ADAPTATION OF ISLAMIC BANKING IN ENHANCING THE STRENGTHENING OF INTEGRATION PROCESSES OF THE BANKING AND REAL SECTORS

Ilnur Suleymanov
Assoc. Prof. & Researcher at Tashkent Institute of Finance. Tashkent,Uzbekistan.
Email: ilnur.science@gmail.com ORCID: 0000-0001-7353-4298

Annotation

This article discusses ways to strengthen the integration of the banking system with the real sector of the economy through the adaptation of some elements of Islamic banking. The practical foundations of Islamic banking are considered, the models of Islamic banking are analyzed, the specification of which is based on the refusal of interest and provides for the bank to receive profit from investment income [3].

Keywords: Islamic banking, The analysis of Islamic banking products, Integration of banking and real sectors, Rollover, Banking, Mezzanine financing, FIG.

1. Introduction.

The integration of the banking and real sectors of the economy based on elements of Islamic banking reflects a reliable mechanism for strengthening mutually beneficial partnership, which is becoming increasingly important in the current global geo-financial situation [2].

According to the Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. UP-60 “On the development strategy of the new Uzbekistan for 2022-2026” and the entry into force of the Law of the Republic of Uzbekistan “On non-bank credit organizations and microfinance activities” No. ZRU-765 dated April 20 .2022, microfinance organizations have the right to carry out microfinance activities using elements and models of Islamic banking - providing the real sector with: loans, leasing, guarantees, provide factoring services and Islamic financing services in an amount exceeding the amount of microcredit [4].

2. Main Part

The services of Islamic financing of the real sector of the economy are understood as financial services, in accordance with the rules that establish standards for the implementation of the Islamic model of financing of the real sector. The main difference between the Islamic banking system is the prohibition on surplus, which is understood as any unjustified increase in capital in a loan or in a trade transaction [1]. Islamic scholars refer to the concept of "surplus" not only high, usurious, but also any loan interest. Islamic finance is always associated with the ban on charging interest, however, this statement is not entirely clear. Musharaka, Istisna, Mudaraba and other Islamic banking products involve charging a share for the use of funds.

In Uzbekistan, the first attempts are being made to introduce Islamic finance tools: a legal framework is being formed, a number of banks are preparing to open "Islamic windows". The functions of banks in the Islamic model do not differ from the traditional one: they ensure the operation of the national payment system and act as financial intermediaries. The first attempts are being made to introduce Islamic finance tools: a regulatory framework is being formed, the banking sector is preparing to open "Islamic windows" [8]. And since the activity of the Islamic model is based not only on legal provisions, but also on the moral and value guidelines of Islam, following justice directly affects the nature of legal relations between economic entities. The idea of justice in Islamic banking makes it possible, firstly, to achieve general prosperity ("falah" (falāḥ)), which means not only material prosperity, but also the spiritual improvement of the Muslim community, and secondly, to strengthen the system of social protection of the population, in thirdly, to maintain the necessary balance of economic interests.

3. Analysis and Discussion of Results.

The idea of justice obliges Islamic banks to strive for middle ground ("vasatiya" (wasaṭiyya)) and balance ("mizan" (mīzān)) in financial relations, as well as to pay special attention to the idea of goodness ("al-khair" (al-ẖayr)) as call to good deeds and counteract injustice ("zulm" (ẓulm)).

Table 1 – Comparative analysis of Islamic and traditional models of banking services

Characteristic	Islamic banking	Traditional banking
Guaranteed payouts on demand deposits	Practically there	Practically there
Guaranteed payments on investment deposits	Hardly ever	Practically there
Interest rate on deposits	Not defined, not guaranteed for investment deposits.	Defined and guaranteed
Mechanism for determining the interest rate on deposits	Determined by the profitability of the bank, the return on investment	Does not depend on the profitability of the bank
Participation of depositors in the profit and loss of the bank	Practically there	Hardly ever
Use of Islamic financial products	Practically there	Practically not applicable
The right of the bank to make a decision on issuing a loan depending on the collateral	With the participation of depositors in the profit and loss of an Islamic bank, it most often does not have the right to discriminate against clients depending on the collateral they have	There is almost always

The key difference, as we have already found out, is the prohibition of receiving remuneration in the form of an interest payment. However, at the same time, Islam does not condemn profit in principle, it simply prohibits the interest that does not depend on the results of activity. According to the norms of Islamic ethics, profit should be a reward for risk and work.

The forms of integration interaction between Islamic banking and the real sector are associated with special ways of making a profit, developed taking into account moral and value and other non-economic factors that form the basis of the activities of such banks. The activity of Islamic banks, due to its theocentric nature, is necessary to achieve the highest goals of Sharia, so commercial interests should fade into the background for them. If this aspect is neglected,

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Islamic banks will not differ from conventional commercial banks that develop a financial strategy in accordance with the Western type of homo economicus, who perceives personal gain and satisfaction of individual aspirations as an end in itself.

Table 2 – Islamic bank accounts

Account type	Principle / Contract	Remarks
1. Savings account	1. Wadia yad-damana	Commitment
	2. Qard hassan	Commitment
2. Current account	1. Wadia yad-damana	Commitment
	2. Qard hassan	Commitment
3. Investment account	Mudaraba (muqayyada and mutlaqa)	Profit distribution

In the course of the study, the following conclusions were formulated: firstly, the understanding of interest lies in the foundations of classical economic theory through the interpretation of money as an economic category. Secondly, based on various approaches to disclosing the economic content of money, interest is understood as a payment for the use of a commodity (money) and an increase in the amount of money due to speculative operations.

The main feature of Islamic finance is the rejection of what the generally accepted, Western financial system is based on - interest on loans. This does not mean turning commercial loans into philanthropic loans. The remuneration to the owner of capital should not take the form of a predetermined amount guaranteed regardless of the profitability of the enterprise, as occurs in the case of charging interest. According to the norms of Islamic ethics, only that wealth is righteous, the source of which is the owner’s own labor and entrepreneurial efforts, as well as an inheritance or a gift. According to Islamic scholars, profit is the reward for the risk involved in any business venture, but it is worth noting that one of the prohibitions in the field of Islamic finance is the prohibition of activities associated with excessive risk.

Islamic banking is associated with the ban on charging interest, however, this statement is not entirely accurate. Musharaka, Istisna, Mudaraba and other Islamic banking products involve the collection of shares as an analogue of

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interest-bearing transactions for the use of funds. Therefore, in financial mathematics, scientists continue to develop the theory of G. Knapp and note that "in practical financial transactions, amounts of money, regardless of their purpose or origin, one way or another, but are necessarily associated with specific moments or periods of time", that is, at different points in time money has different purchasing power [6]. Some Islamic scholars define money as "potential capital", "that is, it becomes capital only when invested in productive activities." However, in the primary sources (it is customary to include the Koran and the Sunnah), money is presented in the form of gold and silver coins, so the Islamic theory of money is closer to the understanding of money by T. Man and A. Montchretien. Thus, we can conclude that all approaches to the definition of the concept of "money" can be divided into 2 groups: the 1st group defines money as an equivalent to goods, the 2nd group defines money as a product that plays the role of a universal equivalent.

Table 3 – The meaning of interest in various approaches to the definition of «money»

Quran (Sunnah), T. Man, A. Montchretien, J. Berkeley, and others.	**J. M. Keynes, K. Marx, G. Knapp, C. R. McConnelly, S. L. Brew, and others.**
Money is the equivalent	**Money is a commodity**
Interest - according to Sharia law - is prohibited! (% - increment, that is, an increase due to speculative operations)	% - payment for the use of goods (goods - money), that is, interest - rental payments

Based on the conclusion made, it can be assumed that approaches to determining interest can also be conditionally divided into 2 groups: group 1 defines interest as an increase in money, group 2 - as a fee for using money as a commodity.

J. M. Keynes wrote that the rate of interest is not a "price" that balances the demand for resources for investment and the willingness to abstain from current consumption. It is the "price" that balances the insistence on holding wealth in the form of cash against the amount of money in circulation. As shown above, in Islamic banking products - money in Islamic economic theory has

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always been defined as the universal equivalent of the value of goods and has been actively used in international trade, which has been very developed since ancient Uzbekistan. Based on this, interest is perceived in Islam as an increment due to speculation, and that is why Islam categorically forbids receiving an interest premium for a borrowed amount. If the creditor at the time of lending stipulates that upon repayment the debtor is obliged to return more than he took, then this is considered an interest surcharge and is prohibited. However, according to Sharia law, the possibility is not ruled out that the debtor in one form or another will thank the creditor.

There are the following Islamic banking products that can be used as part of strengthening integration with the real sector.

In some countries, the legislation allows only independent Islamic banks (along with conventional ones) to exist, and "Islamic windows" are prohibited. Such countries, for example, include Qatar and Kazakhstan. In the latter, the legislative ban on the existence of "Islamic windows" forces banks not to register branches, but to establish new banks or to make a complete conversion to Islamic.

Table 4 – Islamic banking products

Products	Sharia principles	Notes
1. Financing/mortgage (Asset financing)	1. Murabaha	Selling at a markup
	2. Istisna (parallel istisna)	Gradual payment (under construction)
	3. Ijara muntahya bittamlik	Rent with option to buy
	4. Ijara in the future	Advance rent (construction)
	5. Musharaka mutanakisa	Declining partnership
2. Vehicle financing	1. Murabaha	Selling at a markup
	2. Ijara muntahya bittamlik	Gradual payment (under construction)
3. Working capital Financing (asset or cash)	1. Murabaha	Selling at a markup
	2. Ijara muntahya bittamlik	Rent with option to buy
	3. Tahuarruk	Cash financing
	4. Salam	Forward sale
	5. Leaseback sales	Refinancing
4. Project finance	1. Istisna (parallel istisna) 2. Mudaraba	Gradual payment Profit distribution Profit

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	3. Musharaka 4. Leaseback sales 5. Murabaha 6. Tawarruk	and loss division Refinancing working capital Cash financing
5. Trade finance	1. Letter of credit based on Wakalah 2. Letter of credit based on Murabaha 3. Letter of credit based on Musharakah	Paid basis Selling at a markup Profit and Loss Sharing
6. Credit card	1. Tahuarruk /'ina 2. Kafala	Cash Paid basis
7. Overdraft	Tahuarruk /'ina	Cash
8. Factoring	Bai' ad-Dayn	Sale of debt
9. Letter of guarantee	Kafala	Paid basis
10. Personal finance	Tahuarruk /'ina	Cash

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There are the following models of Islamic banking for adaptation to the integration interaction of economic sectors:

1) Participation bank - a unique scheme for secular Turkey, where the law does not accept any religious attributes in the texts and the term "Islamic bank" cannot be used in the law. Participating banks, having external and internal Sharia expert councils, comply with the Islamic standards of IFSB and AAOIFI applied to full-fledged Islamic banks. For example, in Turkey, the share of participating banks in the sector is 5%. The government intends to bring this figure to 15% by 2023. Currently, there are four participation banks in the country and the establishment of a state participation bank is being prepared. For example, Ziraat Bank opened the first branch in Istanbul, which will work on the principles of Islamic banking. Turkish President R. T. Erdogan called on

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other state-owned banks - Vakifbank and Halk Bank - to follow the example of Ziraat Bank. The head of state stressed that state-owned banks should increase the share of the Islamic banking sector in the country and turn Istanbul into an important center for Islamic finance in the region and the world.

2). “Islamic window” refers to a branch of an ordinary conventional bank operating in accordance with Shariah requirements. At the same time, the assets of the Islamic divisions of a conventional bank are not mixed, they are managed and regulated separately. Large transnational banks such as Bank of America, Barclays, BNP Paribas, Citibank, JPMorgan Chase, HSBC and others have Islamic windows. Moreover, these banks open such windows both in Islamic countries and in the West. In the UK, some banks such as Citi and Barclays have also opened Islamic windows. Currently, the central banks of many countries consider Islamic banking as one of the promising areas, for the development of which specialized units for supervision and regulation are being created.

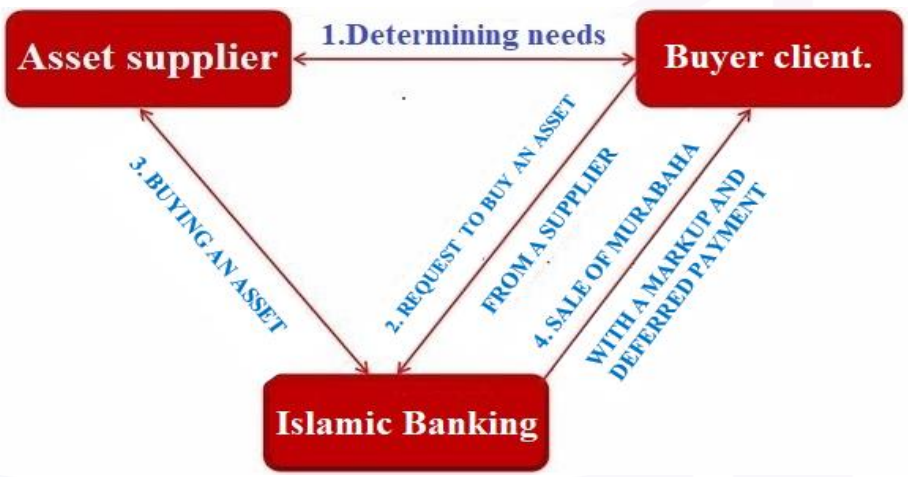

Figure 1 – Model of integration interaction of Islamic banking “Murabaha” [5]

The harmonization of the activities of Islamic banks implies not only the participation of the state within the framework of general legislation, but also Sharia control, as well as regulation at the international level. The main role in the development and regulation of Islamic banks at the international level is played by: – Islamic Development Bank (IDB, IDV); – Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); – International General

Council of Islamic Banks and Financial Institutions (CIBAFI); – Islamic Financial Services Board (IFSB) [8].

In Uzbekistan, Islamic finance is represented by the projects of the Islamic Bank for the development of the private sector, which has been successfully cooperating with commercial banks of Uzbekistan for a long time within the framework of the Islamic Windows integration project. This is done in the form of providing banks with financing lines to provide guarantees according to the Murabaha principles.

This is one of the most common methods of work for conducting interest-free transactions used by banks in Muslim countries. Murabaha is an active financing operation, and it is suitable for making various purchases, from equipment to business buildings. The principle of its operation is simple: the client agrees on the conditions for the purchase of the necessary goods and applies to the bank, which in turn buys the goods and resells it to the client in installments with its own margin. There is also a synergy of the Islamic model with the participation of Islamic banking, insurance partnerships and interaction with enterprises in the real sector of the economy.

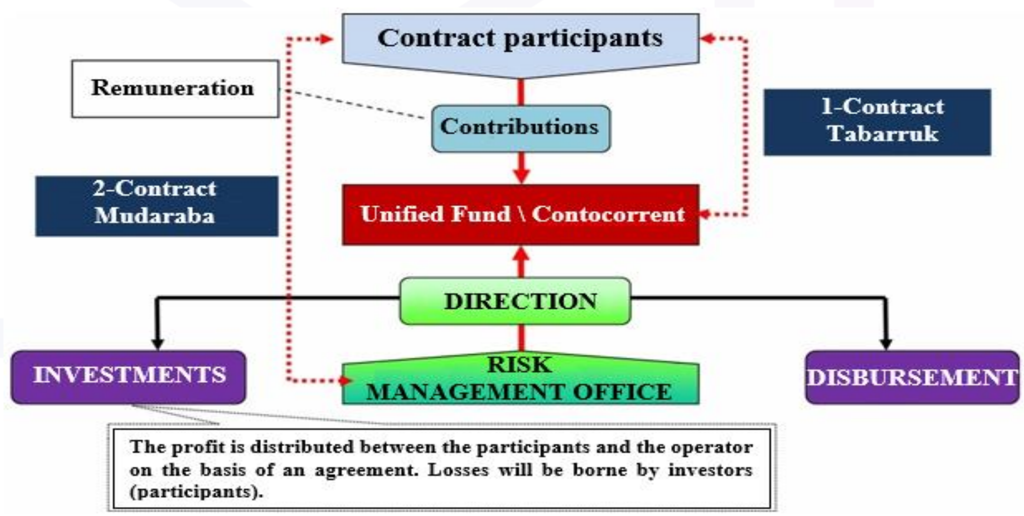

Figure 2 – Hybrid model of integration interaction between Islamic banking and the real sector of the economy [1]

It can be said that modern Islamic banking products are far from the financial products mentioned in the Koran and Sunnah in their characteristics. These products are based on the principles of risk sharing, the prohibition of speculation and the inviolability of contractual obligations, but the prohibition of charging interest is being rethought along with the rethinking of the concept of money.

4. Conclusions and Suggestions

The Islamic economic model provides that the owner of funds can receive a reward or part of the profit (depending on the type of transaction and contract) from the user. The permissibility of interest in the modern Islamic economy is explained by the fact that the investment of funds in the production of goods and services leads to the creation of a product and contributes to an increase in the welfare of society. It can be said that at the present stage of development of Islamic finance, the concept of "interest" in the Islamic economic model exists precisely in the classical concept, that is, in the form of paying the owner of capital a part of the profit from the use of this capital, as K. Marx noted in his work. However, this understanding of the economic essence of interest, although not speculation, still does not meet the requirements prescribed in the Koran and the Sunnah, and therefore can only be understood as a desire to attract free funds for the development of production, while violating the fundamental principles of Islamic finance.

To date, there are many tasks that should be carefully worked on, for example, on the current legislation, which fetters the introduction of Islamic financial principles in the activities of banks [7]. In particular, a number of documents should be amended in accordance with international experience and standards of the Islamic Financial Services Board (IFSB). These are, first of all, the Civil and Tax Codes, the laws "On the Central Bank", "On Banks and Banking", "On Guarantees of Citizens' Deposits in Banks", "On Mortgage", "On Leasing", "On Pledge" and others.

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