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ISLAMIC FINANCE IN A GLOBAL CONTEXT

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Abstract: Nowadays Islamic banking and finance is known as a fast growing industry and progressively important part of the global financial system. Different countries across the world adopt special legislation to allow Islamic banks and financial institutions operate as alternative to conventional finance. Islamic system is a financial system that is based on Islamic principles and values, which eliminates riba and ensure a profit sharing mechanism in the financial system. This sytem is market base economy, where goods and services are exchanged freely according to the demand and supply by barter or money with debit or credit value. Entrepreneurs are encouraged to create wealth throw employment and social activities. It is a balance between the two systems, it is emphasis both individual economic freedom and the need to serve the common good.

Keywords: Islam, Religion, Global, Islam Finance, Islamic Financial Institutions (AAOIFI), Islam Bank, Shari'a Supervisory Boards (SSBs) and etc.

INTRODUCTION

The transition involves international accounting standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which is based in Bahrain and was founded by one of Gambling's former students in 1990. Islamic financial institutions employ AAOIFI standards in place of, or in addition to, "religious audits" by inhouse "Shari'a Supervisory Boards" (SSBs). SSBs and the AAOIFI both exist to ensure that Islamic financial institutions are "Shari'a compliant", operating in accordance with Islamic law. To demonstrate the practical ambiguities of Shari'a compliance, this article briefly considers two Malaysian Islamic economic enterprises: a national Islamic bank, and a local co-operative credit union. In Islamic finance, some very anthropological ideas – including debate over the social construction of reality and the role of values and beliefs in bureaucratic practice – have become a terrain of struggle over meanings and their pragmatic uses. The same has occurred in critical accounting scholarship. As anthropologists turn to bureaucratic forms like accounting, we have begun to question the separation of text from context, form from content, and theory from data that stabilized the disciplines late twentieth-century knowledge practices. Those oppositions now seem to characterize the knowledge practices of those we study, and turn up in precisely those bureaucratic quarters to which we now turn our attention (Lane E.W., 1984).

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The Principles Of Islamic Finance as followed:

- Wealth must be generated from legitimate trade and asset-based investment. (The use of money for the purposes of making money is expressly forbidden)
- Investment should also have a social and an ethical benefit to wider society beyond pure return.
- Risk should be shared.
- All harmful activities (haram) should be avoided.

Islamic Banks Started in 1974 in Egypt with the first Islamic Bank "Nasser social bank" followed by Islamic development bank in 1975, now there are over 600 Islamic Banks globally. The fundamental concept is that the money has no inherent value and should be used as a measure of worth.

Shari'ah Compliant Products: products that exchangeable for money, products are not prohibited in Islam, products are not traded under duress; products that are free from Riba, products are traded in the open market, products that are not monopolized by one party.

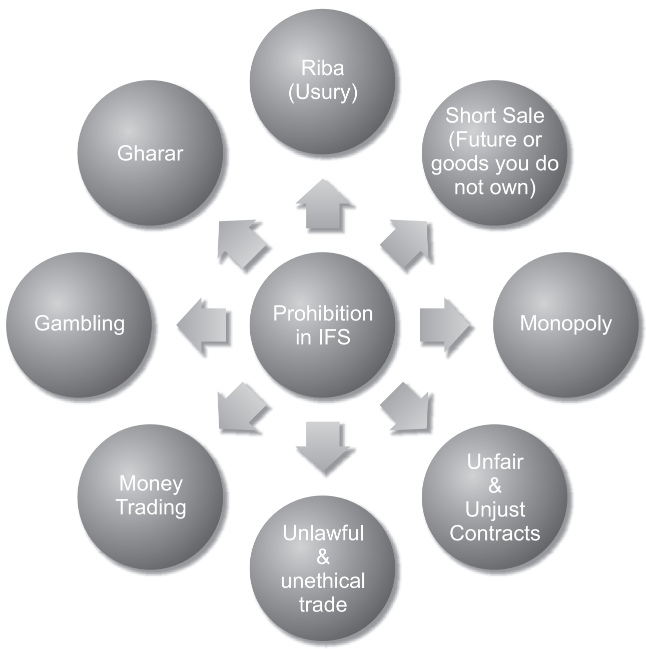

Figure 1: Prohibition in Islamic Financial System/ by Dr. Aly Khorshid

Islamic Finance is a global financial system and it is an economic system based on Risk sharing, which makes money ethically. It is not a religious system, its open for all people Muslim and non-Muslim to take part. Islamic finance tools may have different terminology, the global economy apply similar tools, but the risk have not been shared fairly between the parties (Dr. Aly Khorshid, 2013).

This places anthropology in an uncomfortable position, different from the reflexivity of an earlier era because concerned less with the partiality of a particular observer's perspective than with the metapragmatics of analytics of parts and wholes that make perspectival knowledge possible, yet guaranteed to exhaust itself. This article thus accounts for anthropology as much as for Islamic accountancy. "Islamic banking and finance" refers to a world-wide phenomenon centred in Malaysia, the United States, Britain, and the Arabian peninsula, and not the financial systems of those nation-states that have officially "Islamized" their economies. It grew out of the anti-colonial project of the Islamic modernists on the Indian subcontinent in the years surrounding Partition (Mallat C., 1998). Seeking to create a "modern" Islam that would stand in opposition to Western dominance without falling into romantic attachments that might hinder "progress", thinkers such as Maulana Maududi attempted to craft a new Islamic economic science. This new science, they hoped, would meet the needs of modern society and stay true to the Shari'a and Qur'an. The modernists sought to theorize an economy that provided a mechanism for the redistribution of wealth and that was not based on interest-bearing debt. The obligation to pay *zakat,* or alms, and injunctions against *riba,* glossed as interest, were the initial impetus for Islamic economics (Baitenova N. and etc., 2013) .

METHODOLOGY

The Islamic Financial Services Industry is of course part of the broader global financial system, but it is comprised of instruments, infrastructure, institutions and markets that apply Shari'ah rules and principles in their design and operations. The Islamic financial system appears to be able to perform substantially all of the functions associated with typical conventional financial transactions and it therefore has sub-sectors that are similar to the conventional financial system. These sub-sectors consist of, among other things, the Islamic banking industry, the Islamic money market, Islamic capital markets (equity and bond markets), the Takaful (Islamic insurance) industry and the Islamic asset/wealth management industry. As a practical matter, generally in most countries where Islamic banks operate, they are currently governed by the same regulations that govern conventional banks; such regulations generally follow the guidelines of the Basle Committee on Banking Supervision (Frederick V. and etc., 2011).

Notwithstanding with Islamic requirements, Islamic finance is functional, competitive, for-profit, and, in some areas, thriving. From a Western business perspective, the prohibition of interest is the single most challenging concept to adapt to when compared to traditional financing structures. There are two economic perspectives forming the nomenclature of this challenge: supply and demand (Theodore Karasik., and etc., 2007). The development of Islamic finance brings diversity to financial markets and financial transactions. When market players with different sets of values enter a market, they increase the variety of financial transactions, which in turn promotes financial market development and creates business opportunities (Toshihiko Fukui, 2008). At the same time, it has a positive effect on the real economy through more efficient resource allocation. Islamic finance that offers a broad range of products and services is also important from the perspective of financial market and financial system stability.

DISCUSSION

According to Islamic Banking in Kazakhstan Law, Kazakhstan has joined the list of countries that have altered their legislation in order to facilitate Islamic banking and finance. One major Islamic bank has opened a subsidiary in Kazakhstan, which has begun project financing and has announced plans to offer retail financial services. Kazakhstan has adopted legislation adequate to allow the wide range of Islamic banking and financial transactions. Major conventional banks in Kazakhstan offer a variety of savings accounts with guaranteed return of 100% of principal, deposit insurance, and substantial interest payments. An Islamic bank in Kazakhstan would face serious problems in competing with these terms.

The economic researches convey that the market of Islamic banking and finance industry is growing 15-20% annually. People are looking for new ways of managing their finances. Kazakhstan cannot stay away from these trends. Modern Islamic banking and finance legislation has originated not bottom up from the Islamic faithful, but top down from multinational businesses seeking a profitable market position. The Republic of Kazakhstan became the first country in the Commonwealth of Independent States to introduce fundamental legislative amendments after indentifying the volume and future prospectus of Islamic finance. The implementation of Islamic finance at a legislative level in Kazakhstan played an important role in the development of the country’s economy and infrastructure. In particular, it extends the range of financial services, which makes Kazakhstan’s financial market more competitive, and is a means of attracting investment capital and major players from the worldwide Islamic financial industry to Kazakhstan (G.N. Khaki1 Bilal Ah. Malik2, 2013).

Taken alone by the numbers of international conferences and forums dedicated to Islamic finance and business, Kazakhstan has indisputably become the regional leader in promoting Islamic ideas of banking and doing business in the region. Among others the “Seventh World Islamic Economic Forum” was held in June 2011, the “Second Islamic Finance Forum” took place in September 2011, the “Kazakhstan International Halal Expo – 2012” and the “Third Kazakhstan Islamic Finance Conference” were both organized in October 2012. These events underline Kazakhstan’s declared goal to develop the country into the regional center for Islamic finance in the former Soviet Union (Madi Akmambet, 2013). The development of

Islamic finance and its stability during the global financial crisis, growing demand for Islamic financial products, and an increasing need for the investments to the real sector have created favorable conditions for the industry's development in Kazakhstan. Nevertheless, it has intrinsic strengths and weaknesses (A.A. Nurymov and etc.).

TABLE 1: STRENGTHS AND WEAKNESSES OF ISLAMIC FINANCIAL SYSTEM/BY AUTHOR

Strengths	*Weaknesses*
• No interest and interest-based transactions. • Strong demand for riba free and ethical finance • Risksharing • Equity shares and ownership of real assets in investment projects. • Banks do not create or destroy money. • No speculation, no debt trading. • Ethical and moral values, increasingly demanded around the globe, already ingrained to Sharia principles • Profit rate determined by real economy, no price distortion. • Stable economic growth, predictable. • No systemic bankruptcies, no bailouts.	• Lack of or inadequate institutional infrastructure required type, as well as the insufficiency of the existing one. • Lack of experience on the part of businesses and low financial literacy of the population • Sharia scholars deficit • The absence of a single center for the generalization of the experience and implementation in practice • Low competitiveness of Islamic financial institutions in the traditional financial markets • The absence of a coherent concept for the development of Islamic financial center in Kazakhstan

Islamic banking and finance in Kazakhstan has been gradually developing, nonetheless it is quite far from a full readiness of the market. Here are some recommendations and suggestion, which can be helpful for further development in the current Kazakh banking scenario.

- Despite of low market penetration, banking sector has high potential market in Kazakhstan. The industry should amend its business strategy so that awareness must be created at a better level among the population of the country. This will increase the potential market for Islamic products.
- From the government should take actions in informing and educating the market on Islamic finance goals, mission, principles and mechanisms.
- To develop evidence-based concept of development of Islamic finance in the country on the basis of the economic laws, the study of the economy, the prospects for socio-economic development of society;
- Ensuring microfinance, the industry should enhance the channelization of funds to rural population and the agro-sector.
- Practical implementation of the planned actions by Islamic financial arrangements with its adjustment depending on radical economic reforms.

The banking and financial pundits are of the opinion that the chances for Islamic banking are higher in Kazakhstan because of declining customer trust in years old conventional banking industry due to the impact of global financial and debt crisis on the local Kazakh banks. While the majority of Kazakhstan's citizens are Muslim, the country is largely secular, and president's policy has been to build good relations with all religions. The country of Kazakhstan has a lot to offer for Islamic banking and finance. The banking and business sector of country shows a promising potential for the industry (Timur Omarov, 2003). Islamic finance is understood as achieving maximum risk sharing-diversifies risk and allows it to be shared largely. Implications that follow are: a close relationship between finance and real economic activities and the rate of return to finance determined by the rate of return to real economic activities rather than the reverse. This system's full operation leads to financial stability, growth of income and employment, and, as a result, reduction in poverty.

To obtain these results, preconditions must exist, including:

– a developed financial system; rule of law;
– legal institutions that protect investors, creditors, and property rights;
– good governance; policy discipline to ensure macroeconomic stability;
– trust in government and institutions.

Globalization is a multi-faceted and multi-dimensional process of growing inter-connectedness among peoples and nations. The combined economic and financial globalization refers to growing trade flows and unhindered movement of investment, production, and finance, which is accompanied by standardization of associated processes, regulations, and institutions, and facilitated by the free flow of information, ideas, and technology (Abbas Mirakhor., 2014).

The articulation of an Islamic ethos and its role in providing restraints against what one sees as the deleterious effects of globalization, particularly financial globalization. At the same time, the role of globalization in providing further insight on Islamic values. The importance of pluralism, and of the realization that there is not one "scientific" way of doing things; but this realization interpreted within the rubric provided the Qur'ān and the Islamic past (M. Ali Khan., 2000).

Islamic banking and finance world-wide derives its core assumptions and many of its practices from these early twentieth-century modernists. Just as importantly, global Islamic banking owes much to the immigration of Middle Eastern and South Asian students and professionals to the United States and Britain during the 1970s and 1980s, and the consolidation of large Muslim organizations such as the Islamic Society of North America and the Islamic Circle of North America. The 1970s Middle East oil boom fostered renewed interest in Islamic banking in many Muslim-majority countries. This period saw the emergence of a loose alliance of Muslim businessmen, with experience of Western regulatory and business environments who had come from employment with international oil and chemical companies as well as Western financial firms. The main nodes of this network were the financial and industrial centers of Europe and the United States, and not the Middle East or South Asia. Thus, al-though Saudi royals and entrepreneurs bankroll many Islamic finance conferences, journals, and academic institutions around the world, the main sites for intellectual production in Islamic economics are the Islamic Foundation in Leicester, the Institute of Islamic Banking and Insurance in London, and the Harvard Islamic Finance Information Program in Cambridge, Massachusetts (Muhammad ibn "Isa Abu" Isa al-Tirmidhi, 2002).

In what follows, we rely on two sources of theory and data. The first includes the writings, commentary, conferences, and published reports of Islamic banking professionals who constitute the global network we have just described.

Their lingua franca is English, supplemented by Arabic terms that have their origins in classical texts but have been given new and often more precise meanings in Islamic banking and finance. Their principle media of communication are published and unpublished reports, academic and trade publications, and, importantly, the internet. The Islamic Economics and Finance internet listserv began operating in late 1999 as an outgrowth of the Islamic Banking Training Programme of the Xavier Institute of Management and Business in Bubaneshwar, India. That programme was the brainchild of a former student of the London-based Institute for Islamic Banking and Insurance, and quickly became the most important face of Islamic banking on the internet. It now consists of around twenty separate specialist "salons", or chat rooms, and one main, all-purpose discussion group. While the participants in the Islamic banking and finance network we discuss here are admittedly only one subset of all those involved in Islamic economic ventures world-wide, they constitute a very important locus of intellectual power that translates into institutional authority. Some are the authors of significant books on Islam-ic banking. Others are executives or employees of financial services firms (both Islamic and conventional). Many are students who will assume such positions in the future. Debate does get heated at times, especially where there is uncertainty about whether certain financial practices are permissible in Islam – derivatives trading, for instance (see Maurer 2001). What is striking, however, is the overwhelmingly pragmatic orientation to Islamic knowledge.

People are far more likely to mix and match concepts or perspectives from different branches of Islamic law in order to create or justify a particular financial practice in their online postings than they would in a formally published bulletin or at a conference. Similarly, they are far more likely on-line to entertain comparisons or convergences between Sunni and Shi'a jurisprudence, without resorting to insult or evangelical fervor (Sijben J.J., 2002). Like the Islamic banking network itself, which we see as existing somewhere between the traditional centre and periphery of the Muslim world – indeed, confounding the scalar logic of centre/periphery – these internet postings lie between official publications and off the record conversations, and between the various branches of Islamic knowledge. The second source, which also constitutes "data" for the people who make up my first source, comes from two Islamic financial ventures in Malaysia: a large Islamic bank and a small credit association. These two ventures demonstrate the practice of Islamic accountancy in action. In particular, they show how the debates raised in the international network sometimes fail to capture the imagination of those working "on the ground". That very failure, however, proves extremely productive for anthropological and accounting knowledge's. Since the 1980s, and more particularly in the wake of the 1991 Bank of Credit and Commerce International scandal, linked in the business press to Islamic banking in Caribbean tax havens, many Islamic banking professionals have called for clearer accounting standards. They have done so in the hope of removing any possible taint of illicitness, as well as to bolster confidence in the emerging Islamic market sector. Such standards, they hope, will also make their practices both transferable across a variety of regulatory contexts and "transparent" to outside observers. Founded in 1990 as the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI) and renamed in 1991, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) disseminated Islamic accounting procedures in 1996-7 as part of this effort. In doing so, the AAOIFI entered a field previously dominated by Shari'a Supervisory Boards. Even after the advent of the AAOIFI, most Islamic businesses of any appreciable size still rely on the seal of approval granted by an independent Supervisory Board made up of clerics and scholars. The AAOIFI has been careful not to tread on the toes of independent Boards, and relies on their standards-setting to guide its own. The AAOIFI itself boasts a Board made up of internationally prominent individuals (Allen F., and etc., 2011).

The AAOIFI has drafted standards that are readily grasped by its counterpart non-Islamic organizations, most notably the International Accounting Standards Committee. Yet while its language and principles share common ground with those of key international accountancy codes, for example the scheme of conventions which has come to be known as the Generally Accepted Accounting Principles, it is not engaged in a struggle for authority with local, national, or regional Boards. Indeed, the AAOIFI needs Boards, and vice versa. The AAOIFI relies on Boards to provide the "data" from which it crafts universally applicable Islamic accounting standards. In a process analogous to the establishment of the Uniform Commercial Code in the United States during the early twentieth century (Llewellyn 1951; R.W. Perry pers. comm.), the AAOIFI collects information on existing Islamic accounting practices and distils from the available data "best practices" that will have the most universal transferability and, ultimately, transparency to both Islamic and non-Islam-ic businesspeople and regulators. Supervisory Boards, for their part, can gain legitimacy for their decisions by referring to the AAOIFI standards, and at the same time provide a clerical seal of approval for the standards themselves (Sundararajan V., and etc., 2002). Understanding the transition from Supervisory Boards to the AAOIFI requires that we consider something other than the apparent shift in authority from religion to bureaucracy. Instead, we should turn to the way in which accounting in Islamic banking and finance creates particular kinds of "facts" and engages a specific rhetoric of rationality. Islamic society, as well as all of its members, is endowed with responsibilities for the preservation and practice of Islamic values and laws.

CONCLUSION

The success of globalization will depend on the spread and degree of risk sharing around the world. The greater the momentum, the deeper the markets and wider the spectrum of risk-sharing instruments, greater will be shared ownership and participation by larger number of people in finance. Faster, deeper, wider financial development has a symbiotic relationship with globalization as the feedback process between the two strengthens both. Evidence suggests that, thus far, the degree of risk sharing achieved by globalization is insignificant. It is suggested that parallel progress and challenges also characterize Islamic finance. While it has experienced a phenomenal success in the last two decades, Islamic finance has still a long way to go to achieve its objective of maximum risk sharing. It was suggested that, in case of Islamic finance, the progress achieved to date is a negligible fraction of the potential. The reasons are identical to those offered in financial globalization. It is suggested that financial, legal, institutional developments, and greater pace of instrumentalization of basic modes of transactions permitted, would accelerate progress of Islamic finance.

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