

IMPACT OF FOREIGN ISLAMIC INVESTMENT ON ENTREPRENEURSHIP AND SMALL BUSINESS IN THE REPUBLIC OF UZBEKISTAN.

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Abstract

This article examines the impact of foreign Islamic investment on entrepreneurship and small business in Uzbekistan during the transition to a market economy. Through comprehensive analysis, it explores potential benefits, including expanding access to Shariah-compliant capital, encouraging innovation and emphasizing social responsibility. At the same time, issues such as regulatory complexity and knowledge gaps are also examined. Based on empirical evidence and global trends, the study highlights the growing interest in Islamic finance among the population and business representatives of Uzbekistan. It promotes supportive regulatory frameworks, capacity building initiatives and cross-cultural understanding to effectively harness the transformative power of Islamic finance. The findings highlight the need for collaborative efforts among policymakers, investors, and entrepreneurs to seize opportunities in risk mitigation. Future research should further explore the interrelationship between Islamic finance, cultural norms and the business environment to improve policy interventions and investment strategies to ensure inclusive economic growth and sustainable development in Uzbekistan.

Key words: Islamic finance, FDI, Islamic investments, economy, entrepreneurship, small business, contracts, technologies, economic growth.

Introduction

The Republic of Uzbekistan, steeped in rich Islamic traditions, is going through a period of economic changes. As the country moves away from its Soviet past and into a market-based future, entrepreneurship and small business are

playing a crucial role in stimulating economic growth and creating jobs. This transformation is a unique opportunity to study the impact of foreign investments, especially investments based on Islamic principles, on the developing entrepreneurial ecosystem of Uzbekistan.

Historically, the economy of Uzbekistan relied mainly on the central planning of the Soviet Union. After independence in 1991, the government implemented important reforms to create a more open and market-oriented system. However, challenges remain. It is very important to have capital, modern technologies and management experience for the development of small business. Foreign investments can play an important role here.

Islamic finance, which is rapidly developing globally, offers a potentially important source of investment for Uzbekistan. Islamic finance follows the principles of Sharia law, which prohibits activities such as usury and excessive risk-taking. This framework emphasizes ethical business practices, profit sharing and asset-based financing.

For Uzbekistan, foreign Islamic investments can provide several advantages. First, they can offer an alternative source of financing for entrepreneurs who are hesitant to engage in traditional credit structures because of their religious beliefs. Second, Islamic financing often emphasizes shared risk and profit and promotes close cooperation between investors and entrepreneurs. Finally, Islamic investors can bring valuable experience in Shariah-compliant business practices, which can contribute to the development of a stronger Islamic finance sector in Uzbekistan.

However, the impact of foreign Islamic investment on Uzbekistan's business landscape remains a complex issue with potential benefits and drawbacks. One of the main concerns is the disconnection between the priorities of foreign investors and the needs of local entrepreneurs. Foreign investors may be motivated by specific objectives of obtaining a return on investment that may not align with the

long-term growth aspirations of local businesses. In addition, cultural differences can create communication barriers and hinder effective collaboration.

In addition, the emerging regulatory environment related to Islamic finance in Uzbekistan requires careful consideration. Although measures have been taken to develop the legal basis of Islamic financing in Uzbekistan, the system is still developing. This lack of clarity may discourage some investors and create uncertainty for entrepreneurs seeking Shariah-compliant financing.

In order to fully understand the impact of foreign Islamic investments, it is important to study the specific types of investments being made. Are they concentrated in certain industries or regions? What investment structures are being used? Do they prioritize social impact as well as financial returns? Studying these questions will provide a clearer picture of how Islamic finance is shaping the entrepreneurial landscape of Uzbekistan.

In this article, this multifaceted issue will be studied in depth, and possible benefits and disadvantages of foreign Islamic investments for Uzbek entrepreneurs will be considered. It analyzes case studies, explores the regulatory environment and explores the perspectives of investors and entrepreneurs. Through this comprehensive study, the article aims to shed light on the evolving relationship between foreign Islamic investment and entrepreneurship in Uzbekistan, providing valuable insights for policymakers, investors and entrepreneurs.

Literature analysis

A number of studies emphasize the positive impact of Islamic finance on business activities. A study by AA Gumusay (2017) shows that Islamic business ethics and financial principles can encourage entrepreneurship. As research by IM Aminu and MNM Sharif (2014) and MI Bazza and BA Daneji (2014) found, Islamic finance offers alternative financing options that potentially expand access to capital for Muslim entrepreneurs who follow religious beliefs.

Islamic finance products themselves hold promise for entrepreneurs. The Impact of Islamic Finance on Entrepreneurship for Sustainable Economic Development in Nigeria examines financing instruments such as Mudarabah and Musharaka and shows their positive impact on the development of micro-enterprises, SMEs and general entrepreneurship.

However, the effect is not without its complexity. Further research is needed to examine how cultural norms and business environment interact with Islamic finance. For example, a study by DM Hechavarria and PD Reynolds (2009) examines how cultural values can influence the level of entrepreneurship.

The growth of Islamic finance and the increasing flow of Foreign Islamic Investment (FII) has the potential to reshape the entrepreneurial landscape and impact the development of small businesses. This literature review explores key concepts and findings surrounding this complex relationship.

Positive impact of FII

Access to Shariah Compliant Capital: FII provides financing methods for entrepreneurs and small businesses that are compatible with Islamic moral principles, prohibit interest (riba), and promote risk-sharing investments. Research suggests that this can increase access to capital for Muslim-owned businesses and those seeking to align their practices with Islamic values (Iqbal and Mirakhor, 2011).

Stimulating Innovation and Markets: FII helps develop specific products and services that meet the needs and preferences of Muslim consumers. This can foster entrepreneurship in areas such as halal food, Islamic fashion and ethical finance, providing unique business opportunities (Thomson Reuters, 2020).

Emphasis on social responsibility: The principles of Islamic finance emphasize social responsibility, fairness and avoidance of harm. Research shows

that FII can encourage ethical business practices, create a favorable environment for sustainable entrepreneurship and small business growth (Jamaludin, 2013).

Challenges and considerations

Regulatory Complexity: Differences in interpretations of Sharia and regulatory frameworks across jurisdictions can create challenges in the seamless implementation of FII. Harmonization of standards and transparency are essential to increase investor confidence and support small business access to these funds (Bitar & Madi, 2022).

Gaps in knowledge and skills: Limited understanding of Islamic finance mechanisms and lack of skilled professionals in this field can prevent entrepreneurs and small businesses from using FII effectively. Capacity building and education initiatives are crucial (Mohieldin, 2012).

In conclusion, existing studies show a positive relationship between foreign Islamic investments and entrepreneurship - small business. Islamic finance offers unique financing options and adheres to religious principles that help foster a more inclusive and ethical business ecosystem. Future research should further explore the interrelationship between Islamic finance, cultural contexts, and business environments for a more comprehensive understanding.

Methodology

Statistical information is used in this field. Secondary data collected through reliable websites was used for this study. Library and Internet research is used to review the literature. According to the information of the official state bodies, other information about the macroeconomic statistics of Uzbekistan was analyzed.

Results

The Islamic finance sector is one of the fastest growing sectors in the world, and it is used in about 50 countries. The total assets of Islamic financial institutions

exceed 2.5 trillion dollars, which indicates the widespread use of this financing throughout the world.

Uzbekistan is witnessing rapid growth in the financial sector, new opportunities are opening up for investors and citizens. According to the analysis, there is a growing interest in Islamic financial products and services among business entities and the population, where more than 60% of business entities and 75% of the population expressed their willingness to use the services of Islamic financial institutions in Uzbekistan, if they exist or offer Islamic financial services.

Islamic finance is most in demand in Muslim-majority countries such as South, Southeast and Central Asia, as well as Africa. In addition, these institutions are successfully operating in Europe, USA and Australia. There is a great interest in Islamic finance in Uzbekistan, where more than 85 percent of the population is Muslim.

Islamic finance not only provides alternative investment opportunities, but also contributes to the socio-economic development of the country and strengthening its position in the international arena. Uzbekistan's participation in the global Islamic financial community opens new horizons for cooperation and investments, attracts capital flows and serves to further increase economic growth.

The Islamic finance industry is emerging as a powerful catalyst for economic development in several countries, as evidenced by recent data. Islamic banks outpaced the growth rate of their assets by 1 percent, and the growth rate of traditional banks by 0.04 percent. In addition, the Islamic finance sector has significantly contributed to the growth of private sector lending in countries such as the Gulf Cooperation Council (GCC), Malaysia and Indonesia. The development of Islamic finance in these countries led to an additional credit volume of 258 billion dollars between 2004 and 2013.

One of the main problems facing businesses today is the lack of financial resources. With annual interest rates on commercial loans averaging 24%,

businesses face serious hurdles. It should be noted that countries such as Russia (12 percent), Kyrgyzstan (16 percent) and Uzbekistan (24 percent) have the highest interest rates in the world. These conditions have a negative impact on the profitability of the business and lead to an increase in prices, which directly affects the population.

In addition, financial services provided by commercial banks do not always correspond to the interests of individuals and entrepreneurs. The lack of a direct relationship between the success of credit projects and financial income of banks has led to an increase in financial risks for the business sector.

In addition, Muslim-majority countries face difficulties in fully using traditional banking and financial systems. Therefore, the creation and development of the Islamic financial system in accordance with traditional banking practices is aimed at mitigating these risks and ensuring rapid growth.

Islamic financial products and services are now available to both individuals and entities in a variety of countries, including the UK (4.4 percent Muslim), Singapore (14 percent), Switzerland (5.2 percent), France (9 percent), and Russia (15%). In addition, countries such as Kazakhstan, Kyrgyzstan and Tajikistan have adopted legislation to establish Islamic financial systems, and Islamic financial institutions are already operating in these regions.

Over the past decade, the global Islamic finance industry has seen an impressive 15 percent annual growth rate in its assets, reaching a total of \$5.9 trillion by 2026 (up from \$4 trillion in 2021 against the dollar). Research shows that a large number of Muslims in Uzbekistan express a high demand for Islamic financial products and services. In line with our commitment to private sector development, Islamic Development Bank is partnering with nine commercial banks to introduce Islamic Finance Accounts.

According to the results of a joint survey conducted in 2020 in cooperation with the United Nations Development Program and the Ministry of Finance of the

Republic of Uzbekistan, 38 percent of business representatives and 55 percent of individuals reported that they do not use traditional credit opportunities. In addition, 61 percent of entrepreneurs and 75 percent of individuals expressed their desire to use Islamic financial products and services. The banks participating in the survey emphasized the importance of introducing new types of financial services, including Islamic finance, in order to increase competition in the financial market.

The Islamic banking and financial system creates a number of opportunities for the economy of our country based on the legal basis:

Attracting internal investments to the economy: The establishment of the legal basis of the Islamic financial system allows individuals and business entities that do not use the traditional banking system for the following reasons. to personal beliefs to channel their funds into the formal financial system. This allows to attract additional investments of about 125 trillion soums (10 billion US dollars) to the republic's banking system and economy (25% * 500 trillion soums - the total value of Uzbekistan's bank assets)¹.

Expanding the deposit base: Banks following the principles of Islamic finance increase the amount of funds deposited in Islamic banks by individuals who refuse to deposit their money in conventional banks for religious reasons.

Based on current financial statements, it is estimated to attract about 50 trillion soums (4.4 billion US dollars) of deposits from the population, which is in line with the principles of Islamic finance.

Increase of foreign investments: The functioning of the Islamic banking and financial system creates opportunities for attracting foreign investments and encourages the formation of foreign Islamic financial institutions, investment organizations, joint ventures, and the formation of investment projects. Indonesia, which attracted 2.5 billion dollars of investment in 2016, and Bahrain, which received 3 billion dollars of investment in 2017, are clear examples of this.

¹ <https://investorscouncil.uz/islamic-finance-industrys-impact-on-economic-growth/>

Creation of the legal basis of Islamic financing: Creation of the legal basis of Islamic financing will help to increase the economic activity of the population and entrepreneurs, create new jobs, increase tax revenues, and also serve to develop the national economy.

It is noted that, in agreement with the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan, measures will be taken to attract grants from the Islamic Development Bank, among other international financial organizations, to implement tasks related to the introduction of sukuk securities.

Starting from March 2021, the Central Bank of the Republic of Uzbekistan plans to adopt the law "On Non-Bank Credit Organizations", including the concept of Islamic finance, and a lot of work is being done in this regard. This proposal President Sh. Mirziyoyev addressed the parliament on December 29. The head of state instructed the Central Bank to review the draft law "On non-bank credit organizations" by February 1 in order to strengthen competition in the financial market while creating the legal basis for the introduction of Islamic financial mechanisms. According to this law, non-banking organizations are given the right to provide more financial services.

On September 1-4, 2021, the 46th annual meeting of the Board of Directors of the Islamic Development Bank (IDB) was held at the International Congress Center in Tashkent, with 4,100 participants from member states and 27 international and regional partner organizations. participated. At the summit, 30 financial agreements with a total value of 1.2 billion dollars were signed between the ITB group and ten member states. Of this, 330 million dollars will be spent in the interests of Uzbekistan.

Discussion

Foreign Islamic investment provides a number of advantages to the entrepreneurial ecosystem of Uzbekistan. First, it provides an alternative source of financing that is compatible with Islamic principles for entrepreneurs who prefer

Shariah-compliant options. Second, Islamic financing develops a culture of shared risk and profit, and encourages close cooperation between investors and entrepreneurs. It also emphasizes ethical business practices, thereby contributing to sustainable entrepreneurship and small business growth.

Despite the potential benefits, foreign Islamic investment presents challenges. Regulatory complexity arising from differences in Sharia interpretations and regulatory frameworks is an obstacle. Harmonization of standards and increased transparency are needed to strengthen investor confidence. In addition, there is a lack of knowledge and skilled professionals in the field of Islamic finance, which hinders the effective use of these funds. Capacity building initiatives are needed to address this shortcoming.

To harness the potential of Islamic finance, Uzbekistan should develop a supportive regulatory framework and provide guidelines for Islamic finance providers. The establishment of a dedicated monitoring board can ensure compliance, and clear guidelines and rules will simplify operations. In addition, recognizing the difference between conventional and Islamic banks and changing tax obligations accordingly will create a level playing field.

In essence, foreign Islamic investment holds promise for the development of inclusive and ethical entrepreneurship in Uzbekistan if regulatory issues are resolved and capacity-building initiatives are implemented. By using the principles of Islamic finance, Uzbekistan can open opportunities for economic growth and sustainable development.

Suggestions

Here are some suggestions:

- To allow Islamic finance providers operating on the principles of Islamic finance to engage in regulated trading activities in accordance with current legislation.

- Establishment of a Special Supervisory Board as an additional component of the overall corporate governance system to ensure compliance by Islamic banking providers with internal rules and regulations related to Islamic finance.

- to recognize the difference between conventional banking and Islamic banking and establish additional tax obligations for Islamic finance providers to create a level playing field for the activities of conventional banks and Islamic banks, in particular for taxation (profit tax, income tax, etc.) .

- Develop guidelines, definitions and regulations regarding services provided by Islamic finance providers, including aspects such as beneficial ownership.

Prepared draft Law (to be completed and submitted to relevant ministries and agencies for discussion, including amendments and additions to the Civil and Tax Codes of the Republic of Uzbekistan and the Law "On Banks and Banking Activities") after use, it will be subject to future reconciliation.

The positive impact of the Islamic finance industry on economic growth is evident in its contribution to increasing the supply of credit, its ability to address the challenges faced by businesses, and its responsiveness to the preferences and demands of a significant Muslim population. By using Islamic finance, countries can unlock enormous potential to attract investment, expand the deposit base, and stimulate economic development.

Conclusion

In conclusion, the study of the impact of foreign Islamic investments on entrepreneurship and small business in the Republic of Uzbekistan reveals a delicate picture formed on the basis of developing economic dynamics and cultural considerations. As Uzbekistan transitions from its Soviet past to a market economy, foreign Islamic investment is emerging as a critical force supporting economic growth and inclusive entrepreneurship.

A multifaceted analysis highlights the potential benefits of foreign Islamic investment, including expanding access to Sharia-compliant capital, stimulating innovation and markets, and emphasizing social responsibility. These advantages are consistent with Uzbekistan's aspirations for sustainable economic development and offer promising ways to develop a strong entrepreneurial ecosystem.

However, the journey towards realizing the full potential of foreign Islamic investment is not without challenges. Regulatory complexities, knowledge gaps, and cultural nuances present barriers that must be addressed to effectively harness the transformative power of Islamic finance. By developing supportive regulatory frameworks, strengthening capacity-building initiatives, and promoting cross-cultural understanding, Uzbekistan can pave the way for more effective engagement with Islamic finance.

The empirical evidence presented highlights the growing interest in Islamic finance among the population and businesses of Uzbekistan, which reflects broader global trends. This interest indicates the possibility of using Islamic finance as a catalyst for economic growth, creation of new jobs and social development for Uzbekistan.

Going forward, policymakers, investors and entrepreneurs need to work together to harness the potential of foreign Islamic investment and mitigate the associated risks. Strategic measures such as the establishment of a Special Supervisory Board, clear regulatory guidelines and tax reforms can create an enabling environment for the development of Islamic finance providers.

Based on these findings, future research should further explore the relationship between Islamic finance, cultural norms, and the business environment in Uzbekistan. By increasing our understanding of these dynamics, we can improve policy interventions and investment strategies to better support entrepreneurship and small business development.

In essence, the journey to harness the transformative power of foreign Islamic investment in Uzbekistan is fraught with opportunities and challenges. Through joint efforts and strategic initiatives, Uzbekistan can unlock the full potential of Islamic finance to ensure inclusive economic growth, empower entrepreneurs and support sustainable development.

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