

## ISLAMIC FINANCE IN UZBEKISTAN

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**Annotation:** There has always been demand for Shariah compliant finance in Uzbekistan. Considering beliefs of businessmen and individuals, as well as providing inclusive financial opportunities for all people and fostering economic development, this research examines the potential of Islamic finance and opportunities in Uzbekistan. The research addresses issues of meeting the demand for finances from entrepreneurs and population, diversification of economy. The results of the research will be presented to Oliy Majlis, Legislative Chamber of the Republic of Uzbekistan, the Central Bank, the Cabinet of Ministers and other relevant government institutions.

**Keywords:** Islamic economy, Islamic banking, Islamic banks, Islamic financial system, principles of Islamic finance

## INTRODUCTION

The interest for Islamic finance is gradually growing in Uzbekistan. In 2003 and 2004, Uzbekistan has made significant steps towards recognition of Islamic finance via membership in the IDB and ICD. Stable relations between these institutions and the government have enabled Islamic finance to gain an entry point into this market.

93% of Uzbekistan's population is Muslims but no local bank nor any foreign institutions offering Islamic banking and capital markets services other than the IDB and ICD. Although more than 9 banks get grant from ICD on Mudarabah base to start Islamic Banking but still waiting for legislation to be passed which allow them to work under Shariah. Foreign institutions are not prevented from engaging in the market without being registered in Uzbekistan provided they satisfy requirements contained in CBU Regulation. In May 2019 the Government of Uzbekistan issued a draft resolution to create infrastructure for Islamic banking and finance in order to foster alternative financing opportunities, expand the range of banking, financial services and to open the doors for Islamic investors from the Middle East. The Govt. of Uzbekistan is also planning to introduce the issuance of different tenure Sukuk (Islamic Bonds) to address the long-term and short-term liquidity and investment requirements of Islamic finance industry. Many educational institution start offering Islamic Finance education to its senior students. Many Insurance and leasing companies are also working to start Takaful and Ijarah operations to meet the need of the Islamic financial market in the country.

The promotion of Islamic finance industry in Uzbekistan will also attract the Foreign Direct Investment (FDI) in the country which will strengthen the economic growth of the country and will reduce the headcounts living under the poverty line.

## ANALYSIS OF THE LITERATURE ON THE SUBJECT

The total volume of Islamic Banking and Finance assets grew to US\$ 2.6 trillion globally. Iran, Saudi Arabia and Malaysia were the largest markets of the 61 countries that reported Islamic financial assets, with all three recording more than US\$ 500 billion in assets.

The growth of Islamic finance industry in CIS countries is slower than other but it is attracting the attention of the global international banking industry due to the rising opportunities in this region. Islamic banking will grow substantially in CIS countries in the next five years from a low base, if their governments took initiatives to boost this sector. Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan can be main players to lead this expansion of Islamic banking & finance in CIS. Uzbekistan is an important Central Asian country with a population of 30 million; out of them 93% population is Muslims. It is not only enriched with gas, oil and other natural resources but, along with this, it has been the center of knowledge and Islam for a long time.

### **ANALYSIS AND RESULTS**

For Islamic finance to gain an institutional position following actions need to be taken:

It must be acknowledged at the legislative level

An awareness campaign among people to promote the perception of Islamic finance and Islamic banking as interest-free alternatives to conventional banking and financial services must be started.

Amendments would also be required to the Civil Code, the Tax Code and the major banking and investment laws to address this matter systemically.

Commercial banks should be allowed to open Islamic windows or Islamic banking institutes should be allowed to set up independently from conventional banking

To introduce Islamic banking and Islamic finance instruments, new rules must be formulated or amendments in existing ones should be done to accept the Islamic laws and procedures.

Some Islamic Finance education and training courses at national level should be introduced to increase the basic and practical knowledge of people so that they can adopt this new change.

AlHuda Center of Islamic Banking & Finance (CIBE), an advisory and consulting company which provides Advisory & Consulting, Training, Education and Research & Development services in Islamic Finance, started its activities to promote Islamic Finance in Uzbekistan in 2013 by providing training to Hamkor bank of Uzbekistan and Representative of AlHuda CIBE start its working in 2019.

To explore and discuss innovative financial inclusion strategies that can create clear pathways to financial and economic solutions in CIS, AlHuda CIBE has organized successfully a “CIS Islamic Banking and Finance Forum “on 2nd May, 2019 in Tashkent, Uzbekistan. The purpose of this of the forum was to explore the untapped potential of Islamic Finance market of CIS countries and to adopt the latest trends, address the challenges and discover the new opportunities in Islamic financial industry of Central Asia. This event covers a variety of topics including Islamic Finance and Financial Inclusion,

Takaful, Investment opportunities in Central Asia and Uzbekistan and Sukuk (the Islamic Bonds).

This forum appears as a milestone for AlHuda CIBE to promote Islamic Finance in Uzbekistan. Now AlHuda CIBE is providing services to many banks, financial institutions, leasing and takaful companies by organizing training and seminars to generate awareness among them, by offering online study courses to increase their knowledge about Islamic Finance, by providing certification and Advisory services to start Islamic Finance products in financial market of Uzbekistan. In this Noble effort, Leasing Association of Uzbekistan (ULA), Banking Association of Uzbekistan (UBA) and Association of Professional Participants of the Insurance Market of Uzbekistan are working with AlHuda CIBE and organized many seminar/training in Tashkent and Dubai to promote Islamic Finance among people.

AlHuda CIBE has conducted various capacity building free webinars and training workshops in 2020. It is expected that the volume of Islamic finance industry will increase by 100% in next five years which also will strengthen global Islamic finance industry, said the CEO of AlHuda CIBE. AlHuda CIBE is going to organize 2nd CIS Islamic banking and finance Forum in Tashkent, Uzbekistan in September 2021. The CIS Islamic Banking and Finance Forum will gather the CIS Islamic finance industry specialists and stakeholders on a single platform to promote Islamic banking and finance phenomenon.

### CONCLUSION

At present, Islamic finance is slowly entering the Uzbek economy. An example of this is a number of ongoing projects in Uzbekistan. Between 14 and 17 February 2020, the Ministry of Investment and Foreign Trade, together with a delegation of the Islamic finance advisory and assurance services consulting company (Great Britain), under the Islamic Development Bank, visiting Uzbekistan, held meetings with relevant ministries and departments dedicated to discussing the prospects for cooperation in order to introduce Islamic finance and banking in Uzbekistan.

In particular, negotiations were held with representatives of the Legislative Chamber of the Oliy Majlis, the Ministry of Finance, the Central Bank, commercial banks, microcredit, leasing and insurance organizations.

During the meetings, further joint steps were considered to improve the current legislation in order to create a legal basis for the introduction of Islamic finance instruments in the country. Foreign consultants made presentations on the measures planned for implementation within the framework of the project and the mechanisms of interaction with the relevant ministries and departments.

The outcome of the negotiations was summed up during a meeting with First Deputy Minister of Investments and Foreign Trade A. Voitov. The consultants presented a report on the discussions held with interested organizations, as well as a list of legislative acts proposed for consideration and processing in the first place.

As a result of the meeting, further steps were identified for practical cooperation within the framework of the project.

IFAAS is an international consulting firm specializing in Islamic finance, which has implemented a number of consulting projects in almost 50 countries around the world and

has 15 years of experience in successfully implementing Islamic finance tools. The company has offices in the UK, France, Bahrain, Pakistan and Morocco.

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