

ABSTRACT

of the thesis on "Creation and Peculiarities of Activities of Islamic Financial Institutions in the Republic of Kazakhstan" submitted by Nurzhan Stambakiyev for obtaining Doctor of Philosophy (PhD) on specialty "6D021500- Islamic Studies"

Overview of the thesis. The thesis analyzes theoretical basis and practical aspects of Islamic financial products. It examines level of development of the Islamic financial industry in the Republic of Kazakhstan, and scrutinizes Shariah basis of financial products used by local Islamic financial institutions. In addition, it studies efficiency of Shariah advisory board in local Islamic financial institutions.

Relevance of the topic. The Republic of Kazakhstan aims to become a leader in the Islamic financial industry in the Central Asian region. Since 2009, a number of legislative acts have been amended, and institutional initiatives have been implemented. The development of the Islamic financial sector is one of the goals for Astana International Financial Center (AIFC), which was incorporated in 2018, and showcases interest of Kazakhstan in the development of this sector.

According to the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, as per the report conducted at the end of 2020, the assets of two Islamic banks in Kazakhstan amounted to 81.9 billion tenge. This indicator shows 45% increase compared to 2019. If we take an average index of the last three years, we can trace increase of the assets of Islamic banks by 30.3%. However, in overall, the share of Islamic banks in the domestic financial market is still less than 1%. In this regard, there is a reasonable question arising as to why a share of the Islamic finance sector in the country's market does not reach 1% over more than ten years. The relevance of the thesis is that it examines this issue from scientific perspectives and studies factors impeding the development of the Islamic finance industry in Kazakhstan.

It is known that the theoretical foundations of Islamic financial products are rooted in the principles of Sharia. The main difference between Islamic financial institutions and interest-based financial institutions is that they operate in compliance with Islamic law. Therefore, Islamic financial institutions are required to focus first on the compliance of their services with Sharia. In Kazakhstan the law mandates to have "Council on Islamic Financing Principles" in the structure of Islamic financial institutions. In Kazakhstan Islamic financial institutions such as Al Hilal Islamic Bank JSC, Zaman-Bank Islamic Bank JSC, Saqr Finance JSC, Kazakhstan Ijara Company JSC have mandatorily their products approved by the Shariah Council before being offered to the market. Besides their services are regularly audited for Shariah compliance.

Nevertheless, there are individuals in Kazakhstan who doubt the compliance of the activities of Islamic financial institutions with Sharia. The foreign institutes such as Thomson Reuters, CIBAFI, IRTI conducted social studies in Kazakhstan whereby

25% of focus group expressed an opinion "Islamic banks do not fully comply with Islamic law". Such opinion may be linked to the fact that individuals do not fully understand the specifics of Islamic financial products, or to the fact that there are situations that really raise doubts about operations of financial institutions. From this perspective, relevance of this research work is determined by the analysis of financial products of the Islamic financial institutions in Kazakhstan, examining their compliance with Shariah, efficiency of Shariah boards in Islamic financial institutions and analysis of Shariah governance system.

Limits of the research work. According to the research agency ICD- Refinitiv and indicator of 2019, 69% of the Islamic financial industry is shared by Islamic banks, 19%, by Islamic sukuk certificates, 5% by other Islamic financing institutions, 5% by Islamic financing funds, and 2% by Islamic insurance companies. Based on statistics of 2019, the number of Islamic banks (including Islamic windows in the conventional banks) reached 526. This indicator shows that Islamic banks are the main institution driving forward the Islamic financial industry in the world.

Up to date, there are only Islamic banks and Islamic leasing companies among the types of Islamic financial institutions in the market of Kazakhstan. Therefore, thesis is limited to the study of Islamic banks and Islamic leasing companies in the market of Kazakhstan, where the main focus was made on operations of Islamic banks. Because the Islamic bank is considered a leading institution in the field of Islamic finance in the Kazakhstan market. Accordingly, Islamic insurance, Islamic securities market, Islamic microfinance institutions were not included in the scope of the thesis research. Future researchers are recommended to do special research in these areas. In addition, since the research doctoral student majors in Islamic studies, the research and analysis in the thesis were conducted mainly from perspective of the Islamic studies.

Zaman - Bank Islamic bank, being the object of the study, was the last among four Islamic financial institutions to have penetrated the market. Therefore, the research period of financial products offered in four Islamic financial institutions in Kazakhstan was limited to the first five years, that includes years 2017-2021 .

Degree of density of the research topic. According to M. Kahf, Islamic economy and Islamic financial industry have been the most researched fields of Islamic jurisprudence starting 20th century. The fact that 51 of the 97 issues considered in the first thirty years of the International Islamic Fiqh Academy encompass the economy and finance is a strong evidence to this. In addition, the number of articles published in various conferences and scientific journals concerning the Islamic financial system shows the level of research in this field.

The research regarding Islamic economics and finance are aimed at considering the field from different perspectives. In general, modern writings on the Islamic economy and financial system date to the first quarter of the 20th century. M.Ghazali, Abu Zahra, M.Hamidullah, M.Zarqa, Z.Salih, A.Iqbal, M.Nabi, M.Uzair, B.Sadr, I.Abduh, Hasanuzzaman, M.Kahf, A.Zarqa, U.Zuhaili, N.Siddiqi, Y.Kardawi, S.Hamud, A. Yusri, A.Chaudhuri, F.Khan, M.Zharhi, Z.Hasan. are the first researchers in this field. Some of these scholars researched the field from the financial and economic perspectives, while the other part studied financial issues from perspectives

of Islamic law. In overall, the works of scholars of the 20th century played a crucial role in shaping theoretical basis of the Islamic economy and financial system

From the works studying the history of Islamic finance we can specifically mention authors such as R.Wilson, M.Kahf, A.Shashi, A.Belabes. The research concerning state of finance and Islamic banks within the framework of specific countries: Malaysia - I.Sagid and R.Huni , Indonesia - A.Widigdo, I.Fahmi, Arab states of the Persian Gulf - E.Akkash, Morocco - M. Amal, S.Hassan, Algeria - U. Boualam, Turkey - F.Sayar, T.Azrak, USA - B.Zinser. In CIS countries we can mention R.Bekkin, A.Nagimova, R.Gabbasova, K.Sidorenko, G.Khaki, B.Malik, A.Walters, P.Trunin and others, V.Sidorov and others critical researchers.

Islamic financial institutions have a task of being financially and economically efficient, as well as complying with Sharia requirements. In the research of U.Zuhaili and A.Zarka , the major emphasis was put on independence of Sharia boards on the financial organization, binding force of Sharia board decisions, increasing the efficiency of Sharia audit. M.Kahf scrutinized the factors that influenced establishment of close relations between bankers and Islamic law scholars in the period of formation of Islamic banking. M.Kahf claims that this connection was beneficial for both parties and notes the following benefits: bankers used the Shariah advisory services of scholars; bank clients increased due to the reputation and trustworthiness of Sharia scholars among the Muslim society; Islamic scholars received a new position and their material conditions started improving; it became possible to implement religious rulings, outlined in Islamic law books in real life; Scientific research in the fields of Islamic finance and economics, muamalat fiqh received a financial support. M.Taqi Usmani and D.Bakar analyzed the activities and tasks of the AAOIFI Shariah board, M.Abdulbari explained the importance of conducting Shariah consulting and Shariah audit services separately. H.Shakeel Shah conducted a comparative study of the central Shariah boards in Pakistan and Brunei. In general, there are numerous research that have studied the efficiency of Shariah boards in Islamic banks on the example of specific countries, we mention some of them: Bangladesh - A.Kausar, A.Suhaimi and others, Jordan- M.Abdullah, Libya - R.Abushkeuat and Kh.Majgi. N.Chaudhuri and F.Shakir pointed out that the main factors reducing the efficiency of Shariah consulting services in Malaysia are the lack of shariah consulting specialists caused by increasing number of Islamic financial institutions in the country. Due to the shortage of specialists, it has been proven that the membership of one expert in several Shariah councils in the country has a negative impact on the quality of work. At the same time, S.Farouk and M.Omar Faruq's works, which considered incorporating special institutions and training programs to educate Shariah consultants, have their own significance.

The diversity of views and opinions in Islamic law made its own impact in the field of Islamic finance. Among scholars of fiqh and Islamic finance, there are different opinions and stance regarding the compliance of financial products with Shariah. In 2015, researchers from the ISRA Academy in Malaysia S.Bouherawa, B.Mohd and others separately studied various factors causing the diversity of fiqh fatwas in the field of Islamic finance, and considered ways to reconcile the disagreements as much as

possible. This work is considered to be the largest empirical study of its topic conducted at the international level.

In general, the field of Islamic finance and economics are one of the most studied areas of modern Islamic law. According to information provided by ICD- Refinitiv, a total of 2,566 scientific articles and projects regarding Islamic finance were published in 2017-2019. 700 of them include Islamic banking, 581 - Islamic financial system, 576 - social financing mechanisms, 219 - Sukuk Islamic securities, 140 - Islamic insurance system. During this period, the most studied countries in the field of Islamic finance were: Malaysia, Indonesia, Pakistan, Nigeria, Bangladesh. In addition, the number of institutions offering academic education in Islamic finance in the world has reached 972.

However, the literature review of the topic showed that there are few scientific research that studied the pace of development of Islamic finance in the context of Kazakhstan. K.Bertaeva and D.Onaltaev can be mentioned among domestic scientists who have scientifically studied a state of Islamic finance in Kazakhstan. A.Salihova and P.Maggs examined a state of the adopted regulatory and legal framework for Islamic finance in Kazakhstan. R.Sagiyeva and L.Kuanova conducted research on how to efficiently use foreign experience in the development of Islamic finance in Kazakhstan, while A.Ryskulov conducted research on "Prospects for the development of the Islamic insurance industry in the Republic of Kazakhstan" and received a master's degree. Among those who wrote doctoral and candidate thesis in the field of Islamic finance in general: B.Meyrbaev, D.Zamanbekov wrote a candidate thesis on religious, ethical and philosophical aspects of Islamic economy and banking system, A.Aliyev defended doctoral dissertation on the peculiarities of sukuk securities in 2022. In her doctoral dissertation, L.Kuanova studied the social effectiveness of Islamic finance and made important recommendations for the development of Islamic social finance instruments in the Kazakhstan market. S.Kairdenov related a topic of his candidate's thesis with the pace of development of Islamic banking in Kazakhstan. However, the dissertation focused more on the history and peculiarities of Islamic banking in general, and scrutinized a situation of Islamic banks in Kazakhstan superficially. As for Kazakhstan, it is often limited to mentioning the financial operations carried out by the Islamic Development Bank in the country.

Apart from these research, there are a number of articles published in domestic scientific journals on Islamic finance in Kazakhstan. Some of them provide a general description of Islamic finance in Kazakhstan and give a history of the initiatives taken in the field, while another part shows specifics of the Islamic financial system from perspectives of the interest-based system.

The literature review related to the topic revealed that specific empirical research has not been conducted regarding the pace of development of Islamic finance in Kazakhstan. In particular, it was revealed that special scientific research was not conducted regarding the Islamic financial products, used in the local market, and their Shariah basis. In addition, as a result of the differentiation of previous scientific works, we found out that the activities of the Shariah councils, ensuring the compliance of Islamic financial institutions with Shariah and the general system of Shariah

governance in Kazakhstan, have not been studied. This thesis aims to contribute to science by filling the gap in these mentioned fields.

The object of research Islamic financial institutions in the Republic of Kazakhstan

The subject of research Services of Islamic financial institutions in the Republic of Kazakhstan and their Sharia-compliance

The purpose and objectives of the research. Scientific study of the pace of development of the Islamic financial institutions in the Republic of Kazakhstan and analysis of the compliance of their services with Sharia. This goal is achieved by performing the following tasks:

1. Examine the history of the formation of the Islamic financial system and make a critical analysis of the findings and methodologies of scholars in the field related to Islamic financial products. Make a comparative analysis of theoretical debates, especially regarding the specifics and market applications of sharing and debt financial products.

2. Make comparative analysis of the expertise of leading countries in the Islamic finance industry

3. Identify factors impeding development of Islamic finance in the Republic of Kazakhstan.

4. Study structure and market share of financial products used by institutions in the credit operations of Islamic finance in Kazakhstan during 2017-2021.

5. Examine reasons why Islamic financial products on the market of Kazakhstan is limited only to certain types.

6. Scrutinize Islamic financial products in the market of Kazakhstan from Shariah perspective.

7. Evaluate performance of Shariah boards of Islamic financial institutions in Kazakhstan.

The methodological basis of the dissertation. Research methods are determined by the goals and objectives, peculiarities of the researched materials. Since the subject of the thesis is related to the field of Islamic studies and finance, the research was conducted based on the interdisciplinary mixed methods. The dissertation work used the principles of logic, integrity and consistency, and social research methods. Both theoretical and empirical methods were used in the research. Among the qualitative research methods, in-depth interview and survey were conducted. During the interview and survey, the anonymity and ethics of the respondents were ensured.

7 stages of the scientific research program were created to implement the goals and objectives of the scientific research work.

Periods of scientific research program

Research stages	Research method	Research data or focus group
-----------------	-----------------	------------------------------

1. Literature review of theory and history of the Islamic finance, specifics of the Islamic financial products (secondary analysis of data)	Theoretical research, hermeneutic, comparative, critical analysis.	Secondary sources: scientific data, articles, dissertations, methodological instructions, books, etc.
2. Make comparative analysis of the international expertise in the Islamic financial industry (The main emphasis is put on the state of Islamic banks)	Descriptive method, comparative, analytical and selective method	Secondary sources: reports of international organizations in the field, data of financial analytical platforms, statistical data, scientific articles, books.
3. Empirical research of factors impeding the development of Islamic finance in the Republic of Kazakhstan	Survey and analysis	Primary source: focus group participating in the survey (local experts in the field, all - 32 respondents) Secondary source: road maps adopted for the sector in the Republic of Kazakhstan.
4. Research the structure and market share of financial products used in credit operations of Islamic financial institutions	Analysis of reports	Secondary source: Annual reports of Kazakhstani Islamic financial organizations.
5. Study the reasons why financial products, used in credit operations of Islamic financial institutions are limited	Structured interview	Focus group: employees of Islamic financial institutes, members of AIFC and academia. Totally- 7 respondents.
6. Scrutinize Islamic financial products in the Kazakhstani market from Shariah perspective	Descriptive method, comparative analysis	AAOIFI standards, resolutions of the International Islamic Fiqh Academies, Banks and Banking Activities the Law of the Republic of Kazakhstan, academic articles and books.
7. Examine the efficiency of Shariah	Structured interview, typological analysis	Primary source: Focus group participating in the interview: employees of

Governance in the Republic of Kazakhstan		Islamic financial institutions, members of the Shariah boards, Shariah auditor and coordinator, specialists of the AIFC. Total - 10 respondents. Secondary source: Laws of the Republic of Kazakhstan.
--	--	--

The scientific novelty of the research work:

1. The tasks outlined in the road map of Islamic finance development in the Republic of Kazakhstan until 2020 and in the Master Plan for 2020-2025 and level of their implementation were analyzed, and the factors impeding the development of the Islamic finance sector in Kazakhstan were identified using the empirical research method.

2. Comparative analysis of the market share of financial products used in credit operations of Al Hilal Islamic bank, Zaman Islamic bank, Al Saqr Finance and Kazakhstan Ijara Company, Islamic leasing companies in the period 2017-2021 was conducted.

3. The reasons for the limited types of products used in credit operations of Islamic financial institutions in Kazakhstan were determined for the first time based on qualitative research methods.

4. The Shariah-compliance of financial products used in credit operations of Islamic financial institutions in Kazakhstan is examined, comparative critical analysis was conducted with reference to standards and resolutions of AAI OFI and International Islamic Fiqh Academy.

5. The legislative regulations concerning Shariah Governance in Islamic financial institutions in Kazakhstan were studied, and the factors reducing the efficiency of Shariah boards were determined using the empirical research method.

The theoretical and practical contribution of the research. Scientifically based, theoretical and practical recommendations can be used as a methodological guide to improve the mechanisms of governance and supervision of Islamic financial institutions in the Republic of Kazakhstan, in the comprehensive development of the Islamic financial industry in the country, as auxiliary tool in the teaching of Islamic studies, Islamic economics and finance.

The main statements for thesis defense:

1. The anti-interest protest led to a negative attitude towards all debt-creating tools in general, and this shaped a theory that Islamic banks should use sharing financial products such as mudaraba and musharakah in their financing in order to be truly Islamic (Debt free economy). However, in reality, Islamic banks that provide financial intermediary have been preferring usage of debt creating products such as Murabaha and Ijara. In fact, Islamic financial instruments definition must not to be confined to sharing contracts. Debt creating products such as Murabaha are also recognized as Islamic financial tools that bring added value to the real economy.

Therefore, instead of contrasting sharing and debt creating financial products, it is better to develop mechanisms for using them in their respective places given their specifics.

2. The result of the analysis of the international experience revealed that the development perspective of Islamic finance is not always measured by the number of Muslims. Based on the comparative analysis, it was concluded that the development of Islamic finance depends on the following factors: society's demand; systematic management and supervision mechanisms; government support; adaptability of the regulatory and legal framework; shariah governance; development of types of non-banking Islamic financial institutions; technological innovation; number and consistency of scientific and academic programs.

3. World experience has shown that the development of the Islamic financial sector mainly depends on the demand of society and business community, rather than the government support. In Kazakhstan, the Islamic financial sector did not make way of the natural evolutionary development. In other words, sector development initiatives started from the top, and then halted at the certain stage without touching down the public. In principle, the industry would be make gradual path of development if it started incorporating Islamic microfinance institutions accessible to the public rather than banks for corporate clients.

4. As a result of the survey conducted to assess the development pace of the Islamic financial industry in the Republic of Kazakhstan, the following impeding factors were identified: society's low awareness of the Islamic financial products, lack of information campaign at the appropriate level; deficiency of state support; lack of sufficient level of legal infrastructure for Islamic finance; underdevelopment of retail financial products; limited number of market participants on the Islamic financial market, lack of competition; shortage of human resources in Islamic finance and lack of academic training programs in the field; underdevelopment of non-bank financial institutions (such as Islamic insurance and Islamic securities market) that would ease the performance of Islamic banks.

5. The result of the analysis Islamic financial institution operations in Kazakhstan during 2017-2021 showed that their credit financial operations are only confined to debt creating products. During the research period, it was revealed that the Tawarruq was widely used debt financial products of the local Islamic banks,.

6. Interviews with local experts in Kazakhstan helped to find out that credit financial operations in local Islamic financial institutions are mostly limited to financial products such as Tawarruq, Murabaha and Ijara due to the following factors: incompleteness of the legislation on the Islamic financial industry; non-exemption of some Islamic financial products from additional tax burdens; various risk levels inherent in Islamic financial products; low supply and demand ratio between market participants and society; shortage of Islamic finance experts.

The empirical study concerning Islamic finance in Kazakhstan confirmed the statement of foreign scholars that "Islamic financial sector develops more freely and easily in the Anglo-Saxon legal system than in Civil law".

7. The analysis of Shariah-compliance of Islamic financial products on the Kazakhstan market of Kazakhstan revealed that the Tawarruq raises doubts. The resolution of the International Islamic Fiqh Academy, which was used as a basis for the analysis, ruled that the Tawarruq used in Islamic financial institutions is equal to usury. The AAOIFI recommended that the tawarruq should be used only temporarily when necessary and not as a main financial product. In this regard, Islamic financial institutions in Kazakhstan must use Tawarruq only in the most necessary situations, as outlined in the standard, and gradually abandon it in the future. It is very important to take into account the competitiveness of Islamic financial products. However, the competitiveness of products should not be at the expense of their compliance with Shariah.

8. The result of the research showed that the supervision system of Islamic financial institutions in the Republic of Kazakhstan for compliance with Sharia is undeveloped. The special legislative framework systematizing Shariah supervision is not fully developed. Although Kazakhstan laws mandate Islamic financial institutions to form a Shariah board, there are no specific requirements regarding the structure and members of the Shariah board. This situation, in turn, might lead to appointing people with insufficient competence as Shariah board members.

Kazakhstan experiences a shortage of local personnel for Shariah consulting and audit services. Foreign experts, being members of Shariah boards, do not have adequate knowledge of local laws and market conditions.

The following negative consequences of the lack of knowledge of the local language by foreign experts, providing international consulting services, have been identified: 1) translating documents for foreign consultants is inefficient in terms of time and cost for financial institutions; 2) translating documents by financial institutions themselves results in a conflict of interests.

Approval and publication of research results. Totally 7 articles were published on the thesis subject. In particular, 5 articles in academic publications recommended by the Committee for Quality Assurance in the field of Science and Higher Education of the Ministry of the Science and Higher Education of the Republic of Kazakhstan (“KazNU Bulletin, Religion Series” - 2 articles, “Adam Alemi”, “Science and life of Kazakhstan”, “Bulletin of Semey State University named after Shakarim”), 1 article in the “Journal of King Abdul Aziz University: Islamic Economics” indexed by Scopus, 1 article in the international scientific-practical conference held in Poland.

The structure of the dissertation. The structure of the dissertation consists of introduction, four main chapters, fourteen paragraphs, nineteen tables, twenty-one figures, conclusion, bibliography and appendices. The total volume of the work is 160 pages (excluding appendices). The number of bibliography is 205 .