

# ISLAMIC ECONOMIC MODEL AND THE PROBLEMS OF ITS APPLICATION IN RUSSIA

Renat BEKKIN

*Ph.D. (Law),*

lecturer at the Moscow State Institute (University) of International Relations of the  
Foreign Ministry of Russia (Moscow, Russia)

## 1. Fragments of Foreign Experience

The world's first Islamic bank, Mit Gamr Bank, was set up in 1963 in a place called Mit Gamr in Egypt. The bank, which functioned on the interest-free principle, marked the beginning of practical implementation of Islamic economic theories. At the same time, a Savings Corporation for Muslim Pilgrims (Tabung Hajji) was founded in Malaysia to help accumulate funds for hajj<sup>1</sup> in accordance with the Islamic laws<sup>2</sup>. In 1965, a Cooperative Investment and Financial Corporation appeared in Karachi (Pakistan). Simultaneously, several similar institutions, which can be described as savings investment structures rather than commercial banks appeared in Egypt. On the whole, however, the experiment failed; very soon most of the institutions, which sprang up haphazardly at the grassroots level in all comers of the Muslim East folded.

The second wave of attempts at translating the Islamic economic ideas into practice under traditional (non-Muslim) economic conditions proved more successful. In 1975, the Dubai Islamic Bank began operating in the UAE, while the Organization of the Islamic Conference opened the Islamic Development Bank (IDB) with the intention of coordinating economic and social development of the Muslim communities throughout the world. In 1979, the world's first Islamic insurance company was set up in Sudan. In some Muslim states, the faithful acquired the chance of paying *waqf* and '*ushr* (tithe) in a centralized way. Pakistan went as far as adopting a special law, the Zakat and 'Ushr Ordinance, in 1980 to regulate the collection and distribution of taxes.

Today, most countries with large Muslim communities have all sorts of institutions working on the basis of the Shari'a. Russia is no exception.

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<sup>1</sup> Here and elsewhere, I shall give the more correct, rather than more frequent, spelling of the Arabic word «hajj» with the exception of the names of official organizations, article titles, etc.

<sup>2</sup> For more details on the history and present state of Tabung Hajji, see: M.A. Manan, *Islamic Socioeconomic Institutions and Mobilization of Resources with Special Reference to Hall Management Fund of Malaysia*, Jeddah, 1997.

## 2. Islamic Banking in Russia

The Badr-Forte Bank, its Russian name being International Commercial Bank, is the only structure in the banking sphere guided by Islamic business rules. Licensed by the RF Central Bank in 1991, it has been using Islamic funding methods since 1997. Significantly, it is not called Islamic, yet its charter says that the bank has the right «to act according to Russian and international laws by applying Islamic economic banking technologies which do not contradict the banking laws of Russia»<sup>3</sup>. The Badr-Forte Bank is a member of the General Council of Islamic Banks under the IDB: its operations have been recognized at the international level as corresponding to the Shari‘a.

It is interesting to see how the bank manages to stick to the Islamic principles in the Russian economic context. A. Djabiev, Chairman of the Board of Directors, says: «The experts of the Central Bank were very patient; they tried to grasp the meaning of our statement that starting the next day we would stop paying or taking interest. They wanted us to use the language of economic terms. As soon as we showed that we knew them they allowed us to write in the Rules that the bank would be functioning according to Islamic economic principles within the framework of Russian laws. In this way, we managed to adapt many of the Russian legal instruments to Islamic principles, that is, make them so-called mixed instruments. The Central Bank of Russia and our Shari‘a council recognized them as such»<sup>4</sup>.

In his work «Printsipy funktsionirovaniya islamskikh bankov» (The Functioning Principles of Islamic Banks), A. Zhuravlev, a Russian expert in Islamic banking, describes some of the mechanisms the Badr-Forte Bank is using to make its operations Islamic. It uses, in particular, bills of various types to overcome the elements inadmissible within the Shari‘a. The client issues a bill and sells it to the bank at its nominal value; the money thus received can be used to fund the client's investment projects. The purchase of a bill is registered as a Repo: the client is obliged to repurchase the bill on certain conditions (paying a premium) and within a certain term. The repurchase price is not fixed; it is determined by the situation on the day the contract is signed on the market of goods and services financed in this way and produced by the client, and also by the actual level of aggregate profit produced by the object in which the bank's money was invested and calculation of the bank's costs.

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<sup>3</sup> A.Iu. Zhuravlev, «Printsipy funktsionirovaniya islamskikh bankov», in: *Islamskie finansy v sovremennom mire: ekonomicheskie i pravovye aspekty*, ed. by R.I. Bekkin, Moscow, 2004, p. 91

<sup>4</sup> A. Djabiev, «Perspektivy primeneniya printsipov islamskoy ekonomiki v khoziaistvennoy deiatel'nosti sub'ektov v ramkakh zakonodatel'stva RF», in: *Islamskie finansovye otnosheniya i perspektivy ikh osushchestvleniya v rossiyskom musul'manskom soobshchestve*, Moscow, 2004, pp. 40-41.

In other words, the bank does not violate Russian laws when operating with securities (bills). By the same token, it observes the norms of Islamic laws since, on the whole, theologians do not regard such transactions as inadmissible<sup>5</sup>. Neither Russian nor Islamic laws doubt the mechanism of fund raising. Under Russian laws, however, no bank can avoid paying interest on deposits - something that is absolutely banned by the Shari'a. For this reason, the Badr-Forte Bank opens only settlement and current accounts for its clients. To obtain long-term funds, the bank enters a standard contract which-at first glance, is identical to the contracts offered by other Russian banks. They differ in small details under the «Financial Conditions» section, the client is offered one of the following options: a settlement, savings, or investment account. The client can choose the way the bank accrues and pays remuneration for using the account balance. The remuneration comes from the bank's profit for a certain period<sup>6</sup>.

The bank's popularity among Muslims is limited by the fact it has no branches<sup>7</sup>, which it is trying to make up for by widely using Internet banking and GSM banking to allow its clients instant access to their accounts from any corner of the world and receive information regarding them by cell phone.

The bank mainly concentrates on foreign trade operations (conversion operations, cross-border transfers, and operations with documents - letters of credit, all sorts of guarantees, including tenders) rather than working with individuals (its operations of this sort are limited to cross-border transfers and paying cash from current accounts).

This suggests that the regions with predominantly Muslim populations need Islamic banks.

The Badr-Forte Bank is by far not the only attempt at setting up an Islamic bank in Russia: on 14 August, 1992, it was announced that a United Islamic Commercial Bank Inc. was being set up by KamAZ, ElAZ, the West Siberian Metallurgical Combine, the Islamic Cultural Center in Moscow, and the All-Russia Tatar Cultural and Educational Center. The initiative of the leaders of the Union of Industrialists and Entrepreneurs of Russia was supported by the administration of the Kemerovo Region. Administration Head Aman Tuleev was asked to be the bank's president.

This structure was set up for practical rather than religious reasons: its aim was to develop the scientific and technical potential of the CIS countries and encourage business activities of enterprises by attracting foreign capital primarily from the Muslim states. Business

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<sup>5</sup> Any Islamic financial organization has a Shari'a Supervisory Council set up to assess the new products (services) of a bank (company) and their operations from the viewpoint of Islamic law. The Shari'a Supervisory Council of the Badr-Forte Bank is headed by a prominent Muslim theologian, Zaki Badavi

<sup>6</sup> See: A.Iu. Zhuravlev, *op. cit.*, pp. 91-92.

<sup>7</sup> Its central office and the only branch, called Studencheskoe, are found in Moscow.

communities of Saudi Arabia, the UAE, Turkey, and the Central Asian states showed a certain interest in the project, which was not realized – the bank never went into operation.

This negative experience says that the interested persons were more concerned with possible investments from the Arab oil-rich countries than with setting up an Islamic financial institution in Russia. Later, similar patterns using the Islamic economic model under Russian conditions were repeated several times. Some Muslim businessmen announced publicly several times that their banks were either ready or would be ready in the near future to start operating in accordance with the Shari'a. In 2003, one of them said: «I am head of the department of international relations of the Business Savings Bank which tried to follow the example of Citibank and open an Islamic department or an Islamic window»<sup>8</sup>. No reliable information that Delna Bank actually provided these services is available. In the mid-1990s, there was a lot of talk about opening an Islamic bank in Makhachkala<sup>9</sup>.

### 3. Islamic Insurance (Takaful)

Islamic insurance offers the same view: for several years now the Idel-Hajj program, a joint project of the Spiritual Administration of the Muslims of the Republic of Tatarstan (SAM RT), the NASKO insurance company, and the Tatfondbank, has been widely advertised in the republic.

The founders planned to help people save money for performing *hajj* (greater pilgrimage) and *umrah* (smaller pilgrimage). The program was designed for «investing money in various Shari'a-approved types of commercial activities, including the younger generation's small and medium businesses»<sup>10</sup>. Despite a resounding PR campaign, the program's savings part has not yet taken off. According to Director of the Idel-Hajj department at the SAM RT Farida Gataullina, in January 2005, about 500 pilgrims (out of the total 9,650 pilgrims from Russia) went on *hajj* under the program, whereby only 10 people accumulated their *hajj* money through the money-saving service<sup>11</sup>. In other words, the Idel-Hajj program offered tourist rather than savings services<sup>12</sup>.

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<sup>8</sup> A.-K. Chemienko, «Islamskaia bankovskaia sistema», in: *Islamskie finansovye otnoshenia i perspektivy ikh osushchestvleniia v rossiyskom musul'manskom soobshchestve*, p. 116.

<sup>9</sup> See: A.Iu. Zhuravlev, «Finansisty, chtiaschie Koran», *Otechsstvennyye zapiski*, No. 5, 2003 [www.strana-oz.ru].

<sup>10</sup> See: R. Gataullin, «O vozmozhnosti sozdaniia svobodno-ekonomicheskoy zony standarta 'khalial'», in: *Islamskie finansovye otnoshenia i perspektivy ikh osushchestvleniia v rossiyskom musul'manskom soobshchestve*, p. 31.

<sup>11</sup> See: «Iz Tatarstana v hajj otpravilas pervaiia gruppa palomnikov», *Novosti Povolh'ia*, 30 December, 2004 [www.interfax.ru].

<sup>12</sup> Judging by certain information, the company's tourist services are of a higher quality than those offered by certain other tourist companies working with Muslim pilgrims in Russia (see, for example: Protokol zasedania Soveta po hajju ot 6 apreliia 2004 g. [www.government.ru]).

The very existence of corresponding insurance products, about which much has been said in the press, is open to doubt<sup>13</sup>. I myself spent six unproductive months trying to obtain the documents I needed from Idel-Hajj to sign a money-saving contract. Idel-Hajj clerks kept putting off sending me the documents under all sorts of pretexts (the program head was not in at the moment, the printer was broken, etc.)<sup>14</sup>.

Itil, another insurance company working in Tatarstan which set up a Department of Islamic Insurance in September 2004, is in not much better straits. Its leaders planned to create an insurance firm based on the company and operating according to Islamic principles. They did a lot of analyzing, yet the plan was not realized. The insurance company has not yet dropped the project entirely, but it is unlikely be realized in the near future. Shortage of money was the main reason behind the failure.

Theoretically, Islamic insurance business (*takaful*) can function in Russia as commercial or mutual insurance projects depending on the development level of the region in which these projects are realized, the income levels of the local people, their knowledge about all sorts of insurance services, etc. At the same time, it will be harder to adjust the general insurance norms to the *takaful* practices than to do the same with respect to the mutual insurance sphere. The task is made easier by the fact that the relevant laws are still being drafted, therefore a *takaful* company in Russia functioning according to mutual insurance principles is the logical and constructive choice. Practically all Muslim theologians admit that mutual insurance corresponds to the Shari'a<sup>15</sup>.

The present problems existing on Russia's market of Islamic banking and insurance services can obviously be overcome. In this context it is interesting to look into the problem of a «revival» of the Islamic economic institutions which functioned before and after the revolution of 1917. *Waqf* is one of them.

#### 4. Waqf

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<sup>13</sup> See: «Idel-Hajj' DUM RT pomozhet plenianniku Nazarbaeva v razrabotke sistemy nakopitel'nogo strakhovaniya v sootvetstvii s normami shariata» [www.tatar-inform.ru]; R. Kashapov, «K uslugam musul'manskikh palomnikov», *Obshchestvo*, No. 179 (24735), 6 September, 2002 [www.rt-online.ru]; and others.

<sup>14</sup> Later, in November 2004, at the seminar on the «Islamic Economic Model: Prospects for Its Realization in Muslim and Non-Muslim Communities», Deputy SAM RT Chairman Valiulla Iakupov, who represented SAM RT as one of the program's partner, confirmed in a private talk with me that the savings services were still not operating.

<sup>15</sup> It cannot be said that the Russian laws completely rule out the possibility of Islamic insurance in the commercial form. According to investigations made by the Administration of Islamic Insurance of Itil, Islamic mechanisms of the savings insurance type can be used without violations of Russia's insurance laws. This activity, however, will be effective and corresponding to the Shari'a only if carried out on the basis of another, preferably Islamic, large insurance company or bank.

In the middle of June 2004, Kazan hosted the 7th All-Russia Seminar of the Heads of Spiritual Administrations of the Muslims called «Waqf and Its Prospects in Russia Today».

Let me remind the reader that *waqf* is property alienated for charity. When certain property is made *waqf* (or, according to some Muslim theologians, when the intention is announced), it no longer belongs to the *waqf* institutor (*waqif*), but nor is it transferred as property to those who receive the *waqf* and manage it in the interests of the receivers (designated by the *waqif*) of *waqf*-created profits. Using *waqf* property for purposes other than those designated by the *waqif* is prohibited.

According to the imams who spoke at the seminar, today, *waqf* is the only chance for Russia's Muslim religious organizations to preserve their financial independence<sup>16</sup>. Judging by what was said at the seminar and by the information presented at previous similar seminars, the Muslim spiritual leaders do not always clearly understand the purpose of *waqf*. They tend to forget that *waqf* property is not transferred to the religious organizations for ownership: they are entitled to the revenue this property produces.

Sometimes *waqf* is confused with other Islamic institutions: *gyshar* (*'ushr* is the more correct name, that is, tithe, or a tenth part of the yield), *zakat*, as well as the revenues produced by some religious rituals: *khatemlar* (gatherings that pray for the dead), *janaza* (burial rites), etc. It is hard to start a constructive dialog if those who want to develop the *waqf* system have vague ideas about it.

Significantly, similar problems also existed in Russia before the revolution: one of the first officially registered *waqfs* bequeathed in 1830 to the First Main Mosque of Kazan by merchant Gabdulla Iunusov did not specify the rules of its management and control over the revenue it produced. This was by far not the only example of misunderstanding the *waqf* institution in the Volga area: the heirs of a rich industrialist, Utiamyshev, refused to fulfill his will under which part of his money was intended for *waqf*, arguing that there was no specific procedure for executing the will<sup>17</sup>.

Outstanding Tatar enlightener Shigabuddin (Shikhabaddin) Mardjani (1818-1889) resolutely rejected this interpretation of *waqf* exploited by rich merchants to control the economic life of the community (*mahallya*). It was mainly thanks to his efforts that the question regarding the direct purpose of *waqf*, which corresponded to the Shari'a, was raised and a system of collective self-administration in individual Muslim parishes established. The number of embezzlements in the charity sphere decreased along with, first, the power of the patrons in the

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<sup>16</sup> See: «V Kazani zavershilas VII Vserossiyskaia konferentsia rukovoditeley dukhovnykh upravleniy musul'man» [www.portal-credo.ru].

<sup>17</sup> See: R. Salikhov, «Kak vozrodit blagotvoritel'nost'?» *Tatarskiy mir*, No. 1 (54), February 2005, p. 3.

Iusupov brothers' *mahallya* and then of other Tatar merchants who had been dominating their communities.

Late in the 19th century, the mechanism for transforming property into *waqf* was legally registered. Under the newly established legal procedure, *waqf* institutor applied in writing to the assembly of parishioners representing the community. He was duty bound to describe in detail the property to be turned into *waqf*, state its value, and enumerate the owners and the conditions for managing and disposing of this property. The community empowered the mosque leaders to apply to the governor with a request to seek permission from the Ministry of the Interior. The latter's permission was sent to the Orenburg Mahomeddan Spiritual Assembly which, in turn, approved the permission and informed the parishioners of the ministry's decision. After a dedicatory inscription was made on the property transferred to *waqf*, a notary procedure completed the process. The community was responsible for annual reporting about *waqf* management and bookkeeping<sup>18</sup>.

If should be said that in pre-revolutionary Russia, so-called *waqf* in cash was very popular: the institutor allotted a certain sum, the interest on which was used by the mosques, Muslim clergy, students (*shakirds*) of religious schools, etc., for which the *waqf* was intended. In this way, while one of the provisions of Islamic law was strictly observed practically everywhere, another, much more important provision<sup>19</sup>, the ban on usury repeatedly formulated in the Koran, was violated: «*Those who devour usury will not stand except as stands one whom Satan by his touch has driven to madness. That is because they say: 'Trade is like usury', but Allah hath permitted trade and forbidden usury*» (interest-receiving in excess on money lent to others) (2:275).

This interpretation of *waqf*, which does not fit the classical pattern, was not restricted to Russia alone. At one time, outstanding Muslim theologian Mehmed Birgevi sharply criticized the practice of donating cash for religious purposes which served as one of the cornerstones of financial transactions in the Ottoman Empire. This money was normally loaned under interest, which contradicted the Islamic ban on *riba* (usury). At the same time, religious and secular institutions used only profits created by this money<sup>20</sup>.

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<sup>18</sup> See: «Waqf», in: *Islam na evropeyskom Vostoke: Entsiklopedicheskiy slovar*, ed. by R.A. Nabiev, Kazan, 2004, p. 49.

<sup>19</sup> It seems that in Russia today the Muslim clergy does not object to usury operations when administering *waqf*. The draft amendments to the Law on the Freedom of Conscience and Religious Associations offered by the SAM RT and related to *waqf* property said, in part: «*Waqf* can include any property, be it a plot of land, building, structure, or other real estate, the right to use any securities, as well as jewelry, books, and other movable property in the Republic of Tatarstan and outside it» (*Dokumental'nye materialy o deiatel'nosti Dukhovnogo upravlenia musul'man Respubliki Tatarstan v period s 14.02.1998 po 14.02.1999*, Kazan, 1999, p. 20). The fact that all types of securities are related to property that can be transferred to *waqf* violates the Koranic ban on usury.

<sup>20</sup> See: M. Kemper, «Musul'manskaia etika i 'dukh kapitalizma'», in: *Islamskie finansy v sovremennom mire: ekonomicheskie i pravovye aspekty*, p. 41.

The *waqf* issue was repeatedly discussed in present-day Tatarstan at the highest level. In 1993, at one of the first meetings, members of the Muslim clergy discussed with President Shaymiev the possibility of setting up a *waqf* system badly needed for the construction and maintenance of mosques and *madrasahs*, and for publishing activities. The president set up a special commission to study the issue in depth. Specialists were sent to Turkey to exchange experience. Later, in 1998, a uniting congress of the republic's Muslims created the post of chairman of the *waqfs*, in the rank of first deputy mufti, and a *waqf* department under the SAM RT. The very concept of «*waqf*» was first introduced into Russian Federation laws in the Law of Tatarstan on the Freedom of Conscience and Religious Associations.

The same problems were actively discussed in other Muslim regions of Russia. In the first half of the 1990s, the Supreme Soviet of Daghestan raised the question of introducing a provision on *waqfs* into the republic's constitution. The first republican referendum, which took place on 28 June, 1992, buried the issue: 83.7 percent of those who took part objected to the idea of dividing the collective farm lands into private plots, thus making large-scale revival of the *waqf* system impossible.

Significantly, the *waqf*-related norms revived in the Daghestani villages in the 1950s-1980s were gradually adjusted to the new social conditions. The information gathered by Russian Orientalist V.O. Bobrovnikov and Daghestani ethnographers confirms that in some places in central and northern Daghestan, mountain-dwellers still received income in money and in kind from the old *waqfs*. No new *waqfs* appeared: a small part of *waqf* property, which after collectivization became part of the collective farmers' personal property with the tacit agreement of local administrators, was used for religious and charity needs. Since the 1960s, former *waqf* land and grazing grounds have been secretly rented out.

After analyzing the recent experience of reviving *waqf* property in Daghestan where a few *waqfs* appeared here and there in the mountains early in the 1990s, V. Bobrovnikov concluded that even this republic, which is the most Islamic among Russia's republics, lacks the prerequisites for further development of the *waqf* system. He pointed to the following reasons:

- First, the republic lacks indispensable resources in the form of private property (*mulk*), the cornerstone of *waqf* was destroyed during collectivization and has not yet been restored.

- Second, today not all former *waqf* possessions could be restored to their former status: the larger part of the mountain terraces which remain abandoned are classed as «dead land» (*mawat*) according to Islamic law. The area of former *waqf* lands shrank because of urbanization<sup>21</sup>. We should not overestimate the scale of the *waqf* system in pre-revolutionary

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<sup>21</sup> When summing up the results, those who took part in the seminar «*Waqf* and Its Prospects in Russia Today» recommended that the Council of the Muftis of Russia set up, together with the IDB and the General Secretariat of

Russia: it was unknown in some of the Muslim regions, the Northwestern Caucasus among others. In the Northeastern Caucasus, that is, in Daghestan, there were 63,985 tithes of *waqf* land in 1913 (about 5 percent of the total arable land in the area)<sup>22</sup>.

- The third and, probably, the most important reason: the institution of *waqf* lost its former social and cultural meaning. Today, Muslim schools and higher educational establishments in Daghestan are mainly functioning on personal donations (*sadaka*) and incomes derived from leasing out property and trade rather than on *waqf*-created incomes.

- Fourth, despite the large number of *alims* (theologians), there are no well-trained experts in Islamic law in Daghestan with adequate theoretical training and practical skills able to manage Muslim property<sup>23</sup>.

The same is true of Tatarstan where the *waqf* culture was lost even earlier than in Daghestan.

In view of the above, we tend to agree with V. Bobrovnikov, who said that *waqf* today and tomorrow is a different phenomenon which has little in common with the classical *waqf* of the Islamic law<sup>24</sup>. It seems that in the context of the lost Islamic legal culture in Russia as a whole (and in Daghestan in particular), most *waqf*-related issues will be regulated by Russia's laws and *adats*, while Islamic law will no longer affect this institution in the old way.

The Russian laws treat *waqf* and similar institutions very favorably. On 24 September, 2004, the State Duma passed amendments to the Land Code which transferred, free of charge, land under the buildings and other facilities used for religious and charity purposes to the religious organizations that owned them. Those religious organizations that do not own the buildings in which they function will receive the land under them gratis for the entire period they continue using the buildings. These amendments were intended to favor the Russian Orthodox Church, however other confessions profited from them as well.

There are no legal obstacles in Russia to setting up *waqfs*; there were no such obstacles under the old laws, which treated the *waqf* issue much more vaguely. In the 1990s, some village administrations of central and northern Daghestan transferred some *waqf* possessions (in evasion of the law) received before collectivization to newly opened mosques. In some cases, the

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the *Waqfs* of Kuwait, a work group to study whether the principles of *waqf* property can be adjusted to Russia's legislation, as well as render assistance, methodologically and organizationally, to create a single register of *waqfs* in Tatarstan. The seminal participants asked the same organizations to identify jointly with the Academy of Sciences of the Republic of Tatarstan the lost historical *waqfs* in Tatarstan in order to return them to the Muslims in the future (based on the materials of Portal-Credo.ru).

<sup>22</sup> See: *Obzor Daghestanskoy oblasti w 1913 g.*, Temir-Khan-Shura, 1915, p. 6. Quoted from: V.O. Bobrovnikov, «*Waqf v Daghestane: iz vcherashnego dnia v zavtrashniy?*», *Islam i pravo v Rossii*, Issue 2, Moscow, 2004, p. 156. In the Ottoman Empire, for example, about one-third of all lands belonged to the *waqf* category.

<sup>23</sup> See: V.O. Bobrovnikov, op. cit., pp. 163-164.

<sup>24</sup> See: Ibid, p. 165.

operation was registered as a long-term lease. The mosques, in turn, subleased the lands to members of their communities<sup>25</sup>.

In other words, mentality rather than the laws is the main obstacle: the Muslims of Russia have lost the culture of *waqf*. Most of the faithful, including well-to-do Muslims, believe that *waqf* is too complicated to be effectively controlled. Whereas in Daghestan, the Muslim communities (*jamaats*) are strong enough to control the use of *waqfs*, in Tatarstan and other regions, embezzlement cannot be excluded. This explains why the faithful who want to engage in charity find it much easier to hand the money to those who need it in the form of *sadaka* (voluntary donation) or, rarely, in the form of *zakat*, rather than to deal with an institution unknown to the contemporary Russian legislation.

## 5. Islamic Taxes

As distinct from *waqf*, *zakat* is not a universal instrument designed to cover the expenses of religious organizations. Most theologians, for example, are convinced that the money received as a purifying tax should not be used to build mosques in places where there are enough of them. They believe that the state (obviously, the Muslim state) should shoulder these expenses. In a non-Muslim state, likewise, it is undesirable to spend the larger part of *zakat* on the same things<sup>26</sup>. *Zakat* can be used, however, to fund education, publishing, and other activities designed to promote religious knowledge among the Muslims. It should be borne in mind that in most states, *zakat* is paid voluntarily. Today, none of the countries, with the exception of Saudi Arabia, imposes the duty of paying *zakat* on its faithful citizens by law. This creates the problem of following one of the five principles of Islam - paying *zakat*.

As recently as the 1970s, religious figures in many Muslim countries spent a lot of time and effort to convince the faithful to pay *zakat*. Today, there is no shortage of people in the Muslim world willing to follow this principle; *zakat* can be paid through the Internet, which supplies *zakat* calculators to establish the precise sum to be paid<sup>27</sup>. The growing number of physical and legal *zakat* payers made so-called Islamic bookkeeping necessary<sup>28</sup>.

In Russia the situation is different; *zakat* was paid during the first years of Soviet power in Russia. In places with predominantly Muslim populations (the Volga area, Northern Caucasus,

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<sup>25</sup> See: Ibid, p. 162.

<sup>26</sup> See: Lecture delivered by Dr. Ashraf al-Amawi, in: *Ekonomicheskoe i finansovoe upravlenie musul'manskimi religioznymi organizatsiiami: realii i perspektivy*, Moscow, 2001, p. 76.

<sup>27</sup> The first *zakat* calculator in Russian can be found at [www.Takafol.ru]. For more details about the site see below.

<sup>28</sup> For more detail, see: A.D. Larionov, D.A. Al-Sharayrekh, «Islamskaia model bukhgalterskogo ucheta», in: *Islamskie finansy v sovremennom mire: ekonomicheskie i pravovye aspekty*, pp. 214-232.

Central Asia), it was used to buy implements for collective farms<sup>29</sup>. Later, however, the *zakat* culture was lost.

In Russia, only a few Muslims have realized that *zakat* should be paid, although not only because wealthy people are close-fisted. Prominent Muslim theologian from the Volga area Utyz Imiani (1754-1834) believed with good reason that monetary donations for charities should hardly be encouraged: they create too great temptations for those who collect them. Imams, after all, are common people who might borrow more from the alms than they really needed. The Koran mentions the tax collectors («those employed to administer the (funds)») among those for whom *zakat* is intended: «*Alms are for the poor and the needy, and those employed to administer the (funds): for those whose hearts have been (recently) reconciled (to Truth); for those in bondage and in debt; in the Cause of Allah; and for the wayfarer, (thus is it) ordained by Allah*» (9:60).

Since February 2005, two banks, Ak-Bars and Tatfondbank, have been receiving, *zakat* payments from the Muslims of Tatarstan; it seems that they work as intermediaries. It should be said that the money received is unlikely to be used as effectively as in some of the Muslim states. For example, the Nasser Social Bank of Egypt not only distributes *zakat* money among the needy, but also helps buy labor implements (mainly in the countryside) and buys agricultural products from peasants at market prices, thus helping them evolve from receivers to donors<sup>30</sup>.

In some regions of the Russian Federation, the Islamic clergy is trying to use other religious taxes, although it is not always sure of their original meaning in the Shari'a. In some districts of Tatarstan (Baltasinskiy, Arskiy; etc.), imams ask collective farm chairmen to donate potatoes for the students of Muslim religious establishments<sup>31</sup>. This should be described as the collection of *sadaka*, a charitable donation paid once in a while, not *'ushr* called *gyshar* (*gyshyr*) in Tatarstan, which is a tithe.

The *zakat* culture is very slow to strike root in Russia because the local Muslims know next to nothing about it. The above example shows that most of the faithful do not distinguish between *zakat* and other Islamic charities. So far, the clergy has failed to deal with this ignorance. Several years ago the imam of a mosque in Maykop (Adigey Republic) set up two boxes - one for *zakat*, the other for *sadaka* - only to remove them after a while because the parishioners could not distinguish between them<sup>32</sup>.

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<sup>29</sup> See: V.O. Bobrovnikov, «Islamskiy renessans», *NG-Religii*, No. 10 (140), 2 June, 2004 [www.religion.ng.ru].

<sup>30</sup> See: Report by Deputy Director of the Islamic Research and Training Institute Fedad Layashi, in: *Ekonomicheskoe i finansovoe upravlenie musul'manskimi religioznymi organizatsiyami: realii i perspektivy*, p. 83.

<sup>31</sup> See: M. Zalialetdinov, «Razvitie sistemy waqufov v Rossii», in: *Islamskie finansovye otnosheniya i perspektivy ikh osushchestvleniya v rossiyskom musul'manskom soobshchestve*, p. 69.

<sup>32</sup> See: A.A. Iarlykapov. «Religioznoe povedenie», in: *Islam i pravo v Rossii*, Issue 3, Moscow, 2004, p. 58.

## 6. Educational Projects in the Sphere of Islamic Economics

In Russia, and in many other countries for that matter, the faithful know practically nothing about Islamic economics. This is a great problem, because ignorance of the main prohibitions and possibilities in this sphere makes people indifferent to any business initiatives within the Shari'a. Most of the so-called «practicing Muslims» in the Russian Federation believe that they should pray five times a day, observe a fast, perform hajj, if circumstances permit it, and observe all Islamic marriage and burial rituals. Many of them, however, have no idea about the economic side of Islamic law: they do not pay *zakat*, to say nothing about the ban on usury. Obviously the faithful should be taught the principles and mechanisms of the Islamic economic model.

Since the fall of 2004, the site [www.Takafol.ru] has been functioning on the Internet; it was opened to popularize Islamic economics. This site, the first and so far only Internet resource in Russian devoted to the subject, offers the latest information about Islamic economics from all over the world in Russian and English. Any visitor can ask members of the expert council questions related to Islamic economics and business proceedings according to the Shari'a. It helps to find the publications necessary for writing all sorts of scholarly papers and offers articles on various aspects of Islamic economics.

This is not enough, however, to promote this knowledge in Russia. In fact, only high-quality formal secular education can produce well-educated professionals capable of applying the Islamic model in practice. Today, however, as far as I know, only two higher educational establishments teach the fundamentals of the Islamic economic model.

In 1999-2000, the above-mentioned Russian expert A. Zhuravlev gave a course on Islamic banking at the Moscow State Institute of International Relations (University) of the Foreign Ministry of Russia. Later, in 2003, the author of this article began a course on the fundamentals of the Islamic economic model and Islamic financial law in the same University. For over a year now, the State University-Higher School of Economics has been offering a special course «Islamic Finances and Islamic Financial Law», which includes such issues as the Islamic idea of property, the influence of Islamic law on the contemporary tax systems, the legal status of Islamic banks, etc.

Several disciplines in two higher educational establishments cannot produce the needed number of specialists in Islamic economics. This economic model as a whole (and Islamic finances in particular) should be taught as part of the fundamental courses at faculties of economy and law. It should be borne in mind (as Russian legal expert A. Kozyrin noted) that exclusion of the vast empirical body of Islamic finances from the framework of scholarly

research casts doubt on certain conclusions and the representative nature of certain theoretical generalizations<sup>33</sup>.

The task of religious schools is to train young theologians able to help the faithful carry out economic activities according to the Shari'a.

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Those who study the experience of applying the Islamic economic model in Russia may conclude that it is negative rather than positive. Only one attempt out of many to translate the Islamic economic model into practice proved successful. I have in mind the Badr-Forte Bank, which has been on the scene for over seven years now. For several reasons, however, it cannot serve all who need banking services of this kind. Other institutions in the sphere of Islamic economics failed to take off: there is still no insurance company; the *waqf* system, which requires much effort to start functioning, is far removed from the Shari'a nature of *waqf*; and most Muslims obliged to pay *zakat* do not do this.

One of the main reasons for this sad state of affairs is inadequate knowledge of Islamic economics and the economic behavior to be observed by all Muslims; this deprives Islamic economics of a grassroots initiative badly needed by the Islamic financial institutions. All the projects mentioned above were started by individual groups and wilted in the absence of professional support and potential clients.

Still, experience and knowledge accumulated in this sphere will prove useful for those who come later to apply the Islamic economic model in Russia, in the same way as the experience of the first Islamic financial institutions were taken into account to set up the Islamic Development Bank.

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<sup>33</sup> See: A.N. Kozyrin, «Izuchenie i prepodavanie islamskikh finansov v svetskikh vysshikh uchebnykh zavedeniakh», in: *Islamskie finansovye otnoshenia i perspektivy ikh osushchestvleniya v rossiyskom musul'manskom soobshchestve*, p. 72.