



## POTENTIAL OPPORTUNITIES FOR THE EXPANSION OF THE ISLAMIC BANKING SERVICES MARKET IN UZBEKISTAN'S COMMERCIAL BANKING SECTOR

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<b>Received:</b> 17 <sup>th</sup> September 2023 <b>Accepted:</b> 15 <sup>th</sup> October 2023 <b>Published:</b> 20 <sup>th</sup> November 2023	The paper discusses the distinctions between Islamic banking goods and services and standard banking services, as well as the key reasons for the benefits and growing popularity. The first steps toward the establishment of the Islamic financial services market in Uzbekistan are also discussed.
<b>Keywords:</b> Mudoraba, Mushoraka, traditional lending, sokuk, rent, salam, Islamic bank, Islamic finance.	

Despite the fact that Muslims constitute the majority, the field of Islamic finance in Uzbekistan has not evolved as much as in neighboring Central Asian nations, despite the country's enormous potential in this area. This is done by large international financial institutions acknowledged by their specialists (such as the Islamic Development Bank Group, the International Finance Corporation, and the Asian Development Bank).

In this context, Uzbekistan's president, Sh. Mirziyoyev, stated in his speech to the Supreme Assembly on December 29, 2020, that "it is time to create a legal framework for the introduction of Islamic financial services in our country." "This will involve experts from the Islamic Development Bank and other international financial organizations," they stated.

As the result of the international recession in the banking and financial system, as well as the extinction of the financial market infrastructure for radical reforms, the investment finance community's interest in Islamic financing has grown dramatically.

"At the time of the recession of speculative banking of banks, the profit of Islamic institutions is growing by 15-20 percent per year, and assets by more than 20 percent, and the annual turnover of global banking assets of the Islamic world for 2020 is estimated at more than \$1300 billion."

A growth in demand and a considerable buildup of financial resources by Muslim governments are the reasons for the sufficiently active development of Islamic banking. Given the active development of Arab financial markets and the competition among Western corporations to attract international investors, it is worth noting that the growth trend of Islamic banks continues. It establishes the essential conditions for a more complete study of Islamic banks' activities, as well as evaluating their access to financial markets.

As an outcome of the study conducted within the scope of this issue, it is feasible to assess the

definitions provided by scientists regarding Islamic banking and derive the same definition as for Islamic banking services and Islamic banking.

Islamic banking services are a collection of financial services offered by commercial banks in the form of a distinct department or branch to people and legal entities in accordance with Islamic Sharia.

The term "Islamic bank" refers to "a commercial organization that carries out opening and maintaining bank accounts on the basis of Islamic Sharia, making payments, attracting funds to deposits, financing individuals and legal entities, and other banking services." Sharia (an Islamic religious law system) mandates that these transactions be legal. That is, it finances Sharia-compliant manufacturing initiatives while prohibiting the payment or receipt of interest on any transaction (Bashir, Khassan, 2004).

After considering the aforementioned scientists' perspectives and summarizing their findings, the Islamic Bank is a business institution that delivers customer service based on Sharia rules.

Conclusions, proposals, and recommendations in the relevant directions were made in the organization of Islamic banking windows in commercial banks during the implementation of scientific work by talking with scientists and representatives of the field, analyzing their written and oral opinions, expert assessments, monitoring processes, a systematic approach to economic phenomena and processes, and a comparative analysis with the author's experiences.

According to the findings of numerous polls and research, many people are unable to completely grasp the disparity between the products and services given by Islamic and standard banks and financial services. While some argue that Islamic banks' products and services are simply renamed versions of traditional banks' products and services, others argue that Islamic banks refer to the "interest" defined by traditional banks



as "income" and simply assume that they are named with Arabic terms to attract customers. It is considered a grave error to state such views without first being thoroughly familiar with how Islamic banks operate and on what principles they operate. Such assumptions and viewpoints stymie the growth of the Islamic banking services business. Of course, it is also true that Islam is facing a number of challenges in establishing the market for banking services and products. This subject has not yet been thoroughly researched. It is impossible to deny that mistakes occur during this procedure.

Society, client/Depositor - bank, borrower acting in the traditional banking system - like the bank, mainly financial relations for the benefit of the bank, as well as "mushoraka" (financing projects on the basis of investment partnerships), "murobaha" (financing through a buy-and-sell agreement), "mudoraba" (financing projects as part of a trust-based Partnership), "leases" (financing under a Lease/Lease Agreement), "istisna" (contract based on financing projects in the manufacturing sector), "salam" (contract mainly applied in agriculture, a contract that provides for pre-financing), must understand the difference between economic and financial cooperation relations such as "sukuk" (financing using Securities) and make sure that such a system, equally beneficial to both parties, will also help the development of the modern banking and financial sphere.

Understanding that Islamic banks share the risks inherent in any type of entrepreneurship with their customers, and that the level of risk sharing will vary depending on the entrepreneurship project and the type of product used for financing, will allow members of society to fully enjoy the capabilities of this system and ensure the continued development of Islamic banking.

Risks that the Islamic Bank faces Depending on the positions and functions of the participants, the Islamic Bank takes on different risks at different stages. Naturally, modern Islamic banks have developed effective methods of reducing risk and risk levels; however, in some cases, they undermine belief in the Islamic banking and finance sector due to noncompliance with the risk division and distribution principles inherent in the original essence of Islamic finance.

Nonetheless, each Islamic financial product exhibits the many distinct hazards and bank risks (which are fundamentally distinct from regular banks with the problem of credit non-return risk). For example, if an Islamic bank establishes a joint-stock business as part of the mushoraka arrangement, it will be exposed to loss until the partnership is terminated. The bank will be

at danger of losing that property under the Murobaha agreement for the time of possession of the property (asset), i.e. until that property is sold. However, under leases, the bank will accept risks until the consumer obtains ownership of the property. As a result, Islamic banking indicates that the risk-to-profit ratio is economically justifiable. Such a banking system fulfills the demands of both consumers and the wider public, and it allows for the equitable distribution of wealth.

Despite the fact that the majority of adherents of Islam took the first steps to organize the activities of the Islamic banking services market in Uzbekistan, the Islamic financial sphere has hardly developed in Uzbekistan than in neighboring Central Asian countries, despite the fact that the country has a huge potential in the development of this sphere. This is done by large international financial institutions acknowledged by their specialists (such as the Islamic Development Bank Group, the International Finance Corporation, and the Asian Development Bank). Simultaneously, considerable work in this area has been done in recent years in collaboration with international financial institutions.

The Islamic Development Bank (IsDB) and its group organizations, particularly the Private Network Development Islamic Corporation (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, directing more than US\$2 billion to Islamic finance financing purposes.

As a result, various higher educational institutions in Uzbekistan began to design educational programs that included Islamic financial topics. Due to existing regulations, business representatives also begun the provision of Islamic financial services.

In Uzbekistan, there are several Islamic leasing firms. In instance, the country's first "mutual" Islamic insurance company commenced operations in 2019. The first electronic-Murabaha (financial product based on the Murabaha Trade Agreement) platform was established not only in Uzbekistan but also among the CIS nations. The first Islamic finance company, IsBF (Islamic Business and Finance), was established, with the main activity of providing consulting services in this area, and the Telegram page and website "Islamic Finance" were launched to increase the population's literacy in the field of Islamic finance. While leasing businesses like as Taiba Leasing and Al-Mulk Capital continue to supply Islamic-based rental solutions to SMEs.



Significant progress has also been made in the sphere of education. Several Islamic financial trainings have been held in Uzbekistan, and publications on Islamic finance have been published in Uzbek.

"Islamic finance and banking system: philosophy, principles, and practice" by Malaysian academic Sudin Aaron, "fundamentals of Islamic finance" by Kazakh economist Yerlan Baydaulet, and "Islamic economic model and time" by Russian economist Rinat Bekkin are among them.

In addition, given the country's high demand for Islamic financial services, the ICD's Advisory Group is currently working to establish six commercial banks in Uzbekistan, including Kapitalbank, Trastbank, Aziya Alliance Bank, Agrobank, Rural Construction Bank, Silk Road Bank, and Islamic Cinnamon (an Islamic financial services branch). These windows are scheduled to open in early 2021. Furthermore, effort is being done to open Islamic windows in Alakabank, People's Bank, Universal Bank, and period banks.

To summarize, the Islamic financial services sector will be an important factor, a foundation, and a development prospect for Uzbekistan's bright future, as a result of which foreign investors' interest in the country, reflecting the deep roots of Islam in its culture, will increase, and the government will be able to fully capitalize on this opportunity.

Based on the information presented above, we believe that the broad introduction of the Islamic financial services industry in Uzbekistan will provide the country with the following opportunities:

- boost and diversify the volume of foreign investment;
- to foster an honest and transparent competitive climate in the banking sector, as well as the possibility to diversify the banking system's assets;
- guaranteeing the greatest involvement of free money funds available to inhabitants and business leaders in economic growth;
- development and diversification of the country's capital market;
- generating a large number of new employments;
- by boosting the population's financial knowledge and financial market participation;
- infrastructure coordination and rejuvenation in the country via the growth of the Islamic financial services industry;
- establishment of new financial institutions;

- assisting in the execution of the state's anti-poverty program
- development of a new training program for people.

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