Web of Scholars: Multidimensional Research Journal (MRJ)
Volume: 02 Issue: 04 | 2023 ISSN: (2751-7543)
http://innosci.org/

Islamic Finance in the Global Financial Landscape: A Swot Perspective

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Abstract: *This article presents a comprehensive review of the SWOT analysis of Islamic finance, which is an important tool used to evaluate the strengths, weaknesses, opportunities, and threats of this growing industry. The analysis highlights the strengths of Islamic finance, such as its ethical and socially responsible principles, its ability to attract a diverse range of customers, and its potential for growth in emerging markets. It also identifies the weaknesses of Islamic finance, such as its limited product offerings, its lack of standardization and harmonization, and its dependence on conventional financial systems. The study further explores the opportunities and threats that Islamic finance faces in the global financial landscape, such as the increasing demand for ethical and sustainable finance, and the potential risks of financial instability and geopolitical tensions.*

Keywords: *SWOT analysis, Islamic finance, shariah, riba, gharar, sukuk, mudarabah, musharaka.*

INTRODUCTION

Islamic finance has emerged as a rapidly growing sector of the global financial industry, offering a range of financial products and services that are compliant with Islamic principles and values. The industry has attracted a diverse range of customers, from individuals and households to corporations and governments, who seek ethical and socially responsible finance that aligns with their religious beliefs and cultural norms. The spread has been more in the last ten years, especially after the global financial crisis of the previous decade, primarily because Islamic banks were found to be more stable and less susceptible to crisis [12].

LITERATURE REVIEW

Numerous studies have been undertaken thus far on the growth of Islamic banking and finance in Central Asian and Commonwealth Independent States (CIS) nations. Magomedova discusses the CIS nations' experiences in creating Islamic finance institutions. She discusses the

practicalities of establishing Islamic finance in a few different nations and shares her hopes for further developments in this area [10].

Baidaulet, a well-known specialist in Central Asian Islamic finance, explains the fundamentals and workings of the Islamic financial system. He focuses on the current state of Islamic finance in Central Asian nations, emphasizing Uzbekistan's potential for growth [6].

In the book, Wolters [14] describes the early stages of the growth of Islamic financial institutions in Central Asian Republics. He emphasizes that Uzbekistan has relatively limited expertise with Islamic finance, which was brought on by the nation's current governmental structure. He claims that Uzbekistan's development of the Islamic finance industry has only included declarations.

Salikhova did extensive research into the legal ramifications of introducing Islamic banking in Kazakhstan [4]. She outlined several excellent suggestions for strengthening Kazakhstan's laws governing Islamic banking. These suggestions may also be useful for other Central Asian nations' legislative efforts, given Kazakhstan's leadership in enacting Islamic finance legislation.

Regarding Uzbek scholars in Islamic Finance, it is important to highlight Imamnazarov's appraisal of the contemporary context surrounding the adoption of Islamic financial instruments in Uzbekistan [7]. He emphasizes that it is admirable and worthwhile to adopt and incorporate the finest practices of Islamic financial institutions in comparable nations like Bangladesh and Indonesia.

METHODOLOGY

This paper employed the descriptive method, which is a study that seeks to describe phenomena that occur real, realistic, actual, real and at this time, because this research is to make descriptions, pictures or paintings systematically, factually and accurately regarding facts [7]. The properties and relationships between the phenomena under investigation. Quantitative descriptive research as a basic and systematic effort to provide answers to a problem and/or get more in-depth and broader information about a phenomenon by using quantitative research stages.

BACKGROUND

The fountainhead of all Islamic paradigms is the Quran. It provides the framework within which all relevant envisioned conceptions of reality find their source. This eternal source specifies rules of behavior (institutions) applicable to all societies at all times. The institutional scaffolding of the Islamic economic system is thus formed by the rules of behavior defined by the Quran. As a result, the content and blueprint of Islamic economics is derived by, first of all, extracting the rules that define an ideal Islamic economy and their economic implications from the Quran and the Sunnah (the teachings and the practice of the Prophet Muhammad [sawa]); and secondly, by studying these institutions in the contemporary economy and determining the degree and extent of deviation between institutional scaffolding and that of the ideal Islamic economy.

Islamic finance refers to the provision of financial services in accordance with Islamic jurisprudence (Shari'ah). Shari'ah bans interest (Riba), products with excessive uncertainty (Gharar), gambling (Maysir), short sales, as well as financing of prohibited activities that it considers harmful to society. It also requires parties to honor principles of fair treatment and the sanctity of contracts. Transactions must be underpinned by real economic activities, and there must also be a sharing of risks in economic transactions [5].

Islamic finance industry's performance is measured through five sub-sectors: Islamic Banking; Takaful; Other Islamic Financial Institutions (OIFIs) such as investment or micro-finance companies; Sukuk; and Islamic Funds.

RESULTS OF A 'SWOT' ANALYSIS OF ISLAMIC FINANCE.

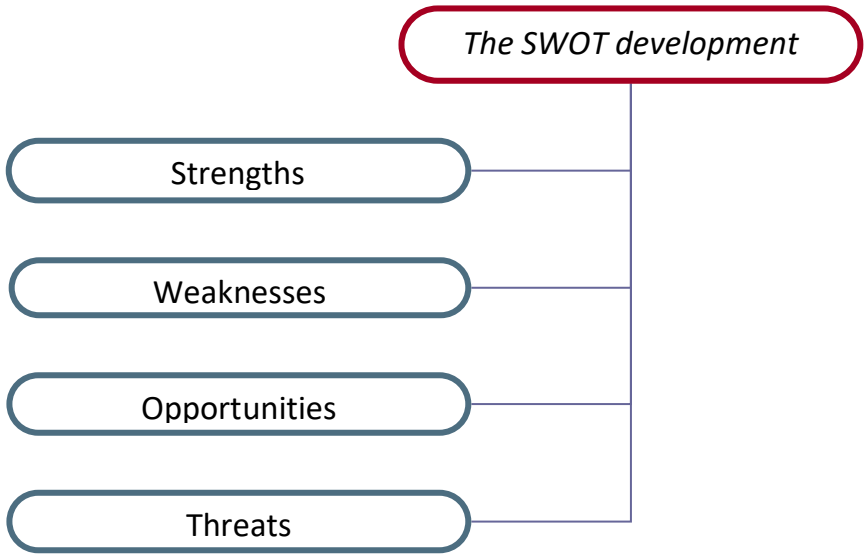


Figure 1. The development of the SWOT analysis[1]

Strength:

a) During the first decade (1975-1985) of the introduction of Islamic finance to the world, many considered it impossible that two banking and financial systems could operate in parallel in the world market. Today, the Islamic financial system is a worldwide success.

b) At that time, a handful of Islamic financial institutions managed a modest fortune of $10 billion and had little impact on the global financial market. Today, the industry has between $2 trillion and $4 trillion in assets under management.

c) The Islamic finance industry has weathered the worst global financial crisis since 2008 and is going strong today introducing Islamic finance to new countries where the majority of the population are not Muslims.

d) The Islamic finance industry has survived four decades amidst many allegations that the industry finances terrorism, aids money laundering by channeling funds through charities & NGOs etc.,

e) Although the Islamic finance industry has managed $2-4 trillion in assets since its inception in 1975-2015, this is a remarkable achievement and lays a solid foundation considering the wealth and population of Muslims in the world are at an unsatisfactory level and leave many untapped opportunities open.

f) The strength of Islamic finance lies in looking beyond the economic and commercial aspects of business and considering the moral, social, religious and ethical aspects of transactions, which protects the fabric of our society in the long run.

Today, global Western banks and financial institutions not only recognize the vitality of the Islamic finance industry, but also largely embrace it, simply because they know the "rules of the

[1] Developed by author

game" to seize and capitalize on the enormous opportunities and potential for growth. Global conventional lenders such as the World Bank and International Monetary Fund (IMF) are considering proactive structuring of transactions under Sharia principles after witnessing the impact and negative impact of the global financial crisis on individuals, corporations and governments.

Justice and fairness: the key feature of the profit-and-loss-sharing Islamic financial model, in which the Islamic bank and the customer share the risk.

Weaknesses:

a) Millions of people around the world are not aware of Islamic banking and finance, its working methodology and how it differs from conventional, 'Riba' (interest and usury) based, banking and finance.

b) Lack of awareness programmes by the existing players to reach out, not only to Muslim majority countries but to the entire world (irrespective of what colour, religion or ethnic group they belong to) and who are looking for alternative systems of banking and finance, which are more ethical, transparent, trusted, protective and fair.

c) In this fiercely competitive contemporary business world there are still individuals who consider Islamic finance as a tribal based financial system and wonder how it functions in the modern complicated political economy of a country, which has only experiences of conventional financial system.

d) Gap in understanding and interpretation of documents, agreements and structures between the scholars and lawyers still persist. Both parties must understand each other's business to a reasonable level so that their output will not be conflicting when marketed by Islamic financial institutions.

e) The whole is greater than the sum of its parts. Sometimes the negative practices of certain Islamic finance institutions, driven by competition, profitability, return on investment etc., make them deviate from Shari'ah principles and use interest-based instruments as a model when structuring commodities.

Risk management practices should also be reviewed. Islamic banks' profitability fell during the crisis due to deficiencies in risk management practices, mainly due to a high degree of concentration or over-exposure to one sector and/or borrower. Fierce competition among Islamic Financial Institutions (IFIs) (Figure 2) is forcing owners and executives to structure and market products modeled after their traditional counterparts.

Best Islamic Financial Institution	Kuwait Finance House
Best Islamic Corporate Bank	Qatar Islamic Bank
Best Islamic Retail Bank	Al Rajhi Bank
Best Islamic Bank for CSR	Qatar Islamic Bank
Best Islamic Bank for ESG	Dubai Islamic Bank
Best Islamic Private Bank	Dukhan Bank
Best Sukuk Bank	Standard Chartered Saadiq
Best Islamic Investment Bank	Standard Chartered Saadiq
Best Islamic Fund Manager	Sidra Capital
Best Islamic SME Bank	Boubyan Bank
Best Islamic Asset Manager	GFH Financial Group
Best Islamic Trade Finance Provider	Dubai Islamic Bank
Best Islamic Takaful	Kuwait Finance House
Best Islamic Project Finance Provider	CIMB Islamic Bank
Sukuk Deal Of The Year	Standard Chartered Saadiq - Saudi Aramco $6bn Triple Trance
IPO/Equity Deal Of The Year	Nayifat Finance Company (Saudi Arabia Stock Market Listing)

Figure 2. The world's best Islamic Financial institutions 2022.[2]

Opportunities:

a) Only 20% of the market potential is being tapped, the remaining 80% is wide open to all of us (irrespective of what colour, race, religion or ethnic group we belongs to), to tap into the riches of this multi-trillion dollar Islamic finance industry.

b) Islamic finance is a good business proposition not only for Muslims but also to those of other faiths, because it makes lot of commercial sense to enter into the industry. For non-Muslims to capitalize and take advantage of these opportunities, they have to know the 'rules of the game'.

c) Over the last 7-8 years, the global financial crisis has made many non-Muslims as well as Muslims look at Islamic finance positively. Even academia has structured programmes starting from certificate to PhD level, programmes in the field of Islamic banking and finance.

d) As of 2022, (Figure 3) global wealth stands at $463.6 trillion, and the global population at 8 billion people on the face of the earth. Islamic finance represents only 3.95 trillion U.S. dollars, which is very meagre, given that more than 24% of the global population is Muslims and the footprint of Islamic finance in Middle East.

[2] The magazine of "Global Finance", article by Darren Stubing, May 5th, 2022.

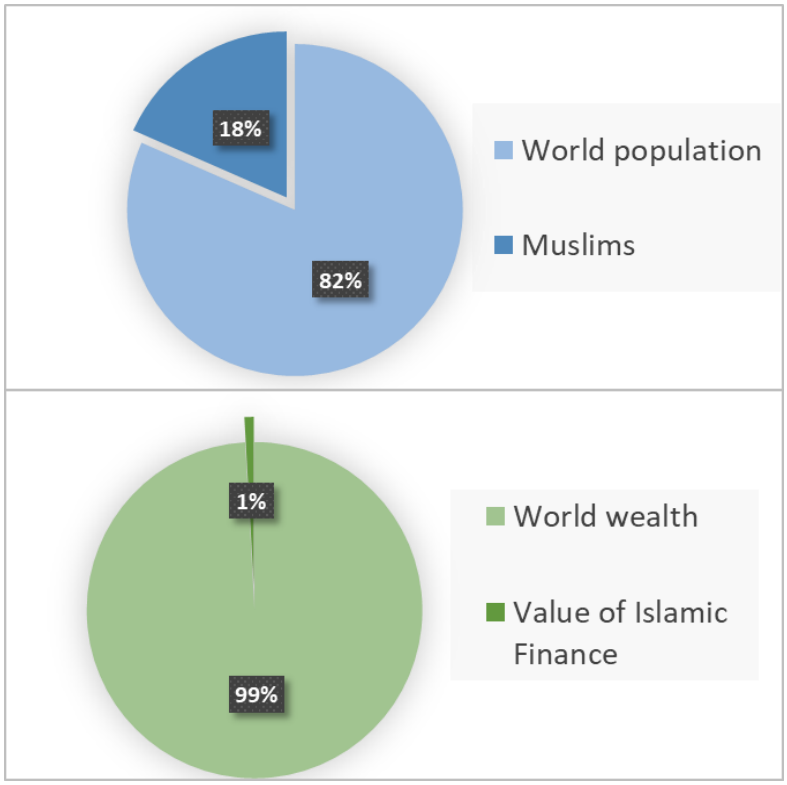


Figure 3. The ratio between Muslims and value of Islamic Finance.[3]

e) Out of the total population of 8 billion, almost 3.5 billion working people earn a mere $2/day and they aren't expecting charity from. If the stakeholders really understands and/or are made aware of this fact, they will look to reach out to this segment with Islamic financing solutions.

f) Crowd-funding in the conventional sense is gaining momentum and great lessons are being learned by the Islamic finance fraternity. The Islamic finance industry can explore this opportunity through Shari'ah compliant propositions (Mudarabah and Musharaka), whilst looking into different risk/ return profiles of these start-up ventures.

g) Islamic capital markets are being enhanced and new ones established to capitalize on the appetite for raising funds through Sukuk (Islamic bonds) both by corporates and governments.

Improving the lives, financial and investment opportunities of millions of people (Muslims and non-Muslims) around the world through equity participation, risk sharing and fair dealing. Western bankers and global players (Figure 2) are not only recognizing the feasibility of Islamic banking, but are also entering the sector on a large scale to capitalize on the tremendous growth potential and opportunities in this multi-billion dollar industry.

Threats:

a) When giant conventional banks are threatened by the presence of Islamic finance giants (Figure 2), the threat will become obvious and will have to be put down or have its roots removed.

The gap between the rich and the poor is becoming wider, with a handful of people (fewer than 100 people) managing more than 50% of the global wealth as of 2015. This concentration of economic resources is threatening political stability and driving up social tensions. – What the Islamic finance industry can do to address this situation.

[3] Developed by author

b) Generally the banking laws (in non-Muslim majority countries) can be fine-tuned to welcome Islamic banking and finance and to bring much needed funds through Islamic finance for the development of the nation's revenue generating and infrastructure development projects. But their biggest fear is the word "Islamic" which they think is connected to some extremist terminology as portrayed by the mass media with western interests. – They fail to realise that Islamic finance is not confined to Muslims only, but it brings benefits to people of all faiths and to countries with multiethnic population.

CONCLUSION

In conclusion, there are four main characteristics of an Islamic economic system and how it differs from a traditional economic system are as follows:

▫ The fulfillment of human needs through the optimal use of limited resources is not the primary purpose of Islamic economics, but it is in the case of conventional economics.

▫ In contrast to conventional economics, which only emphasizes individual welfare or individual interests, the Islamic economic system places a strong emphasis on the collective well-being of all members of a society.

▫ Islamic economics holds that money is merely a measure of value that facilitates the exchange of value rather than having any intrinsic value.

▫ The temporal value of money, which is the basis of interest-based transactions, is not recognized by the Islamic economic system.

This paper, which examines the "SWOT" analysis of Islamic finance during the previous four decades, aims to pique the attention of all potential and current stakeholders in the sector. Primarily with the goal of increasing group focus: to develop strengths, examine weaknesses, overcome opportunities, and remove threats. In light of the current disarray in the globe, where millions of people are yearning for an alternative banking and financial system that is moral, open, trustworthy, safe, and just, this would have a huge impact on both the Islamic finance business community and mankind as a whole.

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