OPPORTUNITIES FOR UTILIZING THE PRINCIPLES OF ISLAMIC FINANCE IN UZBEKISTAN IN THE CONTEXT OF A DIGITAL ECONOMY

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Abstract: This study analyzes the opportunities for applying the main principles of Islamic finance in the context of Uzbekistan's digital economy. The work examines the key principles of Islamic finance, including the prohibition of riba (interest), gharar (uncertainty), and adherence to ethical standards. It also explores the potential for developing Islamic financial institutions through digital technologies and financial innovations, as well as their positive impact on the economy and contribution to enhancing financial stability.

Keywords: Islamic finance, digital economy, financial technology, Sharia principles, financial stability.

Annotatsiya. Ushbu ishda raqamli iqtisodiyot sharoitida O'zbekistonda Islom moliyasining asosiy tamoyillaridan foydalanish imkoniyatlari tahlil qilinadi. Ishda Islom moliyasi va uning tamoyillari, shu jumladan ribo (foiz), gharar (noaniqlik) va zinoh (axloqiy me'yorlar) tushunchalari ko'rib chiqiladi. Shuningdek, raqamli texnologiyalar va moliyaviy innovatsiyalar yordamida Islom moliya institutlarini rivojlantirish imkoniyatlari, ularning iqtisodiyotga ijobiy ta'siri va moliyaviy barqarorlikni oshirishdagi roli tahlil qilinadi.

Kalit so'zlar: Islom moliyasi, raqamli iqtisodiyot, moliyaviy texnologiyalar, Sharia tamoyillari, moliyaviy barqarorlik.

Аннотация. В данной работе анализируются возможности применения основных принципов исламских финансов в условиях цифровой экономики Узбекистана. Рассматриваются принципы исламских финансов, включая запрет риба (процентов), гарар (неопределённости) и соблюдение этических норм. Особое внимание уделяется возможностям развития исламских финансовых институтов с использованием цифровых технологий и финансовых инноваций, а также их положительному влиянию на экономику и повышение финансовой стабильности.

Ключевые слова: Исламские финансы, цифровая экономика, финансовые технологии, принципы шариата, финансовая стабильность.

Introduction. The Islamic finance sector is currently one of the rapidly developing areas in the world, incorporating innovative financing mechanisms. According to the Islamic Finance Development Indicator (IFDI), the share of the Islamic finance industry in total assets reached 4 trillion USD in 2021, representing a 17% increase compared to 2020. The total net income of Islamic financial institutions also tripled in 2021, with the growth primarily attributable to Islamic banks. For countries where the majority of the population is Muslim, the development of this sector is particularly relevant. To achieve this, it is essential to adopt a new approach to the national banking system, meaning that alongside traditional financing mechanisms, it is important and timely to explore the introduction of partnership-based financing mechanisms.

In his address to the Oliy Majlis on December 29, 2020, the President of the Republic of Uzbekistan emphasized: “The time has come to establish a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial organizations will be involved in this process.” This indicates that Uzbekistan now has broad opportunities for the development of the Islamic finance sector, which will not only contribute to the growth of the national economy but also ensure that the financial needs of the population and entrepreneurs are met in accordance with Islamic ethical principles. Islamic financing represents a new direction for Uzbekistan’s economy, and there is demand for it both from businesses and the general population. The emergence of alternative financial products will help expand the population’s access to financial services.

Therefore, attracting funds from existing banks, investment funds, and companies operating in Muslim countries based on Islamic finance to support Uzbekistan’s socio-economic development and the private sector is highly relevant. According to researchers, the introduction of an Islamic bank in Uzbekistan could attract up to 10 billion USD in additional foreign investments. There are numerous examples of scientific literature dedicated to Islamic finance institutions, the use of Islamic finance instruments, Islamic financial investment products, and the opportunities for their application.

Literature Review. In studies dedicated to Islamic finance by foreign scholars, particularly Badal Mukherjee, John Presley, Rodney Wilson, Vogel, Sundararajan, and others, the theoretical foundations of the differences between Islamic finance and the operations of Islamic banks compared to conventional finance and banking systems have been highlighted. It should be noted that John Presley, a scholar from Loughborough University in the UK, was awarded the Islamic Development Bank Prize in 2002 for his significant contribution to the field of Islamic banking and finance. The works of Nobel laureates George Akerlof and Robert C. Merton focus on risk management in the Islamic economy.

Islamic financial and credit institutions are directly connected to the circulation of goods and money and are backed by tangible assets. They offer a set of instruments that are unique in terms of content and structure. The characteristics of Islamic financial instruments are based on the following principles: absence of interest (riba), creation of real economic value, asset-backed financing, adherence to ethical and moral principles, profit and loss sharing, participatory ownership, and equal access to information for all parties.

Research methodology. Islamic financial instruments are formed based on four structural components: Sale (Bay‘): Transfer of ownership of property or an asset; Lease (Ijarah): Transfer of the right to use property; Gift (Hibah): Gratuitous transfer of property without compensation; Loan (Qard): Granting the right to use property without compensation.

Analytical and results. The instruments most commonly used by Islamic banks and strictly defined by international standards include: Partnership contracts (equity-based financing): Musharakah, Mudarabah; Trade-based contracts (debt-related financing): These instruments differ based on the timing of asset sales and include Murabaha, Ijarah, Istisna, and Salam.

Additional instruments: Qard Hasan (interest-free loan), agency fees (wakalah, ju‘alah), and Sukuk (allocation of capital to specific securities).

Equity-based financial instruments, which are based on the principle of profit and loss sharing, include Mudarabah and Musharakah. Mudarabah represents a partnership in business or trade between two or more parties, where one party (the Rabb al-Mal) provides the capital, while the other party (the Mudarib) contributes their expertise and experience to manage the investor’s capital. Mudarabah is typically used to finance short- and medium-term investment projects. Mudarabah contracts are considered similar to trust-based financing in conventional financial systems.

In the first half of 2020, the United Nations Development Programme (UNDP) conducted a study on “Financing Sustainable Development in Uzbekistan,” examining the opportunities for Islamic finance in the country and conducting a large-scale survey. This survey included 7,200 participants, including 2,235 enterprises and entrepreneurs, 4,938 representatives of the general population, and 27 out of 30 commercial banks operating in the country. All respondents expressed support for the introduction of an Islamic finance system in Uzbekistan. When asked about the reasons for the underdevelopment of Islamic finance in the country, nearly 60% of the population and about 50% of entrepreneurs cited the lack of attention from government authorities. This indicates that for the development of this sector, the Uzbek government must first strengthen the regulatory framework and create favorable conditions for banks and non-bank financial institutions to operate effectively using Islamic financial services.

The process of establishing a legal framework for the development of the Islamic finance system in Uzbekistan has accelerated. So far, only Article on Islamic financing was introduced into Law No. 765, “On Non-Bank Credit Organizations and Microfinance Activities,” through amendments and revisions made on April 4, 2022. According to this law, “Islamic financial services are understood as financial services provided in accordance with the rules of international organizations that determine standards for implementing Islamic finance, and are applied by the Central Bank of the Republic of Uzbekistan.”

The implementation of Islamic financial services represents a sector with enormous economic and social potential for Uzbekistan. This requires a well-designed program and action plan, supported both by the government and by the population and entrepreneurs. Our research indicates that the Islamic finance sector is equally necessary for both the population and entrepreneurs, while also representing a new area of economic activity.

Conclusion. Experience from countries with developing Islamic finance systems shows that it is essential to first strengthen the regulatory and legal framework of the sector. In parallel, it is necessary to develop the relevant infrastructure, train and retrain qualified personnel, increase financial literacy regarding Islamic finance among the population and entrepreneurs, conduct awareness-raising and promotional campaigns, and help the public engage in truly halal activities in compliance with Islamic principles.

The following proposals and recommendations are suggested for introducing Islamic financial services in Uzbekistan: Incorporate legal norms related to Islamic financial services, principles, and entities into existing banking and finance legislation. In particular, amendments and additions should be made to the laws of the Republic of Uzbekistan, including “On the Securities Market,” “On Banks and Banking Activities,” “On Insurance Activities,” “On Leasing,” and the draft law on non-bank credit organizations; Conduct research and studies on Islamic financial services in higher education institutions, study existing international scientific sources, and translate them into Uzbek; Develop and implement financial accounting and reporting systems; coordinate with Shariah boards, adopting and studying AAOIFI Shariah standards; Offer Islamic financial services to small and medium-sized businesses, agriculture, and based on the needs of the population and entrepreneurs; Establish and implement Islamic microfinance programs.

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