

INFRASTRUCTURE PECULIARITIES OF ISLAMIC BANKING

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Abstract

The article considers the concept of Islamic banking and infrastructural peculiarities that contribute to its development at the current stage. It briefly describes the activities of such organizations as the International Islamic Fiqh Academy (IIFA), the Islamic Development Bank (IsDB), the Islamic Development Bank Institute (IsDBI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD), International Islamic Trade Finance Corporation (ITFC), World WAQF Fund (WWF), Islamic Solidarity Fund for Development (ISFD), Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and International Islamic Financial Market (IIFM). Particular attention is given to the experiment on the development of Islamic banking in the Russian Federation and its potential impact on the influx of foreign direct investment into the country.

Keywords

Islamic banking, Islamic finance infrastructure, partnership financing in Russia.

The concept of Islamic banking emerged in the modern financial system quite recently and dates back to the 60-70s of the 20th century with the foundation of the Mit Ghamr Savings Bank in Egypt in 1963, which rendered services to farmers, and the establishment of the Savings Corporation for Muslim Pilgrims in Malaysia Tabung Haji in the same year. The first commercial Islamic bank was established in 1975 in the UAE and was named Dubai Islamic Bank. A number of international organizations have also been created in recent decades to support and develop the Islamic financial system. Below is a brief summary of their activities based on the information from the official websites of international organizations.

The International Islamic Fiqh Academy (IIFA) is a universal scholarly organization. It is a subsidiary body of the Organization of Islamic Cooperation (OIC). It was established pursuant to the resolution of the third emergency summit of the OIC (N.8/3-T/SI) on 19-22 Rabi al-Awal 1401AH, which corresponds to January 25-28, 1981. Its headquarters are located in Jeddah, the Kingdom of Saudi Arabia. The Academy is endowed with legal personality. Its members are prominent Muslim lawyers, scholars, researchers and intellectuals specializing in legal, cultural, educational, scientific, economic and social fields of knowledge from different parts of the Muslim world. The Academy is entrusted with explaining and clarifying the rulings and provisions of Sharia on issues of concern to Muslims around the world in complete independence and on the basis of the Holy Quran and the Noble Sunnah of the Prophet (peace and blessings of Allah be upon him). It also studies the issues associated with modern life, conducts authentic and effective ijtiḥad seeking to find solutions arising out of the Islamic heritage and open to the development of Islamic thought [1].

The Islamic Development Bank (IsDB) is a multilateral development bank (MDB) working to improve the lives of those we serve by promoting social and economic development in member states and Muslim communities around the world, creating impact at scale. IDB, established in 1975, comprises 57 member states with operating assets worth of more than \$16 billion and a subscribed capital of \$70 billion. The headquarters of IDB are located in Jeddah, the Kingdom of Saudi Arabia.

IDB operates in the following areas:

1. Building partnerships between governments, the private sector and civil society through public-private partnerships (PPP).
2. Adding value to the economies and societies of developing countries through enhanced skills and knowledge sharing.
3. The focus on science, technology and innovation has brought about solutions to the world's biggest development challenges through increased connectivity and funding and a focus on the UN Sustainable Development Goals.
4. Promoting global development based on long-term, sustainable and ethical Shariah-compliant financial structures as global leaders in Islamic finance.
5. Promoting cooperation among our member states in a unique non-political environment where we come together to focus on the betterment of humanity [2].

The IDB group includes:

1. The Islamic Development Bank Institute (IsDBI).

IsDBI was established in 1401AH (1981) to assist the Bank in fulfilling its research and teaching functions entrusted to it under its Articles of Agreement. The objectives of IsDBI are to conduct research and render services related to education and information provision in member states and Muslim communities in non-member states to help bring their economic, financial and banking activities into compliance with Sharia, and to further accelerate

economic development and expand cooperation among them [2].

2. The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

ICIEC was established in 1415AH (1994) to facilitate trade and expand investment flows among member states of the Organization of the Islamic Conference (OIC). ICIEC offers the following services to exporters, banks and investors: (i) export credit insurance to cover the risk of non-payment in cross-border trade and trade finance transactions; (ii) investment insurance to cover country risk in foreign investments between member states; (iii) reinsurance of transactions covered by Export Credit Agencies (ECAs) in member states [2].

3. The Islamic Corporation for Private Sector Development (ICD).

ICD was established in 1420 Rajaba (November 1999) as an independent organization within the IDB group. The mission of ICD is to complement IDB by developing and promoting the private sector as a means of economic growth and development in member states. The main objectives of ICD are to identify private sector investment opportunities in member states to boost economic growth, provide a wide range of Shariah-compliant financial products and services and improve access to Islamic capital markets for private companies in member states [2].

4. International Islamic Trade Finance Corporation (ITFC).

The Board of Governors of IDB approved the establishment of International Islamic Trade Finance Corporation (ITFC) at its meeting held in 1426 Jumad al-Awwal (June 2005). The articles of the ITFC agreement were finalized and agreed upon during the annual meeting of IDB held in 1427 (2006) in Kuwait. The objective of the Corporation is to facilitate trade of member states of the Islamic Development Bank by providing trade finance and participating in activities that promote domestic and international trade [2].

5. Worldwide WAQF Foundation (WWF).

WWF was established by IDB in 1422AH (2001) in response to the need to create a global organization for waqf in collaboration with government waqf organizations, non-governmental organizations and private sector philanthropists. The objectives of WWF are the following: (i) promoting and activating waqfs to promote the cultural, social and economic development of member states and Muslim communities, as well as alleviating hardships among the poor, and sponsoring and supporting waqf organizations; (ii) support for organizations, projects, programs and events in education, healthcare, social and cultural spheres; (iii) support for research and development in the field of waqf; (iv) assisting countries and organizations in developing legislation on waqfs [2].

6. Islamic Solidarity Fund for Development (ISFD).

Islamic Solidarity Fund for Development (ISFD) was established as a special charity fund (waqf) in 2007 with a mandate to fight poverty in OIC member states. Since its establishment, the Fund has focused on providing concessional financing for programs that promote pro-poor growth, support human development, especially healthcare and education, provide social safety nets for the poor, and improve good governance and access to public services for the poor. The transactions of ISFD, as a waqf, are financed generally from the net income generated by investing its capital resources [2].

Islamic Financial Services Board (IFSB), based in Kuala Lumpur, was officially established on 3 November 2002 and commenced operations on 10 March 2003. It serves as an international standard-setting body for regulators and supervisors who are interested in ensuring the soundness and stability of the Islamic financial services industry, which broadly includes banking, capital markets and insurance. In fulfilling this mission, IFSB promotes the development of a sound and transparent Islamic financial services industry by introducing new or adapting existing international standards in compliance

with Shariah principles and recommend them for adoption.

To this end, the operations of IFSB complement the work of the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors.

As of December 2022, IFSB's 187 members included 80 regulatory and supervisory bodies, 10 international intergovernmental organizations and 97 market participants (financial institutions, professional firms, industry associations and stock exchanges) operating in 57 jurisdictions.

Malaysia, the host country of IFSB, has passed the law known as the Islamic Financial Services Board Act 2002, which grants IFSB immunities and privileges normally accorded to international organizations and diplomatic missions [3].

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), established in 1991 and based in Bahrain, is a leading international non-profit organization which primary responsibility is to develop and issue standards for the global Islamic finance industry. It has issued a total of 100 standards in the areas of Shariah, accounting, auditing, ethics and management of international Islamic finance. It is supported by a number of institutional members, including central banks and regulators, financial institutions, accounting and auditing firms, and law firms representing more than 45 countries. Its standards are currently followed by all leading Islamic financial institutions around the world and they ensure progressive harmonization of international Islamic finance practices [4].

International Islamic Financial Market (IIFM) is the global Islamic Financial Services Industry (IFSI) standard-setting body dedicated to standardizing Shariah-compliant financial contracts and product endorsements.

IIFM operates out of the Central Bank of Bahrain (CBB) and was established by Royal Decree No. (23) 2002 of the Kingdom of Bahrain as a neutral and non-profit international Islamic infrastructure development institution through the collective efforts of CBB (formerly the Bahrain Monetary Agency), the Islamic Development Bank, the Bank of Indonesia, Negara Malaysia Bank (transferred to Labuan Financial Services Authority), Central Bank of Sudan and Central Bank of Brunei Darussalam (formerly Autoriti Monetari Brunei Darussalam).

In addition to the founders and permanent members, IIFM's board of directors includes Islamic and international banks, namely Kuwait Finance House, Dubai Islamic Bank, Saudi National Bank, GFH Financial Group, Standard Chartered Saadiq, ABC Islamic Bank, National Bank of Kuwait and BNP Paribas.

IIFM is also supported by several regulatory and government bodies such as the State Bank of Pakistan, National Bank of Kazakhstan and the DIFC Authority, as well as a number of international and regional financial institutions and other market players active in Islamic finance [5].

International Islamic Liquidity Management (IILM), Malaysia. IILM is a landmark international institution established by central banks, monetary agencies and multilateral institutions to implement and facilitate effective Shariah-compliant cross-border liquidity management.

IILM aims to facilitate cross-border liquidity management among institutions offering Islamic financial services by providing various Shariah-compliant instruments on commercial terms to meet the varying liquidity needs of these institutions. Thus, it has issued a number of sukuk to provide liquidity [6].

In Russia for quite a long time there have been debates over working out a regulatory framework that would allow the use of Islamic finance mechanisms in the country; 2023 turned out to be a turning point in this matter.

A two-year experiment on the development of Islamic banking in Russia begins on 1 September 2023 in Dagestan, the Chechen Republic, Bashkortostan

and Tatarstan. The law on special regulation of partnership financing in certain regions was signed by Russian President Vladimir Putin on 4 August 2023. The law will allow Russia to raise from \$11 billion to \$14 billion in joint projects with Islamic countries, said Anatoly Aksakov, head of the State Duma Committee on the Financial Market. "At the same time, we are expecting an influx of investments in various projects from Turkey, from Iran, from Asian countries that adhere to the Islamic religion," said Aksakov [7].

In our opinion, the effect of the law should be extended to the entire territory of the Russian Federation based on the fact that, according to paragraph 2 of Article 3 of the Tax Code of the Russian Federation: "Taxes and fees cannot be discriminatory and applied differently based on social, racial, national, religious and other similar criteria" [8].

Therefore, we can conclude that although Islamic banking is a relatively new concept and does not account for a significant share in global finance, it already has an established infrastructure and serious potential capacity for growth, which is attractive to investors not only from countries traditionally professing Islam, but also representing developed Western states. Therefore, the law adopted in Russia on the development of Islamic banking will contribute to the influx of foreign investment from the Gulf countries and Southeast Asian countries, as well as the development of business with eastern countries.

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