ECONOMIC, LEGAL AND FINANCIAL ISSUES IN THE ISLAMIC WORLD

SVETLANA BABENKOVA. LEGAL ASPECTS OF ISLAMIC FINANCE IN MUSLIM COUNTRIES

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Abstract. This article explores the legal framework for Islamic financial institutions in Muslim-majority countries. Financial activities involving individuals or legal entities, and based on the principles of Islamic finance, must be carried out in strict compliance with Islamic legal norms and approaches. However, not every state where Islamic financial institutions operate alongside with the traditional banks has fully integrated the legal system of Islam.

In this regard, the experiences of the following countries is of particular interest: in Iran, the financial system is 100 per cent Sharia-based, it is a state where religious law prevails; in Malaysia, Islamic banking makes up only 35 per cent of the industry, its judicial system consists of both Civil and Sharia courts; and in Türkiye, even though it is officially secular and the share of Islamic banking is small (8.7 per cent), 90 per cent of the population is Muslim and can potentially use Islamic banking products and services.

Furthermore, a well-developed legal framework is the first step towards the fully-functioning Islamic financial institutions in a multipolar world, including the use of local currencies and Islamic financial instruments in cross-border transactions.

Islamic financial institutions (hereinafter referred to as IFIs) and their associated products and services have established themselves quite successfully in the financial markets of many countries, including those where Islam is not the dominant religion. It may be appropriate to agree with the opinion of some experts that representatives of the Islamic financial system have been integrated into traditional financial systems in many Global South countries as a kind of counterbalance to the Bretton Woods system [1]. Extrapolating this statement, it can be assumed that the gradual abandonment of the dollar as the main international means of payment and the shift by many countries to national currencies provides strong support for non-Western countries in gaining financial independence, including in conducting cross-border payments [2].

As an example of the application of Islamic financing at the interstate level, it is worth noting that trade financing, for instance among OIC countries, includes mechanisms that can facilitate transactions between two traditional counterparty banks as well as their Islamic equivalents. The transition of trading partners to Islamic trade financing instruments was driven by a number of institutional requirements to comply with Sharia principles. Many executives of corporations and companies affiliated with the governments of Islamic countries, particularly in the Persian Gulf and Southeast Asia, are seeking to gradually convert their banking services into Sharia-compliant formats. This is guided by investor preferences or foreign economic requirements, provided that product availability and customer service levels remain comparable to those they experience in the conventional financial space [3].

As is known, Islam regulates all aspects of life for its adherents. The financial activities of both individuals and legal entities are based on transactions that can be categorized into four main directions:

– Sale (*bay'*): the transfer of ownership or an asset for compensation;

– Lease (*ijara*): the transfer of usufruct (right of use) of an asset for compensation;

– Gift (*hidiya*): the gratuitous transfer of an asset;

– Loan (*'ariya*): the gratuitous transfer of usufruct of an asset [4].

The aforementioned directions (principles) can be applied to various transactions permitted in Islam, such as pledges, deposits,