СВІТОВЕ ГОСПОДАРСТВО І МІЖНАРОДНІ ЕКОНОМІЧНІ ВІДНОСИНИ

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Ballack E.,
Postgraduate Student at Department of International Business
of the Institute of International Relations,
Taras Shevchenko National University of Kyiv

THE CONCEPT OF ARAB-MUSLIM FINANCE AS A COMPONENT OF ISLAMIC ECONOMIC MODEL

Баллак Е. Концепція арабо-мусульманських фінансів як складова ісламської економічної моделі. У статті розглянуті концептуальні основи розвитку сучасних фінансових структур арабського регіону у контексті ісламської економічної моделі. Проаналізовані особливості становлення сучасної мережі фінансових інститутів арабських країн у контексті специфічного об'єднання мусульманських релігійних канонів та потреб сучасного постіндустріального суспільства. На основі новітніх викликів процесу глобалізації досліджені форми імплементації арабо-мусульманських фінансів у світову фінансову архітектуру. При цьому дослідження генези останніх, пов'язаної із різноманіттям моделей взаємодії у міжнародних економічних угрупованнях, диференціацією покраїнних, регіональних і субрегіональних економічних систем здійснено із урахуванням використання ними «західних» принципів організованості, координованості і узгодженості. Показано, що позитивна динаміка фінансових показників країн арабського регіону багато у чому пов'язана не лише з цінами на вуглеводну сировину на світовому ринку, але й з рівнем диверсифікованості національної економіки, її модернізації, створенням вільних економічних зон, розширенням географії і номенклатури зовнішньої торгівлі. У статті дається характеристика динаміці розвитку сучасної ісламської банківської системи, визначаються основні причини недостатньої ефективності розвитку банківських інститутів арабських країн, що базуються сьогодні на існуючій різниці у обраних фінансових стратегіях, інституційних устроях, сферах і масштабах кооперативної діяльності. Обгрунтовується, що оскільки ісламська банківська діяльність визначається шаріатом, особливостями політичного і макроекономічного розвитку арабських країн, рівнем участі останніх у інтеграційних угрупованнях арабського регіону, «баланс уваги» наразі приділяється реалізації ісламської економічної моделі на основі «різношвидкісної» інтеграції.

Ключові слова: ісламська економіка, ісламська економічна модель, арабо-мусульманські фінансові інститути, ісламська фінансова система, ісламські банки, арабські інтеграційні угоди.

Баллак Э. Концепция арабо-мусульманских финансов как составная часть исламской экономической модели. В статье рассмотрены особенности развития современных финансовых структур арабского региона в контексте исламской экономической модели, дифференциации страновых, региональных и субрегиональных экономических систем, использования ими «западных» принципов организации, координации и согласования. Доказано, что позитивная динамика финансовых показателей стран арабского региона в значительной степени связана с уровнем диверсификации национальной экономики, ее модернизацией, созданием свободных экономических зон, расширением географии и номенклатуры внешней торговли. Определено, что основной причиной недостаточной эффективности развития банковских институтов арабских стран является в настоящее время существующая разница в используемых финансовых стратегиях, институционных устройствах, сферах и масштабах кооперационной деятельности, в уровнях их участия в интеграционных группировках арабского региона.

Ключевые слова: исламская экономика, исламская экономическая модель, арабо-мусульманские финансовые институты, исламская финансовая система, исламские банки, арабские интеграционные договора.

Ballack E. The Concept of Arab-Muslim Finance as a Component of Islamic Economic Model. The article deals with the special feature of the development of modern financial structures of the Arab region in the context of the Islamic economic model, differentiation by country, region, and subregion economic systems, of their usage of 'Western' principles of organization, coordination, and coherence. The article shows that the positive dynamics of financial indicators of the Arab region is largely connected with the level of diversification of the national economies, their modernization, creation of free economic zones, expansion of geography and nomenclature of foreign trade. It is determined that the main reason for ineffective development of Arab banking institutions is the current difference in selected financial strategies, institutional arrangements, spheres and scale of cooperative activity, level of their participation in integrational groups of the Arab region.

Key words: Islamic economy, Islamic economic model, Arab-Muslim financial institutions, Islamic financial system, Islamic banks, Arabian integration agreements.

Formulation of the problem. Today's Islamic financial and economic model is actively developing in the countries of the Arab region with a predominantly Muslim population as a form of cultural identity preservation. It not only satisfies the religious postulates of the majority but is also an attractive business model that ensures the development of a market economy and stimulates free competition and entrepreneurship, on the one hand. On the other hand, it limits the risks and uncertainty; motivates the principles of a more equitable distribution of profits and social responsibility of businesses, ensures the development of relevant industries according to (allowed by) the canons of Islam. As the development of the financial sector and growth of the economy are closely correlated, modern banking and insurance services are growing faster than the 'traditional' Islamic ones, which are based on savings, and the activities of microcredit organizations based the principles of Muslim banking operations and efficient allocation of resources. If at the beginning of its development, Islamic banking demanded significant interpretation of the Sharia law by Islamic theologians, under present conditions, financial innovations have become the most important elements of the spread of Islamic banking operations. They are based on the improvement of liquidity management (financial engineering) regulation models.

Analysis of recent research and publications. The increased research interest is focused on the Islamic economy and its finance as the most important parts of the Islamic economic model. Works devoted to this problem can be divided into three groups:

a) those which study theoretical aspects of the Islamic economy [1; 2];

b) those that analyse the implementation of certain financial institutions and instruments from a legal point of view [3; 4];

c) those which study the experience of using the Islamic economic model in some countries. The comparative analysis of the economic and legal foundations of Arab-Muslim financial institutions allows us to understand the prospects for the development of the Islamic economic model within the global economy [5; 6]. However, so far, there are different approaches to the implementation of Arab-Muslim financial structures, which are based on Islamic principles, in the modern world financial architecture under conditions in which non-Muslim countries do not have specific legislation that would regulate their functioning.

The purpose of the article is to analyse the current trends in the development of Arab-Muslim finance from the perspective of deepening the integration initiatives of the Arab region in order to realize the Islamic economic model.

Presentation of the main research material. The modern history of the development of Islamic financial institutions began in the 1960s and 70s. The first Islamic bank, Mit-Gamr, was founded in Egypt in 1963. The first insurance Takaful-company (takaful is translated from Arabic as providing mutual guarantees) appeared in Sudan in 1975. The first Islamic investment company in Europe appeared in Luxemburg in 1978. In 1973, the Organization of the Islamic Conference (OIC) decided to found the first Islamic international financial organization in the form of 'Islamic Bank of Development', which was accomplished in the Kingdom of Saudi Arabia (KSA) in 1975. In 1977, the first private Islamic bank – the Dubai Islamic Bank – was founded in the UAE, and the first Islamic financial institution with Kuwait's public finances – the Kuwaiti Finance House was founded in Kuwait. At the initial stage, the Islamic banks attracted funds from Muslims wishing to carry out the Hajj and invested them in Shari'a-enabled instruments, and the proceeds were distributed among private investors, thus accumulating the necessary travel expenses.

The Shariah system of Islamic finance, which can be represented geometrically in the form of a triangle whose sides are political, economic, and moral-ethical aspects, is a part of the concept of the Islamic worldview. Sharia standards on major Islamic financial instruments, which are constantly revised and supplemented, were first created by the influential international AAOIFI (Audit and Accounting Organization for Islamic Financial Institutions). It is one of three that define the rules of the game in the Islamic financial sector today.

First of all, it should be noted that there is no single Islamic economy that is universal for any Muslim community. As the economic history of the Arab region shows, application of the Islamic principles in an economy can be determined in various forms, which depend on a number of factors, namely a legal system, political regime, etc.

Considering the experience of applying the principles of Islamic financing in practice, the question arises: why have they not been fully implemented in any state? In the late 1970s and early 1980s, only three Arab countries – Pakistan, Iran, and Sudan – began an experiment on Islamization of their own financial systems, primarily by prohibiting banks from using interest-based instruments. However, the experiment on Islamization was not entirely successful. Thus, Iran refused to attempt to build an Islamic economy in a separate country in 1989. And the Supreme Court of Pakistan finally removed the issue of Islamization of its financial system from the agenda in 2001. That is, when it became clear that the introduction of Islamic banking as a non-alternative banking system prevented the interests of certain influential financial and economic groups, reforms on the Islamization of the financial sector were curtailed. For now, only Sudan has remained the only country where the alternative monistic model of Islamic finance is formally implemented – the complete refusal to use loan interest in their operations by of all banks in the state. At the same time, Pakistan and Sudan were still able to receive dividends from attempts to introduce an Islamic economic model in the form of investment from the Arab monarchies of the Persian Gulf [7, pp. 9–15].

There are currently two approaches to the implementation of Islamic economic principles. The first is based on principles and mechanisms of the Islamic economic model, which can be applied practically in any jurisdiction, and the degree of its ‘applicability’ in the economy (for all, the Islamic financial system) depends on professionalism of financial engineering specialists and their ability to develop banking and other products based on the appropriate funding methods. The second approach, arbitrarily determines that building an Islamic financial system is possible only in an Islamic state or society. In this regard, for the purpose of discussion, the first approach can be called ‘Sunni’ since it has been used mostly in the Sunni environment. The second one is ‘Shiite’ because Shiites of the Jafari madhab prevailingly understand the economy as the first and foremost means of convergence with Allah and realization of religious morality, but not as an instrument for meeting the needs of man [8, pp. 61–77].

However, these two approaches are based on various interpretations of the principles of conducting economic activities according to Shari'a, but they are not antagonistic – they only use different accents. One of them is based on a fundamentalist understanding of how the national economy should work according to Shari'a. Its priority is a reproduction of the Islamic tax system in the way it existed during the time of ‘righteous ancestors’, and return to the bimetallism system with the golden dinar and silver dirham. The other is based on the modernist Islamic economic concept regarding the nature of economic relations in society. An unsuccessful attempt to introduce a specially minted gold dinar as a currency was in 2016. It was intended to undermine the financial strength of the United States and its allies as a ‘financial weapon’. However, it did not become a full-fledged currency, since most of the money transactions, both in the Islamic state and outside it, were carried out in US dollars [9].

The idea of introducing new mechanisms to capital management has already gained the minds of the Islamic financial community, and the number of supporters of advanced information technology is growing rapidly. To start innovation, from the corporate point of view, the transition to releasing internal reserves through the rational use of personnel and optimization of relations between structural units of banks can be more beneficial. This means, firstly, removal of bureaucratic obstacles and acceleration of document circulation without losing its quality and vigorous advancement of new products – credit cards, personal finance, electronic savings accounts, as well as the development of new techniques (for example, cross-selling, standardization of approaches, etc.). Secondly, a unique combination of sustainable capital, regional executive mechanisms and diversified ties in the region as a whole, with a focus on key products and services and development of the most attractive market niches. It is in the idea of intensifying efforts that the core of a new strategy has been laid, which one way or another, will be used by all market participants of Islamic capital involved in profitable investment operations [10, pp. 11–12].

In general, Islamic banks, which are not religious organizations and engage in intermediary activities between depositors and investors, as well as offer other traditional banking services, are simultaneously governed by restrictions based on Sharia law. In fact, modern Islamic banking has four unique features. First, the prohibition of interest collection (a form of exploitation that is incompatible with justice) appears to be the main difference between Islamic and traditional banking activities. Second, the prohibition of risk-based gambling (mashir), that is, a speculative increase in wealth as a casual element of winning (garar). Thirdly, prohibition of funding by Islamic banks of certain unauthorized activities (haram) and permission to invest in authorized (halal), that is, banks do not provide loans to companies or individuals that are harmful to society or prohibited by Islamic canons, activities (for example, financing of tobacco and alcoholic beverage companies). Fourthly, the obligatory payment of part of the profit by banks Zakat (donations for the benefit of poor Muslims) according to one of five principles of Islam, and in countries where zakat is not charged by the state, Islamic banks make donations directly to Islamic religious organizations [11].

The dynamics of development of many Islamic banks in recent years shows that, firstly, their annual growth rate is 10–15 %; secondly, not only Muslims (the main clientele), but also such big western firms as IBM, General Motors, Alcatel, Daewoo use the services of Islamic banks. Thirdly, the leading western banks are opening their own Islamic divisions (Société Générale, Chase Manhattan, Goldman Sachs, Namura Securities, JP Morgan, and others), and Citibank founded in a subsidiary Citi Islamic Investment Bank 2009 in Bahrain [12, pp. 97–98].

Islamic banks, in contrast to the western, pay particular attention to work with small customers, and not with large private equity holders in their activities, since this type is the most widespread in Muslim countries. Unlike most western commercial banks characterized by financing of big highly profitable projects, Islamic banks have a significant share of short-term loans based on equity finance, which has significant advantages. If in the western economy the size of the loan interest rate (which basically depends on the central bank discount rate) dictates the conditions for the real sector development, in the Islamic financial system, the yield on deposits depends on the performance of the companies in which the bank invests its own funds. Therefore, the dynamics of the real sector development in this case contribute to the establishment of a favourable investment environment and efficient allocation of financial resources in favour of the most profitable sectors of the economy. That is, monetary assets are created as a response to investment opportunities in the real sector which determines the rate of income in the financial sector and not vice versa.

In this regard, the experience of Qinvest, the leading investment bank of Qatar and one of the leading players in the Islamic finance region, which since 2014 has been implementing a strategy of consolidation, i.e. a new vision of the organizational and technical side (instrumental equipment) of the institutions of the Islamic financial industry, is indicative. Its essence is to achieve sustainable development and to increase competitiveness based on a developed network of its own offices in the countries of the Middle East and North Africa (MENA), Turkey, and England. Wide involvement of brokerage companies in these countries guarantees a profitable presence on international sites at the expense of the initial placement of Islamic securities on regional and world exchanges [13].

Increasing effectiveness of Islamic banking is associated with selection of highly professional teams with wide connections not only at the corporate level but also at the individual, in the region, which will accelerate mass attraction of profitable clients, the concentration of resources and their wide manoeuvre with the release of large-scale operations in world financial market. No wonder the corporate community believes that the real obstacle to the Islamic business is the "shortage of talents that have aptitude and experience in working with specific Islamic schemes and who are able to navigate the subtleties of Sharia." For example, on the one hand, countries of the Gulf Cooperation Council are reluctant to devote themselves to studying the necessary commercial activity sciences in the modern 'digital' reality, although they believe that banks are the optimal resource on the way to social growth in the 'humanitarian knowledge' environment. On the other hand, they understand that guaranteed placement of capital is especially important in risk transactions, 'hybrid' financing, operations with subordinated resources that create an increased risk of funds' non-return.

However, in today's conditions, the problem lies not only in intrabank evolution. The fact is that Arabian intermediary companies of the traditional type do not register their Sharia shares at all and find themselves in the field of over-the-counter monitoring, which leads to difficulties in determining the Islamic nature of the partners. Companies often change names, addresses, register numbers in stock exchanges in search of better conditions without thinking about how it affects their effectiveness, not to mention business partners. With regard to Islamic insurance, Takaful, this is the most 'fragile' link in the Islamic finance system, which requires a more 'subtle attitude' to the habits and postulates of the Arab social environment in commercial transactions and in conditions of sensitive fluctuations in the world market. This limits the extent of Islamic capital flows and reduces the competitiveness of the industry. As a result, Tacafal is most widespread only in Malaysia and some states of Arabia provided that its share in the world insurance market is only 1 % [14].

The so-called Sharia councils have special powers in the structure of Islamic financial institutions. Financial companies using their own business model with constraints imposed by Islam are obliged to employ certified Shariah advisers responsible for monitoring and controlling the observance of Islamic postulates in the company's activities. It is the presence of the Sharia Council in the structure of any company that operates in compliance with Islamic economic principles, is obligatory and shows the clients how serious the intentions of the founders of the Islamic financial institution are. Sharia control usually has a dual structure: internal (domestic) Sharia controllers that are a part of the company's staff and external Shariah advisors (qualified and certified experts in the field of Sharia law and Islamic economics). Domestic experts carry out a preliminary examination of all new company products for compliance with Sharia principles and acceptability of risks, as well as daily monitoring of operations, having the right to veto any transaction or agreement. External analyse complex and non-standard cases, disputes or differences among internal Sharia controllers regarding the conformity or non-compliance of financial products with the Sharia principles and justify a separate conclusion [15, pp. 30–34; 16].

Today, the Islamic financial business has entered the Arab-Muslim world as a natural part of its modern economic structure, while improvements in various links of Islamic entrepreneurship can provide significant impetus to its development in the medium-term. Islamic theorists give the Sharia economy the role of a panacea for solving Arab and Muslim problems seeing the capitalist 'interest' economy the reason for the chronic occurrence of local and global economic imbalances, while the Islamic is deprived of this disadvantage since it is built on a partnership between labour and capital. There are currently two trends. One materializes in the willingness of Islamic capital to improve and develop its banking component and concentrate its efforts on serving its interests demonstrating an appropriate response to the challenges of the world market. The other is in strengthening positions of Islamic finance in competition with Western institutions ('the Islamic choice of the future'), despite the fact that the latter have monopolized a huge segment of the world financial space, but are forced to share it with their Islamic competitors whose requests are constantly increasing [17, pp. 4–6].

The concept of Arab-Muslim finance takes into account the confessional and national peculiarities of the people of the Arab region, and as a component of the Islamic economic model, it is based on risk control, public interest, fair principles of access to national resources, mechanism of social protection and reduction of vulnerability of certain groups of population, limited usury, speculation, and exploitation. In connection with this, implementation of the key direction – development of alternative finance, primarily based on observance of confessional canons, suggests:

a) rational sustainable consumption of national raw materials, environmental and energy-saving programmes, implementation of biotechnological projects;

b) accelerated development of industries that can compensate for the fall in oil prices and other commodities; first of all, it is about stimulating the development of the relevant infrastructure (road, airport, hotel, air and railway structures, etc.);

c) creation of advanced development areas, which actively involve national and foreign capital while preserving national religious and cultural authenticity and spiritual values;

d) raising the level of social responsibility of businesses (with foreign capital in particular) by regulating relations between entrepreneurs and employees in order to eliminate abuse and conflicts;

e) revision of the paradigm of financial sector development, limiting the risks inherent in a speculative loan model, creating opportunities for the development of alternative financial instruments, especially for already globally approved Islamic financial models;

f) creating legislative, fiscal, and regulatory incentives at the state level in the context of use of various types of alternative finance based on religious and ethical principles that could play the role of 'locomotive' for all types of alternative finances against the backdrop of the steady growth of Islamic finance [18].

It is well-known that the Orthodox (with the exception of some sects preaching the so-called theology of prosperity) and Catholic churches, traditional Protestants are quite critical of the existing global financial and economic model, opposing the savings-and-loan system, which is the basis of the modern world financial paradigm. At the same time, this position is completely in line with Muslim worldview and canons that are sacred to many faithful adepts of Islam. At the moment, developing and offering models based on the Islamic financial principles of Sharia conformity, economists are trying to avoid direct use of the word Islamic, using other names for finance – equity finance, affiliate finance, or ethical finance. Some countries have already begun to develop and offer business products whose nature is similar to instruments already approved by Islamic financial institutions. So, in 2015 Sardinia officially proposed a new campaign called 'Development Treaty' and was designed for entrepreneurs who are interested in developing sustainable tourism on the island, investing in the infrastructure of Sardinia – construction of hotels, recreation, sports, health and wellness centres, and development of transport infrastructure. Provided the business project is approved, Sardinia authorities compensate the entrepreneur 65 % of the investment in the form of an advance up to the end of the project, and in the case when entrepreneurs lack their own funds, they can count on the possibility of borrowing 35 % of the project budget balance from the government. Thus, entrepreneurs (including foreign ones) invest their knowledge, skills, technology, business contacts in their project, and the government of Sardinia is the investor. This is nothing but a form of Public-Private Partnership similar to the mudarabe – one of the forms of instruments that fully corresponds to the Shariah and is recognized by all Islamic law schools [19, pp. 54–61].

A rather significant level of accumulation of financial resources in the form of deposits in the MENA countries promotes the growth of intermediary activities of banks in transforming these funds into loans to the private sector. At the same time, both the rates of capital export and its use for the issuance of securities by residents (for example, in government bonds) are increasing from year to year. Thus, in recent years, according to World Bank calculations, the share of loans to GDP of the Cooperation Council for the Arab States of the Gulf countries amounted to 48 % on average and the share of stock market turnover was 45%, which in both cases was about 10 percent higher than the average value for industrially developed countries in general. For other MENA countries which do not belong to the Cooperation Council for the Arab States of the Gulf this ratio is much lower – the proportion of the loan to deposits by 18, and the stock market turnover by 40 percentage points. For example, today, the volume of government loans provided by banks is almost 50 % higher than private sector lending in Algeria, in Syria – more than 20 %, while this figure is roughly equal in Egypt [20]. The latter determines the ability of the region to provide access to financing in comparison with the level of development of its financial sector.

However, few large firms benefit from the high concentration of existing loans, while small and medium-sized enterprises that create most jobs still have to rely on limited domestic funding or unofficial channels to receive the funds they need. In addition, the use of bank loans by households in almost all cases lags behind other countries with a similar share of private sector credit to GDP. According to a study by the IMF, the paradox lies in the fact that in different MENA countries, unequal rates of economic growth in the long-term are provided by equal conditions for access to credit and financial services [21, pp. 85–98]. That is, only financial stability is not enough for the region to take advantage of economic growth. On the one hand, it is necessary to develop a comprehensive programme of balanced solutions, which includes a favourable combination of sound economic policy, institutional and structural reforms that eliminate barriers to enter markets and use interest rate and credit control measures. On the other hand, it is necessary to ensure legal protection of the rights of creditors and small shareholders (both at the micro and macroprudential levels), to improve the conditions for financial intermediation, to refine credit information and the regime of property security, so that excessive instability does not dampen the benefits of financial development. In addition, people of the Muslim faith who do not have access to adequate banking services do not seek to place their savings in the traditional financial system, which contradicts to their religious principles. Therefore, drawing its conclusions from past mistakes, in financial agreements with the countries of the Arab region the IMF relies on the programmes prepared by the countries themselves, which provide more targeted subsidies and a strong social protection system, job creation, fair distribution of income, and improvement of public administration. For example, the Program of the Party of Freedom and Justice in Egypt gives key importance to private property and market economy; and particular attention is paid to social justice within the system of Muslim law, as well as the need for domestic and foreign investment.

Modern Banks of the MENA countries act as 'non-diversified' service providers for circulation of exchange commodities (mainly oil) and are subject to cyclical fluctuations, unforeseen changes in export and import prices, fixed and unregulated exchange rates, global financial 'shocks' of macroeconomic instability. The analysis shows that on the one hand, over the last decade, Islamic banking has turned from a highly specialized market into the global financial system, and the branches of Islamic banks are much faster spread in industrialized countries where banking systems have already been formed due to the offer of products that are absent from traditional banks and thus supplement and do not replace the 'line of services' [22].

It is also noteworthy that since Islamic banking is determined by the Sharia, it is basically protected from weak institutions – litigation, as a rule, is governed within the framework of Islamic jurisprudence. On the other hand, institutional reforms do not have a direct correlation with the development of the 'autonomous' financial sector of the MENA countries and are not a significant factor in the policy of promoting the spread of Islamic banking. Currently, RIAs and FTAs are having a more significant impact, maintaining a stable regional macroeconomic environment helping to keep low-interest rates, raise per capita income and structural reforms.

Conclusion. The question of the place of Islamic banks in the future world banking system is rather complicated, as their activities are carried out in an environment based on the principles of Islam, and in non-Muslim countries, there is no special legislation that would regulate their functioning. At present, the subjects of the financial market of the Arab MENA states are trying to overcome the contradiction built on the principles of Islam that the bank can not engage in trade and production activities and receive deposits and loans at interest, by the creation of subsidiaries. However, Islamic banks are facing two unresolved problems: firstly, development of their own accounting methodology, since the modern Western methodology does not quite accurately reflect the results of functioning under the Islamic canons; and secondly, overcoming stereotypes in the social psychology of many countries around the forms of work of the clients with their bank – entrepreneurs have negative attitude to services that involve the bank's participation in the profit of the project financed by them. At the same time, Western banks, realizing that an interest-free model is an 'interesting alternative', partly transform their activities according to Islamic principles, while they do not necessarily call this kind of activity Islamic. That is, in the long run, a more developed financial system will provide economic agents with both alternative options for banking services, and the entrepreneur will determine which way to raise the necessary funds is commercially viable, depending on the features of the funded project.

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