



PROSPECTS FOR THE DEVELOPMENT OF ISLAMIC FINANCE

Khamzaev Shodiyor

Department of International Financial Institutions
Joint Stock Commercial Bank "Business Development Bank"
ORCID: 0009-0009-1166-4543
kh.shodiyor@gmail.com

Abstract. This article examines the concept and essence of Islamic finance, consistent with the principles of Sharia, and its practical application, the development of the Islamic economy, the donation of international financial institutions and Islamic banks in the formation of banking resources. The role and importance of the development of Islamic finance in the process of transformation of the financial and banking system are also considered. The perspective of the development of Islamic finance and its role in the development of the country's economy is considered. Suggestions and recommendations on the implementation of the principles of Islamic finance are given.

Keywords: Islamic bank, donation, credit resources, international financial institution, Islamic finance, Sharia principles.

ИСЛОМИЙ МОЛИЯЛАШТИРИШНИ РИВОЖЛАНТИРИШ ИСТИҚБОЛЛАРИ

Хамзаев Шодиёр

“Бизнесни ривожлантириш банки” Акционерлик тижорат банки
Халқаро молия институтлари билан
ишлаш департаменти

Аннотация. Ушбу мақолада шариат тамойилларига мос келадиган исломий молиялаштириш тушунчаси ва моҳияти ва унинг амалий қўлланилиши, исломий иқтисодиётнинг ривожланиши, банк ресурсларини шакллантиришда халқаро молия институтлари ва исломий банкларнинг донорлиги кўриб чиқилган. Молия-банк тизимини ўзгартириш жараёнида исломий молиялаштиришни ривожлантириш роли ва аҳамияти ҳам кўриб чиқилган. Исламий молиялаштиришни ривожлантириш истиқболлари ва унинг мамлакат иқтисодиётини ривожлантиришдаги роли кўриб чиқилган. Исламий молиялаштириш тамойилларини амалга ошириш бўйича таклиф ва тавсиялар берилган.

Калит сўзлар: исломий банк, донорлик, кредит ресурслари, халқаро молия институтлари, исломий молиялаштириш, шариат тамойиллари.

ПЕРСПЕКТИВЫ РАЗВИТИЯ ИСЛАМСКОГО ФИНАНСИРОВАНИЯ

Хамзаев Шодиёр

Департамент по работе с международными
финансовыми институтами
Акционерный коммерческий банк «Банк развития бизнеса»

Аннотация. В данной статье рассмотрены понятие и сущность исламского финансирования, соответствующая принципам шариата, и её практическое применение, развитие исламской экономики, донорство международных финансовых институтов и исламских банков в формировании банковских ресурсов. Также рассмотрены роль и значимость развития исламского финансирования в процессе трансформации финансово-банковской системы. Рассмотрена перспектива развития исламского финансирования и его роль в развитии экономики страны. Даны предложения и рекомендации по внедрению принципов исламского финансирования.

Ключевые слова: исламский банк, донорство, кредитные ресурсы, международный финансовый институт, исламское финансирование, принципы шариата.

Introduction.

To date, an important component of the development of the banking system is Islamic finance, which is most in demand in Islamic countries. The emergence of Islamic banks and financial institutions has led experts in the field to search for a suitable model by which accounting standards could be developed and implemented in the practical activities of companies in order to provide adequate, reliable and relevant information about financial statements to users.

Islamic financial institutions (IFIs) in the Middle East (Qatar, Kuwait, Bahrain, Saudi Arabia, etc.) are particularly popular. Similar financial institutions operate in Jordan, Malaysia, Sudan, Lebanon, Indonesia, etc. "Accounting and reporting standards at the international level are developed by the Organization for Accounting and Auditing in Islamic Financial Institutions" (Umarov, 2014).

Islamic accounting can be defined as an accounting model, the application of which allows not only to provide reliable information in the format of various financial indicators, but also to signal to interested parties that the company conducts business and fulfills its socio-economic tasks in accordance with Sharia.

It is known that the implementation of the strategy for reforming the banking system for 2020-2025 and accelerating the transformation of commercial banks aimed at increasing the share of the private sector in banking assets from 15 to 60 percent is of paramount importance. "During the consistent reform of the financial sector, a number of measures have been implemented, as a result of which the necessary legal conditions have been created for conducting a progressive banking business and strengthening the competitive environment in the sector"³².

International practice shows that Islamic finance can adapt to market demand in a short time compared to traditional enterprise lending. The introduction of new Islamic products and services and their effective implementation will have a faster impact on the bank's business.

The targeted placement of funds raised through Islamic financing is a measure of the bank's success. The irony is that "it was the pursuit of maximizing the rate of return, the desire to get the maximum possible income from lending to corporate clients, that led many well-known banks to financial success" (Muradova, 2018).

³² Decree of the President of the Republic of Uzbekistan, dated May 12, 2020 No. UP-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan

There are some difficulties in the development of Islamic finance due to the lack of professionals in the labor market in the field of development of Islamic products and services, the high demand for specialists in the field of Internet banking, as well as the problems of standardization of business processes and ways to optimize them, building on the conveyor at the scale of bank branches. Foreign practice shows that with the determination of top managers of banks and the allocation of appropriate resources for Islamic finance, it is possible to build a service system in 2-3 years of hard work, and in a fairly short period to develop this area in all branches of the bank.

Literature review.

As part of the banking system reform strategy, the main directions have been identified, one of which is to increase the efficiency of the banking system by creating equal competitive conditions in the financial market, lending exclusively on a market basis, reducing banks' dependence on government resources, modernizing banking services, creating effective infrastructure and automating banks' activities, as well as phasing out non-core functions of banks (Decree of the President of the Republic of Uzbekistan 2020).

Islamic banking, also referred to as Islamic finance or Shariah-compliant finance, refers to financial activities that adhere to Shariah (Islamic law). Two fundamental principles of Islamic banking are the sharing of profit and loss and the prohibition of the collection and payment of interest by lenders and investors (Evan Tarver 2023).

International financial institutions help banks expand their activities and conduct business internationally. They create new opportunities for raising funds and developing banks' lending activities, as banks develop and offer new products and services to meet international requirements. All this also increases competition between commercial banks. Banks face competition from local and foreign banks, which encourages them to develop and implement new innovative solutions to attract and retain customers (Sultonmurodov, 2023).

Today, globalization processes have acquired such proportions that it is now difficult to define clear boundaries between the national and international financial systems. Business entities of various forms of ownership actively participate in export-import transactions, international payments and other financial and economic relations. In particular, commercial banks of Uzbekistan are actively carrying out operations to attract and actively place funds from international financial institutions (Sultonmurodov, 2023).

Today, Islamic insurance is not so much different from traditional insurance. The ideal form for an Islamic insurer in countries where Muslims are a minority is the Mutual Insurance Society (MSA), which allows you to work in accordance with both Sharia and state legislation. Insurance of the collateral object significantly reduces the level of losses of banking resources. The issues of insurance of Islamic financing were considered in the scientific works of Abdurakhmanov (2018-2023).

Research methodology.

The logical and structural analysis of theoretical and empirical data presented in the public domain was used as a research method. There is also an analysis and synthesis that allows, on the one hand, to identify certain areas of institutional development of the banking system, on the other – trends and potential opportunities, as well as the role of Islamic finance. The study revealed the special importance and role of Islamic finance in the economic development of the country.

Analysis and results.

There are more than 560 banks and over 1,900 mutual funds around the world that comply with Islamic principles. Between 2015 and 2021, Islamic financial assets grew to about \$4 trillion

from \$2.17 trillion and are projected to rise to roughly \$5.9 trillion by 2026, according to a 2022 report by the Islamic Corporation for the Development of Private Sector (ICD) and Refinitiv³³.

The Islamic Development Bank (IsDB), during its 344 Board of Executive Director’s meeting of 13 February 2022, approved Projects for Cote d’Ivoire, Guinea, and Senegal. The Board of Executive directors of the Bank, at its 344th meeting held on 13 February 2022, approved a total of EUR 297.67 million for 3 Member Countries under the Regional Hub of Dakar. These are: EUR 35.14 million for Phase 3 of the Hydro-Agricultural Development Project in Upper Sassandra and Fromager Regions in Cote d’Ivoire, EUR 24.30 million for Phase 2 of the Development of Technical and Vocational Education Project, Guinea, and EUR 238.23 million for the Construction of the Dakar – Tivaouane - Saint Louis Highway/ Mékhé - Saint Louis Project³⁴.

The Islamic Development Bank Group has contributed to more than 57 projects under implementation in Egypt with \$3.8 billion and reaffirms its economic support to Egypt. IsDB support to Egypt focuses on the achievement of eight Sustainable Development Goals (SDGs) that cover poverty and hunger eradication, achieving good health, improving the quality of education, providing clean energy and potable water, crating decent employment opportunities especially for youth and women, creating sustainable infrastructures, assisting industry and the innovation and creativity environment.

Furthermore, the IsDB institutions have also contributed to developing and encouraging the trade and exports sector and supporting the private and the insurance sectors with contributions amounting to more than \$13.2 billion³⁵.

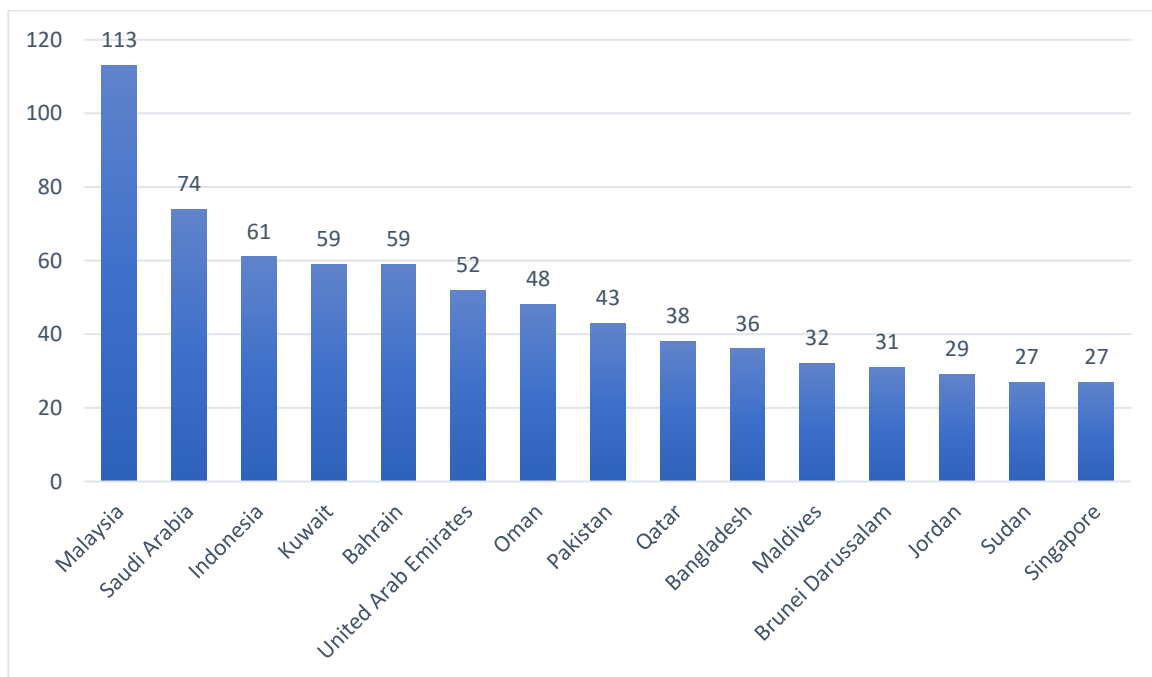


Figure 1. Islamic Finance Development Indicators Value Score of Leading Islamic Finance Markets³⁶

Malaysia ranks first in terms of the development of Islamic finance. Malaysia has developed a comprehensive regulatory framework that supports the growth of Islamic banking and finance. This includes the creation of Sharia-compliant financial institutions and instruments. Bank

³³ Islamic Corporation for the Development of the Private Sector-Refinitiv. "Islamic Finance Development Report 2022, https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247_1582.pdf, Pages 2, 8.

³⁴ <https://www.isdb.org/news/the-islamic-development-bank-isdb-during-its-344-board-of-executive-directors-meeting-of-13-february-2022-approved-projects-for-cote-divoire-guinea-and-senegal>

³⁵ <https://www.isdb.org/news/the-islamic-development-bank-group-contributes-to-more-than-57-projects-under-implementation-in-egypt-with-38-billion-and-reaffirms-its-economic-support-to-egypt>

³⁶ <https://www.mordorintelligence.com/ru/industry-reports/global-islamic-finance-market>

Negara Malaysia, the central bank of Malaysia, actively promotes Islamic finance. He presented policies and initiatives to create an enabling environment for Islamic financial institutions. Malaysia offers a wide range of Islamic financial products and services, including Islamic banking, takaful (Islamic insurance), sukuk (Islamic bonds) and Islamic investment funds (figure 1).

In Uzbekistan, Islamic finance is represented by the projects of the Islamic Bank for the Development of the private sector, which has been successfully cooperating with Ipak Yuli Bank for a long period of time. Financing is carried out in the form of providing financing lines to banks to provide guarantees according to the Murabaha principles. This is one of the most common methods of working for interest-free transactions used by banks in Muslim countries. Murabaha is an active client financing operation, and it is suitable for making a wide variety of purchases: from equipment to business buildings.

Relationship of the Islamic Development Bank Group with the Republic of Uzbekistan. The Islamic Development Bank will allocate funds for the comprehensive development of rural areas of Uzbekistan.

In 2024-2028, the infrastructure of villages will be improved in 21 districts of the Samarkand, Surkhandarya and Kashkadarya regions. To do this, a concessional loan of \$ 260 million is attracted from the Islamic Development Bank for a period of 20 years.

The President of Uzbekistan signed a decree "On measures for the implementation of the Integrated Rural Development Project (Stage 2) with the participation of the Islamic Development Bank". A soft loan of \$ 260 million is being raised from the Islamic Development Bank for a period of 20 years. In 2024-2028, the infrastructure of villages in 21 districts of the Samarkand, Surkhandarya and Kashkadarya regions will be improved at the expense of credit funds. As part of the project, 20 schools (19 in Samarkand), 14 kindergartens, 10 family doctor's offices (all in Samarkand) will be built, 200 km of drinking water networks, 368 km of power grids will be laid, 53 transformers will be installed. About 330 kilometers of road infrastructure will be improved, which will cost 717 billion soums.

Conclusion.

Islamic finance is developing dynamically in many Muslim countries. It is noteworthy that even in such native non-Muslim countries as the United Kingdom, Germany, the Philippines, Ethiopia, Nigeria and a number of others, Islamic finance has received a boost at the legislative level.

Islamic finance came to Uzbekistan together with the projects of the Islamic Development Bank group. However, the country still does not have legislation on Islamic banking and regulation of the sphere of Islamic finance. At the same time, work is already actively underway in this direction: the country's leadership is ready to introduce Islamic banking, relevant legislation is being worked out in relevant ministries and departments, international experts and consultants in the field of Islamic finance are involved in the work.

In order to introduce Islamic finance in Uzbekistan, it is necessary to carry out a huge systematic educational work to increase the knowledge of the population and market players of the principles, rules and nuances of the Islamic financial sector. It is important that both financiers and ordinary people understand how Islamic financial institutions work, how products are structured, how they differ from traditional instruments, etc.

There is no denying that with the introduction of Islamic finance, there will be a serious outflow of finances and customers from traditional banks. This stereotype also has no solid foundation. In the vast majority of countries, both the Islamic and traditional banking systems function harmoniously. Moreover, despite the fact that Islamic finance has been successfully operating in such native Muslim countries as Malaysia, Indonesia, Pakistan, and Bangladesh for several decades, the share of traditional banking still prevails.

Moreover, by legalizing Islamic banks, the country is able to attract very serious internal resources: many people, because of their religious beliefs, do not take money to classic banks, but keep it under mattresses. Uzbekistan is favorably distinguished for investors from Islamic countries by its political stability, ongoing economic reforms, growing prosperity, a large and young population, deep culture and entrepreneurial spirit of the population. These are excellent ingredients for investors from the Persian Gulf and Southeast Asia.

Considering the above, it can be concluded that the competent organization of Islamic finance is a necessary element of economic development and has a positive impact on the standard of living of the population and the economic situation of the country. In order to introduce and develop Islamic finance, it is necessary:

- the transition from product-oriented to customer-centric business models;
- focus on the customer experience as a whole, rather than on the individual characteristics of each product;
- creation of infrastructure, regulatory framework;
- optimizing deposit protection;
- elimination of fiscal barriers;
- improving financial literacy among the population;
- the development of morality and ethics embedded in Islam;
- development of a mechanism to direct the amount of the penalty, which is insignificant, to charity;
- refusal to finance the tobacco and alcohol industries.

Based on the above, it should be noted that the development of Islamic finance is important for Uzbekistan and is extremely necessary in the socio-economic development of the country.

Reference:

Abdurahmanov I. (2020) "Efficiency of organizing the activities of insurance intermediaries in the development of insurance sector," *International Finance and Accounting: Vol. 2020: Iss. 1, Article 5*. Available at: <https://uzjournals.edu.uz/interfinance/vol2020/iss1/5>.

Abdurahmanov I., Kazantseva, A.K., & Nosirova, G.A. (2018). *Theory I praktika strachovania. Uchebnoe posobie. T.: "Economics-Finance*.

Abdurakhmanov I. (2018). *Competition in the insurance market of Uzbekistan. Asian journal of management sciences & education, 7(2), 56-61*.

Abdurakhmanov I. (2018). *Insurance market analysis methods: case-study from Uzbekistan. SAARJ Journal on Banking & Insurance Research, 7(1), 59-68*.

Abdurakhmanov I. (2019). *Theory I praktika strachovania. Uchebnik/ –T.: "Economics finance, 353-354*.

Abdurakhmanov I. (2020) *introduction of effective mechanisms of insurance market regulation and Prudential control, scientific electronic journal" //International Finance and accounting". – 2020. - T. 2*.

Abdurakhmanov I. (2021). *Issues of innovative development of insurance in Uzbekistan. International Journal of Management IT and Engineering, 11(7), 91-96*.

Abdurakhmanov I. (2022). *Prospects for the application of digital technologies in the insurance industry. FINANCE AND BANKING, 8 (1), 95-99*.

Abdurakhmanov I. (2022). *Trends in the formation of insurance sectors. FINANCE AND BANKING, 8 (3), 60-67*. Retrieved from <https://journal.bfa.uz/index.php/bfaj/article/view/33>

Abdurakhmanov I. (2023) *conceptual foundations for the development of insurance networks in the Republic of Uzbekistan. Autoreferat diss. i.f.D. P. 78*.

Abdurakhmanov I., (2022). *Trends in the formation of insurance sectors. FINANCE AND BANKING, 8 (3), 60-67*.

Abdurakhmonov I. (2020) "Prospects for applying new marketing technologies in the insurance industry, " *International Finance and Accounting: Vol. 2020: Iss. 4, Article 6*. Available at: <https://uzjournals.edu.uz/interfinance/vol2020/iss4/6>.

Decree (2020) Decree of the President of the Republic of Uzbekistan, dated 05/12/2020 No. DP-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan.

Muradova L.F. (2018) "Ways to increase the profitability of commercial banks' assets in the context of modernization of the economy of Uzbekistan", PhD dissertation – Vol.:

Sultonmurodov B.B. (2023) *Financing of investment projects: experience of foreign banks*, *International Journal of Management, IT & Engineering Vol. 13 Issue 10, October ISSN: 2249-0558 Impact Factor: 7.119 Journal Homepage: <http://www.ijmra.us>, Email: editorijmie@gmail.com.*

Sultonmurodov B.B. (2023) *Mechanisms for raising funds from international financial institutions* *International Journal of Marketing and Technology Vol. 13 Issue 09, September 2023 ISSN: 2249-1058 Impact Factor: 6.559 Journal Homepage: <http://www.ijmra.us>, Email: editorijmie@gmail.com.*

Umarov H.S. (2014) "Prospects for the development of Islamic finance in Russian conditions", *Problems of Oriental Studies 2 (64)*.