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## ESSENCE OF ISLAMIC ECONOMICS

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**Abstract:** The essence of Islamic economy is to create a morally responsible market economy system. This article pays special attention to one of its unique aspects - meeting the real needs of the individual and society, and the fair distribution of wealth in the Islamic economic model.

**Keywords:** Islamic finance, Islamic capital market, murobaha, mushoraka, muzoraba,

### 1.Introduction

What about "Islamic finance"?

The Islamic financial system is a part of the Islamic ecosystem, which includes economic relations in accordance with the rules of Islamic law in the process of using and distributing funds. For example, in Islam, it is forbidden to receive a profit in exchange for lending or borrowing, and all financial processes must be based on real economic activity. It is not allowed to finance industries that can harm a person - for example, gambling, alcohol, tobacco products, etc. Deutsche Bank, HSBC, Citi and MasterCard offer Islamic finance products. Nestle, Carrefour, Walmart and Whole Foods sell halal retail products. According to the results of the global "Nielsen" research, 66% of consumers are ready to pay more for halal products. And younger consumers are even more loyal — 73 percent of millennials are willing to pay more for an honest product. Thus, global multinational corporations are showing great interest in Islamic finance. Islamic banks benefit from project financing. Unlike traditional banks, where depositors only focus on dividends and do not know what their funds will be invested in, in Islamic banks, the depositor can see the future movement of funds, where the funds are invested in the business and the profit goes to the bank and divided between depositors. One of the rules of Islamic financing models is risk sharing. Neither the bank nor the client will make a profit if there is no profit in the business. But if there is a profit, it will be distributed among the depositors in proportion to the investment.

### Key terms to understand Islamic finance;

Here are some terms that will help you understand Islamic finance easily.

"Murobaha" is a halal term payment with or without a markup on the price of goods. In this, Islamic banks are engaged in purchasing products and services and then selling them for term payment.

"Mushoraka" means joint financing of one idea or work. Individuals and businesses are allowed to participate. In the traditional economy, this scheme is called contribution financing.

"Muzoraba" - the investor gives his funds to a financial organization for future use in business development. The terms of profit sharing are agreed in advance.

### Reasons for the emergence of Islamic banks

The results of a study conducted by the Chamber of Commerce and Industry with the UNDP showed that 38% of business representatives and 56% of individuals who participated in the survey do not receive loans from traditional banks because of

their religious beliefs. In this way, there is a demand for financial organizations that follow the rules of Islam. According to the assessment of the Ministry of Investments and Foreign Trade, the introduction of Islamic finance will bring an additional 100 million dollars to the budget.

In addition, ITB is actively investing in the country's economy. For example, in September of this year, the Islamic Development Bank allocated more than 200 million dollars to Uzbekistan for the construction of thermal power plants and transport infrastructure in Surkhandarya.

However, the rapid development of this sector and the emergence of Islamic banks for the population of Uzbekistan is hindered by the lack of a legal and regulatory framework, the lack of tax and management infrastructure, as well as the low level of financial literacy among the population, especially related to Islamic financing.

Unfortunately, in the annual report of Global Islamic Fintech for 2022, only one organization from Uzbekistan is listed in the list of 375 Islamic Fintech companies.

### Global Islamic Fintech Report 2022

IDEAL RATINGS	United States	Business Intelligence
IFARMER	Bangladesh	Raising Funds
Ifin Services will	Bahrain	Alternative Finance
IGrow.asia	Indonesia	Raising Funds
Ila BANK	Bahrain	Deposits and lending
IMAN	Uzbekistan	Raising Funds
INAIA	Germany	Wealth management
IndiaZakat	India	Social finance
Infinity Blockchain Ventures	Thailand	Enabling Technologies
Insha	Germany	Deposits and lending
InvesProperti	Indonesia	Raising funds

This is IMAN Invest, a company that provides Islamic financing services in Uzbekistan. According to the public information provided today, Battery Road, Tesla Capital (\$350,000 in total), Uzcard Ventures and Uzcard VC (\$160,000), Le Mercier's and MyAsia (\$45,000), Umay Angels Club and Block 0 (\$70,000) venture funds invested in IMAN.

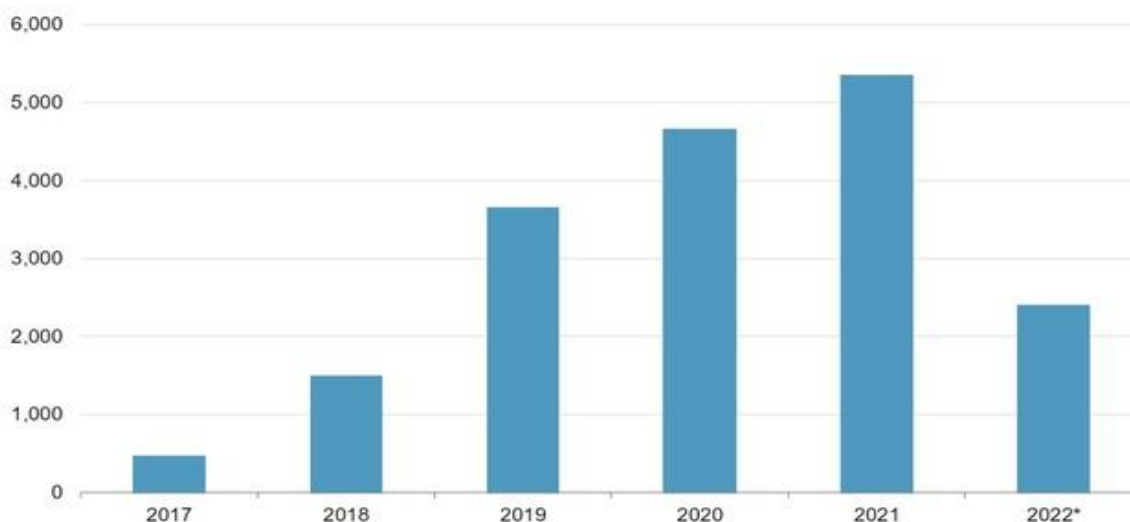
## Summarizing the comparison between traditional banking activity and Islamic banking activities

<b>Traditional banking activity</b>	<b>Islamic banking activities</b>
Money is a commodity other than a medium of exchange and store of value. Therefore, it can be sold and rented out at a higher price than its nominal value.	Money is not a commodity, but it is used as a medium of exchange and a store of value. Therefore, it cannot be sold or rented at a price higher than its nominal value.
Time value is the basis for calculating interest on capital.	Income from the sale of goods or the provision of services is the basis for profit
Interest is charged even if the organization suffers a loss using bank funds. Therefore, it is not based on profit and loss sharing	Islamic banking operates on the basis of profit and loss sharing. If the entrepreneur suffered a loss, the bank distributes this loss depending on the financing method used.
An agreement on the exchange of goods and services is not concluded in the provision of cash, financing or financing of working capital.	When distributing funds under Murabaha, Salam and Istisna contracts, contracts for the exchange of goods and services must be fulfilled
Traditional banks use money as an inflationary commodity	Islamic banking seeks to connect with real sectors of the economic system using trade-related activities. Because money is tied to real assets, it directly contributes to economic development.
A traditional bank focuses on lending.	Islamic bank focuses on investment.
Traditional banks operate only on the basis of financial criteria.	Islamic banks are based on ethical criteria in investment.
The activity of traditional banks is based on the human factor (mainly the theories of capitalism)	The activities <sup>8</sup> of Islamic banks are based on the rules of Islamic Sharia.
An investor or lender trades or guarantees a return on a predetermined interest rate.	Islamic banks confirm the distribution of risk between the owner of the capital and the investor.
Confirms profit maximization based on derivatives trading	Although there are restrictions imposed by Islam, it is aimed at maximizing profit.
There is no zakat system.	In the modern Islamic banking system, Islamic banks are seen as units that serve to become "Zakat collection centers".
They lend money and get it back with interest. Money is a commodity and a	There is participation cooperation. Understanding the enterprise is

motivator	essential.
The system can charge extra money to those who don't make regular payments (for example, penalties or increased interest).	Islamic banks have no right to demand additional money apart from compensation. At the discretion of the bank, there is also a cash discount for early payments.
Often the interest of the bank comes first and there is no objective of commensurate capital growth.	Human interests are paramount and growth is equity oriented
Appraisal of the project does not require much effort as the income from the advance/loan is fixed. Therefore, the risks can be transferred to another party in a certain sense	Because there is profit and loss sharing, more attention should be paid to the application and evaluation of projects in Islamic banking.
Traditional banks pay more attention to the reliability of their clients.	They focus on the financial potential of projects.
The parties in the relationship are defined as creditors and borrowers.	Relationships in Islamic banking are defined as partners, investors, traders, buyers and sellers.
Traditional banks must guarantee all deposits made to them.	Islamic banks guarantee money deposited in personal accounts but do not guarantee mudaraba investments as they share the other party's losses.

Last year's growth was supported by Islamic bank assets in the Gulf Cooperation Council and Malaysia, overdue sukuk issuance and strong performance in the Islamic funds industry.

The agency also predicts that total sukuk issuance will decline in 2022.



\*To March 31, 2022. Source: Eikon,

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In general, Islamic Fintech activity is expected to reach a total of 128 billion US dollars in transactions by 2025 [1].

According to the results of a survey conducted in early 2020 within the framework of the United Nations Development Program on "Analysis of Islamic financial products in Uzbekistan", the main reasons for not using bank loans are primarily religious views, high interest rates on loans and the complexity of lending. If an Islamic financial institution is established in the country, most of the participants who took part in the above survey stated that they can use the services of this institution. Even traditional banks have expressed their opinion that the establishment of an Islamic financial institution in Uzbekistan will lead to the creation of honest and transparent competition in the financial sector, resulting in the growth and diversification of the flow of investments to the country. The reason for the increase in the need for Islamic banks is the prohibition of activities that are harmful to society, based on real assets, and the low level of risk of a financial crisis.

"The time has come to create a legal framework for the introduction of Islamic financial services in our country. In this regard, experts from the Islamic Development Bank and other international financial organizations will be involved."

While Islamic banks mobilize funds on the basis of profit and loss sharing, conventional commercial banks have no such concept, they are simply based on debtor or creditor relationships. Traditional banks contract on the basis of predetermined fixed interest rates, thus guaranteeing their income.

It can be concluded from the above that today the Islamic financial system is a system that has gained its position in the world market and has proved the importance of developing the world economy. In order to compete equally with other financial institutions, Islamic banks must be competitive and meet the demands of individuals and businesses. In the services they provide, Islamic banks should take into account other environmental factors and today's global issues along with Islamic principles. Thus, the financial services of Islamic banks are more effective in economic sectors compared to conventional banks compared to each of their alternative products.

### **Conclusion**

Reviewing the empirical research on Islamic banking and finance is the main goal of this survey.

It should be mentioned that the goal of Islamic finance was to provide the social justice that the egocentric mentality of the traditional system lacked. The notion of accomplishing socioeconomic and environmental goals through capital allocation and financial decisions is therefore at the core of the Islamic financial system. Several of the conceptual building blocks of Islamic finance and accounting, a branch of Islamic economics that focuses on transactional relations, Islamic bank development institutes and branches global Islamic Fintech are covered in this overview.

They include: FinTech, Islamic finance insurance, Islamic finance project and Islamic Capital market

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