



IMPROVING THE USE OF ISLAMIC FINANCIAL INSTRUMENTS TO ATTRACT INVESTMENT

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ABSTRACT

This article examines the features of Islamic banking, as well as Islamic Sukuk bonds, which are beginning to develop in the Republic of Uzbekistan. The role of Islamic banks in the development of small and medium-sized businesses has been determined, since the introduction of the Islamic banking system in the country stimulates entrepreneurial activity, reduces poverty, maintains inflation at a moderate level and has a positive impact on people's well-being and general economic development.

Introduction

In conditions of crisis situations in the financial market, Islamic finance shows its reliability and stability as a viable mechanism for financial intermediation. To date, the Islamic financial system has become one of the most important components of the international financial system, the progressive pace of its development is acquiring an international scale. It is worth noting that the sustainable growth and competitiveness of the Islamic financial industry depends on the development of human intellectual capital and investment in scientific research. The knowledge and research carried out in the field of Islamic finance makes it possible to see the huge potential in the banking system as a financial intermediary in the arena of the global financial system.

The popularity of Islamic banking can be seen on the example of Europe. According to studies, every 32 years the total number of adherents of Islam has doubled. But if earlier it was customary to consider Islam as an element of the aging antiquarian East, then since the middle of the last century the world has been observing the Islamization of Europe - a unique phenomenon that world history has not yet known [1]. According to Abdelila Belatik, Secretary General of CIBAFI (Council of Islamic Banks and Financial Institutions), Islamic banking in the world is growing at an average of eight percent per year, and its volume has reached three trillion dollars.

Let us note the features of Islamic banking, which are given in the scientific works of foreign scientists: the profit of Islamic banks and their clients is formed as a result



of financing less risky business activities, production projects, and the creation of real products. At the same time, the bank and the client share the profits and losses from projects according to the agreement, therefore, they make the necessary efforts to achieve the profitability of these projects. The organizational structure of Islamic banks includes a body that monitors the compliance of banking transactions with the principles of Islamic financing, which include the prohibition of interest rates and speculative behavior, risk sharing, and strict compliance with contracts.

Thus, Islamic banking can be considered as a direction of banking activity, which is carried out in accordance with Islam. Islamic banks provide numerous banking services and operations, including equity co-financing, trust management of funds, bank loan operations without charging fees.

The principal feature of the Islamic banking system is that it is completely subject to the rules of Sharia, which unconditionally prohibits the payment and receipt of interest, speculation and unjustified risks. One of the main goals of financial and economic activity in Islam is proclaimed social justice and fair distribution in society. At the same time, an equal distribution of risk between partners in economic activity is ensured, and property rights are observed very strictly [2].

Literature review

According to experts, Islamic banking is one of the connecting elements that unite the Muslim world torn apart by internal contradictions, since this socio-economic phenomenon is transnational in nature, it functions not according to ethnic, but according to religious principles.

The works of Mufti Ismail Desai, Muhammad Taqi Usmani, E.A. Baidalet, Sudin Haron, Van Nursofiza Van Azmi.

Muhammad Taqi Usmani's textbook "Introduction to Islamic Finance" is based on revised articles by the author devoted to the basic principles and rules of functioning of Islamic financial institutions.

Main part

The largest concentration of Islamic banks is located in the historically determined region of the Middle East and Southeast Asia and today they operate in 75 countries of the world. Islamic banks are actively taking root in the financial sector of developed non-Islamic states, an example is Europe, in particular Great Britain, where in early 2006 the heir to the British crown Prince Charles signed a memorandum of understanding between the Islamic Development Bank and his own charitable organization International Youth Business. If we consider the share of Islamic finance by state (Figure 1), then Saudi Arabia occupies the first place with a specific weight of 43%, which is not surprising, since Saudi Arabia is called the "Land of the Two Holy sacred cities of Islam.

Interest of world leaders in Islamic finance

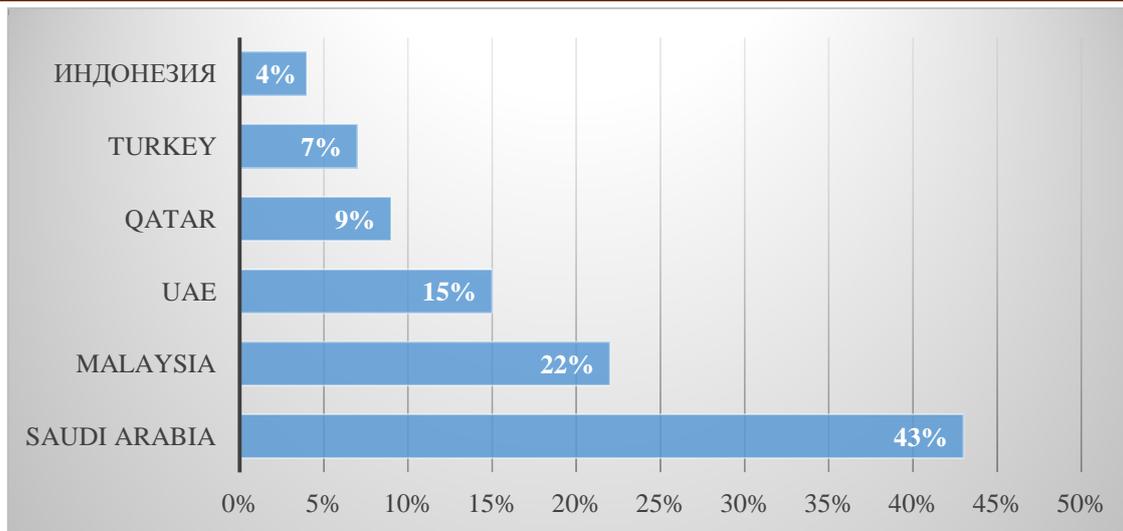


Figure 1. The share of Islamic finance in the economy[3]

Given the positive outlook for the industry in the markets of Africa, East Asia and both Americas, it is likely that Islamic finance will be further developed throughout the world.

Having studied foreign literature, we can highlight the following advantages of Islamic Banks during various crises:

- Encouragement of entrepreneurial activity by attracting free resources available from Muslim states to finance investment projects. For example, from the countries of the Middle East. The Middle East has some of the largest oil and natural gas deposits in the world. Because of these large deposits and growing global demand, the countries of the region have some of the largest GDPs in the world.
- development of activity of financial institutions through introduction of new types of products and increase of their liquidity level with active interaction with foreign Islamic institutions. This method of

financing will be in demand in our market, since 70% of the inhabitants of Uzbekistan are Muslims, practicing and quite well aware of the canons of Sharia and Islamic law "Fiqh".

- Further development of business by attracting new investors who have religious preferences in relation to the technology of banking operations.

Most Islamic banks are not really banks. They are engaged in project, partnership, trade financing, acting as investment and trading companies.

The revenue from purely banking operations is a small percentage and mainly consists of commissions. Such operations include agency services, services for keeping deposits, issuing interest-free loans, etc.

The international structure of Islamic finance is represented by 4 main instruments Figure 2.

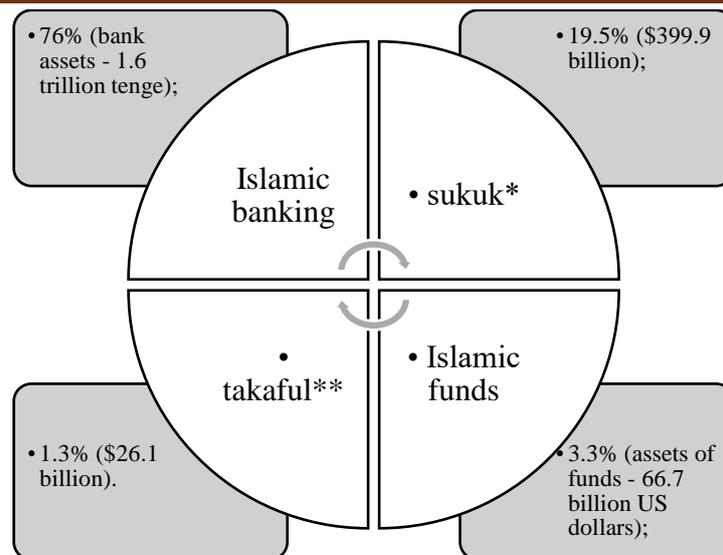


Figure 2. International Structure of Islamic Finance[4]

At present, Islamic investment funds and sukuk, Islamic bonds, are becoming increasingly important in the system of international financial relations.

Sukuk is a special type of bonds, the yield of which is related to the return on real assets. The issuance of sukuk is similar to the standard securitization process, in which a mechanism is developed to acquire assets and create an opportunity to form financial liabilities in relation to them [5] .

At the present stage in world practice, sukuk (Arabic كوكص, from كص "Sakk" - "legal document, act, receipt") provides an opportunity to attract debt financing, occupying an intermediate position between the company's own and borrowed resources.

In accordance with the definition of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), sukuk are certificates of equal value certifying an indivisible share of ownership in tangible assets, the right to use them and receive income, services provided, assets of a specific project or special investment project [6] .

In 2020, Islamic sukuk bonds were introduced in the Republic of Uzbekistan ,

and in 2021 they plan to conduct a pilot project to issue these securities. As part of the issue, the rules of English law and a special taxation regime will be applied [8] .

On behalf of the President of the Republic of Uzbekistan, it is planned to increase the volume of freely traded securities to 10-15% of GDP in five years. Today, this figure is 0.2% of GDP. Therefore, it is necessary to increase the types of securities in the capital market, taking into account world practice, including Islamic securities sukuk. For the development of the Sukuk market, it is necessary to remove unnecessary restrictions and simplify work on the stock market.

In our country, the sukuk market is in its infancy. There are many problems, among which it is important to highlight:

- lack of a proper regulatory framework, as the draft resolution is still being finalized;
- difficulties in the tax system. While changes have been made to the Tax Code, there are many issues that need to be considered for the functioning of sukuk in Uzbekistan. For example, the problems of double taxation when issuing sukuk;



- shortage of qualified specialists with knowledge of Islamic economics;
- risks of non-compliance with the principles of Shariah;
- an insignificant financial base, limiting the possibility of issuing large volumes of sukuk.

Taking into account the existing problems, we offer the following ways to eliminate, mitigate the negative effects and accelerate the process of entering the sukuk market in Uzbekistan:

- form a department within the structure of the Central Bank for targeted regulation of the activities of Islamic financial institutions;
- create legal conditions for the issuance of sukuk;
- provide clear guarantees to investors;
- identify the CIS countries and Russia as pilot regions for the implementation of projects related to Islamic finance;
- develop close cooperation with Islamic regulatory bodies and organizations, as well as actively work with investors from the Middle East;
- to train highly qualified specialists in the field of Islamic finance

Conclusion

In conclusion, we note that, despite the problems existing in the Republic of Uzbekistan related to the use of Islamic finance instruments, the use of these products is beneficial, first of all, in order to diversify investment instruments, as well as the integration of the Republic of

Uzbekistan into the global financial community. For example, through the issuance of sukuk, it is possible to attract both short-term investment resources and long-term ones necessary for the implementation of priority programs for the country's economic development and infrastructure projects.

The solution of these important issues, as well as the implementation of best practices in the field of supervision and accounting, are of key importance for the future development of Islamic finance. In the future, supervisors will also face the dual challenges of understanding the industry and finding a balance between providing effective supervision and facilitating the industry's normal drive for further growth and development. These problems can be overcome if the Central Bank and responsible institutions strengthen multilateral cooperation and create an appropriate environment for the further development of Islamic finance in Uzbekistan.

Such an environment will provide equal conditions and infrastructure necessary for the development of the industry in accordance with the laws of the market. A reliable, well-functioning Islamic financial system can pave the way for regional financial integration of interested countries. By financing economic infrastructure and creating jobs, it will also contribute to their economic and social development.

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