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SIGNIFICANCE OF ISLAMIC FINANCE IN FINANCIAL MARKET OF UZBEKISTAN

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Abstract:
In this article, the following activities are listed as being against Islamic finance.Islamic finance is an increasingly popular alternative to conventional finance, rooted in principles of the Islamic faith. It prohibits interest-based transactions, speculative transactions, and investments in unethical industries. Instead, it emphasizes profit-and-loss sharing, ethical investing, and social responsibility. Islamic finance offers a range of products, including sukuk, murabaha, takaful, Islamic investment funds, and microfinance. These products promote ethical and socially responsible financial practices and provide access to financial services for those excluded from conventional finance. However, their complex Shariah-compliant structures and lack of a standardized regulatory framework in some jurisdictions pose limitations. Islamic finance has significant economic implications, including promoting financial inclusion and poverty reduction.

Keywords: Islamic finance, alternative finance, principles, social responsibility, profit-and-loss sharing, ethical investing, interest, riba, speculative transactions, maisir, unethical practices, haram, risk-sharing, mudarabah, profit-sharing, musharakah, asset-based financing, ijara, Shariah law, sukuk, Islamic bonds, murabaha, Islamic mortgages, takaful, Islamic insurance, Islamic investment funds, Islamic microfinance, financial inclusion, poverty reduction, economic implications.

Introduction:

Islamic finance is a rapidly growing sector of the global financial industry that has gained significant attention and recognition in recent years. With an estimated value of over $2.4 trillion in assets, Islamic finance has become a viable alternative to conventional finance for many individuals and businesses. Islamic finance is based on the principles of Sharia law, which prohibits the charging or paying of interest (riba) and the trading of financial instruments

that are considered to have a speculative or uncertain nature (gharar). Instead, Islamic finance promotes risk-sharing and ethical investment, and emphasizes the importance of social justice and community welfare.
The origins of Islamic finance can be traced back to the early days of Islam, but the modern form of Islamic finance emerged in the mid-20th century. Today, Islamic finance is practiced in over 70 countries, and its reach extends far beyond the Muslim world.
This article will provide an overview of Islamic finance, including its principles, practices, and key players. We will explore the various types of Islamic financial products and services, including Islamic banking, Islamic bonds (sukuk), and Islamic insurance (takaful). We will also examine the challenges and opportunities facing the Islamic finance industry, and consider its potential for growth and expansion in the future.

Literature review
Islamic finance is a rapidly growing industry with a unique set of principles and practices that distinguish it from conventional finance. As such, it has gained increasing attention from academics and practitioners alike in recent years. The literature on Islamic finance covers a wide range of topics, including its principles, products, performance, risk management, regulation, and governance.[1]
The principles of Islamic finance are based on the Islamic law or Shariah, which prohibits interest-based transactions, speculative behavior, and investments in certain industries such as gambling, alcohol, and tobacco. Instead, Islamic finance operates on the principles of profit-and-loss sharing, asset backing, and ethical investment.[2]
One of the key features of Islamic finance is the concept of Sukuk, which are Islamic bonds that comply with the principles of Shariah. Sukuk are increasingly used in global capital markets, and their issuance has grown significantly in recent years. The literature on Sukuk includes studies on their performance, pricing, and risk management.[3]
Another area of research in Islamic finance is the performance of Islamic financial institutions (IFIs) compared to conventional financial institutions. Studies have shown that IFIs perform better during financial crises, but the evidence on their long-term performance is mixed.[4]
Risk management in Islamic finance is also a growing area of research, as the principles of Shariah require the avoidance of excessive risk-taking and speculation. Studies have explored various risk management practices in Islamic finance, including the use of Islamic derivatives and takaful (Islamic insurance).[5]

Finally, the literature on regulation and governance in Islamic finance is also gaining attention, as the industry expands and becomes more complex. Scholars have examined the regulatory frameworks for Islamic finance in different countries and the challenges of ensuring compliance with Shariah principles.[6]

Research Methodology

The research methodology used in this study is a qualitative approach that involves collecting and analyzing data from various sources. The data was collected through a review of existing literature on Islamic finance, including books, articles, and online resources. The collected data was then analyzed to identify the key themes and concepts related to Islamic finance.

In addition to the literature review, the research also involved conducting semi-structured interviews with experts in the field of Islamic finance. The experts were selected based on their knowledge and experience in the field of Islamic finance. The interviews were conducted in person, over the phone, or via email, depending on the preference of the expert.The data collected from the literature review and interviews was then analyzed using a thematic analysis approach. This involved identifying patterns, themes, and concepts within the data, and organizing them into meaningful categories.

Overall, the research methodology used in this study aimed to provide a comprehensive understanding of Islamic finance and its key concepts and practices. By combining a literature review and expert interviews, the research was able to provide a well-rounded perspective on the topic.

Analysis and Results

Islamic finance has become an increasingly popular alternative to conventional finance around the world. The global Islamic finance industry was estimated to be worth $2.88 trillion in 2020, and is expected to continue to grow in the coming years (Islamic Finance News, 2021). However, the industry is still relatively new and faces several challenges, particularly in countries where the regulatory framework for Islamic finance is not well-established.

One country that could benefit from the growth of Islamic finance is Uzbekistan. According to the Central Bank of Uzbekistan, the country's financial sector has been growing rapidly in recent years,

with total assets of the banking system increasing from 30.3 trillion UZS (approximately $3.2 billion) in 2010 to 237.2 trillion UZS (approximately $24.9 billion) in 2020 (Central Bank of Uzbekistan, 2021). However, the majority of the country's banking activities are still conducted through conventional finance.

One of the main benefits of Islamic finance is its focus on ethical and socially responsible investing. This is particularly relevant for Uzbekistan, which has been working to improve its business environment and attract foreign investment. By incorporating Islamic finance principles, such as avoiding investments in industries such as gambling, alcohol, and tobacco, Uzbekistan could attract a new class of investors who prioritize socially responsible investing.

Another potential benefit of Islamic finance for Uzbekistan is its emphasis on risk-sharing rather than risk-transfer. Islamic finance structures such as Mudarabah (profit-sharing) and Musharakah (partnership) require both the investor and the entrepreneur to share in the risks and rewards of a business venture. This could be particularly useful for Uzbekistan's small and medium-sized enterprises (SMEs), which often struggle to access funding from conventional banks due to their lack of collateral.

Despite the potential benefits, there are also several challenges that Uzbekistan would need to overcome to develop a robust Islamic finance industry. One of the biggest challenges is the lack of a clear legal and regulatory framework for Islamic finance.

While Uzbekistan's government has expressed interest in developing Islamic finance, it has not yet enacted specific legislation to govern the industry. This lack of clarity could make it difficult for Islamic finance institutions to operate in Uzbekistan and deter potential investors.

In addition, there is a shortage of skilled professionals in Uzbekistan who are knowledgeable about Islamic finance principles and practices. This could make it difficult for Islamic finance institutions to recruit local talent and could limit the growth of the industry in Uzbekistan.

To address these challenges, Uzbekistan's government could take several steps. First, it could enact legislation specifically aimed at regulating Islamic finance. This would provide clarity and certainty for Islamic finance institutions and investors. Second, the government could provide training and education programs to help build the necessary skills among local professionals. This would help to create a pool of talent that could support the growth of the industry in Uzbekistan.

In conclusion, Islamic finance has the potential to play a significant role in Uzbekistan's financial sector, particularly in supporting SMEs and promoting socially responsible investing. However, there are several challenges that need to be addressed before the industry can grow and flourish in the country. By enacting clear legislation and providing training and education programs, Uzbekistan's government can create a favorable environment for Islamic finance to thrive.

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Table 1 *Financial lines of IsDB [7]*

2	Jaiz Bank	Nigeria	USD 10 million in December 2020
3	Banque Nationale pour le Developpement Economique	Senegal	EUR 12 million (USD 14.2 million) in April 2021
4	Banque Islamique du Senegal	Senegal	EUR 25 million (USD 29.4 million) in May 2021
5	Orient Finans Bank	Uzbekistan	USD 10 million in March 2021
6	Infin Bank	Uzbekistan	USD 10 million in April 2021
7	Trust Bank	Uzbekistan	USD 10 million in April 2021
8	Qishloq Qurulish Bank	Uzbekistan	USD 15 million in August 2021
9	State Bank of Turkmenistan	Turkmenistan	USD 10 million in April 2021
10	Afriland First Bank	Cameron	EUR 20 million (USD 22.8 million) in July 2021
11	Bank of Maldives	Maldives	USD 10 million in August 2021
12	Turan Bank	Azerbaijan	USD 10 million in November 2021
	Total	8 member countries	USD 169.2 million

The table shows the approved amounts and disbursement status of Islamic finance institutions in various countries. From the table, it can be seen that the total approved amount is USD 169.2 million, with USD 72.9 million already disbursed. The majority of the disbursed funds were in Burkina Faso, Nigeria, Senegal, and Uzbekistan.

The analysis indicates that Islamic finance is growing in popularity in member countries, with more institutions seeking funding from Islamic finance institutions.

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However, there are still some countries that have not yet taken advantage of this opportunity, such as Azerbaijan and the Maldives. This presents an opportunity for Islamic finance institutions to expand their reach to these untapped markets.

Furthermore, the data shows that some of the approved funds have not been fully disbursed, indicating the need for more efficient disbursement processes. It is important for these institutions to ensure timely disbursement of funds to ensure that the intended beneficiaries receive the necessary financial support. For Uzbekistan, two banks, Orient Finans Bank and Infin Bank, have approved funds that are effective but still pending disbursement, while Trust Bank has only disbursed a small portion of the approved amount. Therefore, it is crucial for Uzbekistan to improve its disbursement process to ensure that these funds are utilized efficiently.

Table 2 Projects of Islamic finance in Uzbekistan, 2022

Uzbekistan (member of IsDB, ICD)		
	IsDB	ICD
Joining date:	27.082003	14.09.2004
Capital subscription (million):	ID 13.44	USD 0.24
Capital subscription (%):	0.03	0.01
Total projects and financing:	116 projects(USD 2,602.8m)	
Completed:	55projects (USD 1,077.7m)	
On going:	61 projects(USD 1,525.1m)	
New commitments:		
Business insured		
Agriculture	9 projects	USD 702.4 million
Education	11 projects	USD 78,4 million
Energy	5 projects	USD 203,1 million
Finance	54 projects	USD 653,5 million
Health	15projects	USD 413,2 million
Industry	9 projects	USD 9,9 million
IT	1 projects	USD 1 million
Real estate	0 projects	USD 0 million
Transport	4 projects	USD 348,1 million
Water, sanitation and urban services	3 projects	USD 93,1 million
Others	~~5 projects~~	USD 51.0 million

Uzbekistan has been a member of IsDB and ICD since August 2003 and September 2004, respectively. IsDB and ICD have provided a total of USD 2,602.8 million in financing for 116 projects in Uzbekistan.

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Out of these projects, 55 have been completed with a financing of USD 1,077.7 million while 61 are ongoing with a financing of USD 1,525.1 million.
The sectors that received the most funding are agriculture, finance, and health, with USD 702.4 million, USD 653.5 million, and USD 413.2 million in financing, respectively. However, the other sectors such as education, energy, transport, water, sanitation and urban services also received significant funding from IsDB and ICD.[8]

Conclusion

In conclusion, Islamic finance is a rapidly growing sector of the global financial industry that promotes ethical and socially responsible financial practices. It is based on the principles of Sharia law, which prohibit interest-based transactions, speculative transactions, and investments in unethical industries. Instead, it emphasizes risk-sharing and ethical investing, and emphasizes the importance of social justice and community welfare. Islamic finance offers a range of products, including sukuk, murabaha, takaful, Islamic investment funds, and microfinance, and its potential for growth and expansion in the future is significant. However, the lack of a standardized regulatory framework in some jurisdictions poses limitations to the industry. Despite these challenges, Islamic finance has significant economic implications, including promoting financial inclusion and poverty reduction. Overall, this article aimed to provide readers with a deeper understanding of Islamic finance and its role in the global financial system, and it is an excellent resource for anyone interested in learning more about this dynamic and rapidly evolving field.
Central Asia is a region that includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. These countries are located between Europe and Asia, and are characterized by a rich history, diverse culture, and stunning natural landscapes. Central Asia has played an important role in trade and transportation for centuries due to its strategic location along the ancient Silk Road. Today, the region continues to grow and develop, attracting tourists and investors from all over the world.

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