

Ministry of Education and Science of the Republic of Kazakhstan
Al-Farabi Kazakh National University

UDC 336.113.23

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The social effectiveness of Islamic finance: theory and practice

6D050900 – Finance

Dissertation submitted for the degree of Doctor of Philosophy (PhD)

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Republic of Kazakhstan
Almaty, 2022

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NOTATIONS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AFSA	Astana Financial Services Authority
AIFC	Astana International Financial Centre
AIX	Astana International Exchange
AMFOK	Association of Microfinance Organizations of Kazakhstan
AHP	Analytical Hierarchy Process
CCA	Caucasus and Central Asia
CCESS	Committee for Control in the sphere of Education and Science
CIS	Commonwealth of Independent States
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GHI	Global Hunger Index
GIFT	Global Islamic Fintech Index
ICD	Islamic Corporation for the Development of the Private Sector
IDB	Islamic Development Bank
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IRTI	Islamic Research and Training Institute
JSC	Join Stock Company
KASE	Kazakhstan Stock Exchange
KIC	Kazakhstan Ijara Company
MCO	Micro Credit Organization
MENA	Middle East and North Africa
MTN	Medium Term Notes
OECD	Organization for Economic Co-operation and Development
OIC	Organization of Islamic Cooperation
PPP	Purchasing Power Parity
RK	Republic of Kazakhstan
SAMK	Spiritual Administration of Muslims of Kazakhstan
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprises
SIA	Social Impact Assessment
SPV	Special Purpose Vehicle
SROI	Social return on investment
STEGM	Science, technology, engineering and mathematics
SWOT	Strengths, weaknesses, opportunities, threats
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
USA	United States of America
VAT	Value Added Tax

INTRODUCTION

An overview of the thesis. The dissertation research is devoted to studying the nature of the phenomenon of the social effectiveness of Islamic finance and the development of recommendations for the successful implementation of Islamic social instruments in the financial system of the Republic of Kazakhstan.

The relevance of the research. The recurring financial crises of the last two decades, including those related to the Covid-19 pandemic, have demonstrated that the Islamic finance industry has suffered relatively less than the traditional financial sector. This fact not only determines the growing academic interest of researchers around the world in Islamic finance but also continues to be accompanied by heated discussions, as according to experts, Islamic financial instruments, by their social nature, are among the optimal tools for the implementation of the 17 U.N. Sustainable Development Goals [1] [2] [3].

The current global Islamic financial services industry is estimated at 2.88 trillion U.S. dollars, 1% of all world financial assets [4]. The average growth rate of global Islamic finance over the past ten years has amounted to 12.5%. There are 1462 Islamic financial institutions in more than 75 countries, including 505 Islamic banks. Notably, Islamic finance and banking proliferate in Islamic countries and show progress in non-Islamic countries. Outside the Islamic world, Islamic financing has increased in the U.K., followed by other European countries and the U.S. This growth has arguably been driven by the demand from the faith and risk diversification-focused investors.

Thus, today all countries of the world can take advantage of the corporate social responsibility of the Islamic financial industry, based on special principles of profit and loss distribution and promotion of real economic development. In addition, Islamic financial instruments reduce transaction costs associated with property rights protection, opportunistic behavior, and increased confidence.

In Kazakhstan, where about 70% of the population adheres to Islam to varying degrees, the country can take advantage of the social principles of Islamic finance and use them as one of the driving forces. This is also vital for the current period of the Covid-19 pandemic, characterized by high turbulence, unpredictability, and repeated lockdowns, which negatively affected the world market and national economies, and the global financial architecture. Simultaneously, the global financial system is radically changing its conceptual configuration, becoming high-tech and increasingly virtual.

In these circumstances, Kazakhstan is facing a GDP decline, accompanied by a growing budget deficit, a sharp decline in the population's real incomes, a steady devaluation of the national currency, and increasing transfers from the National Fund. Also, the country's banking sector has been repeatedly subjected to crises, and the stock market has not become an instrument for effective capital transfer. All these negative phenomena occur against the background of high volatility in world oil prices, on the export of which the state budget revenues and investment activity in the country still depend. Obviously, in the search for alternative ways out of the deepening crisis, researchers pay attention to the advantages of Islamic finance and the Islamic economy,

which is designed to provide for basic human needs without neglecting moral laws and prohibitions by the interpretation of Shariah. Among them, social solidarity through creating conditions for unity and cooperation between capital and labor, achieving social justice through reasonable wages, and eliminating unemployment may become essential for Kazakhstan. It is noteworthy that exactly such strategic goals of our country were repeatedly announced by the President of the Republic of Kazakhstan K.K. Tokayev [5].

Thus, the socially-oriented nature inherent in Islamic finance, dynamic growth in the world, and the untapped potential of the Islamic financial industry in the Republic of Kazakhstan, determined the relevance of the proposed dissertation research. In turn, to widely use the advantages of the Islamic financial industry in solving the socio-economic problems of the population of Kazakhstan, there was a need for a theoretical and methodological justification of the social effectiveness of Islamic finance and the development of practical recommendations for their implementation in the financial system of the country.

The degree of density of the issues. The tasks of assessing the social effectiveness of Islamic finance have not been solved before. The degree of density of the problem is represented by foreign scholars' research on issues related to the social functions of Islamic finance and social effectiveness assessment. The main studies of scientists al Qardawi, M.Kahf, A.Khan, N.Shirazi and M.Amin, A.Tahiri Jouti, T.Kuran, H.Ahmed, M.Mohammad, and A.Mar Iman first studied the social tools of Islamic Finance as a significant source of solutions for problems of poverty, covering the resources shortfalls of the countries and social welfare. The research of R.Kamla and H.Rammal, R.Aggarwal and T.Yousef, K.Samad T.Kochuyt, M.Gaudiosi indicates a scientific interest in the issues of Islamic finance and its social functions. This contributed to creating a specific theoretical basis for the study by A.Ummulkhayr, A.Tahiri Jouti, and M. Obaidullah. However, some issues remain a constant subject of discussion, particularly approaches to assessing the actual volume of Islamic social finance.

In the countries of the Commonwealth of Independent States (CIS), the leading members of which belong to the Central Asian region, the social component of the Islamic finance is unstudied direction, and there are few studies from the region by Mirzoev, A.Nagimova, T.Ignatova, A.Dobayev, R.Bekkin, N.Lvova. In Kazakhstan, Y.Baidalet and D.Onaltaev study the problem of Islamic finance development.

The degree of research in this area, taking into account the specifics of Kazakhstan, is shallow thus far. Therefore, the issue needs further study and, above all, a focus on finding new approaches, methods, and mechanisms for forming the social functioning of Islamic financial instruments.

The above circumstances determined the choice of the thesis title, the purpose, and the objectives of the dissertation research.

Purpose and objectives of the study. The purpose of the dissertation is to study the theoretical and methodological foundations of the social effectiveness of Islamic finance and development practical recommendations for the successful implementation of Islamic financial instruments in the financial system of the Republic of Kazakhstan.

For achieving this goal, the following theoretical and practical objectives have been identified:

- study and generalization of theoretical and methodological approaches to determining the social content and social functions of Islamic finance as an economic phenomenon based on the principles of Shariah and other spiritual Muslim sources;
- clarification of the content and functions of Islamic social finance: zakat, waqf, Islamic microfinance in the context of the experience of foreign countries;
- substantiation of the methodology and methods for assessing the social effectiveness of Islamic finance based on a review of foreign and domestic scientific sources;
- analyzing the Islamic finance development trends and results analysis in the current economy of the Republic of Kazakhstan;
- identification of the Islamic finance development barriers in the Republic of Kazakhstan and assessment of their potential social effects;
- assessment of the performance of Islamic financial institutions and non-financial social organizations, their role in the social welfare of the country;
- justification of the application of financial technologies prospects to enhance the social effectiveness of Islamic finance in the Republic of Kazakhstan;
- develop the conceptual model of institutional support for implementing the social effectiveness of Islamic finance in the Republic of Kazakhstan.

The object of the study: Islamic financial institutions and Islamic non-financial social organizations of Kazakhstan.

The subject of the study: the financial and economic relations arising between Islamic and non-Islamic financial institutions for increasing the social effectiveness of Islamic finance in the Republic of Kazakhstan.

The theoretical and methodological basis of the study. The dissertation research was conducted based on a systematic approach using the following quantitative and qualitative methods: generalization, systematization, comparison, historical and logical methods – to study the economic essence of the concept of the Islamic finance’s social component (section 1.1); analysis of foreign experience in the development of Islamic finance and the use of social tools (section 1.2); analysis of the legislative framework of Kazakhstan for the activities of Islamic financial and non-financial institutions (section 2.1); narrative and statistical analysis - for investigation the state of the Islamic financial system (section 2.1); SWOT analysis and the method of expert assessments - for determining the priority directions of the development of Islamic finance in solving social problems (section 2.2); financial analysis – for assessing the social effectiveness of Islamic finance (section 2.3) and its impact on the social well-being of the country (section 3.1). Stata and Microsoft Excel programs were used for statistical data processing.

Information base of the study. The information base of the dissertation research is primary and secondary data. Sources of primary data: data of expert assessment of 45 experts on the profile of the dissertation, professionals in the field of Islamic finance in Kazakhstan, data of in-depth interviews of representatives of the management of Islamic financial institutions, conventional financial institutions, and social Islamic non-financial foundations, data of a survey of 1376 respondents. Sources

of secondary data: statistical data of the Bureau of National Statistics of the Agency for Strategic Planning and Reform of the Republic of Kazakhstan, analytical reports of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, the National Bank of the Republic of Kazakhstan, the "Astana" International Financial Centre, Kazakhstan Stock Exchange, the World Bank, the Islamic Research and Training Institute, and the United Nations.

The scientific novelty of the research. The following results were obtained during the dissertation research, defining its scientific novelty:

- the concepts of the social function of Islamic finance and Islamic social finance have been clarified and delineated;

- by identifying the role of specific Islamic social financial instruments - zakat, waqf, and Islamic microfinance, considering the peculiarities of the foreign countries' experience, the forms range of Islamic social finance for Kazakhstan has been expanded;

- the methodology for assessing the social effectiveness of Islamic finance at different levels of the economic hierarchy has been proposed;

- the methods of assessing the potential Islamic finance assets and potential zakat amount have been proposed, and their impact on the welfare of socially vulnerable groups of the population of the country has been determined;

- the role of Islamic financial institutions and non-financial organizations in solving social problems in Kazakhstan has been substantiated;

- the measures for improving the social effectiveness of Islamic finance in the Republic of Kazakhstan based on the application of information technologies such as crowdfunding and block chain have been proposed;

- the recommendations on institutional support for implementing the social function of Islamic finance in the Republic of Kazakhstan have been developed.

The main statements for thesis defense:

- economic relations based on the principles of the Shariah determine specific social and ethical norms, which, on the one hand, allow the use of finance as close as possible to their economic nature in the real economy. On the other hand, Islamic finance demonstrates a competitive advantage in crises and social problems compared to conventional finance.

- specific Islamic social finance - zakat, waqf and microfinance, play a crucial role in addressing the social problems of the population in many countries. The institutional structure of specific Islamic finance management varies from country to country but does not change its socially-oriented function.

- to assess the social effectiveness of Islamic finance, it is proposed to use criteria for different economic hierarchy levels. At the macroeconomics level, the AHP method (an analytical hierarchy process) was used to measure the potential social effects of Islamic investment, and the potential assets of Islamic finance in the country were evaluated. At the micro-level, the savings of the needy and people with limited incomes were estimated, and the social effect of the realization of social business in the form of entrepreneurial activity was assessed.

- the potential assets of Islamic finance in the country were evaluated, and the potential zakat collection in the country was assessed using the Kahf and Shirazi

approach, adjusted to the actual situation with the country's economic indicators. The social impact of Islamic finance was estimated using the savings in public financial resources allocated to social needs.

- based on qualitative analysis conducted through questionnaires, in-depth interviews, and financial data provided, the social contribution and social effectiveness of Islamic and non-Islamic financial organizations operating in Kazakhstan were identified.

- the role of financial technologies is dramatically increasing in the Islamic financial system as part of the global financial system and market. Financial technologies used for the convenience of customers, reducing transaction costs, and increasing transparency and security of financial transactions also affect the social functions of Islamic financial services. The evaluation of the effectiveness of using the crowdfunding platform to collect zakat and charity for the integration forms of the platform has shown its high effectiveness due to saving state resources and ensuring transparency for both donors and applicants for social assistance.

- recommendations for successful Islamic finance development and ensuring social effectiveness in the Republic of Kazakhstan were developed based on the analysis of the legislative framework. The appropriate institutional support is needed, including several legislative, organizational, and economic measures that will form the basis of the Strategy for the Development of Islamic Finance. This strategy should include Islamic banking and the Islamic capital market, Islamic investments, Islamic insurance, and Islamic social financing, especially the development of the waqf system in the country.

The theoretical contribution of the research results. There has been gained new theoretical knowledge of the methods of assessing the social effectiveness of Islamic finance. Theoretical conclusions and the results of this research are essential for developing theoretical and methodological foundations for studying social instruments of Islamic finance, the socio-economic efficiency of the application, and the expansion of the range of Islamic finance functions in solving social problems. The dissertation research results can become the basis for setting new research tasks for both domestic and world science.

The practical contribution of the study. The results of thesis can be useful for assessing the social effectiveness and socio-economic efficiency of social business. The conclusions, proposals, and scientific and practical recommendations can be taken into account and used in the implementation, development, and improvement of strategies, programs, concepts, and development plans of the Ministry of Labor and Social Protection of the Republic of Kazakhstan and the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market within the Ministry of Finance. The results obtained during the research will contribute to the development of instruments of Islamic finance by integrating financial technologies into the activities of the "Zeket and charity" foundation of Kazakhstan to ensure transparency and openness, which in turn, will lead to an increase in the financing of social projects and reduce the cost of state assistance for the socially vulnerable population of the country.

The materials in the thesis can be used in the educational process to prepare specialists in the following specialties: Finance, Islamic Finance, and financial technologies.

Approbation and implementation of the research results. As the result of the study, the Act on the implementation has been signed by the Public Foundation "UME Social Services" for realization in the social market activities. The main propositions of this study were discussed at scientific and methodological seminars of the Higher School of Economics and Business of the Al-Farabi Kazakh National University and the international forum Astana Finance Days 2020 of the "Astana" International Financial Centre. The main results of the research were reported and presented at the international scientific conferences "Innovative and entrepreneurial education in the context of improving the quality of life" (12.12.2018, Almaty, Kazakhstan); "Competitiveness of national economies and regions in the context of global challenges of the world economy" (19.04.2019, Rostov-on-Don-Taganrog, Russia); "Innovative and entrepreneurial education in the context of improving the quality of life" (12.12.2018, Almaty, Kazakhstan); "Kazakhstan in a multipolar world: economic scenarios" (10.04.2019, Almaty, Kazakhstan); "2021 International Conference of Young Scholars, SDU" (26.05.2021, Kaskelen, Kazakhstan).

Publications. The main provisions and conclusions submitted for defense were reflected in 15 scientific papers, 3 of which were published in the journal with a non-zero impact factor and included in the international information resources Scopus and Web of Science, 3 - in scientific publications recommended by CCSES of the MES RK, and 9 reports in the proceedings of international scientific and practical conferences, including 1 abroad (Russia), RSCI.

Structure and scope of the thesis. The dissertation structure reflects the logic, the order of research, and the algorithm for solving the tasks. The dissertation consists of the content, notation and abbreviations, introduction, three chapters, conclusion, list of references, and 6 appendices. The volume of the dissertation research is 150 pages of typewritten text (appendices excluded), including 57 tables, 24 figures, and 8 formulas. The list of used references includes 149 sources.

1 SOCIAL EFFECTIVENESS OF ISLAMIC FINANCE: THEORETICAL AND METHODOLOGICAL APPROACHES TO CONTENT DETERMINATION AND MEASUREMENT

1.1 The social component of Islamic finance, its economic nature and functional forms

One of the significant reasons for the widespread of the using of Islamic financial instruments in the world, experts call their social nature. Islam came to organize economic life and develop a system based on social justice. Islamic economics has nothing to do with the scientific discovery of existing economic relations. Thus, Islamic economics is understood as a doctrine or a special "ideology and methodology" of approach to solving economic problems [6]. In fact, in contrast to the traditional neoclassical approaches that give priority to material interests and the theory of the rationality of individuals aimed at maximizing utility while minimizing their costs, Islamic economics is aimed at providing basic human needs by using harmonic resources.

The social component inherent in Islamic economic relations is defined in the Holy Scripture. Islam is the faith for the creation of peace and wealth on Earth, Allah said: "do good to parents, kinsfolk, orphans, Al-Masakin (the poor), the neighbor who is near of kin, the neighbor who is a stranger, the companion by your side, the wayfarer (you meet), and those (slaves) whom your right hands possess. Verily, Allah does not like such as are proud and boastful" 4:36 [7, p.57]. Every bad thought, action and contention are prohibited by Islam. "Cooperate with one another in goodness and righteousness, and do not cooperate in sin and transgression. And be mindful of Allah" 5:2 [7, p.115].

Islamic economics is aimed at spreading the idea of social solidarity by providing conditions for unity and cooperation between capital and labor, with the complete rejection of monopolism, as well as at achieving social justice through reasonable wages and the elimination of unemployment. On this basis, Islamic economics succeeds in resolving the most complex tasks of the time, in establishing a balance between the needs of the individual and the progress of the society [8].

Nowadays, about one-fifth of the world's population professes Islam. According to estimation Muslim population will be 2.9 billion which is 30% of the world population by 2050 [9]. Islam, in contrast with other faiths, is not limited to matters of belief, it also tries to regulate all aspects of human life. Influence is exerted on the spiritual and economic spheres not only through moral and ethical norms but also through special instructions contained in the Quran. Islam is not purely a religion, it is also an exhaustive socio-economic and political system for society.

Summarizing several dozens of attempts to give a scientific definition of this phenomenon, it can be concluded that, the Islamic economic system is a system based on the rules formulated by Islamic law, known as Shariah. In turn, the Shariah consists of constitutional and regulatory rules by which every Muslim and his community must conduct their affairs. There are about 22 instances in the Quran which are related to characteristics of the Islamic economic and financial system [10]. The source of the Islamic legal system is not limited only by the Quran (Holy book of Islam), also

consists of Sunnah (the pronouncements and practices of the Prophet Muhammad) which are primarily independent sources. There are three other secondary sources – Ijma (consensus), Qiyas (analogy) and Ijtihad (interpretation) [11]. From many sources, five main prohibitions must be observed for the development Islamic financial model: Riba, Garar, Maysir, Profit without Liability, Unethical investment [12].

It must be stated that in Islamic economics certain types of activities have been formed which are forbidden (haram) to engage in. These include production and marketing of narcotic drugs; gambling activities; production and sale of alcohol, tobacco products, pork; all kinds of corruption; adult entertainment, including escort services and also weapons, arms and defense manufacturing. Conventional banking and insurance services which are associated with interest are also forbidden types of activity. These industries or sectors should not be included in the portfolio of Islamic funds suppliers or investors, for avoiding investing haram business activities.

The prohibition of riba (interest), the exclusion of contractual ambiguity (garar), and other forms of exploitation are consequences of the basic principles of Islamic finance. Quran gives six basic concepts of riba, each of the verses of the Quran gives an accurate definition of the absolute nature of the prohibition, without determining the nature of the offensive behavior:

- And whatever you give for interest to increase within the wealth of people will not increase with Allah (30:39) [7, p. 473].
- And [for] their taking of usury while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment (4:161) [7, p. 61].
- Do not consume usury, doubled and multiplied, but fear Allah that you may be successful (3:130) [7, p. 52].
- Those who swallow usury (riba) will not rise, except as someone driven mad by Satan's touch. That is because they say, "Commerce is like usury (riba)." But Allah has permitted commerce, and has forbidden usury (riba). Whoever, on receiving advice from his Lord, refrains, may keep his past earnings, and his case rests with Allah. But whoever resumes — these are the dwellers of the Fire, wherein they will abide forever (2:275) [7, p. 43].
- Allah condemns usury (riba), and He blesses charities. Allah does not love any sinful ingrate (2:276) [7, p. 43].
- Fear Allah, and forgot what remains of usury (riba), if you are believers (2:278) [7, p. 44].

The prohibition on the collection of interest is not defined only by Islam, it has a long history of spreading in different traditions and civilizations. In Judaism, the Old Testament strictly prohibited transactions using or based on interest, which was understood by the words "neshekh" (literally means "bite") and "turbite". Like the term riba, "neshekh" meaning is any profit from borrowing money, goods, or any property. This word had no precise definition, but in general, meant the collection of interest from the debtor by the moneylender. In important texts of the Exodus and Leviticus, the word is used to mean lending to the poor and helpless, while in Deuteronomy the

prohibition applies to all borrowed money, except for business transactions with foreigners [13].

Later, in Bible times, all payments for the use of money were also prohibited. There are several references to the prohibition of profits on the borrowed amount. That is, interest payments were condemned throughout the early history of Christianity. The Roman Catholic Church supported the prohibition of interest by the clergy, and this rule extended to the laity in the fifteenth century [14].

Contemporary scholars, supporters of Islamic economics and finance give the following definitions of riba:

Sayyid Mawdudi's study defines a riba as a predetermined surplus or surplus over of the loan received by a lender conditionally relative to a specified period. This definition entails the following three elements: (a) excess over the capital of the loan; (b) determining the excess concerning time; and (c) agreement on this surplus in the loan agreement [15].

Muhammad Taqi Usmani, author of the "Introduction to Islamic Finance" and Shariah expert of Islamic financial institutions, as well as one of the key authors of the book "Text of historical judgment on interest", determines that the riba covers any provided additional surplus in a loan or debt transaction [16].

The definition of the concept of riba, which most fully reflects its essence, is given by Mirakhor and Iqbal, a term literally meaning excess and interpreted as "any unjustified increase in capital through loans or trade" - the central tenet of the system. More precisely, any positive, fixed, predetermined rate, tied to the maturity and principal amount, that is, guaranteed regardless of the effectiveness of the investment - is considered as riba and prohibited [17].

There are several reasons for prohibition of the interest in Islamic economics, firstly, it is the disconnection of finance from the real economy and dissociation of debt creation from wealth creation. Secondly, it is deflection money from its basic function. It is important to notice there that money in Islamic economics is treated as potential capital, which means it becomes an actual capital only when it combines with other resources to undertake a productive activity [18]. Thirdly, the system which is based on riba can lead to exploitation. And lastly, the predefined rate of return on investment is not reasonable and justified [19].

All Islamic scholars agree that the concept of riba includes not only usury, but also the collection of interest, which is widely practiced in the modern financial and economic world. The prohibition of riba is based on the arguments of social equity, balance and property rights [20].

Islamic finance, being free from riba as the first obstacle, must ensure it is also free from any elements of garar (uncertainty), maysir (gambling) and any transactions which involve non-halal goods and services. Garar is the most important element in the contracts after riba. Garar is the result of awareness problems and refers to any uncertainty created due to the lack of information or control in the contract. It can be considered as ignorance regarding information about some element of the subject of the contract, which is hidden from the other side, and the subject of the contract is something over which neither side has control.

According to the 31 Shariah standard of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *garar* is a state of uncertainty that exists when the process of concluding a transaction involves an unknown aspect. In other words, *garar* refers to the status of results that may or may not materialize. Whatever the definition of *garar*, it is essential that it should be considered as a contractual risk, which may result in loss of property.

The development of Islamic finance can be divided into two, actually separate stages. There is considered the evolution of Islamic economics and financing from the early period till the modern financial system. The Islamic financial system is not young it has been traced for more than 1400 years in philosophical and legislative reflections. And this can be called the first known stage in the development of the system. During its classical period, Islam made a considerable contribution to science and production, including the concept of "zero" and the concept of "algorithm" [21]. Islamic economics and finance have been developed as an interdisciplinary subject, a large number of scholars, including Abu Yusuf (798), al-Mawardi (1058), Ibn Hazm (1064), al-Tusi (1093), and others, made valuable contributions not only in economic theory, also in jurisprudence, social, moral and ethical science, as human well-being is not isolated economic phenomenon [22].

The role of the second stage of Islamic finance development could not be overvalued, as in this period there was a revival of the institutional approach to Islamic economics and finance. The first International Conference in Islamic Economics (1976), as well as the establishment of Islamic institutions - the Association of Muslim Social Scientists (USA); the Islamic Foundation (UK); Islamic Economics Research Bureau (Bangladesh); the Centre for Research in Islamic Economics (Saudi Arabia); the International Institute of Islamic Thought (USA); the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB) and others, served as a foundation and led to an exponential growth of Islamic economics studies.

There have been a lot of discussions among researchers at a conceptual and theoretical level who criticized the interest-free economic system. Nevertheless, in proving the analytical viability of the Islamic financial system, the researchers formulated its differences from the conventional that is based on the interest rate. In the conventional system based on debt contracts, risk and reward are divided asymmetrically: the debtor takes the main part of the risks, and the government provides judicial enforcement of the agreement. By contrast, the Islamic system has a structure that entails insurance risks and asymmetric information. It also requires deep monitoring by an institution acting on behalf of depositors and investors.

Mohsin Khan in his article, which later became a classic of Islamic economics, showed through the macroeconomic model proposed by Metzler (1951) and extended by Fernandez (1984) that standard economic concepts and methods can be employed to analyze issues in Islamic economics and considered model makes the system more stable than a traditional system [23].

At an early stage in developing the Islamic financial market, Islamic banks experienced a lack of high-quality investment opportunities, which enabled conventional Western banks to act as intermediaries for placing funds in Islamic banks. Western banks helped Islamic banks place funds in commercial activities, find a buyer

for goods on behalf of an Islamic bank, and resell them. Gradually, Western banks realized the importance of growing Islamic financial markets and began to offer Islamic products through the so-called "Islamic windows" to attract customers directly, without the intermediary of an Islamic bank.

"Islamic Windows" are not independent financial institutions but specialized within the framework of conventional financial institutions, offering customers products that comply with Shariah principles. Meanwhile, guided by the growing demand for Shariah-compliant products and the fear of losing investors, non-Western conventional banks also began to offer "Islamic windows."

It is essential to notice that Islamic financial services are provided by various structures, depending on the types of offered financial assistance. Institutions that provide conventional and Islamic financial services have three fundamental organizational structures. The subsidiary is a separate legal entity owned by a conventional bank, which offers Islamic financial services; the branch is a partnership model or a joint venture between conventional and Islamic banks and the Windows model [24] [12 p. 129]. In this regard, the evolving model of the Islamic financial system from 1970 to 2000 was a Complete Islamic economic system (leaders are Pakistan, Iran, and Sudan), which continued by the dual banking system (leaders – Malaysia and GCC) in 2000. The dual banking system contributed to the Islamic windows and subsidiaries model (HSBC, Standard Chartered, Mashreq and CIMB). This financial system model led to the dangerous close resemblance of Islamic and conventional instruments. Despite the possibility of a threat of blurring borders, the Islamic windows model has been shown as the perfect way to promote Islamic financial products and the amount of demand and supply.

It is essential to realize that many principles govern contracts in Islamic finance. By some estimation, the main of them are listed more than one hundred principles related to contracts and agreements in Islamic law the main of them are considered [25]. The first concept of agreement between parties is obtaining asset ownership or the ownership of the benefits of the assets. The offer and acceptance of the contract must be in absolute, indefinite, and decisive language: in the past or present tense, not in the future or imperative tense, not conditional, and not limited to a specific period. Furthermore, the acceptance must agree with the offer, and the offer and approval must be made at the same meeting. In turn, the principle of the contract is freedom. That is, all economic activities are allowable except that prohibited by Shariah. This principle illustrates that the set of acceptable activities in daily and economic life is unlimited, although there are a limited number of prohibited activities. The focus for governing contracts follows from the main rule, causing harm to people, property, and the environment, in general, is prohibited, here also could be considered investing and production of haram. And the principle of liability justifies return and applies a particular degree of proportionality and balance between rights and obligations. In other words, risk cannot be separated from the return.

It is a well-known fact that the moral of Islam highlights an important factor that has a decisive impact on financial and economic activity. Most research related it to the justice (decency) and moral filling of the disposal of economic resources. The main of them [26] [27] [28] [29] [17, p. 216] are:

- (i) The fundamental postulates of understanding of being in the Islamic economy - Allah is the only valid owner of everything, and human is his ruler on Earth. "It is He who created for you all of that which is on the earth" (2:29) [7, p. 39].
- (ii) Providing all people with equal opportunities, justice is welcomed by Islam at all social levels and therefore is one of the important goals of the Islamic economy. Considering the goal, all economic actions in all areas - private and pervasive, internal and external - should ensure social justice. The presence of poverty in society indicates the presence of injustice. Secondly, preventing the excessive accumulation of wealth in the hands of a part of the population because the great wealth would lead people to forget and neglect existing values. The accumulation of wealth in the hands means that others are deprived of it. Wealth is considered life-sustaining, which must be used efficiently. "Give not unto the foolish your wealth which Allah has made a means of support for you" (4:5) [7, p. 51].
- (iii) Maintaining development and economic growth, one of the goals of Islamic economics is development and progress. Furthermore, it prescribes cultivating the land and equipping cities that approach religion is a factor in production growth. It should be mentioned that according to Islamic economics, financial resources and opportunities must be invested, and savings without turnover are not acceptable. Investment in any economic sector that meets the interests of society is welcomed. "And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah" (62:10) [7, p.668].
- (iv) Creation of proper conditions for spiritual growth and self-improvement. To achieve these purposes, of Islam prescribes learning and improving knowledge without defining an age limit.
- (v) Ensuring an equitable distribution of material resources in society. In Islamic society, there is giving people all the necessary rights, ensuring the safety of life and property, and preventing the violation of these rights, creating a powerful, independent, and fair judicial system. Islam also calls for adhering to an average standard of living, a level where all personal and family needs can be met without difficulties. If the standard of living is lower than this, a person will be constrained and can be conceited if higher. "And when We bestow favor upon the disbeliever, he turns away and distances himself; and when evil touches him, he is ever despairing" (17:83) [7, p. 326].
- (vi) Individual as the viceroy on Earth of God (Khalifah), as mentioned before, (i) must be responsible and perform all activities social, economic, financial, and others within the moral sphere and filter. As part of this ethical economic paradigm, Islamic financial tools are based on responsibility and have a social and ethical impact on the economics of the society. And it must be organized within the framework of establishment the optimality between financial operations that is profit and social objectives, as morality, ethics, and social responsibility.

There can be summarized the studies of researches as follows [29][30]:

- Prohibition of interest was considered earlier for procuring stable and socially efficient economics.
- Prohibition of a return on nominal transactions to create productive economic activity or asset-financing.

- Prohibition uncertainty, speculation, and gambling to establish productive economic activity, which is the rationale and real asset-based. In Islamic finance, partners are obligated to fulfill contracts and keep their promises. "O, you who believe! fulfill your undertakings" (5:1); "And be true to every promise, for, verily, (on judgment day) you will be called to account for every promise you made" (17:34) [7, p. 320].

- Prohibition of economic activities or business involving forbidden that is haram items.

- Prohibition of profit without liability, responsibility for risks of assets or services.

- Money itself plays the role of a technical tool that essentially allows to carry out sales transactions and has no value.

- Profit and loss sharing principles are the main principles on which the pure Islamic financial instruments (Musharaka and Mudaraba) are based. A significant meaning of the profit and loss sharing is the joint nature of the business activity, capital establishes partnerships. Islamic financial institutions accept clients as partners and share with them not only profits and the losses and risks at the same level. Islamic financial institutions do not hedge risks of the losses by shifting to clients; they share risks and profit. The principle of Islamic contracting - "liability justifies return" takes in profit and loss sharing mechanism, according to which liability should not be separated from benefits or profit from risks. This obligates some degree of symmetry between the rights and obligations of both parties.

- Alternative financing paradigm of Islamic financial instruments directly supports real economic activity based on asset-based and asset-backed transactions by investment in real assets.

- The social components of Islamic finance encourage society-oriented financing for the community. Islamic financial tools aim to solve social problems such as social equality and poverty alleviation through zakat and qard-hasan.

All of the listed features of Islamic finance and the specifics of their relationship with the real sector of the economy, in our opinion, not only radically distinguish them from conventional financial instruments but also become their competitive advantage in conditions of economic crises.

All demonstrated social and ethical benefits for individuals and economics we decided to display in the table for illustrating the impact and requirements of the Islamic financial system with based sources.

Table 1 – The social components of Islamic finance

№	Component	Benefit	First source
1	Equal opportunities	The average standard of living, achieving personal and family needs without difficulties	Quran 4:5
2	Equitable Distribution	Poverty alleviation and avoidance of wealth concentration in once hand	Quran 17:83
3	Social justice	The horizontal equality between individuals	Quran 8:29
4	Development and economic growth	Investment in any economic sector that meets the interests of society, avoidance extra saving	Quran 62:10
5	Wealth creation	Wealth is life- sustaining, which must be used efficiently	Quran 2:188
6	Real asset-based financing	The stable economics without financial baubles, crisis-resistant	Quran 30:39, 4:161, 3:130, 2:275, 2:276, 2:278
7	Prohibition of the interest (riba)	The real economy development, avoidance of disconnection of debt creation from wealth creation	Quran 30:39, 4:161, 3:130, 2:275, 2:276, 2:278
8	Prohibition of a return on nominal transactions	Islamic finance is provided only through real transactions, the real transaction mechanism is transmission money supply to commodity markets directly	Quran 30:39, 4:161
9	Prohibition of profit without liability	Liability should not be separated from benefits or profit from risks. The symmetry between rights and obligations of both parties.	Quran 11:85
10	Prohibition of the uncertainty and speculation (garar)	Establishment productive economic activity, which is the rationale and real asset-based. In Islamic finance, partners are obligated to fulfill contracts and keep their promises	Quran 5:1, 17:34
11	Profit and loss sharing	The joint nature of the business activity, capital establishes partnerships	Quran 4:29, 4:135
12	Risk sharing and partnership	Justice in all dealings and transactions with both friends and enemies	Quran 2:279, 9:24
13	Money – technical tool	Money has only a means of circulation, all units are 100% equal, money value measures the relative different goods and services.	Quran 20:6, 6:165, 24:33
14	Prohibition of financing forbidden (haram) business	Prohibition of financing haram businesses (tobacco, alcohol, drug, weapons, adult entertainment, gambling and pork) allows to create a morally and physically healthy society	Quran 90:91, 2:168
15	Society oriented financing	The framework of developmentalist financing, tools for poverty reduction trough zakat and qard-hasan.	Quran 22:41, 9:13
16	Special accounts for charity	Regulation for clients of Islamic financial institutions, opportunity to do charity by special accounts	Shariah Resolutions in Islamic Finance, based on hadiths and fiqh
Note – Compiled by the author [31] [32]			

Another social aspect has two functions, the first one is the regulatory function, and the second is the social function in the Islamic financial system is the "late payment" charge for Islamic financial institutions. As we know, despite all social components of Islamic finance, the primary purpose of Islamic financial institutions (Islamic Banks, Takaful companies, Investment funds, and others) as the commercial organization is to make a profit for owners by satisfaction the customer needs according to Shariah rules and the government requirements. In this regard, Islamic financial institutions have challenges in delaying or late payment of the clients' obligations for various reasons. If this issue is regulated by penalties for delayed payment or the termination in the form of interest in the conventional financing system, this kind of financing settlement has been unavailable for a long time in Islamic financial institutions. As a result, these financial organizations faced difficulties achieving financial and sustainable profit goals. With the development of the Islamic financial system, the late payment charges for the Islamic financial industry have been implemented.

The financing settlement of the late payment charges for Islamic financial institutions is based on the two elements are *tawidh* and *gharamah*. According to Bank Negara Malaysia, the concept of *gharamah*, which is used in the form of a penalty, and the concept *tawidh* for compensation of losses of the Islamic financial organization because of late payment or non-payment of the borrower, is permissible under four conditions and cases. The first condition is that *tawidh* can be collected for the late payment of the exchange contracts, such as a sale, lease and *qard* contracts. The following condition is that compensation can be charged only after the time of payment, which is agreed upon in the contract. The *tawidh* can be recognized as income because it is the compensation of actual losses of the financial institution. At the same time, *gharamah* cannot be reorganized as income and goes to the special account of financial institutions for charity activities [33]. The issued resolution of the Malaysian Central Bank is based on the hadiths and *fiqh* maxims [34]. The process of obtaining the penalties of fines is strictly regulated and under consideration and the decision of the Shariah committee of Islamic financial organizations. It is important to realize that the implementation mechanism of *gharamah* and *tawidh*, used in Islamic financial institutions, is different from the penalty charges in conventional financial institutions and free from *riba*. The principle of the "flexibility in the case of hardship" of Islamic contracting assists in the actual case of debtor's hardship or payment difficulties request from creditor to penalty payment is prohibited before the stabilization of the situation. The special account, which accumulates payments from *gharamah*, also generates non-Islamic, that is, *haram* income amount and excess compensation, and forms the basis of the sources of charity funds.

There are many classifications for tools of Islamic finance given by scholars, while some of them offer to categorize Transactional, Financing, Intermediation, and Social welfare contracts, others divide them into three categorizers: profit-and-loss sharing based instruments, Sale based instruments, and based on commission fees [35].

The primary and most used instruments and contracts are illustrated based on Shariah's rules and values.

Table 2 – Key Islamic Financial instruments

Instrument	Explanation
Amanah (demand deposits)	Belongs to deposits in trust for safekeeping purposes, capital value is guaranteed without earning a return.
Qard (loans)	An interest-free loan, there is a servicing fee to cover actual administrative costs.
Salam (payment in advance, deferred delivery)	Contract for production good, in which the seller undertakes to deliver the goods to the buyer in the future against full payment in advance. (Short-term)
Istisna (deferred payment, deferred delivery)	Agreement for manufacturing commodities or constructing properties on request, in which delivery of the agreement subject in the future against progressive payment during the project. (long-term)
Murabaha (markup financing)	Contract to obtain an asset a customer needs and sell it with a deferred payment. Not permitted if the asset is gold, silver or currency. Price includes agreed profit and costs incurred by the seller.
Ijara (Lease)	Lease agreement in which the owner of the object (lessor) transfers it to another person (lessee) for a specific price and specific time period. Income in the form of a penalty for late payment is not allowed, the fine is transferred to charity funds; the property being leased is insured by Islamic insurance companies.
Mudaraba (trustee finance contract)	Profit and loss sharing partnership and trust management agreement, one party (rab-al-mal) provides capital for the project, the other (mudarib) manages the project using entrepreneurial skills. The investor is liable for losses in the amount of invested funds and has no right to participate in management.
Musharaka (Equity investment, joint venture)	The equity partnership for combining assets, resources or liabilities for the profit purpose. Losses are divided in proportion to the share of participants. Losses are distributed in proportion to the capital provided, profits shared according to agreement.
Takaful (Insurance)	In the Takaful system, policyholders (participants) create a special insurance fund (takaful fund) at their own expense to provide mutual financial protection. In case of occurrence of an adverse event specified in the contract by any of the participants, insurance compensation is paid from the fund.
Sukuk (Islamic securities)	Certificates of equal value representing undivided shares in ownership of tangible assets, Usufructs and services or the assets of special investment activity.
Note – Compiled by the author on the basis of sources [12, p.98] [24] [36] [37] [38]	

A comparative analysis of Islamic financial instruments and conventional instruments reveals a feature in the implementation of the social function of these instruments. Over the past ten years, since the beginning of the active development of Islamic finance, including banking instruments, scientists have repeatedly described in their studies the features of Islamic instruments in comparison with conventional ones [39] [40] [41]. This is due to present the principle of Islamic products' operation to a wide range of readers aware of the non-Islamic financial instruments. To clarify the social component of Islamic financial instruments, we have done our comparative

analysis based on features and principles of functioning of the instruments and based on their social orientation for consumers, banks, society, and the state.

Table 3 – Comparison of the Islamic and Conventional financial instruments

Islamic financial Instrument	Conventional financial Instrument	Explanation
Qard - profit sharing agreements or the interest-free loan	Credit/Loan – fixed interest charge	IFI takes charge only in the case of the success of the project and take the risks. Borrowing without interest to small businesses act of assistance to the enterprise and economy; industry screen – prohibition of socially harmful business activities.
Murabaha	Credit/deferred payment	IFI purchases the good for client, money is not transferred, that is financing is based on the real asset; the good's risk is taken by IFI; the cost of the murabaha is fixed and independent from the time period; prohibited goods; prohibition of socially harmful goods.
Ijara	Leasing	Ownership risk is transferred to the IFI, which is covered by rental fees fixed for all period; prohibition of socially harmful business activities.
Mudaraba	Trustee finance contract	Project/investment financing, profit and loss sharing; prohibition of socially harmful business activities
Musharaka	Equity investment	Profit and risk sharing; prohibition of socially harmful business activities.
Takaful	Insurance	The combination of donation and indemnity agreements. Life insurance is not allowed, there is Family takaful instead.
Sukuk	Securities	Sukuk holder has a share in underlying asset; has right to profit and takes a losses; prohibition of socially harmful business activities.
Home financing	Mortgage	Client and the IFI co-invest in property, the risks are shared, and client has right to paid share of the property.
Note – Compiled by the author		

Almost every financial instrument entitles the client to the underlying asset, reducing the client's social burden. Thus, Islamic financial instruments do not finance socially harmful businesses, reducing the impact of forbidden and unfavorable industries on society, such as alcohol, drugs, tobacco, and others. In addition, Islamic financial institutions do not shift all risks to the client but share them, the profit received is a payment for these risks, thereby reducing social pressure on consumers in the form of debt burden and the risk of default.

There is given a comparative analysis of one of the socially popular tools – mortgage lending and Islamic housing financing – the Diminishing Musharaka, which is one of the possible options for financing real estate for clarifying the specifics of Islamic finance in a social context.

Table 4 – Comparison of Islamic and Conventional Banking Agreements

Characteristic	Mortgage Loan	Diminishing Musharaka
Form of the contract	Bank loan	Contract of share property
Financing	- Customer's funds - Funds borrowed from the Bank	- Customer's funds (Customer's share) - Funds of the Bank (share of the Bank)
Property right	The Customer (borrower) is the owner of the real estate.	The Customer and the Bank jointly own real estate.
Collateral	A mortgage in the form of purchased real estate.	Not required because the Bank is one of the owners of real estate
Profit of the Bank	Remuneration on loan. Remuneration depends on the interest rate and outstanding principal balance.	The Customer paid Rental payments for using the Bank's real estate share. The payments' size depends on the rental (profit) rate and the Bank's share of the common property.
Return of the sum of financing	Periodic repayment of bank loan principal. The total principal amount is fixed.	Periodic redemption by the Customer of a share of Bank (the Bank's share gradually decreases, the Customer's share - increases). The Customer determines the value of the Bank's share purchased at the time of purchase based on the market value (i.e., may increase or decrease).
Prepayment penalty	As a rule, it is present in the loan agreement, especially at the beginning of the loan term.	No penalty

Continuation of table 4

1	2	3
Late payment penalty	Present, regarded as a disciplinary measure and part of the Bank's income.	Present, considered solely as a disciplinary measure. The Islamic Bank sends the penalty to charity.
Standard consequences of a default	Sale of pledge (real estate). At the expense of the amount obtained from the pledge's sale, the Customer's debt to the Bank is repaid. According to the Republic of Kazakhstan legislation requirements, if the pledge realization exceeds the debt amount, the Customer returns the difference. However, this is rare in practice because collateral disposal usually takes place below the market price. As a result, the borrower loses real estate and money in case of default.	Real estate is sold if the Customer's inability to redeem the Bank's shares and inability to pay rental payments. Meanwhile, the accrued funds are distributed between the parties in proportion to the common property shares at the sale time. Thus, the principle of risk and loss sharing between the Customer and the Bank is implemented in practice.
Note – Source [42]		

By analyzing the product with a focus on social impact, it is apparent that as the customer and bank share the property's right related property, furthermore by every payment, the customer's share increases, and in the case of bankruptcy client has the right for the own share of the property by market price, Islamic instrument is more fair than conventional once [43]. In addition to the positive impact on clients, the principle of risk and loss sharing between the client and the bank encourages banks to conduct a more informed risk management process without relying solely on collateral. As the practice has shown, excessive lending on the pledge of movable and immovable property without alternative risk management approaches leads to a liquidity crisis and a concentration of non-core collateral assets on the bank's balance sheet.

Suppose turn the governance of the Islamic financial institutions as the component of the social features of Islamic finance based on the specific mechanism and implemented independent Shariah Supervisory body (SSB), which reports directly to the institution's owners. The SSB members are qualified with particular Shariah education scholars who are independent of the commercial aspects of the institution. There are several rules of the SSB, the main of them is the insurance of the Shariah-compliance of the financial products and services. According to the Shariah Governance Standard 10 of the IFSB, the SSB of the Islamic financial institution provides Shariah compliance and audit [44]. There are five criteria of the SSB identified the role of it: Independence – the members must be independent of the

management; Confidentiality – proprietary information of the SSB activity must be confident; Competence – the members of the SSB required to have the knowledge and experience in Fiqh, that is Islamic law; Disclosure – the transparency of the Fatwa and structure. From these criteria of the SSB, the leading role manifests as the Advisory role, approval, and audit role. The SSB in the Shariah compliance institution is based on the functions performed. Thus, the Approval process consists of the stages of structuring the product, followed by the approval of the legal documentation and final approval for specific transactions.

According to the AAOIFI governance standard 3, Islamic financial institution performs internal Shariah audit, which is an integral part of the audit within the institution [37, p. 547]. The operations of the Islamic financial institution do not contravene Shariah, and the SSB is responsible for establishing and disclosing an independent opinion. The Shariah audit is a regular procedure for insurance of the Shariah compliance of the institution's activity and also includes an evaluation of the institution's environment, customer reading material, and staff dress code. For the different branches and levels of the financial institution, a verification must be done: from the knowledge and understanding of the process by staff to the degree of Shariah compliance of financing transactions.

In this regard, it is essential to notice the role of AAOIFI in regulating the Islamic financial institutions' activity as an international organization responsible for issuing standards, especially for Islamic financial institutions. There are 57 Shariah standards – identify contractual issues, 27 accounting standards – based on the IFRS (International Financial Reporting Standards) and offer additional standards for specific requirements of Islamic financial institutions, 5 auditing standards – give general guidance for the audit reporting of institution, 7 governance – additional standards required for Islamic financial institutions and 2 ethics standards – aimed at internal accountants and auditors.

Thus, Islamic financial institutions are regulated by international civil law, by acts and requirements of the state regulation, and international standards for Islamic financial institutions because there is a responsibility to comply with the rules prescribed by Shariah.

Figure 1 illustrates the advantages and benefits of the Islamic financial system for the country's economy and the world. The main features are efficiency, which, based on the profit and loss sharing principle, allows to generate profit from real transactions of financial resources to commodity or real asset without overflow of financial resources to other financial resources in the form of interest. Stability in Islamic finance is reached through the prohibition of sales of debt to debt and derivative debt financial instruments and a strong connection between financial operations and real assets in the form of commodities. There are a number of contracts based on debt in Islamic finance, however, the sale of debt is strongly prohibited. Islamic financial institutions use contracts to ensure information symmetry between resources provider and user. Information symmetry is a framework for all used contracts in Islamic finance.

The set of the advantages and the benefits of Islamic finance for economics looks like the following according to [45] [46]:

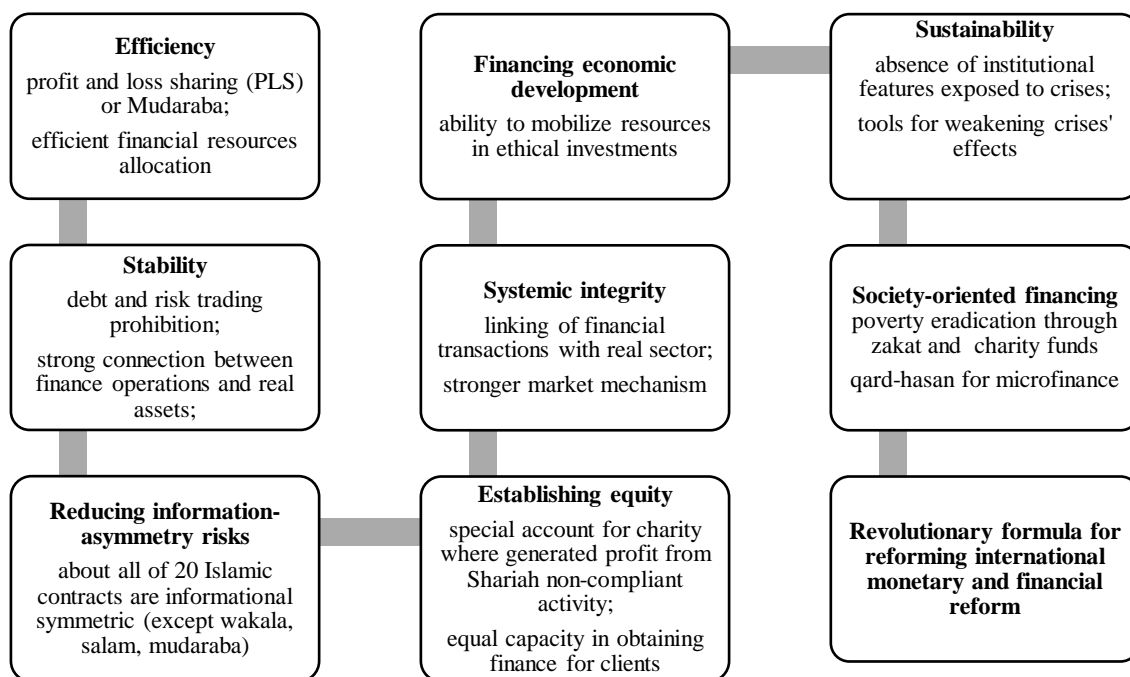


Figure 1 – Set of the advantages of Islamic finance

Note – Compiled by the author

Mobilizing financial resources in ethical investments and prohibition of haram business (drug, alcohol, tobacco, adult entertainment, casino and gambling, weapon) and any activity that harms society and the environment allow financing of economic development with avoidance of pseudo-needs of community. The Islamic financial system demonstrates sustainability to the economic and financial crises due to institutional structure interest and debt trading and has a good set of tools to deal with the consequences of crises.

Islamic finance benefit in the form of the revolutionary formula for reforming international economies includes several elements. Instead of conventional debt contracts, there are 20 Islamic financial contracts, all financial resources involved in profit and loss sharing investments, and prohibition of debt and risk trading. However, this kind of Islamic financial system is possible in widespread use worldwide.

Considered a paradoxical financial system, Islamic finance has shown phenomenal growth over the years after the crisis. According to a Global Islamic Finance report from 2020, the annual turnover of the Islamic finance market reached 2.88 trillion US dollars, while the rate of increase of global Islamic finance has remained at about 12% annual for the last 10 years [47], but last year growth was only 2%, as a result of pandemic crisis [48].

At the same time, sustainable, responsible, and impact investing, also known as socially responsible or ethical investing, has progressed about two and half times from 13.3 trillion US dollars in 2012 (first report) to 30.7 trillion US dollars at the start of 2018 [49] [50].

Social finance or impact investing is an approach to managing investments that deliver a social and environmental dividend as well as an economic return. Islamic

finance can be considered a subcategory of socially responsible investing. However, there is a fundamental difference between the two meanings in terms of conceptual ideas: the guiding principle of Islamic finance is based on religion. At the same time, impact investing believes in the concept that returns to society should be ethical and sustainable.

Despite the difference in the guiding concepts of these investment categories, Islamic social finance can contribute toward sustainable investing and Islamic financial inclusion through the following fundamental principles: governing property, wealth creation, and charitable distribution.

It is a well-known fact that the world is moving to meet sustainable development goals (SDGs) and that the 2030 agenda for sustainable development calls upon people to do more [51]. Furthermore, investing requirements for these goals are very high, limiting their potential satisfaction through only conventional financing tools. In this case, Islamic finance, which experienced reduced impacts from the global financial crisis due to the specifics of Islamic financial institutions' activities, is being seen as among the resources that could potentially be utilized for SDG purposes. Even though Islamic social finance is an emerging instrument in contemporary financial science and systems, Islamic social finance tools have been instrumental in alleviating poverty and socioeconomic development for a long time. Its instruments can be leveraged to bridge financing gaps and create social safety nets.

Nowadays, there are 167.6 million people in the world in need of humanitarian assistance. The budget provided for humanitarian aid increases every year and amounted to 28.8 billion US dollars in 2019 [52]. The pandemic that has come in almost every country has influenced the need for humanitarian support and has deepened the problem. There is a genuine potential that Islamic finance could provide solutions.

There is an indisputably important role played by sustainable investments through Islamic finance instruments, with the result that Islamic finance and sustainability are increasingly converging. The United Nations Agenda for Sustainable Development includes 17 Sustainable Development Goals built on the principle of "leaving no one behind" and focused on 169 targets.

The UN SDGs cover all aspects of human life and wellbeing. At the same time, the philosophy of Islamic finance is to protect the most critical aspects of being human: life, faith, mind, wealth, and progeny [53]. Islamic finance is based on Islamic law, and the overarching objectives of this law are concerned with the protection of religious freedoms, family rights, the promotion of intellectual thought and reasoning, and the protection and preservation of wealth. There is a link between UN SDGs and Shariah's goals. The analysis of 17 SDG components shows that they align with Shariah and generally serve similar goals. The following table demonstrates the link between the goals.

The Sustainable Development Goals and Shariah's purposes have the same value for achieving the piece and wealth on the earth in cooperation with each other.

Table 5 – Sustainable Development and Shariah Goals

Sustainable Development Goals	Shariah Goals
No poverty (Goal 1)	Preservation of life
Zero Hunger (Goal 2)	
Good health and well-being (Goal 3)	
Quality education (Goal 4)	Preservation of intellect
Clean Water and sanitation (Goal 6)	Wasail or direct means to preserve life, intellect and lineage
Affordable and Clean Energy (Goal 7)	
Responsible consumption and production (Goal 12)	
Climate action (Goal 13)	
Life bellow water (Goal 14)	
Life on Land (Goal 15)	
Decent work and economic growth (Goal 8)	Means to preservation of wealth
Industry, Innovation and Infrastructure (Goal 9)	
Sustainable cities and communities (Goal 11)	
Peace, justice and strong institutions (Goal 16)	Preservation of justice, fundamental of Islamic belief
Reduced inequality (Goal 10)	Conforms with Islamic value
Partnership to achieve the Goals (Goal 17)	Confirms with Islamic value
Note – Compiled by the author	

However, there is difference in motivation of the goals. Islamic finance as the Shariah compliance financial relationship supports SDGs by following instruments and aspects. (Figure 2)

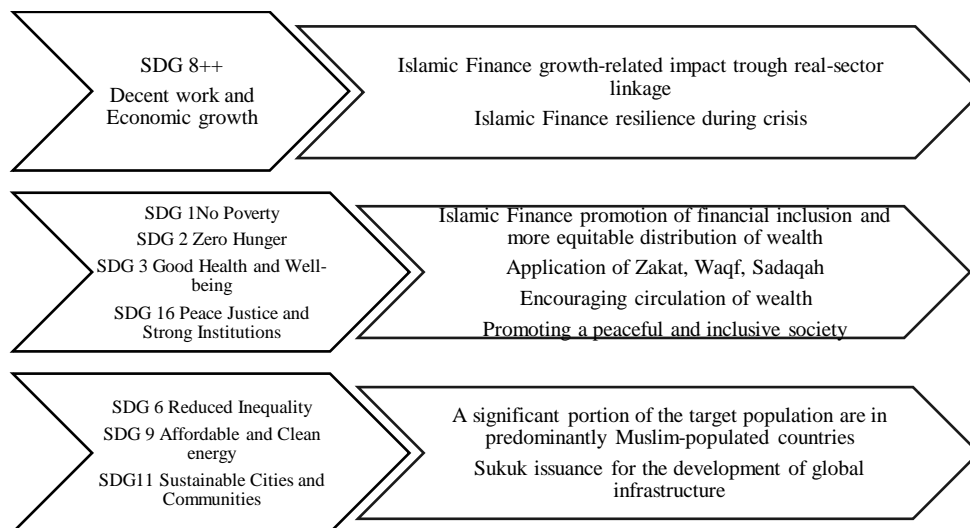


Figure 2 – Linking Islamic Finance with the UN SDGs 17

Note – Source [3, p. 15-17]

A brief review of the UN SDGs indicates that Islamic law supports them, that the objectives of Islamic finance promote shared prosperity with and financial inclusion of the poor and the religiously motivated.

Thus, if to conclude the first section of the research, the primary purpose of which is the investigation of specifics and concepts of Islamic finance in the social context, it is becoming clear that the Islamic financial system carries the social elements of distribution and performs several social functions based on the fundamental principles of Shariah. In this regard, the phenomenon of Islamic finance, which is considered a set of methods and mechanisms alternative to interest financing and allowing for compliance with Shariah principles, is of particular importance. Islamic finance is often defined by a central characteristic: the prohibition of lending at interest. From the primary prohibition of *riba*, which carries the idea of real economic development, avoiding the formation of financial and interest bubbles, Islamic finance aims to achieve the economic well-being of the agents in the economy to distribute economic resources reasonably equitably. The prohibition of financing haram business, in turn, is aimed at creating a healthy, both morally and physically. Islam aims to provide people with equal opportunities for economic actions in all areas - private and pervasive, internal and external - and should be aimed at ensuring social justice.

The goals of the Islamic financial system contain the promotion of economic well-being, poverty alleviation, and the fulfillment of basic human needs, optimization in the utilization of natural resources, the realization of spiritual needs, and the realization of economic and social justice.

Islamic finance may not yet have impacted socio-economic development in line with its lofty ideals. However, there is now an emerging trend of Islamic social finance and investments in response to the growing global demand for ethical investments. The analysis of the Islamic finance's social features such as equal opportunities, equitable distribution, social justice, development and growth of economics and society, wealth creation, profit, and risk-sharing allows demonstrating the set of advantages approved by the norms and working instruments of Islamic finance – efficiency, stability, establishing equity, systematic integrity, society orientation, and sustainability.

The study of the leading Islamic financial tools and the Islamic mortgage financing analysis in comparison with conventional instruments shows that the positive impact on clients, the principle of risk and loss sharing between the client and the Bank reduce social pressure on consumers in the form of debt burden and the risk of default. Practically every financial instrument entitles the client to the underlying asset, reducing the client's social burden.

One of the main distinctive features of Islamic finance and Islamic social financial instruments is in connection with covering some of the 17 UN SDGs. More specifically, they support SDGs 1, 2, 3, 5, 6, and 16, ending poverty, achieving food security, ensuring healthy lives, achieving gender equality, and promoting a peaceful and inclusive society. Similarly, it is easy to map the links between Islamic finance objectives and the rest of the UN SDG 17. Research has been conducted to indicate that the performance of ethical investments post-crises has been either on par with or better than conventional investment. Thus, responsible investing is profitable, even in the short term.

1.2 Islamic Social Finance: concept and functions of Zakat, Waqf and Islamic microfinance

Islamic finance has always advocated the narrative of risk-sharing, more equitable distribution of wealth, and fairness and justice in all transactions [54]. It also encourages entrepreneurship, promotes real economic development, and supports the principles of long-term sustainability. However, Islamic finance has been criticized for converging into conventional practices. Its rapid growth has been witnessed primarily in wealthy nations, supporting the premise that the current Islamic finance system improves the lives of the wealthy without negatively impacting the less fortunate.

Islamic finance also promotes socio-economic empowerment through social tools – Zakat (alms-giving), Waqf (endowment), Sadaqah (voluntary), and Qard Hasan (interest-free loan) – which have been adopted and applied even outside the Islamic world. All these tools of Islamic social finance are associated with philanthropic giving but have different forms and definitions [55]. Zakat is an obligatory and mandatory payment of income, whereas waqf refers to charitable giving as a charitable endowment trust [24]. Moreover, sadaqah has a more charitable and voluntary nature, giving something to the needy without expecting a return. These instruments are used to provide education and healthcare, develop infrastructure, and maintain social welfare provisions for the poor and destitute, albeit in a mostly informal structure [56].

Islamic finance also promotes socio-economic empowerment through social tools, which have been adopted and applied even outside the Islamic world. Earlier in the study, during the consideration of the social functions and ethical nature of Islamic economics and finance, we did not mention the special social tools of Islamic finance as zakat (alms-giving), sadaqah (voluntary), waqf (endowment), and Islamic microfinance. All these tools of Islamic social finance are associated with philanthropic giving but have different forms and definitions.

1.2.1 Zakat

In Islamic economics, zakat has occupied a significant place for many centuries. This is related to the fact that zakat is known as a third of the five main religious pillars of the Muslims. Al-Qardawi claimed that zakat is the keystone of Islam's economic, financial and social systems [57]. Zakat is one of the fundamentals of Islam that has direct economic implications. Also, zakat in states where Islam is the main religion is often fixed as an official tax, the value of which is directly dependent on the type of asset. Zakat literally signifies growth, increase, praise, and it can increase someone's wealth. "Those who, if We give them authority in the land, establish prayer and give zakat and enjoin what is right and forbid what is wrong." (22:41), "Take, from their wealth a charity by which you purify them and cause them to increase" (9:103) [7, p. 222].

The Islamic social financial instrument is sadaqah, and from the early sources of interpretation of the meaning of zakat, sadaqah had the same meaning as zakat and had the two types, zakat – obligatory and sadaqah – voluntary. While zakat has fixed and strict rules of rates and distribution, which are mentioned in the Quran, sadaqah can be given in the amount and direction according to the giver's will. However, in the later sources, sadaqah started to use as the only vulnerable payment from the wealth, as a charity.

Unfortunately, it is estimated that one-tenth of the world population lives under the international extreme poverty line of 1.90 US dollars a day, although there has been significant progress in decreasing the poverty rate from 43 percent in 2011 is more than four times reduction. However, about 1 billion of the World's population is still below the poverty line [58]. Furthermore, 55 percent of the population has no access to at least one social protection cash benefit.

Solutions to poverty alleviation and inequalities are often looked for by structural changes in the socio-economic framework with effective social security programs at the local and international levels. Many developed countries try to overcome the problem of poverty and protect the population by promoting social and welfare programs. However, most countries do not have effective social security programs, or these programs do not work. Nevertheless, it is necessary to transfer funds from the rich to the poor in implementing and working on social programs.

Moreover, the role and scope of zakat and waqf in solving the problem of poverty are very appropriate, especially for developing countries. These traditional Islamic instruments were used to solve poverty and supply the first necessary social services to the needy people in the past. Considering that poverty is more widespread in Muslim countries than in the western region, it is important to study how these tools could be used in current times to alleviate poverty in societies with Islamic faith and in the countries with developing economies. In this regard, there is the issue of discussion of the impact of religious institutions and cultures on economic variables and outcomes.

There are some general characteristics of zakat that were studied by several scientists [59] [27, p. 43]. First of all, zakat applies only to Muslims. Secondly, it is one of the pastoral responsibilities of the faithful Muslim, which fills this category with moral and religious components, dominating the financial and economic components. The third characteristic of the zakat accepted the irrevocable and gratuitous nature of the giving. There are specific zakat payment procedures that are constant, and non-payment of it cannot be forgiven by Allah.

Zakat, in the economic approach, performs several essential functions:

- (i) contributes to equalization of living standards of the population, smooths over social inequality, which ultimately reduces social stress;
- (ii) stimulates investment activity, as it is obligated from the assets and cash which were not be used by one year;
- (iii) as the tool of stimulating investment activity, zakat also stimulates demand for labor;
- (iv) influences the structure of the goods and services produced in the country, the increase in the income of the needy part of the population leads to the increase in demand for the main and necessary consumer goods, which stimulates their production and favorable allocative effects in the economy;
- (v) forms a culture of consumption among Muslims, constantly reminding us that Allah is the valid owner of everything;
- (vi) influences the country's economic growth due to stimulating economic activity, redistribution of the savings to the investment and consumption, and increasing

aggregate demand. The production potentialities curve shifts upwards because of dynamic forces of integrating production and consumption effects.

It must be noted that in contemporary Islamic economics, there is no unity regarding the size and subject of zakat, and the procedure for paying it. At the same time, it is accepted that assets that satisfy certain conditions: the number of assets at the time of calculating the amount of zakat exceeds nisab (minimum zakatable property), the zakat payer owns the assets during the year, assets acquired legally, and the assets are for personal use.

Zakat provides a meaningful and sustainable social security scheme in the following ways: by providing material assistance for the poor, the needy, and the destitute in the society to fulfill their material needs enabling them to be self-reliant, and by providing the required assistance in the circumstances of unemployment, insufficient medical expenses, for the old, the disabled and the handicapped as well as inadequacies to maintain one's life. It also provides to travelers by helping other members who might not be originally poor but unexpectedly facing material and financial constraints due to traveling. Zakat can be paid to the persons who have debt by relieving a person from the burden of debt. The other category of the zakat distribution is by playing an essential role in protecting and helping those who are sacrificing themselves in the path of Islam to uphold Allah's way on this earth. It provides both the Muslims and non-Muslims with material and financial protections. There are 8 categories of eligible Zakat beneficiaries defined in the Quran. "Charities are only for the poor and the needy, and those employed to collect them, and those whose hearts are to be reconciled, and for [the freedom of] the enslaved people and the debtors, and in the way of Allah, and for the traveler. This is an ordinance from Allah, and Allah is all-knowing, all-wise" (9:60) [7, p. 218].

In this case, there is the Islamic concept of poverty explained by scholars. According to this concept, poor and faqir is a person who has no wealth and presently he is not an earning hand or if he is presently earning, but that is not sufficient for meeting his needs from 30 percent to 50 percent. These Jurists have even specified that if a person possesses the wealth, which can satisfy less than fifty percent of his needs, he will be considered poor. A person is considered a miskeen (needy) if his earnings or wealth can satisfy more than 50 percent of his needs but not 100 percent. Zakat is a non-contributory based social security system where the compulsory zakat helps worth people by the rich. It is established that zakat is the payment of the transfer of wealth from the rich and wealthy to the poor and needy for redistribution purposes of income in society and socio-economic justice [60]. The rich people do not get any direct benefit but reward from Allah, and its scope is broader than the modern social security system.

According to views of different thoughts of Islam, the zakatable amount of assets, nisab is different, for example, it was considered 200 Dirham for stock items or equivalent (5 heads of camel, 40 heads of sheep) and approximately 653 kg of agricultural product. Nowadays, this amount is considered 3 ounces of gold, 85 grams which is about 3560 US dollars, 1 262 105 tenge for 2020 [61]. Different zakat rates depended on the origin of the zakatable items, 2.5% for stock items and 10% for agricultural products. By AAOIFI Standards, the calculation is used 2.5% for a lunar calendar year (354-355 days) and 2.5775% for a solar (355-356 days).

Summarizing several dozens of definitions of the zakat, our own definition as an economical category is as follows: *Zakat is the Islamic financial instrument in the form of the payment, obliged as the pillar to the Muslims by Shariah, from the savings and profit (nisab) exceeding the equivalent of 85 grams of gold, in the amount of 2.5% for the calendar year, which directed to charity.*

There is a methodology for calculating the zakat base offered by AAOIFI for legal entities and financial institutions.

Table 6 – Method of calculating zakat base

Net asset method
“+” Zakatable Assets (including cash, cash equivalent, net receivables, trading assets, financing assets)
“-” Liabilities to be paid during the year ended on the date of the financial statements
“-” Equity of investment account holders
“-” Minority interests
“-” Equity owned by governments
“-” Equity owned by endowment funds
“-“ Equity owned by charities
“-” Equity of non-profit organizations, excluding those owned by individuals
Note – Source [24]

According to the Financial accounting standard 39 of AAOIFI, as an additional amendment of standard 9, Financial institutions are obliged to pay zakat requested based on the "net asset" method [62]. Previously, there were two methods of calculation and measurement of zakat: the net asset method, which is illustrated in Table 6, and the net invested method, which is based on the following indicators of the statement: "+" Paid-up capital; "+" Reserves; "+" Provisions not deducted from assets; "+" Retained earnings; "+" Net income; "+" Liabilities not due to be paid during the year; "-" (Net fixed assets + investments not acquired for trading + accumulated losses).

It should be noted that zakat is an individual obligation, which has to be performed by each individual independently from other members of society. As a result, Islamic financial institutions have two options for zakat payment. First, the financial institutions could pay zakat if it is considered by the country's local legal framework, internal politics, and shareholders' consideration. Secondly, in other cases, the financial institution's responsibility is to calculate the amount of zakat and inform shareholders. After that, the obligation of zakat payment lies with individuals, that is, shareholders.

The most successful of the zakat implementation mechanisms of the countries for further investigating the suitable for our country were considered, which will be discussed in the following chapters [63].

The country which has the largest Muslim population in the world is Indonesia. According to official data, there are 225 million Muslims, which is 87% of all population of the country and 12.7% of the world's Muslim population.

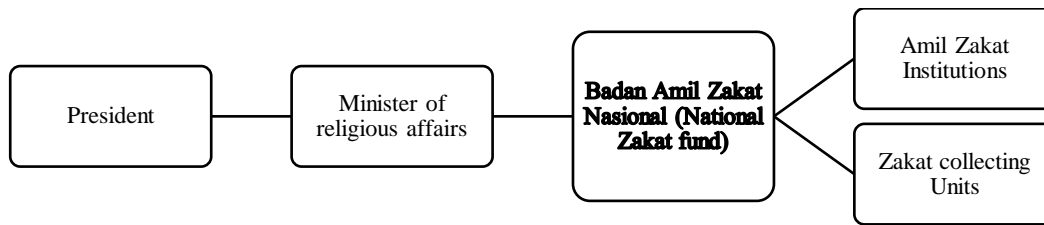


Figure 3 – Institutional structure of zakat management in Indonesia

The zakat management's institutional and organizational structure in the country is based on the dual system, the coordination activity of the government and private, not-for-profit institutions. The structure is illustrated in Figure 3, where there are two management levels. First is the National zakat fund, established by the Ministry of religious affairs and responsible directly to the country's president. The second management level involves the private non-profit organizations with their own Shariah supervisory Board – Amil Zakat Institutions. The primary purpose of this independent body is to control the process of collecting, distributing, and organizing the zakat through zakat collecting Units. The share of the total zakat collection in the Indonesia National zakat network is 62%, while the share of the private institutions is 38%.

Pakistan has the second-largest Muslim population, approximately 202.65 million, 11.1% of the world's Muslim population [64]. The structure of the zakat management in Pakistan is based on the dual system and obligatory implementation form involving the state and private actors. The Department of zakat under the Ministry of religious affairs of the country is the main government body for collecting, distributing, and managing zakat. Bangladesh has a structure of zakat management similar to the system of Pakistan.

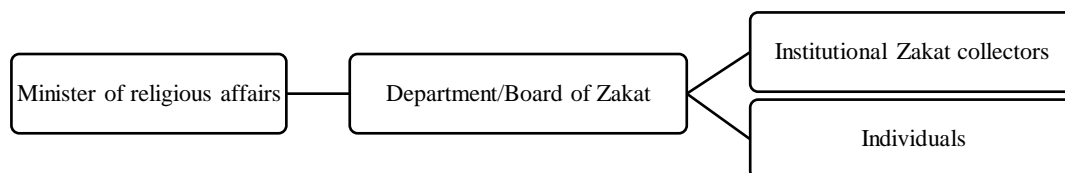


Figure 4 – Institutional structure of zakat management in Pakistan and Bangladesh

The institutional structure of zakat management in the country with the third-largest Muslim population in India is based on regulation without government participation. Collecting, distribution, and management are carried out through religious schools and individual and institutional zakat collectors.

The following countries are Malaysia, Singapore, and Brunei Darussalam, which have a similar institutional structure for zakat managing through the Islamic religious Council, called Majlis under the Ministry of religious affairs, responsible to the President or Sultan of the country.

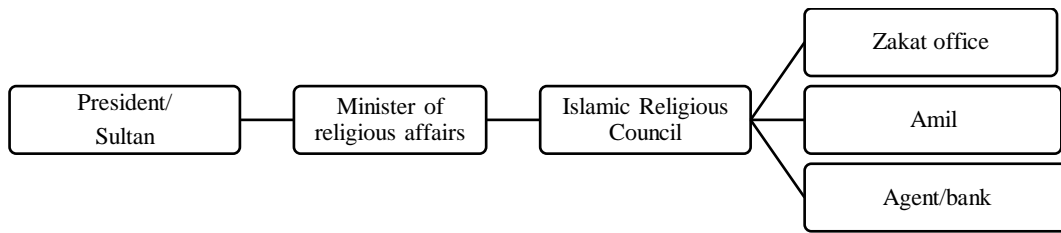


Figure 5 – Institutional structure of zakat management in Malaysia, Singapore and Brunei Darussalam

The practice of the zakat institutional structure and zakat collection of the countries with a high amount of the zakat demonstrated the role of the zakat in the countries’ policy, and mainly the process is regulated by the Ministry of religious affairs. However, important to understand that zakat is obligatory or dual in these structures. For the voluntary zakat collection, the institutional structure is involved in the financial system and regulated by responsible ministries. Thus, Qatar, Kuwait, Bahrain, and Jordan zakat collection is under the Ministry of endowments (Awqaf) and Islamic affairs.

The following table presents forms of zakat implementation and regulation mechanisms in the selected countries.

Table 7 – Zakat implementation forms in the selected countries

	Country	Implementation form	Year	Regulatory framework
1	Yemen	Obligatory	9 year of Hijrah (632 CE)	Collecting – Agency of duties, state body Distribution – Social welfare, Health and Education ministries
2	Saudi Arabia	Obligatory	1951	Collecting – Ministry of Finance, Agency of zakat and taxes Distribution – Ministry of labor and social welfare
3	Malaysia	Obligatory	1993	Collecting and distribution – councils of religious affairs of the 13 sates
4	Libya	Obligatory	1971	Collecting – General Directorate for zakat Distribution – Social welfare Department of the Government
5	Pakistan	Obligatory	1981	Collecting – administration of zakat, Ministry of finance Distribution – local committees and distribution agencies (charitable organizations)

Continuation of table 7

1	2	3	4	5
6	Sudan	Obligatory	1984	Collecting and distribution – Zakat Chamber, Ministry of religion affairs
7	Jordan	Voluntary	1978	Zakat fund affiliated with Ministry of Awqaf
8	Bahrain	Voluntary	1979	Zakat fund affiliated with the Ministry of Awqaf
9	Egypt	Voluntary	1971	Nasir Social Bank of Egypt, Department of zakat
10	Kuwait	Voluntary	1982	Zakat House of Kuwait, affiliated with the Ministry of Awqaf
11	India	Voluntary		Religious schools Jamaat-e-Islami organization Baituz zakat of Bombay Crescent Charitable trust of Aligarh
12	Qatar	Voluntary	1992	Ministry of endowments (Awqaf) an Islamic affairs, Zakat fund Qatar Red Crescent Society
13	Indonesia	Dual system	1999 2011 (replacing act)	National zakat board (BAZNAS) Amil zakat institutions Zakat collecting units
Note – Compiled by the author on the basis of source [65]				

Depending on the zakat implementation form and zakat collecting and distribution development in the world, there are different mechanisms of the social activity in the country.

Some researchers suggested integrating the various poverty reduction and redistribution instruments for creating synergies. The effectiveness of zakat institutions can be improved by collaborating with microfinance institutions and financial institutions, which suggests that the institutions of zakat and waqf (charitable trust) need to be integrated into the poverty alleviation strategy of the Islamic Development Bank (IDB) member countries, the member of which is Kazakhstan [66] [67] [68].

According to the Islamic Development Bank (IDB), zakat potential is 3% of global GDP, whereas the actual collection is 0.15% of GDP for OIC countries [69]. As noted by IDB, the GDP of OIC member countries is 6 trillion US dollars, while actual zakat is estimated at 10 billion US dollars, although potential estimation reaches 200 billion US dollars. Some recent studies have provided different estimates of global zakat collection that range from 200 billion to 1 trillion US dollars. It should be noted that these estimates vary because a considerable share of zakat is paid at the individual level and is thus not reflected in official data [70].

1.2.2 *Waqf*

The following Islamic social tool has a long history of implementation and is adopted nowadays and becoming the system for solving real social problems and plays an essential role in developing economics in some countries is *Waqf*. Suppose to turn to the *waqf*, a voluntary act of charity that comes under general terms of *Sadaqah* and *Infaq* (disbursement without hoping return). It is an Arabic word, it means to a standstill, hold still, not to go. It implies holding an asset from consumption and sale. *waqf* is given different meanings and definitions. However, contemporary definitions seem to be more corresponding to the current practice of the *waqf* system. Among these definitions are the following: *waqf* is holding specific property and preserving it for the confined benefit of particular philanthropy and prohibiting any use or disposition outside the specific objective.

The *waqf* essence is to attract and accumulate the property transferred as a donation in a special purpose fund for their commercial use in the interests of the population and the state. This definition contains characteristics of *waqf*, which include irrevocability, perpetuity, and inalienability. Another definition is that *waqf* is an irrevocable gift of a property for the benefit of the donor's family or someone else or something in perpetuity, as a charity promised and usually executed during the donor's lifetime, which is not transferable [71].

Waqf is a property alienated for charitable purposes. After the transfer of particular property to *waqf* (or, in the opinion of other Muslim jurists, after a decision announcement), it ceases to be the property of the founder of *waqf*, without becoming at the same time the property of the person who receives *waqf* and manages it in the interests indicated by the beneficiary of the *waqf* founder. The *waqf* institution is a typical example of splitting the ownership right, in which the property ownership is transferred to the beneficiaries, and the order is limited to the will of the *waqf* founder. Since the Quran does not say anything directly about *waqf*, Muslim scholars view this institution in the context of charity verses.

Waqf plays a significant role in economic development that is a consequence of the features of social nature. We could highlight many of them here, but key among them are enhancing economic progress, eradicating poverty, restoring income distribution, preventing deficit financing, and reducing government expenditure [72]. The role of *waqf* in development is covered extensively in the literature, however, this role in human development specifically did not attract scholars' attention. This is not to say that some ingredients of human development are not touched within the context of the role of *waqf* in development. For example, Ahmad al Raisouni investigated the role of *waqf* in human development in classical Muslim societies. In this regard, he maintains that in the past, the *waqf* system focused on the material, spiritual and physical development of human beings in serving the objective of development [73].

Likewise, Yalawae and Tahit considered that *waqf* played a role in attaining quality human development through effective distribution of wealth and redistribution of income, providing infrastructure for rapid development, improving the social structure of development processes, participating in health education, and raising the living standard of the poor [74].

If to turn to the conceptual origin of waqf it can be illustrated in the following form.

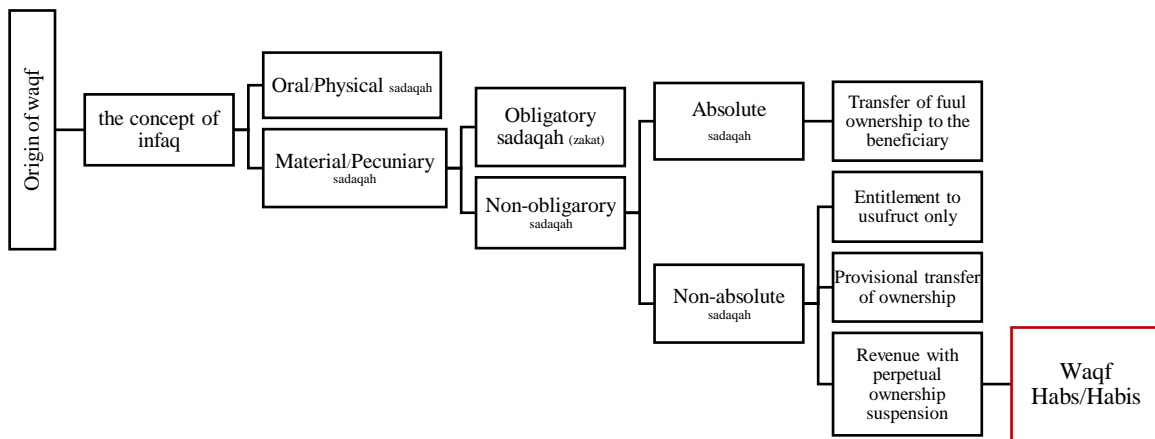


Figure 6 – Conceptual origin of waqf

Note – Source [75]

Waqf is different from the other forms of Islamic charities. Waqf establishes in the form of a non-obligatory charitable institution and is different from zakat, which is obligatory. The waqf institutions have a flexible framework for both sides, the donors and the beneficiaries. According to jurisprudential rules of the waqf institution establishment, the waqf subject ownership is not transferred to the beneficiary. The object becomes the public property, as by Sariah, the owner of everything on earth is Allah, many verses of the Quran explain it (73:9, 81:29, 92:13).

The types of the waqf model distinguish the schemes of the waqf. The authors consider several models of cash waqf: waqf share scheme, deposit cash waqf scheme, compulsory waqf scheme, corporate waqf scheme, and cooperative waqf scheme, which was offered by A. Pitchay [76].

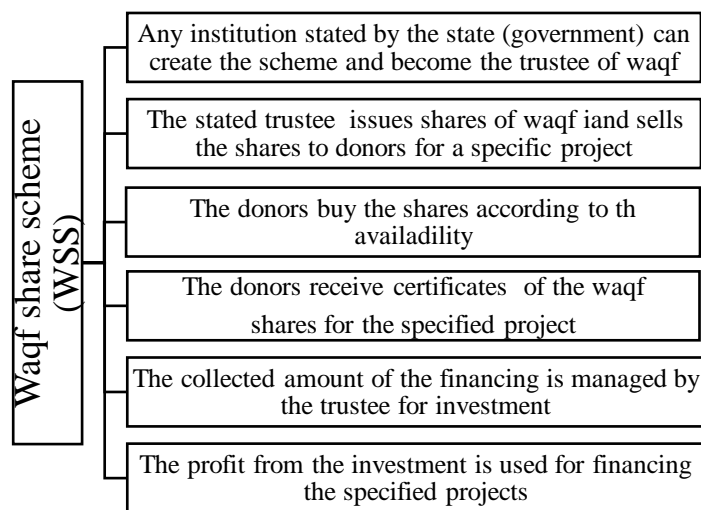


Figure 7 – Waqf shares scheme

Note – Compiled by the author

A waqf share scheme is a form of the public waqf, the primary purpose of which is to collect funds for improving other social welfare of the society, either for assisting the needy people. This scheme exists in the countries such as the UK, Malaysia, Indonesia, and Kuwait and is well-practiced. The model of this form of waqf looks as above.

This waqf scheme has been used in mentioned countries since the 1990s and was accepted as a funds' growth model for further investments. The generated profit from the investment is mainly used to construct mosques, and medreses, develop waqf lands, build religious centers, and others.

The other form of waqf is presented below.

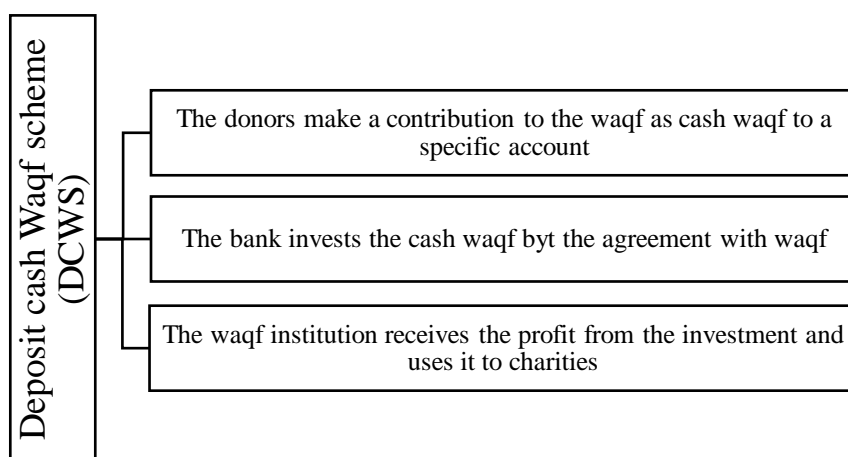


Figure 8 – Deposit cash Waqf scheme

Note – Compiled by the author

This form of the waqf model has more participants like the bank, which acts in the interest of the waqf institution as an agent. This scheme is used for providing goods or services to society and was used in Singapore.

The compulsory cash waqf model is not popular in the Muslim majority or minority countries and was practiced only in Singapore in the form of public waqf.

Compared with the compulsory cash waqf scheme, the corporate waqf scheme was used as the public waqf in many countries, such as Malaysia, India, Turkey, and Pakistan.

The waqf institutions were considered an instrument for wealth and benefits distribution and protection of needy people for a long time. However, there are different views of point among scientists in this area. For example, the most influential is the most cited author in the scientometric bases, like Web of Science and Scopus, Timur Kuran, who is the author of many papers on Islamic finance, waqf institutes are considered as an obstacle to the financial development of the Middle East. His paper [77] "Why the Middle East is economically underdeveloped: Historical mechanisms of institutional stagnation" about the theoretical bases of Islamic finance and compared the Western conventional financial system development and Islamic financial system development of the Middle East. The author critically measured the stagnation of

Islamic economics and highlighted the main reasons for the considerable difference in development. He has found the primary source of the differences that manifested in the form of the individually oriented contract law in Islamic economics and corporate structure evolution in the conventional Western economic system.

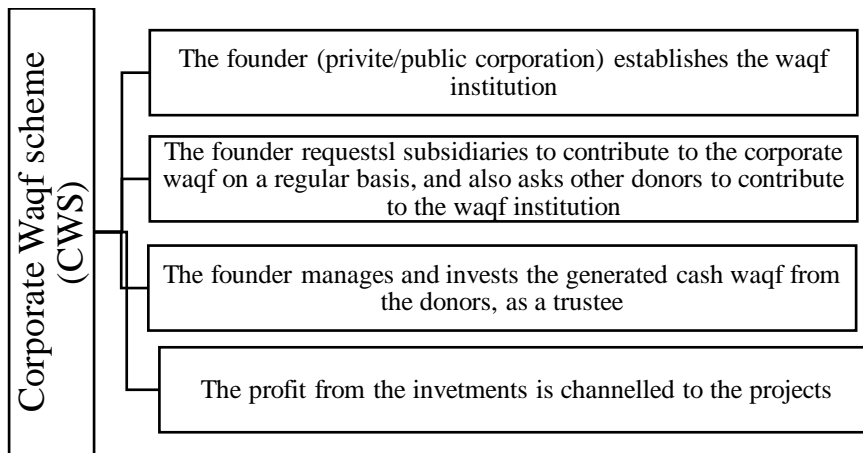


Figure 9 – Corporate Waqf scheme

Note – Compiled by the author

The author considered the co-operative waqf scheme as the model which provides the development communications between donors and waqf institutions. This model can build confidence to the waqf institutions and can improve their reputation.

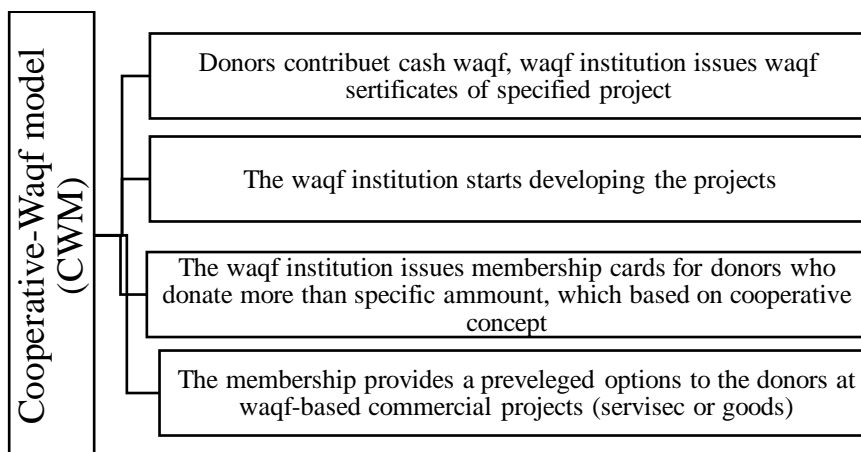


Figure 10 – Cooperative-Waqf scheme

Note – Compiled by the author

Other research entitled "The Provision of Public Goods under Islamic Law: Origins, Impact, and Limitations of the waqf system," were explored the features of the waqf system. The article was a continuing study of the previous issues raised by Timur Kuran. In his style of analysis, the author tried to show all limitations, inefficiency and flows of waqf institutions and their management from the historical

development perspective [78]. The article emphasizes the inability of Islamic law for corporations, and the waqf system was critically analyzed as the system that hindered corporate law advancement by absorbing the resources [79]. We decided to study these analyses and find the truth, does waqf institution promote the efficiency of Islamic finance, or does waqf institution lead to limitations and hinder the development of the financial system.

1.2.3 Islamic microfinance

The role of the micro and small enterprises cannot be underdeveloped in economics and the financial system of any country. According to the World Bank, the definition of microenterprises can be given differently, depending on the country's development level, strategic political objectives, and administration. Micro and small enterprises generally have a limited number of employees, income, or capital. Hence, by Organization for Economic Co-operation and Development (OECD), which has 36 member countries, companies with 19 workers are extra-small, with 20-90 workers are small enterprises. And if there are a minimum of 100 and a maximum of 499 employees in the enterprise, it is considered medium.

Actually, for the microenterprises, which are mainly shops, catering and transport services, trading, the issue of the sources of financing is relevant, as there are some differences in access to financing, such as information asymmetry, high level of the transaction's costs and, short term of providing funds.

Islamic finance has a particular direction for microenterprises, and Islamic microfinancing has been discussed for years by scholars. Microfinance is considered one of the powerful poverty alleviation instruments [80]. The function of this tool is based on providing the low-income population with financial services, credit, venture capital, savings, insurance, and money transfers on the micro-level, which gives provision to the people or enterprises with limited financial income and sources. This, in turn, allows to increase the household's income and creates demand for other goods and services, especially nutrition, education, and health care.

It is important to focus on access to microfinancing, not on the cost of creating and implementing the microfinancing program for poverty alleviation [81]. There are several vital principles of microfinancing:

- People with the low-income need other forms of financial services, not just loans, as insurance, savings programs, and money transfers;
- The use of available financial services by households helps to increase their income and build the assets;
- Microfinance can reach the goal of serving low-income populations in the case of integration into the country's financial system;
- Microfinance can assist in creating local financial institutions, which attract deposits and reuse them for loans and provide other financial services.

The Islamic financial instruments for microenterprises are not based only on loans. There is a list of Islamic financial instruments that assist the development of microfinancing with different levels of risks and costs of capital.

Table 8 – Instruments of financing in Islamic microfinance

Instrument	Suitable for	Cost of capital	Risk to Borrower	Risk to Institution	Remarks
Mudaraba/ Musharaka	Fixed assets, working capital (Declining form suitable for housing and equipment finance)	Very high	Low	Very high	Costs of loan administration and monitoring are high given the complexity of the repayment schedule and lack of proper accounting; Perceived to be ideal but not popular in practice
Ijara	Fixed assets	Moderate	High	Moderate	Costs of loan administration and monitoring are low given simple repayment schedule allowing for flexibility and customization based on client preferences; Popular among Islamic Micro Financial Institutions and potential for easy adaptation by conventional MFIs
Murabaha	Fixed assets and Working capital	Moderate	High	Moderate	Costs of loan administration and monitoring are low given simple repayment schedule; multiplicity of transactions in working capital financing can push up costs; Highly popular in practice notwithstanding popular perception of it being a close substitute of riba-based lending
Qard	All-purpose	Very low	Very low	Moderate	Charity-based usually combined with voluntarism; low overheads; Popular because perceived to be the purest form of financing
Salam	Working capital	High	High	High	Back-to-back nature creates risk of lack of double coincidence; Untried
Istisna	Fixed assets	High	High	High	Back-to-back nature creates risk of lack of double coincidence; Untried
Istijrar (Recurring sale or purchase)	Working capital	Moderate	Moderate	Moderate	Ideal for micro repetitive transactions; Complexity not easily understood by parties; hence not a popular mechanism
Note – Source [82]					

As can be seen from Table 8, there are a number of Islamic financial instruments for microfinancing, and the level of the risk for borrowers and providers of the financial source varies depending on the type of instruments. Risk management is used based on the concept of guarantee that is kafala and collateral – damanah.

Islamic finance and microfinancing have common issues in driving concepts and principles. Microfinance gives particular importance and focuses attention on society's good. Microfinance, as Islamic finance, supports the development of entrepreneurship

and partnership with sharing of risk and profit and promotes the idea that the low-income population must be part of it as the unit of social equity goals. It is an essential fact that, unfortunately, contemporary Islamic finance has been disconnected from microfinance as a result of Islamic banking domination in the Islamic financial system these days [83].

Table 9 – The development of Islamic microfinance institutions

Problems	Benefits
Lack of legal framework (Kazakhstan)	Simplified Creation Procedure
Lack of licensing (Kazakhstan)	Wide coverage of small, medium business and population
Fraud risk (financial pyramids)	No barriers to entry
The main share of financing falls on individuals	Minimum capital costs
Imperfection of taxation, especially in terms of value added tax	In mortgage financing, there is the possibility of early redemption of housing at a lower price.
High costs lead to higher rates of return and debt burden on customers	Alternative source of funding
	Lower mortgage finance costs for clients
Note – Compiled by the author	

In this term, there are number of problems which with development of Islamic microfinancing faced to, but benefits are more and directed mainly to the solution social and economic issues for microfinance and population. There is given our analysis of the opportunities building by Islamic microfinancing [84].

Table 10 – Comparison of the conventional and Islamic microfinancing

Opportunities	
Islamic	Conventional
Profit sharing	Interest payment in any case (default)
Result-oriented task for microorganization and financier (bank)	Financier (bank) is indifferent to the result
Risk sharing	Bank hedges risk by shifting to the client
Qard-hasan provides financing small and start-up business	Financing is interest based and must be serving
Socially orientated by providing financing to the development business in rural area	Financing depends on solvency
Assistance to the business development for needy and poor (qard-hasan, special accounts for charity, zakat)	No
Real-asset based finance circulation	Debt trading
Note – Compiled by the author	

Even though Islamic social financial tools and the social component of Islamic finance have been the instruments of poverty and hunger alleviation and the fair wealth distribution in society for a long time, the research and study of the considering issue are limited. Despite that the first Islamic financial contracts were used many years ago, research on Islamic finance became popular only after the financial crisis in 2008, which followed other crises in almost all markets and all countries of the World. It was realized after a literature review of the authors in English, Russian and Kazakh languages from different databases. Most research in this field aims to explore the issues of the Islamic banking area, as an alternative area to the conventional financial industry, the issues of the historical development of Islamic finance in the Muslim and non-Muslim countries. However, research from the social perspectives of Islamic finance, the role of Islamic financial instruments for hunger and poverty alleviation, and the role of Islamic finance in the United Nations Sustainable Development Goals is limited. There are several directions and questions for future development and study.

During this study, for classification of the main research in Islamic social finance and finding the future research directions, more than a hundred main research works of scientists studying the issues of Islamic social finance, waqf, zakat, and microfinance were analyzed, 31 of which were analyzed by content analysis.

According to the content analysis of the research results from 1979 to 2020 in the field of Islamic social finance, the authors' focus on the research problem has changed. So, until 2006, the subject of research focused on the description of the basic concepts of Islamic social finance and comparative analysis of the Islamic and traditional economy and financial system. Since 2006, attempts have been made to calculate the potential volume of Islamic social finance and the prospects for combating poverty using Islamic social financial tools.

Our analysis revealed that methodological approaches have changed over time. Studies of an earlier period were based on a historical review and methods of critical review of theoretical materials while studying the modern period using methods of collecting primary and secondary data for empirical research and methods of technical processing and model construction. In addition, research issues have been modernized over time, moving from interpreting the principles and features of Islamic finance and Islamic social finance to overcoming and promoting problems in the economy by Islamic social finance. Since 2006, research has focused on quantifying the potential of Islamic social finance in poverty reduction. The studies conducted from 2011 to 2015 cover the processes of improving the institutional framework for the functioning of Islamic finance. In 2016-2019, along with a critical analysis of Islamic finance, research using modern mathematical modeling tools was increasingly conducted [31, p. 719]. However, it should be considered that attempts to assess the effectiveness of Islamic finance considering the social component have not been made before.

Table 11 – The methodological approach and main findings overview of the selected studies (full version see Appendix B)

Amount of research	Period	Research methodology	Main finding
7	1979-2000	Reviewing the literature of the rationalization, explanations and justification of the Islamic Finance Estimation of Zakat potential (z1, z2, z3) for 8 Muslim countries	The diversified nature of the Islamic financing principles. Potential zakat collection amount
5	2001-2005	The historical method of issues analysis of the Waqf system Comparative analysis of the Western and Middle Eastern economic system development over time	Recommendations for overcoming the challenges in the waqf system, and for modernization of economics
12	2006-2010	Estimation of the resource shortfalls and Zakat potential collection Analytical approach to the growth of Syariah-compliant finance	Z collection cannot be enough for poverty reducing in the last 16 poorest countries. Development a triadic model of religiously-inspired charity
54	2011-2015	International regulatory framework for the Islamic finance construction, assessment, and regulation	Identification of the new perspectives on IF from the latter's encounter with social constructivism
46	2016	Qualitative analysis of the links between financial inclusion and the Islamic financial services industry in Muslim countries	An inclusive IFP framework identification by using the notion of a hierarchy of needs and a financial planning model
69	2017	A multivariate data analysis (1806), a clustered regression (82 banks), and unbiased t-statistics	The large corporate boards and large SSBs are more efficient in dealing with different monitoring and advisory roles than small SSBs
91	2018	Assessment of the SBs issues related to competence, effectiveness and independence by Malaysian Shariah Governance Framework (SGF), qualitative analysis by interviewing SB members.	The necessity to the establishment of external religious auditors to render compliance assurance
70	2019	The structural equation modelling for analyzing the surveying bank customers living in UAE Analysis of ISF perspectives for achieving SDG.	Identification of affection attitude and awareness to intention directly. Identification of ISF (inqaf, zakat, waqf) amount as alternative funding for covering the annual average global SDG's investment gap
Note – Compiled by the author, Source [31] [85] [77] [86] [87] [88] [89] [90] [91][92] [93] [94]			

As can be seen from table 11, scientific interest in studying the issue of Islamic social finance increased after the financial crisis of 2008 since Islamic financial institutions have shown resilience to crises and stability. Thus, the number of scientific papers before the crisis period sharply increased by 3 times immediately after the crisis and increased in subsequent years.

In the conclusion of the section, it is necessary to underline the summary of Islamic social financial instruments research. As an economic category, zakat carries out functions of contributing to equalization of living standards of the population, stimulating investment activity, stimulating the production and favorable allocative

effects in the economy, and stimulating economic growth of the country. During the study, the institutional structure of zakat management in different countries has been illustrated, and the zakat's form and system in countries with dual financial systems (conventional and Islamic) have been analyzed. The results conclude that the institutional zakat management structure in the main considered countries is based on the principle of a single-stage system and reports directly to the president or the specific Ministry. Considering that the potential global amount of zakat collection is from 200 billion to 1 trillion US dollars, it is essential to develop an effective institutional mechanism in the country where the big Muslim society can perform third of the five main religious pillars.

The waqf, in turn, has its mechanisms of implementation and becomes the system for solving social problems. Key among them are enhancing economic progress, eradicating poverty, restoring income distribution, preventing deficit financing, and reducing government expenditure. The analysis of waqf models used and developed in Muslim countries and secular European countries, and the US has shown the implementation mechanism in the form of an endowment, where non-obligatory charity funds are invested in Islamic projects with stable projects profit. The generated profit is directed to charity by creating a source of income (business) for the needy, making it possible to raise the standard of living of the socially vulnerable population and economic activity in double volume.

The comparison analysis of Islamic microfinancing and conventional microfinancing allows claiming about benefits of Islamic microfinancing. The benefits are profit and risk-sharing between financial institutions and microbusinesses, the result-oriented task for micro organization and financiers of qard-hasan, which provides financing to small and start-up businesses, and socially orientated by providing financing to the development business in rural areas. These findings underline the social specifics of Islamic microfinancing, which also play a role in stimulating economic growth.

Also, a literature review of hundreds of studies in this area shows that research is limited, and attempts to assess the effectiveness of Islamic finance considering the social component have not been made before.

The following section of the study investigates the possible way to measure the social effectiveness of Islamic finance and methodological approaches for achieving this goal.

1.3 Methodological approaches to the social effectiveness assessment of Islamic finance

The integration of Islamic social finance into a country's financial system presupposes the development of new institutions that are considered as successful, provided that transaction costs for the interaction of economic agents are minimized. One of the most critical features of transaction costs is that they allow significant economies of scale. When information on transaction costs is collected and standardized, many economic agents can use it. Meanwhile, the Shariah, as a set of Islamic values that defines the principles of the functioning of Islamic finance, offers not only a clearly defined institutional field of activity that reduces the uncertainty of the future and asymmetric distribution of information (at the will of Allah) but also increases the level of trust between contractors.

The famous political economist of the theory of postindustrial society, Francis Fukuyama, defines trust as the expectation within a particular community that members of this community will behave normally and honestly, showing a willingness to mutual assistance under generally accepted norms [95]. The trustee relies on the fact that the partner will not try to take advantage of his vulnerability if possible.

In the economic literature, there are several aspects of the influence of a high level of trust on economic development:

- a) facilitating the coordination of interests of participants in economic interactions;
- b) activation of information exchanges and cooperation in the innovation sphere;
- c) reduction of investment risks of significant investment projects by reducing the uncertainty of the future;
- d) reducing the costs of monitoring and controlling the actions of contractors, the costs of protecting property rights, and reducing the pressure on the legal system.

There is a value (Islamic) basis for cooperation within the company between owners, between employees and employers, as well as within society (market relations, relations with state and legislative authorities, relations with political and judicial institutions, etc.). With the asymmetric distribution of information, a common consequence is an adverse selection - distortion of private information by an informed agent for a more beneficial contract, which leads to the ineffective functioning of the entire market. The less informed party has to spend resources for additional information on developing more complex contracts on transaction insurance. Trust reduces the need for this type of expense. Therefore, an unshakable commitment to Shariah during the use of Islamic financial tools increases the confidence factor of all interacting agents.

In contrast to the objective natural laws of physics, chemistry, biology, and others, in economics, a person (government) has the opportunity to choose between alternative options for his behavior. Moreover, accordingly, it should carry his decisions' material and moral responsibility. In this context, economic decisions made following Shariah's values on the joint separation of potential benefits and risks turn out to be adequate for real business practice. Since the counterparties jointly determine the choice of an economic decision option, the responsibility for the results of this decision is shared.

Since the phenomenon of Islamic finance cannot be evaluated ex-post due to its underdevelopment in the country, the predictive analysis would determine the economic consequences of the broad expansion of Islamic finance. According to Tambovtsev, the economic consequences should be understood as the ratio of benefits and costs those various individuals (groups of individuals) and organizations (including the totality of state authorities and administrations) will receive for a certain period.

Evaluation of the economic consequences of implementing Islamic finance implies two main procedures: identification of groups that benefit and/or bear costs; assessment of costs for each of the identified groups.

The starting point of identifying interested groups is a set of individuals, the regulation of which is directly indicated in the law, acting on the principles of Shariah. This list can be supplemented by individuals whose activities are indirectly associated with the use of Islamic finance.

Even though there are many methods of assessing social efficiency in research sources, the assessment of social efficiency is still one of the unsolved theoretical issues because of the difference in influenced factors of social effects. The social effect is an absolute indicator of the quality of the change, and it is defined as economic or statistical, as well as sociological indicators [96]. The leading indicators are improving people's quality of life from investment activities, such as household budget ratios from consumption to savings, the growth of education and health quality, and others.

Without pretending to develop a final methodology for assessing the social effectiveness of Islamic finance, we will outline possible directions for further reflection. The assessment and evaluation of the benefits and losses can be considered as the result of the following sequence of analysis stages:

- identifying the composition of specific benefits and losses for each of the considered groups and the causes (sources) of these expected gains and losses;
- the actual assessment of the values of positive and negative changes in the assumption that Shariah principles are fully operational and the remaining factors affecting the efficiency of resource use remain unchanged.

As the author of the proposed method notes, a quantitative assessment is often tricky and may be limited to a qualitative assessment, determining the sign of a change in results and costs. Even though this circumstance makes the general conclusions of the predictive analysis less reliable, it nevertheless allows for forming essential judgments about the normative act (Shariah).

According to P. Samuelson and W. Nordhaus, economic efficiency produces the highest combination of quantity and quality of goods and services given its technology and scarce resources, constantly correlating the benefits and costs, while it is necessary to behave rationally. The producer and consumer of goods strive for the highest efficiency at the same time by maximizing benefits and minimizing costs [97].

The table below provides the results of the possible expansion of Islamic finance.

Table 12 – Distribution of losses and benefits from the promotion of Islamic finance among special interest groups

Group name	Benefits	Losses
The state budget	+	+
Muslim population	+	
Non-Muslim population	+	
Islamic banks	+	
Conventional banks	+	+
Islamic business	+	
Non-Islamic business		+
Stock Market Entities	+	
Insurance market entities	+	+
Pension market entities	+	
Foreign exchange market entities		+
Note – Compiled by the author, Source [42]		

In the context of the study, there is some clarification on special interest groups that will be affected by the promotion of Islamic finance:

Table 13 – Islamic finance development benefits and losses among special interested groups

Group name	Description
The state budget	<p>“+” The positive effect from an increase in taxable Islamic entities, and from a reduction in the cost of paying social benefits by activating traditional Muslim donations (zakat). The new channels of attracting foreign investors from the Middle East and Malaysia.</p> <p>“-“ The development of the legal framework of Islamic finance, the training of relevant specialists and the functioning of the Shariah board require state spending</p>
Muslim population	“+” Additional financial tools guaranteed by Shariah values
Non-Muslim population	“+” Additional financial tools guaranteed by Shariah values
Islamic banks	“+” Expanding the range of banking products and services, and deposit base. New external funding sources, attracting capital from Islamic countries.
Conventional banks	<p>“+” Conventional banks expanding products line from implementing “Islamic windows”. New external funding sources, attracting capital from Islamic countries.</p> <p>“-“ Increasing competition in the financial market imposes losses for conventional banks</p>
Islamic business	“+” Islamic business entities receive reliable investment tools, including “long money”.

Continuation of table 16

1	2
Non-Islamic business	“-“ Non-Islamic business entities suffer losses only in the segment of production of products and services prohibited by the Shariah.
Stock Market Entities	“+” Additional financial tools guaranteed by Shariah values.
Insurance and Pension markets entities	“+” Additional financial tools guaranteed by Shariah values. Competition between insurance and takaful companies in the insurance market.
Foreign exchange market entities	“-“ Increased competition in the financial market of the country imposes losses for foreign exchange market entities.
Note – Compiled by the author	

As can be seen from the analysis, the benefits for the local players are more than the losses. If to take into account the social benefits in an extended period, such as decreasing financing prohibited by Shariah businesses, which have effected negatively for generations (alcohol, tobacco, casino, and others), it is clear that interested groups of the country's society affected by promotion and improvement are wider than financial market participants and state.

The effectiveness of the economic system depends on the efficiency of production, the social sphere (education, health, culture), and the effectiveness of public administration. The effectiveness of each area is determined by the results to costs ratio and is measured by quantitative indicators combination.

The social effects, as a criterion of population satisfaction with the quality of life, are very diverse and challenging to measure but can also differ significantly at the country and individual levels. Accordingly, as a ratio of the received social effects and the implemented financial costs, social effectiveness is also challenging to assess and often cannot correspond with economic effectiveness, which involves maximizing profits while minimizing costs. Furthermore, accumulated in a global economy, the problems deriving from the mismatch of economic and social efficiency of resource use were intended to be addressed at the global level. The United Nations formulated 2015 as 17 global sustainable development goals, among which the first is marked: widespread eradication of poverty in all its forms and eradicating hunger, ensuring food security and improved nutrition, and promoting sustainable agriculture. Although all UN 17 global goals are complex and indivisible and ensure a balance of all three components of sustainable development: economic, social, and environmental, we believe that the elimination of hunger and poverty should become a priority for the social effectiveness of Islamic finance since there are words from Quran which are given for making distribution of the wealth equitably, "And surely, We gave you an authority on the earth and appointed you therein provisions (for your life). Little thanks do give." 7:10) "And those in whose wealth there is recognized right, For the beggar who asks, and for the unlucky who has lost his wealth" (70:24-25) [7, p.473].

The social impact is the type, form, and content of the positive or negative social change [98]. According to the experts of the Support and Development of the Philanthropy Foundation "KAF," there are about 300 different approaches and models

of the world's social effects and impact assessment. At the international level, various indicators are used to assess social performance, among which the most well-known indicators are (1) the Human Development index from the 1990s, which included a number of criteria such as a long and healthy life; being knowledgeable; and have a decent standard of living, the (2) Quality-of-life Index – environment (natural, built, socio-political, local economic, cultural, public policy) [99], (3) Multidimensional Poverty Index from 2010, which assumes non-income measurements of poverty, and shows of health, education and living standards of Multidimensional poor people [100]. The official statistics also use such indicators as the GDP per capita and the food consumption per capita, the ratio of income and expenditure, the subsistence minimum and income of the population, and others.

Meanwhile, in our opinion, the average indicators of income and consumption used in official statistical reporting cannot entirely reflect the basic living standard of an individual. In this regard, we believe that the increased use of Islamic social finance in combination with financial technologies will make it possible to significantly improve the situation in solving the problems mentioned above and, in particular, reduce poverty.

It must be considered there the difference of meaning "effectiveness" and efficiency," as the two definitions are confused by some authors and specialists of economics. According to Y.Zibande and N.Olson the meaning of effectiveness is more expansive than "efficiency" and shows the result after implementation all processes of obtaining "efficiency." Schematically, this statement looks like the following illustration:

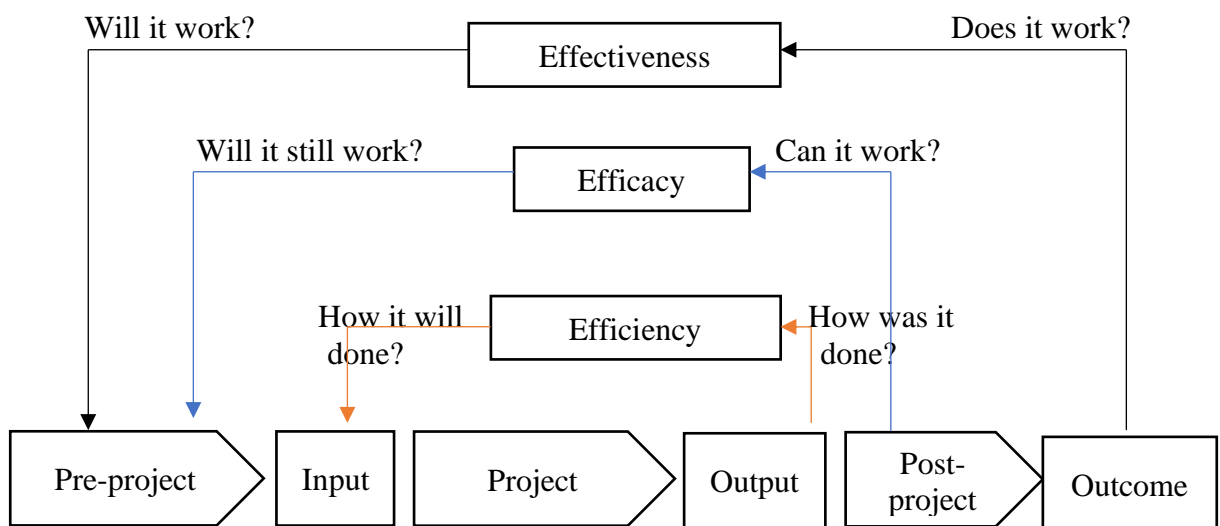


Figure 11 – Model reflecting effectiveness, efficacy, efficiency

Note – Source [101]

Thus, effectiveness is a complicated part to measure, which emanates from the operation of the produced product and generates positive impacts in the middle and long term and achievement of purposed results, while efficiency is a comparison of the inputs of the output [101].

Nevertheless, some approaches for assessing the social effects and results in the form of impact are used to measure the indicators for the advancement of human development and the quality of a person's life. This study considers a number of them for choosing to use suitable for assessing the social effectiveness of Islamic finance. The following table analyzes different international approaches and models of social impact and effect assessment developed by this research.

Table 14 – The main approaches of the assessment of the social impact/effects

No	Assessment	Process and Feature
1	LBG Model – London Benchmark Group Model	Assessment of the corporate investments to the social development, it is a matrix of the structured information for implemented social projects, used for assessing the outputs and impacts in the measurable and unmeasurable indicators.
2	SROI – Social return on investment	5 steps of assessment: purpose and objectives; formation and analysis of the changing (development) theory (includes the chain of stakeholders, inputs, direct results, social results and social effects); measurement of social impact; correction indicators of results; calculation of SROI. The method is based on the main 7 principles of transparency, assessment of real results literally.
3	AHP - Analytical Hierarchy Process for Social effects	The AHP method has been used from 1970s for decision making in about all aspects of activity. In the form of social effects assessment used the experts' assessment of the factors and social criteria, calculation by matrix and building the model.
4	Social impact assessment	4 steps of assessment: analyzing, monitoring and managing the social consequences, positive and negative, of planned interventions (policies, programs, plans, projects). Purpose is to maximize benefits and minimize costs, benefits mostly unmeasurable. Guiding principles: Precautionary Principle, Uncertainty Principle, Intragenerational Equity, Intergenerational Equity, Recognition and Preservation of Diversity, Internalization of Costs, The Polluter Pays Principle, The Prevention Principle, The Protection and Promotion of Health and Safety, The Principle of Multisectoral Integration. International Social impact assessment (SIA) within the Environmental impact assessment (EIA) established in 1970s by International Association for Impact Assessment (IAIA) [98] adopted for years globally.
5	Social and economic effectiveness assessment of social programs	6 steps of assessment the process: defining the goals and beneficiaries; identification of the programs/projects as social investments; identification of the social results/effects, in costs measure; prediction of the socio-economic results assessment for planned period (5-10 years); calculation of the full cost of the project; and assessment of socio-economic effects in measure of costs.
Note – Compiled by the author		

From the point of view of the problems of eliminating poverty, the indicator of the income level to living cost ratio is quite informative. The income level is determined by the average income per capita and the cost of living – using a fixed consumers basket. As a rule, these indicators' dynamics allow identifying the impact of investments on the population's standard of living. In previous sections of this research, we concluded that Islamic finance has its own features that lead to specific efficiency and cover almost all aspects of economics.

Social effectiveness is used to assess and evaluate natural results and effects as improving the direct beneficiaries' (target group) quality and improving the standard of living, their family members, other stakeholders, and the community in general, which occurred due to the implementation of the project. This type of effectiveness is the ratio of social (outcomes) and direct results (outputs). Social effectiveness is difficult to objectively measure using economic categories, including value since the indicators used to characterize the results are usually qualitative. This type of analysis is primarily used in the healthcare area and adopted by the author of the research for Islamic social financial tools.

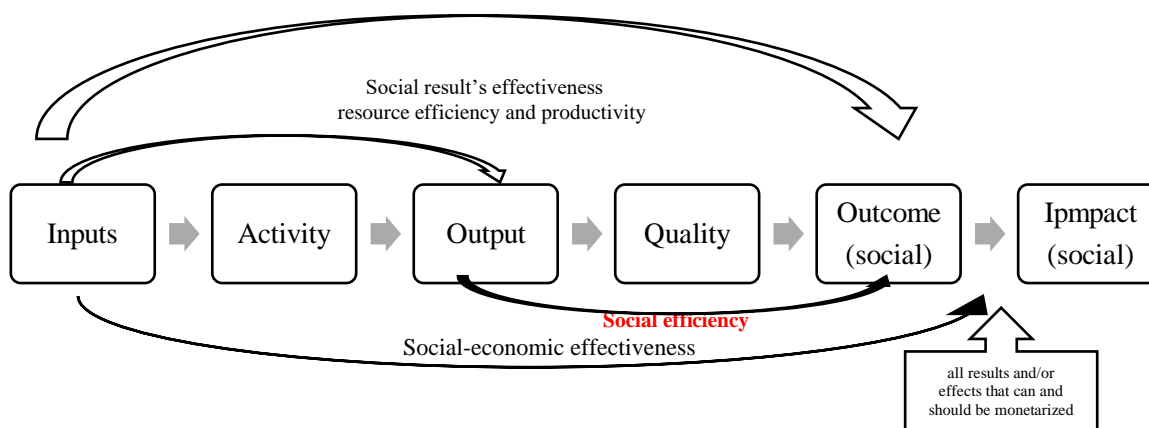


Figure 12 – The chain of social results and types of effectiveness

Note – Source [102]

The social outcomes and social effects, which can be measured and expressed in cost units, can be represented in the following social changes:

- (i) income growth (or cost savings) of beneficiaries and family members immediately after the end of the project and for a certain period in the future;
- (ii) income and expenses changes of other members of the society (in addition to the main beneficiaries) due to changes in the status of participants in socially significant projects;
- (iii) saving public resources as a result of reducing the need for state support for specific categories of citizens;
- (iv) increase in public income by increasing the employment or labor productivity of beneficiaries of socially significant projects.

During the evaluation of socio-economic effectiveness, it is necessary to distinguish this type of effectiveness from other types and not to confuse it with other possible economic characteristics of socially significant projects.

According to the 4 article of the Budget Code of the Republic of Kazakhstan, there are principles of effectiveness and efficiency of using the state budget sources for the implemented programs, including the social sphere (Budget Code). However, there is a lack of a specific method of assessing the social impact and effectiveness of the entrepreneurial or social activity. After a deep investigation of the methodological approaches of the assessment of social effectiveness, disclosing the complete picture of the social effectiveness assessment of the Islamic finance at a different level and taking into account the Islamic social financial tools, there have been done consideration, and assessment of social effects as follows:

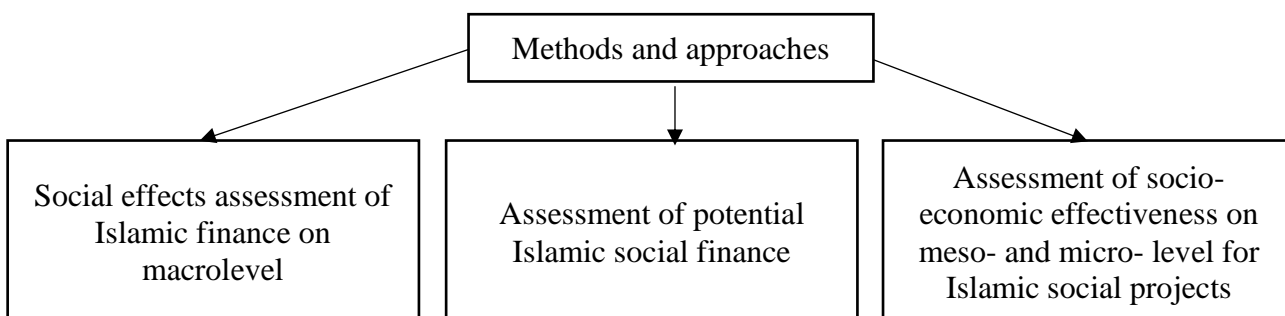


Figure 13 – The methods of the research for Social effectiveness assessment of Islamic finance

Note – Compiled by the author

We decided that considered methods and methodological approaches disclose the social effectiveness of Islamic finance in Kazakhstan by using the main selected social effects on the macro level and identifying the socio-economic effectiveness in measuring costs on the meso- and micro-level. Furthermore, has been used approach of evaluation potential zakat as a part of microlevel assessment and its impact on the government spending on social programs and social payments to the population.

Social effects assessment of Islamic finance on a macrolevel. There are many rating systems for assessment approaches in the international area to assess the unmeasurable criteria, like social effects. One of the methods is Analytical Hierarchy Process (AHP), which researcher Saaty offered in the 1970s', and the method is found wide distribution in the assessment and decision-making process, both subjective and objective aspects of a decision across the world these days. The method is useful for decision-making based on the evaluation of experts assessments, both qualitative and quantitative [103] [104] [105].

The process of AHP consists in dividing the considering issue into elements by reviewing the factors of the problem and the relationships between factors. The different selected elements are categorized into main levels. Only after that, using classified levels of the elements form the hierarchical structure. The elements are compared one after one at each level, and then the judgment matrix is established. The

weight of the elements is obtained by calculating the maximum eigenvalue of the matrix, and the corresponding orthogonal feature vector, the element's weight, is obtained. AHP is a flexible and robust instrument for assessment because of the ability to evaluate results by pairwise relative criteria and options. That is why the AHP approach is used in different studies to obtain the index's weight.

There are three steps of getting the weight of index in AHP:

- the comparison of the essence of each element in the hierarchical structure
- performance of the hierarchical ranking
- calculation of the rational weight of each index

The process of using AHP is given by the following figure schematically:

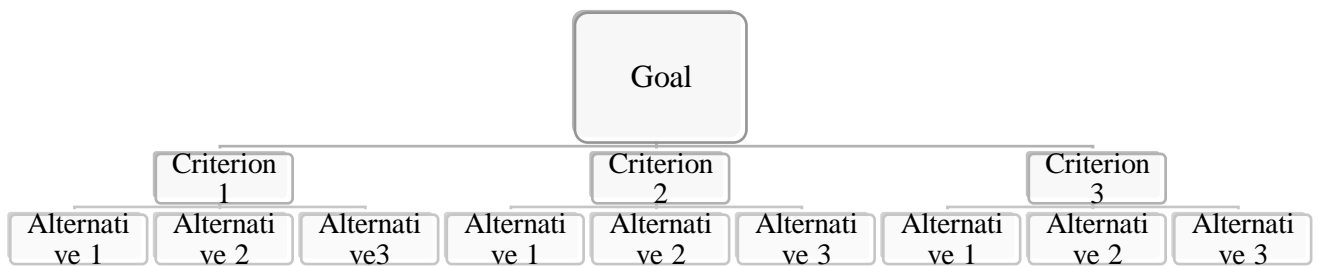


Figure 14 – Analytical Hierarchy Process (AHP)

Note – Compiled by the author

The relative importance of two criteria is evaluated through a numerical scale from 1 to 9, where 1 is the most relative, while 9 is used when first index is extremely more important than second one.

Table 15 – Relative importance scale

Scale (a _{ij})	Meaning
1	Index x _i is as important as index x _j
3	Index x _i is slightly more important than index x _j
5	Index x _i is obviously more important than index x _j
7	Index x _i is strongly more important than index x _j
9	Index x _i is extremely more important than index x _j
2, 4, 6, 8	Middle value of the above adjacent judgments
Reciprocal	If x _j /x _i = a _{ji} , then x _i /x _j = a _{ij} = 1/a _{ji}
Note - Source [104]	

The following step is formation of the mathematical matrix by using obtained factors n, which are denoted as A₁, A₂, ..., A_n. It is assumed that each factor A_k corresponds to a certain positive number X_k, called the value of the factor A_k, k = 1, 2, ..., n, which needs to be found.

The mathematical matrix is written as follows [105]:

$$A = (a_{ij}) \begin{pmatrix} a_{1i} & \cdots & a_{ni} \\ \vdots & \ddots & \vdots \\ a_{1n} & \cdots & a_{nn} \end{pmatrix} \quad (1)$$

where

a_{ij} and a_{ji} – the elements of the A matrix;

i – row number of the matrix;

j – column number of the matrix.

The next step is obtaining the experts' assessment of the criteria for the rational weight of the indexes. The expert compiles the assessment based on the Relative importance scale, Table 15, which is given a special scale of the assessment of each criterion one by one, where 1- Equal Importance, 3- Moderate importance, 5- Strong importance, 7- Very strong importance, 9- Extreme importance (2,4,6,8 values in-between). Which of the two factors is more significant in terms of influence on macroeconomics.

As the factors of social effects, there have been used the number of social criteria and statistical data obtained from the official resources have been calculated in the form of a matrix by using MS Excel software. For the criteria, the experts' assessment of the social effects in the context of Islamic finance is implemented. There have been used 6 social factors – employment, environment, health, education, poverty, and consumption, as the main social factors. The selected factors are determined as the impact of Islamic finance on the social indicators that directly and/or indirectly affect the country's individual and population quality of life [105]. Employment as the social factor directly affects the well-being of the individual, as there is a close relationship between minimum wage and quality of life, as well as the unemployment rate is an indicator of the country's employment situation [106]. The health of a community plays a vital role in the quality of life, and a healthier population is healthier and longer the productive age a person. It is the capacity and improvement of welfare. The level of education, in turn, gives the ability to increase the amount of income, that is, wage, not only on the individual's level but also on the level of the country and region.

Consumption as the factor of social effect consists of the individual's ability to consume food and non-food goods and services. On the other hand, poverty is an economic inability to cover basic food and non-food needs as measured by expenditure. The environment in the context of the social effect of Islamic finance also covers the main investment criteria, as the concept of Islamic finance is based on prohibition and avoidance of investments in harmful activity for society and individuals.

The resulting weights are based on the principal eigenvector of the decision Matrix based on the AHP. The issue of eigenvalues plays a significant role in all unstable oscillations and vibrations phenomena. Since the frequency of oscillations is determined by the eigenvalues of some matrix, the shape of these oscillations is indicated by the eigenvectors of the matrix. The analysis of the eigenvalues of the matrices will be applicable for estimating the Islamic finance impact in Kazakhstan.

The next step of the matrix is to do a consistency test to avoid judgment contrary to common sense in assigning the relative importance values. The test consists of calculating the main indicators. The mathematical calculations for the matrix show, the (1) Consistency index CI, is obtained based on delta and explains the quality of the expert's assessment, a perfectly consistent decision should always obtain CI=0, but small mismatch values may be allowed; the (2) average random Consistency index RI (the average random Consistency index for n number of order is various from 0, when n=1 till 1.24, when n=6, according to G.Wu (Table 16); and the (3) Consistency ratio (CR = CI/RI) CR<0.1.

Table 16 – Average random consistency index RI

Matrix Order (n)	1	2	3	4	5	6	7	8	9	10
Random Index	0	0	0.58	0.90	1.12	1.24	1.32	1.41	1.45	1.49
Note – Source [104]										

For identifying the effectiveness of Islamic finance obtained matrix of priority factors of experts is used by social indicators of the considered factors. The following stage of the AHP matrix for the assessment is applying the rule of matrix multiplication by vector, the data of the dynamics of socio-economic indicators are multiplied by the values of the obtained Rating of expert priority of factors by mathematical calculations. The further matrix of Islamic finance priority consists from n factors and m indicators [105]:

$$(A)_{n \times m} X_n = \begin{pmatrix} a_{11} x_1 & \cdots & a_{1n} x_n \\ \vdots & \ddots & \vdots \\ a_{m1} & \cdots & a_{mn} x_n \end{pmatrix} \quad (2)$$

where

$X = (x_1, \dots, x_n)$ – the selected vector of indicator;
n – number of selected social factors.

The selection for the assessment of social effects of Islamic finance method of AHP allows finding the changing of social factors in the context of Islamic finance on a macro level and proving the hypothesis of the research that Islamic finance affects the social change in positive measure due to its the specifics and based Shariah concept.

Assessment of potential Islamic social finance. Estimation of potential zakat collection and the covering of estimated data the recourse shortfall and sources are needed for people under the national poverty line, and international poverty degree (PPP) allows to predict the zakat impact to the state spending on the social area of the country. This approach aims to assess the influence at the macro level, as directed on the estimation of covering potential zakat the recourse shortfall. M.Kahf first author of Islamic social research, investigated the zakat estimation in 8 Islamic countries by using the different nisab amounts according to the research of predecessor authors such as Qardawi and Award. According to the M.Kahf, there are used following indicators

for estimation potential of zakat: the GDP and z1 (under traditional efforts), z2 (under contemporary school), z3 (Maliki school) that are zakat bases, and indicators of the international poverty line 1.25 US dollars per day as an extra poor population and 1.90 US dollars per day as poor population were used.

Table 17 – Zakat potential by Kahf

Countries	Z1	Z2	Z3
Egypt	2.0	3.9	4.9
Indonesia	1.0	1.7	2.0
Pakistan	1.6	3.5	4.4
Qatar	0.9	3.7	3.2
Saudi Arabia	1.2	3.7	3.4
Sudan	4.3	6.3	6.2
Syria	1.5	3.1	3.1
Turkey	1.9	4.9	7.5
Average	1.80	3.85	4.34
Note – Source [60, p. 13]			

Kahf's research for eight of these countries was the source for further development of Islamic social study in the estimation of potential zakat amount and its impact on the strategy of poverty reduction in more than 100 countries by Shirazi, Obaidullah, Hassan, and others. The research question of the authors' paper is directed at the impact on the different measures of poverty, if 104 middle- and low-income countries impose a social tax, which is equivalent to zakat and beneficiaries will be only poor and needy. The research of the mentioned authors modified Kahf's approach by adjusting the country's GDP by using the Muslim Population proportion. The non-Muslim population was excluded from all populations, as zakat is obligatory for Muslims, and the per capita GDP, furthermore the income of the population less than 2 US dollars was deducted from the GDP. The average of Zs from Kahf's zakat potential has been used [107] in 2.93% of the GDP.

For estimating the resource gap for poverty alleviation in the country there were used Poverty gap index, Poverty line, and resource of shortfall [63, p. 21].

Poverty Gap Index:

$$PGI = \frac{1}{N} \sum_{t=1}^q \frac{(Z - Y_i)}{Z} \quad (3)$$

where

N – the total population number;

Z – poverty line;

q - the total population of poor at or below the poverty line;

Y_i - income of poor individual i .

The poverty gap index has been re-arranged for getting the absolute resource gap for poverty reduction, as a result the following formula was given.

Resource shortfall:

$$\sum_{t=1}^q (Z - Y_i) = \text{PGI} * \text{NZ} \quad (4)$$

where

PGI – Poverty Gap Index

N – the total population number;

Z – poverty line;

q - the total population of poor at or below the poverty line;

Y_i – income of poor individual i .

The resulting final absolute values must be converted into a percentage of the GDP. These estimations indicate the amount of the necessary sources for poverty alleviation in the country related to the GDP. From the 2014 Islamic Social Finance Report, the authors and researchers in Islamic social finance, by using the estimations above, investigated the resource gap for poverty alleviation for South and Southeast Asia in 2014, for Sub-Saharan African countries in 2015, for OIC member countries in 2017, for the Balkan region, Central Asia and Russian Federation in 2017, North-West African countries in 2020. The authors' main goal was to research the potential of zakat, waqf, and microfinance for poverty alleviation in considering countries

Table 18 – The Impact of Social Tax on the Poverty and Income Distribution

Potential impact	Change \leq 25%	Change between 25 and 75 %	Change between 75% and 100%	Change over 100%	Median of % impacts
P1: Z as % of resource gap at \$1.25	No. of countries (% of all sample countries) 14 (13.46)	No. of countries (% of all sample countries) 21 (20.19)	No. of countries (% of all sample countries) 3 (2.88)	No. of countries (% of all sample countries) 66 (63.46)	Median, % resource gap of all sample countries at \$1.25 0.87
P2: Z as % of resource gap at \$2.00	No. of countries (% of all sample countries) 25 (24.04)	No. of countries (% of sample countries) 13 (12.50)	No. of countries (% of all sample countries) 4 (3.85)	No. of countries (% of all sample countries) 62 (59.61)	Median, % resource gap all sample countries at \$2.00 1.39
Poverty headcount Index (at US\$ 1.25 a day)	No. of countries (% of all sample countries) 14 (13.46)	No. of countries (% of all sample countries) 21 (20.19)	No. of countries (% of all sample countries) 3 (2.88)	No. of countries (% of all sample countries) 66 (63.46)	All above the poverty line 66 (63.46)
Note – Source [55, p. 261]					

From the research of N.Shirazi and B.Amin have been done the following conclusions. Cash transfers to the poor based on social tax (zakat) can significantly reduce extreme poverty and income inequality. The poverty gap of 66 out of 104 sample countries can be reduced and thus eliminate the extreme poverty in these countries. While 14 countries can reduce headcount by less than 25%, and 21 countries can reduce headcount in the range of 25% to 75%, 3 countries can reduce headcount between 75% to 100%.

Poverty Gap Index to Gross Domestic Product:

$$\text{PGI to GDP} = \frac{\text{PGI} \cdot y_p \cdot N}{\text{GDP}} \quad (5)$$

where

PGI - Poverty Gap Index;

y_p - income at poverty line in current US dollars;

N – total number of population;

GDP – Gross Domestic Product in current US dollars.

And if to turn to the correlation between the Poverty Head Count ratio to GDP, it is estimated as follows, the Poverty Head Count Ratio to Gross Domestic Product:

$$\text{PHCR to GDP} = \frac{\text{PHCR} \cdot y_p \cdot N}{\text{GDP}} \quad (6)$$

where

PHCR - Poverty Head Count Ratio;

y_p - income at poverty line in current US dollars;

N – total number of population;

GDP – Gross Domestic Product in current US dollars.

These indicators estimation allows analyzing the role of potential zakat collection in covering the Recourse shortfall and Poverty in the country. In actual research of N. Shirazi, B.Amin of estimation of the potential zakat amount has been used authors' methodology for indicators of average zakat (z_1 , z_2 , z_3) as follows:

Table 19 – Potential Zakat estimation by N.Shirazi and B.Amin

Variable	Description
Gross Domestic Production, million USD	The GDP in USD, the market value of all the final goods and services produced
Muslim population, %	Percent of total population, which adheres to Islam to some degree
Adjusted GDP, million USD	The GDP in USD adjusted to the share of Muslim population
Z1, Z2, Z3, million USD	Average indicator of zakat potential by Kahf (1989) calculated to the adjusted GDP
Note – Compiled by the author, Source [86, p. 245]	

It is assumed that the potential zakat amount affects the process of poverty reduction in the time when it is actually because of the deepening of poverty indicators in the country. The institution of zakat has the potential to contribute to the needy population and reduce state spending to improve the lives of socially vulnerable populations.

Indicators of the economics have adjusted the study presented by Kahf and developed by N.Shirazi and B.Amin:

Table 20 – List of variables used in potential Zakat estimation

Variable	Description
Gross Domestic Production	The GDP in USD, the market value of all the final goods and services produced in 2020
Economically active population	Percent of total population engaged in the production of goods and services for 2020, at the working age 16-59 for women, 16-63 for men
Unemployment population	The part of the economically active population, able and willing to work, but unemployed in 2020, in percentage of total population
Poverty headcount ratio at 5.50 USD a day (PPP)	Percent of total population with income below 5.5 USD a day in 2020
Muslim population	Percent of total population, which adheres to Islam to some degree
Note – Compiled by the author	

Furthermore, by using obtained results of the Zakat to GDP ratio potential, Poverty Gap to GDP at 1.90 USD per day and 5.5 USD per day, Poverty rate to GDP at 1.90 USD per day and 5.5 USD per day, it is available the estimation of People Lifted Out of Poverty from Potential Zakat Collection.

According to the potential amount of Islamic financial assets of the country and estimated potential zakat collection, the study's methodology allows for investigating the relationship and covering of the state spending the social assistance from the budget and resources shortfall in the country. The necessary estimations have been done in the following sections.

Assessment of socio-economic effectiveness on meso- and micro-level for Islamic social projects. A review of the scientific sources on the issue of assessing the social effectiveness of using financial resources showed the ambiguity and variability of the methodological approaches used by researchers [108] [109] [110]. First of all, this is related to the fact that the social sphere is a combination of relations between people, state, and private institutions to improve the population's level and quality of life. It brings results - social effects that are not always amenable to cost (economic) measurement and is differently interpreted in different sources.

For various reasons, long-term sustainable social outcomes, or effects that represent a gain for the entire society from implementing social programs, are still very difficult to measure in terms of value. There are several types of cost assessment of the effectiveness of sociality and social investments and projects: CBA — cost-benefit

analysis, CEA - cost-effectiveness analysis, CUA - cost-utility analysis. The first two types of analysis are classical approaches to cost measurement. The cost-benefit analysis (CBA) is a systematic method for comparing the costs and benefits of a project, the feature of this method on using a single standard metric, mainly in monetary terms [111].

Benefit Cost Ratio:

$$BCR = \frac{[\sum B_i / (1+d)^i]}{[\sum C_i / (1+d)^i]} \quad (7)$$

where

B_i - the project's benefit in year i ;

C_i - the project's costs in year i ;

n - the total number of years (life span);

d - the discount rate.

That is the ratio of the sum of the present value of all the expected benefits to the sum of the present value of all the expected costs.

The results understanding of BCR, if $BCR < 0$, the costs exceed the benefits in economic terms. Solely on this criterion, the project should not proceed. If $BCR = 1$, cost equals the benefits, the project must be allowed to proceed, but with little validity. If $BCR > 0$, the benefits exceed the costs, and the project must be allowed to proceed.

In contrast, cost-effectiveness analysis offers a cost estimate based on the ratio of costs and results — the natural units by which the effectiveness of the project is measured. This type of analysis is used for projects inappropriate to monetize effect, often in health services. Comparing results with costs makes evaluating projects related to the same subject area possible, depending on their effectiveness in terms of the natural results obtained. It is possible to avoid the so-called problem of uncertainty, which arises by reducing the achievements of projects and results from different subject areas to a single monetary expression.

To measure the social effectiveness of the impact of Islamic social finance on solving the social problems, we suggest applying the assessment methodology used for the activities of non-profit organizations, with the allocation of three levels of results:

- direct results (outputs) – everything directly produced in the activation process. For example, the number of low-income families who receive social Islamic finance services annually; the annual amount of food produced through social Islamic finance tools and law.

- social outcomes – changes that occurred intentionally or unintentionally due to the implementation of activities using social Islamic finance tools. These are mainly changing in the state, behavior, and status of beneficiaries. In contrast to the direct outcomes, the social outcome is not what the enterprise "produced" but the consequences of the activity - changes in their behavior. For example, this is the number of low-income families whose income has steadily increased due to receiving payments from Islamic social funds; the number of citizens with physical disabilities who are employed in an enterprise created at the expense of Islamic social funds; the

percentage of clients who have registered an improvement in their psychological state, and so on.

Determining the social effect is one of the most challenging tasks.

- Social impact and effects are those favorable changes expected from the use of Islamic social funds, which can be manifested, for example, in changes in the conditions of raising children, the health of clients, their employment, or income.

In contrast to social results, social effects are usually remote in time and show changes (behavior, perception, attitude) and the positive results that can occur due to these changes not only in direct persons but also in society as a whole. For example, this is the percentage of well-off people who received education after the activities of the social Islamic fund and subsequently received a well-paid job; the reduction in the crime rate in the region, and others.

To measure social performance in parallel with the three levels of results, it is also important to consider:

- resources/inputs – everything necessary for implementing a project or enterprise: human, material, organizational, information, and other resources.

- activities – specific actions carried out within the framework of the project or enterprise to achieve goals and objectives, such as using the initial resources and turning them into direct results, like providing specific social services.

Managing social impact and social outcomes is an essential but challenging task. Just as a social enterprise plan and builds a system for measuring financial indicators and goals, social entrepreneurs need to define their social goals clearly.

Furthermore, there are approaches for estimating the social-economic effectiveness of implementing social projects, accounting expenses for the project integration, and the social and financial outcome effects. The plan of the activity, that is, the road map of the project's social-economic effectiveness assessment, is as a following:

1. Identifying the purposes and direct beneficiaries of the project. The project's purpose must be clearly defined as a quantifiable goal - formulated in the form of a socially significant result.
2. Determining the project as the social investments category. For example, the results of the realization of the project are saving public resources.
3. Defining the social outcomes and effects of the project that can be expressed in the form of cost (tenge) - saving public resources as a result of providing needy people with food baskets and clothes from the Islamic financial institutions' sources.
4. Forecast to evaluate the values of socio-economic results of the project, financial revenues forecast, and financial analysis of indicators.
5. Calculation of the social achievements of the project, which can be expressed in units of cost, must be taken into account the average period of the providing social assistance within the project, the cost of one month/year of the assistance for one person.
6. Calculation of the total cost of the project: the list of the activity, the expenses on the realization of the activity, the expenses of the management of the project, and overall costs of the project.
7. Calculation of the socio-economic effectiveness of the project.

Thus, the Socio-Economic effectiveness is estimated as follows:

$$SEE = PVR / PVC \quad (8)$$

where

PVR – Present value of the result;

PVC – Present Value of the costs for implementing the project.

Considered approach for the assessment of social-economic effectiveness of the projects allows to make a forecast for till 5 years period and calculate the impact and effects of the implementation of the projects, and identify the actual effectiveness in the units (costs, number of persons, saving finance) for the future period.

In conclusion, we assume that the social effectiveness is complicated for assessment criteria, as obtained effects changing for a specific period are significantly different at the country and individual levels. Accordingly, as a ratio of the received social effects and the implemented financial costs, social effectiveness is also challenging to assess and often cannot correspond with economic effectiveness, which involves maximizing profits while minimizing costs. There are about 300 different approaches and models of the world's social effects and impact assessment. This research considered the main of them adopted for the specifics and the features of Islamic finance.

By using the social factors and criteria in the context of Islamic finance, the method of AHP has been adopted and implemented for the assessment of the macro-level social effects by six social factors: employment, environment, health, education, poverty, and consumption by the matrix of priority factors of experts A (formula 1) and vector X (formula 2) of the social effect of Islamic finance in Kazakhstan.

Potential zakat collection in the country has been estimated by using approach of Kahf and Shirazi, adjusted for real situation of the economic indicators of the country: Zakat potential = [GDP – Economically active population – Unemployment population – Poverty rate (PPP)] * Muslim population; obtained findings allow to evaluate resource shortfall of the country $\sum_{t=1}^q (Z - Y_i) = PGI * NZ$, which indicates the amount of the necessary sources for the poverty alleviation in the country related to the GDP on the macrolevel.

The effectiveness of implementing the projects on a micro-level has been estimated during the research. The approaches are studied in the research provide the estimation of the effectiveness of the social effects of Islamic social finance and its impact in the form of saved funds from the public resources, that are from the state budget, and in the form of beneficiaries provided by social assistance: $BCR = \frac{[\sum B_i / (1+d)^i]}{[\sum C_i / (1+d)^i]}$. The microlevel's assessment method allows for evaluating the social effectiveness in the form of savings of the needy and people with limited income, and the social effect of the realization of social business in the form of business activity instead of just giving the investment to the business funds as a charity: $SEE = PVR / PVC$ – estimation of socioeconomic effectiveness.

2 THE SPECIFICS OF THE IMPLEMENTATION OF ISLAMIC FINANCE IN KAZAKHSTAN: ANALYSIS AND ASSESSMENT OF SOCIAL PROSPECTS AND EFFECTS

2.1 Analysis and assessment of the evolution of Islamic finance in the economy of the Republic of Kazakhstan

The Global financial crisis affected about all countries of the world affected Kazakhstan. There have been fluctuations and declines in various areas. In 2020, due to the biological crisis that led to the economic, and financial country plunged into recession for the first time in almost two decades.

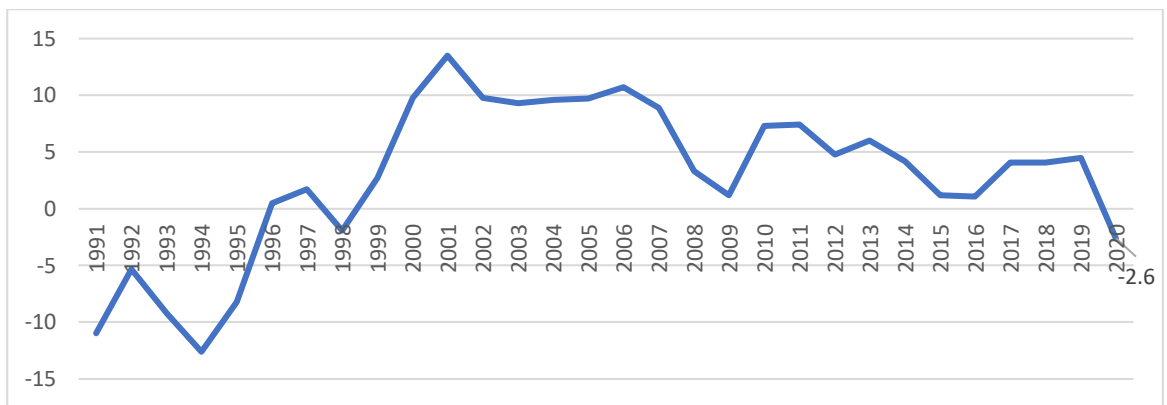


Figure 15 – Growth (fall) GDP 1991-2020

Note – Source [112]

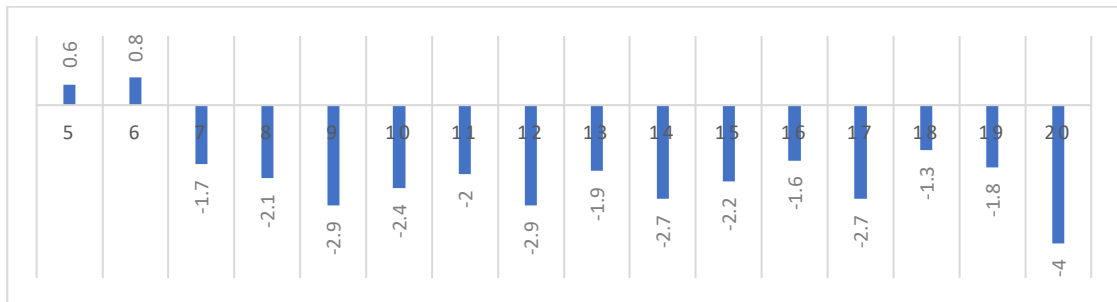


Figure 16 – Budget deficit (surplus) as a percentage of GDP, 2005-2020

Note – Source [112]

According to the World Factbook, Kazakhstan is in 11th place among export-oriented countries, with an export amount of 1 595 thousand barrels per day, which is more than 86 barrels per thousand people per day. The country produces Brent Crude oil and is a member of OIC (Organization of Islamic Cooperation).

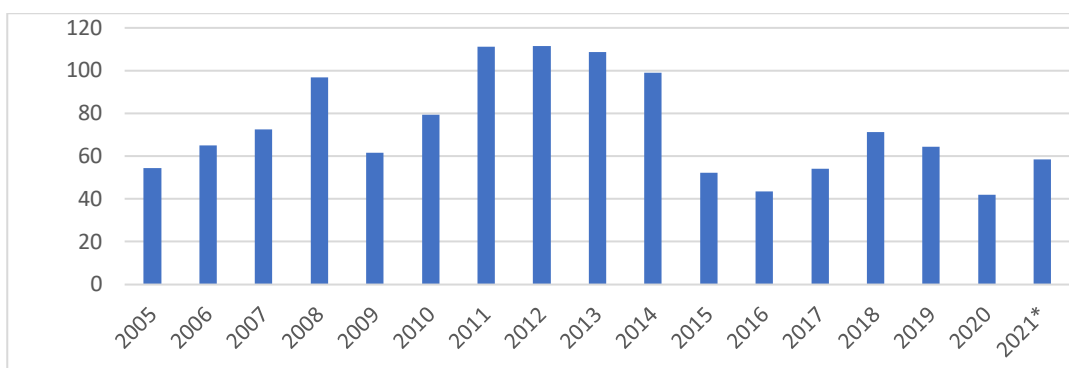


Figure 17 – Average annual Brent crude oil price in USD for barrel, 2005-2021

Note – Source [113]

Brent Crude is considered a classification of sweet light crude oil and acts as a benchmark price for oil worldwide. It is considered a sweet light crude oil due to its low sulfur content and density. It may be easily refined into gasoline. There has long been a correlation between the growth rate of Kazakhstan's GDP and oil prices, as 44% of the state budget is formed from tax revenues of the oil and gas sector, and the share of the oil in the country's export structure is 58.1% in 2019 [112].

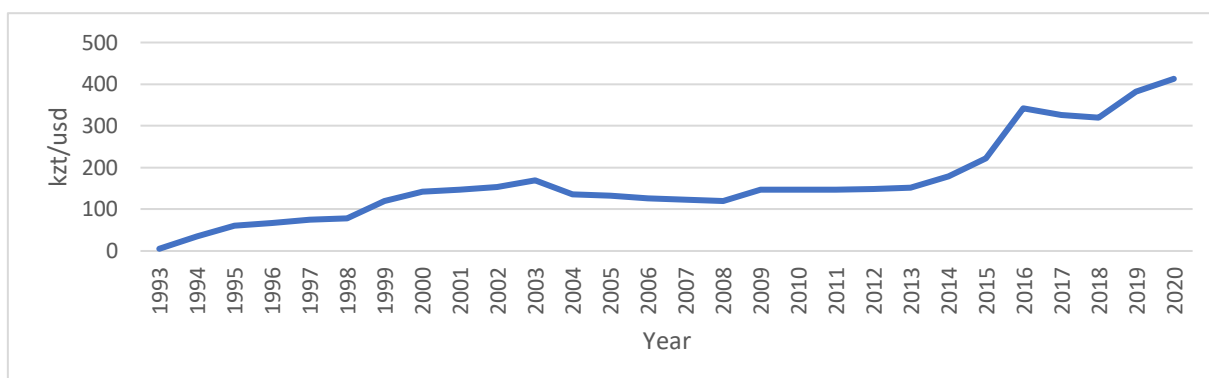


Figure 18 – Currency exchange rate KZT/USD, 1993-2020

Note – Source [112]

As can be seen from figure 19, the unemployment rate in the country is 4.9% of the employable population under 15 years old, from 9.197 million people, that is 453 thousand unemployed population. There is some inconvenience in official statistics, a significant part of Kazakhstanis is classified as self-employed – 2.069 million, while their activities and income are completely different. These include entrepreneurs who have their own enterprises and are unproductively employed, including unpaid employees of family enterprises, whose incomes sometimes do not reach the minimum living costs.

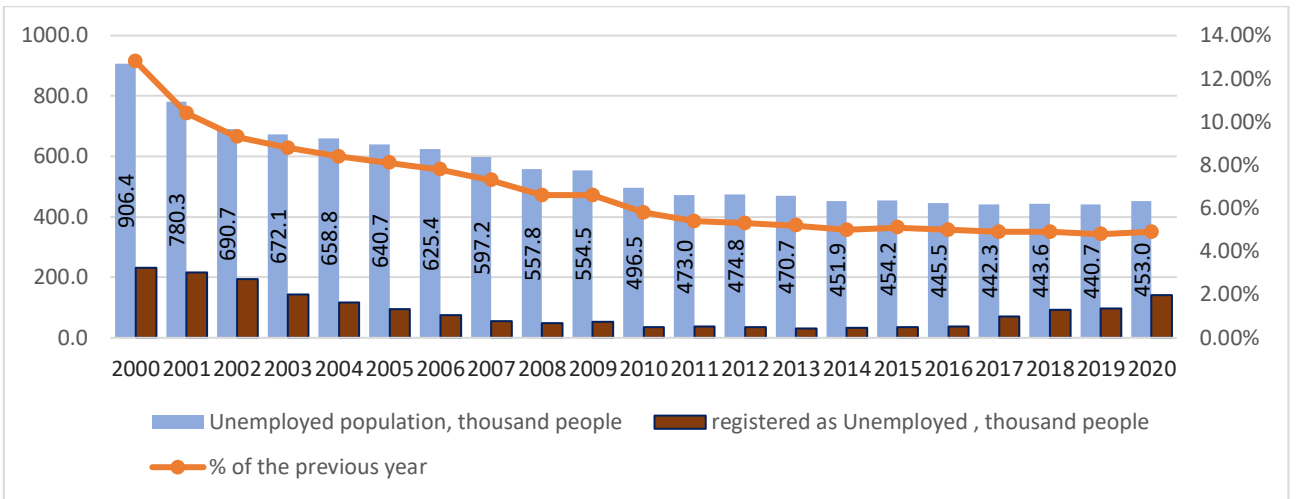


Figure 19 – Unemployment rate 2000-2020 (% of employable population, unemployed population, thousand people)

Note – Source [112]

According to experts, most self-employed are low-income citizens with less than minimum living costs. Furthermore, 148.8 thousand people registered with the employment authorities as unemployed.

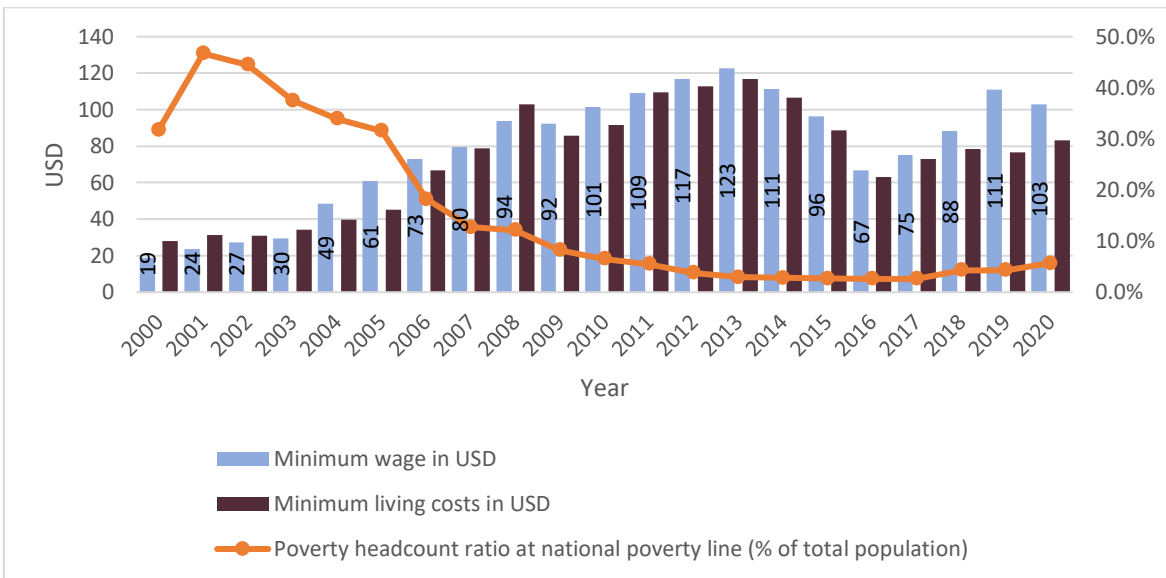


Figure 20 – Poverty headcount ratio at national poverty line (% of total population) and the minimum wage in USD 2000-2020

Note – Source [112]

The estimated Gross National savings in the present to GDP started from 2017 as a ratio of gross national savings in current local currency and GDP in current local currency. For Kazakhstan, this indicator is 28.03% of GDP for 2020 and showed the fluctuation and little growth for the last ten years from 26.31% in 2010.

In 2001 the country had 11% of the population as very poor (1.90\$ per day) and 31% as relatively poor (3.10\$ a day). According to the national poverty line, about 47 percent of Kazakhstan's population was poor in 2001. Kazakhstan successfully reduced this indicator to almost zero level in 2013, but as a result of the crisis and pandemic, the national poverty line estimation is 5,3% of the total population. In 2020, the poverty line is set at 70% of the minimum living costs, which is about 79 US dollars, 32 668 tenge for 2020. It means for being poor in statistics and by the rules in the country monthly income must be just 55.4 US dollars, 22 868 tenge, less than 1.90 US dollars per day, 1.84 US dollars, and this indicator is considered for extremally poor population in the World. Kazakhstan is ranked by the World Bank as a lower-middle-income country. The poverty line is US dollars 5.5 per day by PPP, 165 US dollars per month. However, the minimum wage in the country is only 102 US dollars, 42 500 tenge (2020, Figure 20). According to some experts, 70% of the population is socially vulnerable, or the proto-middle class, which is between the middle class and the poor [114], while 25% of the population does not have their own housing [115]. Nowadays, poverty is associated not with unemployment but with the low incomes of the population due to employed citizens living in poverty.

The instability of the national currency, the excess of expenses over income, to some extent associated with the state provision for supporting second-tier banks, and inflation have led to a decrease in the population's real incomes. The country's financial system consists mainly of the banking sector, insurance, and stock market, which occupy a smaller share.

The role of the banking sector in the development of the economy has been declining for the past few years and has now reached a shallow level. The banking sector is represented by 22 Banks, including 2 full-fledged Islamic Banks and 14 Banks with foreign participation. The total banking assets are 68.7 billion US dollars [116]. The asset-to-GDP ratio is 38.4%, and the level of bank loans to GDP is 20% [117], while in developed countries, this indicator is at 100% and above level. According to the data from S&P Global Ratings, the share of problem loans is about 20% of the total volume of loans in the Kazakhstani banking system. The National Bank of Kazakhstan, the central bank, aims to ensure price stability in the country and perform the following tasks: developing and conducting monetary policy, ensuring the payment systems' functioning, and contributing to the financial system stability. According to the central bank's primary objective, there is a monetary policy based on the inflation targeting regime (4-6%) with a floating national currency exchange from 2015, before it was the regime based on exchange rate targeting as the export-oriented developing country [116]. Generally, the central bank does not interfere in the exchange rate formation. However, it has the right to intervene in the cases of dramatic national currency fluctuations and spends monthly for interventions from the National Fund.

If to turn to the country's stock market, the capitalization indicator for the GDP is 46%, a relatively low value the indicator. The indicator of the stock market's capitalization to the GDP is about 19%. According to a World Bank report, this indicator rich the 125-150% of the GDP [118]. The volume of transactions in the securities market sector is about 3.5% of the total trading volume. The volume of trading with government securities is estimated at 20% of the total volume of

transactions in the securities market sector. It must be mentioned that the volume of transactions in the "money market" sector is 87% of the total trading volume during the period. Despite the positive growth dynamics of the securities market, its influence and role in the economy of Kazakhstan are still insufficient.

In the search for alternative solutions to the deepening crisis and declining of the country's economic indicators, the study explores the benefits of Islamic finance and an Islamic economy designed to provide for basic human needs without neglecting moral law and Islamic law. The key includes social solidarity by providing conditions for unity and cooperation between capital and labor, achieving social justice through reasonable wages, and eliminating unemployment [31] [42].

The introduction of Islamic finance in Kazakhstan can be traced back to 1992 when Albaraka Kazakhstan was established, which became the first foreign investor to invest 100 million US dollars in the country's economy. The first Regional Office of the Islamic Development Bank across Central Asia was opened in Almaty, and the country became a member of IDB in 1998. Projects and initiatives undertaken by the IDB Group have allowed the country to overcome some significant economic and social challenges [119].

Kazakhstan became the first country in the Commonwealth of Independent States (CIS) and Central Asia to introduce Islamic banking legislation and create the legal basis for the development of this market segment in 2009 [120]. There have been many activities for the Islamic finance development of the country, as the main goal is to be an Islamic finance hub in the region. Kazakhstan improved its Islamic finance country index position to 18 ranks in 2018 from 24 in 2017 as a significant regional player [47] (Islamic finance development in Kazakhstan in Appendix C). The country has established the legal framework for the organization of Islamic banks, Islamic investment funds, Islamic insurance, and leasing companies, involving the Islamic capital market, which would enable Islamic securities to be issued [121]. Tax legislation has been amended to create a level playing field vis-à-vis conventional players in terms of tax neutrality by applying the pro-rata method of Value Added Tax offset for the customers of Islamic banks.

The Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the Organization and Activity of Islamic Banks and the Organization of Islamic Finance," signed by the President of the Republic on February 12, 2009, laid the foundation for the development of Islamic banking in the country. The following table illustrates all amendments and additions to legislative acts of the country that were adopted for Islamic finance.

It is also worth noting the potential role of Islamic finance in helping to solve several state economic problems, such as financial support for small and medium-sized businesses, social programs, expanding the list of services provided by the financial sector, and developing halal industry and promoting educational programs.

Table 21 – Amendments and additions to legislative acts

№	Legislative act	Amendments' description and direction
1	Law “On banks and banking activities”	<ul style="list-style-type: none"> - the creation of a legal framework for the functioning of Islamic banks; - determination of the forms and methods of state regulation and supervision of the activities of Islamic banks; - determination of the list and procedure for the implementation of Islamic banking operations;
2	The law “On the securities market”	<ul style="list-style-type: none"> - introducing the concept of Islamic securities (sukuk) and basic concepts related to Islamic securities; - identification of types of Islamic securities; - requirements for the Islamic securities issue prospectus; - presence of a representative of the holder of Islamic securities;
3	Tax code	<ul style="list-style-type: none"> - determining types of Islamic banking related to financial services and exempted from value added tax, as well as types of Islamic securities and income from them; - highlighting the concept of investment deposit, investment deposit income and the procedure for their taxation; - the conditionality of the conditions for adjusting the total annual income received by an Islamic special purpose company (SPV) in order to avoid double taxation of Islamic securities;
4	Civil code	<ul style="list-style-type: none"> - identifying the basic laws governing relations in Islamic finance; - identifying features of an Islamic bank loan agreement;
5	The law “On investment and venture funds”	<ul style="list-style-type: none"> - the procedure for creating Islamic investment funds; - the duties of the representative of the holders of Islamic securities of Islamic investment funds are performed by the custodian; - Islamic Investment fund Declaration;
6	The law “On state registration of rights to real estate and transactions with it”	<ul style="list-style-type: none"> - establish the procedure for state registration of rights to immovable property acquired by an Islamic bank as a trustee at the expense of investment deposits;
7	The law “On licensing”	<ul style="list-style-type: none"> - determination of the license required for banking operations carried out by Islamic banks;
8	Law “On Mandatory Guarantee of Deposits Placed in Second-Tier Banks”	<ul style="list-style-type: none"> - designation with the exception of interest-free demand deposits and investment deposits placed in Islamic banks from the number of deposits to be guaranteed.
9	Law “On Insurance and Insurance activity”	<ul style="list-style-type: none"> -adaptation of takaful activities, from 2015 added the rules of takaful and retakaful operators creation.
10	Law “On Securities market”	<ul style="list-style-type: none"> -definition the features of the issue and circulation of Islamic securities. There is no interpretation of sukuk, instead of are given the definition of Islamic rental certificates and Islamic certificates of participation.
Note – Source [122] Compiled by author on the basis of Law of the RK		

The introduction of Islamic finance started earlier than Al-Hilal bank was established by the attraction of financing in the market of Islamic interbank capital by second-tier banks of Kazakhstan from 2006. From 2010 the number of Islamic banking assets and the trend of changes is given in the following table.

Table 22 – Islamic banking assets 2010-2020 in Kazakhstan

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
IB assets, mln KZT	6508	11166	12022	17042	14148	26737	21225	38986	50154	54392	80894
Trend, %	-	71.6	7.7	41.8	-17	89	-20.6	83.7	28.6	8.5	48.7
Note – Compiled by the author on the basis of source [123] [122]											

As can be seen from the above data from table 22, Islamic banking assets had intricate dynamic of change, which started from a rapid increase in 2011, 71,6%, but the following year, the Islamic banking assets growth rate was just over 8%. In 2014 and 2016, data had a negative trend of about 20%. However, in 2015 and 2017, Islamic banking increased by 89%-83,7%, respectively, and the growth of Islamic banking assets in 2020 was 48.7% compared to 2019 despite the pandemic crisis.

It should be mentioned that from 2010 to 2020 (10 years), Islamic banking grew by more than 11 times in Kazakhstan, but the volume of assets of Islamic banks is less than 1% of all assets of the banking system [123]. In the total of two domestic Islamic banks, there are 5 branches and offices with 177 employees. More than 90% of the financial transactions are based on commodity murabaha contracts and 8.5% on ijara contracts.

These days, globally, Islamic finance assets are estimated at 2.88 trillion US dollars and are presented by 1462 Islamic financial institutions [124]. The value of outstanding Sukuk is 536 billion US dollars, and 137 billion US dollars is the value of Islamic funds [4]. The banking sector is leading in all Islamic financial industry areas.

The figure above illustrates the changing dynamic of the conventional and Islamic financial assets over the last 13 years.

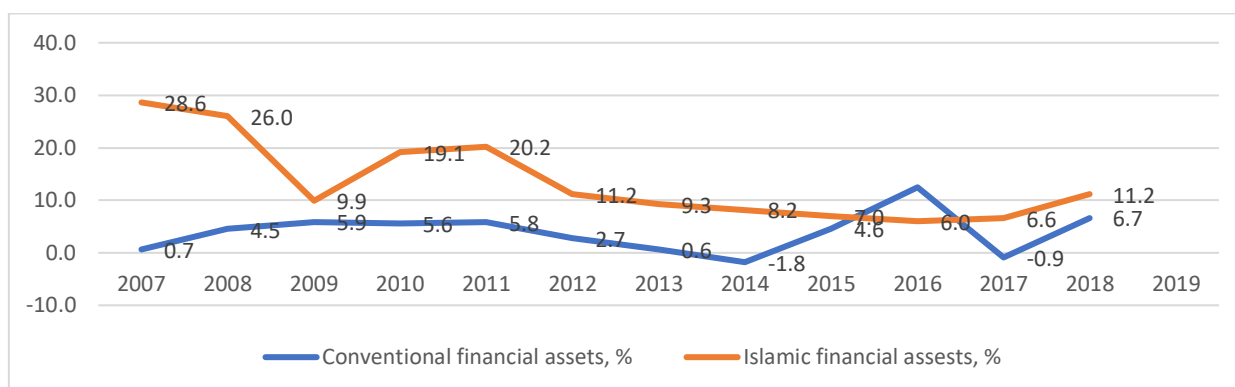


Figure 21 – Conventional and Islamic Financial assets changing rate for 2007-2019, in %

Note – Compiled by the author

For the considered period, there is given the rate of changing of the financial assets of the conventional and Islamic financial markets. During the financial crisis and after, there was a growth of 0.7% and 5.9% in conventional financial assets, while

Islamic financial assets grew 28.6% and 26%. When the conventional financial market decreased by 1.8% in assets in 2015 and 0.9% in 2018, Islamic financial assets grew by 8.2% in 2015 and 6.6% in 2018 [125]. This growth of Islamic financial assets is due to the stability and resilience to crises of Islamic finance, as discussed earlier.

The Pandemic crisis-affected to all economies across the world and the Islamic finance industry was also affected. Despite the crisis, there have been new players in Islamic banking and investment for the last year in various parts of the world (UAE, UK, Tajikistan, and Uganda). However, there has been a growth in Islamic financial assets for the last year by 13.9% for 2019-2020, and still expected the growth to 3.69 trillion US dollars by experts' estimation.

In order to determine the potential of financial resources that will possibly be attracted to Islamic financial institutions in the future, the authors decided to consider the financial services market in Kazakhstan. These days, the main tools for the allocation of capital in the financial market of the country are deposits and bank accounts, securities, and retirement services. Banks are leaders in attracting funds from the population and organizations because the stock market is insufficiently developed. Therefore the funds on bank deposits can be considered potential resources for Islamic financial instruments (Table 23).

Table 23 – Estimation of Islamic Banks assets and forecast

Indicators	Thousand tenge, 2020	Thousand US dollars, 2020
Total assets of banks	26 785 900 000	63 638 070
Assets of Islamic banks	80 894 316	192 189
Share of assets of Islamic banks	0.30%	0.30%
Total deposits in banks	21 559 200 000	51 220 451
Deposits in Islamic Banks	22 304 907	52 992
Share of deposits in Islamic banks	0.10%	0.10%
Deposits to assets of banks	80.49%	80.49%
Deposit to assets of Islamic banks	27.57%	27.57%
Estimation		
Share of Islamic banks (global)		1%
An estimate of assets of Islamic banks	267 859 000	636 381
Growth potential Islamic assets		3.3
The estimate of deposits of Islamic banks	215 592 000	512 205
Growth potential Islamic deposits	9.7	9.7
Note – Compiled and estimated by the author [42]		

Based on the financial indicators of banks for 2020, it can be seen that the share of Islamic Banking in the total assets of banks is 0.30%, and the share of Islamic bank deposits is only 0.10%. Estimating the growth potential of the share of Islamic Banking to the global average level of 1%, as well as based on the average ratio of deposits to assets of banks (80.49%) in 2020, it is possible to consider the growth potential of the assets of Islamic Banks to the level of more than 636 million US dollars, in national currency, there is increase to 267 billion tenge.

During the research, there has been a method of assessing the potential size of Islamic banking assets based on the country's Muslim population and the average amount of the individual's deposit.

According to 2020 data, the population of Kazakhstan in 2018 was 18.88 million people, while the share of the Muslim population of Kazakhstan - 70%. The majority of the population of Kazakhstan is loyal to Islamic values and, accordingly, to financial instruments based on the Shariah. Data show that the share of Islamic banking in the total volume of Kazakhstan deposits - is 0.2%. Meanwhile, the Kazakhstan population has 3 161 US dollars per capita income, almost 2.5 times more than the average amount of bank deposits, and only 0.38 propensity for saving.

Table 24 – Potential Islamic financial resources in Kazakhstan

Indicator	Kazakhstan, 2020
Population, million people	18.88
Muslim population, million people	13.29
Average per capita income per year, US dollars	3 161
The volume of deposits of the population in Banks, billion US dollars	25.07
The average amount of the individual's deposit, US dollars	1 222
Propensity to save	0.38
Islamic banking share in total deposits, %	0.2
Forecasted volume Islamic financial resources, billion US dollars	16.24
Note – Compiled and estimated by the author [42]	

If to turn to the potential Islamic banking development in Kazakhstan, with the given average per capita income and a propensity for saving, the maximum amount of Islamic bank deposits could be expected by 16.24 billion US dollars. All the data presented are predictive since they do not consider the contributions of legal entities based on Shariah principles, the dynamics of which show significant growth in Kazakhstan, and do not consider the size of the non-Muslim population loyal to Islamic financial instruments.

Nowadays, the domestic market of Islamic finance is presented by two Islamic banks (Al-Hilal Bank and Zaman Bank), the Islamic leasing companies Ijara and Al-Saqr Finance, Mudaraba company [122]. However, the future of Islamic finance is promising for many reasons. Firstly, most of Kazakhstan's population is Muslim, and there are 2404 mosques and 12 Muslim religious educational institutions (MNE of the RK).

Kazakhstan is also considered a regional financial hub, and the development of Islamic finance is one of the six pillars of Astana International Financial Centre. Kazakhstan is thus an attractive platform for the development of Islamic finance in the region. The AIFC plans to become a regional Islamic finance hub for the countries of Central Asia and the CIS by providing specialized infrastructure, legal and tax regimes, as well as opportunities for professional development. Another salient point that should be considered here is that Kazakhstan has been a member of the UN for 27 years and helped develop the UN SDG 17.

Despite all the actions and developing programs to promote Islamic finance in the country with strong support from the state, Islamic banking assets are estimated to be much less than 1% of conventional banking assets. There have been qualitative analyses by survey within the focus group of the specialists in Islamic finance to obtain data for identifying the main challenges and barriers to further developing the Islamic financial industry in Kazakhstan. The reason for respondents' sampling and orientation on the opinion of the focus group is due to low awareness of the specifics of Islamic finance in Kazakhstan. The number of experts in the field is made quiet to meet the industry's high growth rate, and it is an obstacle to Islamic financial institutions [126]. By some estimates, the number of professionals in Islamic finance – is about 270 for all regions, including 2 banks, 2 ijara companies, AIFC, and academia (excluding supported specialists).

The survey was undertaken with 45 professionals in Islamic finance of the country and experts from overseas. Respondents can be divided into three groups:

1. Players from the Islamic finance industry – Astana International Financial Centre, Authority of AIFC, "Al-Hilal" Islamic Bank, Islamic Bank "Zaman-Bank," Al-Saqr Finance (Islamic leasing company), Waqyp Fund;
2. Foreign experts involved in promoting Islamic finance in Kazakhstan and Central Asia – ICD, Islamic development Bank, ZICO Shariah (Malaysia), Amanie advisors (Malaysia).
3. Academia, universities with educational programs in Islamic finance – al-Farabi Kazakh National University, Hamad Bin Khalifa University (Qatar), Nur Mubarak University, INCEIF (Malaysia) Nazarbayev University.

There was a given survey from 11 questions, 2 of them open-ended, which requested respondents' comments, 6 of the questions offered multiple choice and 1 for Liker scale, 1 for matrix. The assessment of the obtained data there were used the simple descriptive statistics.

There should be mentioned that in the question about advantages (benefits) of Islamic financial instruments for Kazakhstan, which was given in the form of a matrix, 90% of respondents decided that reducing the impact of harmful products and practices is affects significant, as well as more than 90% answered that principle of financial justice is essential to the benefit of Islamic finance for the country.

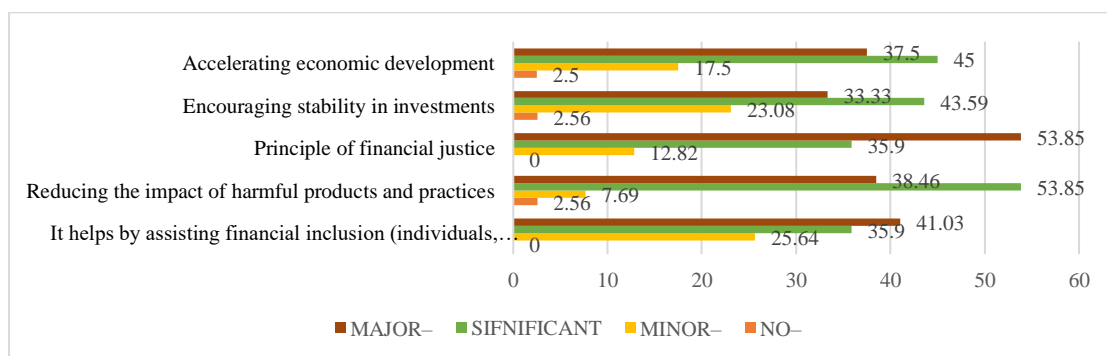


Figure 18 – Experts' assessment of the benefits of Islamic Finance for Kazakhstan

Note – Compiled by the author

From the institutional (legal, personnel, social, organizational, administrative) and economic (marketing strategies and tax incentives) barriers that should be overcome for the effective development of Islamic finance respondents identified the following issues: dedicated platform, promotion among the population, separation of religion from finance, spread knowledge; tax rules for Islamic non-bank institutions, remove VAT for trade-based products, introducing relaxation and preferences for IFI; specific Islamic finance law, allowing Islamic windows in conventional banks, clarifying legal acts; dedicated department, policies and procedures for the governance of IFI, Shariah council integration to the country's financial control; increasing literacy and awareness of the population.

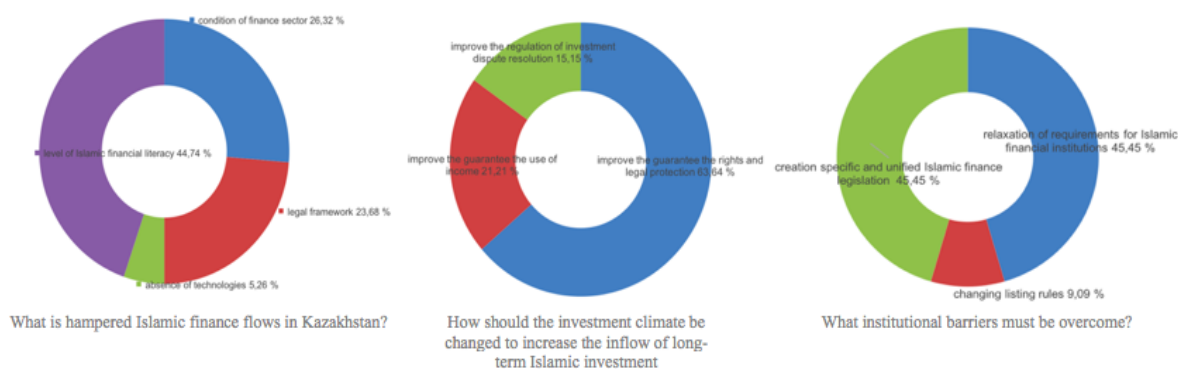


Figure 19 – Experts’ assessment of Islamic Finance in Kazakhstan

Note – Compiled by the author

Respondents were requested to give their opinion to identify the obstacles that would affect the Islamic finance inflows. According to respondents’ views, we detected a social problem: a lack of knowledge and low awareness of this sphere; 44.74% of respondents noted it. Factors such as the underdeveloped legal framework (23.68%) and the condition of the finance sector (26.32%) also play a negative role in Islamic finance inflows in Kazakhstan. The lack of Islamic financial technologies is considered a challenge only by 5.26% of respondents. 43.18% of respondents believe that creating specific and unified Islamic finance legislation will impact an increasing number of investors and issuers of Islamic financial instruments in Kazakhstan.

In contrast, others are sure that the relaxation of requirements for Islamic financial institutions will cope with the above task. The government suggested that it implement special shariah norms and standards, considering the tax incentives. An interesting idea was suggested about using tax holidays or other tax benefits for at least three years to spread Islamic financing of large investment projects.

Further authors tried to identify necessary changing in the investment climate of the country in order to increase the inflow of long-term Islamic investments. The main factor in the opinion of 63.64% of respondents for the investment climate is the improvement of the guarantee of the rights and legal protection of investors, and 21.21% believe that improving the guarantee of the use of income will affect the

increase of the inflow of long-term Islamic investment in Kazakhstan. Only 15.15% of respondents answered that it is necessary to improve investment dispute resolution regulation.

About 63% of interviewed people believe that financial technology promotes Islamic financial inclusion, while the rest of the respondents believe that financial technology can reduce the cost of financial intermediation for Islamic banks. Also, 31 professionals of Islamic finance note the importance of financial technology in increasing the number of participants in the Islamic securities market. Furthermore, 72% of respondents find financial technologies as Shariah-compliant.

The open-ended question requested comments from the respondents about the opportunities of blockchain technology, which leaves electronic traces of any transaction, ensuring the transparency and purity of financial transactions in the context of the value of Shariah. It will give Islamic banks and Islamic financial institutions competitiveness with conventional banks and financial institutions and assist in strengthening trust and confidence in promoting Islamic finance services. Respondents suggested that blockchain technologies complied with Shariah principles.

More than 92% of respondents strongly believe that it is necessary to allow Islamic windows, branches, and subsidiaries in Kazakhstan to develop Islamic financial services by banks and allow Islamic financing products and services for non-Islamic banks and financial institutions instructions. Considering legally, to accurately identify the specifics of the use of Islamic Finance, there should be made clarifying legal acts in the legislation of Kazakhstan. Thereby, the government needs to allow the opening of Islamic windows (branches). Nowadays, to requirements and prudential norms of the creation and activity of Islamic banks in Kazakhstan, there is only one possible form of full-fledged Islamic bank with a Base Capital such as conventional banks of about 26 million US dollars.

The qualitative research of the professionals gives us the opportunity to analyze the factors that must be developed and factors that are already strong and can be used for improvement and increase the number of participants, the quality of financial products, and economic activity through Islamic financial services.

An essential stage in assessing the effectiveness of Islamic finance is the measurement of the strategic prospects for its sustainable development, including identifying opportunities to realize its potential and identifying factors that contribute to or hinder the sustainable development of the Islamic financial system. During conducting the analysis there have been used following materials, such as the legislative framework of the country, foreign countries' experiences explored earlier, results of qualitative analysis among experts and professionals in Islamic finance, results of the mass survey in Islamic finance social, and Islamic finance development master-plan for Kazakhstan. In ranking the significance of factors, we used the method of expert assessments, which consists in conducting a procedure for obtaining the assessment of factors based on the opinion of experts for subsequent decision-making. It should be noted that the factors identified by experts reasonably represent the internal strengths and weaknesses of Islamic finance and external opportunities and threats that favor or not the development of the area and have not lost their significance today.

Table 25 – SWOT analysis of Islamic Finance in Kazakhstan

Strengths	Weaknesses
<ul style="list-style-type: none"> - Real asset nature of IF and strong connection between real economy and finance - Strong support from the government - Astana International Financial Centre, the Islamic Finance development one of the pillars - Desire to the systematic approach by the Islamic finance development maps, financed by IDB - Attraction additional resources from the IDB Group and international organizations for financing the country's economy - Legislative and regulatory framework of Islamic banking and Islamic finance implemented into conventional system - Presence of certain institutional experience in implementation Islamic finance - Assistance and financial support from the parent company (UAE government, al-Hilal Bank) - Clear understanding of the problems and barriers based on 10 years results - Targeted and effective application of financial funds - The stability of the mechanisms and the no cases of Islamic bank failures in the world - Direct relationship with the development of the real economy and attitudes towards state program for industrial and innovative development - Sustainability oriented financial instruments, which based on absence of institutional features exposed to crises - There are mechanisms for weakening crises' effects - Social justice and social oriented financing for establishing equity - Accelerating economic development, additional resources for activating real economic development 	<ul style="list-style-type: none"> - Incomplete adaptation, poor synchronization of local banking and tax legislation for the specifics of Islamic finance - Formal attitude from the executive body of the state - Full-fledged model of the Islamic banking with domination of the conventional system - Limited number of professionals with experience in Islamic finance and its instruments - Low financial literacy, poor awareness population and business about Islamic finance products and its effects - Dependence of subsidiary Islamic financial institutions on politics and parenting activities - Necessity of harmonization Shariah norms in the country - Profit and loss sharing principles of IF require documentary transparency and careful analysis - Mistrust of the population to fundamentally other financial products. Prejudice that Islamic finance is just marketing ploy of financial institutions; - Absence of coherence in the current legislation, using the individual approach - Weak systemic promotion and lack of shared data access services contribute to possible frustration -Mistrust of the population to Islamic social institutions

1 Opportunities	2 Threats
<ul style="list-style-type: none"> - Stimulating real production in Kazakhstan - Direct benefits for the Kazakh economy in case of attraction investment resources from the Middle East and Southeast Asia - Enhancing the image of Kazakhstan as a secular state, which successfully introduces Islamic finance - Diversification of funding sources, especially for SMEs - The presence of niches in the financing market that are not sufficiently covered conventional finance (small entrepreneurship, agricultural sector) - Possibility of improving the position of alternative institutions in conditions of declining consumer confidence in conventional banks in period of financial crisis - There is expected stable demand for Islamic financial products (70.2% of the population are Muslims) - Principles of Islamic finance help reduce social inequality, strengthening social justice - Expanding access of the population to financial services through the emergence of alternative financial products (development of mortgage lending, retail insurance, MCO) - Strengthening the role of Kazakhstan as a regional hub for the transfer and exchange of experience - Increasing support from international organizations and countries in IF development - Positive perception of the industry rebranding process and expansion service platforms - Possible application of methodology and tools, successfully proven in the world, in the framework of public and private corporate sectors of the country in order to reduce the interest debt burden and financial recovery of strategic enterprises of the country 	<ul style="list-style-type: none"> - Negative experience of introducing one of the elements of Islamic financing will jeopardize the development of Islamic finance in the country as a whole - The image of the country (currently Kazakhstan is actively covering the world on the ongoing work in the field of Islamic finance, in the case refusal to develop Islamic finance will suffer image country) - Risk of fraud. The emergence of pseudo-Islamic financial institute will lead to the loss of confidence of part of the population in the Islamic financing in general - Islamophobia. There is an opinion that this industry allegedly is involved in terrorist organizations and extremism; - Cultural differences and mentality (rejection of Islamic principles at the consumer level) - Fear of competition from microfinance institutions and mutual insurance companies offering traditional financial services - Lack of real rehabilitation of the investment climate, unwillingness to officially recognize available facts - The extreme degree of passivity and indifference on the part of the number government agencies on the issue of active implementation of these services - Resistance due to misunderstandings from private shareholders local commercial banks
Note – Compiled by the author	

In conclusion of the section, it is becoming clear that the country requires alternative sources for financing economics and the financial system. The need to search for the solutions to the deepening crisis and decline of the country's economic indicators, such as GDP (-2.6%); budget deficit (-4%); Brent oil price; inflation rate; national currency devaluation; unemployment rate (4.9%); and poverty headcount (5.3%); also financial indicators - the banking asset-to-GDP ratio (38.4%), where

problem loans share is 20%; stock market capitalization to-GDP (46%), determine the focus of the study. The study explores the benefits of Islamic finance and an Islamic economy designed to provide for basic human needs without neglecting moral law and Islamic law [29]. They mainly include social solidarity by providing conditions for unity and cooperation between capital and labor, achieving social justice through reasonable wages, and eliminating unemployment [31] [42].

There has been analyzed the evaluation of the Islamic finance sector in the country from 2010 by investigating Islamic finance's infrastructural and legislative development. Results showed a growth of 34% on average, with the growth of Islamic banking assets in 2020 being 48.7% in comparison with 2019 despite the crisis of pandemic.

In order to determine the potential of financial resources attracted to Islamic financial institutions in the future, the authors have assessed potential Islamic financial assets by two methods. First, based on funds on the average ratio of deposits to assets of banks and the global average level of 1%, the growth potential of the assets of Islamic Banks is estimated - at 636 million US dollars, in national currency - 267 billion tenge (Table 23). The second method of assessing the potential size of Islamic banking assets is based on the country's Muslim population and the average amount of the individual's deposit. The expected maximum amount of Islamic bank deposits is 16.24 billion US dollars (Table 24).

The SWOT analysis, as a stage of measurement of the strategic prospects for its sustainable development, including the identification of opportunities to realize its potential and the identification of factors that contribute to or hinder sustainable development of the Islamic financial system in Kazakhstan, has been made based on the results of a questionnaire of 45 experts and professionals in Islamic finance (Table 25). Thus, the authors have highlighted the following strengths: stability, which is provided by real economy development nature, state and international support and development view, legislative and regulation framework with the attempt to implement it in the conventional financial system, sustainability in the form of the resilience to crises. As for weaknesses, the authors have identified a lack of professionals, low awareness of the population and business, mistrust and misunderstanding of the actual personal benefits, and economic and financial development. As external factors that provide additional opportunities for the sustainable development of Islamic finance, we have identified: stimulating real production, diversification of funding sources, and social advantages. As threats to the external environment and country – the threat of image of the country, islamophobia, the difference of mentality, and lack of actual rehabilitation of the investment climate.

2.2 The potential social effects of Islamic finance in the Republic of Kazakhstan

According to the previous section's findings, the Islamic financial industry is a perspective and promising area of economics. The social features and instruments allow the implementation of Islamic finance to solve social issues. The method of AHP has been used to assess the potential social effects of Islamic finance in Kazakhstan on the macro level. There have been used 5 selected experts' in Islamic finance from Islamic financial institutions assessment to obtain the index weight of social impact of 6 factors.

Table 26 – Matrixes based on experts' assessment, 6 factors

Expert 1	1	2	3	4	5	6	Scale of priorities
1	1.00	6.00	7.00	9.00	6.00	8.00	0.48
2	0.17	1.00	7.00	6.00	7.00	8.00	0.26
3	0.14	0.14	1.00	7.00	8.00	9.00	0.14
4	0.11	0.17	0.14	1.00	6.00	7.00	0.07
5	0.17	0.14	0.13	0.17	1.00	8.00	0.04
6	0.13	0.13	0.11	0.14	0.13	1.00	0.02
Expert 2	1	2	3	4	5	6	Scale of priorities
1	1.00	5.00	0.17	1.00	7.00	7.00	0.27
2	0.20	1.00	0.50	1.00	1.00	1.00	0.10
3	6.00	2.00	1.00	5.00	1.00	1.00	0.29
4	1.00	1.00	0.20	1.00	5.00	5.00	0.19
5	0.14	1.00	1.00	0.20	1.00	1.00	0.08
6	0.14	1.00	1.00	0.20	1.00	1.00	0.08
Expert 3	1	2	3	4	5	6	Scale of priorities
1	1.00	7.00	5.00	1.00	9.00	3.00	0.42
2	0.14	1.00	9.00	1.00	1.00	1.00	0.14
3	0.20	0.11	1.00	1.00	1.00	1.00	0.07
4	1.00	1.00	1.00	1.00	9.00	1.00	0.19
5	0.11	1.00	1.00	0.11	1.00	1.00	0.06
6	0.33	1.00	1.00	1.00	1.00	1.00	0.11
Expert 4	1	2	3	4	5	6	Scale of priorities
1	1.00	0.13	0.11	0.14	9.00	8.00	0.08
2	8.00	1.00	7.00	4.00	1.00	9.00	0.40
3	9.00	0.14	1.00	1.00	1.00	7.00	0.16
4	7.00	0.25	1.00	1.00	7.00	9.00	0.25
5	0.11	1.00	1.00	0.14	9.00	8.00	0.08
6	0.13	0.11	0.14	0.11	0.13	1.00	0.02
Expert 5	1	2	3	4	5	6	Scale of priorities

Continuation of table 26

1	2	3	4	5	6	7	8
1	1.00	7.00	5.00	0.50	1.00	7.00	0.25
2	0.14	1.00	0.11	0.14	0.11	3.00	0.03
3	0.20	9.00	1.00	0.33	1.00	9.00	0.15
4	2.00	7.00	3.00	1.00	1.00	9.00	0.30
5	1.00	9.00	1.00	1.00	1.00	9.00	0.24
6	0.14	0.33	0.11	0.11	0.11	1.00	0.02
Note – Compiled by the author							

Selected social factors are 1 employment - the number of the employed population, thousand persons; 2 environment - the volume of pollutant emission into the atmosphere, tons; 3 health – the spending on the healthcare per capita; 4 education - the education enrolment of the population aged 6–24 years, %; 5 poverty - the share of the population with an income below the subsistence minimum, %; 6 consumption - average consumer spending per capita, USD [105]. Then according to the experts' assessment, the initial judgment matrices were established.

Using the Microsoft Excel software, AHP calculator, and the expert data aggregation method, the subjective weights of the evaluation indices of 5 experts averaged and determined by AHP were obtained as follows: average Scale of priorities [0.301, 0.187, 0.162, 0.201, 0.100, 0.052]. The resulting weights are based on the principal eigenvector of the decision matrixes.

Table 27 – Results of the Scale of priorities for Matrix

	Factor	Priority	Rank
1	Employment	30.1%	1
2	Environment	18.7%	3
3	Health	16.2%	4
4	Education	20.1%	2
5	Poverty	10.0%	5
6	Consumption	5.2%	6
Notes			
1 Compiled by the author			
2 Number of comparisons – 15			

According to Table 27, the first priority was given to the Employment factor with a value of 30.1%. The second priority was the factor of Education (20.1%), the third priority was the Environment (18.7%), the fourth was the Health factor (16.2%), the fifth and sixth priorities on the poverty and factors - 10.0%, and 5.2% respectively.

The following stage of the AHP matrix for the assessment applies the rule of matrix multiplication by a vector of Islamic finance in the country. The data of the dynamics of socio-economic indicators are multiplied by the values of the obtained Rating of expert priority of factors by mathematical calculations. Further Islamic

finance in priorities and social impact consists of 6 social selected factors, average changes, and indicators of Islamic financial assets. The average rate of change for 11 years period of social factors in the country is estimated based on the official database of the Bureau of National Statistics of the Agency for strategic planning and reforms of the Republic of Kazakhstan [112].

As can be seen from the table below, the average dynamic of Islamic financial assets in the country for 11 years is 34.19%, while other social indicators changed to 4.71% maximum as consumption, the level of poverty declined is 2.03%, spending on health per capita growth is 1.57%, the rate of employed people changed on 0.92%, and educated people level increase for 0.26% in average.

Table 28 – Islamic financial assets in social factors by priority

Indicators	IFA	Employm.	Environ.	Health	Educat	Poverty	Consum.
Average dynamic of indicators 2010-2020, %	34.19	0.92	0.52	1.57	0.26	-2.03	4.71
Scale of priorities		0.30	0.10	0.16	0.20	0.10	0.05
IFA in factors		0.09	0.03	0.06	0.07	0.03	0.02
Note – Compiled by the author							

The obtained results illustrated the Islamic financial asset in selected social factors by priority – 31.26%, and for the considered period, the change of the social effects was insignificant compared to increasing the Islamic financial assets. The social effects of the factors in context with Islamic finance have the following structure: employment (0.09), education (0.07), health (0.06), poverty and environment (0.03) and consumption(0.02). This method's priorities scale can be used to assess the effects of Islamic finance in changing priorities for a particular time by using the available data of different countries and regions.

Further assessment on the macrolevel of the potential Islamic social financial tool – zakat has been done. Furthermore, potential zakat influence on recourse shortfall for covering the poverty headcount of the country and the spending on social payments to specific groups of the population have been evaluated.

The difference in the form of zakat implementation in Muslim countries affects the regulation and amount of collected zakat sum. In some countries, zakat has an obligatory form and is regulated by the law and government of the country. In others, zakat is collected in not obligatory form and also regulated by legislative framework by specialized state bodies.

By using these empirical methods for investigating the resources gap for poverty alleviation, the authors have estimated the resources that Kazakhstan needs to cover poverty as a percentage of GDP for 2020 (formulas (2) and (3)). The country needs 1.89% of GDP, 3 209.92 million US dollars, to push up its poor at 1.90 US dollars per day which is the income for the state targeted assistance and a national poverty line.

Moreover about 5.48%, 9 307.06 million US dollars to push the relatively poor above 5.5 US dollars per day. (Authors' own estimation)

As a member of several organizations for Islamic finance development, Kazakhstan is an object of the researchers and estimations of potential impact and prospects of Islamic finance and financial tools. Thus, the potential zakat amount has been estimated and its impact on poverty reduction in the country using private gold holdings, broad money, stock market capitalization, and inventory investments.

The following chapters study the available ways to solve the problems mentioned above and use the social benefits of the tools of Islamic finance.

Table 29 – Potential Zakat collectible in Kazakhstan for Poverty reduction

Zakat to GDP ratio potential (ZGDP)	Poverty Gap to GDP (2\$) (PGI-GDP)	Poverty rate to GDP (1.90\$) (PHCR-GDP)	Correlation GDP growth and Zakat to GDP	Potential Zakat Collectible (mln \$)	People Lifted Out of Poverty from Potential Zakat Collection (2\$)
2.69%	0.01%	0.03%	-0.42568	6 232	1777
Note – Source [66, p. 29]					

Potential Zakat estimation has been adjusted for finding the more real indicator in the percentage of GDP. (Section 1.3) First of all, we decided to adjust the methodology used by Shirazi and others in the estimation of potential zakat by excluding not only the non-Muslim population and poor population from the calculation amount but by adjusting the economically active population to use this indicator, that is the percent of the total population engaged in the production of goods and services, at the working-age 16-59 for women, 16-63 for men in Kazakhstan for 2020. The author's first adjustment of the GDP in US dollars has been made for 83.1%. From the economically active population correction, the potential zakat collection in GDP adjusted for the unemployed population in 2020. 4.9% of the population. Only after this estimation has been adjusted to the Muslim population since the zakat is mandatory only for Muslims, compared to the previous author's study, all populations who live below 5.5 US dollars per day (2. 265 million) were excluded from the zakat payers.

As can be seen from Table 30, the author's potential zakat collection estimation is 1.97% of the GDP compared to previous research Shirazi – 2.93%, Shaikh – 2.69% of the GDP.

In this regard, we tried to empirically analyze the potential zakat collection as an institution of wealth redistribution for solving the problem of poverty in Kazakhstan, using the current data and economic situation.

We decided to consider two scenarios, one of which is based on income at the National poverty line (i), and the second based on the international poverty line of the World Bank for Kazakhstan, which is 5.5 US dollars per day, as a lower-middle-income country, that is 165 US dollars (68 137 tenge) per a month, 2007.5 US dollars

for 365 days in a year (ii). By using methods of calculating potential zakat for Kazakhstan [63, p. 33] [69, p.31, 32] [55, p.258] [66], in this research author has used the following indicators for adjustment.

Table 30 – Potential Zakat collectible in Kazakhstan, 2020

1	Year	2020
2	GDP in million USD	169 836
3	Adjusted GDP in million USD (economically active population)	141 134
4	Adjusted GDP in million USD (unemployed population)	134 219
5	Adjusted GDP in million USD (70% Muslim population)	98 794
6	Adjusted GDP in million USD for poverty line (5.5 \$ per a day)	86 939
7	Z1 million USD	1 564
8	Z2 million USD	3 347
9	Z3 million USD	3 773
10	Z1 % of GDP	0.92
11	Z2 % of GDP Potential zakat collectible	1.97
12	Z3 % of GDP	2.22
Note – Compiled and estimated by the author		

According to the official data, income lower than the subsistence minimum for calculating the amount of primary social benefits is 32 668 tenge (79 US dollars) per month, and the income lower than 70% of the minimum living costs is considered for state targeted social assistance. The state targeted social assistance is a payment in cash provided by the state to individuals (families) with a monthly average per capita income below the poverty line. There are two forms of assistance – unconditional financial assistance to individuals and families with limited opportunities to participate in employment measures and conditional financial assistance to employable individuals and families with an employable member with an income less than 22 868 tenge (55.4 US dollars) per month.

Kazakhstan has used the concept of absolute poverty since 2000, which considers minimum living costs equal to the cost of the minimum consumer basket (the minimum set of food products, goods, and services necessary for life). The national poverty line in Kazakhstan is determined on the basis of the value of the subsistence minimum on average (minimum living costs) per capita in percentage terms, depending on the state's economic capabilities. It is estimated at 5.3% of the total population. 12 000 households' sample survey is used for determining indicators every quarter. Furthermore, the estimation method considers the consumer basket as the main criterion, but the selection of products to the basket is carried out by experts and nutritionists, not based on household behavior, and consists of 43 commodity items.

The number of recipients was about 936 thousand people from 184 thousand families, including 600 thousand children (64%) and 73.5 thousand big families for social assistance in 2020. The total sum of the state payments for targeted social

assistance is 76 700 million tenge (182.6 million US dollars), which is 0.11% of GDP. This is an average of 6 828.7 tenge per month (16.5 USD dollars) per recipient.

For 2021 spending for targeted social payment to the needy people, who have income less than 1.90 US dollars per day, 24 011 tenge (58 US dollars) per month, for 122 800 million tenge. If to analyze these data given by official resources of the country, 936 thousand people of the total population were in real need in 2020 with an income of less than 1.90 US dollars per day. According to an international indicator established by World Bank, That is an extremely poor population.

There are several methods of assessing the poverty line in international practice, such as the median approach (60% of the national median income), by purchasing power parity (5.5 US dollars per day). If to estimate these methods for the country's data, 60% of the national median income is 10% of the total population, about 1.877 million poor people. By PPP estimation, according to the World Bank's method, which takes into account 5.5 US dollars per day, there are about 1.541 million people in Kazakhstan who live below the poverty line in 2019. By estimation for 2020, by the medium scenario poverty line is 12% of the total population of 2.265 million people, that is 724 thousand additional poor people than were in 2019 [127]. This data based on PPP is two times more than the national poverty line. According to the Global Hunger Index, Kazakhstan is ranked as 5.6 scores in 2020, low on the GHI severity scale.

Table 31 – Potential Zakat collectible in Kazakhstan for Poverty reduction (by 2020 data)

Zakat to GDP ratio potential	Poverty Gap to GDP (1.90\$)	Poverty rate to GDP (1.90\$)	Poverty Gap to GDP (5.5\$)	Poverty rate to GDP (5.5\$)	Potential Zakat Collectible (mln \$)	People Lifted Out of Poverty from Potential Zakat Collection, multiplicity (1.90\$)	People Lifted Out of Poverty from Potential Zakat Collection (5.5\$)
Number of the population under poverty line, million people						0.943	2.265
1.97%	0.02%	0.04%	0.26%	1.79%	3 347	5.11	0.74
Note – Compiled and estimated by the author							

The study results illustrate the role and impact of potential zakat collectible in the issues of poverty reduction in the country, in the case of a transparent and direct policy of the state in cooperation with SAMK, responsible ministries. The estimations or the study illustrate that the years to fund poverty with potential zakat collection are less than 1 for the poverty rate at 1.90 US dollars per day and between 5 and 6 for the poverty rate at 5.5 US dollars per day. The estimated resource shortfall for the population below 1.90 US dollars per day, 1.89%, can be covered by the potential zakat amount. It can be suggested that the effect of using potential zakat for poverty reduction at the 1.90 US dollars level will not require many years, but 5.5 US dollars will need the time. After a certain period, the defined population from the needy people of the

group under 5.5 US dollars per day will cross the poverty line and move to the group of the population who obliged and can pay zakat. As a result, the redistribution of wealth through the zakat institution will reduce the number of people in need in the country and redistribute the income of the population and activate the previously economically inactive population.

Even though, according to official data, the majority of the population, 70.2% or 13.159 million, is Muslim, there is only one religious association in the country - the Spiritual Administration of Muslims of Kazakhstan (SAMK) non-profit voluntary association. The primary purpose of the SAMK: the promotion and dissemination of the religion of Islam; ensuring the correct promotion of the religion of Islam; and the sermons of our Prophet Muhammad; preserving the consent of the Muslims of Kazakhstan; contributing to the preservation of the canons of Shariah in religious organizations; solving religious problems of Muslims through authorized representatives in the regions; training specialists in teaching the population religious literacy; establish links with foreign religious organizations, associations, educational institutions; as well as the development of religious literature, textbooks, and necessary publications. The SAMK's activities are guided by the Constitution of the Republic of Kazakhstan, the Civil Code, the Law "On Non-commercial Organizations," the Law «On religious activity and religious associations, "other legislative acts, and Charter.

The Zeket foundation of the SAMK was registered with the Justice Ministry in 2011 and had 19 offices in the country. From establishing year, the fund carried out the activity as a representative of SAMK for collecting alms and donations, zakat, and sadaqah from individuals and legal entities. The fund carried out the functions of distribution and managing collected donations and provided information on implemented social projects through the fund's official website and media.

The zakat and waqf systems act according to the general charity legislative framework, Islamic financial institutions' activity operates within Law "On charity," Law "On non-commercial organizations," Law "on religious activities and religious associations," Civil code and tax code of the RK.

The zakat and sadaqah fundraising are implemented through the Bank account specified on the website, directly through the website, mobile application available on the Play market, through the mobile applications and websites of traditional banks (Halyk, Kaspi), which are integrated into payments, and are also collecting cash in mosques.

Figure 20 illustrates the institutional structure of the zakat management in the country. As can be seen from the structure, there are 11 departments of the SAMK, and Zeket foundation belongs to the Charity and Waqf department. The Zeket foundation is regulated by the Committee of Religious Affairs of the Ministry of Information and Social Development as the charity fund related to the SAMK. The committee's regulation is mainly related to religious affairs and issues, and there is no regulation of the financial activity.

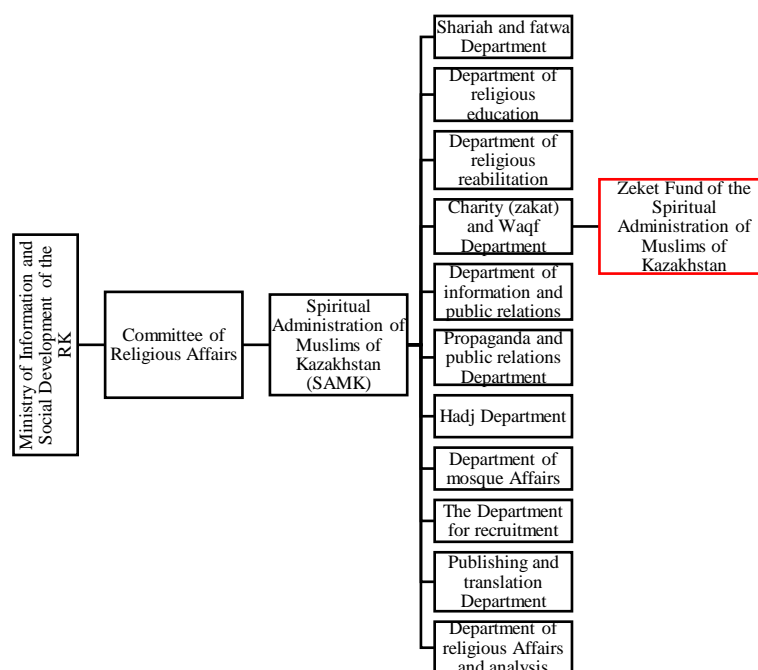


Figure 20 – Institutional structure for zakat management in Kazakhstan .

Note: Compiled by the author.

The fund has its base of needy and poor people, and the base at the country's level is under development, which will allow generating all needy people by Taxpayer identification number for all regions.

Table 32 – The amount of Zakat and charity provided by the Zeket Foundation

Year	2011-2012	2018	2019*	2020*
Total amount of social assistance by Fund (thousand tenge)	52 682	288 779.8	424 927.5	2 836 075.9
Number of families received social assistance from Fund	-	55 620	73 000	297 000
Notes				
1 Source [69]				
2 Estimated according the average assistance per family for previous year, and price per square meter of housing for considered year				

The primary purpose of creating this base is to form reporting of social assistance, as there will be information which many times in tear/month, in which amount and form the person was assisted. It will avoid speculation among people who requested social assistance. It must be noted that all developments of the platforms (website, application, and base) are financed by the donators and sponsors especially attracted to these developments, not from the zakat collection.

From the data given in Table 32, the average amount of social assistance in the monetary term is 5 012 tenge per family. The total amount of social assistance by Zeket Fund (thousand tenge) is estimated according to the average assistance per family for the previous year and price per square meter of housing for the considered year, which

is 200 379 tenge per square meter, according to the data of Bureau of National statistics. The total amount of zakat collection in the country is meager compared to the potential zakat collection estimated by researchers – 2.69%, and the author's estimation is 1.97% of GDP. It is a fact that historically religious organizations received the largest share of charitable donations, 31% of all donations globally [128].

If turned into the waqf, it plays a significant role in economic development that is a consequence of the features of social nature. The key are enhancing economic progress, eradicating poverty, restoring income distribution, preventing deficit financing, and reducing government expenditure. According to IRTI, the World Bank estimated the potential global assets of waqf as being about 550-600 billion USD dollars [129].

The waqf system is a new concept for Kazakhstan, which demonstrates the mechanism of activating the small and medium businesses on the one hand and eradicating poverty in foreign experience. There are 2610 mosques and 10 Muslim religious, educational institutions in Kazakhstan, which can be considered waqf prosperity. As practice shows, the mosques and madrasahs belong to religious associations. According to the Law "On religious and religious associations," religious associations can own the property acquired or created by them at the expense of their funds or donated. Generally, there is a common practice of building mosques and madrasahs to raise funds by people.

For a number of reasons, the waqf development of the country in its infant period is non-systematic and unorganized. The SAMK is the only official responsible religious body, as was noted before. The legislative framework of the charity is based on the general Law and consists of the Law "On charity," the Law "On non-commercial organizations," the Law "On religious activities and religious associations," Civil and Tax Codes, and others. There is no special law on Islamic social financial tools. According to the Law on the charity of the RK, the charity is a socially helpful activity based on the provision of charitable assistance and satisfaction of humane needs, which is free or on preferential terms in the form of philanthropic, sponsorship, and patronage activities and charitable organization is a non-profit organization established for charitable activities.

The first attempt to create an official waqf institution was in 2017, and there has been established Uaqip corporate charity fund in cooperation with SAMK. The main goal of the fund's activity is based on three directions: improving state-confessional and inter-confessional relations, strengthening society's secular foundations, and preventing the use of religion for destructive purposes. The financing of the fund activity goes from voluntary donations from individuals and legal entities, and the generated amount is divided as 70% for the formation of an endowment and 30% for charitable projects.

There are 36 charity funds in the country listed on the official website of the electronic government. The main function is to collect donations and transfer them to social and charity projects and assistance to the needy. However, the waqf system is based not only on the distribution of collected resources but also on the endowment, on investing collected resources in Shariah compliance projects with making profit purpose, which is (profit) distributed among beneficiaries. This mechanism of

development charity involves donations to the economic activity and production and accumulation of profit.

According to the Law, the income of a charitable organization is generated from the 8 sources: donation, bequest, or gratuitous transfer of property; voluntary donations; income from charity auctions; target capital (endowment); income from business activities and other sources. The generated income of the charity organizations is spent on single, multiple, or long-term charitable assistance, social advertising, and charitable organization activities.

The 12 Article of the Law on Charity identifies the regulation of the endowment of the charity organization. If the target capital (endowment) exceeds the amount of one hundred million tenge (about 238 000 US dollars), the organization transfers the trust management of the endowment to the management company.

There are restrictions in the legislative framework for the establishment and activity of the Waqf institutions in the country. However, by 6 Article of the Constitution of the RK, there are only two forms of the property – the private and state (government) properties. Many scholars have the same opinion regarding ownership of waqf assets and properties, identifying them "as if God owned it." It means that the property of the waqf fund must be public property without belonging to the individual or a state. This provides one of the most significant obstacles to the waqf institutions' development in the country from the Shariah compliance position.

Kazakhstan ranks 115 of 146 countries by the indicator that measures the countries' achievements in the world in terms of the attitude of their population to charitable assistance (The World Giving Index). In Kazakhstan, only 10% of people of the urban population make donations for charitable purposes, 20% participate in volunteer activities, and 30% of the population provides small-scale assistance to those in need.

In our opinion, there are three main issues and challenges in potential zakat fund and waqf fund development of the country:

The absence of a special legislative and regulatory framework led to ineffective collection and distribution; The not mentioning and absence of the definition of both meaning zakat and waqf even in general laws and property rights of funds are contradicted with Shariah decelerate the entrance into the country of international participants represented by Islamic development organizations and development banks.

There are only several members in this area with limited resources and capacity, administration of which is carried out by the department of SAMK, also with limited capacities;

And the low level of awareness of the population and business and lack of literacy about Islamic social instruments. This, in turn, impacts the institutional trust of the population and inefficient mobilization of zakat and waqf.

The qualitative analysis via a survey has been conducted among the population to provide recommendations for addressing the country's challenges. A stratified sample of 1376 respondents from different areas (urban and rural) of Kazakhstan and various age groups were surveyed [130]. The sample error of the obtained results of the survey was calculated by Stata software – 4.38%. This sampling error is enough

for making decisions, as the maximal level of the sampling error is 5%. Specific criteria were set to ensure that each participant provided reliable and sufficient information. The participant must be 18 years or older as questions require mature answers from knowledge and experience.

The statistical techniques were used during the process to attain the profile and behavioral pattern of the participant. The data were analyzed using descriptive statistics in the form of frequency and percentage in the computation of the variables.

The age distribution of the respondents was divided into 4 groups: 18-30, 30-44, 45-63, and 64 – older. The distribution of respondents in the study is – 18-30 age group – 39.5%, 30-44 age group – 29%, and 45-63 age group – 29%. The reason for considering the last age group is that the retirement age for both genders is 63. There is a limitation of the last age group respondents of the study. Only 2,5 % of the respondents are under 64 years old. This age group is not an active user of Internet resources through which the questionnaire was disseminated among respondents. As can be seen from the data below, the young age group was more active during the study, as the survey was done by collecting sociological information based on the use of Internet technologies – the internet or a web survey.

The answer to the question of how often do respondents do charity is distributed as follows: 28.4% (355) answered – monthly, 19.2% (240) answered – once in three months, 15.8% (198) do charity every half-year, while 30.6% (383) of respondents do charity once a year on Ramadan. In general, we can say that most of the population takes part in Islamic charity events, like Qurban and Ramadan. Only 6.1% (76) of respondents never do charity. They do not belong to the considering denomination or do not have extra funds for charity.

More than half of the respondents, 53.3% (667), spend less than 100 US dollars per year on charity. 28.8% spend on charity from 100 to 500 US dollars, and only 40 respondents or 3.2% make donations over 1000 US dollars. Zakat is the mandatory and minimum amount of funds that a Muslim is obliged to pay. More than half of people have less than 4000 US dollars zakatable assets (savings, gold, investment). As the rate of zakat depends on the nature of origin, the zakatable items are 2.5% by Kahf and AAOIFI Standards, and zakat is the required minimum of the donations of Muslims [131] [37]. The annual spending for charity by respondents reflects population segmentation by income. The majority does not have sufficient funds to make large donations. It is not easy to show the delivery data since the donation system does not have centralized open data.

Most people distinguish between Islamic social finance tools and are familiar with the purposes of these donation forms. 67.2% (841) of respondents know the difference between the main Islamic social finance tools, zakat, and sadaqah. However, the fundamental concept of Shariah – riba is unknown to most respondents. 715 of the respondents, 57.1% do not understand the concept of riba (interest) in Islamic finance, only 19.2% know the riba concept good, and 23.6% satisfactorily. This allows us to conclude that Islamic social finance is developed at the individual level and poorly developed at financial institutions, banks, and investment funds.

There is a problem with awareness of the waqf in Kazakhstan and, accordingly, the underdevelopment of this direction, including the opacity of funds, the functioning

and distribution of funds is not open, and, as a result, there is no market for Islamic securities. The awareness of waqf is understanding the existence of the institution of waqf, the purpose of waqf in Islamic finance, and the role of waqf in poverty alleviation is less than 6%. Consequently, about 94% of the people do not understand the waqf concept well and its role in developing Islamic finance. As a result, 990 respondents, 79%, answered that they needed an explanation about the function of waqf.

This study indicates that 44.1% of the respondents know about Islamic social finance tools such as zakat, sadaqah, and waqf from family and friends, 34.3% from internet and social media, while just 5% studied in courses and training, and 8% participated in conferences and forums on Islamic finance.

Table 33 – The results of the questionnaire of 1376 respondents

Age group	18-30	30-44	45-63	64 and under	
	39.5%	29%	29%	2.5%	
Frequency of charity	Monthly	Once in 3 months	Every half-year	Once a year	Do not do charity
	28.4%	19.2%	15.8%	30.6%	6%
Charity per year	Till 100\$	100-500\$	500-1000\$	Over 1000\$	Do not do charity
	53.3%	28.8%	8.6%	3.3%	6%
Comfortable way of doing charity	Directly	Mosques	Noncommercial organizations	charity	Do not do charity
	71.3%	17%	5.7%		6%
Reason of doing charity directly	Inability to trace	Mistrust	Absence of the system	Desire to see the needy	Other ways
	39%	15%	17%	6.3%	22.7%
Note – Compiled by the author					

According to the survey results, knowledge about Islamic finance is informative and superficial, and only a small number of the population have a deep knowledge of Islamic finance instruments.

71.3% of respondents do charity directly to needy people, while 17% donate through mosques, and 5.7 through non-commercial charity organizations. It is explained by the inability to trace the donation, the absence of a centralized charity system in the country, and the mistrust of intermediaries and spiritual institutions. It should be noted that 63.8% of the people are ready to use a charity application where they could choose the direction of the charity and see the donation result. Thus, when organizing a transparent system for the functioning of Islamic social finance, more than half of the respondents are ready to use modern technologies in the form of applications.

In conclusion of the section, it must be noted that Islamic finance and sustainable development are increasingly converging, and Islamic social finance tools could be both a resource and a solution for solving sustainability issues during and after the pandemic period. Kazakhstan has achieved impressive results in developing and promoting the region's Islamic financial industry in the last few years. Using the AHP method of assessing the effects of Islamic finance in selected 6 social factors, based on the assessments of priorities scale of 5 experts, it is found that employment, education,

and environment are ranked first, and ranks follow health, poverty, and consumption. The obtained results illustrated the Islamic financial asset in selected social factors by priority, 31.26%. Taking into account the economic and financial situation affected by the crises in developed and developing economies and financial markets across the world, the stable and promising condition of the global Islamic finance market gives the right to the assets, that Islamic finance can be the alternative way of solving the financial and social issues of the country.

The given results of the study illustrated the potential amount of Islamic financial assets of the country and estimated potential zakat collection, which can cover the state spending to the social assistance from the budget and the resources shortfall of the country. According to our estimation, the resource shortfall at the 1.90 US dollars poverty rate is 1.89% of GDP, while potential zakat collection is 1.97% of GDP. It means an appropriate approach for further development of Islamic finance by ricing the number of Islamic financial institutions (assets, profit, zakat) and promoting Islamic social finance instruments by providing transparency and corresponding information to the donators it is possible to cover the country's resource shortfall by potential zakat amount.

The survey of 1376 respondents in Islamic social finance and the position of people in doing charity gives the results for concluding that citizens do not trust the intermediaries in the field of charity and request the mechanism for maintaining the transparency of the activity of charity foundations, especially Zeket foundation, as the main central foundation for Muslims. The following chapters of the study are dedicated to formulating the solution in the form of the technological tool and making recommendations to assess the social effectiveness of implementation suggested solution on the example of the Zeket charity foundation.

2.3 The role of Islamic finance and Islamic financial institutions in solving social problems of the Republic of Kazakhstan

Nowadays, the Kazakh Islamic financial industry is represented by two Islamic banks, two Ijara companies, several consulting firms, and brokerage companies. However, there have been no significant public transactions in the securities sector with Islamic securities of the economy.

According to the official data, there are about 20 leasing companies in Kazakhstan, including two Islamic ijara companies JCS Kazakhstan Ijara Company (KIC) and JCS Al-saqr Finance. By some estimates, the total amount of assets of leasing companies is 475.17 billion tenge. (financial reports of the companies) 2 of the 20 leasing companies are owned by the state. (KazAgroFinance and BRK-leasing), Furthermore, 93.6% of the country's leasing area investments are state-owned leasing companies' shares. The total assets amount of both Islamic ijara companies is estimated at 13.24 billion tenge, 2.8% of all leasing companies' assets.

KIC JSC was established as the first Islamic leasing company in 2013. The shareholders are ICD (Islamic Corporation for the development of private sector, part of the Islamic Development Bank Group), Al-Hilal leasing company Aktif Bank and others. The leading target group of KIC is small and medium enterprises in the country. The company provides alternative shariah complaint financing and is a participant in business road map 2025 of Damu, clients of KIC can participate and receive state support within the program.

In comparison, Al-Saqr finance JSC was re-organized in a Shariah-compliant form of activity in 2016 from the conventional leasing company with more than 16 years of traditional (non-Islamic) experience. The company is an active participant in the Kazakhstan Stock Exchange (KASE) and the state programs of Damu.

If turn to microfinance in Kazakhstan, the microfinance market is the fastest growing in the country's financial sector. On average, the amount of assets has increased by 41.1% per year over the past three years. The loan portfolio of microfinance organizations is 418 billion tenge, and the portfolio has increased by 42.6% since the beginning of the year. The main activities of the sector organizations are supporting entrepreneurs, reducing poverty, ensuring the availability of financial services, and others. It is worth noting that the state controls the market of microfinance organizations through the Agency for regulation and development of the financial market (ARKRDFM). The number of active microfinance organizations is 229 on 1 January 2021, according to the Association of Microfinance Organizations of Kazakhstan (AMFOK). 107 organizations located in Almaty, 47 % of all microfinance country's organizations, and form 83% of the total loan portfolio, 27 in Nur-Sultan, 29 in Shymkent, and 20 in Karaganda. The return on assets (ROA) for all MFIs is 6.2%, return on equity (ROE) is 20%, and epy net profit for 2020-2021 was 32 billion tenge. It is inspected that Islamic microfinance particularly and microfinance, in general, will grow because there is a high level of demand from entrepreneurs and the rural population, which represents 46% of the country's population [69].

The Islamic finance securities market is still on its rudimentary level. There has been only one Sukuk issuance for more than 10 years of Islamic finance development, initiated by the government of the country through the Development Bank of

Kazakhstan for 240 million Malaysian ringgits, which is about 70 million US dollars, 62% of which is distributed among Malaysian investors, 38% was placed in the organized market of the country [132]. Furthermore, Astana International Exchange (AIX) announced the cross-listing of three Sukuk issues of the Islamic Development Bank (IDB), previously placed under the Medium-Term Notes (MTN) Program in the amount of 25 billion US dollars and traded on Euronext Dublin, Nasdaq Dubai and Bursa Malaysia (Exempt Regime) in 2020. The few transactions with Sukuk are the underdevelopment of the Capital market in the country, both equity and debt capital market.

For assessing the effects of Islamic financial institutions on the financial sector of the country, we conducted 8 in-depth interviews with senior executives and responsible representatives of the Islamic finance market players: Al-Hilal Islamic Bank, Zaman Islamic Bank, Kazakhstan Ijara Company, Al-saqr Finance, Astana International Financial Centre, Social Islamic Finance and Zeket fund. The senior executives were selected for their knowledge of Islamic finance and experience in this area.

To analyze the role of Islamic financial institutions compared to conventional, we obtained in-depth interviews with representatives of 2 conventional banks in the country: Bank CenterCredit JSC and KZI JSC. The interview strategy aimed to understand the social responsibility of those involved in Islamic finance institutions.

The interviews were guided by a set of open-ended questions, which helped to assess the social impact of the Islamic financial institutions. Every interview lasted from 40 to 80 minutes and covered the main 3 blocks of questions, general information about institutions, social effectiveness and effects of the activity of the institutions, and experts' view on the assessment of social effectiveness of Islamic finance. The transcript was recorded in the interview language, and then transcript documentation was translated into English and rechecked for the content and meaning of the text. There has been used the content analysis to identify the social effects and the perspectives of the Islamic social finance. For the Islamic financials, 2 banks, and 2 ijara companies have used annual reports for 2019 and 2020 years available at the companies' websites. The financial institutions' annual statements were also used to estimate zakat as 2.5% of the annual profit, which must be paid by the institution or by shareholders. Since not only financial indicators are involved in assessing the social effectiveness of Islamic finance, the results obtained from interviews will allow for assessment of it. There have been used following indicators:

- financial statements and results of operations;
- social projects in which were involved institutions;
- social effects of the implemented projects;
- the estimated amount of zakat, formed from the profit of the Islamic financial institutions;
- qard-hasan (loan without interest and profit for a financial institution) transactions;
- the policy of payment delay in the case of hardship;
- employment policy in the crisis;
- prohibition on financing haram businesses.

We have adopted the index of social responsibility studied and Rodoni et al. to assess the Islamic social finance index (ISFI) for the country's financial institutions. The study is based on the research on social disclosure from the Islamic point of view. Based on R.Kamla, M. Zarka, and N.Shirazi, M.Asutay [133], this thesis built the design of themes of Social effects in Islamic finance [134]. For estimation of the index, which we called as Islamic social finance index, the score was calculated. The approach to calculating scores is considered in a dichromatic way. For the reported and given indicator, the score is 1, and for unreported is 0.

$$ISFI = \sum_{i=1}^N \frac{x_i}{N} \quad (8)$$

where

ISFI_j – social finance index score for Islamic institution j;

N – number of items in the index;

x_i – 1 if the item is disclosed;

x_i – 0 if the item is not disclosed.

The information obtained from interviews was used to assess the Islamic financial institutions' Islamic social financial activity index. The index is estimated as the score for each theme examined in this study: Shariah; zakat; charity and donation, qard-hasan; delay in the case of hardship; employee, prohibition of haram business financing. The themes consist of sub-themes, and the score of 1 for reported and opened themes divided by the number of sub-themes for unopened theme (sub-theme) estimation is 0. The overall Islamic Social Finance index for the every considered financial institution was estimated. The study conducted the following table results.

Table 34 – Islamic social finance index (ISFI)

Theme	Al-Hilal Bank	Zaman Bank	KIC	Al-Saqr finance	Score/Theme rank
Sariah	1	1	1	1	4/ 1 rank
Zakat	0.66	0.34	0.66	0.34	2 / 5 rank
Charity and donation	1	1	1	1	4/ 1 rank
Qard-Hasan	0	0	0	0	0 / 7 rank
The policy of payment delay in the case of hardship	1	0.33	1	1	3.33 / 4 rank
Employee	0.5	0	0.66	0.5	1.66 / 6 rank
Prohibition of financing haram businesses	1	1	0.5	1	3.5 / 3 rank
Overall index by each institution	0.74	0.52	0.69	0.69	
Note – Compiled by the author					

The theme dedicated to Shariah products and services of Islamic financial institutions and the Charity and donation theme (but interviewers warned about the inability to use the information for marketing purposes) took the first place in the rating of the theme disclosure. Table 34 illustrates that the prohibition of financing haram

businesses ranks third in the revealed themes, and the policy in the case of clients' hardship ranks 4 — one of the interesting of our study themes zakat, which has 2 scores and ranks 5. The amount of zakat was estimated from the annual published statement [32, p. 520].

We found that only one Islamic financial institution pays zakat on retained earnings through the institution's account, the other two estimate its amount for shareholders, and one leaves it for shareholders estimation and payment. As can be seen from the table, there is a lack of information on the *qard-hasan*. Even though this instrument is one of the social in comparison with other Islamic financial instruments, there is no practice of using *qard-hasan* for customers in Kazakhstan.

Using the method of assessment Islamic social finance index for Islamic financial institutions, we attempted to understand the social effects of institutions through interviews and content analysis. The specific feature of these institutions is their social responsibility inactivity and operations, one of the main differences from the same conventional institutions. There are evidence and facts about the institutions' voluntary charity transfers and other social activities. This assumes a more significant voluntary role in social welfare. The role of each institution and the AIFC is considered further in the study.

Islamic Bank Al-Hilal JSC. The following information is provided from interviews of the member of the Management Board of the bank – Interviewer 1, and the member of the Shariah Board – Interviewer 2. Al-Hilal Islamic Bank is the first Islamic bank in Kazakhstan and the CIS, established in 2010 under the agreement of the Governments of the Republic of Kazakhstan and the United Arab Emirates. It is a subsidiary of Al-Hilal Bank PJSC – one of the fastest-growing Islamic banks in the UAE, with 100% participation of the government of Abu Dhabi. After 7 years of successful work with corporate clients, the bank launched a retail business line in 2017. Furthermore, currently, the bank provides a wide range of banking products and services that comply with the principles and rules of Shariah, such as accounts, deposits, financing products, cash and settlement services, treasury services, and others, through branches in Almaty, Nur-Sultan and Shymkent. The head Al-Hilal Bank PJSC joined a major banking group, merging with Abu Dhabi Commercial Bank (ADCB) and Union National Bank (UNB) in 2019. The number of employees in the bank is 120 people for all branches in Kazakhstan.

Initially, Al-Hilal Bank in Kazakhstan focused on the corporate sector, providing Islamic financial instruments and solutions for large and medium-sized businesses. It offers *murabaha*, commodity *murabaha*, *ijara*, and *wakala* instruments to corporate clients. Al-Hilal Islamic Bank has started to cooperate with the *Damu* program, and it impacts increased the share of medium-sized businesses. In specific projects related to microfinance, there is a diversification towards medium-sized businesses, retail, and microfinance (from 3000 thousand US dollars). For individual clients bank offers home financing within *murabaha* contract, *wakala*, and *mudaraba* instruments, the minimum sum is 1500 US dollars for individuals. The bank presented itself as a bank for a targeted client with a stable income with high requirements for risk management. The bank provides internet banking for clients, *alhilal-online*. Forming a digital structure is an expensive project and needs millions of investments. As a result, the bank does not

have digital solutions for all clients, and there is work on the development own application for the bank.

Table 35 – Financial statement of Islamic Bank Al-Hilal JSC for 2020

	01.01.2021 (thousand tenge)	01.01.2020 (thousand tenge)
Assets		
Cash	1 645 183	766 101
Accounts in the National Bank of RK	14 424 928	7 369 203
Debts of banks and other financial organizations	5 572 957	7 669 381
Requirements to customers	31 308 817	16 237 568
Available-for-sale securities	0	0
Accounts receivable	3 439 480	3 088 296
Property, plant and equipment and intangible assets	1 276 669	1 829 574
Other assets	156 876	68 382
Total assets	57 824 910	37 058 505
Liabilities and equity		
Debt to banks and other financial organizations	10 298 645	124 423
Current accounts and client deposits	20 503 531	16 245 674
Accounts payable	1 173 309	866 358
Other liabilities	8 101 370	2 490 615
Total liabilities	40 076 855	19 727 070
Equity		
Shareholders' Equity	10 732 338	10 732 338
Reserve capital	6 583 821	5 197 160
Provision for revaluation of available-for-sale investment securities	0	0
Retained earnings	431 896	1 401 937
Total equity	17 748 055	17 331 435
Total liabilities and equity	57 824 910	37 058 505
Note – Source Financial statement 2020 Islamic Bank Al-Hilal		

The assets of the Bank have increased from the establishing year for about 9 times in tenge term for ten years.

The current liquidity ratio, which characterizes the overall availability of the bank's working capital for financial activity and timely repayment of the bank's current liabilities, increased in the period under review from 1.00 to 1.53, or by 53%. The standard value for this indicator is usually considered to be in the range of 1 to 2. The positive trend in this indicator over the analyzed period increased the probability of repayment of current liabilities at the expense of cash, receivables, and other current assets. The term liquidity ratio, or as it is also called the quick liquidity ratio, which reflects the share of current liabilities covered by cash, receivables, and the sale of short-term securities, increased in the analyzed period from 0.22 to 0.23 or by 4%. The absolute liquidity ratio, which reflects the share of current liabilities covered exclusively by cash, increased in the analyzed period from 0.05 to 0.08, or by 70%. Return on equity (ROE) and return on assets (ROA) for 2020 are 2.43% and 0.70%, respectively.

Table 36 – Financial indicators of Al-Hilal JSC for 2019-2020

Indicators	2019	2020	Changes	
			Growth	in %
Liquidity indicators				
Coefficient of absolute liquidity (Cash Ratio)	1.04	1.60	0.56	54%
Coefficient of urgent liquidity (Quick Ratio)	0.22	0.23	0.01	4%
Coefficient of current liquidity (Current Ratio)	0.05	0.08	0.03	70%
Capital structure indicators				
Financial independence ratio (EQ/TA)	0.46	0.30	(0.16)	(34%)
Total-Debt-to-Total-Assets (TD/TA)	0.53	0.69	0.16	30%
Total liabilities to equity (TD/EQ)	1.14	2.26	1.12	98%
Non-current liabilities to assets (LTD/TA)	0.07	0.32	0.24	351%
Profitability indicators				
Return on equity (ROE), %	8.09	2.43	(0.09)	(69%)
Return on assets (ROA), %	3.78	0.75	(0.03)	(80%)
Note – Compiled and estimated by the author				

We used the business orientation of Islamic banks by using indicators. First, the ratio of fee-based to total operating is an indicator of bank involvement in the fee-based business. The second is the loan-to-deposit ratio, which shows bank liquidity by comparing total loans to total deposits and non-deposit funding to total funding. Then, the indicators of bank efficiency - overhead cost and cost-income ratio (alternative efficiency indicator) have been used. T. Beck suggested these indicators for assessing Islamic banks' business orientation and efficiency [39]. The indicators of stability are considered in table 36 as financial indicators of the bank. The results are shown below:

Table 37 – Business orientation and bank efficiency indicators of Al-Hilal JSC for 2020

Indicator						
Business model			Efficiency		Stability	
Fee income	Non-deposit funding	Loans deposit ratio	Cost income	Overheads	ROA	CAR
31%	48.8%	119.7%	127%	6.38%	0.75%	30.7%
Note – Compiled and estimated by the author						

The first indicator of business orientation is in the frame of average indicators for banks – conventional and Islamic. According to T. Beck, the fee income indicator is 31%, while the average is 33% (from 5.7% to 68.2%), according to T. Beck. The loan to deposit ratio and the non-deposit funding ratio is out of the average indicator value of 119.7% (17.8%-110%) and 48.8% (0-13.9%). All three business model indicators for the bank are higher than conventional ones, which is the specificity of the Islamic banks. However, the efficiency indicators are less than conventional and in

the frame of average, for cost-income – 127% (1%-714%), and overheads, which is the main indicator of bank efficiency – 6.38% (1%-5%).

If to turn to the social activity of the bank, the information is not available in any sources because, according to Shariah, using the social activities for promotion or marketing is strongly prohibited.

There is a special account for charity uses where the funds received from the non-halal activity are accumulated, and fines and penalties to clients. This account forms the charity fund and is used for charity projects divided into two parts in Al-Hilal Bank, the first one is for the promotion and popularization of Islam, and the second one is assistance to the needy people, orphanages, and medical organizations. Zakat-fund of the Bank is formed from the zakat of the profit and organized at the ADCB group level. The bank's social activities are aimed at working with individuals and charitable foundations.

The bank does not have a particular service, department, or employee to assess the reliability of information about individuals in need. There were many cases of applying for help from cobblers and unscrupulous people. However, the informal comity handles all requests and applications for assistance on a local level, and then requests are sent to the Shariah Board. The Shariah Board of Islamic Bank Al-Hilal is in the UAE, and funding for social projects is provided only after approval and decision. Bank mainly assists the individuals in regions of the country where there are more in need families than in large cities such as Almaty and Nur-Sultan. Furthermore, assistance is provided not in the form of cash and money, for example, payment for treatment, purchase of necessary equipment, and others. Thus, targeted and direct assistance is provided to the final consumer in need.

The social assistance to hospitals and other medical institutions for children with cerebral palsy and others is provided in the form of medical equipment, medical products, or in the form of repair work, which repair work, which is paid directly to the company's teams to eliminate speculation with the cash and money.

The educational projects supported by the bank have 3 types of social responsibility. Firstly, there have been organized extensive pieces of training for imams, about 200-300 listeners in each city, of the mosques in Islamic finance in Almaty, Nur-Sultan, Shymkent, and East Kazakhstan by scholars of Shariah board from Abu-Dhabi. The second type is to select the best Kazakh students for studying in UAE, in Islamic studies universities, and the bank cover payments for education, accommodation, and others. Three students have already graduated. The third direction is supporting educational organizations in Kazakhstan. As a result of the bank's support, this institution had high accreditation and provided a high quality of education. As can be seen from the information above, the social effects of the bank's supporting activity can be assessed in the number of graduated students from universities in UAE and from local educational organizations, participating listeners, and their dissemination of the knowledge gained.

One more direction of social activity is implemented through SAMK (Spiritual Muslims Administration of Kazakhstan). There have been projects such as the payment of utilities, food, and accommodation for children studying in the madrasah of Nur-Mubarak University.

There is a way to estimate the actual zakat of the bank shareholders, as Islamic financial institutions are obliged to zakat payment through the bank, and either shareholder pays it themselves. In the case of Islamic Bank Al-Hilal, the zakat amount is payable through the bank using zakat-fund.

Table 38 – Zakat estimation of Islamic Bank Al-Hilal for 2012-2020

Year	2020	2019	2018	2017	2016	2015	2014	2013	2012
Profit in thousand tenge	431896	1401937	563599	816804	1479073	1611872	577552	419906	303566
Zakat* in thousand tenge	10 797	35 048	14 090	20 420	36 977	40 297	14 439	10 498	7 589
Note – Author’s own estimation									

The table above illustrates the zakat payment of Islamic Bank Al-Hilal for 9 years of taking profit from the Bank. The Islamic financial institutions are responsible for paying zakat every year by shariah, and mostly zakat must be paid in the country where profit was earned.

Islamic Bank Zaman JSC. The interview respondent was the top manager of the Bank – Interviewer 3. Zaman Bank was founded in 1991 and is one of the five oldest banks in Kazakhstan. The Bank has 27 years of banking successful activity experience. As Islamic Bank, it was converted in 2017 from the conventional Bank with a long way of conversation from the initiation of the conversion procedure in 2013. The major participants of the Bank are Tasbolat Abguzhinov, Bekbolat Abguzhinov, and Alan Abguzhinov (95%). The Islamic Corporation for Private Sector Development (ICD), a multilateral organization and a member of the Islamic Development Bank (IDB) group, is also a shareholder of the Bank (5%). Furthermore, the Bank is a partner of the Shariah Review Bureau, a member of the Malaysian Commodity Exchange “Bursa Malaysia,” a member of the Kazakhstan Stock Exchange, and has a representative office in the Astana International Financial Center (AIFC). There are 70-80 employees in the Bank for all branches in Kazakhstan.

The main target clients of the Bank are small and medium companies and individuals. The list of services provided fully complies with the requirements of the banking legislation of the country. The main instruments of the Bank for individuals and companies are Mudaraba and Wakala, the starting financing of which is 100 US dollars for individuals and 1500 US dollars for companies. Being Islamic Bank, financial institutions try to be among the competitive banks of the country and offer favorable operating rates. The Bank provides an internet banking system for clients but does not provide the application. As the card system providing is expensive and needs processing center solutions, being the associate member of the Visa or Master Card for the international payment system, Bank does not have their own card system these days

Table 39 – Financial statement of Islamic Bank Zaman JSC for 2020

	01.01.2021 (thousand tenge)	01.01.2020 (thousand tenge)
Assets		
Cash and equivalents	6 571 920	5 165 428
Debts of banks and other financial organizations	1 850 334	2 805 502
Requirements to customers	19 936	26 252
Fixed assets	49 078	48 616
Islamic finance receivables	12 633 138	10 923 146
Property, plant and equipment and intangible assets	17 962	9 134
Reserves	190 565	190 565
Current corporate income tax assets	15 541	56 277
Deferred corporate income tax assets	14 231	31 910
Right-of-use assets	195 851	196 314
Other assets	1 510 850	581 329
Total assets	23 069 406	20 034 473
Liabilities and equity		
Debt to banks and other financial organizations	884 233	673 545
Current accounts and client deposits	7 446 427	5 231 114
Accounts payable	132 545	580 930
Provisions for contingent liabilities	682 123	535 678
Lease obligations	200 527	202 904
Other liabilities	792 204	154 968
Total liabilities	10 138 059	7 379 139
Equity		
Shareholders' Equity	10 050 000	10 050 000
Additional paid-in capital	122 037	122 037
Retained earnings	2 759 310	2 483 297
Total equity	12 931 347	12 655 334
Total liabilities and equity	23 069 406	20 034 473
Note – Source Financial statement 2020 Islamic Bank Zaman		

Table 39 shows the bank's financial report for 2019 and for the 2020 year, where despite the pandemic and financial impact to all banking activity, the bank had an increase in assets and profit last year. The bank's assets have increased about 5 times in tenge term for ten years, it is illustrated in the figure, the increase has been from 4 792 959 thousand tenge in 2010 to 23 069 406 thousand tenge in 2020.

The financial indicators given in table 40 illustrate the decrease of all bank liquidity ratios for one year period. Thus, the current liquidity ratio decreased from 0.98 to 0.88, or by 10%, as it is usually considered in the range of 1 to 2, it is less than standard. The absolute liquidity ratio, which reflects the share of current liabilities covered exclusively by cash, also declined 10%. The other indicators, such as Total-Debt-to-Total-Assets, Total liabilities to equity, and Non-current liabilities to assets, illustrated the 30-40% positive trend. Return on equity (ROE) and return on assets (ROA) for 2020 are 2.13% and 1.20%, respectively.

Table 40 – Financial indicators of Zaman Bank JSC for 2019-2020

Indicators	2019	2020	Changes	
			Growth	in %
Liquidity indicators				
Coefficient of absolute liquidity (Cash Ratio)	0.99	0.89	(0.10)	(10%)
Coefficient of urgent liquidity (Quick Ratio)	2.77	2.53	(0.24)	(9%)
Coefficient of current liquidity (Current Ratio)	0.98	0.88	(0.10)	(10)%
Capital structure indicators				
Financial independence ratio (EQ/TA)	0.63	0.56	(0.07)	(11%)
Total-Debt-to-Total-Assets (TD/TA)	0.37	0.44	0.07	34%
Total liabilities to equity (TD/EQ)	0.58	0.78	0.20	34%
Non-current liabilities to assets (LTD/TA)	0.08	0.11	0.03	42%
Profitability indicators				
Return on equity (ROE), %	1.32	2.13	0.01	98%
Return on assets (ROA), %	0.83	1.20	0.003	37%
Note – Compiled and estimated by the author				

Table 41 – Business orientation and bank efficiency indicators of Zaman Bank JSC for 2020

Indicator						
Business model			Efficiency		Stability	
Fee income	Non-deposit funding	Loans deposit ratio	Cost income	Overheads	ROA	CAR
68%	26.5%	22.5%	196%	6.24%	1.20%	56%
Note – Compiled and estimated by the author						

The indicators described the business orientation, bank efficiency, and quality show the same situation as in the case of Al-Hilal bank. The fee income indicator is more than in the previous case but still in the frame of indicator value, close to the high rate (from 5.7% to 68.2%). The loan to deposit ratio and the non-deposit funding ratio is out of average indicator value – 22.5% (17.8%-110%) and 26.5% (0-13.9%), respectively. All three business model indicators for the bank are higher than conventional ones, which is the specificity of the Islamic banks. However, the efficiency indicators are less than in conventional and in the frame of average, for cost-income – 196% (1%-714%), and overheads, which is the main indicator of bank efficiency – 6.24% (1%-5%).

If to turn to the social activity of the bank, the information is not available in any sources, as the bank does not have the right to use the information of social projects and assistance to the needy for marketing purposes, and this information is confidential.

In choosing projects for funding or cooperation, the bank considers the social responsibility of the outcome of the project, along with financial profit. As Zaman Bank is an Islamic financial institution, the clients of the bank are considered a partner,

and responsibility and risks are shared by both sides. The bank strives not to shift all risks to its customers. In addition, the bank charges penalties and fines from the clients only in a situation in the case of actual violations by customers in the form of delinquency. The bank often tries to meet them in the event of crises, as happened during the quarantine period, when borrowers were deprived of income. The proceeds from fines and penalties are generated on an account aimed at social activities and assistance to those in need. The prohibited bank income from the activity is also generated in this account.

There are projects also financed by the bank and the spending from special charity accounts. During the pandemic and mass morbidity of the population, the bank has spent about 10 million tenge on the artificial lung ventilation purchase and donations to the medical institution in 2020 since there was a significant shortage of these devices in Kazakhstan.

For 19 years, the bank has funded projects for social needs. The primary recipient of the bank is the children's center Alem for children with cerebral palsy located in Ekibastuz, the bank has sent about 500 thousand tenge monthly for the last 20 years. Part of the money was directed to the educational fund and part of the money to the children's center for the rehabilitation of children with cerebral palsy. The social effects of the projects are estimated by hundreds of children who have received treatment in the children's center Alem every month for the last 20 years. As the bank has long time cooperation with this center, the results checking process and transparency of the charity transactions are stable.

One more direction of the social activity of the bank is assistance to the educational fund Taiburyl, which has 4 program types for supporting education in the form of educational grants, monthly charity assistance to the students, supporting schools, universities, and grants for schoolchildren. The second program is directed to the financial support of the research in the country. The third direction is supporting talented and gifted children and young scientists. Finally, the assistance is not in financial form, that is, sharing knowledge and guest lectures of professionals in different areas to the students and schoolchildren. The organization does not have a database or lists of provided social assistance and applications for social assistance and help for the needy, as there is no special department or employees responsible for these activities.

In contrast with Islamic Bank Al-Hilal, Islamic Bank Zaman informs the shareholders about the payment of zakat after receiving the dividends, and shareholders pay zakat themselves. The following table shows the zakat amount paid by shareholders from 2017, from the converting year from conventional to the Islamic bank.

Table 42 – Zakat estimation of Islamic Zaman Bank for 2017-2020

Year	2017	2018	2019	2020
Profit in thousand tenge	694 473	521 667	211 501	386 847
Zakat in thousand tenge	17 361.83	13 041.68	5 287.53	9 671.18
Note – Compiled and estimated by the author				

From the analysis of the social activity of Islamic Bank Zaman, it can be concluded that along with the main financial activity of the institution, several activities are not connected with commercial profit. However, these social activities affect society in the form of prohibition financing of a haram business, improving the bank's social responsibility and its clients, direct social assistance to the needy and ill children, and supporting educational projects. Payment of zakat is one more tool for redistributing wealth in the country. It should be noted that described additional functions of the Islamic financial institutions are not regulated by civil law but are regulated by Shariah law, and institutions adhere to and control them independently.

Kazakhstan Ijara Company JSC. There are two Islamic leasing companies in the Islamic financial market these days. The first ijara company was established in 2013 with the Islamic Private Sector Development Corporation (ICD) cooperation and a group of international and local investors. The company offers two Islamic financial instruments, Ijara and Murabaha, for 50 000 US dollars and carries out activities according to the Shariah law and the legislation of Kazakhstan. There is a range specter of the segments of the company's financing: manufacturing sector, transport sector, health services sector, construction, road building, commercial property, mining sector, railway sector, agriculture, and renewable energy sources. The targeted clients of the company are corporations, legal entities, peasant farming, and private entrepreneurs. The company does not provide leasing services to the companies that receive income from the sale, transportation, and storage of alcohol and tobacco products, are active in the gambling business, and others. Kazakhstan Ijara Company is a participant in the Damu fund's program.

For 7 years of successful activity of Ijara company, there has been a general growth of assets of 181%. However, there has been a decrease to 12.5% in 2017 and 10.8% in 2019. Like every Islamic financial institution, the company manifests social responsibility and uses special penalties and fines for different social projects. According to the company's policy, as profit and finance are received in Kazakhstan, they also must be distributed in the country.

Table 43 – Zakat estimation of Kazakhstan Ijara Company JSC for 2013-2019

Year	2013	2014	2015	2016	2017	2018	2019
Profit in thousand tenge	36 725	351 553	993 564	6 956	235 551	710 459	600 290
Zakat in thousand tenge	918.13	8 788.83	24 839.10	173.90	5 888.78	17 761.48	15 007.25
Note – Compiled and estimated by the author							

Al-Saqr Finance JSC. Islamic leasing company Al-Saqr Finance is one of the two Ijara companies in Kazakhstan with more than 20 years of experience in leasing activity. It was decided to convert from a traditional lasing company to an Islamic in 2016, and in 2017 company transferred its activity to providing Islamic financial instruments and services to the corporate and retail sectors. The company's main financial tools are Murabaha and Ijara for corporate customers. The company was the

first in the country's market, which provides the Islamic (total Shariah compliance) debit card, and recently has started the program for Islamic housing within the Ijara model. Furthermore, the company is one of the initiators of the development of the state Program of the Damu Foundation for the financing of small and medium-sized businesses based on the principles of Islamic finance and is a member of the Damu program.

It must be mentioned that Al-Saqr Finance JSC is the first financial organization that offered the first Islamic debit cards in Kazakhstan, which complies with the principles and norms of Shariah. The features of the card are based on the absence of remuneration. The card balances are not used for generation bank's income, the prohibition of payments in shops distributed haram goods and services, the high amount of cash-back. There is the social specificity of the card, that generated cash-back can be used to the charity.

The information on the company's social activity and support projects has been collected from the interview. There are two directions of social activity of the company. The first one is a special account for penalties and fines were accumulated finance from late payment or violation of the terms and payment schedule by customers, which must be directed to the charity. A certain amount of money is added to this account every year, and the company distributes it for charitable purposes. The total sum of accumulated finance from 2017 is about 10 million tenge. According to the company's policy, finance is directed to the approved by Shariah board charity funds, such as Niet and Waqyp. The further using of the transfers company does not track, and the company does not provide targeted social assistance to individuals.

The second direction of the social activity is promotion, popularization, and increasing public awareness of Islamic finance and its instruments in the country, through media, internet space, television, and social networks. The company publishes articles about Islamic finance and financial instruments in different famous journals to increase the population's financial literacy. There has been a financed course for parentless students, students from large families interested in Islamic finance, organized at Al-Farabi Kazakh National University.

In addition, Al-Saqr finance actively contributes to recognizing and penetrating Islamic finance at the state programs level. The company was one of the leading developers of the Small and Medium Enterprises financing program within Islamic financial solutions of Damu fund. The company has been developing the program project for 3 years.

There has been the project of online broadcasting Friday sermons of Hazrat Sultan mosque – the central mosque of Nur-Sultan in three languages, Kazakh, Russian, and English. In cooperation with SAMK, this project has been financed from a special account for penalties and fines for two years. The sermons were broadcasted on the website of al-Saqr finance. There is a recorded archive of all broadcasted sermons in three languages available on the company's website.

There is an indirect effect on the company, these initiatives do not have an economic effect in the form of profit, but the brand awareness increases - the company's awareness increases in the market and outside Kazakhstan, and the brand is associated with Islamic finance by clients, partners and the population. There is another effect of

the company's social activity, in the form of potential demand from businesses and individuals for Islamic financial services, which will lead to the rise of supply and growth in the number of participants in the market.

Table 44 – Zakat estimation of Al-Saqr Finance JSC for 2017-2019

Year	2017	2018	2019
Profit in thousand tenge	731 655	848 862	141 248
Zakat in thousand tenge	18 291.4	21 221.6	3 531.2
Note – Compiled and estimated by the author			

Zakat amount of al-Saqr Finance is more than of Islamic Bank Zaman for 2017 and 2018, but if we compare their assets, the assets of Zaman Bank are four times more than Al-Saqr's financial assets. It means that the medium-sized Islamic financial institution can bring financing to the social area of the country.

Astana International Financial Centre. Astana International Financial Centre (AIFC) was established in 2018 by the first President of Kazakhstan as the unique hub of the financial world for providing the best practices and opportunities offered by financial institutions and organizations across the globe. In the Global Financial Centres Index 2019 (GFCI 25) for Eastern Europe and Central Asia, the capital of Kazakhstan is in 51st place of 102. From the year of establishing the AIFC, this index climbed by 37 positions. The top 5 include London, New York, Hong Kong, Singapore, and Tokyo.

There are six pillars of the AIFC: Capital markets, Wealth Management, Asset Management, Islamic finance, Green finance, and Financial technology. The primary purpose of Islamic Finance is to be the hub in the Central Asian region and provide all capacities and conditions for the concentration of international Islamic financial services providers in the country. Kazakhstan is an attractive platform for developing Islamic Finance in the region. AIFC, in close cooperation with the Islamic Development Bank (IsDB) and the Asian Development Bank ADB), is working to create a favorable legal and regulatory framework. For achieving the purpose, the AIFC is working on the Development Master Plan of Islamic Finance by involving the consulting companies from Malaysia with reach experience and background. The Advisory Council of Islamic Finance and the Central Shariah Advisory Board were established to promote the AIFC as a regional hub of Islamic Finance, the members of which are international experts in Islamic Finance. The AIFC has formed a fully-fledged market for Islamic Finance, as the conditions for Islamic securities issue on the Astana International Exchange. The requirements for operating and activity of Islamic financial institutions in the AIFC are more beneficial than in the country in general.

For Islamic banking services and, insurance and reinsurance companies, investment management services, there is a tax exemption from Corporate Income Tax for 50 years, 20% of the profit of the Islamic financial institutions' activity.

Institutions provided the financial and the ancillary services registered in the AIFC are exempted from property and land taxes on facilities in the AIFC territory.

Furthermore, the foreign employees of the AIFC participants are exempted from individual income tax under an employment contract.

For the Islamic banking organizations, the AIFC develops special rules, Islamic Finance rules, and Islamic Banking Business Prudential rules, based on the standards issued by Islamic Financial Services Board (IFSB) – the international standard-setting organization, the Basel accords, and the Basel core principles for effective Banking Supervision issued by the Basel Committee. The capital requirements for the Islamic Banks at the AIFC is 10 million US dollars, which was reduced to 5 million US dollars from 2020 to 1 November 2023. The capital requirement for banks in the country, including Islamic banks, is more than 30 million US dollars.

During the research, the interview with the manager of the AIFC Islamic finance and business Hub – Interviewer 4, to analyze the role and activity of the AIFC in Islamic social finance. The AIFC is the state organization, and the goal carries the social component, that is, Islamic Finance Development in the country. The functions of the Islamic finance hub are directed to the creation of the conditions for attracting participants of Islamic financial industries, the financial, consulting, and ancillary companies, to the development and improvement of the legislative framework in the AIFC and the country, to consultation future participants and issuers, to assistance for registration in the AIFC.

There are 35 registered participants in the AIFC as Islamic organizations, including the financial and non-financial companies. Among non-financial registered organizations consulting companies, law firms, IT companies and non-profit organizations, and educational organizations work in Islamic Finance. There are non-profit organizations such as Waqyp fund, licensed as invest company for attracting Islamic funding, Islamic social company, and Hadj investment. These companies carry out their activities in social finance.

One more direction of the AIFC social activity is increasing the population's financial literacy and growth of public awareness of Islamic Finance. There are projects within the technical grants of the Asian Development Bank for capacity-building training and educational programs. Unfortunately, the educational programs provided in cooperation with Malaysian, British, and other international universities and institutions were organized in English, and the number of participants was narrowed due to the language barrier. The role of the Bureau for Continuing Professional Development (BCPD) of the AIFC in Islamic finance education is valuable, as Bureau has the Islamic Finance Qualification program of the Chartered Institute for Securities and Investment. This program allows to take an international qualification certificate in Islamic Finance, and there are about 50 attendees of the program for two years. In addition, the Bureau cooperates with the Universities of Kazakhstan and other countries to provide the best education in Islamic Finance.

Table 45 – Potential total Islamic assets and potential zakat collection from Islamic financial institutions

Year	2018	2019	Forecast
Islamic assets, total in thousand tenge	62 446 669.00	70 304 980.00	264 675 320.00*
Profit of Islamic FI, in thousand tenge	2 644 257.00	2 354 976.00	10 031 194.60
Profit in Islamic assets, %	4.23	3.35	3.79
Zakat, in thousand tenge	66 106.43	58 874.40	250 779.87
Note:			
1 Compiled by the author			
2 According to estimation in Table 22			

According to our estimation in Chapter II, 2.1 section (Table 22), the potential total Islamic financial assets can be 264 billion tenge in the case of achieving 1% of total banking assets. Considering the average profit amount of Islamic financial institutions in total Islamic financial assets is 3.79%, it can be assessed that potential zakat collection from Islamic financial institutions will be 250 million tenge. Nowadays, this amount is about 59 million tenge.

There is interdependence between financial institutions' assets and special accounts accumulated penalties and fines used for charity and social projects in Islamic financial institutions. According to Shariah, the penalties and fines of the clients for late payments generated in a special account of Islamic institutions must be used only for charity. During in-depth interviews, it was identified that penalties and fines account is about 0.20% of financial assets. According to the prediction of the research, the country's estimated potential Islamic financial assets will be more than 529 million tenge. As a result, the growth of financial assets leads to an increase in the amount of financing for social projects, and effects, in the form of educated poor or parentless children number, or recovered or rehabilitated children number, provided by social assistance to large and low-income families' number. Thus, potential Islamic social financial generated finance can be 779 million from Islamic financial institutions.

The results of interviewing the top manager of the JSC Subsidiary Bank "Kazakhstan Ziraat International Bank," which is the second-tier conventional bank of the country with assets of 132 635 million tenge for 2021, show an absence of the charity activities mechanism permanently in the bank, and social assistants in COVID-19 period has done by order of needy.

The second interviewed manager from the conventional bank of JSC "Bank CenterCredit" with assets of 2 066 966 million tenge for 2021, disclosed information of social projects of the bank in the form of assisting children with disabilities and patients with autoimmune diseases. Furthermore, the bank has an educational program for increasing financial literacy and a particular Mortgage program for military personnel. The charity amount in the pandemic period was 37.5 million tenge.

The in-depth interviews of the representatives of Islamic financial institutions and AIFC allow conclusion following findings. First of all, the potential of Islamic finance and perspectives of further development are significant and tangible for the country. There is a lot of activity from the state and international Islamic financial organizations to improve the area and increase the number of industry participants.

Secondly, despite the crisis period and economic decline, there is a rise in financial institutions' financial assets and profit, a 48% increase in Islamic banking assets for 2019-2020. As can be seen from the study, the Islamic banks' business model, efficiency, and quality indicators illustrated growth over the last year. Finally, the growth of the profit of Islamic financial organizations leads to the rise of the paid zakat amount in the country by financial institutions themselves or by shareholders, depending on the policy.

Some challenges need to be overcome - the not complete adaptation of the legislative framework slows down the increase of participants' number and instruments spectrum. There is still a misunderstanding of the issues to adaptation instruments, which are considered pure Islamic – mudaraba, and musharaka. As a result, there is a lack of supply in the market. The main realized instruments are ijara and murabaha because analog instruments are adopted in conventional finance. There is a lack of awareness of Islamic finance's social tools and the absence of a definition of terms as an endowment (which can be an alternative to waqf) and zakat. In our opinion, there is insufficient attention and regulation of the activity of charity funds and mistrust of the population toward intermediaries (funds) in charity issues. Nevertheless, during this research, it was estimated that potential zakat collection is enough to cover resource shortfall in the country. This, in turn, can reduce the burden of state spending on targeted social assistance and reduce the level of poverty.

3 PROVISION THE SOCIAL EFFECTIVENESS OF ISLAMIC FINANCE IN THE REPUBLIC OF KAZAKHSTAN: OPPORTUNITIES AND PROSPECTS

3.1 Financial technology as a tool for expanding the social function of Islamic finance

The role of financial technology cannot be undervalued in the financial industry development process. It is one of the essential innovations growing with swift speed, partly operated by information technology and favorable regulation. There is restructuring in the financial industry by cutting costs, improving the quality of financial services, and advancing the stable financial system. There is investment growth in fintech globally, from 9 billion US dollars in 2010 to 105.3 billion US dollars in 2020 [135]. There are five elements of the fintech ecosystem. The first one is fintech startups in the form of new companies which develop payment systems, wealth management tools, lending instruments, crowdfunding platforms, and capital market firms. The second element of the system is governed by providing a favorable regulatory framework. Traditional financial institutions are the other central and driver element of the fintech system, as these institutions develop technological platforms for customers.

Moreover, financial customers, individuals, and organizations create the fintech system's next element. It is impossible to describe a fintech system without technology developers, who provide the system with the necessary technological solution, big data analytics, cryptocurrency, and social media developers [136]. The role of the government and banks, that is, financial institutions, is important in fintech development and poverty reduction. According to Ozil, the framework of these players of the economies can be illustrated as follows.

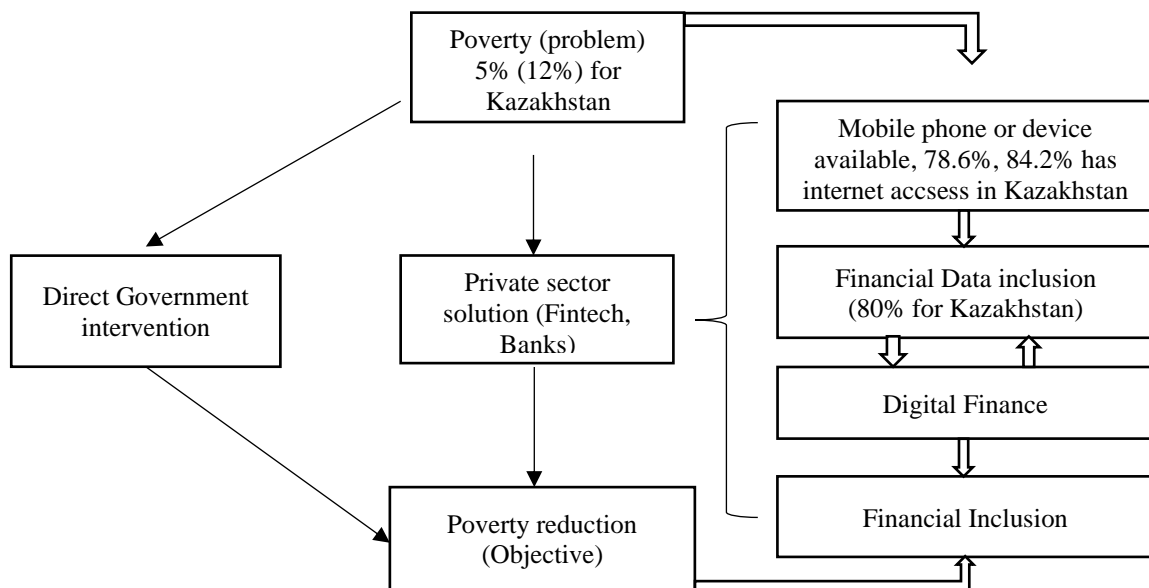


Figure 21 – Framework of the role of Government and Banks in fintech and poverty reduction

Note – Source [137] [117]

The framework presented above illustrates the role of the state and financial institutions related to the role of fintech in the poverty problem and reduction. If to turn to Kazakhstan, according to the study by the Agency for regulation and development of the financial market, the average financial literacy rate in the country is 80% of the population, and there are 14.7 million active cellular subscribers devices in the country. According to the Global innovation index (GII 2020), Kazakhstan is at the 77 ranks among 131 countries and implements innovation input (66) more than innovation outputs (94) [138]. This index estimates 80 different indicators grouped into inputs and outputs and indicates the multi-dimensional country indicator. Furthermore, the country is ranked 27 and scored 29.1 among 64 countries by the Global Islamic Fintech report 2021 [139]. The Global Islamic fintech index is estimated using 32 indicators, grouped for talent, regulation; infrastructure; Islamic Fintech market and ecosystem, and capital categories. In general, Astana International Financial Centre's role must be noted, particularly its Islamic finance and Fintech Hubs.

There is a legislative framework of the country, which considers all aspects of financial technology regulation by the Law "On amendments and additions to some legislative acts of the Republic of Kazakhstan on the regulation of digital technologies" from 25 June 2020, № 347-VI ZRK. There were made amendments and additions to the Civil Code, Environmental Code, Budget Code, Business Code, Law "On Banks and banking activities," Law "On the State Security Service," Law "On the electronic document and an electronic digital signature," Law "On telecommunications," and others.

As it can be seen from the facts, the country has a favorable landscape for the development of financial technology area an Islamic financial perspective. Fintech is considered a driver instrument of Islamic finance advancement. First of all, the transparency of transactions and the option of viewing all transactions in the form of a block, including information, by blockchain. Secondly, it is an opportunity to provide financial instruments effectively with reduced costs and time of transactions.

There have been done studies about the impact of fintech on Islamic finance and the capacity of the blockchain technologies for assurance of Shariah compliance in the Islamic financial services industry [140] [141] and explained the potential development of Islamic finance through financial technology [142]. According to our study, 84.38% of respondents among experts and professionals involved in the Islamic finance market in Kazakhstan are confident that financial technologies comply with principles of Shariah and assume that financial technologies promote Islamic financial inclusion, reduce the cost of financial intermediation for Islamic financial institutions, and increase aggregate expenditure for the government.

The current landscape of Islamic social finance globally needs to be improved. Despite a rich history of the successful implementation of Islamic Social Financial instruments, their future application will be exceedingly sophisticated, addressing the challenges in the calculation, poor collection mechanisms, and inefficient distribution channels. The justifiable skepticism of zakat payers and waqf donors can be dealt with using advances in technology, such as blockchain. Blockchain technology can be said to incorporate the Islamic values (of trust, justice, equality, and efficiency) into finance that embodies and promotes the spirit of Shariah.

In the Islamic financial sector, the last year was significant in developing new business models and customer services improvements by digitalizing financial services, despite the pandemic crisis-affected industry. It made 4.93 billion US dollars of investments in Islamic fintech. The leading countries by deals in Islamic fintech were Indonesia (14), UAE (7) and Kuwait (5) for 2020 [4, p.41].

In the context of the pandemic, there were identified strong signals of opportunities, among which are Islamic financial institutions' digitalization and social finance growth. Examples of the successful cases: Pakistan's Islamic fintech SadaPay, which provides a mobile wallet for receiving payments from 45 countries; Qatar Islamic Bank launched QIB mobile application; Malaysian electronic government service provider set up a subsidiary for Islamic financing activities to provide Islamic financial leasing and other credit-granting activities; and Al Rayan Investment in Kazakhstan (in AIFC) will establish a digital bank focused on the development of Islamic banking products and investments.

Thus, the implementation of financial technology in Islamic finance has been increasing, including the digitalization of Islamic financial services and the issuance of fintech-related Sukuk. It is an opportunity for both fintech and Islamic financial companies to expand their activity and services by providing Islamic financial products and more investment area options for investors.

Several products and instruments of alternative Islamic financing involved financial technology and digital finance: P2P, supply chain financing, crowdfunding, and others [143].

The Islamic cards provided are underdeveloped in our country. There is only one provider of the product represented by Al-Saqr finance JSC. The card's features are based on the absence of remuneration, and the card balances are not used for generation bank's income, the prohibition of payments in shops distributed haram goods and services, and the high amount of cash-back. There is the social specificity of the card, that generated cash-back can be used to the charity. The challenge of providing the cards, compiled with shariah requirements and approved by Islamic law, is in the processing center's high costs as an associate member of the Visa and Master card international payment system. The credit card system is absent in Kazakhstan despite being one of the drivers of Islamic finance in the world. There are advantages for Islamic financial institutions as providers of Islamic credit cards and customers of the financial institutions. At the level of the financial industry in general, it is a way to promote and raise awareness of Islamic financial instruments among financial services users. For the financial institutions, it is the solution for offering financial products by card system and the growth of sales of the products. For the banks' clients, the capacity of choice depends on the conditions of the offered products depends on the ethical and moral beliefs of the customer.

It must be noted that Islamic credit cards must meet at least three main requirements and follow to prohibition riba, garar and maysir. Furthermore, there is the limitation of financing and payment for haram products [144]. Considering the limited amount of the products provided by local Islamic financial institutions, there is a limitation of Islamic credit card specter of the offer: murabaha card, tawaruq card. Furthermore, depending on the product type, the development of the other types of

cards is relevant to offering products, such as qard-hasan, takaful, and others. The costs of offering the Islamic cards to the clients and the output of the realization of credit card supply by Islamic financial institutions must be estimated. One direction of implementing the Credit card system for Islamic financial institutions is to develop digitalization of the process. There should mention the first digital Islamic financial services of the country Tayyab, offering specter of Islamic financial products. The benefit of digital banking and credit card systems is erasing territorial boundaries and attracting global resources and clients without linking to a specific location.

As this Islamic financial services area is relatively new, there is a limited number of research or international data on the direction. It means that there are future prospects for development theoretically and practically.

The crowdfunding platform. The form of the technological solution to promote Islamic social finance is a crowdfunding. Crowdfunding is a method of collective project financing in which money for creating a new product comes from users (donors) who receive any goods or services in return, including the final product. The crowdfunding platform is a specialized Internet resource that hosts crowdfunding projects, including social projects. The Shariah view for crowdfunding platforms is based on the main principles: a debt-based crowdfunding model involving riba is prohibited and not Shariah-compliant. The equity-based crowdfunding model for being Islamic must satisfy screening requirements and be acceptable activities in terms of Shariah. The real-estate crowdfunding model is similar to the equity-based, and there is a low level of shariah-compliant risk. Moreover, the last crowdfunding model and our study concentrated on this type, as the solution and recommendation for increasing the social functions and effects of Islamic finance is donation-based crowdfunding. This model is used for donation and social projects. For social assistance, the donation-based structure of crowdfunding is permissible by Shariah.

The practical significance and applicability of the research are to develop a feasibility study of recommendations for launching a crowdfunding platform, which can serve as a guide for the development of crowdfunding platforms and financial technologies in the country and increase the awareness of the population on Islamic social tools, such as zakat and sadaqah. This, in turn, will allow increasing transparency and, as a result, trust of the donators and, consequently amount of zakat collection in the country.

As the study suggests, the creation of a crowdfunding platform, in turn, will serve as a tool for implementing social projects and increase transparency and trust of the population in the zakat institution and zakat fund of the country as representative of SAMK and the Muslim community. The target consumers of the crowdfunding platform will be the socially vulnerable population and people who are living under the national poverty line and have to live for less than 1.90 US dollars per day. Using blockchain technologies for crowdfunding will fix all transactions from the donators to the needy as the main problem of the low level of zakat and sadaqah collection by Zeket fund is distrust of the donators of the targeting funding. As 71 % of our study respondents do the charity without intermediaries (Chapter II), and 77 % of respondents of the Atameken business survey do not trust the intermediaries.

Given the rapid pace of development of crowd technologies on the global platform, a 13-fold increase in investment in this direction, the Global amount raised by alternative finance is 304 billion US dollars, 215.40 billion US dollars of which concentrated in China [145]. The number of identified crowdfunding platforms in Europe is 510, 94 donation platforms [146]. Reward and donation crowdfunding is 5.5 billion US dollars globally [147]. According to the Cambridge Centre of Alternative finance, there are 6 crowdfunding platforms in Kazakhstan, only 1 is domestic, and the others are foreign-based platforms. The alternative finance volumes per capita in Kazakhstan are 4.76 USD.

The scientific novelty and practical significance of the solution in the form of a crowd platform at the international level are indisputable. It consists of enhancing Islamic Finance theory with the experience of developing social finance through financial technologies in a post-Soviet country with a developing market. The critical advantage of the platform will be its operation in 3 languages (Kazakh, Russian and English), which will expand the range of users not only in the Republic of Kazakhstan but also in Central Asian countries.

The study of the effectiveness of social tools of Islamic Finance and the creation of a crowdfunding platform will contribute to the implementation of the country's strategic goals.

The results of this research and implementation of the crowdfunding platform for social tools of Islamic finance can be used on several levels:

- a) on the state level – for further development of social and economic policy, to reduce the number of the population under the poverty line, to reduce spending for the targeted social assistance from the state budget;
- b) level of the SAMK – for creation transparency of zakat and sadaqah collection and zakat distribution among the needy population, the platform will ensure transparency of the use of funds and the results obtained;
- c) level of socially vulnerable population segments – for the opportunity to apply for social assistance.

According to official data from the Bureau of National Statistics of the Ministry of National Economics of the Republic of Kazakhstan, the economically active population is 83.1% of the total socially responsible population. In addition, 80% of the total population are active Internet users, and the computer literacy rate is 87.4%. We assume that 70% of the economically active Muslim population are interested in and able to provide social support to those in need. There is assessed social effectiveness of crowdfunding platforms in the collection zakat and sadaqah, using available statistics data. According to our estimation, 1.97% of GDP is a potential zakat collection for the country.

The feasibility study is on developing a crowdfunding platform for the realization of social functions of Islamic Finance, including technical specification, development of the business plan for assessing the effectiveness of the crowd platform, and design documentation.

The project is designed to create a crowdfunding platform for Kazakhstani social projects and provide service to sponsors and donors for monitoring, analysis, and further distribution among the needy and poor population of the country. Crowd

platform is recommended for implementation in Zeket and charity foundation activity, including the mobile application, as an example of the effectiveness of the technological solution to the Islamic social instrument – zakat. This is facilitated by the marketing strategy and the growing popularity of the system.

Table 46 – Crowdfunding platform model Canvas

Key partners	Key activities	Value Proposition	User Relationship	User Segment
-Charity funds -Islamic financial institutions -State	-attracting donators -promotion social activity -promotion social tools of Islamic finance (zakat, waqf and sadaqah) - ensuring transparency - ensuring report of distribution	- Platform for fundraising social projects - Platform for growing public awareness - Platform for database of needy and poor people	-application instructions (written and video) -donators instruction -contacts and capacity for communication with zakat expert	Initiators -people in need -poor people -donators -sponsors -SAMK -Zeket fund Backers -donators -sponsors -Islamic financial institutions
	Key resource		Channels	
	IT- platform with blockchain integrated with payment systems		-Web-site -SAMK -Imams in Mosques -Mass-media -Associations and Unions - Social networks	
Cost Structure			Revenue Streams	
- Developing IT platform - Support - Payment system \ processing - Promotion			-zakat collection -sadaqah collection -waqf investment	
Note – Compiled by the author				

Table 46 illustrates the crowd platform model structure, the primary purpose of ensuring transparency and increasing the population's trust, which provides growth collection of zakat and sadaqah, and as a result, reduces the number of needy and poor people. We assume that blockchain technology will provide transparency, which will secure collected information of all transactions. Other instruments for providing transparency are a full report of the collected and distributed amount of charity. As the crowd platform is not a commercial project, the costs such as support of the platform, processing, and promotion are also planned to be covered by streams from the zakat collection.

The input data for the platform development are:

1. The beginning of the crowdfunding system development is 1 year

By the second year, it is planned to complete the development of ready-made modules for registering projects (MVP - minimum viable product), integration with the payment system, and finance them with all possible payment systems.

2. There is a plan to start platform activity at the start of the second year when the platform modules are ready.

3. Continue to refine the crowdfunding system until 6 months of the second year with the testing model on the social projects and charity collection.

4. For 4 years, there has been a plan to implement the waqf system, which will provide the use amount of sadaqah (not zakat) for Shariah-compliant investment projects to get income for distributing generated income to the needy.

5. To promote the platform and explain its transparency among the population, it will use channels such as mosques during the hutbas by imams for rural areas, Zeket fund's promotion channels, social media channels, and different sources of advertisement.

6. There is planned to use 2 units of administration staff for the crowd platform from Zeket foundation.

To develop web-platform for registering applications, showing the collections in the real-time, including the opportunity for waqf-chain development, it will need to be the following capital expenditures:

Table 47 – Crowdfunding platform capital expenditures

Crowdfunding system modules	Price, tenge
Individual multi-page platform design	1 000 000.00
Server-domain	300 000.00
Developing and programming the system	1 000 000.00
Software testing	1 000 000.00
Integration with the payment system	750 000.00
Computers 2	360 000.00
Software	190 000.00
Total	4 600 000.00
Notes	
1 Compiled by the author	
2 Price list is actual for November, 2021	

The time required for developing the platform is three months at least, by the involvement of a professional programmer-engineer, programmer-tester, integrator with a payment system, and designer. It is planned to develop the platform with the installation of automatic visualization of cash proceeds to the account in real-time. The following options and pages of the platform are illustrated in Table 48.

Detailed description and technical options are given in Appendix E in the form of the technical specification of the crowd platform. These modules are preliminary and can be improved when working with the developers' team.

Table 48 – Crowdfunding platform modules and systems

	Modules and systems of the platform
1	Main page with information about Fund, purpose and aims, about Zakat and sadaqah, charity
2	The page of on-line zakat calculator
3	Registration system for the project (application for assistance)
4	Registration system for the donor and sponsors
5	Payment system
6	Data Storage and account Management
7	Report of the collection and distribution
8	Statistics
9	News Feed
10	Forum
11	Project tracking system
12	Feedback
13	Chat
14	Waqf projects and investment
15	Report of the realization social projects (submitted in the system)
Note – Compiled by the author	

Financial Plan of the platform. The forecast of financial statements was drawn up for 5 years. Projected financial statements consist of:

1. Income statement forecast
2. Cash-flow projections
3. Financial analysis of indicators
4. Calculation of the socio-economic effects of the Crowdfunding platform

The calculation of all forecasts and analysis of financial indicators are given for two variants of the crowd platform – first, without using blockchain technology, but with providing transparency in real-time for users, and second, crowdfunding platform with implementation of blockchain technology. The difference in the estimated costs for development and integration types of the platform is 13 times. The general expenditure for the platform without blockchain is 4.6 million tenge, while with blockchain is 60 million. Because blockchain technology is not actively developed and used in Kazakhstan, it needs more time and foreign experts and developers (IT companies).

The implementation of the platform is not a commercial project. It is a social project that will improve the collection of zakat and activity of the Zeket and charity foundation of the SAMK and will affect to increase population trust and awareness and amount of collection. The support and supply expenditure of the platform will be financed from the collected zakat and sadaqah, as according to Shariah, the one category (third) of the eight to whom zakat is distributed is zakat collectors and administrators.

Future forecasted revenues are based on the estimated total zakat collection by the foundation in 2020, 2 836 million tenge. (Chapter II, section 2.2) We assess the only impact and financial indicators from implementing the crowdfunding platform in the zakat collection. Thus, the revenue amount is used expected growth rate, and the

spending expected additional costs for technical and administrative support of the platform.

We assume that the crowdfunding platform integrated into the Zeket foundation activity can solve the issues with distrust and transparency. It is a technological tool that allows for tracking the final result. The targeting of the charity provided minimal people involved, which in turn excludes spending money for other purposes. This crowd platform can solve the issue of the absence centralized charitable system.

According to the results we reached above, to estimate the effectiveness and performance of the integration of the crowdfunding platform in zakat and charity collection by Zeket foundation in 2 forms of forecast: realistic and optimistic. Our realistic scenario revenue forecast is based on the assumption of a gradual increase in charity collection by 50% from benefactors who provide charity directly to people in need, 71% of unsatisfied potential donors.

Table 49 – Statement of comprehensive revenues forecast for 5 years, realistic scenario (million tenge)

Statement of comprehensive revenues forecast	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	0	1 212.84	1 394.77	1 745.78	2 062.17
Transfer fees	0	24.26	27.90	34.92	41.24
Gross revenue	0	1 188.58	1 366.87	1 710.87	2 020.92
Distribution expenses	1.30	1.30	1.30	1.30	1.3
Platform promotion and advertising	1.00	1.0	1.0	1.0	1.0
Administrative expenses	4.74	4.74	4.74	5.15	5.15
Internet and communication	0.24	0.24	0.24	0.24	0.24
Unexpected expenses	0.45	0.45	0.45	0.45	0.45
Salary of fund representatives	3.60	3.60	3.60	3.96	4.96
Taxes on salary	0.45	0.45	0.45	0.50	0.50
Revenue before depreciation (EBITDA)	-6.04	1 182.54	1 360.83	1 704.42	2 014.48
Depreciation and amortization	0.46	0.46	0.46	0.46	0.46
Revenue before tax	-6.5	1 182.08	1 360.37	1 703.96	2 014.02
Tax	0	0	0	18.43	28.36
Net revenue	-6.5	1 182.08	1 360.37	1 685.53	1 985.66
Note – Compiled by the author					

he platform financial flow forecast feature is spending all generated cash for the social projects and servicing and supplying the platform activity. The income planned generated from the 4th year will also be used for the charity within the year.

The following table illustrates the cash flow forecast for 5 years for a realistic scenario.

Table 50 – Cash flow forecast for the 5 years (million tenge)

Cash flow forecast	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Activities (CFO)					
Transaction income	0	0	0	0	0
Additional services	0	0	0	141.80	141.80
Income from the sale of the fund's share	0	0	0	0	0
Payment to suppliers	(1.99)	(26.25)	(29.89)	(36.91)	(43.23)
Salary	(3.6)	(3.6)	(3.6)	(3.96)	(4.96)
Taxes for the Salary	(0.45)	(0.45)	(0.45)	(0.50)	(0.50)
Income Tax	0	0	(0)	(18.43)	(28.36)
VAT	0	0	0	0	0
Net cash from operating activities	(6.04)	(30.30)	(33.94)	82.01	65.75
Investing Activities (CFI)					
Computers	(0.36)	0	0	0	0
Software	(0.19)	0	0	0	0
Crowdfunding platform development	(4.05)	0	0	0	0
Net cash used in investing activities	(4.6)	0	0	0	0
Financing Activities (CFF)					
Contribution to equity	0	0	0	0	0
Contributions from donors and investors	0	1 212.84	1 394.77	1 603.98	1 920.36
Cash outflow of financing activities	0	(25.70)	(33.94)	82.01	65.75
Financing in projects	0	(1 187.14)	(1 360.83)	(1 685.99)	(1 986.12)
Net cash used in financing activities	0	0	0	0	0
<i>Net increase (decrease) in cash</i>	(4.6)	0	0	0	0
Cash and cash equivalents, beginning of period	4.6	0	0	0	0
Cash and cash equivalents, end of period	0	0	0	0	0
Note – Compiled by the author					

Projected financial statements are prepared following international financial reporting standards. According to the financial report, we observe an increase in assets and a gradual increase in income, which positively affects the fund's stability. From this, we can conclude that this project is financially stable.

The estimated financial indicators approve the probability of integration of the crowdfunding platform in the Zeket foundation's zakat collection. The number of general expenditures without using blockchain technology, which is underdeveloped in the country at this stage, will be affected by the rapid growth of collection and applications of needy covering.

Table 51 – Financial analysis of the crowdfunding platform integration, realistic scenario

Indicators	Value, million tenge
Contributing to equity	4.6
including:	
Capital expenditures	4.6
Operating expenses	0
Revenue (for 5 years)	6 415.56
EBITDA (for 5 years)	6 262.27
EBIT operating profit* (for 5 years)	6 260.43
Net profit* (for 5 years)	6 202.53
Project payback period	Less than 1 month
PV (for 5 years)	4 931.74
NPV (for 5 years)	4 927.14
PI Profitability Index	1072
IRR (for 5 years)	1495
Notes	
1 Compiled by the author	
2 Profit is considered as revenue from donors	

The following scenario is optimistic when we assume that the integration of the crowdfunding platform will affect the amount of collection from the first year of implementation, with the peak growth in the second year. In this case, we forecast the increase not only from 71% of donators directly provided assistance but also attract philanthropists who use other non-governmental charitable organizations (7%), as using the technological solutions for doing charity, which is transparent and targeted, is convenient to use and saves time of donators.

The optimistic scenario of the implementation crowdfunding platform is based on assuming that from the second year, using the platform will bring 40% more funding from the charity than in 1 year (2 836 million tenge) and also 40% of the funding from 71% of the donators, who do charity directly without intermediaries. In the following forecasted years, it is expected by attracting financing by 20% every year, and it must be noted that from the 4th year, it is planned to invest half of the collected finance to the Islamic projects through Islamic financial institutions, as in the realistic plan of the platform developing. The following table shows financial indicators of the platform for 5 years.

Table 52 – Financial analysis of the crowdfunding platform integration, optimistic scenario

Indicators	Value, million tenge
Contributing to equity	4.6
including:	
Capital expenditures	4.6
Operating expenses	0
Revenue (for 5 years)	16 274.07
EBITDA (for 5 years)	15 923.62

Continuation of table 52

1	2
EBIT operating profit* (for 5 years)	15 921.78
Net profit* (for 5 years)	15 863.88
Project payback period	Less than 1 month
PV (for 5 years)	13 155.77
NPV (for 5 years)	13 151.17
PI Profitability Index	2859
IRR (for 5 years)	3529
Notes	
1 Compiled by the author	
2 Profit is considered as revenue from donors	

There is another scenario of implementing a crowdfunding platform using blockchain technology, which requires attracting foreign IT development companies. According to the commercial offer, the platform's development will cost 60 million tenge, which is 13 times more than without using blockchain.

Table 53 – Financial analysis of the crowdfunding platform with blockchain implementation

Indicators	Value, million tenge
Contributing to equity	66 500
including:	
Capital expenditures	60 000
Operating expenses	6.5
Revenue (for 5 years)	6 415
EBITDA (for 5 years)	6 262
EBIT operating profit* (for 5 years)	6 260
Net profit* (for 5 years)	6 147
Project payback period	1 year 1 month
PV (for 5 years)	4 932
NPV (for 5 years)	4 872
PI Profitability Index	82.2
IRR (for 5 years)	401
Notes	
1 Compiled by the author	
2 Profit is considered as revenue from donors	

The development crowdfunding platform based on blockchain technology required more capital and operating expenses than the first scenario. It is expected that the system will pay off in 1 year and 1 month. During the execution of the planned indicators, it is expected that the NPV figures for 5 years are positive and exceed the initial investment, with a discount rate of 9%, which is equal to the average annual base rate of the Central Bank of the country. This indicates the financial stability of the project. IRR shows a high value for 5 years period, which means that the project is ready to withstand a higher risk of loss of profitability.

For evaluating the effectiveness of the integration crowdfunding platform for zakat and charity collection, the following method of estimation has been used using inputs and outputs of the platform.

Table 54 – Calculation of the socio-economic effectiveness of the Crowdfunding platform, realistic scenario

	Indicator		Year 1	Year 2	Year 3	Year 4	Year 5
1	Potential number of persons (families), who will receive social assistance using the platform by the state targeted assistance cost	65 940 persons or 12 263 Families	0	12 544 (2 466)	14 437 (2 838)	17 887 (3 516)	21 072 (4 142)
2	The cost of the state targeted social assistance for a year per person (per family), in constant prices	936 000 persons or 184 000 Families	94 230 (479 348) tenge	94 230 (479 348) tenge	94 230 (479 348) tenge	94 230 (479 348) tenge	94 230 (479 348) tenge
3	Present value of the cost of the state targeted social assistance		86 450 (439 769)	79 312 (403 458)	72 763 (370 144)	66 755 (339 582)	61 244 (311 543)
4	Total present value of the cost of the state targeted social assistance for 5 years, in million tenge	343 067	80 917	74 236	68 107	62 483	57 324
5	Present value of saved spending on the state targeted social assistance, in million tenge	4 530	0	995	1 050	1 194	1 291
6	Platform expenditures without blockchain	4 600 000	4 600 000	0	0	0	0
7	Platform expenditures with blockchain	66 500 000	66 500 000	0	0	0	0
10	Socio-economic effectiveness of the platform without blockchain	985					
11	Socio-economic effectiveness of the platform with blockchain	68.12					
Note – Compiled by the author							

A list of indicators is necessary which is needed for assessing the socio-economic effectiveness of the crowdfunding platform: (Table 54)

1. The platform's purpose: increasing the trust of the population by the transparency of the collected and distributed zakat and charity amount. As a result, the growth of the collection amount.
2. Direct results of the program: the list of services that are provided by the platform.
3. Socio-economic results and effects of the platform integration.

4. Release (audience coverage) of beneficiaries within the platform integration.
5. The cost of one year of the state targeted social assistance.
6. The cost of the crowdfunding platform integration.
7. Discount rate.

The result of estimation of the socio-economic effectiveness of the implementation of crowdfunding platforms is 985 for the platform without using blockchain technology and 68.12 for platforms based on blockchain technology. Each tenge invested in the implementation of the platform brings 985 tenge and 68.12 tenge saving in public resources, respectively.

The main complication in evaluating this type of project is the measurement of social outcomes and, in particular, the lack of systematic practices for collecting relevant information and reporting. The necessary data can be collected during interviews with direct performers and (selectively) with beneficiaries in such a situation. In addition, it can be used archived information and make the necessary calculations retroactively. At the same time, it should be understood that such assessment can be a one-time and rather expensive event.

Many methods have been used to assess the crowdfunding platform's effectiveness used for zakat and charity collection in different scenarios. Each of the methods successfully approved the effectiveness of the integration of both forms of the platform, the simple one for 4.6 million tenge and the complicated, which needs 1 year for development and costs 60 million tenge. It should be noted that both forms of the platform will provide transparency for donators and applicants for social assistance. However, despite the complication and time for creation and development, the platform based on blockchain technology will provide the development of all technology systems of the financial technology in the country. The role of the state bodies, represented by the Ministry of Digital Development, Innovations and Aerospace Industry of the Republic of Kazakhstan, as the main developer of technologies and digitalization, the Ministry of Information and social development of the Republic of Kazakhstan, as the ministry regulated the activity of Zeket and charity foundation by the Committee of on Religious Affairs, and the Ministry of Finance of the Republic of Kazakhstan is valuable for the issue related to the creation and development technological solution for solving social problems.

Ume Social Market. Microfinancing plays an essential role in the development of society in Islamic finance. As the example of the social effectiveness of small and medium businesses, oriented on social effects during the study, the Business Plan and assessment of the socio-economic effectiveness of the UME Social market is an independent branch of the UME Social services non-commercial foundation.

Islamic Finance is social-oriented and is aimed at the development and improvement of the well-being of society through social functions and tools, which were studied in this study. Previously, we investigated the macro level of the effectiveness of Islamic social instruments and their impact and efficiency in the form of financial indicators and the form of effects on the state spending from the country's budget [148]. There has been done funding, that improvement existed foundation activity and integration crowdfunding platform will affect the growth collected charity

amount through implemented transparency and trust by using digital technological solutions.

Charity social service "UME social market" is the first social charity shop in Kazakhstan. The purpose of the social project is to provide different segments of the population with a convenient and straightforward mechanism for the wealthy - giving new life to the goods and helping society; for people with limited income – the ability to save on clothes and non-essential goods; for needy - opportunity to participate in charity events and to get charitable assistance. According to the Ume social market charter, part of the total income goes to the operational expenses, and the rest of the profit goes to charities.

The mechanism of the project consists of accepting applications, delivery to the collection points, delivery to the warehouse, points of selling, selling, and getting profit. The first step of the mechanism is accepting applications of the people who wish to give clothes, home appliances, furniture, and others. There are the requirements for acceptance: clothes must be clean and in the form for future use, and home appliances in operating condition. The applications are accepted via the website, social networks, messengers, and hotline, or there are the acceptance points in the city's malls for the self-delivery of donators. Several big partners, represented by malls and retailers, are ready to give their stock collections for free in the form of charity.

The next step of the mechanism is the sorting by the store departments (clothes for men, women, and kids, shoes, home applications, interiors, and household items), preparation, and packaging. In this stage, the necessary equipment for the sorting and preparation process are washing machines and ironing equipment. Furthermore, there must be cooperation with the dry-cleaner company on reasonable terms with a discount. The pricing process is based on a simple mechanism: clothes for 500, 1000, 1500, and 2000 tenge for the pies or the bag of the clothes (for example, a bag of clothes for an infant). This is the opportunity for needy people or for the segment of the population with limited income to buy non-essential goods at affordable prices.

We have prepared a business plan for the Ume social market, including a business overview, sales, marketing, operating, and calculated financial plan and financial indicators. Furthermore, there has been done risks analysis. The authors' business plan was successfully implemented in the activity of the social market, and there was signed as the act of implementing the study results. The Business plan sections are given in Appendix F. The financial analysis and indicators are given in this chapter for estimation and illustration of the social effectiveness of the project. The projected Business plan contains the following sections:

1. Executive summary;
2. Business overview, strategy, and environment;
3. Sales and marketing plan;
4. Operating plan;
5. Human resources plan;
6. Action plan;
7. Sources of funding;
8. Risk analysis;
9. Financial plan;

10. Estimation of the socio-economic effectiveness of the project implementation.

Table 55 – Statement of the comprehensive revenues forecast for 5 years, Ume social market

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Revenue	33 729 500,00	33 898 000,00	46 948 730,00	49 296 166,50	51 760 974,83
Cost of sales	3 675 850,00	3 929 000,00	5 441 665,00	5 713 748,25	5 999 435,66
Gross profit	30 053 650,00	29 969 000,00	41 507 065,00	43 582 418,25	45 761 539,16
Administrative expenses	6 956 475,00	7 454 900,00	10 325 036,50	14 300 175,55	19 805 743,14
Operating expenses	1 790 000,00	1 547 000,00	2 142 595,00	2 967 494,08	4 109 979,29
Capital expenses	20 892 865	0	0	0	0
Profit before tax	414 310,00	20 967 100,00	29 039 433,50	26 314 748,62	21 845 816,73
Income tax expense	12 429,30	629 013,00	871 183,01	789 442,46	655 374,50
Profit for the year	401 880,70	20 338 087,00	28 168 250,50	25 525 306,16	21 190 442,23
Note – Compiled by the author					

The invested capital expenditure of the founders will be return first year, however according to the concept of the Ume social market, and initial idea of the project al amount will be spend to the charity. It means, that by implementation the project founders not just used about 21 million tenge for the charity once. They created mechanism, which works on returning and going to the charity founds for the first year, and gives the equal amount of the profit, which used for the charity every following year.

Table 56 – Financial analysis of the probability indicators, Ume social market

Indicators	Value
Contributing to equity	22 772 865
including:	
Capital expenditures	20 982 865
Operating expenses	1 790 000
Net Profit for 5 years	94 997 181
PV of the net profit for 5 years	89 685 754
NPV	68 792 888
Project payback period	1 year 1 month
PI Profitability Index	4.29
IRR	102%
Notes	
1 Compiled by the author	
2 Profit is considered as revenue from donors	

From the financial indicators and forecasted estimation of cash flow and financial statement, it can be concluded that the social market is profitable and has high

financial indicators for activity. If all invested funding will be going to the charity after the realization project in the form of profit, and the social market will work for taking profit for the charity, it is an efficient project for further charity doing for a long time.

The project has a high social significance, as it aims to promote the idea of social protection and assistance to the socially vulnerable segment of the population, the idea of transition from excessive consumerism to rational consumption. The project addresses the following social issues:

1. Assistance to low-income families through goods at low prices.
2. Reduce inventory and waste.
3. Sharing of material and human resources.
4. Solving the problem of excessive consumption.
5. The project provides an incentive to activate civic engagement and mutual assistance.

The following table illustrates the socio-economic effectiveness of the project implementation and its successful work. According to the research of Nielsen Kazakhstan, the average spending of Almaty residents on clothes and major purchases is about 30% of their income. There are two directions of the effectiveness; the first one is the effect of the saving money on clothes and shoes purchased by people with limited income, the targeted customer of the social market. The second direction is the effectiveness of the social market activity, which is the effectiveness of implementing the project invested funds by founders instead of using the fund for one time charity activity.

Table 57 – Calculation of the socio-economic effectiveness of the Crowdfunding platform

	Indicator	
1	Potential number of persons (families), who will receive social assistance using the Ume social market services	1000 per month 12 000 per year
2	The average cost of the unit of clothes/shoes	10 400 000 per month 124 800 000 per year
3	Present value of the cost of the of the unit of clothes/shoes (1000 per month)	115 023 041
4	Total present value of the cost of the of the unit of clothes/shoes (1000 per month) for 5 years, in million tenge	491 792 131
5	Present value of saved spending on the clothes	333 378 320
6	Social market expenditures	20 982 865
7	Present value of the Social market profit	89 685 754
10	Socio-economic effectiveness of the social market activity	158.90
11	Socio-economic effectiveness of the investment in social market	4.27
Note – Compiled by the author		

The result of estimation of the socio-economic effectiveness of the investment to the social market is 4.27. This means that each tenge invested in implementing the social market brings 4.27 tenge for doing charity, as the market concept is using the profit the charity. Furthermore, the socio-economic effectiveness of the social market is 158.90. Each tenge invested and used in the social market brings extra 158.90 tenge savings for socially vulnerable customers and people with limited income. For the first five years of the activity, 427% more charity assistance will be done, and four times more needy people will benefit from the social market.

It can be concluded based on the study has been done in the section, that the role of financial technology is growing dramatically in the Islamic financial system as a part of the global financial system and market. The financial technologies used for the convenience of the customers, reducing the operational costs of the transactions, and increasing transparency and the security of the financial operations also impact the social functions of the Islamic financial services. There has been estimated the social-economic effectiveness of the implementation of crowdfunding platform as the form of advancement of the Islamic social financial instruments and financial, the technological solution which allows involving the population in the process of the development of Islamic finance and in the process of solving social problems of the country. Thus, an assessment of the effectiveness of the crowdfunding platform using zakat and charity collection for the integration forms of the platform, first for 4.6 (simple, without blockchain) million tenge has shown the effectiveness of 985 and 68.12 for the platform based on blockchain technology. Each tenge invested in the implementation of the platform brings 985 tenge and 68.12 tenge saving in public resources, respectively. It should be noted that both forms of the platform will provide transparency for donators and applicants for social assistance. However, despite the complication and required time for the platform based on blockchain technology, it provides the technological system development of the finance in the country.

The social business effectiveness estimations in the form of the social market, as the example and the tool of Islamic social microfinance has been approved in the form of the business plan, including the financial analysis. The socio-economic effectiveness of the investment to the social market is 4.27, and this means that each tenge invested in the implementation of the social market brings 4.27 tenge for doing charity, as the concept of the market is using profit to the charity. Thus, it is profitable to do social business, and there is socio-economic efficiency in terms of the country's population. This case can be the push for the development of social businesses in Kazakhstan.

3.2 The priorities of institutional support for the Islamic finance development in the Republic of Kazakhstan

There is the interweaving of two conceptions: the social finance ecosystem and the Islamic social finance ecosystem [56]. As an integral part of social finance and initially based on the ethical, primarily social principles, the Islamic social finance ecosystem is created and developed from the integration of conventional social financial institutions' activity and Islamic financial institutions' services and systems. Suppose that the social finance ecosystem includes four main participants the representatives of the coordinators of the social ecosystem, providers of the social finance, initiators of social welfare, and beneficiaries. The participants' role is significant in coordination and consisting of the system, which is the interaction of the association of parties with the environment.

As considered during the research, Islamic social finance integrates Islamic financial institutions based on the ethical and charity philosophy, like zakat, sadaqah, and qard-hasan, at the same time non-profit institutions. The concept and objectives of the Islamic social finance ecosystem are the same and move in the same direction except for the specific characteristics of Islamic financial relations. First of all, there are own institutions and tools for implementation which follow the main principles of Shariah. Secondly, there are capacities for the cooperation of Islamic financial institutions with conventional financial institutions. As a result, there is suppleness for creating and developing the Islamic social finance ecosystem.

The role of each party in the ecosystem is vital and impacts the country's development in general. There are initiators of social welfare and parties of the Islamic social finance ecosystem:

1. Initiators of social welfare of the country, first of all, the government and international organizations;
2. Non-commercial public social associations;
3. Socially responsible businesses and companies – for-profit and non-commercial;
4. Islamic social financial institutions – zakat institutions, waqf institutions, micro-Islamic financial organizations;
5. Islamic financial institutions – Islamic Banks, Ijara companies, and others;
6. Islamic Capital market – Sukuk providers, SPV companies, originators;
7. Technological and crowdfunding platforms.

For the successful operation of the Islamic social finance ecosystem, it is necessary to cooperate with conventional Islamic institutions and capital markets within the shariah norms, that is, the collaboration of the Islamic and conventional systems, which is not prohibited in Islamic finance.

For the operation of the ecosystem, there must be the functional activity of the coordinators of the ecosystem, the primary purpose of which is the social welfare and efficient social impact. The coordinators of the ecosystem are the government in the case of Kazakhstan, represented by the Ministries of Finance, Digital development, Innovations and aerospace Industry, Information and social development, AIFC, and Agency of Strategic development. The following coordinators of the ecosystem are zakat institutions and waqf institutions. For our country, it is Zeket and charity

foundation and waqf department of the SAMK. The social and sustainable businesses also coordinate the ecosystem's operation as the main participants of it. The role of the Research and Development institutions is significant for the ecosystem creation and operation, so they are the source of ideas and opinions for advancement.

There is developed this study Islamic social finance ecosystem model is based on the conventional ecosystem models that are adjusted for the social purposes, and specific to the Islamic financial industry, illustrates the main stakeholders of the ecosystem.

The process of building the Islamic social ecosystem consists of several stages. First, it is identifying the social problem and issue. For the country, this stage is related to the UN SDGs as a member of the UN and providing the solution to social problems, which we have investigated during the research – poverty alleviation and reducing the state spending on social assistance to the needy population.

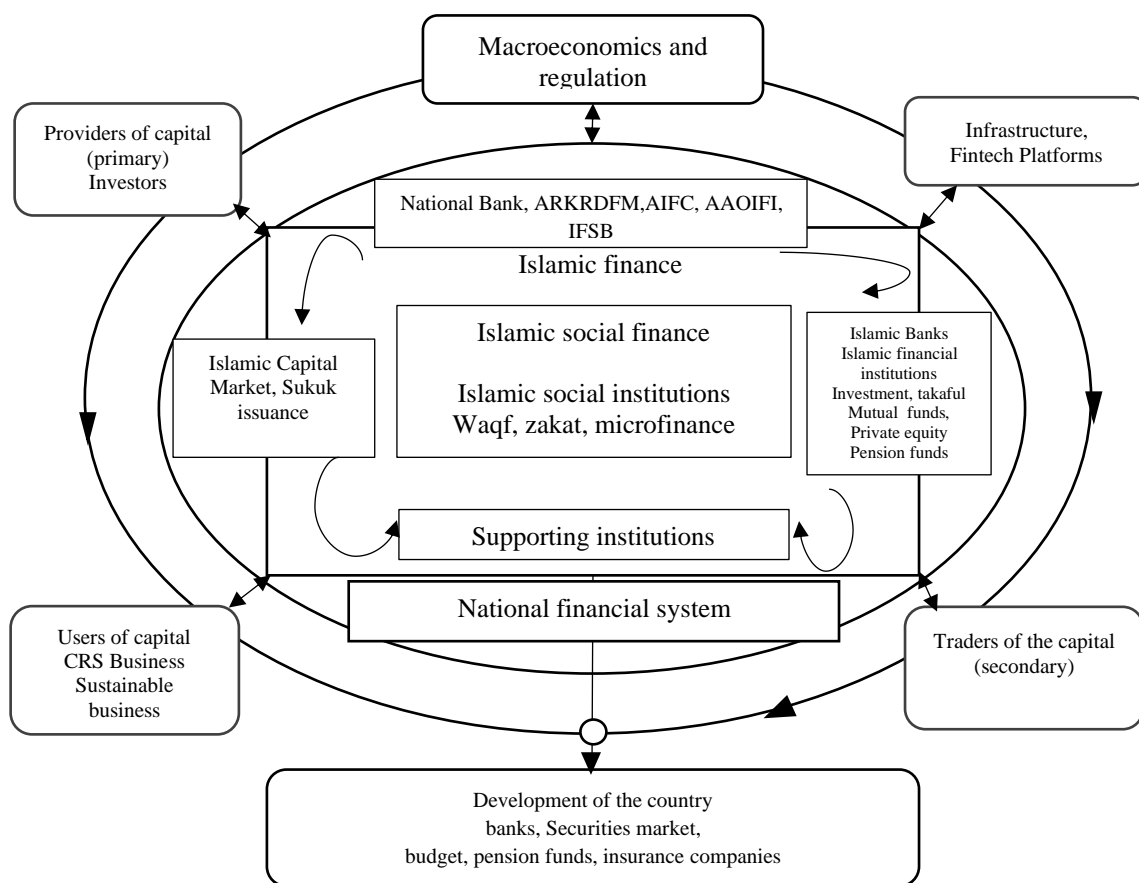


Figure 22 – Islamic Social Financial Eco-system

Note – Compiled by the author on the basis of [149]

The second stage is to identify and understand the causes of the realized problems and develop the solution taking into account initiatives already have done in the direction of the solution.

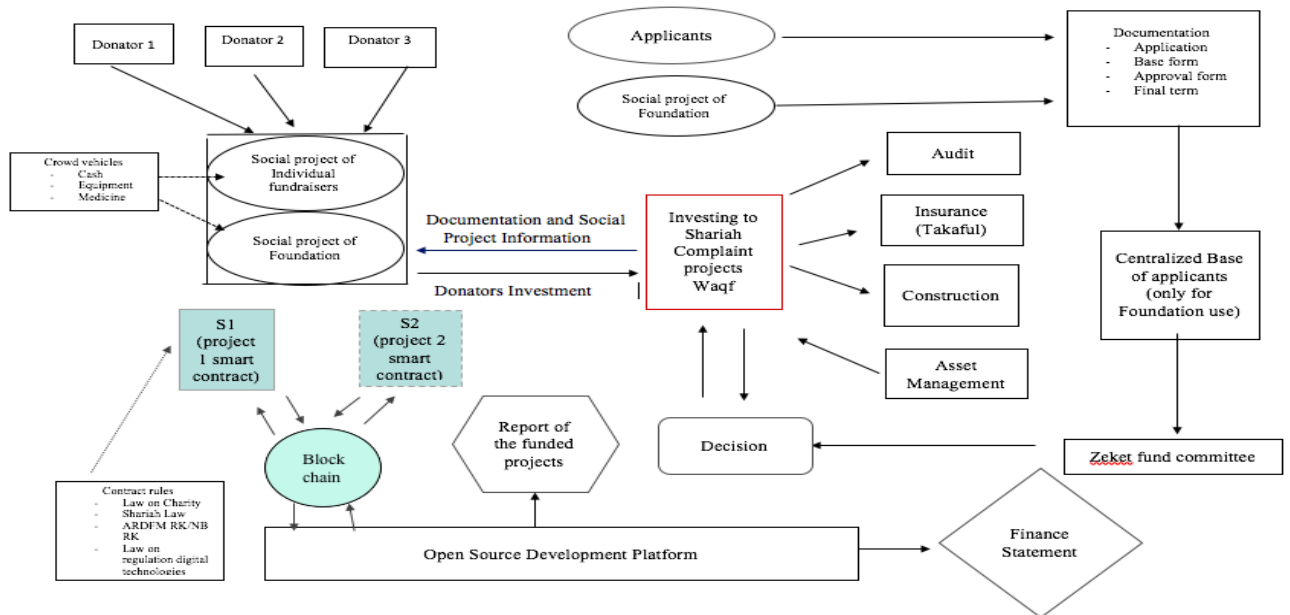
The third stage is the identification of the social welfare indicators. In this stage of building the ecosystem is essential to estimate and forecast all real social-economic

effects and efficiency of the implementation of the system. Because many state projects started actively but did not reach the purposes and goals, or effects and outcomes were much less than the inputs.

For the realizing and building of the ecosystem, it must be developed the road map at the next stage, followed by the stage of identifying the social finance providers for the process (government, international organizations, zakat or waqf foundations, Islamic financial institutions, or social and sustainable business representatives) depends on the problem, purpose, and size of the issues identified at the first stage.

The preparation process of the ecosystem is presented in two stages, identifying considered earlier coordinators, that is, responsible bodies, and determining the ecosystem's advanced mechanism accounting for the results of previous stages. In the last stage of the implementing ecosystem, using the adopted technological solutions is essential.

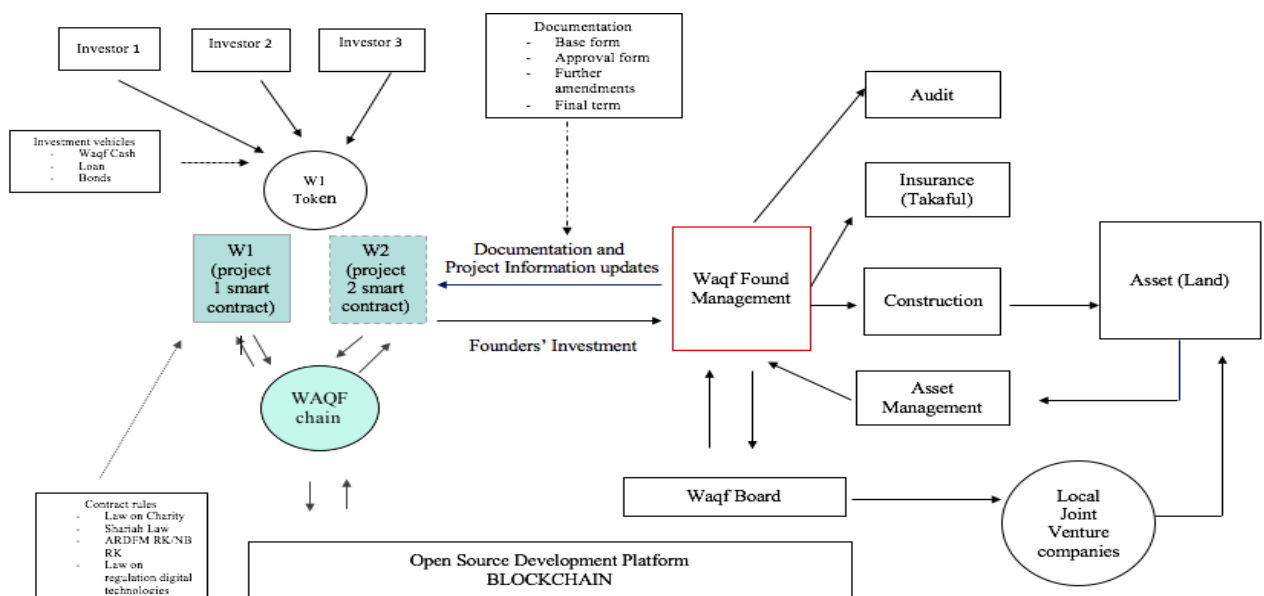
The technological solutions in the Islamic social finance ecosystem can be in a crowdfunding platform, including the Islamic social institutions, fund providers, and needy people. (Figure 23)



23 – The Crowdfunding platform Model

Note – Compiled by the author

It is significant to realize that implementing the crowdfunding platform as the solution to identified problems of needy people and poverty eradication issues and integration in the operating activity of the charity foundation will allow the development of a new system for the country – waqf-chain system (endowment). This system provides the creation of the waqf institutions industry by advancing the blockchain technology and attracting investment in the Sukuk market. The suggested our study waqf-chain model is illustrated in Figure 24.



24 – The adopted Waqf chain model of integration ISF in the financial system of Kazakhstan

Note – Compiled by the author on the basis of Fintera chain

The research results show that the development and promotion of Islamic finance will have positive short-term and long-term effects on the entire national economy by increasing the range of financial tools to activate all segments of the country's financial market.

The results also revealed that the possibilities of spreading Islamic finance are determined by factors like minimizing transaction costs and reducing information asymmetry and uncertainty based on Shariah values.

Given the results of this study, the authors recommend that the priority areas in the promotion of Islamic finance in Kazakhstan should be the preparation of relevant legislation on the integration of the Islamic sector in the country's financial system and increasing public awareness.

It should be mentioned that government support, expressed in removing tax and regulatory barriers to Islamic Financial Institutions, is needed compared to conventional financial institutions.

The potential and prospects of Islamic finance in Kazakhstan is the most discussed issue today among experts, the country's authority, and financiers. Authorized officials, specialists in the country's financial market, and foreign experts indicate excellent potential for further developing Islamic finance in the domestic financial system. Furthermore, creating the social financial ecosystem, where Islamic finance will get the advantageous position as the most orientated financial system to the social prospects, regulated not only by civil Law or human-being framework, also by Islamic Law, allows to construct of the sustainable, healthy financial system and social-oriented and philanthropic society. On the other hand, according to the results of this research, the advancement of Islamic finance's social functions will solve the country's social problems with a socially vulnerable population and can be the decision

to reduce the state spending on the addressed targeted social assistance. However, along with the positive prerequisites for the development of Islamic banking, such as the legislative framework, state support, and investors' interest, some tasks and a large amount of work need to be done.

Several barriers do not allow for the complete attraction and development of Islamic social finance and Islamic finance. These obstacles can be divided into institutional barriers, including social, legal, organizational, administrative, and Economic barriers: tax, investment, and marketing. Also, technological barriers can be the solution for Islamic financial inclusion and a tool for growing trust due to the increase in Islamic social finance funding.

The fundamental of the considered shortcomings that must be overcome for the efficient development and taking effects on society and economics is the lack of awareness of the population. During the research, the author investigated the big gap in awareness and knowledge between limited experts in Islamic finance of the country and population and financially included people. There is a misunderstanding of the functions and activity of Islamic financial institutions and their social orientation. Unfortunately, the central part of the financially included population has assumptions that Islamic finance is free finance. People accepted financial instruments as a charity. The most critical issues are promoting Islamic social finance tools among the population and business community and the improvement of Islamic financial literacy. The study results showed that people do charity, are aware of sadaqah and zakat on an individual level, and know about these tools of Islamic finance from their family and friends. If more than half the population knows the central concept of the *riba* in Islamic finance, which is encouraging value, more than one night of the population is not aware of the *waqf* system at all, which is a perspective Islamic financial system and solution for development social aspects of the country.

Taking into account the results of the survey, which showed that the lack of awareness of the population plays a significant role in slowing down the development of Islamic finance, we recommend that additional work be carried out to spread them and popularize them:

1. Promote the basic concepts of Islamic finance and social benefits among the population through the mass media, especially television and radio.

2. To carry out additional work to explain the features and principles of the activities of Islamic financial institutions among enterprises, the state program *Damu* is one of the excellent mechanisms for increasing Islamic financial tools for enterprises.

3. Based on higher education, supplement the course of lectures of disciplines in the specialties of the financial director, the basics of the tools of Islamic finance. The basis of Islamic finance and economics must be included in financial awareness as an integral part of the modern financial system and financial relations.

4. Based on religious organizations, such as mosques and religious educational institutions (2610 mosques and 10 educational institutions), it is recommended to give information on Islamic finance, Islamic financial tools, and their social effects on the society and country. The way of realization of the recommendation consists of giving information during the Friday *khutbas* when more than 70% of our population go to the mosques for Friday praying. However, there is a problem with the awareness of

Islamic finance of lector imams, the solution of which education imams by various terms courses in Islamic finance. About 400 imams participated the effort of the training course realization in the main four cities in 2013. By our assumption, it must be pieces of training for imams, including the online version for imams from the regions in Islamic finance in regular term, and AIFC Islamic Hub is responsible for promoting the education of imams for further multiplicative effect population. It should be noted that AIFC has an opportunity to promote this area and use practical tools, but there are some shortcomings. For example, the technical grant of the Asian Development Bank for Islamic Finance Capacity building has been organized set of training through foreign international consulting institutions Islamic Finance Advisory and Assurance Services, in 2021. However, the primary language of the training was English, a limited number of interested listeners participated in the training, and imams of the country were not involved. There must be instruments for training imams in Kazakh and Russian languages. We have to realize the number of potential listeners of the features and specifics of Islamic finance, its social functions, and the impact on the financial and societal development during the Friday khutbas from well-trained imams.

5. Furthermore, it is necessary to increase the awareness of the state in the person of the financial regulator and authorities endowed with direct and indirect regulatory and supervisory powers. Because ignorance and internal resistance of them are the reason of the barriers to active development of the Islamic financial industry over the past 10 years.

6. For the attracting funding to the charity through Zeket and charity foundation, as the example of charity foundation under SAMK management, from the wealthy part of the population, it is suggested to strengthen increasing awareness of the population about Islamic social instruments, sadaqah, zakat and waqf in the way of effects of the tools for social assistance to the needy people, and its ethical return.

Meanwhile, the advantages of Islamic finance, based on the value and moral potential of Shariah, are more clearly manifested in the conditions of crisis, when social inequality increases, the shortage of investment resources increases, and a higher level of public confidence in the state monetary policy is required.

At the same time, taking into account the crisis phenomena in most financial sectors of Kazakhstan, it seems appropriate to use the complimentary inclusion of Islamic financial instruments in the traditional financial system of the country. This may be the first step in demonstrating the competitive advantages of Islamic financial instruments in the post-crisis economy.

It should be noted that the legislation on the organization and development of Islamic finance was adopted 11 years ago and has achieved significant changes and additions to the activity of Islamic financial institutions with the contribution of representatives of financial institutions and regulatory structures. However, there are still existing issues that Islamic financial institutions have to overcome or bypass during the activity. The leading institutional problem of the Islamic finance development is shortcomings in the legislative framework, even though Kazakhstan was the first country to adapt to the existing legislative framework for Islamic financial institutions and Islamic financial relationships among CIS countries.

The distinctive aspect of the amendments to the Law On banks is the absence of original names of Islamic banking products, the tools are maximally adapted to the conceptual apparatus of the legislation: amana - interest-free demand deposits, qard-hasan - bank lending operations free of charge, mudaraba – investment deposits, murabaha - trade finance, contract for the sale of goods with mark-up, musharaka - financing of production and trading activities based on partnerships, ijara – leasing, wakala - agency services in the framework of Islamic banking. The number of contracts and instruments, which are covered by the legislative framework in the country, is limited. The Law does not cover some contracts, diminishing musharaka, hibab, khafakla, rahn, wadiah, and waad. Also, to the instruments mentioned above, the amendments to the Law on banking activities provide for the implementation of the following operations by Islamic banks: organization of exchange operations with foreign currency, operations with bills of exchange, factoring operations, and forfeiting operations. However, the bank is entitled to provide these services only with the approval of the Council on the Principles of Islamic Finance (Shariah Board).

Requirements for establishing an Islamic bank in the country are the same as conventional banks. According to the National Bank of the Republic of Kazakhstan and Law, the minimum capital for establishing the bank is 30.3 million US dollars and 9.1 thousand US dollars for every branch.

The most discussed issue in the Islamic financial industry in the country is the parallel structure of Islamic banking, which is full-fledged Islamic banks development with high requirements for the developing system in terms of capital and prudential normative. The mechanism of complementary development of Islamic banking with conventional in the form of Islamic windows could give more capacities for its overall development, as shown in the experience of Malaysia and England.

The guarantee of investment deposits in direct or indirect form is prohibited in Islamic banks. Islamic banks are not covered under the National Deposit Insurance system by the Law "On Mandatory Guarantee of Deposits Placed in Second-Tier Banks" since, from the point of view of Shariah, the bank cannot guarantee the repayment of deposits. The Islamic Bank is not a member of the mandatory deposit guarantee system, and deposits with the Islamic Bank are not guaranteed.

The essence of the amendments to the law "On state registration of rights to real estate and transactions with them" is reduced to the proper legal registration of the rights of clients of Islamic banks. The mechanism of the relationship between the bank and the client is similar to the relationship between the management company and the shareholders in a mutual investment fund. In this regard, as in the case of a mutual investment fund, the right of shared ownership is registered in the name of the Islamic Bank. However, the legal owners of the relevant asset are considered the holders of investment deposits.

The amendments made to the Law "On Investment Funds," which provide the procedure for creating Islamic investment funds," are also significant. The Law considers the shares and units of Islamic investment funds on the Securities Market as Islamic securities. The changes and additions made to the law "On the securities market" should be noted." These changes mainly affect the possibility of issuing and trading Islamic equity securities-Sukuk. This possibility is very promising and is being

discussed in the financial system of Kazakhstan. There are 14 types of Sukuk in the world practice. By Kazakhstani law, there are only three types, without interpretation of Sukuk, instead of defined shares and units of Islamic investment funds, Islamic rental certificates (Sukuk ijara), and Islamic certificates of participation (Sukuk mudaraba and Sukuk musharaka). This Law also provides that when issuing Islamic securities, the issuer does not have the right to charge a remuneration in the form of interest on the value of Islamic securities and guarantee income on Islamic securities since Islam prohibits interest. In addition, the funds received as a result of the issue and placement of Islamic securities should not be used to finance activities related to the production and trade of tobacco, alcohol, weapons, and ammunition, gambling, as well as other types of business activities, the financing of which is prohibited by the Council on the principles of Islamic finance.

It should be noted that the amendments to the law "On licensing provide for a special license" issued by the authorized body for the implementation of Islamic banking activities.

If we turn to the Law for the Islamic insurance market, there is no definition of takaful and retakaful. Instead of using Islamic insurance, Islamic reinsurance and some principles of takaful are not covered and ignored. Also, according to the Law, family takaful is covered by life insurance in its conventional design.

There are restrictions on the operation of Islamic finance tools that are not covered by the legislation. In this regard, we make suggestions:

1. Expanding the range of Islamic financial instruments offered to customers in Islamic financial institutions and developing the mechanism of each instrument's implementation. There are a limited number of offered instruments of the financial institutions, and the promotion of every toll needs years of work, including the promotion of the additions in the Law.

2. The reducing the requirements for the minimum capital for establishing the Islamic Bank, taking into account the limited services and additional requirements for a financial institution due to specific features. Point 5 Article 16. Authorized and equity capital of the bank, of the Law "On banks and banking activity," it is necessary to provide the minimum capital for the establishment of Islamic Banks by the Resolution of the Board of the National Bank of the Republic of Kazakhstan, in the amount for 30 million US dollars.

3. The adaptation Law "On banks and banking activity" for establishment and activity of Islamic windows of conventional banks is the main way for development and advancement of the Islamic financial industry and public awareness, as the share of the population and business in the conventional banking system is high in the country. In the Law "On Banks and Banking Activities": Article 2 Basic concepts, it is necessary to add the concept of "Islamic windows" of conventional banks; to the Article 52-5 add the operations of Islamic windows. Also, it is needed to add a paragraph for regulation of Islamic windows of the conventional Banks.

4. Including Islamic banks in the National Deposit Insurance system by the Law "On Mandatory Guarantee of Deposits Placed in Second-Tier Banks" by using special Islamic, that is takaful mechanism, which will provide trust and growth of the clients in Islamic banks, by deleting the second point of paragraph 5-1, Article 3 - Banking

system of the Republic of Kazakhstan, and by editing in the preamble of the Law "On mandatory guarantee of deposits placed in second-tier banks" relating the Islamic banks.

5. The expanding the number of securities types in the country in the law "On the securities market ."Furthermore, it is necessary to expand the scope of entities acting as originators to allow the issuance of Islamic lease certificates by private companies and public institutions.

6. Creation mechanism for Islamic insurance, as there is a lack of Islamic insurance companies in Kazakhstan. Islamic financing is subject to certain risks due to its specificity. It must be added to the principles of takaful which are not covered and ignored in the Law. There is a need to identify Family insurance and give the realization structure according to the Islamic rules, as in present low it Law is covered by life insurance in its conventional design.

7. There is a lack of any definition or description of the Waqf system based on the endowment. As the endowment funds are a new definition in the country's legislative framework, it is suggested to identify the Islamic endowment sector as one of the promising and prospective areas for funding in permitted financial projects and use the profit for the charity and social welfare by the Law on Charity. It will be a mechanism for attracting international financing.

There is an issue in organizational and regulatory aspects of the Islamic financial institutions, and there is no dedicated special department or committee for Islamic finance. There have been special departments within National Bank until starting the activity of AIFC. However, the Islamic Finance Hub of AIFC is responsible for the regulation and development of Islamic finance under the international jurisdiction of AIFC. In this regard, it is suggested to regulate Islamic financial institutions on the Agency for regulation and development of the financial market.

There is the requirement for Islamic financial institutions to establish their own Shariah board, called Council on Islamic financial principles, but the problem is that the members of the Board have to be the notable experts in Shariah thought. As there is a lack of qualified specialists in the country, the financial institutions are forced to hire foreign experts. We suggest creating the central shariah Council within the financial market regulator represented by the Agency for regulation and development financial market of Kazakhstan.

The slowdown in the development of Islamic finance in the country is due, along with the above conditions, to the lack of a State strategy for developing Islamic finance in the country. There is a master plan developed by AIFC Islamic Hub within the consulting of Malaysian experts for the next five years, recommendations of which are based on the assumption to reach 3% of the total financial assets of the country by Islamic financial industry, as 3% of financial assets is the goal of global Islamic financial industry for the near future. According to our assumption and study, this plan is quite ambitious for our economics and financial system. If to take into account that Islamic financial assets are much less than 1%, the global amount of the Islamic financial assets, and there are fluctuations and declining in several areas of the country's economy, such as the GDP, the state budget, financial, and banking sector and investment. From the presentation of the developed Master plan by AIFC Islamic

Hub, two years have passed, but there are still four Islamic financial institutions, and the growth rate of Islamic financial assets is slow. In this regard, we recommend developing a state strategy that clearly defines the ways of developing Islamic finance in Kazakhstan. On the basis of the Master plan, taking into account the actual condition of economics, it will be appropriate to consider reaching 1% of Islamic financial assets of the country's total financial assets. The strategy must include not only Islamic banking, which is the most discussed these days, also Islamic capital market, Islamic investment, Islamic insurance, as well as Islamic social finance, especially the development of the waqf system in the country, but the total assets under global waqf also exceed 1 trillion US dollars [75, p. 17].

The next significant obstacle to the development of Islamic finance instruments in the country is the lack of stimulating motivation for Islamic investment, and therefore, we recommend:

1. Create and apply investment tax incentives and preferences in the form of tax exemptions in the first year of Islamic finance institutions' activity to stimulate and expand the market of Islamic finance in the country.

2. Create the necessary organizational, legal, and economic conditions to attract investments in Islamic finance.

According to the analysis, state support for introducing and developing Islamic finance instruments in Kazakhstan plays a major role in attracting Islamic investment. It is noteworthy that the state is directly interested in the development of Islamic banking and Islamic finance in the country, but there are some shortcomings in support of Islamic finance. In this regard, we recommend:

1. To be directly involved in the involvement of Islamic finance by government agencies

2. Create an infrastructure to implement the activities of Islamic finance institutions in the country.

3. Assist in the organization of registration and licensing of Islamic finance institutions to reduce the time required to register and open Islamic financial institutions.

4. To ensure conditions for the free development of Islamic finance, competing with the traditional banking system.

There is a special state body represented by AIFC Islamic Hub, the purpose of which is the advancement of Islamic finance in the country, the attracting number of Islamic financial industry participants with a special international framework and infrastructure, which is more convenient. However, despite the fact that there are 35 institutions registered in AIFC as Islamic organizations, there are issues and problems with starting their activity and working, such as the opening correspondent account of the bank. For three years since the establishment of AIFC Islamic Hub has passed, there is still a stage of introduction. We suppose there is a time to start activity registered institutions and activate the Islamic financial industry.

As previously confirmed, the effectiveness of the tools of Islamic finance ensures the financing and development of the real sector of the economy. In order to stimulate the development of Islamic finance instruments and at the same time

stimulate the development of such sectors of the economy as agriculture, processing industry, and innovation, we make proposals:

1. Issuance the state Islamic securities to support state projects.

2. Issuance of green Islamic securities within the AIX.

3. To finance agricultural projects through Islamic financing instruments, there has been one attempt in 2013 in the form of financing micro agricultural projects. However, there is no information on the outcomes of the program.

Today's structure of the SAMK organization is complicated and consists of more than 11 departments (Figure 19), some of which are duplicates of the function of each other. If to turn to the social functions of Islamic finance, there is a suggestion of restructuration of the organizational structure of the SAMK, and Zeket foundation, according to the international experience, as the main foundation of the country's Muslims. The optimization will decline administrative spending, allowing sending the funds to charity and social welfare.

Waqf funds in Islamic finance are the most promising direction for developing Islamic Social Finance. The peculiarity is that it is not just a charity that has received a donation somewhere and immediately spent it. Here is the bottom line of creating a specific asset base in cash or real assets, real estate, and some other assets that can generate regular income. Accordingly, the main base is not spent on social needs or charity, and it is directed to generating income. Furthermore, this additional income is already directed to social needs, to providing any consumer baskets or other types of social assistance. Accordingly, a particular permanent source of generating social assistance is created. There is a fact, at least in those countries where Islamic finance is already highly developed in comparison with Kazakhstan, the waqf system has a certain development and has significantly large volumes that are able to generate amounts of income on a regular basis, thereby improving the country's social welfare and economics. According to estimates, the total volume of Islamic finance and the assets of Islamic financial institutions is estimated at 2.591 trillion US dollars [48]. I estimate the approximate amount of global zakat is from 200 billion US dollars to 1 trillion US dollars. People distribute these funds in the ways available to them, and this is not done centrally through specific zakat funds, specific waqf funds. If to accumulate this volume in financial institutions and direct use the tools of Islamic finance to generate profit for further social projects, the potential and prospects are impressive. Firstly, the Islamic finance industry could increase tenfold. Secondly, considered funds will be used more efficiently. Therefore, today, this is almost the main task of Islamic social finance to make this market for zakat distribution more centralized and transparent.

The financial technologies in the form of a crowdfunding platform in the first stage will allow to creation and development waqf system using blockchain. In this case, creating a zakat and sadaqah database in the form of a unified data center and optimizing online zakat platforms (as 77% of the population are internet users) will increase trust in Islamic social finance and impact the growth of Islamic financial inclusion accordingly. There is a suggestion to integrate the crowdfunding platform studied in section 3.1 to attract funding through transparency and a centralized non-governmental system. The social and economic effectiveness of the crowdfunding

platform is approved during the study and confirmed that the social function of Islamic finance could be a mechanism of reducing state spending from the budget for assistance to the socially vulnerable part of the country's population.

This is important to consider Islamic finance implementation tools and methods in the country, and it is advisable to take advantage of financial technologies like blockchain, crowdfunding, electronic accounts, and cards.

Islamic finance will make instrumental contributions toward financial inclusion and sustainability based on the following:

- Islamic social tools have never been considered a driver for Islamic finance development in Kazakhstan, the worth of.

- The justifiable skepticism of zakat payers and waqf donors can be dealt with using advances in technology. Zakat payments can be calculated and made using intelligent applications that present options to payers based on their personal preferences.

- Islamic social finance can be promoted as a value-based finance system and an investment that would strengthen financial inclusion in the region.

- The adaptation of best international practice, considering the experience of implementing legal frameworks by adapting to the domestic market and the use of financial and technological tools to increase transparency and the use of these tools, is strongly recommended.

- The problem of poverty can be partially solved by ensuring the transparency of charitable funds.

- It is possible to solve pointwise the problem of access to drinking water by using the tools of Islamic social finance since every 10 in the country does not have access to drinking water.

Developed recommendations provide the growth of the Islamic financial industry participants, and it allows to increase financial assets in the Islamic market. We have to understand that growing Islamic financial assets is a way to improve the social impact of Islamic finance, as the zakat collection, the finance in special accounts of the Islamic financial institutions spent on the charity projects will also grow.

Furthermore, as Islamic financial services are social-oriented, even in comparison with conventional business, it will impact the social responsibility of the financial market. The social functions of Islamic finance can improve the country's social welfare.

CONCLUSION

Taking stock of the thesis devoted to the study of the phenomenon of Islamic finance social effectiveness and the development of recommendations for their use to improve the welfare of the population of Kazakhstan, we can conclude that the goal has been achieved, and the following tasks have been solved:

1. Theoretical and methodological approaches to the definition of the social content and social functions of Islamic finance as an economic phenomenon based on the principles of Shariah and other spiritual Muslim sources have been studied. From the concept of the main prohibition of *riba*, which carries the idea of real economic development, avoiding the formation of financial and interest bubbles, Islamic finance aims to achieve the economic well-being of the agents in the economy to distribute economic resources reasonably equitably. In this regard, the phenomenon of Islamic finance, which is considered a set of methods and mechanisms alternative to interest financing and allows for compliance with Shariah principles, is of particular importance. Islamic finance is often defined by a central characteristic: the prohibition of lending at interest. In turn, the prohibition of financing *haram* business aims to create a healthy, both morally and physically, society without the consumption of alcohol, narcotic products, gambling, escort activities, and the use of weapons in peacetime. Islam aims to provide people with equal opportunities for economic actions in all areas - private and pervasive, internal and external - and should be aimed at ensuring social justice.

The analysis of Islamic finance's social features such as equal opportunities, equitable distribution, social justice, development and growth of economics and society, wealth creation, profit, and risk-sharing allows demonstrating the set of advantages approved by the norms and working instruments of Islamic finance – efficiency, stability, establishing equity, systematic integrity, society orientation, and sustainability. One of the main distinctive features of Islamic finance and Islamic social financial instruments in connection with and covering some of the 17 UN SDGs as the goals of the Islamic financial system is the promotion of economic well-being, poverty alleviation, the meeting basic human needs, optimization in the utilization of natural resources, the realization of spiritual needs and realization of economic and social justice.

2. The content and functions of Islamic social finance, such as *zakat*, *waqf*, and Islamic microfinance in the context of foreign experience, have been clarified. Despite the differences in the models of applying Islamic social finance in different countries, it is clarified that they play a crucial role in solving acute social problems. Summarizing several dozens of definitions of the *zakat*, the authors gave their own definition of *zakat*: *Zakat* is the Islamic financial instrument in the form of the payment, obliged as the pillar to the Muslims by Shariah, from the savings and profit (*nisab*) exceeding the equivalent of 85 grams of gold, in the amount of 2.5% for the calendar year, which directed to charity. As an economic category, *Zakat* carries out functions of contributing to equalization of living standards of the population, stimulating investment activity, stimulating the production and favourable allocative effects in the economy, and stimulating economic growth of the country.

The waqf, in turn, has its mechanisms of implementation and becomes the system for solving social problems. Key among them are enhancing economic progress, eradicating poverty, restoring income distribution, preventing deficit financing, and reducing government expenditure. The analysis of waqf models, which are used and developed in Muslim countries, secular European countries, and the US, has shown the implementation mechanism as an endowment, where non-obligatory charity funds are invested in Islamic projects with stable profit. The generated profit is directed to charity by creating a source of income (business) for the needy, making it possible to raise the standard of living of the socially vulnerable population and economic activity in double volume.

As a social tool of Islamic finance, Islamic microfinancing, in comparison with conventional microfinance, allows claiming the benefits of Islamic microfinancing. These benefits are - profit and risk-sharing between the financial institution and microbusiness, the result-oriented task for micro organization and financier of qard-hasan, which provides financing to small and start-up businesses, and socially orientated by providing financing to the development business in a rural area. These findings underline the social specifics and components of Islamic microfinancing, which also stimulate economic growth.

3. The review of foreign and domestic scientific sources allowed to substantiate the methodology and methods of assessing the social effectiveness of Islamic finance. Since social effectiveness is difficult to measure and the impact varies considerably between countries and individuals, a methodology for assessing it at different economic hierarchy levels is proposed. At the macro level, the AHP method is proposed, which measures the social effects of Islamic investment. The study also assesses the social effects of Islamic finance in saving public resources for social spending. The micro-level method evaluates social effectiveness in the form of savings for the needy and people with limited income and considers the social effects of social business in the form of entrepreneurship. It has been concluded that the social effectiveness of Islamic finance is higher when organizing social business than direct charity.

4. The analysis of trends, results, and development potential of Islamic finance in the economy of the Republic of Kazakhstan have been presented. The quantitative analysis of the evolution of Islamic finance in the Republic of Kazakhstan revealed that from 2010 to 2020, Islamic banking in Kazakhstan increased more than 11 times, but the volume of assets of Islamic banks is less than 1% of all assets of the banking system. Two domestic Islamic banks have 5 branches and offices with 177 employees. More than 90% of financial transactions are based on murabaha commodity contracts and 8.5% on Ijara contracts. It is noteworthy that the growth of assets of the Islamic banking sector in 2020 amounted to 48.7% compared to 2019, despite the pandemic crisis. In general, the assessment of the Islamic finance sector in the country since 2010, based on a study of the infrastructural and legislative development of Islamic finance, showed an average growth of 34%.

Two methods were used to assess the potential of Islamic financial resources. The first one, based on the average ratio of deposit funds to bank assets and the global average of 1%, showed the growth potential of assets of Islamic banks at 636 million

US dollars. The second method of assessing the potential size of the assets of the Islamic banking sector, based on the number of the Muslim population of the country and the average amount of an individual's deposit, showed that the expected maximum amount of deposits of an Islamic bank could reach 16.24 billion US dollars.

5. The barriers hindering the development of Islamic finance in the Republic of Kazakhstan have been identified. The qualitative analysis (questionnaire and SWOT analysis) carried out during the study clarified the critical barriers to developing Islamic social finance in Kazakhstan. Intra-country barriers include lack of synchronization of legislation for the specifics of Islamic finance and the need to harmonize Sharia norms in the country; shortage of specialists with experience in Islamic finance; poor awareness of the population and business about social, financial instruments such as waqf and microfinance, as well as their effects; a prejudice that Islamic finance is just a marketing ploy of financial institutions. External barriers to the spread of Islamic finance in Kazakhstan include the emergence of pseudo-Islamic financial institutions, which will lead to a loss of confidence of part of the population in Islamic finance in general; Islamophobia; lack of tangible improvement of the investment climate; indifference on the part of a number of government agencies in the active implementation of Islamic finance.

6. The assessment of the performance of Islamic financial institutions and non-financial social organizations and their role in the country's social welfare is proposed. In-depth interviews with representatives of Islamic financial institutions and AIFC suggest that the potential of Islamic finance and prospects for further development are significant and realistic for the country, as the business model, performance, and quality indicators for Islamic banks have shown growth over the past year. In turn, the rising profits of Islamic financial institutions increase the amount of zakat paid in the country by the financial institution itself or by shareholders, depending on the policy. There are, however, problems: the lack of complete adaptation of the legislative framework is slowing down the increase in the number of participants and the range of specific Islamic instruments, such as Mudaraba and Musharaka; the lack of awareness of the social instruments of Islamic finance; as well as the lack of definition of terms such as donation (which may be an alternative to waqf) and zakat; the lack of attention and regulation of charitable foundations, as well as the population's distrust of intermediaries (foundations) in matters of charity. However, the study estimated that the potential collection of zakat would be sufficient to cover a significant portion of the State's social expenditure.

7. The substantiation of the prospects for applying financial technologies for increasing the social effectiveness of Islamic finance in the Republic of Kazakhstan is given. Financial technologies used for customer convenience, reduced transaction costs, and increased transparency and security of financial transactions strengthen the social functions of Islamic financial services. For this purpose, the social and economic effectiveness of the crowdfunding platform was assessed as a form of promotion of Islamic social financial instruments and a financial technological solution to involve the population in the solution of the country's social problems. It concluded that using a crowdfunding platform to collect charity could lead to significant savings on public resources. At the same time, despite the complexity and time required to create and

develop a platform based on blockchain technology, the work demonstrates the capacity and will enable the development of the entire technological system of finance in a country.

8. The thesis also provides calculations confirming the economic efficiency of a social business focused on charity.

The conceptual model of institutional support for ensuring the social effectiveness of Islamic finance in the Republic of Kazakhstan has been developed.

For the successful development of Islamic finance and the realization of its social function, it is necessary to overcome institutional barriers, which are associated with the implementation of legislative, organizational, and economic measures that can form the basis of the Strategy for the Development of Islamic Finance in the Republic of Kazakhstan. The relevant proposals on amendments and additions to the current legislation and the integration of financial technologies to ensure the social effectiveness of Islamic finance in the Republic of Kazakhstan have been made in the research.

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Appendix A

Общественный Фонд
“UME Social Services”
БИН 201240027934
050010, г. Алматы, ул. Есенова 13/4, 51
e-mail: umess.gmail.com
10 июня 2021 года

АКТ о внедрении

Методика оценки социально-экономической эффективности социального проекта UME Social Market и Бизнес План, разработанные в рамках диссертационного исследования на тему “Социальная эффективность Исламских финансов: вопросы теории и практики” Куановой Лауры Айболовны были использованы при планировании и запуске социального магазина.

Руководитель
Неправительственный общественный Фонд
“UME Social Services”



Нурбаев Д.К.

Appendix B

The methodological approach and main findings overview of the selected studies

Amount of research	Period (cited time)	Main Study	Research methodology	Main finding
7	1979-2000 (12)	[84]	Reviewing the literature of the rationalization, explanations and justification of the Islamic Finance	The diversified nature of the Islamic financing principles makes it capable of tackling the numerous financial needs of the society
	(4)	[61]	Estimation of Zakat potential (z1, z2, z3) for 8 Muslim countries	Potential zakat collection amount much higher than real, and can be collected
	(2)	[85]	Analysis of Islamic finance as an alternative to Nasserian state economics	Identification of the Priority Principles of the Viability of Islamic Finance
5	2001-2005 (119)	[78]	The historical method of issues analysis of the Waqf system	Developed recommendations for overcoming the challenges in the waqf system
	(173)	[77]	Comparative analysis of the Western and Middle Eastern economic system development over time	Developed recommendations for modernization of economics
	(70)	[79]	Historical description of the shortcomings of Islamic economics: the Islamic law of commercial partnerships, the Islamic inheritance system, the waqfs system, and the individualism of Islamic law	The way for modernization of the financial system by westernization
12	2006-2010 (6)	[86]	Estimation of the resource shortfalls and Zakat potential collection for poverty elimination in 18 low-income Muslim countries	The resource shortfalls in the poorest countries cannot be covered by any potential Z estimates, in selected countries can be covered from Z1, and for others from Z2 collection.
	(6)	[87]	Estimate resource shortfall and potential Zakat collection for poverty elimination in 38 OIC-member countries	15 countries of 38 require less than 1%, 7 countries require 1-3% from GDP, 16 countries need 5.20% of GDP for poverty elimination. Potential Z collection cannot be enough for poverty reducing in the last 16 poorest countries, as Z3 is 4.31.
	(43)	[8]	Analytical review of the studies of Mauss, Sahlins and Bourdieu	Development a triadic model of religiously-inspired charity
	(9)	[88]	Analytical approach to the growth of Syariah-compliant finance in Malaysia, Brunei and the MENA region	Identification of the absence of connection between moral regulation in Islamic finance and systems of welfare capitalism

1	2	3	4	5
54	2011-2015 (37) (36) (13) (2)	[89] [5] [90] [91]	Analyzing the legitimacy, knowledge base and international regulatory framework for the Islamic finance construction, assessment, and regulation The content analysis of annual reports and web sites of Islamic banks Review and analysis of the 'materialist'-led contributions in the social sciences (especially in economics and finance) on the rise of this alternative set of practices and ideas Collection and analysis of secondary data and content analysis of the rulings of jurisprudence scholars	Focusing of the social constituency of Islamic finance to the transnational sphere of global finance on its epistemic legitimation Identification of the absence of specific or detailed information regarding schemes or initiatives to poverty eradication or enhancing social justice in Islamic banks Identification of the new perspectives on IF from the latter's encounter with social constructivism Identity of the current Islamic FOREX products and conventional FOREX products, and major contradiction and ambiguities in jurisprudence scholars about the permissibility of the products
46	2016 (6) (4) (11) (1)	[92] [93] [94] [95] [96]	Conceptual analysis of the inclusive framework of Islamic financial planning Qualitative analysis of the links between financial inclusion and the Islamic financial services industry in Muslim countries Quantitative analysis of Malaysian MS1900 QMS empirical data and qualitative approach and case study Review of Civic Legacies of the Islamic Waqf Comparative analysis of Islamic and conventional finance	An inclusive IFP framework identification by using the notion of a hierarchy of needs and a financial planning model The individuals and firms financially exclusion in Muslim countries, despite the growth of Islamic finance Finding the six activities undertaken by MS1900 and benefits of MS1900 implementation Identification key reason for the slow pace of the Middle East's democratization process Contribution of Islamic financial services providing financing real economy
69	2017 (16) (18)	[97] [98]	Systematic literature reviews on the Islamic banking sustainability A multivariate data analysis (1806), a clustered regression	Scholars' and practitioners' views on sustainability to the objectives of Islamic banking and finance, finding the limitation of the researches The large corporate boards and large SSBs are more efficient in dealing with different monitoring and

			(82 banks), and unbiased t-statistics	advisory roles than small SSBs
	(5)	[99] [100]	The descriptive study based on the literature review	Revisiting the norms laid down by Shariah and current global practices of Islamic stock market and indexes
91	2018 (10)	[101]	Assessment of the SBs issues related to competence, effectiveness and independence by Malaysian Shariah Governance Framework (SGF), qualitative analysis by interviewing SB members.	The necessity to the establishment of external religious auditors to render compliance assurance
	(10)	[102]	The analysis using structural equation modeling (SEM) of primary data collection by the survey of 1000 respondents (donors or crowd funders)	The positive impact on the behavioral intention of crowd funders or donors in assisting waqf institutions in developing waqf land in Malaysia
	(8)	[103]	Qualitative analysis and context analysis of 41 semi-structured interviews with mid-ranking professionals from the finance sector of Malaysia	Importance of religiosity in work engagement
	(8)	[104]	The generalized method of moments framework (07 non-financial firms listed on the Saudi Arabia stock market) and fixed effects model, random-effects model	Zakat contributes positively to both firm's profitability and value and can be considered as a win-win strategy to maximize returns and improve performance while considering the society
70	2019 (5)	[105]	The structural equation modelling for analyzing the surveying bank customers living in UAE	Identification of affection attitude and awareness to intention directly. The image, awareness, Shariah compliance and individualism affect attitude directly and intention indirectly mediated by attitude
	(5)	[106]	The multiple regression analysis of 384 respondents' survey in Muslim areas for investigating factors for giving zakat in the Philippines	The positive relationship of the descriptive norm and moral norm to give zakat
	(4)	[107]	The data envelopment analysis (DEA) of Financial and social efficiency in the Yemen microfinance institutions	The absence of differences in productivity between Islamic microfinance banks and non-governmental organizations and non-Islamic MFIs
		[108]	Analysis of ISF perspectives for achieving SDG 2.	Identification of ISF (inqaf, zakat, waqf) amount as alternative funding for covering the annual average global SDG's investment gap

Appendix C

Critical stages of Islamic finance development in Kazakhstan

Period	Key milestone
2009	Introduction legislation for Islamic banking and to create the legal basis; Islamic company JSC Fattah finance started operation; The Association for Development of Islamic Finance (ADIF) was established;
2010	Al Hilal Islamic Bank started to operate as a full-fledged Islamic bank under an intergovernmental agreement between Kazakhstan and UAE; Takaful, the first Islamic insurance company in Kazakhstan was established as a Mutual Insurance Society;
2011	The 7th World Islamic Economic Forum (WIEF) was held in Astana; A set of new amendments to the legislation was adopted related to the Sukuk market;
2012	The Government approved the Road Map for Islamic Finance Development in Kazakhstan by; The Member Country Partnership Strategy 2012-2014 was signed by the Government of Kazakhstan and IDB Group; The Development Bank of Kazakhstan issued the first Sukuk to the amount of 76.7 million US dollars; The National Bank of Kazakhstan became a Member of IFSB; (National Bank of Kazakhstan, 2016)
2013	Islamic Corporation for the Development of the Private Sector (ICD) acquired shares in the capital of local bank Zaman Bank; ICD and a group of international and local investors established the first Kazakhstan Ijara Company;
2014	The first President of Kazakhstan, was awarded the Global Islamic Finance Award (GIFA); The National Bank of Kazakhstan became an Observer Member of AAOIFI and an Observer Member of IIFM; (Global Islamic Finance Awards, 2014)
2015	The 12 th Summit of IFSB was held in Almaty; Relevant legal provisions to allow conventional banks to be converted into Islamic banks; The Fund for Financial Supporting of Agriculture launched the Murabahah Program for Islamic Microfinance under the agreement between the IDB and the Fund; The National Bank of Kazakhstan established a new Department for Development of the Regional Financial Centre of Almaty and Islamic Finance;
2016	JSC Al-Saqr finance converted from conventional leasing company to Islamic ijara company; The Astana International Financial Centre was established on the base of the Expo-2017 infrastructure and to confer a special status on the AIFC;
2017	Astana Financial Services Authority (AFSA) adopted the Islamic Finance Rules; The AIFC holds the awards ceremony of the Global Islamic finance awards; (Global Islamic Finance Awards , 2017)
2018	The AIFC Bureau for Continuing Professional Development started preparing professionals in Islamic finance; Astana International Exchange (AIX), a modern trade platform was created; The AIFC central Shariah Advisory board is established;

1	2
2019	<p>ZICO Shariah Advisory Services presented a Master plan (Road map) for the further development of Islamic Finance in Kazakhstan to the AIFC by the technical support of the Islamic Development Bank.</p> <p>Al-Farabi Kazakh National University has opened Islamic Finance Centre in cooperation with Hamad Bin Khalifa University and AIFC, the main purpose of which is education in Islamic finance and research in this field.</p>
2020	<p>Kazakhstan took grant from Asian Development Bank for realization the program “Islamic finance for inclusive growth - capacity building”</p> <p>The Islamic Bank Al-Rayan has registered in AIFC as a participant</p> <p>AIX included issued sukuk of the Qatar International Islamic bank in the official list</p>
2021	<p>Kazakhstan has been ranked 27 in the Global Islamic Fintech (GIFT) Index with 29.1 score (according methodology of the ranking it were taken into account the quality of human capital, regulation, infrastructure, Islamic fintech market and ecosystem, access to capital)</p>
Note – Compiled by the author	

Appendix D

Survey for Players: Islamic Banking / Islamic Non-Bank / Islamic Capital Market / Takaful / Social Finance / Halal Industry

Surname and Name:

Company and position:

1. What are the advantages (benefits) of Islamic financial instruments for use in Kazakhstan?

Advantages	No	Minor	Significant	Major
It helps by assisting financial inclusion (individuals, small and medium business)				
Reducing the impact of harmful products and practices				
Principle of financial justice				
Encouraging stability in investments				
Accelerating economic development				

2. What institutional (legal, personnel, social, organizational, administrative) and economic (marketing strategies and tax incentives) barriers should be overcome for the effective development of Islamic finance in Kazakhstan? And how, please specify

Barriers	Description
Marketing strategies	
Tax incentives	
Legal	
Organizational	
Administrative	
Human resources	
Social	

3. What institutional (legal, personnel, social, organizational, administrative) barriers need to be overcome to increase the number of investors and issuers of Islamic financial instruments in Kazakhstan?

- a) relaxation of requirements for Islamic financial institutions
- b) changing listing rules
- c) creation specific and unified Islamic finance legislation
- d) other (please specify) _____

4. How should the investment climate be changed in order to increase the inflow of long-term Islamic investments in Kazakhstan?

- a) improve the guarantee the rights and legal protection
- b) improve the guarantee the use of income
- c) improve the regulation of investment dispute resolution
- d) other (please specify) _____

5. How can financial technology affect the spread of Islamic finance in Kazakhstan?

- a) promote Islamic financial inclusion
- b) reduce the cost of financial intermediation for Islamic banks
- c) reduce the aggregate expenditure for government
- d) other (please specify) _____

6. How can the development of financial technologies affect the trading of Islamic securities?

- a) increase the number of participant in Islamic securities market
- b) increase in market activation
- c) increase in stock market capitalization
- d) other (please specify)_____

7. Do financial technologies comply with sharia principles?

- a) yes
- b)no
- e) other (please specify)_____

8. How can blockchain technology, which leaves electronic traces of any transaction, ensure the transparency and purity of financial transactions in the context of the value of Sharia?

9. How do you think the confidence that arises in Islamic finance contributes to the stability of the financial sector as a whole? Please, estimate from 1 to 10 points, where 1 – minor, 10 – major

1	2	3	4	5	6	7	8	9	10
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9. What is hampered Islamic finance flows in Kazakhstan?

- a) condition of finance sector
- b) legal framework
- c) absence of technologies
- d) level of Islamic financial literacy
- e) Other (please specify)_____

10. Is it necessary to allow Islamic windows, branches and subsidiaries in Kazakhstan for developing Islamic financial services?

- a) yes (windows, branches or subsidiaries) please underline
- b) no
- c) Other (please specify)_____

We will be grateful for any additional opinion and view

Appendix E

Technical requirement (specification) of the Zeket Crowdfunding platform

Prerequisites: The platform is integrated with payment systems with minimal involvement of external manipulation by people (automatized), by using smart contracts (blockchain technology).

System modules:

1. Development of project individual design
2. Advertising module
3. The platform must be in 3 languages (Kazakh, Russian, English)
4. The functionality of the main page:

- The Main menu
- The general information about zakat and sadaqah, including the amount of nisab;
- On-line calculator of zakat amount (from savings in monetary form, from gold and silver, from property and cattle);
- Instructions for submitting a social project (needy people can submit the request) and projects (requests application) submitted
- The total amount of the collected zakat in real time
- Reporting on the distribution of funds
- Contacts

5. Project application module

It must be implementation of submitting a social request application function by registered users in the platform.

Registered users of the platform create a request application by filling in the required data:

- 1) Short name of the request;
- 2) Full name of the request;
- 3) The brief information of the situation and photos;
- 3) Start date of fundraising-automatically the date of approval of the application;
- 4) End date of fundraising-reaching the requested sum;
- 5) Project type - selected according to the directory of project types in the system;
- 6) Total cost of requested social assistance;
- 7) Project development time – there is required to develop a configurable project time limit for the project in the system.
- 8) The system needs to implement the ability to upload files for the project. The system must have a function for limiting file types and file sizes. Project files – the user enters the name of the file and downloads it.

After the application is submitted, the system assigns the user an additional role – the user of the crowdfunding platform. The status of the project application is under review by the moderator.

6. Application evaluation module

The platform needs to implement the application evaluation function. It is required implementation the ability to assign the role of the evaluation commission from existing system administrators. After the application is submitted by the users, it is sent for evaluation to the administrators with the role of the evaluation commission.

The following functions are available for the evaluation commission role:

- 1) View the list of applications;
- 2) Detailed view of the application;

- 3) Approval – when the application is approved, it becomes available for viewing and financing among ordinary users (a notification is sent to the mail);
- 4) Rejection – in case of rejection, the initiator of the application is sent a notification to the mail about the rejection with the reason;
- 5) Sending an application for revision – the initiator of the application is sent a notification to the mail about the need for revision with the comment specified by the administrator.

7. The module for accepting funds (financing) for the project

Approved project applications become available for viewing in the corresponding section of the crowdfunding platform. View projects are available to all visitors of the system's website. The system requires sorting by project type.

To financing the project, the user uses an integrated payment system. Further, to link the payment to a specific application, additional functionality will be developed for logging the payment transaction, the sponsor, and the project. For example, storing the author's data(full name), project ID, and transaction result.

The user must have an available method of transferring finance. The system needs to develop integration with popular payment systems such as Paybox and PayPal. (Kaspi.kz)

The system will not provide return financial resources.

8. Application lifecycle module

Each application in the system has a configurable lifecycle. The system automatically checks on a daily basis for the end date of fundraising and the threshold value. When the threshold value is reached, the system sends a notification about the end of the fundraising to the Initiator of the application. The status of the application is the end of the fundraising process.

After the end of the fundraising, the moderator and the author will have an additional function in their personal account, in which they must post the results of the fundraising (photos, etc).

Appendix F

BUSINESS PLAN

UME Social Market

201 240 027 934



Almaty, 2021

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APPENDIX

REFERENCES

SECTION 1. EXECUTIVE SUMMARY

Charity social service "UME social market" is the first social charity shop in Kazakhstan. Prospective social business that will consist of Social market of clothes, shoes, appliances, and other equipment for house. Market will be located in the old center of Almaty, near the well-known and the townspeople's favorite market – "Green Bazaar", with further expansion in the regions.

The main activity of the enterprise will be the collection and sale of clothes and others of secondary use, or new which will be provided by partner large retails' stock. This business plan work is considered to obtain an opening of UME Social market as a start-up project with individual investments in the form of charity, in total 50 000 US dollars or about 20 892 865 tenge. This amount of money will help with renovation of a 500-square-meter space provided for the project for use also as a charity, purchasing equipment for the store, and cover expenses for the first time. It is supposed that huge initial investments will allow us to provide all services as a complete social market. After calculating all possible scenarios of the first year of existence of the project, it was suggested that the first year will have a success, with the condition that if business will open in considering time, without delay in opening.

In the beginning of existence of the business, it is planned that the social market will be considered as an individual enterprise on simplified declaration owned by one of the investors, within the non-governmental public organization "Ume Social Services". It is considered that for the first time business will benefit from special tax regime.

Mission of the company

The main philosophy of the social business is concern for caring for needy people, to provide a satisfaction for their needs in clothes, shoes and house equipment by providing possibility for people, who have the clothes, shoes or house equipment to help people in need, and to give the "second life" to the clothes.

The purpose of the social project is to provide different segments of the population with a simple and convenient mechanism for the wealthy - giving new life to the goods and helping society; for people with limited income – the ability to save on clothes and non-essential goods; for needy - opportunity to participate in charity events and to get charitable assistance. According to the charter

of the social market, part of the total income goes to the operational expenses, and the rest of the profit -goes to charities.



Figure 1. The mechanism of the project.

The mechanism of the project consists of accepting applications, delivery to the collection points, delivery to the warehouse, points of selling, selling and getting profit. The first step of the mechanism of the project is accepting applications of the people who wish to clothes, home appliances, furniture and others, there are the requirements for the acceptance, clothes must be clean and in the form for future use, home appliances in operating condition. The applications are accepted via the website, social networks, messengers and hotline, there is a minimum volume of the clothes and appliance for the removal – 2 bags/2 boxes, or there are the acceptance points in the malls of the city for self-delivery of donators.

The next step of the mechanism is the sorting by the store departments (clothes for men, women and kids, shoes, home applications, interior and household items), preparation and packaging. In this stage, the necessary equipment for the sorting and preparation process are washing machines and ironing equipment. Furthermore, there must be cooperation with the dry-cleaner company on reasonable terms with a discount.

The process of the pricing is based on the simple mechanism, there are clothes for 500, 1000, 1500 and 2000 tenge for the pies or the bag of the clothes (for example bag of clothes for an infant). This is the opportunity for real needy people or for the segment of the population with limited income to buy non-essential goods at affordable prices.

The target group is the socially vulnerable segments of the population:

- Large Families (families with four or more children);
- Single-parent families;
- Families with disabled children;
- People who were disabled in the war or participated in the Great Patriotic War;
- People with disabilities of the 1st and 2nd groups;
- lonely pensioner
- Children who are orphaned or do not receive parental care.

Future business is going to be an example of the social business, that will have key employees:

- The founder of the company (director);
- Cashier in the market;
- Sales consultant;
- Administrator of the shop.

The services of collection of the clothes, sorting, transportation are planned to implement by assistance of volunteers and own efforts of the founders.

The future advantages and opportunities of the “Ume Social market” project are as follows:

- varied product range

- income from the product
- customer service
- create a unique selling proposition and enter the market with it
- the possibility of developing a trading network
- essential products
- knowledge of demand
- sale of necessary product
- favorable, cheap cost for buyers
- promotion
- high level of customer service
- efficiency of the service
- additional privileges for buyers

The purpose of this business plan is:

1. Attracting investment to launch and further expand the business to do modern renovation and good equipment.
2. Justify the profitability and efficiency of the investment project.
3. Making a profit to further expand services and charity projects.
4. Meeting the demand for these types of services.

SECTION 2. BUSINESS OVERVIEW, STRATEGY AND ENVIRONMENT

Clothes are a necessary products for all population. Especially in Almaty, there are four seasons of the year, that means it is demand for clothes and shoes for four seasons, for cold and hot weather. For the large families with limited amount of income the purchasing clothes and shoes for children every season is problem. If to turn in attention, that by officially data about 45% of income our citizens are spend on the meal, and there is spending on public utilities, such as electricity, water and heating, the problem of clothing is actual not only for large families. Nowadays, the market has a huge number of players who are involved in the sale of clothes, shoes and house equipment. As Kazakhstan has limited light manufacturing, the main amount of clothes and shoes are exported from other countries. There are extra payments for logistic and other services, and consequently the price of the products in Kazakhstan grows before reach our stores from producers. If to take into account the unstable exchange rate of national currency and devaluation, we have access to expensive clothes and shoes, even in mass-market. In this situation of price formation there is restricted access for people with limited income.

On the other hand, there is other segment of population, which has overconsumption behavior, or has opportunity to purchase clothes or other products every season and needs to free the shelves of cabinets from things of past seasons. And for this segment the service of Ume Social market if usable, as there is opportunity to transportation from the house of applicants to the service.

Nowadays, the demand for a special social market for the socially vulnerable segment of the population is high for several reasons:

First, the current economic situation has led to a decrease in the purchasing power of the population. The growing unemployment has affected the population's income, and the instability of the national currency has led to a decrease in real incomes and purchases of the population "for the soul".

Second, the short life cycle of goods and rampant consumption contributed to an increase in unnecessary waste and inventory.

Third, a sharp activation of social activity and mutual assistance. A social store is one of the most transparent and, most importantly, convenient ways to help.

The idea of the Social market is came from the successful business projects of the world's companies. For example, "Svalka.me" the joint business of Russia and Israel, the profitable

commercial business, which was established in 2015, and first shop was opened in 2019. The company has 9 shops in Russia, Ukraine, Latvia and Israel. The revenue for year from one shop is 512 000 US dollars (35 thousand kg of clothes). The price of the franchise is started from 32 000 US dollars, and additional payment of royalty is 10%. Another example of the business is “Salvos Stores – Salvation army” of Australia, which was established 1980. There are 330 supermarkets of the company, these days. This project is partly social and partly commercial. The annual revenue of the company is 39 000 000 US dollars, and additionally, company does the charity for 189 000 families per year by providing expensive medical treatment and surgery and others.

The concept of the Ume social market is totally social, that is spending all profit, after payment of the salary to the staff and other payments, to the charity. Furthermore, the mechanism of involving people in charity process by providing them opportunity to do charity and to give “second life” for clothes, it is also way of the environment protection and reducing of overconsumption.

The main key partners of the social business are:

- The large retails of the city;
- People, who have clothes for giving;
- Dry Cleaner and Laundry companies;
- Factory for sewing branded products (Ume Social Services).

SECTION 3. SALES AND MARKETING PLAN

Due to the global crisis and the COVID-19 pandemic, this year there is an atypical and expected negative picture of changes in the incomes of Kazakhstan. Usually after the standard calendar decline in the first quarter (January-March) in April and beyond, the income level should show a stable quarterly growth until the end of the year. However, in 2020, the indicators of April were inferior to those of March, and in May another decline followed. For comparison: in last year's April, there was an increase of 6.6% compared to March 2019 [1].

In the second quarter of 2020, the share of the country's population with incomes below the subsistence minimum increased to 5.7% (a year earlier - 4.3%), which is the worst indicator since 2011. This happened against the background of a decline in economic activity in the country, as well as the general negative consequences of the corona-crisis. Recall that in the second quarter of 2020, the cost of living in the Republic of Kazakhstan on average per capita amounted to 32.6 thousand tenge. And according to the calculations of the World Bank, the poverty line is 5.5 US dollars per day, which is a little more than 70,000 tenge per month. That is, anyone who earns less than 70,000 a month in Kazakhstan, according to the World Bank's methods, is a poor person [2].

In total, the population with incomes below the subsistence minimum was 1.1 million people. There is still a noticeable difference in indicators in urban and rural areas. Thus, in the reporting period, in rural areas of Kazakhstan with incomes below the subsistence minimum was 7.8%, in urban areas-only 4.2% (by 3.6%) [3].

Based on these data, we can say that services for collecting things and selling them will be in demand, since according to official data, there are about 1 million poor people in the country who have incomes below the subsistence minimum. Although there are other figures. The World Bank believes that the level of poverty in Kazakhstan may rise to 12-14%. As a result, the number of poor people may reach more than 2 million.

Ume Social market is the first market in this format in the country. By using the business mechanism for social project and charitable activity, there is a plan for expanding the business and open shops and markets in other main cities of the country.

There are several charitable organizations, that carry out the clothes collection for needy people:

Table 1 - List of organizations in Kazakhstan for collecting and selling clothes at a low cost

Organization	City	Address
“Club of Good People”	Almaty	Kazybek Bi street, 22
Charitable shop SSH «Keremet»	Almaty	Al-Farabi avenue, 71/21
Store «Do A Good Deed»	Almaty	Abai street, 52B
«The Good Store»	Almaty	Nauryzbai Batyr street, 7B
Second Hand shops	Kazakhstan	All cities
Note – Source: Portal “ <i>Shodim Almaty</i> ”		

As can be seen from table, there are shops and stores, which collect clothes and ether sale for lower price, than in the market, ether give clothes without special pre-sale preparation to the needy people. If to turn to the Second hand stores, mostly, clothes are delivered from aboard, and are sold by kilograms in little shops.

The difference and advantage of Ume social market is in large comfortable shop with fashionable design, where clothes, shoes and other house equipment sorted by shelves, the spacious and bright fitting rooms, the clothes are sorted by different brands from famous Italian designers to the Turkish products, all clothes and shoes must be in wearable condition and special prepared for the sale.

Marketing strategy.

Promotion

The main task of marketing activities is to occupy a stable position in the market. In this regard, within the framework of the project, the following measures are assumed for sustainable positioning in the market and organizing the expansion of the customer base in the company:

1. Creating an Internet site. Promotion of an online store in the network.
2. Create an Instagram account. Launch targeted ads on Instagram; Advertising on Instagram allows you to include ads by geolocation, so that customer coverage will be based on the location of the store;
3. Distribution of leaflets, booklets;
4. Using assistants of the famous bloggers, showmen and actors,
5. Most of the promotions will be made by word of mouth. Because of good location which is in a crowded location it will attract a lot of clients.
6. Also using social networks like the 2GIS, which will give more advantages for promoting the business.

Price.

The average price for product unit will be fixed, for new clothes and shoes till 10 US dollars or 4200 tenge, for used clothes or shoes fixed price till 5 US dollars tenge (200, 500, 1000, 1500, 2000).

Customer service policy

Policy Statement

Customer service is a top priority of the social market. All customers will be treated promptly and respectfully without regard to age, gender, sexual orientation, race, ethnicity, disability, language proficiency, social or economic status.

Regulations

1. Staff members are responsible for providing the best customer service possible and are empowered to make decisions that will ensure the best experience for each customer while balancing the needs of the individual with the overall needs of social market customers.
2. When answering the phone, a social market employee will identify him or herself and the department in which (s)he works. All staff will wear name tags so that customers can recognize them as the social market employees.
3. Staff will assist customers on a first come, first served basis to the extent possible without infringing on the service needs of other customers.
4. Staff members will enable successful social market use by assisting customers with the market resources and equipment.
5. In cases where the social market resources are not sufficient to meet customer demand, staff will offer to leave a request, and try to find the necessary clothes, shoes or house equipment. Whenever possible staff will contact the agency to which a customer is being referred to ensure that the information, material or equipment needed is available.
6. A customer with complaints about the service received or about social market policy shall be referred to the senior staff on duty at the time or to the market director. The business cards of senior staff and the market director are available at all service desks.
7. The place of sale must be provided with a sufficient offer and a varied selection of products
8. Employees must be well trained and know all information about the product.
9. The buyer has the right to place an order for any product in stock.
10. Each item can be presented in the order in any quantity.
11. In the absence of goods in stock, the Manager of the company is obliged to inform the Buyer.

SECTION 4. OPERATING PLAN

Legal form of the business

It is planned that the business will be considered an individual enterprise on simplified declaration owned one of the founders of the Ume Social Services non-commercial public organization. The name of the enterprise is “Ume Social Market”, and there is assumption that business will benefit from special tax regime.

Organizational structure

Business is a start-up and will count as a small business, that is why in the beginning it will not have a big range of staff.

According to the chart, Social market in the head of it will be a Director-administrator, will manage all financial flows and the general situation in the enterprise. We suppose that it would be more efficient if our entrepreneur will work as both director and administrator in order to reduce unfavorable salary expenses. In order to reduce cost further it would be beneficial to outsource accounting process. It will be less costly than employing personal accountant to the firm. During the first year there will be hired only 2 salesperson for 2/2, starting from the second year. Other services of sorting, cleaning, preparing for the sale, and also transportation from applicants will be provided by volunteers and founders.

Business location and requirements / infrastructure / lease details

Direct costs and overheads

Operating expenses include the cost of acquiring the premises, general costs and personnel costs. All general expenses in the business plan, indicating the timing and number of payments for them, are presented in the table below. The amount of costs is indicated in current prices, including

VAT, calculated for one year. Starting from the second year of the project, an increase in overhead costs is expected in accordance with the change in the consumer price index.

Table 2 - Equipment cost for Social market.

Furniture/Equipment	Tenge	Years	Depreciation
Retail racks	430000	7	61428.60
Storefronts	200000	7	28571.40
Shelf racks	144000	7	20571.40
Cash registers and bank machine	80000	7	11428.60
Other furniture	146000	7	20857.10
Total	1000000		142857.10

Operating Plan

Equipment, technology, Research and Development, environmental aspects

The Social market will provide not only used clothes, shoes and house equipment but also new goods from the partners and local producer for Ume social services branded goods. The main strategy of the project is make the market well designed, fresh renovated shop for comfortable consumer shopping. In this regard the equipment and the renovation, would take a sufficient part of required investments for opening the social shop.

First, it is a furniture, but it is possible to purchase not new furniture as it is not so significant for this type of business.

Second, a set of cash register equipment depends on the desired depth of automation of the social shop. It should be noted that modern technology and programs for accounting for goods can significantly facilitate the work of a retail outlet, so it is better to purchase it. From the cash register equipment, the social shop needs:

1. Online cash desk with a program for warehouse accounting;
2. Barcode scanner for the implementation of packed and marked goods;
3. Mobile acquiring terminal;
4. Money box.

Equipment and programs for trade automation need to be purchased from reliable suppliers.

This is a minimum of required equipment, which will be necessary for an opening social shop. However, if it expands in the future, it would be necessary to add more equipment to provide more qualified services for a large number of customers.

Opex/Capex: the business planning model

Each new company should consider its operational and capital expenses in order to maintain a proper financial planning.

The operating expenses of social shop would include several moments. First, its costs for rental services. Taking into account that these costs are constantly changing, it should be pointed out in the operating costs accordingly. Second, it is costs for pre-sale preparing of the goods, required for maintaining a qualified services and satisfying all the demands of the potential customers. Third, it is marketing cost, which include all means of advertising, starting from social media and ending by other tools of modern marketing. Fourth, it is insurance, because when a business has a physical projection, such as a store, it should include possible risks, connecting with damaging this projection, so insurance should be enhanced. Finally, it could be all costs for research and development means, required for implementing a successful work of the business.

OPEX of the social shop includes:

1. Rent;

2. Advertising;
3. Pre-sale preparation;
4. Insurance;
5. Research and Development.

Actually, examples of operating costs are product costs, commercial, administrative, management costs and others. The main task of the company's managers is a control, and often a reduction in operating costs in parallel with an increase in company revenues. Thus, the share of operating expenses in relation to the company's revenue is always an indicator of the effectiveness of the company's management. Further, an analytical accounting of operating expenses of activity of the social shop, its opening and a good managed should be properly organized, taking into account a business field and major features of provided services and realized products [5].

Capital expenditures represent the cost of acquiring non-current assets, as well as its modification and modernization. The main characteristic of capital expenditures is a duration of their use. If the company plans to use investments in assets for more than one year, then most likely they will be classified as CAPEX. What will be considered capital expenditures for the company depends in many ways on both the scope of its activities and the established rules of its industry (Majaski, 2020).

CAPEX of the social shop includes:

6. Equipment
7. Furniture

In practice, capital expenditures for the company are most often investments in fixed assets and intangible assets. In accounting, CAPEX leads to the capitalization of costs on the company's balance sheet, which in turn increases the asset value and net profit of the enterprise in the reporting period, since the costs incurred in the current period are capitalized and then amortized over several years. However, cost capitalization also has disadvantages. First, the company will pay a large amount of income tax. Second, the company is required to test its assets for impairment on a regular basis [5].

SECTION 5. HUMAN RESOURCES PLAN

The list of employees needed for operation is short: the general director-administrator, 1-2 cashiers (salesperson). The general director or administrator is supposed to be job position of our entrepreneur, since his company is an Individual Entrepreneur, he must be employed in company to pay taxes as an individual Entrepreneur. And it will be more efficient if he will manage first year of operation by himself, since he will be able to compare forecasted and actual performance.

Based on historical data of similar companies we suppose that 1-2 cashiers and salespersons would be enough during the first year, then we will have to evaluate if he/she is able to meet demand for services efficiently and on time.

Accounting is planned to be performed by outsourcing since there are no big-scale operations, transactions are held by the cashier and work is needed only at the end of the periods.

Advantages to engage with accounting company:

- Less costly than employing person accountant, in addition it is unnecessary buy software and computer for your accountant;
- Outsourcing will take responsibilities of conducting the accounting system;
- Quality of services, since accounting company is maintained by modern computer hardware;
- Reduce the taxes, because there is no taxes for the accountant, money that is paid for outsourcing goes only to deduction of tax base.

Recruiting and hiring is done and approved by the owners.

During the first year we assume that there will be only 1 or 2 cashiers and salespersons, that are consultants of the shop, their salary is paid based on working-days. Cashiers' work schedule is about to be 2/2. Cashier 1 and salesperson 1 work for two consecutive days and then the Cashier 2 and salesperson for two consecutive days. In case of sick leave or any unplanned leave they can

replace each other. Their obligations are to hold transactions, accept and allocate the money, consult the customers on the products.

Shifts, sick leaves, performance checking is all arranged by the administrator. The administrator can resolve disputable questions during the work time of the store, accept complaints from the customers, note the proposals by customers. He has to manage the orders of the necessary inventory and supplements. Keep track of the inventory held in store and its expiration dates. Communicate with suppliers, probable advertisers, control authorities (e.g. tax department).

Table 3 - Staff of the Social Market

№	Position	Tenge
1	Director-administrator	150 000
2	Salesperson *2	200 000
3	Salesperson *2	200 000
		550 000

SECTION 6. ACTION PLAN

Table 4 - Project implementation calendar plan

Activity\Month	2021			
	6	7	8	9
Conducting market research and developing a feasibility study				
Resolving the issue of financing				
Search for staff				
Signing contracts				
Getting started				

SECTION 7. SOURCES OF FUNDING

For opening and starting the business, it is needed to use different sources of financing, this is one of the most crucial criteria of the business, regardless of whether it is a social business or a commercial one. And the very first source that is used as a resource that was given to us from birth, this is time. Before starting a business, every company should spend time studying the market, searching for a worthy location of the establishment, finding the necessary financing that it will need in the future, etc. These are the very first steps that company takes, and they are very important.

The financing of the social project in the form of Social market comes from the three founders of the Ume social services non-commercial public organization, who use for the starting the social market own funding of 20 892 865 tenge. This capital expenditure to the project is not expected to be received by the founders back, because this amount is given in the form of sadaqah-charity by founders. Furthermore, the premises of the store in 500 square meters in a passable area of the city are given for use free of charge, that is reduced the monthly expenses and is increased profit, which will spent on charity.

It is supposed to not use the loan from the conventional Banks, because of ethical and religious preferences of the founders. But in the case of necessity of additional funding for the social market

development, it is expected to do additional financing by founders or getting loan from Islamic financial institutions.

As an example, there is a conditions of loan in the form of financing small business under the program of “Entrepreneurship Development Fund Damu” of the Islamic Bank Al-Hilal JSC.

Financing criteria:

- The business must comply with the definition of small enterprises according to the laws of the Republic of Kazakhstan (average annual number of employees no more than 100 people, average annual income not exceeding 300 thousand of minimum calculation index). The program covers the individual entrepreneurs and limited liability companies.
- There are no requirements to turnover. The bank will analyze the financial statements of the business and project to decide on financing.
- Any sector of the economy complying with the Sharia rules and principles is subject to financing.

Main conditions:

- **Financing currency:** Kazakhstan tenge
- **Financing amount:** up to 20 million tenge
- **Purpose of financing:** investment (real estate, equipment, special machines and vehicles)
- **Term of financing:** up to 36 months
- **Financing rate:** 17.5% p.a., of which 11.5% is subsidized by Damu Entrepreneurship Development Fund JSC
- **Mark-up payment:** quarterly instalments
- **Payment of cost price:** quarterly instalments or one-time payment at the end of the term [6]

As can be seen from the conditions and requirements bellow, it is possible get funding from the Islamic Bank in the case of financing real asset. Taking into account the state program Damu, the price of the financing is 6% per year, and maximum term of financing is 36 months. If during the implementation of the project the additional funds will be needed with the involvement of the bank monthly payments details in Table 6 for the first year for 2 000 000 tenge, the loan term is 24 months.

Table 6 - Monthly payment for the loan in Islamic Bank al-Hilal for SME under Damu program for the first year

#	Amount	Payment	Principle	Interest	Ending
1	2 000 000,0	88 641,2	78 641,2	10 000,0	1 911 358,8
2	1 911 358,8	88 641,2	75 531,6	13 109,6	1 835 827,2
3	1 835 827,2	88 641,2	72 909,5	15 731,7	1 762 917,7
4	1 762 917,7	88 641,2	70 364,0	18 277,2	1 692 553,7
5	1 692 553,7	88 641,2	67 893,3	20 747,9	1 624 660,4
6	1 624 660,4	88 641,2	65 495,8	23 145,5	1 559 164,6
7	1 559 164,6	88 641,2	63 169,7	25 471,6	1 495 995,0
8	1 495 995,0	88 641,2	60 913,4	27 727,8	1 435 081,6
9	1 435 081,6	88 641,2	58 725,3	29 915,9	1 376 356,3
10	1 376 356,3	88 641,2	56 603,8	32 037,4	1 319 752,5
11	1 319 752,5	88 641,2	54 547,3	34 093,9	1 265 205,1
12	1 265 205,1	88 641,2	52 554,3	36 087,0	1 212 650,9
Total		1063694,65	777 349,1	286 345,5	

SECTION 8. RISK ANALYSIS

Risks evaluation and strategies for risk management

When we talk about a business, we understand that there is always probability of unexpected outcomes and challenges that firm may face during its operation and implementing its plans. We have to clearly recognize that risk in all its forms, is directly tied to business performance. Furthermore, probability and extent of the risk widely differ from each other, depending on type and nature of the business. Also, it seems that nowadays risks in social business are higher than comparable risks in innovative and modern types of the traditional business. Since our company is supposed to be a social type of business, we understand that it is highly difficult and challenging to evaluate risks accurately and properly, so that our predictions will be more likely to take place. Despite that, risk evaluation is still very important for our projection, therefore it should be definitely one of the impacts on our decisions in terms of refusing unfavorable or accepting favorable hypothesis and ideas. We can divide sources of the risks into several common categories in a business field:

- *Technical and technology risks.* Are the risks associated with technical requirements, quality of equipment?
- *Economic and financial risks.* Are more extensive and significant types of risks. Economic risks could be occurred due to fluctuations of both world and local markets, which facilitate changes in macroeconomics indicators. Financial risks are more narrow and specific risks, which are restricted to company's opportunities or customers and suppliers' affordability. Subcategories are: 1. Changes in inflation rate, duty rates and minimum wage. 2. Interest rate's fluctuation and credit risks. 3. Changes in market prices. 4. Liquidity risks. 5. Currency risks.
- *Operational and human capital risks.* Are the risks which could be occurred during normal operation cycle. Subcategories: 1. Staff turnover. 2. Damage and spoilage of products. 3. Fraud risk. 4. Unexpected disasters.
- *Competitive risks.* This type of risk is very common and highly probable to be occurred in a perfect competition market and will never exist in monopoly. Reputation is very important for the social business, it depends on company's performance and accumulated over the time. Subcategories: 1. New entrants. 2. Appropriateness of location. 3. Aggressive marketing and promotion. 4. Quality of services and products. 5. Losing a market share.
- *Legal / Regulatory risks.* Risk of occurrence laws and regulation that could challenge business's normal operation. 1. Toughen the laws and establishment of related regulations and rules.
- *Hazard based risks.* Risks for health and safety of the staff at a workplace.

We assume that there are 8 qualitative characteristics and respective quantitative measurement (scale 1-24, the higher the number – the higher the effect):

- Low risks / impact: lowest (1-3), low (4-6), medium-low (7-9);
- Medium risks / impact: medium (10-12), medium high (13-15);
- High risks / impact: high (16-18), higher (19-21), highest (22-24).

Table 7 - Technical and technology risks.

Category	Nature and reasons	Likelihood	Impact
(1) Modernity and relevance of equipment	Modernization of equipment is a one of unavoidable processes in most retail businesses. There is no need for modernization equipment for long time, as the using good qualified racks and hangers for clothes at the beginning allows to use them for long time.	Low (4-6): 5	Medium-low (7-9): 7

(2) Change in technology of production	Our main products are used goods or new goods from the stocks of the large retails (pervious collections), mostly mass-market. Again, this risk is mainly related to the involved sponsors and partners. Obviously, it could have a medium-low impact, but sustainable change in technology is less likely to be occurred.	Low (4-6): 5	Medium-low (7-9): 8
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Table 8 - Economic and financial risks

Category	Nature and reasons	Likelihood	Impact
(3) Change in macroeconomics indicators	It is a normal, that macroeconomics indicators are always changed. But it should be mentioned, that by risk of changes in macro-indicators we suppose any significant and unexpected changes. These changes could affect: <ul style="list-style-type: none"> • Purchasing power. Significant increase in inflation negatively affects customers' affordability. Minimum wage and duty rates (e.g. taxes) can also influence on society welfare. • Unexpected fluctuation in macro indicators also could cause increase in price pre-sale preparation and amount of the supplied products by sponsors and partners. Since we are small business, it less likely to have a big impact on our operation.	Medium (10-12): 12	Medium-high (13-15): 13
(4) Interest rates fluctuations and credit risks	Possible changes in bank interest rate, caused by market conditions or indirect influence of Central Bank through refinancing rate. The direct influence is affordability of debt repayments. In our case, using the loan of the Islamic bank is emergency and final solution of the liquidity issue, we can assume, that impact is medium-low	Medium (10-12): 12	Medium-low (7-9): 8
(5) Market prices	Since market terms are close to competition, we should accept and set price which is determined by intersection of supply and demand. So the prices is not to be changed frequently and significant, because both customer and suppliers in some extent influence on prices. And it is obvious, that if prices are changed, it will have a big impact on our revenue.	Medium-low (7-9): 8	High (16-18): 18

(6) Liquidity risks	In the project the capital expenditure and store place are provided by founders as the charity, and it is supposed to sell the goods which are also provided by sponsors and partners, there is expected that Liquidity risks have medium impact to the business process.	Medium (10-12): 12	Medium (10-12): 12
(7) Currency risks	Since, currency in our country is not enough sustainable, and it could be significantly changed against hard currencies (USD, EUR, GBP etc.). Risk of currency devaluation seems to be existed. We suppose that it could not affect us more than rest of retail markets. Furthermore, it could significantly influence on manufacturers if they imported raw materials.	Medium-low (7-9): 7	Medium-low (7-9): 8

Table 9 - Operational and human capital risks

Category	Nature and reasons	Likelihood	Impact
(8) Staff turnover	Frequent changes of employees could also affect company's performance. Since we suppose that there will be no more than two salespersons during the first years. We believe that in retail business, especially in small companies, salesperson job position is less likely to be frequently changed. Staff turnover risk could arise if there is an implementing of inappropriate management or personal antipathy to management. Salesperson position in our case is one of the crucial roles in organization, since he/she deals with customers. Customer could dislike new salespersons.	Medium-low (7-9): 7	High (16-18):18
(9) Damage and spoilage of products	The social market goods for sale are long-term storage products that are not subject to spoilage after a certain period of time, we suppose, that the damage risks are low and impact is lowest.	Low (4-6): 5	Lowest (1:3): 2
(10) Fraud risks	Internal fraud risk could arise in every company, especially in a large corporation. We think that there is a low risk of internal fraud actions in our company. Moreover, we suppose that if fraud were occurred, it would be related to financial activities. We have already discussed that outsourcing accounting is more appropriate and beneficial for us, and it should also reduce risk of frauds since they will take responsibilities of accounting.	Low (4-6): 4	Medium-high (13-15): 13
(11) Unexpected disasters	It could arise in every company, it is not under our control, but we can reduce it to lowest probability of occurrence. Fire-fighting equipment and all necessary stuff for safety providing was included in initial purchases.	Lowest (1-3): 2	High (16-18): 17

Table 10 - Competitive risks

Category	Nature and reasons	Likelihood	Impact
(12) New entrants	Increasing in number of new entrants could slowly lead to decrease in market price, since newbies would suggest lowest price in their initial period, and this initial period may become permanent.	High (16-18): 16	Medium-high (13-15): 14
(13) Appropriateness of location	Location for retail companies is one of the most important criteria, and there is always a chance that location would be not satisfactory for customers. The location of the social market is very good and in lively area of the city	Medium-low (7-9): 7	Low (4-6): 4
(14) Aggressive marketing and promotion	Marketing under a perfect competition is supposed to be the most effective tool to reach the goals. If competitors would apply aggressive marketing, it will definitely affect our company's performance.	Medium-high (13-15): 13	Medium-high (13-15): 15
(15) Quality of services and products	Quality of the product can be evaluated based on brand that you sell or technology and equipment that you use. Increasing of competitors' quality of products could affect our business.	Medium (10-12): 10	Medium-high (13-15): 14
(16) Losing of market share	This could be a case if there is a presence of one of the previous risks or all of them. Other reasons could be related directly to consumers.	Medium (10-12): 11	Higher (19-21):19

Table 11 - Legal / regulatory risks

Category	Nature and reasons	Likelihood	Impact
(17) Toughen the laws and other regulations	Changes in law could have both positive and negative influences.	Medium-low (7-9): 9	Medium (10-12): 11

Table 12 - Hazard

Category	Nature and reasons	Likelihood	Impact
(18) Physical	Everything in company's building that could affect employees' physical feelings, e.g. stress because of noise, or environmental conditions (such as heat)	Medium-low (7-9): 7	Medium-high (13-15): 14
(19) Biological	Risk related to non-compliance with sanitary conditions. Maintenance of required sanitary conditions must be provided.	Low (4-6): 4	Medium (10-12): 12
(20) Ergonomic	Inappropriate and inconvenient furnishing would make employee irritable and oblivious	Medium-low (7-9): 8	Medium-low (7-9): 9
(21) Psychological	Mental and emotional sustainability of employees are very important characteristics	Low (4-6): 4	Medium-high (13-15): 14

	to competently provide services to customers. The psychological conditions could be affected by many reasons (e.g. big volume of work, discrimination on a workplace etc.).		
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Thus, based on the table above we can conclude that the top highest risk to be occurred are: 1) Losing of market share – (16) high risk; 2) New entrants on the market: likelihood – (14) high risk; 3) Aggressive marketing and promotion – (12) (medium-high risk). The top 3 highest impacts: 1) Losing of market share – (16) higher; Unexpected disasters (11) high, and 3) Staff turnover – (8) high.

Based on risk analysis we may suggest these strategies for each of risks that should be mentioned:

(6) *Liquidity risk*. This risk exists almost in every start-up business, since there is an uncertainty in performance, for example: if actual sales would be equal to expected, if costs would not exceed estimated expenditures etc. Basically, likelihood of all other risks affects probability of liquidity risk. We can't control and eliminate this risk, so we can either accept or reduce it by more accurate and effective estimation of sales and costs and by reducing other related risks.

(12) *New entrants*. We cannot avoid this risk, so we have to accept it. The only way to prevent negative influence from new entrants is to obtain sufficient funds and capture your target audience.

(16) *Losing of market share*. This risk could appear when our company find and capture some target audience. So, this risk is to be appeared when company is fully in operational cycle, that is after several months. It is a normal practice when some of your customers once leave you, and we cannot control choice of everyone. But by risk of losing market share we consider a losing of large number of target customers. So that, we have to eliminate losing significant share of market. Our suggestion is to encourage loyal customers with bonuses and discounts. Be in touch with customers through social networks remind them about bonuses or discounts due to holiday campaign. This should be done periodically or only when there is some holiday, in order to prevent getting them annoyed. Decorating furniture due to respective event is also could be done.

Sensitivity testing

It is almost impossible to predict exact and accurate outcomes. It is highly useful to check important variables on their sensitivity to changes in some inputs. Because we can find and evaluate what inputs have the highest influence, so that we will be able to rank sensitivity of variables to the inputs.

Net Income. We evaluated what would happen, if our expected level of occupancy per month deviated from predicted value by 20%:

Table 12 - Sensitivity test for 2 years

Year 1	sensitivity (20%)		sensitivity (+20%)
Sales Revenue	33 729 500,00	33 729 500,00	33 729 500,00
Cost of sales	- 3 675 850,00	- 3 675 850,00	- 3 675 850,00
Gross profit	30 053 650,00	30 053 650,00	30 053 650,00
Administrative expenses	- 6 756 475,00	- 6 756 475,00	- 6 756 475,00
Operating expenses	-19 418 253,97	- 23 301 904,76	- 27 962 285,71
Operating profit	3 878 921,03	- 4 729,76	- 4 665 110,71
Finance costs	- 348 601,81	- 348 601,81	- 348 601,81

Profit before tax	3 530 319,22	- 353 331,57	- 5 013 712,52
Income tax expense (3%)	- 105 909,58	10 599,95	150 411,38
Profit	3 424 409,65	- 342 731,62	- 4 863 301,15
Year 2	sensitivity (-20%)		Sensitivity (+20%)
Sales Revenue	33 898 000,00	33 898 000,00	33 898 000,00
Cost of sales	- 3 929 000,00	- 3 929 000,00	- 3 929 000,00
Gross profit	29 969 000,00	29 969 000,00	29 969 000,00
Administrative expenses	- 7 454 900,00	- 7 454 900,00	- 7 454 900,00
Operating expenses	- 1 289 166,67	- 1 547 000,00	- 1 856 400,00
Operating profit	21 224 933,33	20 967 100,00	20 657 700,00
Finance costs	- 502 758,33	- 502 758,33	- 502 758,33
Profit before tax	21 184 933,33	20 927 100,00	20 617 700,00
Income tax expense (3%)	- 1 624 015,61	- 1 624 015,61	- 1 624 015,61
Profit	19 560 917,73	19 303 084,39	18 993 684,39

From this table we can see that due change in occupancy level: Gross Profit: -20%: was decreased by 20%. +20%: was increased by 20%. Net effect because Gross Profit is directly depends on sales volume, hence level of occupancy. Thus we can conclude that profitability of our performance is highly sensitive to occupancy level, especially in Year 1. If occupancy rate were less by 20% than expected, payback period would take more time to cover initial investments. If occupancy rate were to be less than we expected it would significantly affect out profitability.

SECTION 9. FINANCIAL PLAN

The main idea of the financial analysis is given in the previous sections, the following tables are estimated financial statements and calculating the financial indicators for financial analysis of the Social market. Furthermore, by using these estimations, we will conclude the social efficiency of the project.

Table 13 - Statement of comprehensive revenues forecast for 5 years, Ume social market

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales Revenue	33 729 500,00	33 898 000,00	46 948 730,00	49 296 166,50	51 760 974,83
Cost of sales	3 675 850,00	3 929 000,00	5 441 665,00	5 713 748,25	5 999 435,66
Gross profit	30 053 650,00	29 969 000,00	41 507 065,00	43 582 418,25	45 761 539,16
Administrative expenses	6 956 475,00	7 454 900,00	10 325 036,50	14 300 175,55	19 805 743,14
Operating expenses	1 790 000,00	1 547 000,00	2 142 595,00	2 967 494,08	4 109 979,29
Capital expenses	20 892 865	0	0	0	0

Profit before tax	414 310,00	20 967 100,00	29 039 433,50	26 314 748,62	21 845 816,73
Income tax expense	12 429,30	629 013,00	871 183,01	789 442,46	655 374,50
Profit for the year	401 880,70	20 338 087,00	28 168 250,50	25 525 306,16	21 190 442,23

Table 14 - Financial indicators of the project.

Indicators	Value
Contributing to equity	22 772 865
including:	
Capital expenditures	20 982 865
Operating expenses	1 790 000
Net Profit for 5 years	94 997 181
PV of the net profit for 5 years	89 685 754
NPV	68 792 888
Project payback period	1 year 1 month
PI Profitability Index	4.29
IRR	102%
Note – Compiled by the author *profit is considered as revenue from donors	

In calculations of financial indicators, we used discount rate - 1.66%. It was found based in data of expected inflation for the next year and the most appropriate bank deposit rate. In result we obtain following estimated information: inflation rate - 8.5%, discount rate - 10.3%. This type of discounts rate is most appropriate for us, because of our size and nature of business, we could not use WACC or another discounts rate, it would be impossible to calculate properly.

From the financial indicators and forecasted estimation of cash flow and financial statement, it can be concluded that the social market is profitable and has high financial indicators for activity. If to take into account, that all invested funding will be go to the charity after realization project in the form of profit, and the social market will work for taking profit for the charity, it is efficient project for further charity doing for a long time. It is the example of when investment of about 21 million tenge goes as not once charity assistance, but works for years and give the opportunity to help needy people for considered amount every year. Furthermore, the mechanism of the project is organized to help people with limited income to buy qualified goods for cheap price.

The Social effectiveness of the project

The project has a high social significance, as it is aimed at promoting the idea of social protection and assistance to the socially vulnerable segment of the population, the idea of transition from excessive consumerism to rational consumption. The project addresses the following social issues:

1. Assistance to low-income families through goods at low prices.
2. Reduce inventory and waste.
3. Sharing of material and human resources.
4. Solving the problem of excessive consumption.
5. The project provides an incentive to activate civic engagement and mutual assistance.

The following table illustrates the socio-economic efficiency of the implementation of the project implementation and successful work. According to the research of Nielsen Kazakhstan, the average spending of Almaty residents to clothes and major purchases about 30% of the income. [7] On the other hand, the average prices for the clothes as a following: man suit – 33 000 tenge, dress –

17 000 tenge, jeans and pant – 11 500 tenge, shirt – 7000 tenge and shoes – 16 500 tenge. In average, one unit of the clothes price is 10 400 tenge. This price for one unit of the clothes is available not for all families, if to take into account that 5% of the population is living under the national poverty line, less than 2 US dollars per day, and 10% of population is living under UN poverty line, that is 5.5 US dollars per day. Our social market is good solution for that 10% of the people, who cannot spend 10 400 tenge for one unit of clothes, and will be benefit from social market where average price for clothes is till 4200 tenge (10 US dollars) for new clothes and 200-2500 (5 US dollars) for used, but clean and good qualified clothes and shoes.

Table 15 - Calculation of the socio-economic efficiency of the Crowdfunding platform

	Indicator	
1	Potential number of persons (families), who will receive social assistance using the Ume social market services	1000 per month 12 000 per year
2	The average cost of the unit of clothes/shoes	10 400 000 per month 124 800 000 per year
3	Present value of the cost of the of the unit of clothes/shoes (1000 per month)	115 023 041
4	Total present value of the cost of the of the unit of clothes/shoes (1000 per month) for 5 years, in million tenge	491 792 131
5	Present value of saved spending on the clothes	333 378 320
6	Social market expenditures	20 982 865
7	Present value of the Social market profit	89 685 754
10	Socio-economic efficiency of the social market activity	158.90
11	Socio-economic efficiency of the investment in social market	4.27

The result of estimation the socio-economic efficiency of the investment to the social market is 4.27, this means that each tenge invested in the implementation of the social market brings 4.27 tenge for doing charity, as the concept of the market is using profit to the charity. Furthermore, socio-economic efficiency of the working of the social market is 158.90. This means that each tenge invested and used in the social market brings extra 158.90 tenge savings for social vulnerable segment of the customers and people with limited income amount.

Appendix. HUMAN CAPITAL

CV for salesperson

Personal profile

Responsible and sociable person, who quickly adapts in a new area. Have a specific knowledge in alcoholic area. Ready to ensure customers with providing high quality services. Be able to work with any type of customers. Don't have any addiction to alcoholic drinks.

Experience

Not required

Education

Post-secondary or high education

Requirements

2/2 working days
Provide consultants and sales services
Able to work with bank and cash register
Tidy and clean appearance

Skills

Responsibility and sociability
Ability to establish contact with customers
Competence and knowledge of different types of alcoholic drinks

CV for manager

Personal profile

Hardworking person, who is mainly interested in improvement of company's performance. Responsible, possess due competence encourage providing quality services, regardless of sales volume. Objective to contribute value to customers.

Experience

at least 1 year of experience as a manager or administration

Education

high economic education

Requirements

Full time employment
Provide consultants and sales services
Tidy and clean appearance

Skills

Responsibility and sociability
Ability to establish contact with customers
Competence and knowledge of different types of alcoholic drinks