

## Islamic Economic Thinking in the Countries of Post-Soviet Central Asia and Transcaucasia — Myth or Reality?

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**Abstract:** A large number of theoretical and applied research papers on Islamic economics and its different aspects have been written since the 1970s. Several Muslim economists focused on confirming the legitimacy of the terms “Islamic economics” and “Islamic economic thinking”. These issues became topical also in the post-Soviet countries of Central Asia and Transcaucasia after the dissolution of the Soviet Union in 1991 and the return of Islam to the former Soviet republics. They rose several challenges for the local people, which brought both hope and disappointment in the turbulent domestic political life. Islamic economic thinking and Islamic finance, in particular, are on the rise worldwide and they have the potential to grow. In our paper, we try to describe the potential and constraints of Islamic banking in some post-Soviet republics of Central Asia and Transcaucasia and find out to what extent re-Islamisation is gaining ground in economic and banking instruments. The research purpose of our paper is accomplished through the comparative analysis of the selected countries in Central Asia and Transcaucasia.

**Key words:** Islamic revival; Islamic finance and banking; Islamic economic thinking

**JEL codes:** G23, N25, O57

### 1. Introduction

Nowadays negative media coverage of the world's second largest religion generates its negative portrayals among the majority of people. Minimum attention is paid to business opportunities for the European capital existing in the global finance based on compliance with Sharia — so-called Islamic finance and banking. Indeed, in 2016, the value of this industry's assets exceeded USD 2 trillion (Záhumenský L., 2017). It is an extensive system covering banking, debt financing, investment funds, derivatives, insurance and other financial products. In this regard, it is important to realise the territory Islamic finance covers and the economic power of its players: the countries in North Africa, the Persian Gulf (lots of them are important OPEC members) and Southern Asia. This raises the question whether the impact of Islam on the global economic and banking system offers an alternative to traditional economy and commercial banking concepts.

This paper focuses on the role of the Islamic economic model in the global economy and, particularly, on the constraints on its spread into some former Soviet states. We will focus on Central Asia and Transcaucasia and deal with these issues in connection with the Islamic revival and its ambitions to establish itself in the

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socio-political and economic life of these countries. We raise the question whether the successful Islamic resurgence in this region similarly exerts a huge impact of economic and banking instruments.

## 2. The Role of the Islamic Economic Model in the Global Economy

Islamic finance can be defined as a system of financing methods and mechanisms that enables economic activity without breaking Sharia principles.

Its important segments, such as land and labour relations and proprietary issues, are usually tackled by economists and experts on Islamic economics. These issues are also examined by Muslim lawyers, who focus on ethical aspects of entrepreneurship and proprietary rights.

Some authors tend to regard Islamic economics as an alternative to capitalism and socialism. The vast majority of researchers held this opinion until the mid-1990s. The concept of Islamic socialism, in particular, was the first but not entirely successful attempt of Muslim theorists to make Marxist political economy converge with the social system based on Islam (Stepanjanc M. T., 1982). In this regard, Islamic socialism can be considered as a predecessor of Islamic economics (Bekkin R. I., 2007, pp. 147-155).

What exactly does this alternative mean? Advocates of the alternative Islamic economic model claim that it overcomes the weaknesses of capitalist and socialist economies. According to them, Islamic economics is a middle ground between absolutization of the right to private property promoted by capitalism and its almost complete suppression by the Soviet-type socialism (Ždanov N. V., 1992, pp. 71-72). From our point of view, the theory about absolutization of property in capitalism in comparison to Islamic views of ownership rights is not entirely trustworthy.

Property rights of people in Muslim countries are probably protected even more strictly than in the West. According to Muslim law, theft (*sarika*) is punishable by hand amputation (it is a relief for us to know that this punishment is not practised in all Muslim countries). However, it would be incorrect to say that Islamic economics does not differ or differs only slightly from capitalism just because Islam protects and respects private property. The same can be said about a free market, which is promoted by both capitalism and Islamic economics.

It is a well-known fact that private ownership and a free market existed before capitalism. However, they developed most during capitalism, which is the system based on a certain kind of private property and relationships between an owner and an employee. From our point of view, Islamic economics is by no means identical to capitalism in spite of some formal similarities. Putting this more precisely, the Islamic economics alternative does not exclude features that are common to capitalism or socialism.

Without considering the political reality and thinking exclusively within economic categories, let us imagine that an Islamic bank was established in the Soviet Union. The essential postulates of Islamic economics, such as the ban on usury and social orientation, fully correspond with atheist socialist economics (Ražbadinov M., 2003). The planned economy does not contradict Islamic principles or a dominant government's role in economy. Throughout most of the 20th century, the world was divided into capitalist and socialist parts. Unlike capitalism or socialism, Islamic economics presented itself as a supranational phenomenon, which did not have a permanent position in any countries of the West or East. It was not associated with any geographical destinations. We do not agree with some authors who associated Islamic economics with economies of OIC (the Organisation of Islamic Cooperation) member states.<sup>1</sup>

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<sup>1</sup> In 2011, the Organisation of Islamic Conference changed its name to the Organisation of Islamic Cooperation. The acronym OIC

It would be incorrect to equate economies of OIC member states to Islamic economics just because its three member countries (Pakistan, Iran and Sudan) tried to Islamise their entire economic potential (not very successfully, though). Pakistan still has dualistic economy, in which Islamic and un-Islamic financial institutions exist within the same legal framework. Even though Iran declared its commitment to comply with the Islamic economics principles, the real economic practices are different. Sudan remains the only country where experimental Islamisation of the financial sector was successful. Other countries did not adopt similar reforms at all. Some OIC member states do not even have any Islamic financial institutions (or they had not had such institutions until recently), e.g., the majority of the former Soviet republics in Central Asia, several countries in Africa (Mozambique and Sierra Leone) and Latin America (Guyana and Surinam).

Therefore, when talking about the Islamic financial system as an inseparable part of Islamic economics, it is important to bear in mind that it is not a financial system in the traditional sense, but a system of institutions and instruments. In addition, the Islamic financial system cannot be perceived in the traditional sense as there is only one country in the world (Sudan) where the financial sector is entirely Islamised. In most countries around the world, Islamic financial institutions are part of an existing conventional financial system.

Even though the Organisation of Islamic Cooperation comprises authoritative institutional economic structures (for example, the Islamic Development Bank), Islamic financial institutions (banks, funds, insurance companies, etc.) are banking enclaves within economies of Muslim countries. For example, in Saudi Arabia, which is considered as one of the countries that enforce Islamic law most of all, financial and civil laws are structured according to Western standards and Islamic financial institutions are exceptions rather than the rule (Koraytem T., 2000, pp. 63-68). The first full-fledged Islamic banks in this country had not been established until the 1990s.

In connection with the practices in Saudi Arabia, some people hold an opinion that the Islamic economic model is in fact a chimera. For example, Zhdanov, the author of the Islamic Concept of World Order, claims that Saudi Arabia proves insubstantiality of the idea of Islamic economics due to an existing gap between theory and practice. Several banks in this country carry out financial operations that do not differ from analogue banking in the West (Ždanov N. V., 2003, pp. 324-325).

In our opinion, it is inappropriate to perceive all institutions providing Islamic financial services in the same way. Islamic financial institutions throughout the world sometimes have more differences than similarities, which are not related only to their mechanisms but also their goals and tasks. Let us compare the Citibank branch that provides Islamic financial services in Bahrain to a cooperative bank in Sudan. They both implement Islamic principles. It is obvious at first glance that both banks have a priori different priorities despite some formal similarities. A large supranational bank seeks to obtain finance from new investors and accumulate capital on its own account, not for the sake of Islam and the Muslim community. On the other hand, an Islamic cooperative bank in Sudan, one of the poorest countries in the world, plays an important social role at the declaratory level at least. In other words, everything ultimately depends on the goals set by the subjects of economic relations. Muhammad Nejatullah Siddiqi, a world renowned Islamic economist, summarised the main goals of Islamic economics as follows:

- 1) Satisfying fundamental human needs in terms of food, clothes, housing, health care and education;
- 2) Creating equal opportunities for all without exceptions;

- 3) Preventing accumulation of wealth and eliminating inequality in the distribution of income and wealth;
- 4) Ensuring to all the freedom to pursue moral excellence;
- 5) Ensuring stability and economic growth to an extent necessary for realisation of the above-mentioned goals (Siddiqi M. N., 1996, pp. 6-7).

The goals of Islamic economics are mainly based on spiritual and moral values that are universal rather than exclusively Islamic. This enables Islamic economics to go beyond a purely economic framework, to be more than just economics and to put together economic and ethical issues.

The early 1970s saw new players — Islamic banks — entering the financial world. A large number of Islamic economists regarded this to be a possible solution to numerous economic problems that had not been solved by either capitalism or socialism. However, the euphoria sparked by Islamic economic institutions in Muslim countries faded when communism collapsed in most countries. Several experts started to believe that Islamic economics can be considered as one of the ethically oriented social systems that gained enormous popularity in the West in the mid-1990s.

However, its general principles and mechanisms have not been clearly formulated yet. Even though there is a prevailing system of opinions on business practices that are Sharia-compliant, there is still not a clear idea how to implement this mechanism in the whole economy. In other words, there is an idea how the system elements should work but it is not clear how the whole system can function.<sup>2</sup>

M. U. Chapra correctly states that Islamic economics needs microeconomic foundations for its macroeconomic goals (Chapra M. U., 2001, p. 50). Even though basic theoretical research is important for modern Islamic economics, the first item on the agenda should be the scientific and practical development related to Islamic financial institutions and relationships between them as well as their financing methods. Special attention needs to be paid to legal aspects of research so that the goals of Islamic economics can be concretely expressed in fiscal, monetary and foreign exchange policy of Muslim countries. If these countries manage to achieve this, statements that Islamic economics provides an alternative economic model will not be just statements or opinions and the adjective “Islamic” in “Islamic economics” will not sound and look like an ideological pendant.

When analysing the advantages and disadvantages of Islamic economics, some economists believe that the word “Islamic” narrows the extent of the Islamic economic model in non-Muslim communities. Islam does not require Muslims to use an adjective “Islamic” when talking about economics. However, there is one interesting thing that should not be underestimated. The term “Islamic economics” is a brand name that has been developing for decades and its dismissal could result in certain losses for Islamic financial institutions all around the world. The names of some Islamic banks and other financial institutions do not contain the word “Islamic” usually because of restrictions imposed by existing legislation (for example, in Turkey) or the cautious attitude of authorities to Islamic finance in Azerbaijan and some countries of the post-Soviet Central Asia (Haron S., 1998, pp. 236-240).

We believe that Islamic economics is a system of Muslim opinions on the principles and mechanisms of economic life of the society. Acceptance of the Muslim religious system will be of particular importance. We can define Islamic economics as the system that functions in compliance with the principles of Islamic law. We agree

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<sup>2</sup> The first half of the 20th century (the period between 1940 and 1960) gave a new impetus to Islamic economic thinking in modern history. The term “Islamic economics” was first used by an Islamic scholar Sayyid Manazir Ahsan Gilani in 1947. In his book called “Islamic Economics”, he described an ideal economic model that is fully compliant with Sharia Islamic law.

with the opinion expressed by Renat Bekkin, a renowned Russian expert on Islamic economics, who suggests using the term Islamic economic model as a synonym for the term Islamic economics (Bekkin R. I., 2010, p. 15).

### 3. The Return of Islam to Central Asia and Transcaucasia and the Limits of Its Impact

After the dissolution of the Soviet Union in 1991, the new countries in Central Asia and Transcaucasia began to build their independence. Islam was a significant phenomenon playing an important role in establishing a new national identity (Haghyeghi M., 1995, pp. 63-65, 67). Its revival had some specific features and controversy that will undoubtedly determine future development of the post-Soviet republics. There are disagreements between experts over which form will prevail — radical or moderate Islam. Several internal conflicts and global problems of the contemporary world led to radicalisation, particularly among young people. More and more people in the post-Soviet republics of Central Asia and Transcaucasia link their better future to Islam and its engagement in politics. Nowadays, Islamic values alongside economic and political programmes have become an inseparable part of the socio-political and economic life of the entire Muslim world. It is unlikely that the future of Central Asia and the Muslim countries in Transcaucasia will be an exception to the general rule.

It is therefore a matter of time before political parties and movements begin to assert themselves in life of these societies. We can expect that they will seize the first opportunity in order to use the social regulatory function of Islam. There is no an optimal solution that would make use of this function. As a result, the revival of Islam in both regions is controversial and largely problematic (Karagiannis E., 2016, pp. 267-281).

New movements, groups and profiles of their activities indicate that both regions are undergoing the process of ideological revolution caused by the generational change. Islamic nationalism oscillates between economic success and failure, religion, moral conservatism and the issues concerning social justice and responsibility towards citizens. All these factors should be taken into consideration when seeking new political legitimacy of future regimes (Omeličeva M. Y., 2016, pp. 144-163). The order of their importance in the post-Soviet republics might differ.

When talking about significance of an Islamic factor for social, political and economic life in Central Asia and Transcaucasia, it is important to consider its limits. In our opinion, there are the following determinants (Čech L., 2019, pp. 159-177):

*Firstly*, Islam is not a consolidating factor for the whole society. There is the Russian-speaking population, which presents an important socioeconomic potential in each country of Central Asia in spite of the fact that the percentage of the ethnic Russian population in this region has decreased over the past quarter century. If governing elites start to systematically prefer one religion in the name of national and state consolidation, the relationships with the non-Muslim population may worsen, which can ultimately lead to complicated foreign relations. Moscow, in particular, as well as other countries that are sensitive to political engagement of Islam, would react unfavourably.

*Secondly*, Islam is not capable of playing the role in consolidation at ethnic-national level. Regional, clannish, ethnic and tribal interests in the Central Asian region take precedence over pledging allegiance to a common religion. One example could be the Tajik Civil War, which was fought between Muslims and immigrants from different regions, clans, etc. In Kazakhstan, *zhuz*<sup>3</sup> in practical life is more important than adherence to Islam. For

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<sup>3</sup> Zhuzes represent specific clannish form of socio-political organisation of the Kazakh nation. There are three main tribal divisions: *Uly zhuz*, which covers territories of southern Kazakhstan, *Orta zhuz*, which covers central and eastern Kazakhstan and *Kishi zhuz*,

example, the conflicts in the Ferghana Valley (1989) and the Osh region (1990) were ethnic, not religious. When considering the ethnic factor, the extent of re-Islamisation in individual countries may influence the consolidation role of Islam.

*Thirdly*, Islam (for the time being) does not play a major role in state building. The predominantly Muslim post-Soviet region that we focus on adheres to secularism. The question of endorsing Islam as an official religion has been discussed only in Tajikistan. Religion remains separate from state and it is impossible to speak about involvement in government affairs as far as the religious institutions such as *Ulama Councils*<sup>4</sup> or Sharia courts are concerned. On the other hand, legitimisation of certain Sharia laws and their linkage with secular norms is probably a matter of time. Similar issues are being discussed in Russia's Muslim regions.

*Fourthly*, Islam is not a factor of political stabilisation. There are two attitudes towards Islam existing in the society. One reflects the views of political and Europised intellectual elites (largely following the Soviet model) and restricts the role of Islam to religious, cultural and everyday life.

The other attitude is associated with the feeling of incomplete transformation of the Central Asian countries on their way to re-Islamisation. These feelings are common among traditional intellectuals — traditionalists and Islamic opposition politicians. Advocates of both attitudes are still in opposition and the tension in the society will continue unless they reach a compromise.

*Fifthly*, Islam is not a mobilisation factor as far as secular affairs are concerned — development of modern economy, infrastructure, agriculture and so on. For example, Algeria, Libya, Iran and many other Muslim countries widely used Islamic rhetoric when explaining their economic and social strategies. It is well known that the second President of Algeria Houari Boumediene (he was the president from 1965 to 1978 and he later became the prime minister) proposed implementation of economic reforms within “*the Greater Jihad*”,<sup>5</sup> i.e., activities focused on improvement of the situation in the Muslim community. The five-year plan for economic development of Egypt in the 1960s began with the “*Basmala*”.<sup>6</sup> Such an interpretation of economic growth does not exist in any countries of Central Asia or Transcaucasia.

*Sixthly*, call for the “Islamic solution” does not result in consolidation between the countries at the regional level. Its advocates rarely mention the issues related to religious unity.

Despite its restrictions and limits, the Islamic factor in the countries of Central Asia and Transcaucasia reflects the socio-political and economic reality, which cannot be ignored. Its significance in the region differs from country to country. Islam shapes value orientations of people and regulates relationships between them. It is a political instrument and importance of this role will grow. This may worsen relationships between different parties and groups, especially between the government and the opposition. However, there are certain influential authorities in Central Asia that insist on restricting the role of religion so that it does not interfere with the political life (Polonskaya L. & Malashenko A., 2008, pp. 315-317).

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which covers territories of western and northern Kazakhstan.

<sup>4</sup> The *Ulama* are interpreters of Islamic religious knowledge and law. They have the strongest influence on Shia Islam, where their role is institutionalised. Otherwise, they play a role of local religious authorities and they are responsible for the correct interpretation of Islam. They can work as influential teachers or guardians of Islamic tradition.

<sup>5</sup> *Jihad* is an Arabic word which literally means striving or struggling. Jihad is especially an effort to conform with God's guidance. It is classified into inner (greater) jihad, which involves a struggle against one's own weaknesses and external (lesser) jihad, a struggle against weaknesses of the Islamic society or against non-Muslims — infidels.

<sup>6</sup> *Basmala* — the phrase *Bismi lláhi r-rahmání r-rahím* (in the name of God, the Most Gracious, the Most Merciful). This is the phrase before each surah (chapter) of the Quran. It was first used probably to separate individual surahs, but later it started to be used at the beginning of each important text, speech or book, which often had a secular content.

#### **4. Islamisation of the Financial Sector**

Renat Bekkin is a renowned expert on the Islamic financial sector in the post-Soviet region. Unlike other experts in Islamic finance, he claims that even countries like Pakistan or Iran do not have a financial system that is completely Islamic (Čekmareva E., 2010).

General Zia-ul- Haqq, the former President of Pakistan, declared the full-fledged Islamisation of the financial sector after the year 1980 in order to use the Islamisation process for legitimacy of his regime. However, bankers just continued their common practices replacing the term “interest” with a word “profit”. The Appellate Court of Pakistan issued its final decision on real Islamisation of the system in predetermined deadlines. However, this proved to be unreal.

A new initiative of Islamic banking was launched in 2004 — there were four Islamic banks, two in the preparatory phase and 15 conventional Islamic banks with their branches. The State Bank of Pakistan appointed its own board of directors consisting of five members, including an Islamic lawyer, accountant, barrister, banker and the bank’s representative. On its websites, the bank published the list of approved contract forms in Islamic banking. Even though this sparked general establishment of Islamic banking in Pakistan, we still cannot claim that the banking system in this country is based entirely on Islam (Maitah M., 2010, p. 56).

Nowadays, Iran presents itself as a country with the completely functioning Islamic banking system. However, the reality is different. From a formal point of view, the banks are Islamic, but there are many small specific features that contradict their Islamic character.

The same could be said of insurance. Islamic insurance differs from the traditional one. In contrast with the majority of Sunni Muslims, Iran considers conventional insurance as legal. This results from the interpretation of certain regulations related to economic relations between Shia Muslims. Shia lawyers mostly have a liberal attitude towards economic and financial issues. That is why some affairs accepted in Shia Iran are not tolerated and acceptable in the Middle East. As a result, the Iranian financial system is referred to as pseudo-Islamic (Čekmareva E., 2010).

We can divide Islamic countries into three categories:

- 1) Monist countries that do not allow un-Islamic banks.
- 2) Dualist countries in which legislation allows Islamic banks to operate with a special legal status. There are also conventional banking institutions.
- 3) Countries with the conventional system, where Islamic banks do not have a special status and are not regarded as banking institutions. In addition, they comply with legislation in force (for example, the Russian Badr-Forte Bank operates according to a conventional financial system that does not recognise Islamic banking) (Haron S., 2012, pp. 236-240).

#### **5. Islamic Economic Model in Kazakhstan and Kyrgyzstan**

If we want to explore the issue of Islamic economics in Central Asia, we should really focus only on Kazakhstan and Kyrgyzstan. Other countries in this region have not introduced the Islamic economic model at all. It is difficult to predict the future owing to turbulent developments in the region. As far as Uzbekistan and Turkmenistan are concerned, it is too early to talk about possible implementation of these structures as their financial sector is, in general, insufficiently developed. At the moment, Tajikistan is not ready for development of

the Islamic financial system either.

Kazakhstan is unique because it adopted legislation that allows Islamic banks to work without any obstacles even though there are not any Islamic banks in the country. Islamic banks usually adapt to local legislation and lawmakers change banking legislation so that it does not impede the Islamic financial system. Islamic banks do not exist in Kazakhstan even though there is a demand for services provided by Islamic banking among legal and physical persons.

The planned establishment of an Islamic bank alongside the United Arab Emirates have not yet been realised. The same can be said about other institutions even though all the projects were supported by the country's president. There were two mixed expert groups. The first assessed the projects alongside Malaysian experts and the other one together with experts from the Middle East.

The disputes and different attitudes of the two expert groups concerned theological and legal issues. The recommendations made by the Malaysian experts were more liberal as they enabled each financial institution to find analogues of necessary operations. An appropriate amount of creativity and adjustment was sufficient for finding analogues of any financial products.

However, experts on Islamic law point out that there is a large number of conventional financial and banking instruments that cannot be adjusted to fit the Sharia requirements without occurrence of other problems and issues. For example, Islamic mortgages raise a wide range of questions. However, there is one undoubtable mechanism that does not pose any issues — profit and loss mechanism. Other financial instruments are much more vulnerable and sensitive. For example, the countries in the Middle East do not fully approve of the liberal approach that prevails in Malaysia (Bekkin R. I., 2004, p. 6).

In Kazakhstan, the experts from the Persian Gulf states, who presented the middle ground in terms of disputed issues, got an opportunity to promote development of the Islamic financial sector. Despite this, the situation in the country has not radically changed.

On the other hand, the situation in Kyrgyzstan was a bit different. Shamil Murtazaliev, the former advisor to President Bakiyev, played an important role, as he was also the representative of Kyrgyzstan in the Islamic Development Bank. This bank helps Kyrgyzstan especially in terms of information provision.

Thanks to Murtazaliev's initiative, Kyrgyzstan launched a pilot Ecobank project. At its beginning, only one financial service was offered. Nowadays, it provides a large variety of services for physical and legal persons. Ecobank is not entirely Islamic and it offers all conventional banking services. However, it is important to mention that the percentage of Islamic financial transactions is increasing and profitability of Islamic deposits is higher than that of conventional ones.

Based on the experience from the Ecobank project, Kyrgyzstan amended the legislation allowing development of Islamic finance methods without any restrictions. The amendments affected Islamic insurance as well. Therefore, experts suppose that they will be increasingly implemented in the near future (Čekmareva E., 2010).

## **6. Azerbaijan as an Example of the Development in Caucasus**

The situation in the Caucasus region is similar to the one in Russia. We can explain it by describing the Kovsar Bank in Azerbaijan (Bekkin R. I., 2010). This bank reminds the Russian Badr Forte Bank (BFB) as far as cooperation with the state is concerned. The bank transformed into an Islamic one thanks to active encouragement



offered by chairman of the BFB's board of directors. He was a chief advisor and manager of the project.

The employees of the Kovsar Bank wear traditional Muslim clothes but clients "from the street" are not necessarily advised of the fact that they have just entered an Islamic bank, which uses Islamic financial methods. On the bank's website, you can find the statement about implementation of Islamic financing techniques in Turkish, but not in Russian or Azerbaijani languages. How can we appraise this situation? Some experts claim that it is a kind of "partisanism" similar to existence under semi-legal conditions. Heydar Ibrahimov, the bank president, does not agree and points out that the bank does not try to promote a Muslim identity. It is supposed to be a conventional bank for clients "from the street" and an Islamic bank, where acquisition and payment of money are based on mutual trust between the bank and its clients, for those who are familiar with its profile and who are interested in Islamic financial products. Whether this bank is a full-fledged Islamic bank is disputable, but it has been officially acknowledged by the Islamic Development Bank. In 2015, it was renamed to Caspian Development Bank.<sup>7</sup>

The impact of Turkey, where until recently banks could not officially present themselves as Islamic, is undoubtable. The banks were forced to operate as non-bank financial entities. Nowadays, they are called "partnership banks", so the term "Islamic" is still not used. Concerns over using the term "Islamic bank" exist also in Azerbaijan. Therefore, experts predict that the country will copy the Turkish model in the future.

## **7. Zakat and Its Importance for Islamic Economic Thinking**

Zakat plays an important role in Islamic economic thinking (Ostřanský B., 2009, p. 16). In reality, only a small percentage of Muslims in Central Asia pay Zakat and few people realise what it means to the Muslim community (Ummah). Many experts on Sharia consider Zakat as the most important pillar of Islam. It is not only a form of alms-giving, charitable contribution or a charity tax similar to tithes. Zakat encompasses all these forms and interconnects them with devoutness as well as spiritual and moral values (Achtjamov N. S., 2013, p. 5). It is a duty imposed by God that Muslims fulfil for the sake of society as a whole. Zakat literally means "purification". It is an obligatory tax amounting to 2.5% of one's wealth over the course of a year and it is paid for the benefit of the Muslim religious community, especially for those in need. However, the true Muslim should donate even more by means of Sadaqah, preferably without anyone knowing. The word "Sadaqah" means "voluntary charity".

If people do not fulfil their divine duty to pay Zakat, they should consider how important their religion is to them. Besides this, it is hard to imagine that these people will be loyal clients of an Islamic bank. This is an open issue, which is not given attention and is not explored by experts either. Zakat is treated in a similar way in all Muslim regions of the former Soviet Union, where Islam was suppressed. This word is often replaced by the term "charity". In addition, there are not any trustworthy institutions that could supervise its collection and distribution.

Similar to contemporary Russia, banks in this region tend to offer Islamic financial services, which are far from being Islamic, in order to improve their public relations. This usually leads to the media fuss, but the results are unsatisfactory and misleading. Experts strongly disapprove of these practices and support their opinion by giving an example of Express Bank in Makhachkala, the capital city of the Republic of Dagestan (Čekmareva E., 2010). For example, this bank issued a credit card as the first product compliant with Sharia law. In fact, this product had existed several years before. The only difference was that this card had a perfect Muslim design approved by the local Sufi authorities. Indeed, it is a Muslim design that convinces Muslims, who cannot tell the

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<sup>7</sup> Byvšyj Kovsar Bank teper nazyvajetsja Caspian Development Bank.

difference between an Islamic and an un-Islamic bank, to invest their money.

Active investment into innovations in Islamic financial services raises questions about the source of this finance. As long as the money that enters into a bank is “clean”, everything is in order. However, in the 1990s, only few people could say that the big money they had made was “clean” in terms of Sharia law. In other words, few people earned billions in an honest way.

## 8. Conclusion

All in all, we can say that nothing impedes development of Islamic banking in the region that we focused on. The problems that occur in these countries are caused by insufficient knowledge and competences as well as the lack of interest that authorities show. Technical problems do not impede this process. An imaginary umbilical cord between the post-Soviet Muslim countries and the Russian Federation, which has not been completely cut, can play a major role. If the number of Islamic banking institutions increases in Russia, it will grow in this region as well. In forthcoming years, an overall economic interdependence, which is based on common historical development, will also play an important role.

The post-Soviet Central Asia and Transcaucasia, in particular, are fairly specific. The full-fledged Islamic financial system is not likely to exist in this region, but its alternative financial instruments will be desired. Taking the aforementioned specific features into account, we can also expect that not all Muslims will use Islamic financial institutions.

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