



ISLAMIC FINANCE IN RUSSIA AND TATARSTAN

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Abstract: Islamic finance is a growing industry estimated to reach the 2 trillion dollars mark by 2012 and many countries around the world are tapping into this lucrative market including the Russian Federation. Russia is making progress in enabling legislation to accommodate Islamic finance and banking into the country's legal and regulatory framework and this article aims to explain the advancement of the Shariah compliant industry in this country and the Republic of Tatarstan. The Government of Tatarstan is strongly supporting and facilitating the development of the industry and is accommodating changes to equip the Republic with the tools and means to use Islamic financial instruments. Global Islamic Finance Magazine will take you through a comprehensive journey in the country's Islamic financial sector from its inception to date.

Keywords: *Islamic Finance, Tatarstan, Russia, Islamic Multilateral Organisations, Regulatory Framework*

There is practically no other place in Europe where Islam is regarded as a traditional religion except Russia where the relationship with the Muslim world traces back to more than one thousand years. Indeed, Islam arrived in the Volga region (today's Republic of Tatarstan) even before Christianity and after the conquest of Kazan, its main city, by Ivan the Terrible in the 16th century, Russia became a multi-ethnic and multi-confessional state in which Muslims and Christians learned to live together.

This has resulted in Russia being a bridge between Europe and Asia, the East and the West and forming a civilization that stands alone and reconciles Christianity and Islam. Recognising this peculiarity, the Organization of Islamic Conference (OIC) has granted Russia in 2005 the status of permanent observer and there are now rumours that this may be upgraded to full membership. Though there is controversy on their numbers, it is safe to say that approximately 15%

of the Russia population is Muslim, while demographic trends predict that by 2050 Muslims could represent as much as the third of the total population. Muslim communities are concentrated among minority nation-

**“ I am convinced that partnership between the IDB and Tatarstan will strengthen cooperation between the Islamic world and Russia in general”
Ahmed Muhammad Ali, President IDB**

alities residing between the Black Sea and the Caspian Sea, in the Caucasus and the middle of the Volga Basin. As for Moscow, it hosts 2.5 million Muslims which are more than any European capital with the exception of Istanbul.

As a result of this unique situation, Russia has intensified in the last few years its diplomatic engagements in the Muslim world and has clearly identified Muslim countries as an ideal ground to position herself favourably in the 21st century world order. Islamic finance is seen as a key element of this repositioning as Moscow has recognised that to be a serious international financial centre and the hub for the Commonwealth of Independent States it cannot leave out Islamic finance as a tool to raise finance, diversify its sources of funding, mobilize domestic savings and, at least to a certain extent, manage monetary policy.

The Russian Federation has indeed the potential to be the largest Islamic finance market in the EU due to its wealth of raw materials, the size of its Muslim population and its geographical proximity to many Muslim majority countries in Central Asia and the Middle East. As a BRIC country she is competing with India and China that have already

turned to Islamic finance and with the newly established Moscow International Financial Centre she will be competing with other European Islamic finance centres. Within this background, one can safely say that the business case for Islamic finance in Russia is solid. Commercial and investment banks and some major conglomerates are indeed moving into the Islamic capital market looking at syndicated facilities and Sukuk and sensing the business opportunity.

The City of Moscow itself, Russia's largest municipal borrower, is looking into raising Islamic financing in a bid to diversify its investor base, make its debt burden cheaper and decrease volatility. By so doing, these important players are pushing the Russian authorities, the Central Bank and other regulators, to review their policies and consider facilitating Islamic finance through the relevant legal and fiscal improvements. The lack of enabling legislation and regulatory framework to facilitate Islamic finance products ought to be seen as just temporary hurdles and it is well known that professional associations, legal and tax firms are assembling working groups to address specific issues. Besides, none of the several challenges faced by Islamic finance institutions everywhere in the world, such as lack of products' awareness, want of human resources and risks' management tools, are insurmountable in Russia and in fact Islamic finance transactions are already taking place in the country. A feature peculiar to Russia is the civil society joining forces with Islamic multilateral organisations to create a favourable financial and economic environment to enable Muslims to choose between conventional and Shari'ah-compliant products and services.

On the one hand, for instance, the Russian Muftis Council has set up the 'Department of Economic Programmes' with the goal of accommodating the development of an economic system for Muslims in Russia. The Department has launched a 'Sociological Research on Islamic Finance in Russia' and sponsored the 'Working Group on Alternative (Islamic) Financial Institutions and Products' that has evolved into the 'Council of Russian Association of Experts on Islamic Finance'. This latter has put together a working group

on 'Financing mortgages in the Russian legal framework using Islamic financial tools' that has reached the conclusion that though amendments of present legislation would considerably facilitate the development of an Islamic mortgage in Russia, halal mortgages are nevertheless possible. The Council has also been able to secure the support of the Ministry of Foreign Affairs, the Ministry of Industry and Trade, the Ministry of Regional Development and the Government of Moscow, to organise the 'Moscow International Halal Expo'.

The expo has held its 2nd edition in May and brought together producers and distributors of halal food, manufactured goods and Islamic finance services. There also several other bodies, such as the Russian-Arab Business Council and the Islamic

Cultural Centre involved from different perspectives on the issues regarding Islamic finance in Russia. On the other hand, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has paid several official visits to the Russian Muftis Council to enhance the development of Islamic financial institutions and products. Several of its standards, such as the Sukuk, Murabahah, Takaful, Ijarah and Mudarabah have been translated and published and others will follow soon. The OIC itself has created the 'Russia-Islamic World Strategic Vision Group' to look at concrete and large-scale multilateral projects. The League of Arab States and the Russian Federation have signed a document for the establishment of a Russian-Arab Cooperation Forum in 2009.

Islamic business education is also being developed with universities, experts' organizations and working groups belonging to different bodies involved in this process. Of particular relevance is the launching by the 'Finance University under the Government of the Russian Federation' of three initiatives: drafting the Law on Islamic finance in Russia to be presented to the Duma; drafting the status of a Russian-Arab Bank; launching pilot Shari'ah-compliant financing projects using instruments that do not contradict the present Russian regulations. Last but not least, more than 25 websites devoted to Islam and Islamic economics and finance bear

Russia is a 'Muslim power', that wants to play a role as such among Muslim countries
Vladimir Putin - Islamic Summit, Malaysia 2003

"Russia is a unique country for the development of Islamic financial industry"
Muhammad Nedal Alchaar - Ex-head of AAOIFI



Alberto G Brugnoli, a former director with Merrill Lynch Bank, is the founder and Chairman of the Board of ASSAIF (www.assaif.org) one the oldest Islamic finance consultancies in Europe. In the mid 1980's he pioneered some of the firsts Islamic transactions in the international markets and in 1997 he released 'Pilot Project Genoardo,' a seminal study for the establishment of a Mediterranean development bank based on Shariah-compliant principles. In 2006, he completed the 1st Shariah-compliant transaction in Italy and the 1st environmentally-focused Islamic project in Syria. ASSAIF has been instrumental in bringing Islamic finance to new markets and widening its scope to new segments of activities such as microfinance, social design, accountancy and monetary issues. It also offers professional consultancy and training in legal, fiscal, administrative, financial engineering and marketing areas. ASSAIF works with governments, central banks, public and private institutions, local and regional authorities, professional practices and investors. Alberto regularly chairs some of the major Islamic finance forums worldwide and gives presentations in Arabic, Italian, French and English.





witness to the interest in this new form of finance. The potential size of the Russian Islamic finance domestic market has received various estimates, from a modest 10 percent of the practicing Muslims to the whole ethnic Muslim population, or even more. The return of the Muslims to their beliefs and the growing desire to live and work in compliance with Islam will necessarily give momentum to Islamic financial instruments though it is widely accepted that the religious or ethnic profile is not the only driving force behind Islamic finance with its ethical aspects playing an increasing role. Within this highly favourable environment, the Republic of Tatarstan



plays a unique role in proactively shaping up the Islamic finance agenda for the whole country. This historical kernel of Islam in Russia, sits nowadays at the centre of the region that hosts the highest concentration of Muslims and holds the significant advantage of having Islam as its state religion. With more than 1000 mosques, Tatarstan is home to the first official Russian Islamic University, founded in 1998: based in Kazan, it is considered the only place in Russia where Muslims can come to receive a top-notch formal Islamic education in Shari'ah, the Koran, and Islamic economy.

The government of Tatarstan on its part fully supports the Islamic finance proposition and proactively looks at the Islamic markets. It has sponsored, for instance - together with the Russian Islamic University, the Islamic Research and Training Institute (IRTI) of Saudi Arabia, and the Kuala Lumpur Business School - the creation of the 'Russian Centre of Islamic Economics and Finance' to improve awareness in the sphere of Islamic finance and economics in Russia and CIS countries, providing knowledge, training and conduct research. It has also set up the not-for-profit Islamic Business Development Fund (IBFD).

The relation of Tatarstan with Islamic finance dates back to 2004 when a Russian - Tatarstani insurance company pioneered an agreement with the Dubai Islamic Insurance and Reinsurance Company to study the possibility of establishing a Takaful Insurance company in Russia. Nowadays, the Kazan-based IFC Linova is the only company in Russia and the CIS countries to have the status of observer member at the Islamic Financial Services Board (IFSB).

Current developments include the feasibility study for the issuance of a debut Sukuk commissioned to Amanah Raya Investment Bank, Kuwait Finance House (Malaysia) and IFC Linova. The study is addressing a range of issues including potential asset pools to be securitized in Tatarstan; the type of Sukuk structure to be used; the possibility of a Sukuk programme as opposed to a single transaction, the issues of tax neutrality and enabling legislation on trusts and Special Purpose Vehicles.

Ak Bars Bank, the well known Tatarstani banking and finance conglomerate, is actively looking at raising finance in the GCC area through a Shari'ah-compliant syndication. Should its efforts succeed, this will be the first important Islamic finance transac-

tion ever concluded by a Russian bank. For these reasons, and for the investment opportunities it offers, Tatarstan has been chosen by some major Muslim multilateral organisations as the preferred conduit to introduce Islamic finance to the Russian Federation. The Islamic Development Bank, for instance, representing eight Islamic financial institutions, has joined forces as an equity investor with the Republic of Tatarstan - represented by the Venture Investment Fund of the Republic of Tatarstan and the Directorate of Extra-budgetary programs of the City of Kazan - to form the Tatarstan International Investment Company.

The TIIC will provide Shari'ah-compliant financing for a wide range of projects in the non-oil sectors of the Republic of Tatarstan. In the pipeline there is the establishment of a centre for the production of halal products, the setting up of a real estate firm and the creation of a business centre. In the medium term, TIIC will identify SMEs projects and transactions for which the Islamic Corporation for the Development of the private

Sector (ICD) and the private arm of IDB will find investors from its member countries.

A parallel initiative has been the launching in November 2010 of the Halal Industrial Park

'Baltach', which forms part of the larger Kazan Halal Hub. The Park is the first project in Russia for representatives of SMEs businesses involved in the halal industry or intending to set up a halal business. The main goal of the project is the processing of agricultural, livestock and meat products, grown and reared by surrounding local farmers.

It provides its members with outsourcing services, such as the realisation of finished products, consulting, administrative support, security services, engineering, logistic, transport, accounting and legal services. The promoters include IBFD and Linova with Amanah Raya, and the initial investment is put at 150 million roubles. All financing and investment activities of Baltach will be done exclusively under Islamic financial contracts.

This favourable environment has also made possible for a number of Tatarstani businesses and cooperatives to de facto applying Islamic finance instruments in their activities, above in trade finance and has put the Republic of Tatarstan on the map of the investors from the GCC countries. **GIF**

In September 2010, the State Council of Tatarstan adopted May 21 as a new state holiday to celebrate the day of acceptance of Islam by Volga Bulgaria