CONTEMPORARY CONTRADICTIONS IN THE IMPLEMENTATION OF THE ISLAMIC FINANCIAL MODEL

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Abstract: Islamic financial institutions have proved to be an effective instrument of financial and economic integration at the regional and global levels. The Islamic financial services industry is growing rapidly over the past decades. The basis for the Islamic financial model is the principles of Sharia. Approaches dictated by the Islamic financial model which deny the use of unsafe financial instruments, are a fundamental reason why Islamic financial institutions remain robust against the background of the financial crisis, and even develop their financial structure. At the same time, it is necessary to recognize a certain conversion of Islamic financial products and institutions towards traditional functioning principles. Currently, the Islamic financial model is slowly making more concessions to the modernized traditional model, thus bringing this industry closer to its traditional analogy. We need a well-developed theoretical and regulatory framework for the Islamic financial sector. The absence of a developed conceptual framework for the promotion of Islamic financial instruments is one of a number of problems caused by the lack of interaction between the Islamic and traditional financial systems. Features and contradictions of Islamic financial model realization in modern economy are considered in the paper. The conclusion is made on the need for internationalization of Shariah principles in Islamic financial operations, in its form and design, which will require the development of theoretical studies and the improvement of the regulatory control over Islamic financial instruments and institutions.

Keywords: Islamic finance, Islamic financial system, Islamic model, Islamic financial instruments, Islamic financial institutions.

1 Introduction

The formation of the Islamic economy was a reaction to Western penetration into the Islamic world. Since the mid-nineteenth century, several Western countries have established their own banks to support their commercial activities. For example, England created the Imperial Ottoman Bank (1856) on the territory controlled by the Ottoman dynasty and the Imperial Bank of Persia (1889) on the territory of the Qajar dynasty.

Over the last thirty years, Islamic finance has not only survived among the rivals of traditional finance, but also shows a trend toward stable and rapid development.

In modern times, the Islamic financial model is represented in practice by several hundred financial institutions with international coverage and aggregate assets that reached 2 trillion US dollars in 2017, or 1% of world assets (without taking into account derivative securities). By 2021, the total world Islamic finance assets are expected to increase to $ 3.5 trillion.

The problems of the Islamic financial model can be attributed to various categories: ideological, theoretical and practical. These problems are related to the circumstances created by the promotion of Islamic financial institutions and instruments in the regions where they operate: traditional economic, legal, administrative, sociocultural conditions (Haseeb, 2018). At the macro level, one of the important problems of Islamic finance is the search for an ideological balance.

During the last period, attempts were made in the world economy to form the Islamic finance industry, but the list of disputed and unexplored phenomena remains extensive.

2 Methodology

The purpose of this study is to identify the peculiarities and contradictions in the implementation of the Islamic financial model in the modern economy.

The methodology of the research is based on the application of classical scientific methods and techniques, namely: systematic consideration of the object and subject of research, dialectical logic, analysis and synthesis, grouping, comparison, and generalization methods which allows speaking about the complexity, integrity and reliability of the research results (Abozaid, 2010; Villalobos Antúnez, 2015).

3 Principles and limitations of the Shariah in relation to financial activities

Islamic financial institutions operate in several dozen countries, and in some of them they are formally the only acceptable form of financial business.

Islamic financial model is relatively young; it has no more than half a century and the active growth of the industry began only in the last two decades. Therefore, it is not surprising that there are differences in interpretation on a number of theoretical and methodological issues, and a number of questions remain poorly understood. As a result, in different countries the model is implemented in different ways.

There are two key directions of implementation: strict adherence to the Shariah requirements (minimization of trade-offs) and non-strict compliance with them (wide application of trade-offs) (Abozaid, 2010). The principles of Islamic finance protect justice in remuneration and remuneration structures and are designed to embrace social and economic justice among all (Hegazy, 2007).

Let's outline the list of basic principles and limitations of Shariah in relation to financial activities:

1. The prohibition of charging borrowers for the use of a loan, if it has the form of a percentage from the funds to be credited.
2. Prohibition of the use in financial practice of contracts, the terms of which involve the obligation of participants or one of the parties-participants depending on the probabilistic combination of circumstances.
3. Prohibition of multiple resale of a financial instrument without causes confirmed by information sources.
4. Prohibition of the transfer of risk related to a financial instrument to the end user.
5. Prohibition of receiving remuneration for the provided financing without assuming by the credit institution of a share of the risk.
6. Prohibition of levying penalties and fines from a customer in the event of late repayment of the loan amount.
7. Prohibition of sales of products, sales of financial instruments and other assets not owned by the seller at the time of sale.
8. Prohibition of the sale of debt at a value different from the nominal.
9. Prohibition of sales of debts into debt.
10. Debt financing can only be used to create new non-financial assets.
11. Islamic financial products and services should be based only on physical assets.
12. Prohibition of financing non-halal businesses and non-halal projects: for example, investments in the sectors related to alcohol, tobacco, pork, gambling and so on are not allowed.

During the last period, attempts were made in the world economy to form the Islamic finance industry, but the list of disputed and unexplored phenomena remains extensive. The result was the following contradiction: entrepreneurs and the state are trying to introduce the Islamic financial model into practice, while the existing concept of this model is not complete and full-fledged yet. Academic science does not keep pace with the requirements of practice in this matter. (Jose et al, 2012; Ferrer et al, 2015).

From a terminological point of view, the Islamic financial model should be interpreted as a certain system of financial institutions that have similarities with traditional financial institutions, but act in accordance with Sharia law (Sedov & Sigarev, 2017).

4 Results and discussion

Let us note that not all spheres of the economy of Islamic states embody the principles of Islamic finance stemming from the Sharia.

1. Firstly, as practice shows, these principles are by no means always respected by the public finance institutions. For example, the condition of the debtor's forgiveness for tax payments and the determination of the amounts of arrears are not realized in this segment. The principles of Sharia prohibit the lender from punishing the borrower.

The Islamic analogue of co-financing of interest rates by economic entities is not developed. In the context of the Islamic financial system, the payments generated by the underlying asset will be analogous to payments at the interest rate. When co-financing obligations, states are dependent on volatile factors, while, as already indicated, Sharia principles impose a ban on contracts with vague commitments.

There is no unambiguous interpretation as to whether it is correct from the point of view of the Sharia to levy tax levies received from military enterprises and the state budget on programs of a social nature.

2. With regard to the finances of enterprises and businesses, there is no strict connection between the halal sector (manufacturing of products, mainly food products, with the observance of the Shariah requirements) and Islamic financial institutions and instruments. So, in no country with the Islamic model of economy and finance such an assumption of obtaining a halal certificate is applied, as, for example, the presence of bank accounts in Islamic rather than traditional credit institutions.

Not all countries oriented to the Islamic financial model are unambiguous in answering the question of deductions from profits before taxation of amounts of debt servicing costs. If the traditional economy deducts interests on debt servicing from the profit before tax, then in the Islamic finance segment, the term "interest payment for debt" is not applicable, but it is "the income generated by the underlying asset, the share of which goes to the creditor". This approach means making payments on the loan in the section "Profit after tax". This implies that companies operating in accordance with the principles of Sharia are in a less advantageous economic environment.

Another important business problem is the definition of the landlord's value when leasing property. In the traditional model, the rental price is calculated based on the current value of money (interest rate). But this approach is not applicable for the Islamic financial model (Mokina, 2017).

3. The issue of monetary circulation formation according to the model corresponding to the Sharia is also open. So, according to the Shari'ah, money cannot fulfill the role of a commodity, since they are a universally recognized means of exchange. Taking into account the feature of money to depreciate (and in relation to money, it can be treated as the identity of depreciation), money is not only a simple means of exchange, but in parallel must recognize the nature of the goods.

4. In financial markets of the Islamic type, there is no own developed and relevant parameter for the Islamic finance industry - an analogue of the LIBOR rate, an indicator reflecting the cost of risk (such a rate as LIBOR and similar ones show with the cost of selling money). The absence of this indicator forces Islamic financiers to constantly monitor the parameters of the traditional interest rate and carry out transactions taking into account its dynamics .It cannot be considered logical to deny the traditional interest rate while simultaneously targeting it in developing financial decisions.

It should be pointed out that in the Islamic financial model there is no developed analogue of the cash flow discounting model. At present, Islamic financial institutions apply the traditional model of discounting cash flows, and such a situation provokes a conflict of interest. Namely: the calculation is performed on the basis of value of money in time, while Islamic financial relations are based on the non-acceptance of this principle.

5. In the Islamic banking sector, there is no understanding of the specifics of Islamic financial institutions' liquidity management. There are no financial mechanisms that are consistent with the principles of Sharia and allow the introduction and removal of financial markets liquidity by a state regulator. The reason for this situation is the unwillingness of the Islamic banking community to recognize the central bank as a special risk-free institution that differs from other banks. Therefore, in accordance with the requirements of the Sharia, it is basically impossible to extract remuneration from an Islamic bank when lending to the central bank, whichever contract is used upon that.

An important component of the Islamic financial model is the functions of Islamic banks.

Obviously, Islamic banking includes such operations as payments, cash handling, and raising funds in the capacity of a deposit, and investment. But the operations of purchase and sale of goods by banks (a "murabakha" contract similar to consumer lending being one of the most common operations of Islamic banking today) is contradictory.

The situation when a client comes to the bank and tells the bank what exactly they would like to buy on credit, and only then the bank buys this product for the client from third parties, is a camouflaged interest transaction. From the formal point of view, only the real owner of the goods has the right to carry out the operation of murabakha, but then it must be either the producer of the goods or the wholesale intermediary, even before the arrival of the customer, he bought the goods from the producer (Shaikhutdinova & Dibaeva, 2016).

6. Very often Islamic financial institutions completely copy traditional banking and traditional companies when creating and promoting financial products. In Islamic banking, as in its traditional model, there is a practice of stimulating investment processes. To this end, Islamic financial institutions introduce differentiated rates of profit distribution between the bank and the co-investor: the larger the amount of investment, the higher the percentage of profit the bank offers.

The investment model in the Islamic financial environment assumes that an investor receives profit from the cash flow generated by the investment project (Masih, 2017). But, as a rule, it may take several years to get the first award from the time the project begins. This forces Islamic banking to design a financial product in which the period from the beginning of the project to the receipt of the first income is filled with artificial "payments from the project's expected revenues". The result is a special financial product which payment structure is reminiscent of a traditional product, but going beyond the logic of the Shariah on the distribution of profits (Yandiyev, 2017).

7. Rivalry of financial models. This problem is caused by an ambiguity on whether the traditional percentage economy can be considered a more direct route to economic development than the Islamic one. The question arises of allowing an interest economy to work in Muslim states in order to achieve rapid economic growth, and then rebuild the system under the principles of Sharia in economics and finance. Such disputes, for example, occur in Iran, where at the state level there is a deviation from in many ways from strict compliance with the principles of the Sharia in the financial sector (Nikonova, et al 2016).

Another factor that influences the Islamic financial model is the rapid penetration of the digital economy. The growth rate of this industry is 40-50% per year in some sub-sectors (Yusupova, et al, 2017).

The development of financial Internet service products can lead to the transformation of the Islamic financial model into a small

niche of market choice for the most religious part of the population in Muslim countries.

We should also highlight the terminology factor. In a number of non-Muslim states the term "Islamic finance" is not used for various reasons, and names that are not related to the religious factor are used. For example, such terms as "partner finance" and "participation finance" are used (Kodolova et al, 2017).

5 Summary

So, we can conclude that the Islamic financial model has not yet been formed in its final form; at present it is aimed at finding the optimal structure of Islamic financial institutions that could function effectively as legitimate or permissible platforms for the lawful provision of conventional banking and financial services.

Currently, the Islamic financial model is slowly making more concessions to the modern traditional model, thus bringing this industry closer to its traditional analogy.

It should be feared that such changes may ultimately lead to a loss of confidence in the Islamic financial model, although this confidence is its biggest asset which gives it a competitive advantage against the traditional model.

Islamic financiers should be far-sighted enough in order not to allow controversial methods to lead to the loss of this industry. There will be a question about the legitimacy of each product offered by Islamic financial institutions.

Islamic banks and financial institutions will be forced to face some ideological and conceptual problems; this must be recognized as inevitable characteristic when they move into the modern world financial space (Yusupova et al, 2017).

6 Conclusion

The Islamic financial industry and its concepts as of 2018 differ significantly in width and depth from those that existed in the early 1970s or early 1990s.

The economy continues to develop, and there is no reason why the area of Islamic finance will not be improved in the years to come.

From the perspective of global financial turmoil, the ideas underlying Islamic finance may be of interest to those who seek a relatively restrained financial system and are concerned about the global impact of the financial industry on society.

The Islamic financial system can become one of the promising sectors for the implementation of the global financial model, but this requires the internationalization of Shariah principles in Islamic financial transactions, in its form and design; this requires the development of theoretical research and the improvement of regulatory control over Islamic financial instruments and institutions.

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