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ISLAMIC FINANCE IN CENTRAL ASIA AND RUSSIA

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ABSTRACT

The current report analyzes the Islamic Finance landscape in Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) and Russian Federation. As these countries are home to about 90 million Muslims, there is tremendous potential for Islamic Finance. Kazakhstan and Kyrgyzstan are pioneers in this field having formally introduced Islamic financial institutions in their jurisdictions more than two decades ago, while Muslims in Russia have been using Islamic financial instruments by adapting them to local legal requirements. The industry's key challenges are a lack of public awareness and Islamic financial literacy, a shortage of qualified human capital, double taxation and government support. Thus, to foster the growth of the Islamic financial services industry in the region, there is a need to develop a complete Islamic Finance infrastructure including all segments such as Islamic banking, Islamic capital market, Islamic insurance (Takaful), Islamic social finance and Halal sector. The essential steps towards this direction include designing a comprehensive strategic master plan that addresses the need for standardization/harmonization of Islamic financial products and services, reporting and governance by adopting or adapting the standards of international Islamic standard-setting organizations such as AAOIFI, IFSB, IIFM and IILM establishing a centralized Shari'ah advisory council with the mandate to guide the market and ensure its compliance with Islamic finance principles; introducing Islamic Finance programs, seminars and training by educational institutions for human capacity building and creating a conducive regulatory environment resulting in tax neutrality and more liberal market entry requirements.

Keywords: Islamic Finance, Islamic banking, Takaful, Central Asia, Russia.

ÖZET

Bu rapor, Orta Asya ülkeleri (Kazakistan, Kırgızistan, Tacikistan, Türkmenistan, Özbekistan) ve Rusya Federasyonu'ndaki İslami finans durumunu analiz etmek için kaleme alınmıştır. Bu ülkeler yaklaşık 90 milyon Müslüman'a ev sahipliği yaptığı için İslami finans için muazzam bir potansiyeli bünyesinde taşımaktadır. Kazakistan ve Kırgızistan, yirmi yılı aşkın bir süre önce kendi yetki alanlarında İslami finans kurumlarını resmi olarak tanıyarak ve uygulayarak bu alanda öncü olurken, Rusya'da durum farklı seyretmiştir. Rusya'daki müslümanlar İslami finansal araçlarını yerel ve yasal gerekliliklere uyarlayarak kullanmaktadır. Sektörün temel zorlukları, kamuoyu farkındalığı ve İslami finansal okuryazarlık eksikliği, nitelikli beşeri sermaye eksikliği, çifte vergilendirme ve devlet desteğidir. Bu nedenle, bölgede İslami finans hizmetleri sektörünün büyümesini teşvik etmek için İslami bankacılık, İslami sermaye piyasası, İslami sigorta (Tekafül), İslami sosyal finans ve helal sektör gibi tüm segmentleri içeren eksiksiz bir İslami finans altyapısının geliştirilmesine ihtiyaç vardır. Bu yöndeki temel adımlar arasında, AAOIFI, IFSB, IIFM ve IILM gibi uluslararası İslami standart belirleyen kuruluşların standartlarını benimseyerek veya uyarlayarak İslami finansal ürün ve hizmetlerin standardizasyonu / uyumlaştırılması, raporlama ve yönetim ihtiyacını ele alan kapsamlı bir stratejik ana plan tasarlanması yer almaktadır. Bunların yanı sıra piyasaya rehberlik etme ve İslami finans ilkelerine uygunluğunu sağlama ve kontrol etme yetkisini üstlenen merkezi bir şer'i danışma kurulu kurmak, eğitim kurumları tarafından insan kapasitesinin artırılmasına yönelik İslami Finans programları, seminerleri ve eğitimleri düzenlemek, vergi tarafsızlığı ve daha serbest bir pazara giriş gereklilikleriyle sonuçlanan elverişli bir düzenleyici ortam yaratılması da bu temel adımlara dahil edilebilir.

Reference: Reference: Nagayev, R., Jahangir R. (2022). Islamic finance in Central Asia and Russia (Research Report No. 28). İstanbul: Research Center for Islamic Economics (IKAM).

ABOUT AUTHOR



Dr. Ruslan Nagayev (Adam) obtained his BA degree in Business Administration from Misr University for Science and Technology (Egypt) in 2004. He began his career in the oil industry at a multinational company. Within four years of his working experience, he advanced from the position of Cost Control assistant to Chief Internal Auditor. He obtained a Master's degree in 2010 and a PhD in 2017, both in Islamic Finance at INCEIF. He received the President's Award for the best PhD. During his study, he got teaching experience at the University of Kuala Lumpur, worked on multiple projects, and conducted workshops and training sessions. Currently, he is a visiting professor at the College of Islamic Studies and is also an Assistant Professor at the Department of Islamic Economics and Finance at Istanbul Sabahattin Zaim University (Türkiye). He is a member of the editorial board of the Journal of Islamic Economics and Finance (JIEF) and Deputy Director of ISEFAM. He has produced several academic publications. His research interest falls in Islamic Finance, Capital Markets, and Applied Econometrics.



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List of Abbreviations

AAOIFI	: Accounting and Auditing Organization for Islamic Financial Institutions
ADIF	: Association for the Development of Islamic Finance in Kazakhstan
AIFC	: Astana International Financial Center
AIX	: Astana International Exchange
ARFC	: Almaty Regional Financial Center
CBR	: Central Bank of Russian Federation
CBT	: Central Bank of Tajikistan
CBU	: Central Bank of the Republic of Uzbekistan
CIBAFI	: General Council of Islamic Banks and Financial Institutions
CIS	: Commonwealth Independent States
DBK	: Development Bank of Kazakhstan
GDP	: Gross Domestic Product
HDI	: Human Development Index
ICD	: Islamic Corporation for the Development of the Private Sector
IFI	: Islamic Financial Institution
IFSB	: Islamic Financial Services Board
IFSI	: Islamic Financial Services Industry
IIFM	: International Islamic Financial Market
IILM	: International Islamic Liquidity Management
IsDB	: Islamic Development Bank
KGS	: Kyrgyzstani Som (currency)
KZT	: Kazakhstani Tenge (currency)
MOEX	: Moscow Stock Exchange
MSME	: Micro, Small and Medium Enterprises
NBKR	: National Bank of the Kyrgyz Republic
NBRK	: National Bank of the Republic of Kazakhstan
NBT	: National Bank of Tajikistan
PPP	: Purchasing Power Parity
RUB	: Russian Ruble (currency)
SPV	: Special Purpose Vehicle
TJS	: Tajikistani Somoni (currency)
UNDP	: United Nations Development Programme
UZS	: Uzbekistani Som (currency)
WB	: The World Bank

Introduction

Background Information

Islamic Finance is a principles-based approach to investing governed by *Shari'ah* (Islamic law), which upholds justice and prohibits all forms of unethical, speculative, and usurious practices. It plays an instrumental role in lending a hand to the real economy and contributing to the resilience of the global financial system.

According to the Islamic Financial Services Industry Stability Report 2022, the global assets of the Islamic financial services industry (IFSI) maintained double-digit growth, rising by 11.3 percent year-on-year to US\$3.06 trillion in 2021 (IFSB, 2022). It is projected to cross the four trillion USD threshold by 2025 (Refinitiv, 2021). The global IFSI assets are distributed as follows (see *Table 1* below): 68.7 percent – Islamic banks, 25.4 percent – *Sukuk* (Islamic bonds/certificates) outstanding, 5.1 percent – Islamic fund assets, and 0.8 percent – Islamic insurance (*Takaful*). As of 2020, more than 1500 financial institutions offered Islamic financial services around the world, including 500+ Islamic banks, 700+ Islamic funds, and 300+ *Takaful* companies. The global industry is mainly led by five countries: Iran, Saudi Arabia, Malaysia, UAE and Qatar. According to the IFSB classification, there are 15 jurisdictions with a systemically important Islamic banking sector, including Iran, Sudan, Saudi Arabia, Brunei, Kuwait, Malaysia, Qatar, Bangladesh, Djibouti, UAE, Jordan, Bahrain, Pakistan, Palestine and Oman. The total Islamic banking assets of these countries make up more than 15 percent of their total domestic banking sector assets (IFSB, 2022).

Table 1: The Size of IFSI by Segments (US\$, the year 2021)

Component	Amount (US\$ Bln)	Share (%)
Islamic Banking	2,104.1	68.7
Islamic Capital Market	930.3	30.5
a) <i>Sukuk</i> Outstanding	775.7	25.4
b) Islamic Funds Assets	154.6	5.1
Islamic Insurance (<i>Takaful</i>)	24.3	0.8
Total	3,058.7	100

Data source: IFSB (2022)

However, despite over two decades of continuous efforts and initiatives made by local Muslims, Central Asian states and the Russian Federation have contributed little to the global IFSI. Yet, Islamic Finance has tremendous potential in these regions due to the large Muslim population, coupled with the established presence of international Islamic financial institutions (IFIs), like the Islamic Development Bank (IsDB) Group (UNDP, 2021).

According to Refinitiv (2021), Kazakhstan ranked 24 globally in terms of the level of Islamic Finance development (i.e., above the global average) in 2020 and it leads the Central Asian and Russian markets (see *Table 2* below). The Kyrgyz Republic, Tajikistan and Uzbekistan rank globally 38, 46 and 49, respectively. Meanwhile, Turkmenistan and Russia lag substantially behind scoring respectively 85 and 126. So, what is the status of Islamic Finance in these countries (trends and issues) and what can be done to accelerate its growth?

Table 2: Ranking of Countries based on the IFDI 2020

Market	Ranking	IFDI Score	Q	K	C	G	A
Global Average	-	11.01	5.83	11.62	7.16	14.79	15.63
Kazakhstan	24	17.55	3.19	7.75	11.49	52.54	12.80
Kyrgyzstan	38	10.37	0.92	0.00	0.00	33.28	17.68
Tajikistan	46	7.78	4.23	0.00	0.00	16.67	17.99
Turkmenistan	85	3.35	0.00	0.00	0.00	0.00	16.76
Uzbekistan	49	6.47	1.07	9.59	0.00	4.34	17.35
Russian Federation	126	1.31	0.28	3.35	0.00	0.00	2.91

Source: Refinitiv (2021)

Notes: The countries are ranked based on the Islamic Finance Development Indicator (IFDI) for the year 2020. The IFDI score is a composite weighted index that measures the overall development and health of the IFSI. It draws on five indicators that are the main drivers of growth in the industry: Quantitative Development (**Q**), Knowledge (**K**), Governance (**G**), Corporate Social Responsibility (**C**), and Awareness (**A**).

Scope of Study and Methodology

The study aims at analyzing the current state of Islamic Finance in Central Asia and the Russian Federation and identifying the challenges and prospects of the industry by thoroughly reviewing the publications, reports, academic articles and official websites of government agencies and financial institutions both in Russian and English languages. Policy recommendations shall be provided based on research findings.

Demographic and Economic Outlook

Central Asian Region

The total land area of Central Asian countries is about 3.94 million square kilometers, including 37.65 million hectares of arable land area, 288.81 million hectares of agricultural area and 13 million hectares of forest area. More than 70 percent of the total land area is agricultural land with more than half representing permanent meadows and pastures (IsDB, 2020). As shown in *Table 3* below, Kazakhstan is the largest landlocked country in the world and it is the largest country in Central Asia with 2.70 million square kilometers of land area, followed by Turkmenistan (0.47), Uzbekistan (0.44), Kyrgyzstan (0.19) and Tajikistan (0.14).

As of 2021, the population of Central Asia reached 76.5 million and is projected to reach 85 million by 2030 (an 11 percent increase over a decade) and 100 million by 2050 (a 31 percent increase over three decades). Approximately 85 percent of the local people attribute themselves to Islam. Muslims represent 71 percent of the population of Kazakhstan and about 90 percent in the four other Central Asian countries (see *Table 4* below). The vast majority of them are Sunni Muslims following the Hanafi school of law (*madhab*).

The aggregate nominal GDP of the Central Asian countries exceeded US\$300 billion in the year 2021, while Russian Federation alone had US\$1,776 billion in the same period. According to the World Bank classification¹ Russia, Kazakhstan, and Turkmenistan belong to upper-middle-income countries based on GNI per capita in 2020, whereas Kyrgyzstan, Tajikistan, and Uzbekistan fall into the lower-middle-income category (SESRI, 2022). As of 2021, Kazakhstan leads the sample countries (see *Table 5* below) in terms of real GDP per capita (US\$11,265), followed by Russia (US\$10,220), Uzbekistan (US\$3,328), Tajikistan (US\$1,280), and Kyrgyzstan (US\$1,123).² However, when considering purchasing power parity (PPP), Russia has the highest share of GDP per capita (US\$27,970), followed by Kazakhstan (US\$26,033), Uzbekistan (US\$7,735), Kyrgyzstan (US\$4,813) and Tajikistan (US\$3,904).

Table 3: Geography (2020)

Indicator	KAZ	KGZ	TJK	TKM	UZB	RUS
Land Area (km sq., 2020)	2,699,700	191,800	138,790	469,930	440,650	16,376,870
Arable Land Area (% of Land Area)	10.95	6.71	6.05	4.13	9.13	7.43
Agricultural Area (% of Land Area)	79.27	54.06	35.42	72.01	58.28	13.16
Forest Area as (% of Land Area)	1.28	6.86	3.05	8.78	8.37	49.78

Source of data: WB (n.d.)

Table 4: Demographics (2021)

Indicator	KAZ	KGZ	TJK	TKM	UZB	RUS
Population, Total (mln)	19.03	6.69	9.75	6.12	34.92	143.45
Muslim Population (% of total, approx.) [*]	71.00	90.00	90.00	89.00	88.00	7.00
Population, Ages 0-14 (% of total)	29.20	32.60	37.40	30.60	28.70	18.50
Population, Ages 15-64 (% of total)	62.70	62.50	59.30	64.40	66.20	65.50
Population, Ages 65+ (% of total)	8.20	4.90	3.30	5.00	5.00	16.00
Population, Urban (% of total)	57.80	37.10	27.70	53.00	50.40	74.90
Population Density (persons per sq.km)	7.00	34.90	70.20	13.00	79.30	8.80
Labour Force (mln)	9.29	2.55	2.46	1.94	14.36	71.767
Labour Force Participation Rate (Ages 15+)	69.10	56.50	40.30	45.80	57.70	61.40
Employment-to-Population Ratio (Ages 15+)	65.70	51.40	37.20	43.50	53.60	58.30

Sources of data: World Bank, *USDS (2022)

Notes: Kazakhstan (KAZ), Kyrgyzstan (KGZ), Tajikistan (TJK), Turkmenistan (TKM), Uzbekistan (UZB) and Russia (RUS).

1 The World Bank classification of countries by income group based on GNI per capita (USD): (i) Low-income: up to 1,045; (ii) Lower middle-income: between 1,046 and 4,095; (iii) Upper middle-income: between 4,096 and 12,695, and (iv) High-income: 12,696 or more.

2 The year 2021 data for Turkmenistan is missing in the World Bank's WDI database.

Table 5: Economy (2021)

Indicator	KAZ	KGZ	TJK	TKM*	UZB	RUS
GDP per Capita (constant 2015, US\$)	11,265	1,123	1,280	7,692	3,328	10,220
GDP per Capita (PPP, constant 2017, US\$)	26,033	4,813	3,904	15,538	7,735	27,970
Nominal GDP (bln US\$)	190.81	8.54	8.75	45.23	69.24	1,775.80
Real GDP (constant 2015, bln US\$)	214.06	7.52	12.48	45.71	116.19	1,490.89

Source: World Bank

Note: Data for Turkmenistan is available for 2019 only.

Kazakhstan is the 9th largest country in the world and the largest landlocked area on the planet, with an area of 2,699,700 square kilometers. It is a Central Asian country with a population of 19.3 million, more than half of which reside in urban areas. 71 percent of the population identifies themselves as Muslims. It shares a border with Russia in the west and north, China in the east, Kyrgyzstan, Uzbekistan, and Turkmenistan in the south. The Caspian Sea forms a large part of its western border. Kazakhstan is the largest economy in Central Asia. It is classified as an upper-middle-income country with a US\$26,033 GDP per capita (PPP, constant 2017) in 2021. The country is endowed with substantial natural resources. Kazakhstan has the world's largest uranium reserves and is the world's largest producer of uranium. It has the ninth-largest fossil fuel reserves globally in addition to possessing half of the world's reserves of tungsten and many other rare metals. The country's industrial sector is mainly based on extracting and processing natural resources. The oil and gas sector still dominates the economy. Besides, the country is specialized in agriculture and cattle breeding. As Kazakhstan is heavily dependent on mineral resources, the government launched a large-scale economic diversification program in the fields of transportation, medicine, petrochemistry and metal processing. These efforts are expected to reduce the economy's dependence on natural resources, switching the focus to a private-sector-led economy that will likely provide impetus to the country's growth. Kazakhstan is a presidential republic with a Prime minister. It applies civil law which combines the elements of Roman-Germanic law and Russian law.

Kyrgyzstan is a landlocked and mountainous country in Central Asia with an area of 191,800 square kilometers. It shares a border with Kazakhstan in the north, Uzbekistan in the west, Tajikistan in the southwest and China in the east. The country has a wealth of natural resources, including minerals, forests, arable land and pastures. Besides, there is great potential for the agriculture sector, hydroelectricity production, and tourism sector to expand. Kyrgyzstan is a lower-middle-income country with a US\$4,813 GDP per capita (PPP, constant 2017) in 2021. Its population reached 6.7 million in 2021, one-third of which lives in urban areas. Demographic data shows that almost 90 percent of the population professes Islam. It is a presidential republic with a Prime minister. Kyrgyzstan has civil law system influenced by French civil law and Russian law.

Tajikistan is another inland Central Asian country with an area of 138,790 square kilometers. The country shares a border with Kyrgyzstan in the north, Uzbekistan in the west and northwest, Afghanistan in the south and China in the east. Tajikistan has sizeable deposits of gold, silver, antimony, coal, gold, silver, precious stones and uranium. Tajikistan belongs to a lower-middle-income group with the lowest GDP per capita in the region (PPP, constant 2017: US\$3,904). The population is 9.75

million, and only one-fourth reside in urban areas. It is home to nearly 90 percent of Muslims. Tajikistan is a presidential republic with a Prime minister. The country's legal system is based on civil law.

Turkmenistan is also a noncoastal country with an area of 469,930 square kilometers. The uninhabited Karakum desert covers about 70 percent of the country. Turkmenistan shares the border with Kazakhstan in the northwest, Uzbekistan in the north and east, Afghanistan in the southeast, Iran in the south and the Caspian Sea in the west. It is the second largest country in Central Asia in size but the lowest in terms of population (6.12 million). About 90 percent of the population attributes themselves to Islam. Turkmenistan is an upper-middle-income country with a US\$15,538 GDP per capita (PPP, constant 2017) in 2019. The country is wealthy in hydrocarbon resources, holding around 10 percent of the world's total gas reserves. Turkmenistan is a presidential republic with a Prime minister. It has a civil law system influenced by Islamic law (*Shari'ah*).

Uzbekistan is also a landlocked country strategically located in the heart of Central Asia covering an area of 440,560 square kilometers. It borders Kazakhstan in the northwest and north, Tajikistan and Kyrgyzstan in the east and southeast, Turkmenistan in the southwest and Afghanistan in the south. Uzbekistan ranks among 30 countries in energy and mineral reserves (WBG, 2022), including natural gas, coal, gold, silver, uranium and copper. It is the largest country in the region in terms of population (34.9 million), comparable to Kazakhstan, Tajikistan and Turkmenistan combined. Urban areas account for half of the country's population. Most of the country's inhabitants are Muslims (88%). Uzbekistan is a lower-middle-income country with a US\$7,735 GDP per capita (PPP, constant 2017) in 2021. It is a presidential republic with a Prime minister. The country applies civil law system.

Russian Federation

Russia occupies one-tenth of all the land on Earth, making it the largest country in the world. It is situated on two continents - Europe and Asia having coastlines on three oceans - the Atlantic, the Pacific and the Arctic. The economy largely depends on natural resources such as crude oil, natural gas, coal, iron ore, gold, platinum and aluminum. As of 2021, Russia is an upper-middle-income country with a US\$27,970 GDP per capita (PPP, constant 2017). It is a federal presidential republic governed by civil law.

The Russian Federation is made up of 86 republics, provinces, territories and districts all of which are administered by the Moscow government. It is a multi-ethnic country with a culturally and linguistically diverse population of 143.5 million. There are more than 180 ethnic groups living in the country, out of which 58 are of Muslim origin. The Muslim-majority regions are Tatarstan, Bashkortostan and six North Caucasian republics (Dagestan, Chechen Republic, Ingushetia, Adygea, Kabardino-Balkaria, and Karachay-Cherkessia). The vast majority of Muslims in Russia are of Sunni denomination following *Hanafi* and *Shafi'i madhab*.

Islam is the second most widespread religion in Russia after Christianity. In 643, the Muslim expedition under the leadership of Suraqah bin Malik reached Derbent (called *Bāb al-Abwāb*), southern Dagestan (present-day Russia). There is a mosque built in the 8th century and there are tombs of companions of the Prophet Muhammad (peace be upon him). It is argued that Islam officially appeared in Russia before Christianity. Volga Bulgaria (territory of present-day Russia) embraced Islam

as a state religion back in 922, i.e., 66 years earlier than Kievan Rus accepted Orthodox Christianity (Aljazeera, 2018; Teslova, 2018).

Among all the countries in Europe, the Russian Federation has the largest Muslim population (Čech, 2022). The exact size of the Muslim population in the country is unknown. The estimates based on the 2010 census by the Russian Federal Service for State Statistics (MB, n.d.)³ show that the Muslim population in the country was about 15 million in 2010. Tatars represent the largest ethnic Muslim group in Russia (5.31 million), followed by Bashkir (1.59), Chechen (1.43), Avar (0.91), Cherkess (0.73), Dargin (0.59), Kabardian (0.52), Kumyk (0.51), Lezgin (0.47), Ingush (0.45), Karachay (0.22), Lak (0.18), Tabasaran (0.15), Adyg (0.13) and Nogay (0.11). Besides, there are local Kazakh (0.65), Azeri (0.60), Uzbek (0.29), Tajik (0.20), Kyrgyz (0.10), Turkmen (0.04), Turks (0.11) and other ethnicities. Meanwhile, according to the Grand Mufti of Russia, Sheikh Rawil Gainutdin, the estimated number reached 25 million in 2018 (Aljazeera, 2018), thus, representing 17 percent of the country's total population. Furthermore, he stated that by 2034, Muslims are expected to account for 30 percent of Russia's population (AA, 2019).

Islamic Finance in Central Asia and Russia

Established in 1974, the Islamic Development Bank (IsDB) has played a significant role in supporting regulators, policymakers, financial institutions and other related bodies in their efforts to develop robust domestic Islamic Finance ecosystems in many jurisdictions. The institution comprises 57 member countries from Africa, Asia-Pacific, Europe, the Middle East, South Asia and South America. According to its mission statement, the IsDB is “committed to alleviating poverty, promoting human development, science and technology, Islamic banking and finance and enhancing cooperation amongst Member Countries...” (IsDB, 2021). The six key strategic pillars of the IsDB are (i) support of economic and social infrastructure, (ii) inclusive social development, (iii) cooperation between member countries, (iv) private sector development, (v) Islamic Finance sector development and (vi) capacity building. It mobilizes funds and invests using *Shari'ah*-compliant modes of financing and provides technical assistance to member countries.

Kyrgyzstan was the first country to join Islamic Development Bank (IsDB) in 1993, followed by Turkmenistan (1994), Kazakhstan (1995), Tajikistan (1996) and Uzbekistan (2003). *Table 6* presents the dates of joining the IsDB and the contributions made by the Central Asian states. In 2018, Kazakhstan hosted the IsDB's Regional Hub responsible for operations in the Central Asian region. As of 2022, the institution has funded 378 projects worth US\$6.88 billion (see *Table 7* below).

The ICD, as a private sector arm of the IsDB Group, also plays a key role in fostering Islamic Finance development by promoting knowledge-sharing, increasing capacity-building and facilitating greater sustainable access to financing across its member countries.

3 The datasets can be accessed by visiting the archived website of the Nationwide Population Census (www.gks.ru): https://web.archive.org/web/20140705002815/http://www.gks.ru/free_doc/new_site/perepis2010/croc/perepis_itogi1612.htm

Country	Joining Date	Subscribed Capital	% of Total IsDB Subscribed Capital
Kazakhstan	30 November 1995	54.00	0.11
Kyrgyzstan	03 November 1993	25.84	0.05
Tajikistan	27 November 1996	18.16	0.04
Turkmenistan	15 November 1994	4.96	0.01
Uzbekistan	27 August 2003	13.44	0.03

Source: IsDB (2020)

Country	Projects	Completed	Active	Total Funding (US\$ mln)
Kazakhstan	69	55	14	1,700
Kyrgyzstan	71	52	19	421
Tajikistan	92	66	26	663
Turkmenistan	23	15	8	1,300
Uzbekistan	123	57	66	2,800
Total	378	245	133	6,884

Source: IsDB (n.d-a;-b;-c;-d;-e)

Republic of Kazakhstan

Kazakhstan is the first Commonwealth of Independent States (CIS) nation to embrace Islamic Finance, setting up a strategic master plan and positioning itself as a regional Islamic Finance hub. As part of the country's efforts to facilitate the development of the IFSI, several initiatives have been taken since 2009. These include amendments to the legislation to promote Islamic banking and insurance (*Takaful*), establishing various IFIs and the issuance of *Sukuk*.

The urgency for the development of Islamic Finance in the Republic of Kazakhstan is conditioned by the stability exhibited by the IFIs during the global financial crisis, the need to diversify funding sources and the mobilization of long-term external investment for the realization of industrial development plans.

According to Islamic Financial Services Stability Report 2022 (IFSB, 2022), the Islamic banking sector in Kazakhstan accounts for 70 percent of Central Asia's aggregate Islamic banking assets. Despite this, Islamic banking assets in the country represented less than one-quarter of one percent of all banking industry as of the end of 2021. Nevertheless, thanks to digitalization and government support, Islamic banking is expected to gain a significant boost in the jurisdiction.

It is believed that a special banking law enacted in 2009 paved the way for the development of the industry in Kazakhstan. However, the first steps in this direction were taken in the early 1990s. On 30th November 1990, Resolution No.472 was issued by the Kazakh Soviet Socialist Republic to establish an Islamic bank as part of building bilateral relations with the Kingdom of Saudi Arabia (Nagayev & Stambakiyev, 2021). Soon after the country gained independence in 1991, the first President, Nursultan Nazarbayev, issued Resolution No.5, resulting in the incorporation of al-Baraka Bank under the stewardship of Sheikh Salih Kamil. The bank's primary client was the oil and gas sector (Baidau-

let, 2019). Due to Kazakhstan’s challenging transitional period, al-Baraka Bank ceased its operations six years later and was converted into a conventional bank called Kaspi Bank (Wolters, 2013). Besides, in 1993, Texaka Bank, a Kazakhstani-American joint banking venture was established to offer personal banking services. After three years, it was rebranded as Lariba Bank with a primary focus on financing the real estate sector and SMEs. However, in 2006 it was also transformed into a conventional bank named AsiaCredit Bank (Baidaulet, 2019).

Prior to the 2008 global financial crisis, many local commercial banks, including Bank Turan Alem, Bank Center Credit, Alliance Bank, Halyk Bank, Kazkommerts Bank, Alliance Bank, Nurbank and Temir Bank had exposure to Islamic Finance contracts and products while seeking financing from the IsDB as well as British, Malaysian and Middle Eastern Islamic Banks (Nagayev & Stambakiyev, 2022).

The IsDB, which finances both public and private projects has played an essential role in the development of the IFSI in the jurisdiction. On 30th November 1995, Kazakhstan became a member of IsDB followed by opening a regional office in Almaty which marked a significant development for the industry. The Islamic Corporation for the Development of the Private Sector (ICD) an arm of the IsDB was invited to support Kazakhstan’s private sector shortly after. According to IsDB (n.d.-a), as of November 2022, 69 projects are funded, amounting to US\$1.7 billion, out of which 55 projects have been completed.

Despite efforts by local authorities to encourage them to establish IFIs, the entrepreneurs were not enthusiastic about embarking on new business ventures while recovering from the 2008 global financial meltdown. However, in 2010 the first Islamic bank in Kazakhstan and the CIS region Al Hilal Bank⁴ was launched as a result of the intergovernmental agreement between the UAE and Kazakhstan. Seven years later, one of the five oldest banks in Kazakhstan, Zaman Bank⁵ was authorized to provide Islamic banking services. Recently, Tayyab⁶ launched its operations as a digital Islamic bank. Currently, three Islamic banks and two Islamic leasing companies operate in the market.

Category	Title of Institution/ Project	Period	Notes
Islamic Banking	Al Hilal Bank	2010 – present	Part of the Abu Dhabi Commercial Bank Group
	Zaman Bank	2017 – present	Converted from conventional bank
	Tayyab Digital Bank	2021 – present	Registered at AIFC
Islamic Insurance (<i>Takaful</i>)	MIS Takaful	2008 – 2011	Internal decision to close. Could not meet capital requirements.
Leasing Company	Kazakhstan Ijarah Company (KIC)	2013 – present	<i>Ijarah</i> and <i>Murabaha</i> financing
	Al Saqr Finance	2016 – present	Converted from a conventional leasing company

4 The bank’s official website: <https://alhilalbank.kz/en>

5 The bank’s official website: <https://zamanbank.kz/en>

6 The company’s official website: <https://tayyab.kz/en/about>

Table 8: List of IFIs in Kazakhstan

	Fattah Finance	2007 –?	Consulting and Brokerage Company
	Istisna Corporation	2009 – 2019	Consulting company
Others	Hajj Fund	2010 –?	Investment fund
	Association for Development of Islamic Finance (ADIF)	2009 –?	Association of legal entities

Source: Author's own compilation

There have been a number of significant events in Kazakhstan's IFSI including the NBRK becoming an associate member of the Islamic Financial Services Board (IFSB) in 2011, the Islamic bond (*Sukuk*) issuance (US\$76,7 million) by the Development Bank of Kazakhstan (DBK) in 2012, government endorsement of a Master Plan for Islamic Finance aiming for its substantial growth by 2020, technical assistance by the IsDB to promote the growth of IFSI in Kazakhstan through legislative measures in 2014, establishment of an Islamic Finance department at the NBRK, endorsement of NBRK as a supervisory member of two international standard-setting organizations in the same year: the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Islamic Financial Market (IIFM) and approval of the new master plan for 2020-2025 to facilitate Islamic Finance in 2019.

The new master plan aims at fostering Islamic Finance to increase the domestic market share of IFSI by 3-5 percent by 2025 (ZICO, 2020). With the assistance of the IsDB, the Malaysian ZICO *Shari'ah* Advisory Services prepared this plan after thoroughly examining Kazakhstani legislation and market conditions. They documented several factors that are hindering the development of Islamic finance in Kazakhstan, as well as suggestions for resolving them.

Table 9: Key Milestones in the Development of IFSI in Kazakhstan

Period	Key Milestone
1990	Resolution No.472 was issued by the Kazakh Soviet Socialist Republic on 30 th November to establish an Islamic bank as part of building bilateral relations with the Kingdom of Saudi Arabia.
1991	The first President Nursultan Nazarbayev, issued Resolution No.5, resulting in the incorporation of al-Baraka Bank.
2009	Kazakhstan is the first among the CIS countries to adopt a special legal framework for Islamic Finance, i.e. on the organization and activities of Islamic banks and other IFIs. The Association of Development of Islamic Finance (ADIF) started its operations as a professional organization for the development of the IFSI in Kazakhstan. The first brokerage company Fattah Finance JSC started its operations offering Islamic financial products in Kazakhstan.
2010	Al Hilal Islamic JSC, a 100% subsidiary of Al Hilal (UAE), started to operate as a full-fledged Islamic bank under the intergovernmental agreement between Kazakhstan and UAE. MIS <i>Takaful</i> , the first Islamic insurance company in Kazakhstan was established in the form of a Mutual Insurance Society. To facilitate <i>Sukuk</i> market development and expand the potential domestic originators' list a set of new amendments to the legislation was adopted.

Table 9: Key Milestones in the Development of IFSI in Kazakhstan

Period	Key Milestone
2011	<p>The Roadmap for Islamic Finance Development in Kazakhstan by 2020 was approved by the Government by creating conditions for the stable development of the IFSI, promoting the establishment of new Islamic banks defining the Islamic securities issuers, investors and market participants.</p> <p>The Member Country Partnership Strategy 2012-2014 was signed by the Government of Kazakhstan and IsDB Group.</p> <p>The DBK issued the first Malaysian Ringgit-denominated <i>Sukuk</i> (US\$76.7 million).</p> <p>The NBK became a member of IFSB.</p> <p>The Fund for Financial Supporting of Agriculture launched the <i>Murabaha</i> Program for Islamic Microfinance under the agreement between the IsDB and the Fund.</p>
2013	<p>The ICD acquired shares in the capital of local bank 'Zaman Bank'. Later on, the shareholders of Zaman Bank converted it to become the country's first retail Islamic bank.</p> <p>ICD and a group of international and local investors established the first Islamic leasing company called Kazakhstan Ijara Company.</p>
2014	<p>The NBK received Technical Assistance from IsDB to review and develop Islamic Finance legislation in Kazakhstan. Norton Rose Fulbright company was selected within the framework of this technical assistance to execute the project.</p> <p>During the 10th World Islamic Economic Forum (WIFE), Nursultan Nazarbayev, the (then) President of Kazakhstan, was awarded the Global Islamic Finance Award (GIFA) in recognition of his great efforts made to promote Islamic Finance.</p> <p>The NBK became an Observer Member of AAOIFI and an Observer Member of IIFM.</p>
2015	<p>The Memorandum of the Long-Term Cooperation between the NBK and the Association for Development of Islamic Finance (ADIF) was signed in February.</p> <p>Relevant legal provisions to improve conditions for Islamic banking operations and to include Islamic Insurance and Leasing into the legislation came into force in May. Islamic insurance (<i>Takaful</i>) was recognized as a special type of insurance.</p> <p>Relevant legal provisions are made, allowing the conversion of conventional banks into Islamic banks.</p>
2017	<p>The conversion of Zaman Bank into an Islamic bank and the issuance of a license by the NBK for carrying out the Islamic banking operations.</p>
2018	<p>On 5th July, Astana International Financial Centre (AIFC) is officially launched, with Islamic Finance being one of its main strategic pillars.</p>
2019	<p>Approval of Islamic Finance Master Plan for the Republic of Kazakhstan 2020-2025.</p> <p>Hamad Bin Khalifa University (HBKU) and Astana International Financial Centre (AIFC) opened an Islamic Finance Centre (IFC) at Al-Farabi Kazakh National University (Almaty).</p>
2021	<p>On July, the first Islamic digital bank Tayyab is launched at the AIFC.</p>

Source: Adopted from ZICO (2020)

Islamic Banking Segment

Islamic banking is the fastest-growing segment of the country's financial sector. There is a strong commitment on the part of the government of Kazakhstan to further promote Islamic banking as an alternative source of funding for the economy. Currently, three Islamic banks Al Hilal Bank, Zaman Bank and Tayyab digital bank, offer a wide range of financial services for corporate clients and individuals based on *Murabaha*, *Ijarah*, *Wakalah* and *Mudarabah* contracts.

Al Hilal Bank was founded in 2010 as a result of an agreement between the Governments of the Republic of Kazakhstan and the UAE. It is a subsidiary of Al Hilal Bank JSC, the UAE-based Islamic bank having 100 percent state participation. The bank is affiliated with the Abu Dhabi Commercial Bank Group (ADCB Group), one of the leading banking groups in the UAE, controlled primarily by Mubadala Investment Company, a sovereign wealth fund of the Abu Dhabi Government. Al Hilal Bank offers a wide range of banking products and services to individuals and corporates that comply with *Shari'ah* principles and norms. For the first seven years, the bank focused on corporate clients and in August 2017, it also launched retail banking in the cities of Almaty, Nur-Sultan and Shymkent.

In addition, on 17th August 2017, the Islamic bank Zaman-Bank was granted a license by the National Bank of the Republic of Kazakhstan (NBRK) to operate Islamic banking operations in the jurisdiction. The conversion process from a conventional to an Islamic bank lasted four years. In 2018, a representative office was launched at the Astana International Financial Centre (AIFC) in the capital city of Kazakhstan. The ICD is a strategic partner and one of the shareholders of the bank. The Shariyah Review Bureau advises the bank on matters pertaining to *Shari'ah*. It is worth noting that Zaman Bank was behind the legislative amendments which came into force on 1st January 2016, allowing conventional banks to convert into Islamic banks.

As of 1st August 2020, the total assets of the two Islamic banks in Kazakhstan reached KZT 72.1 billion, a 25.6 percent year-over-year increase. While the largest Islamic bank in Kazakhstan Al Hilal Bank expanded its assets by 39 percent to KZT 48.5 billion, the assets of Zaman Bank grew by 5 percent, amounting to KZT 23.7 billion. Over the previous year, the banks have increased their financing portfolio by 41 percent. Notably, the ratio of non-performing loans exceeding 90 days in Al Hilal Bank is zero percent while it is as low as 3 percent at Zaman Bank, which is below the national average of 9 percent; it is worth noting that this ratio exceeds 50 percent with some local banks.

Tayyab is Kazakhstan's pioneer digital Islamic bank registered at the AIFC and launched in July 2021. The company has a partnership agreement with conventional Bank RBK allowing it to access its banking license and infrastructure. Dubai Fintech Ventures is one of Tayyab's institutional investors. Its retail banking operations are limited to the AIFC jurisdiction and do not cover the mainland yet (Jivraj, 2021). At present, the bank offers debit cards (digital and physical plastic cards), as well as payment and transfer services. It also intends to establish a *Shari'ah*-compliant e-marketplace where buyers will be given the option to purchase in installments. An independent advisory company, Shariyah Review Bureau from Bahrain ensures that all operations and products of the company comply with *Shari'ah*.

According to AIFC (2020), the Qatar-based Al Rayan Bank intends to open a “*full-fledged digital bank in AIFC that will focus on the development of Islamic banking products and investments facilitated by the application of cutting-edge fintech products*”.

Islamic Insurance (Takaful) Segment

MIS *Takaful* (formerly *Akniet*) was the first and only Islamic mutual insurance company established in Kazakhstan in 2010. It operated using the *Wakalah-Waqf* model. In the first year alone the company served about 600 clients. In the absence of a supportive regulatory framework, the company's services were limited to voluntary insurance products such as offering travel insurance for Hajj and Umrah, tourism, education, business trip and employment purposes, voluntary accident insurance and voluntary

health insurance (Nagayev & Stambakiyev, 2022). However, the institution ceased its operations in 2015 as it could not meet the capital requirements set by the new Islamic insurance legislation. Until now, the market remains untapped as no single institution in the country offers *Takaful* products.

Islamic Capital Market

The first *Sukuk Murabaha* in Kazakhstan was issued on 18th July 2012 by the Development Bank of Kazakhstan (DBK), amounting to 240 million Malaysian ringgits (US\$76,7 million) with a 5-years maturity and annual coupon of 5.50 percent. Two-thirds of the issuance was subscribed by Malaysian investors, while the local market demanded the remaining.

Islamic Non-Banking Institutions

Currently, two Islamic leasing companies operate in the country: Kazakhstan Ijara Company (KIC) and Al-Saqr Finance. KIC⁷ is the first Islamic leasing firm in Kazakhstan, incorporated in April 2013 as a partnership between ICD and diverse groups of international and domestic investors. It offers Islamic financing facilities (*Ijarah* and *Murabaha*-based) to companies in the corporate and SME sectors in line with *Shari'ah* principles.

In 2017, another Islamic leasing company called Al-Saqr Finance⁸ emerged in the local market, offering a wide range of Islamic financial services to corporate and retail sectors. Between the years 2000 and 2016 the company provided conventional leasing services. The company has received certificates from the Shariyah Review Bureau for compliance of its *Ijarah* and *Murabaha* products with Islamic Finance principles.

Established in 2007, Fattah Finance used to provide consultancy and brokerage services specializing in Islamic investments and securities. The company contributed to the formation of the Association for the Development of Islamic Finance in Kazakhstan (ADIF) in 2009 which played a significant role in the development of Islamic Finance in the country. Besides, Islamic financial services were offered by several companies, including Kausar Consulting Kazakhstan, Akyl-Kenes Consulting and Islamic Financial Instruments LLP.

Moreover, Fattah Finance and Malaysian state financial company Amanah Raya Berhad officially launched the Hajj Fund in June 2010. This *Shari'ah*-compliant investment fund resembles a Malaysian Hajj fund, Tabung Hadji Lembaga, in its structure and functions. It acts as an interest-free 'savings bank' for Muslims planning to perform Hajj or Umrah. Besides, the Fund's services were offered to anyone seeking alternatives to conventional bank deposits.

Islamic Finance Education

In March 2014, Turan University in cooperation with the NBRK the Association of Higher Education Institutions of the Republic of Kazakhstan and the Association of Financiers of Kazakhstan created the Training and Analytical Center for Islamic Finance. The aim of this center is to conduct academic and research activities for developing innovative projects and providing continuous professional development programs for Islamic Finance experts.

7 The company's official website: <https://kic.kz>

8 The company's official website: <https://alsaqr.kz/eng>

Islamic Finance Research and Education Center⁹ at Al-Farabi KazNU is one of the first Islamic education providers in the region. The Center was founded in 2019 in cooperation with the AIFC and the College of Islamic Studies of Hamad Bin Khalifa University (HBKU, Qatar). It offers Islamic Finance programs in a variety of formats (offline, face-to-face, mini-groups, online), as well as degrees (bachelor's elective course, Master's and PhD programmes, and professional certification).

Besides, seminars and workshops on Islamic finance are frequently conducted by the IFSB, the IsDB, Al Hilal Islamic Bank and a number of consulting companies. Islamic Finance conferences and summits are also organized on a regular basis.

In November 2022, the first handbooks in Kazakhstan on Islamic Finance – ‘Guidelines on Islamic Banking and Financial Products’ and ‘Guidelines on Islamic securities (*Sukuk*)’ - were officially presented with the support of AIFC and the Asian Development Bank (AIFC, 2022).

Legal and Regulatory Environment

Following the 2008 global financial crisis, Kazakhstan sought alternative sources of financing. The Kazakhstani government was drawn to the resilience of the Islamic banking system during those turbulent times. A number of legislative measures and institutional initiatives have been taken to promote Islamic finance.

Typically, an established bank attempts to adapt to the existing laws and the legislators make accommodations and amend some of the provisions in the banking law or tax code that hinder the development of the Islamic financial system. However, Kazakhstan is unique in the fact that it enacted legislation enabling Islamic banking institutions to operate unrestrained even before any Islamic banks were established in the country (Banki, 2010).

Table 10: Islamic Finance Regulations		
Year	Title	Target Segment
2009	Amendments to laws of the Republic of Kazakhstan aimed at incorporating Islamic banks and regulating their activities, as well as establishing an Islamic financial system	Islamic banking
2011	Amendments to some legislative acts aimed at establishing Islamic Finance	Islamic capital market
2015	Amendments to some legislative acts of the Republic of Kazakhstan concerning insurance and Islamic Finance	Islamic insurance (<i>Takaful</i>)
2015	Law permitting conventional banks to convert into Islamic banks	Islamic banking

Source: Authors' own

In 2009, the government took the first measure by passing legislation titled ‘*Amendments to laws of the Republic of Kazakhstan aimed at incorporating Islamic banks and regulating their activities, as well as establishing an Islamic financial system*’. According to some researchers, Kazakhstan borrowed Malaysian expertise to develop a legal framework for Islamic finance since the Malaysian model appeared to be more viable than others. In 2008, Malaysian, UAE and IsDB experts were brought in to draft the bill.

On 22nd July 2011, legislation titled ‘*Amendments to several legislative acts aimed at establishing Islamic Finance*’ was passed as the second phase in establishing the legal foundation for Islamic Finance. In addition to regulating the securities market this law outlines the responsibilities of issuers. It regu-

9 The Center's official web page: <https://www.kaznu.kz/ru/21802/page/>

lates Islamic leasing and participation certificates as well as other securities specified in other Kazakh laws including the process for issuing investment fund shares. The ‘Securities market and investment funds laws’ were amended, which made it possible for Islamic securities to be listed on the Kazakhstan Stock Exchange.

On 27th April 2015, the government passed a bill titled ‘*Amendments to some legislative acts of the Republic of Kazakhstan concerning Insurance and Islamic Finance*’, introducing Islamic insurance regulations. Besides, the laws regulating Islamic banks and leasing companies were amended. A revision of the legislation was made specifically to enable the provision of Islamic banking products like *Tawarruq*. The government also passed a law permitting conventional banks to convert into Islamic banks on 24th November of the same year.

Astana International Financial Centre (AIFC)

The Astana International Financial Centre (AIFC)¹⁰ plays a key role in developing the Islamic Finance ecosystem in the region. The platform was launched on the initiative of the first President of the Republic of Kazakhstan, Nursultan Nazarbayev. The Constitutional Law ‘*On Astana International Financial Centre*’ was signed on 7th December 2015. It is modeled after the Dubai International Financial Center and Islamic Finance is one of its strategic pillars. The AIFC aspires to become a leading international financial hub. As part of its mission, it aims to attract investment into the economy by creating a conducive environment for the growth of local capital markets, banking and insurance segments and ensuring their integration into the global financial system. The AIFC has the necessary infrastructure and regulatory framework that meet international standards and practices. As of the end-2022, over 1600 companies have registered on the platform.

English law forms the basis of the AIFC legal system. Founded in 2018, the AIFC Court has an independent jurisdiction separate from the judicial system of the mainland, dealing with civil and commercial disputes on the AIFC.¹¹ As per the AIFC Statute and AIFC Court Regulations, the AIFC Court has “*exclusive jurisdiction in relation to (1) any disputes arising between the AIFC participants, AIFC participants and AIFC bodies, and AIFC participant or AIFC body and its expatriate employee(s); (2) any disputes relating to activities conducted in the AIFC and governed by the acting law of the AIFC; (3) any disputes transferred to the AIFC Court by agreement of the parties; and (4) the interpretation of AIFC acts.*” (Morgan Lewis, 2022).

Also, the AIFC has the ambition to become an Islamic Finance hub in the Eurasian Economic Union and Central Asian region. Since 2018, the platform has been offering Islamic financial products and services in Kazakhstan.

One of the largest banks, Al Rayan Bank, is planning to establish a full-fledged digital Islamic bank on the AIFC platform soon. Moreover, in 2020 for the first time in Kazakhstan, the AIFC’s trading platform Astana International Exchange (AIX) organized the cross-listing of *Sukuk* (Islamic securities) placed by Qatar International Islamic Bank. The initial placement was made on the London Stock Exchange (LSE) for US\$500 million with an annual fixed coupon of 4.264 percent.

¹⁰ The AIFC’s official website: <https://aifc.kz>

¹¹ For more details: <https://court.aifc.kz/an-introduction/>

Issues and Recommendations

Despite global pandemic challenges, Islamic Finance products remain in demand and public awareness is steadily increasing and the government of Kazakhstan is committed to supporting the industry.

In 2019, under the technical assistance of IsDB the *Islamic Finance Master Plan for the Republic of Kazakhstan 2020-2025* was developed and presented by ZICO *Shari'ah* Malaysian consulting company. It outlines the key strategic initiatives and provides recommendations to promote the development of the IFSI and increase the share of Islamic Finance assets in the country to 3 percent of the total domestic financial assets by the year 2025 (ZICO, 2020).

The proposed actions in the master plan are categorized into two levels: i) leveraging the AIFC's potential to attract new players and ii) enhancing regulation within the jurisdiction. The first set of actions involves developing the AIFC to ensure Kazakhstan's role as a regional Islamic finance hub. The achievement of this goal requires enhancing the AIFC's global and regional investor base and liquidity, strengthening cross-jurisdictional collaboration and establishing itself as a reference point for developing Islamic finance and related standards. As part of the second set of actions, conventional banks are invited to establish Islamic windows through which they can offer Islamic financial services. Furthermore, the plan recommends covering Islamic banks under the deposit insurance ecosystem and lowering the entry requirements for new financial institutions to promote competition and market depth.

According to ZICO *Shari'ah* Advisory Services specialists, the Kazakhstani banking legislation requires much higher charter capital for a commercial bank compared to other countries. Furthermore, under the Banks and Banking Activities Law, banks (conventional and Islamic) must have a capital of US\$26.2 million. Taking other costs into account, establishing a commercial bank in Kazakhstan requires at least US\$30-35 million, which is not sufficient to enable sustainable banking operations for the first three years. The challenge is the same for any Islamic financial institution that intends to enter the Kazakhstani market. As a result, the master plan recommends that the registration requirements for new banks be liberalized and that commercial banks be allowed to open Islamic windows. By implementing these measures Kazakhstan is expected to increase its IFSI share. It is exceptionally risky to incorporate an Islamic bank in a country without any Islamic finance infrastructure. However, opening an Islamic window entails relatively low risk and requires small capital investments. Similar proposals were made by foreign experts, citing the successful experience of Islamic windows in Malaysia and the UK (ZICO, 2020). As per foreign experts, Kazakhstan should rather encourage the establishment of Islamic windows by conventional banks with a solid customer base than include full-fledged Islamic banks presently. It is necessary however, to have a rigorous governance framework and regulations before conventional banks can open Islamic windows. For this reason, the Master Plan 2020-2025 advises modifying the law to allow conventional banks to open Islamic windows and providing them with the means to control their business practices. The Master Plan provides equal opportunities for conventional and Islamic banks.

In addition to providing comprehensive policy recommendations, the plan outlines implementation plans for all IFSI segments, including Islamic banking, capital market, insurance (*Takaful*) and reinsurance (*Retakaful*), non-banking institutions, Islamic social finance, Fintech, *Halal* sector as well as education and training in Islamic Finance:

A. Internationalization of the AIFC platform

1. Establish a global Islamic intermediation network.
2. Expand the investor and liquidity base on a global and regional basis.
3. Strengthen connectivity and regulatory linkages on an international scale.
4. The promotion of Islamic Finance as a value-based investment and financial system.
5. The AIFC should be considered a reference for Islamic Finance standards, innovation, and development.

B. Islamic Banking

1. In addition to conventional banks, the Deposit Insurance Scheme should also cover Islamic banks.
2. Establish a regulatory and oversight department for Islamic banking and *Takaful*.
3. The barrier to entry for upcoming companies should be reduced in order to promote diversity and depth in the market.
4. Diversify and deepen the market by increasing product eligibility.
5. Provide stability and sustainability through supportive structures.

C. Islamic Capital Market

1. Ensure that the Islamic capital market develops a viable market and promotes effective mobilization of Islamic capital.
2. Provide a wide range of Islamic products and services at competitive pricing.
3. Provide a robust environment for developing innovative frameworks to sustain a competitive and dynamic financial sector.
4. Ensure market institutions are more competitive and efficient.
5. Establish a competitive environment for Islamic services and broaden the capabilities of Islamic intermediaries.
6. Collaborate across institutions to build domestic capacity.
7. Develop Islamic markets to increase competitiveness domestically and regionally.

D. Islamic Insurance (*Takaful*) and *Retakaful*

1. Gaps and inconsistencies should be identified and addressed within the existing regulatory framework.
2. Developing soft infrastructures for *Takaful*.

E. Islamic Non-Banking Institutions

1. Regulation and supervision of the non-banking sector should be strengthened.
2. Ensure that Islamic nonbanking infrastructure is adequate.

F. Islamic Social Finance

1. Developing a *Zakat* and *Waqf* ecosystem by establishing and facilitating enabling environments.
2. Encourage *Zakat* practice to support the social protection system and financial inclusion.
3. Ensure that the infrastructure for *Zakat* is adequate.

4. Establish a robust regulatory infrastructure for *Zakat*.
5. Improve the knowledge and skills of *Zakat* collectors.
6. Augment public awareness about the importance and obligatory nature of *Zakat*
7. Offer a wide range of *Waqf* models.
8. *Waqf* as a source of economic growth should be promoted.
9. Establish a specialized legal framework for *Waqf*.
10. Improve awareness and literacy about *Waqf* institutions.

G. FinTech

1. Integration of financial institutions and FinTech companies to strengthen financial stability and sustainability.
2. Improve the security, fairness, and trustworthiness of the FinTech system.
3. Protect the confidentiality and privacy of customer information.
4. Integrate cost-effective, efficient, and innovative financial gateways into the financial inclusion process.
5. Expedite the “Digital Kazakhstan” project.

H. Halal Sector

1. Prepare a blueprint or master plan for the *Halal* industry.
2. Design a cooperative *Halal* assurance scheme encompassing products other than food and beverages.
3. Create a legal framework to support the *Halal* industry by using FinTech as a distribution platform.
4. Create a national *Halal* hub to serve as the center of the halal supply chain.
5. Facilitate halal product production, marketing, and distribution through Islamic financing.
6. Encourage academia to conduct *Halal* research and education.
7. Promoting *Halal* products in the country by conducting a public awareness campaign.
8. Provide education and training on *Halal* certifications.

I. Islamic Finance Education and Training

1. Develop an awareness of the career opportunities available in the IFSI among young people and young professionals.
2. Promote partnerships between academia and industry.
3. Strengthen the existing workforce by upgrading their skills and knowledge.
4. Establish a platform of qualified academicians, *Shari’ah* advisers and trainers.
5. Enhance collaboration with reputable educational and training institutions.
6. Set up an excellence center at the regional level.

These initiatives are expected to contribute to the economies of Kazakhstan and the region by boosting shared prosperity, addressing economic diversification challenges and promoting financial stability by taking advantage of Islamic Finance's significant potential.

To ensure the continued growth of the IFSI, it is essential to develop qualified human capital. There is a shortage of local experts and professionals with extensive knowledge of *Shari'ah* and Islamic Finance in Kazakhstan. As a result to ensure that their operations and products comply with *Shari'ah* norms and principles, most local IFIs outsource the *Shari'ah* audit and review functions to foreign service providers. For instance, Zaman Islamic Bank, Saqr Finance, Kazakhstan Ijara Company and Tayyab digital bank engage the services of Shariyah Review Bureau, a Bahraini *Shari'ah* advisory firm.

Besides, increasing demand from the local Muslim community is important to the sustainable growth of the IFSI. Hence, Islamic financial literacy and public awareness are critical for increasing the customer base. A consumer financial services survey¹² administered in July 2015 by Thomson Reuters, CIBAFI and IRTI in collaboration with the NBRK revealed the residents' lack of knowledge about Islamic Finance: the majority of participants (71%) in the survey had never heard of Islamic Finance while 41 percent of respondents are interested in learning more about Islamic finance and 25 percent of participants think that Islamic bank operations do not completely comply with *Shari'ah* (TRCI, 2016). As stated in the report, *"This lack of awareness by Muslims may also be attributed to the prevention of practicing religion under communist USSR rule until 1991, whose impacts remain until today."*

Based on the survey, five growth strategies were identified to foster the growth of the IFSI: (i) developing awareness and understanding of Islamic Finance; (ii) market segmentation for Islamic banking, targeting Muslims and Millennials; (iii) enhancement of customer experience; (iv) leveraging multi banking trends, especially for young population and (v) unlocking latent opportunities by developing *Takaful* industry.

Kyrgyz Republic

Kyrgyzstan is one of the first countries in Central Asia to implement Islamic Finance. Since the country gained independence it has displayed a much higher level of openness and consistency in the development of Islamic Finance than other Central Asian and Transcaucasian countries (Nagimova, 2021). However, the IFSI is still at the nascent stage.

According to Islamic Financial Services Stability Report 2022 (IFSB, 2022), in recent years the Kyrgyz Republic has put considerable effort into the creation of a conducive environment for the smooth functioning of the Islamic financial system. There have been improvements in legal and regulatory frameworks, particularly in the areas of risk management and corporate governance which have fostered the growth of the Islamic banking industry. The government established a working committee for launching Islamic Finance in Kyrgyzstan. It was chaired by the Deputy Prime Minister appointed by the presidential decree and at the same time acting as the manager of the IsDB in Kyrgyzstan. In light of such developments the Islamic banking industry is expected to maintain a stable growth rate and improve its existing market share of 1.5 percent in the jurisdiction in the following years.

At present, Islamic banking services in Kyrgyzstan are rendered by a single full-fledged Islamic bank and four Islamic banking windows. In addition, five microcredit institutions and a leasing company offer Islamic financing while the market is looking forward to launching *Takaful* products in the near future.

¹² A total of 1,557 respondents were surveyed, of which 47 percent were non-Muslims.

Table 11: List of IFIs in Kyrgyzstan

Category	Title of Institution/ Project	Period	Notes
Islamic Banking	EcoIslamicBank	2006 - present	Full-fledged Islamic bank
	Bakai Bank (conventional bank)	2017 - present	Islamic window
	BTA Bank (conventional bank)	2018 - 2020	Islamic window; merged with Bakai Bank
	Kyrgyzstan Bank (conventional bank)	2021 - present	Islamic window
	RSB Bank (conventional bank)	2022 - present	Islamic window
	Aiyl Bank (conventional bank)	2022 - present	Islamic window
Leasing Company	Ijara Company Kyrgyzstan	2013 - present	Sponsored by ICD
Microfinance	Bereke Finans ¹³	2016 - present	Full-fledged Islamic, profit-and-loss sharing
	Ak Karzhi	2014 - present	Full-fledged Islamic
	Kompanion Invest ¹⁴	2016 - present	Full-fledged Islamic
	Ak Nur Capital	2009 - present	Full-fledged Islamic since 2015
	M-Bulak ¹⁵	2016 - present	Islamic window

Source: Author's own compilation

Table 12: Key Milestones in the Development of IFSI in Kyrgyzstan

Period	Key Milestone
1993	Kyrgyzstan became a member of IsDB on 03 November 1993.
2006	The government of Kyrgyzstan and the IsDB signed an MoU on 16 th May to promote Islamic Finance in the country. Under the assistance of the IsDB, EcoBank implemented a pilot Islamic Finance project.
2009	The concept of Islamic banking was introduced to laws on “ <i>Banks and banking in the Kyrgyz Republic</i> ” and “ <i>National Bank of the Kyrgyz Republic</i> ”. Regulation on “ <i>Organizing the insurance on Islamic principles (Takaful)</i> ” was approved by the Government Decree No.578 ¹⁶ on 15 th September 2009.
2013	Amendments to the laws “On Microfinance Organizations in the Kyrgyz Republic” and “On Credit Unions”. Ijara Company Kyrgyzstan is established with the support of the ICD.
2016	Amendments to Tax Code, Customs and Civil Codes, and others by the parliament to take into account the specifics of Islamic Finance.
2018	The Islamic window ‘Islamic Financial Centre’ is introduced by Bakai Bank in June.
2021	Kyrgyzstan Bank received a license to operate an Islamic window.
2022	RSB Bank is granted a license to run an Islamic window. Aiyl Bank is given a license to launch an Islamic window.

Source: Author's compilation

13 The company's official website: <http://iic.kg>

14 The company's official website: <https://www.kompanion.kg>

15 The company's official website: <https://mbulak.kg/ru>

16 For more details: <http://cbd.minjust.gov.kg/act/view/ru-ru/90554>

Islamic Banking Segment

The development of Kyrgyzstan’s IFSI began in 2006 when the first standalone Islamic bank, Eco Islamic Bank¹⁷, was introduced in the jurisdiction or rather began its transformation as a pilot project when the IsDB and the Government of the Kyrgyz Republic signed a memorandum of understanding to promote Islamic Finance in the country (Islam Today, 2013). All shareholders are country residents and the capital belongs to Kyrgyzstan.

According to NBKR (2022a), four local commercial banks have received licenses for running Islamic window operations over the last five years (see Table 13 below).

Title	License Date	Licensed Products
Bakai Bank	16 th November 2017	<i>Mudarabah, Murabaha and Qard Hasan</i>
Kyrgyzstan Bank	13 th October 2021	<i>Mudarabah, Murabaha and Qard Hasan</i>
RSB Bank	10 th August 2022	<i>Mudarabah, Murabaha, Ijarah and Qard Hasan</i>
Aiyl Bank	26 th October 2022	<i>Mudarabah, Murabaha and Qard Hasan</i>

Source: Author’s compilation

By the end of 2021, the value of Islamic banking assets had increased by 28.78 percent year-on-year to US\$58.15 million, representing a 1.37 percent share of the overall banking sector (IFSB, n.d.; NBKR, 2022b).¹⁸

Islamic Non-Banking Institutions

Established in 2013 under the sponsorship of the ICD, the Ijara Company Kyrgyzstan¹⁹ is the first institution in the market offering *Shari’ah*-compliant leasing products to SMEs. Besides, Islamic financing is provided by four full-fledged Islamic microcredit institutions such as Bereke Finans, Ak Karzhi, Kompanion Invest and Ak Nur Capital in addition to an Islamic window run by M-Bulak.

Moreover, there is a non-profit organization called “*The Association of Islamic Economics, Finance, and Industry Development*” whose main functions include assisting new market entrants, offering guidance to conventional financial institutions and delivering Islamic Finance training programs. Also, with the support of the Spiritual Board of Muslims of Kyrgyzstan, the *Committee for the Development of the Islamic Economy* was established which is responsible for assisting the private and public sectors in setting up a comprehensive Islamic economic system in Kyrgyzstan.

Also, as part of the ‘My Home 2021-2026’ housing program the National Mortgage Company and Bakai Bank signed an Agency Agreement (*Wakalah bi-l-Istismar*).

Legal and Regulatory Environment

The Government of Kyrgyz Republic has made significant progress in enhancing the legal and regulatory framework to facilitate the smooth functioning of the IFSI, expansion of the range of financial

¹⁷ The bank’s official website: <https://eib.kg>

¹⁸ Islamic banking assets totaled KGS 3.73 billion (USD rate: 82.65) in 2020Q4 and KGS 4.93 billion (USD rate: 84.76) in 2021Q4, which is a 32 percent year-on-year growth rate in local currency terms.

¹⁹ The company’s official website: <https://www.ick.kg/en>

products and services, promotion of competition and ensuring a level-playing field in the financial sector. The Law “*On Banks and Banking in the Kyrgyz Republic*” was amended in 2009 with the aim of introducing Islamic banking and expanding the range of banking services in the country. In 2013, a number of amendments were made to the laws “*On Microfinance Organizations in the Kyrgyz Republic*” and “*On Credit Unions*” to accommodate Islamic Finance. Besides, changes were introduced to the Tax, Customs and Civil Codes in 2016.

The Board of the NBKR has released a number of resolutions pertaining to the operations of IFIs. The followings are the latest developments pertaining to the Islamic banking segment (NBKR, 2020; 2021; 2022c):

- On 28th March 2018 the Board of NBKR issued Resolution No.2018-P-12/10-6-(BS), amending some NBKR regulations to include Commodity *Murabaha* to the list of approved Islamic financial transactions.
- On 18th July 2018 as part of its efforts to enhance the risk management framework in banks, the Board of NBKR released Resolution No.2018-P-12/30-3-(BS), adopting a revised regulation “*On setting minimum requirements for risk management in banks that operate in accordance with the principles of Islamic banking and finance*”.
- On 10th April 2019 the Board of NBKR adopted Resolution No.2019-P-12/19-3-(NPA), aiming to mitigate risks associated with Islamic banking activities and to incentivize banks to engage in government programs on financing agricultural as well as export-oriented and import-substituting sectors.
- On 13th June 2019, the Board of NBKR passed Resolution No.2019-P-12/31-(NPA) endorsing the Guidelines on handling bank accounts and bank deposit accounts opened in accordance with the principles of Islamic banking and finance, setting minimum requirements for the treatment of such operations.
- On 26th February 2020, the Board of the NBKR issued Resolution No.2020-P-12/8-7-(NPA), bringing amendments to some regulations of the NBKR clarifying certain aspects of corporate governance for Islamic banks as well as reporting requirements for banks running Islamic windows.
- On 24th March 2020, to promote the development of the Islamic securities market and provide equal opportunities for all market participants the Board of the NBKR released Resolution No.2020-P-12/15-5-(NPA), adopting the amendments to the NBKR regulations governing the operations with securities and credit risk management by Islamic banking institutions.
- On 8th July 2020, the Board of the NBKR released Resolution No.2020-P-12/39-2-(NPA), approving amendments to the Guidelines “*On the order of compliance with open currency position limits by the banks operating under the principles of Islamic banking and finance*”, which sets the procedure for calculation of an open position and monitoring the compliance with the open position limits in precious metals by the Islamic banks and the banks operating Islamic windows.
- On 23rd September 2020, to broaden the scope and use of Islamic financial transactions/contracts, the Board of the NBKR issued Resolution 2020-P-12/51-1-(NPA) endorsing the amendments to the following regulations: (a) “*On operations carried out in accordance with the principles of Islamic banking and finance*” and (b) “*On the application of Islamic financing principles in the Kyrgyz Republic within the scope of pilot projects*”.

- On 25th November 2020, as part of its commitment to standardizing the distribution of profits and losses resulting from the placement of client funds as well as setting the requirements for managing a financing and deposit portfolio formed by banks in accordance with Islamic banking and finance principles, the Board of the NBKR released Resolution 2020-P-12/67-3-(NPA) endorsing the Guidelines “*On distribution of profit/loss on the bank accounts, bank deposit accounts in accordance with the principles of Islamic banking and finance*”.
- On 30th June 2021, the Board of the NBKR adopted Resolution No.2021-P-12/36-3-(NPA), creating a level playing field for IFIs. The document amended the NBKR’s regulations on managing credit risk, classifying assets and making adequate provisions for potential losses and exposures while carrying out Islamic financial transactions.
- On 25th August 2021, the Board of the NBKR introduced Resolution No.2021-P-12/47-2-(NPA) with some revisions aimed at enhancing the regulations of the NBKR and aligning them with the legislation of the Kyrgyz Republic, as well as addressing the issues related to the reorganization of the banks and coordination of the officials’ activities, clarifying the specifics pertaining to granting a license to operate Islamic banking operations by using an Islamic window in addition to giving permission to conduct additional Islamic banking transactions.
- On 15th September 2021 the Board of the NBKR approved Resolution No.2021-P-12/51-1-(NPA) “*On introducing the amendments into some regulations of the National Bank of the Kyrgyz Republic*” aimed at bringing the regulations of the NBKR on Islamic Finance principles into line with those governing conventional banks.
- On 15th December 2021 the Board of the NBKR released Resolution No.2021-P-12/70-3-(NPA), updating the regulation on capital adequacy requirements for Islamic banking institutions.
- On 29th December 2021, the Board of the NBKR issued Resolution No.2021-P-12/75-3-(NPA), amending certain regulatory legal acts of the NBKR regulating the treatment of non-accrual of interest income and reporting of periodic regulatory reports by Islamic banks to align with the accounting procedure for *Murabaha* transactions.

Issues and Recommendations

Among the key issues facing Kyrgyzstan’s IFSI are the shortage of qualified Islamic Finance specialists, low public awareness, having too tightly regulated industry, an absence of a long-term vision for the development of the industry and lack of empirical and fundamental research on the IFSI in the country (Zhoraev, 2020). Hence, to foster the growth of the IFSI in the Kyrgyz Republic the following steps need to be implemented:

1. Developing a long-term strategic Islamic Finance development plan with clear actions and milestones considering all the dimensions of the IFSI.
2. Planning and implementing capacity-building programs in collaboration with international Islamic Finance bodies and attracting foreign Islamic Finance experts.
3. Liberalizing the industry at the initial stage to encourage innovation and competition.
4. Promoting research and development in Islamic Finance by academia and industry.
5. Increasing Islamic financial literacy among the public and introducing Islamic Finance programs by academic institutions.

Republic of Tajikistan

Tajikistan became a member of IsDB in 1996. Since then, the country has received about US\$500 million for the realization of 60 projects.²⁰ The National Bank of Tajikistan (NBT) became an observer member of IFSB in 2010.

In 2009, the Government of Tajikistan called upon the NBT to consider introducing Islamic banking and establishing a working group under its umbrella to achieve financial system resilience and stability offered by Islamic Finance. It is believed that the new sector would mobilize free resources from the population attract long-term foreign investment and serve as a backbone for further development of the country's entire economy and banking system. For the practical introduction of Islamic Finance to the Tajikistani economy, the NBT analyzed and learned from the experiences of such countries as Kazakhstan, Kyrgyzstan, Malaysia and Indonesia.

Islamic Banking Law was introduced in Tajikistan on 26th July 2014. Over the last five years the NBT has developed and adopted more than 25 regulatory and legal frameworks to oversee and regulate IFIs (Sputnik, 2022). The NBT was also directly involved in the process of redrafting the Tax Code of Tajikistan, taking into account the taxation of Islamic banking transactions which was endorsed by the President on 23rd December 2021. Moreover, to facilitate the development of Islamic banking in the country the NBT established the Consultative Council for Islamic Banking Services in February 2017.

Table 14: Key Milestones in the Development of IFSI in Tajikistan

Period	Key Milestone
1996	Tajikistan became a member of IsDB on 03 November.
2010	The NBT became an observer member of IFSB.
2013	Launching the first Islamic leasing company <i>Asr Leasing</i> .
2014	The Law of the Republic of Tajikistan No.1108 "On Islamic Banking activities" was approved on 26 July. The first regulated Islamic microfinance institution <i>Alif Capital</i> is founded in February.
2017	Consultative Council for Islamic Banking Services is established by the NBT in February to promote Islamic Finance in the country.
2019	Establishment of a full-fledged Islamic bank <i>Tawhidbank</i> on 16 th September.
2020	Issuance of two Islamic banking window licenses for a micro-credit fund <i>Imon</i> (on 29 th January) and a micro-credit deposit organization <i>Humo</i> (on 3 rd February). Digital Alif Bank received a banking license in January.
2022	The Tax Code was amended to accommodate Islamic banking operations.

Source: Author's compilation

Islamic Banking Segment

As of mid-2022, the banking sector of Tajikistan is represented by 15 banks including two state banks and two Islamic banks (NBT, 2022). Besides, two Islamic banking windows operate in the country.

In 2017, commercial bank *Sohibkorbank* announced its aspirations to transform itself into an Islamic bank. On 16th September 2019, with the support of the ICD the bank completed the process of its

²⁰ For more details, please refer to: <https://www.isdb.org/tajikistan>

conversion into Tawhidbank²¹ becoming the first and only full-fledged Islamic bank in Tajikistan. The bank has 5 branches 21 banking service centers, 66 ATMs, and about 16,000 POS terminals across the country. As of mid-2022, total assets increased by 23% on a year-over-year basis reaching TJS 237.8 million, i.e., approximately US\$20 million (see *Table 19* in Appendix).

In addition, Alif Bank²² has been rendering retail digital Islamic banking services since receiving its license in January 2020. As of mid-2022, the total assets of Alif Bank doubled over a year period amounting to TJS 834.8 million, i.e., roughly US\$70 million (see *Table 20* in Appendix). It has two branches, 11 banking service centers, 28 ATMs, and 303 POS terminals.

According to Naimov (2021a), there are preconditions for the development of Islamic banking in Tajikistan, such as:

- a. Having a sizeable share of the Muslim population.
- b. Deterioration of the conventional banking system's ability to finance the national economy which is evidenced by such indicators as having a high cost of capital, large interest rate spreads, decrease in the volume of bank credit, lack of credit depth, low monetization of the economy and the low money multiplier.
- c. Lack of alternative non-banking financing, which is seen through the following indicators: significant MSME finance gap as defined by the World Bank methodology.
- d. Decrease in the number of microfinance organizations and their importance in the financing of the economy (low share of assets in GDP), no calculation of stock market capitalization rates by the World Bank due to the absence of a capital market, a reduction in the volume of foreign direct investment and a low share of private investment in the total volume of investments in fixed capital.
- e. Developing the Islamic Finance infrastructure: two Islamic banks and two Islamic banking windows are operating in the country, the legal and regulatory frameworks governing the domestic Islamic banking industry have been developed.
- f. Islamic banking is not only ethically but also economically more viable than conventional banking as there is an opportunity to get access to the Middle Eastern financial markets.

Islamic Non-Banking Institutions

Alif is one of the leading FinTech companies in Central Asia offering a wide range of financial and technological solutions to its clients. Currently, Alif Holdings²³ renders the following services: digital banking, an online payments system 'Alif Pay', mobile e-wallet 'Alif Mobi', online shop 'Alif Shop', fintech company 'Alif Tech' and 'Alif Academy'. It also intends to extend its operations to Uzbekistani, Pakistani and Russian markets. It started its journey as a microcredit organization, Alif Capital, back in February 2014 (Hassan, 2022), offering *Shari'ah*-compliant financial solutions primarily to SMEs and engaging in short-term housing, vehicle and general consumer financing. In just one year it ranked the fifth-largest microcredit organization in Tajikistan. In March 2016, Alif obtained a license from the NBT to operate a microcredit and depositary organization, enabling it to mobilize

21 Tawhidbank's official website: <https://tawhidbank.tj/>

22 Alif Bank's official website: <https://alif.tj/?lang=en>

23 The holding's official webpage: <https://www.alif.holdings/#portfolio>

deposits, provide remittance services locally and internationally and offer other broader financial services. Soon, it launched the country's first online payment platform, enabling cardholders to make online payments. In June 2017, Alif opened an online store offering installment plans to its customers which has now grown to be the largest B2C marketplace in Tajikistan. In 2018, the company released its state-of-the-art mobile wallet called Alif Mobi, providing international remittance services and now it is the country's largest and most popular mobile wallet. In 2019, Alif expanded its operations by introducing an online shop and mobile wallet to the Uzbekistani market.

In 2020, two microfinance institutions received their licenses to open Islamic windows namely micro-credit fund Imon²⁴ and micro-credit deposit organization Humo²⁵ (Naimov, 2021a).

On 23rd January 2013, the first Islamic leasing company in Tajikistan ASR Leasing²⁶ was founded by ICD and a group of national and international investors. It specializes in *Shari'ah*-compliant financing of SME projects.

Category	Title of Institution/ Project	Period	Notes
Islamic Banking	Tawhidbank	2019 – present	Converted from Sohibkorkbank
	Alif Bank	2020 – present	Digital banking
Microfinance	Micro-credit fund <i>Imon</i>	2020 – present	Islamic window
	Micro-credit deposit organization <i>Humo</i>	2020 – present	Islamic window
Leasing Company	ASR Leasing	2013 – present	<i>Ijarah</i> financing

Source: Author's own compilation

Islamic Finance Education

Alif Consult²⁷ offers advisory services and conducts Islamic Finance workshops and seminars for a professional audience in Tajikistan. Also, the NBT in collaboration with the Asian Development Bank (ADB) and with the assistance of the Islamic Finance Advisory and Assurance Services Company (IFAAS) an international advisory firm has organized a number of seminars and webinars to enhance the professional capacity of the IFSI. More than 2,500 professionals from the banking and insurance sectors participated in the sessions and more than 1,000 active participants were awarded certificates by the IFAAS.

Issues and Recommendations

Recently, Naimov (2022) conducted a survey among a sample of 300 respondents in Tajikistan. The results show that only 30 percent of respondents have a basic understanding of Islamic Finance and banking, 27% have incomplete information 16% would like to learn more and 26% are unaware of Islamic Finance. Since Islamic banks do not engage in usury but serve as partners in businesses 89.1% of participants consider Islamic banking to be a more viable financial model. A significant share of survey participants (44.6%) indicated that they are not familiar with Islamic banking products. 53.6

24 The organization's official webpage on Islamic banking window: <http://mcf-imon.tj/islam.php>

25 The company's official website: <https://www.humo.tj>

26 The company's official website: <http://asrleasing.tj/about-us/>

27 The firm's official website: <https://www.alifconsult.com>

% of them would seek Islamic banking services in a dual-banking system. 49% of respondents believe that a full-fledged Islamic banking model is more suitable for the Tajikistani market whereas a quarter of participants prefer having Islamic windows operated by conventional banks and 26% would consider having state-owned Islamic banks. Hence, the importance of educating the local population about Islamic Finance cannot be overstated.

To accelerate the growth of the IFSI in Tajikistan number of policies need to be implemented:

1. Running a nationwide Islamic Finance awareness program to enhance Islamic financial literacy by offering workshops and training and organizing Islamic Finance conferences.
2. Introducing Islamic Finance modules into the syllabi of academic institutions and offering degrees in Islamic Finance to develop human capacity.
3. Facilitating cross-border sharing of Islamic Finance knowledge and learning best practices.
4. Attracting established international IFIs to increase domestic competition and borrow technology.
5. Establishing an independent Islamic Finance Advisory Council to guide the market.
6. Standardization or harmonization of Islamic Finance products and operations reflecting the guidelines of international Islamic standard-setting bodies (AAOIFI, IFSB, IIFM, IILM) to attract foreign capital and synchronize the local practices with international markets.

Republic of Turkmenistan

The business environment in Turkmenistan is unfavorable for private investors (Nagimova, 2021). The authoritarian government controls all economic spheres in the country. State monopolies dominate the economy and exports are disproportionately concentrated in a limited number of sectors. Foreign direct investment or loans from international development banks are channeled mainly to politically motivated and highly lucrative projects such as oil and gas transportation and railway construction. Since Turkmenistan does not encourage any private initiative the IsDB could not provide financing to industrial, financial or agricultural sectors. Currently there are no Islamic banks or other IFIs that would provide *Shari'ah*-compliant financing to the local population regardless of their demands and none are anticipated in the near future. So, political will and support are crucial for encouraging Islamic Finance development initiatives in the economies.

Republic of Uzbekistan

Uzbekistan has a greater potential to become a regional hub for Islamic finance due to its large and more conservative Muslim population. The country can benefit from the promotion of the IFSI by attracting foreign direct investment (FDI) to the country which would contribute to its economic growth.

In May 2019, the Uzbek Government released a draft resolution proposing the establishment of Islamic banking and finance infrastructure to promote alternative financing opportunities and expand the range of banking and financial services and attract Middle Eastern investors. As part of its IFSI development efforts the Government of Uzbekistan intends to issue *Sukuk* of different tenures to address the short- and long-term liquidity and investment requirements of the market.

On 20th April 2022, the President of the Republic of Uzbekistan signed the law “*On non-banking credit institutions and microfinance activities*”, which envisages the provision of Islamic financial services by microcredit institutions (CBU, 2022). The law contains provisions designed to (a) expand the funding sources of non-bank credit institutions, (b) increase the accessibility of financial services, including developing a legal framework for the provision of Islamic financial services by microfinance institutions, (c) allow new financial services to be pilot-tested using the ‘regulatory sandbox’, (d) reduce the regulatory burden through proportional treatment of non-bank credit institutions, and (e) improve the consumer protection system for non-bank credit institutions.

Moreover, the government has set up an Interagency Working Group tasked with organizing Islamic finance headed by the Ministry of Investment and Foreign Trade. This working group in cooperation with the IsDB has attracted international experts.

Islamic Banking Segment

In spite of the fact that several banks have received grants from the ICD on the *Mudarabah* basis to launch Islamic banking they are still awaiting the passage of legislation allowing them to operate under *Shari’ah* principles (AlHuda, n.d.). Over a dozen banks have already signed a cooperation agreement with the ICD to open Islamic windows (UPL, 2022), including Qishlok Qurilish Bank, Agro bank, Turon Bank, Trust bank, Kapital bank and Asia Alliance Bank.

A technical advisory agreement was signed between the ICD and Kapital bank in June 2019 in order to assist Kapital bank in the establishment of a new Islamic banking window (ICD, 2019a). Also, as part of the agreement with Asia Alliance Bank signed in November 2019, the ICD will allocate a US\$10 million *Wakalah*-based financing facility to support Uzbekistan’s real sector using an Islamic window (ICD, 2019b). Moreover, service agreement was also signed by ICD with Turon bank in February 2021 to provide advisory services in connection with the launch of an Islamic window by the latter (ICD, 2021b). As part of the initiative, the bank will receive comprehensive support in developing *Shari’ah*-compliant products and get assistance in accounting, information technology, human resources and legal areas.

Islamic Insurance (Takaful) Segment

Established by Presidential Decree No.PP-4412 on 2nd August 2019, the Insurance Market Development Agency (IMDA) is an authorized state agency responsible for the regulation and development of the insurance sector and guarantees the protection of the rights and interests of all insurance market participants and is accountable to the Ministry of Finance. Decisions of the Agency taken within its jurisdiction are binding on all members of the insurance market. According to the IMDA (2022) as of September 2022, 41 insurance companies operate in Uzbekistan including 33 general and 8 life insurers.

Apex Insurance²⁸ is the pioneer and only *Takaful* operator in Uzbekistan. It adopts a hybrid *Wakalah-Mudarabah* (agency-partnership) business model and offers a wide range of general and family *Takaful* products. It has been awarded the *Shari’ah* Certificate by AlHuda Islamic Banking and Economy Center endorsing the provision of Islamic insurance services. In addition, the company has received high approval from the Fatwa Department of the Muslim Authority of Uzbekistan.

28 The insurer’s official website: <https://apextakaful.uz/en>

Additionally, several insurance and leasing companies are looking into starting *Takaful* and *Ijarah* operations to cater to the market's needs.

Islamic Non-Banking Institutions

Founded in 2011 by the ICD, Taiba Leasing²⁹ is the first and only standalone company in Uzbekistan offering Islamic financing products (Taiba, n.d.; Asadov & Gazikhanov, 2015). It specializes in leasing all types of commercial vehicles, agricultural and special construction equipment as well as industrial and other machinery. The company's mission is to support the MSMEs particularly those producing competitive export-oriented products and having a high degree of localization of production in Uzbekistan. It has funded more than 250 projects worth a total of US\$33 million.

Waqf activities in Uzbekistan are administered and regulated by Public Charitable Foundation Waqf established by Presidential Decree no.PF-5416 in 2018 (Imamnazarov, 2020).

Islamic Capital Market

In January 2021, the ICD and SQB Securities signed an MoU for the development of Islamic finance and capital markets in Uzbekistan (ICD, 2021a). Among the areas of cooperation are (a) providing training to local banks and financial institutions on Islamic financial products and services, (b) introducing *Sukuk* and other Islamic Finance instruments, (c) attracting potential international financial institutions to the market and (d) attracting *Shari'ah*-compliant debt financing for potential projects in Uzbekistan.

Tashkent International Financial Center (TIFC)

In the near future, the government of Uzbekistan intends to launch the Tashkent International Financial Center (TIFC) an ecosystem equipped with globally competitive infrastructure and enabling environment for international investors, following the models of Dubai, Qatar, Astana, Hong Kong, Istanbul, Shanghai and Casablanca (SDA, 2021). It would address the compelling socioeconomic developmental challenges, increase competitiveness and boost the investment attractiveness of the Republic of Uzbekistan while taking into account the economic climate in the region. As part of its key directions the center will ensure the development of the Islamic banking industry introduce new instruments to increase liquidity, such as *Sukuk*, *Shari'ah*-compliant swaps and repos as well as contribute to enhancing the regulatory and tax environment for Islamic Finance by eliminating the tax differential between Islamic and conventional financial products.

Islamic Finance Education

In recent years, the number of academic institutions offering Islamic Finance education has been increasing. For instance, The International Islamic Academy of Uzbekistan³⁰ has a Faculty of Islamic Economics and International Relations.

Besides, cooperation agreement has been signed between the Tashkent State Economic University and INCEIF University (Malaysia) under which the university will promote Executive Masters in Islamic Finance program in Uzbekistan (TSEU, 2020). On 29th July 2022, agreements were reached between the Banking and Finance Academy of the Republic of Uzbekistan (BFA) and the INCEIF University on de-

29 The company's official website: <https://taibaleasing.com/en/>

30 The University's official website: <https://iiu.uz/en>

veloping individual short-term courses and training programs tailored for the banking sector executives and BFA faculty members on the structuring and use of Islamic financing instruments as well as organizing summer schools and internships for BFA students in Malaysia (KUN.UZ, 2022). Moreover, the BFA, AAOIFI and the Association of Islamic Finance and Takaful (AIFT) have reached interim agreements to introduce a short-term certification training program in Islamic Finance (BFA, 2022).

Issues and Recommendations

The Ministry of Investment and Foreign Trade of Uzbekistan notes that despite the presidential decree on the development of Islamic banking the segment has not been introduced in the country until now (UPL, 2022). Among the challenges stated is the lack of enabling legal and regulatory frameworks as well as the scarcity of skilled human capital.

As stated by UNDP (2021), *“The legal and regulatory environment in Uzbekistan is inconsistent with the rising demand. The existing legal and regulatory frameworks cannot accommodate Sharia-compliant financial instruments and are hindering the expansion of Islamic finance. If Islamic finance is to develop further in Uzbekistan, it is important to formulate a sound legal and regulatory framework. Amendments need to be made to the Tax Code, Civil Code and major banking and investment laws to create a legal environment in which the Islamic finance industry can flourish. Such changes would allow commercial banks to set up Islamic windows, permit the establishment of independent Islamic finance and banking institutions and pave the way for Islamic finance activities in the capital markets. In addition, high priority should be attached to the development of the skills and capacities of public and private stakeholders to ensure the sustainable development of the Islamic finance industry.”*

In an analytical paper prepared within the framework of the UNDP Project on ‘Financing for Sustainable Development in Uzbekistan’, Imamnazarov (2020) analyzed the trends and challenges facing the IFSI in Uzbekistan. A survey was administered with the participation of 2,235 businesses, 27 banks, and 4,937 individuals across different regions. The question of whether an individual or business had a bank loan was asked to both individuals and businesses. 40% of businesses responded that they used formal sources of financing (bank loans) to acquire equipment, vehicles, machinery, working capital, trade and agricultural projects while 31% of individuals obtained consumer and mortgage loans. So, the majority of businesses and individuals did not use bank loans. In the survey, 38% of businesses and 56% of individuals indicated that they deliberately refrained from obtaining funds from conventional banks for religious reasons. 40% of businesses and 37% of individuals reported that they had a basic understanding of Islamic Finance principles. 61% of businesses and 75% of individuals expressed their interest in dealing with Islamic financial institutions if they were to operate in Uzbekistan.

So, a number of initiatives should be taken to promote the development of IFSI including:

1. Developing a strategic roadmap designing a complete Islamic Finance architecture that includes all segments of the IFSI.
2. Adopting prudential standards and guidelines of international Islamic standard-setting bodies such as AAOIFI, IFSB, IIFM, IILM or adapting them to local needs.
3. Establishing an enabling legal and regulatory infrastructure by introducing Islamic Banking law and amending the Civil Code, Tax Code and the major banking and investment laws to create a level-playing field for the IFIs.

4. Setting up an Islamic Finance Council at the country level to support and guide the market in developing *Shari'ah*-compliant instruments and assisting in dispute resolution.
5. Launching an awareness campaign among the general public as a means of promoting the concept of Islamic finance as an interest-free alternative to conventional financial services.
6. Offering Islamic Finance education and training programs at the national level to increase citizens' basic and practical knowledge of Islamic Finance enabling them to adapt to the new paradigm.
7. Promoting Islamic FinTech to facilitate the provision of Islamic financing to MSMEs especially to the *Halal* sector.

Russian Federation

In Russia, interest in Islamic Finance has been on the rise since the early 1990s and has become more popular over the years. Among the key factors driving this interest are the growing religiosity and awareness among the local Muslim population and the need to find alternative sustainable financial models and funding sources. As a matter of fact, Russia became an observer member of the Organization of Islamic Cooperation (OIC) in 2005 (OIC, n.d.).

In the wake of the 2008-2009 financial crisis there has been renewed discussion concerning the role Islamic Finance can play in stabilizing the global financial system. On 17-18 March 2009, the Russian Council of Muftis jointly with Business Conferences organized the International Conference entitled "*Islamic Banking: Special Features and Prospects*", which took place at the Ritz-Carlton hotel in Moscow (RCM, 2009). An invitation was extended to regulators as well as local and international market participants. The following themes were covered at this conference: (a) Emerging areas of cooperation during the global financial crisis, (b) The importance and opportunities for close cooperation between the financial institutions of Russia and the Islamic world, (c) Islamic banking: Features and Prospects, (d) Islamic Finance: Mobilization of funds and potentials for the real economy of the Russian Federation.

Following the resolution adopted at this conference, the Working Group on Islamic Financial Institutions and Instruments was formed aiming to develop proposals paving the way for the functioning of IFIs and *Shari'ah* products in Russia. Among the key objectives of the Group were developing recommendations for amendments to Russian legal and regulatory frameworks to ensure the smooth functioning of IFIs and their products in Russia producing the standards for *Shari'ah* products and services, designing educational programs for professional development in the area of Islamic Finance raising awareness and conducting research in the field. On 2nd March 2010, the Working Group was reorganized into a permanent expert association called the Russian Association of Experts in Islamic Finance (RAEIF).³¹

A marked shift has taken place in Russia's attitude towards Islamic Finance since 2014 with the country developing a keen interest in Islamic Finance and adopting it as an important development strategy for the economy. In light of financial sanctions imposed on Russia by the United States and the European Union, Western financial markets have been locked as a source of funding, prompting the

31 The official website of the Association: <http://www.raeif.ru/eng/>

country to seek alternatives in the GCC and Southeast Asian markets using Islamic Finance instruments (Solovieva, 2015). Given its large Muslim population Russia has untapped potential for Islamic Finance.

The longstanding efforts to blend Muslim norms into Russian reality have been translated into the bill “On Participatory Financing” together with two other related bills which were submitted to the Russian State Duma in mid-2022 and are expected to be considered before the end of the same year (Interfax, 2022; Mingazov, 2022; Volkova, 2022). According to the explanatory note to the bill “On Participatory Financing”, Islamic financial services shall be rendered by special non-credit financial institutions registered with the Central Bank as self-regulatory organizations. Also, the CBR has recently announced its plans to launch next year a pilot Islamic banking project in five regions: Chechnya, Dagestan, Ingushetia, Bashkortostan and Tatarstan (Ignat'yeva, 2022). Special participatory financing institutions will be authorized to mobilize funds from individuals and legal entities and invest them in *Shari'ah*-compliant projects on a partnership basis resembling fiduciary management. They will provide interest-free financing to their clients using deferred-sale (*Murabaha*) or leasing (*Ijarah*) contracts to finance production and trade activities or on the terms of partnership (*Musharakah* and *Mudarabah*) in addition to providing guarantees (*Kafalah*). The project will run between 2023 and 2025, it entails exempting a number of participatory financing operations from value-added tax and income tax. Upon successful completion of pilot projects the legal and regulatory framework on participatory financing will be rolled out nationwide.

It is worth noting that as a point of reference the market refers to AAOIFI *Shari'ah* standards officially translated into the Russian language and launched in 2017. Also, the IFSB has recently published several Russian-translated standards (IFSB-1, IFSB-12, IFSB-16, IFSB-17, IFSB-18, and IFSB-19) and other IFSB standards are in the process of translation.³²

Islamic Banking Segment

As alternative Islamic Finance products appeal to and are accessible not only to Muslims there have been multiple attempts in Russia to introduce these types of products requiring some serious backing. The country has had a track record of Islamic banking since the 90s, however most of them failed to realize. Licensed to offer conventional banking services in 1991, Badr-Forte Bank was the first banking institution in the country to render Islamic financial services in 1997. It had established business contacts with Middle Eastern, African and Asian financial institutions and had an extensive network of representative offices in 60 countries. Nine years later the Central Bank of the Russian Federation (CBR) suddenly revoked its license on account of systemic noncompliance with banking regulations and violation of Russian Federal Law on anti-money laundering and countering the financing of terrorism (Kazak, 2017). At the time, its assets amounted to 703.4 million rubles (i.e., approximately US\$26.5 million).

In 1992 there was a proposal to establish the United Islamic Stock Commercial Bank in Kemerovo (Western Siberia) but the project remained a theoretical exercise. Also, in 2006 Bank Express (Dagestan) started offering debit and credit cards with interest earnings being channeled to donation funds. Under the existing conditions the product was deemed *Shari'ah*-compliant even though de-

32 IFSB standards translated into Russian are accessible from: <https://www.ifsb.org/published.php>

posited funds were used in interest-based transactions. In 2013, the bank was deliberately bankrupted. The CBR revoked Express Bank's banking license for "*failing to provide accurate information on its assets, obstructing an inspection and noncompliance with the supervisory authority's instructions to rectify the breaches*".

Also, Islamic Finance products have been introduced by Ak Bars Bank and Sber with the latter being more successful. Sber³³ the largest state-owned Russian bank is one of the pioneers and the only bank that has achieved significant results in this area:

- Sber realized its first project with IsDB in 2019 amounting to US\$219 million related to supplies for the construction of the 214 km gas pipeline in Turkmenistan. For the first time in its history the bank entered into a trade finance arrangement.
- As part of the deal, Sber's subsidiary bank in Switzerland which has commodity trade finance at its core partnered with the International Islamic Trade Finance Corporation (ITFC) leading supplier of trade solutions and a member of the IsDB group structuring an export letter of credit to supply Russian wheat to Egypt (SG, 2020).
- The bank carried out a project with AOS Trading Limited (UAE) amounting to US\$30 million for the financing of the export of Russian wheat to the Middle Eastern and GCC regions; also, a project with Hakan Agro DMCC (UAE) US\$13 million to finance the export of Russian wheat to Egypt.
- It participated in a project with Tatarstan's leasing company ELK to finance leasing transactions (RUB 25 million).

In 2019, Sber acquired a 25 percent stake in the Islamic charity fintech platform PayZakat (RUB 5 million) (TMT, 2020), which assists in the calculation, collection and distribution of Muslim alms.

Recently, Sber opened its subsidiary in Abu Dhabi called Sberinvest Middle East. According to Saudi Gazette (2020), "*Islamic finance will be the backbone of Sberbank business activity in the region. The Islamic window within Sber Investment Middle East, SIME will be a single product development center and the office for Sber's Shariah-compliant finance business.*"

It has also announced the launch of an Islamic Finance programme (hybrid module - online and in-person) at its Sberbank Corporate University (SberUniversity) on 1st February 2023. In six months participants will receive certificates of professional development from Global Islamic Financial Services (GIFS) and SberUniversity.

Moreover, Sber opened its first Islamic Finance office in Kazan (Tatarstan) by the end of November 2022 (IN, 2022). The announcement about this initiative was made by Mr. Oleg Ganeev, Sberbank's Vice President at the 4th Annual Russian Islamic Economic Forum held in the city of Kaspiysk (Dag-estan). The office caters to retail and corporate clientele and offers *Halal* investment instruments, trade finance, bank guarantees, bank accounts, cash management services and *Mudarabah* financing among others. Upon the completion of the pilot project Sber will decide on the scaling up and opening of new outlets.

33 Formerly known as Sberbank.

Islamic Non-Banking Institutions

A number of non-banking financial institutions provide *Shari'ah*-compliant financing in Russia including investment companies, micro-finance institutions, mortgage financing and leasing companies. One of the investment companies Sheikh Zayed Fund³⁴ was founded in 2017 by the UAE Khali-fa Fund with a capital of US\$50 million which provides financial assistance to residents in the process of the establishment and expansion of businesses (MSMEs) registered and carrying out their main activities on the territory of the Chechen Republic. The key areas of assistance include the financing of new and existing businesses, training and counseling of entrepreneurs and fostering business community development. It frequently conducts public awareness programs, workshops and training on Islamic Finance. Financing is mainly provided using Islamic Finance contracts. Besides conducting seminars on Islamic Finance, the internal *Shari'ah* expert ensures the compliance of the company's operations and products with AAOIFI standards. So far about 400 projects have been financed and over a thousand participants have received training. Among the achievements of these activities has been the creation of more than 5,000 jobs which has had a favorable effect on the socioeconomic environment in the area.

Another investment firm Tatarstan International Investment Company (TIIC) was established in March 2010 with the aim of fostering cooperation between the republic of Tatarstan and the IsDB and promoting a range of investment projects (Sarimova, 2020). Company shareholders included the Republic of Tatarstan, IDB Group, Kuwaiti, Saudi Arabian and Yemeni investors and the authorized capital was US\$3 million. Among the ambitious plans were the development of a *Halal* production center in Kazan (Tatarstan) which would serve entire Russia, the establishment of a housing development company and the creation of one of the largest business centers in the region. Unfortunately, TIIC has now effectively suspended its operations, focusing solely on its other project Eurasian Leasing Company which offers Islamic leasing.

Besides, Nur Finance³⁵ investment company was launched in Moscow in 2018 which invests in real sector businesses and provides retail Islamic financing. In 2021, the company expanded its range of financial services and moved its head office to Kazan (Tatarstan) while maintaining the Moscow office as a representative office.

In addition, several micro-finance institutions are rendering *Shari'ah*-compliant services in Chechen Republic (Fincity³⁶, Barakat³⁷, Favorit³⁸), Dagestan (Amanat³⁹, LaRiba Finance) and Tatarstan (Amal Finance House⁴⁰, Miras⁴¹). These companies are normally established in the form of non-licensed trustees or limited partnerships and governed by the Civil Code hence, they do not fall under the jurisdiction of the CBR (Kalimullina, 2020). Another microfinance organization, Yumart Finance was founded in Tatarstan in 2010. However, a year later it was acquired by Amal Finance House.

34 The Fund's official website: www.zayedfund.com

35 The company's official website: <https://nur.finance/about-us>

36 The company's official website: <https://www.fincityofficial.ru/#about>

37 The company's official website: <https://www.barakatfond.ru/about-us>

38 The company's official website: <https://favorit-13.ru/o-kompanii>

39 The company's official website: <https://amanat.ru>

40 The company's official website: <https://fdamal.ru>

41 The company's official website: <https://en.mirasfc.ru>

Barakat fund, not-for-profit microfinance organization has been operating in the Chechen Republic since August 2012. It provides interest-free microloans to low-income families raising orphans (semi-orphans) and children with disabilities and also provides commodity financing to needy families to support their entrepreneurial and farming activities as well as for the improvement of housing conditions.

Since 2021, Miras Finance House (Tatarstan) has been offering Islamic financing for the acquisition of vehicles, industrial, medical, agricultural and road construction equipment and machinery using *Ijarah Muntahiyah bi-t-Tamleek* and *Murabaha* contracts. It serves individuals and legal entities interested in Islamic services and products in the Russian Federation. Mir Business Bank is a principal shareholder of Miras Finance House (99.99%).

In mid-2022, Favorit Finance House began its operations in Chechen Republic providing financing for the purchase of machinery and equipment for businesses as well as mortgage financing for individuals based on *Shari'ah* contracts.

Founded on 15th May 2012, Eurasian Leasing Company⁴² offers Islamic leasing products to SMEs and other market participants. Among the company's shareholders are major Russian and international investors from Turkey, Kazakhstan, Switzerland and South Korea. Also, Bahrain-based Ijara Management Company a subsidiary of the ICD serves as a technical partner in this project.

Moreover, introduced in 2018 in Tatarstan Zhilishniye Traditsii is a housing savings cooperative the members of which make regular financial contributions and extend interest-free mortgage financing on a mutual basis. According to the institution's website⁴³ as of November 2022 total of 922 participants joined the plan out of which 287 are active members. So far, 552 residential units have been acquired by the members.

In 2006, Investment Finance Consulting Linova started offering corporate consulting and corporate finance services in Islamic Finance.

A list of institutions offering Islamic Finance products and services in Russia is presented in *Table 16*. Most of the institutions/projects presented in this table have ceased their operations.

42 The company's official website: <https://euroasianlease.ru>

43 The Cooperative's official website: <https://znkgt.ru>

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Table 16: List of IFIs and Projects in Russia

Category	Title of Institution/ Project	Region	Period	Notes
Islamic Banking	Badr-Forte Bank	Moscow	1991-2006	Delicensed by the CBR
	Bank Express	Dagestan	2008 – 2011	Internal decision to end the pilot project
	AF Bank	Bashkortostan	2010 – 2012	License withdrawal
	Vostok Capital (an Islamic window of Ellipse Bank)	Bashkortostan, Nizhni Novgorod, Saratov	2011 – 2014	License withdrawal from the parent bank
	Moscow Industrial Bank	All Regions	2015 – 2019	Reorganization by the CBR
	Participatory Banking Center (Subsidiary of Tatagroprombank)	Tatarstan	2016 – 2017	License withdrawal from the parent bank
	Sovcombank	Tatarstan, Bashkortostan Others	2017 – 2019	Internal decision to end the pilot project
	Ak Bars Bank (Branch)	Tatarstan, Moscow, St. Petersburg	2019 - present	Mortgage financing
	Sberbank	All regions	2016 - present	
Islamic Insurance (<i>Takaful</i>)	Euro-Policy Insurance Company	Tatarstan, Bashkortostan, Nizhni Novgorod, Moscow	2012 - 2014	Internal decision to close
	Itil Insurance	Tatarstan	2004 - 2005	Unsuccessful project
	Allianz Insurance	Tatarstan	2013 -	Life product, Halal investment
Microfinance	Yumart Finance House	Tatarstan	2010 - 2011	Acquired by Amal Finance House
	Amal Finance House	Tatarstan and other regions	2010 - present	Consumer society, business financing
	LaRiba Finance House	Dagestan	2011 - present	Trust partnership, retail financing
	Fincity Finance House	Chechen Republic	2017 - present	
	Microcredit Company Barakat	Chechen Republic, other North Caucasus Areas	2012 - present	Not-for-profit organization
	Miras Finance House	Tatarstan	2021 - present	
	Favorit	Chechen Republic	2022 – present	
	Amanat Finance House	Dagestan	2017 – present	Personal <i>Murabaha</i> financing
Investment Company	Tatarstan International Investment Company (TIIC)	Tatarstan	2010 - 2020	Terminated its activities
	Zayed Fund for Entrepreneurship and Innovation	Chechen Republic	2017 - present	
	NurFinance	Tatarstan	2018 - present	
Mutual Fund	BCS	All regions	2007 - 2015	Internal decision to close
	Ak Bars Capital	All regions	2019 - present	Belongs to Ak Bars Group
Mortgage Finance	Zhilishniye Traditsii	Tatarstan, Bashkortostan, Tolyatti	2018 - present	Housing Savings Cooperative
Others	Eurasian Leasing Company	Tatarstan, Volga Region, Moscow, St. Petersburg	2012 - present	

Source: Adopted from Kalimullina (2020)

Islamic Insurance (Takaful) Segment

The first attempt to establish a *Takaful* company in Russia was made by a conventional insurance company ‘Itil’ back in 2004 (Bekkin, 2012:90). The process began with the establishment of the Islamic Insurance Directorate within the organization. The company’s executives were eager to find a co-investor from the GCC. Negotiations were initiated with the Dubai Islamic Insurance & Re-insurance Company (Aman) over cooperation on the project, but the parties failed to come to an agreement. This resulted in the *Takaful* project being virtually suspended in early 2005. The Federal Insurance Supervision Service revoked the company’s license later that year.

In 2009, Logistics Investment Group Safinat and Kazan-based investment group Alliance Capital announced the launch of Russia’s first Islamic insurance company. Again, the project failed to come into existence. A similar fate befell Euro-Policy Insurance Company, Renaissance Insurance and ROSNO among others.

Islamic Capital Market

In 2008, Mutual Investment Fund “*Halal*” was launched by Broker Credit Service developed using the Dow Jones Islamic *Shari’ah* screening methodology.

In 2017, to demonstrate the feasibility of *Sukuk* issuance within the existing Russian legislative framework a pilot 62-day maturity RUR 1 million (US\$15,700) *Sukuk Mudarabah* was issued and placed on Moscow Stock Exchange (MOEX). It was a technical issue by SPV *Sukuk Invest LLC*. The *Sukuk* structure was approved by the *Shari’ah* expert Bulat Mulyukov and endorsed by the Russian Association of Experts in Islamic Finance. The entire proceeds were invested into the Amal Finance House on a *Mudarabah* basis.

In 2021, Sberbank in collaboration with MOEX launched two Islamic indices (MOEX *Shari’ah* Index⁴⁴ and MOEX *Shari’ah* Total Return Index⁴⁵) approved by the *Shari’ah* Supervisory Board of Sberinvest Middle East Limited (headquartered in the UAE).

Issues and Recommendations

The CBR and other stakeholders have made numerous efforts to develop the necessary regulatory standards to facilitate the development of the IFSI (ICD, 2018). A working group has been formed by the CBR to explore the prospects for introducing Islamic banking in Russia and to prepare a roadmap toward that end. At present, Russian law and regulations do not enable IFIs to comply fully with *Shari’ah* norms and principles in their operations. The existing banking institutions provide Islamic financing in the form of participatory banking that conform to Russian civil law. There is an extra tax liability on underlying assets in the case of Islamic Finance transactions because Russian tax law does not accommodate their asset-backed nature.⁴⁶

So, to create a conducive environment for Islamic Finance, an effective regulatory and supervisory framework is essential. Tax neutrality needs to be ensured as well as Islamic Finance standards

44 <https://www.moex.com/ru/index/MXSHAR>

45 <https://www.moex.com/ru/index/MXSHARTR>

46 Unfriendly tax regime for Islamic Finance exists in Russia: 20% VAT on real asset trading and 13% income tax on Murabaha transactions regardless of a threshold.

should be adopted to encourage competition and increase efficiency as well as to attract foreign investment and qualified human capital. Furthermore, local human capacity building and increasing public awareness about Islamic Finance are also important for the development of the IFSI in the Russian Federation.

Concluding Remarks

The given report analyzes the current state of Islamic Finance Central Asia and the Russian Federation and discusses the trends and challenges facing the industry. The findings show that the region's IFSI is still at the nascent stage mainly represented by the Islamic banking segment but with an untapped *Takaful* sector and Islamic capital market. However, there is great potential for the industry to develop and expand as there is a growing demand for *Shari'ah*-compliant products and services on the part of the 90 million Muslim population. The key policies and actions to create an enabling landscape in emerging Islamic Finance markets, including Central Asian states and the Russian Federation, are:

1. Designing a long-term strategic Islamic Finance master plan with timelines, activities, and milestones.
2. Establishing a conducive legal and regulatory framework.
3. Introducing an Islamic Finance Advisory Council at the national level for market guidance.
4. Developing a liquidity management framework.
5. Revising the taxation regime creating a level-playing field.
6. Adopting international Islamic Finance standards of AAOIFI, IFSB, IIFM and IILM;
7. Increasing awareness and building human capacity.
8. Developing dispute resolution mechanisms.
9. Fostering the growth of the *Halal* sector.
10. Ensuring continuous government support and commitment to establishing an Islamic finance infrastructure.

So, to further promote the IFSI joint efforts are required from all stakeholders: regulators, industry players and the academic community.

Appendix

Table 17: Key Financials of Al Hilal Islamic Bank (Kazakhstan) in million USD

	2017	2018	2019	2020	2021
Size					
Total Assets - Banks	70.16	92.20	90.13	118.29	122.14
Total Weighted Risks	47.47	36.00	57.06	87.52	105.66
Total Equity	46.38	41.87	45.43	42.18	41.42
Asset Quality					
Imp. Loans (NPLs) / Gross Loans (%)	-	5.63	-	5.39	4.34
Growth of Gross Loans (%)	85.36	27.92	56.44	68.43	24.24
Loan Loss Allowances / Impaired Loans (%)	-	22.52	-	22.85	90.60
Loan Imp. Charges / Average Gross Loans (%)	(0.32)	0.13	(0.10)	1.01	3.25
Earnings and Profitability					
Operating Profit / RWA (%)	6.22	4.88	7.44	1.52	1.06
Net Interest Income / Average Earning Assets (%)	19.20	17.14	15.96	9.97	9.35
Non-Interest Expense / Total Operating Income (%)	66.64	78.05	58.00	79.20	73.84
Loans & Securities Imp. Charges / Pre-Imp. Operating Profit	(1.81)	4.58	1.87	20.87	63.70
Operating ROAA (%)	4.42	2.29	4.66	1.33	0.94
ROAE (%)	5.44	3.60	8.34	2.46	0.77
ROAA (%)	3.68	1.93	3.99	1.03	0.27
Capital and Leverage					
Tangible Com. Equity / Tangible Assets (%)	65.97	45.06	49.96	35.33	33.63
Imp. Loans less Loan Loss Allowances / Equity (%)	-	2.47	-	5.57	0.67
Net Income - Cash Dividends / Total Equity (%)	5.60	3.66	8.70	2.49	0.78
Fund and Liquidity					
Loans / Customer Deposits (%)	94.03	50.61	96.79	131.21	153.32
Customer Deposits/ Total Funding (incl Pref. Shares & Hybrids)	98.66	96.93	95.09	59.05	61.56
FX Rates (1 US\$ / KZT)	332.33	380.44	381.18	420.71	431.80

Source: Fitch Connect

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Table 18: Key Financials of Zaman Bank (Kazakhstan) in million USD

	2017	2018	2019	2020	2021
Size					
Total Assets - Banks	40.74	39.63	52.56	53.23	54.77
Total Weighted Risks	49.34	50.89	52.95	62.02	77.15
Total Equity	37.05	33.22	33.20	30.56	30.15
Asset Quality					
Imp. Loans (NPLs) / Gross Loans (%)	63.49	47.26	47.85	65.00	29.99
Growth of Gross Loans (%)	(8.86)	9.02	(3.38)	11.89	18.85
Loan Loss Allowances / Impaired Loans (%)	21.54	28.08	36.83	24.04	55.45
Loan Imp. Charges / Average Gross Loans (%)	0.80	(0.68)	3.82	0.70	3.36
Earnings and Profitability					
Operating Profit / RWA (%)	5.30	3.58	1.05	1.08	0.79
Net Interest Income / Average Earning Assets (%)	10.19	7.22	7.60	7.60	8.73
Non-Interest Expense / Total Operating Income (%)	31.41	50.44	46.79	66.76	65.28
Loans & Securities Imp. Charges / Pre-Imp. Operating Profit	10.86	(13.14)	82.45	46.46	64.20
Operating ROAA (%)	6.24	4.84	1.20	1.33	1.16
ROAE (%)	5.80	4.18	1.32	1.59	1.23
ROAA (%)	4.98	3.65	0.95	0.96	0.71
Capital and Leverage					
Common Equity Tier 1 Capital Ratio	-	-	49.00	49.00	38.00
Tangible Com. Equity / Tangible Assets (%)	90.91	83.82	63.09	57.29	54.39
Imp. Loans less Loan Loss Allowances / Equity (%)	51.06	37.00	31.75	57.10	18.14
Net Income - Cash Dividends / Total Equity (%)	5.98	4.24	0.14	1.60	1.24
Fund and Liquidity					
Loans / Customer Deposits (%)	2,304.0	784.9	254.1	199.7	205.71
Customer Deposits/ Total Funding (incl Pref. Shares & Hybrids)	47.90	75.01	80.66	87.99	90.96
FX Rates (1 US\$ / KZT)					
	332.33	380.44	381.18	420.71	431.80

Source: FitchConnect

Table 19: Financial Performance of Tawhidbank (Tajikistan), in Million TJS												
INDICATORS		2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
	1. ASSETS	113.5	141.2	132.5	167.8	138.1	149.5	188.2	181.5	185.6	246.9	237.8
1.1	Cash	16.7	43.5	19.8	27.3	13.8	43.4	43.4	21.8	24.8	26.8	38.8
1.2	Due from NBT and credit institutions	44.0	41.7	46.1	72.1	56.2	39.8	71.5	80.6	68.4	118.3	86.1
1.3	Islamic securities and investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.4	Islamic financing	0.7	2.8	4.5	6.8	11.9	15.1	18.1	23.4	26.3	31.7	48.1
1.5	Fixed assets	17.7	17.5	17.7	17.1	29.3	28.8	28.6	28.7	47.2	46.9	46.1
1.6	Other assets	34.3	35.8	44.3	44.4	27.0	22.3	26.6	27.0	18.9	23.0	18.7
	2. LIABILITIES	28.3	55.0	44.2	78.5	49.2	58.3	97.2	92.0	76.4	133.5	124.0
2.1	Due to NBT and credit institutions	0.1	0.0	3.9	3.7	3.6	2.8	1.8	11.4	10.5	9.5	4.6
2.2	Islamic deposits	18.6	48.3	29.2	60.7	37.5	50.0	81.7	73.6	61.3	94.0	50.3
2.3	Islamic bank's own securities	0.0	0.0	4.3	4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4	Other liabilities	9.6	6.6	6.8	9.8	8.1	5.6	13.7	7.0	4.7	30.1	69.1
	3. CAPITAL	85.2	86.3	88.3	89.3	88.9	91.1	91.0	89.5	109.2	113.3	113.9
3.1	Capital paid-up	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0	85.0	85.0	85.0
3.2	Reserves	22.7	20.2	20.2	20.2	20.2	22.6	21.7	19.8	19.8	24.2	19.8
3.3	Current year profit/loss	-2.5	1.0	3.0	4.0	3.7	3.6	4.4	4.8	4.4	4.1	9.1
	LIABILITIES AND CAPITAL	113.5	141.2	132.5	167.8	138.1	149.5	188.2	181.5	185.6	246.9	237.8

	OTHER INDICATORS	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
4.1	Return on assets (ROA, %)	-2.2%	3.0%	4.6%	3.2%	2.7%	9.5%	4.7%	3.5%	2.4%	6.7%	7.6%
4.2	Return on equity (ROE, %)	-2.9%	4.9%	6.9%	6.0%	4.2%	15.6%	9.6%	7.1%	4.0%	14.6%	16.0%
4.3	Liquidity ratios (K2.1, %)	325.6%	171.3%	192.3%	151.5%	167.1%	153.5%	120.1%	116.1%	128.8%	143.5%	221.1%
4.4	No. of branches	5	5	5	5	5	5	5	5	5	5	5
4.5	Number of banking service centers	0	6	7	8	8	8	12	15	19	20	21
4.6	Number of ATMs	0	7	7	7	7	37	37	37	58	66	66
4.7	Number of POS terminals	15	65	113	196	324	2,236	5,929	8,836	10,564	11,883	15,847

Source: NBT (n.d.)

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Table 20: Financial Performance of Alif Bank (Tajikistan), in Million TJS

INDICATORS		2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
	1. ASSETS	154.1	156.2	196.1	338.1	340.6	408.0	511.3	703.8	740.5	834.8	237.8
1.1	Cash	15.4	14.8	14.5	14.4	18.9	33.4	38.9	36.1	42.4	81.4	38.8
1.2	Due from NBT and credit institutions	12.0	19.8	21.7	30.3	20.6	35.6	54.3	99.0	146.0	163.9	86.1
1.3	Securities and Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.4	Loans, leases and overdraft	107.8	94.5	128.2	216.4	223.8	237.8	299.8	418.8	387.3	411.3	48.1
1.5	Fixed assets	11.8	17.8	19.3	44.6	47.7	51.8	55.9	65.8	73.7	85.9	46.1
1.6	Other assets	7.1	9.3	12.5	32.4	29.6	49.4	62.4	84.2	91.0	92.4	18.7
	2. LIABILITIES	28.3	55.0	44.2	78.5	49.2	58.3	97.2	92.0	76.4	133.5	124.0
2.1	Due to NBT and credit institutions	5.0	5.0	20.0	50.0	34.9	34.9	60.0	68.3	5.9	3.4	4.6
2.2	Deposits	53.4	56.1	75.2	137.8	134.2	196.6	244.9	333.1	367.8	403.1	50.3
2.3	Bank's own securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.4	Other liabilities	40.1	39.0	44.0	93.7	93.1	98.5	112.9	184.8	247.8	270.4	69.1
	3. CAPITAL	85.2	86.3	88.3	89.3	88.9	91.1	91.0	89.5	109.2	113.3	113.9
3.1	Capital paid-up	50.0	50.0	50.0	50.0	50.0	50.0	61.3	95.3	95.3	95.3	85.0
3.2	Reserves	3.7	2.5	2.5	2.5	29.2	29.3	40.6	34.9	26.7	20.7	19.8
3.3	Current year profit/loss	1.9	3.7	4.5	4.1	-0.8	-1.1	-8.4	-12.6	-3.1	42.0	9.1
	LIABILITIES AND CAPITAL	154.1	156.2	196.1	338.1	340.6	408.0	511.3	703.8	740.5	834.8	237.8

OTHER INDICATORS		2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
4.1	Return on assets (ROA, %)	1.2%	2.4%	2.3%	1.2%	-0.2%	-0.3%	-1.6%	-1.8%	-0.4%	5.0%
4.2	Return on equity (ROE, %)	3.3%	6.6%	7.8%	7.3%	-1.0%	-1.4%	-9.0%	-10.7%	-2.6%	26.6%
4.3	Net interest margin (NIM, %)	1.8%	1.6%	1.5%	0.7%	-1.6%	-1.6%	-1.9%	-3.3%	-3.1%	-3.7%
4.4	Liquidity ratios (K2.1, %)	59%	66%	52%	42%	57%	77%	73%	64%	79%	90%
4.5	Number of branches	0	1	1	1	1	1	1	1	1	2
4.6	Number of banking service centers	2	0	1	3	3	4	4	11	11	11
4.7	Number of ATMs	0	0	13	15	15	15	16	25	27	28
4.8	Number of POS terminals	242	246	259	239	239	246	264	276	301	303
4.9	Number of plastic cards	45,133	52,069	59,022	88,891	120,019	145,749	174,370	212,139	239,707	277,980

Source: NBT (n.d.)

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