

THE MOSLEM WORLD: THEORETICAL AND PHILOSOPHICAL PROBLEMS

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The author of the article S.B. Ramazanova (1) defines the key concepts associated with the functioning of the Islamic financial system. Financial institutions are those companies that adhere to the Islamic financial model, which comprises a set of methods, mechanisms and tools that allows them to carry out their financial activities without violating the basic principles of

Sharia. Islamic financial system includes Islamic banks, financial companies, insurance companies (*takaful*), funds, "Sharia compliant" bonds (*sukuk*) and regulatory bodies. Islamic financial institutions strictly comply with Sharia law.

The author notes that the principles of market regulation and functions of money are what make the difference between Islamic and traditional finances. Traditional banking is based on the principles of market economy, which eventually results in speculative behaviour, derivative transactions, financial pyramids, speculations, usurious interest, unregulated and unrestrained profit maximization, etc. These unethical practices negatively affect social, political and economic well-being of society. Islamic economics imposes a ban on usury, monopolization of the market, speculations, as well as trade in goods and services, prohibited in Islam. All this, in turn, makes it possible to establish a just and stable economic system.

The theory of the formation of a perfect Islamic capital market was largely developed in the mid-1950s. It was not until the 1970s that Islamic financial institutions were founded; Dubai Islamic Bank in the UAE and Islamic Development Bank in Saudi Arabia were established in 1974–1975. Islamic financial institutions have spread widely throughout the world over time and have been operating for over 50 years.

The researcher believes that in such a short period of time, Islamic financial institutions were unable not only to replace traditional finance, but also failed to become a serious competitor. However, in some states (for example, Saudi Arabia, UAE and Malaysia) Islamic financial institutions have occupied significant niche in the national financial system. In non-Muslim countries, Islamic financial institutions occupy rather small niche. Of all the advantages of Islamic banking, two are especially attractive: reduced risks that imply enhanced financial stability; and the social component of the Islamic model, based on the principles of charity, financial support of people and social justice.

The author of the article draws attention to the fact that a number of developing countries are beginning to take leading positions. Thus, the Next Eleven (the list of eleven countries with potentially world's largest economies, drawn up after the global crisis of 2007–2008) includes seven states with a predominance of the Muslim population: Bangladesh, Egypt, Indonesia, Iran, Nigeria, Pakistan and Turkey. The interest of world investors in these countries indicates the growing role of Islamic financial institutions in the world economy. Also, major political and economic changes are taking place in other countries, contributing to the strengthening of Islamic institutions. Thus, Pakistan and Afghanistan have announced a gradual transition from secular to religious bases for building a society; and in Iran all banking, apart from Islamic one, has been officially banned for more than 40 years.

Political influence of the Islamic factor in the CIS member states – Tajikistan, Kazakhstan and Kyrgyzstan – is steadily increasing. These states have passed laws allowing and encouraging the development of all types of Islamic financial institutions, including Islamic banks. Since these countries are member states of the Eurasian Economic Union (EAEU), Russia is obliged to take into account the provisions of the legislation of other members of the Commonwealth in accordance with the Treaty; this would lead to a revision of the role of Islamic financial structures in Russia. Speaking of the development of Islamic financial institutions, Russia has an interest in the experience of Muslim countries with secular legislation, where religion is separated from the state and has no significant effect on business processes, e.g. Turkey.

In Turkey, more than 98 per cent of the population is Muslim, but the legal system prohibits the very existence and state support of any structures, founded on the Islamic operational principles. The “secularity” of the state used to be so steadfast that any steps for the development of Islamic financial structures were strongly opposed by the authorities, and in

particular by military structures. It was not until 1983 that the first shoots of Islamic finance were allowed to grow. However, the established Islamic financial structures had to operate in the regions, receiving no support in the capital. Islamic financial institutions in Turkey were called “non-bank financial institutions” until the late 20th century. Nowadays, the attitude towards Islamic financial institutions in Turkey is changing. Recep Tayyip Erdoğan has repeatedly declared his support for the Islamic financial model and emphasised the need to stimulate the consistent development of the Islamic financial sector. As a result, a large state-owned bank Ziraat Bank has opened its branch (“Islamic banking window”) in Ankara. The Islamic finance industry is currently receiving extended support.

Among non-Muslim countries, Great Britain is leading in terms of the amount capital of Islamic financial institutions. Islamic Bank of Britain, the first fully Islamic bank in Europe, was established in 2004. Known as Al Rayan Bank since December 2014, today it offers a full range of Sharia compliant financial service products. In this country, traditional banks are also allowed to open special branches (“Islamic banking windows”).

The author believes that it is Islamic financial markets that are in a relatively strong position and have the potential to withstand negative global financial trends. More and more Arab countries tend to develop investment projects in compliance with the principles of Islamic finance. Therefore, it is essential for Russia to take steps to create Islamic financial structures focused not only on internal needs of the Muslim community, but mainly aimed at attracting foreign investments from countries of the Middle East and Southeast Asia. With the encouragement from Russia, Middle Eastern countries may provide major investments as donors, since these states have a substantial amount of liquidity that they cannot invest domestically. Sharia compliant international investments – long-term, transparent and fair – can make a significant social impact in Russia.

Having analyzed the situation, the author considers using Sharia compliant debit cards by traditional banks in Russia as promising. It would benefit the banks, since customers themselves refuse interest on card accounts. The client also could request that interest accrued in accordance with Russian law be transferred to charitable purposes. Some Russian banks have already introduced Islamic financial product services and the principles of Islamic banking into practice. Thus, in 2017, Sberbank of Russia issued a halal debit card and implemented several partnership projects. Moreover, the first debit card for Russian Muslims was issued in Bashkiria back in 2010. Today, debit cards for Muslims were also issued by Moscow Industrial Bank, International Credit Bank and Sovcombank. Halal cards have nothing to do with usury, do not accrue interest for the use of funds by the bank, and there are no fines and penalties. Special cards are offered for Hajj pilgrims who are planning to travel to Mecca.

Issuing cards for Muslims is not the only possible Sharia compliant activity. According to the author, Russian banks can also begin to offer some Sharia compliant products by opening special branches, "Islamic banking windows". S. Ramazanova proposes to initiate the development of Islamic financial institutions in those territories where Islamic financial organization already exist, e.g. in Tatarstan, Bashkiria, Daghestan and Chechnya. Changing regional legislation in these regions is not going to pose a problem, particularly in Chechnya. Islamic norms are especially strong there, for example, people refuse to manufacture, market and even consume alcohol.

In Russia, there is a large number of Muslims, which means there is a demand for Islamic financial services. The author considers the development of "Islamic banking windows" in Russia a step in the right direction, although it entails a number of problems. First, it is hard to adjust systems of accounting and control for fundamentally different products; and second, it is difficult to separate "halal" and "usurious" money, which is

important for Muslim clients. In addition, a complex system of separation within one structure is fraught with difficulties related both to accountability and work of regulatory authorities. To overcome challenges identified above, “Islamic banking window” of a traditional bank may be limited to opening accounts and settlement accounts, as it is practiced in the “Amal” financial house in Moscow, the “La Riba Finance” company in Makhachkala, etc. Specialists from Russian Association of Experts in Islamic Finance have developed another scheme for opening “Islamic banking windows”, which implies defining all Sharia elements in terms used in traditional finance. It is assumed that familiar terminology will help legislators, tax professionals and accountants understand Islamic principles and suggest ways to put them to practice. In order to introduce “Islamic banking windows” in Russia it is also necessary to adjust Russian legislation. Changes in legislation should apply only to new organizational and legal forms concerning “Islamic banking windows” and should not affect legislative framework for the functioning of traditional financial institutions.

In conclusion, the author notes that the successful functioning of Islamic financial institutions in Russia depends on the creation of a single financial regulatory and supervisory centre. Integration of Islamic and traditional financial systems is also needed. In addition, Islamic financial system requires accounting standards. At present, Islamic institutions lack specialists capable of analyzing and managing financial portfolios, as well as developing Sharia compliant innovative products.

In his article H.A. Youssef (2) analyzes the financial mechanisms of Islamic business, an important component of the Islamic financial system. At present, an Islamic business model is in development in Russia, and the one currently functioning barely differs from the traditional business model of Russian entrepreneurship. Only a few Sharia compliant elements and

principles, types and forms of entrepreneurship are implemented mainly in the regions with a large Muslim population.

In Russia, the halal product industry is the most active segment of Islamic business that has been growing steadily for 20 years. After Western sanctions were imposed against Russia, many entrepreneurs saw the potential of exports to Muslim countries.

The author believes that Tatarstan is holding a leading position in the halal industry in Russia, being the first to register a system of voluntary certification of halal products and services with Rosstandart in 2009. In 9 years, the Halal Standards Committee of the Spiritual Administration of Muslims of Tatarstan certified more than 200 enterprises. Also, a technical committee for standardization of halal services and goods has been operating in Tatarstan since 2017. At present, certificates are issued by the International Center for Halal Standardization and Certification of Russia Muftis Council.

As a rule, the Islamic finance market is inseparable from the halal market, since Islamic investments can only be made in projects that do not violate the injunctions of Islam. According to the Islamic Financial Services Board (IFSB), the sectoral breakdown of Islamic finance is as follows: Islamic banking – 76 per cent, securities market (*sukuk*) – 19.5 per cent, investment funds – 3.2 per cent, insurance (*takaful*) – 1.3 per cent. The assets of Islamic financial companies in Russia stand at one billion roubles. At the same time, the volume of transactions has amounted to about 20 billion roubles over the past decade.

The author notes that the first Islamic finance operations in Russia were carried out by Badr-Forte International Commercial Bank, Itil Takaful Company and Unit Investment Fund for Muslims 'BCS – Halal Fund' in the mid-1990s. However, it was not until 2010 that the possibility of using Islamic financing instruments in Russia was actively considered. In Tatarstan, a pilot project in the area of Islamic finance has been launched, comprising investment, leasing and insurance companies; a

financial house; Islamic Business and Finance Development Fund (IBFD Fund); Islamic financial bank, etc.

It should be noted that the Islamic banking sector is the most mature segment of the Islamic finance industry in Russia. For example, Ak Bars Bank has made transactions in accordance with the principles of Islamic finance.

The author believes that at the moment, there are no large federal programmes for funding Islamic business, despite its huge potential for ensuring economic growth and well-being of Russian citizens. At the federal level, Islamic business is being provided mainly with legal, estate, information and consulting support. The State Duma Committee on Financial Market and the Bank of Russia have endorsed the Concept of the Islamic Financial Model. Thus, an expert group of the State Duma introduced eight legislative amendments from 2015 to early 2016.

In 2017, under the auspices of the International Association of Islamic Finance (IAIF), branches of the International Association of Islamic Business (IAIB) were opened in the Muslim regions of Russia; the IAIB contributed to the translation of all Sharia standards into Russian. Students of a number of Russian universities gained the opportunity to take special courses on Islamic finance and study Islamic economics.

The author concludes that mechanisms and tools to support Islamic business in Russia are still in development. The researcher notes the lack of federal programmes for funding Islamic business and uneven character of its support, as well as underdevelopment of Islamic financial mechanisms through partnership banking. In Russia, the financial mechanisms of Islamic business are gradually taking shape on the basis of state-level financial methods, instruments and levers aimed at implementing social, economic and investment functions. The State should play a key role in the establishment of mechanisms for the development of Islamic business, since it is the State that sets policy.