Inflow of Islamic Finance into Uzbekistan

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ABSTRACT: There has been a growing interest in the Islamic financial system, which has been developing rapidly in recent years and is gaining ground in the global financial space. New Islamic banks, insurance companies, and investment funds have emerged, and the system is actively developing in non-Muslim countries.

KEYWORDS: Sharia, "Islamic Finance", An e-Murabaha, Muslim-majority countries, Islamic jurisprudence.

Sharia is a very ancient (about 1500 years old) religious, spiritual, moral, legal system. It is known that the Sharia is a very ancient (about 1500 years old) religious, spiritual, moral, legal system. However, its financial part was forgotten during centuries of "chaos" and the traditional legal, political, social, economic-financial, and educational systems of the Muslim East were replaced by alternative systems that emerged mainly in the West. It would not be a big mistake to say that in some of the colonized Muslim countries (i.e., Muslim-majority countries) during this period, only ceremonies such as marriage and funerals survived from Islamic law. In this sense, of course, it became clear that the law schools of Muslim countries and regions, which recently gained independence (mid-twentieth century), are not ready to solve the complex and serious problems that have accumulated over the centuries, as well as current issues. This is because, over the centuries of colonialism, ijtihad has solidified like a mummy and transformed from a system of solving current problems into a set of theoretical issues that can only be studied by a narrow circle of jurists, and this is undoubtedly one of the greatest tragedies of Islamic jurisprudence.

In this case, what has the power to stir up Islamic scientific thought, at least a little, is not only the knowledge of Islamic jurisprudence, but also the enormous social, economic, and political events that took place in the world during colonialism, a period of stagnation for the Muslim world. It was to uncover a real living theme that could be put into practice by individuals with a deep understanding of change. With the end of World War II, there was hope that the disintegration of the Islamic world would end. It was during this period that Muslim states began to struggle for their independence and self-determination, and at the same time, scientific theories and principles of Islamic economics began to be developed.

Despite the fact that Islam is the majority religion in Uzbekistan, the Islamic financial sector is still relatively undeveloped compared to its Central Asian neighbors, although the country has great potential for development. This has been acknowledged by experts from major international financial institutions (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.). However, in recent years, some work has been done in this direction in cooperation with international financial institutions.

In particular, the Islamic Development Bank (ISDB) and its affiliates, in particular the Islamic Corporation for the Development of the Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Islamic Research and Training Institute (IRTI), have contributed to the development of Islamic finance in the country. In addition, it has so far directed more than $2 billion to funding based on Islamic finance principles.

Small and medium-sized businesses provide 81% employment in Uzbekistan, and over the past 10 years the country's gross domestic product (GDP) has grown by more than 5% a year on average, making it one of the fastest growing economies in Central Asia. is making a huge contribution. Given the need for Islamic finance by small and medium-sized businesses, Uzbekistan became a member of the ISDB in 2003 and the ICD in 2004. The mutually beneficial relationship between these organizations and the government paved the way for Islamic finance to enter the Uzbek market and took the first step in this direction.

In addition, several universities in Uzbekistan have begun to develop curricula based on Islamic finance. Also, based on the current legislation, business representatives have also started offering Islamic financial services.

July 16, 2020 Tashkent - The ceremony of signing a Statement of Intent has been held between the Agency for the Development of the Capital Market of the Republic of Uzbekistan, the United Nations Development Programme, and the Islamic Development Bank, establishing cooperation for the introduction of Islamic finance in...
Uzbekistan. The development of this new type of financing is considered to be an essential alternative financial model for achieving the Sustainable Development Goals in the Republic.

As noted by Mr. Atabek Nazirov, Director of the Agency for the Development of the Capital Market: “The Agency is firmly committed to the Sustainable Development Goals agenda, and to developing new financial instruments, particularly the Sukuk bonds which will bridge the gap in achieving national Sustainable Development Goals in Uzbekistan.”

Unlike traditional bank finance which is motivated primarily by profit, Islamic finance focuses on humanistic goals. It provides a “symmetrical approach between cost, personal contribution and reward”. In ordinary banking, preference is given to those activities which bring maximum profit, associated with a high interest rate. Meanwhile Islamic finance is by its nature not focused on maximizing profits.

“Uzbekistan and the countries of the world are going through difficult times, experiencing one of history’s deadliest pandemics. Against this backdrop, the Government of Uzbekistan is skilfully applying immediate support, as well as developing long term strategies to help the country recover from the crisis. This forward-looking approach can be observed in the intentions of the Agency in accelerating the development of new financing instruments,” said Ms. Matilda Dimovska, UNDP Resident Representative in Uzbekistan, during the online signing ceremony.

“The efforts of CMDA to establish an enabling environment for introducing green Sukuk bonds in Uzbekistan are commendable, and UNDP stands ready to support that process.”

The development of Islamic finance in Uzbekistan has the potential to be one of the most important elements in forming a national public-private partnership market, and can be very useful for achieving SDGs and reducing social tension.

As the Vice President of the Islamic Development Bank for Country Programs Mr. Mansur Mukhtar noted: “Our bank is pleased to support the initiatives of Uzbekistan on the way to expand financial opportunities for the development of the country.”

It is expected that this agreement will become a necessary foundation for developing Uzbekistan’s capital market. The cooperation will help develop a legal and institutional framework for introducing new financial instruments, and for taking the next steps towards launching an Islamic financial product in 2021.

In particular, in 2019, the first Islamic insurance company "Mutual" in the country was launched. An e-Murabaha (financial product based on the Murabaha trade agreement) platform, one of the first not only in Uzbekistan but also in the CIS, has been developed. The first Islamic Business and Finance company, IsBF (Islamic Business and Finance), was established, and the Islamic Finance Telegram page and website were launched to raise public awareness of Islamic finance. Leasing companies such as Taiba Leasing and Al-Mulk Capital continue to offer Islamic-based rental products to small and medium-sized businesses.

Significant work has also been done in the field of education. A number of trainings on Islamic finance have been held in Uzbekistan, and books on Islamic finance have been published in Uzbek. These include Malaysian Professor Sudin Harun's Islamic Finance and Banking System: Philosophy, Principles and Practice, Kazakh economist Yerlan Baidaulet's Fundamentals of Islamic Finance, and Russia's Rinat Bekkin's Islamic Economic Model and Time.

UN study shows that Uzbekistan has a low level of access to bank loans. According to a survey conducted by the United Nations Development Program in early 2020 on the "Analysis of Islamic Financial Products in Uzbekistan" and the survey, the main reasons for non-use of bank loans are, first of all, religious beliefs, loans. The high interest rates and the complexity of lending are shown, and if Islamic financial institutions are established in the country, the majority of respondents in the above survey noted that they can use the services of these institutions. Even traditional banks have expressed concern about the establishment of Islamic financial institutions in Uzbekistan, the emergence of fair and transparent competition in the financial sector, which will lead to an increase and diversification of investment flows into the country.

The Islamic Corporation is driving the development of Islamic finance. The Islamic Corporation for the Development of the Private Sector (ICD) has played a key role in the development of Islamic finance in the country. To date, the organization has disbursed a total of $ 400 million to directly finance more than 260 small and medium-
sized businesses through 18 commercial banks and 2 leasing companies in the country. More than 5,000 new jobs have been created through.

Islamic finance windows will be opened in Uzbek commercial banks. Given the high demand for Islamic financial services in the country, the ICD Advisory Group currently has Islamic windows in 6 commercial banks in Uzbekistan, including Kapitalbank, Trustbank, Asia Alliance Bank, Agrobank, Qishloq Qurilish Bank and Ipak Yuli Bank (Islamic Financial Services). These windows are expected to launch in early 2021. In addition, Alokabank, People's Bank, Universal Bank and Davr Bank are working to open Islamic windows.

How will Islamic financial services benefit Uzbekistan? Based on the above information, we believe that the comprehensive introduction of the Islamic financial services industry in Uzbekistan will open the following opportunities for the country:

- Increase and diversify foreign investment;
- Creating an environment of fair and transparent competition in the banking sector and the ability to diversify the assets of the banking system;
- To ensure the maximum participation of free funds at the disposal of the population and business in the development of the economy;
- Development and diversification of the capital market in the country;
- Create many new jobs;
- Increase financial market activity by increasing the financial literacy of the population;

Coordination and modernization of infrastructure in the country through the development of the Islamic financial services industry;

Establishment of new financial institutions;

Contribute to the implementation of the state program to combat poverty;

Create a training program in a new direction.

Uzbekistan can become a CIS leader in Islamic finance. As a result of this work, Uzbekistan will undoubtedly become a leader in the field of Islamic finance among the CIS countries. In conclusion, the Islamic financial services sector will be an important factor, foundation and development prospects for Uzbekistan's bright future, which will increase the interest of foreign investors in the country, which reflects the deep roots of Islam in its culture. We will be able to make full use of it in the sustainable development of the country.

In general, the development of Islamic finance has been driven by the high demand for this system among the population of a number of Muslim countries and the favorable economic situation. For example, the sharp rise in incomes in resource-rich countries in the Persian Gulf has led to the enrichment of companies and the general public, as well as government budgets. At the same time, the Gulf states have been a little wary of emerging Islamic finance because they do not fully understand the ins and outs of the industry. Therefore, banks were limited to classical Islamic contracts (certainly modernized to a certain extent). In this case, the mortgage agreement, which is based on the pledge of property, has become the main type of contract. This is because it is similar to traditional lending practices and is relatively easy to implement.

At the same time, a number of major Western banks, law firms and other stakeholders in the global financial system, recognizing the potential of Islamic finance as well as the limited capabilities of classical Islamic finance agreements, have developed sophisticated Islamic financial products that meet modern requirements and international standards and practices. Began to conclude contracts.

Thus began the third stage in the development of Islamic banking - the era of change (transformation) and new ideas (so to speak). International bankers and advocates of the harmonization of the Islamic financial system with the global financial system have begun to work closely with lawyers in the field of Islamic financial jurisprudence to ensure high growth rates as well as the creation of new financial products. As a result of joint efforts, the mid-1990s marked the beginning of an era of sophisticated Islamic financial products that could compete with the traditional system in local and global markets.
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