



The Essence and Need of Islamic Finance in the Conditions of Innovation Economy

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Abstract: Islamic finance has played an important role in the economy, and its results indicate important opportunities for the world economy. This article shows these possibilities and justifies the necessity.

Keywords: Islamic finance, Sharia principles, ethical finance, social responsibility, profit, loss, distribution, asset, innovation, economy, investment, integration.

Appear mainly because innovation is involved and its application to life. This becomes the reason for the creation of new networks in life. From this it can be understood that innovations always have a direct and indirect effect on the economy. Now let's look at the meaning of this concept.

"Innovation (eng. innovationas — introduced innovation, invention) — 1) funds spent on the economy to ensure replacement of technology and technology generations; 2) innovations in the fields of engineering, technology, management and labor organization based on scientific and technical achievements and best practices, as well as their application in various fields and spheres of activity.¹

The Oslo Manual defines innovation as: the introduction of a new or significantly improved product or service or process, a new marketing method, or a new organizational method in business practices, workplaces, or external relations.

"Innovation is the result of investing an intellectual solution in the development and assimilation of new knowledge, which has not been used before to update areas of people's lives (technology; products; organizational forms of social existence, such as education, management, labor organization, service provision) idea _ , science, information, etc.) and added value (profit, advance, leadership, priority, radical improvement, quality superiority, creativity, progress) with a strictly defined acquisition of this realization (production) further process.

Thus, the process requires: investment - development - implementation process - quality improvement."²

Islamic finance is considered one of the new types of financial sectors, with the help of which a special type of economic development has been developed. It is mainly Islamic countries and Muslim nations that use this type effectively. In the world economy, this finance is very important.

Islamic bank, Islamic finance (Arabic : إسلامية مصرفية), or Shariah-compliant finance, is a banking or financing activity that conforms to Shariah (Islamic law) and its practical application through the development of Islamic economics. Some of the methods of Islamic banking or

¹<https://uz.wikipedia.org/wiki/Innovation>

²<https://ru.wikipedia.org/wiki/Innovation>



finance include Mudarabah (profit sharing and loss sharing), Wadiya (retention of risk), Musharaka (joint venture), Murabaha (cost plus) and Ijara (leasing).

"The Shariah prohibits riba, or usury, defined as interest paid on all debts (although some Muslims dispute whether there is consensus on whether interest is equal to riba). It is also haram ("sinful and forbidden") to invest in businesses that provide goods or services that are considered contrary to Islamic principles (for example, pork or alcohol).³

,developed in accordance with Islamic ethics and values, has gained importance in the context of an innovative and rapidly changing global economy for several reasons.

Ethical and Social Responsibility: Islamic finance is based on ethical and social responsibility. It encourages ethical and socially responsible financial transactions, emphasizes fairness, distributes risks, and helps avoid exploitative or unethical practices. In an innovation economy where ethical concerns and corporate social responsibility are increasingly important, Islamic finance provides a framework that aligns with these values.

Allocation of Risks, Allocation of Profits and Losses: Islamic finance emphasizes on allocation of risks and profits and losses. Unlike conventional finance, which often relies on fixed interest rates and lending arrangements, Islamic finance encourages partnerships and joint ventures. This risk-sharing approach may be particularly relevant in the innovation economy, where entrepreneurial entities and start-ups require funding and are inherently risky.

Asset-backed financing: Islamic finance generally involves asset-backed financing, where every financial transaction must be backed by tangible assets. This can reduce speculative and excessive financial practices, making it more resistant to economic shocks and crises, which is especially relevant in an innovative and rapidly changing economic environment.

Innovation and Financial Engineering: Islamic finance encourages financial innovation when it is flexible and compliant with Shariah principles. As the innovation economy continues to evolve, the flexibility within Islamic finance facilitates the development of innovative financial products and services that adhere to ethical and responsible practices.

Inclusion and access: Islamic finance promotes financial inclusion and aims to ensure access to financial services for a wider section of society. In an innovation economy where fintech and digitization are changing the financial landscape, this emphasis on inclusion can help bridge the financial divide and provide access to those previously excluded from the formal financial system.

Long-term perspective: Islamic finance encourages a long-term perspective and avoids excessive risk taking. Such an approach can provide stability and stability in an innovation economy where short-term thinking and excessive risk-taking can lead to economic instability and volatility.

Adherence to Shariah principles: In areas with a large Muslim population, Islamic finance is not only a choice, but a necessity due to religious requirements. In an innovative economy, it is critical to provide financial services that align with the beliefs and values of these communities.

Ethical Values and Social Responsibility: Islamic finance operates on the basis of ethical values and social responsibility. In a world where ethical concerns are increasingly common, this system adheres to the principles of fairness and responsibility, making it a beacon of ethical financial behavior.

Sharing of Risks and Rewards: Islamic finance encourages cooperation and sharing of risks and rewards. Unlike conventional finance, which often revolves around fixed interest rates and loans,

³https://uz.wikipedia.org/wiki/Islam_bank_ishi_va_moliyasi



Islamic finance is largely about partnerships and joint ventures. In the innovation economy, this approach can be a lifeline for startups and other businesses in need of financial support .

Asset-backed financing: Every financial transaction in Islamic finance is tied to tangible assets. This approach significantly reduces speculative and redundant practices, ensuring a robust and stable financial system - an absolute necessity in today's ever-changing, dynamic economic environment.

Innovation and financial engineering: Islamic finance is not rigid; it adapts to change and encourages innovation as long as it is consistent with its core values. In the innovation economy, this flexibility helps to develop creative financial products and services that are ethical and responsible.

Financial Inclusion and Accessibility: Islamic finance emphasizes accessibility and inclusiveness, aiming to provide financial services to a wide range of society. At a time when fintech and digitization are reshaping finance, this approach will bridge the financial divide and ensure more people have access to formal financial systems.

Long-term perspective: Islamic finance encourages a long-term perspective and discourages reckless risk-taking. This can promote stability and stability in an innovation economy where short-term thinking and excessive risk-taking can lead to instability.

Shariah Compliance: In Muslim-majority areas, Islamic finance is more than just an option; it is a necessity due to religious beliefs. In an innovative economy, it is essential to provide financial services that respect these values.

Stability and risk management: Islamic finance's avoidance of speculation and excessive risk-taking can be the basis of financial stability. In a world of constant change and innovation, preventing systemic risks is critical.

Real Economic Impact: Islamic finance invests in real economic activity, not just speculative transactions. In an innovation economy, this approach is invaluable when we need to support innovation, job creation and economic growth.

can easily adapt to technological advancements and fintech innovations , adapting to the digital transformation of the financial industry.

Green and Ethical Finance: The principles of Islamic finance are compatible with green and ethical finance that promotes sustainable and responsible investment.

Global integration: Islamic finance is integrated into the global financial system, making it accessible to a variety of investors and businesses.

Financial Inclusion: Ensuring everyone has access to financial services is essential in an innovative economy, and Islamic finance embraces the concept of financial inclusion.

is attractive to investors of various backgrounds, encouraging international economic cooperation and trade.

In short, Islamic finance brings a human dimension to the dynamic and ever-changing landscape of the innovation economy. It promotes ethical and responsible financial practices, supports risk sharing and fosters inclusiveness, making it an integral part of the global financial system. As the world continues to evolve, Islamic finance provides valuable insights and solutions to address the challenges and opportunities in this dynamic financial environment.



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