



ANALYSIS OF THE UAE'S ISLAMIC FINANCIAL SYSTEM AND POSSIBILITIES OF USING ITS EXPERIENCE IN UZBEKISTAN

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Abstract. This article explores and examines the experience of the UAE, where the Islamic finance system has significantly developed. The history of the development of the Islamic financial system in the country, its current status, the establishment of Islamic banking, the practices of Islamic project financing, and the obstacles to its growth along with solutions for overcoming them have been analyzed. Furthermore, this article discusses the directions in which the UAE's experience in this field could be utilized to address the challenges faced in the development of Islamic finance in Uzbekistan.

Keywords: Islamic finance system, regulatory-legal framework, Islamic banks, Islamic window, UAE, Uzbekistan, investment projects, Islamic finance products, IsDB, ICD.

BAANING ISLOM MOLIYA TIZIMI TAHLILI VA UNING TAJRIBASIDAN O'ZBEKISTONDA FOYDALANISH IMKONIYATLARI

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Annotatsiya. Ushbu maqolada islom moliya tizimi sezilarli darajada rivojlangan BAAning tajribasi o'rganilib, tadqiq qilingan. Mamlakatda islom moliya tizimining rivojlanish tarixi, bugungi kundagi holati, shuningdek, islom bankchiligining tashkil etilishi, loyihalarni islomiy moliyalashtirish amaliyoti va rivojlanish yo'lidagi to'siqlar va ularni hal etishdagi yechimlar tahlil qilingan. Shuning bilan birga, islom moliyasining O'zbekistonda rivojlanishida uchraydigan kamchiliklarni bartaraf etilishida BAAning ushbu soha borasidagi tajribasidan foydalanish yo'nalishlari ko'rib chiqilgan.

Kalit so'zlar: islom moliya tizimi, me'yoriy-huquqiy baza, islomiy bank, islomiy darcha, BAA, O'zbekiston, investitsiya loyihalari, islomiy moliya mahsulotlari, IsTB, XSRIK.

АНАЛИЗ ИСЛАМСКОЙ ФИНАНСОВОЙ СИСТЕМЫ ОАЭ И ВОЗМОЖНОСТИ ПРИМЕНЕНИЯ ЕЁ ОПЫТА В УЗБЕКИСТАНЕ

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Аннотация. В данной статье анализируется опыт Объединенных Арабских Эмиратов (ОАЭ) в развитии исламской финансовой системы. Рассмотрена история развития исламской финансовой системы в стране, её текущее состояние, а также создание исламского банковского сектора, практика исламского финансирования проектов и барьеры на пути её развития, а также решения для их преодоления. Кроме того, исследуются направления использования опыта ОАЭ в развитии исламской финансовой системы в Узбекистане и устранение существующих недостатков в этой сфере.

Ключевые слова: исламская финансовая система, нормативно-правовая база, исламский банк, исламский фонд, ОАЭ, Узбекистан, инвестиционные проекты, исламские финансовые продукты, ИсРБ, ИсРИК.

Introduction.

Islamic finance has witnessed substantial growth worldwide and has evolved into a vital component of the global financial system. The Islamic financial system is rapidly expanding not only in Muslim-majority countries but also in non-Muslim nations. Notably, the Middle East, Southeast Asia, and Africa have emerged as key hubs for Islamic finance, with countries such as Saudi Arabia, the UAE, Qatar, Malaysia, and Indonesia making significant contributions to its development. Malaysia is home to well-established Islamic banks and capital markets, while Indonesia, as the country with the largest Muslim population globally, has made considerable advancements in Islamic banking and sukuk. Furthermore, Islamic finance is gaining increasing attention in Europe and North America, primarily driven by the rising Muslim population in these regions. For example, the growing number of institutions engaged in Islamic finance in London can be seen as a reflection of this increasing interest.

Islamic finance is grounded in Islamic law, or Sharia, which prohibits the charging of interest (riba) as well as involvement in harmful activities such as alcohol production, narcotics, and gambling. Instead of charging interest, Islamic banks operate on the basis of profit-sharing partnerships, where the parties involved share the profits in agreed-upon proportions according to their investments. Islamic banks have expanded their services beyond retail banking, venturing into corporate finance and asset management. Leading Islamic banks include Al Rajhi Bank (Saudi Arabia), Dubai Islamic Bank (UAE), and Bank Negara Indonesia (Indonesia).

In this context, the global Islamic finance sector continues to evolve, demonstrating its potential for contributing to a more just and ethical financial system in both Muslim and non-Muslim countries alike.

In 2020, the total assets of the Islamic finance sector amounted to \$2.88 trillion, with projections indicating growth to \$3.69 trillion by 2025. The annual growth rate between 2020 and 2025 is forecasted to average 5.5%. According to international experts, by 2023, the assets of Islamic banks are expected to reach \$3.3 trillion, reflecting an 11% increase compared to the previous year. Due to the rising interest in Islamic financial instruments, particularly sukuk, Islamic banks' assets are anticipated to reach \$3.7 trillion by 2025.

In this research, we aim to explore the potential benefits of leveraging the experience of the UAE - one of the leading countries in the development of the Islamic finance industry - to further advance the Islamic finance system in Uzbekistan. The primary objective of this study is to analyze the achievements of the UAE in the field of Islamic finance, develop scientific conclusions, and provide recommendations for applying these practices in Uzbekistan. This not only highlights the relevance of our research but also underscores its practical implications for the growth of Islamic finance in Uzbekistan.

Literature review.

This research is focused on studying the experience of the United Arab Emirates (UAE) as one of the countries where the Islamic finance industry has developed significantly, with the aim of deriving valuable conclusions and recommendations for the development of Islamic finance in Uzbekistan.

"Islamic finance" is a relatively new term, first used in the mid-1980s. In the 21st century, the development of this field has reached a much higher level, and scientific research and the preparation of analytical materials on this subject have increased accordingly. Notably, many foreign researchers, scholars from CIS countries, as well as Uzbek scholars and researchers, have conducted studies in the field of Islamic finance and published their findings.

The scientific works of scholars engaged in Islamic finance research contribute significantly to the study and development of the core principles of Islamic economics. One of the most prominent scholars in this field is Chapra (2008), who has written numerous research papers, books, and articles on Islamic finance. In his notable work, *"The Islamic Vision of*

Development in the Light of Maqasid al-Shariah", Chapra deeply analyzes the economic justice, Islamic banking, interest-free financial systems, and their impact on modern economies, presenting the results of his research.

Furthermore, Hasan (2013) has made significant contributions to the field of Islamic economics and finance through numerous scholarly works. In his books *"Islamic Banking: An Introduction"* and *"Islamic Finance and Economic Development"*, he provides a comprehensive explanation of the core principles of Islamic banking and delves into its role and relevance within contemporary economic systems. Additionally, Hassan (2017) has undertaken an in-depth analysis of Islamic financial systems, evaluating their impact on global economic challenges. His book *"Islamic Finance: A Practical Guide"* offers a detailed exploration of the practical aspects of Islamic finance and banking, while examining the economic processes that underpin these systems.

Tariq (2020) has also conducted extensive research within the domain of Islamic finance. His study, *"Principles of Islamic Banking"*, addresses both the theoretical foundations and practical applications of Islamic banking, with a particular focus on the development and operational efficiency of Islamic banking systems in the context of modern economic conditions. His continued dissemination of research findings plays a significant role in the ongoing development of this field.

In Uzbekistan, the number of researchers contributing to this field has been steadily increasing over recent years. Through their scholarly endeavors and publications, these researchers have played a pivotal role in enhancing public awareness of Islamic finance. In particular, Zayniddinov (2023), in his research titled *"Opportunities for Utilizing Turkey's Experience in the Development of Islamic Finance in Uzbekistan"*, critically examines the organization of Islamic financial services in Turkey, the practice of project financing in alignment with Islamic principles, as well as the barriers and potential solutions to development. He explores the feasibility of adapting Turkey's experiences to the Uzbek context, offering well-founded conclusions and recommendations.

Researchers in the field of Islamic finance, grounded in the principles of stability, justice, and integrity inherent in Islamic economics, have proposed alternative solutions to contemporary economic problems. Within the scope of the present study, conclusions and recommendations have been formulated regarding the potential application of the UAE's experiences in Islamic finance to the specific context of Uzbekistan.

Research methodology.

In conducting this research, a qualitative approach was employed for an extensive scientific analysis. Additionally, logical and structural analysis, along with economic-statistical, systemic, and comparative analysis methods, were effectively utilized throughout the research process.

Analysis and discussion of results.

The United Arab Emirates (UAE) is considered one of the countries where the Islamic finance system has significantly developed. The development of the alternative financial system in the country began in 1970 and spans more than 50 years. In 1975, the first Islamic bank in the UAE, Dubai Islamic Bank (DIB), was established. Today, it is the first and oldest fully operational Islamic bank in the world and, in terms of size, the second largest Islamic bank globally. Dubai Islamic Bank conducts all of its financial operations based on Sharia law and has its own Sharia board. This board, consisting of experts in Islamic finance, ensures that all the bank's activities are in compliance with Sharia principles and certifies their conformity.

Apart from being the first and largest Islamic bank in the UAE, Dubai Islamic Bank also plays a significant international role in promoting Sharia-compliant financial services worldwide. The bank has established branches in several countries, including the UAE, Saudi

Arabia, Egypt, Kazakhstan, Indonesia, and other nations. DIB solidified its position in global Islamic banking operations starting from the 1990s.

Table 1**Timeline of Islamic Finance Developments in United Arab Emirates**

Year	Actions Taken
1975	The Dubai Islamic Bank (DIB) was established in the UAE, and it is recognized as the world's first Islamic commercial bank.
1979	The first Takaful (insurance) company in the United Arab Emirates, Islamic Arab Insurance Company (SALAMA), was established.
1985	Islamic banking law and the Supreme Shariah Authority of the United Arab Emirates have been implemented in accordance with federal law.
1997	The second Islamic bank, named Abu Dhabi Islamic Bank (ADIB), was established.
2002	-the second takaful insurance company of the UAE, Dubai Islamic Insurance and Reinsurance (Aman), was established. -the establishment of the first Islamic bank through the conversion of a conventional bank: Sharjah Islamic Bank.
2004	-Emirates Islamic Bank, a subsidiary of Emirates NBD, one of the largest banks in the UAE, was established. -the Dubai government issued sovereign sukuk, while the company "Emaar Properties" issued corporate sukuk. -the Dubai International Financial Centre (DIFC) was established, and this centre became one of the leading hubs for Islamic financial services in the region.
2007	The "Dar al-Sharia" was established under the initiative of Dubai Islamic Bank, comprising scholars of Sharia law and experts in Islamic finance and banking. It is a company dedicated to dealing with matters related to Islamic finance and banking.
2008	Takaful Emarat, an Islamic insurance company, was established.
2010	The Central Bank of the UAE issued deposit certificates.
2014	The Sharjah government debuted sukuk.
2015	The Arab Scandinavia Insurance Company was transformed into a full-fledged takaful insurance company.
2018	-"DP World" introduced financing related to sustainable development goals in the Middle East, which also included Islamic financing. -the establishment of the Supreme Shariah Authority was also implemented.
2019	-Majid Al Futtaim carried out the first corporate green sukuk issuance in the Middle East. -the Dubai Financial Market (DFM) launched the first-ever DFM Shariah Index (DFMSI) in the UAE.
2020	-The consolidation between Dubai Islamic Bank (DIB) and Noor Islamic Bank was carried out. Additionally, mergers occurred between various Islamic financial companies, including takaful insurers. -Etihad Airways became the first airline in the world to issue transition sukuk.
2022	-the debut of sustainable sukuk was carried out by Dubai Islamic Bank (DIB). -the law regarding commercial operations was implemented.
2023	-to develop the domestic sukuk market, the UAE government launched domestic treasury sukuk. -it was stipulated that no registration fees would be charged for issuing sukuk related to green or sustainability goals. -the First Abu Dhabi Bank issued the first green sukuk in the national currency. -the Supreme Sharia Authority developed guidelines for Islamic financial institutions to implement sustainability goals (SDGs).

Furthermore, Dubai Islamic Bank founded Dubai Islamic Bank Pakistan Limited, a wholly owned subsidiary, which became the first Islamic bank in Pakistan to offer Priority & Platinum Banking services and boasts the most extensive and innovative portfolio of Alternative Distribution Channels. In 2017, the launch of Panin Dubai Syariah Bank in Indonesia marked

DIB's first initiative in the Far East, with the bank holding nearly 25% of the shares in the Indonesian bank.

Additionally, in May 2017, Dubai Islamic Bank PJSC received a license from the Central Bank of Kenya (CBK) to operate its subsidiary, Dubai Islamic Bank Kenya Ltd. At the beginning of 2020, Dubai Islamic Bank completed the acquisition of Noor Bank, further strengthening its position as a leading bank in the global Islamic finance industry.

Dubai Islamic Bank continuously strives to introduce new technologies and improve banking services. It offers innovative Sharia-compliant products and services to retail, corporate, and institutional clients, including mobile applications and online banking platforms. Customers can manage their accounts via these platforms, and the bank is consistently enhancing its services to meet the evolving needs of its clientele.

In the UAE, four years after the establishment of the first Islamic bank, the country's first Islamic insurance (Takaful) company, Islamic Arab Insurance Company (SALAMA), was founded in 1979. SALAMA has since become one of the leading entities in the Islamic insurance market within the UAE and other Arab countries. The company has also expanded its services internationally, consistently providing high-quality insurance services while striving to uphold its social and economic responsibilities to the highest standards.

In addition to SALAMA, the UAE is home to numerous other Islamic insurance companies. Notably, Dubai Islamic Insurance & Reinsurance Company (AMAN) was established in 2002, located in Dubai, and specializes in offering Islamic insurance services.

In 2008, another insurance company, Takaful Emarat, was established in the UAE, becoming a significant player in the provision of Islamic insurance services. The company offers its clients a range of services, including personal insurance, health insurance, life insurance, and pension services.

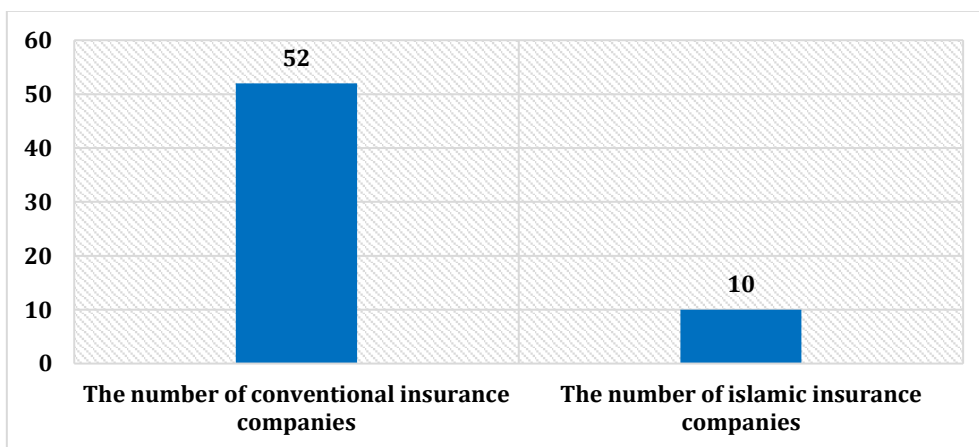


Figure 1. Analysis of existing insurance companies in the United Arab Emirates (2023)

All Islamic insurance companies in the UAE provide services that are fully compliant with Sharia law, operating in alignment with the principles of the Islamic financial system. Takaful, which is typically based on risk-sharing and mutual assistance, involves each participant contributing their share, with the collective pool providing support in cases of loss or catastrophic events.

Established in 1997, Abu Dhabi Islamic Bank (ADIB) is the second Islamic bank in the UAE and a leading financial institution headquartered in Abu Dhabi. The bank offers a comprehensive range of Sharia-compliant financial products and services, catering to a diverse clientele. Over the years, ADIB has experienced significant growth, establishing itself as a key player within the banking sector of the region.

ADIB is firmly committed to providing exceptional customer service and innovative financial solutions, meticulously tailored to meet both personal and corporate needs. The bank

offers an extensive suite of products, including retail and corporate banking, wealth management, and digital banking services. With a workforce of over 8,000 employees, ADIB continues to play a pivotal role in supporting the economic development of the UAE while adhering to the highest standards of corporate governance and ethical practices.

Another prominent Islamic bank in the United Arab Emirates is Al Hilal Bank, established in 2008. Although a relatively new player in the field of Islamic banking, Al Hilal Bank has rapidly grown and offers a wide range of Sharia-compliant services, including personal and corporate banking, investment banking, wealth management, and other innovative Islamic financial products.

The National Bank of Fujairah (NBF) is a traditional bank in the UAE, with an Islamic banking division that operates in accordance with Sharia law. Through this division, the bank provides a variety of Islamic banking services, including trade financing, corporate financial services, and investment solutions.

Therefore, from the information provided, it is evident that starting from the 2000s, Dubai began to attract investments into the Islamic finance system, establish new institutions, issue Islamic bonds (sukuk), and expand the activities of Islamic investment companies. In 2004, the Dubai International Financial Centre (DIFC) was established, and this center has since become one of the leading hubs for Islamic financial services in the region.

Furthermore, according to the 2023 Islamic Finance Development Report (IFDI 2023), the UAE is ranked as the fourth largest Islamic banking market in the world. The country has a dual banking sector, comprising independent Islamic banks that operate in compliance with Sharia law and Islamic banking windows offered by traditional banks. The latter collaborate with conventional banks while offering Islamic financial services.

In 2022, the UAE had a total of 24 Islamic banking institutions, of which 8 were independent Islamic banks and 16 were Islamic banking windows within traditional banks. Among the 8 independent Islamic banks, 6 were local institutions, and 2 were branches of foreign Islamic banks. Additionally, out of the 16 Islamic windows, 11 were from local banks, and 5 were part of foreign conventional banks offering Islamic services.

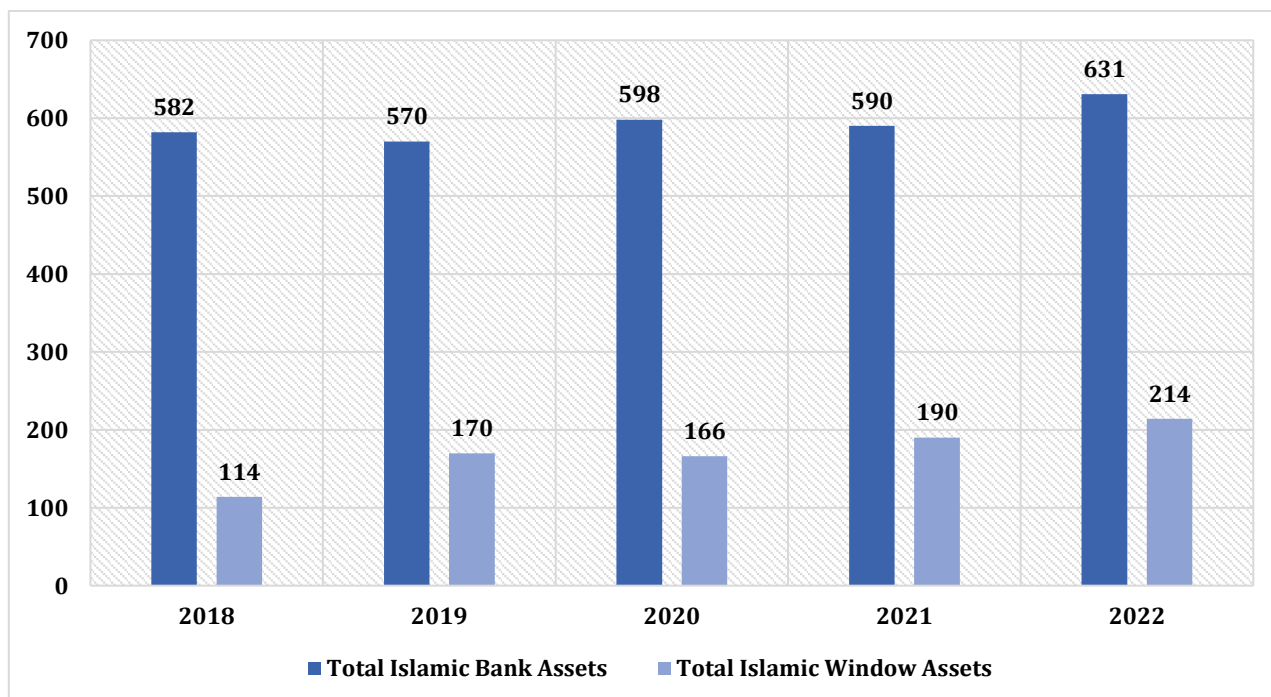


Figure 2. Growth Trend of Total Islamic Bank Assets in the United Arab Emirates (AED Million, 2022)

In 2022, the assets of the Islamic banking sector in the UAE amounted to 845 billion AED, reflecting a compound annual growth rate (CAGR) of 3% over the previous five years. Islamic banks accounted for 631 billion AED, while Islamic windows contributed 214 billion AED, showing an 8% and 49% increase compared to 2018, respectively. Currently, Islamic windows represent 25% of the total Islamic banking assets in the UAE. In 2022, Islamic banking assets in the UAE made up 23% of the total banking sector assets.

The growth of Islamic banking assets in the UAE has been significant, with Islamic financial products such as Ijarah and Murabaha being the most commonly offered and provided financing structures by Islamic banks in the country. Ijarah is a lease agreement used for financing assets such as housing, real estate, equipment, and machinery. Murabaha financing is a trade contract used for purchasing goods, such as vehicles, at an agreed-upon profit margin.

Conclusion and suggestions.

Based on the findings of our research, we can draw the following conclusions: Despite being a relatively new sector compared to other areas of the economy, the Islamic finance industry is developing significantly in many countries due to its reliability and resilience. The United Arab Emirates, as one of the most advanced countries in the Islamic finance sector, is unique in managing two banking systems, where the Islamic banking system operates alongside the traditional banking system. The existing Islamic banks, Islamic windows, and Islamic insurance companies in the country operate fully in accordance with Sharia law, providing services based on Islamic financial instruments.

It is particularly noteworthy that leveraging the UAE's experience in Islamic finance in Uzbekistan is of paramount importance. This is especially relevant because Uzbekistan's population exceeds 37.5 million, with more than 90-95% of the population adhering to Islam. The country possesses significant human resources, and the demand and needs of the population are constantly increasing. There has been a notable rise in demand for Islamic financial products and services, as there is a growing interest not only among the general public but also within the business sector.

The introduction of Islamic finance in Uzbekistan is crucial, and a number of initiatives in this field have been underway in the country. In particular, the development of Islamic finance in Uzbekistan began in the early 2000s, with the country's membership in the Islamic Development Bank in 2003 marking a significant step in this process.

Since that period, significant work has been carried out in Uzbekistan in the field of Islamic finance. Notably, during the plenary session of the Senate held on May 18, 2024, it was stated that the "Uzbekistan-2030" strategy includes the formation of the legal framework for Islamic finance in the Republic and the implementation of related regulations. Furthermore, Behzod Hamrayev, the Deputy Chairman of the Central Bank, mentioned that a draft law on the establishment of Islamic finance has been developed, with plans to submit the document for parliamentary discussion by the end of 2024. He also emphasized that, since Islamic finance is a new and complex sector, it requires significant amendments to the legislation. For instance, changes need to be made in areas such as collateral, lending practices, as well as in laws like the "Central Bank Law," the "Banking Activity Law," and other related documents. Currently, the draft law is prepared, and one of our key tasks for this year is to collaboratively work on it and submit it to parliament for discussion," said the Central Bank official. Additionally, the decision to establish three Islamic banks in the regions by 2030 further indicates the increasing focus on this sector.

The introduction of legislation related to Islamic finance in Uzbekistan, along with the further development and flourishing of this sector, is expected to positively influence the country's reputation within the Islamic world. Moreover, once the Islamic finance legislation is adopted and implemented in the country, it will necessitate raising awareness about this field among the population and business sector representatives. To achieve this, it will be essential

to use various means to disseminate knowledge through public speeches, seminars, conferences, articles, and programs in the mass media. These efforts will contribute to the rapid increase in the level of awareness about Islamic finance.

Furthermore, increasing public awareness will primarily require the training and qualification improvement of specialists in this field. Unfortunately, a major challenge is that the International Islamic Academy in the country is currently the only institution providing training for specialists in Islamic finance. However, this higher education institution produces a very small number of professionals annually. Therefore, it is essential to increase the number of higher educational institutions that train specialists in this field to meet the growing demand for qualified personnel.

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