



IMPROVING THE WAYS OF ISLAMIC CREDITS AND THEIR APPLICATION TO UZBEKISTAN

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Article history:	Abstract:
Received: 6 th April 2023 Accepted: 6 th May 2023 Published: 8 th June 2023	This article describes Uzbekistan integration into the global financial services industry in the development of the digital economy context: the legal framework for the activities of takaful companies, current issues in the implementation of these services in our country, and their solutions. Also, analyzing the relevant literature analyzes the scientific works of many foreign economists on forming integrated corporate structures by ensuring integrating the banking and financial system and industries. In addition, Islamic credits and their application to Uzbekistan, many proposals and recommendations have been developed.

Keywords: Islamic banking, digital economy, global financial services, takaful companies, integration of the banking and financial system and industries, the activities of non-bank credit institutions, microfinance legislation.

INTRODUCTION

In ensuring the economic growth of the country, it is crucial to identify existing problems and shortcomings in the industry of capital market development, meanwhile to improve comprehensive policies to address them. In addition, it is advisable to develop practical recommendations for the use of foreign market development in national practice, effectively using foreign experience. Based on the content of our study, we will first focus on the significance of capital market development in ensuring economic development.

In our opinion, the significance of the effective organization and improvement of the capital market in the economy is reflected as follows. It should be noted that the measures taken by Uzbekistan to improve the legal framework for the organization of non-bank credit institutions in global financial services and simplify licensing procedures, to involve commercial banks in microfinance processes have significantly expanded the size of microfinance services in the economy. In the Banking Reform Strategy of the Republic of Uzbekistan for 2020-2025, the implementation of lending only on market terms, improving the quality of loan portfolio management, adherence to a moderate increase in lending are recognized as priorities for reforming the country's banking system. This, in turn, creates the need to develop the lending practices of commercial banks.

Simultaneously, international experience in regulating the microfinance sector shows the need to enhance the capacity of credit institutions to cope with the growing needs of the population and businesses in microfinance services.

Therefore, the development of microfinance legislation, its best practices, including introducing remote services, expanding the range of services, preventing the formation of excessive debt burden, increasing financial literacy, financial popularity, and protection of the rights of consumers of these services in the country. There should be current directions of work on the further extension of the microfinance sector at the current stage. The third source that forms Sharia law is called "ijma". Ijma are solutions developed by reputable Islamic scholars for a specific issue or situation. In the Islamic tradition, scholars who have the right to draw independent conclusions from the Qur'an and Sunnah are called "mujtahids".

The fourth source is called "comparison". The original meaning of this term comes from the words "to measure" or "to make a comparison between two things". Qiyas is the making of judgments based on the creation and imitation of new solutions by mujtahids on complex and controversial issues, according to the principles described in the Qur'an and hadiths.

In Islamic jurisprudence, evidence based on the Qur'an and hadiths are called shari'i, that is, legal evidence, their reliability is free of any doubts, because these two sources form the absolute authentic and solid basis of Islamic teachings. Arguments based on ijma and qiyas are also known as 'furu' - a branch of Sharia law.

To create favorable conditions for further progress of the microfinance sector, following the tasks set by the Decree of the President of Uzbekistan dated January 8, 2019 No PF-5614 "On additional measures to further develop the economy and increase economic efficiency":



The World Bank's technical assistance to the Central Bank of Uzbekistan in developing a national strategy for increasing financial popularity, taking into account the best international practices in the financial popularity field, aimed at expanding the popularity of financial services, increasing financial literacy of the nation of Uzbekistan and businesses;

To form the Coordinating Council on development and further implementation of increasing the financial popularity in the corresponding structure national strategy and defined as its main tasks.

The international Islamic Finance market could be segmented by Financial industry into Islamic Banking, Islamic Insurance 'Takaful', Islamic Bonds 'Sukuk', Other Islamic Financial organizations (OIFL's), and Islamic Funds. The improvement of science and the application of developed countries experience contributes to the improvement of production culture. So, by expert opinion, because of the introduction of "smart" technologies, according to the idea of "smart agriculture" in several countries (USA, Norway, Japan, Russia) was embodied in the aircraft use, using sensors in animal husbandry, fisheries, especially growing grain sector, etc. Norway is one of the main suppliers of salmon on the world market. Japan to somehow solve an challenge of the deficiency of sowing lands, to have reliance in the improvement of automation and sensors, using them in agricultural production.

Uzbekistan, as Yoshino and Morgan (2016) also noted, is among the countries with a low bank account penetration rate; according to the 2014 Findex survey, only 26% of people aged 15 and older held an account with a financial institution. Beck and Brown (2011), based on the nationally representative sample of the Life in Transition Survey 2, which the EBRD and the World Bank administered in 2010, listed Uzbekistan among the transition countries with a low level of banking service use. However, the 2017 Findex survey reported that 37% of people aged 15 and older had an account; thus, the account penetration had increased but remained low. Table 7 presents additional evidence on the increase in account penetration, showing that the number of bank cards increased 2.5 times in 2017 relative to 2011. The World Bank World Development Indicators database shows that the account penetration rate in Uzbekistan is higher than in countries with a similar level of GDP per capita. The major driver behind bank card use is the legislation requiring organizations and state-owned companies to pay salaries through a transfer to a bank card. For instance, the ADB (2014) reported that the most common method of paying salaries in the formal sector is through direct transfers

to employees' bank cards; this is a result of the government policy aimed at reducing money out of bank circulation and deepening non-cash payments. As a result, more than 19 million bank cards were in use as of January 2017 versus only 32 thousand in 1999. 6 Similarly, according to the Central Bank of Uzbekistan, the total amount of transactions using bank cards reached 53,050 billion Uzbek soms (6.5 billion United States dollars) in January 2016 as opposed to 0.1 billion Uzbek soms in 2004.

ANALYSIS OF THE RELEVANT LITERATURE

As of January 1, 2021, the permanent population of the Republic of Uzbekistan is 34.5 million people. 96.5% of the population believes in the Muslim religion. I believe that this information alone is enough to consider the development of Islamic banks in Uzbekistan and their ability to easily compete with traditional banks. Islamic financial and credit institutions are directly related to the circulation of goods and money and are provided with real assets, the content and offers a range of tools unique to its structure.

The characteristics of Islamic financial instruments are based on the following characteristics:

- absence of usury;
- creation of additional value in reality;
- provision of real assets;
- that it is composed of moral and spiritual aspects;
- distribution of profits and losses, proportional participation;
- that each of the parties is aware of the information.

A Malaysian scholar, Sudin Harun, lists five categories of instruments used in Islamic banking: the first category includes instruments based on the distribution of profits and losses, the second includes instruments based on trading, and the third includes instruments containing fees and commissions. The fourth category describes free services, and the fifth - tools that include ancillary services.

Russian specialist in the field of Islamic finance R. I. Beckin provides the following classification of Islamic financial products:

- instruments based on the profit and loss distribution mechanism or investment means of financing: mubarakah, musharak;

- Debt-based financing instruments: murabahah, salam, as well as exclusion' and lease.

The basic instruments used by most Islamic banks and strictly defined by international standards are:



1) Partnership agreement (shared financing): - negotiation, negotiation;

2) Trade agreement (debt financing). The difference between these instruments is defined by the terms of sale of assets: - murabahah, lease, exception', salam.

3) The following are considered additional instruments: - debt hasan (interest-free debt), agency fees (power of attorney, jula), sukuk (directing capital to target securities).

By studying and summarizing the Islamic financial instruments known to us, which are often used in the practical activities of Islamic financial and credit institutions, they can be divided into three forms:

a) products based on partnership (or sharing of profits and losses, in other words, equity financing): mubarakah and musharak;

b) products based on participation in sales transactions (in other words, debt financing): murabahah, (leasing), salam, exception';

v) products (or commission products) based on the payment of bank commissions (tariffs); agency (agency agreement).

RESEARCH METHODOLOGY

Musharaka and Mudaraba are real and ideal means of financing in Shariah. When the funder contributes based on these two instruments, it must be converted into profitable assets. Profit is derived from the sale of these real assets.

Salam and exception funds create real assets. In the case of Salam, the financier receives real goods and can make a profit by selling them in the market. In exceptional cases, financing is done by producing some real asset, where the financier receives a profit as a reward.

In the period after the global financial and economic crisis of 2008, the growth of alternative finance became stronger. Although Islamic financial products were not popular at first, in recent years it has expanded to attract a large number of customers. Islamic finance, which has remained in the shelter of the global economy, has now come to the forefront. Currently, most large financial institutions are involved in one way or another in the field of alternative finance due to consulting, accounting, as well as information activities. According to researchers' calculations, Islamic finance is currently operating in 105 countries, most of which have succeeded in creating a regulatory framework for this field. In the Islamic world itself, these financial institutions remain the main participants in financial relations.

RESULTS AND DISCUSSION

Currently, "Tavkhidbank" operates as a fully Islamic bank in the Republic of Tajikistan. The bank was established on August 24, 1999 as a joint-stock commercial bank for the development and support of entrepreneurship, and on May 22, 2002, it was transformed into "Sohibkorbank" OJSC. Since its establishment, the Bank has been an active, reliable and stable participant of the country's financial services market. Today, the Bank has achieved significant positive indicators in its activity, has 5 branches and 58 Banking Service Centers across the country. According to the current structure, more than 340 specialists work in the bank. On July 1, 2019, the name of the bank was changed to Tawhidbank, and since September 16, 2019, it has been operating as the first full-fledged Islamic bank in Tajikistan.

"Tavkhidbank" currently offers the following types of loans to individuals and legal entities: (Table 1)

To individuals	
Murabakha Comfort (for buying furniture)	<u>Collateral:</u> <u>Purchased furniture. If the amount exceeds 10,000 somoni (smn), 2 guarantors of persons with permanent income;</u> <u>Amount: up to 100,000 smn.;</u> <u>Term: 6 to 36 months.</u> <u>Terms of Murabakha Comfort:</u> <u>- Persons from 20 to 60 years old;</u> <u>- having a permanent source of income;</u> <u>- the source of income must be in accordance with Sharia;</u> <u>- 30% advance payment if the amount exceeds 10,000 smn.</u>
Murabakha building materials (for building a house)	<u>Collateral: Property;</u> <u>Amount: 100,000 cmn.</u> <u>Gacha;</u> <u>Duration: up to 18 months.</u> <u>Terms of "Murabakha construction goods":</u> <u>- to persons over 20 years old;</u> <u>- having a permanent source of income;</u>



	<ul style="list-style-type: none"> - <u>the source of income must be in accordance with Sharia;</u> - <u>30% advance payment if the amount exceeds 10,000 smn.</u>
Murabaha consumption	<u>Amount: 100,000 cmn. until;</u> <u>Duration: up to 18 months.</u> <u>Murabaha terms of use:</u> <ul style="list-style-type: none"> - <u>Persons from 20 to 60 years old;</u> - <u>application review and processing commission - free of charge;</u> - <u>early repayment of the loan - allowed;</u> - <u>fine sanctions are indicated in the contract (fines are directed to charitable purposes on behalf of the client).</u>
To legal entities	
Corporate Murabakha	<u>Purpose: For commercial purposes;</u> <u>Amount: 3 mln. up to smn. or equivalent in foreign currency;</u> <u>Duration: based on projects up to 3 years;</u> <u>Bank profit rate: 21% for national currency, 15.5% for foreign currency;</u> <u>Payment term: monthly.</u>

KAZAKHSTAN

"Al Hilal Islam Bank" OJSC (Al Hilal Bank) is the first Islamic bank operating on the basis of Sharia rules and principles in order to provide modern banking products and services of Kazakhstan and the United Arab Emirates based on the agreement of the Governments of the Republic of Kazakhstan and the United Arab Emirates in 2010.

In May 2019, Al Hilal Bank became a part of ADCB (Abu Dhabi Commercial Bank), one of the largest banking groups in the UAE, whose shareholders are the Abu Dhabi Investment Council (the investment policy department of the Government of Abu Dhabi).

ADCB Group is publicly listed on the Abu Dhabi Stock Exchange and has a high credit rating: A+ from Fitch Ratings and A from Standard & Poor's.

Initially, Al Hilal Bank in Kazakhstan focused on the corporate sector, providing Islamic financing solutions to meet the needs of large and medium-sized businesses.

In 2017, after 7 years of successful work with corporate clients, the Bank started its retail business. Currently, it provides a wide range of banking products and services through its branches in Almaty, Nur-Sultan and Shymkent: current accounts, deposits, financing products, settlement-cashier services, treasury services, etc.

"Al Hilal Bank" currently offers the following types of loans to individuals and legal entities: (Table 2)

To individuals	
Murabaha (Mortgage)	<u>Advance payment: from 30%;</u> <u>Term: 3 to 15 years;</u> <u>Amount: 3 to 200 mln. up to tenge;</u> <u>Minimum certified income of citizens: 200,000 tenge;</u> <u>Age: over 23 years old;</u> <u>Application review: free;</u> <u>Contract conclusion commission: 0.5% of the total loan amount.</u>
To legal entities	
Corporate Murabakha	<u>Purpose: To all goods that are not against Sharia;</u> <u>Duration: depending on the project up to 7 years;</u> <u>Amount: depending on the project.</u> <u>Conditions:</u> <ul style="list-style-type: none"> - <u>It has been at least 3 years since the company was established;</u> - <u>the client's share in the project should be at least 20%;</u> - <u>The absence of overdue loans of the company;</u> - <u>the financed sector should be profitable in the last 3 years.</u>



Hom-ashyo Murabakhasi	The conditions are the same as for corporate murabahah
rent (property)	The conditions are the same as for corporate murabahah

KYRGYZSTAN

Bakay Bank has been providing banking services to individuals, small and medium-sized businesses and corporate clients since December 28, 1998. Bakay is a bank with full Kyrgyz capital, that is, all its shareholders are citizens of Kyrgyzstan. The bank is one of the largest financial institutions in the Kyrgyz market and ranks 3rd in terms of authorized capital.

Bakay Bank was recognized as the best bank of Kyrgyzstan for three years in a row based on the results of financial activity in 2002-2004. According to the results of financial activity in 2005 and 2006, it took the proud 3rd place. And in 2012, he took first place in one of the categories at the advertising, marketing and PR festival held in Kyrgyzstan. In 2018, Bakay Bank was recognized as the best bank in the nomination "Internet competition" by the readers of "Tazabek" business publication. Over the past years, Bakay Bank has acquired many regular customers who emphasize dynamic development, high service and compliance with modern banking quality standards.

An important achievement in 2018 is the opening of the Islamic financial center of Bakay Bank. The bank was the first traditional financial institution to receive a license to operate in accordance with Islamic principles. In addition, Bakay Bank became the first in the CIS and the leader of this perspective in the entire post-Soviet area. Bakay Bank Islamic Financial Center offers all types of financial services based on Islamic banking principles. The center operates on the basis of international Sharia standards. This means that the concept of usury is completely excluded. As a result, the products of Bakay Bank Islamic Financial Center will be more useful for customers, and it is important that everyone can use the services of the center, regardless of their religion.

"Bakay Bank" currently offers the following types of loans to individuals and legal entities: (Table 3)

To individuals	
Murobakha consumption	Age: 21 to 67 years;

	Amount: from 3,000 to 200,000 soms; Term: from 1 month to 24 months; Collateral: the purchased item itself. For citizens with 3-6 months of work experience.
Murabaha-Universal	Age: 21 to 65 years; Term: from 3 months to 60 months; Amount: 20,000 soms and above (KGS, USD); Collateral: Movable and immovable properties, surety.
Murabakha-auto	Age: 21 to 65 years; Term: from 3 months to 60 months; Amount: 20,000 soms and above (KGS, USD); Collateral: Movable and immovable properties, surety;

CONCLUSION

As part of integration of the national strategy into the global financial services sector, the following reforms are planned in the upcoming years:

- increase the covering of basic financial services by expanding the service points of banks, introducing alternative ways of providing banking services, and creating a network of banking agents;
- development of digital financial services through the building of favorable circumstances for the entry of new fintech companies in the market, the establishment of a system of remote identification, the modernizing of the national payment system;
- expansion of financing of small businesses through the improvement of various financial instruments to finance projects of entrepreneurs and the development of non-bank credit institutions;
- strengthening the rights protection of consumers of financial services by ensuring openness and information transparency on financial services and products, introducing effective mechanisms for resolving complaints and disputes;
- increasing the financial literacy of the total population and entrepreneurs through the media, the introducing of the program "Financial Literacy" in secondary schools and non-economic educational



institutions, besides the improvement of training programs to increase financial literacy.

These reforms will increase the financial literacy of the total population, expand the popularity and accession to basic financial services, strengthen the confidence of the total population in credit and payment institutions, ensure the welfare of the population, the financial system, besides economic growth and reduction the share of the shadow economy.

Sometimes the damage seen is higher than expected and so the accumulated costs may not be enough to cover the losses. In such cases, the funds required for the payment of compensation are received from the governing body of the fund as a loan or assistance from other mutual insurance companies (based on a previously concluded agreement).

Debts are repaid from the reserve account, which increases from insurance payments in subsequent years. If the allowance is received from other funds at the expense of advance payment to them, this allowance shall not be refunded.

In conclusion, one of the main criteria for introducing of Islamic banking and Islamic financial organizations, in particular, takaful-Islamic insurance companies in Uzbekistan is the amendments to the laws on the Central Bank, banks and banking, tax and civil codes, and other by-laws making additions or passing a separate law. However, the problem of staff shortages in this field is still a pressing issue, especially as there is a severe shortage of suitable candidates for Shariah councils.

It is also crucial to increase the Shariah financial literacy of the total population in this respect, as people who don't have sufficient knowledge of Islamic finance may not understand or misinterpret it as different from traditional financing.

To solve such problems, the Islamic Development Bank will provide a technical assistance grant for supporting the improvement of the legal framework for Islamic finance and banking in Uzbekistan.

A new bill on Islamic finance has passed its first reading in the Legislative Chamber, which allows microfinance institutions to conduct operations. It is planned to gradually open a window of Islamic finance in commercial banks. At present, in terms of execution of this project, as it is planned to open Islamic windows in 14 banks operating in Uzbekistan.

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