

**PROCEDURE FOR PROVISION OF ISLAMIC FINANCIAL SERVICES BY
MICROFINANCE ORGANIZATIONS OF THE REPUBLIC OF UZBEKISTAN AND
PROSPECTS FOR PROVISION**

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Abstract. This article examines in detail the organizational and legal framework, current procedures and strategic prospects for the introduction of Islamic financial services in the microfinance sector of the Republic of Uzbekistan. The authors analyze reforms aimed at diversifying the national financial market and consider the main Islamic financial instruments, such as murabaha, ijara and qard al-hasan, adapted for the microfinance sector.

Keywords: Islamic finance, microfinance institutions, microcredit, financial inclusion, microcredit, financial inclusion.

Introduction. In recent years, the Republic of Uzbekistan has been implementing large-scale socio-economic reforms aimed at liberalizing the economy, developing private entrepreneurship, and increasing financial opportunities for all segments of the population. An important step in this direction was the creation of a legal framework for the introduction of the principles of Islamic banking and alternative financing. The microfinance sector, due to its flexibility, rapid adaptation, and direct focus on small businesses, has become one of the first platforms for practical testing of these mechanisms.

The relevance of this topic is due to the high demand for Sharia-compliant products among the population and small businesses in the Republic of Uzbekistan. A significant part of the country's population, for religious reasons, deliberately limits its interaction with traditional financial institutions due to the strict prohibition of interest, known in Islamic law as riba. The introduction of specialized Islamic windows in microfinance organizations will allow these segments of the population and their capital to enter legal economic circulation, which will directly stimulate self-employment, regional development and reduce overall poverty in the country.

For a long time, the lack of a clear regulatory system hindered the formal development of Islamic finance in the country. However, consistent reforms implemented in recent years have radically changed the situation. The Law of the Republic of Uzbekistan "On Non-Bank Credit Organizations and Microfinance Activities" has created a solid foundation and allowed organizations to officially introduce alternative financing methods.

The provision of Islamic financial services by non-banking organizations is regulated by the rules and regulations of the Central Bank of the Republic of Uzbekistan. According to established standards, microfinance organizations have the legal right to provide these alternative services subject to the mandatory observance of several key conditions. First, this requires the creation of a separate Islamic window. Microfinance organizations are required to ensure complete and strict separation of traditional and Islamic financial flows. Funds raised and allocated for Islamic products must under no circumstances be mixed with the organization's interest-bearing assets.

Third, there's absolute transparency in pricing. Instead of charging the usual interest rate, the microfinance organization's income is generated solely from a predetermined trade margin or a share of the actual profit, which must be clearly and unambiguously specified in the agreement

with the client. In practice, microfinance organizations in the Republic of Uzbekistan rely primarily on the most understandable and least risky debt and lease instruments, which are easily adapted to the current needs of small businesses.

The first and most popular instrument is murabaha, which is installment financing. At the client's specific request, the microfinance organization purchases the necessary goods, whether equipment, raw materials, or vehicles, from a third party and resells them to the client at a pre-agreed markup on an installment plan. This instrument effectively replaces traditional microloans for working capital. The second instrument is ijara, which is essentially an Islamic equivalent of leasing. The organization acquires property and transfers it to the client on a long-term lease, with or without a subsequent purchase option. In this case, the transfer of ownership occurs only after full payment of the entire contract amount and fulfillment of obligations.

The third important instrument is qard al-hasan, or charitable loan. This is a completely interest-free loan provided to individuals in difficult life situations or to innovative startups. The client undertakes to repay the exact amount borrowed, without any overpayments. This instrument is actively used in corporate social responsibility programs.

A current analysis of the financial market in the Republic of Uzbekistan shows a rapid and steady growth in interest in microfinance services. Traditional bank loans often remain inaccessible or unacceptable for microbusinesses in remote rural areas due to collateral requirements or religious beliefs. The introduction of Islamic finance is demonstrating rapid growth. Microfinance organizations that were the first to launch Islamic windows are reporting significant growth in their client base by attracting previously passive funds held by individuals outside the banking system.

The main consumers of these services today are dehqan and farming enterprises, individual entrepreneurs in retail, consumer services, and handicrafts. For microfinance organizations themselves, this opens up significant opportunities to attract foreign investment, including from major international institutions such as the Islamic Corporation for the Development of the Private Sector.

Despite these clear positive trends, the process of deep integration of Islamic financial services into the microfinance system faces a number of significant challenges. Tax legislation has long been the main barrier. Until recently, murabaha transactions could be unintentionally subject to double taxation, such as VAT on the purchase of goods by the organization itself and on the subsequent sale to the end customer. Although active work is currently underway to optimize the Tax Code, many technical details still require detailed revision.

Conclusion. Islamic microfinance in the Republic of Uzbekistan has successfully transitioned from theoretical discussions to active and fruitful practical application. It serves as a powerful tool for inclusive economic growth, allowing for the legalization of shadow capital and comprehensive support for private initiative. To further develop the successful provision of these services, three key objectives are recommended. It is essential to fully ensure the tax neutrality of Islamic transactions, eliminating any excessive taxation compared to traditional loans.

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