

THE ROLE OF ISLAMIC BANKING IN PROSPECTIVE DEVELOPMENT OF AGRICULTURE

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Annotation: *The article addresses the scientific developments and experiences of Islamic finance of middle ages in Central Asia in order to rationally use the products of modern Islamic finance, taking into account the level of development of Central Asian countries and the specifics of national traditions.*

Keywords: *labor force, human capital, Islamic finance, murabaha, salam trades, "bay" salam, advance financing, small and medium potential borrowers.*

One of the important directions of reforms in Uzbekistan is the poverty reduction reform program. Achieving real results of reforms in this area depends on the study of living conditions, the development of clear criteria for poverty and the creation of an effective system of working with human capital. Achieving the goal of reducing poverty in the country today and achieving certain results requires the implementation of specific reforms. Focusing these reforms primarily on the country's agricultural sector is, of course, an important step in achieving the intended goal.

According to the International Trade Organization's data, the majority of the world's poor live in rural areas. Due to the lack of decent working conditions in these areas, the poverty rate in rural areas is four times higher than in urban areas ¹.

In Uzbekistan, 27% of the economically active population is engaged in agriculture. Agricultural land covers 45% of the country's territory, and about 49,4% of the population lives in rural areas². These indicators show that the implementation of specific reforms in country's agriculture has the potential to rise to a certain stage of development. Moreover, given that the people of the country have national experiences in this field that have been formed over the centuries and can rely on them, there is more to it than we might think.

However, not all people living in rural areas today are agricultural producers or growers of such products. For example, the share of farms, ie families growing

¹ ILC. Report of the Committee on Rural Employment. Geneva: ILO, 2008.: Rural economy (Eastern Europe and Central Asia) // <https://www.ILO.org/Moscow/dw4sd/themes/rural/lang-ru/index.htm>

² According to the official website of the State Statistics Committee of the Republic of Uzbekistan, 2019.

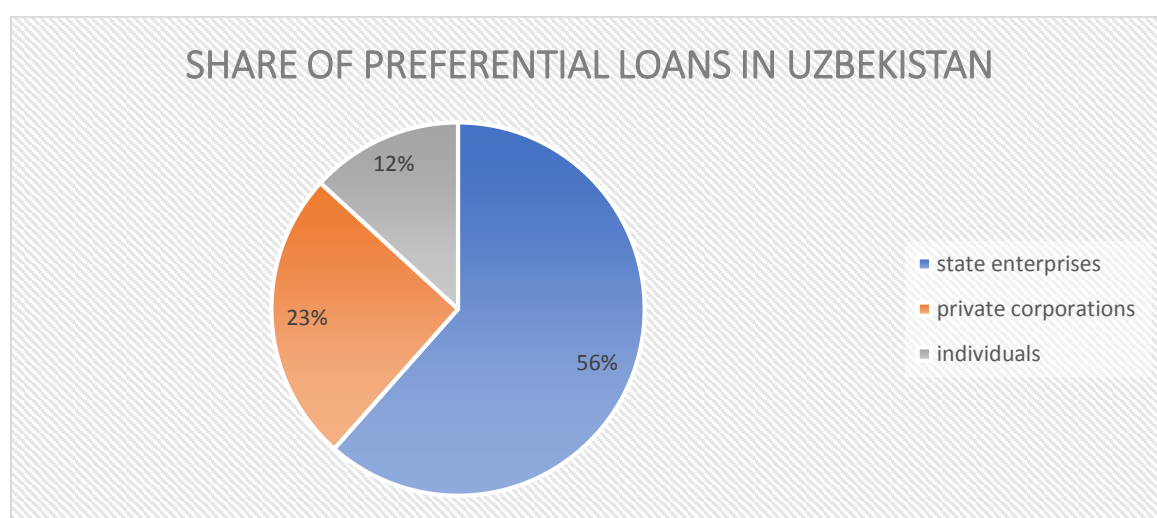
agricultural products in the total household volume is 69.5% ³. Although a number of reforms in the country over the years have shown that conditions in this area have improved, almost half of the population earns income from the non-agricultural sector, and the level of income in these areas is still relatively low. In recent years, climate change has led to water shortages and low land productivity lead to the reduction of family plots and their accumulation in the hands of farmers. In addition, the other problems like the inability of the needy to benefit from tax incentives causing a loss of incomes in the agricultural sector and decline in the number of households engaged in agricultural production.

There are also a number of problems, such as the purchase of machinery for growing crops, the use of modern technologies in processing products, the lack of sufficient funds to purchase seeds and fertilizers. These problems hinder the formation of small family industries in agriculture, and development of entrepreneurship in this sector.

The country has developed a number of measures and industry-oriented programs to increase the role of financial institutions, including commercial banks, in meeting the demand for financial resources of producers in this sector. Problems related to the lack of resources of local banks have highlighted the need to expand the volume of concessional lending to agriculture through foreign credit lines.

However, according to the analytical data of the International Monetary Fund report No. 18 that 56% of preferential loans in Uzbekistan were given to state enterprises, 23% to private corporations and only 12% to individuals, from this situation, it is clear that small farmers and households are hardly able to use preferential loans.

Preferential loans in Uzbekistan, 2019



³ Final report Japanese Agency for International Cooperation: Respublik Uzbekistan. Preparatory survey for the project "Development of the value chain in the horticulture sector". Japanese Institute of Economic Research Corporation Sanyu Consulting, 2019

Accordingly, in order to eliminate such problems like improving the agricultural entrepreneurship system in the country, reducing poverty and developing entrepreneurship, has enhanced allocation of special preferential loans of state and international funds, as well as special preferential lending funds of banks in state cooperation⁴.

According to the strategic goal of the credit policy of JSCB "Agrobank", which promotes the development of agricultural production in the country, attracting people to entrepreneurship under the motto "Entrepreneurship of ordinary people", increasing their knowledge and awareness in business, organizational and financial support have been risen⁵. This, of course, will serve to increase the relative production potential of the population engaged in the agricultural sector and increase their incomes.

However bank this tasks instead faces some difficulties and challenges in raising . These difficulties are due to the fact that people living in rural areas and working in this field are mainly involved in agricultural production as labor resources, and the concept of "labor resource" differs significantly from the concept of "human capital". This is because the labor force is made up of directly educated and uneducated people who define skilled and unskilled labor, and this group consists mainly of the population as a labor force. The concept of "human capital" differs from "human resources" in the organization of a set of ⁶knowledge, skills and abilities that are directly used to meet the various needs of man and society as a whole .

Today in rural areas of the country there are such problems with the "human capital" factor, lack of knowledge and experience in the rational management of financial income, lack of sense of responsibility. brings.

It also has a sufficiently liquid collateral supply for small farmers and households engaged in agricultural production . they are not this subjects bank loans restricts access . Therefore, not only Agrobank, but also other banks of the country maintain the method of working with a large number of potential customers in lending to agribusiness.

Today at the expense of foreign credit lines by commercial banks of the republic for 2018-2021 **agriculture - 1,638.3 million. doll. (i.e., 22% of the total funds)** were disbursed ⁷. Islamic finance **by the Islamic Corporation for the**

⁴ Including the State Fund for Entrepreneurship Support, Family Business Development, The State Fund for Support of Farmers, Farms and Landowners under the Council of Farmers, Farms and Landowners of Uzbekistan, etc.

⁵ Republic of Uzbekistan Agrobank CB's " Bank for 2017 intended credit policy basic directions ", Tashkent, 2016.

⁶ Wikipedia Svobodnaya encyclopedia: "Human Capital" // <https://ru.wikipedia.org/wiki/>

⁷Information of the Central Bank of the Republic of Uzbekistan: " On loans to businesses through foreign credit lines", 2021 (source: <https://cbu.uz/>).

Development of the Private Sector streams expand strategy In accordance with plans to expand its activities in the CIS countries , including Uzbekistan, since 2006 the ICD has allocated \$ 378 million to Uzbekistan to finance various projects, including \$ 310 million for the development of small and medium enterprises, of which \$ 200,000. Up to \$ 4 million in projects aimed at financing through the Murobaha financial product ⁸. Due to this credit line, Agrobank also provides Murobaha financial products to customers. However, the slightly higher interest rates on these financial products (around 9% to 12% per annum) do not allow them to be used by small and medium-sized enterprises in the agricultural sector, especially for small farmers and households.

of small farmers in rural areas, as well as entrepreneurs who have started to grow certain types of agricultural products in their families (fishing, poultry, rabbit breeding, etc.) at their own expense, show that despite the average or higher income they do not have enough funds to take their production to the next stage of development and operate as a small enterprise. Although they need funds for the next stage of production, most entrepreneurs are reluctant to use the loans offered by banks. Because, first of all, today many entrepreneurs of our country have begun to abandon the use of bank loans. Second, in their view (based on their own experience) the initial costs of growing a crop or a particular type of product, i.e. the use of bank loans for seeds, agricultural machinery, including fuel and similar necessities, and the production of higher credit prices relative to their income level has a negative impact on profitability. When the crop ripens, the costs associated with selling it, tax arrears, interest on loans - all of this is used to cover the percentage of loans received, taxes and other debts, not to provide additional income to small farmers, but in most cases their debt status. leading to an increase.

These cases with households and small farmers in the agricultural sector show that interest-bearing loans provided by banks, whether soft or cheap, have always been used by those with low or average incomes in agriculture to move to processing and packaging. not enough to allow small businesses to start.

The signing of the Grant Agreement in September 2021 to develop a regulatory framework for Islamic banking and finance in the Republic of Uzbekistan and the subsequent introduction of Islamic financing mechanisms in the country has given great hope to many entrepreneurs, including small and medium-sized borrowers. As we all know, firstly, the products of Islamic banking are not based on usury, and secondly, the agreement provides for the creation of a fund with a capital

⁸ <https://islommoliyasi.uz/uz/icd/> International organizations: Islamic Corporation for the Development of the Private Sector - ICD

of \$ 500 million to create the necessary conditions for the involvement of youth, women and the rural population in entrepreneurship.

To date, however, the use of Islamic finance products and projects to which its funds are directed have not been sufficient to contribute to the support of the agricultural sector. In this regard, the mechanisms that are entering our practice as products of Islamic finance, especially the products of debt relations, can not be applied equally to all areas. Especially in the agricultural sector, small and medium-sized potential borrowers need machinery and equipment, but the Murobaha agreements used in the field of Islamic finance are an expensive product for them.

The fact that we study the essence of the mechanisms of Islamic finance, which enter our practice in a very modern way, through the theories formed in other Muslim countries, does not allow us to use the mechanisms of Islamic finance in accordance with our conditions. Therefore, an important aspect of the issue that we should pay attention to is that Central Asia has a thousand years of experience in this field as a country of scholars who in their past have developed and improved the rules and moderate theories of products related to modern Islamic banking. This is the product for us areas right apply and islam finance products allows efficient use. For example, a study of the heritage of our ancestors on the experience of this shows that the contracts of muzaraba and murobaha were made only by experienced people who could effectively manage financial resources. However, it is mainly the middle class or the population engaged in agriculture rent oid agreements with worked and "Salam" contracts were widely developed in agriculture.

According to the rules of medieval jurists of Central Asia regarding this trade agreement:

first, the trades by "Salam" contracts had to conclude within a certain period of time; this period was determined in advance and the transaction was carried out in the future;

second, the seller (product grower) received payment in advance for the product, subject to future sales ⁹.

In fact, concluding a deal to sell a product that was not yet in the hands of the seller was not in accordance with the law (because of the high risks of unripe crops), according to medieval Arab scholars. However, Central Asian medieval scholars questioned the legitimacy of such transactions: First of all, this type of trade was legal because the poor need such trade ¹⁰, " they said, allowing them to be widely used in agriculture. The fact that our ancestors focused on the nature of partnership-based agreements "combining the interests of the rich and the poor" and put them into practice, created conditions for the

⁹ Burhaniddin Marginani Hidoya. Comments on Muslim law. V

In two parts, four volumes, part 2 Volumes I-II, Translation from English, edited by N.I. Grodekova, responsible ed., author. foreword, introductory Art. and scientific comm. prof. Saidov. - M.: V. Kluver, 2010. -808 p.

¹⁰ That source

prevention of social inequality in society. These experiences are still relevant today for modern Uzbekistan, which has chosen the path of socially oriented market relations.

In modern Islamic finance, these agreements are called “Bay Salom” agreements and are a type of advance financing similar to contracts used mainly in agriculture and manufacturing ¹¹. Today, small farmers and households growing agricultural products face many difficulties in supplying and selling their produce, directly exporting it independently. In such conditions, the introduction of "Salom" trade practices in the agricultural sector of the country will allow, firstly, to obtain financing from small producers without attracting borrowed funds, and secondly, the sale of goods will be guaranteed. Third, not only banks, but also other stakeholders (legal entities and individuals) are involved in financing.

In conclusion, banking products offered by banks to small and medium-sized potential borrowers of the agro-industrial complex should not consist only of lending under government programs. The diversity of products offered by banks allows them to work with promising projects for both small and medium-sized potential borrowers, going beyond the "pattern of effective lending to borrowers, thinking only of their own income."

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