

# Socio-Economic Benefits of Islamic Finance in Uzbekistan

**Kozimhon Turaev**

**IsBF**

# Basic Principles of Islamic Finance

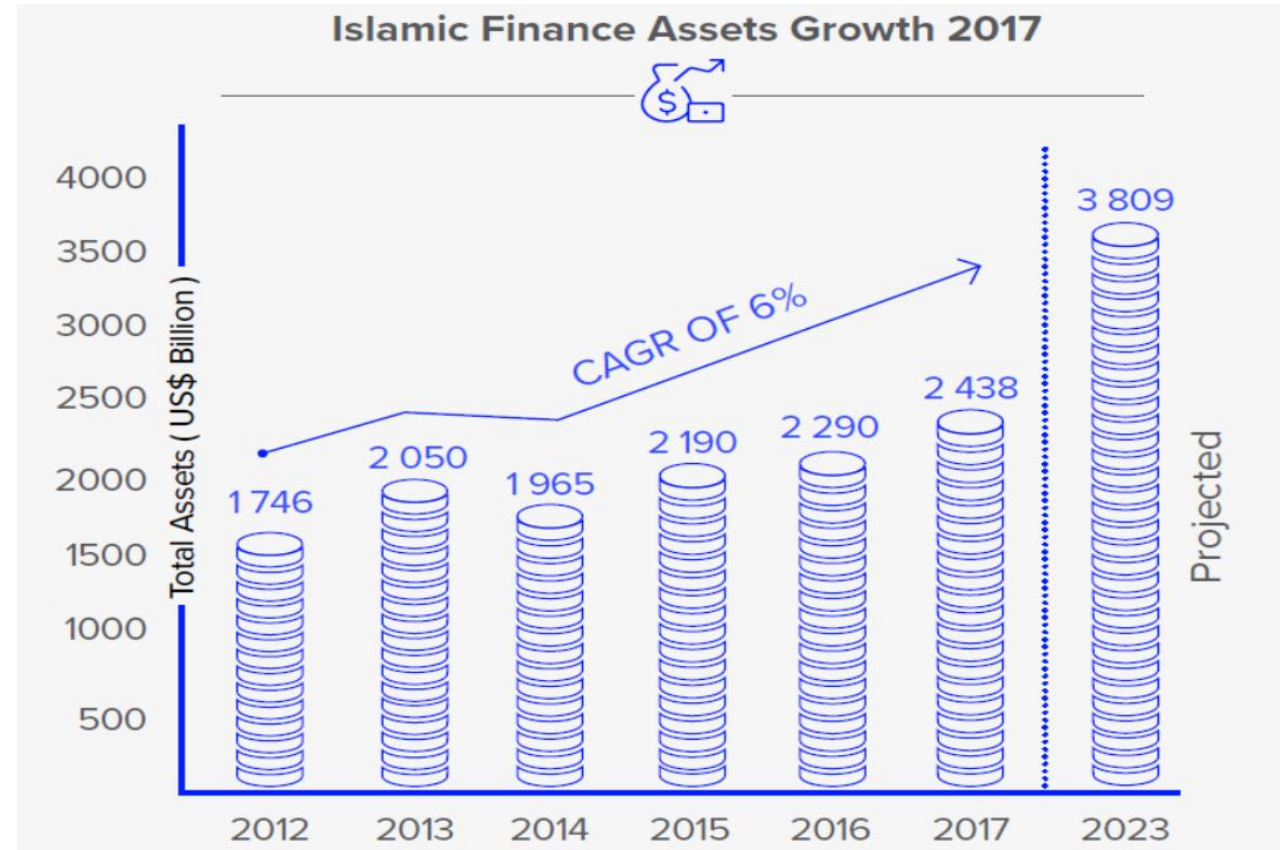
- Prohibition of interest (usury)
  - Money in and of itself can not generate wealth
  - Risk sharing
- Prohibition of uncertainty and ambiguous transactions
- Supporting projects that are for the well-being of the society and prohibition of unlawful industries
  - Alcohol, gambling, etc.
- Islamic Finance is an asset based transaction
  - Money is medium of exchange not an earning asset
- Islam emphasizes the values of
  - Honesty
  - Transparency
  - Fairness in dealings

# Main Islamic Finance Products

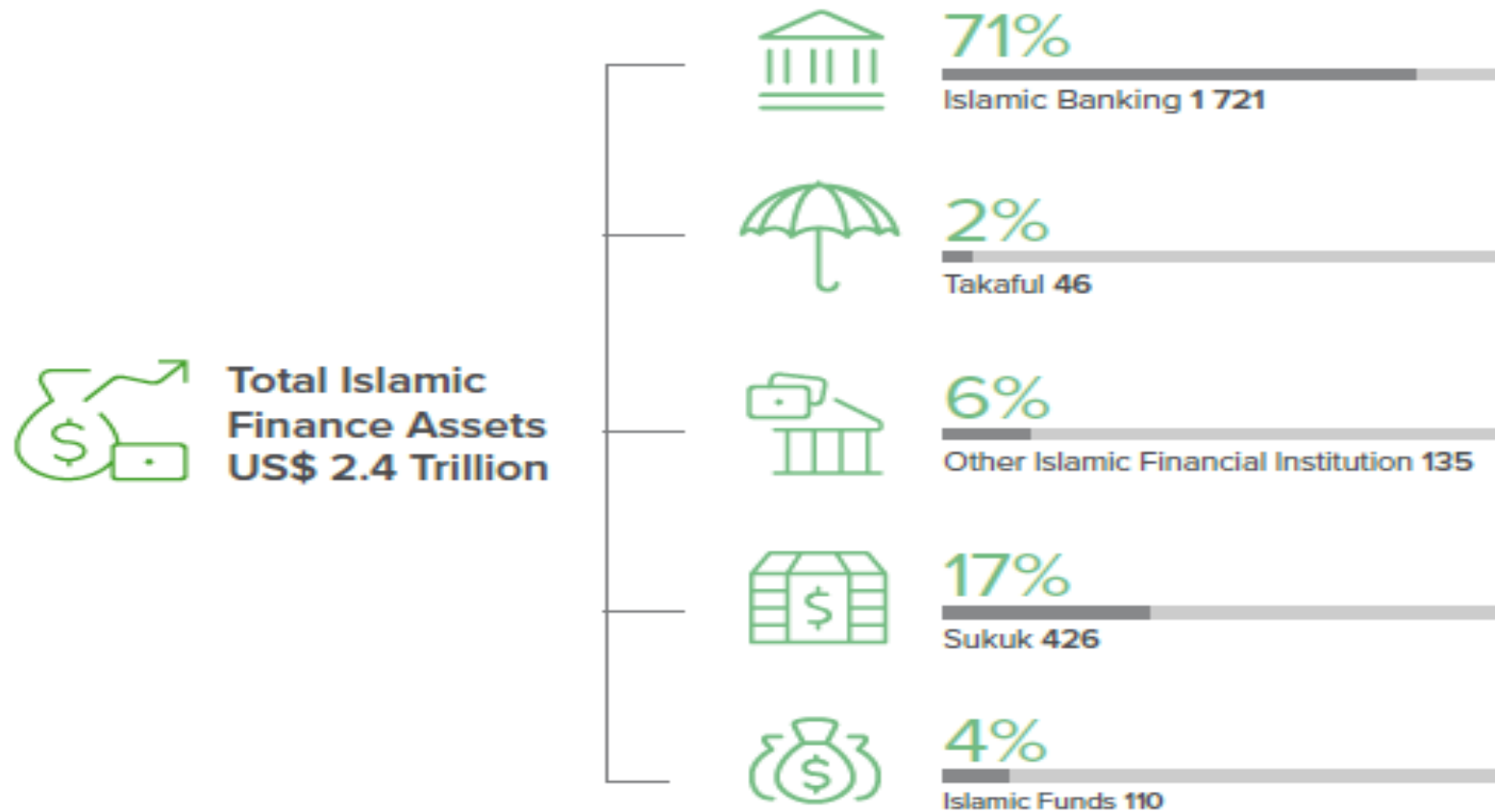
- Murabaha
  - Purchase and sale of a commodity at a profit
- Musharakah
  - Partnership based financing
- Mudarabah
  - Trust based financing where one party provides the financing and the other party manages the project
- Ijarah
  - Contract of leasing
- Qard Hasan
  - Goodly loan without any interest or mark-up

# Global Trends of Islamic Finance

- Between 2010 – 2014, the annual growth rate of IF was 17%
- A recent IMF report identifies more than 60 countries on all continents where Islamic banking is practiced
- Systemically important in 14 countries (>15% market share)
- In 2000s, total Islamic finance assets were only \$ 200 billion, today it is projected to reach \$3 trillion by the end of 2019
- “The ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service”: The Vatican (the Vatican’s official newspaper Osservatore Romano, 4 March 2009)



# Global Islamic Finance Assets Distribution



Source: Thomson Reuters report

# Global Trends of Islamic Finance

- The majority of the countries introduced Islamic Banking regulations
- Malaysia is one of the most sophisticated countries with Shariah Governance regulations



# Development Trends of Islamic Finance in Central Asia

- The development of IF industry in neighboring countries
- Kyrgyzstan
  - Legislation and one full-fledged Islamic Bank
- Kazakhstan
  - Promoting IF through Astana International Financial Center (AIFC)
- Tajikistan
  - Legislation and one Islamic Bank
- Russia

# Benefits of Islamic Finance

- There is a huge demand for Islamic Finance in Uzbekistan and this will pull many into formal financial system
  - Deposit and borrowing
- Access to finance for entrepreneurs who are reluctant to use conventional banking loans
- Profit and risk sharing element of Islamic Finance promotes entrepreneurship
- Attracting foreign investment (i.e. FDIs, Sukuk, Islamic Funds, etc.)
- Developing competition in the banking sector
- Developing the financial market of the country and integrating it into global markets
- The development of IF industry can promote the development of Islamic Capital Markets, Islamic Insurance, and Islamic Social Finance
- Support the development of Halal industry in the country (i.e. Halal tourism)



# Social Benefits of Islamic Finance in Uzbekistan

- In addition to profit based products, Islamic Financial system can also offer mission-based services to alleviate poverty by using the following:
  - Sadaqa – Voluntary charity
  - Zakah – obligatory tax levied on muslims
  - Waqf – Endowment
- Islamic Development Bank estimates annual Zakah may exceed \$500 billion
- Potential of zakat collection is largely untapped:
  - Global challenges in the effective collection and distribution of zakat
  - IsDB estimates zakat potential is +-3% of GDP, whereas actual collection is +-0.15% of GDP for OIC countries
- Endowments (Awqaf) entail:
  - The investment of principal (e.g. land or liquid assets)
  - The use of proceeds for social purpose
  - Unlike Zakah, endowments can be in any amount and can be used for any good cause specified by the donor

# Main Challenges in implementing Islamic Finance in Uzbekistan

- The absence of regulatory framework for Islamic Financial Institutions
  - Governance, supervision and Shariah compliance
- Lack of qualified specialists in the field
- Lack of Shariah scholars who qualify in transactional and financial law
- Unawareness among people of the principles of Islamic Finance

# Way Forward for Uzbekistan

- Collaborating with IsDB to get technical assistance to develop the Legal Framework
- Organizing awareness and training programs for the stakeholders
  - IsBF can be support in the process
- Developing Curriculum for Banking Academy, Islamic Academy, Finance Institute and other interested institutions together with IRTI, INCEIF and others
- Degree Programs in local institutions
- Attracting international players to invest in opening a full-fledged Islamic Bank and Islamic Windows

Thank you!