



## Factors of development of islamic financial institutions in modern conditions

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### ABSTRACT

Nowadays, Islamic investment funds and types of Islamic finance are spreading at a rapid pace around the world. It should be especially noted that even Western countries, where the vast majority of the population do not profess the Islamic religion, willingly switch to the Islamic financial system. Of course, the main factor in this trend is the fairness and minimum risk in the Islamic financial system, as well as the absence of interest-bearing loans. What is attractive not only for entrepreneurs, but also for ordinary citizens. The question arises: "What factors contribute to such a rapid spread of Islamic finance?".

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## Замонавий шароитда ислом молия институтларининг ривожланиш омиллари

### АННОТАЦИЯ

#### Калит сўзлар:

кўрфази Араб давлатлари  
хамкорлик Кенгаши,  
ялпи ички маҳсулот,  
инфратузилма,  
саноат,  
логистика,

Ҳозирги кунда Исломий инвестиция фондлари ва Исломий молия турлари дунё бўйлаб тез тарқалмоқда. Шунинг алоҳида таъкидлаш керакки, ҳатто аҳолининг катта қисми Ислом динига эътиқод қилмайдиган Ғарб давлатлари ҳам бажонидил Исломий молия тизимига ўтадилар. Албатта, ушбу тенденциянинг асосий омили Исломий

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халқаро Молия маркази,  
келажакнинг Global Эркин  
зоначи,  
омил,  
закот,  
Дубай корпоратив қиймат  
маркази.

молия тизимидаги адолатлилик ва минимал хавф,  
шунингдек, фоизли кредитларнинг йўқлиги. Бу нафақат  
тадбиркорлар, балки оддий фуқаролар учун ҳам жозибали.  
Савол туғилади: “Исломий молиянинг тез тарқалишига  
қандай омиллар ёрдам беради?”.

## Факторы развития исламских финансовых институтов в современных условиях

### АННОТАЦИЯ

#### Ключевые слова:

Совет сотрудничества  
арабских государств  
Персидского залива,  
валовой внутренний  
продукт,  
инфраструктура,  
промышленность,  
логистика,  
Международный  
финансовый центр,  
Глобальная свободная  
зона будущего,  
фактор, закят,  
Дубайский центр  
корпоративной ценности.

В настоящее время исламские инвестиционные фонды и  
виды исламских финансов распространяются быстрыми  
темпами по всему миру. Следует особо отметить, что даже  
западные страны, где подавляющее большинство  
населения не исповедует исламскую религию, охотно  
переходят на исламскую финансовую систему. Безусловно,  
главным фактором этой тенденции является  
справедливость и минимальный риск в исламской  
финансовой системе, а также отсутствие процентных  
кредитов. Что привлекательно не только для  
предпринимателей, но и для простых граждан. Возникает  
вопрос: «Какие факторы способствуют столь быстрому  
распространению исламских финансов?».

The development of Islamic financial institutions is primarily due to the economic well-being of the countries of the GCC (Cooperation Council for the Arab States of the Gulf). About 40% of the world's oil and 20% of gas reserves are located in this region. The outbreaks of the energy crisis, accompanied by an abrupt increase in oil prices in 1973–1974 and 1979–1980, the complication of oil supply to the world economy in the early 70s of the last century caused an upswing in the economic development of the GCC countries. The share of Saudi Arabia in the world economy, according to the IMF, reached 3.5% in the mid-90s, exceeding the corresponding figures for Italy, Canada, Russia and China. An increase in oil production (from 48 million tons in 1950 to 705 million tons in 1980) and income from it (from 1971 to 1981 only Saudi Arabia – from 2.2 billion US dollars to 113.3 billion USD) turned out to be so rapid in the GCC countries that in 20–30 years a modern oil and petrochemical industry, numerous energy, engineering, transport and social infrastructure facilities were created. The same period saw the creation of the first Islamic financial institutions. The dependence of the economy on oil and gas is a common problem in the region. The volume of the hydrocarbon sector in the structure of the GDP of the GCC states is about 40%. In order to get rid of dependence on raw materials, the Persian Gulf states are pursuing a policy of diversification, investing in the development of industry, the knowledge economy, social infrastructure, and the service sector. The greatest success in this direction was achieved by the UAE and Bahrain, where the volume of the hydrocarbon sector is only about 30% of GDP. The consulting company PricewaterhouseCoopers prepared an overview of the economic situation in the Gulf countries in comparison with the situation in other emerging

economies, including Russia, which is also one of the states that are heavily dependent on oil prices. In 2012, the GCC, as a single economic bloc, ranked third among the largest fast-growing market economies in the world. In terms of economic size, it has reached the size of India's (based on GDP at current market exchange rates). Since 2000, the GCC economies have grown at an average rate of 8.1% per year, faster than most emerging economies. Since 2000, the GCC countries have experienced high growth rates of non-extractive industries. From 2000 to 2011 The region's GDP grew by about 4 times and reached 1.4 trillion. USD.

Infrastructure development is the main driver of the region's economy. The total valuation of infrastructure projects is estimated at more than 500 billion US dollars [1]. By 2020, you can see an increase in investment in infrastructure up to 3 trillion. USD. In the first place is the development of transport and cargo logistics, the development of the trade industry, the construction of large ports, airports, and transport hubs. A network of highways has been built in the region, connecting the countries of the "Arabian Six" with neighboring states. In 2017, a railway network with a length of over 2,000 kilometers was built. The highways linked all 6 states of the union into a single transport system. The GCC is also actively developing a unified electric power system that unites partners in the union. The main goal of the project is to transport excess electricity to neighboring states. Such a system makes it possible to rationally use the resources available in the region. The tourism industry is one of the main areas of diversification of the region's economy. The volume of planned investments in this industry and related sectors will amount to 380 billion US dollars. Tourism revenues are growing every year, making a significant contribution to GDP. In Dubai, where great efforts have been made to develop this sector, tourism revenues are comparable in volume to oil revenues. Today, the GCC countries form a major financial center in the Middle East. In September 2004, the establishment of the International Financial Center in Dubai was announced. In 2005, the Dubai International Financial Exchange was established. Kuwait has a developed capital market and is one of the centers of investment activity. The Saudi Arabia Stock Exchange is one of the twenty most developed stock exchanges in the world. The institution of special economic zones is developing in the GCC countries. In recent years, dozens of new FEZs have been created, which immediately became popular and began to attract foreign investment. FEZs in the Middle East dominate the Global Free Zone of the Future rankings with 23 spots out of 50 zones. Of these, 14 are in the UAE. The first place is occupied by Dubai Airport Free Zone, the second – by Dubai International Financial Centre, the fourth – by Du Biotech, the tenth – by Dubai Media City. Such success of the FEZ is due to the liberalization of management, transparency, the abolition of bureaucratic procedures, ease of logistics and developed infrastructure. 2005 also saw the establishment of the Qatar Financial Center and the launch of the Qatar Financial Center Authority.

According to the World Bank's annual Ease of Doing Business report, the United Arab Emirates ranked first among countries in the Middle East. The Emirates made it into the top 10 global rankings in terms of ease of obtaining building permits, electricity connections and real estate titles. In the final ranking, the UAE took 31st place. In 2009, Dubai was ranked as the top city for FDI for the first time in a special report published by the Financial Times, ahead of London and Shanghai. The UAE continues to lead the

Middle East and North Africa in terms of the number of implemented investment projects – about 50% of the total number of investment projects in the region (291 projects in 2012). Saudi Arabia leads the way in terms of FDI inflows, with investments in 2018 amounting to \$13.7 billion [2].

Fully supporting the opinion of the author, I came to the conclusion that with the continuation of the development of policies aimed at diversifying and liberalizing the economy, the countries of the Cooperation Council of the Arab States and the Persian Gulf will continue to actively work on the development of Islamic finance even in the face of declining energy prices on the world market.

The main factor in the development and wide spread of Islamic financial institutions is the high growth rate of the number of Muslims [3].

According to various estimates, there are between 1.3 and 1.57 billion Muslims in the world. According to the published forecasts of the Pew Research Center, located in Washington, the Muslim population in the world will amount to 26.4% of the total population of the Earth by 2030, and the number of Muslims in Western countries with a traditional Christian religion will increase. The Muslim population, compared with representatives of other religions, [8] is growing twice as fast. According to forecasts, in the next 20 years, the annual growth of Muslims will be 1.5%, and representatives of other religions – 0.7%. And by 2050, the number of the Muslim population of the Earth can practically reach the global number of Christians. According to the authors of the study, by the middle of the 21st century there will be 2.76 billion Muslims and 2.92 billion Christians in the world – 29.7% and 31.4%, respectively, of the world's population. The largest increase in the number of Muslims is expected in the Asia-Pacific region. In Europe, the number of Muslims will reach 10% [9].

In this case, I do not entirely agree with the opinion of the author, because I think that it is incorrect to conclude that the growth in the number of Muslims leads to an increase in the number of clients of Islamic financial services due to the fact that the proportion of Muslims who are ready to use the services of Islamic banking is small, but this does not rule out the possibility of an increase in the need for Islamic investment funds [4].

The second factor is corporate social responsibility. In the era of globalization, the role of corporate social responsibility is of particular importance in doing business. In developed countries, various options for national CSR policies are widely used. In this regard, there is also a growing interest in the development of Islamic financial institutions. CSR in Islamic countries is viewed through the prism of religion. Islam recognizes the supremacy of the interests of society over the interests of an individual or separate group in the event that they contradict each other. According to Islam, public well-being is more important than individual well-being: it is better to allow infringement of private interest than public interest when one has to choose the lesser of two evils. Corporate Social Responsibility for Islamic financial institutions is [5] one of the most important operating principles, given the religion-based ethics of Islamic finance, which gives priority not only to the generation of material wealth and economic development, but also to the development of social justice of the idea based on hard work, frugality and low level burden of debt. Islamic financial institutions are developing many CSR initiatives. In the second chapter of the dissertation research, the social activities of Dubai Islamic Bank and Jordan Islamic Bank were considered. Among the



Islamic banks known for their social activity, one can also single out Kuwait Finance House, Muamalat Indonesia Bank, Bangladesh Islamic Bank, Social Investment Bank, Islam Maleija Bank and others. Bank MuamalatIndoneja's social activities are carried out through the BaitulmaalMuamalat organization on the basis of various programs such as "B-Community" ("Be a community"), "B-Care" ("Be caring"), "B-Smart" ("Be Smart") and "BTCM" ("Work Together"). Through the B-Community program, communities are supported to achieve public welfare. The B-Care program includes the distribution of assistance to those affected by natural disasters such as floods and fires, as well as those who are concerned about humanitarian issues, including war, famine and disease.

Baitulmaal Muamalat has provided IDR 9.6 billion (US\$685.7 million) to help victims of the natural disaster in Indonesia. Educational assistance in the form of scholarships (full-year tuition) for students of private and public universities is distributed through the B-Smart program. Recipients of this assistance are given the opportunity to participate in various social activities conducted by the Bank "B-BMT" – a microfinance program aimed at increasing the development of microenterprises. Assistance is usually given in the form of working capital and equipment. Bank Muamalat Indonesia also provides zakat mobilization and distribution services [6].

Of interest is the activity of the Oasis Group in South Africa, which has a significant business in Islamic asset management and pension savings. The company has 2 charitable foundations within the concept of waqfs – "OasisGroupHoldingsTrust" and "CrescentFund", which actively finance hospitals, sports facilities, nursing homes and much more. One of the outstanding CSR projects of OasisGroup is the sponsoring of research with the support of the South African government and experts from the University of Cape Town of the ancient center of Islam in Africa – Timbuktu. As part of the project, Islamic manuscripts and artifacts are being restored and stored in a new museum built with funds from the South African government and donations from local companies. The University of Cape Town is training Malians in restoration and librarianship so they can take matters into their own hands once the museum is complete.

Global companies from Islamic countries included in the ranking of the 100 largest companies in the Muslim world, as well as other international companies, are engaged in CSR activities. Some of them post on their websites statements of commitment to CSR principles and disclose information about their social programs. Leading organizations promoting socially responsible practices are:

1) Dubai Center for Corporate Values (DCCV) – an organization dedicated to the dissemination of CSR in the countries of the Persian Gulf;

2) CSR-Asia (CSR AsiA); 3) CSR-Malaysia (CSR MALAYSIA). Summarizing, we can conclude that CSR in Islamic countries is considered in the context of existing cultural traditions based on the prescriptions of the Koran and the Sunnah, which makes it possible to achieve a relationship between responsible business conduct and religious values [2].

As we can see, Islamic investment funds and the fundamentals of Islamic finance are spreading in all spheres of the economy and culture. Based on this, we can safely predict the achievement of high financial and economic performance of Islamic investment funds not only in the Muslim world, but throughout the world.

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