

Kazakh government should concentrate on attracting cross-border Islamic financing



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Though Kazakhstan adopted relevant legislation for domestic (such as the governed Kazakh law) Islamic banking transactions more than seven years ago and has a Muslim population of over 11 million, Islamic finance is still in the early stages of its development and Islamic products are rarely used. According to the National Bank of Kazakhstan (NBK), as of 2018, the share of Islamic banking assets account for only 0.16% of total banking sector assets in Kazakhstan.

Importantly, there is no unified Islamic finance law in Kazakhstan. Instead, domestic (such as the governed Kazakh law) Islamic finance transactions are regulated by Kazakhstan's general banking, securities, insurance and other relevant legislation.

Review of 2018

So far 2018 has been a big year for Kazakhstan. Modeled on the Dubai International Financial Centre, the Astana International Financial Centre (AIFC) was officially launched on the 5th July this year 2018. AIFC is established with the aim of bridging the gap between the world's major financial centers and a regional gateway for capital and investments. One of the core pillars of the AIFC is Islamic finance, as it aims to become an Islamic finance hub not only for Kazakhstan, but for the whole of Central Asia, the Eurasian Economic Union, the Caucasus, West China and Mongolia.

To date, already more than 50 companies have registered as participants in the AIFC, including a representative office of the China Development Bank. Multiple IPOs are scheduled for the next few years on the stock exchange of the AIFC, the Astana International Exchange (AIX). The world's biggest uranium producer Kazatomprom, in particular, just made its stock market debut on the 13th November 2018 after raising US\$450 million from investors in London and Astana. Placement of a debut sovereign Sukuk facility is also expected to take place on the AIX's platform by the end of 2018 or next 2019.

The AIFC has its own English law based laws and regulations and even its own court and facility for arbitration (in effect, a 'one country, two systems' arrangement has been introduced despite the fact that Kazakhstan is a unitary state). The AIFC's court is headed by the former lord chief justice, Lord Woolf, and judgments issued by this court will be directly enforceable in Kazakhstan.

Preview of 2019

As far as the overall economy is concerned, however, in 2018 Kazakhstan still suffers badly from the 2014 price decline in oil and other commodities and a stagnant banking sector. As such, its future economic growth in 2019 largely depends on attracting foreign direct investment (FDI) flow into Kazakhstan for the development of infrastructure and regional trade.

There is no doubt that ongoing global privatization of state-owned companies, including by way of IPOs on AIX and the issuance of Islamic bonds by the Ministry of Finance of Kazakhstan would attract capital not only from western and Chinese investors, but also from Muslim markets in the Middle East and Southeast Asia. That is why in 2019 more IPOs shall be expected in Kazakhstan as Kazakh



Government tries to reduce the state's role in the economy through privatization and deregulation.

The Chinese Belt and Road Initiative's (BRI) ever-increasing investments in infrastructure of Kazakhstan will also provide in 2019 a unique opportunity for Kazakhstan to attract Chinese money and technology and become one of the largest transit hubs in Eurasia. Worries over rising debt burdens on Chinese banks, however, are lately driving calls in Central Asia to get other sources of finance for the BRI's projects in the region. It is well known that the global Islamic finance market size is estimated to exceed US\$2 trillion in 2018. Hence, Kazakh and Chinese companies involved in the BRI shall explore Islamic finance to finance their projects in Kazakhstan and other Central Asia countries along that route.

Conclusion

Some experts are at strife as to why it is so difficult to bring Islamic finance into gear in Kazakhstan. Some say that it is mostly because there is still no proper legal and institutional framework to speak of for the industry, while others believe there is simply not enough mature demand for Islamic banking services in a country.

We believe, however, that Islamic finance is too complex to understand and to be used by the general population and SMEs in Kazakhstan and, therefore, the Kazakh government, instead of further developing a legal framework for the domestic Islamic finance industry, should just concentrate its efforts on attracting through the AIFC cross-border Islamic financing from abroad (such as the Arab states of the Persian Gulf and Malaysia) for the purposes of implementation of big infrastructure and public-private partnership projects that can already be easily done under the current legal framework. ☺