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Conflicts and Problems in Implementation of the Islamic Banking and Financial System in Uzbekistan

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Abstract: The theoretical underpinnings of the Islamic banking and financial system, as well as its unique characteristics, future growth opportunities, and aspects of its introduction and advancement on a worldwide basis, are all covered in this article. There are also differing views about the obstacles and difficulties that Uzbekistan has while implementing an Islamic banking and financial system. On how to handle these disagreements and issues, suggestions and proposals have been produced.

Keywords: Banking system, banking services, Islamic banking and financial system.

Introduction. The banking and finance industry is growing at a fast rate and has many prospects in the quickly evolving modern day. With the automation and digitalization of all services made possible by the banking and financial system's digitization, we can observe, particularly in the digital economy, that this industry is likewise developing quickly.

Literature review. It will be feasible to adjust the majority of the nation's economic levers by implementing banking reform. A number of measures were put into place during the continuous reform of the banking and financial industry, and as a consequence, the legislative framework required for carrying out advanced banking operations and bolstering the industry's competitive environment was developed. To be more precise, the May 12, 2020, Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"[1] outlines the avenues and possibilities for resolving issues and weaknesses in this domain. Furthermore, the primary responsibilities are delineated in this regulation:

- creation of fair and competitive conditions in the financial market, limiting lending to the basis of market conditions, reducing reliance of banks on public resources, modernizing banking services, building an efficient infrastructure for banks, automating operations, and gradually eliminating non-banking functions? bolster the system's efficiency;
- to maintain a balanced macroeconomic policy, enhance corporate governance, recruit managers with international real-world experience, follow a moderate growth trajectory for credit volumes, improve credit portfolio quality and risk management, and deploy technological solutions for financial risk assessment in order to ensure the banking system's financial stability;

[1] https://lex.uz/docs/4811025

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- complete overhaul of commercial banks that have a state share; introduction of contemporary banking standards; sale of state shares to investors who meet the requirements; competitive sale of state shares to investors; and concurrent reduction of the state's share in the banking sector through reform by commercial banks and enterprises with a state share.;
- to increase the popularity and quality of financial services by fostering the formation and growth of non-bank credit organizations as a complementary part of the republic's unified financial system; to strengthen state participation and implementation of targeted measures in underserved and vulnerable groups; to widely introduce remote services for the general public and small businesses; and to develop a network of low-cost service points.

Among the primary jobs that need be completed are the above-mentioned ones, which will reform our nation's banking and financial system; other responsibilities include raising the standard of services provided to the public and enhancing the principles of honesty and openness in the banking industry.

Certainly, the Islamic banking and financial system comes to mind when discussing openness and truthfulness in the banking industry. Let us now consider Islam for a moment. All facets and phases of human existence are included in and governed by the comprehensive religion of Islam. Islamic jurisprudence extends to financial activities in particular, as they are a fundamental and significant aspect of every individual's life.

That is, Islam is a vital and significant aspect of every person's life and always does good to people, teaching them to be honest.

A financial system founded on Islamic law is known as Islamic finance. Ensuring equality and justice in all agreements and transactions is one of the core tenets of Islamic finance.

The Islamic Development Bank is the primary institution responsible for putting the Islamic banking and financial system into practice. Established on December 18, 1973, by agreement of the Organization of Islamic Cooperation (OIC) countries' finance ministers, the Islamic Development Bank (IDB) is recognized as an international financial institution. It started operating in October 1975.

The Islamic Development Bank is open to membership to any nation that complies with the rules of the Organization of Islamic Cooperation (OIC). By the time the bank was founded, it had 22 Muslim member countries among its members; now, there are 57 member nations. Since 2003, Uzbekistan has been a full member of IDB.

The bank's principal donors include Qatar, Egypt, Kuwait, Saudi Arabia, Libya, Iran, Nigeria, United Arab Emirates, and Turkey. The headquarters of IDB are in Jeddah, Saudi Arabia.

IDB regional offices were established in 1994 in Rabat, Morocco; the following year in Kuala Lumpur, Malaysia; in 1997 in Alma-Ata, Kazakhstan; and in 2008 in Dakar, Senegal. Additionally, IDB maintains representative offices in Nigeria, Bangladesh, Indonesia, Turkey, and Egypt. The IDB's primary responsibility is to assist member nations' social and economic development while adhering to Islamic religious principles.

IDB provides funding for both public and private sector projects related to agriculture and infrastructure in member nations, including roads, canals, dams, housing, schools, hospitals, and rural development. The social and economic advancement of the participating nations is greatly impacted by these programs.

In the context of its collaboration with Uzbekistan, the IDB Group has allotted 2 billion TL to fund initiatives (86 projects in total) in sectors including health care, energy, agriculture, building, equipping

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educational institutions, repairing and building highways, and state financial system reforms. determined to allocate US monies totaling 1.1 billion. Until now, more than USD has been financed.

As of right now, ITB is collaborating with Uzbekistan to execute a project that will help lessen the effects of the COVID-19 coronavirus pandemic by offering technological support.

Key features and differences between Islamic and conventional banking and finance

In contrast to an Islamic bank, which views itself as a business acting as partners and sharing risks according to the type of partnership, a conventional bank views money as a product that can be sold or leased with a guaranteed return because there is very little risk of losing the loaned funds (both the loaned funds and the interest on the loan are always guaranteed, regardless of the success or failure of the project).

It's common knowledge that two people will behave more sensibly when it comes to money if they split the risks and losses. Islamic banking guarantees the development of a more equitable and stable financial environment in this way.

Result and discussion. In their interactions with customers, Islamic banks steer clear of ambiguity, uncertainty, manipulation, and risk.

Islam prohibits any kind of exploitation of one party by the other, which fosters trust between the parties that is necessary for wealth and prosperity as well as collaboration and fairness in commercial dealings.

Islamic finance is shielded from the significant systemic risks associated with derivative instruments by the prohibition of injustice. The well-known investor Warren Buffett once said, "Derivative securities are weapons of financial destruction." We should keep that in mind. A lot of financiers contend that gambling has been legalized in the form of derivative instruments. Islamic banking also forbids gambling, which results in an unequal distribution of wealth, and excessive financial speculation, which sparks economic crises.

The asset-backed basis of Islamic finance is one of its most significant and noteworthy characteristics, aside from prohibitions. Banks and other financial entities only use monetary units when providing conventional funding. They forbid trade in items because of this. Since money is only a means of trade and has no inherent worth, it is not regarded as a commodity in Islamic banking. Selling something with inherent worth for more money at a premium is how Islamic banks generate revenue. Because of this, Islamic finance is asset-based as opposed to regular financial institutions.

Interest-free loans, investments based on short-term partnerships, financing based on trust, and other matters are currently crucial concerns for Muslim business owners. Previously, these and other activities not found in the Islamic banking and financial system were unavailable in our nation. Here, the UK government's experience is notable. A working group was formed by the Bank of England and the State Treasury in 2000 to examine the prospects and challenges associated with the growth of this business. The nation's tax and management structure underwent many modifications in 2003.

In accordance with Islamic law, around 20 banking and financial organizations in the United Kingdom today—including some of the biggest traditional commercial banks in the world, such Standard Chartered, HSBC, and BNP Paribas—offer services to Muslims. Less than 5% of the population is Muslim, so the banking and finance system does not benefit much from the presence of Muslims. However, Great Britain, as a leader in both traditional and Islamic banking and finance, demonstrates that it is deserving of the title of global financial center, and the government that allowed Muslims to make their own decisions has strong political ties to the Muslim world.

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Because Islamic banks don't charge interest and don't operate on a charitable basis, their operating principles do not conflict with those of the capitalist economy. It should be mentioned that, in reality, there are distinct financial institutions that function according to the precepts of Islamic religious ethics, as well as nations whose financial systems are founded on Sharia laws and rules.

In addition, the Shariah Supervisory Board, which is made up of religious experts, is a requirement for all Islamic banks and financial institutions. This body's responsibilities include certifying financial instruments, calculating and paying zakat, confirming that banking activities comply with Sharia law, and formulating suggestions for how investors and the bank should split earnings and costs. Moreover, centralized organizations keep an eye on how well Sharia standards are being followed by Islamic banks. The main characteristics between Islamic banking and the conventional model are listed in Table 1.

Table 1. Key features between Islamic banking and conventional model [2]

Features	Islamic banking system	Traditional banking system
Guaranteed payouts on demand deposits	Available	Available
Guaranteed payments on investment deposits	Not available	Available
Interest rate on deposits	For unsecured, unsecured investment deposits.	Specified and guaranteed
The mechanism for determining the interest rate on deposits	It is determined by the profitability of the bank and the profitability of investments.	It does not depend on the profitability of the bank.
Participation of depositors in bank profits and losses	Available	Almost no
Use of Islamic financial products	Available	It is not used in practice
The right of the bank to issue a loan decision based on the guarantee.	In most cases, the profit and loss of the Islamic bank with the participation of the depositors is not determined based on the existing guarantees against the customers.	Always available

We may conclude that there are notable distinctions between Islamic finance and regular banking based on the information in the table. These variations also highlight the disparities between the two financial systems' features. The "Interest rate on deposits" characteristic listed above serves as an obvious example of how these two banking systems differ from one another.

Following Muslim moral and ethical guidelines in all transaction execution is one of the cornerstones of how Islamic financial organizations operate. Thus, money meant to be invested under Islamic financial contracts shouldn't be combined with non-Islamic assets. This does not entail that non-Muslim financial operations are morally and ethically incorrect. The goal of this regulation is to guarantee that there are no transgressions in banking operations, such as ribo, gharar, etc.

To maintain financial stability, it's also critical to comprehend the fundamentals of Islamic banking. First, Islamic banks are playing a bigger role in the growth and development of their partnerships with

[2] Author development.

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conventional banks. Second, there is a concentration of risk in Islamic financial institutions due to the absence of financial tools. Therefore, the stability of the traditional financial system and the rise in financial instability are linked to the unchecked growth of Islamic financial institutions inside its framework. Simultaneously, the emergence of Islamic financial institutions in nations where a sizable Muslim populace is reluctant to entrust traditional banks with their finances and in nations where a sizable Muslim business community refuses to use traditional banks' services enables the financial market to function more efficiently and develop more quickly.

The foundation of Islamic financial organizations is laid forth in Sharia law and other normative legal texts published by legal scholars of the Muslim faith. Since some of these clauses might be challenging to understand, it is essential to consult Islamic law specialists in order to properly interpret these texts. This has led to the widespread adoption of the practice by Islamic banks of creating a special board of experts. It is imperative to hire an expert or a team of specialists to audit financial goods for conformity with Sharia law before opting to start trading Islamic financial products, according to Islamic law.

The introduction of Islamic financial products is a crucial first step towards the establishment of an Islamic bank. It should be mentioned that, in our opinion, these Sharia councils in secular states can only serve as advisory bodies, and their rulings may not have legal force behind them.

Conventional economists generally believe that interest payments and receipts have a significant impact on investment, savings, and economic growth. However, the situation is not really like this, as evidenced by the ground reality. Return on savings is simply one of several factors that affect how much is saved in an economy.

Interest has a far less influence in savings and investment than in any given country when it comes to the amount of income and its distribution system, inflation rate, economic stability, and government financial control initiatives. The majority of economists have long maintained that interest rates, ever since ancient times, have had a disastrous impact on both national and global economies.

Finance based on actual assets is one of the key components of Islamic finance. In the simplest form of capitalism, banks and other financial organizations deal exclusively in the purchase and sale of currency and debt. However, money is not acknowledged as a tradeable good in monotheistic belief. As the monetary equivalent of an item or service, money is only a vehicle of trade and has no intrinsic worth. Profits come from the sale of valuables for cash or from the exchange of one currency for another. Profits from credit-debt transactions using cash (or equivalent currency) or other replacement documents are considered monetary surplus value, and as such, they are forbidden. Because actual assets are always the foundation of alternative (Islamic) finance, as opposed to traditional financial institutions, genuine added value is produced during the purchase and sale process.

It is impossible to claim that Islam invented the banking and financial system flawlessly, of course. It also has its own set of issues, including insufficient experience, a lack of concerted attempts to draw attention to the system's benefits, widespread popularity, and, in part, an insufficient development to date.

Most of the time, interest-bearing loans from traditional banks are not required for business owners who want to create "HALAL" goods. When considering the matter rationally, it is incorrect to refer to a product created using funds from a loan—which is forbidden in Islam as riba, or interest—as being fully "HALAL." It is certain that enterprises will have access to the financial instruments offered by the Islamic banking and financial system during these times.

There is a huge opportunity for our nation given that the majority of countries that presently export goods that satisfy the "HALAL" standard are Western nations like the USA, Brazil, Australia, and Germany, and

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that these nations also produce "HALAL" goods using conventional bank loans. It is therefore our nation's duty to develop a fully fledged "HALAL" industry in Uzbekistan, complete with an Islamic banking and finance system, and to take the lead in producing "HALAL" goods that are developed in Uzbekistan—that is, using Islamic finance in addition to adhering to established standards. I believe it will elevate its standing (image) to a never-before-seen degree in the Muslim world and boost the market for "HALAL" goods made in our nation.

Presently, under 1% of global financial assets are comprised of the assets of the Islamic banking and financial system. Nevertheless, if we take into account that about a quarter of the world's population is made up of Muslims, we can imagine how great the potential of the network is.

Conclusion and recommendation. In conclusion, in order to guarantee appropriate supervision of Islamic goods and services in compliance with Sharia principles, financial regulatory bodies had to also create their own expert council. Additionally, it's important to learn about the guidelines for Islamic bank supervision in various nations and how to integrate their services with those of traditional banks.

There is a need for institutions teaching Islamic finance, prestigious universities offering master's and bachelor's degree programs, and the business administration discipline. One further benefit of Uzbekistan is the way your nation's supervisory authority, the central bank, operates. The fact that we are not the first nation to adopt this industry is another benefit of living in your country: we can profit from both the good and bad lessons learned from the experiences of other nations that have also adopted this system. The use of Islamic finance varies throughout nations using various approaches and frameworks. We can state the following as an example.

One of the permissible practices in our nation's financial system is the two-bank arrangement in Malaysia. They have one central bank that oversees both the whole conventional banking system and the entire Islamic banking system. It allows people to have the autonomy to choose. Whether they choose Islamic banks or go with the conventional approach, everyone is protected by the financial system. Resources will be utilized wisely in this instance, and tax income will be increased. Since everything functions inside a single system in this.

When selling Islamic financial services as a product, it is insufficient to simply state that you are delivering a service founded on Islamic finance. It is possible that Islamic banks ought to make more strides in enhancing their customer service standards and launching new product lines that rival those of conventional banks.

We don't have to supply typical things and stay awake all night. Rather, clients require high-quality goods and services. This finance enables clients to construct goods with advantageous payment terms and cash flows by giving them access to complicated and beneficial products that comprise two or three transactions.

We can get certain successes and excellent indications if we use the following primary Islamic Development Bank activity directions to our nation's banking and financial system.

IDB offers loans to its member nations for agricultural and infrastructural projects, including roads, canals, dams, housing, schools, hospitals, and rural development. These loans are available to both public and private sectors. These initiatives are high on the priority list and have a big effect on how the member nations' economies and societies evolve.

As of the end of 2013, ITB had financed 97.8 billion dollars overall since its founding, of which 46.9 billion dollars (48%) were earmarked for project financing, 49.8 billion dollars for trade financing, and 0.7 billion dollars (1%), for special assistance.

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IDB supports development initiatives in its member nations using a variety of Islamic financial instruments. Among these tools are:

1. ***Preferential loans.*** Loans are mostly given to governments or public organizations with state guarantees in order to finance long-term initiatives for the advancement of fundamental infrastructure and agriculture. Sharia law prohibits interest on this kind of loan. The service charge is how the Bank pays for its administrative expenses.
2. ***Technical support.*** This help is intended to finance the acquisition of technical knowledge for the planning and execution of particular projects, the creation of policies, the training of personnel, the development of human resources, or the provision of institutional support.
3. ***Leasing.*** Industrial finance involves the purchase of assets such as machinery and equipment required for manufacturing lines, power generation, shipbuilding, and other similar independent and identical components by ITB, which leases the equipment to the receiver for a certain amount of time.
4. ***Sale in installments.*** IDB buys the machinery and equipment needed for a certain project and then resells it to the beneficiary (client) at a markup that is decided upon by both the beneficiary and the bank.
5. ***Exception.*** This method is used in the financing of most infrastructure projects.
6. ***Financing lines.*** For National Development Finance Institutions (NDFIs) or Islamic Banks (IBs) that assist in the expansion of small and medium-sized businesses, particularly in the industrial sector, ITB offers lending lines.
7. ***Equity participation.*** IDB invests in equity capital in initiatives related to industrial and agricultural output that are both financially and economically feasible.
8. ***Murobaha.*** This approach is used to finance international trade. The recipient purchases the specified products from the bank, which then resells them. 30 months is the maximum financing time for import financing; however, 120 months is the maximum financing period for export financing.
9. ***Profit Sharing.*** One type of partnership, known as profit sharing or negotiation, involves pooling partner and IDB money to finance a project in exchange for a portion of the enterprise's net profit going to each partner. ITB is establishing partnerships with international development finance institutions. A cooperation agreement was struck in 2011 with the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the International Organization of Financial Supervisory Authorities.

It would be a little simpler to remove disputes and issues from the Islamic banking and financial system if we applied these sorts to our nation's banking and financial industry.

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