

International Experience of Islamic Financial Organizations

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Abstract. The article describes the foreign experience of Islamic financial organizations. In particular, the article discusses the current state of Islamic financial indicators of the leading countries in the field of Islamic finance, the specific features of the activities of Islamic financial organizations in the CIS countries are shown.

Key words: Islamic finance, Gulf Cooperation Council, Commonwealth of Independent States, sukuk, Islamic FinTech, TakTech, roadmaps, the financial performance indicator.

Introduction. Islamic Finance is often called Sharia compliant finance. This highlights the main difference between conventional and Islamic finance: while both types of finance must obey the laws of the country in which they are offered, Islamic Finance is designed to also be compatible with the laws of Islam. Islamic finance is a new but potential field for Uzbekistan. In order to improve and develop its application in our country, it is very important and necessary to study the experience of leading countries in this field. The success of Islamic Financial Institutions drew the attention of many conventional banks. This had led numerous conventional banks to launch their Islamic banking windows in many countries. Over the past few decades, Islamic banking had a significant impact on its growth in the international financial system. Malaysia, Pakistan Bangladesh, GCC countries, and many others who had implemented Islamic banking and finance within their jurisdictions, started reaping the fruits from the growth and success that Islamic Financial Institutions (both commercial and social institutions) have achieved. In recent years, the Government of Uzbekistan has initiated ambitious economic reforms. One of the measures taken is to make easier for private companies to gain access to lines of credit for their business expansion (World Bank, 2019)¹. As a part of Uzbekistan's reforms aimed at attracting Muslim investors from other countries, the government started working on establishing Sharia compliant products including sukuk and introducing the Islamic insurance sector (Takaful)². However, the Government has not achieved much progress introducing the IF legal framework in the country, and this is hindering the development of the IF sector in the country. It is believed that if the Government agrees to step up its efforts, organizations like IsDB will extend their support in formulating legal framework for the country and undertaking projects of various nature that will develop the IF industry.

Material and methods. In recent years, various researches and studies have been carried out in areas such as the content, basis and principles of Islamic finance, Islamic law, insurance and securities market, fintech in Islamic finance. We can see that it is carried out with great interest not only in the works of scientists of Muslim countries, but also by scientists of non-Muslim countries. Valentino Cattelan, from Birmingham City University has widely published on Islamic law and finance. In Islamic finance, instead of paying interest to the holders, the payment of the dividends and the fact that Islamic finance directs savings to real investments are the most fundamental differences between traditional finance and Islamic finance (Serhat, 2017).

Islamic finance has emerged in a relatively short time in the area of the international finance. Since the beginning of the 1960s, the first commercial Islamic bank in the 1970s, the Islamic bank of Dubai, followed by the establishment of the Jeddah-based multilateral development institution Islamic Development Bank in 1975, has increased concept awareness. Since then, the Islamic finance industry has consistently achieved high growth (10%-15% per year) and it continues to grow rapidly. There are currently more than 1679

¹Landscaping analysis of Islamic finance instruments in Uzbekistan. J. Imamnazarov, Analytical paper, June 2020

² <https://ceif.iba.edu.pk/pdf/Reuters-Islamic-finance-development-report2018.pdf>.

institutions and 47 countries with at least one type of Islamic finance regulations and the total assets of Islamic finance exceed 3.958 billion US dollars in 2021.³

Results. The global Islamic finance industry proved resilient in 2020, the first year of pandemic, with its total asset size jumping by 14 % but it was in the following year that it showed even more character when growth of 17% out of performed pre-COVID levels to propel assets to US\$4 trillion.

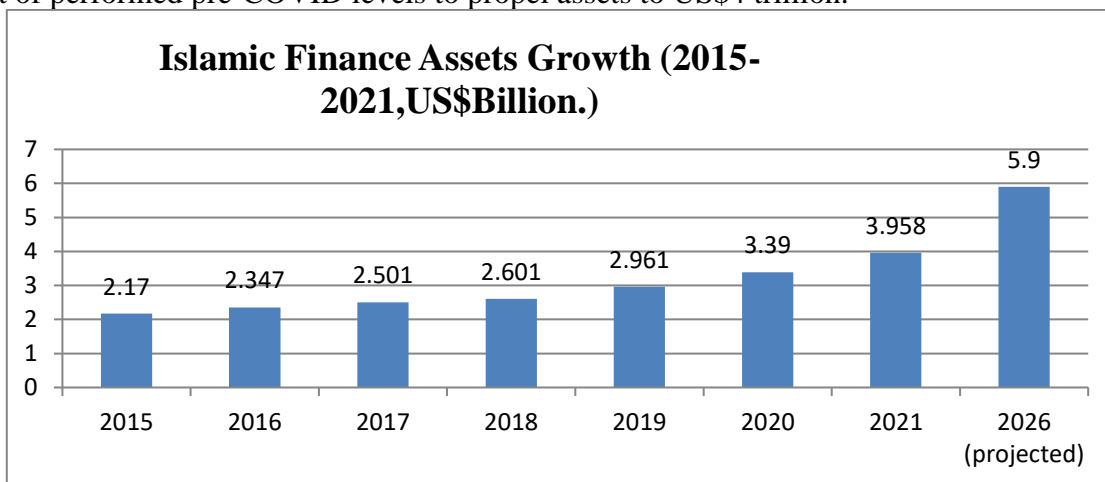


Figure 1. Islamic Finance Assets growth(2015-2021,US\$ Bilion).Source: www.refinitiv.com.ICD-Refinitiv Islamic Finance Development Report 2022.

Islamic banking the largest sector in the Islamic finance industry holding 70% of its assets, the highest growth came from non-core Islamic finance jurisdictions, signally both the growth of new markets and the plateauing of the sector in the more mature jurisdictions. Tajikistan(84%), Burkina Faso(27%) and Ethiopia(26%) were the highlights for Islamic banking growth. Overall, the global Islamic banking sector grew by 17% to US\$2.8 trillion.

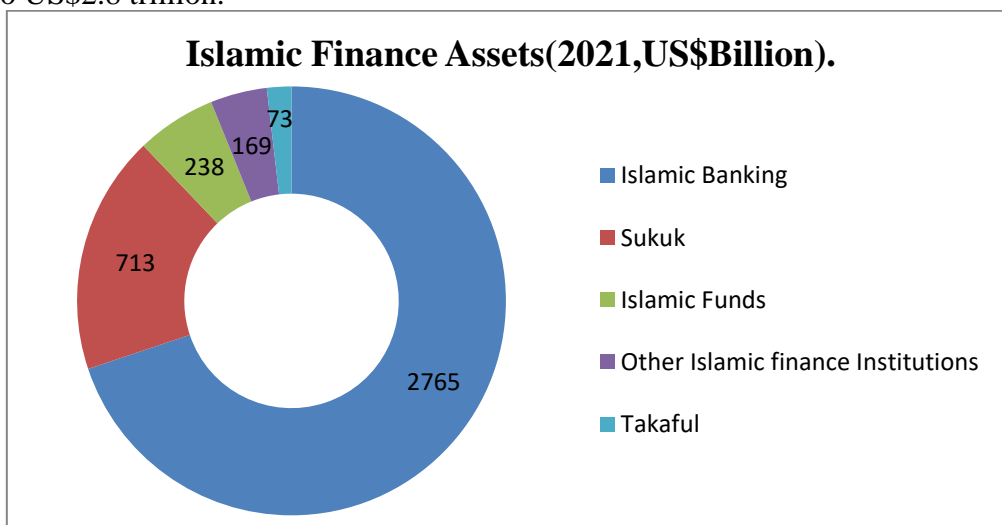


Figure 2. Islamic finance assets across sectors(2021,US\$ Billion).Source: www.refinitiv.com.ICD-Refinitiv Islamic Finance Development Report 2022.

Sukuk, the second largest sector by assets, grew by 14% in 2021 to US\$713billion in sukuk outstanding. New issuance rose by 9% to a record US\$ 202.1billion.Saudia Arabia, Indonesia and Malaysia are the clear leaders in this segment.

Table 1. Top counties by Islamic Finance Assets in 2020 and 2021(US\$ Billion)

Name of top counties by Islamic Finance Assets	2020(US\$Billion)	2021(US\$Billion)
Iran	838	1235

³ www.refinitiv.com.ICD-Refinitiv Islamic Finance Development Report 2022.

Saudia Arabia	826	896
Malaysia	620	650
UAE	251	252
Qatar	156	186

Source: www.refinitiv.com.ICD-Refinitiv Islamic Finance Development Report 2021 and 2022 years..

It can be seen from the table that Iran ranks first in terms of Islamic finance assets and the amount of assets has increased by 67% in 2021 compared to 2020. The big and more mature Islamic finance markets such as Malaysia, Indonesia and the six countries of the Gulf Cooperation Council (GCC)-Bahrain, Kuwait, Oman, Qatar, Saudia Arabia and UAE-continue to strengthen their industries and lead with developments and innovations in segments like Islamic Fintech, regulations and sustainability. In 2021, the top five countries by number of Islamic Fintech were Saudia Arabia, Indonesia, UK, Malaysia and Kazakhstan. This group alone accounted for 70% of the global total number of Islamic Fintechs. The industry saw a number of digital banking moves in 2021 such as the launch of Nomo in UK, Fardows In the United States and Malaysia's Central bank approving two licences for Islamic digital banks. The next step will be digital insurance and takaful operations, with Malaysia's central bank issuing a discussion paper for their licensing framework in January 2022. Pakistan's authorities are also working towards launching Takaful Tech, or TakTech for short.

1. Islamic financial institutions in Muslim countries.

1.1. Egypt.

Modern Islamic banking started in the early 1960s concurrently in Egypt and Malaysia. Pilgrimage fund Tabung Haji was established in Malaysia in 1962 to accept saving deposits from those who intend to go on a pilgrimage to Mecca and invest the proceeds in accordance with Islamic law. The Egyptian law does not have a codified definition as to what constitutes Islamic finance or an Islamic financial instrument, as the Egyptian Civil Code is meant to be compliant with Shariah. Sukuk and green bonds are among several new financial instruments that are expected to be introduced to the Egyptian market, and were allowed under the executive regulations to the Capital Markets Act issued in July 2018. The market regulator had issued the regulations governing Sukuk in April, which stipulate that issuances must be worth at least EGP50 million (US\$3.18 million) and approved by a religious committee, among other requirements. The Financial Regulatory Authority (FRA) had in August named 11 independent institutions to oversee issuances of green bonds, and decided earlier this month to slash service and inspection fees on the bonds. The government has previously hinted it may issue green bonds locally. Banks can offer corporate or retail products denominated as 'Islamic' upon obtaining a relevant license from the Central Bank of Egypt (CBE) such as for Ijarah or Sukuk as only licensed banks can request these licenses from the CBE.⁴

Takaful is also regulated by the FRA and there are licensed Takaful companies operating in Egypt. It is expected that a new version of Law No 10 of 1981 (the Insurance Law) will soon be issued to take Takaful into account. In April 2020, Egypt's FRA approved the first Sukuk issuance worth EGP2 billion (US\$127.06 million) by a subsidiary of Talaat Mostafa Group, Egypt's largest listed real estate developer. The Sukuk issued by the subsidiary of the Arab Company for Projects and Urban Development will be available for trading and for expedited payment but will not be transferable for shares, according to the FRA. The new Sukuk period is for 57 months, up to the end of 2024. In September 2020, Egypt signed its first US\$2 billion conventional and Islamic financing facility to support the local economy. In an social statement, the ministry said that the loan is aimed at "financing the state's general budget and supporting the Egyptian economy, to contribute to maintain its strong path in the face of prevailing fluctuations in global markets". The ministry also said that the facility was raised to between US\$1.5 billion and US\$2 billion due to an "increased demand for subscription". Islamic finance in Egypt, a country which, although it was the forerunner of this type of finance, is currently lagging behind the rest of the countries in the region, as it is home to only 2% of the world's total Islamic assets.

⁴ Hussein Elasrag. Steps forward for Islamic finance in Egypt. Project: [Islamic finance in Egypt](#) October 2020. DOI: [10.13140/RG.2.2.17258.34240](https://doi.org/10.13140/RG.2.2.17258.34240). License [CC BY-SA 4.0](#).

For Professor Rania Abdelfattah, "**Egypt is one of the most important countries in the financial sector in the region.** The sector has undergone reforms and continues to develop very fast with a 12.2% growth rate (...) of the 38 banks operating in the country, 14 offer Islamic banking products". Although Egypt, compared to other countries, does not have a large number of Islamic banks, according to Abdelfattah "**the Egyptian government is making great efforts to develop the sector**" and is offering "many opportunities to invest through Islamic banking in infrastructure, consumption and cooperation".

However, the Finance professor points out that "**the number of Islamic banks grew from 2015 onwards offering different alternatives compared to traditional banking**" although this "growth has remained slow from 2020 onwards".⁵

1.2.Saudia Arabia.

Islamic finance assets in Saudi Arabia reached a remarkable USD 896 billion in 2021, according to the report, making the Kingdom the largest Islamic finance market globally in economies with dual financial systems comprising both conventional and Islamic financial sectors. Given the Kingdom's immense potentials and its unique comparative advantages, Saudi Arabia could become a global leader in the Islamic financial services industry particularly by capitalizing on its distinctiveness in two areas:

- *Awqāf*: As a spiritual destination for Muslims worldwide, the Kingdom offers favorable incentives and can benefit from sizeable opportunities in terms of investment and spending. *Awqāf* can be an ideal channel for investment as *awqāf* require sustainable income generation.
- Small and Medium Enterprises (SMEs): Mobilizing resources for the SMEs through *ṣukūk*, equity, crowdfunding, venture capital, inter alia, would provide Islamic finance industry an edge in innovation, diversity and economic impact. Since SMEs are the engine of job creation, investing in the SMEs sector is essential for sustainable economic growth.

One of the biggest economies in the Middle East is Saudi Arabia, which also leads the global Islamic finance market. Saudi Arabia is trying to become the largest market for Islamic financing. Islamic finance is the practice of banking or financing in accordance with Sharia. Islamic finance frequently uses the Musharaka, Wadiah, Murabahah, Ijara, and Mudarabah payment methods.

The Saudi Arabian government has implemented many programs and policies in an effort to strengthen the nation's financial situation. Saudi Vision 2030 is a move made by the country's top leaders to reduce reliance on the oil industry, diversify sources of income, and grow public resources, including tourism, infrastructure, education, and recreation industry.

- The main objective of Saudi Vision 2030 is to expand Saudi capital markets in order to stabilize the economy and achieve sustainable growth during the projection period.

The Saudi Arabia Islamic finance market is segmented into the financial sector, regional distribution, and company. Based on the financial sector, the market is divided into Islamic banking, Islamic insurance, sukuk outstanding, and others. The Islamic banking segment is expected to capture the highest market share in the forecast period, 2023-2027.

- In all of the traditional banks in the Kingdom of Saudi Arabia, there are eight Islamic windows in addition to full-fledged Islamic banks. A variety of commercial, wholesale, and other types of banks assist Islamic banks. The Islamic Development Bank, the only Islamic bank with a AAA rating, is located in Saudi Arabia, one of the countries with the largest Shariah-compliant development banks in the world. Due to their higher moral standards, consumers choose to use Islamic banks for their financial needs. Islamic banks are accountable to their clients and do not take on significant risks or give large bonuses to their top bankers.

The Saudi National Bank, The Al Rajhi Bank, The Saudi British Bank, Riyadh Bank, The Saudi American Bank, Banque Saudi Fransi, Arab National Bank, Alinma Bank, Al Bilad Bank, Bank Aljazira, are the major market players operating in the Saudi Arabia Islamic Finance

⁵ www.Atalayar.com.Alba Sanz. Egypt is betting on the potential of Islamic finance. September 8, 2022.

market⁶. According to the The Z&Co. team's Examples of our recent experiences include advising: The Kingdom of Saudi Arabia on its USD 16 billion international loan. The deal introduced a Sharia-compliant tranche alongside the conventional loan facility;

- Arab Petroleum Investments Corporation on the SAR 300 million murabaha facility for Global Environmental Management Services LLC as purchaser;
- HSBC Saudi Arabia as agent on the refinancing of Al-Waha Petrochemical Limited's debt through a SAR 1.964 billion ijarah facility and SAR 375 million murabaha facility;
- Arab National Bank and The Saudi British Bank on the SAR 2.7 billion murabaha project financing to Port Development Company for the development and operation of King Abdullah Port in King Abdullah Economic City;
- Saudi banks on their Sukuk issuances on the KSA domestic market; and The dealers on a proposed USD 3 billion Sukuk programme adopting a wakala structure.⁷

1.3. Malaysia.

Malaysia's Islamic finance industry has been in existence for over 30 years. The enactment of the Islamic Banking Act 1983 enabled the country's first Islamic Bank to be established and thereafter, with the liberalisation of the Islamic financial system, more Islamic financial institutions have been established. Malaysia's long track record of building a successful domestic Islamic financial industry of over 30 years gives the country a solid foundation - financial bedrock of stability that adds to the richness, diversity and maturity of the financial system. Presently, Malaysia's Islamic banking assets reached USD 254 billion as at December 2019 with total funds placed with Islamic banks now represent 38.0% of total banking sector deposits.⁸ Today, Malaysia's Islamic finance continues to grow rapidly, supported by a conducive environment that is renowned for continuous product innovation, a diversity of financial institutions from across the world, a broad range of innovative Islamic investment instruments, a comprehensive financial infrastructure and adopting global regulatory and legal best practices. Malaysia has also placed a strong emphasis on human capital development alongside the development of the Islamic financial industry to ensure the availability of Islamic finance talent. Currently, Malaysia has a significant number of full-fledged Islamic banks including several foreign owned entities; conventional institutions who have established Islamic subsidiaries and also entities who are conducting foreign currency business. All financial institutions are given permission to conduct both ringgit and non-ringgit businesses. **Early development of takaful industry**

- The development of the takaful industry in Malaysia in the early 1980s was inspired by the prevailing needs of the Muslim public for a Shariah-compliant alternative to conventional insurance, as well as to complement the operation of the Islamic bank that was established in 1983.
- It was, to a large extent, triggered by the decree issued by the Malaysian National Fatwa Committee which ruled that life insurance in its present form is a void contract due to the presence of the elements of Gharar (uncertainty), Riba' (usury) and Maisir (gambling).

State of global takaful industry (no of institutions, total asset and growth)

- There are over 300 takaful operators worldwide across 47 countries.
- Global takaful assets grew 10% to US\$51 billion in 2019.

Current asset size of Malaysia takaful industry

Presently, Malaysia's takaful assets reached USD 9.1 billion as at December 2019 with the share of takaful net contributions as a proportion of the total insurance and takaful business increased further to 18.3%.⁹

The country's Islamic finance leadership is globally recognized – it houses a sophisticated legal and regulatory infrastructure and diverse community extending beyond “traditional” financial incumbents to include active Islamic organizations such as Zakat, Hajj and Islamic co-operatives (co-ops). These coupled with existing IT

⁶ [www.Research and Markets.com](https://www.researchandmarkets.com). Saudi Arabia Islamic Finance Markets Report 2022-2027: Focus on Islamic Banking, Islamic Insurance, & Sukuk Outstanding. October 21, 2022 07:38 ET | Source: [Research and Markets](https://www.researchandmarkets.com)

⁷ [www.Z&Co.com](https://www.zandco.com). Islamic Finance Advisory & Legal Services in Saudi Arabia.

⁸ Bank Negara Malaysia, Financial Stability Review – Second Half 2019, Annual Report 2020.

⁹ Malaysian Takaful Industry 1984-2004 in conjunction of Takaful Industry 20th anniversary, Bank Negara Malaysia

architecture, ideal demographics and digital affinity of the Malaysian people as well as government's firm commitment to develop the digital economy place the country at a competitive advantage to become an 'Islamic Finance Hub 2.0' as aspired by the government in SPV2030.

2. Islamic financial institutions in Non-Muslim countries.

2.1. The UK.

Islamic Finance first came to the UK in the 1980s, with the introduction of Murabaha transactions. The first UK Islamic bank, Al Baraka International, launched in 1982. This was followed by the growth of bespoke Sharia-compliant products in trade finance, leasing and project finance. In the early 2000s the UK Government started to take a serious interest in Islamic Finance, and developed a work programme to make the UK's financial services regulations compatible with the growth of Islamic Finance. Changing the tax treatment, to ensure that Islamic and conventional finance transactions with an equivalent purpose resulted in equivalent tax bills, was also an important step to allow the market to grow. The Islamic Bond (Sukuk) market in the UK started in 2007, and has continued to grow. By 2015, 57 Sukuk had been listed on the London Stock Exchange, with a total value of \$51bn. In 2014, the United Kingdom Government became the first Western government to issue sovereign Sukuk, over 11 times oversubscribed. With strong Islamic insurance, fund management and banking sectors, the UK has also developed expertise in the supporting professions, with business advisory and legal forms building up bespoke Islamic Finance practices. In 2015, the UK did a world-first: our export credit guarantee department provided guarantees for a \$913m Sukuk to finance the purchase by Emirates Airlines of 4 Airbus A380 aircraft.

The UK Islamic finance industry has developed progressively over the years. UK domestic Islamic banks such as Gatehouse Bank, Bank of London and the Middle East, and Al Rayan Bank have said that there has been limited implications on their business to date. This is because their business in the UK is focussed on real estate and savings. A significant development in the UK Islamic finance space is the announcement by the Bank of England with regard to the development of an alternative liquidity facility. This facility will provide the opportunity for UK Islamic banks to make investments in Shariah-compliant high-quality, liquid assets and thus enable the banks to hold reserves and assets in a Shariah-compliant manner. This facility has been long awaited as there had been limited resources available for Islamic banks to invest in Shariah-compliant assets. This facility will provide an avenue for UK banks to manage their treasury management and liquidity in a more diverse manner. This is also seen as another attempt to level the playing field with conventional banking.

The UK has issued its second sovereign sukuk (Islamic bond) in 2021. The sukuk of £500 million was sold to a broad range of institutional investors based in the UK and in the major hubs for Islamic finance in the Middle East and Asia. This second sukuk offering is more than double the size of the UK's first issuance in 2014. This has increased the supply of high-quality Sharia-compliant, liquid assets to the market and further supported the development of Islamic finance in the UK. The UK's first sukuk which was a £200 million note was also heavily subscribed and made the UK become the first western country to issue a sovereign sukuk.

Takaful (Islamic insurance) is a product that has long been seen as an area with great potential. It is reported by Insurance Business UK that the UK market now has up to 10 commercial insurers offering Shariah-compliant products, ranging from political risk insurance to risk-sharing mechanisms in UK infrastructure projects backed by Islamic finance. This is supported by company members of IUA and Lloyd's syndicates.

Asset management is another underserved area where there is a growing interest in establishing Islamic funds. Schroders recently launched a Shariah-compliant fund in 2020, which is part of their broader presence in Islamic markets. This fund will give investors access to a diversified Shariah-compliant portfolio of equity. There is also scope for other large institutional UK asset managers to establish Islamic funds, in various asset classes and industries. Other Islamic asset managers in the UK include the dedicated desks at the UK Islamic banks, Oasis Crescent, Arabesque, and TAM Asset Management. Islamic fintech is arguably the area which has received the most attention recently in Islamic finance. As the UK is now home to more than 27 Islamic fintechs, London has therefore enhanced its unique position as a finance and technology hub which is suitably placed to capitalise on the domestic and global demand for Islamic finance. This encourages the UK's Islamic finance economy and customers to benefit from London's dominance in the world of fintech.¹⁰

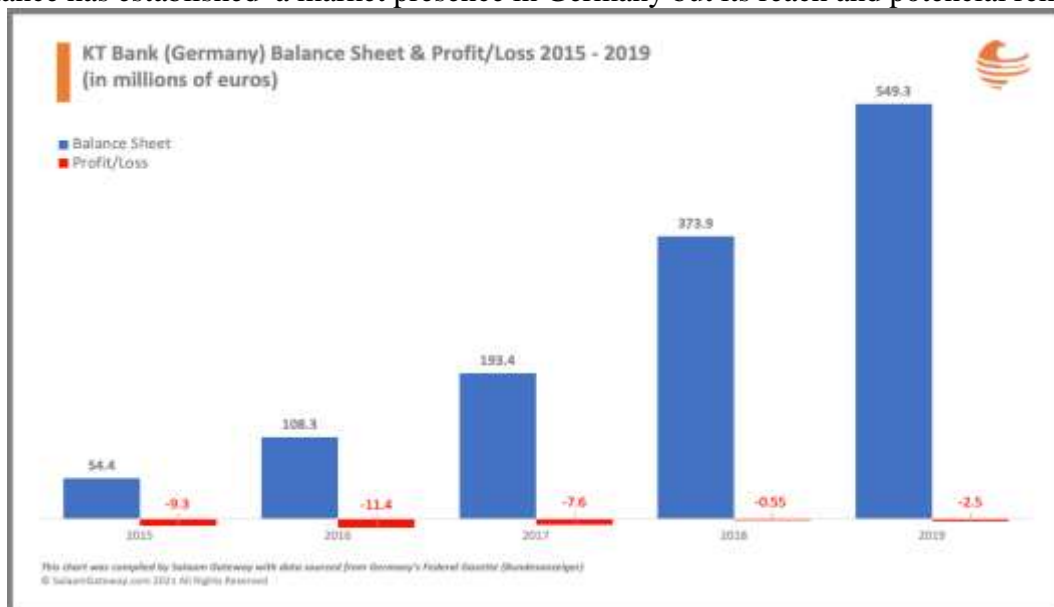
¹⁰ www.keystone.law.com. Fara Mohammed. Islamic finance in the UK. June 8. 2021.

2.2. Germany.

In Germany Islamic retail banking is a quite new concept since the launch of the first major Islamic Bank was in 2015. Although Islamic Banking is new in Germany, Islamic Finance products were available since 2004 in the Investment Banking. In 2004 a Sukuk, an Islamic Bond, was issued by the federal state Sachsen-Anhalt, and several other banks started offering Islamic investment products for corporate clients (Colditz, 2009). Even though Islamic banking is new in Germany, Germany had ever since a great potential for the Islamic banking sector

because of the important Muslim population mainly with Turkish origin and because of the economic relevance of the country in Europe and in the world (Farhoush and Schmidt, 2011). Faroush and Schmidt (2011) supported this assumption with the results of their survey showing high demand in Islamic banking products among Muslims in Germany even before Islamic retail products were available in Germany. Today two Islamic banks are operating in Germany. The first one is “KT Bank” with four branches in Germany, it is the first fully-fledged Islamic Bank in the Eurozone opened as a subsidiary of the Turkish Kuveyt Türk Bank in 2015. The Kuveyt Türk Bank belongs to the Kuwait Finance House Group. The second bank is “insha”, a digital banking service, introduced in 2017 through another Turkish Islamic Bank Albaraka Türk, which is part of the Bahraini Albaraka Banking Group. Both banks aspire being the hub for Islamic finance in continental Europe. Interestingly both banks entered the German market through their Turkish brands which supports the statements that they see their potential apart from the growing Muslim population mainly in the Turkish community (Wahl-Immel, 2018; Al Baraka, 2018).

Islamic finance has established a market presence in Germany but its reach and potential remain untapped.



Ongoing developments sustain hopes for a wider proliferation against the background of bold moves in other countries in the region, such as UK. KT Bank has never made a profit since it opened in 2015. But it is looking to 2021 with a positive mindset. KT bank deliberately started business operations with a lean product range and its growth has not come easy, partly because the German financial ecosystem is not proactively supportive of Islamic finance, unlike in the UK. Today KT bank offers trade finance as well as debit and credit cards. In February 2020, the institution opened its fifth branch. In addition to Frankfurt, Berlin, Mannheim and Cologne, the bank is now also represented in Munich¹¹.

2.3. The USA.

Islamic finance in the United States dates from the 1980s, when two institutions opened on the West Coast. Their services were limited to investment and home finance and were available only regionally. From the late 1990s, the market size grew significantly, paralleling the growth of the Muslim population in the US: from 50 per cent in the 1990s to 66 per cent in the 2000s. In an ironic twist, while Islamic finance abides by the goals

¹¹ www.salaamgateway.com. Petra Loho. Germany Islamic finance 2021: KT Bank targeting more customers. Jan 27, 2021.

and objectives of Islam – namely the *shariah* – these same goals overlap with environmental, social and governance (ESG) considerations and the broader aim of sustainable finance.

There are currently 25 Islamic financial institutions in operation in the US, the top three of which, according to asset size, are the American Islamic Finance House, University Bank (through its subsidiary University Islamic Financial) and the Harvard Islamic Finance Project. In 2013, JP Morgan started to offer Islamic banking services. Investment banks such as Standard Chartered Bank followed and now offer Islamic banking products in Asia, Europe, the Middle East and the US. Recently, in the US commercial real estate sector, banks such as Malaysia-based Maybank, Kuwait-based Warba Bank and National Bank of Kuwait, Italian bank Intesa Sanpaolo and MASIC, a Saudi private equity investment firm controlled by the Al Subeaei family together with asset manager, Boubyan Bank, have participated in commercial Islamic finance transactions in the US in connection with commercial real estate.

Retail banks operate in several states:

1. University Islamic Financial (a subsidiary of University Bank), based in Ann Arbor, Michigan, is the first and only exclusively shariah-compliant bank in the US;
2. Devon Bank in Chicago regularly offers Islamic finance services;
3. Guidance Residential, in Reston, Virginia, is the biggest non-bank financial institution that offers Islamic finance services; and
4. Lariba, in California, is another large Islamic mortgage lender, which also provides business financing.

Retail Islamic finance has been well established in the US since the OCC approved the *ijarah* structure for home lending in 1997 because it is 'functionally equivalent' to conventional secured real estate lending.⁵ Similarly in 1999, the OCC approved the use of the *murabahah* structure for home financial products as it was deemed to be functionally equivalent to conventional real estate mortgage transactions, or inventory or equipment lien agreements.

Musharakah is also used for home financing in the US. It is a rent-to-own financed sale of property, where the bank first purchases the property and the customer pays the bank over time the full price plus a cost. With each rent payment, the customer earns a portion of the property's ownership. Under this equity-based structure (also called 'diminishing *musharakah*'), when the customer sells or disposes of the property, losses are shared between the customer and the bank as co-owners based on their percentages of ownership. The bank's return is taxable income to the bank and deductible by the borrower.

Despite the difficulties associated with *takaful*, American International Group Inc (AIG) first started to offer Islamic homeowner *takaful* insurance in the US in 2008. Currently, AIG's underwriting subsidiaries, Risk Specialist Companies Inc and Lexington Insurance Company, issue *takaful*. Zayan Finance, a New York-based Islamic financial services firm, is the exclusive broker that offers *takaful* in many states. AIG also maintains a *shariah* board made up of Islamic scholars who have given legitimacy to the *takaful* alternative to conventional insurance in the US market.

Murabahah is the most popular type of structure used for real estate investment in the US. A typical *murabahah* structure contains an unconditional contract of sale with a cost price, markup and payment date predefined. The profit from the marked-up sales price is paid in instalments. One of the largest examples of recent real estate investments done under *murabahah* is the US\$219 million syndicated construction loan for 45 Park Place, a luxury condominium tower in Manhattan, New York. It was led by Malaysia's Maybank and Kuwait's Warba Bank; Italy's Intesa Sanpaolo and MASIC, the investment arm of Saudi Arabia's Al Subeaei family, also participated.¹²

One advantage of *murabahah* is that it may not require credit support. Here, the bank pays the seller for the property for immediate sale to the buyer for the cost plus a profit pursuant to a *murabahah* agreement.

3. Islamic Finance in CIS countries.

3.1. Kazakhstan.

Kazakhstan plays important and fundamental role in the development of Islamic banking at the legislative level, as well as in the promotion of Islamic finance in the Commonwealth of Independent States and Central

¹² www.lexology.com. Pillsbury Winthrop Shaw Pittman LLP. Islamic financing and investment structure in USA. The Law Reviews 5th edition November 3, 2021.

Asia. In 2009, for the first time in the CIS, legislation on the Islamic banking was developed and the legal framework for the development of the industry was established. In 2011, the legislative acts of Kazakhstan in the field of Islamic finance began to improve further and created the legal basis for issuing sukuk.¹³

According to the National Bank of Kazakhstan (NBK), as of 2019, the share of Islamic banking assets account for only 0.21% of the total banking sector assets in Kazakhstan. There are two fully operating Islamic banks in Kazakhstan – Al Hilal Bank and Zaman Bank, which was previously a commercial bank but received permission from the National Bank of Kazakhstan (NBK) in 2016 to convert into an Islamic bank. In addition, an Islamic leasing (Ijarah) company – Kazakhstan Ijara Company; an Islamic mutual insurance company – Mutual Insurance Company Takaful; and a multifunctional Islamic financial organization – Al Saqr Finance are all present in Kazakhstan.

The following organizations have been created and are functioning, whose activities comply with the principles of Sharia and Islamic finance:

- Brokerage company (JSC “Fattah Finance”). In early 2009, Kazakhstan established the first brokerage company FATTAH FINANCE JSC, which provides services on Islamic financial principles. The creation of this company demonstrates the interest of market participants in the development of instruments of the Islamic financial system in Kazakhstan. Currently, FATTAH FINANCE JSC registers the first risk-based mutual investment fund in Kazakhstan, the Amana Mutual Funds Trust, which will work according to the Islamic norms of the Sharia.
- Consulting companies (Kausar consulting Kazakhstan LLP, Akyl-Kenes consulting LLP, Islamic financial instruments LLP)
- Investment fund (joint stock fund of risky investment “Islamic Fund of Aman”)
- Insurance company (Mutual insurance company Halal Insurance Takaful JSC)
- Self-regulatory organizations (Associations of Legal Entities “Islamic Finance Development Association”)
- Public associations (Islamic Center for Finance, Education and Business in Almaty, Club for the Development and Promotion of Islamic Insurance in Kazakhstan).

3.2. Tadjikistan.

Tajikistan has fast become the nexus of the development of Islamic Finance in the Commonwealth of Independent States (CIS) recently. The Law of the Republic of Tajikistan “On Islamic Banking activities” was approved on July 26, 2014. This Law determined the legal and organizational basis of Islamic banking in the Republic of Tajikistan and was supposed to provide favorable conditions for conducting Islamic banking activities. The latest addition arrives from the first Islamic Bank established in the country; Tawhid Bank. With the introduction of Tawhid Pay, a mobile application for its customer base, it has effectively launched the Islamic Finance sector of Uzbekistan into a new era of digital banking, says a Press release. With its successful collaboration with AlHuda CIBE, Tawhid Bank has brought forth its Shariah Compliant digital application in the Islamic Fintech ecology. Pleasantly surprising for the Islamic Finance sector, the masterstroke comes from Tawhid amid a global pandemic. The TawhidPay App allows transactions to take place in favor of the customer from around the world. Through this app and other partner institution services, the customers of the bank can freely make significant amounts of transactions through card and account and send/receive payments on the go. It ensures a safe, Shariah-Compliant, and hassle-free transaction globally.

The attached services that come with the account itself are supportive to the customer’s needs and wants as well, with minimal charges, and encouraging profit. With the advent of the modern era in the world of finance globally, a healthy increase in the number of cryptocurrencies, digital banking/transaction services, FinTech, etc. catches the eye. With multitudes of opportunities to utilize, many companies and startups worldwide have seized the opportunity to hone in on Islamic Fintech in particular. Over 270 technological platforms working in the Islamic Fintech sector are now operational.

Alif Bank was founded in 2014 as microfinance institution, and by 2021 had become a leading fintech companies in the Central Asia. Now Alif Bank is in possession of a full banking license. Despite the fact that

¹³ R.Sagieva, L.Kuanova. The journal of economic research and business administration, 127(1), 56(2019)

the bank is not considered an Islamic bank from the legal standpoint, it largely acts as a Shariah compliant financial institution. Supported by its formidable IT department, Alif provides **alif.mobi**, the most widely used finance app in the country. Its B2C platform **alif.shop** is a leader in the POS financing. The remittances are very important for the migrant population of Tajikistan, and Alif Bank offers the most competitive solution in the country. Aside from remittance services Alif Bank promotes **Alif Jummah** — a Murabahah-based program of consumer goods sale. The company is committed to leadership in Islamic finance and established its own technology academy that grows cadres for the bank and for fintech industry in Tajikistan. In 2021 Alif Bank declared its ambitions to set up operations in the UK.

3.3 Kyrgyzstan.

The history of Islamic finance in Kyrgyzstan is strongly connected with the Islamic Development Bank. . In June 2012 the IDB and the Kyrgyz government signed an agreement for technical assistance worth 193.000 US\$ for “further development of Islamic financial services in the country.” (Akipress, 04.07.2012). This new engagement into the facilitation of Islamic financing in the Kyrgyz Republic can be traced back to a memorandum, signed by the Kyrgyz government, the IDB, and the “EkoBank”, a commercial bank operating in Kyrgyzstan in May 2006. In October 2006 the National Bank adopted a statute for Islamic financing principles, stating in detail conditions for Islamic banking instruments like mudarabah, ijara, murabaha, “sharika” (musharakah), or “istisna'a” (deferred production sale). Finally in 12 December 2006 the National Bank was entitled to hand out licenses to Islamic finance institutes operating in Kyrgyzstan. This leading role of the National Bank was further consolidated with two laws adopted by the parliament in March 2009 that made changes to the law “On the National Bank of the Kyrgyz Republic” (National Bank law, 29.07.1997) and to the law “On banks and bank operations in the Kyrgyz Republic” (Law on banks, 29.07.1997). Now the National Bank stipulated in Article 4 as one of its major functions the regulations of financial operations, including operations in line with the principles of Islamic banking. In addition the bank had been entitled to formulate normative regulations to further organize the market for Islamic finance in the republic. In September 2009 the government took the decision to prepare the market for the introduction of Islamic securities in form of sukuk and takaful.¹⁴ Kyrgyzstan’s banking sector is made up of commercial banks, state commercial banks and non-banking financial-credit organizations, which include a specialized financial-credit organization (FCCU OJSC), microfinance companies, microcredit companies, microcredit agencies, credit unions and exchange offices. Numerically the industry, as of March 22, 2021, consists of 23 commercial banks; three of them being state-owned. Five major banks hold 55% of the banking sector assets and 49% of the credit portfolio. All banking institutions of the country are universal by the type of business. Information on non-banking financial-credit organizations, there are 9 microfinance companies, 87 microcredit companies, 38 microcredit agencies, 1 specialized FCCU OJSC, 92 credit unions, and 387 exchange offices.¹⁵ The banking system of the Kyrgyz Republic is a two-tier system in which the first level of the system is represented by the National Bank of the Kyrgyz Republic, and the second by commercial banks. The NBKR is independent from government and it has the right to license, supervise and regulate the activity of financial institutions, including Islamic financial institutions and Islamic windows of conventional financial institutions in the country.¹⁵

In order to provide much-needed competition, NBKR allowed conventional banks and conventional non-banking financial institutions to operate in the framework of Islamic windows. According to NBKR, as of October 15, 2020, the following financial institutions are operating on Islamic principles in the territory of the Kyrgyz Republic:

1. One pilot bank: EcoIslamicBank CJSC
2. One Islamic window of a conventional bank: Bakai Bank OJSC
3. One Islamic window of a conventional microcredit company: M Bulak MCC LLC
4. Four fully-fledged Islamic microcredit companies: Kompanion Invest MCC LLC, Ak Karzhi MCC LLC, Bereket Finance MCC LLC and Ak Nur Capital MCC LLC
5. One Islamic leasing company: Leasing Company Kyrgyzstan CJSC.

¹⁴ Alexandr Wolters. Islamic finance in the states of Central Asia: strategies, institutions, first experiences. Research paper. Private University of Applied Science. Paper prepared within the framework of sub-project D2 (Prof. Ahrens, PFH Göttingen) of the KomPost Research Network, sponsored by the BMBF. January 2013.

¹⁵ Abdurashid Zhoraev, Ali Yuksel. Challenges for Islamic banking Industry: The Kyrgyz Republic experience. Ondokuz Mayıs University Review of the Faculty of Divinity e-ISSN: 2587-1854 OMUIFD, June 2021, 50: 713-730

Conclusion.

From the analysis it could be concluded that for Uzbekistan, like implementing any new financial system, Islamic financial system would be potential and worth testing and countries financial and social system the loyal and the flexible model of development of Islamic finance is more useful for different reasons. International experience of the development of Islamic finance has huge importance for the further development of Islamic finance in Uzbekistan.

There are a number of recommendations that concluded by authors during study of foreign experience of implementation of Islamic finance:

- Improving the legal framework using international experience and amendments to the tax code to avoid double taxation;
- Using Malaysian and British experience of rapid development of Islamic finance, consider the introduction of Islamic windows as these two countries have strong business schools in Islamic finance and market.
- It is essential to organize various Waqf, Zakat, Crowdfunding awareness program promoting the benefits and importance of Islamic social finance.
- It is also beneficial to issue sovereign and green sukuk to fund infrastructural and environmental development projects.

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