



**ISSUES OF INTRODUCING ISLAMIC FINANCE SERVICES IN  
UZBEKISTAN**

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***Abstract***

*This article analyzes the issues of introducing Islamic finance in the Republic of Uzbekistan. It highlights the need to diversify the country's financial system, the basic principles of Islamic finance and its advantages. It also discusses the main obstacles to the development of Islamic finance, including the lack of a legal and regulatory framework, the shortage of qualified specialists, and the population's insufficient awareness of Islamic finance. The author also provides recommendations on the infrastructure and products necessary for the development of Islamic finance. This article serves as an in-depth study of the opportunities and limitations of Islamic finance in the conditions of Uzbekistan.*

***Keywords:*** *Islamic finance, Islamic banking, Islamic economics, usury, Islamic jurisprudence, mudarabah, murabahah, musharaka.*

Any state or organization functions only if there are laws that regulate it. The set of laws and regulations that regulate the way of life of Muslims is Sharia. Sharia is a 1500-year-old spiritual, moral, legal and economic system. Islamic finance is an economic system based on these Sharia laws and regulations. The principles of Islamic finance were first used by the Arabs in the Arabian Peninsula in 622-661. Even the Prophet Muhammad (PBUH) traded using these principles before the revelation. At that time, riba [i.e., interest-based financial relations] was very widespread. Then Allah forbade riba, and after the revelation, Muhammad (PBUH) was the first to prohibit this relationship.

Later, Islamic finance went through several stages and reached the present day. These laws have 4 sources: 1. The Holy Quran, which is considered the original and unchangeable source of religious knowledge. The Quran contains the revelations of Allah, conveyed through the angel Gabriel to the Prophet Muhammad S. A. W., and is a divine guidance for all humanity. 2. Hadith. A narration that describes the people of the Prophet Muhammad S. A. W. or the realities related to them, and forms the basis of the Sunnah of Muhammad S. A. W. 3. Ijma is a solution developed by reputable Islamic scholars for a specific issue or situation. In Islamic tradition, a person who has the right to draw conclusions independently of the Quran and Sunnah is called a "Mujtahid". 4. Qiyas - the original meaning of this term is derived from the words measuring or





comparing two things, Qiyas is the development of new solutions and rulings by mujtahids on complex and complex issues, based on the principles set forth in the Quran and hadiths.

There are several transactions in Islamic finance, the main ones being: The first transaction is “sarf”. Sarf refers to the exchange of products with material value between the parties, such as dinars (gold), dirhams (silver) or their minted, ingot or other forms, and currently circulating monetary units (currencies). The second transaction is “murabaha”. Murabaha is a contract in which a seller or financial institution sells a product (such as equipment) to a buyer who has placed an order, with a certain margin agreed upon with the buyer, and then sells it to the buyer on the condition that it is paid in installments over a certain period of time.

The third transaction is “mudaraba”. Mudaraba is a type of partnership agreement, in which the investor (rabb-ul-mal) allocates capital to conduct business activities in partnership with the manager (mudarib). In such a partnership, the business activity is fully managed by the mudarib. The profits made during the activity are divided in a pre-agreed ratio, and the losses are borne solely by the investor. The fourth transaction is “salam”. Salam is a transaction in which payment for the product is made immediately, and the product is delivered to the buyer later (in this case, the product being sold may or may not exist at the time of the transaction).

The salam contract is more commonly used in agriculture. The fifth agreement is an “exception”. An exception, like salam, is a contract for the sale of a product that has not yet been produced. This contract provides that the manufacturer will manufacture the ordered product from its own raw materials. In order for this agreement to be legally binding, the price, quality and characteristics of the product to be produced must be clearly agreed upon between the parties. The sixth agreement is “musharaka” which is a property partnership between two or more parties, in which each partner invests a certain amount of money or property in a common business, and the profits made within the framework of this business are distributed, based on the agreement of the parties, in proportion to the share of each partner in the total investment. The difference between Islamic banks and conventional banks is that in Islamic banks:

1. In the event of a profit or loss, the contract specifies how many shares will be divided between the investor and the entrepreneur.

2. Interest ( riba ) is strictly prohibited. Instead, a share of the income is received, and if the entrepreneur does not make a profit, but a loss, it is divided between the bank and the entrepreneur in shares in accordance with the terms of the contract.

3. The entrepreneur does not pay additional interest ( fine ) for each day that the loan is overdue.





4. It does not guarantee that the money deposited will be returned with interest within a certain period.

This depends on the bank's income. In traditional banks:

1. The investor can calculate in advance how much interest he will get back the money he deposited in the bank.

2. Lending money and getting it back with interest is one of the main activities of a commercial bank. Whether the entrepreneur's business is successful or goes bankrupt, he must return the loan to the bank in full with interest.

3. The entrepreneur takes a loan. pays additional interest (penalty) for each day that passes the due date.

4. Guarantees the withdrawal of the deposited money with interest within a certain period.

The first Islamic bank was founded in Egypt in 1963. According to Reuters, today more than 300 Islamic banks and more than 200 Islamic branches operate in 67 countries around the world. The total capital of Islamic banks has exceeded 2 trillion US dollars. Islamic banks are most developed in Saudi Arabia, Iraq, Kuwait, Malaysia, UAE, Pakistan, Bangladesh, Turkey. In addition, they operate in Germany, the USA, Canada, Great Britain, France, Italy, Ireland, Luxembourg and other countries. More than 130 universities around the world are training personnel in Islamic banking and finance. In particular, special courses have been organized in the following most famous universities in the world. Students study at the bachelor's, master's, and doctoral levels.

The first Islamic bank in Central Asia, "Al-Hilol", was the first in Kazakhstan to receive a license to conduct banking operations in March 2010. On August 17, 2017, "Zamanbank" received a license to provide Islamic services and began its activities. In April 2009, Kyrgyzstan adopted amendments and additions to the Law of the Kyrgyz Republic "On Banks and Banking Activities", etc. These amendments created opportunities for the use of Islamic methods of financing in traditional banks with Islamic and "Islamic windows".

One of the biggest prohibitions in Islamic finance is usury. That is, "usury" is one of the most basic prohibitions in Islamic finance, and in Islamic jurisprudence it is one of the biggest sins. "Riba an-nasiyah" is the process of obtaining profit by charging an additional value for a delayed period in the process of exchange based on a debt relationship. The practice of interest-based lending by religious banks is riba annasiyah itself, in which the borrower also pays money (interest) under the loan agreement. What is the wisdom behind the prohibition of riba? The Kuwaiti Encyclopedia of Fiqh provides the following considerations in response to this question. The commentators





have given several Shariah reasons for the prohibition of riba: First, "riba" requires that a person acquires the property of another person without compensation. Because if someone sells (exchanges) one sum for two sums, he is acquiring an extra sum without any compensation, whether it is cash or loan. The property of a Muslim depends on his needs and his property is considered inviolable. There are hadiths of our Prophet Muhammad (peace be upon him) that say, "The honor of a Muslim's wealth is like the honor of his blood" (i.e., just as it is forbidden to violate his blood, it is also forbidden to violate his wealth). Any loan that brings profit is riba. When lending, the intention is to help people and make their lives easier. Our Shariah has discouraged using debt as a source of profit. Therefore, the lender has the right to receive only the exact amount of the loan he gave. If a loan is conditional on a profit or not, if it is customary to add something to it, or if someone has a habit of taking a loan and adding profit to it, the profit received is haram. First, there is a serious flaw in the banking credit system.

In Islamic economics, the more efficient and rational mechanism for allocating resources, unlike the profit-interest rate, is also worthy of serious study, as it is a system that counteracts many of the negative trends of the modern economy (monopoly, the sharp difference between the rich and the poor, financial crises, etc.). A number of other problems facing the field of Islamic finance can be listed, because "complexity and problems" are inherent in any system. Understanding and recognizing problems is the starting point for finding effective solutions. This will make the system itself and all its "components" healthy. If the representatives of the field solve at least some of the problems mentioned above, this would be a huge step in the development and rise of the system.

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