Al-Farabi Kazakh national university

##  Higher school of business and economics

## Department «Finance »

## Orazaly Aruzhan

## scientific supervisor

## Supugalieva Gulnazym

## Development a Islamic finance in Kazakhstan

 Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries. Islamic finance helps strengthen financial stability. As the 2008 global financial crisis ravaged financial systems around the world, Islamic financial institutions were relatively untouched, protected by their fundamental operating principles of risk-sharing and the avoidance of leverage and speculative financial products. The term Islamic finance is used to refer to financial activities conforming to Islamic Law (Sharia).

The following key principles guide Islamic Finance:

1) Prohibition of interest on transactions (riba);

 2) Financing must be linked to real assets (materiality);

3) Engagement in immoral or ethically problematic businesses not allowed (e.g., arms manufacturing or alcohol production);

4) Returns must be linked to risks. .[1]

 Islamic finance in Kazakhstan commenced in 1996 when IDB opened its Representative office in Almaty .The regional office in Almaty covers the whole Central Asia , Azerbaijan and Albania . So far in Kazakhstan the bank has executed 19 projects for the amount of US $90.8million ,including US$22.7 million of trade finance facilities for Kazakh banks in 2000-2002 (IDB,2012)million.

 The second step into Islamic finance was taken through external borrowings by few Kazakh banks .Specifically ,BankTuranAlem, then the second largest borrowed US $50million in 2005 and US $250million in 2007 on commodity Murabaha agreement .In the same 2007 Alliance bank received US $150million Sharia-compliant syndicated loan facility from 19 Middle-East banks .However , due to the crisis this initiatives were suspended . Moreover ,this two banks were taken over by the Government .[2]

 On the other hand , crisis helped to improve using Islamic finance tools .The law was signed by the President Nazarbayev on 12 February 2009(Islamic Finance law,2009). The banking law, tax code and civil code were amended introducing the mode of financial intermediation .Islamic investment funds and Islamic securities were instituted to operate in the Kazakhstan market .

 In the Islamic banking sector, Kazakhstan was the first former Soviet state to issue Islamic finance guidelines in 2009. The republic has only one fullfledged Islamic bank, Abu-Dhabi-based Al Hilal Islamic Bank, which started operations in 2010. Al Hilal focuses on governments and large corporate companies but aims to also equally focus on the retail market with plans to offer a full range of retail Islamic products. Islamic banks in Kazakhstan are categorised on a par with other commercial banks, known as Tier 2 banks. Kazakhstan has a “Road map on the development of Islamic Finance until 2020” that outlines the development and implementation of Islamic finance in the republic which will create condition for their activities. The country is a member of the Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and International Islamic Financial Markets (IIFM).[3]

 Besides ,the market has gained two more Islamic financial Institutions-insurance company «Takaful » and the brokerage company «Fattah Finance ».

Another step forward has been taken recently when the state –owned Development bank of Kazakhstan (DBK) successfully issued the first Kazakhstani Sukuk bonds.

**Graph 1.** Islamic banking assets and equity over 2013-2016 years .[2]

The total assets value in 2014 was KZT 14,148 million compared to a higher KZT 17,042 million in 2013. Total Islamic banking assets recovered in 2015 and reached 26,737 million .However in 2016 total assets was below KZT 21,225 million .The total equity increased every year and recovered in 2016 and reached KZT 14,592 million .

Thus, in the coming years are expected to have social and economic consequences: 1)      Organization of Islamic banks, Islamic investment funds, as well as the introduction of Islamic financial instruments in Kazakhstan, including the issuance of Islamic securities;

2)      the development of a competitive environment in the financial market by creating a more fiscally sustainable alternative forms of financing of the economy of Kazakhstan, which will reduce the interest rates on banking services of traditional banks;

3)      creating the legal framework for the financial sector to attract foreign investment in Kazakhstan from the Middle East and Southeast Asia, have excess liquidity, diversification of the investor base, shifting to investors from these countries;

4)      to contribute to a number of economic problems: the decline in inflation, the development of agriculture, small and medium-sized businesses.

Islamic banking is a very young concept. Thus development and adoption of amendments to some legislative acts of the Republic of Kazakhstan on issues of Islamic finance, and in general, the activation of the introduction of Islamic finance will bring Kazakhstan into first place in the investment attractiveness of the CIS countries and will become an Islamic financial hub in the region.

 References

1. <http://www.worldbank.org/>

 2.<http://www.alhilalbank.kz/>

 3.<http://nationalbank.kz>