

Analytical paper

**LANDSCAPING ANALYSIS OF ISLAMIC FINANCE INSTRUMENTS
IN UZBEKISTAN**

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ABBREVIATIONS

| | |
|--------|--|
| AAOIFI | The Accounting and Auditing Organization for Islamic Financial Institutions |
| ADB | Asian Development Bank |
| COMCEC | Economic and Commercial Cooperation of the Organization of the Islamic Cooperation |
| CBU | The Central Bank of Uzbekistan |
| CUs | Credit Unions |
| EBRD | European Bank for Reconstruction and Development |
| GCC | Gulf Cooperation Council |
| IB | Islamic Bank |
| IBF | Islamic Banking and Finance |
| IsDB | Islamic Development Bank |
| IF | Islamic Finance |
| IFSB | Islamic Financial Services Board |
| IMF | International Monetary Fund |
| IIFM | International Islamic Financial Market |
| LC | Letter of Credit |
| MCOs | Micro Credit Organizations |
| MSME | Micro, Small and Medium-sized Enterprises |
| OECD | The Organization for Economic Co-operation and Development |
| PLS | Profit and Loss Sharing |
| UNDP | United Nations Development Program |
| SC | Securities Commission |
| SMEDU | Small and Medium Enterprise Development Unit |
| WEF | The World Economic Forum |

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EXECUTIVE SUMMARY

Islamic Financial system is an integral system in which all financial activities are carried out based on the Islamic law (Sharia) with risks and profits shared amongst all parties, while justice and fairness ensured in any related transaction. It facilitates the flow of money within the economy, boosts economic activity, and prevents concentration of capital in fewer hands.

Uzbekistan is a country in Central Asia with an emerging economy with great human capital, an openness to micro-investments, and a high encouragement of small and medium businesses. Small and medium enterprises represent 70 percent of the economic landscape and 78 percent of the employment rate in the country. However, small and medium size enterprises are facing many challenges such as the high interest rates and complicated loan requirements. Similarly, many Muslim citizens in Uzbekistan with a capital in hand, are facing difficulties in dealing with banks in terms of investment activities due to the interest rates involved. The latter implies that individuals and enterprises do not get sufficient financing for boosting and maintaining their cash flows and revenue growth. Therefore, there is an essential need to understand the prospects of implementing a solid and integral Islamic Financial System in a country with a Muslim majority population.

This report attempts to explore the opportunities and to propose the necessary steps and procedures towards implementing a solid Islamic banking and finance system in the Republic of Uzbekistan.

First part of the report starts with an overview of the existing financial system in the country, in terms of financial inclusion of micro, small, and medium-sized enterprises, their sources of financing, contribution to the economy, and the main barriers these enterprises are facing.

The second part displays several Islamic Finance Instruments and prerequisites for their implementation, with a highlight of the unanimously employed instruments by Islamic Finance Institutions worldwide. Further, the author discusses the status of the potential Islamic finance sector with its legislative framework in Uzbekistan, as well as the instruments that can be operationally applied in Uzbekistan.

The third part of the report revolves around the assessment of the opportunities of using Islamic finance to achieve SDGs, and the incorporation of components of Islamic social finance in Uzbekistan's financial system (waqf, zakat, crowdfunding).

The final part presents a descriptive analysis based on conducted surveys of the preferences and demand for Islamic finance instruments among the residents of Uzbekistan (individuals, enterprises and banks) along with the challenges in meeting their financing needs through the country's existing financial institutions. The report ends with the recommendations derived from the analysis.

BACKGROUND OF THE STUDY

Islamic banking system refers to a banking system in which all financial activities are carried out based on Islamic laws. It has similar purpose and operations as the conventional banks, that is, to facilitate the flow of money within the economy for boosting economic activities. However, unlike conventional banks, the principles of governing Islamic banks are mutual sharing of risk and profit between parties while ensuring justice and fairness in any transaction and business operation. The success of Islamic Financial Institutions drew the attention of many conventional banks. This had led numerous conventional banks to launch their Islamic banking windows in many countries. Over the past few decades, Islamic banking had a significant impact on its growth in the international financial system. Malaysia, Pakistan, Bangladesh, GCC countries, and many others who had implemented Islamic banking and finance within their jurisdictions, started reaping the fruits from the growth and success that Islamic Financial Institutions (both commercial and social institutions) have achieved.

In recent years, the Government of Uzbekistan (hereinafter referred to as Government) has initiated ambitious economic reforms. One of the measures taken is to make easier for private companies to gain access to lines of credit for their business expansion (World Bank, 2019). This is mainly to confront the increasing unemployment problem in the country, which stood at 5.5 percent in 2019. According to OECD (2017), small and medium enterprises in Uzbekistan account for 78 percent of employment. Yet, they are having a hard time meeting their financing needs through conventional banks (ADB, 2018) due to i) the long list of documents set by banks to consider for the loan issuance; ii) collateral and guarantee requirements; iii) financial illiteracy; iv) high interest rates; and v) religious reasons, which restrain Muslim entrepreneurs from fulfilling their financing needs with conventional banks. In case of (v), Uzbekistan is facing a lack of banking and financial institutions operating based on the principles of the Islamic financial system (Imamnazarov, 2019). Due to these reasons, ADB (2019) stated that around 64 percent of SMEs have to rely on self-financing, that is using their savings or borrowing from their families and friends. This certainly indicates the inefficiency of the current banking system of Uzbekistan in meeting the financing need of MSMEs.

Bangladesh, with 89.5 percent of Muslim population, was once considered among the less developed and poor nations. However, during the last decade, Bangladesh's economic growth rate accelerated from 5.57 percent in 2010 to 7.9 percent in 2018. According to the study of Solaiman, Safiullah, and Rana (2012), Islamic banks made a substantial contribution in Bangladesh's economic growth in terms of making loans easily available to various private enterprises including MSMEs. Nowadays, Islamic banks account for 24 percent market share of Bangladesh's banking sector (UNDP, 2019). In Uzbekistan, where more than 90 percent of population comprises Muslims, there is an immense potential for introducing Islamic financial institutions. The presence of Islamic Finance could play a crucial role in boosting economic activities of MSMEs and reducing the cost of financing.

In lieu of acknowledgment and identification of the country's financing needs as stated above, UNDP has launched the its "Financing for Sustainable Development in Uzbekistan Project aimed at promoting financing sustainable development in the country through the establishment of an Integrated National Financing Framework, mobilizing public and private resources needed to fund development projects, provide on-demand policy research and capacity building to help maximize the impact of policies/reforms on economic, environmental and social dimensions of the 2030 Agenda. The overall objective of the project is to enhance dialogue, coordination, national capacities, and policy measures aimed at the facilitation of effective financing strategy for the achievement of national Sustainable Development Growth (SDG) in Uzbekistan.

PART I. FINANCIAL INCLUSION OF MICRO, SMALL, AND MEDIUM SIZE ENTERPRISES

Financial sector in Uzbekistan is dominated by commercial banks. The Central Bank of Uzbekistan (CBU) regulates the activity of commercial banks, leasing companies, and microcredit institutions with the main mandate of ensuring the stability in price levels, banking sector, and payment systems. The number of commercial banks in the country is 30 which is relatively small in relation to the size of the population and the economy. The other types of financial intermediaries include non-deposit taking microcredit institutions, insurance companies, and leasing companies which are directly connected with banks (subsidiaries of banks) (EBRD, 2018), as well as the stock market which is not well developed.

1.1. Definition of MSMEs

In Uzbek legislation, MSME's definition is different from what is used in developed countries. Small businesses include individual entrepreneurs, as well as micro and small enterprises. The size of the business is defined by the number of employees not by the revenue and ownership structure of the business².

Table 1: Definition of Micro and Small enterprises

| Category | Number of employees |
|--------------------------|---------------------|
| Individual entrepreneurs | 1-3 employees |
| Micro-Enterprises | Up to 20 employees |
| Small Enterprises | Up to 200 employees |

Lately, the President of Uzbekistan proposed changes to the existed legislation and expanded the scope of prerequisites for qualifying as a small enterprise. According to the draft proposal, the following entities will be classified as MSMEs³:

- Individual entrepreneurs;
- Micro firms with an average number of employees of less than 25;
- Small enterprises with an average number of employees of less than 100;
- Medium sized enterprises with an average number of employees of less than 250.

1.2. Contribution of MSME to the Uzbek economy

MSME's financial inclusion is an important factor for economic growth and

² <https://mineconomy.uz>

³ <https://www.afi-global.org/blog/2020/02/financial-inclusion-agenda-central-bank-uzbekistan>

diversification, as well as for job creation in the developing countries. After obtaining its Independence, Uzbekistan launched a number of initiatives to develop micro, small, and medium enterprises and encouraged private entrepreneurship. Today MSMEs and private entrepreneurship play a vital role in sustainable economic growth, poverty alleviation, and reduction of unemployment. The share of MSMEs in GDP steadily increased from 31 percent in 2000 to 59.4 percent in 2018. As of December 2019, the largest number of operating enterprises was recorded in Tashkent city with 85,434 enterprises. Tashkent (39,307), Fergana (35,729), Samarkand (32,130), and Andijan (31,287) were the next four regions with the largest number of enterprises (please refer to annex I for detailed figures).

The largest number of small enterprises and micro firms are operating in the fields of trade (30 percent), industries (21.8 percent), construction (11 percent), agriculture, forestry and fisheries (9 percent), accommodation and catering (8 percent), transportation and storage services (4 percent). In terms of the share of small and micro enterprises in Gross Regional Product, as of December 2019 they accounted for 84.1 percent in Jizzah region followed by Namangan, Surkhandarya, and Samarkand regions in the range of 77 percent to 78 percent (refer to annex I for detailed figures).

1.3. Source of Finance for MSMEs in Uzbekistan

MSMEs in Uzbekistan still have very limited options for financing despite of a double digit credit growth over the last few years. According to the EBRD's study, 80 percent of MSMEs in Uzbekistan finance their investments through internally generated funds, while only around one-quarter of MSMEs have a bank loan. Also, at around 29 percent of GDP, credit to private sector / penetration is moderate compared to the regional peers. Uzbekistan is ranked 55 out of 190 countries in getting credit according to the World Bank's 2018 Doing Business report⁴. The internally generated funds are also classified as an informal source of funds and include personal savings, relatives, friends, business partners, and unregistered moneylenders. Another significant point is that there is a low level of financial leveraging among MSMEs in Uzbekistan. Issuance of corporate bonds is limited with just several recent cases of bond issuance in 2019. Microcredit organizations are yet to realize their potential. Therefore, currently, conventional banks are practically the only available source of financing in the country. Alternatively, MSMEs would go for informal source of financing.

1.4. Barriers to MSME Finance

Although the Government has put forward reforms aimed at liberalization of the economy, it is still viewed as mostly unfree economy with the ranking of 140 among

⁴ <https://www.ebrd.com/documents/strategy-and-policy-coordination/uzbekistan-diagnostic-paper.pdf>

180 countries⁵. Financial participation of the households and enterprises in the economy is still low. This is mainly due to the following reasons:

- (a) The majority of households prefer saving and borrowing informally instead of formal financing channels. Moreover, low-income households tend to have less access to formal financing channels as compared to their high-income peers. Although most of the households are increasingly using a bank account (bank card services for getting salaries), very few of them use formal financial institutions for saving or borrowing. Similarly, almost all enterprises have a bank account, but very few of them borrow from formal financial institutions.
- (b) Cost of financial services is high and there is a lack of trust in formal financial institutions. State-owned banks hold nearly 85 percent of the industry assets (with the largest state-owned bank holding 25 percent). Banks have limited products for financing MSMEs. Therefore, many businesses consider banks not as a preferred source of financing (ADB, 2019)⁶.
- (c) Commercial lending at banks are one of the scrutinized activities by the regulator. Bank credit officers attribute a lot of their efforts in collecting documents and paper based on justifications for each loan case. Excessive paperwork and time delays drive many businesses away from banks when searching for financing.
- (d) It is very common for MSME's to have inadequate or incomplete financial reporting. Their statutory reports filed for tax purposes, often do not reflect the actual financial condition of a company. Commercial banks may find statutory reports of MSMEs not attractive which makes standard bank loans out of access for many companies.

⁵ https://www.heritage.org/index/pdf/2019/book/index_2019.pdf

⁶ <https://www.adb.org/sites/default/files/publication/441226/adbi-wp858.pdf>

PART II: ISLAMIC FINANCE INSTRUMENTS AND PREREQUISITES FOR THEIR IMPLEMENTATION

2.1. Principles of Islamic Finance

Islamic finance is an equity-based, asset-backed, ethical, sustainable, environmentally and socially responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (World Bank, 2015)⁷. Iqbal (1997)⁸ defined Islamic finance as a system that aims to make an actual and moral distribution of resources and promotes social fairness in a society⁹. The main principles of Islamic Finance include the prohibition of interest and late payment fees; avoidance of excess uncertainty in financial transactions; financing linked to the real assets; partnership and returns linked to risk, prohibition of investing in unethical businesses (e.g., alcohol production, etc.).

The Islamic finance contracts fall under one of the following categories: Profit-and-loss sharing (PLS), sale-based contracts, and fee-based instruments.

PLS financing is considered the closest to the spirit of Islamic finance compared to sale-based and fee-based instruments. The key principles of PLS based financing are equity and participation, and it is linked to real economic activities to assist the equitable distribution of income. There are two types of PLC financing models: Musharakah and Mudarabah.

Sale-Based products are widely used in practice by Islamic financial institutions. These products are used to finance consumer and corporate credit, rental, and manufacturing. These products are Murabahah, Ijara, Salam, and Istisna.

Fee-Based Products include Wakalah, Kafalah, or Ju'ala and offered by Islamic banks as an auxiliary to Murabahah and Mudarabah transactions. Fee-based products are also used for bank transfers, letters of credit and guarantees, credit cards, and etc.

These instruments serve as the basic building blocks for developing a wide array of more complex financial instruments, suggesting that there is a great potential for financial innovation and expansion in Islamic financial markets.

⁷ <https://www.worldbank.org/en/topic/financialsector/brief/islamic-finance>

⁸ Zamir Iqbal is Vice President, Finance, and Chief Financial Officer at the Islamic Development Bank.

⁹ <https://www.imf.org/external/pubs/ft/fandd/1997/06/pdf/iqbal.pdf>

2.2. Potential Islamic Finance Instruments that can be used for operationalizing Uzbekistan's Islamic Banking and Finance Sector.

2.2.1. Partnership Specific Islamic Contracts:

Musharakah: According to Usmani¹⁰ (1998) the term Musharakah in Arabic means sharing¹¹. The basic tenet of Musharakah contract is similar to a partnership contract in English law, wherein two or more partners come together to form an enterprise by pooling in funds, materials, and/or intellectual property. In regard to the profit and loss sharing, unlike modern partnership contract, the profit rate is determined at the time of concluding a contract. The profit is shared among the partners on the basis of the agreed profit rate. In case of loss incurred, each partner will share the loss according to the ratio of individual capital invested to the business. Musharakah in Uzbekistan could be used in the following manner:

- A. At banks: Musharakah in banking institutions mainly is used for project financing, particularly in financing mid and long-term projects or financing any joint venture. Under this financing, the arranging bank acts as a partner to the project or joint-venture and earns a profit at the rate determined at the time of concluding the financing contract with a customer. Musharakah could also be used for facilitating importers and exporters through the issuance of Letter of Credit (LC), financing working capital, etc.
- B. In Capital Markets: Musharakah is extensively used in the equity market. The relationship between shareholders and the company's promoters will be of a partnership. The underlying stocks in the equity market must be Sharia-compliant. To identify and determine whether the underlying stocks are Sharia-compliant, different methods of Sharia screening methodologies were adopted across jurisdictions. Primarily, these Sharia screening methodologies have two approaches; one is based on a quantitative approach in which the percentage of company's revenue streams from non-Sharia compliant sources shall not exceed 5 percent of the total revenues along with the presence of total liquid cash. A second approach is a qualitative approach in which the company's external factors will be examined like the core business shall not be prohibitive (like gambling, entertainment, alcohol manufacturing, interest-based financing, etc.), the company's reputation, etc. Apart from the equity market, Musharakah contract is also being used in the bond market in the form of Sukuk.

Mudarabah: Mudarabah is a unique way of partnership facilitated in Islamic finance, wherein one partner provides all the funds required to start a business and the other partner invests those funds in a profitable venture through efficient and effective management. The fund provider is called Rabb al-mal (owner of the funds) and the

¹⁰ Usmani, Muhammad. T. (1998). "An Introduction to Islamic Finance". Available from <http://www.the-ifes.org/wp-content/uploads/2013/07/an-introduction-to-islamic-finance.pdf>

¹¹ **Muhammad Taqi Usmani** is a Pakistani Islamic scholar and former judge who is Vice President and Shaykh al- Hadith at Darul Uloom Karachi.

manager of the funds is called Mudarib. The profit will be shared according to the pre-determined ratio agreed at the time of concluding the partnership contract, whereas in case of loss Rabb al-mal would have to bear all the loss (provided the incurred loss is not as a result of mismanagement and carelessness of Mudarib).

- A. At Banks: Mudarabah contract is extensively used by Islamic banks in mobilizing deposits from the customers. Based on the Mudarabah arrangement Islamic banks act as Mudaribs whereas customers as Rab al-mal. The profit will be shared based on the pre-agreed ratio. Mudarabah is mainly used for investment accounts or term deposit accounts for deposit mobilization. Besides, it has also been used in project financing and facilitating a letter of Credit (LCs).
- B. In Capital Markets: In the capital market, this Sharia contract can be used in structuring sukuk. Under this arrangement, investors who buy sukuk certificates would become rabb al-mal whereas the company management would be mudarib.

2.2.2. Sale-Based Islamic Contracts

Murabaha: Murabaha is a sale-based contract. Under this arrangement, a seller buys a Sharia-compliant asset based on buyer's specifications which the seller would sell by adding some profit to the cost of the asset acquisition. The payment may be done either on spot or it may defer to the future date as per the mutual consent of the seller and buyer.

- A. At Banks: Murabaha is predominantly used in home financing by banks. The Islamic bank buys the property based on the specifications given by the customer in the application form. Islamic banks would then sell the property to the customer at the mark-up price (cost + profit). The payment will be deferred and usually be paid on a monthly basis for the period as mutually agreed by the consenting parties. Apart from this, Murabaha is also being used for education loans, personal loans, credit cards, project financing, letter of credit (LC), auto finance, long-term financing for businesses in terms of buying heavy machinery, working capital, etc.
- B. In Capital Markets: Murabaha could also be used in structuring sukuk for large companies and government. These entities could use Murabaha sukuk for financing long term projects.

Ijara (Islamic Lease): Ijara means renting a tangible asset. It is similar to conventional lease, however, the underlying asset in Ijara must be Sharia-compliant and be capable of generating usufruct. There are two modes of Ijara financing. One is operating Ijara wherein the customer, after using the underlying asset for the period determined in the contract will return to the Islamic bank and pays monthly rental. Under the second type of Ijara which is called financing Ijara, at the end of the contract period, the ownership of the underlying asset will be transferred subsequently to the customer (lessee). The lessee would pay the purchase amount. Moreover, there is no interest involved in Ijara.

- A. In Islamic Banks: Ijara is predominantly used by Islamic banks for facilitating auto finance. Apart from this, it is also being used for financing education, as financing farmers for buying agriculture-related equipment and tools, non-agricultural business entities in financing the purchase of heavy and expensive machinery and equipment. Moreover, Ijara has also been used extensively in conjugation with Musharakah contract, being called a Musharakah Mutanaqisa (MM). Musharakah Mutanaqisa predominantly used in home financing. However, the scope of MM usage can also be extended to corporate sector in financing business premises, machinery, and equipment etc.
- B. In Capital Markets: Ijara based sukuk is the predominant ones in the sukuk market.

Istisnah: According to Usmani (1998), “Istisna is the second kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser (pp. 135).” The price will be fixed at the beginning of the contract along with the detailed product specifications. The price will be paid upfront in a lump sum or depending on the phase of completion.

- A. In Islamic banks: Istisna is mainly used by Islamic banks for financing construction, manufacturing, project financing and for such contracts that are based on build operate and transfer of underlying asset. Banks may adopt Istisna for financing new housing or office places as such constructions are quite well developed in the country.
- B. In Capital Markets: Sukuk structuring also includes Istisna. Istisna based sukuk is predominantly used for undertaking big projects like construction of roads, metro stations, flyovers, dams, etc.

Salam: It is a form of forward agreement where a seller promises to deliver certain goods to a buyer at a future date in exchange for a full price paid in advance. Salam agreements can be widely used in agriculture. For example, farmers would sell future harvest by entering into a Salam agreement.

Forward Ijara: It is a combination of Ijara and Salam/Istisna contracts and is defined “as the sale of future benefits for spot payment¹²”. This contract is used to facilitate the sale of the underlying contract that is being produced, manufactured or constructed, in exchange for a spot payment or payments done in tranches depending on the project phase. This type of contracts is mainly used to finance medium to long-term projects with high budget costs like highway construction, renewable energy, technical and scientific research centers, and etc.

Wakalah: Wakalah refers to a contractual agreement wherein a person (generally known as an agent) is appointed as a legal representative of another person, who undertakes all permissible activities as stated in the Wakalah contract. In return, the

¹²

https://ikr.inceif.org/bitstream/INCEIF/2676/1/IFHubEd4_structuring_forward_lease_sukuk_islamic_capital_mark_et_ahcene.pdf

agent will be paid a fee as agreed by the contracting parties. In practice, Wakalah is predominantly used in conjunction with other Islamic financial contracts like Musharakah, Mudarabah, or Ijara. However, it has also started being used as a standalone Sharia contract for structuring sukuk or deposit-based instruments. For instance, Wakalah bi Al-Istithmar Sukuk is gaining popularity in sukuk sector. Under this concept, the Special Purpose Vehicle (SPV) issues Sukuk certificates to investors and collect the proceeds. SPV acts in the capacity of an agent (Wakil) of investors as stipulated in the Sukuk contractual agreement and invests the proceeds into Sukuk originator's project or business venture. The SPV will deduct certain amount as a fee towards its services. The holder of such sukuk will be entitled to have a share in profits in the proportion of the number of certificates being held.

Concurrently, Wakalah can also be used as deposit instruments by Islamic banking institutions. Under this agreement an Islamic bank acts as an agent and invest the funds collected from its customers for a period stipulated in the contract. The Islamic bank charges a certain fee while the profit will be shared among the Wakalah deposit holders as per the percentage stipulated in the contract. The above discussed Wakalah based Islamic financial products will be well suited to Uzbekistan's contest and can extensively be used in increasing the public participation in the banking sector.

PART III: THE ASSESSMENT OF THE OPPORTUNITIES OF ISLAMIC FINANCE TO ACHIEVE SDG

3.1 The status of Islamic finance sector with its legislative framework in Uzbekistan

Recent phenomenal growth in Islamic banking underpinned the need for greater innovation and flexibility to facilitate wider acceptance of Islamic products and services. The Islamic finance industry contains a number of institutions including commercial and investment banks, investment and insurance companies, e-commerce, asset managers, brokers, and dealers. Total assets of the Islamic finance industry grew by a CAGR of 6 percent to reach USD 2.44 trillion within 5 years from 2012 to 2017. Saudi Arabia, Iran, and Malaysia top the market with 65 percent (USD 1.6 trillion) share of Islamic finance assets. Among 56 countries, Nigeria, Cyprus, and Australia experienced the fastest growth in 2017. Banking is the main area of Islamic Finance contributing 71 percent or USD 1.72 trillion to the industry's assets with 41 countries having Islamic banking regulations. Commercial banking also remains the main contributor to the growth in Islamic banking sector. This is due to the new openings of Islamic finance institutions in different countries. For instance, in recent years the Islamic finance industry has started to develop in CIS countries. Kazakhstan, Kyrgyzstan, Azerbaijan, and recently Tajikistan have established their Islamic banking regulations. However, Uzbekistan has not even begun the process of working on its legal framework. As a part of Uzbekistan's reforms aimed at attracting Muslim investors from other countries, the government started working on establishing Sharia compliant products including sukuk and introducing the Islamic insurance sector (Takaful)¹³. However, the Government has not achieved much progress introducing the IF legal framework in the country, and this is hindering the development of the IF sector in the country. It is believed that if the Government agrees to step up its efforts, organizations like IsDB will extend their support in formulating legal framework for the country and undertaking projects of various nature that will develop the IF industry.

3.2. Waqf Institutions

Islamic societies across the globe had flourished in every aspect of their social and economic spectrum and its roots can be traced back to the waqf institutions that were established in these societies at that time. According to Daud (2015), Baqutayan, et, el (2018), Budiman (2014), and Ambrose, Aslam, Hanafi (2015), earlier the usage of waqf institutions were extended to the larger spectrum of the Muslim society. Muslim governments of that era had incorporated and made these institutions as a part of their fiscal policy. Due to this reason, the burden on the government treasury was minimized to a great extent and allowed the government to

¹³ <https://ceif.iba.edu.pk/pdf/Reuters-Islamic-finance-development-report2018.pdf>

focus their spending on other important economic and political aspects. Waqf had integrated into Muslim society to the extent that day-to-day need of the Muslim society “encompassing health, education, basic infrastructures, business, and commercial activities, job creation, food provision for the hungry and livestock, shelter provision for the poor and needy, and supporting the agricultural and industrial sectors without any cost to the government (Baqutayan, et, el (2018: 150)” began to take place.

In the context of the contemporary practice of waqf among various Muslim majority countries, the activities of waqf institutions are mostly confined to funding religious centric and charity related activities. Researchers like Hasan and Siraj (2016), Al-Itqan (2018), and Shirazi, Obaidullah, & Haneef (2015) conducted their study on waqf in the context of Bangladesh, Indonesia, and Pakistan respectively, and asserted that immovable waqf properties in these countries are highly under-utilized and left idle. In order to overcome such adversities cash waqf has started gaining popularity among various countries where waqf institutions exist. According to Al-Itqan (2018), Indonesian Waqf Institution (BWI) started accumulating movable assets in the form of cash waqf not only from the rich Muslim segment but also from the middle-class segment. Over the period, the cash waqf was used to provide microfinance to the financially weak population in terms of starting small and micro-businesses. Such schemes are helping Indonesian people from coming out of poverty and improving their standard of living. According to the World Bank website¹⁴, the percentage of people living below the national poverty line in Indonesia had decreased from 15.4 percent in 2008 to 9.8 percent in 2018.

Regarding Bangladesh, as asserted by Islam (2015), and Siraj and Hassan (2016), cash waqf gained popularity and used as an effective tool mostly to finance Micro, Small and Medium Enterprises (MSMEs). This has helped Bangladesh MSMEs sector to flourish and boost employment opportunities for skilled and unskilled laborers. As stated by Islam (2015)¹⁵, Small and Medium Enterprise Development Unit (SMEDU) in Bangladesh, plays a primary role in mobilizing cash waqf and channeling it to the targeted beneficiaries (micro, small and medium enterprises). SMEDU mobilizes cash waqf from the larger segment of the population which are:

- a. Individuals: Includes people in any income group. People belonging to the low-income segment also contribute to cash waqf in small amounts according to their financial capabilities. In return, SMEDU issues Cash Waqf Certificates (CWC) to the individual contributors as an act of acknowledgment and appreciation.
- b. Organizations: Apart from individuals, SMEDU mobilizes funds from legal entities like NGOs, governmental bodies, commercial business entities. Commercial business entities make their contribution to SMEDU cash waqf as a part of their Corporate Social Responsibility (CSR) program.

¹⁴ <http://povertydata.worldbank.org/poverty/country/IDN>

¹⁵ <http://bv-f.org/WV-09/10.percent20WVpercent20Final.-9.pdf>

- c. Small and Medium Enterprises: Apart from big corporates whose turnover is in millions, SMEDU encourages and makes sure that a larger section of SME segment takes an active role in its cash waqf in terms of contribution by becoming a permanent member in SMEDU's cash waqf program,

SMEDU, acting as a trustee to the cash waqf, invests the mobilized funds in startups and other SMEs in the form of financing these SMEs startup capital, meeting working capital requirements or funding their business expansion and collects its share of profits from these SMEs. If there is any cash leftover it is invested in low-risk investments through Islamic banks. The profits collected (from investments in MSMEs and Islamic banks) will first be paid for covering administrative expenses of the trustee, then a portion of the profits is held back in the form of a reserve fund (for meeting any emergency cash requirement) and the left-over profit gets distributed among all the member SMEs being the beneficiaries of the cash waqf fund. Although the scope of this waqf usufruct usage is confined to one segment of the socio-economic development, however, the impact and effect of such a waqf model have a direct impact on the nation's sustainable economic development.

In the context of Uzbekistan, waqf activities are being carried out and regulated under the umbrella of Public Charitable Foundation Vaqf, which was established by the Presidential decree no. PF-5416 in 2018. While considered public, it is effectively a state managed fund. During the 1st quarter of 2020, donations to Uzbekistan Vakf Foundation amounted USD 645.6 thousands. Primary sources of donations are money collected in donation boxes installed at religious sites; mosques, historic religious visitor places and others (about 95 percent of total donations during 1st quarter 2020)¹⁶. Usage of funds include running costs of mosques, maintenance and renovations of mosques and historic religious sites, financial assistance to low income families, and others. Until now, waqf funds were less dedicated to public services and contributed little to socio-economic development goals.

The following recommendations can be given to develop Uzbekistan's Vaqf Foundation based on the waqf practices in Indonesia and Bangladesh:

- A. Formulate guidelines and standards for the establishment of independent or autonomous waqf institutions. These independent waqf institutions shall be authorized to undertake financial activities like financing, investing, and mobilization of waqf assets (movable and immovable) along with maintaining transparency in all waqf related activities.
- B. Educate the population about the benefits they could have in this life and the life hereafter as religious motivation plays a vital role in the mobilization of waqf assets from the Muslim population. The scope of the population segment shall not just be limited to high-income individuals, but rather middle-income population segments shall also be taken into consideration.
- C. Provide an income tax subsidy to those who actively make a generous

¹⁶ <http://vaqf.uz/uz/transactions/statistics>

contribution to the waqf according to their capacity.

- D. Increase the corporate entities' participation in waqf in terms of contributing to waqf assets as part of their Corporate Social Responsibility (CSR).
- E. Adopt Bangladesh cash waqf model (as discussed above) to provide low-cost financing to MSMEs sector.
 - i. An independent entity (similar to Small and Medium Enterprise Development Unit (SMEDU) in Bangladesh) shall be established to form a cash waqf fund. The beneficiaries of this fund should be MSMEs. The established entity shall work in collaboration with the Uzbekistan Vaqf Foundation and Ministry of Finance.
 - ii. This entity shall act as a trustee and Uzbekistan Vaqf Foundation will act as a Sharia advisory to the entity.
 - iii. In the initial phase, all the registered MSMEs should be invited to become members of this entity voluntarily and allow them to make a voluntary contribution to the waqf fund. In addition to MSMEs, the entity shall also approach other corporate entities and large Muslim masses (high and middle income) to make contribution for MSMEs waqf funds as part of their Corporate Social Responsibility (CSR) program. All contributions shall be in the form of cash, that is, rather than contributing in the form of tangible and immovable assets which is the traditional form of waqf contribution, the contribution to MSMEs waqf funds shall preferably be done in cash.
 - iv. The entity shall issue a Cash waqf certificate to each contributor. To maintain consistency in the contributions being made by the individuals and/or corporates, the entity may organize formal events at each locality or city to appreciate and acknowledge the consistent fund contributors in the form of souvenirs from Uzbekistan Vaqf Foundation.
 - v. The entity at its discretionary power and in consultation with the Uzbekistan Vaqf Foundation and Ministry of Finance shall finance MSMEs using the cash waqf fund. If there is any amount left idle after meeting the financing needs of the member MSMEs, such amount shall be invested in Islamic banks or Islamic Bank windows if implemented.
 - vi. The revenue earned by Islamic banks from lending to MSMEs can be distributed among the member MSMEs, after deducting all administration related expenses, according to the entity's decision-making committee.

3.3. Zakat's role in SDGs

Throughout the history of Islamic civilization, zakat, or almsgiving had played a prominent role in alleviating and eradicating poverty. Zakat is the obligation that an individual has to donate a certain proportion of its wealth each year to charitable

causes. It is a mandatory process for Muslims and is regarded as a form of worship. Zakat is one of the five pillars of Islam, along with confession of faith (shahada), prayer, fasting, and pilgrimage (Hajj).

Since the evolution of Islamic banking and finance in the mid-20th Century, zakat has started to come into the forefront. Various Muslim nations have started to make suitable provisions in their country's laws, for zakat institutions. For instance, in the case of Indonesia, the Government of Indonesia enacted zakat specific law decree no. 38/1999 and MRD No. 581/1999, which recognizes and grants authority to a semi-governmental body called BAZIS and a non-governmental body called LAZIS to collect, manage, and distribute zakat¹⁷. According to Ali and Hatta (2014)¹⁸, for over two decades zakat has become the primary instrument in Indonesian society in increasing the household income of the people living below the poverty line. Moreover, with the increase in the zakat collection amount, the usage of zakat funds has been "...transformed from charity purpose into social empowerment and economic development (Ali and Hatta, 2014: 66). However, as stated by Alfitri (2005)¹⁹, the Indonesian zakat related acts like 38/1999, 581/1999 still lack proper codification of zakat management.

Concerning Uzbekistan, the Government has done remarkably well in reducing poverty, that is, from 33 percent in 2003 to 12.8 percent in 2017 as well as in improving the country's employment. However, the country faces more challenges ahead. Around 43 percent of young workers between 18 and 30 years are in informal employment (UNICEF, 2019: 11), whereas among the working class above 31 years, 34 percent are in informal employment. During and post COVID-19 lockdown, people working under informal employment would take a hit on their savings. According to the World Bank (2019)²⁰, this may lead to an increase in Uzbekistan's poverty level.

Zakat could play an essential and effective role in funding Uzbekistan's social security program. Moreover, with proper zakat awareness among the Muslim population of Uzbekistan, good governance, and maintenance of transparency in handling zakat funds, the religiously motivated Muslim population will increase their contribution voluntarily in funding government's social security scheme through zakat channel and would help the government in overcoming the above-discussed challenges effectively.

So far, zakat in Uzbekistan is being given at an individual level among the nearest

¹⁷ <https://www.icnl.org/resources/research/ijnl/the-law-of-zakat-management-and-non-governmental-zakat-collectors-in-indonesia>

¹⁸ Ali, Isahaque and Hatta, Zulkarnain A. (2014). "Zakat as a Poverty Reduction Mechanism Among the Muslim Community: Case Study of Bangladesh, Malaysia and Indonesia". Asian Social Work and Policy Review 8, pp. 59-70. Available from https://www.researchgate.net/publication/260410380_Zakat_as_a_Poverty_Reduction_Mechanism_Among_the_Muslim_Community_Case_Study_of_Bangladesh_Malaysia_and_Indonesia

¹⁹ Alfitri (2005). "Public Benefit Organizations: The Law of Zakat Management and Non-Governmental Zakat Collectors in Indonesia". The International Journal of Non-for-Profit Law, Volume 8, Issue 2, Available from <https://www.icnl.org/resources/research/ijnl/the-law-of-zakat-management-and-non-governmental-zakat-collectors-in-indonesia>

²⁰ <https://www.worldbank.org/en/country/uzbekistan/overview>

relatives, friends, or the neighbors of the zakat giver. At present, there is no formal structure that could facilitate the mobilization, management, and distribution of zakat funds and use those funds more efficiently by providing steady income to the financially deprived households. The Government may use the existing waqf infrastructure in mobilizing, managing, and distributing zakat effectively.

3.4. Incorporation of Fin-tech in Islamic Finance

Crowdfunding in the financial sector has emerged as an innovative way of channeling funds from investors to borrowers without any intervention from formal institutions like banks. The need for crowdfunding platforms had emerged after the 2008 financial crisis when banks and other formal financing institutions had reduced funding business sector, particularly MSMEs and innovative startups. As crowdfunding platform had started to emerge in the late 2000s, within one decade these informal funding channels have gained momentum. The modus operandi of crowdfunding as stated by Sait, Musito, and Yucel (2019)²¹ is being practiced in a manner wherein the fund users (receiver of the fund) advertise their project, product, or innovative business idea or any other purpose for which they want to raise the capital for. The crowdfunding platform would conduct necessary due diligence and if the findings are satisfactory, it will approve and allow the fund users to upload all the relevant information supporting their claims. The investors would invest in the advertised project, product, and innovative business idea that would interest them. All these activities take place through the online crowdfunding platform. These crowdfunding activities are classified into four categories which are: (a) Reward-based, (b) Donation based, (c) Equity-based, and (d) Debt-based. In the recent past, the incorporation of crowdfunding in Islamic finance has taken place. According to Andaleeb and Mishra (2016)²², and Sait, Musito and Yucel (2019), the most prevailing and practiced modes in Islamic crowdfunding are Equity and Debt based. These modes are being used in Islamic finance using Sharia contracts like Mudarabah and Musharaka for Equity-based crowdfunding, and Murabaha for Debt-based crowdfunding. However, crowdfunding is still at its infancy stage. Nonetheless, in the Indonesian context, as stated by Abdullah and Susanto (2019)²³, Islamic crowdfunding has started to make its mark in fulfilling the financing gap for MSMEs that has not been able to meet by banking institutions (be it

²¹ Saiti, Buerhan. Musito, Muhammad Hamal. And Yucel, Ensari (2019). "Islamic Crowdfunding: Fundamentals, Developments and Challenges". *The Islamic Quarterly*: Vol 62, No. 3, pp. 469 - 484

²² Andaleeb, Uruba. And Mishra, A.K (2016). "Equity Crowdfunding in Shariah Compliant Nations: An Outlook in the Middle-East". *Global Journal of Finance and Management*. ISSN 0975-6477, Volume 8, Number 1, pp. 97-102. Available from https://www.ripublication.com/gjfm16/gjfmv8n1_09.pdf

²³ Abdullah, Zaki and Susanto, Akhmad Akbar (2019). "The Role of Investment – Based Islamic Crowdfunding for Halal MSMEs: Evidence from Indonesia". *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah (Journal of Islamic Economics)*, Volume 11 (12), E-ISSN: 2407-8654, pp. 289 – 302. Available from https://www.researchgate.net/publication/338475437_THE_ROLE_OF_INVESTMENT-BASED_ISLAMIC_CROWDFUNDING_FOR_HALAL_MSMEs_EVIDENCE_FROM_INDONESIA

conventional or Islamic). Moreover, from the investors' perspective, in regard to Return on Investment (ROI), the crowdfunding platform has been proven more niche and appealing as compared to Islamic banks (commercial and rural) in Indonesia. As of 2018, investors through crowdfunding are being paid 12-18 percent ROI as compared to 5-6 percent by Islamic commercial banks and 9-12 percent by Islamic rural banks (Abdullah and Susamto, 2019).

In the case of Uzbekistan, as stated earlier, local MSMEs are facing similar problems as their Indonesian peers in terms of meeting their capital requirement from formal channels like banks. Although it was suggested in this report earlier that waqf and zakat institutions could prove to be promising channels and prominent players in overcoming this financing gap for MSMEs, the outcome of incorporating these institutions will be realized in the long-run. On the contrary, Islamic crowdfunding could be highly efficient in fulfilling the financing gap of MSMEs in the short-term. Moreover, the cost of acquiring funds through Islamic crowdfunding platforms would be much lower than what MSMEs could incur when getting financed by the banks and other formal financing institutions. Particularly, MSMEs would not be required to offer any collateral for financing their business capital requirement, neither there would be no expenses related to collateral. In the post-Covid-19 lockdown period, crowdfunding would play a crucial and effective role for MSMEs to fuel their business activities by infusing a fresh batch of capital in their businesses. This will help boost Uzbekistan's socio- economic development in the short-run followed by waqf and zakat institutions in the long run. In order to reap the fruits of Islamic crowdfunding, the following recommendations are suggested:

- A. The Government shall implement laws for regulating the Islamic crowdfunding platform operating within Uzbekistan's jurisdiction which should also allow foreign crowd-funders to invest.
- B. The Government shall formulate detailed guidelines pertaining to the manner in which the Islamic crowdfunding platform should conduct business in Uzbekistan.
- C. In order to avoid misuse of crowdfunding platforms by money launderers, fraudsters, or any activities that are pronounced illegal by the legislation in Uzbekistan, proper Know Your Customer (KYC) and due diligence of the parties (investors and the fund seekers) shall be collected from the parties.
- D. Locally registered fund seekers should be given a priority for raising funds on this Islamic crowdfunding platform.
- E. Instead of unorganized methods of using crowdfunding (telegram and Facebook channels) which are difficult to control, good regulated NGOs should be created that will not only play a role of Wakeel (agent) but also become centers of expertise. I.e. medical crowdfunding platform.

Regarding the adoption of Islamic crowdfunding models, the following models can be adopted in Uzbekistan:

Donation-based Model: Under this model, fund receivers, a small group of people who are in a financially vulnerable position, or such people who represent these financially deprived people, would receive funds in the form of charity that would be paid by the participants. Among various aspects for which these financially deprived people or their representatives seek funds include, but not limited to, covering their medical expenses, education fee, buying meals and cloths, room heaters for keeping them warm during extreme winter, etc. Currently, the donation-based model is widely practiced among people through social media channels to help disadvantaged people or to build a mosque. For instance, recently there was a water leakage in the Sardoba water reservoir in the Syrdarya region where the flood took the houses in the Sardoba district of Uzbekistan and people lost their all properties including animals. In order to help those who got effected, people organized a charity fund through social media channels (mainly through Telegram) and contributed financially and supported psychologically. In an organized version of the donation-based model of crowdfunding, the Sharia instruments that are being using to facilitate are: (i) Sadaqah (alms), and (ii) Zakat. The Islamic crowdfunding platform would act as a Wakil (agent) on behalf of fund providers and facilitate in channeling funds to project owners.

Equity-based Model: This model is more suitable for existing Micro, Small, and Medium Enterprises (MSMEs) as well as for innovative startups. MSMEs could pitch their business along with their growth prospects on an Islamic crowdfunding platform. In the case of startups, the prospect entrepreneurs pitch their business ideas to the investors. Based on the pitch investors are attracted to, the investors route their funds to the business ideas or projects they are interested in. Two Sharia instruments are used to facilitate this model of crowdfunding. One is Musharaka and the second is Mudarabah.

According to the Musharaka contract, all the crowdfunding participants act as a musharik (partners) along with the sole proprietor or the MSME firm who is the seeker of the fund. The seeker would also have a certain level of contribution to the fund. The Islamic crowdfunding platform would act as a wakil (agent) and facilitate this financing operation. The participants will be paid ROIs on a yearly basis. In regard to Mudarabah contract model, the investing participants become the provider of the fund (called Rab al-mal), whereas the fund seeker becomes the manager of the funds (called Mudarib). Unlike in Musharakah model, the seeker of funds will not have any amount of contribution. All the required funding amount will be contributed by the participants (Rab al-mal). This mode of financing is more suitable for startup entrepreneurs.

Debt-based Model: This model is mostly used for project financing by MSMEs. The Sharia contract that is used in this model is Murabaha. Under this model, the crowdfunding participants (investors) appoint the fund seeker as their agent (wakil) by signing a Wakala contract. The fund seeker (who would be the project owner) collects funds from the participants and buys the asset that is required for the project

and keep it in his possession. Later, the participants (investors) and the fund seeker (the project owner) sign another contract called sale contract and sell the underlying asset to the project owner by adding a markup price (profit). The project owner will then repay the amount on a monthly, quarterly, half-yearly, or yearly basis. This model is more suitable for project finance and micro-businesses to buy the required equipment for their business operations.

3.5. Islamic Finance in Facilitating Uzbekistan's Microfinance Sector

There were 57 (fifty seven) licensed Micro Credit Organizations (MCO) in Uzbekistan as of March 2020 with the combined total assets of 792 billion Uzbek Soums (78 million US Dollars) and total loan portfolio of 698 billion Uzbek Soums (69 million US dollars)²⁴. Credit Unions (CU), which were once an important source of microfinance, were forced to close in 2011 due to widespread solvency issues. According to Alimukhamedova (2014)²⁵, although the formation of CUs and MCOs opened new financing channels for small businesses and households, collaterals or guarantor requirements coupled with high interest rates appeared to be major obstacles for them in seeking microfinances.

In 2016 Mikrokredit Bank was established to cater the micro-finance needs of businesses and households. Its total loan portfolio amounted 4.8 billion Uzbek Soums (USD 502 million) as of end 2019²⁶. Although the interest rates on loans offered by Mikrokredit Bank are relatively lower than ones offered by MCOs, its tedious loan acceptance process and requirement of high collaterals cause inconveniences for micro and small businesses, and low-income households in acquiring microfinances.

During COVID-19 pandemic some banks suspended issuing new loans to individuals. Only seven (7) banks were issuing micro-loans online with the loan amount ranging from 2 to 22 million Uzbek Soums, and the interest rate from 31.9 percent to 109.5 percent per annum²⁷.

In order to overcome these challenges unconventional instruments like waqf, zakat and Islamic crowdfunding have proven to be effective in Indonesia, Malaysia, etc. However, it would take some time to adopt adequate waqf and zakat related laws and develop its infrastructure in Uzbekistan. Until it is accomplished, Islamic crowdfunding could play a vital role in bridging the gap between the haves and have nots.

²⁴ <https://cbu.uz/ru/statistics/credit/271810/>

²⁵ Alimukhamedova, Nargiza (2014). "Microfinance environment in Uzbekistan: Analysis of Supply and Demand". IOS Working Papers, No. 344, Regensburg, Available from <https://www.econstor.eu/bitstream/10419/106627/1/796267901.pdf>

²⁶ <https://mikrokreditbank.uz/en/about/activities/>

²⁷ https://www.spot.uz/ru/2020/04/25/loan/?utm_source=push&utm_medium=telegram

3.6. Sukuk (Islamic Bonds)

Sukuk is an interest-free bond that generates returns to investors based on the principles of Islamic Law. Unlike a conventional bondholder, a sukuk holder is granted an ownership in the asset or business being financed, and the return is tied to the performance of the underlying assets²⁸

Sukuk has emerged as the second largest component of Islamic Finance which is gaining immense popularity and acceptance not only among the Muslim majority countries but also among the countries where Muslims are in minorities (COMCEC, 2018). Governments have started acknowledging the significance of sukuk instruments, mainly in financing infrastructural development projects, and more started issuing Sukuk (mainly sovereign sukuk) for financing their infrastructure development projects. For instance, in 2017, Nigeria issued its first Sovereign Sukuk amounting USD 277 million (COMCEC, 2018). The proceeds from this sukuk issuance were used to finance the road construction and rehabilitation work. Additionally, a new class of sukuk instruments termed “Green Sukuk” emerged whereby proceeds from the issuance of such sukuk are channeled into environmental projects. A Green Sukuk is one of the most innovative Islamic finance instruments which support SDGs in the long-run. Malaysia showed a leading role in socially responsible investing (SRI) and green finance, by introducing a number of initiatives to support the green agenda. Securities Commission (SC) of Malaysia formulated SRI Sukuk Framework in 2014 and issued the first green sukuk in 2017. Through green finance / sukuk, the Malaysian government aimed to meet its target of generating 7,200 MW of renewable energy by 2020 (of which 2,080 MW is to be contributed by solar energy)²⁹. In March 2018, the Indonesian government issued Green Sukuk worth USD 1.25 billion (Ramadhan and Wirdyaningsih, 2019) with the aim to fund the sustainable development of climate oriented green projects.

The issuance of green bonds increased globally to an aggregate value of approximately USD 258 billion during 2019 with green sukuk accounting for USD 7.9 billion. The optimism surrounding green finance generally has extended to social financing which is likely to gain greater prominence as part of the COVID-19 recovery. In April 2020 the UNDP emphasized that Zakat and Sukuk can be used as a part of the pandemic response plan³⁰.

Like its counterparts, Uzbekistan could also use sukuk for raising funds to finance infrastructural, environmental, as well as commercial projects. However, Uzbekistan needs to establish a proper legal environment to enable development of Islamic finance in the country. Therefore, following suggestions shall be launched to implement Sukuk in Uzbekistan:

²⁸ <http://www.mifc.com/index.php?ch=39&pg=97&ac=312&bb=attachpdf>

²⁹ <http://documents.worldbank.org/curated/en/586751546962364924/Helping-Malaysia-Develop-the-Green-Sukuk-Market-Facilitating-Sustainable-Financing-Case-Study.pdf>

³⁰ <https://www.williamfry.com/newsandinsights/news-article/2020/05/20/where-to-next-for-islamic-finance>

- I. The most important building block for development of Islamic Finance is the legal framework which currently does not exist in Uzbekistan. To explicitly recognize the Islamic Finance and banking in the legal framework, it is envisaged that a separate legislative act to be enacted.
- II. Regulations and Guidelines on Sukuk issuances shall be proposed in order to clear the confusion and even eliminate the inconsistencies, improve transparency and disclosures and crystallize the scope and mandate of Islamic Financial Institutions.
- III. Implement international best practices and be at par with the latest global regulatory standards. One way is to adopt prudential standards and guidelines issued by the international standard settings bodies like AAOIFI, IFSB, and IIFM. The standards issued by AAOIFI shall be reviewed in the light of local legal and regulatory framework and shall be adopted.
- IV. Select appropriate projects to finance through Sukuk and attract foreign investors. For example, in infrastructure or renewable energy.
- V. Conducting on the job training by inviting industry people and sending candidates abroad for an internship in Islamic Finance and trading Islamic securities

In order to use these above discussed Islamic financial contracts effectively in Uzbekistan, it is of utmost important that Islamic financial laws coexist with the conventional financial laws. All matters pertaining to the Islamic financial institutions should be dealt with Islamic financial laws including dispute management.

PART IV. ASSESSMENT OF OPPORTUNITIES AND NEEDS FOR THE IMPLEMENTATION OF ISLAMIC FINANCE INSTRUMENTS IN UZBEKISTAN THROUGH SURVEY

It was deemed vital to study and analyze perception of the population representing various societal sections, banks, and businesses. The primary objective of this study was to determine preferences and demand for Islamic financial institutions among residents along with the challenges they are confronted with when addressing their financing needs through the existing financial institutions (formal and informal). The questionnaires for individuals and businesses are similar in terms of structure and content, while different for banks (refer to annex II for more details).

The survey questionnaire consists of five parts and cover demographic information, access to finance, opportunities for Islamic finance, insurance market, and Islamic social finance. For the purpose of this report, only main figures were presented while the rest of the responses were kept in the annex. A quantitative approach was adopted to collect relevant data in the form of a survey questionnaires and interviews, and collected as follow:

- **From Businesses:** One thousand (1000) questionnaires were completed in the form of direct interviews with the assistance of the Republican Training Center for Entrepreneurship Principles, which has the presence in each region. Additionally, 1235 questionnaires were completed by business representatives using Google form and Survey Monkey. 2,235 responses in total were collected.
- **From Banks:** Republican Training Center for Entrepreneurship Principles sent the questionnaires to 30 commercial banks and 27 of them provided feedback (refer to annex I for the complete list of participating banks).
- **From Individuals:** Google forms and Survey Monkey platforms were used to disseminate survey questionnaires and to collect data. 4937 responses were collected.

4.1. Demographic Profile of the Survey Respondents:

The demographic section of questionnaires designed for the individuals encompasses gender, age, education, monthly income, professional and employment, status while for the businesses and banks it covers business type, years in business, and annual gross income.

Table 2: Geographic profile of the respondents

| Regions | Businesses | | Banks | | Individuals | |
|----------------|------------|-----|---------|----|-------------|-------|
| | Number | % | Numbers | % | Numbers | % |
| Andijan region | 324 | 14% | 1 | 4% | 145 | 2.94% |

| | | | | | | |
|-------------------------------|-------------|----------------|-----------|-------------|-------------|----------------|
| Bukhara region | 189 | 8% | 0 | 0.00% | 99 | 2.01% |
| Jizzakh region | 129 | 6% | 0 | 0.00% | 477 | 9.66% |
| Navoi region | 91 | 4% | 0 | 0.00% | 92 | 1.86% |
| Namangan region | 228 | 10% | 0 | 0.00% | 140 | 2.84% |
| Samarkand region | 148 | 7% | 0 | 0.00% | 438 | 8.87% |
| Syrdarya region | 89 | 4% | 0 | 0.00% | 501 | 10.15% |
| Surkhandarya region | 105 | 5% | 0 | 0.00% | 1623 | 32.87% |
| Tashkent region | 115 | 5% | 0 | 0.00% | 157 | 3.18% |
| Tashkent city | 417 | 19% | 24 | 89% | 240 | 4.86% |
| Fergana region | 216 | 10% | 2 | 7% | 183 | 3.71% |
| Khorezm region | 98 | 4% | 0 | 0.00% | 98 | 1.99% |
| Kashkadarya region | 36 | 2% | 0 | 0.00% | 238 | 4.82% |
| Republic of Karakalpakstan | 50 | 2% | 0 | 0.00% | 506 | 10.25% |
| Total | 2235 | 100.00% | 27 | 100% | 4937 | 100.00% |

47 percent of individual respondents were aged 31-45 years, while 44 percent were aged 18-30 years. 42 percent had higher education while 36 percent had only secondary school degree. Lastly, 25 percent of individual respondents were state employed, while 21 percent privately employed.

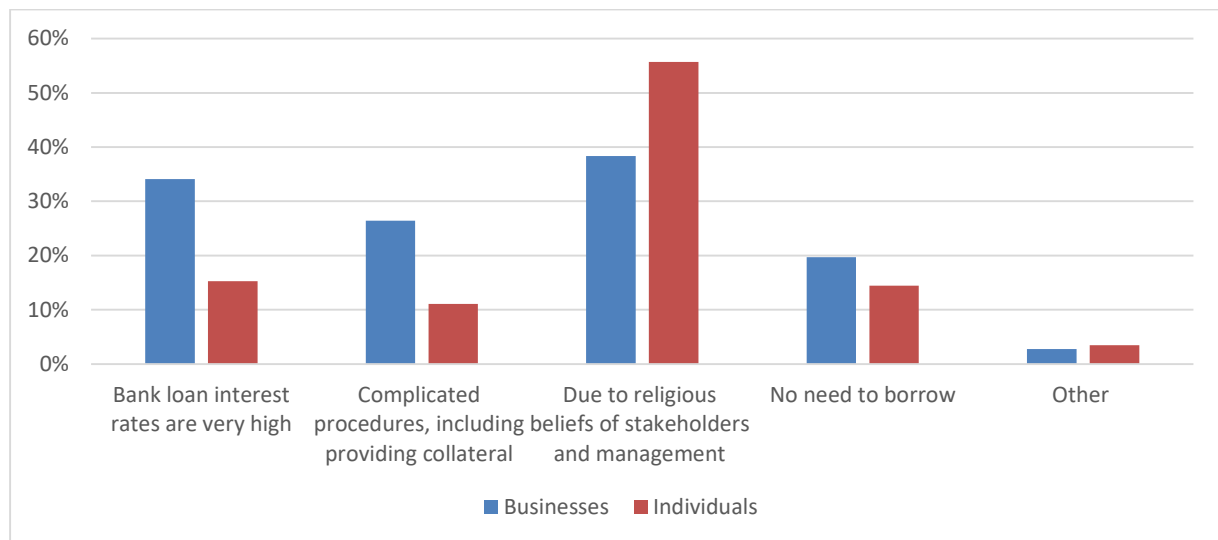
Geography of Business respondents included Tashkent city 18.66 percent, Andijan region 14.5 percent, Namangan region 10.20 percent, and others. Their organizational form was mainly limited liability companies 44 percent, private companies 18 percent, and individual entrepreneurs 16.5 percent. 64 percent were small companies, 25 percent micro firms, and 10 percent large companies. 26 percent of these companies were involved in industrial sector, 17 percent - in services, 22 percent - in trade, and 13 percent - in construction. The annual gross income of 41 percent of these companies was less than 100 million UZS, 37 percent of them made between 100 million to 1 billion UZS, and only 4 percent made more than 10 billion UZS. Similarly, among banks, the majority of the responded banks (24 banks) were located in Tashkent city, while other 3 banks are in Fergana valley. 20 banks are joint-stock commercial banks, 5 privately owned, 2 are with foreign participation, and 2 are state-owned banks.

4.2. Access to finance

Businesses and Individuals: both individuals and businesses were asked if they had bank loans. 40 percent of businesses and 31 percent of individuals used formal

channels for acquiring loans. The main purpose of acquiring a loan among businesses was to purchase equipment, vehicle, or special machinery (50 percent), working capital and trade (34 percent), and agricultural projects (11 percent). Among individuals who received a bank loan, 53 percent of individuals took consumer loans and 28 percent mortgage loans. 60 percent of businesses and 68 percent individuals confirmed that they are not using bank loans.

Figure 1: Reasons for not borrowing through formal channels



One of the basic concerns for businesses and individuals was non-compliance of conventional loans with the Islamic norms. This led them to discontinue and close lines of credit despite the business need. Other specific reasons include high-interest rates, complicated terms and conditions, and the reluctance of banks in giving loans.

Both individuals and businesses were asked about the difficulty of getting a bank loan and affordability of the interest rates charged by banks. 45 percent of individuals stated that receiving a banking loan is not too difficult but interest rate on loans is high (44 percent of individuals). Similarly, 42 percent businesses are also of the opinion that receiving loans from banks is not difficult but interest rate is high (36 percent of businesses). Additionally, 44 percent of businesses stated that conditions to get bank loans are not too difficult while 24 percent of them said the conditions are difficult due to collateral and covenants.

Banks: the degree of competition among banks was rated very high by 15 percent (4 banks) and high by 70.37 percent (19 banks). Competition with non-banking institutions was ranked not high by 85.19 percent (23 banks) and as high by only 7.41 percent (2 banks). Banks were also asked if they offered leasing services or not. During 2017-2018, 80 percent of banks offered leasing services, which dropped to 76 percent by 2019, while 6 banks (24 percent) did not offer any leasing services.

4.3. Opportunities for Islamic Finance

Individuals and businesses: 40 percent of businesses and 37 percent of

individuals stated that they had basic knowledge of IF principles; while 50 percent of individuals and 52 percent of businesses defined Islamic Banks as “Islamic Banks have similar services as their conventional peers, only IBs must be asset-based and interest-free in nature”. Detailed responses are in figure 2 and 3.

Figure 2: Knowledge of Islamic Finance System

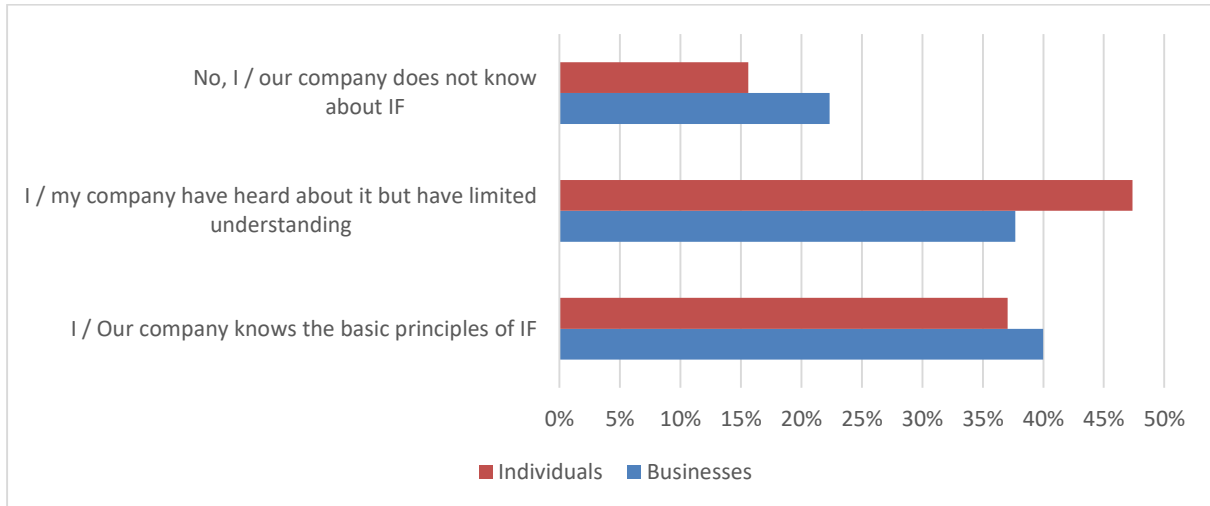
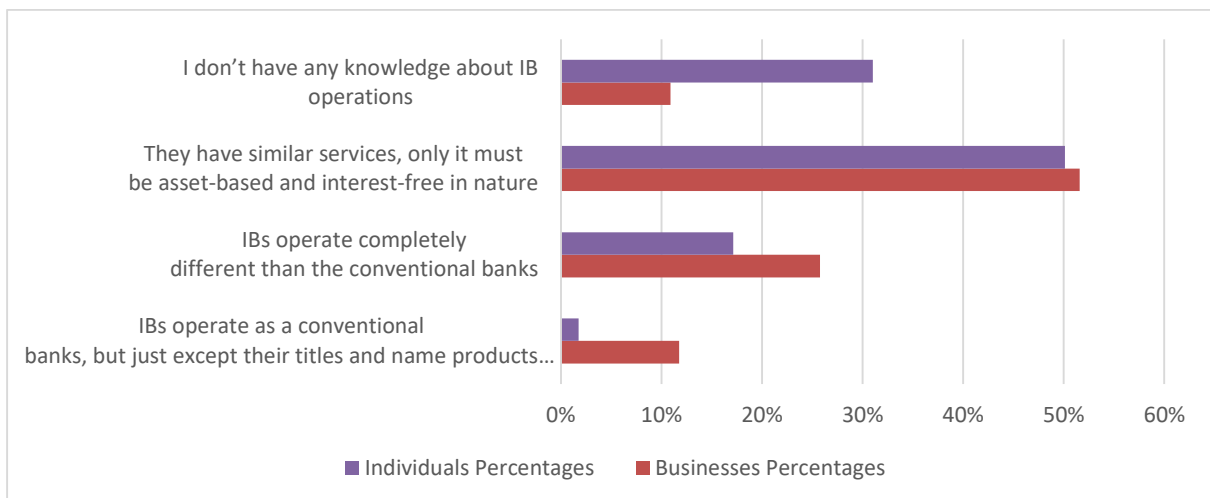


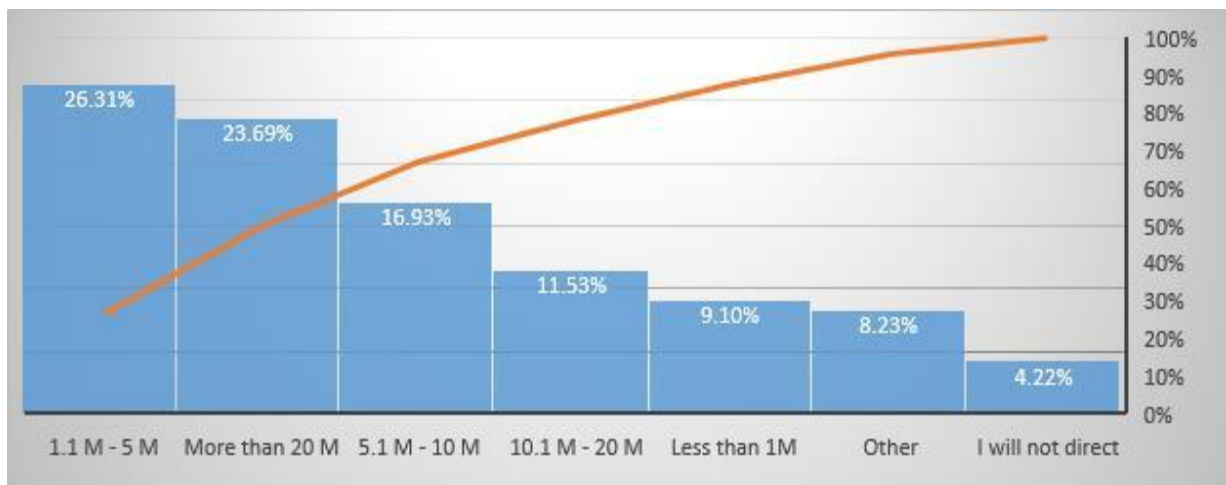
Figure 3: Defining Islamic Bank operation



61 percent of businesses and 75 percent of individuals expressed their willingness to opt for Islamic Financial institutions when they convene operations in Uzbekistan. In contrast, 35 percent businesses and 22 percent individuals stated that their preference in choosing a particular institution would depend on the cost and quality of services offered by Islamic financial institutions, whereas only 3 percent of the individuals stated that they would not be interested in services offered by Islamic financial institutions due to of lack of knowledge and awareness. 47 percent of businesses and 55 percent individuals have expressed that they would not be much concerned even if Islamic financial instruments are highly-priced as primary concern is to comply with Islamic principles in their financial matters. On the contrary, only 22

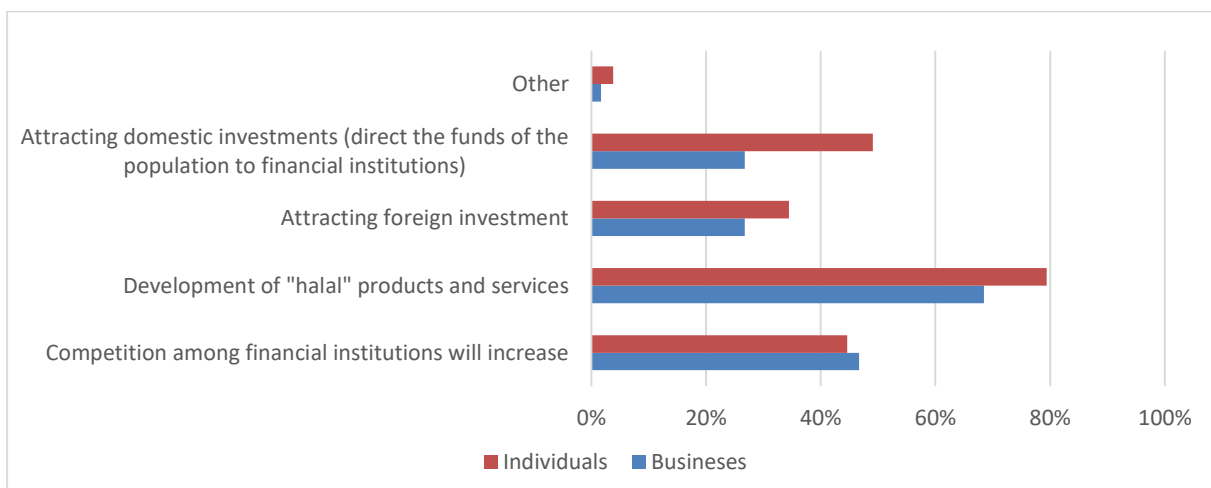
percent businesses and 19 percent individuals hold contradictory views as the high cost of Islamic financial instruments would be their primary concern. Furthermore, in case of implementation of Islamic Finance in Uzbekistan, 44 percent of businesses and 42 percent individuals stated that they would direct their funds for savings or partnership with Islamic banks, while 26 percent businesses and 36 percent individuals would rather not do so. In addition, among individuals 26.31 percent are willing to direct their funds to Islamic saving or partnership deposits as depicted in figure 4.

Figure 4: Amount of funds to direct to IBs (all amounts are in UZS).



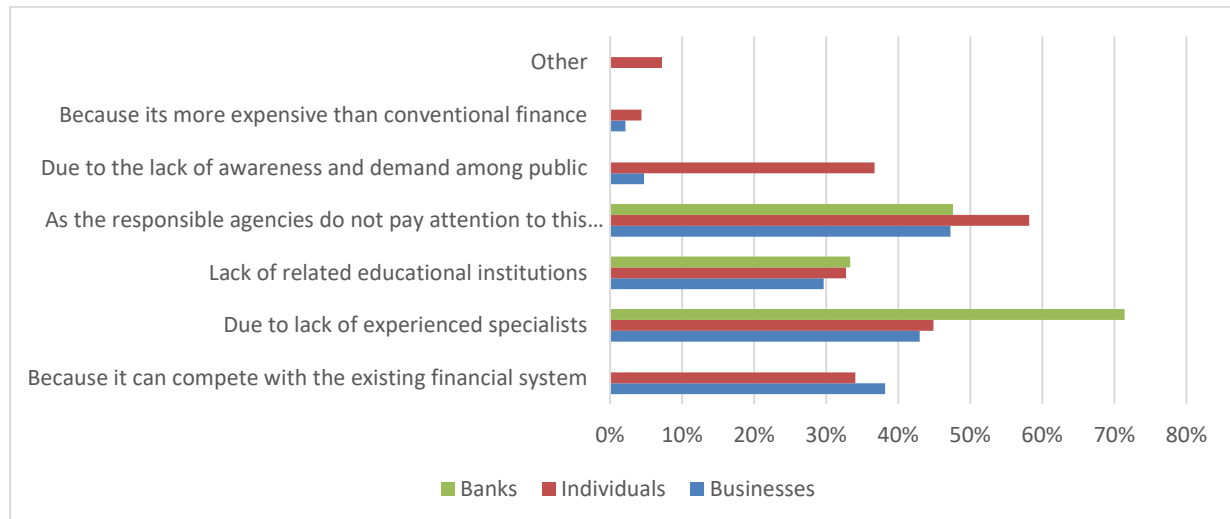
known Islamic finance products among both group of participants followed by Mudarabah agreement. Salam, Istisna, and Sukuk were the least known financing agreements by respective participants (refer to tables attached to annex I for full detailed figures). Furthermore, in case of development of Islamic Finance system in the country, 79 percent of individuals and 68 percent of businesses believe that it will impact the development of “halal” (permissible) products and services in the market, while 45 percent individuals and 47 percent businesses are of opinion that IF will increase the competition among financial institutions in the country as described in figure 5.

Figure 5: The impact of implementing and developing IF system in Uzbekistan



However, 47 percent of businesses and 58 percent of individuals held pessimistic views pertaining to the possibility of implementation of Islamic banking and finance in Uzbekistan by stating that responsible agencies were not paying much attention to this area. Other factors included competition, lack of specialists, lack of educational institutions, etc.

Figure 6: Reasons for not having Islamic Finance services in Uzbekistan



Despite the pessimism, respondents acknowledged that the demand for Islamic finance products and services would be “average (39 percent of businesses) to high (42 percent of individuals)” in Uzbekistan (refer to annex I for detailed figures). Also, businesses were asked about types of Islamic Finance products which could be successful. Ijara (26 percent) along with Musharakah and Mudarabah (24 percent) were expected to be the most successful, while 43 percent businesses could not name a products that could be the most demanded in the local market.

Banks:

Banks were asked if they would support Islamic finance including the establishment of Islamic banks in the country. All 27 banks stated they would fully support the opening of Islamic banking in Uzbekistan. Some banks commented as “yes, we will support as almost 90 percent of the population are Muslims and there is a high demand from businesses”. 67 percent of banks considered that implementation was very necessary because it would increase competition among financial institutions, the market for “halal” products and services would develop, and more investments would come from Muslim countries. 26 percent of banks considered it as a good option to establish because individuals and entrepreneurs need to be offered a variety of new products and services. In contrast, 2 other banks (7.4 percent) think that opening one or two Islamic banks is enough due to a low demand, or even opening an Islamic window will cover the market need. Upon further investigation pertaining to introducing IF system in the short term 44 percent of banks are in the opinion that commercial banks have no enough opportunities but they are ready to develop this system, while 44.44 percent are in the opinion that they know the main

principles of how IF system works but it is not sufficient to launch it. Table 3 summarizes the results.

Table 3: Capacity to introduce Islamic Finance system in Uzbekistan

| Do the banks have enough capacity to implement the Islamic banking in the short term period? | Numbers | Percentage |
|---|----------------|-------------------|
| Yes, we have enough trained professionals to start our business in this field | 3 | 11.11% |
| Yes, though we have limited knowledge about how IB operates but we welcome to open it | 12 | 44.44% |
| We know only the basic principles of Islamic banking, but it is not enough to start activity in this area | 12 | 44.44% |
| We have no specialists who have the necessary knowledge and skills in this sphere | 0 | 0.00% |
| Total | 27 | 100.0% |

Banks are also of the opinion that there is a high opportunity (81 percent of banks) for attracting financial resources of the population into savings or partnership agreements in the case of implementation of IF in Uzbekistan due to the high demand for IF products among population. In contrast, 15 percent of banks (4 banks) showing the opposite opinion that opportunities are low as demand is low, while 4 percent says there is no opportunity as there is no demand in the market. Upon further investigation on which types of Islamic finance products/ financing instruments will be more effective in promoting entrepreneurship in the country, 81 percent bankers stated Musharakah and Mudarabah as they are based on partnership, followed by Murabaha (66 percent) and Ijara (66 percent) (Refer to table 4)

Table 4: Estimation of effective IF products in the market

| of Islamic financial products will be the most effective in Uzbekistan and why? | Banks | |
|--|----------------|--------------------|
| | Numbers | Percentages |
| Musharakah and Mudarabah because they are based on partnership | 22 | 81.48% |
| Murabaha because it gives opportunity to purchase goods by deferred payment scheme | 18 | 66.67% |
| Ijara because it is similar to leasing which is already widely use in the country and therefore it will be easy to implement | 18 | 66.67% |
| Salam, because it allows advance payment in agriculture, which is very helpful to farmers | 11 | 40.74% |

| | | |
|--|-----------|-------------|
| Istisna, like Salam gives opportunity for advance payments in project financing and construction, considering fast-growing construction industry and high demand | 11 | 40.74% |
| Sukuk, because it gives opportunities for capital markets development, which is consistent with the government policy | 12 | 44.44% |
| I don't know | 0 | 0% |
| Total | 27 | 100% |

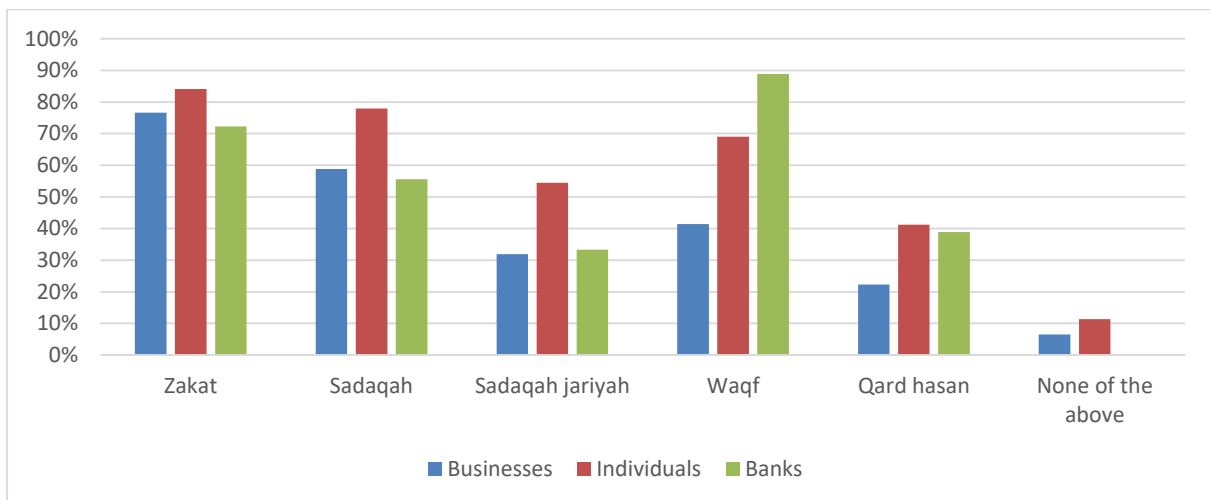
4.4. Knowledge about Islamic Finance system and Social finance

Overall, among the 36 percent of businesses, 7.41 percent of banks and 4 percent individuals stated that population of Uzbekistan have a deep level of knowledge and understanding of IF institutions while 31 percent businesses, 67 percent banks, and 49 percent individuals have only mere general understanding and knowledge. 22 percent banks could not assess the knowledge of the population on IF (refer to table attached in annex I).

Unlike businesses (14 percent) and individuals (16 percent), banks (54 percent) are aware of government's effort to implement Islamic Finance in Uzbekistan. Only 32 percent businesses and 28 percent individuals heard of or know about the Takaful Islamic insurance system, amongst the latter percentage, 44 percent businesses, 74 percent individuals, and 71 percent banks are willing to use Takaful once implemented in the country. Both individuals and businesses think that social networks/ websites, special TV programs, trainings, and university courses are the most effective way to transfer knowledge and skills in the field of Islamic Finance, while for 74 percent banks internship at Islamic financial institutions is considered the most effective way for learning IF followed by trainings and seminars (67 percent) (refer to annex for detailed figures).

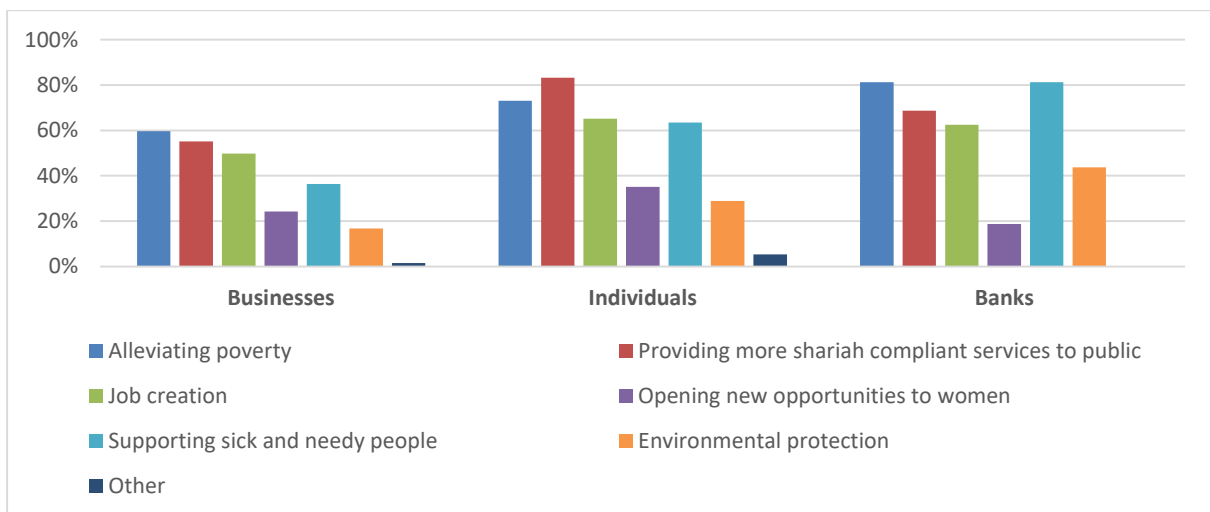
Interestingly, there is a very high level of awareness found pertaining to various types of Islamic Social Finance by individuals, banks, and businesses alike such as zakat, sadaqah, and waqf as displayed in Figure 7.

Figure 7: Types of Social Finance known by respondents



60 percent of businesses, 75 percent banks and 73 percent individuals believed that Islamic Social Finance can help alleviate poverty in Uzbekistan, and 55 percent businesses, 75 percent banks and 83 percent individuals believed that it can provide more Sharia compliant services to the public as described in figure 8. In this vein, some businesses sought significant benefit from Islamic Finance system which could contribute to improving education system; helping SMEs / independent entrepreneurs and firms; teaches the proper way to make a halal income, teaches halal trading/ethical, bringing peace in mind and soul, and being successful in the hereafter.

Figure 8: Benefits of Social Finance



When asked about the zakat payment, 64 percent of businesses stated their willingness to pay zakat on corporate activities, while 81 percent of individuals were willing to do so. Furthermore, 25 percent of businesses and 17 percent of individuals, though stated their willingness to pay zakat but they did not have adequate knowledge pertaining to the calculation methods and technicalities of zakat. On the other hand, only 36 percent businesses and 34 percent individuals were aware of the Waqf concept, consequently, 49 percent businesses and 62 percent individuals are

not satisfied with the nature of the Waqf activities in the country. Respondents, however, provided their suggestions on the way waqf ought to be managed in Uzbekistan as displayed by Table 5 where 36 percent of businesses and 46.81 percent individuals are in opinion that there should be legal framework for Waqf land and properties; while 35 percent businesses and 46 percent individuals would like to see transparency in Waqf activities. In addition, around 2 percent of Business owners expressed concern that the current system has no enough transparency of information in terms of funds spending; lacks experts who are accountable and trustworthy; lacks valid proof that Waqf funds are being received by those in need of it; and that mainly people are giving their funds to mosques or individuals whom they know. While individuals (5 percent) insisted on transparency in the process and the lack of knowledge of Waqf.

Table 5: Management of Waqf

| What do you think about how should Waqf be managed? | Businesses | Individuals |
|---|-------------------|--------------------|
| Legal framework for Waqf land and property should be created | 36% | 46.81% |
| A centralized special government agency should be established with the mandate of Waqf management | 25% | 29.52% |
| Nothing to be changed, the existing system works well, only transparent operations should be achieved | 35% | 46.00% |
| No special agencies / public funds are needed for the purpose of Waqf, the individuals should manage their money (in regards of Waqf) | 22% | 12.31% |
| Other | 3% | 13.46% |

Further, banks stated that commercial banks could contribute to the development of social finance through: directing to charity funds and social projects 52 percent, providing banking services to social finance organizations at discounted tariffs 61 percent, partnership based financing for start-ups and innovative projects 48 percent, providing interest-free loans to financially vulnerable students 44 percent, and providing privileged loans to start businesses 44 percent³¹.

4.5. Opportunities and impediments for the operation of Islamic Banks in Uzbekistan

Bankers were given open-ended questions on how Islamic banks could contribute to economic development in Uzbekistan. 12 banks stated that Islamic banks would diversify funding sources and give interest free loans to SMEs; Investment funds would be attracted from Muslim countries (from OIC member countries); public would increase its confidence in banks; idle funds on hand of public and businesses would be invested in permissible (halal) projects/products through banks which will increase healthy competition among financial institutions and contribute to the GDP

³¹ All other relevant figures of analysis are attached to Annex I

of the country; it will help to alleviate poverty by mobilizing funds appropriately; there will be justice in the financial transactions; literacy on Islamic finance products among public and bankers will also expand. Some banks also stated that according to their research 30 percent of the population do not use conventional banks' services due to religious reasons and they believe that if Islamic banks start operating here this gap will be narrowed down.

According to ADB study, 30% of the population did not use traditional banking loans due to their religious beliefs, and the opening of Islamic banks would fill this gap.

Obstacles: Banks were also asked about the biggest obstacles and problems for introduction of Islamic banking in Uzbekistan. The respondents stated the biggest problem was the lack of legislative framework regulating Islamic finance products and services and that the current legislation of banking and taxation was not adapted for banks operating based on Islamic law principles. They also pointed at the inconsistency of local tax and banking legislation with the nature of Islamic finance operations, and difficulty of processing Islamic products in the existing banking software systems. It was also recommended that the new legislation on Islamic banking and finance to be made along with regulation covering Islamic insurance. Another obstacle which country faces is insufficient expertise in Islamic finance area.

Suggestions by Banks:

- Banking legislation should be amended in a short period of time to establish Islamic banking and finance operations in Uzbekistan;
- Cooperation with developed countries and Islamic banks should be enhanced to attract international funding;
- AAOIFI-certificates to be introduced, and bankers in the field of Islamic banking and finance should be trained;
- Through the implementation of Islamic finance, the country will be able to introduce new types of financing instruments for the financial and banking sector, analyze foreign experience, reduce their shortcomings and risks, and effectively develop the sector in the short run. At the same time, the formation of partnership skills between the parties will be achieved.
- To introduce partnership-based or ethical (Islamic) financing in the Republic of Uzbekistan, it is necessary to form a corresponding legal and regulatory framework which, in turn, will allow the country to receive additional capital and offer alternative financing mechanisms to the population.

RECOMMENDATIONS

Part four (4) of the report aims to analyze the responses collected from banks, individuals, and businesses. The following recommendations are derived based on the above analysis.

- I. It is necessary to introduce an Islamic Banking law and make necessary amendments to relevant legislative and regulatory documents including the Civil code, the Tax code, and the Banking law. To implement these changes, the Government shall establish a working committee, which will consist of specialized lawyers with international experience and technical assistance team from international organizations like IsDB and IFC.
- II. Until appropriate legislative documents and regulation on Islamic Banking is adopted, certain Islamic finance instruments like Ijara, Musharakah, Mudarabah, and Murabaha should be piloted and exercised by non-banking leasing and investment companies. Special amendments are required in relevant laws which would enable non-banking Islamic leasing and investment companies carry out such operations. In addition, these non-banking financing institutions shall also be empowered to accumulate funds from general public.
- III. An Islamic Finance Council should be established to assist in developing the Islamic banking and financial system in Uzbekistan. The Council should include representatives from the Banking Association of Uzbekistan, commercial banks, government agencies, the Muslim Board, international financial institutions (including the Islamic Development Bank, the World Bank/IFC, etc.), Capital Markets' Development Agency, other business and finance community representatives.
- IV. Islamic Banking and Financial System Development Fund should be established under the Council with the following main functions:
 - Conducting research and studies on developing Islamic banking and finance infrastructure in Uzbekistan and proposing recommendations to the Council;
 - Attracting funding from various sources (including the private sector) to develop the Islamic financial system;
 - Coordinating the activities of all types of Islamic financial institutions operating in Uzbekistan (without duplicating the powers and responsibilities of the Central Bank or other government institutions);
 - Promoting Islamic finance and banking to increase financial literacy of the population. Publishing books and manuals of internationally renowned scientists and specialists on Islamic Finance in Uzbek and Russian;
 - Conduct training and collaborating partnership with Islamic Finance institutions, national and international stakeholders for enhancing capacity-building initiatives. Collaborating with institutions and business schools to encourage and facilitate course offerings in Islamic finance, economics, and banking

(Imamnazarov, 2018).

- V. Capital markets should play a vital role in attracting and channeling savings to productive areas in Uzbekistan. Priority should be given to enabling financial infrastructure consisting of international standards for development, supervision, and regulation of the Islamic capital market that will ensure resilient and sound growth. Specific or customized Sharia based products (e.g. Sukuk) will help build liquidity in the Islamic capital market.
- VI. A Strategic Plan shall be adopted for developing Islamic finance in Uzbekistan which includes the following:
 - Enabling Policy Environment for legal, regulatory, supervisory, liquidity management framework, taxation regime, and financial accounting & reporting framework;
 - Establishing Sharia Governance and Compliance which will focus on standardization and harmonization of Islamic finance law practices, and products/services. Moreover, it is vital to establish proper dispute resolution mechanism to address conflicts that could arise between Islamic financial institutions and customers. For this purpose, the Government shall make necessary provisions in its judiciary system to refer Islamic financial law pertaining to dispute resolution in all the matters of Islamic financial institutions operations;
 - Awareness and Capacity Building which will be made through coordination and collaboration amongst internal and external stakeholders, enhancing awareness about Islamic finance, and building capacity of the stakeholders;
- VII. Based on the Strategic Plan, an action plan shall be structured by stating the list of activities, the timeline, and respective responsible bodies.
- VIII. Ease of licensing requirements for establishing Islamic Finance institutions or any such company that intends to offer Islamic finance services.

CONCLUSION:

This report recommends incorporating Islamic financial system (formal and informal institutions) to the existing financial system and fill in the financing gap existing in Uzbekistan. MSME sector faces many challenges in funding their business while traditional and formal financial institutions fail to meet their financing needs. Combination of formal and informal financial institutions, which is part and parcel of Islamic financial system, has high potential in funding the balanced growth in Uzbekistan. The success of Islamic financial institutions in peer countries like Indonesia and Bangladesh is commendable and worth adopting and incorporating its best practices.

The presence of effective informal institutions in Islamic financial systems, like Waqf and zakat, can help not only to eradicate poverty and improve living standards, but also to be highly efficient in meeting various financing needs of MSMEs. The Government can also benefit from Islamic Finance by issuing sovereign and green sukuk to fund infrastructural and environmental development projects. The Government could raise funds not only from local investors but also attract foreign investors (particularly from Muslim countries).

There is more zeal and positivity pertaining to the willingness of people in contributing to zakat, waqf, and sadaqah. This necessitates development of a prudent, transparent and efficient institution for collection, management and usage of zakat and sadaqah aimed at poverty alleviation and financial empowerment of MSMEs. For the purpose of achieving this objective, it is essential to organize various waqf awareness programs promoting the benefits and importance of Islamic social finance. Other alternatives like Islamic crowdfunding could also play a crucial role in channeling Islamic funds to finance sustainable development projects.

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Figure 12: Methods cited by Banks for IF knowledge transfer

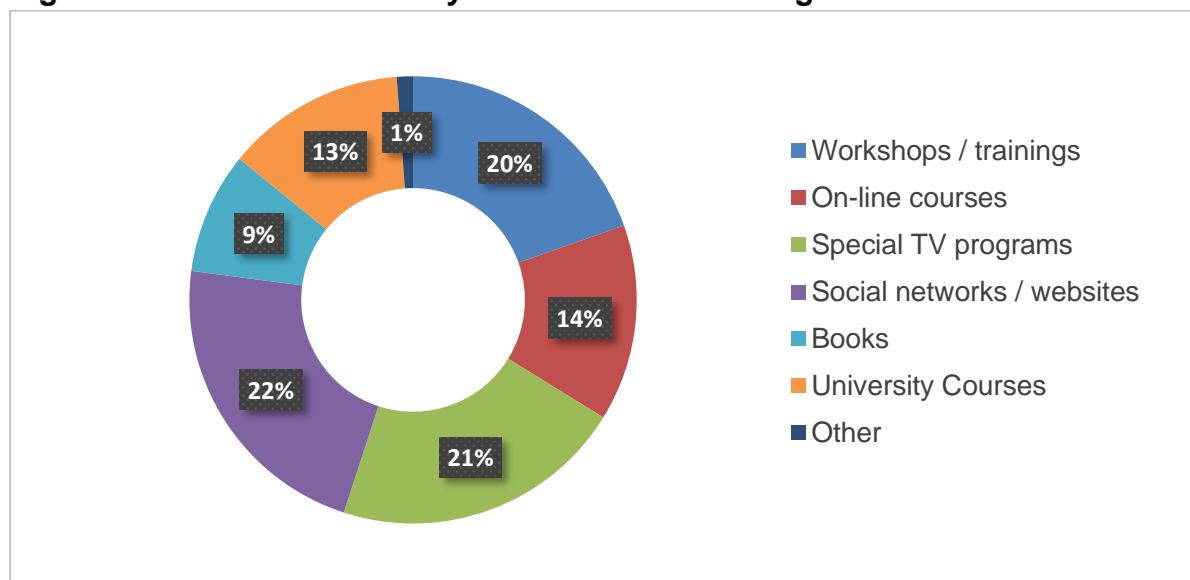


Table 6: List of the responded banks

| | Name of the Bank | Location | Year of establishment | Number of Branches | Number of Mini banks |
|----|-----------------------------|----------------|-----------------------|--------------------|----------------------|
| 1 | Ziraat Bank | Tashkent city | 01/01/1993 | 2 | 1 |
| 2 | Ipak Yo'li Bank | Tashkent city | 01/01/1990 | 16 | 37 |
| 3 | Sederaat Bank | Tashkent city | 01/01/1999 | 1 | |
| 4 | Agrobank | Tashkent city | 01/01/1989 | 178 | 300 |
| 5 | Sanoat Qurilish Bank | Tashkent city | 01/01/1992 | 47 | 19 |
| 6 | Poytaxt Bank | Tashkent city | 01/01/2019 | 1 | 2 |
| 7 | Qishloq Qurilish Bank | Tashkent city | 01/01/1994 | 42 | 48 |
| 8 | Madad Invest Bank | Fergana region | 01/01/2016 | 1 | 6 |
| 9 | Mikro Kredit Bank | Tashkent city | 05/05/2006 | 71 | 55 |
| 10 | Hamkor Bank | Andijan City | 31/08/1991 | 44 | 132 |
| 11 | Ravnaq-Bank | Tashkent city | 01/01/2001 | 1 | |
| 12 | KDB Bank | Tashkent city | 01/01/1996 | 2 | |
| 13 | Turon Bank | Tashkent city | 06/11/1990 | 20 | 31 |
| 14 | Turkiston bank | Tashkent city | 16/04/1998 | 2 | |
| 15 | Infin bank | Tashkent city | 01/01/2007 | 15 | |
| 16 | Asia Alliance Bank | Tashkent city | 01/01/2009 | 10 | 15 |
| 17 | Aloqa Bank | Tashkent city | 01/01/1994 | 14 | 79 |
| 18 | National Bank of Uzbekistan | Tashkent city | 01/01/1991 | 73 | 30 |
| 19 | Uzagroexsport Bank | Tashkent city | 01/01/2017 | 1 | 0 |
| 20 | Universal Bank | Kokand city | 01/01/2001 | 4 | 24 |

| | | | | | |
|----|---------------|---------------|------------|----|-----|
| 21 | Ipoteka Bank | Tashkent city | 16/05/2005 | 39 | 126 |
| 22 | Trastbank | Tashkent city | 21/06/1994 | 11 | 75 |
| 23 | Ravnaq-Bank | Tashkent city | 01/01/2001 | 1 | |
| 24 | Kapitalbank | Tashkent city | 01/04/2001 | 17 | 23 |
| 25 | Asaka Bank | Tashkent city | 07/11/1996 | 22 | 6 |
| 26 | Trastbank | Tashkent city | 01/01/1994 | 11 | 75 |
| 27 | Savdogar Bank | Tashkent city | 01/01/1994 | 20 | 24 |

Table 7: Respondents' assessment of public knowledge on IF

| How do you assess knowledge of population on Islamic finance? | Businesses | | Banks | | Individuals | |
|---|-------------|-------------|-----------|----------------|-------------|----------------|
| | Numbers | Percentages | Numbers | Percentages | Numbers | Percentages |
| Few have knowledge | 677 | 36% | 2 | 7.41% | 137 | 3.93% |
| Only a general understanding | 580 | 31% | 18 | 66.67% | 1699 | 48.74% |
| No knowledge | 326 | 17% | 1 | 3.70% | 972 | 27.88% |
| Cannot assess at this stage | 290 | 15% | 6 | 22.22% | 678 | 19.45% |
| Total | 1873 | 100% | 27 | 100.00% | 3486 | 100.00% |

Table 8: Source of financing activities

| Do you use a bank loan? | Businesses | | Individuals | |
|-------------------------|-------------|-------------|-------------|----------------|
| | Numbers | Percentages | Numbers | Percentages |
| Yes | 893 | 40% | 1548 | 31.37% |
| No | 1342 | 60% | 3386 | 68.63% |
| Total | 2235 | 100% | 4934 | 100.00% |

Table 9: Loan purpose (Businesses)

| | Numbers | Percentages |
|---|------------|-------------|
| Purchase of equipment, transportation and special machinery | 428 | 50% |
| Financing of operating assets, trade and export-import | 290 | 34% |
| Financing agricultural projects | 95 | 11% |
| Other | 40 | 5% |
| Total | 853 | 100% |

Table 10: Loan purpose (Individuals)

| | Numbers | Percentages |
|----------------|-------------|----------------|
| Consumer loans | 741 | 53.19% |
| Mortgage loan | 386 | 27.71% |
| Education | 169 | 12.13% |
| Business loan | 157 | 11.27% |
| Other | 233 | 16.73% |
| Total | 1393 | 121.03% |

Table 11: Affordability of interest rates on bank loans

| | Businesses | | Individuals | |
|--------------|------------|-------------|-------------|---------------|
| | Numbers | Percentages | Numbers | Percentages |
| Affordable | 58 | 7% | 107 | 7.69% |
| Average | 297 | 33% | 286 | 20.55% |
| High | 319 | 36% | 605 | 43.46% |
| Very High | 218 | 24% | 394 | 28.30% |
| Total | 892 | 100% | 1392 | 100.0% |

Table 12: Degree of easiness of taking loans from banks

| Difficulty of conditions (collateral, covenants, insurance and etc.) to receive a bank loan | Businesses | | Individuals | |
|---|------------|-------------|-------------|---------------|
| | Numbers | Percentages | Numbers | Percentages |
| Easy | 74 | 8% | 190 | 13.62% |
| Average | 428 | 48% | 627 | 44.95% |
| Difficult | 281 | 31% | 414 | 29.68% |
| Very Difficult | 115 | 13% | 164 | 11.76% |
| Total | 898 | 100% | 1395 | 100.0% |

Table 13: Reasons for not using banks loans

| | Businesses | | Individuals | |
|---|-------------|-------------|-------------|---------------|
| | Numbers | Percentage | Numbers | Percentage |
| Interest rates are high | 600 | 34% | 660 | 15.27% |
| Complicated procedures, including collateral requirements | 465 | 26% | 478 | 11.06% |
| Due to religious beliefs | 675 | 38% | 2409 | 55.74% |
| No need to borrow | 346 | 20% | 625 | 14.46% |
| Other | 48 | 3% | 150 | 3.47% |
| Total | 1759 | 121% | 4322 | 100.0% |

Table 14: Knowledge of Businesses on Islamic Finance Products

| Are you aware of Islamic finance products and do you understand how they works? | Have complete knowledge | | General understanding | | Have no knowledge | | Total |
|---|-------------------------|-----|-----------------------|-----|-------------------|------|-------|
| | | | | | | | |
| Musharaka | 6.63% | 104 | 29.96% | 470 | 63.4% | 995 | 1569 |
| Mudaraba | 9.13% | 142 | 30.01% | 467 | 60.9% | 947 | 1556 |
| Murabaha | 7.87% | 121 | 29.52% | 454 | 62.6% | 963 | 1538 |
| Ijarah | 16.83% | 276 | 33.72% | 553 | 49.5% | 811 | 1640 |
| Salam | 6.60% | 101 | 19.86% | 304 | 73.5% | 1126 | 1531 |
| Istisna | 4.13% | 63 | 21.39% | 326 | 74.5% | 1135 | 1524 |
| Sukuk | 3.84% | 58 | 17.48% | 264 | 78.7% | 1188 | 1510 |
| Others | | 0 | | 0 | | 0 | 0 |

Table 15: Knowledge of Individuals on Islamic Finance Products

| Are you aware of Islamic finance products and do you understand how they works? | Have complete knowledge | | General understanding | | Have no knowledge | | Total |
|---|-------------------------|-----|-----------------------|------|-------------------|------|-------|
| | | | | | | | |
| Musharaka | 5.36% | 182 | 33.99% | 1154 | 60.65% | 2059 | 3395 |
| Mudaraba | 8.93% | 300 | 30.49% | 1024 | 60.58% | 2035 | 3359 |
| Murabaha | 7.14% | 239 | 28.91% | 968 | 63.95% | 2141 | 3348 |
| Ijarah | 14.26% | 483 | 47.92% | 1623 | 37.82% | 1281 | 3387 |
| Salam | 6.54% | 216 | 20.09% | 664 | 73.37% | 2425 | 3305 |
| Istisna | 4.98% | 165 | 21.03% | 697 | 73.99% | 2452 | 3314 |
| Sukuk | 3.64% | 121 | 18.06% | 601 | 78.30% | 2605 | 3327 |
| Others | | 0 | | 0 | | 0 | 0 |

Table 16: Types of products expected to be successful

| What type of Islamic financial products will be successful in Uzbekistan and why? | Businesses | | Banks | |
|---|-------------|-------------|-----------|-------------|
| | Numbers | Percentages | Numbers | Percentages |
| Musharaka and Mudaraba because they are based on partnership | 451 | 24% | 17 | 81% |
| Murabaha because it gives opportunity to purchase goods by deferred payment scheme | 367 | 20% | 13 | 62% |
| Ijara because it is similar to leasing which is already widely use in the country and therefore, it will be easy to implement | 495 | 26% | 13 | 62% |
| Salam, because it allows advance payment in agriculture, which is very helpful to farmers | 299 | 16% | 7 | 33% |
| Istisna, like Salam gives opportunity for advance payments in project financing and construction | 230 | 12% | 7 | 33% |
| Sukuk, because it gives opportunities for capital markets development, which is consistent with the government policy | 156 | 8% | 10 | 48% |
| I don't know | 810 | 43% | 0 | 0% |
| Total | 1873 | 150% | 21 | 319% |

Table 17: Awareness of activities conducted by Uzbek government for the development of IF

| Are you aware of any activity conducted by the government of Uzbekistan for the development of Islamic finance? | Businesses | | Banks | | Individuals | |
|---|-------------|-------------|-----------|-------------|-------------|----------------|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| No | 1642 | 87% | 12 | 46.15% | 2909 | 83.80% |
| Yes | 241 | 13% | 14 | 53.85% | 562 | 16.20% |
| Total | 1873 | 100% | 26 | 100% | 3469 | 100.00% |

Table 18: Areas to spend Waqf and charity funds

| What should Waqf and charity money be spent for? | Businesses | | Banks | | Individuals | |
|---|-------------|-------------|-----------|----------------|-------------|----------------|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Implementation of infrastructure projects (e.g. construction of roads / bridges etc.) | 627 | 36% | 14 | 58.33% | 1370 | 48.04% |
| Financial support of students | 762 | 44% | 18 | 75.00% | 1758 | 61.64% |
| Construction / re-construction of mosques and madrasas | 641 | 37% | 10 | 41.67% | 1630 | 57.15% |
| Technology / research funding | 550 | 32% | 13 | 54.17% | 1317 | 46.18% |
| Publishing of religious and educational books | 432 | 25% | 8 | 33.33% | 1410 | 49.44% |
| Social protection of vulnerable groups | 916 | 53% | 19 | 79.17% | 2140 | 75.04% |
| Cannot answer | 80 | 5% | 0 | 0.00% | 163 | 5.72% |
| Other | 35 | 2% | 3 | 12.50% | 127 | 4.45% |
| Total | 1736 | 233% | 24 | 354.17% | 2852 | 347.65% |

Table 19: Methods cited by Businesses and individuals for transferring knowledge on IF

| Which method is the most effective for transferring knowledge and skills in the field of Islamic finance? | Businesses | | Individuals | |
|---|-------------|-------------|-------------|----------------|
| | Numbers | Percentages | Numbers | Percentages |
| Workshops / trainings / internships | 1103 | 59% | 1887 | 54.13% |
| On-line courses | 717 | 38% | 1451 | 41.62% |
| Special TV programs | 908 | 48% | 2326 | 66.72% |
| Social networks / websites | 870 | 46% | 2495 | 71.57% |
| Books | 358 | 19% | 984 | 28.23% |
| University Courses | 440 | 23% | 1538 | 44.12% |
| Other | 33 | 2% | 145 | 4.16% |
| Total | 1873 | 236% | 3486 | 310.56% |