

## ISLAMIC FINANCE AND DEVELOPMENT PROSPECTS IN MODERN CONDITIONS

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**Abstract:** This article examines the concept and essence of Islamic finance, consistent with the principles of Sharia, and its practical application, the development of the Islamic economy, the donation of international financial institutions and Islamic banks in the formation of banking resources. The role and importance of the development of Islamic finance in the process of transformation of the financial and banking system are also considered. The perspective of the development of Islamic finance and its role in the development of the country's economy is considered. Suggestions and recommendations on the implementation of the principles of Islamic finance are given.

**Keywords:** Islamic bank, donation, credit resources, international financial institution, Islamic finance, Sharia principles.

To date, an important component of the development of the banking system is Islamic finance, which is most in demand in Islamic countries. The emergence of Islamic banks and financial institutions has led experts in the field to search for a suitable model by which accounting standards could be developed and implemented in the practical activities of companies in order to provide adequate, reliable and relevant information about financial statements to users.

Islamic financial institutions (IFIs) in the Middle East (Qatar, Kuwait, Bahrain, Saudi Arabia, etc.) are particularly popular. Similar financial institutions operate in Jordan, Malaysia, Sudan, Lebanon, Indonesia, etc. "Accounting and reporting standards

at the international level are developed by the Organization for Accounting and Auditing in Islamic Financial Institutions"<sup>1</sup>.

Islamic accounting can be defined as an accounting model, the application of which allows not only to provide reliable information in the format of various financial indicators, but also to signal to interested parties that the company conducts business and fulfills its socio-economic tasks in accordance with Sharia.

It is known that the implementation of the strategy for reforming the banking system for 2020-2025 and accelerating the transformation of commercial banks aimed at increasing the share of the private sector in banking assets from 15 to 60 percent is of paramount importance. "During the consistent reform of the financial sector, a number of measures have been implemented, as a result of which the necessary legal conditions have been created for conducting a progressive banking business and strengthening the competitive environment in the sector"<sup>2</sup>.

International practice shows that Islamic finance can adapt to market demand in a short time compared to traditional enterprise lending. The introduction of new Islamic products and services and their effective implementation will have a faster impact on the bank's business.

The targeted placement of funds raised through Islamic financing is a measure of the bank's success. The irony is that "it was the pursuit of maximizing the rate of return, the desire to get the maximum possible income from lending to corporate clients, that led many well-known banks to financial success"<sup>3</sup>.

There are some difficulties in the development of Islamic finance due to the lack of professionals in the labor market in the field of development of Islamic products and services, the high demand for specialists in the field of Internet banking, as well as the

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<sup>1</sup> H.S. Umarov, "Prospects for the development of Islamic finance in Russian conditions", Problems of Oriental Studies 2014/2 (64)

<sup>2</sup> Decree of the President of the Republic of Uzbekistan, dated May 12, 2020 No. UP-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan

<sup>3</sup> L.F. Muradova, "Ways to increase the profitability of commercial banks' assets in the context of modernization of the economy of Uzbekistan", PhD dissertation – Vol.: 2018.

problems of standardization of business processes and ways to optimize them, building on the conveyor at the scale of bank branches. Foreign practice shows that with the determination of top managers of banks and the allocation of appropriate resources for Islamic finance, it is possible to build a service system in 2-3 years of hard work, and in a fairly short period to develop this area in all branches of the bank.

There are more than 560 banks and over 1,900 mutual funds around the world that comply with Islamic principles. Between 2015 and 2021, Islamic financial assets grew to about \$4 trillion from \$2.17 trillion and are projected to rise to roughly \$5.9 trillion by 2026, according to a 2022 report by the Islamic Corporation for the Development of Private Sector (ICD) and Refinitiv<sup>4</sup>.

The Islamic Development Bank (IsDB), during its 344 Board of Executive Director's meeting of 13 February 2022, approved Projects for Cote d'Ivoire, Guinea, and Senegal. The Board of Executive directors of the Bank, at its 344th meeting held on 13 February 2022, approved a total of EUR 297.67 million for 3 Member Countries under the Regional Hub of Dakar. These are: EUR 35.14 million for Phase 3 of the Hydro-Agricultural Development Project in Upper Sassandra and Fromager Regions in Cote d'Ivoire, EUR 24.30 million for Phase 2 of the Development of Technical and Vocational Education Project, Guinea, and EUR 238.23 million for the Construction of the Dakar – Tivaouane - Saint Louis Highway/ Mékhé - Saint Louis Project<sup>5</sup>.

The Islamic Development Bank Group has contributed to more than 57 projects under implementation in Egypt with \$3.8 billion and reaffirms its economic support to Egypt. IsDB support to Egypt focuses on the achievement of eight Sustainable Development Goals (SDGs) that cover poverty and hunger eradication, achieving good health, improving the quality of education, providing clean energy and potable water, creating decent employment opportunities especially for youth and women, creating

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<sup>4</sup> Islamic Corporation for the Development of the Private Sector-Refinitiv. "Islamic Finance Development Report 2022, [https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247\\_1582.pdf](https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247_1582.pdf), Pages 2, 8.

<sup>5</sup> <https://www.isdb.org/news/the-islamic-development-bank-isdb-during-its-344-board-of-executive-directors-meeting-of-13-february-2022-approved-projects-for-cote-divoire-guinea-and-senegal>

sustainable infrastructures, assisting industry and the innovation and creativity environment.

Furthermore, the IsDB institutions have also contributed to developing and encouraging the trade and exports sector and supporting the private and the insurance sectors with contributions amounting to more than \$13.2 billion<sup>6</sup>.

Malaysia ranks first in terms of the development of Islamic finance. Malaysia has developed a comprehensive regulatory framework that supports the growth of Islamic banking and finance. This includes the creation of Sharia-compliant financial institutions and instruments. Bank Negara Malaysia, the central bank of Malaysia, actively promotes Islamic finance. He presented policies and initiatives to create an enabling environment for Islamic financial institutions. Malaysia offers a wide range of Islamic financial products and services, including Islamic banking, takaful (Islamic insurance), sukuk (Islamic bonds) and Islamic investment funds

In Uzbekistan, Islamic finance is represented by the projects of the Islamic Bank for the Development of the private sector, which has been successfully cooperating with Ipak Yuli Bank for a long period of time. Financing is carried out in the form of providing financing lines to banks to provide guarantees according to the Murabaha principles. This is one of the most common methods of working for interest-free transactions used by banks in Muslim countries. Murabaha is an active client financing operation, and it is suitable for making a wide variety of purchases: from equipment to business buildings.

Relationship of the Islamic Development Bank Group with the Republic of Uzbekistan. The Islamic Development Bank will allocate funds for the comprehensive development of rural areas of Uzbekistan.

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<sup>6</sup> <https://www.isdb.org/news/the-islamic-development-bank-group-contributes-to-more-than-57-projects-under-implementation-in-egypt-with-38-billion-and-reaffirms-its-economic-support-to-egypt>

In 2024-2028, the infrastructure of villages will be improved in 21 districts of the Samarkand, Surkhandarya and Kashkadarya regions. To do this, a concessional loan of \$ 260 million is attracted from the Islamic Development Bank for a period of 20 years.

The President of Uzbekistan signed a decree "On measures for the implementation of the Integrated Rural Development Project (Stage 2) with the participation of the Islamic Development Bank". A soft loan of \$ 260 million is being raised from the Islamic Development Bank for a period of 20 years. In 2024-2028, the infrastructure of villages in 21 districts of the Samarkand, Surkhandarya and Kashkadarya regions will be improved at the expense of credit funds. As part of the project, 20 schools (19 in Samarkand), 14 kindergartens, 10 family doctor's offices (all in Samarkand) will be built, 200 km of drinking water networks, 368 km of power grids will be laid, 53 transformers will be installed. About 330 kilometers of road infrastructure will be improved, which will cost 717 billion soums.

Islamic finance is developing dynamically in many Muslim countries. It is noteworthy that even in such native non-Muslim countries as the United Kingdom, Germany, the Philippines, Ethiopia, Nigeria and a number of others, Islamic finance has received a boost at the legislative level.

Islamic finance came to Uzbekistan together with the projects of the Islamic Development Bank group. However, the country still does not have legislation on Islamic banking and regulation of the sphere of Islamic finance. At the same time, work is already actively underway in this direction: the country's leadership is ready to introduce Islamic banking, relevant legislation is being worked out in relevant ministries and departments, international experts and consultants in the field of Islamic finance are involved in the work.

In order to introduce Islamic finance in Uzbekistan, it is necessary to carry out a huge systematic educational work to increase the knowledge of the population and market players of the principles, rules and nuances of the Islamic financial sector. It is important that both financiers and ordinary people understand how Islamic financial

institutions work, how products are structured, how they differ from traditional instruments, etc.

There is no denying that with the introduction of Islamic finance, there will be a serious outflow of finances and customers from traditional banks. This stereotype also has no solid foundation. In the vast majority of countries, both the Islamic and traditional banking systems function harmoniously. Moreover, despite the fact that Islamic finance has been successfully operating in such native Muslim countries as Malaysia, Indonesia, Pakistan, and Bangladesh for several decades, the share of traditional banking still prevails.

Moreover, by legalizing Islamic banks, the country is able to attract very serious internal resources: many people, because of their religious beliefs, do not take money to classic banks, but keep it under mattresses. Uzbekistan is favorably distinguished for investors from Islamic countries by its political stability, ongoing economic reforms, growing prosperity, a large and young population, deep culture and entrepreneurial spirit of the population. These are excellent ingredients for investors from the Persian Gulf and Southeast Asia.

Considering the above, it can be concluded that the competent organization of Islamic finance is a necessary element of economic development and has a positive impact on the standard of living of the population and the economic situation of the country. In order to introduce and develop Islamic finance, it is necessary:

- the transition from product-oriented to customer-centric business models;
- focus on the customer experience as a whole, rather than on the individual characteristics of each product;
- creation of infrastructure, regulatory framework;
- optimizing deposit protection;
- elimination of fiscal barriers;
- improving financial literacy among the population;
- the development of morality and ethics embedded in Islam;

- development of a mechanism to direct the amount of the penalty, which is insignificant, to charity;

- refusal to finance the tobacco and alcohol industries.

Based on the above, it should be noted that the development of Islamic finance is important for Uzbekistan and is extremely necessary in the socio-economic development of the country.

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