



THE SOCIO-ETHICAL SIGNIFICANCE OF ISLAMIC FINANCE IN DEVELOPING YOUTH ECONOMIC CULTURE

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Abstract

This article examines the distinctive features of Islamic finance as an ethical and socio-economic system grounded in Sharia principles. It highlights the prohibition of interest (riba) and the emphasis on risk-sharing, real economic activity, and social responsibility. The study analyzes key financial instruments such as mudarabah, musharakah, and murabaha, demonstrating their role in promoting fairness, transparency, and partnership. It also explores additional mechanisms including zakat, sadaqah, and qard al-hasan, which contribute to wealth redistribution and poverty reduction. The paper argues that Islamic finance integrates moral values with economic practices, ensuring that profit generation aligns with ethical standards. Furthermore, it discusses the growing global relevance of Islamic finance, particularly in the context of financial instability and inequality. The research shows that its asset-based and non-speculative nature enhances financial stability and resilience. Overall, the article concludes that Islamic finance represents not only an alternative financial model but also a comprehensive framework for sustainable and socially responsible economic development.

Keywords: Islamic finance, Sharia compliance, riba prohibition, risk-sharing, mudarabah, musharakah, murabaha, social justice, ethical economics, sustainable development.

Introduction

Economic culture in accordance with Islam is distinguished by its own specific approach, principles, and objectives. It is not merely an alternative form of financial processes, but rather a system of economic thinking grounded in honesty

and social responsibility. As noted, “the aim of Islamic finance was to ensure social justice, which is lacking in the egocentric mentality of the conventional system.” [1] The primary sources of economic culture in Islam are the Qur’an, Hadith, fiqh, and the rules of Sharia. This system considers not only material benefit but also spiritual values and moral responsibility to be essential in economic activity. From this perspective, economic activity in Islam is viewed not merely as a means of generating profit, but as an activity that serves the interests of society.

Therefore, in his Address to the Oliy Majlis on December 29, 2020, the country’s leader emphasized that “...the time has come to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial institutions will be involved in this process”. [2]

Indeed, the primary objective of economic culture in Islam is to ensure the fair and rational distribution of wealth within society. At the same time, it aims to eliminate oppression and exploitation in economic life. In this system, every financial action is governed by the principles of compliance with Sharia and the pursuit of barakah (blessing). The goal of making profit must not contradict Sharia. This approach fundamentally differs from the extreme profit-oriented principles of modern capitalist economies, which are primarily focused on maximizing income.

In Islamic economic relations, riba (interest-based financial transactions) is strictly prohibited. In the verses of the Qur’an, engaging in riba is described as “declaring war against Allah and His Messenger.” Income derived from riba lacks elements of labor, risk, and productive activity. From the perspective of Islamic thought, this contradicts the principle of justice.

“Islamic banking and finance prohibit both the payment and receipt of riba, interpreted as interest. In medieval Islamic society, the main instrument of lending was the interest-free loan known as Qard al-Hasan. Interestingly, Sharia recognizes the time value of money, as the price of goods sold on deferred payment terms may differ from their present value. While Sharia allows additional payments in business transactions, it prohibits them in lending activities. Islamic finance developed on the basis of the priority of operations recorded under the concept of Fiqh al-Muamalat”. [3] For this reason, Islamic finance is fundamentally based on real economic activity. In other words, finance



is not merely the circulation of funds, but must serve the creation of genuine value.

In Islam, maintaining a balance between tawakkul (risk) and labor is essential. In any financial transaction, risk should not be borne by only one party but must be shared equitably. This approach fosters trust-based relationships in economic activity. For example, instead of issuing conventional loans, Islamic banks participate as partners in real projects, where profits and losses are shared equally. In this way, financial resources are directed not toward virtual circulation, but toward genuine economic activity. Furthermore, economic relations in Islam do not rely on the principle that “the end justifies the means.” In any economic activity, the method is considered more important than the outcome. Profit may be earned, but it must be lawful (halal). This criterion ensures that economic activity operates under ethical supervision. In Islamic culture, economic freedom yields positive results only when harmonized with moral constraints.

Islamic financial instruments are designed to meet economic needs while maintaining compliance with Sharia. These instruments are structured on the basis of cooperation, labor, partnership, and honesty. Thus, Islamic finance represents a comprehensive system that integrates social and ethical norms into societal development through economic means. It ensures a fair balance between labor and profit and facilitates the circulation of wealth on a socially inclusive basis. It is precisely this feature that constitutes the philosophical and practical foundation distinguishing Islamic finance from other financial systems.

In the Islamic financial system, the prohibition of interest (riba) is a fundamental principle, which necessitates conducting financial activities through alternative mechanisms. As a result of this requirement, financial instruments have been developed that comply with Sharia while also meeting economic needs. Among the most important of these instruments are mudarabah, musharakah, and murabaha contracts. These instruments are not solely oriented toward profit generation but also incorporate ideas of social responsibility, the value of labor, and partnership.

Mudarabah is a partnership-based contract between a capital owner (rabb al-mal) and an entrepreneur (mudarib), where one party provides financial capital and the other contributes labor, expertise, and management. Both parties share the profit according to a pre-agreed ratio, while any loss is borne solely by the capital provider, unless it results from the negligence or misconduct of the mudarib. The

mudarabah contract promotes the appreciation of knowledge, experience, and integrity in economic activity.

This instrument is one of the most widely used forms in Islamic finance and has been successfully applied in cooperation between banks and startup projects. As noted, “Mudarabah is a type of partnership agreement in which the capital provider (rabb al-mal) allocates funds to an entrepreneur (mudarib) to carry out business activities on a partnership basis. In such a partnership, business operations are fully managed by the mudarib. The profit generated during the activity is distributed according to a pre-agreed ratio, while any loss is borne solely by the capital provider”. [4]

Musharakah is a form of partnership based on the financial and practical participation of two or more parties. In this arrangement, all participants contribute through labor, capital, or other resources. Both profit and loss are distributed according to a mutual agreement. Due to the high level of involvement and responsibility required from all parties, musharakah is commonly applied in large-scale investment projects or commercial partnerships. This instrument enables financial activity to be conducted on the basis of fairness and equality, while limiting opportunities for one-sided gain. As noted, “Musharakah refers to the joint financing of an idea or enterprise. Both individuals and companies may participate. In conventional economics, this scheme is known as equity financing”. [1]

Murabaha, on the other hand, involves purchasing a commodity and selling it to a client with a disclosed markup. Although it may resemble a conventional credit system, the key difference lies in the fact that the profit is not interest-based but determined through an agreed price. The buyer is fully aware of both the original cost of the commodity and the added margin. This enhances transparency and trust in economic transactions. Murabaha is one of the most widely used methods by Islamic banks in trade financing. As stated, “Murabaha is a lawful deferred payment transaction in which a markup may or may not be added to the price of a commodity. In this process, Islamic banks purchase goods and services and then sell them on the basis of deferred payment”. [4]

At the same time, Islamic finance is regarded as a means of ensuring social equality in society, preventing the concentration of wealth, and combating poverty. Financial practices developed on the basis of Sharia-especially mechanisms such as zakat, sadaqah, qard al-hasan (interest-free benevolent

loans), and others-enable the rational redistribution of economic resources from the wealthy to those in need. This strengthens social responsibility within economic circulation and aligns financial activities with the interests of society. These features clearly distinguish Islamic finance from other systems.

Furthermore, Islamic financial principles are gaining increasing relevance in the global financial market today. Against the backdrop of recurring financial crises, instability of interest-based systems, speculative capital flows, and social inequalities, Islamic finance is attracting attention as an alternative model. For example, during the 2008 Financial Crisis, Islamic financial institutions experienced comparatively fewer losses. This is because their operations were primarily linked to real assets and did not rely on interest-based risks or opaque speculative activities.

In conclusion, Islamic finance is not merely an alternative financial system, but an ethical-economic model that brings barakah (blessing) and social harmony to society. It governs financial activities on the basis of social responsibility and integrity. In today's unstable global economic environment, such an approach offers a necessary alternative for humanity as a whole. The socio-philosophical essence of Islamic finance elevates it beyond mere banking operations to the level of a comprehensive form of economic culture.

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