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THE SIGNIFICANCE OF ECONOMIC AFFAIRS IN ISLAMIC CIVILIZATION

ISLOM SIVILIZATSIYASIDA IQTISODIY MASALALARNING AHAMIYATI

ЗНАЧЕНИЕ ЭКОНОМИЧЕСКИХ ВОПРОСОВ В ИСЛАМСКОЙ ЦИВИЛИЗАЦИИ

Annotatsiya: *Ushbu maqola islom sivilizatsiyasining iqtisodiy asosini tashkil etuvchi murakkab moliyaviy tuzilmalar va institutlarni o'rganadi. Biz Islom hamkorlik tashkiloti (IHT) doirasidagi iqtisodiy tizimlar evolyutsiyasini va Islom taraqqiyot banki (IDB) kabi institutlarning butun musulmon mamlakatlarida iqtisodiy o'sish va taraqqiyotni rag'batlantirishdagi muhim rolini asosli tamoyillardan tortib, zamonaviy ko'rinishlarigacha tadqiqotning asosiy ob'yektlari hisoblanadi.*

Kalit so'zlar: *moliyaviy tuzilmalar, ularning asoslari, fondlar, moliyaviy manbalar, ITB beg'araz yordamlari, islom sarmoyasi. Islom taraqqiyot banki, Jidda, Islom taraqqiyot banki guruhi, islom moliyasi, islom moliyaviy tuzilmalari, ribo, tijorat Iqtisodiy Hamkorlik Tashkiloti.*

Abstract: *This article delves into the intricate financial structures and institutions that underpin the economic framework of Islamic civilization. From the foundational principles to the contemporary manifestations, we explore the evolution of economic systems within the Organization of Islamic Cooperation (OIC) and the pivotal role played by institutions such as the Islamic Development Bank (IDB) in fostering economic growth and development across Muslim-majority nations.*

Keywords: *financial frameworks, foundational structures, capital, economic resources, Islamic Development Bank's humanitarian assistance, Sharia-compliant investments, Islamic Finance, Riba, Organization of Islamic Cooperation.*

Абстракт: *В данной статье рассматриваются сложные финансовые структуры и институты, составившие экономическую основу исламской цивилизации. От основополагающих принципов до современных проявлений мы исследуем эволюцию экономических систем в рамках Организации исламского сотрудничества (ОИК) и ключевую роль, которую играют такие институты, как Исламский банк развития (ИБР), в содействии экономическому росту и развитию мусульманских стран.*

Ключевые слова: *финансовые рамки, основополагающие структуры, капитал, экономические ресурсы, гуманитарная помощь Исламского банка развития, инвестиции, соответствующие шариату, исламские финансы, риба, Организация исламского сотрудничества.*

INTRODUCTION

The intersection of economics and civilization has been a cornerstone of human progress throughout history, shaping cultures, societies, and global dynamics. Within the tapestry of civilizations, Islamic civilization stands as a testament to the profound influence of economic matters, rooted in principles deeply ingrained in Islamic teachings. Through an examination of Islamic banking mechanisms, ideological foundations, and the burgeoning presence of Islamic financial institutions worldwide, we aim to unravel the distinctiveness and significance of Islamic finance in today's global economic landscape. As Islamic banks emerge as dynamic players in the financial arena, we delve into their operational mechanisms, principles, and advantages, shedding light on their potential to reshape conventional banking paradigms. Join us on this journey as we navigate the rich tapestry of economic thought and practice within Islamic civilization, exploring its past, present, and future implications on the global stage.

MAIN PART

Financial structures in the OIC and their varieties the Organization of Islamic Cooperation (OIC) has fostered the establishment of independent entities such as the Islamic Development Bank, Islamic news agencies, and cultural and economic centers. Notable institutions include the Islamic Chamber of Commerce, the Islamic Court of Justice, and the Islamic Development Fund. Moreover, several commercial banks have transitioned into Sharia-compliant entities, reflecting a broader embrace of Islamic financial principles.

Principles Underlying Bank Operations Islamic banking principles, rooted in Sharia, guide investment strategies and loan practices. Terms such as musharakah, mudarabah, and ju'al shape financial transactions, with a focus on equitable partnerships and risk-sharing. Transactions operate on a "Qard-al-Hasan" basis, eliminating interest and fostering mutually beneficial arrangements between banks and investors.

Establishment of the Islamic Development Bank and its financial mechanisms of the Islamic Development Bank (IDB) stands as a cornerstone of Islamic finance, established in 1974 to address the economic and social needs of member countries. Its resources, comprising authorized capital and additional financial tools, have expanded over time to support various initiatives, including investment-deposit plans and long-term trade financing programs.

Membership and Objectives of the Islamic Development Bank Comprising 57 member countries, the IDB aims to promote economic and social development in accordance with Sharia principles. Key objectives include investing in equity capital, providing loans to production enterprises, and offering technical assistance to member states. Special funds, such as those for Muslim communities in non-Muslim countries, underscore the bank's commitment to inclusive development.

The Role of the Organization of Islamic Cooperation Originally established in 1964 and later reinvigorated as the Economic Cooperation Organization, the OIC fosters economic, cultural, and technical collaboration among member states. With a focus on expanding economic relations and improving living standards, the OIC facilitates dialogue through ministerial councils and regional planning bodies.

Differentiating Islamic Banks from Conventional Institutions Islamic banks operate on distinct principles, eschewing interest-based transactions in favor of profit-sharing arrangements. While conventional banks rely on borrowing and lending, Islamic banks emphasize partnership-based models such as musharakah and murabaha. These principles align with Quranic teachings on equitable wealth distribution and societal welfare.

In addition to the Islamic Development Bank (IDB), other economic organizations operate within the framework of the Organization of Islamic Cooperation (OIC): the Islamic Chamber of Commerce and Industry established in Karachi in 1978, the Center for Statistical, Economic, and Social Research (Ankara, 1978), the Insurance Institute (Khartoum, 1978), the Islamic Center for Vocational Education and Research (Dhaka, 1977), the Committee for Islamic Cooperation with Muslim States in the Sahel (1981), the Islamic Association (Jeddah, 1981), the Emblem of the Islamic Development Fund (1981), and the Islamic Trade Development Center (Tangier, 1981), among others.

Furthermore, more than ten commercial banks were transformed into eight commercial banks: National Bank (Melli), Export Bank (Saderat), Workers' Improvement Bank (Refah), Military Bank, Trade Bank (Tajerat), People's Bank Mellat, foreign commercial bank (tajerate haredji), and the Islamic Economic Organization bank.

The principles governing current bank operations are similar to traditional banks. Islamic principles of investment term deposits and loan attraction in the form of musharakah, mudarabah, ju'al, etc., are well-suited to modern economic conditions and primarily encounter difficulties in working with foreign companies. The "Qard-al-Hasan" form, i.e., without interest, is utilized not only for settlement transactions but also for attracting and lending interest-free deposits. As a reward, banks pay investors operational compensation and may offer discounts and incentives.

Establishment of the Islamic Development Bank and Its Financial Structures The Islamic Development Bank (IDB), considered by some sources as the Islamic Development Bank, is a multilateral financial institution founded by the 1st Organization of the Islamic Conference (now the Organization of Islamic Cooperation) by the finance ministers of the Arab countries. The bank's financial resources consist of authorized capital and additional financial instruments. As a result of the expansion of financial activities, the bank was provided with additional resources:

In 1980, the investment-deposit plan was launched. This plan provides an Islamic alternative for investors to make short-term investments by participating in bank financing. Based on this system, the bank accepts deposits not only from

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individual depositors but also from organizations for the implementation of the "Import financial assistance operations" program.

In 1987, the "Portfolio of Islamic Banks" was established. This organization was opened for the purpose of using capital for financial support of interstate trade of which it is a member, as well as carrying out operations related to securities and leasing. According to Shariah norms, this does not include cash and debts.

Since 1988, the long-term financial support plan for trade has been implemented. This plan will end the program of financial support for imports and will help to expand exports of non-traditional goods of ICT member countries. This is done by attracting the necessary financial instruments for export from IRB member countries for a period of 6 to 60 months.

In 1989, a separate investment fund was established. Its purpose is to attract additional financial resources and invest them in accordance with Sharia.

The Islamic Development Bank was established in 1974 after the signing of the declaration by the member states of the Organization of the Islamic Conference in Jeddah in 1973, and officially began its operations on October 20, 1975.

57 countries are members of the organization, with the following countries serving as the main financing contributors:

Saudi Arabia	Egypt
Libya	Turkey
Iran	UAE
Nigeria	Kuwait
Qatar	

The organization's primary objective is to facilitate economic and social development among member countries and Sharia-based Muslim communities. Its tasks include:

Investing funds in equity capital.

Providing loans to production enterprises and projects.

Offering financial support to member states for economic and social development.

Managing special funds for specific purposes, including the aid fund for Muslim communities in non-Muslim countries.

Facilitating the transfer of financial resources and accepting deposits through financing methods.

Providing technical assistance to member states.

Offering training services to aid in the development of Muslim countries.

Providing interest-free loans.

The Organization of Islamic Cooperation (OIC) is an international regional organization established for economic, cultural, scientific, and technical cooperation among member countries. Originally founded in 1964 by Iran, Pakistan, and Turkey under the name "Development of Regional Cooperation," it resumed activities in 1985 as the "Economic Cooperation Organization" due to a decline in intra-regional trade in the 1970s.

On November 28, 1992, during an emergency meeting of the Council of Ministers of Foreign Affairs in Islamabad, Pakistan, Afghanistan, Azerbaijan, Tajikistan, Turkmenistan, Uzbekistan, Kyrgyzstan, and Kazakhstan joined the OIC. The organization's main objectives include expanding economic relations, promoting trade, fostering economic growth, improving living standards, strengthening morale, and enhancing cultural ties among member states.

The main bodies of the organization include the Council of Ministers of Foreign Affairs, Permanent Representatives, regional planning councils, and a secretariat. The Secretariat, headed by the Secretary General, comprises six special directorates, covering areas such as trade, transportation, energy, environmental protection, industry, economic research, and project research. Additionally, regional institutions of the OIC include a shipbuilding company, an airline named "EKOYEYR," a trade and development bank, a reinsurance company, a cultural institute, a science fund, and an educational institute.

Heads of member states, heads of governments, and delegations convene regularly to discuss the most pressing economic and other issues. For instance, the 6th meeting of the leaders of the member states of the organization took place in Tehran from July 9-10, 2000. The organization's headquarters are situated in Tehran, the capital of Iran.

Presently, experts are showing significant interest in Islamic banks, which represent a relatively new phenomenon in the world of banking. Despite their novelty, Islamic banks demonstrate themselves as dynamic and ambitious financial institutions, achieving notable results and establishing a presence in the global financial market, which is traditionally dominated by conventional banking systems.

What sets Islamic banks apart from secular banks? The ideological foundations of Islamic banking are rooted in the main principles of the Qur'an. These principles emphasize:

The understanding that individuals are not the owners of acquired wealth, property, or natural resources; rather, all wealth belongs solely to its Creator.

The recognition that individuals act as custodians of wealth on behalf of Allah during their lifetimes.

The importance of utilizing resources bestowed by God wisely, avoiding waste, and ensuring they are used for the benefit of society.

The belief that all Muslims are equals, with equal rights and duties, and thus, investment and work should not involve exploitation.

The rejection of interest-based loans, seen as a form of exploitation and injustice that polarizes society by enriching certain segments at the expense of others.

Islamic banks operate on distinct mechanisms compared to conventional financial institutions. While traditional banks engage in borrowing and lending to generate profit through interest, Islamic banks shift their focus to investment. Instead of collecting interest on deposits, Islamic banks enter into partnerships with entrepreneurs, sharing profits derived from investments. This fundamental difference underscores Islamic banking's reliance on equitable profit-sharing rather than interest-based transactions. Aspects of Islamic banking, including chapters on its creation and evolution through to detailed discussions of the issues involved in the Sharia'a contracts of Murabaha, Mudaraba, Musharaka, Ijara, Istisna'a, and Salam. Islamic insurance (Takaful) is also covered[1].

In essence, Islamic banking emphasizes the avoidance of interest-based transactions and promotes ethical financial practices grounded in Islamic principles. This approach fosters economic cooperation and partnerships while upholding principles of fairness and social justice.

[1] Kettell, B. (2011). Introduction to Islamic banking and finance (Vol. 551). John Wiley & Sons.

Profit Sharing (Mudarabah): This mechanism involves one party (the depositor) providing funds, while the other party (the operator) implements its business plan. Profits are divided between the depositor and the operator based on a specified share. In case of failure, the investor bears the entire loss, highlighting the operator's vested interest in the business's success. This arrangement offers full freedom to invest in areas not prohibited by Islamic principles. Additionally, banks can act as trust managers when financing projects with depositors' funds, where part of the income constitutes the bank's profit.

Joint Venture (Musharakah): Musharakah entails joint implementation of a project by the bank and the entrepreneur. All project participants act as business partners, and losses are distributed based on contractual obligations. The project details, including business type, conditions, terms, benefits, liability, and profit/loss distribution, are clearly outlined. Parties may invest differing amounts, leading to proportional profit and loss distribution.

Trade Financing (Murabaha): Murabaha involves the bank financing trade contracts and receiving a share of the profit. For instance, the bank purchases goods with its own funds on behalf of the customer, assuming the entire risk of trading transactions. Subsequently, the bank sells the goods to the customer at a price that includes a specified markup, generating income for the bank.

Leasing (Ijarah): Leasing represents a long-term lease akin to leasing operations, where the customer has the right to purchase pre-leased equipment or facilities and become the full owner upon reaching an agreed-upon rent level.

Zakat (Charitable Tax): Zakat entails the collection of a mandatory Koranic tax (2.5%) from the wealth of affluent Muslims. This tax aims to fund projects enhancing the lives of underprivileged Muslim communities. Additionally, Zakat is supplemented by voluntary donations.

Interest-Free Loan (Qard-al-Hasan): Qard-al-Hasan involves the bank providing interest-free loans repayable within a specified period. These loans can support entrepreneurs or government organizations for state projects, with repayment failure resulting in funds provided from the Zakat fund.

State Treasury (Bait-al-Mal): Bait-al-Mal serves as a state treasury, collecting financial

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income according to Islamic law to meet social needs. These funds provide social assistance to various vulnerable groups, and they can also cover debts during challenging times, incentivizing investment from lenders.

Islamic banks offer three types of interest-free accounts: current accounts, investment accounts, and credit accounts. These accounts cater to different financial needs while adhering to Islamic principles. Islamic banking activities extend beyond these mechanisms, with banks engaging in charitable endeavors to foster economic and social development in the countries they operate.

Islamic banks boast several advantages and are operational in over 40 countries worldwide. Their assets and finance surpass trillions of dollars, demonstrating their competitiveness against traditional financial institutions. As Western banks face challenges, the prominence of Islamic banks is expected to grow, especially in Arab countries. Establishing robust foundations for Islamic banking globally is crucial for its continued success.

CONCLUSION

Advantages of Islamic Banking Islamic banks, operating in over 40 countries worldwide, offer competitive financial products grounded in ethical principles. As conventional banking faces challenges, Islamic finance continues to grow, with assets totaling trillions of dollars. By adhering to Sharia principles and promoting economic inclusivity, Islamic banks play a vital role in shaping the global financial landscape.

In conclusion, the integration of Islamic economic principles within the Organization of Islamic Cooperation and institutions like the Islamic Development Bank reflects a commitment to ethical finance and inclusive growth. As Islamic banking continues to expand, it presents a viable alternative to conventional banking systems, offering both financial stability and moral integrity.

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