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LEGAL BASIS FOR PROVIDING ISLAMIC FINANCIAL SERVICES IN THE MICROFINANCE SECTOR IN UZBEKISTAN

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Abstract: This article discusses the theoretical and practical aspects of the formation of the legal framework for the introduction of Islamic microfinance institutions in the Republic of Uzbekistan. In the context of active reform of the financial sector and the desire to increase the level of population involvement in economic activity, the diversification of financial instruments is of particular relevance.

Key words: Islamic finance, microfinance organizations, legal framework, legislation, regulation, financial inclusion.

Introduction: The current stage of socio-economic development of the Republic of Uzbekistan is characterized by deep structural transformations aimed at liberalizing the economy and creating favorable conditions for doing business. One of the key factors for the successful implementation of these reforms is the construction of a flexible, inclusive and sustainable financial system. In this context, the development of microfinance is a powerful tool for supporting small businesses, self-employment of citizens and reducing poverty, especially in rural regions of the country.

However, the traditional microfinance model, based on interest, does not fully meet the needs of all segments of the population. A significant portion of citizens and small businesses, due to their religious and ethical beliefs, consciously refuse to use classic credit products. In this regard, there is an objective need to introduce alternative financing models, among which Islamic banking and Islamic microfinance occupy a central place.

For the successful functioning of this model, a key condition is the presence of a clear, comprehensive and harmonious legal framework. The formation of a legal framework regulating the provision of Islamic financial services by microfinance organizations is a complex, complex task that requires taking into account both the specifics of national legislation and the fundamental principles of Islamic law.

Islamic finance is fundamentally different from the traditional financial system, since it is based not only on economic indicators, but also on the strict moral and ethical standards of Sharia. The basic principles of Islamic law in the field of economic relations include an absolute prohibition on receiving or paying interest on loans, a prohibition on transactions containing elements of excessive uncertainty or speculation, and a prohibition on participating in gambling and financing activities recognized as harmful or prohibited.

Unlike a traditional loan, where the lender transfers all risks to the borrower and is guaranteed to receive income in the form of interest, Islamic microfinance is based on the principles of sharing profits and losses, as well as on the mandatory connection of the financial transaction with real tangible assets. Financial institutions act not just as lenders, but as resellers, investors or partners of their clients.

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Among the most promising instruments for the microfinance sector are trade finance transactions with deferred payment, trust partnership agreements, joint participation agreements in capital, as well as gratuitous targeted loans. Each of these forms requires specific legal formalization, which must be recognized by both the secular courts of the state and Sharia experts.

In the Republic of Uzbekistan, significant work has been done in recent years to modernize the regulatory framework of the microfinance sector. The adoption of the Law of the Republic of Uzbekistan "On non-bank credit organizations and microfinance activities" laid the foundation for a qualitative expansion of the range of services provided by microfinance organizations. This document significantly simplified regulatory procedures and opened up new opportunities for sector transformation.

However, a comprehensive analysis of the current civil, tax and banking legislation shows that the legal framework for the full functioning of Islamic microfinance is still at the stage of formation. The main difficulty is that the country's basic codes are initially focused on the traditional Anglo-American or continental financial models.

For example, the Civil Code of the Republic of Uzbekistan defines a loan agreement and a credit agreement solely through the prism of repayment of the debt amount and payment of interest for the use of funds. At the same time, Islamic instruments such as murabaha, from a legal point of view, represent purchase and sale agreements with a markup and installment payment. Traditional microfinance organizations are legally limited in their right to engage in trading activities and acquire property on their balance sheet for the purpose of its subsequent resale to a client. This creates a serious legal conflict that limits the legal field of application of Islamic non-banking products

Islamic credit institutions.

The area of tax regulation deserves special attention. In traditional financing, interest on loans is exempt from value-added tax and is considered a financial expense. When using the Islamic trading model, a financial institution purchases goods from a supplier and resells them to a client. Without specific amendments to the Tax Code of the Republic of Uzbekistan, such a transaction may be interpreted by tax authorities as a double trade operation, which entails double taxation with value-added tax.

Double taxation makes Islamic microfinance products economically uncompetitive compared to traditional loans. To address this issue, legal norms should be adjusted so that the trade margin in Islamic financing agreements is treated for tax purposes as the interest income of traditional financial institutions, and the transactions themselves are exempt from excessive tax burden.

The legislation of the Republic of Uzbekistan must establish the legal status of such councils within microfinance institutions, define their powers, requirements for the qualifications of their members, and procedures for interaction with state regulators. The lack of legally established Shariah control standards may lead to the emergence of unscrupulous market participants who use the term "Islamic" solely for marketing purposes without truly adhering to internal rules and standards.

Conclusion: Developing a high-quality regulatory framework for Islamic microfinance in Uzbekistan is a strategically important step in increasing the availability of financial services and attracting domestic and foreign investment. To achieve this goal, it is necessary to implement a set of legislative measures in the following areas. First, amendments to the Civil Code of the Republic of Uzbekistan are required to legalize the legal nature of Islamic financial transactions and allow microfinance organizations to own assets for subsequent transfer or resale to clients under financial agreements.

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