



RUSSIA – ISLAMIC WORLD
KAZANSUMMIT 2022

THE STATE OF THE ISLAMIC ECONOMY IN THE REGIONS OF RUSSIA AND THE WORLD



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DEPARTMENT OF INTERNATIONAL ECONOMIC RELATIONS

**THE STATE
OF THE ISLAMIC ECONOMY
IN THE REGIONS OF RUSSIA
AND THE WORLD**



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The textbook outlines the basic principles of the Islamic economic model, describes the state and prospects of the Islamic economic model development in Russia and its regions and considers some aspects of economic cooperation between Russia and the OIC states.

It is addressed to the heads of public administration and enterprises, teachers and undergraduates, who are concerned in the development of economic contacts with the Islamic world states; as well as everyone interested in the Islamic economic model.

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PREFACE

THIS PUBLICATION WAS PREPARED FOR THE XIII INTERNATIONAL ECONOMIC SUMMIT "RUSSIA - ISLAMIC WORLD: KAZANSUMMIT 2022" WITH THE AIM OF POPULARIZING THE HALAL LIFESTYLE

KazanSummit 2022 is the main platform for maintaining economic relationships between the regions of Russia and the Islamic world countries. The first edition was held in 2009 by Russia and the Organization of Islamic Cooperation, creating a leading platform for discussing cooperation issues.

KAZANSUMMIT CREATES A UNIQUE ECOSYSTEM where companies leaders, institutional and private investors, as well as the state representatives of Russia and the Islamic countries discuss the undergoing economic problems and then together try to find out the possible solutions, conduct an open dialogue on business trends, investment prospects, and trade relations, conclude contracts and launch new projects.

The goal of the summit is to strengthen trade, economic, scientific, technical, social, and cultural ties between Russia and the OIC countries, as well as to promote the development of the Islamic financial system institutions in Russia.

KAZANSUMMIT 2021 IN NUMBERS



KAZANSUMMIT IS:

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- ✓ Russia Halal Expo
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- ✓ IT startups and artificial intelligence
- ✓ Islamic finances and partnership banking
- ✓ SberTalk
- ✓ Responsible consumption and ESG
- ✓ Forum of young Entrepreneurs
- ✓ OIC Young Diplomats Conference
- ✓ Machine-Building Cluster Forum
- ✓ Modest Fashion Day
- ✓ Medicine and Sport
- ✓ Creative industries
- ✓ Business advice and business councils
- ✓ B2B and B2G meetings


















CHAPTER I

MUSLIM WORLD: DEMOGRAPHIC TRENDS AND KEY MACROECONOMIC INDICATORS

1.1. MUSLIM POPULATION IN THE MODERN WORLD

Experts in the field of demographic trends of the beginning of the third decade of the XXI century, note a slowdown in population growth in the world. This is particularly evident in developed economies (USA, China, Germany, Japan) and Russia. However, the countries of the Muslim world are standing out of this demographic trend. Almost all of them retained the extended population reproduction model (with two-kid families and more). Pakistan, Oman, and Jordan keep the highest birth rates (see Table 1).

Table 1. Demographic indicators in a number of Muslim states, the largest economies in the world, and Russia¹

| | Population (mln people) ² 2021 | Total fertility rate ³ 2020 | Natural growth rate (%) |
|--------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------|-------------------------|
|  Malaysia | 33.1 | 2 | 0.77 |
|  Bahrain | 1.7 | 1.9 | 0.86 |
|  UA | 10.2 | 1.4 | 0.62 |
|  Oman | 5.9 | 2.8 | 1.15 |
|  Pakistan | 228.3 | 3.4 | 1.4 |
|  Kuwait | 4.6 | 2.1 | 1.2 |
|  Saudi Arabia | 36.2 | 2.2 | 1.12 |
|  Jordan | 10.8 | 2.6 | 1.12 |
|  Brunei | 0.44 | 1.8 | 0.81 |
|  Qatar | 3.1 | 1.8 | 0.68 |
|  Germany | 83.7 | 1.6 | -0.36 |
|  USA | 335.1 | 1.8 | 0.07 |
|  China | 1451.9 | 1.7 | 0.35 |
|  Japan | 126.3 | 1,4 | -0.14 |
|  Russia | 146 | 1.8 | -0.17 |

¹ Tables 1 and 2 are based on: Population Reference Bureau. World Population Data 2020

² <https://countrymeters.info/en> - Website population counter online

³ <https://knoema.ru/atlas> - World Data Atlas

With regard of the actual contemporary demographic trends, the Distribution area of the Muslim population has significantly expanded over the past decades. Today, even territories located far from the Muslim world core, such as Suriname and Guyana, belong to the number of countries with a significant Muslim segment. The relative share of the Muslim population is growing in Australia, Canada and Argentina (see Fig. 1).

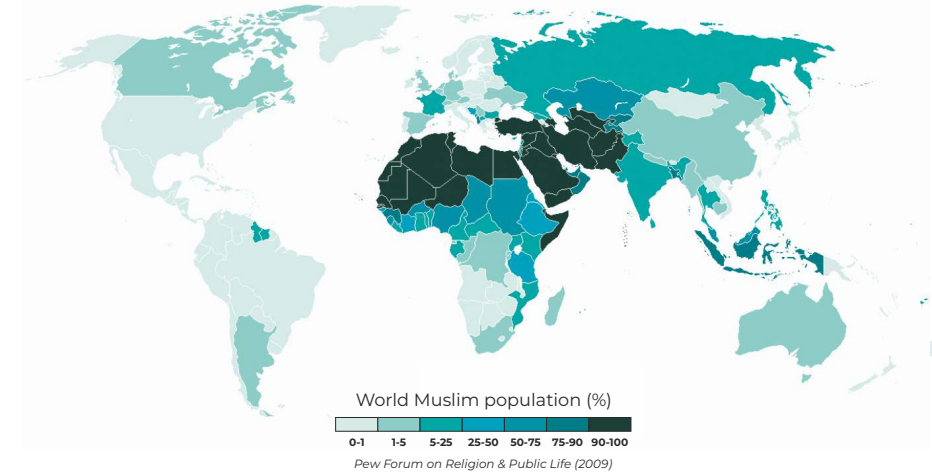


Figure 1. Distribution of Muslim population worldwide

Countries with developed economies are facing a demographic crisis provoked by a complex of interrelated causes. In the first instance, they include the rapid decline in the fertility rate, which leads to a decrease in the proportion of young age segments in the population. Demographers use to call it the “aging from below” phenomenon. Another reason is associated with an increase in the average life expectancy of people observed in conditions of improving material well-being level. It also contributes to “aging from above”, that is a rapid increase in the share of the older (“non-reproductive”) ages in the population. On retention of such demographic trends, the world’s most developed countries are highly likely to face the strongest consequences of the demographic crisis in the next 10-30 years. It will manifest itself primarily through a reduction in the working-age population and an increase in the share of the retired people.

The countries most involved in the Islamic economy currently confidently manifest the phenomenon of maintaining a relatively high share of the young population alongside with a tendency to increase life expectancy (see Table 2).

Table 2. The share of children and life expectancy at birth in the countries most involved in the Islamic economy, in the largest economies and Russia in 2021

| | The proportion of the population under 15 years ⁴ (%) | Expected duration of life at birth (years) |
|--------------|------------------------------------------------------------------|--------------------------------------------|
| Malaysia | 23.4 | 75 |
| Bahrain | 18.3 | 77 |
| UAE | 14.8 | 78 |
| Oman | 22.5 | 78 |
| Pakistan | 34.8 | 69 |
| Kuwait | 21.5 | 82 |
| Saudi Arabia | 24.7 | 76 |
| Jordan | 32.9 | 74 |
| Brunei | 22.3 | 78 |
| Qatar | 13.6 | 79 |
| Germany | 14 | 81 |
| USA | 18.4 | 79 |
| China | 17.7 | 77 |
| Japan | 12.4 | 84 |
| Russia | 18.4 | 73 |

Muslim countries, due to the structure of their population are thereby potential leaders in the global human capital market.

The significant segment of the Muslim population in Russia is represented in the historical Distribution zones of Muslims – the Middle Volga region and the North Caucasus. Its share is smaller in Western Siberia and the Southern Urals. In the rest of the country, the Muslim population is distributed around the territory in small groups. (see Fig. 2).



Figure 2. The share of the Muslim population in the regions of Russia

1.2. ECONOMIC DEVELOPMENT TRENDS IN THE MUSLIM WORLD COUNTRIES

Gross Domestic Product (GDP) is one of the key quantitative indicators of economic development used throughout the world to assess the results of the economic activity of a country over a certain period of time, the level of economic development, and its dynamics.












COVID-19 has claimed millions of lives and the global economic system stability has faced a gross impact. The slowdown in the global economy caused by COVID-19, recorded in 2019-2020, was replaced by positive trends and growth of the world GDP by 5.5 per cent in 2021. However, the ongoing pandemic waves do not provide sufficient grounds for optimism, and the encouraging conclusions of specialists and experts have been replaced by the expectation of another slowdown in world development down to 4.1 percent in 2022, and further down to 3.2 percent in 2023. A favorable scenario admits that the volume of production and investment in the developed economies of the world will return to the pre-pandemic level in 2022. With regards to developing countries, their production and investment volume will remain obviously lower, and their positions in world ranking will deteriorate. The effects caused by a new strain of coronavirus infection, called Omicron, will increase economic shocks. In addition, there is a high probability that the abovementioned adverse factors will cause financial stress and, in general, reduce long-term factors of economic growth. More than half of the economies in East Asia, the Pacific, Latin America, and the Caribbean, as well as the Middle East and North Africa, and two-fifths of the economies in sub-Saharan Africa, will still be below the 2019 level.

There is still a possibility that the pace of economic recovery will be uneven both among and within regions of the world, and negative risks will increase. During the pandemic the per capita income of tourism-dependent countries has experienced the deepest recessions, and the trend is unlikely to alter.

A comprehensive set of measures is needed to meet these challenges. The rapid global vaccination rollout and the strengthening of productivity-enhancing reforms will help reduce inequality among countries. Support targeted at vulnerable population categories and measures to increase access to education, healthcare, digital services, and infrastructure, as well as a focus on supportive fiscal measures, will reduce inequality within national economies. The world community assistance aimed at the least developed countries is necessary to accelerate the return to green, sustainable and inclusive recovery.

The Islamic world countries, like other countries of the world, have suffered from COVID-19. Almost all countries most involved in the Islamic economy gained positive growth dynamics before the beginning of the pandemic in 2018, except for Turkey, which has witnessed an economic decline shortly before the pandemic crisis. And still, the year that followed, there was a larger or smaller GDP decline in the UAE, Pakistan, Oman, Qatar, Kuwait, Brunei. The economic downturn in Turkey continued. Saudi Arabia, Malaysia, Jordan, Bahrain showed GDP growth. In the second year of the pandemic crisis, the situation worsened in all countries without exception, but only in Jordan did the GDP figure remain above the pre-pandemic level. Finally, in 2021, the UAE, Pakistan, Qatar, Kuwait, Oman, Bahrain, and, for the first time in three years, Turkey entered the positive dynamics of GDP growth. The economies of Saudi Arabia and Brunei have not changed significantly (see Table 3).












Table 3. Gross domestic product of the Muslim world countries, 2021 (\$ billion)⁵

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------------------------------------------------------------------------------|---------|---------|---------|---------|---------|
|  Turkey | 858.932 | 779.694 | 760.516 | 719.919 | 720.101 |
|  Saudi Arabia | 688.586 | 786.522 | 792.966 | 700.118 | 700.118 |
|  United Arab Emirates | 385.605 | 422.215 | 417.216 | 358.869 | 421.142 |
|  Malaysia | 319.109 | 358.789 | 365.279 | 337.008 | 336.664 |
|  Pakistan | 304.603 | 313.073 | 276,942 | 261,726 | 263.687 |
|  Qatar | 161.099 | 183.335 | 175.838 | 145.45 | 146.374 |
|  Kuwait | 120.687 | 138.202 | 136.192 | 105.949 | 136.197 |
|  Oman | 70.598 | 79.789 | 76.332 | 63.368 | 76.332 |
|  Jordan | 41.467 | 42.993 | 44.566 | 43.759 | 43.698 |
|  Bahrain | 35.474 | 37.652 | 38.467 | 34.729 | 38.475 |
|  Brunei | 12.128 | 13.568 | 13.47 | 12.003 | 12.016 |

The result of three (03) years under the impact of the covid pandemic are as follows: in all leading countries of the Islamic world, compared to 2018, the GDP saw a decline in 2021 except these two countries (Jordan and Bahrain). Several conclusions emerge from these data : firstly, the pandemic outbreak negatively affected the economies of the countries most involved in the Islamic economy and led to a slowdown and reduction in GDP growth; secondly, the economic crisis caused by the effects of coronavirus spread unfolded asynchronously; thirdly, the countries of the Muslim world more closely involved in the system of world economic relations suffered more from the aftermath of COVID-19; fourth, Muslim countries did not succeed in overcoming the pre-crisis GDP volume, which allows us to estimate that they are actually undergoing an economic crisis.

Currently, economic and financial shocks associated with COVID-19, such as disruptions in industrial production, commodity price volatility, financial market volatility, and growing instability, are nullifying already moderate economic growth and exacerbating the increased risks posed by other negative factors. However, the World Bank forecasts positive GDP growth for most Muslim countries in 2022-2024 (see Table 4).

Table 4. Gross domestic product of the Muslim world, 2022-2024: World Bank Forecast (\$ billion)

| | 2022 | 2023 | 2024 |
|----------------------------------------------------------------------------------------------------------|---------|---------|----------|
|  Turkey | 844.534 | 946.01 | 1060.673 |
|  Saudi Arabia | 876.148 | 899.11 | 928.813 |
|  United Arab Emirates | 427.93 | 443.251 | 460.524 |
|  Malaysia | 415.375 | 458.209 | 495.059 |
|  Pakistan | NA | NA | NA |
|  Qatar | 180.883 | 186.491 | 194.993 |
|  Kuwait | 138.78 | 140.964 | 144.301 |
|  Oman | 85.719 | 86.822 | 88.91 |
|  Jordan | 47.5 | 50.196 | 53.149 |
|  Bahrain | 41.057 | 42.867 | 44.905 |
|  Brunei | 16.263 | 15.724 | 15.722 |

GDP is not the only indicator that measures the state and prospects of national economies. Innovation and technological advances are of the crucial significance to finding durable solutions to both economic and environmental problems, such as improved resource efficiency and energy-saving technologies.

The Global Innovation Index helps the regulators to estimate those certain measures which should be taken to achieve success in the desired direction. The level of modern states' economic development is associated not so much with commodity security, rather as with the presence of the country's innovative potential and the conditions for its implementation.



⁵ Tables 3 and 4 are based on: World Bank: World Development Indicators
URL: <https://datatopics.worldbank.org/world-development-indicators/>

The countries most involved in the Islamic economy in recent years have made significant progress in developing their innovative potential according to the Global Innovation Index. The UAE, Malaysia, and Turkey hold positions in the group of countries with the highest indicator or close to it. Slightly lower, but still at a fairly high level, are the indicators in Saudi Arabia, Qatar, Kuwait, Oman, etc. At the same time, there remains rather a large group of the Muslim world countries, which has not reached the required innovative potential level and needs the assistance of the world community and the states of the same faith for these purposes (Fig. 3).

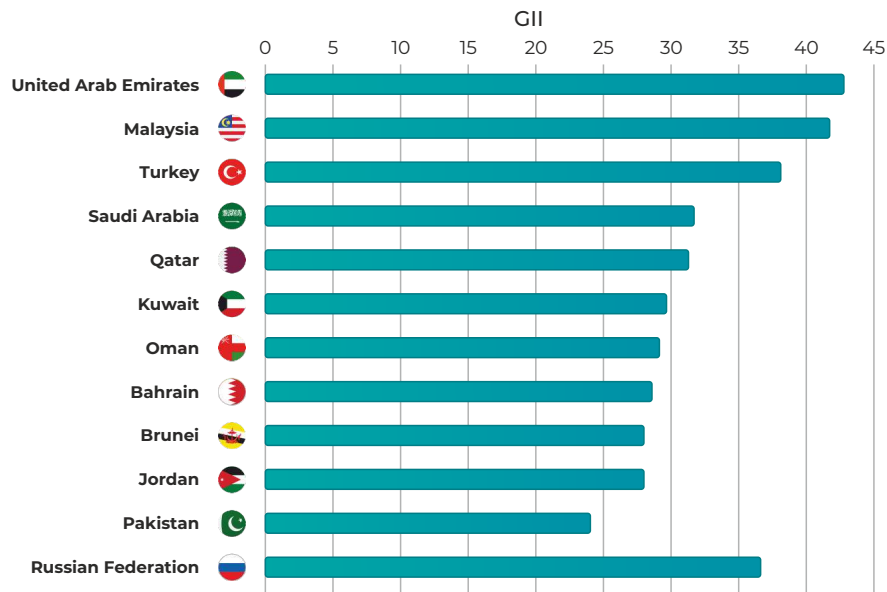


Figure 3. Ranking of the world countries according to the innovation index, 2021⁶

Once the pandemic crosses its peak, these Governments will more than ever need to invest in infrastructure in order to accelerate economic recovery, create jobs, reduce poverty and stimulate productive investment. Over the past decade, the world community has made strides in expanding the human condition and quality of life, and human capital has become a major factor in economic growth. Investments in human potential are recognized by experts as the most effective in comparison with other directions.

The need to adopt an innovative model of development in many countries of the Muslim world is not only recognized, but practical steps in this direction are already being taken. In Saudi Arabia, one of the leading countries in the Muslim world, a comprehensive innovation project Vision 2030, launched on the initiative of Crown Prince of the Kingdom Mohammed bin Salman Al Saud, has been implemented since 2017. The project is aimed at the implementation of 96 strategic goals within 13 programs, whereby innovative projects, projects in the field of ecology and employment

⁶ Global Innovation Index / Humanitarian Portal: Research [Electronic resource]// Center for Humanitarian Technologies, 2006–2021 (Last Revision: November 05, 2021). URL: <https://gtmarket.ru/ratings/global-innovation-index>

included being the ones of key importance. The most famous of them is the NEOM City project. It is planned to become a driver of the kingdom's innovative growth, and the country's transition to a non-raw material development model⁷.

Human Development Index - the aggregated composite index indicator determining human development in the countries and regions of the world.

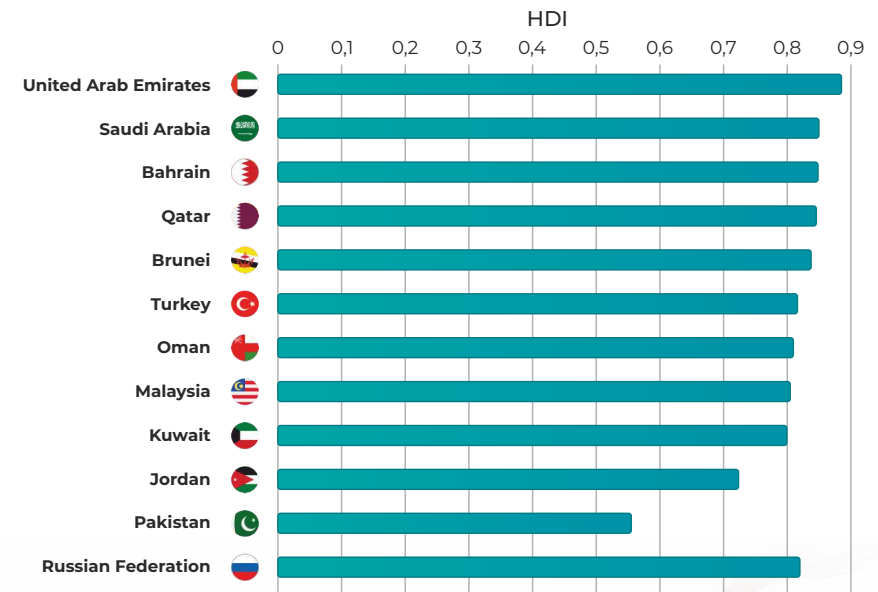


Figure 4. Human Development Index (HDI), 2020⁸

The leading states of the Arab-Muslim world, like Russia, are part of the countries group with high HDI. Jordan and Pakistan have this figure slightly below (see Fig. 4).

⁷ Federal News Agency [electronic resource]// <https://riafan.ru/1434276-pyat-let-programme-vision-2030-uspekhi-i-neudachi-samogo-krupnogo-proekta-saudovskoi-aravii>;
⁸ Human development index // Humanities portal: Research. Humanity technology Center, 2006–2021. URL: <https://gtmarket.ru/ratings/human-development-index> (last revision: 21.11.2021)

CHAPTER II

ISLAMIC ECONOMY IN THE MODERN WORLD AND IN RUSSIA

2.1. ISLAMIC BANKING AND ISLAMIC FINANCIAL MARKET

The term Islamic finance has become widespread and widely used in the world financial practice since 1980s. Initially, it was associated with non-interest-based funding principles (riba). However, over the past decades, the notion of Islamic finance has undergone a major transformation and has been transformed into a consistent, clear system of financial services, financial products and funding principles.

The Islamic financial system is understood to be broader and deeper than only the waiver of loan interest. It harmoniously joined the new theory of the Islamic economic model.

The prohibitive and restrictive framework of Muslim doctrine has imprinted the fundamental principles of Islamic finance functioning. Of course, with time they are adjusted in accordance with the requirements and challenges of our time, and meanwhile retain specific features, which differ them from the Western financial model.

The fundamental principles of the Islamic financial system functioning are: the ban on loan interest (riba); prohibition of speculatively motivated behavior (meisir); avoidance of uncertainty (garar); risk allocation (principle of participation) (Fig. 5).

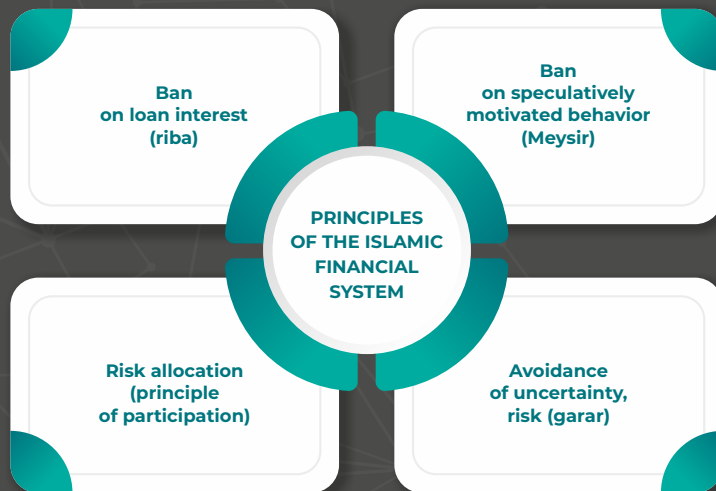


Figure 5. Fundamental principles of the Islamic financial system⁹

⁹ Figure 5 is based on: Bekkin R.I. Islamic economic model and modernity. -M.: Marjani Publishing House, 2009.-24-56; Sudin Charon, Van Nursofiza Van Azmi. Islamic financial and banking system: Philosophy, principles, and practice. -Kazan, Lenova-Media, 2012.- P.90-215.

The modern Islamic financial system has become a part of international finance and is implemented, both within the framework of the Islamic institutional units themselves and within the framework of traditional financial institutions, through the mechanism of the Islamic window, which became widespread in non-Muslim countries.

The main institutional units of the Islamic financial system are: Islamic banking, takaful, sukuk and Islamic funds (Fig. 6).

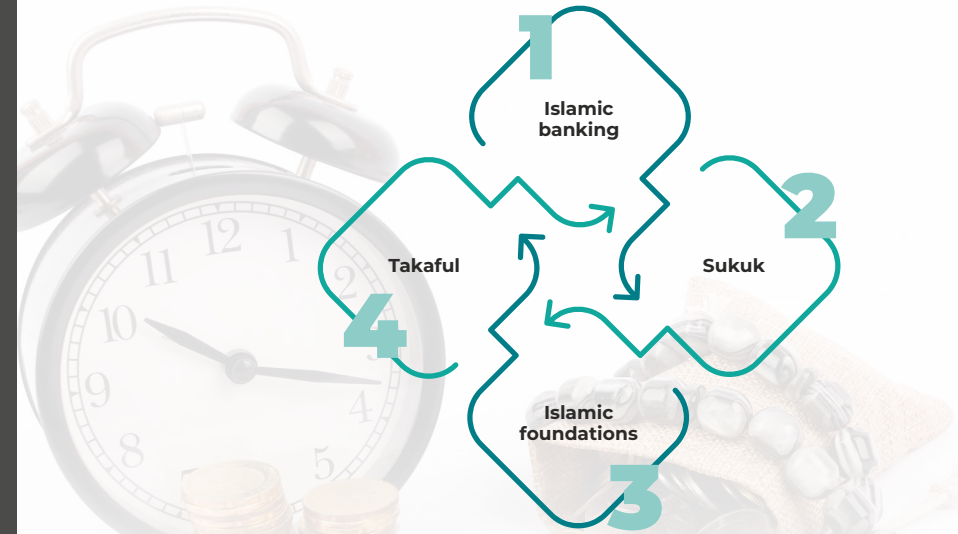


Figure 6. Institutional units of Islamic finance¹⁰

Within the period of four years, the volume of Islamic financial assets of the countries most involved in the Islamic economy has increased by more than 31%. Moreover, COVID-19 has not involved an evident negative impact on the Islamic financial system stability. Within the first and second years of the pandemic, Islamic financial assets continued its growth, suggesting a successful adaptation of Islamic finance to aggressive exogenous factors. Total Islamic financial assets in the year 2021 were valued at \$3.6 trillion, up 7.8% from the previous year¹¹. During the year, there was an increase in both the number of transactions registered with Islamic financial assets (from 38 to 57 transactions) and their total value (from 4.9 to 14 billion US dollars), which suggests that Islamic financial institutions are gradually adapting to the whole new post-pandemic era¹².

Islamic banking plays a leading role in the Islamic financial system. It accounts for just over 68% of Islamic financial assets (2020). In absolute terms, the amount of financial assets involved in Islamic banking increased from \$1,557.5 billion to \$1,842.0 billion USD over four years (18%). But in relative terms, the share of Islamic banking in the overall structure of the Islamic financial system has decreased from 76 to 68%.

¹⁰ Figure 6 is based on: Islamic financial services industry stability report 2021 // Kuala Lumpur: Islamic Financial Services Board, 2021. P.

¹¹ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 8, 70

¹² State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 32.

Islamic funds were the leaders in the asset growth among Islamic financial segments. The resources demonstrated soaring from \$66.7 billion up to \$143.8 billion (more than twice). True, the share of Islamic funds in the overall structure of Islamic finance remains relatively small, although it has grown from 3.3 to 5.3%.

The sukuk market has shown good dynamics. Within the 4 years, sukuk financial assets have increased from \$399.9 billion to \$689.5 billion, which makes 72%. Sukuk, such as Islamic foundations and Islamic banking, gained positive growth dynamics even before coronavirus infection, and continued to grow during the pandemic. The share of Sukuk in total Islamic financial services has increased from 19.5 to 25.6%. With all Islamic institutional units in the background, the decline in assets has occurred only in the takaful (insurance) market: from 26.1 to 23.1 billion dollars USA. The share of Takafuls in total Islamic financial assets has decreased from 1.3% to less than 1% (see Table 5). Today there are 336 organizations involved in takaful insurance worldwide¹³.

Table 5. Change in the placement structure of Islamic finance assets¹⁴

| YEARS | 2017 | | 2018 | | 2019 | | 2020 | |
|-----------------------------------------|--------|------|---------|------|---------|------|--------|------|
| | Abs. | In % | Abs. | In % | Abs. | In % | Abs. | In % |
| Islamic institutions | | | | | | | | |
| Islamic banking | 1557,5 | 75,9 | 1571,0 | 71,7 | 1765,8 | 72,4 | 1842,0 | 68,3 |
| Sukuk (\$ billion) | 399,9 | 19,5 | 530,0 | 24,2 | 543,4 | 22,3 | 689,5 | 25,5 |
| Islamic funds (\$ billion) | 66,7 | 3,3 | 61,5 | 2,8 | 102,3 | 4,2 | 143,8 | 5,3 |
| Takaful (\$ billion) | 26,1 | 1,3 | 27,7 | 1,3 | 27,0 | 1,1 | 23,1 | 0,9 |
| Total (\$ trill.) | 2050.2 | 100 | 2,190.2 | 100 | 2,438.5 | 100 | 2698.2 | 100 |
| Growth rate to the level of 2017 | 100 | - | 106,8 | - | 118,9 | - | 131,6 | - |

Currently, there are about five hundred banks and more than one and a half thousand Islamic financial institutions operating in the world in accordance with sharia principles and norms¹⁵. The location of Islamic financial assets, during the COVID-19 period, has not changed significantly, although small shifts can still be observed. The leading role in the development of Islamic financing belongs to the member countries of the Gulf Cooperation Council (GCC). During the pandemic crisis, their role in the Islamic financial system has even increased. They are followed with a slight separation from each other, by the states of Southeast Asia (25%) and the states of the Middle East and South Asia (20.3%). A small increase in the assets of institutional units operating in accordance with the principles of Islam was noticeable in non-Muslim countries of the world (Fig. 7).

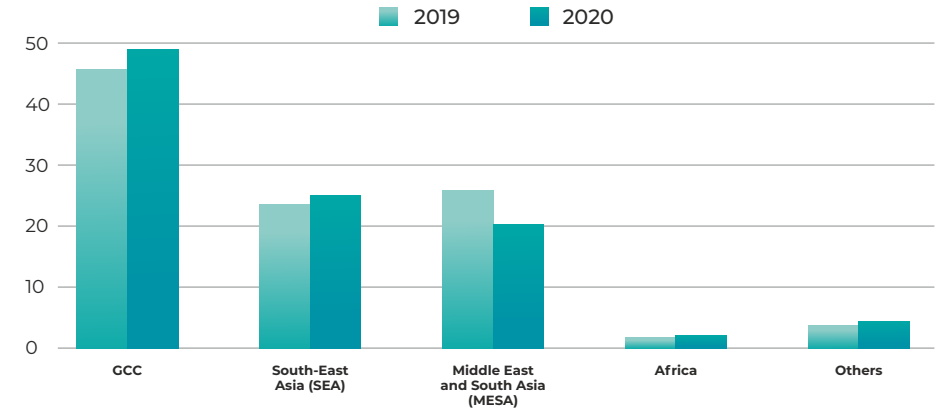


Figure 7. Distribution of Islamic financial assets throughout the world regions¹⁶

The largest volume of financial assets in the Islamic banking system is circulating in the national economies of Iran, Saudi Arabia and Malaysia. These three countries together account for over 64% of total Islamic banking (Fig. 8).

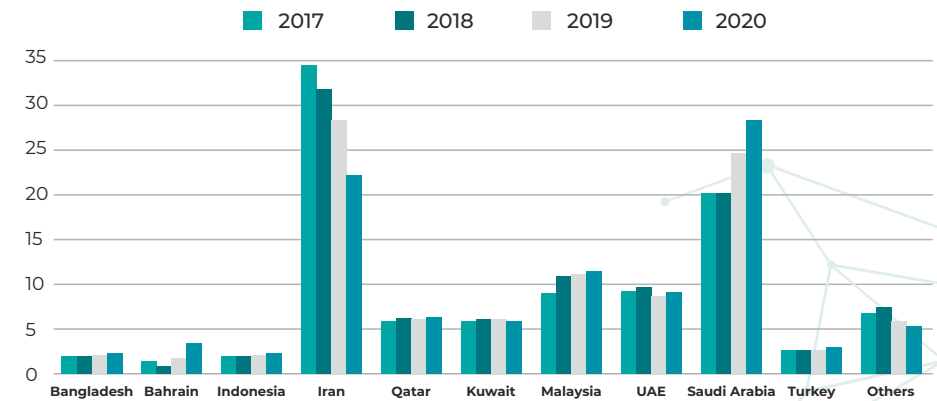


Figure 8. National economies with the largest volume of Islamic financial assets¹⁷

The second most important segment in terms of accumulated assets is sukuk, the Islamic bond market. In 2020, financial assets involved in the sukuk market amounted to US \$703 billion, 53% of which were accrued in the state securities market and 37% – in the corporate securities market. The remaining 10% went to other multilateral organizations.

¹³ Report on Islamic finances development 2018. Increasing memento. Thomson Reuters. 2018. P. 30.

¹⁴ Table 5 is compiled by: Islamic financial services industry stability report 2017 // Kuala Lumpur: Islamic Financial Services Board, 2018. P. 9; Islamic financial services industry stability report 2018 // Kuala Lumpur: Islamic Financial Services Board, 2019. P. 10; Islamic financial services industry stability report 2019 // Kuala Lumpur: Islamic Financial Services Board, 2020. P. 12; Islamic financial services industry stability report 2020 // Kuala Lumpur: Islamic Financial Services Board, 2021. P. 15.

¹⁵ Report on Islamic finances development 2018. Increasing memento. Thomson Reuters. 2018. P. 8.

¹⁶ Islamic financial services industry stability report 2019 // Kuala Lumpur: Islamic Financial Services Board, 2020. P. 12; Islamic financial services industry stability report 2020 // Kuala Lumpur: Islamic Financial Services Board, 2021. P. 6.

¹⁷ Figure 8 is based on: Islamic financial services industry stability report 2017 // Kuala Lumpur: Islamic Financial Services Board, 2018. P. 12. Islamic financial services industry stability report 2018 // Kuala Lumpur: Islamic Financial Services Board, 2019. P. 12; Islamic financial services industry stability report 2019 // Kuala Lumpur: Islamic Financial Services Board, 2020. P. 15; Islamic financial services industry stability report 2020 // Kuala Lumpur: Islamic Financial Services Board, 2021. P. 9.

2020 showed Saudi Arabia as the largest sovereign issuer of Islamic bonds, which accounted for 20.9% of all raised funds. Indonesia released a slightly smaller volume of sukuk (19.4%), followed by Malaysia (17.2%), Kuwait (12.2%) and Iran (8.3%)¹⁸.

Malaysia occupies a leading role in the corporate sukuk market, with 47.3% of the total volume of this type of issued securities. In the order of decreasing, it looks as follows: UAE (16.2%), Saudi Arabia (14.2%), Turkey (10.8%).

The development of the Islamic financial system can be enhanced by the widespread introduction of innovative financial technologies in the financing practice (Fintech).

The OIC countries are the drivers of the Islamic Fintech markets growth. According to the DinarStandard annual report, the volume of transactions related to Fintech in OIC countries in 2020 exceeded US \$49 billion¹⁹. The top five include Saudi Arabia, the UAE, Malaysia, Turkey and Kuwait. Together they account for 75% of the market for Islamic financial technologies OIC.

241 Islamic Fintech companies were registered by the beginning of 2021. Raising funds, deposits and lending, capital management, payments and alternative financing were among the leading financial activity areas together with most innovative financial technologies in Islamic economy²⁰.

According to expert predictions, the further growth of the Islamic Fintech sector will estimate to 21% per year, which will increase its volume up to US \$128 billion by 2025²¹.

As long as there is no single international regulator of the Islamic financial technology market, all issues related to the activities of Islamic Fintech markets and Fintech companies, are resolved within the framework of the national legislation of those countries where they are registered. This may trigger some inconveniences in the functioning of the Islamic sector of Fintech²².

Islamic financial institutions coped with dramatic difficulties taken as a whole, which they had to face during the pandemic. The second year of the pandemic was not so easy for them. Lockdowns and other restrictions triggered the weakening of business activity, which negatively affected the global energy prices. The fall in oil prices painfully hit the economies of the Middle East and other countries dependent on energy exports. However, experts and analysts note that banks and other financial institutions operating in accordance with sharia rules managed to avoid collapse. With a general decline in profits of about 10% in 2020, the profitability of Muslim financial institutions remained stable with 1.4%.

According to Global Finance's, the Kuwait Financial House (KFH) was recognized as the best Islamic financial institution in 2021 for the third year in a row. Thanks to constant investment into new products and services, a good financial situation and constant attention to technology, the KFH has an expanding business outside Kuwait – from the Middle East to Asia and Europe.

The Kuwait Finance House (KFH) also became a frontrunner in nominations as follows: the best Islamic takaful and the best Islamic project financing provider.

The Qatar Islamic Bank (QIB) became the chief winner in the nomination "The Best Islamic Corporate Bank" – 2020, according to Global Finance; and as for the nomination "The Best Islamic Retail Bank" the first place was awarded to Maybank Islamic Berhad

¹⁸ Islamic financial services industry stability report 2020 // Kuala Lumpur: Islamic Financial Services Board, 2021. P. 19.

¹⁹ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.-P. 5.

²⁰ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.-P. 5.

²¹ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.-P. 5.

²² Report on the Islamic finances' development 2020. Increasing memento. Thomson Reuters. 2020. P. 42.

(MIB). In other prize categories, the winners were: "The best Sukuk Bank" – CIMB Islamic Bank; "The Best Islamic Investment Bank" – Standard Chartered; "The Best Islamic Trade Finance Provider" – Maybank Islamic Berhad (MIB)²³.

The Covid-19 pandemic will possibly continue in 2023 and trigger serious liquidity and sustainability problems for Islamic banks. In order to overcome the crisis, it will be essential to enhance the balancing function of the Muslim world central banks and activate the financial market of national regulators.

Sharia-based financial activity at present has a strong legal and regulatory framework. The Islamic Financial Services Board (IFSB) is involved in bringing to balance the Islamic banking, insurance and investment law enforcement practices. Since its creation in 2003 and on, it has developed 34 standards applied for the finances and financial activity for all those, who have the intention to keep up with the Islamic legal rules and regulations in their activity.

The Corona infection outbreak had severe consequences for socially vulnerable population segments. In many countries of the Muslim world, this group covers millions of people. Under such conditions, all instruments of Islamic financing – zakat, sadakah, waqf, takaful, taavuni and others – must be harmonized and integrated with the fiscal policies of national governments resulting in a social support system of the co-believers in need.

The urgent need for financial resources in the Muslim world in terms of compliance with sharia regulations has predetermined the place of Islamic financial institutions in the global financial system.

The analysis of the data shows cautious optimism in respect of the Islamic financial system sustainability prospects. Despite the threat of the new Corona infection waves on the agenda, Islamic financial institutions have shown the possibility of adapting to adverse external factors and positive growth dynamics. Taking the most effective trends into account, we can assume that of all Islamic financial institutions, the sukuk market is the most capable of shock attacks resistance. However, we have to bear in mind that the excessive growth of issuers' debt obligations poses a serious internal threat to the financial system stability in general.

The transition to digital technologies in the banking sector may be one of the ways to reduce the adverse impact of exogenous factors on the Muslim world financial institutions. The global and protracted nature of the pandemic has accelerated the transition to new contact-free financial transfer and information resource technologies. Financial sphere digitalization will allow Islamic financial institutions to accelerate business projects service, develop social assistance programs for the poor and support for SMEs (Small and Medium Enterprises).

The issue of Islamic financial institutions development is extremely relevant in Russia and other countries with a large Muslim population. Thus, the Memorandum of understanding was signed between the Islamic Development Bank (IDB) and the Central Bank of Russia during the International Economic Summit "Russia – Islamic World: KazanSummit", held in May 2016. The parties agreed to exchange information and experience in the financial sector and Islamic banking development.

²³ Global finance. URL: <https://www.gfmag.com/magazine/may-2021/best-islamic-financial-institutions-2021>

In February 2018, Sberbank announced its plans to open Islamic windows in Tatarstan, Bashkortostan and Chechnya²⁴; and signed the Memorandum with the government of the Republic of Bashkortostan on using Islamic banking mechanism funds for realization of infrastructure projects.

But it was possible to achieve noticeable advances in the direction of Islamic banking development only in the past year. In 2021 Sber made agreements using Islamic banking instruments for US \$269 million²⁵.

At the same time, the Center for Partner Financing and Special Projects of Sberbank conducted a screening for compliance with sharia standards of more than ¹⁰⁰ Russian public companies trading on Moscow and St. Petersburg Exchanges. Following the screening, the shares of ¹⁴ Russian companies were declared to comply with generally accepted standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)²⁶.

Currently, Sber has 11 products meeting the sharia principles, which may be offered to the customers upon minor adjustments, namely: leasing, savings account, documentary transactions, trade financing, plastic cards, investments in relevant investment instruments²⁷.

An important step for the Islamic stock market development was the decision of Sber and the Moscow Exchange, announced at the Russian Islamic Economic Forum, which was held in October 14, 2021, to begin calculating new indexes – the “Islamic Investment Index” (trade code – MXSHAR) and “The Islamic Investment Index full yield” (trade code – MXSHARTR)²⁸. The indexes include securities of issuers, which have passed the procedure for checking compliance with the principles of the Islamic economy. The Sharia Supervisory Board, established by Sberinvest Middle East Limited with its headquarters in the United Arab Emirates, will select the issuers. Sberinvest Middle East Limited also provides a procedure for checking securities for compliance with sharia law.

In future, Sberinvest Middle East Limited will offer its Middle Eastern customers investment products fixed to these indices.

The calculation base of the Islamic Investment Index includes securities, which have passed the procedure for checking compliance with sharia principles, and meeting the criteria established by the calculation methodology: the liquidity ratio should be at least 15%, the share fraction in free circulation – at least 5%. The maximum weight of the share of one issuer in the index should not exceed 12%. The index included shares of 15 Russian companies.

At the same time, the Islamic Investment Index cannot include securities of companies carrying out the activity associated with alcohol and tobacco product sale, gambling, speculation, and a number of financial services. In addition to the prohibited activities, the index contains a restriction on the inclusion of companies in terms of debt level and financial position.

²⁴ Sberbank is thinking of opening Islamic windows in the departments // Interfax. February 21, 2018.
URL: <https://www.interfax.ru/business/600970>.

²⁵ Sberbank concluded transactions in the field of Islamic banking for a total amount of US \$269 mln // TASS.
URL: <https://tass.ru/ekonomika/12662763>.

²⁶ Sberbank launches new products of Islamic financing.
URL: https://www.akm.ru/news/sberbank_zapuskaet_novye_produkty_islamskogo_finansirovaniya.

²⁷ Chechnya may become a “pilot” in Islamic banking development in NCFD // RBK.
URL: <https://kavkaz.rbc.ru/kavkaz/freenews/616920139a7947566a608d18>.

²⁸ Sber and Moscow Exchange start calculation of the first in Russia “halal indexes” // Tass.
URL: <https://tass.ru/ekonomika/12666981>.



The Islamic Full Return Investment Index also considers sharia requirements in terms of dividend management. Thus, any part of the income derived from activities, which do not comply with the principles of sharia can be paid to a charity and thus “cleared”. To “clear” dividends using a special factor, the amount deducted from income is calculated. Thus, the investor receives a dividend minus this amount.

Price index values are calculated every five minutes during the main trading session. The calculation of the “Full Yield Index” values is carried out once a day following the results of the main trading session. Index calculation methodology is available on the Moscow Exchange website.

Since November 2021 and on, the Moscow Exchange began trading: in shares of the Exchange-Traded Mutual Funds (ETMF) Halal Investments under the management of Sber Asset Management²⁹.

At the moment, organizations providing services in the field of partner banking are already available on the territory of the constituent entities of the Russian Federation. Among them are La Riba Finance (Dagestan) and the Amal financial house (Tatarstan), which aim at providing the main range of Islamic banking services at one site, which includes attracting investments and financing operations. In recent years new payment solutions of credit institutions under the halal standard have appeared at the market.

Starting from the 2nd quarter of 2019, Ak Bars Bank LLC (Limited Liability Company) and Mortgage Partner are implementing the “Islamic Mortgage” pilot project, which has the form of housing financing through the sale of real estate in installments with a mark-up (Murabaha).

With a view to broadening the geography range and reach more clients, the Bank started sales of the Islamic mortgage in Ufa was launched since November 2020 and on, and in December 2020 the project was approved by the Council of Ulema of the

²⁹ Sber Assets Management launched new exchange unit investment fund «Halal investments».
URL: <https://www.sberbank.com/ru/news-and-media/press-releases/article?newsID=5b47719f-467b-4474-ae28-a7c7a5c038de&blockID=7®ionID=77&lang=ru&type=NEWS>.

Spiritual Administration of Muslims of the Republic of Tajikistan as a product, which meets Sharia standards. The bank plans to increase the volume of issuance to 1 billion rubles by the beginning of 2022.

The Islamic mortgage of Ak Bars Bank for the private sector was also presented at the site KazanSummit 2021. It was developed in the form of an Islamic contract "murabaha" in accordance with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and approved by the Ulems Council of Centralized Religious Organization – Muslim Religious Board of the republic of Tatarstan.

The product differs from the traditional mortgage in the form of implementation. Islamic mortgage is the sale of real estate in installments with a certain margin, which depends on the term of the contract, the amount of the down payment and other parameters³⁰.

According to the terms of the mortgage product, the down payment can estimate from 20 to 80%, the installment period can last from one to 30 years. The minimum transaction amount is 500 000 rubles.

Along with the Islamic mortgage, other areas of Islamic banking are actively developing. So, in 2019, the management company Ak Bars Capital, registered with the Central Bank of Russia and supported by the Tatarstan Investment Development Agency, announced a unique financial product for Russia - the Open Mutual Investment Fund LALE, created in accordance with the standards and guidelines of Islam. During its operation, the Fund has shown a steady increase in the number of clients and capital inflows. During the pandemic, the fund showed a steady trend in capital inflows and new clients³¹.

The conditions for investing in the new BPIF Halal Investments allow purchases from 1 equity unit. At the same time, the total commission and expenses of the Fund will amount to no more than 1% per year and are already included in the price of the party: the management commission – 0.8%, the commission of the special depository, registrar and auditor – no more than 0.1%, other expenses no more than 0.1%. The recommended investment period is 3 years. The product liquidity is high.

In 2021, at the request of Almetyevsk administration, Ak bars Bank created the Endowment Fund together with Kazan (Volga Region) Federal University (KFU).

Ak Bars Bank launched a card for university students with the possibility of individual branding and a built-in loyalty program. Part of the funds from card transactions will be transferred by the bank monthly to the endowment fund of the university.

The PROFcard allows KFU students to receive discounts from 54 partners - popular cafes, cinemas, museums, clothing stores and other places - their number is constantly growing. Besides, the card enables to get a 5% cashback for transport, entertainment and fast food. The card service is free.

The student card is distinctive in one more aspect, that Ak Bars Bank – for the first time in the market frames – has developed a set of topic-based stickers, which follow the shape of the card, thus allowing the cardholders to brand it. Students can choose several options for stickers; and in future they will have an opportunity to offer their own design.

Apart from that, the sidelines of the XII International Economic Summit "Russia - Islamic World: Kazansummit 2021" (July 28-30, 2021) presented a mobile application "Sahih invest", which allows investing in companies manifesting the activity, complying with the ethical Islam norms and regulations. As for financial products, the sharia sets certain requirements: they relate not only to the ban on interest lending, but also to speculative transactions. The project uses the adapted AAOIFI standard (Accounting and Auditing Organization for Islamic Financial Institutions) and regards the development of the Russian economy. Evaluation methodology was developed and approved in the Russian Islamic Institute.

A detailed analysis of about 200 companies' compliance with the Islam standards and regulations is available in the appendix; the list of analyzed companies is expanding, including the gradual addition of foreign companies.

You can subscribe to a paid membership to have access to alternatives companies similar to the company in a given sector.

The product is currently under consideration at the Ulems Council of the Centralized Religious Organization Muslim Religious Board of the Republic of Tatarstan for further approval. Moreover, there will be a permanent Shariah control on the part of this body.

In September 2020, the Tatarstan Leasing Company of Small Business launched a special leasing program in compliance with the canons of Islam "Ijara Leasing". From December 2020 to April 2021, contracts have been funded for over 53 million rubles.

"Miras Financial Company", Limited Liability Company (LLC "MFC") has also started its activities in 2021 with the investment into "Mir Business Bank", Joint Stock Company. The main profile of "MFC", LLC activity is financing by Islamic standards. The geography of "MFC", LLC activity covers all regions of the Russian Federation. The development of Islamic financing methods in Russia is one of the main goals of the company.

By means of agreements based on Shariah norms, "Miras", buys the necessary goods to the client, paying its full cost and sells to the client in installments. The installment period is individual (from 12 to 60 months). Financing is currently available for the following product groups: passenger cars; cargo and passenger vehicles; road-building machinery; industrial equipment; agricultural equipment; medical equipment.



³⁰ Official site of Ak Bars Bank. URL: <https://www.akbars.ru/individuals/hypothec/iipoteka>

³¹ Official site of Ak Bars Bank. URL: <https://www.akbars.ru/individuals/hypothec/iipoteka>



The company "IFC", LLC provides the following services to the customers:

- 1 Financing customers interested in purchasing products by methods complying with Shariah norms, such as the Murabaha contract (MFC, LLC), as well as assistance in obtaining financing by traditional banking methods in "MB Bank", JSC.
- 2 Financing of business projects and commercial activities, as well as participation in them under the Mudaraba agreement.

In addition, specialized funds are emerging in the Russian Federation to support and implement socially important economic programs.

Sheikh Zayed Foundation for the Support of Entrepreneurship was established in the Republic of Chechnya in 2017. The founder of the Fund was one of the subsidiaries of the Khalifa Fund for Enterprise Development, a state institution of the emirate of Abu Dhabi (UAE). The main goal of the Fund is to become a crucial element in the system of business support to achieve sustainable social-and-economic effect in the Republic of Chechnya by means of targeted support for small and medium-sized businesses. The Fund supports Russian citizens aged 18-60, residents of the Republic of Chechnya, to set up and develop businesses registered in Chechnya.

The main support directions of the Fund include financing new business starting and current businesses developing, coaching and counseling of entrepreneurs, as well as promoting the entrepreneurial society development. As of the end of April 2021, the Fund financed 240 projects and approved 321 for financing for a total amount of 1.6 million rubles.

The Fund mainly finances projects under the Murabaha standard, buying goods, equipment and materials necessary to implement the business, and reselling them to the entrepreneur in installments with mark-up. The installment period is up to 4 years and the grace period is 12 months. The Fund also financed 26 projects under the Musharak standard (partnership with an agreement to share profits and losses). At least 500 jobs have already been created in the Republic of Chechnya owing to the projects financed by the Foundation.

It also organizes free coaching courses and seminars for entrepreneurs on a regular basis. The basic training program includes such areas as brainstorming, business plan set-up, financial management from scratch and marketing. Seminars on Islamic finance with experts of the Religious Board of Muftis of the Republic of Chechnya were also organized for the Foundation's entrepreneurs. More than 3,000 people have been trained through the programs offered by the Foundation.

On October 14, 2021 the III annual Russian Islamic Economic Forum "Russia as a Guarantor of Partnership" was launched in Grozny. It was attended by more than 200 delegates from all over the world.

The Forum included a discussion on "Alternative solutions for the regulation of Islamic finance in Russia", participated by the representatives of the federal and regional levels of government, Muslim clergy, scholars and entrepreneurs. The Forum participants noted that the principles of Islamic finance should be shaped in the legal form and introduced into the practice of financial and credit organizations in Russia.

Speaking about the present-day situation in the field of Islamic finance and banking, despite the interest of some large Russian credit institutions in this topic, the introduction of Islamic economic instruments is very slow and cautious, and examples are local in their nature. There are two points of view in banking circles concerning the segment development prospects. There is an opinion that the current Russian legislation does not allow full-scale activity in the field of Islamic or partnership banking³².

The other part of the banking community, headed by the Central Bank of Russia, believes that amendments to Russian laws are not on the agenda, and the existing legislation allows the use of alternative instruments of financing³³. According to the Central Bank leadership, instead of somehow forcing the situation, the attention should be focused first and foremost on individual pilot projects in the regions.

Activities on the development of Islamic finance are carried on.

³² Islamic banking: The alternative to the western finances was discussed at the Summit in Kazan. TASS. May 19, 2018. URL: <https://tass.ru/ekonomika/4267011>.

³³ Islamic banking and commodities turnover development was discussed at the Summit in Kazan. TASS. May 12, 2018. URL: <https://tass.ru/ekonomika/5193971>.

2.2. HALAL ECONOMY

Halal is an economic sector in which businesses and organizations offer products and services made in compliance with the norms, rules, methods allowed by Shariah to the customers. Considering the growing Muslim population in the world, Halal products have huge potential, both within the states of the Muslim world and in the global market. Halal production of goods and benefits covers almost all spheres of modern economy: tourism, fashion, finance, IT, mass media. Halal lifestyle is becoming popular not only among the Muslims, but also among those who are not followers of Islam (see Fig. 9).



Figure 9: The main types of halal production.

But Halal is not just about creating goods for their production. Halal philosophy is based on the understanding that the purpose of the producer of goods and services and his service to the Almighty God is to create a comfortable living environment for his neighbor, better living conditions and doing good deeds in the name of Allah, and not for the sake of personal gain. Halal is, above all, quality and responsibility before the customer. Created values and a fair reward for the labor and effort put into their production cannot be called Halal if they are associated with deceiving the consumer, extracting monopoly profits, speculation, breach of contract and illegal means of production. Halal production appeals to the values and traditions inherent in the culture and religion of Muslim peoples.

According to the results of 2021, the volume of the global Halal food market amounted to 1.2 trillion US dollars, and the total sum of investments attracted to this industry was 3.97 billion US dollars³⁴.

The leading exporters of food products to the OIC countries are Brazil (accounting for 16.4% of the total supply); India (15.3%), Russia (12.7%) and USA (13.2). The top five importers of halal food products to the world market are: Indonesia (146.7 billion US dollars), Bangladesh (125.1 billion US dollars), Egypt (120.1 billion US dollars), Nigeria (86.2 billion US dollars) and Pakistan (87.7 billion US dollars)³⁵.

The COVID-19 pandemic has disrupted supply chains on a global scale, and has forced foodstuffs -importing countries to reduce dependence on this commodity group, forcing them to pay more attention to the development of domestic food production. Each country develops both its own projects designed to increase the level of their food security, and joint bilateral and multilateral projects, including within the framework of the OIC. At the same time, a lot of work is being done to standardize the rules for the production and sale of halal products, including adjusting the requirements for companies producing halal products.

In addition to the foodstuffs market, halal is spreading to the clothing and fashion market. Halal fashion is a relatively new direction in the Islamic economy, which has received dynamic development in the last decade. In 2021, the total spending for Muslim on clothing and footwear amounted to US\$295 billion³⁶, and by 2024 it is expected to increase to the value of \$311 billion. The leading manufacturers of Islamic fashion clothing are China, India, Vietnam, Turkey, as well as the largest Western brands - Dolce & Gabbana (Italy), H&M (Sweden), Marks and Spencer (Great Britain). The total garments import volume to OIC countries already exceeded US\$29.3 billion in 2019. The top spenders on Muslim clothing are Iran (\$50.7 billion), Turkey (\$36.2 billion), Saudi Arabia (\$21.6 billion) and Pakistan (\$23 billion)³⁷.

The Islamic economy is also showing success in multimedia, leisure and recreation. This area includes cognitive and educational television programs, TV film series, educational games for tablets and smartphones, and various mobile applications, focused on the growing demand among people who practice Islam or are interested in Islamic culture. In 2021, the total value of global halal products and halal multimedia services reached US\$231 billion and is projected to grow to \$308 billion by 2025³⁸. The largest producers of the halal multimedia products market are Turkey (US\$27.5 billion), Indonesia (US\$22.4 billion), USA (US\$21.2 billion), Saudi Arabia (US\$13 billion), and Pakistan (US\$12 billion)³⁹.

The most successful Russian projects in IT-technology for Muslims include Halal Guide, the first guide for smartphones and tablets, which helps to find the nearest mosque, Islamic bank, Halal cafe, stores with Muslim literature or clothing, order Halal food and even get a job according to the sharia rules; MyDiaspora, a mobile application for making acquaintances for Muslims.

According to experts, the volume of the world market of Halal tourism is estimated at US\$102 billion dollars. Due to the COVID-19 crisis, Muslim expenses on travel abroad have decreased. But the figures are expected to return to pre-pandemic levels by 2023.

In the regional context, the leader of the Halal-tourism market is the GCC countries (the total expenditure on Halal-tourism services is estimated over US\$69 billion). The top five countries attractive to Muslim tourists include Turkey (5.7 million people visited this country in 2021), the UAE (3.2 million people), and Malaysia (2.4 million people). As for the

³⁵ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 56.

³⁶ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 116

³⁷ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 116-117.

³⁸ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - DinarStandard, 2022.- P. 169.

³⁹ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - Dinar Standard, 2022.- P. 170-171.

Muslims themselves, every year they are more and more actively involved in international tourist flows. Saudi Arabia's international tourism spending amounted to US\$13.7 billion, the UAE US\$3.2 billion, Qatar US\$7.8 billion and Kuwait US\$7.0 billion⁴⁰.

Recently, the capacity of the Russian halal tourism market has been expanding. According to Thomas Reuters and DinarStandard experts, its volume may reach 8 million US dollars⁴¹.

Against the background of restrictions related to the pandemic, opportunities for domestic Halal-tourism are expanding. Thus, particularly in 2021 the Republic of Tatarstan launched the "Glamping Halal Resort" – a place of family recreation, combining the comfort of a hotel room with the possibility to relax in nature in accordance with Halal standards. The Glamping received its first guests on June 1, 2021⁴². But despite the presence of world-class hotel chains providing services to tourists from Muslim countries in Moscow and Kazan, in general, the tourism infrastructure in other Russian cities (including St. Petersburg) does not meet Halal standards⁴³.

Halal requirements and standards are widely implemented in the global tourism business. More and more popular Halal-tours appear annually. In contrast to the traditional tourism, Halal-tours imply Halal drinks, food, entertainment; hotels announce the time of prayer, prayer rooms, recreation without music, etc. Halal hotels usually follow a strict dress code and do not allow men and women to face each other in public places: there are separate cafeterias, restaurants and swimming pools for them. If an establishment simultaneously offers services for Muslims and non-Muslims, all of its equipment, employees, and food supplies must be separated into two sections⁴⁴.

The global Halal medicine and Halal cosmetics market continues to gain positive momentum. From 2018 to 2019, it had grown by 2.3% from US\$92 billion to US\$94 billion⁴⁵. The market size of Halal medical products and Halal cosmetics in 2020 is evaluated at US\$74.7 billion⁴⁶.

The peculiarity of the global pharmaceutical market is a significant presence of non-Muslim countries in Europe and North America. In this respect, there is a need to promote Halal medical products, drugs, vaccines and cosmetics. Russia is in the top three countries in terms of consumer spending in the field of Halal medicine - US\$3.5 billion, and Halal cosmetics - near US\$6 billion respectively.

Individual specialized medical centers and clinics for Muslims are already receiving visitors in Moscow and Kazan. An ambitious project is the construction of a Halal clinic in Tatarstan with the support of the Waqf Foundation of the Republic of Tatarstan⁴⁷.

However, both segments – Halal-medicine and Halal-cosmetics – are only at the stage of formation and require additional investment from the state and the private sector.

Russia, which is home to about 25 million Muslims, has a strong potential in terms of developing the Islamic economy. The most promising, for domestic producers, is the

⁴⁰ State of the Global Islamic Economy Report: UNLOCKING OPPORTUNITY. - Dinar Standard, 2022. - P. 99.

⁴¹ The report on the state of the global Islamic economy 2020/21. DinarStandard. 2020. P. 99.

⁴² „Glamping Halal Resort“. URL: <https://halalresort.ru/>.

⁴³ Yevgeniya Priyemskaya. Sun, sea and halal. What is the world structure like for the Muslim tourism Newspaper «Izvestiya». February 11, 2018. <https://iz.ru/706453/evgeniia-priemskaja/solntce-more-i-khalial>.

⁴⁴ Information-analytical portal the voice of Illam. py. URL: <https://goloslama.com/news.php?id=23509>; Muslim club. URL: <http://blog.muslimclub.ru/>.

⁴⁵ The report on the state of the global Islamic economy 2020/21. DinarStandard. 2020. C. 135.

⁴⁶ Halal cosmetics market: global industrial trends, events, volume, growth, opportunities and forecast for 2021–2026

⁴⁷ Fund "Wakf of the Republic of Tatarstan". [official site]// www.vakftr.ru

manufacturing of Halal food products. Russian President Vladimir Putin called to increase Russian Halal exports from US\$20 billion to US\$45 billion by 2024. He insisted on increasing Russia's exports of Halal products up to US\$45 billion by 2024⁴⁸. But Russia has not used the country's export opportunities in this direction so far. For example, out of the total capacity of the global poultry market produced in compliance with Shariah, and estimated by experts at 12-18 million tons, Russian producers are able to supply only about 650,000 tons (or about 5%). Meanwhile, the segment of Halal products is one of the fastest growing in the world, and such products are chosen not only by followers of Islam, but also by secular consumers, who consider it of higher quality⁴⁹.

Production of all major types of Halal products and Halal services is gaining momentum, not only in Muslim but also in non-Muslim countries with a significant Muslim population, including Russia. Every year, the demand for Halal products is growing by 10-15%. The largest number of Halal products manufacturers in 2020 is registered in the Republic of Bashkortostan, Samara and Moscow regions and the Republic of Tatarstan (see Table 6).

Table 6: Distribution of Halal products by region of Russia (2020), in %⁵⁰

| Russian regions | % | Number of manufacturers |
|----------------------------------|-------|-------------------------|
| 1 Bashkortostan | 30,24 | 16 |
| 2 Moscow region | 11,34 | 6 |
| 3 Mariy El | 3,78 | 2 |
| 4 Orenburg region | 3,78 | 2 |
| 5 Penza region | 3,78 | 2 |
| 6 Samara region | 13,23 | 7 |
| 7 Sverdlovsk region | 3,78 | 2 |
| 8 Tatarstan | 7,56 | 4 |
| 9 Tyumen region | 3,78 | 2 |
| 10 Ulyanovsk region | 3,78 | 2 |
| 11 Astrakhan region | 1,89 | 1 |
| 12 Leningrad region | 1,89 | 1 |
| 13 Mordovia | 1,89 | 1 |
| 14 Nizhny Novgorod region | 1,89 | 1 |
| 15 Rostov region | 1,89 | 1 |
| 16 Saratov region | 1,89 | 1 |
| 17 Chelyabinsk region | 1,89 | 1 |
| 18 Chuvashia | 1,89 | 1 |

⁴⁸ URL: <http://www.aceexpert.ru/archive/nomer-50-51-835/halyal-kak-ekonomicheskij-faktor.html>.

⁴⁹ Russia plans to join top 10 global exporters of meat and poultry. The supplies may be increased through the increased halal products manufacture. AgrolInvestor. September 24, 2020.

URL: <https://www.agroinvestor.ru/markets/news/34442-rossiya-planiruet-voyti-v-top-10-mirovykh-eksporterov-myasa-ptitsyl/>.

⁵⁰ RT Ministry of agriculture and foodstuffs. URL: https://agro.tatarstan.ru/rus/file/pub/pub_130311.pdf

Almost the entire volume of Halal products manufactured in Russia and its regions fall upon the food industry. A small share is taken by the retail trade, cosmetics market and poorly represented products of other industries (see Fig. 10).

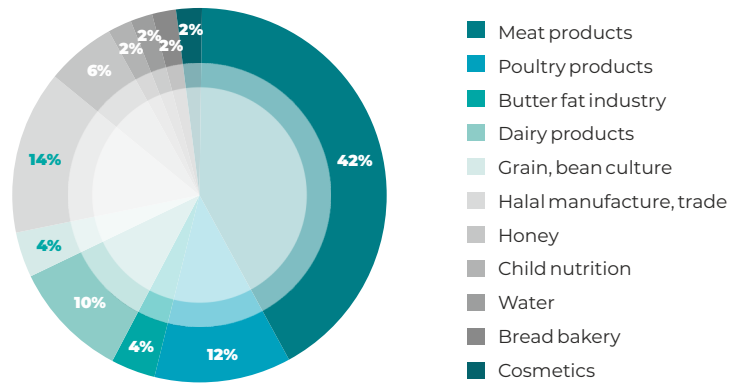


Figure 10. Halal product groups of the Republic of Tatarstan and Russian regions, in % (2020)⁵¹

In 2020, Tatarstan produced Halal products worth 10 billion rubles, which is 3% of the total value of RT gross agricultural output (263.4 billion rubles). According to the RT Ministry of Agriculture and Food, apart from meat and sausages of beef and poultry the republic produces Halal dairy products and cheese, confectionery and even grape juice.



⁵¹ RT Ministry of agriculture and foodstuffs. URL: https://agro.tatarstan.ru/rus/file/pub/pub_130311.pdf.

The volume of Halal products export supplies is expanding: if in 2019 Tatarstan exported Halal products for US\$ 0.3 million, then by the end of 2020 it amounted already for US\$ 2.5 million. In 2021 it was planned to gain for over 2 times more from the export of “Halal” products – US\$5 million (as of July 12 US\$2.3 million were earned). Tatarstan Halal products are exported to Uzbekistan, Mongolia, China, Azerbaijan, Germany, USA, Kazakhstan and Belarus.

The “Halal” International Center for Standardization and Certification under the Council of Muftis of Russia provides services to major federal producers, helping them to export products to Islamic countries.

Since 2019 the Preliminary National Standard of the Russian Federation, was introduced in Russia by the Order of the Federal Agency for Technical Regulation and Metrology No 55-pnst of December 19, 2019, the Halal Products and Services (PNST 378-2019). The standard establishes the terms and definitions of concepts in the field of Halal products and services, the composition and properties of Halal products and products of their processing, produced from sources, which meet the requirements of the Islam canons (see Fig. 11).



Figure 11. Preliminary National Standard of the Russian Federation: “Halal Products and Services” (PNST 378-2019)⁵²

There is a system of voluntary certification operating in the Republic of Tatarstan, thus it can be confirmed that the market of Halal products is certainly exceeding the official certification figures. The certification of healthcare facilities according to “Halal” standards has been launched since December 2019. Five healthcare facilities applied for holding of the certification procedure – “Yan” (Almetyevsky district of the Republic of Tatarstan), “Raduga” and “Zhemchuzhina” (Naberezhnye Chelny), “Dolphin” (Zelenodolsk) and “Shifaly Su – Izhminvody” (Mendeleevsky district of the Republic of Tatarstan).

⁵² GOST data base. URL: <https://allgosts.ru/>.

The Halal Committee of the Centralized Religious Organization -Muslim Religious Board of the Republic of Tatarstan (CRO MRBRT) works mainly with Tatarstan producers, not all of them having export facilities.

The register of the Committee on Halal Standard of the CRO MRBRT currently has 148 subjects of economic activity, which have received a Halal certificate; among them are Chelny Broiler, Ak Bars Poultry Farm, “Ravis - Sosnovskaya poultry farm”, “Akashevskaya poultry farm”, “Zelenodolsk dairy products processing plant”, “Kazan dairy plant”, “Makfa”, “Chelny-KhleB”, KFC fast food restaurant, etc.

The increased number of all Halal certificates have been issued by CRO MRBRT for public catering sector, for the sale of meat and semi-finished products to the population.

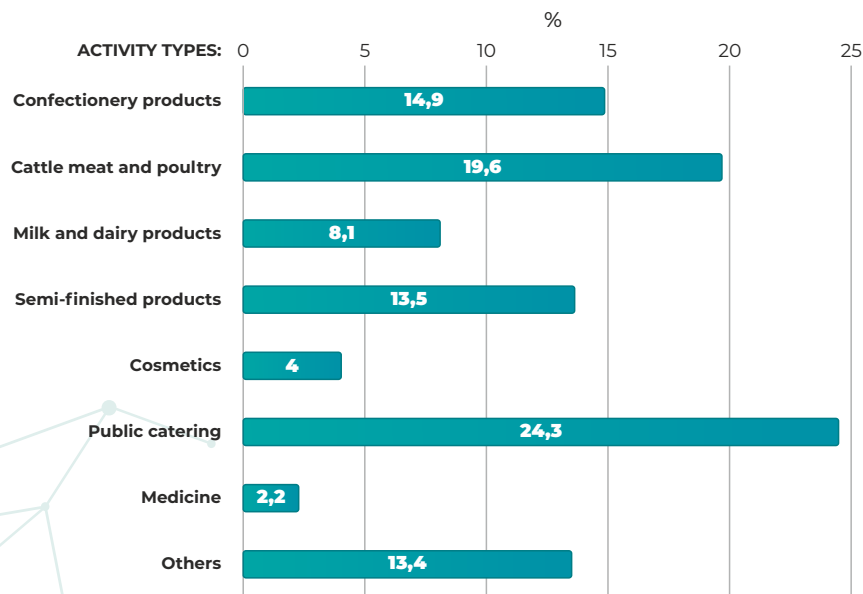


Figure 12. Distribution of Halal Certificates Issued by the CRO MRBRT⁵³

The World Halal Day held annually is essential for promotion of Halal producers. World Halal Day was first held in 2014. And in 2019 the World Halal Day was celebrated for the first time in Russia as part of the Volga Investment Summit in Samara.

There are three organizations for certification of Halal products in Russia: the “Halal” International Center for Standardization and Certification under the Council of Muftis of Russia, the “Center HalalNadzor” Center for Standardization and Certification supported by the Muslims Religious Board of Moscow and the

Central region, as well as the Halal Standard Committee under the Centralized Religious Organization - Muslim Religious Board of the Republic of Tatarstan.

In order to manufacture products under the Halal brand, Russian companies must pass the accreditation procedure in one of the above-mentioned bodies. The largest exporters of Halal meat in 2019 have become agricultural holdings Resurs, Cherkizovo, Prioskolye, Agrocomplex, Agrosila, Damate and Miratorg⁵⁴.

The main problem in the development of Russian Halal products market is the deficiency of a unified certification center and the non-compliance with international standards⁵⁵.

In November 2020 the Halal Standard Committee of the Centralized Religious Organization - Muslim Religious Board of the Republic of Tatarstan signed an agreement with UAB Halal Control Lithuania, a certification body accredited in such Islamic countries as Malaysia, UAE, Bahrain, Saudi Arabia, Oman, Qatar, Kuwait and Yemen. Thus, companies accredited by the Committee will be able to export to these Islamic countries. The Committee has certified more than 1,500 organizations.

The pilot project of Halal marking of the Center of expertise for marking and monitoring of products announced its existence at the KazanSummit 2021. The Halal certification project was created under cooperation with SICPA, Saudi Arabia and the Republic of Tatarstan. This is a leading company in development of systems for protection and authentication is starting cooperation with the Republic of Tatarstan in settlement of the challenges in respect of Halal standards for creating a sustainable ecosystem of Halal certification worldwide. The result of this cooperation was the creation of a Halal certification pilot project. The aim of the project is to increase consumer protection and competitiveness of producers, as well as to strengthen international confidence in halal products. Among the regional producers participating in the program are already the following companies: LLC “Camembert”, agricultural enterprise “Kausar”, “Agrosila” JSC, “Alif” LLC.

Halal Digital Block chain Ecosystem was also presented within the sidelines of KazanSummit 2021. It was initiated by Halal Digital Ecosystem LLC and the Islamic Legal Center.

The digital ecosystem of Shariah products includes a digital Halal certificate, a block chain digital passport with a QR code, a trading platform for the sale of such products and its delivery system.

One of the components of the ecosystem should be block chain. This technology allows the integration of data from all participants in the chain of production and sale of products. Each member of the Halal ecosystem acquires the opportunity to enter information into a digital passport of goods. The consumer gets access to it through the QR-code.

Digital marking not only guarantees authenticity, quality and compliance with strict Islamic traditions, but also makes it possible to trace the entire history of the product from a farm to a market.

Another discovery of KazanSummit 2021 was a Russian Internet store of Muslim goods - “All Islam”. The portal presents goods of both Muslim manufacturers and unique private production, as well as pieces by craftsmen from different cities and countries, using Islamic themes in their work.

⁵⁴ Authorized poultry: the demand for halal in the world and in Russia is growing. AgroInvestor. 22.06.2019. URL: <https://www.agroinvestor.ru/analytics/news/31950-razreshennaya-ptitsa/>

⁵⁵ The development of Islamic banking and commodity circulation was discussed at the Summit in Kazan. TASS. May 12, 2018. URL: <https://tass.ru/ekonomika/5193971>

“All Islam” project is beneficial for mosques and Muslim shops. Swift operation allow all the participants of seller-customer cooperation to receive, transfer, expand assortment of their products, carry out its delivery to the pick-up point or to the customer's home address transparently.

Marketplace is a unique trading platform of a new format with innovative technological solutions. All Islam is the largest database of suppliers of Muslim goods, the opportunity for small and private producers to enter the all-Russian market, easy search and categorization of goods⁵⁶.

Another ecosystem of Halal brands with Tatar roots is the T-family. This ecosystem will combine several lines of activity: Halal restaurants, fitness centers and marketplaces. Online store “KazanExpress” will become a logistic partner of the marketplace of Halal brands. It will provide delivery of goods in 1 day through a network of delivery points in 66 cities of Russia.

As a part of the ecosystem it is planned to develop and bring Muslim clothing of Tatarstan designers and Halal food to the international market, as well as to develop a network of Halal fitness centers⁵⁷.

2.3. ISLAMIC FINANCIAL INSTITUTIONS AND HALAL PRODUCTS IN THE EAEU COUNTRIES AND THE NON-MUSLIM WORLD (EXPERIENCE OF THE REPUBLIC OF KAZAKHSTAN AND THE UK)

Islamic funding and Islamic products are becoming increasingly widespread not only in the Muslim world, but also in Europe. More actively than the other countries, Islamic elements are penetrating the national economy of Great Britain.

London attracts financial flows from all over the world as one of the world's largest financial centers. Since recently, the flow of Islamic financial assets has also appeared in this flow. In terms of accumulated Islamic assets, Britain ranks first among the non-OIC countries – US\$14 billion⁵⁸. Owing to accumulated Islamic assets, the UK ranks first among non-OIC countries with US\$14 billion. The British model of attracting financial resources from other jurisdictions is the most advanced in terms of Islamic finance development.

In the ranking of Islamic finance development IFCI (Islamic Finance Country Index), developed on the basis of the methodology of the British company Edbiz together with the Islamic Bank of Dubai, UK ranks first among the countries outside the OIC⁵⁹. According to experts of TheCityUK, the British financial association, there are over 20 banks operating at present in the country and providing services in accordance with the Shariah rules; 5 of them are fully specializing in Islamic banking. Among them are:

⁵⁶ Discover more of the goods on the site: <https://www.allislam.ru/>.

⁵⁷ Link for downloading the “Halal Only” marketplace app for androids: <https://play.google.com/store/apps/details?id=ru.tolkohalal.twa>

⁵⁸ Report on the Islamic finances' development 2020. Achieving momentum. Thomson Reuters. 2020. P. 43.

⁵⁹ Islamic finances branch beyond the OIC. Opening new centers. Thomson Reuters. 2018. P. 14



AL RAYAN BANK

Al Rayan Bank

5 branches, 60 thousand customers, serves individuals and businesses, offering a wide range of Islamic financial products;



Bank of London and The Middle East

private capital management, financial consulting and solutions for corporate clients, placement of deposits;



Qatar Islamic Bank (QIB) UK

providing financial and investment products to both Islamic financial market participants and customers of traditional banks);



gatehousebank

Gatehouse Bank

wholesale investment bank, main activities: long-term loan capital market, real estate, financial assets, cash management and consulting;



Abu Dhabi Islamic Bank

specializes in cash and private capital management, corporate finance and investments.

Back in 2014, London became the first issuer of Islamic securities outside the Islamic world. Today, 67 sukuk bonds are listed on the London Stock Exchange (LSE), valued at US\$50 billion⁶⁰. The LSE is the leading authoritative marketplace for Islamic securities. Listing in London guarantees investor diversification for sukuk issuers, which has been recently manifested in transactions at the market. Important players in the Islamic finance industry, including the Islamic Development Bank and the Islamic Corporation for the Development of the Private Sector (ICDPS), continue to trade in the market, reinforcing London's position as the leading platform for iconic sukuk transactions.

In addition to the banks, there are more than 70 Islamic management funds in Britain⁶¹. The country keeps the leading positions in the development of this line of activity, offering the best conditions for the management of available cash assets. The results of 2016 manifested that the total assets under management of Islamic funds reached more than US\$564 million⁶².

⁶⁰ Global trends of Islamic finances and UK market. Association TheCityUK. 2018. P. 11-12.

⁶¹ Islamic Finance Beyond the OIC.

⁶² Islamic Finance UK 2021. Opportunities loom on the background of Brexit and the pandemic.

URL: <https://www.salaamgateway.com/story/uk-islamic-finance-2021-opportunities-loom-amid-brexit-and-pandemic-gloom>

Positive experience of Islamic financial institutions activity and Islamic products have been accumulated not only by non-CIS countries, but also by Russia's closest partners in the EAEU. In this respect, the experience of the Republic of Kazakhstan deserves attention.

We can say it with confidence that the start of Islamic projects in this state was given in 2009, when legislative innovations were introduced into the current legal system, which from now on, de jure, allow the use of Islamic financial instruments in the national economy. A few years later, Kazakhstan's legal framework was enriched with specific legal provisions, which opened the green light to Islamic banking: in June 2011, a law authorizing the issue of government Islamic securities and expanding the list of issuers of corporate Islamic securities was passed. In 2017, the Islamic Finance Rules act and the Islamic Banking Business Prudential Rules act were issued. In 2018 the Islamic Financial Business Handbook was issued, and in 2019 the act on the prudential regulation of Islamic insurance and reinsurance organizations (Takaful and Retakaful Prudential Rules) was adopted. And in 2020 the legislative framework of Kazakhstan was supplemented by the Roadmap for the development of Islamic finance (Islamic Finance Master Plan) in the territory of Kazakhstan⁶³.

In 2012, the Islamic Development Bank (IsDB) and the Government of Kazakhstan signed a Country Partnership Strategy, which allowed attracting about US\$650 million into the country's economy over the next three years, in particular, in the areas of trade finance, private sector development and insurance.

In 2021 the IDB approved 68 projects, 51 of which have been completed, totaling US\$1.7 billion. The main lines of activity supported by IsDB are the following: agricultural development (23 projects), financial sector (16), transport infrastructure (9), education (7), health and social services (4), industry and mining (3), water and sanitation and urban services (2), information and communication technology (2) and real estate (1)⁶⁴.

In 2018, in order to attract international investment, including those basing on the principles of Islamic finance, Astana opened the Astana International Financial Center (AIFC). The AIFC created conditions for the provision of Islamic financing instruments. For example, Islamic banks, Islamic financial (non-banking) companies, asset management companies, Islamic broker-dealer companies, Islamic insurance companies (takaful and retakaful) can register and work at the IFCA venue.

The organization is a member of the leading international Islamic organizations, such as the Islamic Financial Services Board (IFSB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the General Council of Islamic Banks and Financial Institutions (GCIBFI) The Exchange at AIFC (Astana International Exchange - AIX) has facilities for issuing Islamic securities (sukuk)⁶⁵.

As of July 2020, the assets volume in the AIFC banking sector reached US\$365 million. The capital markets also showed growth, with raised equity capital of US\$291 million. There are already 500 companies from 42 countries registered at AIFC Astana. Many of them are ready to work with Islamic finance products⁶⁶. Despite the pandemic, AIFC Astana is continuing to expand its activities.

⁶³ IFCA hub on Islamic finance and business, AIFC presentation.

⁶⁴ Interactive map. Official site of the Islamic Development Bank, Updated 21.02.2021 <https://www.isdb.org/projects/map>.

⁶⁵ Islamic finances: growth principles // Business information center Capital. 25.09.2020.

URL: <https://kapital.kz/finance/90100/islamskiye-finansy-printsipy-rosta.html>.

⁶⁶ 500 members are registered in IFCA // Business information center Capital, 03.07.2020.

URL: <https://kapital.kz/business/88303/na-mftsa-zaregistrirvano-500-uchastnikov.html>.



Halal market is successfully developing in Kazakhstan. Halal Industry Association of Kazakhstan to date has certified about 700 Kazakhstan⁶⁷ and 50 foreign companies manufacturing products in accordance with Sharia norms, of which 70% are export-oriented companies⁶⁸. Halal certification standards apply to such areas as meat and meat products, fish and fish products, milk, eggs, grain, oils and fats, fruits, sugar, water, etc. Since 2020 in Kazakhstan launched the "Roadmap for the development of Halal products"⁶⁹.

Each year the list of Halal standards is expanding. It includes more and more new types of products. Since July 1, 2020 five new national standards in the field of Halal are adopted, reports the correspondent of the center of business information Kapital.kz, referring to the press service of the Ministry of Trade and Integration.

1. STRK 3483-2019 Halal products. Main provisions;
2. ST RK 3453-2019 Halal Products. Organizations engaged in the slaughter of farm animals and poultry;
3. ST RK 3485-2019 Halal products. Procedure of conformity authorization;
4. ST RK 3484-2019 National mark of Halal products conformity. Technical requirements and labeling procedure;
5. ST RK 3454-2019 Halal Public Catering services. General requirements⁷⁰.

The Republic of Kazakhstan has a strong position in the halal tourism market. In the industry review compiled by Mastercard on the development of halal tourism in the world, (of tourist attractiveness of countries rating – Global Muslim Travel Index), Kazakhstan took the seventh place in 2019⁷¹.

In 2019, Arman Bayev, the founder of the Blackstone Group design-architecture firm, founded and invested into an online platform for crowdfunding investments in commercial real estate.

"Proportunity" seeks to create financial instruments concerning the needs of different groups of clients. The "Rent to Buy" product meets the standard of Islamic finance and is suitable for investment by Muslims, according to AAOIFI Shariah standards.

⁶⁷ Official site of the Halal Industry Association of Kazakhstan. URL: <https://halal-kz.kz/ru>.

⁶⁸ Official site of the Halal Industry Association of Kazakhstan. URL: <http://halal-kz.kz/index.html>

⁶⁹ By 2023 the halal products market in the world will reach US\$3 trln // Business information center Capital. 20.08.2019.

URL: <https://kapital.kz/economic/80598/k-2023-godu-rynok-khalal-produktov-v-mire-dostignet-3-trln.html>.

⁷⁰ 5 National Halal standards have been introduced in Kazakhstan // Business information center Capital. 02.07.2020.

URL: <https://kapital.kz/economic/88271/v-kazakhstane-vveli-5-natsstandartov-dlya-produktsii-khalal.html>.

⁷¹ Global Muslim Travel Index Report, 2019. Compiled by Mastercard and Crescentrating. 2019. P. 20.

This is confirmed by the certificate of compliance with Islamic standards, issued by the Auditing and Consulting for Ethical Financial Institutions (ACEFI), Kazan.

The platform works along the “diminishing musharaka” scheme. A musharaka (partnership) is a type of joint venture in which two or more founders conduct business, sharing both profits and losses.

One form of musharaka agreement, which exists in the system of modern Islamic finance is the “diminishing musharaka”⁷².

Diminishing musharaka is a form of partnership in which one partner commits to gradually redeem the other partner's share until the ownership passes to him/her completely.

In a diminishing musharaka agreement, the joint venture partners acquire joint ownership of the property. The investors' share is further divided into a number of portions, and the client redeems these portions one by one over a period, thus increasing his/her share until all portions of the investors' share are redeemed by his/her, after which the client becomes the sole owner of the property.

2.4. HALAL CHARITABLE AND EDUCATIONAL PROJECTS

One of the features of the Islamic economic model is its social orientation. Helping those in need has always been a priority in the Muslim system of values. Therefore, the development of Islamic charity institutions has become an integral attribute of the Islamic economy.

The National Islamic Charity Fund “Yardem” was established in the Republic of Tatarstan in 2007. It is engaged in social work in many directions. The most significant is the contribution of the Foundation into the opening in 2013 in Kazan and subsequent funding of the Rehabilitation center.

In addition to working with people with reduced capabilities and providing targeted assistance to those in need, the Yardem Foundation annually collects and distributes means from zakat and gushur.

Noteworthy projects in the field of Islamic charity are implemented by Sberbank. In 2019, at KazanSummit Sberbank launched PayZakat, a global digital platform based on artificial intelligence to collect and distribute charitable payments collected by the Muslim community for the poor and people in need. Using chatbots in social media, the users calculate the payment, distribute it to verified charitable organizations, and select projects to donate to. Sadaqahmats have been provided to collect non-cash and cash sadaqah donations, which are currently operating in the Blue and Galeevskaya mosques in Kazan.

At the moment the PayZakat platform has more than 3 000 subscribers, the average bill of large transactions in 2021 amounted to 8,000 rubles⁷³.

⁷² Ap, Al-musharaka Al-mutanakysa, eng. diminishing musharaka.

⁷³ Sber discussed the development prospects of partnership banking at the Russian Islamic Economic Forum.
URL: <https://www.grozny-inform.ru/news/economic/132292/>.

Sberbank, together with the Centralized Religious Organization – Muslim Religious Board of the Republic of Tatarstan, launched a campaign to raise funds for the project “Virtual mosque”. The aim of the project is to provide people with disabilities with augmented reality helmets, which might help to visit the mosque virtually and get the effect of presence at the collective prayer.

KazanSummit 2021 offered the adherents of Halal lifestyle a new product – an interactive game “Bai”. The business game is a unique interactive model; its mastering and studying which will allow the participants to gain practical experience in business, investment and financial literacy in compliance with Islamic values.

International Islamic educational projects are implemented by Russian University of Economics named after G.V. Plekhanov. In 2019, it concluded a cooperation agreement with the International Association of Islamic Business. Cooperation between Plekhanov Russian University of Economics and the IAIB (International Association of Islamic Business) will begin with the implementation of the professional retraining program “Fundamentals and Practice of Partnership Business”. The training is organized by the Department of Business and Additional Education. The program will disclose the advantages and differences between Islamic finance and traditional finance, the legislative approaches of Muslim and non-Muslim countries to Islamic finance, which can be applied in Russia⁷⁴.

Active efforts in creation of favorable business climate for investors from OIC countries are carried out through the Tatarstan Investment Development Agency (TIDA):

- working visits of TIDA management and business meetings with top level OIC representatives are organized on a permanent basis;
- search for potential investors for implementing joint projects;
- a full range of business support services on the territory of Tatarstan is provided, including consulting on legal and financial issues;

As for operations with other instruments of Islamic finance in Russia, sukuk bonds, takaful insurance, Islamic management funds, the latter are carried out in a very limited number. The following challenging issues should be pointed out:

- insufficient awareness of officials and business regarding the Islamic debt capital market;
- lack of practical experience of Russian banks;
- absence of a regulatory framework, which could provide a favorable environment for the development of Islamic financial institutions.

⁷⁴The official site of REU named after G.V.Plekhanov.
URL: <https://www.rea.ru/ru/news/Pages/soglashenie-s-maib.aspx>.

CHAPTER III

FOREIGN ECONOMIC RELATIONS OF RUSSIA AND THE REPUBLIC OF TATARSTAN WITH THE OIC STATES

3.1. FOREIGN TRADE OF RUSSIA AND THE REPUBLIC OF TATARSTAN WITH THE OIC MEMBER STATES

The territory of modern Tatarstan was involved in trade intercommunication with the Muslim world since the formation of the Volga Bulgaria, an early feudal state on the territory of the Volga region. In 922, an embassy mission of the Baghdad Caliph Al Mukhtadir arrived in Volga Bulgaria, signifying a peaceful acceptance of the teachings of the Prophet Muhammad on the territory of the Volga region.

Nowadays, the Russian Federation is developing economic contacts with almost all OIC member states. In 2017-2021 the main export destinations of Russian products were Turkey, Kazakhstan and the UAE. The other OIC countries were insignificantly represented in Russian export. Flows from Turkey and Kazakhstan to Russia from the Muslim world are greatly dominated in the import of Russia. The participation of other OIC countries in Russian foreign trade is not significant.

As for the Republic of Tatarstan, foreign trade turnover has fallen into a negative growth trend since 2019, and despite a slight rise in 2021, it remains at a level below the pre-pandemic – 6% (see Fig. 13).

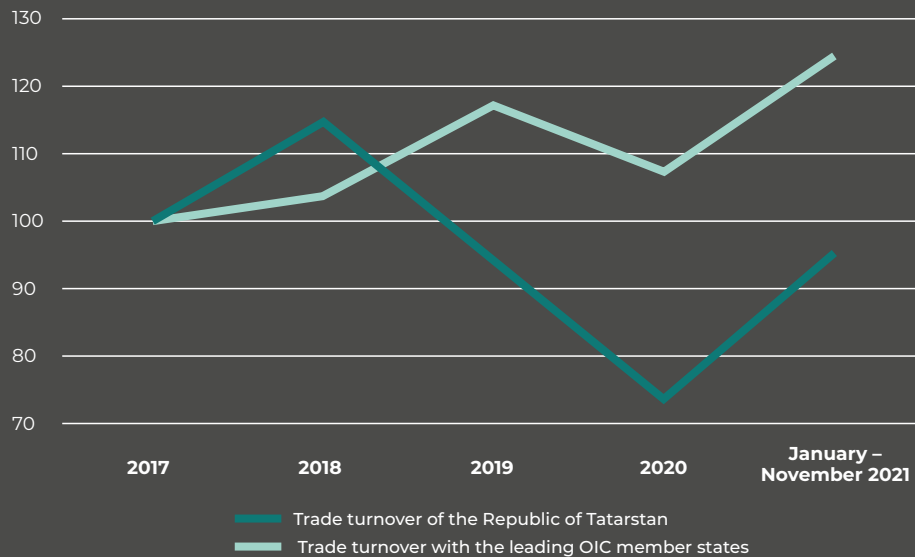


Figure 13. Dynamics of trade turnover in the Republic of Tatarstan: total and with OIC member states⁷⁵

⁷⁵ Figures 13, 14, 15, 16 are made along the statistical data of the RF Federal Customs Service (URL: <https://customs.gov.ru/statistic>) and Volga River Customs Administration RF FCS (URL: <https://ptu.customs.gov.ru/folder/146699>).

The unfavorable external factors caused by the spread of the new corona infection had a less degree impact on the trade and economic relations of the Republic of Tatarstan with the states of the Muslim world. Foreign trade relations of the Republic of Tatarstan with the leading OIC member-states before the COVID-19 pandemic have gained positive momentum and maintained it for the last five years. In the first pandemic year Tatarstan foreign trade turnover with this group of countries reached its peak value (US\$1.6 billion) (see Fig. 14), even though total foreign trade in Tatarstan declined by 17% in 2019. In the second year of the corona infection, the trade turnover of the Republic of Tatarstan with the leading OIC member states slightly decreased, but already in 2021 it exceeded the level of 2019.

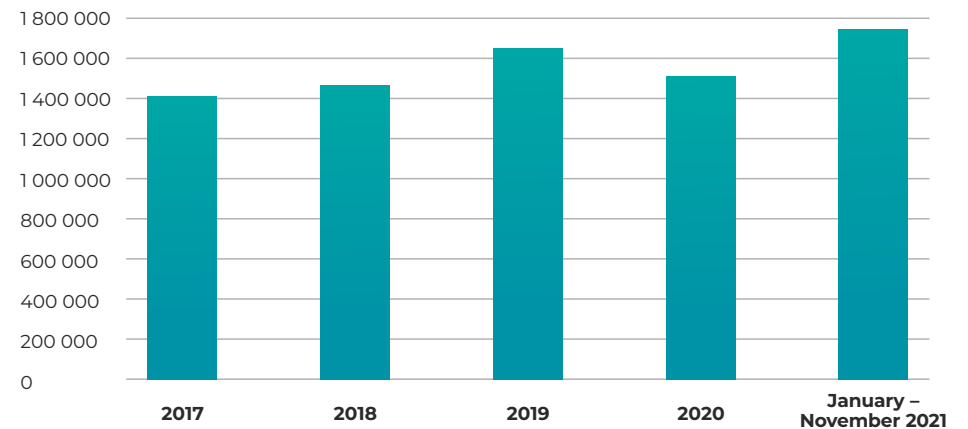


Figure 14. Trade turnover of the Republic of Tatarstan with the leading OIC member-states

The ratio of export-import flows reflects the favorable state of the trade balance for the Republic of Tatarstan. Export to the OIC countries significantly exceed import (see Fig. 15).

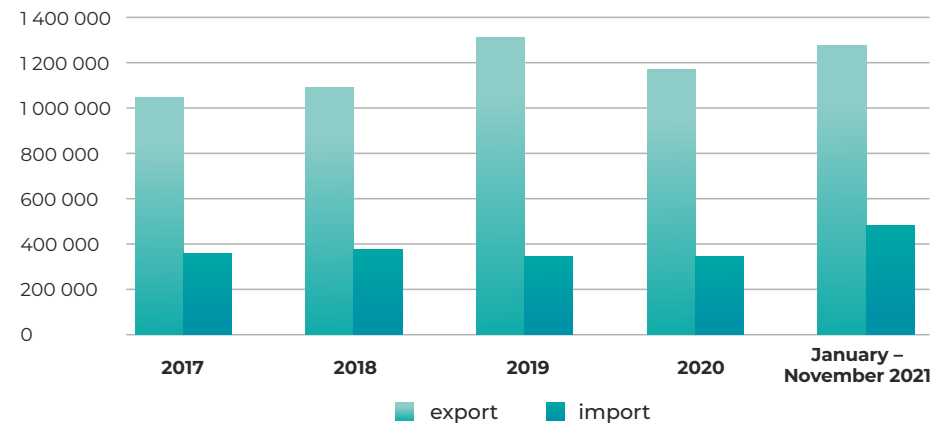


Figure 15. Ratio of export-import flows of the Republic of Tatarstan with the leading OIC member-states

The share of the leading countries of the Organization of Islamic Cooperation in the foreign trade turnover of the Republic of Tatarstan remains stable and stays at the level of 10% (see Fig. 16). Nevertheless, there does exist a potential to increase mutual trade. Production and technological potential of the Republic of Tatarstan, one of the most innovatively advanced regions of Russia, is a solid base for increasing its scale. The Republic has a developed petrochemical, machine-building and agro-industrial complex.

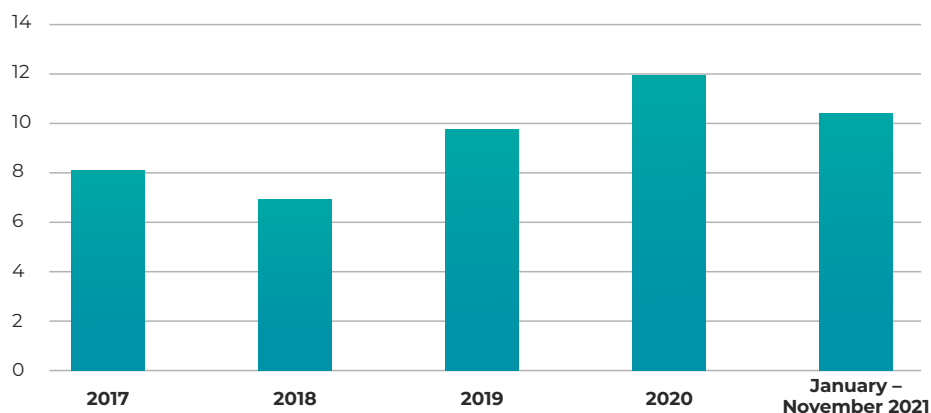


Figure 16. The share of the leading countries of Organization of Islamic Cooperation in the foreign trade turnover of the Republic of Tatarstan

A special role in consolidating the dialogue between Russia and the countries of Organization of Islamic Cooperation is played by the Kazan platform – the International Economic Summit “Russia-Islamic World: KazanSummit”. This event is the main Russian platform for discussing cooperation and implementing joint projects, presenting economic opportunities and investment potential, and establishing business contacts.

In 2018 the Summit was attended by more than 3,000 participants, including representatives of public authorities, parliaments, international organizations, embassies, financial institutions, investors and businessmen from 53 countries of the world.

3.2. INVESTMENT COOPERATION

Mutual investment is an important area of international cooperation.

As Table 7 illustrates, the geographic distribution of FDI in the leading countries of the Muslim world is uneven. Three countries (Turkey, the United Arab Emirates, and Saudi Arabia) accounted for most of the foreign investment flows in 2020. FDI in the United Arab Emirates increased by 11% in 2020 from the previous year to US\$20 billion. Transactions related to natural resources have led to additional investment in the country.

These included the sale of Abu Dhabi National Oil Company (ADNOC) 49% stake in natural gas pipelines to a group of six investors, including Global Infrastructure Partners (USA), Brookfield Asset Management (Canada) and a Singapore Fund. The

Table 7. Foreign direct investment inflows (FDI inflows), mln⁷⁶

| Country | 2017 | 2018 | 2019 | 2020 |
|----------------------|---------------|---------------|---------------|--------------|
| Malaysia | 9 399 | 7 618 | 7 813 | 3 483 |
| Pakistan | 2 496 | 1 737 | 2 234 | 2 105 |
| Bahrain | 1 426 | 1 654 | 1 501 | 1 007 |
| Jordan | 2 030 | 955 | 730 | 726 |
| Kuwait | 348 | 204 | 104 | -319 |
| Oman | 2 918 | 4 191 | 3 420 | 4 093 |
| Qatar | 986 | -2 186 | -2 813 | -2 434 |
| Saudi Arabia | 1 419 | 4 247 | 4 563 | 5 486 |
| United Arab Emirates | 10 354 | 10 385 | 17 875 | 19 884 |
| Turkey | 10 965 | 12 840 | 9 290 | 7 880 |
| Brunei | 460 | 382 | 275 | 577 |
| Russia | 25 954 | 13 228 | 32 076 | 9 676 |

United Arab Emirates also received investments in mid- and high-tech sectors. A key transaction was effected in the pharmaceutical industry: Pharmaceuticals CCL (Pakistan) acquired a majority stake in StratHealth Pharma.

Flows to Saudi Arabia remained high and, despite the pandemic, increased by 20% to US\$5.5 billion. Major investments were recorded in financial services, retail, e-commerce and Information communication technologies. For example, Gulf International Bank (Bahrain) launched its new commercial banking operations in Saudi Arabia with an investment of nearly US \$450 million. Another major investment was the US\$200 million acquisition by Western Union (USA) of a minority stake in Saudi Digital Payments Company, a subsidiary of Saudi Telecom.

Investment flows into Turkey decreased by 15% to US\$7.9 billion in 2020. The slowdown was caused by global economic uncertainty as well as the country's weak economic growth. Unlike other major resource-rich economies in the Middle East region, Turkey's economy is more exposed to global macroeconomic conditions, which limited FDI flows in 2020.

FDI flows to other major economies in the Muslim world practically did not change or reduce in 2020.

Table 8.
Outflows of foreign direct investment (FDI outflows), mln. U.S.⁷⁷

| Страна | 2017 | 2018 | 2019 | 2020 |
|----------------------|---------------|---------------|---------------|--------------|
| Malaysia | 5 638 | 5 114 | 6 231 | 2 827 |
| Pakistan | 52 | -21 | -85 | 34 |
| Bahrain | -229 | 111 | -197 | -205 |
| Jordan | 7 | -8 | 43 | 26 |
| Kuwait | 9 013 | 3 715 | -2 495 | 2 427 |
| Oman | 2 424 | 715 | 627 | 1 255 |
| Qatar | 1 695 | 3 523 | 4 450 | 2 730 |
| Saudi Arabia | 7 280 | 22 987 | 13 547 | 4 854 |
| United Arab Emirates | 14 060 | 15 079 | 21 226 | 18 937 |
| Turkey | 2 622 | 3 605 | 2 967 | 3 240 |
| Brunei | - | - | - | - |
| Russia | 34 153 | 35 820 | 22 024 | 6 311 |

Foreign direct investment from leading countries in the Muslim world decreased by 18% to US\$34 billion in 2020. Foreign investment in Saudi Arabia decreased from US\$13.5 billion in 2019 to US\$4.9 billion. This occurred due to the result of the Saudi Public Investment Fund refocusing on domestic investment to counterbalance the negative economic impact of the pandemic. In contrast to Saudi Arabia, FDI from Kuwait increased significantly, to US\$2.4 billion in 2020. This was mainly owing to the country's new strategy of investing abroad.

As Table 9 illustrates, Saudi Arabia is an absolute leader in the number of foreign investments among the leading Muslim countries.

In 2020, foreign investors invested in 141 projects in the Russian Federation. This figure allowed Russia to take eleventh place in the list of the 20 most attractive countries for investment in Europe. However, compared to 2019 (191 projects), the number of FDI decreased by 26% (see Table 10).

Table 9.
Incoming and Outgoing Foreign Direct Investments in 2020, mln. US DOLLARS

| Country | FDI inward stock | FDI outward stock |
|----------------------|------------------|-------------------|
| Malaysia | 174 123 | 129 291 |
| Pakistan | 35 666 | 1 988 |
| Bahrain | 31 690 | 18 942 |
| Jordan | 36 556 | 681 |
| Kuwait | 14 138 | 34 328 |
| Oman | 35 425 | 13 247 |
| Qatar | 28 627 | 47 510 |
| Saudi Arabia | 241 862 | 128 759 |
| United Arab Emirates | 150 896 | 203 728 |
| Turkey | 211 573 | 52 487 |
| Brunei | 7 589 | - |
| Russia | 446 656 | 379 637 |

Table 10.
Total number of FDI projects in Russia⁷⁸

| | 2017 | 2018 | 2019 | 2020 |
|------------------------|------|------|------|------|
| Number of FDI projects | 238 | 211 | 191 | 141 |

At the same time, non-Muslim countries (Germany, China and the United States) were among the leading investing countries in the Russian economy (see Fig. 17), which indicates that this area of international cooperation is underutilized.

A mutually beneficial and promising area of investment cooperation between Russia and countries of Organization of Islamic Cooperation could be the implementation of joint projects in innovation and digital transformation. The official delegation of Qatar attended St. Petersburg International Economic Forum (SPIEF) held in June 2021. During the session "Russia-Qatar Innovation Dialogue", the participants of the discussion focused on such issues as telemedicine, biotechnology, artificial intelligence and big data⁷⁹.

CONCLUSION

The countries of the Muslim world are playing an increasingly important role in the system of international economic relations. As the number of Muslims around the world grows, their influence on the state of the world economy will only increase. In a relatively short period of time, Muslim states have managed to create and consolidate in the system of world economic order their model of economic organization, called the Islamic economic model. One of its advantages is its focus on solving the social problems of modern society, the rejection of business practices, which lead to the increased uncertainty and growing risks, both for individual households and the national economy as a whole. At present the Islamic economic model has formed its own stable financial and economic institutions, its own ethics of doing business, developed its own methods of economic regulation. During the time of turbulence in the global economy, the Islamic economic model has demonstrated its sustainability and viability. The Islamic economy is by right considered a dynamic segment of the world economy; and in the next five years the total volume of its assets will only grow. The Millennial generation, including young Muslims under the age of 30, will play an increasingly active role in the OIC countries and beyond.

Russia, home to more than 20 million Muslims, could play a special role in relations with the Muslim world. Russian Muslims take an active part in the political, social and cultural life of the country. The federal and regional governments support Islamic public-religious and scientific-educational projects. Russian wealth is based on its ethno-confessional diversity and multiplicity of national cultures and religious spaces.

The Russian Federation has good prospects for introducing elements of the Islamic economic model. First of all, we are talking about Halal products (Halal food and cosmetics, Halal fashion and clothing), Halal services (Halal-tourism, Halal-medicine, Halal-education, Halal-IT-technology), Islamic banking services.

At the same time, there exist reserves for further building up partnership, mutually beneficial relations between Russia with its regions and Muslim countries.

In this respect, there are excellent prospects for the regions of Russia with a dense population of the Muslim community: the Republic of Bashkortostan, the Chechen Republic, the Republic of Dagestan, and others. These regions has formed positive background environment for establishing a contacts with the Muslim world, which makes it possible to use various communication channels.

Several regions of Russia, and especially Moscow, Orenburg, Sverdlovsk, Tyumen, have the production and financial potential at their disposal, allowing them to participate in the manufacture and sale of Islamic financial products, halal food products and services for both the Russian and international markets.

The Republic of Tatarstan plays the most important role in developing economic and cultural ties between Russia and the Islamic world.

Tatarstan is a historical homeland of Russian Islam. Islam came here in the early Middle Ages, and was spread not by weapons or conquest but by word, faith, and enlightenment. It is here that the positive practice of inter-cultural and inter-confessional interaction between peoples of different religious beliefs has historically evolved.

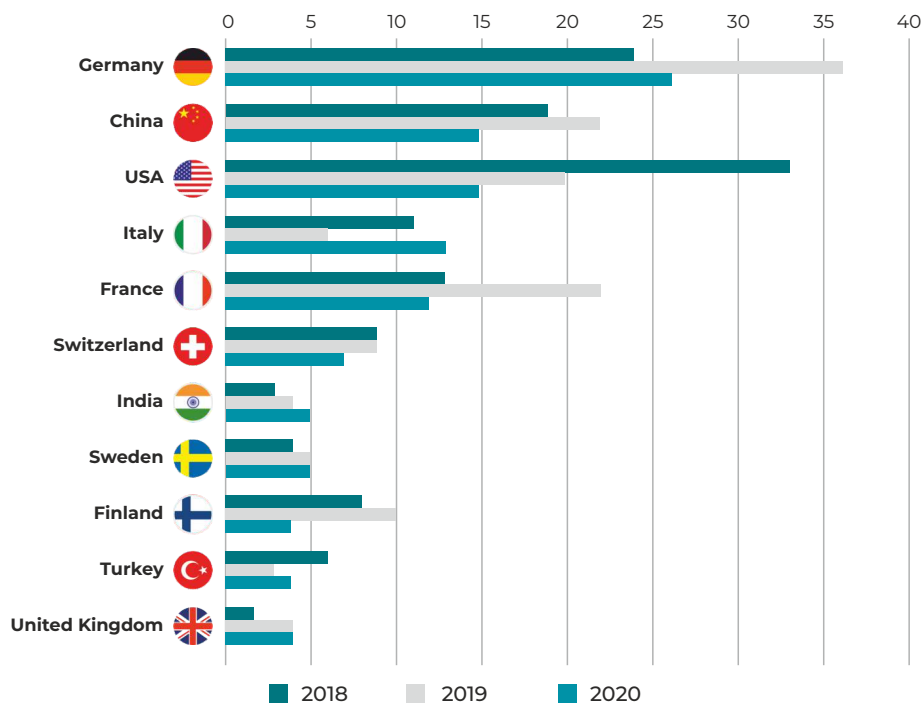


Figure 17. Top 10 countries investing in the Russian economy⁸⁰

In 2020, Tatarstan ranked among the five regions of the Russian Federation widely sought after by foreign investors – 10 FDI projects, which is 11% more than in 2019, yielding only to Moscow, the Moscow region, St. Petersburg and the Leningrad region. Among investors from countries of Organization of Islamic Cooperation, the largest are: Turkish Airlines, KOLUMAN, ENKA9 (all three represent Turkey) and FlyDubai (UAE).

As soon as this area became a part of Russia, a close cooperation of Christian and Muslim cultural traditions has started within the frames of the Russian state. It gives Russia an opportunity to develop economic, cultural, and educational projects with the states of the Muslim world, and the Republic of Tatarstan to act as an active participant of this process.

At the same time, Tatarstan, as a region with considerable Muslim population, tends to establish trade, economic and humanitarian relations with the outside Muslim world. The Republic of Tatarstan has an extensive potential of external economic cooperation and is open for business, cultural and informational communication with the states of the Islamic world within the limits of its authority.

There are all conditions for this in Tatarstan. Tatarstan is one of the most developed subjects of the Russian Federation. Its share in the total GRP of the Russian Federation is 2.8% and its per capita GRP is consistently above the national average. The leading industries in Tatarstan are petrochemicals and automotive industry. Tatarstan-produced KAMAZ heavy-duty trucks have positively proved themselves on the off-roads of Asia and Africa, and the petrochemical complex of the republic is one of the most powerful in Russia. Enhancing cooperation with the companies from the Muslim world is possible through the use of SEZ "Alabuga" mechanisms. Being one of the innovation leaders of Russia, Tatarstan has the necessary resources and opportunities for the development of scientific and technological cooperation with Muslim countries in the field of high technology. This prospective line of activity with high potential for international cooperation of Russia and Muslim countries is practically not used today.

Tatarstan has wide opportunities for cooperation with partners from Muslim countries in the sphere of tourism. Great Bulgar, the cradle of Islam in Russia, has been reconstructed by the Republic. It is the northernmost center of Islamic culture in Asia and has become the center of pilgrimage of Russian Muslims. Great Bulgar has the status of a UNESCO World Cultural Heritage site, which makes it an attractive destination not only for Russian but also for foreign tourists. For comfortable accommodation of tourists from Muslim countries in Tatarstan, a system of halal products and halal services is developing here.

The capital of Tatarstan, the city of Kazan with a thousand years of history, in the last decade has acquired the unofficial status of "the sports capital of Russia". The city has created modern sports infrastructure on the basis of its experience in organizing and conducting major international sporting events. Kazan sport venues hosted the 27th Summer Universiade in 2013, the World Aquatics Championship in 2016.

Kazan is the youth capital of Russia. Kazan Federal University, Kazan National Research Technical University named after A.N. Tupolev (KAI), Kazan National Research Technological University (KNRTU) and others are all located here. About 160 000 university undergraduates study in the capital of Tatarstan.

In 2021, Kazan received the status of "OIC Youth Capital 2022". It means the capital of Tatarstan is ready to host a number of international events including the Kazan Global Youth Summit with the participation of the Ministers of Youth Affairs of the OIC countries.

The establishment of a unified national standardization and certification center of products designed for the consumer market of goods and services in Russia, and efforts in creation of a unified register of certified halal-products and halal-services could

popularize and successfully distribute products and services complying with Shariah norms.

The key element in creating an appropriate financial and legal ecosystem for the development of elements of the Islamic economic model in Russia could be: a focused government policy in improvement of financial literacy in the field of Islamic finance, the formation of a favorable investment climate for domestic and foreign companies operating in the field of popular Islamic products, reconsideration of double taxation for suppliers of Halal products and services, tax benefits for business representatives of Halal, facilitated registration forms for foreign investors from OIC countries; implementation of national legislation to give legal status to Islamic financial instruments.

An important step toward developing comprehensive cooperation with the states of the Muslim world could be the establishment under the Strategic Vision Group "Russia – Islamic World" of a research and analytical center on cooperation of Russia and Russian regions with the states of the Islamic world, where systematic analytical work could be carried out. Its creation could improve the quality of information and analytical material, allow the transition from fragmentary to complex analytics, and identify additional opportunities for the development of economic, cultural, and educational ties between Russia and the states of the Islamic world.

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