in Islamic financial systems, like Waqf and Zakat, can help not only to eradicate poverty and improve living standards, but also to be highly efficient in meeting various financing needs of MSMEs. The Government can also benefit from Islamic Finance by issuing sovereign and green sukuk to fund infrastructural and environmental development projects. The Government could raise funds not only from local investors but also attract foreign investors (particularly from Muslim countries).

There is more zeal and positivity pertaining to the willingness of people in contributing to Zakat, Waqf, and Sadaqah. This necessitates development of a prudent, transparent and efficient institution for collection, management and usage of Zakat and Sadaqah aimed at poverty alleviation and financial empowerment of MSMEs. For the purpose of achieving this objective, it is essential to organize various Waqf awareness programs promoting the benefits and importance of Islamic social finance. Other alternatives like Islamic crowdfunding could also play a crucial role in channeling Islamic funds to finance sustainable development projects.

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