ISLAMIC FINANCE PERFORMANCE AND CONVENTIONAL BANKING AND FINANCE INDUSTRY IN CENTRAL ASIA

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Annotatsiya

Maqolaning asosiy mazmuni bugungi kunda islom moliyasi rivojlanib tobora moliya bozorida keng xizmatlari bilan biz uchun keng imkoniyatlar ochayotgani va qo'shni davlatlarning yaxshi natijalari haqida. Bizga ma'lumki Markaziy Osiyoda Islom dini qancha asrlardan buyon bor bo'lgan va bugungi kunda ham Islomiy moliya va bank tizimida tarmoqli tartibda o'sib kelmoqda. Bizning qo'shni davlatlar islomiy moliya tizimida ko'pgina samarali ishlarni bajarib, yanada rivojlantirishga harakat qilmoqdalar. Tan olib aytish kerakki bugun islom moliyasi nafaqat to'gri va halol moliya tizimi bilan balki moliya va bank tizimida yangi xizmatlari bilan ham butun dunyo uchun yangi va samarali tizimni taklif qilmoqda

Annotation

The main purpose provided by this article is admitting today's Islamic finance becoming more developed and opening variety of chances in finance marketing by expanding its services, so about perfect results made by neighbor countries. As it's known by all of us that Islam religion has been by many centuries and today's system of Islamic finance is increasing its services. Our neighbor countries have great results in Islamic finance and making continuous developments on it. I should admit that today Islamic finance not only the way of new glance to finance world but it has right and halal service and offers effective system for all.

Аннотация

Основная цель данной статьи заключается в признании того факта, что сегодня исламское финансирование становится все более развитым и открывает множество возможностей в сфере финансового маркетинга за счет расширения спектра услуг, что подтверждается отличными результатами соседних стран. Как всем известно, исламская религия существует уже много веков, и сегодня система исламского финансирования расширяет спектр своих услуг. Наши соседние страны достигли больших успехов в области исламского финансирования и продолжают его развивать. Я должен признать, что сегодня исламское финансирование не только представляет собой новый взгляд на мир

финансов, но и предлагает правильные и халяльные услуги, а также эффективную систему для всех.

Kalit so'zlar

AIFC	Astana International Financial Centre
IDB	Islamic Development Bank
CIS	Commonwealth of Independent States
AIX	Astana International Exchange

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The Islamic finance industry has grown substantially in Asia over the last 2 decades. The Muslim populations in different Asian countries, especially in Southeast Asia, are increasing. Rapid Muslim population growth and improving living standards may enhance the popularity of Islamic finance as a keen alternative to conventional financing mechanisms. In addition, investors from the Middle East and Asia are increasingly seeking to invest in products that are in line with their religious beliefs. The governments and financial authorities in several Asian countries have played active roles in promoting the development of Islamic financial markets in line with the efforts to boost investments and achieve sustainable funding to enhance economic growth by tapping the huge liquidity from oil- and commodity-producing countries. The ethical character and financial stability of Islamic financial products may increase their attraction. Islamic financial products have an ethical focus (notably excluding investment in alcohol and gambling) with a risk profile that appeals to wider ethically conscious investors. (Komijani, An overview of Islamic Banking and Finance in Asia 2018)

Given that in Islamic banking returns on investments are based on underlying economic activities and/or assets that structure the contractual relationship between transacting parties, it is possible to use the asset-based nature and risk-sharing aspects of Islamic finance for greater integration with the real economy and to improve the overall economic balance between the real and the finance sector. (Komijani, An overview of Islamic Banking and Finance in Asia 2018)

Islamic Banking and Finance system in Kazakhstan

Fitch Ratings-Dubai-12 June 2023: Fundamental issues will likely keep the Islamic finance sector's market penetration in Kazakhstan low over the next few years, Fitch Ratings says. There are only two Islamic banks in Kazakhstan (including Al Hilal Islamic Bank JSC: BBB+/Stable), with limited product offerings and distribution channels; this creates supply-side constraints. Sukuk issuance is embryonic. In May 2023, Fitch rated the Islamic Corporation for the Development of the Private Sector's proposed tenge-denominated sukuk 'A+'. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

Despite being a Muslim-majority country, there is low demand for Islamic products due to limited public awareness, sharia-sensitivity and confidence in the sharia-compliance of products. The government has, in the past, supported the industry through regulatory changes to diversify its financial sector, and aimed for Kazakhstan to become the Islamic finance hub of Central Asia. However, the industry hasn't kept up pace, with more push and regulatory changes still needed. (Sagiyeva, Rimma & Kuanova, Laura. 2019).

Islamic banks had a 0.2% domestic market share in Kazakhstan at end-1Q23, based on reported total assets. In neighboring Kyrgyzstan, the domestic market share was higher, at 1.5%. The Kazakh government is aiming for the Islamic finance industry's market share to reach up to 3%–5% by 2025, as part of the 2020–2025 Master Plan for Islamic Finance Development. The conventional debt capital markets in Kazakhstan are also underdeveloped, although the sukuk market is even more behind, with only one issuance so far, in 2012. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

Issuing sukuk is more complex and time-consuming than bonds, with issuance hindered by the regulations in Kazakhstan that require actual transfer of ownership of underlying sukuk assets to an Islamic special-purpose vehicle (asset-backed sukuk) rather than beneficial transfer of ownership (asset-based sukuk). This could incur additional charges, administrative hurdles, and delays. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

The Kazakhstani Deposit Guarantee Fund does not guarantee Islamic banks' customer deposits, making them less attractive than conventional banks. There are also issues with tax-neutrality, a lack of sharia-compliant government securities, sukuk, Islamic liquidity-management products, and a dearth of qualified Islamic finance professionals. There also appears to be a lack of interest from larger conventional banks to tap into the Islamic segment. Regulations prevent conventional banks from opening Islamic windows. (Sagiyeva, Rimma & Kuanova, Laura. 2019).

Islamic multilateral institutions have supported the industry's growth. The Islamic Development Bank IDB Group has a regional hub in Kazakhstan, with USD1.7 billion total funding for the country and 56 completed projects. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

The Islamic finance industry in Commonwealth of Independent States CIS countries is still in its early stage of development. A push for financial inclusion could support the industry. About 19% of Kazakhstan's adult population didn't have a bank account in 2021, with 5% of the adults citing religious reasons, according to World Bank. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

Under Kazakhstan's banking regulations, Islamic banks may contractually impose losses on Islamic investment deposits in case of underperformance of the funded asset. However, Islamic banks are unlikely to impose losses on depositors due to high reputational risk, which may lead to customer deposit outflows. (Sagiyeva, Rimma & Kuanova, Laura. 2019).

The accounting treatment for Islamic banks differs from conventional banks in Kazakhstan. Islamic investment deposits and assets funded from investment deposits are recorded off-balance-sheet, unlike in most markets. Off-balance Islamic receivables have zero risk-weightings, and Islamic banks' reported capital ratios receive an uplift compared to conventional banks, which allows them to grow faster with fewer capital constraints.

Islamic banks report under the accounting standards issued by Accounting and Auditing Organization for Islamic Financial Institutions. Islamic finance is one of the key pillars of the Astana International Financial Centre (AIFC), and there is a Central Shari'ah Advisory Board in AIFC. In 2020, the Astana International Exchange (AIX) cross-listed sukuk for the first time, issued by Qatar International Islamic Bank. In 2022, sukuk issued by IDB were also cross-listed on AIX. (Fitch Ratings: Credit Ratings & Analysis for Financial Markets)

Islamic Banking and Finance system in Kyrgyzstan

The Kyrgyz Republic was the first CIS country to incorporate principles of Islamic Finance into the economy. The start of Islamic Finance development in the Kyrgyz Republic originated in 2006, when under Islamic Development Bank assistance; Eco Islamic Bank launched the pilot project. Later in 2009, a concept of Islamic Banking was included in laws on "Banks and banking in the Kyrgyz Republic" and "National Bank of the Kyrgyz Republic". Islamic Finance services in Kyrgyzstan are still a developing sector with one bank and three microfinance institutions fully operated under principles of Islamic Finance. There is also a non-profit organization called "Association of Islamic Economics, Finances, and Industry Development" which has the role of supporting new market players, consulting conventional finance institutions and holding Islamic Finance training sessions. 6 Islamic Finance in the UK Over the last 5 years the Kyrgyz finance system, with assistance from the State Service for Regulation and Supervision of Financial Market, has made positive steps towards adoption of Islamic Finance products as Islamic bonds (Sukuk) and insurance (Takaful). Finance Inclusion and Principles of Islamic Finance World Bank analysis of financial inclusion in the Kyrgyz Republic published in 2014 indicates that, 18% of adults have bank accounts, 14% have formal borrowings, and 5% have banking savings. Islamic Finance opens the opportunity for more people to engage with trusted institutions to manage their savings and borrowings, without compromising their beliefs. (Islamic Finance in Kyrgyzstan)

Potential financing amount for Kyrgyz MSMEs reaches $342.2 – 456.mil. 1 Islamic Finance and the Government's Strategy of Sustainable Development. The National Sustainable Development Strategy for the Kyrgyz Republic provides an important framework for policy making. Islamic Finance offers the possibility of supporting some of that strategy's key targets: - The increasing availability of Islamic Finance products, instruments, and services will foster market competition among financial institutions, which could lead to greater availability of less expensive long-term capital, a wider variety of financial products. In May 2014, International law firm Simmons & Simmons and the Kyrgyz Republic has signed a ground-breaking agreement to provide consultancy services for the development of laws and regulations, supporting the introduction of Takaful (insurance) and Sukuk (securities) in the Kyrgyz Republic. The consultancy services to be provided by Simmons & Simmons are to be funded under a technical assistance grant provided by the Islamic Development Bank. Stated by Media Office of Simmons & Simmons - Increasing use of Islamic Finance could help facilitate foreign investment in the country's major infrastructure and Public Private Partnership projects. 1 Islamic Banking report, opportunities from Micro, Small and Medium Enterprises in the Kyrgyz Republic. International Finance Corporation (IFC), World Bank Group. Bishkek, February 2016. (Islamic Finance in Kyrgyzstan)

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