
ISSUES OF ATTRACTING CAPITAL THROUGH ISLAMIC FINANCIAL INSTRUMENTS TO COMMERCIAL BANKS

NOMOZOV SAMANDAR

Abstract

Keywords:

Islamic finance,
murobaha, rent
(lease), salam,
sukuk, debt,
vadia, financing
mechanisms

This article examines in detail the basics of Islamic finance, the specifics of Islamic financial instruments and their role and importance in the activities of corporate structures. Also, the opinions of foreign and local scholars who conducted research on the organization of the practice of placement of Islamic securities were presented, and conclusions and proposals for improving Islamic finance in our country were developed by studying the practice of foreign countries.

Author correspondence:

Nomozov Samandar

Student of Master degree (MBA), Banking and Finance Academy of the Republic of Uzbekistan, Tashkent, Uzbekistan

Email: samandar_nomozov@gmail.com

INTRODUCTION

The Islamic banking sector is one of the fastest growing sectors in the world today and includes innovative financing mechanisms. The development of this network is especially relevant for countries where the majority of the population is Muslim. Therefore, it is important to attract funds from existing banks, investment funds and companies based on Islamic finance in Muslim countries in order to support the socio-economic development of Uzbekistan and the private sector. To do this, it is necessary to look at the national banking system in a new way, that is, to study the introduction of partnership-based financing mechanisms, along with traditional financing mechanisms.

In recent years, the interest of blind countries in the Islamic financial instrument has been growing. The Islamic securities market is one such instrument that is a cornerstone of Islamic finance that incorporates the characteristics of stocks and bonds.

Take measures to gradually liberalize capital movements in the country, including attracting foreign capital inflows to the financial market, mainly in the medium and long term, allowing non-residents to buy government securities, increase liquidity in the corporate securities market

ⁱ. while the wider use of Islamic financial instruments is relevant.

Today, Uzbekistan is trying to develop the financial market, in particular, the securities market, as well as gain a foothold in international stock exchanges. In particular, as noted by the President of the country Sh.M.Mirziyoyev in his address to the parliament: "It is time to create a legal framework for the introduction of Islamic financial services in our country. The Islamic Development Bank and other international financial institutions will be involved in this"ⁱⁱ.

ⁱ Uzbekiston Republic Presidential Decree No. PF-60 of 28.01.2022 "ON THE DEVELOPMENT STRATEGY OF NEW UZBEKISTAN FOR 2022-2026".

LITERATURE REVIEW

As a result of blind scientific research and practical efforts, "Dubai Islamic Bank" and "Islamic Development Bank" became the first Islamic banks in the world in 1975. Gradually, Malaysia has become one of the research centers in the field of Islamic finance, and educational institutions such as the International Center for Islamic Finance Education (INCEIF) and the International Academy for Shariah Studies in Islamic Finance (ISRA) have started their activities. Islamic finance began to spread widely and arouse interest in Western countries. As a result of the people and business representatives of the Persian Gulf countries getting a good understanding of the essence of Islamic finance products, the demand for such products has also increased. The main thing is that these countries have a huge amount of free funds (resources).

According to the research of Abdulkader S. Thomas, Shamsheer Mohamad and Mohammad Hashim Kamali, sukuk is the only instrument of the capitalist market in Islamic finance that combines debt and capital. In particular, fixed-income sukuk is based on leasing and cost trading operations. It has predetermined profit rates and nominal values. Its steering currents are independent of the activities of the firms. Sukuk is based on partnership agreements in which firms and sukuk owners become partners in a particular project or asset. Funding from Sukuk depends on the operation of the main project. Profits are not guaranteed and losses are shared between the parties.ⁱⁱⁱ

Sharia, which is the system of our sacred religion of Islam, is a very ancient religious, spiritual, moral, legal system. However, its financial part was forgotten during centuries of 'rarokandal' and the Muslim East's own traditional legal, political, social, economic-financial and educational systems were replaced by alternative systems found mainly in Western countries. Therefore, it has become clear that law schools in Muslim countries and regions that have recently gained independence are lagging behind in addressing the complex and serious issues that have accumulated over the centuries, as well as current issues. This is because the solidification of ijtihad during centuries of colonialism has evolved from a system that solves current problems into a set of theoretical issues that can only be studied by a narrow circle of jurists, and this is undoubtedly one of the greatest tragedies of Islamic jurisprudence.

To date, a number of economists have conducted extensive research on the theoretical and legal basis of the Islamic securities market, analysis of practices, development trends, implementation models and areas of reform, including Abdulkader S. Thomas^{iv}, Shamsheer Mohamad^v and Mohammad Hashim Kamali^{vi} have actively researched the development of the Islamic securities market in the works of Botirkhoja Jorayev on Islamic finance^{vii}, S. Abrorov^{viii} and other Islamic economic sites, articles and magazines. The above-mentioned scholars have conducted analyzes aimed at finding solutions to the existing problems in relation to the fundamental aspects of the Islamic securities market, the research conducted. Today, in order to ensure the effectiveness of

ⁱⁱⁱ“Islamic Bonds: Your Guide to Issuing, Structuring and Investing in Sukuk ” by Abdulkader S. Thomas and Nathif Jama Adam, 2004

^{iv}“Islamic Bonds: Your Guide to Issuing, Structuring and Investing in Sukuk ” by Abdulkader S. Thomas and Nathif Jama Adam, 2004

^v“ Sukuk Securities: New Ways of Debt Contracting” by Shamsheer Mohamad, 2014

^{vi}“Islamic Finance: Issues in Sukuk and Proposals for Reform” by Mohammad Hashim Kamali , Abdul Karim Abdullah 2014

^{vii} Botirkhoja Jorayev , “ Islamic finance Fundamentals ”, Tashkent 2019

^{viii}Analysis of the Sukuk Market Development in the Countries of The World by Sirojiddin Abrorov , 2021

reforms in any area, as economic processes are developing rapidly, they need to adapt to modern conditions.

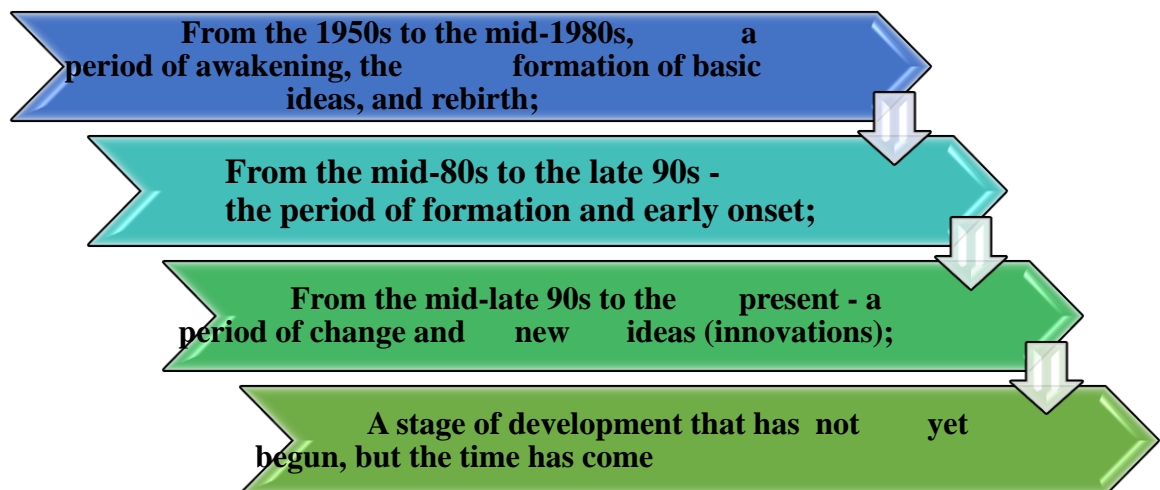


Figure 1. Stages of development of scientific theory and principles of Islamic economics^{ix}

Any institutional network operates in the presence of rules and regulations governing it, established laws. The rules governing the way of life of Muslims are expressed in a set of Islamic laws - the Sharia.^x

As a result of blind scientific research and practical efforts, in 1975 the Islamic Bank of Dubai and the Islamic Development Bank became the first Islamic banks in the world. Gradually, Malaysia became one of the scientific centers in the field of Islamic finance, and educational institutions such as the International Center for Islamic Finance Education (INCEIF) and the International Academy of Sharia Studies in Islamic Finance (ISRA) began their activities. Islamic finance began to spread on a large scale and aroused interest in Western countries as well. Demand for such products has also increased as people and businesses in the Gulf countries have a better understanding of the content of Islamic finance products. The main thing was that these countries had a very large amount of free funds (resources).

ANALYSIS AND DISCUSSIONS

By now, theoretical and practical skills have been formed in the Islamic financial system. Large Islamic finance markets have emerged and infrastructure is improving. For example, the Refinitive and the Islamic Corporation for the Development of the Private Sector (ICD), the world's largest provider of services to more than 40,000 institutions in more than 190 countries, announced the development of Islamic finance in 2020. According to the report, global Islamic finance assets are projected to reach \$ 3.69 trillion by 2024.^{xi}

Tawhidbank, established in neighboring Tajikistan, is the first Islamic financial bank in the country. This bank was established on August 24, 1999 as a joint-stock commercial bank for the development and support of entrepreneurship, and was reorganized on May 22, 2002 under the name "Sohibkorbank". Since its inception, the Bank has been recognized as an active, reliable and stable participant in the financial services market of the country. On July 1, 2019, the bank was renamed to Tawhidbank and

^{ix} Botirxuja Jo'rayev: "Islamic finances and the banking system. Philosophy, principles and practice", 2020

^xEA Baydaulet. "Islam finance Fundamentals", "Uzbekistan" Tashkent 2019. Page 7

^{xi} Translated from <https://icd-rs.org/en/news/refinitiv-icd-2020-rerort-global-islamic-finance-assets-expected-to-hit-369-trillion-in-2024>.

since September 16, 2019 has been operating as the first Islamic bank in Tajikistan. The bank's net profit amounted to 4.3 million soums. The net income of the financial portfolio increased by 370% compared to the previous year. Commission revenue grew by 20 percent, mainly due to settlement adjustments and guarantees. As of November 30, 2021, the capital amounted to 110 million soums, an increase of 21% over the previous year. The bank's assets amounted to 181 million soums, an increase of 32%. The bank's financing portfolio increased by 155% to 23 million soums.

This graph shows the growth rates of the Islamic financial sector observed in 2015-2019 and expected in 2024.

The volume of the Islamic financial sector in 2012 amounted to 1.746 billion. US \$ 2.438 billion by 2017. USD. Thus, over the last 7 years, the aggregate (average) annual growth rate of Islamic financial institutions has been 6%. In particular, in 2021, Islamic financial assets amounted to \$ 3.14 billion, Islamic assets occupied the world's financial institutions. By 2023, 3.809 billion. It is expected to reach the US dollar, and this aggregate (average) annual growth rate will be 8%.

The development of Islamic finance is one of the priorities in Uzbekistan, which is one of the Muslim countries, and as noted by President Sh. Mirziyoyev, "It is time to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial institutions will be involved."^{xii}

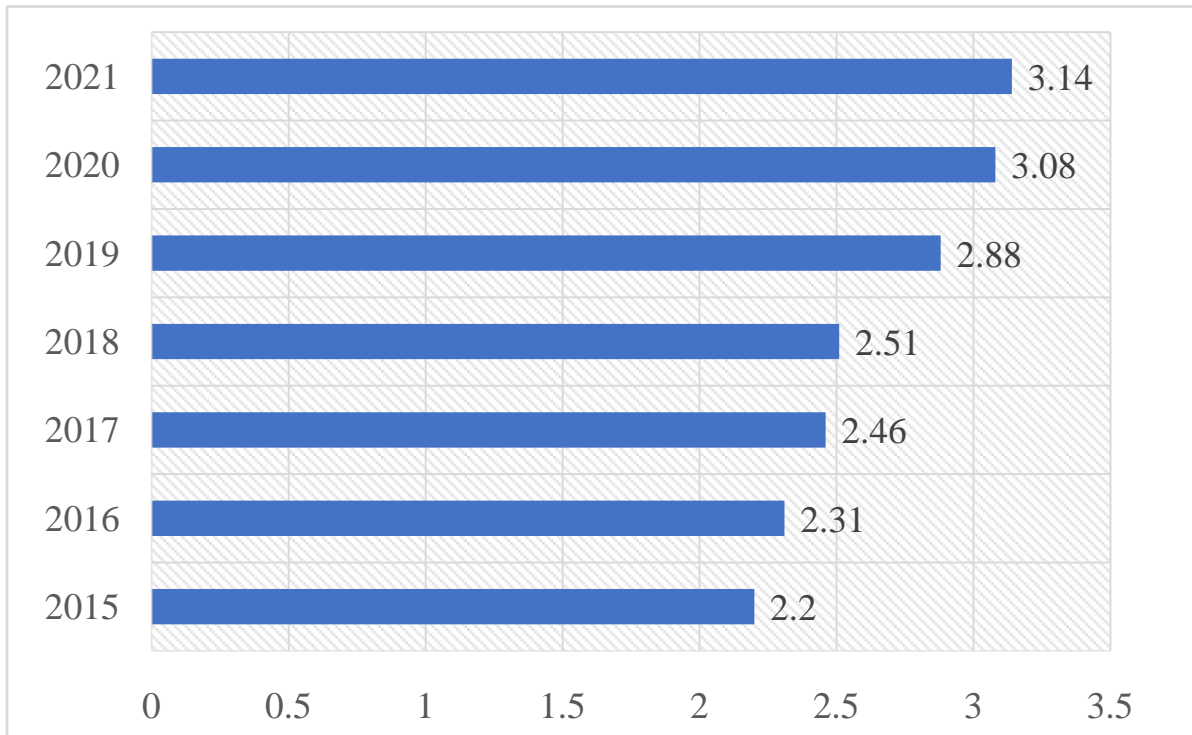


Figure 2. Growth rates of gross Islamic financial assets worldwide (USD billion)^{xiii}

The economic views of Muslim scholars are based on the Qur'an and the Sunnah of the Prophet. But the rules in the Qur'an itself that deal with specific forms of economic relations are not so blind. Therefore, in jurisprudence, it is not the instructions and comments on the implementation of this or that economic action, but the general rules on specific interpretations that have been important to Muslim jurists for centuries.^{xiv}

^{xii}Taken from the speech of the President of the Republic of Uzbekistan Shavkat Mirziyoyev Miromonovich in his Address to the Oliy Majlis on December 29, 2020.

^{xiii} <https://repository.salaamgateway.com/images/iep/galleries/documents/20181125124744259232831.pdf>

^{xiv}RI Bekken. "Islamic Economic Model and Time", "Uzbekistan" Tashkent 2019y 65 p.

International Islamic organizations, scientific community, educational institutions, Islamic banking and financial institutions and groups in Uzbekistan are among the population and national coordinating organizations, financial market participants and officials. It should be widely disseminated and thereby increase the level of acceptance and understanding of the essence of Islamic finance. Islamic financial services have been effective and stable in the countries where they have been introduced. Through the establishment of Islamic banking, blindness can have a significant impact on the functioning of the state and the economy of the country, where part of the population is Muslim.

The main means of financing related to debt include: murobaha, rent (lease), salam, exception, sukuk, debt hasan, vadia.

Murobaha - According to the international standards of the International Organization for Finance and Auditing for Islamic Financial Institutions, a bank or other financial intermediary can buy an asset from a seller and sell it to the client by deferred payment. This agreement represents the sale by placing a certain premium on the price of the goods purchased. This premium can be a percentage of the purchase price or the amount of the steering wheel.

Typically, this form of transaction is used to finance trading practices. Murobaha can also be used to finance personal purchases similar to consumer loans. The main difference between Murobaha and traditional lending is that the financial intermediary must be the sole owner of the resale property with all the risks arising from it. In addition, although it is possible to claim compensation for expenses incurred as a result of selling an asset to another person, as a rule, it is not possible to compel a customer to purchase an item purchased by a financial intermediary.

It is possible to enter into a transaction without promising to buy in advance, in which case it is called a "simple dispute" or a transaction is entered into by the person interested in purchasing the asset with prior promise to purchase, and this is a "trust dispute" or end consumer dispute. called This agreement reflects one of the contracts based on trust and depends on the transparency of the actual purchase price or the price added to the ordinary costs.

The conditions for the validity of the settlement agreement are as follows:

- The object of sale must be a Shariah-compliant, existing commodity, as well as represent a tangible asset and its quantity and quality must be easily determined.
 - The financial institution must have acquired the goods physically or practically.
 - The customer must be informed about the value of the goods and the premium.
- The amount of the surcharge must be set by mutual agreement of the parties.

- The valuation in the Murobaha contract may be paid in a lump sum at the beginning of the contract validity period, payments may also be deferred and made in whole or in part until the end of the contract validity period.

- It is not allowed to change the price of the goods during the term of the contract.

In order to alleviate the situation of the debtor, it is allowed to change the terms of payments.

CONCLUSION

The scientific theory and principles of Islamic economics are developing in four stages. Of these stages, Phase 3 is currently underway and Phase 4 is a development phase that has not yet begun but has arrived in time.

In the Islamic securities market, it is allowed to trade in securities and shares. The reason is that shares are a document that determines the share in enterprises. But it is not possible to buy and sell shares of all companies. If the operating company produces honest

products and works honestly, these companies will be allowed to participate in the sale of shares.

The sources that regulate the Islamic stock market are four sources: the Qur'an, the hadiths, the ijma', and the qiyas.

Sukuk is one of the most widely used debt financing instruments. Sukuk is a certificate of the same value, which includes a share in the ownership of a particular investment activity or project, the right to own services, the right to use services, the right to own and use tangible assets.

The purpose of Sukuk securities is to attract investors to finance the project on a repayable and repayable basis.

With the help of the Islamic financial market, the movement of money in the economy is ensured, as well as the continuous formation, efficient use and investment of financial resources. The Islamic stock market ensures the free movement of money invested between different sectors of the economy and the free and rational use of financial resources.

LIST OF REFERENCES

Rosly, Saiful Azhar. "Critical issues on Islamic banking and financial markets." *Authorhouse, Bloomington* (2005).

Wilson, Rodney. "Islamic financial instruments." *Arab Law Quarterly* 6.2 (1991): 205-214.

Karasik, Theodore, Frederic Wehrey, and Steven Strom. "Islamic finance in a global context: Opportunities and challenges." *Chi. J. Int'l L.* 7 (2006): 379.

Aida K., Imen K. Islamic Finance for Future Entrepreneurs: Exploring Tunisian Business Students' Knowledge and Potential Usage of Islamic Financing Products // *Journal of Emerging Economies and Islamic Research*. – 2014. – T. 2. – №. 3. – C. 42-56.

Bello A., Abubakar M. Challenges and solutions to Islamic banking system in a pluralistic–secular country like Nigeria // *Mediterranean Journal of Social Sciences*. – 2014. – T. 5. – №. 6. – C. 25-34.

Sole J. A. Introducing islamic banks into coventional banking systems // Available at SSRN 1007924. – 2007.

Haron S., Yamirudeng K. M. Islamic banking in Thailand: Prospects and challenges // *International journal of Islamic financial services*. – 2003. – T. 5. – №. 2. – C. 1-11.

Alexakis C., Tsikouras A. Islamic finance: regulatory framework–challenges lying ahead // *International Journal of Islamic and Middle Eastern Finance and Management*. – 2009.

Zaher T. S., Kabir Hassan M. A comparative literature survey of Islamic finance and banking // *Financial Markets, Institutions & Instruments*. – 2001. – T. 10. – №. 4. – C. 155-199.