

CHALLENGES FOR ISLAMIC BANKING INDUSTRY: THE KYRGYZ REPUBLIC EXPERIENCE

İSLAMİ BANKACILIK SEKTÖRÜNÜN ZORLUKLARI: KIRGIZ CUMHURİYET DENEYİMİ

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Challenges For Islamic Banking Industry: The Kyrgyz Republic Experience

Abstract: Although the vast majority of people in Kyrgyzstan are Sunni Muslims, Islamic banking have only 1,5 % of the total market share of the bank sector. The National Bank of the Kyrgyz Republic (NBKR) is the main state regulator that is responsible for strategic actions regarding the introduction and development of the Islamic banking industry in the country. In 2017 NBKR issued a strategic document for the period 2018-2021 whereby, it was defined a targeted indicator for Islamic banking industry development: the share of Islamic banking should grow total Kyrgyz banking system assets to 5% by 2021 from the current 1.5 %. With this goal, the state regulator is perhaps acting prematurely because, despite the Muslim majority in the country and the fact that Kyrgyzstan was among the first in the post-Soviet territory to introduce Islamic banking in the early 2000s, it is still faced with a long list of tasks ahead that need to be overcome before it can achieve this target. In this research, the development and the experience of Islamic banking in Kyrgyzstan is briefly explained. The purpose of this paper is to outline the changes which have occurred thus far in the Kyrgyz Islamic banking industry as well as to identify the current challenges and propose solutions and recommendations.

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Keywords: Islamic Banking, Kyrgyzstan, Challenges, Shari'ah Supervision.



İslami Bankacılık Sektörünün Zorlukları: Kırgız Cumhuriyeti Deneyimi

Öz: Kırgızistan'da yaşayan insanların büyük çoğunluğu Sünni Müslümanlar olmasına rağmen, İslâmî bankacılık alanında, banka sektörünün toplam pazar payının yalnızca % 1,5'ine sahiptir. Kırgız Cumhuriyeti Merkez Bankası (NBKR), ülkede İslami bankacılık sektörünün tanıtılması ve geliştirilmesi ile ilgili stratejik eylemlerden sorumlu düzenleyicisidir. 2017 yılında NBKR, 2018-2021 dönemi için stratejik bir belge yayınladı ve burada İslami bankacılık sektörünün gelişimi için hedeflenen bir göstere tanımlandı: İslami bankacılığın toplam Kırgız bankacılık sistemi varlıklarının payı, mevcut % 1,5'ten 2021 yılına kadar % 5'e çıkarılması gerekiyordu. Bu amaçla, Merkez bankası belki de vaktinden önce hareket ediyordu. Çünkü ülkedeki Müslüman çoğunluğa ve Kırgızistan'ın 2000'lerin başında İslami bankacılığı uygulamaya koyan ilk Sovyet etki alanlarından biri olmasına rağmen, hala bir hedefe ulaşamadı. İstenen duruma gelmesi için yapılması gerekli olan bir çok faaliyetin var olduğu ifade edilebilir. Bu çalışmada Kırgızistan'da İslâmî bankacılığın gelişimi ve deneyimi kısaca anlatılmaktadır. Bu makalenin amacı, Kırgız İslami bankacılık endüstrisinde şimdiye kadar meydana gelen

değişikliklerin ana hatlarını çizmek, mevcut zorlukları belirlemek ve çözümler ve öneriler önermektir.

Anahtar Kelimeler: İslâmî bankacılık, Kırgızistan, Zorluklar, Şerî Denetim.



Introduction

The history of the Kyrgyz Islamic banking industry is strongly connected with the Islamic Development Bank (IsDB)¹ and one of the shareholders of the local commercial bank, Shamil Murtazaliev. On 16 May 2006, the Kyrgyz Republic, IsDB and EcoBank ratified a Memorandum of Understanding on the introduction of Islamic banking and financing in the Kyrgyz Republic. This agreement opened the doors to a new legal framework which provided one of the most advanced legal regulatory platforms for the Islamic financial industry in the CIS region in the following years.² This memorandum reflects the vector of movement of the parties for the most effective and speedy formation of an alternative Islamic economic model in the country and stipulated four steps for transforming Bishkek (the capital of the Kyrgyz Republic) into an Islamic financial hub in Central Asia³. Two months after the ratification of the memorandum, the president of the Kyrgyz Republic, Bakyiev, issued Decree № 373 “on the implementation of principles of Islamic finance in the Kyrgyz Republic within the framework of the pilot project”⁴. According to the first paragraph of this decree, Islamic banking should be developed along with conventional banking. The key result of these two pieces of legislation

¹ Established in 1975, the Islamic Development Bank (IsDB) aims to foster socioeconomic development in its 56 member countries, as well as Muslim communities in non-member countries, in accordance with Islamic principles.

² Елена Мешкова, “О перспективах исламского банкинга в Кыргызстане”, Слово Кыргызстана, (Бишкек: Учкун, 2016), 6.

³ Alexander Wolters, “Islamic Finance in the States of Central Asia: Strategies, Institutions”, First Experiences, Private Hochschule Gottingen, Forschungspapiere Research Papers 2013/01 (2013), 12.

⁴ Ministry of Justice of the Kyrgyz Republic, Decree № 373 “on the implementation of principles of Islamic finance in the Kyrgyz Republic within the framework of the pilot project”, Access Date: March 22th, 2021, <http://cbd.minjust.gov.kg/act/view/ru-ru/4508/20?cl=ru-ru>

was the creation of the new banking industry - the first step to creating a dual banking system in the CIS region.⁵

This paper aims to review the evolution of the Kyrgyz Islamic banking industry by highlighting major stages up to the current status and to analyze current challenges facing the industry. Previous studies provide a review of the earlier years and first stages of the Kyrgyz Islamic banking industry in the beginning of the 2000s.⁶ More recent studies, such as the IFC's report for 2016 and the ICD's report for 2018, focused on the performance of the banking system through analysis of the basic banking sector, economic statistical data and general information on Islamic finance in the country. This study contributes to the literature by extending the review period up to more recent changes, underlining the major feature of each stage of development of the Kyrgyz Islamic banking industry and analyzing current challenges facing the industry.

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This paper is divided into the following sections: The first section is a review of the literature. The second section highlights the legal and regulatory framework for the Islamic banking industry. The third and fourth sections are dedicated to an overview of the conventional as well as the Islamic Kyrgyz banking sector. Current challenges facing the Kyrgyz Islamic banking industry are discussed in the fifth section. The final section summarises some general conclusions.

Literature review

Unfortunately, the literature on the current status of the Islamic banking industry in Kyrgyzstan and its further development is limited. However,

⁵ International Finance Corporation (IFC), "Islamic Banking and Finance. Opportunities across Micro, Small, and Medium Enterprises in the Kyrgyz Republic", (Bishkek: International Finance Corporation, 2016), 29.

⁶ Geoffrey F. Gresh, "The Rise of Islamic Banking and Finance in Central Asia," The Fletcher School Online Journal for issues related to Southwest Asia and Islamic Civilization, Al Nakhlah, (2007), 1-11; Bruno De Cordier, "The Development Space(s) of non-OECD Aid Donors in Southern Eurasia: a Look at the Islamic Development Bank." Central Asia Economic Papers. Washington, DC, George Washington University. Elliott School of International Affairs. Central Asia Programme No. 3 (2012), 1-8. Also see Alexander Wolters, "Islamic Finance", 1-29.

some international organizations like the Islamic Development Bank and the International Finance Cooperation prepare and publish relevant reports. Moreover, the Central Bank of the Kyrgyz Republic (NBKR) has several economical, statistical and financial publications, including quarterly and annual reports. In addition, some preliminary research was carried out several years ago by a German researcher, Alexander Wolters. He analyzes the early stage of introduction and implementation of Islamic finance in post-Soviet countries. The first study on the rise of Islamic banking and finance in Central Asia was performed by Geoffrey F. Gresh. He examines the important role and contribution of IsDB in Kyrgyzstan in the framework of the transformation to a market economic system in the 1990s. Bekkin⁷ describes the development of Islamic finance in the former Soviet Union countries. He outlines the first experience of the introduction of Islamic banking in Kyrgyzstan.

Legal and regulatory framework for the Islamic banking industry

Following the Tulip Revolution in 2005, President Kurmanbek Bakiyev initiated the introduction of the Islamic banking system to the country. According to clause 4 of Bakiyev's decree dated on 12 July 2006, the Kyrgyz Central Bank and the State Service of Regulation and Supervision of the Financial Market under the Government of the Kyrgyz Republic (GSFR) were to be appointed as the state bodies responsible for the implementation of the pilot project under the condition of the memorandum, as well as licensing and supervising the implementation of the Islamic banking industry (Islamic banking services, Islamic insurance services - *Takaful*, services of the Islamic capital market - *Sukuk*) within the activity of the *EcoBank*. Based on this document, NBKR began developing the relevant legislative framework regulating the implementation of Islamic banking in the country within one month (such as issuing a license for the pilot project). The Kyrgyz Government had within three months to develop the relevant legislation regulating Islamic insurance activities

⁷ Renat Bekkin, "Islamic Finance in the Former Soviet Union", Discussion paper of the Institute of Developing Economies (2009), 179-209.

(*Takaful*) and within six months to develop legislation regulating the Islamic capital market (*Sukuk*) for the implementation of the pilot project under the memorandum.

In December 2007, Mustafa Bin Hamat, so-called father of Malaysia's Islamic banking system, gave a special presentation for members of the Kyrgyz government on the viability of the Islamic banking system as a second pillar supporting the development of the Kyrgyz economy.⁸

In order to conduct Islamic banking operations, NBKR and EcoBank developed and approved the package of minimum regulation in record time, including a statute for financing based on Islamic principles, stating in detail the conditions for Islamic banking instruments like *Mudarabah*, *Sharikah*, *Murabaha*, *Ijarah* and *Ijarah Muntahiyah Bittamlik*, *Qard Hasan*, *Istisnaa* and *Parallel Istisnaa*, *Guarantee*, *Salam*, *Letter of Credit*, *Hiba* etc., the Regulation "on taxation and accounting of operations carried out based on Islamic principles of financing in the Kyrgyz Republic as part of a pilot project in the open joint-stock company EcoBank and the procedure for paying non-tax payments".⁹

In July 2007, the president of the Kyrgyz Republic, Bakyiev, jointly with the president of the IsDB, Ahmed Mohammed Ali, solemnly announced that the pilot project on the introduction of Islamic banking and financing in the Kyrgyz Republic had officially started. This historical event enabled the country to move forward in establishing new legislation and a regulatory framework for the Islamic banking industry in the country.

In April 2008, President Bakyiev, issued Decree № 146 "on further measures for the introduction of the Islamic financial services industry in

⁸ EkoIslamikBank, "Pilot project", Access Date: March 22th, 2021, <https://eib.kg/static/epilot.html>

⁹ Ministry of Justice of the Kyrgyz Republic, Regulation "on taxation and accounting of operations carried out based on Islamic principles of financing in the Kyrgyz Republic as part of a pilot project in the open joint-stock company EcoBank and the procedure for paying non-tax payments", Access Date: March 22th, 2021, <http://cbd.minjust.gov.kg/act/view/ru-ru/58312>

the Kyrgyz Republic”.¹⁰ The Central Bank approved the proposals to the plan of measures for 2008-2010 within the framework of implementation of this decree. This plan included measures on the formation and establishment of Bishkek city as the Central Asian hub of Islamic finance.¹¹

Table 1. Major milestones in the development of regulatory and industry infrastructure related to Islamic banking and finance in Kyrgyzstan (2006-2020)

Year	Regulatory and infrastructure development
2006	Kyrgyzstan establishes the framework for an Islamic banking system to operate alongside the conventional banking system.
2008	Kyrgyzstan becomes the first country in the CIS region to establish a Shari’ah Supervisory Board within the scope of a regulatory framework.
2009	Kyrgyzstan becomes the first jurisdiction in the CIS region to put in place Islamic insurance (<i>Takaful</i>) and capital market (<i>Sukuk</i>) activities.
2013	Kyrgyzstan becomes the first jurisdiction in the CIS region to operate fully-fledged Islamic microcredit companies within the scope of a regulatory framework.
2014	Kyrgyzstan establishes the first Kyrgyz Islamic leasing company, CJSC Ijarah Company.
2016	Kyrgyzstan becomes the first jurisdiction in the CIS region to stipulate requirements in the relevant chapter to the Civil Code regulating Islamic financial transactions.

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¹⁰ Ministry of Justice of the Kyrgyz Republic, Decree № 146 “on further measures for the introduction of the Islamic financial services industry in the Kyrgyz Republic, Access Date: March 22th, 2021, <http://cbd.minjust.gov.kg/act/view/ru-ru/4732?cl=ru-ru>

¹¹ NBKR, “Bulletin of the National Bank of the Kyrgyz Republic, 2008-2017”, Access Date: March 23th, 2021, <https://www.nbkr.kg/index1.jsp?item=137&lang=ENG>

2017	Kyrgyzstan becomes the first jurisdiction in the CIS region to operate an Islamic window ¹² of a conventional microcredit company.
2018	Two local commercial banks obtain a license to operate in the framework of the Islamic windows.
2019	The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) ¹³ provides professional development training for representatives of local financial institutions.
2020	The International Islamic Trade Finance Corporation (ITFC) ¹⁴ provides professional development training for representatives of local financial institutions.

Source: NBKR 2020, updated by the author.

Overview Of Kyrgyzstan’s Current Banking Sector

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Kyrgyzstan’s banking sector is made up of commercial banks, state commercial banks and non-banking financial-credit organizations, which include a specialized financial-credit organization (FCCU OJSC), micro-finance companies, microcredit companies, microcredit agencies, credit unions and exchange offices.

Numerically the industry, as of March 22, 2021, consists of 23 commercial banks; three of them being state-owned. Five major banks hold 55% of the banking sector assets and 49% of the credit portfolio. All banking institutions of the country are universal by the type of business. Re-

¹² A financial institution that provides services in accordance with Islamic principles of financing within the framework of the relevant division (Islamic window) with the appropriate state regulator’s license.

¹³ AAOIFI, established in 1991 and based in Bahrain, is the leading international not-for-profit organization primarily responsible for the development and issuance of standards for the global Islamic finance industry. Amongst its most remarkable achievements is the issuance of 94 standards, so far, in the areas of Shari’ah, accounting, auditing, ethics and governance. Its standards are adopted by central banks and regulatory authorities in a number of countries, either on a mandatory basis or as a guiding principle.

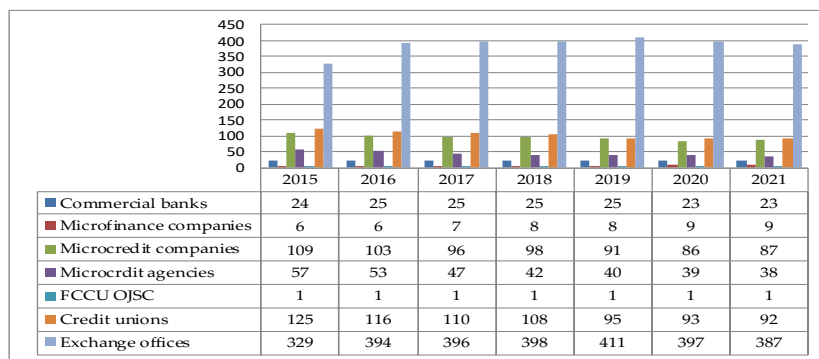
¹⁴ The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Its primary focus is to encourage intra-trade among Organization of Islamic Cooperation (OIC) Member Countries.

garding information on non-banking financial-credit organizations, there are 9 microfinance companies, 87 microcredit companies, 38 microcredit agencies, 1 specialized FCCU OJSC, 92 credit unions, and 387 exchange offices.¹⁵

The banking system of the Kyrgyz Republic is a two-tier system in which the first level of the system is represented by the National Bank of the Kyrgyz Republic, and the second by commercial banks. The NBKR is independent from government and it has the right to license, supervise and regulate the activity of financial institutions, including Islamic financial institutions and Islamic windows of conventional financial institutions in the country.

Despite the fact that the role of non-banking financial-credit organizations has grown in Kyrgyzstan during recent years, commercial banks still retain a dominant role in the financial system of Kyrgyzstan.¹⁶

Table 2. Dynamic of development of institutional structure of the banking sector (2015-2021*)



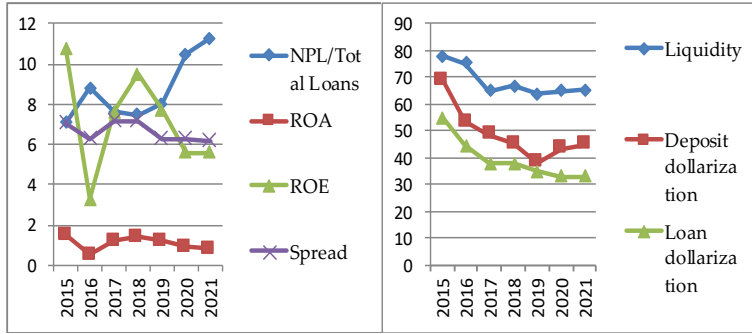
*- information of first quarter of 2021.

Source: NBKR 2021, updated by the author.

¹⁵ NBKR, www.nbkr.kg.

¹⁶ Dastan Aseinov - Kamalbek Karymshakov "Development of the Banking System in Kyrgyzstan: An Historical Review and Current Challenges", *Sosyoekonomi*, 26/38 (2018), 80.

Table 3. Major Indicators of the Banking Sector (2015-2021*)



*- information of first quarter of 2021.

Source: NBKR 2021, updated by the author.

According to NBKR’s report, as of December 31, 2020, the total financial intervention (assets/GDP) was 48.4 % (at the end of 2019 it was 40.2 %). The total capital adequacy ratio of the banking system was 24.9 % (at the end of 2019 it was 24.1 %) with the standard of 12.0 %, the leverage ratio of the banking system was 16.2 % (at the end of 2019 it was 17.5 %) with the standard of 8.0 %. The liquidity ratio of the banking system was 64.9 % (at the end of 2019 it was 64.0 %) with the standard of 30.0 %. The return of assets of the banking sector (ROA) was 0.9 % (at the end of 2019 it was 1.2 %), and the return on equity (ROE) was 5.6 % (at the end of 2019 it was 7.7 %).

Islamic banking in the Kyrgyz Republic

In order to provide much-needed competition, NBKR allowed conventional banks and conventional non-banking financial institutions to operate in the framework of Islamic windows. According to NBKR, as of October 15, 2020, the following financial institutions are operating on Islamic principles in the territory of the Kyrgyz Republic:

1. One pilot bank: EcoIslamicBank CJSC
2. One Islamic window of a conventional bank: Bakai Bank OJSC
3. One Islamic window of a conventional microcredit company: M Bulak MCC LLC
4. Four fully-fledged Islamic microcredit companies: Kompanion Invest MCC LLC, Ak Karzhi MCC LLC, Bereket Finance MCC LLC and Ak Nur Capital MCC LLC
5. One Islamic leasing company: Leasing Company Kyrgyzstan CJSC.

Table 4. Facts and forecast of the main indicators of the banking system, including Islamic banking for 2021

Indexes	2017	2018	2019	2020	Forecast for 2021
Assets to GDP, %	38.8	39	42.2	48.4	55.0
Loans to GDP, %	21.6	21	28.6	n/a	30.3
Deposits to GDP, %	23.9	23	26	n/a	35.0
The share of financing based on Islamic principles in total loan portfolio, %	0.9	1.4	1.4	1.5	5.0

Source: NBKR 2021, updated by the author.

We observe from Table 4 that in the medium term, NBKR plans to increase indicators reflecting the availability of banking services and increase the level of financial intermediation of the banking system, i.e. banking system assets should account for 55 % of GDP. NBKR plans to increase the share of financing based on Islamic principles up to 5 % of the total loan portfolio in the banking sector.

Current Challenges Facing The Kyrgyz Islamic Banking Industry

The Kyrgyz Islamic banking industry was forced to overcome numerous obstacles, it lacked knowledge and experience, there was no legal framework, and there were endless bureaucratic obstacles and delays.¹⁷ The establishment of the Islamic banking industry in Kyrgyzstan faced daunt-

¹⁷ EcoIslamicBank, "History", Access Date: March 22th, 2021, <https://eib.kg/static/history.html>

ing hurdles, where the secular elite had long regarded religion with suspicion.¹⁸

Despite the fact that quite significant progress has been made since the introduction of Islamic finance in the country, the Kyrgyz Islamic banking industry still faces serious challenges. At the present stage, it is important to identify which challenges exacerbate chronic development problems and serve as factors constraining sustainable development and achievement of industry growth. NBKR is the main entity that is responsible for strategic actions regarding the introduction and development of the local Islamic banking industry and this state body, in the first instance, is expected to take certain measures in overcoming these challenges.

In 2017 NBKR issued a strategic document for the period 2018-2021¹⁹ to achieve 5 % domestic market share by 2021. NBKR declares not only its target, but also the measures which should be taken in order to reach the target set. NBKR selected five strategic domains, notably:

Industrial coordination of actions with state bodies of the Kyrgyz Republic in the process of introducing amendments and additions to the Civil and Tax Codes, taking into account the specifics of Islamic finance products;

Further implementation and harmonization of international standards of the Islamic Financial Services Council (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) with the banking legislation of the Kyrgyz Republic in order to expand the product line of banking services and to establish a financial Shari'ah Board;

¹⁸ Justin Vela, "Kyrgyzstan: Islamic Banking Offers Alternative to the "European System", Access Date: March 22th, 2021, <https://eurasianet.org/kyrgyzstan-islamic-banking-offers-alternative-to-the-european-system>

¹⁹ NBKR, "The Main Directions of the Development of the Banking System Kyrgyz Republic for 2018-2021", Access Date: March 22th, 2021, <https://www.nbkr.kg/contout.jsp?item=1436&lang=RUS&material=90251>

Creation of an environment for liquidity management in the Islamic banking sector;

Assistance to the market player in the establishment of Islamic banks or Islamic windows of conventional banks in order to increase the share of financing based on Islamic principles up to 5% of the total loan portfolio in the banking sector and promote the development of Islamic insurance (*Takaful*) and the Islamic securities market (*Sukuk*);

Development of proposals regarding the improvement of regulatory legal acts for the development of integral components of the Islamic economy, such as *Zakah* (form of alms-giving treated in Islam as a religious obligation) and *Waqf* (religious endowment) funds.

Moreover, NBKR stated that in the long-term, the growth strategy will continue to raise the level of awareness and involvement of the population to the Islamic banking industry. According to the NBKR's statement in this document, the lack of qualified specialists in the market is one of the factors which hinders the development of Islamic banking in the country. Therefore, it is stated, that NBKR is preparing a proposal to create a regional training center for Islamic economics and finance for the training and retraining of national personnel in this area.

Since a significant portion of the time that was laid down in the strategic document has already passed and there have been no significant shifts in the industry during this time, as indicated in Table 4, it can be assumed that the challenges and measures to overcome these challenges were initially not correctly identified.

Our analysis shows that the progressive movement and development of the industry at the initial stage is facilitated not by the strengthening of legal regulation through the introduction of detailed amendments and additions to the legislation, but by the liberalization of the legal field. Malaysia is a very good example of how the impacts of liberalization are positive. Elryah²⁰ provides an empirical investigation of the impacts of liberalization and reforms on the performance of Islamic banks

²⁰ Yagoub Elryah, "Drivers' Growth of Islamic Banking Industry: Lesson from Malaysia. International Journal of Social Sciences and Management, 1/4 (2014), 123.

in Malaysia, using a panel regression model. A total of 16 Islamic banks and 114 observations participated in his study. The research analyses annual data from 2002 until 2012. The results indicate that the relationship between financial liberalization and Islamic banks' performance was statistically significant. The findings also indicate that financial liberalization has statistically significant positive effects on the performance of Islamic banks in Malaysia.²¹

There are also challenges concerning the measures to harmonize the legislation with AAOIFI and IFSB standards. Of course, standardization and harmonization in the field of Islamic finance plays an important role. It enables all market participants to understand the rules and principles which govern the system. However, it must be understood that the work on standardization began relatively recently, i.e. since the 2000s. AAOIFI and IFSB standards are revised annually. The introduction of norms from these standards into the main legislation of the country, such as the Civil Code and the Tax Code, especially when the industry is at its initial stage, is not an optional decision. An example is article 738-14 of the Civil Code of the Kyrgyz Republic in relation to the *Murabaha* transaction (purchase and sale of goods, with the disclosure of the amount of the margin), it is indicated that the bank's markup does not include the costs of paying salaries to bank employees. Actually the bank just makes money on the difference between a valuable purchase of goods and a sale. The costs of paying salaries should be included in the markup of the bank's contract based on *Murabaha* principles. Currently, this is being fixed by the regulator. However, the idea of including the AAOIFI norms in the main legislation (Civil and Tax Codes) at the initial stage, according to our estimates, was premature. As mentioned above, this measure - harmonizing the legislation with AAOIFI and IFSB standards - is being done with the aim of expanding the Islamic product line. However, the country has adopted all the main types of transactions (about 10) used in Islamic finance at the legislative level. From these 10 accepted transactions, only

²¹ Elryah, "Drivers' Growth of Islamic Banking", 124.

Murabaha is commonly used. Even conventional banks have begun to use financial products where the customers / borrowers are ultimately provided with goods instead of cash money. For clients, an Islamic banking has become similar to a conventional banking. For many clients, the price paid to the bank for services is a key factor. In this, Islamic banks are much inferior to conventional banks. From here, clients develop an understanding that Islamic banking is no different from conventional banking. The fundamental difference and the nature of the Islamic banking remains unclear. In this regard, the regulator should stimulate and encourage innovation in Kyrgyz Islamic banking industry. Even if the share of Islamic banking is not large, a certain internal rating among market participants should be developed. It would be useful to organize contests for the best local scientific research in the development of Islamic banking in the country.

Regarding the idea of creating a so-called financial Shari'ah Board (Central Shari'ah Board) at the state level (centralized model²²), with authorizations for it to be the final authority that determines the Shari'ah compliance of banking products and gives permission for their use, will also, in our opinion, not have a particular effect on the growth of the industry. Many studies and research papers confirm it. Firstly, the powers that the regulator plans to give this Shari'ah Board, namely "to act as the final authority and granting permission", seem to be aimed not to develop the industry, but to contain it. Secondly, there already is an official Supreme Board of Shari'ah scholars in the country, so why not use this unique opportunity in these matters. It would be rational from the viewpoint of consolidation, public trust in the industry and cost efficiency.

²² There are different models of SSBs in the global Islamic financial industry. The following three are the main models: 1) Centralized Shari'ah Supervisory Board – The Central Bank / regulators of the country will form a Shari'ah Supervisory Board to supervise and control the country's Islamic financial institutions. 2) Decentralized Shari'ah Supervisory Board – Each and every Islamic financial institution will have their own Shari'ah Supervisory Board at the company level. According to this approach, Islamic financial institutions have their own individual Shari'ah Supervisory Board. 3) Outsourced Shari'ah Supervisory Board – Islamic financial institutions will outsource the Shariah advisory services function.

Kyrgyzstan is a secular country but it is impossible to develop Islamic finance without involving the local clergy in the industry. This should be communicated and clarified to each market participant, first and foremost to officials. This is where the main focus of the regulator should be.

As for measures to create equal financial conditions and opportunities for effective liquidity management for Islamic banks, as is best practice in the leading countries with a developed Islamic financial market, this, in our opinion, is not relevant now, since the share of Islamic banks has not reached a size to be able to offer anything substantial. If anything is offered in the current condition, it will be just driven from conventional banking or the worst and most doubtful practices in the Islamic banking industry.

Lastly, measures (actions) in the strategic document are not directly related to NBKR's institutional focus. The responsibility for the introduction and development of Islamic insurance (*Takaful*) and the Islamic securities market (*Sukuk*) is legally under the State Service of Regulation and Supervision of the Financial Market under the Government of the Kyrgyz Republic (GSFR). The issues related to *Zakah* and *Waqf* are under the institutional focus of the religious authority, *Mufiyat*. So for the sake of efficiency and achieving targets, it is recommended that the main priorities in the strategic document should be re-considered and set only under institutional focus.

Conclusion

It is difficult to discuss the scientific basis of NBKR's strategic document for the period 2018-2021. However, before issuing such an essential strategic document to the industry, the use and application of a research-based approach would be very beneficial.

The Kyrgyz Islamic banking industry was underdeveloped, primarily due to the lack of legislative and regulatory support from the government and the country's central bank.²³ Despite the fact that Kyrgyzstan has made progress in the introduction and development of Islamic fi-

²³ International Finance Corporation (IFC), "Islamic Banking and Finance", 34.

nance, the potential of the industry has still not been realized. NBKR has started to make an attempt to rectify this situation. Evidently, growth has not come without challenges. If these challenges are correctly identified and met appropriately at the right time, further growth of the industry can be expected. All these challenges should have the continued strong will and commitment of NBKR. The current Islamic banking industry in Kyrgyzstan is facing a long list of tasks ahead that need to be overcome before it can achieve 5 percent domestic market share by 2021.

Our work clearly has some limitations. Despite this we believe our work could be a starting point for the reconsideration of some of NBKR's tasks (measures) or even NBKR's targets in the future. Setting the wrong goals or even the right goals for the wrong reasons can have dire consequences for the emerging Islamic banking industry.

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