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RISKS IN THE PROCESS OF ISLAMIC FINANCING IN MICROFINANCE ORGANIZATIONS AND WAYS TO MINIMIZE THEM

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Abstract: This article examines the specific risks arising during the implementation and provision of Islamic finance services in microfinance organizations in the Republic of Uzbekistan. However, the integration of Islamic financial instruments into the traditional economic environment is accompanied by the emergence of specific risks that are fundamentally different from those of traditional microcredit.

Keywords: Islamic microfinance, microfinance organizations, risk management, commercial risk, loss-sharing risk.

Introduction. The transformation of the financial sector and the search for alternative mechanisms to stimulate economic activity have led to a significant increase in interest in Islamic finance worldwide, including in the Republic of Uzbekistan. Microfinance organizations, acting as flexible institutions to support small and private businesses, are beginning to actively introduce products that comply with Sharia principles.

The fundamental difference between Islamic finance and traditional finance lies in the elimination of interest and the transition to partnerships based on profit and loss sharing, as well as the mandatory linking of each transaction to tangible assets. In a traditional microfinance institution, the key risk is credit risk—that is, the likelihood that the borrower will not repay the loaned funds with accrued interest. In the Islamic model, the situation is complicated by the fact that the microfinance institution often acts not simply as a lender, but as the owner of the product, an investor, or a full partner in a business project.

This leads to a transformation of traditional risks and the emergence of new categories, such as the risk of commercial non-compliance, the risk of loss of asset value, and the specific risk of non-compliance with Shariah principles. Since Islamic microfinance institutions work primarily with vulnerable groups and aspiring entrepreneurs, the level of uncertainty increases, requiring a more in-depth analysis of the qualitative characteristics of the projects being financed. The first and most obvious is the commercial risk associated with a microfinance institution's direct involvement in trade and investment transactions. For example, when implementing a murabaha agreement, the institution undertakes to purchase goods from a supplier and resell them to a client at a premium on an installment plan. Between the purchase of the goods from the supplier and their delivery to the final borrower, the microfinance institution bears full responsibility for the safety, damage, or destruction of these assets. If the goods are damaged in the warehouse, the institution incurs direct losses that cannot be passed on to the client. This risk is absent in traditional lending, since the bank or microfinance institution issues only cash.

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The second important aspect is the risk of profit-sharing, which is typical of partnership agreements such as mudarabah and musharakah. In these arrangements, the organization's financial performance is directly dependent on the success of the entrepreneur's business. If the project proves unprofitable due to objective market factors, the microfinance organization loses its invested capital. This poses a serious problem of information asymmetry and moral hazard. Small entrepreneurs may conceal their true profits or demonstrate ineffective management, knowing that the financial losses will be borne by the financing organization. The lack of high-quality accounting in small businesses complicates the process of monitoring income distribution.

The fourth category is operational risk, which is significantly higher in Islamic microfinance organizations due to the complexity of document flow. Each transaction requires the execution of several interrelated contracts, strict adherence to the timeline for their signing, and control over the movement of physical goods. The organization's staff must possess dual qualifications, understanding both traditional financial management and the intricacies of Islamic contract law. A shortage of such specialists in the labor market creates the risk of human error and operational errors.

The implementation of Islamic microfinance services in the Republic of Uzbekistan faces regulatory and legal risks. Current legislation governing microfinance organizations was initially created to meet traditional lending standards. This creates conflicts related to the taxation of trade transactions. Since Islamic financing instruments such as murabaha or ijarah involve the purchase, sale, and lease of property, there is a risk of double taxation due to value-added tax and property tax. This reduces the competitiveness of Islamic products compared to traditional loans.

Furthermore, there is a lack of centralized judicial and arbitration practice for resolving disputes arising from Islamic financial contracts. In the event of a client default, traditional courts may interpret the terms of a partnership agreement as a standard loan, making it difficult to fairly distribute liabilities and collect debt in accordance with the parties' original agreements.

To successfully manage risks, microfinance organizations need to develop a comprehensive strategy. First and foremost, a Shariah board or an external auditor should be a mandatory element of the organization's structure. This will ensure that the risk of religious non-compliance is completely mitigated.

To reduce the risks associated with information asymmetry in partnership transactions, microfinance organizations should implement modern digital technologies and scoring systems adapted to assessing the business reputation and potential of small businesses. It is also necessary to shift the emphasis from equity instruments to trading instruments in the initial stages of market development, as murabaha and ijara offer a more predictable level of risk. At the state level, continued efforts are needed to improve the regulatory framework. Special tax regimes for Islamic microfinance transactions must be introduced, eliminating excessive tax burdens on intermediate trade transactions. The development of independent rating institutions and the creation of specialized training programs for partner banking personnel will significantly reduce the impact of operational and personnel risks.

Conclusion. The development of Islamic microfinance in Uzbekistan offers significant opportunities for increasing the inclusiveness of the financial system and supporting private entrepreneurship. However, successfully realizing this potential is impossible without building a robust and effective risk management system. The specific nature of commercial, partnership, and Shariah risks requires microfinance organizations to move away from traditional borrower assessment models and toward a thorough analysis of their clients' business processes.

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