

IMPLEMENTATION OF ISLAMIC FINANCE INTO THE ACTIVITIES OF COMMERCIAL BANKS FOR STRENGTHENING COMPETITIVE ATTRACTIVENESS

Fattakhova Munisa Abdukhamitovna

"Banking" Dpt., Senior Lecturer,

Tashkent State University of Economics

ABSTRACT

The article presents the essence of the concept of a bank loan portfolio, the problems of managing the loan portfolio of commercial banks, their composition, the importance of diversifying the loan portfolio, proposals aimed at improving the formation of a bank loan portfolio and its management. An analysis is given of the views of scientists regarding the concept of a loan portfolio and its management. The tasks necessary for effective management of the loan portfolio are outlined and problems that impede this process are identified.

Keywords commercial banks, Murabakha. Islamic banking, Islamic banking legislation, traditional banking system, banking sector, bank credit, market mechanism, Islamic finance.

INTRODUCTION

The banking system is experiencing difficulties with the development of competition - there is a clear bias towards the public sector and restrictions on competition in this regard. Only the privatization of banks and abandonment of the practice of non-market competition can reverse the trend. At the moment, one of the promising areas of activity of the bank is Islamic banking. Today, many CIS countries are puzzled by the development of Islamic banking. This is due to a number of reasons, including both geopolitical and purely practical ones. In the Central Asian region, Kazakhstan has long been the leader in this direction, but in the last two years, Uzbekistan has also actively started talking about the development of this segment. The starting point for this was the speech of Shavkat Mirziyoyev at the end of 2020, who stated that the time had come to create a legal framework for the introduction of Islamic financial services. For this, the country will attract leading experts from the Islamic Development Bank and other international financial organizations.

METHODOLOGY

When choosing a research methodology, it is very important that it is chosen correctly, since research methodology always plays a key role in any research. An incorrectly chosen research methodology can harm the entire work and slow down the research process. When choosing a methodology, we are guided by three key aspects: what is the most rational choice for our research, what methods we intend to use in collecting data, and what practical questions we need to answer.

The study used methods at the empirical and theoretical level, namely methods of study and generalization, analysis and synthesis, and observation. Data were collected from other published studies related to the research topic.

LITERATURE REVIEW

In 1947, a Muslim scholar from India, Sayyid Manazir Ahsan Gilani, first used the term "Islamic economics" in his book in Urdu [1]. In this book, Gilani described an ideal economic system consistent with Islam. However, the first Islamic financial institutions - Islamic banks - were created only more than fifteen years after the publication of Islamic Economics. The term "Islamic economics" has become widespread in the scientific literature only since the mid-1970s [2]. Until now, Muslim economic literature has not been able to provide a generally accepted and clear definition of the term "Islamic economics". According to the famous Saudi economist Muhammad Umar Chapra, Islamic economics is a science that helps people achieve prosperity by allocating scarce resources in accordance with Islamic doctrine, without violating individual freedoms or creating lasting macroeconomic or environmental imbalances [3].

Definitions of Islamic economics provided by other researchers are also vague. Islamic economics is described as an economic policy based on Koranot and sunnah (Saif ad-din Taj ad-din) [4]. M.A. Mannan defines Islamic economics as a social science that analyzes the economic problems of people using Islamic values as a key lens [5]. According to M.N. Sid-diqi, Islamic economics was presented by Muslim thinkers as a response to the economic problems and challenges facing society in their time [6]. S.N.H. Naqvi describes Islamic economics as a model of Muslim behavior in a typical Muslim society [7].

RESULTS

Islamic banking is banking activity based on the principles of Shariah and finding practical application through the development of Islamic economics.

Islamic banking is activity in the financial market in accordance with Shariah norms and Islamic ethics. In this approach, money is a medium of exchange and a measure of value, rather than a source of income for the bank. In addition, investments are possible only in tangible assets that do not carry excessive risks and uncertainty, and instead of earning money on interest from lending, Islamic banks independently buy assets and transfer them to clients for use or ownership for a fee, which constitutes the bank's income. According to the Islamic Private Sector Development Corporation, as of 2021, Islamic finance mechanisms were operating in more than 136 countries around the world, and the total volume of the Islamic financial system was about \$4 trillion. It is obvious that since then these figures have only increased, given the increasingly growing role of the Islamic world.

Shariah prohibits receiving a fixed interest or remuneration for a loan, regardless of whether the payments were fixed or floating. Investments in businesses that provide goods or services that are contrary to Islamic principles (such as alcohol) are also prohibited. Although these prohibitions have historically been applied to varying degrees in the late twentieth century, several banks have been founded to apply the principles to private or semi-private commercial institutions in Muslim societies.

In Uzbekistan, Islamic finance is represented by the projects of the Islamic Bank for the development of the private sector, which has also been successfully cooperating with "Ipak Yuli Bank" for a long period. Financing is carried out in the form of providing banks with financing lines to provide guarantees according to the principles of Murabaha. This is one of the most common working methods for conducting interest-free transactions used by banks in

Muslim countries. Murabaha is an active client financing operation and is suitable for a variety of purchases, from equipment to business buildings.

Islamic banks still occupy niche positions in the banking sectors of Central Asian countries.

Share of Islamic banks in total funding and deposits, as of September 30, 2023.

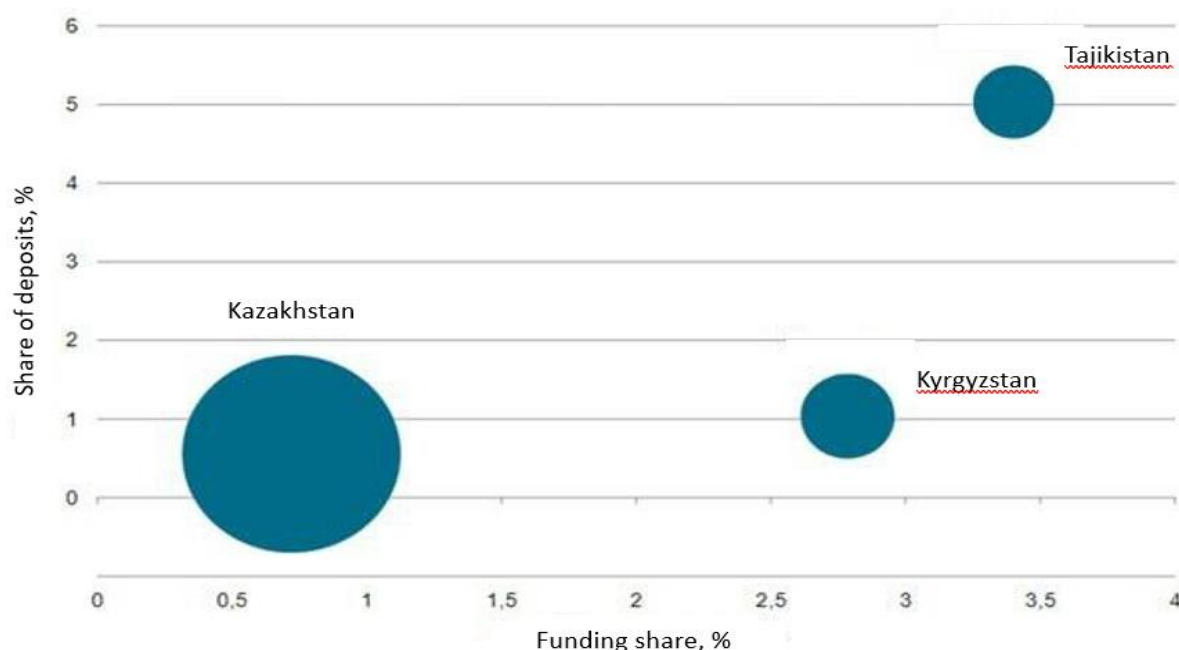


Figure 1. Share of Islamic banks in the total volume of financing and deposits as of 09/01/2023y

The principle of its operation is simple: the client agrees on the terms of purchasing the necessary goods and contacts the bank, which in turn buys the goods and resells them to the client in installments with its markup. According to experts, in our country about 20% of the population does not use traditional banking services for religious reasons [8]. At the same time, a significant part of those entrepreneurs who are clients of traditional banks operating in the country would not mind switching to Islamic banking if it were sufficiently developed. Experts from the Islamic Development Bank previously noted that Islamic banking in Uzbekistan can attract up to 10 billion dollars of funds from the population and businesses annually if the necessary legislative framework is created for this. Islamic financial institutions can help overcome the huge financing deficit for both the population and small and medium businesses. There is a huge unmet demand for Islamic mortgages, auto financing, and consumer goods financing. Thanks to the introduction of Islamic finance, people who currently do not use traditional banking services because of their religious views will be attracted to the financial and banking sector. This, in turn, will lead to an influx of new investments, growth of turnover and diversification of capital flows in banks. In addition, the introduction of Islamic banking in domestic banks will not only lead to the attraction of additional financing from foreign Islamic institutions, but will also create the possibility of using new international financial instruments in banking practice.

There are already examples in the world of successful synthesis of two financial systems – traditional and Islamic. Thus, Islamic banking is now rapidly developing in the UK and Germany. Russia has recently taken this path. A two-year experiment on the development of Islamic banking will begin on September 1, 2023 in Dagestan, Chechnya, Bashkortostan and Tatarstan. In the Central Asian region, Kazakhstan has long been the leader in this direction, but in the last two years, Uzbekistan has also actively started talking about the development of this segment. In our banking sector, banks have already begun to provide Islamic banking services, in particular, an “Islamic window” has been created at Trustbank JSCB, Hamkor Bank, Ipak Yuli provide financial leasing and Islamic financing Murabaha services, as well as various leasing companies specializing in Islamic financial leasing.

Today it is obvious that Islamic finance can play an important role in the development of the national financial sector of the country, the emergence of new promising areas and alternative instruments for the development of the securities market, and the increase in the investment attractiveness of the state. Therefore, the financial authorities of Uzbekistan need to intensify their work on preparing the necessary legislative norms for the implementation of this instrument.

DISCUSSION

The issue of developing Islamic finance in Uzbekistan was raised at the president’s meeting with entrepreneurs last August. A special interdepartmental working group is currently preparing the necessary legislative framework.

The starting point in this direction was the message of President Shavkat Mirziyoyev to the Oliy Majlis in 2020, where he outlined the need to create a legal framework for the introduction of Islamic finance in the country. In this regard, a working group has been created, headed by the Ministry of Investment and Foreign Trade, which also includes the Central Bank, the Ministry of Finance, and the State Tax Committee. In order to develop regulatory documents based on international experience, a tender was held using grant resources from the Islamic Development Bank. As a result, a contract was concluded with the international company Islamic Finance Advisory and Assurance Services. By the end of the year, it is planned to begin consideration of the bill on the introduction of Islamic financial services.

CONCLUSION

Amendments are also planned to be made to the law “On non-bank credit organizations and microfinance activities”, adopted in 2022. In addition, the regulator has prepared regulations on the provision of Islamic financial services. The document has already been sent to the Ministry of Justice for state registration, after which it is planned to begin work in this area. Within the framework of current laws, 12 banks raised funds from the Islamic Corporation for the Development of the Private Sector for the development of trade finance (murabaha). Two banks provide Islamic leasing services, and one provides retail installment plans based on the Murabaha principle.

In our opinion, the following factors hinder the introduction of Islamic finance in Uzbekistan:

1. the lack of deposit protection in Islamic banking hinders the attraction of loans, since today the Deposit Guarantee Fund only covers traditional banking;

2. lack of the necessary infrastructure of commercial banks in terms of conducting mutual settlements and applying the principles of Islamic accounting. Since in terms of Islamic finance it is necessary to introduce accounting separately from traditional banking;
3. 2. lack of a legal basis for the introduction of Islamic finance in the country;
4. lack of qualified personnel who will have the necessary knowledge to serve clients in this area.

Today it is obvious that Islamic finance can play an important role in the development of the country's national financial sector, the emergence of new promising directions and alternative instruments for the development of the securities market, and increasing the investment attractiveness of the state. Therefore, the financial authorities of Uzbekistan need to intensify work on preparing the necessary legislative norms for the implementation of this instrument. Active integration into Islamic financial structures will serve as a good opportunity to diversify the flow of foreign investment, and will also provide new tools for interaction between Islamic states, which will not depend on the key financial structures of the Western world - the International Monetary Fund and the World Bank, which often do not always put forward their own requirements acceptable to countries before disbursing funds.

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