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Halal banking in post-soviet central Asia: Antecedents and consequences

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ABSTRACT

With the fall of Soviet Union in 1991 the whole Central Asian region perceived a considerable rise in Muslim identity, a call back to Islamic legacy. Nowadays, lots of Central Asian Muslims need to be aware of what Islam has termed legal (Halal) and illegal (Haram). The process of Islamic revival occurred rapidly soon after the unification of Central Asian republics with other Muslim geographies through the membership of Organization of Islamic Conference (OIC) and other similar organizations. This interaction tended to be an essential push factor to the previously existing indigenous reviving trends and sentiments. Besides many other needs, Muslim customer demand appeared as navel movement in the market generally and in banking and financial sector particularly. To satisfy this need, the governments of Muslim majority Central Asian states, namely Kazakhstan, Uzbekistan, Azerbaijan, Turkmenistan, Kyrgyzstan and Tajikistan presented Halal banking and financial goods in the market. In this work, it has been attempted to recognize the causes that lead to the emergence of Islamic banking and finance industry in the region and also to investigate the effect of these causes considering the development and progress of Halal banking and financial industry.

The continuous double-digit annual growth and expansion of Islamic banking and finance industry in both Muslim and some major non-Muslim population geographies like United Kingdom, Australia, and China (especially in Hong Kong) has been the significant development of the present century.

In many Muslim markets like Pakistan, Iran, UAE, and Malaysia Islamic banking and finance industry (IBFI) has emerged as a mainstream alternative to conventional finance. Due to the greater financial liberalization and an unexampled inflow of petrodollars to the Middle East the industry has moved out of its niche market since its inception in Egypt in the early 1970s (Imam & Kopdar, 2010). With more than 500 financial institutions that are either fully Islamic or provide Islamic financial products to their customers, in addition to several hundred more Islamic investment banks and insurance companies operating in 80 countries, the balance sheets of Islamic banks grew from US$150 billion in 1990 to about US$1 trillion in 2010. It is believed that with the current rate of growth, the IBFI market could top US$2 trillion in assets by the end of 2014. Although the total global share of IBFI is just 1 % which is very small as compared to its century's old conventional counterpart but the upward growth curve and growing interest in Shari'ahcompliant financial intermediation shows that the future of IBFI is quite promising. Some researchers have stated that Islamic financial institutions are a practicable alternative to advance economic development and are better-suited to absorb macro-financial shocks due to structural advantages over the conventional banking model (Cevik & Charap, 2011).

Foundations of Islamic Banking and Finance

Islam is not simply a religion but a rationalization of general standards of behavior that achieve far beyond the contents of belief. It asserts a holistic approach to life as it regards economy, politics, social aspects, and religion as closely interlinked. Related to the holistic approach of Islamic faith, the individual concurs to determine the commands of Islamic law (Shari'ah) in private and public affairs. This agreement also appeals to economic and financial affairs (Mawdudi, 2009). The economic system put forward by Shari'ah scholars in the light of Fiqhul-mu'amlat (Commercial Jurisprudence) varies considerably from the Western conventional, capitalistic one as it surpass the pure financial and economic sphere. Its most important foundations are the Islamic religion and the Shari'ah providing a religious framework as well as social and ethical boundaries for Islamic finance and banking activities (Hanif, 2011). In this respect, believers are required to respond with passion to banks that provide products which consider and take into account the Islamic principles of finance (Sohail, 2005). People in Muslim majority countries and other parts of the world progressively require investment and financing possibilities that comply with their faith. This advancement gave rise to the prevailing dynamic growth of the Islamic banking and financial service industry.

Principles of Islamic Banking and Finance

Islamic banking and finance system, as it is evident from its name, ascertains its underpinnings in the economic philosophy of Islam. The basic assumptions of interest free banking and finance industry depend on four primary factors which have been clearly stated in the text of Quran, Hadith (uncertainty), La-maisir (no-speculation), and La-Haram (no-unlawful) (Khaki & Malik, 2013).

Interest (Riba)

Riba is an Arabic word used for the predetermined return on the use of money. Generally it is defined as an additional amount a borrower pays a lender (Bank), over and above the borrowed sum (Principal Sum). Ribaor interest relies upon the size of the principal and the length of time the borrower takes to repay the principal and interest (Yussof, Rahman, & Alias, 2001). Interest or riba is considered as a major sin under Islamic law and even those hired to write the contract or who witness and then confirm the contract are party to the sin. There are several passages in the Quran which quite clearly condemn the practice of usury or riba:

> *"Those who devour riba will not stand except as he stands who has been driven to madness by thee touch of Satan.….Allah has permitted the trade and forbidden riba….Allah will deprive riba of all blessing"* (Quran, 2: 275-276).

> *"O! You who believe! Fear Allah and give up what remains of your demand for riba, if you are indeed believers, if you don't, take notice of war from Allah"* (Quran, 2: 278-279).

Interest cannot be paid or received on transactions in any case where money is exchanged for money because the money, according to Islam, in actuality has no value if it is not employed in business (Usmani, 2010). The complete prohibition of interest in the Quran is an order to set up an economic system from which all forms of economic exploitations are limited. In an interest-based economy the depositors want to earn more interest and desire to expand their wealth through interest. Theydon't take part in investment activity and risk sharing but still are assured of positive a return which in turn ultimately leads to collapse and credit crunch. In addition, the banks charge high rate of interest on loan and it establishes the difficulties for poor people of the society and direct to expand the wealth of industrialists and giants. Quran has laid down in unequivocal terms that wealth should not make a circuit between the rich only but contribute to the welfare of the community as a whole. Quran has pointed out this error scrupulously and says:

> *"…that it (wealth) becomes not a commodity between solely the rich among you"* (Quran: 59:7).

> *"The interest that you give in order to increase the wealth of the people, does not increase in the sight of Allah; and the Zakat that you pay in order to win Allah's approval, its payers do indeed increase their wealth"* (Quran: 30:39).

It is a strong and effective statement from Quran which represents that interest is prohibited by God since it can only expand the wealth of individual not the society. It is implied from the above statement that in economic philosophy of Islam there is no scope of interest at all. Now the question arises, if interest is totally prohibited in Islam then what kind of business is allowed in Islam? And, how can an individual or institute generate money? The answer is Bai'ahor trade, a business that is abided by the principles of Shari'ah. Hence, the exclusion of interest from financial activities does not necessarily mean that the financier cannot earn a profit. If financing is meant for a commercial intention, it can depend on notion of profit and loss sharing, for which Musharakahand Mudarabahhave been planned since the very beginning of Islamic commercial law (Usmani, 2010).

Uncertainty (Gharar) and Speculation (Maysir)

The core element of economic philosophy of Islam is that it has clearly forbidden all business transactions, which leads to mistreatment and unfairness in any form to any of the parties of a contract. It desires to protect the various parties from dishonesty, ignorance, and gains at the cost of others by prohibiting Gharar`and Maysir in any commercial exchange contracts that are not free from hazard, risk, or speculation about the necessary factors in the transaction to either party or uncertainty of the ability of one party to observe its rights and obligations. It ascertains that all Shari'ah approved financial tools and techniques applied in business transactions must be based on transparency, accuracy, and disclosure of all necessary information so that no one party has advantages over the other party. The ban of Gharar and Maysir has particular relevance for financial markets, notably the derivatives market and the insurance business (Andres & Solé, 2012).

The justification behind the prohibition of Gharar is to confirm full consent and satisfaction of the parties in a contract. This degree of trust or full agreement can only be attained in full disclosure and transparency and by using faultless knowledge from contracting parties of the counter values aimed to be exchanged. Hence, forbidding of Gharar defends unpredicted losses and the feasible disagreements concerning qualities or inadequacy of information.

In case of speculation or Maysirthe potential investors and industrialists change the economic financial system and they consider the individual benefits. It is worth noting that the forbidden speculation under the Shari'ah is not that which depends on the searching of a lot of economic and financial data that concerns the investment of assets, skills, and labour. Rather, it is one requiring a painless achievement similar to a gambling scheme or activity.

Unethical Businesses

The another important component of Islamic economics is that any financial transaction that involves investment in prohibited products or activities, such as alcohol, illicit drugs, pornography, and tobacco is invalid because Islam wants to develop an ethical and friendly environment in the society(Hassan & Kayed, 2009).

Profit-Loss Sharing (PLS): **No Pain, No Gain Principle**

Not a single economic teaching of Islam suggests profit or financial gain as a haram or illegal endeavor as long as an effort is performed, (partial) liability is accepted for the financial result of a venture, the venture is productive (led to an increase of value), and the profit is made in line with the Shari'ah principles. The Islamic solution, generally referred to as Profit-Loss Sharing (PLS), recommends a reasonable sharing of risks and benefits between the parties involved in a financial transaction. Under PLS, the lender and the borrower presuppose the investment's risk based on a pre-agreed formula (Abu-Alkheil, 2012).

Money as a Potential Capital

The substantial difference between Islamic economics and capitalist theory is that in capitalistic system of economy there is no special distinction between money and commodity as commercial transactions are applied. Both are evaluated at par and can be traded at whatever price parties agree upon.For them selling US$100 for US$110 is the same as selling a bag of rice costing US$100 for US$110. Money and commodity, however, have different characteristics under the Islamic law as compared with the capitalist theory. From the Islamic economic point of view, money is considered as potential capital. This implies that money in actuality has no value and it becomes actual capital only when it is invested in a productive activity. It is worth noting that in an interest based financial system the process of interest from client to bank and bank to client is profoundly supported by a genuine factor referred as time valuation of money. Islam does not negate the time value of money rather it recognizes its importance but only when it acts as capital, not when it is potential capital (Iqbal, 1997). Rising in the price of a product in any sale contract to be paid at a future date is not prohibited in Shari'ah. This implies that incorporation of time value of money is a necessary component for the growth and development of a business from Maqasid al-Shari'ah (Objectives of Shari'ah) point of view. Besides, it demonstrates that actually Shari'ahonly forbids making money's time value a factor of a lending relationship where it is declared as a prearranged value. In this case, Shari'ah involves that a loan is to be paid back in the same currency by which it was given (Ahmad & Hassan, 2006).

Islamic Banking and Finance in Post-Soviet Central Asia: Causes and Impact

The arrival of Shari'ah compliant business procedures has not a deep history in Muslim Republics of Central Asia. Till late 1980s most Central Asians were still profoundly secular in attitude, a legacy of 70 years of communist rule. Since the separation of the Soviet Union, each of the Central Asian Republics joined the largest Islamic banking institute IDB: Azerbaijan (1992); Kyrgyzstan (1993); Turkmenistan (1994); Kazakhstan (1995); Tajikistan (1996); and Uzbekistan (2003). By 1997, the IDB constructed a regional office in Almaty, Kazakhstan, to advance the Bank's efforts to increase the socio-economic development of the Muslim republics of Central Asia. The regional office in Almaty has dramatically turned into the hub for IDB group operations in the area. Some groups of people, namely the regional decision makers, investors, and private bankers are increasingly opening up to Islamic financial goods. Answering positively to the growing customer need, local governments such as Kazakhstan, Kyrgyzstan, Uzbekistan, and Azerbaijan have made some remarkable amendments in their respective state constitutions. Such amendments were also determined to produce some legal space for the industry where it could ease its Shari'ah based financial equipments and could develop a normal market share.

Revival of Islam in Post-Soviet Era

The renewal of Islam in Post-Soviet Central Asia has a diverse impact in various areas relying on freedom of religious policy and the interest in Islam. Generally, the effect of cultural and educational features of Islam is flourishing in all parts of Central Asia. After obtaining independence from the Russia in 1991, the Islamic heritage of the Central Asian Republics- Kazakhstan, Kyrgyzstan, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan - became a potential alternative to fill the political and social vacuum (Tatari & Shykhutdinov, 2010).

The collapse of Soviet Union marked the end of the ironcurtain, a period that ascertained narrow access to the outer world, and the beginning of the velvet curtain era, letting the regional people to peep in and out. The procedure of reformation and renewal moved on very rapidly as Islam always had deep roots in the region. The newly freed region encouragingly started to become a hub of dawah activism. Many missionaries and religious-political funding agencies began to appear from the external mainstream of Muslim centers to support the indigenous Muslims in reconstructing the mosques and other religious institutions. Progressively, as the Central Asian states became incorporated into the international community, thus, their feedback to Islam started to simulate those that are found in other parts of the world, especially in the Middle East. But 75 years of communist oppression did have their effect and as a result Central Asian Muslims progressively began to leave out many religious rituals and even the fundamental characteristics of Islam. Furthermore, the iron curtain prohibited them from possessing the normal historical contacts they had always preserved with other Muslim neighbor countries including Turkey, Iran, Afghanistan, Pakistan, and India.

Today, with the opening up of Central Asia, Islam has again begun to play a considerable role in the political and cultural exposition of the region. The movement of Islamic revival is accelerating in countries like Kazakhstan, Azerbaijan, Uzbekistan, and Kyrgyzstan. In counties like Tajikistan and Turkmenistan the process is slowly moving forward. Islamic revival being a multidimensional and largely a social process has touched almost every aspect of the Central Asian society.

Firstly, Islam is recurring as part of the daily lives of the people. The new construction and re-establishment of Masjids or mosques and other religious institutions is scaling up everywhere, with a great number of them being built privately. People from all age groups relearn how to perform daily religious rituals; even how to pray that had begun to be lost with the help of literature and by seeking advices of the religious scholars. Many Russianized Central Asians who had grown used to the Russian custom of eating pork now claim they give it up, out of respect and politeness to their own renewed traditions. Regional languages which were once massively displaced by Russian in the intellectual and academic circles are being recreated. With independence from Moscow, there is both a conscious and an unconscious tendency to look to Islam to assist and emphasize local identity in the procedure of nation building. Some nationalists observe Islam as a possibly vital element in enhancing local nationalism, especially in their demographic effort to gain dominance in their own republic.

Secondly, for centuries, Central Asia was a famous spot for Muslims probing religious and spiritual enlightenment in cities such as Bukhara in present-day Uzbekistan and Turkistan in present-day Kazakhstan. Previously, regional and imperial politics frequently interrupted religious travel for periods of time. Soviet rule in Central Asia were deeply and adequately regulated and blocked Muslims from traveling abroad for religious intentions and practices to a remarkable extent. Shortly after independence these long-forgotten connections and relationships with the rest of the Muslim world are being quickly resumed and rebuilt. Cross-border ties with Muslim neighbors excluding religious purposes have been reestablished with essential implications for trade and renovation of Muslim political and economic solidarity. It would be no way genuine to claim that all Central Asian people turn their back on their past. The matter of the fact is that long period of Russian rule has put a great impact on the culture, traditions, and religious values of the region through education, language, and society. Only a small proportion out of a large total was in left in a position to realize that they actually have roots in a great civilization called Islam. But today, with the emergence of revivalist trends, Central Asian Muslims have the option of exploring the Muslim side of their past. Such a profound change in the whole Central Asian region was a positive reflection towards Arab world. They were delighted by the arrival of a new Muslim region that may enhance the weight of the Muslim world as a whole. To promote Islam on a larger level the rich oil states of Gulf especially Saudi Arabia raised funds for the construction of mosques and other religious institutions. They also consider the investment and assistance in other forms. Trade ties of CIS states with the Gulf countries are on rapid development.

Thirdly, the introduction of many international Islamic organizations in the region has a strong influence as far as the revival of Islam is concern. The attachment of regional people with associations and organizations like OIC, the World Assembly of Muslim Youth (WAMY), World Muslim League (Rabita), International Islamic Relief Organization, SAAR Foundation and Islamic Development Bank involved them in comprehending the ideological and practical foundation of Islam in a universal context. These organizations usually make contributions to religious, educational, and other developmental works in Central Asia. Some of these organizations have established branches in Moscow and other cities of Central Asia with the Official approval of local governments (Laruelle & Sebastien, 2012).

Fourth, conscious efforts are made about transfer of customs and religious traditions from parents to their offspring. Regardless of political uncertainties and economic hardship, for the revival of Islam, the education of Muslim children has preference. Parents are willing to explain Islamic values starting from the nursery age to their children. Mostly evening and weekend (part-time) madrasahs present this goal. However, the lack of Islamic teachers is a trouble in many areas; some of the above mentioned Muslim organizations help with the preparation of teachers. In Kazakhstan and Tatarstan many teachers are employed especially from Turkey to teach Arabic and Islamic disciplines. Officially and due to the demand of parents, the Ministries of Culture of some Muslim Republics are being introduced in mainstream schools syllabus with Islamic disciplines. Following this, guidance is being sought from the Muslim countries.

Demand for Halal Products

The word Halal is derived from the Arabic word ‘halla’,‘yahillu’, ‘hillan’ and ‘wahalalan’. From Islamic terminology, Halal means permitted, allowed, lawful, approved, and legal (Mustafar & Borhan, 2013). DrYousuf Al-Qaradawi, a prominent Egyptian jurist, defines Halal as something permissible which tends to break from bond of prohibition (Haram) and permitted by Islamic law to do so. It can be concluded from the definition that Halalrefers to something that is given permission by Allah and His Prophet; something to eat, to use, to deal, and so forth (Mustafar & Borhan, 2013).

From the market perspective, Halal is a model of social commitment and obligation and it advances customers’ trust and reliance in products. It arranges and creates excellent export chances as Halal certification is not essential. Those with Halal certification have a competitive advantage over other food companies. Halal is being identified as a novel benchmark for safety, hygiene, and quality assurance not only by Muslims even by non-Muslim consumers (NikMaheran & Filzah, 2009). Considering the Halal research council, with the ever increasing request for certifiedHalal consumer goods there is drastic needs for the manufacturers to get their goods meet the quality standards. It will enable them to win the consumer trust both from the Muslim and as well as non-Muslim consumers.

Nowadays, the Halal marketplace appears as one of the most profitable and significant market arenas in the world. Some factors, namely geopolitical events, public interest, food related health scares, and overall consumer need assembled to push the Halal affair into the forefront of consumer consciousness worldwide. Actually, the most crucial engine of growth of the Halal is a change of perception. Halal food has been around for more than fourteen hundred years but it is only in recent decades and especially in multi-cultural societies that the labeling and branding of Halal products has expanded. Apparently, Halal is no longer just a strictly religious affair rather it turns into a global symbol for quality assurance and lifestyle choice. The global market for *Halal* products and services grows into an influential force in the arena of world commerce and finance (Mustafar & Borhan, 2013).

The world's Muslim population is assessed at around 2.1 billion and the majority is expected to adhere to or prefer to adhere to Halal food productions when available. The overall consideration is that Halal products should not be contaminated with pork or alcohol and that livestock is slaughtered in accordance with Islamic Shari’ah law. According to Mariam, the size of Halal market throughout the world is about US$ 2.1 trillion and in 2011, the estimated size of Halal food sector was US$ 661 billion. Nowadays, goods outside the Muslim world, from Brazil to the U.S. and Australia are ambitious to tap into the market. The United Arab Emirates and Malaysia settle themselves to be their gateway, part of their effort to develop into the global centers of Islamic business and finance. UAE officials declared that the city of Dubai has devoted around 6.7 million square feet of land in Dubai Industrial City for a Halal cluster for manufacturing and logistics firms that deal in Halal food and cosmetics and personal care items. The government of Malaysia devotes considerable efforts to make Malaysia as a global Halal center for the promotion, distribution, and production of Halal goods and services to the Muslim countries all over the world.

Halal market now incorporates an entire range of goods provided in supermarkets, five star hotels, restaurants, fast food chains, airline meals, school dinners, military food, and even in prison rations. It has turned to be a lifestyle choice such as personal hygiene, healthcare products, toiletries, cosmetics, and many more. The development of Halal goods all over the world has built the Halalvalue chain with entirely new sectors relating to Halal logistics, Halal security,Halal storage, Halalauditing, and Halal industrial improvement.

After independence from Soviet rule, as part of Islamic revival, demand of Halal products has made its presence to be felt in Post-Soviet Muslims republics. Halal industry becomes a new defining market force in these countries. With near about 70 million Muslims, the growing demand of Halal products in Central Asia should really come as no surprise. This new market force is driven by several factors. Firstly, some Central Asian Muslim republics like Kazakhstan andAzerbaijan achieve a stage of advancement whereby they can have an effect on world markets, both as producers and consumers. Secondly, and significantly, elements such asHalal food market especially Halal meat and Islamic banking services progressively becomes famous among Muslims of the region, increasing the wide-spread speedy growth in these industry sectors. In short, alongside with the gradual construction of religious institutions in the region the fervor of religiosity has significantly raised in Central Asia from last 7-8 years. This in turn has played a vital role in creation and spreading of Halal brand products.

From the demand and supply point of view, Kazakhstan’s Halal market appears to have enormous growth potential. To measure the exact share of Halalmarket in Kazakhstan is practically difficult due to unavailability of relevant data but the Statistics Agency suggest a progressive trend as it reported that 70% of Kazakhs consider themselves Muslim. The spiritual administration of Kazakhstan’s Muslims schedules to work on normalization and control of goods labeled Halal. The people’s need in the products of Halal standard develops every day, a message from the spiritual administration of Kazakhstan’s Muslims quoted the administration’s chairman, supreme mufti of Kazakhstan, Yerzhan Kazhy Malgazhyuly. According to government officials, the demand for Halal products has increased 5 times in Kazakhstan. Many production companies plans to work under the authorized standards to reference the customer need. For instance, the number of Kazakhstan firms selling meat that adheres to Islamic law has expanded to 500 and is assumed to grow more.

Presently, Kazakhstan is using Malaysia’sHalal standards in its certification process where Halal industry is better developed than anywhere else. Both countries plan to establish a center on Halal industry development in Kazakhstan. Hence, in Kazakhstan the government emphasizes on the development of Halal industry. While working on Malaysian standards MS 1500-2000, the center will primarily work to enhance the development and growth of *Halal* market in Kazakhstan by acknowledging to whole world about potential of Kazakhstan to deliver foreign markets export oriented Halal goods by providing and considering a comprehensive set of standards.

Since Azerbaijan’s 95 percent population is Muslims, naturally, the demand of Halalproducts increases. Till this year there was not any state approved Halal standard followed in Azerbaijan. In April 1, 2014 the state committee for standardization, Metro logy, and Patents were assumed to authorize the new Halal standard to preserve consumers' rights, avoid harmful competition and expand public confidence in the domestic market. The requirements for the approved standard should be based on Islamic rules and will be extended to ingredients, preparation rules, storage, transportation, and employee requirements for production facilities.This standard is believed to set requirements on special packing, marking, export, and import. The new quality standard is supposed to increase Halal goods in the market and direct to positive tendencies. The novel standard will develop competition among local manufacturers which will result in price reduction and expert of the center for economic and social development. Furthermore, the new quality standard will promote the use of new technologies. Halalproducts will increase the consumers' confidence and the demand for these products in the country. The new quality standard will exert a positive effect on the export potential of such goods as the standard will consider the respective international standards. For the first time in Azerbaijan in May 2010, an international food exhibition “World Food Azerbaijan” organized by Iteca Caspian LLC and ITE Group Plc (UK) and supported by the National Confederation of Entrepreneurs' (Employers') Organizations of the Republic of Azerbaijan included Halal Food Azerbaijan in the exhibition to win Muslim customer trust. The inclusion of Halal food in the mentioned exhibition was a clear indication to bring together manufacturers of Halal products from Azerbaijan and other countries.

The concept Halal intervened into the Kyrgyz markets very recently with the establishment of first Halal restaurant in 2011. There has been a notable increase over the past four years in the demand of introducing a full range of Halal products in the Kyrgyz market. Although, Kyrgyzstan has already adopted a national standard of Halal products based on Malaysian standards but still the demand factor is not over. To draft some legal changes regarding proper incorporation of Halal industry in the country, the Ministry of Economy organized an international conference on standardization and certification of Halal production in October this year. Experts were called from the Eurasian Union for Halal Standardization and Certification (EUHSC) based in Moscow to share their experience with local businesses and authorities. The experts in the Halal Industry from Russia, Belarus, and Kazakhstan were also attended in the conference. Some important issues like establishment of a common Halal standard for Eurasian Economic Community (EurAsEC) countries, Halal industry trends in the contemporary business world, and the development of the Halal industry in Kyrgyzstan were discussed by the experts and participants from different market angles.

While promising to promote Halal market activities in Kyrgyzstan, the Deputy Minister of Economy of Kyrgyzstan, Sanjar Mukanbetov stated that today the Halal products market is one of the most positive and favorable section of economy not only in the Muslim countries but also in Europe. In Kyrgyzstan, the goods under the Halal brand tend to be famous due to the fact that Islamic finance has become attractive in the business environment. Making a green signal for Islamic banks and Shari’ah compliant financial companies and investors, it is stated that Islamic finance is a satisfying medium to do business under the Halal brand in the traditional financial markets. The state is organized to collaborate with all stakeholders to boost Halal production.

The government of Tajikistan has developed the Halal standard over the past two years. It was actually a collective effort that got materialized with the help of Tajik Council of Ulama, Health Ministry, and Committee for Religious Affairs and the Agriculture Ministry

Veterinary Service. About six Tajik food manufacturers have already considered the new standards and the Halal food is assumed to gain prevalence, said Narzullo Sharipov, chief of Tajikstandart, the government agency for overseeing compliance with different standards. Nowadays, Tajikstandart rather strictly observes certified Tajik *Halal* goods' compliance with the demands.

Contrary to their neighboring countries, Uzbekistan and Turkmenistan are least exposed to Halalmarket activism. Although the prime minister of Malaysia Datuk Seri NajibRazak in his recent two-day official visit to Turkmenistan expressed a strong and deep interest in exploring the new fields of collaboration in Turkmenistan including in Halal goods and Islamic banking but till date no crucial step has been taken.The Malaysian Prime Minister was scheduled to sign a five bilateral document with President Berdymuhamedov. Emphasizing the importance of Prime Minister's visit to Turkmenistan, Norman, Malaysia's ambassador to Turkmenistan stated that the agreements and memoranda of understanding (MoUs) would strengthen cultural and education cooperation while a joint trade committee between Malaysia and Turkmenistan would be set up by both nations. Both countries promised to establish links in the areas of culture, education, tourism, and the Halal market, as well as enhancing collaboration in the oil and gas (O&G) sector. While speaking to Malaysian media, Datuk Seri Abdul Wahid Omar, Minister in the Prime Minister's Department who accompanied the PM on his visit to Turkmenistan indicated that here are many chances to investigate prospects in theHalal industry in Turkmenistan. This is among the areas that Malaysia desires to diversify in enhancing relations between both countries.

Impact of Global Financial Crisis and Demand for a Robust Financial Intermediation

Banking crises have surrounded the world for centuries, leaving almost no region or generation unaffected. The recent crisis regarded the most strong since the great depression spilled from the financial sector to the real economy including international trade in manufactures, commodities, and services. Numerous countries across the globe, regardless of their improvement level, are still under pressure and in trouble dealing with this crisis. According to one estimate, there have been more than 100 crises over the last four decades but none could be brought in comparison to the current financial crisis in terms of consequences. The emergence of the current crisis can be traced back to July 2007 with the liquidity crisis as a result of the loss of confidence in the mortgage credit markets in the United States (Stiglitz, 2003).

Experts and economists were expecting that the crisis would be limited to financial markets, with few repercussions on the real economy and the rest of the world. This aspiration was destroyed in September 2008 as the crisis initiated an acute phase with powerful downward fluctuations in the stock markets, considerably decreased rates of economic growth, volatile exchange rates, and squeezes in demand and utilization, guiding to falls in industrial production and decreasing flows of international trade and FDI and leading to effects on related areas, namely transfer of technology (Alasrag, 2009). The impact of the crisis was equally seen in Central Asian Banking sector. Most of the Central Asian countries being underdevelopment (referred as Low Income Countries also as Emerging Market Economies) constitute a large proportion of their GDP in the form of ODA (Official

Development Assistance) and FDI's (Foreign Direct Investment). In response to the crisis, the donors reduced ODA flow in the region and there was a healthy decline in FDI flow as well.

The magnitude of the current crisis has brought to the fore the vulnerability of conventional banks and has led to search for ideas and solutions. Nobel Prize Winner, French economist Maurice Allais admits that the way out of such crises is best attained through structural reforms, adjusting the rate of interest to 0%, and revising the tax rate to about 2%. Muslim economists believe that this is the core element of Islamic economics. A healthy group of economic experts and financial analysts believe that the constancy of financial crisis, firstly hitting U.S. and now rocking the Euro-Zone has inspired and supported the demand for some robust and risk-mitigated alternative in the Central Asian republics and there is no finer choice than Islamic banking and finance industry. Islamic financial system is regarded as an efficient alternative that can reduce the severity and frequency of financial crises by getting rid of the considerable weaknesses of the conventional system. It presents greater discipline into the financial system by demanding and involving the financier to share in the risk. It connects credit expansion to the growth of the real economy by permitting credit primarily for the purchase of real goods and services which the seller owns and possesses, and the consumer hopes to take delivery. It also necessitates the creditor to endure the risk of default by preventing the sale of debt, thereby making certain that he measures the risk more deliberately. Moreover, Islamic finance can also decrease the problem of subprime borrowers by presenting and affording credit to them at reasonable terms. This will save the billions that are spent after the crisis to bail out the rich bankers. However, these do not aid the wretched since their home may have previously become subject to foreclosure and auctioned at a give-away price.

Success Story of Some Pilot Projects

The prognosis for a lucrative and successful introduction of Islamic banking and finance industry in Muslim republics of Central Asia is hopeful. With the launch of pilot projects in Kazakhstan, Kyrgyzstan and Azerbaijan, the circumstances are getting healthier for the further development processes and establishment of new banking units.

Al-Hilal bank

Abu Dhabi-based Al-Hilal Bank tends to be the pioneer for Islamic banking in Kazakhstan by opening its doors there in March 2010. It employs nearly 50 people in the country and its investments to date worth US$90 million, said Prasad Abraham, the bank's local chief executive, adding that it set a target of US$200 million by the end of 2012. Presently Al-Hilal has exposure to the postal service, railways, and agriculture in the government sector. Al-Hilal has exposure to some parts including retail, FMCG, agriculture, oil and gas, food and beverage and the transportation industry. The bank has been successful in meeting the growth targets for 2013 and authorities are optimistic about meeting the aggressive plan that the board has established for 2014. Al-Hilal strongly collaborates with the Central Bank and different ministries to further fine-tune and develop the processes needed to empower the growth of Islamic banking within the country. The President's administration has developed a specific task force which has drawn up a roadmap to broaden Islamic banking activities and to earn the President's vision. Al-Hilal as the only Islamic bank presently on the ground performs a crucial role in these initiatives. The bank’s Board has planned to evaluate the success of the Kazakhstan model before expanding banks operational units into other countries within the CIS. In its recent report, the Board has shown satisfaction with the progress of Al-Hilal bank in Kazakhstan. The bank has established three branches in Kazakhstan, in Almaty, Astana, and Shymkent. All three branches are targeted at offering a wide range of products for both retail and corporate customers.

EkoIslamik Bank

The launch of an Islamic window like structure in Kyrgyzstan was really challenging. The pilot project was to be carried out in one of the largest banks of the country, EcoBank, a joint stock company with headquarters in Bishkek, the capital of Kirghizia. It was considered that the project bears a high level of risk, thus the scheme should be confined to one of the bank’s branches. The recent conversion of EkoBank to EkoIslamik Bank presents an appropriate case study for investigating the chances and challenges to Islamic financing in the Kyrgyz Republic.

In March 2013, an independent Shari’ahBoard of JSC EcoIslamic Bank at the annual meeting has concluded that the bank operates in full compliance with Shari’ah. The Shari’ah Council meeting was attended by members of the board of directors, board members, and heads of departments of the bank and signed a number of documents regulating the internal activities of the Bank. Shari’ah Council also confirmed that EcoIslamic Bank is the only major financial institution in the former Soviet Union that has successfully introduced Islamic financing instruments. Presently, the bank's network has around 120 offices throughout the country. The bank serves more than thousands of individuals and thousands of companies throughout Kyrgyzstan, offering a variety of financial services for settlement and cash services, financing, according to the principles of Islamic banking and financial affairs, deposits, corporate and salary payment cards, and money transfers much more.

Kauthar Bank

Open Joint Stock Bank Kauthar Bank (the Bank) is a joint stock bank which was built in 1988 in conformity with establishment agreement and was registered by the Central Bank of Azerbaijan. The Bank is organized by the Central Bank of Azerbaijan (the CBA) and manages its business under the general banking license number 92 obtained on 21october 2002. The bank works according to the Islamic banking system and carries on banking activities such as acceptance of deposits, investing, foreign exchange business and other banking activities and financial services.

Currently, the bank has only four offerings – investment accounts based on Mudarabah, loans to businesses based on Musharakah, loans for retail and corporate clients by purchase and sale of bills of exchange (like Islamic bonds) and consumer loans based on IjarahwalIqtina(leasing and subsequent purchase). Because of the constraints on banks’ trading activity as per banking law, Kauthar could not use Murabaha mechanism (trading commodity on cost-plus basis). After acquiring a new banking license to implement the full range of banking operations, the bank began to completely clean its loan and debt portfolios of riba and discontinued participating in all transactions that required usury. Not being capable to utilize a few of the Islamic finance equipments, Kauthar achieved its potential in financing Halal parts of economy, although not constantly with a desirable result. A good sample is a multi-million dollar project of constructing several skyscrapers in Baku.

IDB and the Arrival of PLS Industry in Central Asia

The Islamic Development Bank was established in pursuance of the Declaration of Intent issued by the Conference of Finance Ministers of Muslim Countries held in Jeddah, Kingdom of Saudi Arabia in December 1973. The Bank officially began its operations on October 20, 1975. The current membership of the Bank consists of 54 countries. The aim of the IDB is to promote the growth of the economic improvement and social development of member countries and Muslim communities, individually as well as jointly in conformity with the doctrines of Shari'ah Law.

With the growing importance of Islam across Central Asia, most of the countries in the region consider the existence of an international Islamic financial institution like the IDB positively due to its capability and power to help respective governments to improve both Islam and socioeconomic improvement. Islamic banking and finance, where no usury or riba is allowed, has only just initiated to take root across the region and could be utilized as an equipment to direct the energy of Muslims who long for considerable involvement of Islam in government.

Since the breakup of the Soviet Union each of the Central Asian Republics has joined the IDB including Azerbaijan (1992), Kyrgyzstan (1993), Turkmenistan (1994), Kazakhstan (1995), Tajikistan (1996), and Uzbekistan (2003). By 1997, the IDB constructed a regional office in Almaty, Kazakhstan to promote and strengthen the Bank’s attempts in social and economic development of the countries in the region.The Regional Office in Almaty (ROA) has effectively turned to be the hub for IDB group operations in the area. On a wider scale, the IDB attempts to start and improve a greater communications and trade link among Islamic countries around the world. Following this, the IDB works hard to link former Soviet republics with other IDB member countries. Considering the bank’s official statement, The IDB is pledged to bring the transition economies of the CIS countries (all land-locked) closer to the OIC member countries by encouraging the development of trade and investments and extend the superior practices through institutional and capacity building assistance.The IDB's largest Central Asian stakeholder is considered to be Kazakhstan, with 0.12 percent of its capital. Kyrgyzstan, Tajikistan, and Turkmenistan have 0.06 percent each and Uzbekistan has 0.03 percent.

Particularly, many of the IDB’s projects are connected to building infrastructure such as roads, telecommunications, airports, and canals and it is also related to social development including construction and equipping of school and hospitals. The IDB has also been active in financing the construction of Islamic schools and vocational centers across the region. In its recent investment projects in Central Asia, the bank agreed to provide a 10-year US$10 million loan to a subsidiary of KazAgro National Holding, JSC Fund for Financial Support of Agriculture, and to finance Kazakhstan’s agriculture micro-lending program. It approved a

US$23 million loan to finance the project for improvement of electric power supply in Kyrgyz cities of Bishkek and Osh. The IDB provided two grants for a total of US$4.3 million. One of the grants in the amount of US$2.2 million was allocated to finance the construction and technical equipment of a modern general education school in the village Zarkamar, JamoatMiskinobod, Faizobod district. The second grant of US$2.1 million was provided for the water supply project in Dushanbe. For Turkmenistan, IDB provided a special investment loan to Turkmen government in the amount of US$121.17 million for developing the quality of water supply services within the Balkan Velayat Water Supply Project. The main areas where IBD is focusing its investment are Project financing and Trade financing. In short, the IBDs role and relevance in the overall economic development of the region appears to be positive trend. Table 1 shows Countrywise investment of IDB in the region since the date joining.

Table 1

Country Wise Investment of IBD in Central Asia (Source, IDB)

Kazakhstan	937.8 US$ Million
Azerbaijan	1,129.2 US$ Million
Tajikistan	289.6 US$ Million
Turkmenistan	587.0 US$ Million
Uzbekistan	892.4 US$ Million
Kyrgyzstan	173.5 US$ Million

Conclusion

The examination of Islamic banking and finance industry in the world and the steps taken by the authorities in Post-Soviet Central Asian Muslim republics such as the legislation framework, road-maps, and opening of the pioneering Islamic financial institutions promises a good opportunity for the industry in the region. The study of factors like Islamic revival, demand for Halal products, changing customer behavior after global financial crisis, success story of pilot projects and the empowering role of IDB permits us to estimate that the market share of Islamic banking out of the total banking market may rise up to 15%-25% by the end of 2015 which currently is estimated about 8-10%. At the moment, decrease in trust to the banking sector universally and in Central Asian countries principally provides firm grounds for Islamic finance to become a viable alternative to conventional financial system. However, this requires the former to distinguish itself from the latter both theoretically and technically. To avoid criticism that overwhelms Islamic finance for its mimicry of conventional products, Islamic banks and financing companies operating in Central Asia have to maintain the product uniqueness and authenticity.Therefore, all new ventures as well as existing institutions must revise Islamic finance underlying principles, its mission and goals. Specifically, Islamic finance being an integrated part of Islamic economics is supposed to promote cooperative business culture, social justice, and distributional equity as its high level goals. On the micro-level the Islamic banks must increase financial services' accessibility to all the population in order to stimulate an economic activity in a fair way primarily based on the principle of sharing risks and profit. Within this context and also after the external and internal factors analysis the present study derived a business strategy of an Islamic bank with focusing on SME and retail segments. The value proposition should include the Shari'ah based banking products with clear evidence of socio-economic betterment for a client and the country. A requirement to the productive and successful delivery of this value will be in comprehensive education and marketing communication programs to raise awareness and understanding of Islamic finance principles in the market. In addition, branch network, strong KYC (Know your Customer) and risk management systems must be taken into account.

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