

## Analysis of Islamic Finance development in Kazakhstan: overview and prospects

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### Түйін

Мақала әдебиетте жеткілікті деңгейде игерілмеген, Қазақстандағы Исламдық қаржы қызмет етуінің ерекшеліктеріне және даму мәселелерін зерттеуге арналған. Исламдық қаржыландырудың елдегі бағыты соңғы 10 жылда тиісті дамуын таппағандықтан, авторлар Исламдық қаржыны дамытудың өткен тәжірибесін зерделеу және одан әрі өсу үшін еңсерілуі тиіс кедергілерді анықтау мақсатын алға қойды.

Исламдық қаржы заңнамасының өткен тәжірибесін талдау және исламдық қаржы құралдарын пайдалану негізінде оларды Қазақстан Исламдық қаржы индустриясында қолдануды белсендіру бойынша ұсынымдар әзірленді.

Мақалада қолданбалы зерттеу, ғылыми абстракция және жүйелік тәсіл әдістері қолданылды. Зерттеу барысында жасалған қорытынды Исламдық қаржысының күшті және әлсіз жақтары мен мүмкіндіктері және қауіптерін талдауға негізделген.

Зерттеу нәтижелері Қазақстандағы Исламдық қаржының даму бағдарламасын координациялау кезінде заң шығарушы және заң атқарушы органдарымен қолданылуы мүмкін. Сонымен қатар зерттеу ұсынымдары, мемлекеттегі заңнаманы жетілдіруде не болмаса, арнайы Исламдық қаржы туралы заңнаманы құруда орын алуы ықтимал. Зерттеу нәтижелері саланың жеткіліксіз өсу мәселесі, елде таңдалған Исламдық қаржы жүйесінің консервативті бағытында болуы және белгілі бір пруденциалдық, оған қоса әлеуметтік шектеулердің болуында екенін көрсетті.

**Түйін сөздер:** исламдық қаржы, исламдық банк, исламдық қаржылық институттардың салығы, Астана Халықаралық Қаржы орталығы.

### Аннотация

Статья посвящена особенностям функционирования и перспективам развития исламских финансов в Казахстане – одной из областей, недостаточно критически изученной в литературе. Поскольку направление исламских финансов в стране не нашло должного развития за последние 10 лет, авторами поставлена цель изучения прошлого опыта развития исламских финансов и выявления препятствий, которые должны быть преодолены для их дальнейшего роста. На основе анализа предыдущего опыта исламского законодательства и использования исламских финансовых инструментов разработаны и предложены рекомендации по активизации их применения в исламской финансовой индустрии Казахстана.

В статье использованы методы прикладного исследования, научной абстракции, системного подхода. Вывод результатов исследования основан на анализе сильных и слабых сторон и угроз исламских финансов с целью минимизации слабых сторон и угроз для экономики и финансовой системы страны.

Результаты исследования проиллюстрировали, что проблема недостаточного роста заключается в более консервативной системе исламских финансов, выбранной в стране, и наличием определенных ограничительных барьеров, как пруденциальных, так и социальных. Результаты исследования могут быть использованы законодательными и исполнительными органами власти при координации программы развития исламских финансов в Казахстане. Более того, разработанные в ходе исследования рекомендации могут занять место в совершенствовании имеющегося законодательства или же в создании отдельного специального законодательства об исламских финансах в стране.

**Ключевые слова:** исламские финансы, исламские банки, налогообложение исламских финансовых институтов, Международный финансовый центр «Астана».

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## Abstract

This article provides a discussion on the issues of Islamic finance development in Kazakhstan – an area which has not been critically addressed in the literature. As Islamic Finance has not been developed correctly for last 10 years in the country, the authors set a goal to study the past overview of the Islamic finance for identification obstacles that should be overcome for further development. Based on the analysis of the previous experience of application of Islamic financial law and instruments developed and proposed recommendations for implementation to the Islamic finance industry of Kazakhstan.

There has been used the methods of applied research, scientific abstraction, system approach. The inference of the study result based on analysis the strengths and opportunities, weaknesses and threats of Islamic finance in order to minimize weaknesses and threats for the country economy and financial system.

The results of the study can be used for the successful spread of Islamic Finance in Kazakhstan and for overcoming challenges. Furthermore, the results and the recommendations of the study can be applied by legislative and Executive authority for coordination strategic development program of Islamic Finance in Kazakhstan. Furthermore, developed recommendations during the study can be implemented in upgrade of Islamic finance law or could take a place in creation separate special law in field of Islamic finance in the country. The conclusion of the research illustrated that the problem of insufficient growth of Islamic finance is a more conservative system of Islamic finance, which was chosen in the country and there are number of restrictive barriers, prudential as well as social nature.

**Key words:** Islamic finance, Islamic bank, taxation of Islamic financial institution, Astana International Financial Centre.

## Introduction

Islamic finance that was considered as the paradox of financial system. The contemporary history of Islamic finance can be divided into three stages: a founding period, during the 1960s, formative period of Islamic finance from establishment first Islamic bank, Dubai Islamic bank in 1970 and development period from 1990. [1] According to Standard and Poor's and Thomson Reuters, number of countries that are engaged in Islamic finance and Islamic economy are over 75 these days and in 45 of them is Islamic finance regulation system. [2] Nowadays, there are more than 300 financial institutions and 250 borrowing funds in all over the world and this number is growing day by day.

A unique feature of Islamic finance is the use of Shariah principles in products and operations. One of the most important characteristics of Islamic finance is that this type of financing is asset-based or asset-backed. Unlike the traditional financial concept, Islamic does not consider money as an object of trade and prohibits lending interest "riba" and uncertainty "garar".

The difference between Islamic financing and the traditional one is that the Islamic economic system is a system based on rules and the principles of preserving property rights and the inviolability of contracts and has no speculative component. [3]

The growth of Islamic finance has been phenomenal. According to Global Islamic finance report of 2018, the annual turnover of the Islamic finance market reached 2.431 trillion US dollars, and growth rate of World Islamic finance is about 12% every year for the last 12 years. The global Islamic finance increased by 138 billion trillion US dollars from the end of 2016 to 2017. [4]

These days, the geography of the spread of Islamic Finance and banking covers 75 countries and distributed in Gulf Cooperation Council (union consisting of all Arab states of the Persian Gulf) and another non-Gulf Cooperation Council, Middle East and North Africa region. Also, Islamic banks are developed in South Asia, in the East Asia and the Pacific region in Sub-Saharan Africa and in Europe. [5]

Despite the strategic role of Islamic finance and the important position to economy of Kazakhstan, only a few studies have been focusing on the Islamic financial sector in relation to legal imperfection.

## Methodology.

As a basis for the study of the delivered problem, the tools of knowledge of economic theory were taken, such as the analysis of the studies performed in the works of foreign and domestic scientists was performed.

There has been used the methods of applied research, scientific abstraction, system approach in the article. The article is preceded by an in-depth description, especially scientific study by supplying samples and material for the deployment of further scientific procedures and methods regarding Islamic finance. Furthermore, on the basis of identification strengths and opportunities, as well as weaknesses and threats of Islamic finance development, authors have elaborated recommendations.

## Literature review

The article studies the development of Islamic finance in the country and summarizes the information, which is given in different sources erratically. In addition, in article are studied the works of economists-scientists in Islamic finance, who researched features of

the development and promotion of Islamic finance and banking in the World and Kazakhstan economy.

For Kazakhstan there were not been available any literature in Islamic economy and finance in even in Russian language till 2014, when one of the first scientist and writer in Islamic finance Bidaulet Yerlan has written his book “Basics of Islamic finance”. The article examines the works of Bidaulet Yerlan on the development and results of Islamic finance in Kazakhstan, as the leading country in terms of Islamic finance in Central Asia. [6]

Alexander Wolters research covers in the States of Central Asia and considers Kazakhstan as a future Islamic finance hub in the region. [7]

There also had been analyzed the studies of Dr. Mohd Daud Bakar established on research of Islamic finance and Islamic securities.

In context of Islamic economy in the article were studied works of economists and scientists, however focus is based more on the financial statements of international financial organizations, such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), CIBAFI (General Council for Islamic banks and financial institutions), IFSB (Islamic Financial Services Board) and others. For Kazakhstan there were used reports of National Bank, Astana International Financial Center, Ministry of the Finance.

The main and special place in the research played laws of the Republic of Kazakhstan, which were adopted for Islamic finance and banking, from Tax and Civil code to Law on Investments and Insurance, that were been studied carefully.

## Results and discussion

Islamic finance has some benefits, from financial impact such as providing asset based financial system to social, like responsible risk sharing. For discussion potential of Islamic banking system in Kazakhstan, it is necessary to review the short history of the development of this system with critical analyzing shortcomings and gaps. Drawing a parallel between the state master-plans of the development of Islamic finance the country and the real situation for last 10 years, with the goal of creation recommendations based on international experience.

The emergence of Islamic finance in Kazakhstan can be traced back to the 1990s. In January 1992, Albaraka Kazakhstan was established by the decree No. 5 of the First President of the Republic of Kazakhstan. The founder of Albaraka, Sheikh Saleh Kamel, became the first foreign investor of the newly-sovereign country, investing 100 million US dollar into the Kazakh economy. In November 1995, Kazakhstan became a member of the Islamic Development Bank and in 1998, the first (and to date only) IDB Regional Office across Central Asia and CIS, was opened in Almaty. The IDB

began to play an essential role in the introduction and development of Islamic finance in Kazakhstan and the projects and initiatives undertaken by the IDB Group has allowed the country to overcome some major economic and social challenges. [8]

The next stage of Islamic finance development in Kazakhstan can be characterized as ‘a period of precedents’: the first Islamic bank, the first issuance of corporate “sukuk”, the first “takaful”, “ijara” and microfinance companies. Despite modest progress, there is potential for substantial development of the industry, backed by political will, financial support from the IDB and initiatives from industry participants. Kazakhstan is also highly regarded as an Islamic investment destination, ranking 5th out of 57 OIC-member countries, according to the Islamic Growth Markets Investment Outlook report published by Thomson Reuters in 2015. [9]

The National Bank of Kazakhstan (NBK) and other government bodies have launched a joint effort to establish a legal framework for Islamic finance, develop industry infrastructure and increase the level of awareness about Islamic finance among the public. In 2009, Kazakhstan became the first country in the CIS and Central Asia to introduce legislation for Islamic banking and to create the legal basis for the development of this market segment. In 2011, Kazakhstan’s laws and regulations in the field of Islamic finance enjoyed further improvement and establishment of a legal framework for the issue of sovereign Islamic sukuk. In addition, this year country’s legislation has seen further improvement in terms of the creation of a legal framework for Islamic insurance companies and the introduction of Islamic leasing operations as well as expanding the list of authorized Islamic banking products.

In 2009 the Association of Islamic Finance Development (ADIF) was established. Its activities are designed to facilitate the comprehensive development of the Islamic finance market in Kazakhstan through active cooperation with Kazakhstan’s and international organizations.

The newly established Al Hilal bank from Abu Dhabi has opened its branch in Almaty under a special protection agreement between both presidents. Since the establishment of the first Islamic bank, Al Hilal, in 2010, the number of Islamic financial institutions in Kazakhstan has been growing each year.

The second Islamic Bank Zaman Bank which has been converted from conventional to Islamic licensed only after 7 years in August 2017. According information from bank’s website, one of the Bank’s shareholders is Islamic Corporation for the Development of the Private Sector (ICD), which is a multilateral organization and a member of Islamic Development Bank Group (IDB). The Bank is a partner of “Shariyah Review Bureau”, a leading international company

on providing consulting services on Sharia standards and principles. [10]

As mentioned, Kazakhstan 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. Tax legislation has been amended to create a level playing field vis-à-vis conventional players in terms of tax neutrality at the application of the pro-rata method of VAT 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.

Table 1 – Amendments and additions to legislative acts

| №  | Legislative act   | Amendments content  |
|--|---|---|
| 1  | Law «On banks and banking activities»   | <ul style="list-style-type: none"> <li>- the creation of a legal framework for the functioning of Islamic banks;</li> <li>- determination of the forms and methods of state regulation and supervision of the activities of Islamic banks;</li> <li>- determination of the list and procedure for the implementation of Islamic banking operations;</li> </ul>  |
| 2  | The law «On the securities market   | <ul style="list-style-type: none"> <li>- introducing the concept of Islamic securities (sukuk) and basic concepts related to Islamic securities;</li> <li>- identification of types of Islamic securities;</li> <li>- requirements for the Islamic securities issue prospectus;</li> <li>- presence of a representative of the holder of Islamic securities;</li> </ul>   |
| 3  | Tax code  | <ul style="list-style-type: none"> <li>- 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;</li> <li>- highlighting the concept of investment deposit, investment deposit income and the procedure for their taxation;</li> <li>- 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;</li> </ul> |
| 4  | Civil code  | <ul style="list-style-type: none"> <li>- identifying the basic laws governing relations in Islamic finance;</li> <li>- identifying features of an Islamic bank loan agreement;</li> </ul>   |
| 5  | The law «On investment funds»   | <ul style="list-style-type: none"> <li>- the procedure for creating Islamic investment funds;</li> <li>- the duties of the representative of the holders of Islamic securities of Islamic investment funds are performed by the custodian;</li> <li>- Islamic Investment fund Declaration;</li> </ul>   |
| 6  | The law «On state registration of rights to real estate and transactions with it» | <ul style="list-style-type: none"> <li>- 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;</li> </ul>  |
| 7  | The law on licensing  | <ul style="list-style-type: none"> <li>- determination of the license required for banking operations carried out by Islamic banks;</li> </ul>  |
| 8  | Law “On Mandatory Guarantee of Deposits Placed in Second-Tier Banks”              | <ul style="list-style-type: none"> <li>- designation with the exception of interest-free demand deposits and investment deposits placed in Islamic banks from the number of deposits to be guaranteed.</li> </ul>   |
| Source: Law of the RK, Compiled by authors |   |   |

It should be noted that the main part of the amendments for development of Islamic finance is related to the Law “On Banks and Banking Activities”. The Law on Banks and Banking has been supplemented with a new chapter that regulates the specifics of the creation and activities of Islamic banks. In addition, it is provided that the general procedure for regulating the activities of banks is fully applied to Islamic banks.

No wonder the first-ever legislation revealed its pure declarative nature just by announcing the world Islamic finance without systemic content, clearly showing the lack of knowledge of international experts on the local environment which rejected the introduction of Islamic finance. Another shortcoming of the amendments to the

special Islamic finance laws is the issue of value-added tax where the markup itself is exempted from this tax, but the core assets value cannot be exempt from such compulsory taxation. It is mainly because of the fact that according to the basic civil law principles, the real added value done by the purchase and resale of any goods or services should be imposed by double value-added tax. This situation led to utilization mainly commodity Murabaha and Wakala by Al Hilal bank and Zaman bank cannot launch its country-wide activities.

Introduction of Islamic finance started earlier than Al Hilal bank was established by attraction of financing in the market of Islamic interbank capital by second-tier banks of Kazakhstan from 2006.

Table 2 – Attraction of financing in the market of Islamic interbank capital by Kazakhstan banks

| Date                | Kazakhstan resident bank | Islamic donor bank  | Description   |
|---------------------|--------------------------|---|---|
| 2005-2006           | Bank Turan Alem (BTA)    | Calyon Bank/Abu-Dhabi Islamic Bank  | Attraction financing in the amount of 50 million dollars  |
| 2006-2008           | Bank Turan Alem (BTA)    | Calyon Bank/Abu-Dhabi Islamic Bank  | Attraction financing in the amount of 200 million dollars |
| 2007-2009           | Bank Turan Alem (BTA)    | Abu-Dhabi Islamic Bank/CIMB Bank  | Attraction financing in the amount of 250 million dollars |
| 2009                | Bank Turan Alem (BTA)    | Islamic Development Bank  | Attraction financing in the amount of 100 million dollars |
| 2006-2007           | Bank Centercredit        | Abu Dhabi Islamic Bank/ Commercial Bank of Qatar/ Boubyan Bank/ Dubai Bank PJSC/ Habib Bank | Attraction financing in the amount of 38 million dollars  |
| 2007-2009           | Alliance Bank            | Calyon Bank/Abu-Dhabi Islamic Bank  | Attraction financing in the amount of 150 million dollars |
| 2009                | Halyk Bank               | Islamic Development Bank  | Attraction financing in the amount of 100 million dollars |
| Compiled by authors |                          |   |   |

From 2010 the amount of Islamic banking assets and trend of changes are given in next table.

As we can see from given above data from the table, Islamic banking assets had intricate dynamic of change, which started from rapidly increase in

2011, 71,6%, but next year Islamic banking assets growth rate was just over 8%. In 2014 and 2016 data had negative trend about 20%, however in 2015 and 2017 Islamic banking increased by 89%-83,7%, respectively.



Table 3 – Islamic banking assets 2010-2017 in Kazakhstan

| Year  | 2010  | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   |
|---|-------|--------|--------|--------|--------|--------|--------|--------|
| <b>IB assets, mln KZT</b>   | 6 508 | 11 166 | 12 022 | 17 042 | 14 148 | 26 737 | 21 225 | 38 986 |
| <b>Trend, %</b>   | -     | 71.6   | 7.7    | 41.8   | -17    | 89     | -20.6  | 83.7   |
| Source: www.nationalbank.kz, [11] Sagiyeva R., Kuanova L., 2018.[20] Compiled by author |       |        |        |        |        |        |        |        |

It should be mentioned, that from 2010 to 2017 (8 year) Islamic banking grew by 6 times (599%) in Kazakhstan. However, volume of assets of Islamic banks is less than 1% of all assets of the banking system.

However, we should take into account the fact that, Islamic finance is more wider than Islamic banking and consists from Islamic banking, Islamic insurance (takaful), Islamic bonds (sukuk), Islamic leasing (ijara) and macro and micro finance.

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.

Development of Islamic finance in Kazakhstan could be illustrated in the following way up to creation the Astana International Financial Centre.

**2009:** Kazakhstan is the first of the CIS countries to adopt a special legal framework for Islamic finance; 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 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; To facilitate Sukuk market development and expand potential domestic originators list, a set of new amendments to the legislation was adopted.

**2012:** The Road Map for Islamic Finance Development in Kazakhstan by 2020 was approved by the Government; 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 dollar; The National Bank of Kazakhstan became a Member of IFSB [12].

**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. [10]

**2014:** The National Bank of Kazakhstan received Technical Assistance from IDB to review and develop Islamic finance legislation in Kazakhstan. Norton Rose Fulbright was selected within the framework of this technical assistance to execute the project; 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 [13].

**2015:** The Memorandum of the Long-Term Cooperation between the National Bank of Kazakhstan and the Association for Development of Islamic Finance was signed in February 2015; The 12<sup>th</sup> Summit of IFSB was held in Almaty in May 2015; 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.

From the establishment of the Astana international financial centre development of Islamic finance in the republic became more regular with exact step by step direction, as Islamic finance is one of the pillar of activity of the AIFC.

**2016:** 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:** the Astana Financial Services Authority (AFSA) adopted the Islamic Finance Rules where the Islamic Financial Institution is defined as an Authorized Firm whose license or authorization

includes a specific condition that the whole of its business is conducted in a manner fully compliant with Shariah; The AIFC holds the awards ceremony of the Global Islamic finance awards [14]

**2018:** The AIFC Bureau for Continuing Professional Development started preparing professionals in Islamic finance in cooperation with Chartered Institute for Securities and Investment of Great Britain by Islamic finance qualification certificate and Advanced Diploma in Islamic Finance Bahrain Institute of Banking and Finance (Bahrain), Certified Islamic Professional Accountant by AAOIFI (Bahrain), Professional Certificate in Islamic Finance of International Centre for Education in Islamic Finance (Malaysia); Astana International Exchange (AIX), a modern trade platform was created, its strategic partners are global leaders of the exchange industry – the Shanghai Stock Exchange, the Silk Road Fund, the Nasdaq exchange group and the Goldman Sachs international financial group; The AIFC central Shariah Advisory board is established; the AIFC received 3 awards at the Global Islamic finance awards [15].

**2019:** ZICO Shariah Advisory Services presented Master plan (Road map) for the further development of Islamic Finance in Kazakhstan to the AIFC by technical support of Islamic Development Bank.

Working closely with the Asian Development Bank (ADB), the AIFC has created a favourable legal and regulatory environment for Islamic finance and banking, takaful and the Islamic capital market. For the further development of Islamic finance legislation, representatives of the AIFC joined the Technical Committee of the Islamic Financial Services Board (IFSB), as well as working groups on the development of IFSB standards.

The AIFC is forming a fully-fledged market for Islamic finance. It has created the conditions for Islamic securities to be issued on the AIX: the issuance of corporate and sovereign Islamic securities (sukuk) are planned. The AIFC registered the first companies operating in the field of Islamic finance, including Islamic Bank, the Waqf Fund Investment Fund, Islamic FinTech organizations, as well as legal and consulting companies [16].

If to turn the attention to the difference of the of requirements and prudential norms of creation and activity of Islamic banks in Kazakhstan out of the AIFC there is only one possible form of full-fledged Islamic bank. For opening Islamic bank within the AIFC Islamic Bank must take any one of the following legal forms: a limited liability company incorporated under the Companies Regulations of AIFC; a limited liability partnership incorporated under the Limited Liability Partnerships Regulations of AIFC; a branch that is registered with the AIFC Companies Regulations. (AIFC IB 2018) This aspect is of fundamental importance for developing Islamic finance in the country as well as in the region, because by the Law there is impossible to create Islamic branches of the Banks and by the AIFC norms there is such a capacity.

The other key aspect is that for opening Islamic bank there is requirements of Base Capital as for conventional banks that is 10 billion tenge (about 26 million US dollar), while in the AIFC for Islamic Bank 10 million US dollar, for Islamic Broker Dealer —2 million US dollar and for Islamic Financing Company – 2 million US dollar. These sums are less than in country more than two-three times.

Today, more than 180 companies are registered with the AIFC including an Islamic bank and Islamic online bank, Waqf fund, Investment fund, Islamic fintech organizations, as well as legal and consulting companies on Islamic finance. The presence of financial institutions can play a positive role in attracting investment: Kazakhstan ranked 5th in terms of attractiveness for Islamic investment among 57 Organization of Islamic cooperation member countries. [17]

However, despite all created system, infrastructure especially from the government and the AIFC, there are number of shortcomings that need to be solved for further and faster development of Islamic finance not only in the country, also in all Central Asia region.

Taking into account all facts that were discussed previously, authors decided to analyze the strengths and opportunities, despite the weaknesses and threats of Islamic finance in Kazakhstan, this would be useful for illustrating full picture of the development and identifying ways to solve existing problems.

Table 4 – SWOT analysis of Islamic finance development trend in Kazakhstan

|  |   |
|--|---|
| <p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Availability of potential market of the IF tools</li> <li>• New products that are highly trusted</li> <li>• Control over the use of credit funds according to Sharia principles</li> <li>• Government support</li> <li>• Support by AIFC</li> <li>• Support from leading Islamic financial institutions</li> <li>• Access to cheap funding sources</li> </ul> | <p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Lack of market share, business processes</li> <li>• Low level of Islamic financial literacy</li> <li>• Lack of personnel with experience with Islamic financial products</li> <li>• Incomplete adaptation of local banking and tax legislation to the specifics of Islamic finance</li> <li>• Limited number of operational services</li> </ul> |
| <p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Excess liquidity in countries with Islamic economies</li> <li>• High demand for credit resources from the corporate sector</li> <li>• Popularization of Islamic finance in Central Asian region</li> <li>• Cooperation of Islamic financial institutions with universities of Kazakhstan</li> </ul>   | <p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Deepening financial crisis</li> <li>• Underdevelopment of the national stock market</li> <li>• Low awareness of the population, alertness</li> <li>• Increasing competition from non-Islamic financial institutions</li> <li>• Legislative and administrative barriers</li> <li>• Deterioration of the investment climate</li> </ul>               |

From the analysis of Islamic finance development trend in Kazakhstan and taking into account the support of the state, we can summarize the following:

- the current situation is favorable for Islamic finance, but there is stagnation in development process;

- there is an increased demand from both business and the state to Islamic finance instruments, however as a result of some administrative and legislative barriers there are difficulties in attracting Islamic investment;

- at the same time, existing expectations are significantly distorted by the lack of knowledge of potential clients in the field of Islamic Finance;

-Islamic finance solutions must be effective for successful competition with conventional banking products;

- there are some shortcomings and there are certain ambiguities and difficulties in the tax accounting of Islamic finance products.

### Conclusion

The positive forecasting of the prospects of Islamic finance by famous analytics and the extremal high temp of the development of this area despite world financial crisis prove the necessity

for active development of the conversion from the stage of talks and discussions to the stage of application and implementation.

Despite the fact that Islamic financial institutions play an increasingly important role in the global financial system, there are a number of difficulties and barriers to entry of Islamic Finance into the traditional market. It is the fact that, Islamic financial products are adapted in such a way that traditional banks are able to provide them. At the same time, the entrance of Islamic banks into traditional banking markets is often fraught with certain difficulties related both to the adaptation of the banks themselves and to the legislative regulation of banking activities. All of the above problems are carefully studied in the article.

For the financial system of Kazakhstan, which is affected by the crisis, the attraction and development of Islamic finance is very relevant and promising.

The study of the development of Islamic finance instruments in developing countries revealed the leading and fundamental position of Kazakhstan in this matter, based on the creation of a legal framework among the CIS countries and Central Asia. The Law “On Introducing Amendments and Additions to Some Legislative Acts of the



Republic of Kazakhstan on the Organization and Activity of Islamic Banks and the Organization of Islamic Finance”, adopted in Kazakhstan, is aimed at determining the forms and methods of state regulation of the activities of Islamic banks and the procedure for carrying out Islamic banking operations. According to the law, amendments and additions to a number of legislative acts were adopted, and the analysis of these changes was carried out in the study.

The low level of Islamic financial literacy of the population and a misunderstanding of the mechanism of work of Islamic finance instruments significantly complicate the development of financing on the principles of Islam. The lack of incentive for Islamic investment in the Kazakhstani market of motivation prevents the influx of Islamic finance into the country. The absence of a strategy that determines the focus on the development of Islamic finance, deficiencies in the legislation and state support on the organization and development of Islamic finance, all these factors are an obstacle.

In order to create stimulating motivation for Islamic investment, it is recommended to create the necessary organizational, legal and economic conditions to ensure the attraction of Islamic finance investments. In particular, it was recommended to create and apply investment tax benefits and preferences in the form of tax exemption in the first limited time of activity of Islamic finance institutions, which will serve to expand the Islamic finance market in the country. It should be solved the problem of double taxation of the Islamic financial institution.

In addition, the need for making appropriate amendments to the Law on the Securities Market was noted, expanding the circle of entities acting as the originator.

According to study results the main recommendation for improving the way of development of Islamic finance is using Malaysian and British experience of rapid development of Islamic Finance, consider the introduction of Islamic Windows, when conventional banks will have legal ability to provide the Islamic financial instruments as well as traditional. First of all, this model of Islamic finance is not required to create new fully Islamic bank, that means, the costs of providing Islamic tools will reduce for about from 26 million US dollars in the country to 10 million US dollars within AIFC. Secondly, it is the only way to popularize Islamic finance instruments for 80%

of population of the country that use conventional banking instruments. [11] Because there will be choice for clients of bank between traditional instruments and Islamic financial instruments with all advantages and disadvantages.

It is important to notice that Islamic finance is the system that based on development real sector of economic and based on real assets without any speculative characteristics. And this feature is real necessary for attracting international investment in economics of the country for further development and national prosperity. [18]

As a result of study of the article, a number of recommendations and suggestions developed in the article is of practical importance in the economic system of Kazakhstan.

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