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INTEGRATION OF TRADITIONAL AND ISLAMIC FINANCE IN SUPPORTING SMALL AND MEDIUM BUSINESSES IN UZBEKISTAN

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Abstract. This article examines current issues related to the transformation of the financial and credit support system for small and medium-sized businesses in the Republic of Uzbekistan. Particular attention is paid to the synergistic effect of integrating traditional banking products with innovative Islamic finance instruments implemented through microfinance organizations.

Keywords: small and medium businesses, commercial banks, microfinance organizations, Islamic finance, financial integration, investment.

In today's context of global structural shifts and technological transformation, the small and medium-sized enterprise sector is a key driver of sustainable economic growth, employment, and export diversification. In the Republic of Uzbekistan, as part of the implementation of long-term national development strategies, special attention is paid to creating a favorable business environment and maximizing the simplification of business procedures. However, despite the successes achieved, limited access to flexible and long-term sources of financing remains a key constraint to large-scale acceleration of small businesses.

The traditional banking system, burdened by high collateral requirements and strict regulatory frameworks, is not always able to quickly and fully meet the investment needs of dynamically developing enterprises. This necessitates the modernization of the financial architecture through the deep integration of traditional lending mechanisms and alternative investment models, among which Islamic finance is the most promising approach.

Commercial banks in the Republic of Uzbekistan traditionally play a central role in the financial support system for entrepreneurial activity. Through the use of credit lines from international financial institutions such as the World Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, targeted long-term financing is provided for projects in the areas of production modernization, import substitution, and the implementation of green technologies. However, the distribution of these resources reveals a number of systemic problems.

The high concentration of bank capital and information asymmetry mean that a significant portion of financial flows is directed to large entities, while microenterprises face a lack of liquidity. The lending policies of most commercial banks still rely on conservative risk assessment methods that require the provision of highly liquid, hard collateral, which automatically excludes start-ups and innovative companies with only intellectual capital from potential borrowers.

Given these limitations of the traditional banking system, the implementation of the principles of the Islamic financial model, which is based on the abolition of interest, the sharing of profits and losses between the investor and the entrepreneur, and the strict linking of financial transactions to real tangible assets, is becoming extremely relevant.

The synergistic effect of integrating traditional credit mechanisms and Islamic microfinance instruments significantly expands the reach of financial services to various segments of the business community. For Uzbekistan, where a significant portion of the population is guided by religious and ethical principles when making financial decisions, the emergence of Islamic microfinance products

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means bringing significant amounts of cash savings out of the shadow economy and into legitimate investment opportunities.

Commercial banks, acting as major operators of international credit lines, can transform these resources through specialized Islamic windows or subsidiary microfinance organizations, thereby reducing their own risks by diversifying their portfolios. This hybrid model combines the high liquidity and stability of the banking sector with the flexibility and ethical appeal of microfinance services.

To successfully implement an integrated support system for small and medium-sized businesses, it is necessary to implement a range of measures in several key areas. First, further harmonization of national legislation, including the tax and civil codes, is required to eliminate double taxation in Islamic finance transactions. Secondly, it is necessary to intensify cooperation with international Islamic financial institutions, such as the Islamic Development Bank and the Islamic Corporation for the Development of the Private Sector, to attract targeted capital investments in domestic microfinance organizations. Thirdly, a critical element is the digitalization of financial services and the creation of platform solutions that allow entrepreneurs to remotely combine various financial products depending on their current business needs.

The introduction of Islamic financial products opens access to the capital market for those categories of the population and businesses that previously did not use traditional banking instruments due to religious or ethical beliefs. However, the potential of this system is much broader. Thanks to the transparency of structures, transactions based on real assets, and the fair distribution of risks, Islamic finance is becoming attractive to traditional clients as well.

As a result, financial institutions are able to significantly expand their client base by attracting retail, small and medium-sized businesses, and large corporate clients.

Currently, the population of Uzbekistan has accumulated significant amounts of available cash. However, the lack of accessible, understandable, and compliant investment instruments that align with citizens' values limits the integration of these resources into the real economy. In these macroeconomic conditions, Islamic investment accounts can become an effective, natural channel for attracting capital.

Consumer confidence is one of the key drivers of sustainable growth in the financial market. When the economic logic of products is transparent, based on actual trade and investment transactions, and supported by strict compliance controls, client perceptions of institutions change dramatically. Transparency and risk sharing become the foundation for a long-term, mutually beneficial partnership between the bank and society.

Conclusion. The development of a flexible, diversified, and inclusive system of financial and credit support for small and medium-sized businesses is a strategic priority for ensuring the macroeconomic stability of the Republic of Uzbekistan. The integration of traditional banking resources, backed by international credit lines, with innovative Islamic financing mechanisms based on microfinance institutions can eliminate existing barriers to the development of private initiative. Implementation of the proposed comprehensive approach will not only improve financial inclusion but also stimulate the influx of domestic and foreign investment into the real sector of the economy, thereby providing a solid foundation for sustainable long-term development.

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