

THE NEED TO DEVELOP THE ACTIVITIES OF ISLAMIC WINDOWS IN BANKS

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Annotation: *The development of Islamic windows in banks provides an opportunity to improve and strengthen the social protection system of the population in the process of transition to a competitive market economy. The introduction of the principles and definitions of this institution is of great importance at a new stage of the country's economic development.*

This article analyzes the concept of the Islamic financial system, its characteristics and significance, its impact on the national mentality and public life, the principles of Islamic finance, the problems of opening branches and their solutions.

The article is based on research and legal analysis of Islamic finance. The ethical, legal, economic and personnel issues of the establishment of Islamic branches in the bank have been studied and the author's conclusions have been formed on this issue.

Keywords. *Islamic finance, religious beliefs, riba, principles and rates of Islamic finance.*

Radically improving the effectiveness of reforms in the socio-economic sphere in our country, as well as organizing programs for the development of regions, industries and industries in 2022-2026 on the basis of scientifically based innovative approaches is one of the issues raised at the level of public policy⁵. It is impossible not to take into account the national mentality, religious and moral values and the main directions of state policy in the development of the economic foundations of the state. One of the foundations of such an economy is Islamic finance.

Islamic finance is a partnership-based, asset-backed, ethical, sustainable, environmentally and socially responsible financial system⁶. In this system, the main focus is on the mutual distribution of risks, linking the financial sector with the real economy, increasing financial opportunities and the welfare of society⁷.

When it comes to Islamic finance, it is appropriate to analyze the opinions expressed on this issue. For example, according to Z.Iqbal, Islamic finance is a system that promotes social justice in society, based on the correct distribution of available opportunities (resources) in material and spiritual terms. A. Gheit and A. Worthington argue that Islamic finance is a financial service or product based on the principles of Sharia⁸. According to M.K. Lewis and L.M. Algaud, there are five religious characteristics that make up the

⁵ Resolution of the President of the Republic of Uzbekistan RP-5223 dated August 13, 2021 "On additional measures to improve the quality and role of economic research in socio-economic development".

⁶ Jahongir Imamnazarov. Analytical report on the results of a study on the introduction and use of Islamic financial products in Uzbekistan. UNDP, 2020 (www.uz.undp.org)

⁷ <https://www.worldbank.org/en/topic/financialsector/brief/islamic-finance>

⁸ Zamir Iqbal is Vice President, Finance, and Chief Financial Officer at te Islamis Development Bank.

identity or basis of Islamic finance. These are riba (percentages), haram (prohibited) or halal (allowed), gharar (uncertainty) or maisir (gambling), zakat and Sharia (Islamic) advice⁹.

The Islamic financial system differs from the Western financial system in the following features:

Firstly, the Islamic financial system strives for equality, a just society and economic order. Therefore, in the Islamic financial system, fairness, priority of moral qualities, proper allocation of financial resources, prohibition of interest (riba), avoidance of exploitation, profit through price manipulation and protection of the poor (i.e. recipients of debt) is the main goal;

Secondly, Islamic finance emphasizes the principle of cooperation and brotherhood. This is evidenced by the risk, profit and loss allocation system, which contributes to improving business efficiency, rather than the creditworthiness of an entrepreneur in the traditional financial system.

Today, the most effective way to introduce Islamic finance is to revive the processes of creating Islamic branches in banks. The first steps towards the introduction of Islamic finance in our country date back to 2000. In particular, during this period, our country became a member of the Islamic Development Bank (2003) and the Islamic Private Sector Development Corporation (2004). These institutions have opened the door to a wide range of opportunities to enter the Islamic finance market.

Today, more than 36 million different nationalities and peoples live in our country. However, the majority of these citizens (93%) are Muslims. Therefore, religious values have priority in the public life of the country. For centuries, these values have influenced society and government. These cases once again confirm that Islamic finance as a national value has firmly entered the way of life of citizens.

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According to the current legislation, the activities of business entities are constantly supported by the state. However, it is impossible not to take into account the national mentality and values when implementing economic reforms. This situation does not give citizens equal opportunities to fully enjoy the rights established by law.

According to the results of a survey conducted by the Chamber of Commerce and Industry within the framework of the UN DP, the majority of respondents (business representatives) 38%, 56% of individuals reported that they do not take loans from traditional banks because of their religious beliefs (Table-1)^{10,11}

⁹ Lewis M.K. and Algaoud L.M. (2001). Islamic Banking. Northampton, Massachusetts, USA: Edward Elgar Publishing Ltd.

¹⁰ S.Z.Abrorov, J.M.Imamnazarov. Islamic Finance: new opportunities for Uzbekistan. Article. Economics and Education / 2021, issue 4. 146-159.

¹¹ What do we know about Islamic finance? <https://www.gazeta.uz/uz/2022/10/17/islamic-finance/>

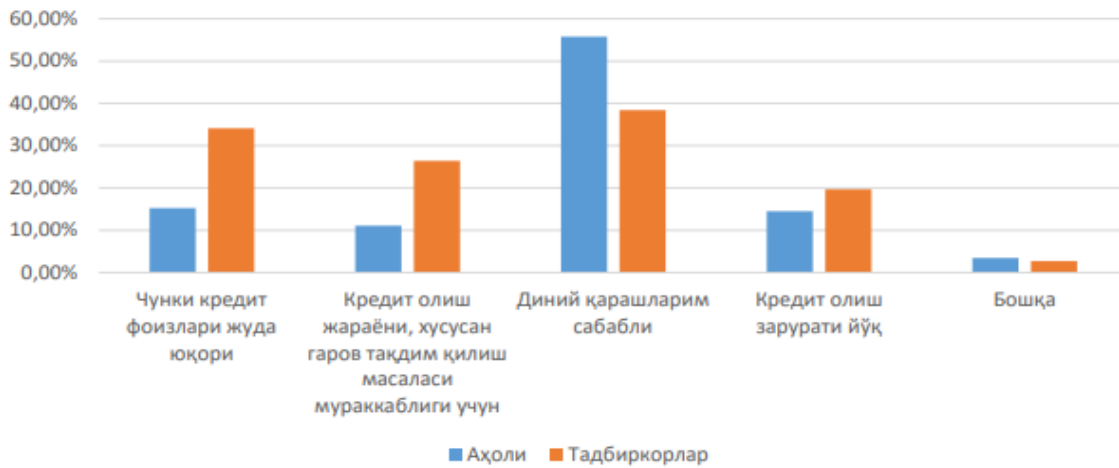


Table-1. Survey results

THIS CAN BE EXPLAINED AS FOLLOWS:

According to Islamic Sharia, an additional amount that a creditor takes from a debtor over a certain period of time in addition to the original property is considered usury. Allah in the Quran mentions in the surah "Al-Baqara":

"Those who eat riba will rise (from the graves) only as a man beaten by Satan and gone mad. That's because they say: "Trading is like usury". However, Allah made trading legal, and usury was forbidden. Therefore, whoever stops when the message from his God comes, leave what happened before and your deeds to God. And whoever turns back (to riba) is the master of fire. They will abide in it forever" (verse 275).

"O you believers! If you are believers, fear Allah and renounce usury" (verse 278). "If you do not believe, then believe in the war that will be waged by Allah and His Messenger. If you repent, your benefits will be in yourself. Do not offend, and you will not be offended" (verse 279).

According to Islamic law, riba is a grave sin, which is confirmed by hadith. For example, according to a hadith transmitted from Jabir, may Allah be pleased with him:

"The Messenger of God, peace be upon him, cursed the moneylender, his mediator, his secretary and his two witnesses and said: "They are equal".

It is reported from Abdullah bin Khanzala, may God bless him and grant him peace: **"The Messenger of Allah, may God bless him and grant him peace, said: "One dirham, which a person earns by usury, is harder than committing adultery thirty-six times"** (Imam Ahmad, narration of Tabarani).

It is reported from Baro ibn Azib, may Allah be pleased with him:

"The Messenger of Allah, peace and blessings of Allah be upon him, said: "There are seventy-two types of usury, and the smallest of them is equal as proximity to the mother of man. The worst form of usury is when a person encroaches on the honor of his brother" (retelling by Tabarani).

Therefore, the norms established in the Quran regarding usury are imperative. They cannot be bypassed or discussed. These circumstances are the main reason for the non-use of loans offered by banks for those who follow Islamic values. This is a matter of faith, which, in turn, affects other issues related to financing activities.

The Islamic financial system pays great attention to the equitable distribution of economic resources within society. It believes that without this it is impossible to ensure social harmony and economic growth. This system covers economic relations in accordance with the norms of Islamic law in the process of using and distributing money.

At the same time, the Islamic financial system prohibits profit (interest) in exchange for lending or borrowing, and all financial processes must be based on real economic activity. It is not allowed to finance industries that can harm a person (for example, gambling, alcohol, tobacco products, etc.). These circumstances make it necessary to study the principles on which this activity is based.

The following are the basic principles of Islamic finance:

the financier's income is derived from the profit of the enterprise and should be based on the commercial risk that he assumes;

according to Sharia, money is a useless medium of exchange;

profit (loss) and risk in business are carried out on the basis of partnership;

non-guaranteed fixed income from profits and investments;

transactions are free from speculation or gambling (maysir);

prohibition of unclear (gharar) terms in the contract (transactions in which the price, delivery time or item are not determined in advance, do not comply with the principles of Sharia);

investments related to alcohol, drugs, gambling or other activities prohibited by Sharia are not allowed¹².

Based on the above, the problems of the development of Islamic branches in banks can be divided into the following types:

Moral issues.

These problems are related to established religious values in society. The main reasons for this the prohibition of riba (interest-bearing loans) and financial sanctions (chanting). So, first of all, this issue needs to be regulated ethically.

It should be noted that the activities of current banks are based on loans, deposits, interest and penalties. Its activities are organized in accordance with economic procedures recognized by international law. However, these financial systems contradict the norms of Islamic Sharia, which limits the availability of services offered by banks.

LEGAL ISSUES

These problems can be explained by the fact that the norms of Islamic finance are not defined in the regulatory legal documents related to the industry. The absence of laws regulating Islamic financial products and services, as well as the lack of consideration of Islamic legal principles in the current banking and tax legislation, create problems related to legal regulation. In addition, the organizational element of this problem is also the lack of adaptation of existing software systems in banks for the practice of Islamic financial transactions.

¹² Christopher G. Cross, Craig R. Nethercott, Harjaskaran Rai and Mohammed A. AlSheikh, Latham & Watkins LLP Islamic Project Finance Published on 11-Mar-2010. 4 p. Practical Law Publishing Limited and Practical Law Company, Inc.

It is worth noting that Islamic finance is based on murabah, salam, musharaka, istishna, idjara, credit, wadi, muzorab, wakal, takaful and other financial services (definitions based on the principles of Sharia). Therefore, initially these concepts should be defined in the applicable civil, tax and other legal norms. This situation gives citizens professing the religion of Islam the opportunity to enjoy the economic rights provided for by the Constitution and laws of the Republic of Uzbekistan.

ECONOMIC PROBLEMS.

These problems include the creation of economic foundations for the organization of activities, in particular, attracting investment in activities, the lack of necessary infrastructure and deposit protection, as well as fiscal barriers. Although some work is underway to eliminate problems in this regard, the existing mechanism has not yet been debugged. For example, members of the delegation of the Islamic Finance Advisory and Insurance Services consulting company (Great Britain), invited to our country by the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan with the support of the Islamic Development Bank, the Legislative Chamber of the Oliy Majlis, the Ministry of Finance, the Central Bank, commercial banks, microcredit held talks with representatives of leasing and insurance organizations. In order to create a legal basis for the introduction of Islamic finance in the country, attention was drawn to the next joint efforts to improve the current legislation.

PERSONNEL ISSUES

It is probably important to have economists who understand Sharia law in the organization of the Islamic financial system. However, currently there are no separate institutions in the country to train such specialists. In this regard, in our opinion, it is advisable to create a system of personnel training in the fields of economics and law.

CONCLUSION

Based on the above, we can say that there are systemic problems in the organization of Islamic branches in banks. Overcoming these problems requires certain reforms in this area. It is advisable to pay attention to the following questions:

Firstly, in order to revive Islamic windows in banks, it is advisable to review the mechanisms of legal regulation of the industry. In this regard, it is necessary to make changes and additions to regulatory legal documents regulating the activities of existing banks, as well as to the Civil and Tax Code of the Republic of Uzbekistan, taking into account the principles and definitions of the Islamic financial system;

Secondly, to include Islamic finance and banking in the curricula of relevant higher educational institutions (International Islamic Academy of Uzbekistan, TSUE, TFI, TSUL) and establish a training system in this direction. This situation allows us to solve problems related to staffing;

Thirdly, it is necessary to implement the certification of the Organization of Accounting and auditing of Islamic financial Institutions (AAOIFI) and organize training of banking specialists in Islamic finance and banking;



Fourthly, it is necessary to create Islamic branches in banks and widely publicize their contents through the media. This situation makes it possible to increase investment attractiveness and attract a wide range of financial resources.