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WAYS OF DEVELOPMENT AND FORMATION OF ISLAMIC BANKING IN MODERN ECONOMY

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ABSTRACT--*The article describes the origin and development of Islamic banks. The differences between the traditional and Islamic banks are compiled.*

Key words-- *islam banking, riba, islamic windows, musharaka, mudoraba.*

I. INTRODUCTION

The concept of “Islamic financial system” has spread in the mid-1980s. This is a little-known and significant way of organizing financial relations, which has proved its right to exist during the financial and economic crisis. The history of the development of Islamic finance appeared due to the origin of Islamic banks.

In accordance with the draft resolution of the President of the Republic of Uzbekistan "On measures to create the infrastructure of Islamic banking and finance in the Republic of Uzbekistan", and the Decree of the President of the Republic of Uzbekistan "On the strategy for the further development of the Republic of Uzbekistan" No. UP-4947 of February 7, 2017, measures are being taken to further expand the cooperation of domestic financial institutions with the Islamic Development Bank. The document was developed in order to create alternative financing opportunities and meet the growing needs of the population and entrepreneurs, expand the range of banking and financial services offered, mobilize resources from domestic and foreign markets based on the principles of Islamic banking and finance.

The works of foreign scientists such as Shelgunov R.V. [2], Bekkin R.I. [3], Zhuravlev A.Yu. [4], Zhdanov N.V. [5], Sudin Khorun [6].

Studying the work of scientists, the following conclusions can be drawn, firstly, the liberalization and globalization of banking services, especially after the application of an international trade agreement, this shows a great demand for the introduction of Islamic banking products, secondly, the technological gap and poor development of the Islamic financial industry compared to the traditional financial industry , since this is a new direction in the economy and requires appropriate development measures, thirdly for 2019 it was observed that Islamic banks in the world have the most their capital (1.7 trl.dollarov) than traditional banks, it is transformed due to the securities "Sukuk".

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II. KEY PART AND CONCLUSIONS

Islamic banks are financial commercial organizations that attract the deposits of the population and entrepreneurs and place them on investments in accordance with the principles of Sharia for profit. These include balanced Islamic banks, as well as separate branches of traditional banks that provide certain services using various Islamic financing methods called “Islamic windows”.

In accordance with Sharia standards, the organization of Islamic financial activity is based on principles such as a ban on interest-bearing lending, sharing risks with its customers, a ban on financing projects related to prohibited activities2, lack of investment in high-risk derivative financial instruments and speculative operations, certainty terms of the contract regarding the goods, terms and remuneration.

The main reason for the establishment and development of Islamic financial institutions (including Islamic banks) can be considered an increase in demand for services provided by traditional financial institutions, but contrary to the religious norms of Muslims. Their further development was facilitated by:

- a significant influx of petrodollars to the Muslim countries of the Middle East as a result of the oil crisis of 1973, which ensured a large number of temporarily free liquidity that was not diverted to finance investment projects within these countries;

- Intensive development of financial infrastructure through the creation of financial centers in Saudi Arabia, Kuwait, the United Arab Emirates and Malaysia.2454/5000

The origin of Islamic banking began in the 60s and originated for the first time in Egypt. For more than half a century, it has been observed that Islamic banks are developing at a rate of 15-20% annual growth and have steadily and dynamically expanded their horizons around the world and has their own institutions in more than 75 countries.

The revival of Islamic banking led to the fact that in the years 1940-1950 began to attract serious attention in the social and economic sphere. This is because Islamic banks do not have loan interest.

Before the development of Islamic banking, financing was based either on the principle of prohibiting loan interest, that is, “riba,” or on models of the partnership of mudaraba and musharaka. Since Islam prohibits "riba" - usury, or percentage - diplomats and legal experts have carefully studied the properties of mudaraba and musharaka and developed a thorough legal framework from various legal sources regarding these two types of investment in order to combine with Sharia. A sufficient number of legal opinions on these two types of financing made it possible to lay the foundation of the modern theory of Islamic banking.

The first of modern scholars who contributed to the theory of the Islamic economic model was Anval Ikbar Qureshi in 1946 in the book “Islam and Theory of Percentage”. He proposed building a relationship between an Islamic bank and a client on a partnership basis. However, he did not give a clear definition of partnership, suggesting that capital be provided by one side and work by the other, while gains and losses were assigned to both.

In 1947, Sheikh Mahmoud Ahmad in his book "The Economics of Islam" repeated the same point of view with the proposal to establish Islamic banks as joint-stock companies with limited liability. He believed that the placement of client capital can be carried out on a partnership basis.

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Authors who responded later - Mohammad Uzayr (in 1955), Irshad (in 1964), Al-Arabi (1966) - also saw Mudaraba as the main principle of Islamic banking.

In 1968, the scientist Siddiki explained thoroughly from a theoretical point of view the Islamic economy and the legal foundations of Islamic financial intermediation. According to his proposed banking model, which worked on the basis of Mudaraba and Musharaki, Islamic banking operations were divided into three categories: services provided for a commission and other types of fixed payments, financing under the Mudaraba scheme or partnership agreement and services provided free of charge.

In 1985, the concept of Islamic banks was proposed, based on the same principle of participation in profit and loss. The key point was to promote the idea of an Islamic financial institution as, first of all, an investment institution. The idea of the banking system intersected with the ideas of other scientists, which were said earlier and provided a more fertile ground for concluding agreements on the share participation in profit and expenses between the bank and the client. It has been argued that an Islamic bank should primarily serve the interests of society, and not an individual or group of individuals. Thus, the main goal of an Islamic bank is to ensure social welfare, as well as strive for maximum profit.

An Islamic bank can receive income only if it is itself a participant in the project, the bank must fully share both income and expenses with the client. Therefore, Islamic banks prefer business relations with enterprises in the real sector of the economy. They actively finance both large long-term projects and small, low-income business projects.

A prerequisite for conducting financial transactions is their conduct on the basis of real assets or transactions with these assets.

Modern Islamic law differs significantly from traditional in form, content, correlation with positive legislation. In modern legal systems, Muslim law is relatively rare in the traditional form of doctrine, which remains its leading source in a few countries and only in relation to individual industries. In most cases, its norms are enshrined in legislation adopted by the state. As a result, the doctrine (fiqh) as the main source of Islamic law gives way to legislation, and the views of different schools differing in pluralism are replaced by precise, unambiguous norms.

Unlike traditional banks, Islamic banks place significantly fewer resources in securities. At the same time, securities permitted by Sharia ("sukuk") have their own characteristics. They must be associated with a specific asset. The owners of such securities do not have a fixed income, but share the risks with the issuer. The yield on these securities is related to the return on investment in real assets.

Another important feature of Islamic banking is the obligation of the parties to the transaction to strictly fulfill contractual obligations.

The main differences between Islamic and traditional banking are summarized in table 1.

Table 1: The main differences between Islamic and traditional banking

Difference Criteria	Islamic banking	Traditional banking
Interest rate	Not	exist
The speculative nature of operations	Not	exist
Risk sharing	exist	Not
Focus on the real sector of the economy	High	Low
Social orientation	High	Low
Customer focus	At the heart of the relationship is an individual approach.	The basis of the relationship is the implementation of a particular banking product.
Bank's right to change the terms of the contract	Not	exist
Information transparency for investors	Full	low

Islamic banking products are mainly divided into four parts:

1. Products based on the principle of partnership;
2. Products based on the principle of participation in the transaction;
3. Commission banking products;
4. Charity banking products [7].

Banking products based on the principle of partnership, in turn, are divided into two main types: products with full partnership and with trusting partnership. Full partnership ("musharaka") involves the joint participation of the bank and the client in the implementation of the business project and its joint financing. Profit or loss from the implementation of a business project is subject to distribution between the bank and the client in proportion to their contribution to capital. “Musharaka” is used as part of the bank’s active operations for export-import financing, project financing, as well as for syndications and securities issues (“sukuk”).One of the most significant problems restraining the development of Islamic banks is their competitive shortcomings, the underdeveloped infrastructure of the Islamic financial services market, a high degree of regional fragmentation, and an imperfect system of banking supervision and regulation.

Competitive weaknesses of Islamic banks, as a rule, are studied in the context of the development of the Islamic financial services market, as well as in comparison with traditional financial institutions. According to Ya. M. Mirkin, “within the framework of Islamic finance (taking into account the hierarchy inherent in the Islamic society), it is difficult to expect a mass retail investor in securities that accepts high risks, focused on large-scale and liquid stock markets” [8].

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As a result, the market structure becomes simplified, the share of banks becomes excessive, and there is a predominance of large family investors in equity. Kuran is even more categorical, arguing that at this stage of development — in conditions of poor organization and lack of appropriate skills — the Islamic banking model is in principle unviable [9].

In their activities, they use different financing methods, implement direct investment lending services, and carry out lending operations on the basis of leasing, leasing, etc. in various countries of the world. These banks take part in modern enterprises, credit trade transactions, including by installments, and conduct complex settlement services to their customers. Some of the Islamic banks are quite widely involved in investing in the manufacturing sector, including in the national industry, after conducting a comprehensive analysis of the investment project, monitoring the progress of its implementation, and then the activities of the newly created enterprise on the basis of a loan [10].

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