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THE SOCIO-ECONOMIC SIGNIFICANCE OF THE ORGANIZATION OF ISLAMIC BANKS IN UZBEKISTAN

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Abstract: The essence of Islamic economy is to create a morally responsible market economy system. This article focuses on one of its unique aspects meeting the real needs of individuals and society, fair distribution of wealth in the Islamic economic model.

Keywords: Islamic banks, Islamic finance, Islamic capital, Islamic bonds (Sukuk), usury.

Introduction:

Today, the number of institutions under the name of "Islamic banks" in the world economy is increasing year by year, and the size of their assets is also increasing. It is not a secret to anyone that these types of banks, which have been established for more than half a century, are entering non-Muslim countries faster and easier than Muslim societies. The reason for this can be explained in different ways. For example, some economists point out that the activity of Islamic banks is based on real assets as the main factor, while others emphasize that they are free from financial crisis. Some scientists argue that such banks limit many activities that are considered harmful to society. In our opinion, all these factors have created a number of advantages of these banks compared to the existing traditional banks. The proof of this can be easily seen by conducting economic analyses. As the activities of Islamic banks are based on Islamic jurisprudence, they allow certain types of commerce and require the prohibition of certain types of commerce. Therefore, it will take a lot of effort to bring them to a certain country.

Key terms to understand Islamic finance;

Sukuk is a type of securities that conforms to Islamic principles and is used as an equivalent to bonds in raising funds and making investments.

[Impactfactorsearch 8.4](#)

Usury is the activity of making a profit by giving loans on extremely harsh terms.

In general, it is certainly not an easy task to start the activity of Islamic banks in any country where traditional banks are leading. However, we can mention a few countries that have successfully done this, such as Malaysia, Great Britain, UAE and Saudi Arabia. At the same time, in some countries, many efforts are canceled due to the fact that the government is in the name of democracy, that is, the bureaucratic system is the priority. And it is also true that many businessmen have lost their interest and passion for the industry due to mistakes and illegal practices in others. Taking this into account, consider all aspects of introducing Islamic banking and Islamic financial activities to Uzbekistan, conduct economic and financial analyzes and, if necessary, study foreign experiences in depth, and then implement the necessary measures. required.

Attracting the funds of existing banks, investment funds and companies based on Islamic financing in Muslim countries to support the socio-economic development of Uzbekistan and the private sector is the same term. For this, it is necessary to look at the national banking system with a new approach, that is, it is important and urgent to research the issue of introducing partnership-based financing mechanisms along with traditional financing mechanisms.

The main difference between Islamic financing and conventional financing is that the former is based on profit and loss sharing, while asset-based financing is based on partnership. In this case, the bank can build an object based on the client's request, buy equipment, goods, raw materials or rent them. Financing is based on trade operations. In the traditional banking system, it is difficult to carry out trade operations from the legal point of view, and it is hindered by taxation and legal and regulatory documents related to banking activities.

Requirements for opening an Islamic bank often vary greatly from country to country. When establishing an Islamic bank, there may be many difficulties in complying with the rules originally developed for the regulation and control of

Impactfactorsearch 8.4

conventional banks. These regulations are aimed at ensuring the viability and soundness of individual banking institutions to support the entire banking system in the country, and they often include principles such as certainty of capital for depositors and certainty of the rate of return on deposits. Therefore, it is important for sponsors who wish to establish an Islamic bank to be aware of the national banking laws and regulations that affect Islamic banking operations, to ensure that the activity is pre-approved in accordance with applicable legislation, or to permit Islamic banking operations. must request a decision from the regulatory body. The introduction of new business practices by an Islamic bank may be an unusual concern for a regulator whose main activity is to regulate and supervise conventional banks. Most Central Banks require commercial banks to maintain a capital adequacy ratio for liquidity purposes by investing a portion of their liabilities in approved securities.

In addition, it is important for sponsors who wish to establish an Islamic bank to study the corporate tax and personal tax structures and look for available incentives. The tax implications for an Islamic bank are more binding than usual. In fact, the interest paid to the depositors of an Islamic bank should be considered as an acceptable payment for the bank, just like the interest paid by conventional banks to their depositors. The organizational team should also study the country's currency position, as it can directly affect the bank's foreign trade operations and affect their processes and profitability. In fact, in a country that imposes currency control restrictions on the free outflow of foreign currency, most of the investments will have to be made in the local currency equivalent, which will also negatively affect the volume of import financing, and if the Islamic bank has excess liquidity in foreign currency if so, he cannot invest the money himself. Investment of resources in international markets and provisions on repatriation of bank capital, dividends and profits are other important aspects to be explored.

According to experts, Islamic finance in the world market gave an opportunity to counter the negative factors that brought the Western financial

[Impactfactorsearch 8.4](#)

system to a state of crisis. Today, the bank provides services to countries outside the Islamic world and creates great opportunities for them.

The purpose of the Islamic Development Bank is to "ensure the economic development and social progress of member states and Muslim communities based on Sharia principles." 57 countries are members of ITB, and its assets exceed 150 billion US dollars.

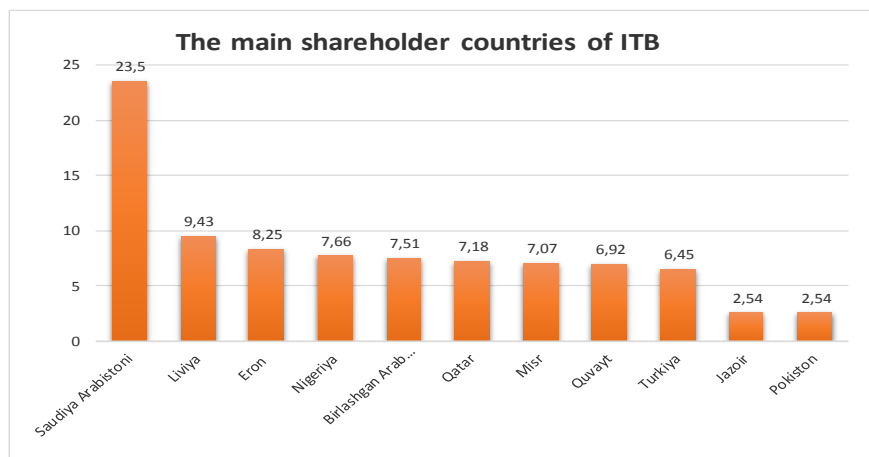


Figure 3. Main shareholder countries of ITB¹

It can be seen from the above picture that Saudi Arabia has the largest share in the main authorized capital of ITB, followed by Libya, Iran and Nigeria. Uzbekistan's share is 0.03%, not even one percent.

It should be noted that Uzbekistan became a member of the Islamic Development Bank in 2003. During these years, 30 large investment projects totaling more than 2.5 billion dollars were approved, schools, low-cost housing, highways, electricity and drinking water networks were built within the framework of the projects, and health facilities were modernly equipped.

¹ ICD annual report 2019

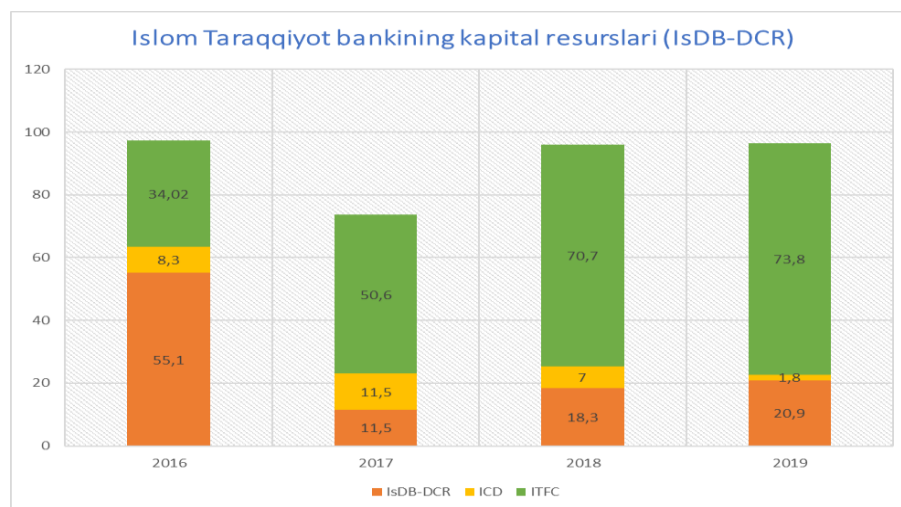


Figure 4. Structure of capital resources of the Islamic Development Bank ²

As can be seen in Figure 3 above, the loan portfolio of the Islamic Development Bank issued by the International Islamic Trade and Finance Corporation (IICFC) is increasing year by year. The term of financing the purchase of goods and raw materials of the KISMK is 12 months, if it is directed to the purchase of the main means (tools and equipment), it is financed up to 24 months.

Islamic Development Bank is among the 10 largest creditors of Uzbekistan. New perspectives of cooperation were opened for our people, and within the framework of the meeting, the Islamic Development Bank supported the development of the legal framework of Islamic banking and finance in Uzbekistan through a project to create legal and technical foundations for Islamic banking and finance in the country, as well as to educate the population about Islam. It was gratifying that it was intended to increase the level of awareness of finance. One of the important aspects of mutual cooperation is the fact that IDB is allocating 200 million dollars for the project of sustainable development of villages in Uzbekistan. In the future, with the help of these funds, improving the use of basic infrastructure and services, improving the use of basic infrastructure

² ICD annual report 2019

[Impactfactorsearch 8.4](#)

and services with the help of these funds, reducing poverty, increasing the population's resistance to various situations and risks will be the highest example of humanitarianism. .

On September 1-4, the 46th annual conference of the Board of Directors of the Islamic Development Bank was held in Tashkent and was attended by ministers and officials from 57 member countries of the IDB group, as well as more than 2,000 large business, banking and finance representatives and industry experts. . In fact, the holding of such a large conference in Tashkent gave rise to hope for the further strengthening of cooperation between the banks of our country and the Islamic Corporation for the Development of the Private Sector, and for the development of the principles of Islamic finance in Uzbekistan. Within the framework of this international conference, a number of documents on the expansion of mutually beneficial cooperation relations between Uzbekistan and ITB were signed. In particular, at the Summit, 30 financial agreements with a total value of 1.2 billion US dollars were signed between the ITB Group and ten member countries. 330 million dollars of it will be spent for the interests of Uzbekistan.

Investments of 200 million dollars of the fund will be directed to the financial support of the projects included in the "Prosperous Village Program". More than 100,000 new jobs will be created in the country, and about 34,000 small and the activities of medium-sized business entities will be restored.

The Islamic Development Bank will provide a technical assistance grant to support the development of the legal framework for Islamic banking and finance in Uzbekistan.

Insurance of bilateral and regional investment projects in industry, agriculture and communal economy, transport, education, healthcare and other sectors between Islamic Corporation and "Uzbekinvest" EISK JSC on investment

[Impactfactorsearch 8.4](#)

and export credit insurance A Memorandum of Cooperation was signed, providing for cooperation in the field of insurance and reinsurance.

The Islamic Development Bank group includes a number of organizations, among them the Islamic Corporation for the Development of the Private Sector (XSRIK) and the International Islamic Trade and Finance Corporation (IICFC) cooperate with the banks of Uzbekistan. By the decision of the Cabinet of Ministers of the Republic of Uzbekistan No. 596 dated December 21, 2004, Uzbekistan became a member of HSRIK and has been cooperating with local commercial banks and entrepreneurs since 2006. In particular, financing lines were allocated to commercial banks through the Murobakha (sale at a premium) financing method. These lines are used by entrepreneurs operating in Uzbekistan, enterprises working in production, service, processing and other sectors of the economy to further develop their activities.

In this direction, XSRIK has established cooperation with 15 commercial banks and 2 leasing companies, and up to now it has been approved to allocate financing lines to banks in the amount of 285 million US dollars.

A loan agreement of 80 million dollars was signed to support the project of development of oncology services in Uzbekistan. In addition, 10 million with each of "Trustbank", "Kapitalbank", "Turonbank", "Infinbank", "Orient Finance Bank". An agreement was signed on the allocation of funds in the amount of US dollars. The Islamic Development Bank will provide a technical assistance grant to support the development of the legal framework for Islamic banking and finance in Uzbekistan.

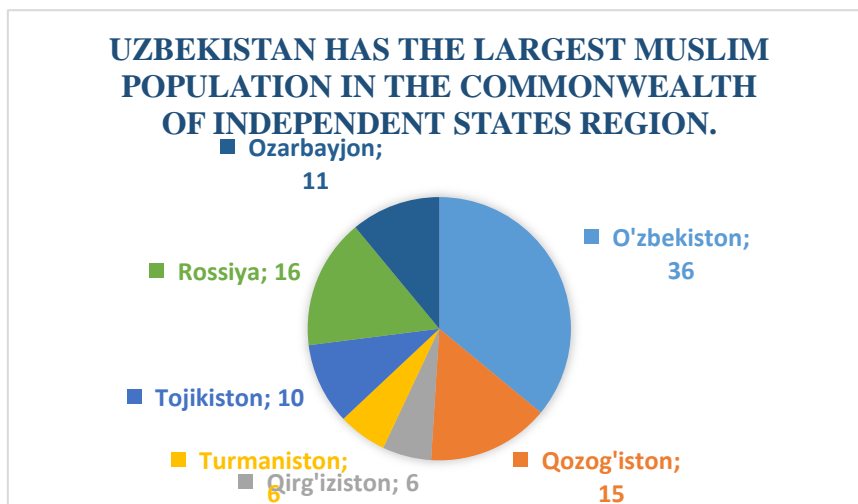


Figure 5. Uzbekistan has the largest Muslim population in the Commonwealth of Independent States region.³

It is clear from the above picture that the development of Islamic finance and banking in Uzbekistan is very fast. 94% of the population is Muslim and most of them follow the religion. The reason is that 2,235 business representatives and 5,000 individuals took part in an online survey conducted in April 2021, in which 38% of business entities and 56% of individuals said that they do not use traditional bank credit services due to their religious beliefs.

Entrepreneurs operating in Uzbekistan, enterprises working in production, service, processing and various sectors of the economy are using the funds raised for further development of their activities. For example, Trustbank provides services to clients based on the Murobakha contract.

³ Manba: Pew Research Center and Moody's Investors Service, 2020

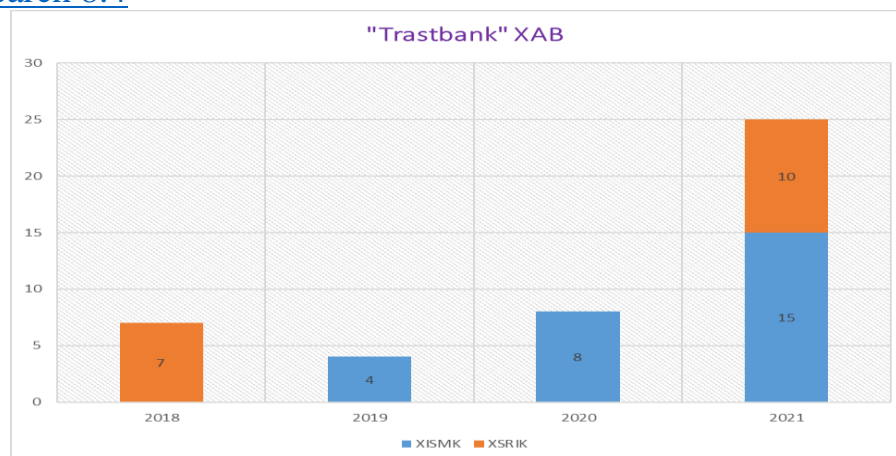


Figure 6. Statistics of attraction of "Trustbank" JSC "XISMK" and "XSRIK" lines

As can be clearly seen from the above picture, the resources of "Trustbank" JSC bank are increasing year by year. In 3 years, the bank's credit lines allocated by KHISMK increased almost 4 times. It is clear that the bank is effectively managing funds as a trusted agent.

Islam forbids usury, i.e. making profit by lending money at interest, while the traditional banking system relies on interest. It is safe to say that if banking services based on the principles of Islamic financing are offered to the segment of the population that relies on religious beliefs and does not want to use interest, loans and similar banking services, it will be a great impetus to the growth of the economy of Uzbekistan and the increase in the volume of domestic investment. we can The introduction of this system serves as a basis for attracting savings and unused funds to the banking system in Uzbekistan, reducing the weight of the secret economy, and developing entrepreneurship.

ITB is one of the proven reliable investors of Uzbekistan. Currently, 10 commercial banks of the republic are active partners of ITB. The bank's investments in the economy of our country exceed 2.5 billion dollars.

Specific information can be given in this regard. In particular, within the framework of my candidacy, to study the opinions and opinions about Islamic

Impactfactorsearch 8.4

finance and banking among university students and professors, entrepreneurs and other strata of the population (about 700 participants in total) In order to do this, a survey was conducted at the beginning of this year, and according to its results, I can say that almost 90% of the respondents are interested in establishing Islamic banking in Uzbekistan or believe that there is a need for it. At the same time, I would like to emphasize that the understanding and knowledge about Islamic finance and banking in Uzbekistan is still insufficient, because the main reason is that such methods of financing are not yet widespread and the campaign is not carried out.

Islamic finance is a great tool for countries with good agriculture and industry. Because Islamic finance creates a favorable environment for the development of the real economy and its balance with the financial sector. Unfortunately, we have to constantly go through a cycle of crises in order to eliminate the consequences of the bursting of empty bubbles caused by interest in the traditional economy.

If banking services based on the principles of Islamic financing are offered to the segment of the population that does not want to use interest, credit and similar banking services based on religious and Sharia rules, I believe that the comprehensive introduction of Islamic financial services in Uzbekistan will open and develop the following opportunities for the country:

- Diversification of financing sources, especially for small and medium-sized businesses;
- Stimulation of real production in Uzbekistan;
- Direct benefits for the economy of Uzbekistan in case of attracting investment funds from the countries of the Middle East and South-East Asia;
- Availability of financing market adequately covered by traditional financing (small and medium business entities, agricultural sector)
- Due to the fact that the majority of the population of Uzbekistan believes in Islam, the expectation of stable demand for these financial products;

Impactfactorsearch 8.4

- Due to the emergence of alternative financial products, the population's access to financial services will expand;

- In order to reduce the burden of usurious debt and improve the financial health of enterprises that can become the basis of the country's system, the possibility of introducing tools and methods that are successfully applied in the world within the framework of the country's public and private corporate sector. Development of agriculture based on Islamic financing, leasing services 'show, the expansion of the export geography of products;

- creation of many new jobs and reduction of poverty

I believe that it will greatly contribute to the implementation of the state program.

Conclusion

As a result of the implementation of these works, Uzbekistan will undoubtedly become a leading country among the CIS countries in the field of Islamic finance. Today, there are great opportunities for the development of the sukuk market in Uzbekistan, and several billion-dollar projects can be implemented with the help of sukuk in a very short period of time:

- the cost of financing is low (for example, at the level of Libor);
- projects in our country have a high level of income;
- there is an opportunity to attract investors based on Islamic finance from the countries of the Middle East and Southeast Asia who want to strengthen cooperation with the region.

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