



## PROSPECTS OF EFFECTIVE ORGANIZATION OF PROJECT FINANCING PRACTICES BASED ON ISLAMIC FINANCE

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### ABSTRACT

*Islam is one of the most widespread religions in the world. For this reason, the Islamic finance sector is becoming one of the fastest growing sectors in the world. There is increasing interest from financial institutions in developing Islamic or "Sharia-compliant" products and services to attract Muslim investors. In the article, the practice of project financing based on Islamic finance today's of the day status studied. Scientific proposals and practical recommendations aimed at identifying the existing problems and solving the economic and financial relations that arise in the effective organization of project financing on the basis of Islamic finance have been developed.*

### Introduction

In modern conditions, the segment of Islamic financing on a global scale is one of the fastest growing directions. "In 2021, the total value of the assets of the global Islamic financial markets was about 3.95 trillion US dollars. The value of total assets for global Islamic financial markets is projected to reach 5.9 trillion US dollars by 2026 <sup>1</sup>. Sufficiently intensive development of Islamic finance is caused by increased demand and significant accumulation of financial resources by Muslim countries. Taking into account the fact that the financial markets of Arab countries are actively developing and there is competition among Western companies to attract foreign investors, it can be noted that the growth trend of Islamic banks will continue. This establishes the necessary conditions for a more extensive analysis of the activities of Islamic banks, as well as for determining their access to financial markets. Today, Uzbekistan is trying to develop the financial market, in particular, the securities market, as well as to take its position in the international stock exchanges.

Despite the majority of people who believe in Islam, the field of Islamic finance in Uzbekistan has not yet developed much compared to neighboring countries in Central Asia, although the country has great potential in the development of this field. This was recognized by the experts of major international financial organizations (Islamic Development Bank

<sup>1</sup> <https://www.statista.com/statistics/1090815/worldwide-value-of-islamic-finance-assets/> - Statista International statistics data announcement by doing going website information



Group, International Finance Corporation, Asian Development Bank, etc.). In this regard, the President of the Republic of Uzbekistan, Sh. Mirziyoyev, in his address to the Oliy Majlis dated December 29, 2020, said that "the time has come 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 organizations will be involved in this <sup>2</sup>," he said. As a result of the international recession in the banking and financial system and the need for a radical improvement of the financial market infrastructure, the attention of the investment financing community to the Islamic form of financing has increased significantly. Therefore, it is urgent to research the prospects of effective organization of project financing practice based on Islamic finance.

## Books review

Scientific-theoretical, methodological aspects of determining the prospects of effective organization of project financing practice based on Islamic finance, development of Islamic finance, study of project financing practices based on international Islamic finance and adaptation to our national practice. Malaysian scientist Sudin Aaron Islam finance and the banking system by, Russian expert RIBECKIN Islam financial of products classification by, Zamir Iqbal Abbas Mirakhor, Maher Hasan and Gemma Dridi, Rania Abdelfattah Salem, Craig RN Ethercott and David ME Isenberg, Ibrahim Warde, Muhammad Ayub, Mahmoud A. El-Gamal, Monzer Kahf, M. Henry and Rodney Wilson, Wayne AM Visser and Alastair McIntosh, Samir Abid Shaikh, S. Nagaoka, AM Tiby, MSB Haji Ishak<sup>3</sup> such as economist scientists Islam financial of the network essence and mechanisms deep learned. Local from experts Vahitov RR, Jurayev B., Gafurova G., Almuradov OA<sup>4</sup> etc Islam finance according to scientific research take they went "Islamic finance the basics of the book the author E. Baydaulet<sup>5</sup> from Kazakhstan Islam financing system promote to do and to develop worthy contribution adding is coming

Foreign scholars Grace and Iqbal divide Islamic financial instruments into: transactional transactions related to the implementation of the transaction and transactions in which the bank participates as a financial intermediary. On the other hand, the Malaysian scholar Sudin Harun lists five categories of instruments used in the Islamic banking system: the first category includes instruments based on the distribution of profits and losses, the second includes instruments based on trading, and the third includes fees and commissions. including tools. The fourth category describes free services, and the fifth - tools that include ancillary services.

<sup>2</sup> Uzbekistan Republic President Shaukat Mirziyoyev High To the meeting Application, 2021 Uzbekistan Republic President official website, [www.president.uz](http://www.president.uz)

<sup>3</sup> Sudin Harun, Van Nursofiza Van Azmi. Islamic finance and banking system: philosophy, principles and practice. Kazan: Linova Media 2012; Beckin RI Islam economy and time. Marjani Publishers, Moscow 2019; Islam to finance introduction: theory and practice. Zamir Iqbal, Abbas Mirakhor. 25 July 2011; Maher Hasan, Gemma Dredy. Global crisis Islam and traditional to banks effect: comparative research. 2010; Rania Abdelfattah Salem. Islam banks for risks management. 2013; Craig RN Ethercott and David ME Isenberg. Islam finance: law and practice. 2020; Ibrahim Warde. the world in the economy Islam theory and Islam finance. 2018; Muhammad Ayub. Islam finance understand. 2012; Mahmoud A. El-Gamal. Islam finance: law, economy and practice. 2010; Monzer Kahf. Islam financial contracts. 2013; M. Henry. Islam financial policy. 1st edition. 2005; Rodney Wilson. Islam finance markets. March 10. 2014; Wayne AM Visser. Islam bank and finance. 1st edition. May 14, 2010; Samir Abid Shaikh. Islamic Banking: History, Geography & Primary financial indicators. March 3, 2019; S. Nagaoka. Stable development for Islam finance: his historical basics and modern in the world opportunities. 2012; AMTiby. Islam finance and economic development: risk, regulation put and corporate management. April 28. 2014; MSB Haji Ishak. Islamic banking and finance basics. April. 2015.

<sup>4</sup> Vahitov RR Islamic financial instruments: to tax weight in practice ideas. Nalogoved. - 2009. No. 9, B. Jurayev. (translation.) "Islamic finance and the banking system", "Uzbekistan" Tashkent 2019, Gulnara Gafurova Islam the bank organize of reaching features, OAlmuradov. Uzbekistan commerce in banks Islamic banking services the market development prospects. May 2021.

<sup>5</sup> EABaydaulet. "Islam finance basics", "Uzbekistan" Tashkent 2019.



Zamir Iqbal defined Islamic finance as a system that aims at the correct distribution of available opportunities (resources) from a material and spiritual point of view, and promotes social justice in society.<sup>6</sup>

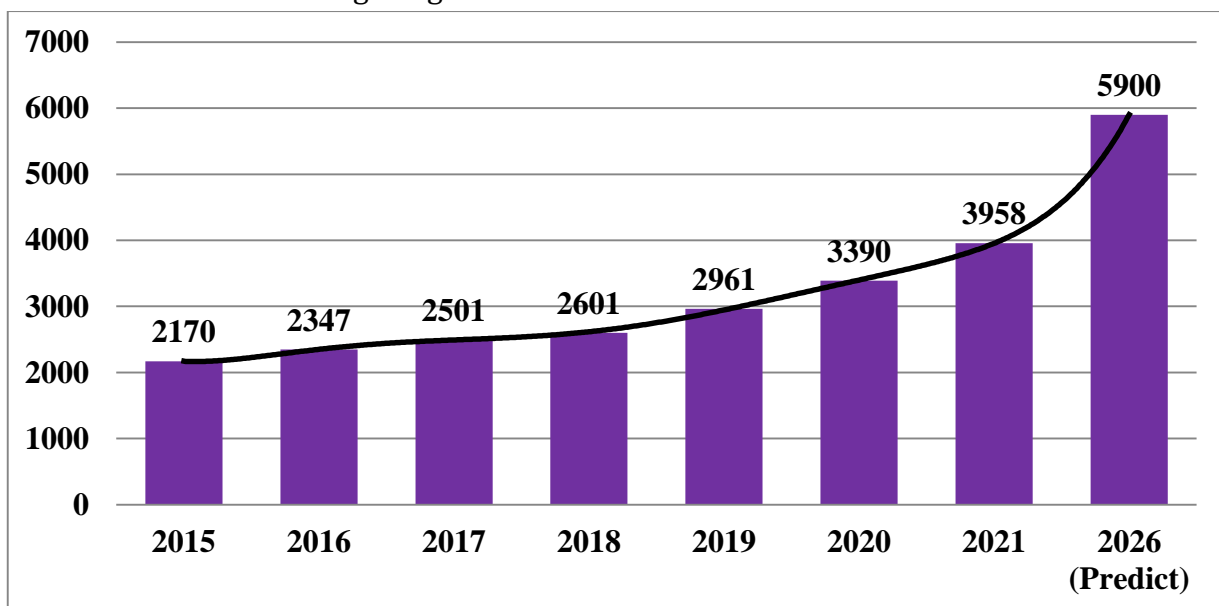
### Research methodology

This in the article the practice of project financing based on Islamic finance light up in giving methods such as scientific abstraction, analysis, synthesis, induction, deduction, comparative analysis, statistical analysis, structural analysis were used.

### Analysis and results

One of the most important features of Islamic financing is its asset-based financing . The traditional concept of financing is that banks and financial institutions only deal with money and paper money. Therefore, in many countries, they are prohibited from trading and inventorying goods. Islam in religion and someone separately cases from this except money trade subject does not recognize as Money to himself special benefit no, it's just exchange is a tool ; every money unit one different in the name another is 100% equal to unity , therefore for this units mutually exchange through benefit get there is no place for Benefit to himself special useful to something have was thing to money when sold or different currencies each other with when replaced harvest will be Money ( one different in currency ) or them expressive papers with treatment to do through received benefit percentage is , therefore is also prohibited for That's why for , traditional finance from institutions different as in Islam financing each always real assets and inventories which creates liquid didn't happen to assets is based on.

The Islamic finance industry accounts for less than one percent of global financial assets and is growing at nearly 20 percent annually from 2007-2021. <sup>7</sup>In addition, it should be noted that the increasing demand for Islamic financial services in both corporate and retail markets is one of the factors ensuring the growth of the sector.



<sup>6</sup> ZAMIR IQBAL. Islamic Financial Systems. // Finance & Development / June 1997 <https://www.imf.org/external/pubs/ft/fandd/1997/06/pdf/iqbal.pdf>

<sup>7</sup> "The UK: Leading Western Center for Islamic finance" November 2015 - : <https://ceif.iba.edu.pk/pdf/TheCityUK-UKLeadingWesternCentreforIslamicFinance2015.pdf>



## 1- picture Islam finance of assets growth<sup>8</sup>

Figure 1 above is that shows that earlier in 2021 per year relatively growth is 17 percent organize almost 4 trillion USA to the dollar enough Report of the year previous years the world's COVID-19 pandemic to be despite Islam finance international scale stability and development effect doer of factors weakness showed.

Since one of the important conditions for the establishment of Islamic finance is the presence of real assets in the transaction, Islamic banking in this sense is , in fact, a universal banking model . At the same time, traditional banking systems comply with Sharia norms and defines a number of differences between Islamic banking systems. The available differences are listed in Table 1 below . Their main difference is that Islamic finance involves profit and loss sharing and financing based on real assets. That is, it is based on partnership. They can build a facility, deliver equipment, goods, raw materials or rent them at the customer's request.

**Table 1**

**Differences between conventional and Islamic banking system<sup>9</sup>**

<b>Traditional banking system</b>	<b>Islamic banking system</b>
Money is a commodity, it also acts as a medium of exchange and accumulation.	A commodity can only be a real asset. Money cannot be a store of value, it only acts as a medium of exchange
The basis for profit is the time value of money	The basis of profit is the income received from the exchange of goods and services
Interest is charged regardless of the borrower's profitability	The principle of distribution of losses is applied, i.e. the bank suffers losses together with the borrower
In terms of inflation, its growth depends on the cost of borrowing	The borrower does not face additional costs due to the risk of inflation
Loan financing has more to do with the assessment of the borrower's financial situation than with the availability of a real asset.	A necessary condition of the contract is the existence of an investment asset
A sovereign borrower can get a loan that is not related to investment investments	A sovereign borrower can borrow for investment purposes only (through an investment fund)
Bad debts are written off if the project turns out to be unprofitable	If the project is not effective, another manager is chosen

<sup>8</sup> Private sector development Islam Corporation (ICD) – Refinitiv islamic finance development report 2022 . report – : [https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/gated/reports/ifdi-report-2022.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/gated/reports/ifdi-report-2022.pdf)

<sup>9</sup> Islam the bank organize of reaching Features : Gulnora Gafurova , VGTimiryasov in the name of Kazan innovative University (IEMU), Article-January , 2011 .



The use of credit for the enterprise begins the effect of financial leverage, i.e. reduction of income tax due to the allocation of interest on the loan to expenses

Since no interest is given, the profit split between the borrower and the lender is fully taxable

Banks Islamic finance of the sector main segment organize does and the global banking industry small , but growing going segment represents 20th century the end and XXI century in their heads islam of the bank in growth huge jump big traditional " Islamic " banks so-called " windows ". tools to open through alternative products with to provide serious attention to focus encouraged . Islam banks appear to be and common financial in the environment activity show with in the market competitiveness save to stay to the problem face came. From this in addition to this banks sharia by defined requirements compliance to do need

2021 is the year information according to the world Islamic finance market growth stage and year to 7 percent during expanded to 2.8 trillion US dollars enough \_ Commerce islam banks the number is 566 organize did Islamic bank of Muslim banking assets only one part manages all bank assets than faster grow up is going For example , in 2019-2021 . his growth rate of 17% organize did (Table 2)

**Table 2**

**The world across Islam banks indicators<sup>10</sup>**

T/r	Indicators name	2019 year	2020 year	2021 year
1	Islam of banks total assets value ( trillion US dollars)	2.0	2.3	2.8
2	Islam banks total assets growth (%)	14%	14%	17%
3	Islamic banks the number	526	527	566

In 2019, the assets of Sberbank, the largest bank in Russia, in the Islamic finance sector amounted to 16 billion. rubles (approx. 250 million US dollars). This amount is 219.5 million given to Turkmenistan in April 2019. Includes letter of credit in US dollars <sup>11</sup>.

The bank is primarily focused on financing exports (especially grain exports), which account for about 98 percent of the bank's Islamic finance operations. There is no public information about the characteristics and legal or shari'a structure of Islamic finance transactions used by Sberbank. Sberbank is establishing itself not so much as a bank, but as a rapidly developing financial ecosystem. The bank's products and services are popular among both corporate and retail banking customers. The Bank provides limited information about its Islamic finance practices through special events and media. Sberbank's plan for Islamic finance has changed since the project began. In 2017, Sberbank planned to establish a special Islamic finance entity and implement changes in the regulatory system. However, within two years, despite the bank's Islamic finance portfolio growing year by year, the plans did not materialize.

<sup>10</sup> Private sector development Islam corporation ( ICD ) – Refinitiv islamic finance development report 2022: embracing change – : [https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247\\_1582.pdf](https://icd-ps.org/uploads/files/ICD%20Refinitiv%20ifdi-report-20221669878247_1582.pdf)

<sup>11</sup> VGTimiryasov in the name of Kazan scientific school scientific and practical conference magazine .



The Bank demonstrates its presence in the Islamic financial market in the following areas:

- allocating funds for enterprises in accordance with Sharia requirements on the basis of project financing (on the basis of a negotiated agreement);
- financing the export of grain and other products to the countries of the Middle East;
- conclusion of Vakala-murobaha agreements in cooperation with international financial institutions;
- financing of socially responsible business and fintechs (innovative finance).

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Islamic finance has emerged as an effective means of financing development around the world, including in non-Muslim countries. Major financial markets are finding compelling evidence that Islamic finance is already widespread in the global financial system and has the potential to help end extreme poverty and increase overall prosperity .

Today, many financiers emphasize that Islamic finance plays an important role in developing the growth of the national economy and increasing the investment attractiveness of Uzbekistan. According to the results of a survey conducted by the United Nations Development Program in early 2020 under the title "Analysis of Islamic financial products in Uzbekistan", the main reasons for not using bank loans are primarily related to religious views. In addition, high interest rates and the complexity of lending are cited as other reasons

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<sup>12</sup> VGTimiryasov in the name of Kazan scientific school scientific and practical conference magazine .



for the non-implementation of bank loans <sup>13</sup>. Also, if Islamic financial institutions were established in the country, as stated by most of the respondents who took part in the above survey, Uzbek entrepreneurship would use the services of these institutions. Islamic finance can be a strong impetus for the growth of Uzbekistan's economy and domestic investments. However, the Islamic finance sector in Uzbekistan is still relatively underdeveloped compared to other Central Asian neighbors, although the country has great potential for development.

Islamic finance analysis of the legal basis of its activity shows that Islamic finance is a financial system based on Islamic jurisprudence. As in traditional finance, it involves banks, investment firms, mutual funds and other stakeholders. They follow not only the legal norms established in the country's legislation, but also the Sharia rules .

First of all, there is still no perfect legislation on Islamic finance in Uzbekistan. This is one of the main obstacles to the introduction of Islamic banking in Uzbekistan. Current legislation prohibits commercial banks from offering Islamic finance services. In particular, tax legislation, banking legislation does not allow commercial banks to buy and sell products. In addition, Islamic finance does not charge late payment penalties or interest for each day of delay. Charging a fine for any unpaid amount is usury (riba) and is against the rules of Islamic Sharia, even if it is considered as a disciplinary measure, the money will be transferred to a separate account and spent on charity. Including these funds in income, using them for financial and investment purposes is strictly prohibited in Sharia.

Another obstacle is the lack of personnel in Uzbekistan. There are almost no specialists working in this field. Because Uzbekistan does not have a separate higher education institution dedicated to training specialists in Islamic finance, let alone a curriculum. Officially, the International Islamic Academy of Uzbekistan started training in this direction in 2018, but in 2019, it was not accepted into this program. This in itself leads to a shortage of trained personnel in the field, especially since there are few or no suitable candidates for Sharia boards.

In addition, it is important to increase the literacy of the population on Islamic finance, because people who do not have enough knowledge about Islamic finance do not understand or consider it as traditional financing. For example, according to a survey conducted by the United Nations Development Program in early 2020, 28 percent of respondents said they had "no knowledge" of Islamic finance, 49 percent said they had a "general understanding," and only 4 percent had "knowledge" of Islamic finance. has

Regarding the analysis of the current situation of the development of the Islamic finance sector in Uzbekistan, taking into account the need for Islamic financing of small and medium businesses, Uzbekistan became a member of the Islamic Corporation for the Development of the Private Sector (ICD) in 2003 and the International Islamic Trade Finance Corporation (ITFC) in 2004. The mutually beneficial relationship between these two organizations and the government opened the way for Islamic finance to enter the market of Uzbekistan and took the first step in this direction .

Decree No. PF-101 of the President of the Republic of Uzbekistan dated 08.04.2022 "On further reforms to improve the business environment and create conditions for sustainable

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<sup>13</sup> Jahangir Imamnazarov "Islamic finance products \_\_ in Uzbekistan app to do and apply on the surface conducted research results according to analytical report "2020



economic growth through the development of the private sector", as well as the Decree of the President of the Republic of Uzbekistan dated 13.04.2021 "Capital <sup>14</sup>market Although Islamic finance was partially touched upon in Decree No. PF-6207 on further development measures, we can say that the mechanisms of Islamic finance have not yet been created.<sup>15</sup>

## Conclusions and Suggestions

The following conclusions were formed based on the research of the prospects for the effective organization of the project financing mechanism based on Islamic finance.

There is still no perfect Islamic finance legislation in Uzbekistan. This is one of the main obstacles to the introduction of Islamic banking in Uzbekistan. Current legislation prohibits commercial banks from offering Islamic finance services. In particular, tax legislation, banking legislation does not allow commercial banks to buy and sell products. In addition, Islamic finance does not charge late payment penalties or interest for each day of delay. Charging a fine for any unpaid amount is usury (riba) and is against the rules of Islamic Sharia, even if it is considered as a disciplinary measure, the money will be transferred to a separate account and spent on charity. Including these funds in income, using them for financial and investment purposes is strictly prohibited in Sharia.

The issue of lack of personnel in Uzbekistan should be resolved. There are almost no specialists working in this field. Because Uzbekistan does not have a separate higher education institution dedicated to training specialists in Islamic finance, let alone a curriculum. It is also important to increase the literacy of the population on Islamic finance.

The conventional banking community is exaggerating the "threats of the Islamic banking system" as they worry about their share in the financial market diminishing and the mass migration of customers to Islamic banks.

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<sup>14</sup> Decree No. PF-101 of the President of the Republic of Uzbekistan dated 08.04.2022 "On further reforms to improve the business environment and create conditions for sustainable economic growth through the development of the private sector." <https://lex.uz/docs/-5947775>

<sup>15</sup> Uzbekistan Republic President 13.04.2021 " Capital \_ the market more development measures on " Decree No. PF-6207 . <https://lex.uz/docs/-5371091>



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