

Islamic Finance Ecosystem's Institutional Support: The Case of Kazakhstan

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Abstract:

The study applies the conceptual Islamic finance ecosystem model to overcome identified Islamic finance development challenges and obstacles by the country's professionals' survey. Research results show the strong and weak factors of Islamic finance and provide recommendations for institutional support of Islamic finance for Kazakhstan as an alternative source of economics in the challenging time of external political, financial, and technological threats. Furthermore, the study explores the Islamic finance social benefits designed to provide social justice and wealth creation.

Keywords: Islamic finance; ecosystem; survey; social benefits; institutional support

Introduction

The impact of the post-pandemic consequences, which weakened the economies of all countries of the world, without exception, revealed the sensitivity of the social sectors, which is aggravated by the contradictory consequences of political and digital challenges. Several countries with developed and developing economies are attempting to stabilize the economic system and ensure social stability to different degrees. However, political and foreign economic threats are evolving at a speed that increases the pace of taken measures and decisions. In the current world's turbulent situation, there is an urgent need to ensure economic stability and make efforts to adjust standards and mechanisms of institutional governance at a rapidly increasing rate.

Islamic financial tools and mechanisms, based on the wealth development of society and the stabilization of economics, have shown interest in the growth of research and business in recent years across the world. The social nature of Islamic finance succeeds the complex tasks, which is establishing a balance between the needs of the individual and the progress of society (L. A. Kuanova et al., 2021).

Kazakhstan is the ninth-largest country in the world. It has one of the most significant economies in Central Asia: a GDP of 170.5 billion US dollars and foreign trade turnover of 93.5 billion US dollars (N. S. Shirazi, Kuanova, and Zhuparova 2021). Moreover, the country's Islamic finance development started at the beginning of the 21st century by adapting the legislative framework and opening the first Islamic bank in the country in the Central Asian region.

Furthermore, the country's Islamic finance future is promising, as according to official figures, the majority of Kazakhstan's population - 70.2%- is Muslim. There are 2404 mosques and 12 Muslim religious and educational institutions (Statistics Bureau of National Statistics, 2019). There were several attempts to develop programs for Islamic finance promotion with solid support from the state. However, Islamic banking assets are estimated to be less than 1% of conventional banking assets (www.tradingeconomics.com, 2019).

Our research was made qualitative analyses by a survey within the focus group of specialists in Islamic finance to obtain actual data for identifying the challenges and barriers to further developing Islamic finance and its ecosystem development in Kazakhstan. There has been made the respondents' sampling and orientation on the opinion of the focus group because of low awareness of Islamic finance specifics and social aspects in the country. Moreover, the number of experts in the field is made quiet to meet the industry's high growth rate, which is an obstacle to Islamic financial institutions (Hassan et al., 2019). By some estimates, the number of professionals in Islamic finance – is about 270 for all regions, including two banks, two ijarah companies, Astana International Financial Centre – Islamic finance Hub, and academia (N. Shirazi et al., 2021).

Methodology

The survey was undertaken with 45 professionals in Islamic finance in the country and experts from overseas. There are three groups of respondents:

1. Players from the Islamic finance industry – Astana International Financial Centre (AIFC), Authority of AIFC, "Al-Hilal" Islamic Bank, Islamic Bank "Zaman-Bank," Al-Saqr Finance (Islamic leasing company), Waqyp Fund;
2. Foreign experts involved in promoting Islamic finance in Ka-

zakhstan and Central Asia – ICD, Islamic Development Bank, ZICO Shariah (Malaysia), Amanie advisors (Malaysia).

- Academia, universities with educational programs in Islamic finance – al-Farabi Kazakh National University, Hamad Bin Khalifa University (Qatar), Nur Mubarak University, INCEIF (Malaysia) Nazarbayev University.

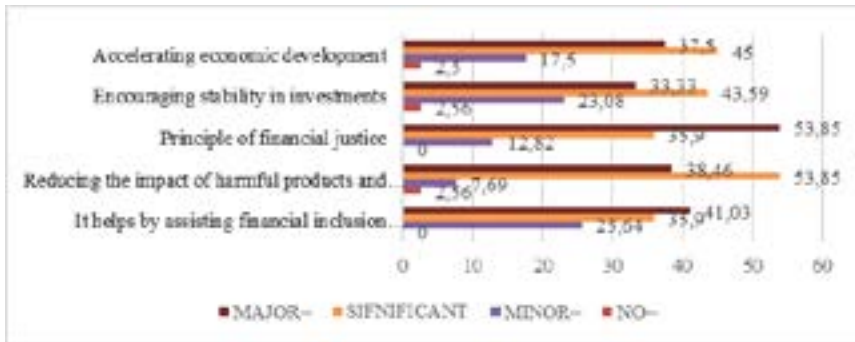
The survey consists of 11 questions, 2 of them open-ended, which requested respondents' comments, 6 of the questions offered multiple choice and 1 for Likert scale, 1 for matrix. The assessment of the obtained data used simple descriptive statistics (N. Shirazi et al., 2021).

Findings and Discussion

There should be mentioned that in the question about the advantages (benefits) of Islamic financial instruments for Kazakhstan, which was given in the form of a matrix, 90% of respondents decided that reducing the impact of harmful products and practices is affects significant, as well as more than 90% answered that principle of financial justice is essential to the benefit of Islamic finance for the country.

Figure 1

Experts' assessment of the benefits of Islamic Finance for Kazakhstan



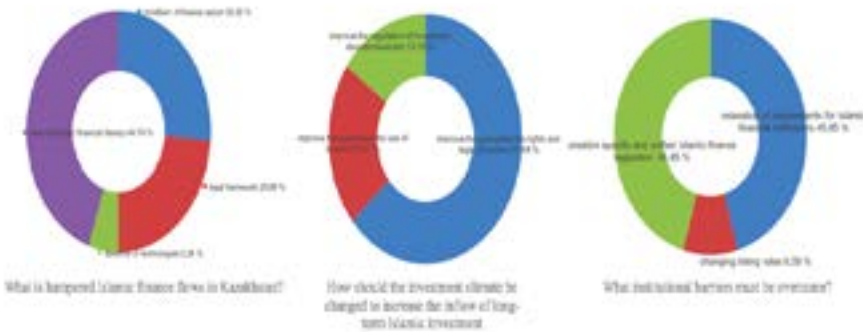
Compiled by the author (Kuanova, 2022)

It was identified that the institutional (legal, personnel, social, organizational, administrative) and economic (marketing strategies and tax incentives) barriers should be overcome for the effective

Islamic finance development of the following issues: dedicated platform; religion and finance separation; knowledge growth; tax rules for Islamic institutions; Value Added Tax for trade-based products; the relaxation and preferences for Islamic financial institutions; specific Islamic finance law, Islamic windows in conventional banks; dedicated department, policies and procedures for the governance of Islamic financial institutions, Shariah council integration; increasing literacy and awareness.

Figure 2

Experts’ assessment of Islamic Finance in Kazakhstan



Compiled by the author (Kuanova, 2022)

Respondents were requested to give their opinion to identify the obstacles that would affect the Islamic finance inflows. According to respondents’ views, we detected a social problem: a lack of knowledge and low awareness of this sphere; 44.74% of respondents noted it. Factors such as the underdeveloped legal framework (23.68%) and the condition of the finance sector (26.32%) also play a negative role in Islamic finance inflows in Kazakhstan. The lack of Islamic financial technologies is considered a challenge only by 5.26% of respondents. 43.18% of respondents believe that creating specific and unified Islamic finance legislation will impact the increasing number of investors and issuers of Islamic financial instruments in Kazakhstan.

In contrast, others are sure that the relaxation of requirements for Islamic financial institutions will cope with the above task. The government suggested implementing special shariah norms and

standards, considering the tax incentives. An interesting idea was suggested about using tax holidays or other tax benefits for at least three years to spread Islamic financing of large investment projects.

Further authors tried to identify necessary changes in the country's investment climate to increase the inflow of long-term Islamic investments. The main factor in the opinion of 63.64% of respondents for the investment climate is the improvement of the guarantee of the rights and legal protection of investors, and 21.21% believe that improving the guarantee of the use of income will affect the increase of the inflow of long-term Islamic investment in Kazakhstan. On the other hand, only 15.15% of respondents answered that improving investment dispute resolution regulation is necessary.

About 63% of interviewed people believe financial technology promotes Islamic financial inclusion. In contrast, the rest of the respondents believe that financial technology can reduce the cost of financial intermediation for Islamic banks. Also, 31 professionals in Islamic finance note the importance of financial technology in increasing the number of participants in the Islamic securities market. Furthermore, 72% of respondents find financial technologies as Shariah-compliant.

The open-ended question requested comments from the respondents about the opportunities of blockchain technology, which leaves electronic traces of any transaction, ensuring the transparency and purity of financial transactions in the context of the value of Shariah. It will give Islamic and financial institutions competitiveness with conventional banks and institutions and strengthen trust and confidence in promoting Islamic finance services. Respondents suggested that blockchain technologies complied with Shariah principles.

More than 92% of respondents strongly believe that it is necessary to allow Islamic windows, branches, and subsidiaries in Kazakhstan to develop Islamic financial services by banks and allow Islamic financing products and services for non-Islamic banks and financial institutions instructions. Considering legal, to identify the specifics of the use of Islamic Finance accurately, there should be clarified legal acts in the legislation of Kazakhstan. Thereby, the government needs to allow the opening of Islamic windows (branches). Nowadays, to the requirements and prudential norms of the creation and activity of Islamic banks in Kazakhstan, there is only one possible form of a full-fledged Islamic bank with a Base

Capital like the conventional bank of about 26 million US dollars.

The results of the Kazakhstani professionals give us the data for analyzing the factors that need to be developed. According to the results, we designed the Islamic finance ecosystem of the country and prepared the institutional design.

Islamic Finance Ecosystem Development

The Islamic finance ecosystem has been developed as the integration of conventional financial institutions' activity and Islamic financial institutions' services and systems (Tahiri Jouti, 2019) within one framework. It was supposed that the Islamic finance ecosystem includes four main participants the representatives of the coordinators of the ecosystem, providers of the finance, initiators of Islamic and social welfare, and beneficiaries. The role of the participants is essential in system coordination, which is the interaction of the association of parties with the environment.

The concept and objectives of the Islamic finance ecosystem are the same and move in the same direction, except for the specific characteristics of Islamic financial relations—first, institutions and implementation tools that follow Shariah's main principles (Asutay, 2012). Secondly, there are capacities for cooperation between Islamic and conventional financial institutions.

The role of each party in the ecosystem is vital and impacts the country's development in general. There are initiators and parties of the Islamic finance ecosystem:

1. Initiators of the economic welfare of the country, the government, and international organizations;
2. Islamic financial institutions – Islamic Banks, Ijarah companies, and others;
3. Islamic Capital market – Sukuk providers, SPV companies, originators;
4. Technological and crowdfunding platforms;
5. Takaful and conventional insurance operators;
6. Non-commercial public social associations;
7. Small and medium businesses and companies;
8. Islamic social and financial institutions – zakat institutions, waqf institutions, micro-Islamic financial organizations.

To operate and implement the Islamic finance ecosystem, it is

necessary to cooperate with conventional Islamic institutions and capital markets within the shariah norms. It must be the collaboration of the Islamic and conventional systems, which is not prohibited in Islamic finance (A. Ali et al., 2010).

The functional activity of the coordinators of the ecosystem is needed for ecosystem operation. The coordinators of the ecosystem are the government in the case of Kazakhstan, represented by the Ministries of Finance, Digital development, Innovations and Aerospace Industry, Information and social development, Astana International Financial Centre, and Agency of Strategic development. The following coordinators of the ecosystem are zakat institutions and waqf institutions. For our country, it is the zakat and charity foundation and waqf department of the Spiritual Administration of Muslims of Kazakhstan (SAMK). Social and sustainable businesses also coordinate the ecosystem's operation as the main participants of it. The role of Research and Development institutions is significant for ecosystem creation and function, so they are the source of ideas and opinions for advancement.

Our developed Islamic finance ecosystem model is based on the conventional ecosystem models that are adjusted for the specific to the Islamic financial industry and social purposes, illustrating the main stakeholders of the ecosystem (Lee & Jae, 2018; Tahiri Jouti, 2019).

There are several stages of the Islamic ecosystem-building process. First, it is identifying the social problem and issue. For the country, this stage is related to the UN SDGs as a member of the UN and providing the solution to social issues, which we have investigated during the research – poverty alleviation and reducing the state spending on social assistance to the needy population (Abduh, 2019).

Figure 3

Islamic Finance Ecosystem with social effects



Compiled by the author based on (Satpayeva, 2017) (Kuanova, 2022)

The second stage is identifying and understanding the causes of the realized problems and developing solutions considering implemented initiatives.

The following third stage is the social welfare indicators identification. In this, the ecosystem-building stage estimation and forecasting of social and economic effects of the system implementation are essential. It is a well-known fact that many state projects started actively but did not reach their purposes and goals, or effects and outcomes were much less than the inputs.

For the realizing and building of the ecosystem, a must be developed road map at the next stage, followed by the stage of identifying the Islamic finance providers for the process (government, international organizations, zakat or waqf foundations, Islamic financial institutions, or social and sustainable business representatives) depends on the problem, purpose, and size of the issues identified at the first stage.

The preparation process of the ecosystem is presented in two stages, identifying considered earlier coordinators, that is, responsible bodies, and determining the ecosystem’s advanced mechanism

accounting for the results of previous stages. Using the adopted technological solutions is essential in the implementation ecosystem's last stage.

The technological solutions in the Islamic social finance ecosystem can be in a crowdfunding platform, including Islamic institutions, fund providers, and needy people.

Figure 4

The Crowdfunding platform Model



Note – Compiled by the author (Kuanova, 2022)

The research results show that the development and promotion of Islamic finance will have positive short-term and long-term effects on the national economy by increasing the range of financial tools to activate all segments of the country's financial market. Given the results of this study, the authors recommend that the priority areas in the promotion of Islamic finance in Kazakhstan should be the preparation of relevant legislation on the integration of the Islamic sector in the country's financial system and increasing public awareness. In addition, it should be mentioned that government support, expressed in removing tax and regulatory barriers to Islamic Financial Institutions, is needed compared to conventional financial institutions.

The potential and prospects of Islamic finance in Kazakhstan are the most discussed issue among experts, the country's authority, and financiers. Authorized officials, specialists in the country's financial market, and foreign experts indicate excellent potential

for further developing Islamic finance in the domestic financial system. Furthermore, creating the financial ecosystem, where Islamic finance will get the advantageous position as the most orientated financial system to the social prospects, regulated not only by civil Law or human-being framework but also by Islamic Law, allows the construction of the sustainable, healthy financial system and social-oriented and philanthropic society. On the other hand, according to the results of this research, the advancement of Islamic finance's social functions will solve the country's social problems with a socially vulnerable population and can be the decision to reduce the state spending on the addressed targeted social assistance. However, along with the positive prerequisites for the development of Islamic banking, such as the legislative framework, state support, and investors' interest, some tasks and a large amount of work need to be done.

Several barriers do not allow for the complete attraction and development of Islamic social finance and finance. These obstacles can be divided into institutional barriers, including social, legal, organizational, administrative, and Economic barriers: tax, investment, and marketing. Also, technological barriers can be the solution for Islamic financial inclusion and a tool for growing trust due to the increase in Islamic social finance funding.

The fundamental of the considered shortcomings that must be overcome for efficient development and taking effects on society and economics is the population's lack of awareness. During the research, the author investigated the big gap in awareness and knowledge between the country's limited experts in Islamic finance and the population and financially included people. There is a misunderstanding of the functions and activity of Islamic financial institutions and their social orientation.

We recommend that additional work be carried out to spread Islamic financial tools and popularize them:

1. Promote the basic concepts of Islamic finance and social benefits among the population through the mass media, especially television and radio.
2. To carry out additional work to explain the features and principles of the activities of Islamic financial institutions among enterprises, the state program Damu is one of the excellent mechanisms for increasing Islamic financial tools for enterprises.
3. Based on higher education, supplement the course of lectures of

disciplines in the specialties of the financial director, the basics of the tools of Islamic finance. The basis of Islamic finance and economics must be included in financial awareness as an integral part of the modern financial system and financial relations.

4. Based on religious organizations, such as mosques and religious educational institutions (2610 mosques and ten educational institutions), it is recommended to give information on Islamic finance, Islamic financial tools, and their social effects on the society and country. The way of realization of the recommendation consists of giving information during the Friday khutbas when more than 70% of our population go to the mosques for Friday praying. However, there is a problem with the awareness of Islamic finance of lector imams, the solution of which education imams with various courses in Islamic finance. About 400 imams participated in the effort of the training course realization in the four main cities in 2013. By our assumption, it must be training for imams, including the online version for imams from the regions in Islamic finance in standard terms. AIFC Islamic Hub is responsible for promoting the education of imams for different multiplicative affect populations.
5. It should be noted that AIFC has an opportunity to promote this area and use practical tools, but there are some shortcomings. For example, the technical grant of the Asian Development Bank for Islamic Finance Capacity building has organized training through foreign international consulting institutions Islamic Finance Advisory and Assurance Services, in 2021. However, the primary language of the training was English, a limited number of interested listeners participated in the training, and imams of the country were not involved. There must be instruments for training imams in Kazakh and Russian languages. We have to realize the number of potential listeners of the features and specifics of Islamic finance, its social functions, and the impact on the financial and societal development during the Friday khutbas from well-trained imams.
6. Furthermore, it is necessary to increase the awareness of the state in the person of the financial regulator and authorities endowed with direct and indirect regulatory and supervisory powers because ignorance and internal resistance of them are the reason of the barriers to the active development of the Islamic financial

industry over the past ten years.

7. For attracting funding to the charity through Zeket and charity foundations, as the example of a charity foundation under SAMK management, from the wealthy part of the population, it is suggested to strengthen increasing awareness of the population about Islamic social instruments, sadaqah, zakat and waqf in the way of effects of the tools for social assistance to the needy people, and its ethical return.

Meanwhile, the advantages of Islamic finance, based on Shariah's value and moral potential, are more clearly manifested in the conditions of crisis, when social inequality increases, the shortage of investment resources increases, and a higher level of public confidence in the state monetary policy is required. At the same time, taking into account the crisis phenomena in most financial sectors of Kazakhstan, it seems appropriate to use the complimentary inclusion of Islamic financial instruments in the traditional financial system of the country. This may be the first step in demonstrating the competitive advantages of Islamic financial instruments in the post-crisis economy.

It should be noted that the legislation on the organization and development of Islamic finance was adopted 11 years ago and has achieved significant changes and additions to the activity of Islamic financial institutions with the contribution of representatives of financial institutions and regulatory structures. However, there are still issues that Islamic financial institutions must overcome or bypass during the activity. The leading institutional problem of Islamic finance development is shortcomings in the legislative framework, even though Kazakhstan was the first country to adapt to the existing legislative framework for Islamic financial institutions and Islamic financial relationships among CIS countries.

The distinctive aspect of the amendments to the Law On banks is the absence of original names of Islamic banking products. Instead, the tools are maximally adapted to the conceptual apparatus of the legislation: amana - interest-free demand deposits, qard-hasan - bank lending operations free of charge, mudharabah - investment deposits, murabaha - trade finance, contract for the sale of goods with murk-up, musyarakah - financing of production and trading activities based on partnerships, ijarah - leasing, wakala - agency services in the framework of Islamic banking. The number of contracts and instruments, which are covered by the legislative framework

in the country, is limited. The Law does not cover some contracts, diminishing musyarakah, hibab, khafakla, rahn, wadiah, and waad. Also, to the instruments mentioned above, the amendments to the Law on banking activities provide for the implementation of the following operations by Islamic banks: organization of exchange operations with foreign currency, operations with bills of exchange, factoring operations, and forfeiting operations. However, the bank is entitled to provide these services only with the approval of the Council on the Principles of Islamic Finance (Shariah Board).

The requirements for establishing an Islamic bank in the country are the same as conventional banks. According to the National Bank of the Republic of Kazakhstan and Law, the minimum capital for establishing the bank is 30.3 million US dollars and 9.1 thousand US dollars for every branch (National Bank of Kazakhstan, 2019).

The country's most discussed issue in the Islamic financial industry is the parallel structure of Islamic banking, which is a full-fledged Islamic bank's development with high requirements for the developing system in terms of capital and prudential norms. Therefore, the mechanism of complementary development of Islamic banking with conventional in the form of Islamic windows could give more capacities for its overall development, as shown in the experience of Malaysia and England (H. M. Ali et al., 2016) (Gaudiosi, 1988).

The guarantee of investment deposits in direct or indirect form is prohibited in Islamic banks. Islamic banks are not covered under the National Deposit Insurance system by the Law "On Mandatory Guarantee of Deposits Placed in Second-Tier Banks" since, from the point of view of Shariah, the bank cannot guarantee the repayment of deposits. Therefore, the Islamic Bank is not a member of the mandatory deposit guarantee system, and deposits with the Islamic Bank are not guaranteed.

The essence of the amendments to the law "On state registration of rights to real estate and transactions with them" is reduced to the proper legal registration of the rights of clients of Islamic banks. The relationship between the bank and the client is similar to that between the management company and the shareholders in a mutual investment fund. In this regard, as in the case of a mutual investment fund, the right of shared ownership is registered in the name of the Islamic Bank. However, the legal owners of the relevant asset are considered the holders of investment deposits.

The amendments made to the Law “On Investment Funds,” which provide the procedure for creating Islamic investment funds,” are also significant. The Law considers the shares and units of Islamic investment funds on the Securities Market as Islamic securities. The changes and additions to the law “On the securities market” should be noted.” These changes mainly affect the possibility of issuing and trading Islamic equity securities-Sukuk. This possibility is very promising and is being discussed in the financial system of Kazakhstan.

There are 14 types of Sukuk in the world practice. By Kazakhstani law, there are only three types, without interpretation of Sukuk, instead of defined shares and units of Islamic investment funds, Islamic rental certificates (Sukuk ijarah), and Islamic certificates of participation (Sukuk mudharabah and Sukuk musyarakah). This Law also provides that when issuing Islamic securities, the issuer does not have the right to charge a remuneration in the form of interest on the value of Islamic securities and guarantee income on Islamic securities since Islam prohibits interest. In addition, the funds received as a result of the issue and placement of Islamic securities should not be used to finance activities related to the production and trade of tobacco, alcohol, weapons, and ammunition, gambling, as well as other types of business activities, the financing of which is prohibited by the Council on the principles of Islamic finance (Razak et al., 2019). It should be noted that the amendments to the law “On licensing provide for a special license” issued by the authorized body to implement Islamic banking activities. If we turn to the Law for the Islamic insurance market, there is no definition of takaful and retakaful. Instead of using Islamic insurance, Islamic reinsurance and some principles of takaful are not covered and are ignored. Also, according to the Law, family takaful is covered by life insurance in its conventional design (Khan et al., 2020).

There are restrictions on the operation of Islamic finance tools that are not covered by the legislation. In this regard, we make suggestions:

1. Expanding the range of Islamic financial instruments offered to customers in Islamic financial institutions and developing each instrument’s implementation mechanism. There are a limited number of offered instruments in the financial institutions, and the promotion of every toll needs years of work, including the promotion of the additions in the Law.

2. The reducing requirements for the minimum capital for establishing the Islamic Bank, considering the limited services and additional requirements for a financial institution due to specific features. Point 5 Article 16. Authorized and equity capital of the bank, of the Law "On banks and banking activity," it is necessary to provide the minimum capital for the establishment of Islamic Banks by the Resolution of the Board of the National Bank of the Republic of Kazakhstan, in the amount for 30 million US dollars.
3. The adaptation Law "On banks and banking activity" for the establishment and activity of Islamic windows of conventional banks is the primary way to development and advancement of the Islamic financial industry and public awareness, as the share of the population and business in the conventional banking system is high in the country. Therefore, in the Law "On Banks and Banking Activities": Article 2 Basic concepts, it is necessary to add the concept of "Islamic windows" of conventional banks; to Article 52-5, add the operations of Islamic windows. Also, it is necessary to add a paragraph for regulating Islamic windows of conventional Banks.
4. Including Islamic banks in the National Deposit Insurance system by the Law "On Mandatory Guarantee of Deposits Placed in Second-Tier Banks" by using a special Islamic, that is takaful mechanism, which will provide trust and growth of the clients in Islamic banks by deleting the second point of paragraph 5-1, Article 3 - Banking system of the Republic of Kazakhstan, and by editing in the preamble of the Law "On mandatory guarantee of deposits placed in second-tier banks" relating the Islamic banks.
5. The country's expanding number of securities types in the law "On the securities market." Furthermore, it is necessary to expand the scope of entities acting as originators to allow the issuance of Islamic lease certificates by private companies and public institutions.
6. Creation mechanism for Islamic insurance, as there is a lack of Islamic insurance companies in Kazakhstan. Islamic financing is subject to certain risks due to its specificity. It must be added to the principles of takaful which are not covered and ignored in the Law. There is a need to identify Family insurance and give the realization structure according to the Islamic rules, as in the present Law, it Law is covered by life insurance in its conven-

tional design.

7. There is a lack of any definition or description of the Waqf system based on the endowment. As endowment funds are a new definition in the country's legislative framework, it is suggested to identify the Islamic endowment sector as one of the promising and prospective areas for funding in permitted financial projects and use the profit for charity and social welfare by the Law on Charity. It will be a mechanism for attracting international financing.

There is an issue in the organizational and regulatory aspects of Islamic financial institutions, and there is no dedicated special department or committee for Islamic finance. There have been special departments within National Bank until starting the activity of AIFC. However, the Islamic Finance Hub of AIFC is responsible for regulating and developing Islamic finance under the international jurisdiction of AIFC. In this regard, it is suggested to regulate Islamic financial institutions on the agency to regulate and develop the financial market.

There is a requirement for Islamic financial institutions to establish their own Shariah board, called Council on Islamic financial principles, but the problem is that the members of the Board have to be notable experts in Shariah thought. As there is a lack of qualified specialists in the country, financial institutions are forced to hire foreign experts. Therefore, I suggest creating the central shariah Council within the financial market regulator represented by the agency for regulation and development financial market of Kazakhstan (Harridan, Hassan, and Karbhari 2018).

The slowdown in the development of Islamic finance in the country is due, along with the above conditions, to the lack of a State strategy for developing Islamic finance in the country. Considering that Islamic financial assets are less than 1%, the global amount of Islamic financial assets, and there are fluctuations and declines in several areas of the country's economy, such as the GDP, the state budget, the financial and banking sector, and investment. In this regard, we recommend developing a state strategy that defines how Islamic finance is developed in Kazakhstan. The strategy must include not only Islamic banking, which is the most discussed these days, but also Islamic capital market, Islamic investment, Islamic insurance, as well as Islamic social finance, especially the development of the waqf system in the country, but the total assets under global waqf

also exceed 1 trillion US dollars (GIFR, 2018).

The next significant obstacle to the development of Islamic finance instruments in the country is the lack of stimulating motivation for Islamic investment, and therefore, we recommend:

1. Create and apply investment tax incentives and preferences in the form of tax exemptions in the first year of Islamic finance institutions' activity to stimulate and expand the market of Islamic finance in the country.
2. Create the necessary organizational, legal, and economic conditions to attract investments in Islamic finance.

According to the analysis, state support for introducing and developing Islamic finance instruments in Kazakhstan attracts Islamic investment. It is noteworthy that the state is directly interested in the development of Islamic banking and finance in the country, but there are some shortcomings in support of Islamic finance. In this regard, we recommend the following:

1. To be directly involved in the involvement of Islamic finance by government agencies.
2. Create an infrastructure to implement the activities of Islamic finance institutions in the country.
3. Assist in organizing the registration and licensing of Islamic finance institutions to reduce the time required to register and open Islamic financial institutions.
4. To ensure conditions for the free development of Islamic finance, competing with the conventional banking system.

There is a particular state body represented by AIFC Islamic Hub, the purpose of which is the advancement of Islamic finance in the country, the attracting number of Islamic financial industry participants with a particular international framework and infrastructure, which is more convenient. However, despite the fact that there are 35 institutions registered in AIFC as Islamic organizations, there are issues and problems with starting their activity (Ng 2018). Moreover, three years after the establishment of the AIFC Islamic Hub passed, there is still a stage of introduction. Therefore, we suppose there is a time to start activity registered institutions and activate the Islamic financial industry.

As previously confirmed, the effectiveness of the tools of Islamic finance ensures the financing and development of the real sector of the economy. Therefore, in order to stimulate the development of Islamic

finance instruments and at the same time stimulate the development of such sectors of the economy as agriculture, processing industry, and innovation, we make proposals:

1. Issuance of state Islamic securities to support state projects.
2. Issuance of green Islamic securities within the AIX.
3. To finance agricultural projects through Islamic financing instruments, there was one attempt in 2013 in the form of financing micro agricultural projects.

According to estimates, the total volume of Islamic finance and the assets of Islamic financial institutions is estimated at 2.591 trillion US dollars (Standard & Poor's Global 2021). The financial technologies in the form of a crowdfunding platform in the first stage will allow to creation and development waqf system using blockchain. In this case, creating a zakat and sadaqah database in the form of a unified data center and optimizing online zakat platforms (as 77% of the population are internet users) will increase trust in Islamic social finance and impact the growth of Islamic financial inclusion accordingly. Furthermore, they suggest integrating the crowdfunding platform (L. Kuanova et al., 2022) to attract funding through transparency and a centralized non-governmental system. The social and economic effectiveness of the crowdfunding platform was approved during the study and confirmed that the social function of Islamic finance could reduce state spending from the budget for assistance to the socially vulnerable part of the country's population.

Conclusion and Recommendation

Our research identified the main challenges and obstacles to achieving Islamic finance's successful promotion and advancement in Kazakhstan. In the context of global threats and technological challenges, we have designed the conceptual model of the Islamic finance ecosystem, where the cooperation of the state, regulators, conventional financial institutions, Islamic financial institutions, and the capital market is essential.

It is essential to consider Islamic finance implementation tools and methods in the country, and it is advisable to take advantage of financial technologies like blockchain, crowdfunding, electronic accounts, and cards. Islamic finance will make instrumental contributions toward financial inclusion and sustainability.

Developed recommendations provide the growth of the Islamic financial industry participants, allowing to increase of financial assets in the Islamic market. However, it is necessary to clearly understand that growing Islamic financial assets is a way to improve the social impact of Islamic finance, as the zakat collection, the finance in special accounts of the Islamic financial institutions spent on charity projects, will also grow. Furthermore, as Islamic financial services are social-oriented, even in comparison with conventional business, it will impact the social responsibility of the financial market. Therefore, the social functions of Islamic finance can improve the country's social welfare.

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