Scope and Feasibility of Islamic Banking And Finance Model
KAZAKHSTAN & INDIAN PERSPECTIVE

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Abstract

More than five decades ago, banking and finance based on the principles of Islamic Commercial Law (fiqh al-mu'amalat) was just a wishful thinking. However, since it's commencement in early 1960s, Islamic finance industry remained at constant momentum in and outside the Muslim world. Making space among the leading financial service providers like Hong Kong and Shanghai Banking Corporation(HSBC, London), Deutsche Bank (DB, Germany), Bank National Paris (BNP, France), Citi Group (U.S),Union Bank of Switzerland(USB, Switzerland), Merrill Lynch and Barclay's (UK), etc., the 'nascent' industry has now become a practical reality. As such, the developing Asian economies like India and Kazakhstan -(countries under study)- being home to large Muslim populations, are expected to offer a promising growth market to Islamic finance industry. The overview of socio-economic factors like demography, religious participation, behavioral finance and demand for a robust financial structure after experiencing the worst consequences of global financial crisis, have led experts to expect a 'perception shift' in customer choice in general and Muslim customers in particular. Regardless of India being home to 177 million Muslims, and Kazakhstan, a Muslim majority state (70.2%), much has not been done to materialize the concept of Islamic banking and finance on practical grounds. The major impediment in the development of shari'ah compliant banking in both the countries is generally and genuinely ascribed to their respective secular constitutions. Although, felt heavy with customer interest, the government of Kazakhstan reformed the banking constitution in 2009, just to become the first country to facilitate the development of Islamic finance in the Common Wealth of Independent States (CIS).Currently, Kazakhstan has one full-fledged Islamic bank- Al Hilal Bank (established 2010), which offers both corporate and retail services. By now she has also the (Islamic) legal framework for sukuk (securities), takaful (insurance), and ijarah (leasing). Being the largest democracy of the world, the government of Indiais yet to introduce such type of constitutional change. However, one of her states in the South - Kerala State was the first to allow the Kerala State Industrial Development Corporation (KSIDC) to offer shari'ah compliant financial services to the Muslim community. It is with this background that the present paper will attempt to examine the feasibility and challenges of Islamic finance industry from Indian and Kazakhstan perspective by *applying SWOT analysis method.*

Keywords
Islamic Banking, India, Kazakhstan, Feasibility, Emergence, Development, Islamic Commercial Law, Islamic Finance Industry, Legal Models, Potential Investors.

Introduction

Asia is home to 62% Muslims of the world, and therefore, the demand for ***shari'ah*** compliant financial products has always been felt across the region with a greater supportive strength.[1] Kazakhstan and India, being part of that Continent, lag behind as compared to other neighbouring economies like Pakistan, Malaysia, Indonesia, Bangladesh and Iran. The development of Islamic finance industry is negligible in case of India and relatively weak in case of Kazakhstan. The main reason behind this stalled growth in these countries is generally ascribed to the secular structure of the constitution. Being secular in socio-political disposition and much reluctant to religious developments, they have no state religion except that Muslims in India have 'Muslim Personal Law' to govern (certain) family matters, while Kazakhstan has a state sponsored apolitical religious board called the 'Muftiate' for the said purpose.[2] The inclusion of fundamentals of any religion in state formation is contextualized as a potential threat to the prevailing secular democracy and nation building. As for the Islamic financial institutions, the ***shari'ah*** compliance is a primary requirement which in turn persistently demands the incorporation of Islamic standards of doing business. Since most of the ***shari'ah*** based financial operations like ***musharakah***, ***mudarabah***, ***murabaha***, ***istisna***, ***salam***, ***ijarah*** and ***wadiyah***, objectively different from the conventional structures, don't fall under prevailing banking and finance regulations in Kazakhstan and India. Therefore, there are some general and, certainly, some regional challenges for the industry to operate and expand its services. Despite being a secular state, Kazakhstan, so far, has introduced gradual amendments in its constitution (2009, 2011, and 2015) to facilitate Islamic financial services in order to attract both local customers as well as capital rich foreign Muslim investors in the country.[3] However, India, with a large Muslim population, has not introduced any such constitutional change except allowing Al-Barakah Financial Services Ltd., a non-banking finance company (NBFC), to operate in Kerala in August 2013.[4]

Foundations of Islamic Banking and Finance

Needless to say that Islam has a set of goals and values encompassing all aspects of human life including social, political and economic. Since all the aspects of life are interdependent and Islamic way of life being a consistent whole, its goals and values in one field determine the goals and values in the other fields as well. Consequently, the said interdependency is to be put into consideration when it comes to economic participation and financial engagements.[5]Therefore, responding to the need, scholars of ***shari'ah*** developed an alternate system of banking and finance under the guiding principles of ***fiqh al-ma'amalat*** (Commercial Jurisprudence) which, considerably, differs from the Western or conventional system. The former is strictly engrossed in the ***shari'ah*** and latter is purely a human workout.[6] As such, Muslims are expected to engage with banks and financial institutions that offer products which are in line with Islamic principles. The Islamic finance industry is based on four major principles, explicitly referred to in the ***Qur'an***, ***hadith*** and ***fiqh*** (jurisprudence).These principles are: ***La-Riba*** (no-interest)*,* ***La-Gharar*** (no-uncertainty), ***La-Maisir*** (no-speculation), and ***La-Haram*** (no-unlawful).[7]

It would not be out of place to mention that in the economic philosophy of Islam money (paper currency) in actuality has no value and it becomes 'actual capital' only when it is invested in a productive activity. Thus, in contrast to conventional theory of money, selling of money for money, for example, US$100 for US$110 is not same as selling a bag of rice (commodity) costing US$100 for US$110.Islam adopts characteristic differences between money and commodity and considers money as 'potential capital'.[8] It must be noted that increment in the price of a commodity in any sale contract to be paid at a future date is not prohibited in ***shari'ah***. According to the objectives of Islamic law (***maqasid al-shari'ah***),the rate of increment implies that incorporation of time value of money is a necessary component for the growth and development of a (particular) business. It also ascertains that essentially ***shari'ah*** only prohibits making money's time value as a justification of interest claimed as a predetermined value.[9]

Legal Modes of Banking and Financing in Islam

- Profit sharing **(*mudarabah*):** It is a financial method in which one partner (***rabb al-mal***) finances the project, while the other party (***mudarib***) manages it. Under ***mudarabah*** principle Islamic banks offer savings and time deposits in the form of investment accounts. The profit made through this business venture is shared as per pre-agreed ratio and in case of genuine failure the financer has to bear the loss.[10]
- Non-interest bearing demand deposits: **(*wadiah al-dhamanah*):** It is basically a contract ('***aqad***) between the owner of goods (depositor) and the custodian of the goods (Islamic bank). Islamic bank takes the responsibility to safeguard the goods or money from being damaged, destroyed, stolen, etc.[11]
- Joint Venture **(*musharakah*):** It is a partnership agreement entered by at least two parties (Islamic bank and depositor) for a particular business venture. Here the bank not only participates in the supply of capital to the venture, but also in its management --thus playing the role of an

entrepreneur as well as that of a financier. Profit is shared as per the agreement between parties while the loss is shared in proportion to their shares of capital in the enterprise.[12]

- Cost Plus (***murabaha***)**:** It is defined as a cost-plus sale, where the seller (Islamic bank) expressly mentions the cost he has incurred on the commodities to be sold and sells it to another person (customer) by adding some profit or mark-up thereon which is known to the buyer.[13]
- Leasing (***ijarah***)**:** An agreement whereby the Islamic bank (lessor) purchases or constructs an asset for lease (customer) according to his/her request (lessee), based on his/her promise to lease the asset for a specific period and against certain rent installments. ***Ijarah*** could end by transferring the ownership of the asset to the lessee known as ***ijarah wa Iqtina***.[14]
- Securities and Bonds ***(sukuk)*****:** It is a financial certificate and an (Islamic) equivalent of conventional bond. These are securities that comply with the Islamic law (***shari'ah***) and its investment principles, which prohibit the charging or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets.[15]

Global Outlook of Islamic Finance Industry

Islamic finance industry has received global acceptance. Today, more than 500 ***shari'ah*** compliant financial institutions are operational in 75 countries of the world.[16] The impressive performance of this industry has greatly benefited many economies, irrespective of religion or race, by fostering significant growth and increased employment opportunities. Many developed non-Muslim countries like Germany, UK, USA, Russia, France, and China are embracing Islamic finance industry as an alternative to satisfy the growing customer demand. The geographic expansion of Islamic finance industry accelerated after the worst consequences of global financial crisis which exposed the instability of centuries old conventional banking system. By the end of 2014, the total assets of the Islamic finance industry surpassed US $ 2.1 trillion milestone and the figure is expected to hit US $ 3.4 trillion by the end of 2018.[17] In terms of market penetration, Middle East and North Africa (MENA) region is the centre of Islamic finance market contributing 74% share in global assets followed by East Asia with 17% and rest of the world with 9%. In terms of services, the share of banking assets is estimated about 80% followed by equity funds 5% and the rest are others in the global volume of assets under Islamic finance.[18]

Relative Development of Islamic Finance Industry in Kazakhstan and India

Although, the emergence and development of Islamic finance industry is an outcome of a long tradition but its introduction in both countries under study viz. Kazakhstan and India is a very recent trend. Consequently, the official approval of ***shari'ah*** compliant tools of financial intermediation has even a very short but relatively a different history.

Kazakhstan

Until the dissolution of Communist Russia (1991), Kazakhstan[19] was deeply secular in outlook, but soon after getting independence,[20] the whole Central Asian region witnessed a dramatic rise in Muslim identity, a call "back to Islam" which did not go unheeded in Kazakhstan.[21] From the regional perspective, Kazakhstan emerged as a pioneer in terms of introducing Islamic finance into practice.[22]Initiating the process, in January 1992, Albaraka (Kazakhstan) was established by the Decree No. 5 of the President of the Republic. The founder of Albaraka, Sheikh Saleh Kamel, became the first foreigner Muslim investor to invest US $100 million into the Kazakh economy.[23] In November 1995, Kazakhstan became a member of the Islamic Development Bank (IDB), the largest financial entity of Organization of Islamic Cooperation (OIC), and in 1998 IDB opened its Regional Office in Almaty. At present, this Regional Office covers Central Asia and the Caucasian region. Since the operations of IDB began, it has spent around US$700 million in Kazakhstan, which puts the republic ahead of its neighbours in terms of 'received funding'. [24]

Today, there are more than a dozen Islamic financial institutions operating in Kazakhstan. These included: an Islamic Bank, an Investment Fund, a Takaful Company, the Hajj Fund, and Brokerage and Consulting Companies.[25]In 2003, Kazakhstan's largest bank, Bank Turan Alem (BTA), became the first Central Asian financial institution to draw on an Islamic-backed line of credit when it borrowed US$250 million from Arab, UK and Malaysian Muslim lenders (Sadiq, 2013).[26] In a historic move, Kazakhstan became (2009) the first Central Asian country to adopt laws on Islamic banking and finance after President Nursultan Nazarbayev ordered a bill on Islamic financing. The 2009 amendment to the Kazakhstan Banking Law allowed Islamic banking activities, established a separate license for these banks and stipulated the (Islamic) financing products.[27]

Kazakhstan's first full-fledged Islamic bank al-Hilal was established in 2010 only after an agreement between the governments of the Republic of Kazakhstan and the United Arab Emirates.[28] In July 2011, the Kazakh President signed into law the amendment "**On alteration and addition to some legislative acts of the Republic of Kazakhstan on the organization of Islamic finance,**" paving the way for issuance of ***sukuk*** (Islamic Bond), an equal of conventional bonds and certificates. In November 2011, the National Bank of Kazakhstan was admitted as an Associate Member of the Islamic Financial Services Board (IFSB), based in Kuala Lumpur, Malaysia.[29] In the follow up of amendments in Kazakh banking laws, the first company based on principles of Islamic lease (***ijarah***) was **Kazakhstan Ijarah Company** established April 2013Acting in concordance with principles of Shari'ah it offers financing from 2014 for companies in the SME and corporate sector. In May 2013, the Islamic Corporation for Development (ICD) announced its initiative to convert Zaman Bank into Islamic Bank with an investment of up to 35% of capital. The local Bank will be the second Islamic Bank in the country.[30]

In order to enhance the development of Islamic finance industry, the Government of Kazakhstan approved (29th March, 2012) 41 point **"Road Map for Development of Islamic Finance by 2020."** This programme determines the directions and procedures to be taken by governmental bodies and businesses to achieve the mutual objectives, by creating conditions for the stable development of the Islamic finance industry, promoting the establishment of new Islamic banks, Islamic securities issuers, investors, and market participants.[31] In order to make the country "financial center of the new Silk Road" by facilitating the conversion of conventional banks into ***shari'ah*** compliant ones, the government of Kazakhstan under the leadership of Nursultan Nazarbayev, introduced another set of amendments (November 2015) to the recently approved law in April 2015. With adopting the amendments, Islamic finance industry is expected to grow progressively in the next few years as competition is likely to increase when more sophisticated products and customer friendly services are introduced in the market. These developments are driven by Presidential and governmental reforms to create an enabling environment for Islamic finance, which will make the country's financial markets more competitive and attractive to ***shari'ah***-compliant investment capital from major Islamic financial markets The National Bank of Kazakhstan (NBK) is also engaged with different projects to spur development in Islamic banking sector. It mainly works on three areas; firstly, to improve local expertise on Islamic finance through education, seminars, conferences and lectures across the country; secondly, to improve the legislation framework; and lastly, to attract Islamic finance players, both institution and investors, from the Middle East and Southeast Asia.[32]

India

Historically, the concept of Islamic financial institutions (IFIs) is not new to India or her Muslim population in particular. Records reveal that IFIs in the shape of ***bait-ul-maal*** (treasury house) came into existence in India after the advent of Islam and establishment of the Muslim rule. The functions of the ***bait-ul-maal*** included collection and distribution of wealth through ***zakah*** (poor due), ***sadaqah*** (charity) and ***qard-e-hassan*** (benevolent loans). However, IFIs as economic units were first created during the first half of the 20th century with the establishment of Patni Co-operative Credit Society Ltd. (1938) followed by the creation of first Muslim Fund in 1941at Tada Bavli in

UP. The fund was created to mobilize the savings of poor formers on daily and weekly basis on ***wadiyah*** or ***amanah*** deposits and extend interest free loans against the security of gold ornaments. In 1961, the Muslim Fund Deoband (MFD) was established and is still working. In 1971, another institution named Muslim Fund Najibabad (MFN) was created on the model of MFD. In 1990, MFN floated a subsidiary, Al-Najib Milli Mutual Benefits Ltd.[33]

Inspite of strong historical links with the institutional framework of Islamic economy, the growth of contemporary Islamic finance industry in India is at halt. In June 2005, Government of India asked Reserve Bank of India (RBI) to examine Islamic banking instruments from an investment and money generating avenue. Finally, a Committee was constituted which was headed by Mr. Anand Sinha, then Deputy Director of RBI, with senior bankers and experts from State Bank of India (SBI) and Oman International Bank, as its members. In 2006, the committee submitted its report and made two major observations: first, appropriate modification should be made in banking regulation act 1949 along with separate rules and regulations; second, taxation proposition have to be examined. But unfortunately, the idea of Islamic banking was rejected by RBI saying that it is not feasible for Indian banks to undertake it or to allow their branches to carry out Islamic banking operations abroad without amendments in current related banking and other laws.[34]

In August, 2007, the idea of an interest free mechanism in India again became a hot debate when the government under the Planning Commission constituted a high-level Committee on Financial Sector Reforms (CFSR). The Committee's Chairman Dr. Raghuram Rajan (former Chief Economist at IMF) and other eleven members were asked to look into the feasibility and practical adoption of Islamic banking under the prevailing banking and financial laws. In September, 2008, the Committee submitted its report to the Prime Minister with specific recommendations of interest-free banking in the country.[35] In 2010, Kerala State Industrial Development Corporation (KSIDC), a fully owned Kerala state government company, signed an agreement with Al-Barakah group to offer ***shari'ah*** compliant financial services to the local Muslim community. In the proposed Islamic financial institution, KSIDC holds 11% stake. However, the government order was challenged by Bhartia Janata Party (BJP) leader Subramanian Swami in the Kerala High Court arguing that association of government agencies in setting up Islamic investment company goes against secular principles preserved in Indian constitution and was stayed on grounds of violation of Article 14, 25, and 27. In February 2011, Kerala High court dismissed the petition filed by Subramanian Swamy and maintained setting up of an Islamic investment company.[36]In 2012, the arguments for Islamic banking received a boost when the National Minorities' Commission under Chairman Wajahat Habibullah, made a case for it with the Finance Ministry. In 2013, another non-banking company named Al-Barakah Financial Services Ltd. received a "green" signal which came from the Reserve

Bank of India (RBI) itself.[37] India has some well-established Islamic finance centers like Indian Centre for Islamic Finance (ICIF) and Institute of Islamic Banking and Finance (IIBF). The IIBF is incorporated with the Government of Andhra Pradesh (Hyderabad) under Public Societies Registration Act 1995. It is the county's major institute that strives to institutionalize education at all levels in the field of Islamic economics, banking and finance. Apart from these centers, Aligarh Muslim University (AMU) and Malappuram based Ma'din Academy also started a number of courses (bachelors, masters, diploma, etc.) in Islamic banking and finance.[38] Despite all these academic developments till date there isn't any full-fledged Islamic bank in India.

Islamic Banking in Kazakhstan and India-SWOT Analysis

Kazakhstan and India are two growing banking economies of Asia. The banking and finance sector significantly adds to their GDP percentage. But compared to the developed nations, the level of their development in the concerned sector is still weak in terms of access and expansion. Apart from problem of expansion, there is another specific one related to the 'behavioral finance' as both the countries have a large Muslim population. With the colonial era gone once for all, the consciousness regarding approved (***halal***) and disapproved (***haram***) has stopped millions of Muslims to get involved in interest based banking practices. Apart from religiosity, the benefits of Islamic banking in a growing economy like India and Kazakhstan cannot be overemphasized. It will significantly contribute to the overall development of the country by developing micro-credit schemes aimed at improving the job prospects for the poor and the downtrodden. Therefore, both countries need large investments in order to boost the overall process of economic development; Islamic banking can be used as vital tool to attract petro-dollar economies to invest their capital in Kazakhstan and India. With the help of SWOT (Strength, Weakness, Opportunity and Threat) scale analysis the position of Islamic finance industry in Kazakhstan and India is examined hereunder:

Strengths

- The products and services offered by Islamic finance industry are becoming increasingly popular, not only in the Gulf countries and far eastern Muslim countries like Malaysia, Indonesia, Pakistan, and Iran but also in other developed markets such as the United Kingdom, Germany, USA, France, Hong Kong and Singapore.
- Islamic banking adheres to strict credit rating system and prohibits indebted economic agents to avail more debt finance which in turn could save financial and economic enterprises from bankruptcy.
- Under Islamic banking, equity finance needs cost yield and pre-rating analysis of projects. Thus it considerably subdues the mindless competition in financial sector to get more credit shares and tends to provide stability

in the financial market.

- Islamic banks, though not untouched, were least affected by the subprime mortgage crisis. In fact, many non-Muslim countries are turning up to Islamic banking as they are immune against such crisis due to inherent business ethics within Islamic banking.
- Islamic banking helps the weaker and hapless section of the society through various financial products like micro financing, joint ventures, partnerships and leasing. This helps even the indigent and vulnerable to get finance at a no risk and cost basis, but definitely requires other credits like strong business proposal, rational planning, skilled hands and specialized art to attract the financier.
- Better business proposals succeed in fetching funds as opposed to the projects with comparatively poor propositions. Such inclusive growth will boost the Kazakh and Indian economy.
- A bank in Kazakhstan and India cannot raise deposits without promising a specified rate of return to depositors, but under ***shari'ah***, returns can only be determined post-facto depending on profit. Also, banks have to maintain a Statutory Liquidity Ratio (SLR), which involves locking up a substantial portion of funds either as cash, gold or in government securities. Such cash will not get any return, keeping it in gold is risky as it could depreciate and government securities come with interest. Moreover, Islamic banking can eliminate unaccountable economic activities, as every economic activity has to be financed through legal contract and physical verification of real assets under contract. There is no room for diversion of funds. Therefore, investment in consonance with Islamic banking principles will surely boost the engine of economic growth in the country.

Weaknesses

- The prevailing banking laws in Kazakhstan and India do not explicitly support Islamic banking and finance instruments. For example, Banks in India are governed through Banking Regulation Act 1949, Reserve Bank of India Act 1934, Negotiable Instruments Act 1881, and Co-operative Societies Act 1961.Section 5 (b) and 5 (c) of the Banking Regulation Act, 1949 – prohibiting the banks to invest on Profit Loss Sharing basis -the very basis of Islamic banking.
- Islamic finance industry needs to introduce corporate governance with transparent accounting standards. It needs to perform a detailed evaluation before embarking Profit Loss Sharing Scheme. It demands a pool of highly trained professionals which of course is very costly.
- It is observed that inability to evaluate a project's profitability has tended to act against investment financing. Some borrowers frustrate the banks appraisal efforts as they are reluctant to provide full disclosures of their

business. Moreover, the borrowers do not observe business ethics which make it difficult to establish close bank-client relationship - a prerequisite for success.

- The other impediment from the borrower's point of view is the need to disclose his/her accounts to the bank, if he/she were to borrow on the Profit Loss Sharing basis. Similarly, even most of large conglomerates do not like to disclose their real accounts to anybody. This widespread lack of business ethics among business community is another major hurdle in the path of Islamic banking in India and Kazakhstan.
- The practices in use by the Islamic banks have evoked questions of morality. Some critics view ***sukuk*** (Islamic bond) as non-Islamic in nature. Others criticize that financing through the purchase of client's property with a buy-back agreement and sale of goods to clients on a markup, involved the least risk and are closest to the old interest-based operations.
- The usage of Arabic terminology makes it more religious activity than business.
- Lack of professional finance experts and well qualified ***shari'ah*** experts is another weakness of Islamic finance industry in Kazakh and Indian context.

Opportunities

- Kazakhstan with 70.2% and India with a 15% Muslim population promise a potential market to Islamic finance industry.
- Islamic banking is an effective mechanism to subjugate the liquidity and inflation problems along with allowing inclusive growth. For real inclusive growth, both Kazakhstan and India have to ensure increase in income and employment status of workers in all segments.
- If Islamic banking is introduced, the inadequate labor capital ratio, for informal sector workers associated with agriculture and manufacturing industries could be resolved through equity finance, which might be a revolution in Kazakh and Indian agriculture and unorganized sector. Thus Islamic Banking may financially empower majority of Kazakh and Indian workers.
- Islamic banking may induce the Kazakh and Indian political leaders to substitute grants and subsidies with equity finance schemes through specialized financial institutions because equity finance allows access to credit without debts of borrowers.
- By introducing Islamic banking, the governments of Kazakhstan and India will certainly gain diplomatic advantages to make financial dealings with Muslim nations to attract millions and trillions of dollars of equity finance. This is more important because the fall of the banking giants like Lehman Brothers, reflects the economic downturn in the west and the need

of alternative sources of FDI for both the economies under discussion.

- Another opportunity that Kazakhstan and India could materialize is the concept of mutual fund which is based on 100% equity. These funds could be invested indifferent sectors like IT, automobile telecommunication, and cement. In fact, Tata Mutual Fund made a pioneering attempt when, at the instance of the Barakat and some other Islamic financial group, it launched Tata Core Sector Equity Fund in 1996.This scheme was specially tailored keeping in view the Muslims' inhibition of dealing with interest bearing and ***haram*** investments.
- Moreover, a large number of Muslims considered unworthy of credit by commercial banks would welcome Islamic banking. Some Islamic societies in India accept deposits and lend money, but can't make a business out of it because of the ***sharia's*** prohibition of interest. And they are not able to convert themselves into banks because the government will not permit any form of banking without interest.

Threats

- Introduction of Islamic banking would tantamount to politicization of religion and certain parties might abhor the use of the word "Islamic" and could term it an up-shoot of Islamization project.
- Some scholars argue that the very concept of ***shari'ah*** compliant banking would go against the secular fabric of the country. For example, India is already facing problems pertaining to Muslim Personnel Law and is trying to implement Uniform Civil Code. Therefore, some scholars suggest that at this juncture, introduction of Islamic banking in India will create more problems than solving the issue.
- It may bring financial segregation in the economy. The compartmentalization of ***shari'ah*** compliant and non-***shari'ah*** compliant banking might be used by certain vested interest to communalize the finance sector.

Conclusion

The potential of Islamic finance industry is higher in Kazakhstan as compared to India. The geo-political position of Kazakhstan's Islamic finance industry has all prerequisites to develop as the main centre of attraction for foreign capital in the CIS. Despite Kazakhstan being a Muslim majority country, its Constitution declares it a secular republic. The religious policy of Kazakh President Nazarbayev has been to build good relations with all religious affiliations. Unlike his other CIS neighbours, he has been the driving force behind all efforts to make Astana International Financial Center (AIFC) as a regional hub of Islamic finance activities. He organized a number of international and national conferences, workshops and forums dedicated to promote Islamic banking and finance industry. For example, the conferences like **Seventh World Islamic Economic Forum** held in June 2011, **Second**

Islamic Finance Forum held in September 2011, **Kazakhstan International Halal Expo** in 2012, **Third Kazakhstan Islamic Finance Conference** held in October 2012, the signing of Memorandum of the Long-Term Cooperation between the National Bank of Kazakhstan and the Association for Development of Islamic Finance in February 2015 and very recently the 12^{th} Summit of Islamic Financial Service Board (IFSB) in May 2015 underline Kazakhstan's declared goal to develop the country and make it the regional center for Islamic finance. Today, Kazakhstan indisputably shares its own experience in the field of Islamic financial services industry and experts are hopeful that by the end of year 2020 its 5% banking will turn Islamic. It worth to note, that Islamic finance model in Kazakhstan has some structural similarities with the UK model. The key principle adopted by the British government towards the formation of its Islamic finance industry is "no obstacles, no special favours." It is worth noting that Kazakhstan's Law does not include any Arabic terminology of Islamic finance such as *riba*, *musharakah*, *ijarah*, *takaful*, *shari'ah*, etc. Only the term "Islamic" together with the descriptions of Islamic financial products are used to identify Islamic modes of financing. This is a unique approach among secular states which keeps connections with the nature and principles of Islamic finance, and at the same time this approach places emphasis on the substance of the products through their definitions.

In contrast to Kazakhstan, India is relatively well exposed to economic terminology of Islam like *riba, waqaf, zakat,* and *bait-ul-maal.* However, it is still very far from considerable practical developments. In order to develop favourable ecosystem for introducing Islamic banking in India, RBI formed different committees under supervision of reputed economists and banking experts. The recent reports submitted by **Committee on Financial Sector Reforms** headed by Dr Raghuram Rajan (2008) and **Medium term Path for Financial Inclusion** headed by Mr. Deepak Mohanty (2015), are obviously some positive signs as for as inclusion of Islamic banking in India is concerned. Although, RBI, within its capacity, is inclined towards experiencing this alternate system of banking but changing political landscape of the country doesn't allow it to make any practical effort in this regard. It is perhaps the same political pressure that even State bank of India Mutual Fund (SBIMF) felt forced to stop the launch of its ***shari'ah*** compliant mutual fund at the last moment. Unlike Kazakhstan, the government of India is proving ultra-suspicious towards opening up a pilot project based on Islamic principles, which according many economists is not a genuine strategy.

Recommendations

The present study has the following recommendations for both potential investors and authorities:

1. In both countries, the newly opening Islamic banks (Joint Stock companies) or non-banking financial companies should initially focus on small and

medium enterprises (SME) and agricultural sector. The application of instruments like *Murabaha*, *Salam* and *Istisna* in agriculture sector of both Kazakhstan and India could attract a large customer base. Moreover, the selective utilization of Islamic micro-finance and micro-takaful could also prove as fast deriving agents.

2. Human capital and awareness remains a serious challenge to be tackled. To increase public awareness and expertise about Islamic finance industry; its tools and techniques and its products and services, local Islamic institutions operating in Kazakhstan and India should conduct comprehensive marketing and educational programmes. Technical and professional assistance, in this regard, could be sought from leading Islamic financial players and institutions like Islamic Development Bank (IDB), Islamic Research and Training Institute (IRTI), Islamic Finance Service Board (IFSB), Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM), and International Islamic Rating Agency (IIRA).
3. Both countries can attract large investments from capital rich Muslim countries, provided there are local ***shari'ah***-compliant financial institutions. Thus, further enhancement of the legislation relating to the different areas of Islamic finance including the opening up of "Islamic Windows" is needed.
3. The stock market development in Kazakhstan and India should be a priority for the 'regulators'. Effectively operating capital market with long-term, higher-return and higher-risk equity instruments can be supportive for Islamic banking industry, providing liquidity and promoting risk-sharing culture.
4. The Government of India should take efforts (in consultation with Kazakhstan) to know how Islamic banking laws can be adopted without hurting the secular fabric of the country.
5. India must take advantage of Islamic financial services by giving Muslims, the largest minority, access to banking industry which doesn't violate their religious beliefs. This in turn, would surely add to India's overall economic development.

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