

ӘЛ ФАРАБИ АТЫНДАҒЫ ҚАЗАҚ ҰЛТТЫҚ УНИВЕРСИТЕТІ  
КАЗАХСКИЙ НАЦИОНАЛЬНЫЙ УНИВЕРСИТЕТ ИМ. АЛЬ-ФАРАБИ  
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ВЫСШАЯ ШКОЛА ЭКОНОМИКИ И БИЗНЕСА  
HIGHER SCHOOL OF ECONOMICS AND BUSINESS

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**«ҚАЗАҚСТАН МУЛЬТИПОЛЯРЛЫ ӘЛЕМДЕ:  
ЭКОНОМИКАЛЫҚ СЦЕНАРИЙЛЕР»**

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**«КАЗАХСТАН В МУЛЬТИПОЛЯРНОМ МИРЕ:  
ЭКОНОМИЧЕСКИЕ СЦЕНАРИИ»**

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## EVALUATING THE EFFECTIVENESS OF ISLAMIC FINANCE

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**Аннотация.** Мақала аз зерттелген, алайда өзекті болып табылатын исламдық банкинг моделінің тұжырымдамасын жан-жақты зерделеуге арналған. Мақалада исламдық қаржы құралдарының нағыз активтерге негізделген табиғатына байланысты, ел экономикасы мен әл-ауқаты үшін рөлі мен маңызы көрсетілген. Авторлар исламдық банктік құралдардың негізгі түрлерін қарастыруды шешті. Бұдан басқа, мақалада дәстүрлі қаржыландырудың аналогтарымен салыстыра отырып, исламдық қаржы құралдарының экономикалық сипаттамалары талданады.

*Түйін сөздер:* исламдық қаржы, мудароба, мушарака, мурабаха, иджара, вакала, истисна, сукук.

**Аннотация.** Статья посвящена всестороннему изучению малоизученной и в тоже время актуальной концепции модели Исламского банкинга. В статье раскрывается роль и значение инструментов в Исламских финансах для экономики и благосостояния страны за счет основанной на реальных активах природе модели. Авторы решили рассмотреть основные виды инструментов исламского банкинга. Основное внимание уделяется эффективности работы инструментов. Кроме того, в статье анализируются экономические особенности основных исламских финансовых инструментов в сравнении с аналогами традиционных финансов.

*Ключевые слова:* Исламские финансы, мудароба, мушарака, мурабаха, иджара, вакала, истисна, сукук.

**Annotation.** The article is devoted to a comprehensive study of the seldom-studied and at the same time actual concept of the Islamic banking model. The article reveals the role and importance of instruments of Islamic finance for economy and well-being of the country, because of real assets based nature. Authors decided to consider main types of tools in Islamic banking. The main attention is paid to the study of the effectiveness of Islamic Finance. Furthermore, the article analyzes the economic benefits of the main Islamic finance instruments in comparison with analogues from conventional finance system.

*Keywords:* Islamic Finance, mudaraba, musharaka, murabaha, ijara, istisna, vakala, sukuk.

Nowadays, when the world economy needs additional sources of financing for sustainable development, the role of Islamic finance is growing every day. The difference between Islamic financing and the traditional one is that the Islamic economic system is a system based on rules based on the principles of preserving property rights and the inviolability of contracts and has no speculative component

Islamic finance is a rapidly growing component of the financial sector in the world. According to Global Islamic finance report of 2017, the annual turnover of the Islamic finance market is estimated at 2.293 trillion US dollars, which is 1% of all world assets, and average growth rate of World Islamic finance is 13,9% between 2009-2017.[1]

Islamic finance and Islamic banking industry are specified and based on a defined range of Sharia-formulated financial instruments. Almost all instruments and contracts of Islamic finance have Arabic names, however under these Arabic terms conceal understandable for not only for financiers tools.

Table 1.-Main types of Islamic banking instruments. [2]

<b>Name of Islamic banking instruments</b>	<b>Brief description</b>	<b>Western analogue</b>
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Name of Islamic banking instruments	Brief description	Western analogue
<b>Mudaraba</b>	is used for project financing purposes, as well as in syndication and securities issues (Sukuk) that comply with Islamic law. The basis of the trust partnership is the Bank's participation in the provision of investment financing of the project	trust financing
Musharaka	is used in the framework of active operations of the Bank for the purposes of export – import financing, project financing and syndications, issues of securities in accordance with Islamic law (Sukuk). The basis of musharak's transaction is the joint participation of the Bank and the Client in the implementation of any business plan (investment plan) and the joint financing of this plan.	partnership
Murabaha	it is used in the framework of active operations of the Bank for export – import financing and financing of working capital. The basis of the Murabaha transaction is the sale of a certain asset to the Client, previously acquired by the Bank, at a mark-up by the Bank. The Bank's income from this operation is the margin established by the Bank in the framework of the transaction with the Client.	resale with mark-up
Ijara	is used in the framework of active operations of the Bank for the purposes of leasing and project financing. The basis of the Ijara transaction is the provision of lease, leasing of any particular asset to the Client. The income of the Bank from this operation is the lease payments within the agreed period of use of the lease.	Leasing
Istisna	Is a financial instrument designed specifically to Finance long-term projects. According to the Istisna contract, all payments are made at the price established on the date of the contract, while payments are made at the end of the project or at pre-specified intervals during the project.	Futures
Vakala	is an analogue of representation in the traditional financial system. According to the vakala agreement, one party-Vakil (agent) represents the interests of the other party as a Trustee. Unlike the Mudaraba contract, the agent does not participate in the distribution of profit or loss, but receives a fixed fee for his services.	Agent
Sukuk	Islamic securities, often referred to as "Islamic bonds". Sukuk is the Islamic equivalent of a bond. The principle of Islamic bonds is the right of the sukuk holder to a part of the Issuer's profit (or loss). Income on Islamic securities is not guaranteed. There are different types of sukuk depending on what kind of contract lies at its core: Ijara, sukuk Istisna,	Stock

Name of Islamic banking instruments	Brief description	Western analogue
	sukuk Murabaha, sukuk Musharaka, sukuk Mudaraba, sukuk.	
*compiled by the authors, source: [2]		

According to the norms of Muslim law specified in the Koran and the Sunnah, there are a number of religious prohibitions (Haram) concerning the economic life of society:

1. Riba (Arab. "surplus") - prohibition of interest rates and usury in General: interest-bearing loans, bonds, deposits with fixed income. Islam does not make a formal distinction between interest and usury. Both phenomena are called " RIBA "and are forbidden in the Quran:"Allah has permitted trade and forbidden growth " (2:275). Money cannot be the subject of a deferred transaction, money cannot be sold and buy as a commodity. In the end, the ban on the use of loan interest leads to the fact that IP - Islamic financial institutions to generate profits or as an equity participant, fully sharing risks, profits or losses of a partner or engaged in commercial activities, removing the margin from the resale.[3]

2. Garar— "uncertainty" - a ban on intentional risk beyond the necessary, and uncertainty in the contract, fraught with large losses. We are talking about derivative financial instruments such as forwards, futures, swaps, classic insurance. Garar is the result of information asymmetry in relation to one of the parties to the Treaty, and Muslim law condemns the acquisition of unilateral advantages by a more informed party to the Treaty at the expense of the other (Quran 4:29-30).[3]

3. Maysir (arab. "passion") - a ban on speculation, the use of any circumstances, anyone's difficulties in their interests: gambling, betting transactions, classic insurance. Islamic banks cannot participate in lotteries and other similar operations.[3]

4. Haram -a ban on investment in the production and consumption of goods that Islam defines as unclean: pork, alcohol, tobacco, weapons, as well as a ban on the financing of openly criminal business: forgiveness, witchcraft, drug trafficking, pornography, etc.[3]

The problem is that there is no unity among Muslim jurists on many key issues. As a result, the activities of some Islamic banks may differ from those of others and interpret differently. Modern Islamic thinkers, adapting to Western economic theory, subdivide the riba into interest and believe that the Koran prohibits usury, but not interest. Interest is considered legitimate when they are taken by the government for the creation of the accumulation Fund, the punishment of debtors and production financing. The index as a hedge against inflation is also permitted. Conservative thinkers reject any form of increase in the original size of the loan. According to Islam, it would not be fair if the person taking out the loan were forced to pay interest, whether or not the capital made a profit, while the lender was guaranteed a profit regardless of the personal contribution and the degree of work tension.[3]

*Efficiency of Islamic Finance.* In this part of article there was consideration that in the economy with a traditional financial system, Islamic financial companies begin to operate, providing a wide range of services. From a simple theoretical model should be somewhat intuitive, but important finding.[4]

First of all, as a result of the emergence of Islamic financial companies, there will be an increase in savings in the economy. At the same time, the growth of savings will be due to the growth of savings of both Muslims and all others. For Islamists, the emergence of Islamic financial companies means that they have access to financial services that allow them to make savings. As a result of the rational choice between consumption and saving, the savings of religious consumers are growing. For non-Muslim consumers, the emergence of Islamic banks makes the basket of available savings instruments more diverse. This allows them to diversify their savings portfolio better and consequently leads to an increase in savings.[5]

Secondly, it follows from the objective of maximizing the utility of consumers that with a more diverse basket of financial services, the utility increases due to the expansion of the range and the multiplicity of inter-temporal choices. After the emergence of new financial instruments, it becomes profitable for consumers to shift part of their consumption to future periods. Thus, with the advent of Islamic banks, the welfare of all consumers is growing.[5]

Thirdly, the growth of savings in the economy will lead to an increase in investment and, accordingly, output. On the other hand, as a result of the emergence of Islamic financial services, there will be a long-term increase in savings, which can be interpreted as an increase in the rate of savings in the economy, which, in turn, will lead to long-term growth in investment and output. In terms of the Solow model, this means that as a result of the growth of the savings rate, the economy will enter a new growth trajectory, where at each time output is greater than the trajectory corresponding to the original savings rate. In terms of endogenous growth models, an increase in the rate of savings in the economy should not only lead to a transition to a new growth trajectory, but also to an increase in the rate of economic growth.

Fourthly, the emergence of the Islamic Finance market will lead to an increase in investment in the domestic economy, not only through domestic savings, but also through the inflow of foreign capital. At the same time, foreign investment can grow at the expense of both Muslim and non-Muslim investors. In support of this argument, we can cite statistics on attracting foreign investment in Islamic financial products by various countries through the liberalization of the industry. [5]

Today, the domestic market of Islamic finance is presented by: 2 Islamic banks, Al Hilal Bank, Zaman Bank and Islamic leasing companies “Ijara” and Al-Saqr Finance, Islamic micro finance company “New Finance”, Islamic insurance company “Takaful” and others. It should be noted that Kazakhstan occupies a leading position in the countries of Central Asia and has a great potential for the development of Islamic finance. [2]

It is well known and discussed fact that, the regulation and development of the Islamic Finance industry in Kazakhstan, is an important task. This will lead to increased prosperity throughout the economy. The emergence of new players and new services in the financial market, on the one hand, will lead to an increase in savings in the economy at the expense of the part of the population that is tend to savings, and on the other — will increase investment in the economy at the expense of the population tend to entrepreneurship. Furthermore, the growth of investments will be due to both domestic savings and investments of foreign investors.[6]

A separate study deserves the question of economic policy for the development of the Islamic Finance industry and specific steps in this direction. Based on the experience of many countries, it could be said that such policies should contribute to the creation of an economic infrastructure that allows the actors of the industry to operate on an equal footing with other actors of the financial system. One of the possible ways to solve this problem is to create a new organizational and legal form that allows to perform all Islamic financial transactions, equivalent in terms of the tax burden of the relevant traditional financial transactions. Such an approach in the liberalization of the Islamic Finance industry, when the economic content rather than the form of the transaction is taken into account and appropriate taxation is introduced, has been implemented in many countries. In carrying out the policy on the development of the Islamic Finance industry in Kazakhstan, it is advisable to study the experience of these countries, in particular the international experience on the regulation of Islamic financial companies by Supervisory financial authorities. The list of specific measures for the development of the Islamic Finance industry and regulation of the subjects of this industry can be the subject of further research.[6]

In conclusion, after reviewing the economic instruments used by Islamic banks, it should be noticed that, according to the article that the Islamic bank allows them to demonstrate a significant increase in their assets for a relatively short period of time. This feature is justice that is not the only factor of success, but it plays a significant role.

Having examined the efficiency of Islamic Finance, we can say that today the Islamic financial industry is still at an early stage of its development, but despite this it is already present in many countries and offers a wide range of financial products for debt and equity financing companies,

financing private and public projects, as well as individuals. All these products are structured in accordance with religious principles, adapted to the jurisdiction of the country where they are provided. To be more precise, the financial legislation of a country interested in the development of this industry is supplemented in such a way that Islamic financial products can be created within its framework. As a rule, without changing the financial legislation, this is very difficult, because Islamic financial instruments are based on transactions with real assets and therefore usually cannot be interpreted as financial transactions, with the corresponding tax and other consequences.

The development of the Islamic Finance industry is one of the directions of development of the financial system as a whole, as it contributes to the emergence of new financial instruments, increased competition and, as a result, a more efficient distribution of capital in the economy. Therefore, it is not surprising that in recent years, to some extent, this industry has developed in many countries. Nevertheless, the main factors of its growth depend on the specifics of a particular country. In the Middle East and other countries with a predominant Muslim population, the main driving force is the demand from the religious population, which is limited in the consumption of traditional financial services. For other countries, such as the United Kingdom, France, Germany, the United States, one of the main reasons for the formation of this industry is the interest in investments from oil-rich Arab countries.

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#### UNIVERSE OF ISLAMIC INVESTING – CAPITAL MARKET

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**Аннотация.** Мақалада ислам капиталы нарығының өнімдері қарастырылып, құралдардың Тунис сияқты революциядан кейінгі елдерде экономиканы дамытуға және қаржы тұрақтылығын арттыруға мүмкіндігі талқыланды. Исламдық қаржы жүйесі бүкіл ислам капитал нарығының бір бөлігі ретінде жеке тұлғаларға да, бизнеске де қаржыландырудың түпнұсқа түрлерін ұсынуда маңызды рөл атқарады. Бұл факт мақалада экономикалық қиындықтарды жеңуге ықпал ететін исламдық капитал нарығының дамуы туралы сұрақтар туғызады. Берілген мақаланы исламдық капитал нарығының өнімдері бойынша зерттеулердің көрсеткіші ретінде қарастыруға болады.

*Түйін сөздер.* *Ислам капитал нарығының өнімдері, Сукук, Мудароба, Мушарака, Шаригат -комплайнс.*

**Аннотация.** В данной статье обсуждаются инструменты Исламского рынка капитала и возможная роль их содействия развитию экономике и финансовой стабильности в стране, пережившей революцию, такой как Тунис. Исламская финансовая система как часть всего Исламского рынка капитала играет важную роль в предложении оригинальных способов