

EXPLORING THE CHALLENGES OF INTRODUCING AN ISLAMIC BANKING IN UZBEKISTAN: AUSING A QUALITATIVE APPROACH

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Islamic Banking and Finance (IBF, hereafter) is based on the principles of Islamic law, which are referred to as Shairah, but it is also able to deal with commercial transactions as long as such transactions do not go against Islamic law. Nevertheless, in contrast to conventional banks, Islamic banks are guided by principles that require a reciprocal sharing of risk and profit between the parties involved, all the while guaranteeing that each transaction and commercial activity is conducted in a reasonable and fair manner. Many conventional banks were interested in Islamic financial institutions as a result of their widespread popularity. As a consequence of this, a large number of conventional banks have opened Islamic banking windows in a variety of nations. Over the course of the last few decades, Islamic banking has exerted a considerable influence on the expansion of the worldwide monetary system. Malaysia, Pakistan, Bangladesh, countries of the Gulf Cooperation Countries (GCC), and many other nations that have adopted Islamic banking and finance within their jurisdictions have started reaping the rewards of the development and achievement that Islamic financial institutions (both commercial and social institutions) have achieved. This includes the simultaneous growth of Islamic financial institutions as well as the outcomes of the achievements that Islamic financial institutions have attained. The banking industry in Uzbekistan was established with the intention of playing an essential and critical role in the enhancement, development, and maintenance of a stable economy and growth, with a special focus on contributing to the improvement of the country's financial standing. In Uzbekistan, where more than 90 percent of the population comprises Muslims, there is an immense potential for introducing Islamic financial institutions. Lack of interaction with the financial system will result in sluggish economic expansion and lower productivity. This inability to work with the traditional banking system may be brought on by a number of things, including lack of trust, the use of a riba-based system, complex laws and regulations, high interest rates, poverty, liquidity constraints, and so on. Additionally, in recent years, the government of Uzbekistan has initiated ambitious economic reforms. One of the measures taken is to make it easier for private companies to gain access to lines of credit for their business expansion. According to a report published by the OECD in 2017, small and medium firms in Uzbekistan are responsible for 78 percent of the country's workforce. In the country, there are currently more than 30 available commercial banks, but unfortunately, none of them is an Islamic bank or provides the population with Islamic finance and banking services. Any transactions that are carried out in accordance with or by making use of the principles of Islamic finance must be

subject to the conventional laws of Uzbekistan. In Uzbekistan, Islamic finance and Islamic banking, along with other practises of a similar kind, have not yet been accorded a particular legal framework or legal status. The Central Bank of the Uzbekistan (CBU) is the primary national regulator as well as the licencing body with responsibilities for monitoring the banking and financial services industry. In order to implement Islamic banking and Islamic financial instruments, either new laws will need to be developed or current regulations will need to be modified to accommodate Islamic banking, Islamic finance, and Islamic accounting and auditing practises. In order to safeguard the financial system's stability and security, it has become evident and imperative that banks be subject to appropriate regulation and supervision, as proved by the global financial crisis. In addition to meeting domestic and international standards for regularity, Islamic institutions must also meet sharia standards to ensure their authenticity. In order to enhance their international and domestic credibility, Islamic institutions ought to adhere to both domestic and international regulations. The application of general principles includes adequate resources, corporate governance, dependable control systems, and transparency. Accounting, establishing Islamic financial institutions in Uzbekistan, and addressing their unique challenges associated with Islamic finance (such as the Sharia Board's special position and the rights of banks and customers under a Mudaraba contract) will undoubtedly necessitate financially and legally sound resolutions. In this particular scenario, it is imperative that Uzbekistan modify its domestic fiscal and legal framework to create a more conducive environment for the advancement of Islamic banking. In order to establish a novel Islamic financial regulatory framework, Uzbekistan must address or have the following seven primary components of regulatory frameworks: Licencing Criteria for Islamic Financial Institutions (IFIs), Capital adequacy regime for IFIs, Statutory Liquidity Requirements for IFIs, Risk management for IFIs, Prudential Regulations for IFIs, Internal Control Guidelines for IFIs, Disclosure Requirements for IFIs.

The establishment of an Islamic bank can entice UZS 50 trillion via wadiah deposits from Uzbek individuals and businesses, and if Uzbek individuals invest their money via the Islamic bank's mudarabah, musharakah, wakalah, and ijarah products, then the transaction rate of the total money supply (M1, M2, and M3) will rocket rapidly. Consequently, the whole monetary volume in the economy of Uzbekistan will see a significant growth in numbers; it could be 125 trillion uzbek, soum about 25% of the overall value of all Uzbekistan's banks' assets.

Besides that, the products of Islamic banks like Zakat, Waqf, and Sadaqa will enable Uzbekistan to reduce poverty and can be efficient help for lower-income families. Both Islamic and conventional banks' obligations is to provide Uzbekistan with the following: to ensure the stability and safety of both Islamic and conventional financial institutions, preserve the confidentiality and effective operation of the money and foreign exchange markets, establish secure and efficient payment systems, and promote fair and responsible business practices by financial institutions.